ACERINOX, S.A.
AND SUBSIDIARIES

Report on limited review
of condensed interim consolidated financial statements
at 30 June 2018

Free translation of the report on limited review of condensed interim consolidated financial statements originally issued in Spanish. In the event of a discrepancy, the Spanish language version prevails.

REPORT ON LIMITED REVIEW OF CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

To the shareholders of Acerinox, S.A.:

Introduction

We have performed a limited review of the accompanying condensed interim consolidated financial statements (hereinafter, the interim financial statements) of Acerinox, S.A. (hereinafter, "the parent company") and its subsidiaries (hereinafter, "the Group"), which comprise the statement of financial position as at June 30, 2018, and the income statement, statement of other comprehensive income, statement of changes in equity, cash flow statement and related notes, all condensed and consolidated, for the six months period then ended. The parent company´s directors are responsible for the preparation of these interim financial statements in accordance with the requirements of International Accounting Standard (IAS) 34, "Interim Financial Reporting", as adopted by the European Union, for the preparation of condensed interim financial information, as provided in Article 12 of Royal Decree 1362/2007. Our responsibility is to express a conclusion on these interim financial statements based on our limited review.

Scope of Review

We conducted our limited review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A limited review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A limited review is substantially less in scope than an audit conducted in accordance with legislation governing the audit practice in Spain and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on these interim financial statements.

Conclusion

Based on our limited review, that cannot be considered as an audit, nothing has come to our attention that causes us to believe that the accompanying interim financial statements for the six months period ended June 30, 2018 have not been prepared, in all material respects, in accordance with the requirements of International Accounting Standard (IAS) 34, "Interim Financial Reporting", as adopted by the European Union, for the preparation of condensed interim financial statements, as provided in Article 12 of Royal Decree 1362/2007.

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Emphasis of Matter

We draw attention to Note 2, in which it is mentioned that these interim financial statements do not include all the information required of complete consolidated financial statements prepared in accordance with International Financial Reporting Standards, as adopted by the European Union, therefore the accompanying interim financial statements should be read together with the consolidated annual accounts of the Group for the year ended December 31, 2017. Our conclusion is not modified in respect of this matter.

Other Matters

Interim consolidated directors´ Report

The accompanying interim consolidated directors' Report for the six months period ended June 30, 2018 contains the explanations which the parent company´s directors consider appropriate regarding the principal events of this period and their impact on the interim financial statements presented, of which it does not form part, as well as the information required under the provisions of Article 15 of Royal Decree 1362/2007. We have verified that the accounting information contained in this directors' Report is in agreement with that of the interim financial statements for the six months period ended June 30, 2018. Our work is limited to checking the interim consolidated directors' Report in accordance with the scope mentioned in this paragraph and does not include a review of information other than that obtained from Acerinox, S.A. and its subsidiaries´ accounting records.

Preparation of this review report

This report has been prepared at the request of the Board of Director in relation to the publication of the half-yearly financial report required by Article 119 of Royal Legislative Decree 4/2015 of 23 October, approving the revised text of the Securities Market Law developed by the Royal Decree 1362/2007, of 19 October.

PricewaterhouseCoopers Auditores, S.L.

Originally in Spanish signed by
Mar Gallardo

26 July 2018

ACERINOX, S.A. AND SUBSIDIARIES

Condensed consolidated interim financial statements for the first half of 2018

30 June 2018

(Free translation from the original issued in Spanish.

In the event of discrepancy,

the Spanish-language version prevails)

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

(Figures in thousands of euros at 30 June 2018 and 31 December 2017)

	Note	30-jun-18	31-dic-17
ASSETS			
Non-current assets			
Goodwill	7	69.124	69.124
Other intangible assets	7	2.125	2.510
Property, plant and equipment	8	1.876.443	1.868.408
Investment property	8	17.237	17.720
Assets available for sale	10		14.763
At fair value through other comprehensive income	10	12.759	
Deferred tax assets		149.250	170.602
Other non-current financial assets	10, 12	4.343	4.491
TOTAL NON-CURRENT ASSETS		**2.131.281**	**2.147.618**
Current assets			
Inventories	9	1.049.704	990.484
Trade and other receivables	10, 12	730.423	601.617
Other current financial assets	10, 12	11.748	23.040
Current tax assets		23.034	20.717
Cash and cash equivalents		788.620	620.536
TOTAL CURRENT ASSETS		**2.603.529**	**2.256.394**
TOTAL ASSETS		**4.734.810**	**4.404.012**

The condensed notes 1 to 21 are an integral part of these condensed consolidated interim financial statements.

(Figures in thousands of euros at 30 June 2018 and 31 December 2017)

	Note	30-jun-18	31-dic-17
LIABILITIES			
Equity			
Subscribed capital		69.017	69.017
Share premium		81.403	81.403
Reserves		1.605.664	1.499.499
Profit for the year		138.020	234.144
Translation differences		59.296	13.073
Other equity instruments	3.1	291	
Shares of the Parent		-1.062	-1
EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT		**1.952.629**	**1.897.135**
Non-controlling interests		61.987	73.161
TOTAL EQUITY		**2.014.616**	**1.970.296**
Non-current liabilities			
Deferred income		7.890	6.947
Issue of bonds and other marketable securities	10, 11	74.400	74.350
Bank borrowings	10, 11	1.019.134	862.328
Non-current provisions		27.183	28.402
Deferred tax liabilities		166.831	174.401
Other non-current financial liabilities	10, 12	6.105	2.949
TOTAL NON-CURRENT LIABILITIES		**1.301.543**	**1.149.377**
Current liabilities			
Bonds and other marketable securities	10, 11	53.479	51.592
Bank borrowings	10, 11	178.345	241.488
Trade and other payables	10	1.026.360	941.476
Current tax liabilities		12.774	21.212
Other current financial liabilities	10, 12	147.693	28.571
TOTAL CURRENT LIABILITIES		**1.418.651**	**1.284.339**
TOTAL LIABILITIES		**4.734.810**	**4.404.012**

The condensed notes 1 to 21 are an integral part of these condensed consolidated interim financial statements.

2. CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

(Figures in thousands of euros at 30 June 2018 and 2017)

	Note	30-jun-18	30-jun-17
Revenue	**18**	**2.587.940**	**2.443.822**
Other operating income	18	5.012	6.286
Self-constructed non-current assets	18	3.925	2.550
Changes in inventories of finished goods and work in progress		24.790	87.505
Supplies		-1.827.577	-1.700.829
Personnel expenses		-199.175	-199.673
Amortisation and depreciation	7, 8	-83.097	-89.166
Other operating expenses		-328.108	-323.483
RESULTS FROM OPERATING ACTIVITIES		**183.710**	**227.012**
Finance income		8.212	3.992
Finance costs		-16.240	-19.742
Translation differences		13.299	28.789
Fair value measurement of financial instruments		-7.035	-23.263
PROFIT FROM ORDINARY ACTIVITIES		**181.946**	**216.788**
Income tax	15	-48.515	-71.166
Other taxes		-1.827	-1.365
PROFIT FOR THE PERIOD		**131.604**	**144.257**
Attributable to:			
NON-CONTROLLING INTERESTS		**-6.416**	**-6.499**
NET PROFIT ATTRIBUTABLE TO THE GROUP		**138.020**	**150.756**
Basic and diluted earnings per share (in Euros)		0,50	0,55

The condensed notes 1 to 21 are an integral part of these condensed consolidated interim financial statements.

3. CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

(Figures in thousands of euros at 30 June 2017 and 2016)

	30-jun-18	30-jun-17
A) PROFIT FOR THE YEAR	**131.604**	**144.257**
B) OTHER COMPREHENSIVE INCOME - ITEMS NOT RECYCLED TO PROFIT OR LOSS FOR THE PERIOD	**-1.502**	**-1.601**
1. From recognition of equity instruments at fair value through other comprehensive income	-2.003	-2.135
2. Actuarial gains and losses and other adjustments		
3. Tax effect	501	534
C) OTHER COMPREHENSIVE INCOME - ITEMS THAT MAY BE RECYCLED TO PROFIT OR LOSS FOR THE PERIOD	**39.203**	**-186.089**
1. Cash flow hedges		
- Valuation gains/(losses)	-3.809	-3.046
- Amounts transferred to the income statement	697	4.054
2. Translation differences		
- Valuation gains/(losses)	41.556	-186.823
- Amounts transferred to the income statement		
3. Tax effect	759	-274
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**169.305**	**-43.433**
a) Attributable to the Parent	180.494	-32.989
b) Attributable to non-controlling interests	-11.189	-10.444

The condensed notes 1 to 21 are an integral part of these condensed consolidated interim financial statements.

4. CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

Movement for the reported period is as follows:

(Figures in thousands of euros)

	Equity attributable to shareholders of the parent								Non-controlling interests	TOTAL EQUITY
	Subscribed capital	Share premium	Reserves (includes profit for the year)	Other equity instruments	Translation differences	Valuation adjustments	Treasury shares	TOTAL		
Total equity at 31/12/2017	**69.017**	**81.403**	**1.736.265**	**0**	**13.073**	**-2.622**	**-1**	**1.897.135**	**73.161**	**1.970.296**
Year-to-date result at June 2018			**138.020**					**138.020**	**-6.416**	**131.604**
Cash flow hedges (net of tax)						-2.353		**-2.353**		**-2.353**
Valuation of equity instruments (net of tax)						-1.502		**-1.502**		**-1.502**
Translation differences					46.329			**46.329**	-4.773	**41.556**
Net profit directly recognised in equity					**46.329**	**-3.855**		**42.474**	**-4.773**	**37.701**
Total comprehensive income	**0**	**0**	**138.020**	**0**	**46.329**	**-3.855**	**0**	**180.494**	**-11.189**	**169.305**
Distribution of dividend			-124.230					**-124.230**		**-124.230**
Aquisition of shares from non-controlling interests								**0**		**0**
Transactions with shareholders	**0**	**0**	**-124.230**	**0**	**0**	**0**	**0**	**-124.230**	**0**	**-124.230**
Acquisition of own shares							-1.061	**-1.061**		**-1.061**
Long-term incentive plan for senior managers				291				**291**	15	**306**
Other changes			106		-106			**0**		**0**
Total equity at 30/06/18	**69.017**	**81.403**	**1.750.161**	**291**	**59.296**	**-6.477**	**-1.062**	**1.952.629**	**61.987**	**2.014.616**

The condensed notes 1 to 21 are an integral part of these condensed consolidated interim financial statements.

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

(Figures in thousands of euros)

	Equity attributable to shareholders of the parent								Non-controlling interests	TOTAL EQUITY
	Subscribed capital	Share premium	Reserves (includes profit for the year)	Interim dividend	Translation differences	Valuation adjustments	Treasury shares	TOTAL		
Total equity at 31/12/2016	**69.017**	**81.403**	**1.632.336**	**0**	**301.736**	**-5.801**	**-1**	**2.078.690**	**89.989**	**2.168.679**
Year-to-date result at June 2017			**150.756**					**150.756**	**-6.499**	**144.257**
Cash flow hedges (net of tax)						739		**739**	-5	**734**
Valuation of equity instruments (net of tax)						-1.601		**-1.601**		**-1.601**
Translation differences					-182.883			**-182.883**	-3.940	**-186.823**
Net profit directly recognised in equity					**-182.883**	**-862**		**-183.745**	**-3.945**	**-187.690**
Total comprehensive income	**0**	**0**	**150.756**	**0**	**-182.883**	**-862**	**0**	**-32.989**	**-10.444**	**-43.433**
Distribution of dividend			-124.230					**-124.230**		**-124.230**
Aquisition of shares from non-controlling interests								**0**		**0**
Transactions with shareholders	**0**	**0**	**-124.230**	**0**	**0**	**0**	**0**	**-124.230**	**0**	**-124.230**
Acquisition of own shares								**0**		**0**
Other changes			-1					**-1**		**-1**
Total equity at 30/06/17	**69.017**	**81.403**	**1.658.861**	**0**	**118.853**	**-6.663**	**-1**	**1.921.470**	**79.545**	**2.001.015**

The condensed notes 1 to 21 are an integral part of these condensed consolidated interim financial statements.

5. CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

(Figures in thousands of euros at 30 June 2018 and 2017)

	30-jun-18	30-jun-17
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit/(loss) before tax	**181.946**	**216.788**
Adjustments for:		
Depreciation	83.097	89.166
Impairment losses	-524	7.449
Change in provisions	-226	172
Grants recognised in the income statement	1.015	-1.009
Gains/(losses) on disposal of fixed assets	746	538
Proceeds from sale of financial instruments		
Change in fair value of financial instruments	9.165	27.513
Finance income	-8.212	-3.992
Finance costs	16.240	19.742
Other income and expense	-9.889	-43.930
Changes in working capital:		
(Increase)/decrease in trade and other receivables	-113.398	-101.804
(Increase)/decrease in inventories	-62.446	-148.684
(Increase)/decrease in trade and other payables	89.580	69.989
Other cash flows from operating activities		
Interest paid	-13.805	-17.574
Interest received	6.929	3.990
Income tax paid	-49.093	-51.762
NET CASH FROM OPERATING ACTIVITIES	**131.125**	**66.592**
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property, plant and equipment	-63.402	-80.136
Acquisition of intangible assets	-257	-323
Dependent acquisition, net of cash proceeds		
Acquisition of other financial assets	-119	-41
Proceeds from sale of property, plant and equipment	619	443
Proceeds from sale of intangible assets		
Proceeds from sale of other financial assets	1	107
Dividends received		2
NET CASH FROM INVESTING ACTIVITIES	**-63.158**	**-79.948**
CASH FLOWS FROM FINANCING ACTIVITIES		
Acquisition of own shares	-1.061	
External financing received	306.177	277.216
Repayment of interest-bearing liabilities	-214.116	-241.280
NET CASH FROM FINANCING ACTIVITIES	**91.000**	**35.936**
NET INCREASE IN CASH AND CASH EQUIVALENTS	**158.967**	**22.580**
Cash and cash equivalents at the beginning of the period	620.536	598.470
Effect of exchange rate fluctuations	9.117	-39.807
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**788.620**	**581.243**

The condensed notes 1 to 21 are an integral part of these condensed consolidated interim financial statements.

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6. NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

NOTE 1 - GENERAL INFORMATION

Acerinox, S.A. (hereinafter the Company) was incorporated with limited liability and for an indefinite term under the laws of Spain on 30 September 1970. Its registered office is located at Calle Santiago de Compostela, 100, Madrid, Spain.

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

The latest approved annual financial statements, which were for 2017, are publicly available at the Company's headquarters, on the Group's website (www.acerinox.es) and on the website of the Spanish National Securities Market Commission (CNMV).

These condensed consolidated interim financial statements were authorised for issue by the Board of Directors on 26 July 2018.

NOTE 2 – STATEMENT OF COMPLIANCE

The condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 — Interim Financial Reporting. These financial statements do not include all the information required of complete financial statements and should be read and interpreted in conjunction with the Group's published annual financial statements for the year ended 31 December 2017.

NOTE 3 – ACCOUNTING POLICIES

The condensed consolidated interim financial statements for the first half of 2018 have been prepared 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.

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 for certain employees via the delivery of shares in Acerinox, S.A.

Note 3.1 contains a description of the new standards adopted by the Group, as well as the analysis made with respect to the new standards IFRS 9 and IFRS 15, which are effective from 1 January 2018.

These condensed consolidated interim financial statements of the Acerinox Group have been prepared in accordance with International Financial Reporting Standards (IFRS) and related interpretations (IFRIC), as adopted by the European Union (hereinafter IFRS-EU) and other provisions of the applicable financial reporting framework.

3.1 New standards adopted by the Group in 2018

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.

On 22nd March 2018, the Board of Directors 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 Shareholders' Meeting of Acerinox, held on 10 may 2018, who approved the First Cycle of the aforementioned 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.

The Group recognises services received as personnel expenses from the date they begin to accrue and simultaneously recognises the corresponding increase in equity against "Other equity instruments".

Under the remuneration plan, employees receive shares in 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 associated expense accrued through to June 2018 was Euro 306 thousand, 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.

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 measured using an accepted valuation method and taking account of the vesting conditions, which are market-based.

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.

IFRS 9 — Financial Instruments

The Group has started to apply this new International Financial Reporting Standard on the mandatory start date, i.e. 1 January 2018, with no significant impact.

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 non-recyclable comprehensive income, 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.

There have been no changes in the classification and measurement of financial liabilities, except for recognition of changes in credit risk in other comprehensive income for liabilities designated at fair value through profit or loss.

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

- Accounts receivable: measured at amortised cost, in accordance with the policy explained in **Note 2.11.2.b)** of its financial statements for 2017. The Group maintains continues to apply this measurement criteria with the new standard.
- 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.

Note 10 includes a diagram comparing the classification changes made by the Group under the new standard. Under no circumstances have these changes entailed a change in their measurement.

- 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% 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 of renowned international bodies (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 and 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 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.

3.2 New mandatory standards and interpretations to take effect in future periods

A number of new standards and interpretations have also been published. These will be obligatory for forthcoming annual periods and have not been adopted early. The consolidated annual financial statements for 2017 include details of the standards or interpretations already adopted or pending adoption by the European Union and that will be obligatory in the coming years. The most significant of these are as follows.

- IFRS 16 — Leases. Effective for annual periods beginning on or after 1 January 2019. This standard requires companies to recognise lease assets and liabilities in the statement of financial position (except for short-term leases and leases of low-value assets). At the end of 2017, the Group assessed all assets leased from third parties, concluding that the Acerinox Group owns most of its productive assets except for a plot of land that Group company Inoxcenter, S.L.U. has leased to the consortium in the free zone of Barcelona, on which the Group has an industrial building it owns. The lease has a term of ten years that is automatically renewed, and the cost of the rent is 120 thousand euros/year. Meanwhile, the Group has only a few lease agreements for assets of little value (cars, forklifts and computer equipment). Furthermore, in the case of commercial subsidiaries that only employee 2-5 people, there are also some lease agreements for spaces in office buildings over which the Group has no control.

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

  The Group is currently scrutinising its long-term lease agreements in which the underlying asset is low value, so as to determine whether the exception may be applied, or whether to carry out recognition under the new standard. Lease expenses at 30 June 2018 amounted to Euro 5 million (Euro 10 million in 2017).

- 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.

- Annual Improvements to IFRS. 2015-2017 cycle: the amendments apply to IFRS 3, IFRS 11, IAS 12 and IAS 23 and will apply to annual periods beginning on or after 1 January 2019, all subject to adoption by the EU.

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

NOTE 4 – ACCOUNTING ESTIMATES AND JUDGEMENTS

The accounting estimates and judgements used by the Group during this interim period have been applied consistently with those used for the latest approved annual financial statements, which were for 2017.

NOTE 5 - SEASONAL OR CYCLICAL NATURE OF TRANSACTIONS

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

NOTE 6 – SIGNIFICANT EVENTS TAKING PLACE IN THE FIRST HALF OF 2018

Stainless Steel Market

The global stainless steel market has been characterised in the first half of the year by resilient demand in all markets and deviations of imports from United States to other markets, due to section 232 implementation. This has led to a favourable situation in the United States, unlike Europe and Asia where prices have suffered downward pressure, mainly starting in the second quarter.

The price of nickel has been rising over the first half of the year thanks to the positive outlook for consumption of the metal, as well as to the continued fall in inventories on the LME and in Shanghai.

Lower demand and high inventory levels in China prompted a fall of 15.1% in the price of ferrochrome in the first quarter. However, improving global demand and inventory re-stocking in China allowed the price to correct upwards in the second quarter.

Alloy surcharges, after falling in January, have shown an upward trend with the increases in the price of nickel and ferrochrome.

Results

The net sales in the first half of the year (2,588 million euros) have undergone a rise of 5.9% with respect to the same period the previous year, due to increases in shipments.

Cumulative EBITDA[1] to June (268 million euros) is 15.4% lower than that for the same period the previous year, although it is 55.9% up on the previous six months. EBITDA for the second quarter at 151 million euros is 20.0% higher than the same period last year and 28.2% higher than in the first quarter of 2018.

Result before taxes for the half of the year stands at 182 million euros, compared with the figure of 217 million euros for the same period of 2017.

Result after taxes and minorities for the half-year was 138 million euros, 8.4% lower than the first six months of 2017 and 65.5% higher than the second six months of 2017.

The operating cash flow was 131 million euros over the half year, and the free cash flow after investments was 68 million euros.

Net financial debt[2] at 30th June was at 537 million euros, a decrease of 72 million euros relative to the level on 31st December 2017.

[1] EBITDA = Operating income - depreciation & amortisation - change in provisions for Euro -1,385 million recorded under other operating expense in the income statement. (-666 thousand euros as of 30 June 2017)

[2] Net financial debt = Issue of bonds and other marketable securities (both current and non-current) + current and non-current financial liabilities with credit institutions - cash and cash equivalents.

NOTE 7 – INTANGIBLE ASSETS

Movement in intangible assets is as follows:

(Figures 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**
Additions		289	289	
Transfers		1	1	
Disposals		-11	-11	
Translation differences		-155	-155	
Balance at 30 June 2018	**24.312**	**26.053**	**50.365**	**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**
Charges		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**
Charges		639	639	
Disposals		-11	-11	
Translation differences		-119	-119	
Balance at 30 June 2018	**24.312**	**23.928**	**48.240**	**0**
CARRYING AMOUNT	**Industrial property**	**Computer software and other**	**SUBTOTAL**	**Goodwill**
Cost at 1 January 2017	24.312	25.195	49.507	69.124
Accumulated amortisation and impairment	-24.310	-22.428	-46.738	
Carrying amount at 1 January 2017	**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 30 June 2018	24.312	26.053	50.365	69.124
Accumulated amortisation and impairment	-24.312	-23.928	-48.240	
Carrying amount at 30 June 2018	**0**	**2.125**	**2.125**	**69.124**

Impairment

The Group did not recognise any impairment on intangible assets at 30 June 2018 or 30 June 2017.

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

NOTE 8 – PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY

Movement in property, plant and equipment and investment property is as follows:

(Figures in thousands of euros)

COST	Land and buildings	Technical installations and machinery	Other property, plant and equipment	Property, plant and equipment under construction	TOTAL Property, plant and equipment	Investment property
Balance at 1 January 2017	**831.028**	**3.882.624**	**88.535**	**159.152**	**4.961.339**	**22.417**
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	-138
Translation differences	-58.641	-291.382	-3.723	-14.170	-367.916	-114
Balance at 31 December 2017	**790.224**	**3.709.269**	**86.287**	**126.866**	**4.712.646**	**22.165**
Additions	429	15.401	1.763	47.373	64.966	
Transfers	323	12.548	776	-13.648	-1	
Disposals	-41	-3.455	-1.501		-4.997	-717
Translation differences	10.394	34.912	297	238	45.841	4
Balance at 30 June 2018	**801.329**	**3.768.675**	**87.622**	**160.829**	**4.818.455**	**21.452**

ACCUMULATED AMORTISATION AND IMPAIRMENT	Land and buildings	Technical installations and machinery	Other property, plant and equipment	Property, plant and equipment under construction	TOTAL	Investment property
Balance at 1 January 2017	**332.598**	**2.475.879**	**84.695**	**0**	**2.893.172**	**4.181**
Charges	16.787	146.924	4.350		168.061	368
Transfers	270	149	-419		0	
Disposals	-3.224	-36.441	-2.850		-42.515	-89
Translation differences	-18.469	-152.237	-3.774		-174.480	-15
Balance at 31 December 2017	**327.962**	**2.434.274**	**82.002**	**0**	**2.844.238**	**4.445**
Charges	7.746	71.961	2.589		82.296	162
Disposals	-5	-1.991	-1.492		-3.488	-392
Translation differences	3.156	15.364	446		18.966	
Balance at 30 June 2018	**338.859**	**2.519.608**	**83.545**	**0**	**2.942.012**	**4.215**

CARRYING AMOUNT	Land and buildings	Technical installations and machinery	Other property, plant and equipment	Property, plant and equipment under construction	TOTAL Property, plant and equipment	Investment property
Cost at 1 January 2017	831.028	3.882.624	88.535	159.152	4.961.339	22.417
Accumulated amortisation and impairment	-332.598	-2.475.879	-84.695		-2.893.172	-4.181
Carrying amount at 1 January 2017	**498.430**	**1.406.745**	**3.840**	**159.152**	**2.068.167**	**18.236**
Cost at 31 December 2017	790.224	3.709.269	86.287	126.866	4.712.646	22.165
Accumulated amortisation and impairment	-327.962	-2.434.274	-82.002		-2.844.238	-4.445
Carrying amount at 31 December 2017	**462.262**	**1.274.995**	**4.285**	**126.866**	**1.868.408**	**17.720**
Cost at 30 June 2018	801.329	3.768.675	87.622	160.829	4.818.455	21.452
Accumulated amortisation and impairment	-338.859	-2.519.608	-83.545		-2.942.012	-4.215
Carrying amount at 30 June 2018	**462.470**	**1.249.067**	**4.077**	**160.829**	**1.876.443**	**17.237**

While investment property accounts for a relatively insignificant part of the Group's total assets, it was presented separately in the balance sheet at the end of 2017. It was previously reported under property, plant and equipment.

Investments made in property, plant and equipment and intangible assets during the period totalled Euro 65,255 thousand, of which Euro 46,420 thousand relates to investments made by Acerinox Europa in the new rolling mill

and a fifth annealing and pickling line, while Euro 10,212 thousand was invested by NAS. Investments in the first half of 2017 amounted to Euro 68,384 thousand (of which Euro 25,813 thousand was invested by North American Stainless in its new rolling mill and bright annealing (BA) line brought on line at year-end 2017, while Euro 33,519 thousand was invested by Acerinox Europa).

Disposals of fixed assets

The gain on the sale of property, plant and equipment or the removal of assets from service totalled Euro 246 thousand and has been recognised under Other operating income in the income statement at June 2018 (Euro 398 thousand at June 2017). The Group has disposed of a warehouse that had been classified as investment property, generating a gain of Euro 223 thousand. The carrying amount of the warehouse was Euro 325 thousand.

Losses on the sale of property, plant and equipment or the removal of assets from service totalled Euro 991 thousand at June 2018 and are recognised under Other operating expenses on the income statement (Euro 936 thousand at June 2017). Most these losses related to the derecognition of spares parts for property, plant and equipment.

Impairment losses

As stated in the annual financial statements of the Acerinox Group, the carrying amounts of property, plant and equipment are reviewed at each reporting date to determine whether there are any indications of impairment. At the period end, there were no significant events that required the Group to evaluate the estimations and calculations made at the reporting date for its annual financial statements.

Commitments

At 30 June 2018, the Group had entered into contracts to acquire new equipment and installations for Euro 53,511 thousand, of which Euro 32,949 thousand relate to investments being made by Acerinox Europa. 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.

NOTE 9 – INVENTORIES

Details are as follows:

(Figures in thousands of euros)

	At 30 June 2018	**At 31 December 2017**
Raw materials and other supplies	355.834	322.042
Work in progress	246.211	194.718
Finished goods	402.246	433.583
By-products, waste and recoverable materials	45.224	39.952
Advances	189	189
TOTAL	**1.049.704**	**990.484**

Raw materials and other supplies includes Euro 7,951 thousand relating to valuation of the emission allowance held by the Group at the end of the period. (Euro 7,911 thousand at 31 December 2017).

The adjustment recognised at 30 June 2018 to measure inventories at their net realisable value amounts to Euro 1,427 thousand (Euro 2,273 thousand at 31 December 2017).

NOTE 10 – FINANCIAL INSTRUMENTS

Details of the Group's financial assets, except investments in associates, at 30 June 2018 and year-end 2017 are as follows:

(Figures in thousands of euros)

Classes / Categories	Non-current financial instruments						Current financial instruments					
	Equity instruments		Debt securities		Loans, derivatives and other		Equity instruments		Debt securities		Loans, derivatives and other	
	2.018	2.017	2.018	2.017	2.018	2.017	2.018	2.017	2.018	2.017	2.018	2.017
Loans and receivables					4.343	4.491					735.513	606.694
Held-to-maturity investments												
Equity instruments												
- At fair value through other comprehensive income	12.471	14.474										
- At cost	288	289										
Assets at fair value through profit or loss												
- Held for trading											5.481	17.007
- Other												
Hedging derivatives											1.177	956
TOTAL	**12.759**	**14.763**	**0**	**0**	**4.343**	**4.491**	**0**	**0**	**0**	**0**	**742.171**	**624.657**

At 30 June 2018 and year-end 2017 the Group had the following financial liabilities:

(Figures in thousands of euros)

Classes / Categories	Non-current financial instruments						Current financial instruments					
	Loans and borrowings		Bonds and other marketable securities		Payables, derivatives and other		Loans and borrowings		Bonds and other marketable securities		Payables, derivatives and other	
	2.018	2.017	2.018	2.017	2.018	2.017	2.018	2.017	2.018	2.017	2.018	2.017
Loans and payables	1.019.134	862.328	74.400	74.350	2.547	2.652	178.345	241.488	53.479	51.592	1.150.590	941.476
Liabilities at fair value through profit or loss												
- Held for trading											22.964	28.048
- Other												
Hedging derivatives					3.558	297					499	523
TOTAL	**1.019.134**	**862.328**	**74.400**	**74.350**	**6.105**	**2.949**	**178.345**	**241.488**	**53.479**	**51.592**	**1.174.053**	**970.047**

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	At fair value through other comprehensive income	14.763	14.763
Derivatives not reported under hedge accounting	Derivatives at fair value through profit or loss	At fair value through profit or loss	17.007	17.007
Hedging derivatives	Hedging instruments	Hedging instruments	956	956

NOTE 11 – LOANS AND BORROWINGS

At 30 June 2018, the Acerinox Group's bank financing facilities and private placements amounted to Euro 2,033 million, while approved non-recourse factoring facilities totalled Euro 420 million (Euro 1,964 million at 31 December 2017 for both bank and factoring facilities). A total of Euro 1,325 million had been drawn under the bank facilities at 30 June 2018, while Euro 177 million had been utilised under the factoring facilities (Euro 1,230 million and Euro 150 million at 31 December 2017, respectively).

The most significant financing transaction in the first half of 2018 was the signing with the Spanish Official Credit Institute (ICO) of an eight-year loan worth Euro 100 million. 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 Euro 5 million each, starting in September 2020, and eight half-yearly instalments of Euro 10 million 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 Euro 70 million that Acerinox S.A. signed with the European Investment Bank in December 2017 was delivered in June.

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

The fair value of the Group's financial debt does not differ significantly from its amortised cost.

In addition to the annual compliance ratio discussed previously for the new loan signed the ICO, the Group has a number of other loans in effect that are subject to compliance with certain annual financial ratios. These loans are detailed in the Group's consolidated annual financial statements at 31 December 2017.

NOTE 12 – DERIVATIVE FINANCIAL INSTRUMENTS

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

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

Derivative financial instruments classified by category are as follows:

(Figures in thousands of euros)

	30-jun-18		31-dic-17	
	Assets	Liabilities	Assets	Liabilities
Hedging derivatives	1.273	4.058	956	820
Derivatives at fair value through profit or loss	5.385	22.963	17.007	28.048
TOTAL	**6.658**	**27.021**	**17.963**	**28.868**

As explained in Note 3.1, the Group has not modified the classification or measurement of its financial instruments following the entry into force of the new IFRS 9.

A breakdown of the Group's financial derivatives at 30 June 2018 and 31 December 2017 by type of hedged risk is as follows:

(Figures in thousands of euros)

	30-jun-18		31-dic-17	
	Assets	Liabilities	Assets	Liabilities
Forward exchange contracts	5.902	22.964	17.007	28.066
Interest rate swaps		4.057		802
Cross-currency swaps	756		956	
TOTAL	**6.658**	**27.021**	**17.963**	**28.868**

During the first half of the year, the Group hedged the interest rate on various loans amounting to Euro 220 million.

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

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

At 30 June 2018 and 31 December 2017, the situation at the Group of financial instruments measured at fair value (which include not only derivative financial instruments, but also available-for-sale financial assets) was as follows:

(Figures in thousands of euros)

	30-jun-18			31-dic-17		
	LEVEL 1	LEVEL 2	LEVEL 3	LEVEL 1	LEVEL 2	LEVEL 3
Equity instruments	12.471			14.474		
Financial derivatives (assets)		6.658			17.963	
TOTAL	**12.471**	**6.658**	**0**	**14.474**	**17.963**	**0**
	LEVEL 1	**LEVEL 2**	**LEVEL 3**	**LEVEL 1**	**LEVEL 2**	**LEVEL 3**
Financial derivatives (liabilities)		27.021			28.868	
TOTAL	**0**	**27.021**	**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 institution with which it operates.

NOTE 13 – APPLICATION OF PROFIT AND DISTRIBUTION OF DIVIDENDS

At the general meeting held on 10 May 2018, shareholders agreed that the parent'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

At the same meeting, shareholders also agreed a cash dividend, charged to unrestricted reserves, of Euro 0.45 gross per share for each outstanding share of the Company entitled to receive such a dividend.

The dividend was paid on 5 July 2018 to those persons who were Acerinox shareholders at the close of trading in the continuous market on 30 June 2018. The company recognised the dividend payable in the amount of Euro 124,320 thousand under Other current financial liabilities on the consolidated balance sheet.

In relation to the same period of 2017, shareholders agreed at the general meeting held on 1 June 2017 to distribute a cash dividend of Euro 0.45 gross per share, charged to unrestricted reserves. The dividend amounted to Euro 124,230 thousand and was paid on 5 July 2017, whereupon the Group recognised a liability for that amount under Other current financial liabilities on the consolidated balance sheet.

NOTE 14 - CHANGES IN THE CONSOLIDATED GROUP

There were no changes in the scope of consolidation in the period.

NOTE 15 – TAXATION

The tax rate shown in the Group's consolidated income statement for the reported interim period was 27.7%, compared with 33.5% for the same period in the previous year. The main factor behind the reduction in the tax rate at the Acerinox Group was the reduction in tax rates approved under the US Government's tax reform. This has effectively lowered federal tax by 14 percentage points, falling from 35% at 31 December 2017 to 21% starting this year. Meanwhile, the Group upholds a policy of not capitalising the tax credits of certain companies, although these losses make a lower contribution to the total consolidated result.

A lower amount of tax credits was capitalised during the period compared to year-end owing to the Group's strong results.

The following legislative changes were approved during the period and will affect income tax at one or more of the Group's companies:

- A number of changes were approved during the period in relation to local corporate income tax law for the regions of Álava, Biscay 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 period 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 515 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. Despite this limitation, the Group is confident that it will continue to recover prior years' tax losses within a period of 10 years.

- Changes to the tax law in Kentucky: the main changes affecting the Group are 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. The Group is currently appraising the impact of this change in the law, although it is confident that it will not have a significant effect.

With respect to the tax inspections and lawsuits in progress discussed in the Acerinox Group's annual financial statements for 2017, the following changes have since occurred in the first half of the year:

Portugal

As explained in the 2017 financial statements, the Spanish tax agency enforced the mutual agreement procedure (MAP) reached with the Portuguese authorities in June 2017, whereby the Group has recovered in Spain a total of Euro 1.3 million for 2007 in corporate income tax, plus Euro 254 thousand in interest.

At year-end 2017, the agreement had yet to be enforced in Portugal and the previously paid amount of Euro 633 thousand had yet to be returned. In 2018, the Portuguese tax authorities have paid a total of Euro 678 thousand, which includes the outstanding principal plus interest. Since the Group had already recognised the amounts receivable, the payment has had no significant impact on the accounts.

Italy

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 2012.

In relation to the latest proceedings received for the 2011 and 2012 annual periods, and as explained in the Group's annual financial statements for 2017, the Group has now presented requests to remove double taxation both in Spain and Italy, and also lodged appeals before the Italian courts. The Group is also readying a request to eliminate double taxation with South Africa for the part relating to acquisitions from Group company Columbus Stainless.

During the period, there were no movements in the provision appropriated at year-end 2017, which amounted to 7.2 million euros, as there were no developments that would warrant a re-estimation of the same.

Germany

As explained in the 2017 financial statements, notification was received on 5 October 2017 of the finalisation of the mutual agreement procedure and of the agreements reached for 2007 to 2010. These agreements have reduced by 40% the adjustments initially proposed by the German authorities on transactions between Spain and the Group's German subsidiary. The tax recovered in Spain this year has amounted to Euro 3.8 million, plus Euro 1.4 million in interest, all of which has been recognised as income for the year. The Group has also recognised a total of Euro 3.7 million in tax credits recoverable in Spain. Meanwhile, the Group has recognised a reduction of Euro 7.5 million in tax credits in Germany, bringing the Group's net result in this period to a positive Euro 1.4 million due to the interest paid in Spain.

The German tax authorities have honoured the adjustments envisaged in the mutual agreement procedure for 2007 to 2010 and proceeded to pay a total of Euro 5.8 million. Since this had already been recognised as a receivable, it has not generated any income for the Group in 2018. The Group is currently in negotiations with the German authorities to make the same arrangement applicable to adjustments with third countries. In the interests of consistency, tax authorities should apply the same criteria, though claims may be brought before the courts if this is not the case and a number of appeals have been lodged against these decisions.

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, 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.

The tax inspections for 2011 to 2014 will be closed once the Group manages to negotiate with the German authorities the final position in relation to acquisitions from other countries, notably South Africa.

The Group has yet to review the estimated provision of Euro 6,092 thousand calculated at the end of 2017, since an agreement has yet to be reached with regard to the transfer price adjustments on transactions between Germany and third countries and also because the inspection proceedings are still under way. The Group will re-estimate the provision once there is evidence that the relevant agreements have been reached, although it is confident that no additional provision will need to be posted.

Poland

Tax inspection proceedings for 2015 corporate income tax at Group company Acerinox Polska S.P. Zoo. have now drawn to a close in this period. The company is required to pay additional tax of Euro 90 thousand this year, plus Euro 16 thousand in interest.

Malaysia

Tax inspection proceedings at the company Acerinox SC Malaysia have been resumed this year. El Grupo has responded to all matters raised and has received no further notice since March. There have been no further developments in relation to the inspection proceedings at Group company Bahru Stainless.

NOTE 16 – LITIGATION

There were no significant cases of litigation during the period.

NOTE 17 – CONTINGENT ASSETS AND LIABILITIES

At the end of the half-year period, the Group had no new contingent assets or liabilities beyond those mentioned in the annual financial statements for 2017.

NOTE 18 - SEGMENT REPORTING

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

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

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

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

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

Inter-segment sales prices are established in accordance with normal commercial terms and conditions governing unrelated third parties.

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

There have been no significant changes in the assets and liabilities assigned to each segment in comparison with those presented in the Group's annual financial statements at 31 December 2017. A majority of the investments in the half-year period were made by Acerinox Europa, a maker of flat products. Hence, a majority of these investments were allocated to the flat segment.

18.1 Operating segments

Details of revenues by operating segment are as follows:

(Figures in thousands of euros)

	30-jun-18			30-jun-17		
	Ordinary revenues from external customers	**Ordinary revenues between segments**	**Total revenues**	**Ordinary revenues from external customers**	**Ordinary revenues between segments**	**Total revenues**
Flat products	2.219.635	173.073	2.392.708	2.112.303	151.721	2.264.024
Long products	369.769	12.326	382.095	328.334	9.386	337.720
Other	5.873		5.873	10.358		10.358
Unallocated	1.600		1.600	1.663		1.663
(-) Inter-segment adjustments and eliminations of income		-185.399	-185.399		-161.107	-161.107
TOTAL	**2.596.877**	**0**	**2.596.877**	**2.452.658**	**0**	**2.452.658**

No single transaction with an external customer exceeded 10% of the Group's consolidated revenues at June 2018 or 2017.

Details of consolidated profit by operating segment are as follows:

(Figures in thousands of euros)

	At 30 June 2018	**At 30 June 2017**
Flat products	141.859	199.648
Long products	53.441	33.096
Other stainless steel products	1.763	1.898
Total profit of reported segments	**197.063**	**234.642**
(+/-) Unallocated profit	-15.117	-17.854
(+/-) Elimination of internal profit (between segments)		
(+/-) Other profit		
PROFIT/(LOSS) BEFORE TAX	**181.946**	**216.788**

18.2 Geographical segments

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

Details of revenue by geographical area at 30 June 2018 and 2017 are as follows:

(Figures in thousands of euros)

	At 30 June 2018	At 30 June 2016
Spain	254.937	261.904
Rest of Europe	701.755	650.233
Americas	1.158.107	1.124.096
Africa	127.324	110.974
Asia	333.505	288.257
Other	12.312	8.357
TOTAL	**2.587.940**	**2.443.822**

NOTE 19 – AVERAGE HEADCOUNT

The average headcount at the Group in the first half of 2018 was 6,915 employees (6,089 men and 826 women). The headcount at 30 June 2017 was 6,888 (6,079 men and 809 women).

The headcount at 30 June was 7,005 (7,007 at 30 June 2017).

NOTE 20 – RELATED PARTY TRANSACTIONS

- **Identity of related parties**

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

- Equity-accounted associates.
- Key management personnel of the Group and members of the boards of directors of Group companies, as well as their related parties.
- Significant shareholders of the parent.

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

All transactions between related parties are carried out on an arm's length basis.

Details of transactions with related parties are as follows:

- **Balances and transactions with associates**

The Group did not conduct any transactions with associates during this interim period or during the same period of 2017.

- **Balances and transactions with significant shareholders**

At 30 June 2018, the Group had entered into the following financing transactions with Banca March, part of the March Group (shareholder of Corporación Financiera Alba), all of which are on an arm's length basis:

- Non-current loan of Euro 30 million, which had been drawn down in full.

- Guarantees totalling Euro 0.06 million.
- Reverse factoring facilities for Euro 3 million, of which Euro 0 million had been drawn down.
- Non-recourse factoring facilities for Euro 70 million, of which Euro 27.56 million had been drawn down.

Transactions with this same entity at 30 June 2017 were as follows:

- Non-current loan of Euro 30 million, which had been drawn down in full.
- Guarantees totalling Euro 0.06 million.
- Reverse factoring facilities for Euro 3 million, of which Euro 0.21 million had been drawn down.
- Non-recourse factoring facilities for Euro 70 million, of which Euro 24.17 million had been drawn down.

Insurance premiums brokered through March-JLT Correduría de Seguros amount to Euro 7,614 thousand at 30 June 2018 (Euro 7,898 at 30 June 2017).

The balance of transactions with Banca March is as follows:

(Figures in thousands of euros)

	At 30 June 2018	At 30 June 2017
Interest	935	264
Commissions		750
TOTAL	**935**	**1.014**

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

(Figures in thousands of euros)

	At 30 June 2018	At 30 June 2017
Services received	251	422
Finance costs		24
Sale of goods	1.331	691

At period end receivables from the Nisshin group amount to Euro 425 thousand (Euro 430 thousand at 30 June 2017).

- **Directors and key management personnel**

Remuneration received by the members of senior management who do not hold positions on the Board of Directors of Acerinox, S.A. amounted to Euro 1,445 thousand at 30 June 2018 (Euro 1,038 received in the same period of 2017). Euro 482 thousand of this amount relates to salaries (Euro 463 thousand in 2017), Euro 44 thousand comprises per diem allowances (Euro 45 thousand in 2017) and Euro 919 thousand reflect other remuneration (Euro 530 thousand in 2017).

At 30 June 2018, the members of the Board of Directors of Acerinox, S.A., including those that hold key management positions and sit on the boards of other Group companies, have received Euro 1,666 thousand in fixed pay, remuneration for attending board meetings and fixed and variable salaries (Euro 1,227 thousand in the same period of 2017), of which Euro 634 thousand relates to salaries and fixed remuneration for board members (Euro 528 thousand in 2017), Euro 258 thousand comprises allowances (Euro 190 thousand in 2017) and Euro 774 thousand relates to other remuneration (Euro 509 thousand in 2017).

There are obligations under from certain contractual covenants agreed with Senior Management, derived from retirement compromises, amounting 9.9 million euros as of 31st December 2017, out of which 3,2 million euros correspond to the Chief Executive Officer. These obligations were properly insured and their estimated amount covered by cash flows arising from the insurance policies contracted. As a result, no liability in this connection is recognised.

At 30 June 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.

The expense accrued up to June 2018 for the Chief Executive Officer and Senior Management under the multi-year remuneration plan or long-term incentive plan (the terms and conditions of which are outlined in note 3.1), whose balancing entry is recorded in "other equity instruments", amounts to 200 thousand euros (out of which 86 thousand euros correspond to the Chief Executive Officer).

All transactions carried out between members of the Board of Directors and the Company or Group companies in the first half of 2018 have been ordinary transactions on an arm's length basis.

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.

NOTE 21 – SUBSEQUENT EVENTS AFTER THE REPORTING PERIOD

Dividend

On 5 July 2018, the Company paid out a dividend of Euro 0.45 per share, giving a total of Euro 124,230 thousand.

Protective measures for imports of steel products in the European Union

On 18 July the European Commission announced provisional protective measures affecting imports of a series of steel products.

These measures are intended to ensure the supply of European consumers, and protect against the diversion of exports of steel from other countries to the European Union as a consequence of the tariffs recently imposed by the United Sates (Section 232). These safeguard measures came into force on Thursday 19 July and will remain in force for 200 days, subject to publication of the definitive measures.

INTERIM MANAGEMENT REPORT

FIRST HALF OF 2018

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

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Presentation of the results for the First Half of 2018 via telephone conference and live broadcast

Acerinox will hold the presentation for the results of the first half of 2018, in English, today, 27 July, at 10.00 AM (CET), directed by Bernardo Velazquez, CEO, Miguel Ferrandis, CFO, and accompanied by the Investor Relations team.

To access the presentation via telephone conference, you can use one of the following numbers, 5-10 minutes before the start of the event:

From Spain: +34 914142021
From UK: +44 2030432440

Followed by the PIN code: 52469477#

The presentation can be followed from the Acerinox website (www.acerinox.com), in the Shareholders and Investors section.

The presentation and all the audio-visual material will be available on the Acerinox website.

Results for the First Half of 2018

- In the second quarter Acerinox has recorded profits after taxes and minority interests of 80 million euros, 52% up on the second quarter of 2017 and 38% up on the previous quarter. The EBITDA, 151 million euros, is 20% higher than in the second quarter of the previous year and 28% higher than in the first quarter of 2018
- The profit for the first half of the year, 138 million euros, is still 8% lower than the first half of 2017; however, it is 66% higher than in the previous six months. The EBITDA, at 268 million euros, is 15% lower than the same period last year and 56% higher than in the second half of 2017
- Net sales for the first half of the year, totalling 2,588 million euros, have increased by 6% compared with the same period the previous year
- Melting production, at 1,307,308 tonnes, has increased by 3% compared to the first half of 2017
- Net financial debt, 537 million euros, has decreased by 72 million euros with respect to December 2017
- The operating cash flow for the Group over the first half has increased to 131 million euros
- In July, Acerinox distributed a cash dividend of 0.45 euros per share
- Excellence Plan V for 2017-2018 is performing well and 57% of its targets have already been met in the first eighteen months, which we value at 29 million euros
- Despite the complex situation in international markets, the strength of the American market points towards a third quarter in line with the second quarter

Quarterly evolution of the EBITDA

Millions of euros and % of sales

Stainless Steel Market

The global stainless steel market has been characterised in the first half of the year by resilient demand, the entry to the market of a new manufacturer in Indonesia which has affected prices in almost all markets, and general uncertainty caused by disagreements over trade, which together with the measures adopted by various countries have affected movements of stainless steel.

This has led to a favourable situation in the United States, unlike Europe and Asia where prices have suffered downward pressure, mainly starting in the second quarter.

Global production of stainless steel increased by 9.5% to 12.77 million tonnes in the first three months of 2018, according to the latest figures from the ISSF (International Stainless Steel Forum).

Production in China continues to increase strongly, 6.5 million tonnes, 6.5% higher than the first quarter of the previous year.

Especially noteworthy is the 70% increase for "Others", mainly due to production by the Chinese manufacturer Tsingshan in Indonesia.

		QUARTER			Variation	
		Q1 '17	Q4 '17	Q1 '18	Q1 18 / Q4 17	Q1 18 / Q1 17
Europe	Thousand mt	1,980	1,830	2,014	10.0%	1.7%
United States		721	654	718	9.8%	-0.4%
China		6,125	6,652	6,524	-1.9%	6.5%
Asia w/o China & Korea		1,992	2,105	2,072	-1.6%	4.0%
Others		845	1,304	1,439	10.3%	70.2%
Total		**11,664**	**12,545**	**12,767**	**1.8%**	**9.5%**

Others: Brazil, Russia, South Africa, South Korea and Indonesia
Source: International Stainless Steel Forum (ISSF)

United States was the only region to record a fall in the first quarter. Production there fell by 0.4% which was an increase of 9.8% over the fourth quarter of 2017. According to our internal data, the situation has reverted and production to May grew by 0.6% relative to the same period in the previous year.

Europe

The real demand for stainless steel continues to increase in line with the economy (PMI, GDP, IPI), as shown by the different indicators of the consumption sectors. According to Eurofer's latest estimates (July 2018), auto production will increase by 2.5% in 2018, while construction and white goods will rise by 3.2% and 1.7%, respectively.

According to available information, apparent consumption of flat product in the European Union grew by 0.7% in the January-June period relative to the same period of 2017.

Looking by markets, it is worth noting growth of apparent consumption of flat product in Spain +3.9%, Poland +9.3%, Germany +1.5%, in contrast to the falls seen in the United Kingdom -0.5%, Italy -8.5% and France -0.9%.

Inventories have remained at levels slightly above those of recent years.

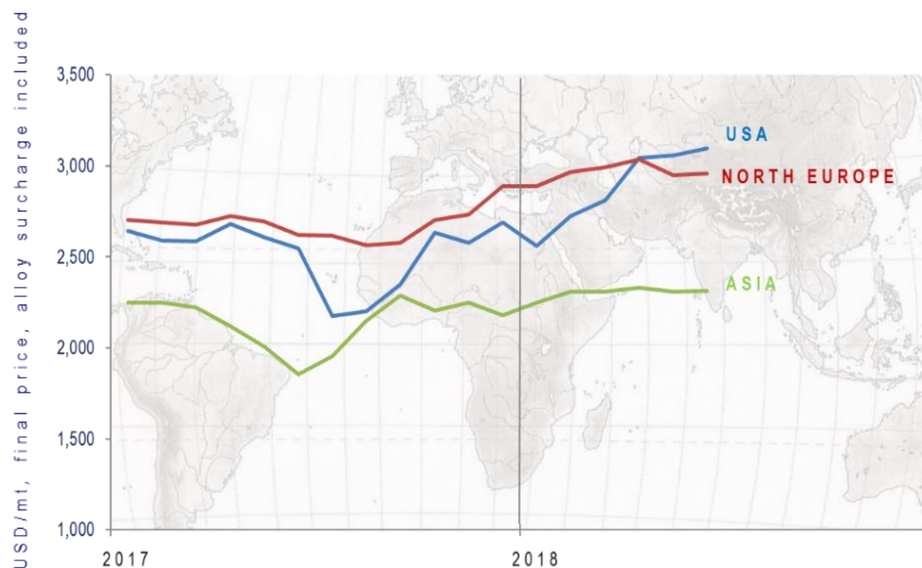
Imports of flat product have continued to increase in the first six months of 2018, by 12.5%, reaching a market share of 29% in comparison with the 26% seen in the same period in 2017. This increase can be explained by the market anticipating safeguard measures, which will constrain imports, so that we can expect a return to normality in the second half of the year.

Looking at individual countries, Taiwan is still the main source of cold rolled product with nearly 23% of the total, while China has captured more than half of imports of hot rolled product.

This, together with low prices in Asia, has negatively affected prices in the European market.

Price of stainless steel coil | 2mm cold-rolled AISI 304

Years: 2017 - June 2018



Source: Platts

North America

Macroeconomic and sectoral indicators show a favourable market situation, with noteworthy strength in the construction sector, with growth of 4.3% in the January-May period relative to the same period in the previous year. Production of household appliances has settled at high levels and is helping sales of product from our new bright annealing line in NAS.

Information available up to April shows an increase in apparent consumption of flat product of 2.0%, while consumption of long product continues to grow at the strong rate of 15.9%, driven by the recent upturn in activity in oil and gas sector, as well as the strength in construction already noted.

The demand situation and the positive outlook for the market have allowed positive movements in prices.

Imports into the United States until April fell 3.1% over the same period in 2017. On 1 June, the definitive measures in Section 232, affecting imports from all countries except South Korea and Brazil (which are subject to quotas and will reduce their imports by 30%), came into force.

This situation is benefiting American producers and our American plant, North American Stainless, has reached record levels of monthly production in all its workshops.

Asia

On both the macroeconomic level and in terms of the sector, Chinese indicators are surprising, with GDP growth of 6.8% in the first quarter and growth in the IPI within the same range, around 7% year-on-year. Auto production has grown by 4.2% as of June, while construction and white goods rose by 9.7% and 0.6% to May, respectively.

According to figures from the CSSC (Chinese Stainless Steel Council), production in the first quarter grew by 6.4%, with a notable impact from semi-finished product from Indonesia (slab and black coil) which is putting a lot of pressure on Chinese producers.

Inventories in the warehouses of Wuxi and Foshan reached inter-annual highs in March, although during the second quarter they have come back down to normal levels, in line with the indicators already mentioned and the strength of domestic demand.

South Africa

The South African economy continues to grow, +1.2%, albeit at a slower rate than forecast.

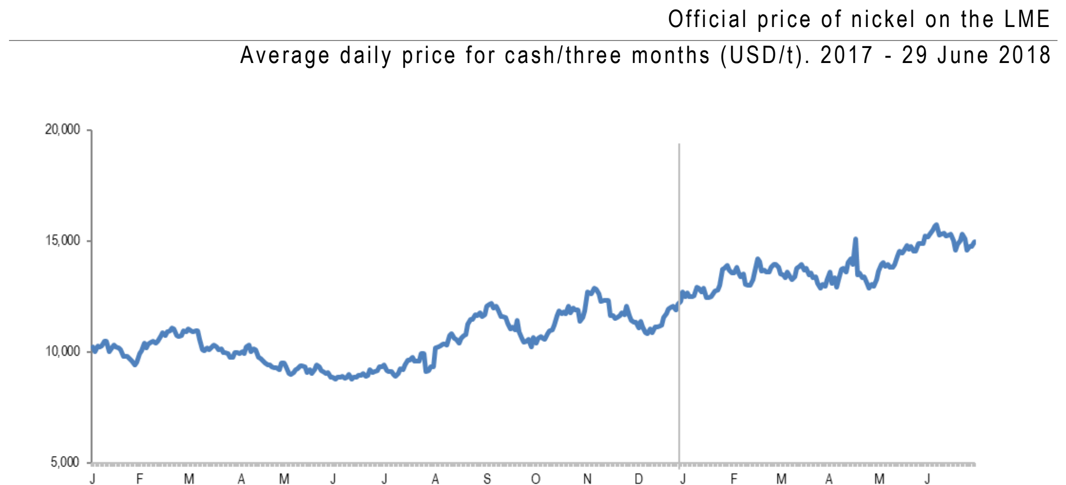
There has been notable growth in distribution and the automotive sector.

The strength of the Rand is affecting the competitiveness of South African industry, putting a brake on exports.

Low prices in all markets are leading to an increase in imports to South Africa, reaching levels not seen since 2005.

Raw materials and alloy surcharges

The price of nickel has been rising over the first half of the year thanks to the positive outlook for consumption of the metal, as well as to the continued fall in inventories on the LME and in Shanghai.

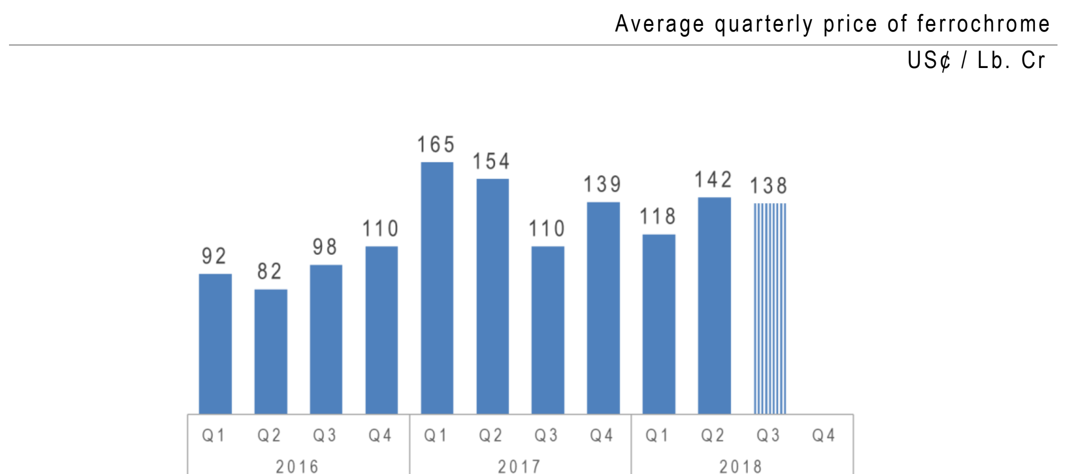


Official price of nickel on the LME

Average daily price for cash/three months (USD/t). 2017 - 29 June 2018

Uncertainties surrounding global trade have affected the pricing of nickel, which in July dropped to US$13,500 per tonne.

Lower demand and high inventory levels in China prompted a fall of 15.1% in the price of ferrochrome in the first quarter. However, improving global demand and inventory re-stocking in China allowed the price to correct upwards in the second quarter.



Average quarterly price of ferrochrome

US¢ / Lb. Cr

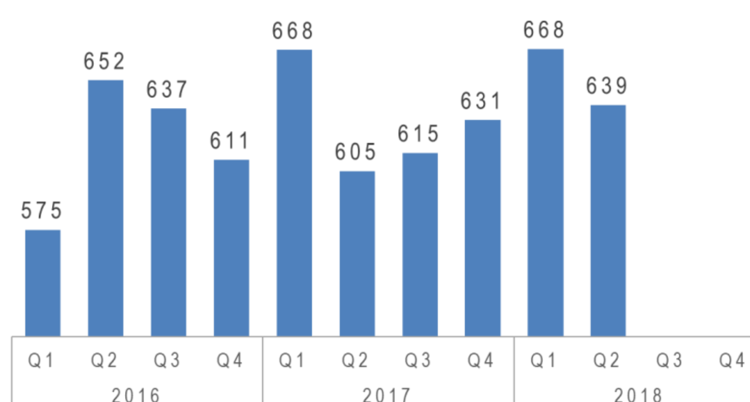
Source: Metal Bulletin

Alloy surcharges, after falling in January, have shown an upward trend with the increases in the price of nickel and ferrochrome.

Production

In the first half of the year, melting production (1,307,308 tonnes) has increased by 2.7% with respect to the same period the previous year, hot rolling of flat products (1,138,269 tonnes) has increased by 0.9% and cold-rolling production (932,122 tonnes) has been 6.6% higher.

Evolution of Acerinox's melting production
Thousands of t



Elsewhere, melting production in the second quarter is at 5.6% above the second quarter of 2017; production of hot rolling flat product 4.7% higher; and production of cold rolling 7.9% up on the same period last year.

Acerinox Production
Thousands of t

		2018					2017	Variation (%)
		Q1	Q2	Q3	Q4	Accumulated	Jan-Jun	
Melting shop	Thousand t	668	639	---	---	1,307	1,273	2.7%
Hot rolling shop	Thousand t	577	561	---	---	1,138	1,128	0.9%
Cold rolling shop	Thousand t	462	471	---	---	932	875	6.6%
Long product (Hot rolling)	Thousand t	65	70	---	---	134	118	14.0%

The semi-annual hot-rolling production of long products, at 134,272 tonnes, was 14.0% higher than for the same period of the previous year. Production in the second quarter was 17.5% higher than in the second quarter of 2017.

Results

Net sales in the first half of the year (2,588 million euros) have undergone a rise of 5.9% with respect to the same period of the previous year, due to increases in shipments, +8.8%.

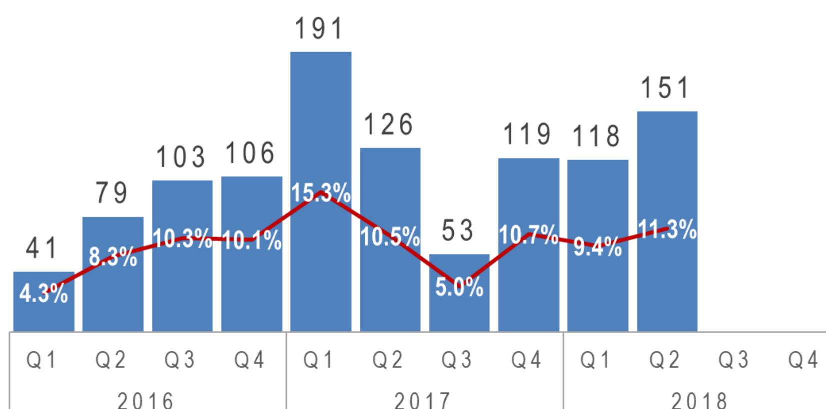
Condensed profit and loss account
Millions of euros

			January- June		
	Q1 2018	Q2 2018	2018	2017	Variation
Net sales	**1,254**	**1,334**	**2,588**	**2,444**	**5.9%**
EBITDA	**118**	**151**	**268**	**317**	**-15.4%**
% over sales	9.4%	11.3%	10.4%	13.0%	
EBIT	**76**	**108**	**184**	**227**	**-19.1%**
% over sales	6.1%	8.1%	7.1%	9.3%	
Result before taxes	76	105	182	217	-16.1%
Result after taxes and minorities	**58**	**80**	**138**	**151**	**-8.4%**
Depreciation	41	42	83	89	-6.8%
Net cash flow	99	122	221	240	-7.8%

Personnel and operating expenses have remained under control, in line with the first six months of 2017.

EBITDA for the second quarter, 151 million euros, is 20.0% higher than the same period of last year and 28.2% higher than in the first quarter of 2018. The cumulative EBITDA to June (268 million euros) is 15.4% lower than that of the same period of previous year, although it is 55.9% up on the previous six months.

Quarterly evolution of the EBITDA
Millions of euros and % of sales



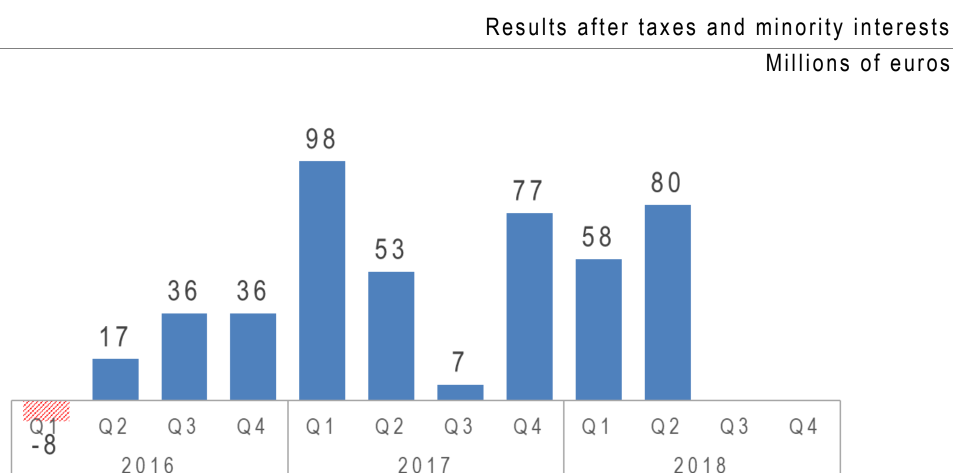
Net financial result, -1.76 million euros, is 82.7% lower than in the first six months of 2017 and has been continuously decreasing since 2013.

Pre-tax profits for the second quarter have risen to 105 million euros, 37.8% above the previous quarter, and 38.8% up on the second quarter of 2017. The pre-tax result for the half-year stands at 182 million euros, compared with the figure of 217 million euros for the same period of 2017.

At the end of December, the US tax reform was passed, which will have a very beneficial effect on North American Stainless and the Consolidated Group.

Results after taxes and minority interests

Millions of euros



Profit for the second quarter after taxes and minority interests at 80 million euros is 38.3% higher than the previous quarter and 51.7% higher than in the second quarter of 2017. Profit for the half-year was 138 million euros, 8.4% lower than the first six months of 2017 and 65.5% higher than the second six months of 2017.

Operating working capital at 783 million euros increased by 97 million euros compared to the level at 31 December 2017. This increase arose principally in the first quarter of the year (and reflects an increase in net sales), given that there was a fall of 9 million euros in the second quarter.

Operating working capital

Millions of euros

Millions of Euros	June 2018	March 2018	December 2017
Inventories	1,050	994	990
Trade receivables	668	693	552
Trade payables	935	895	857
Working Capital	**783**	**792**	**686**

Tax payments amounting to 49 million euros have been made.

Inventories reduction and good management of working capital have allowed the Group to generate an operating cash flow of 131 million euros over the half year.

Payments for investments in property, plant and equipment amounting to 63 million euros have been made.

Operating cash flow rose to 68 million euros.

Condensed cash flow statement

Millions of euros

	Jan - Mar 2018	Apr - Jun 2018	Jan - Jun 2018	Jan - Dec 2017	Jan - Jun 2017
EBITDA	118	151	268	489	317
Changes in working capital	-103	17	-86	1	-180
Income tax	-22	-27	-49	-82	-52
Financial expenses	-4	-3	-7	-28	-14
Others	0	5	5	-13	-4
OPERATING CASH FLOW	**-12**	**143**	**131**	**366**	**67**
Payments for investments on fixed assets	-34	-29	-63	-185	-80
FREE CASH FLOW	**-46**	**114**	**68**	**181**	**-13**
Dividends, treasury shares and others	-1	0	-1	-124	0
CASH FLOW AFTER DIVIDENDS	**-47**	**114**	**67**	**57**	**-13**
Conversion differences	-11	16	6	-46	-30
Variation in net financial debt	**-57** ↑	**130** ↓	**72** ↓	**11** ↓	**-43** ↑

Overall, net financial debt at 30 June was at 537 million euros, a decrease of 72 million euros relative to the level on 31 December 2017.

Condensed balance sheet

Millions of euros

ASSETS	Jun 18	2017	Variation
Non-current assets	**2,131**	**2,148**	**-0.8%**
Current assets	**2,604**	**2,256**	**15.4%**
- Inventories	1,050	990	6.0%
- Debtors	742	613	21.0%
Trade debtors	*668*	*552*	*21.1%*
Other debtors	*74*	*61*	*20.4%*
- Cash	789	621	27.1%
- Other current assets	23	32	-28.1%
TOTAL ASSETS	**4,735**	**4,404**	**7.5%**

LIABILITIES	Jun 18	2017	Variation
Equity	**2,015**	**1,970**	**2.2%**
Non-current liabilities	**1,302**	**1,149**	**13.2%**
- Interest-bearing loans and borrowings	1,094	937	16.7%
- Other non-current liabilities	208	213	-2.2%
Current liabilities	**1,419**	**1,284**	**10.5%**
- Interest-bearing loans and borrowings	232	293	-20.9%
- Trade creditors	935	857	9.2%
- Other current liabilities	252	135	86.9%
TOTAL EQUITY AND LIABILITIES	**4,735**	**4,404**	**7.5%**

As of 30 June, Acerinox had 2,033 million euros in credit lines, 35% of which were available.

Shareholder remuneration

The General Shareholders' Meeting held on 10 May 2018 approved the distribution of a dividend of 0.45 euros/share in cash, which was paid on 5 July.

Excellence Plans

Within the first 18 months of its implementation, 57% of the objectives of Excellence Plan V 2017-2018 have been achieved, providing a contribution valued at 29 million euros.

We are now working on Excellence Plan VI, to consolidate the improvements already achieved and to explore new areas for improvement.

We recall that four Excellence Plans have already been implemented, in which the best practices were identified and applied to each of the plants by means of an internal benchmarking project:

- Excellence Plan I 2009-2010: 97 million euros
- Excellence Plan II 2011-2012: 53 million euros
- Excellence Plan III 2013-2014: 53 million euros
- Excellence Plan IV 2015-2016: 50 million euros

Investments

At the end of March, the new AP-5 annealing and pickling line at Acerinox Europa started up in a trial phase, with the most advanced technological systems available and a level of competitiveness which will generate new quality standards. With the above, Acerinox will manufacture a product with higher added value, quality and reliability and reduce its costs and environmental impact.

This new equipment will also provide final customers with thinner gauges, with 1,500 mm widths, thus expanding their range of products.

Implementation is going very satisfactory.

The installation of this equipment forms part of the Acerinox Strategic Plan 2016-2020, which prioritises investments offering rapid returns, operational excellence, optimal use of capacity and financial strength.

Within this framework, two investments for Acerinox Europa and Columbus were approved at the meeting of the Board of Directors held on 25 April. In both cases it is a ladle furnace which will improve the melting process, as well as the operating costs and quality, while reducing the environmental impact.

The investment totals 12 million euros at Columbus and 21 million euros at Acerinox Europa, as the latter entails more civil work.

In keeping with the Group's policy, the payback of these investments is less than 5 years.

Financial Risk Management

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

The management of financial risks such as the exchange rate, prices and credit, reflects what was already described in the approved Annual Accounts for the 2017 financial year.

In terms of the liquidity risk, Acerinox keeps 2,033 million euros in credit lines, 35% of which are available. The net debt up to 30 June totals 537 million euros. The cash balances stand at 789 million euros.

The most important financing transaction during the first half of 2018 was the conclusion of the agreement for an 8-year loan for an amount of 100 million euros with the Instituto de Crédito Oficial ("ICO"). The loan was disbursed at the end of June 2018 and matures at the end of March 2026. The loan was granted to Acerinox S.A. and the Group has undertaken to maintain a ratio of consolidated net financial debt to consolidated equity Below a maximum level, to be tested annually, during the life of the loan.

Similarly, in June the loan that Acerinox S.A. signed with the European Investment Bank in December 2017 for an amount of 70 million euros was disbursed.

The Acerinox Group has appropriately fulfilled all of its financial obligations.

As well as the annual covenant for the new loan agreed with the ICO already mentioned, the Group is bound by covenants for other loans under which it must meet certain financial ratios on an annual basis, and these covenants are described in detail in the Group's Consolidated Annual Report for the year ending 31 December 2017.

Subsequent events

On 18 July the European Commission announced provisional protective measures affecting imports of a series of steel products.

These measures are intended to ensure the supply of European consumers, and protect against the diversion of exports of steel from other countries to the European Union as a consequence of the tariffs recently imposed by the United States (Section 232). These safeguard measures came into force on Thursday 19 July and will remain in force for 200 days, subject to publication of the definitive measures.

Outlook

The American market continues to have a positive outlook for the third quarter, despite the expected negative impact on alloy surcharges due to the fall in prices of chrome and nickel.

In Europe, imports remain high and are exerting downward pressure on base prices. We hope that the protective measures announced by the European Union will have a positive effect in the second half of the year.

Inventories in Asia keep at normal levels. We hope that this situation will allow price increases in the region and also lead to improve prices in global markets.

Despite the uncertainties generated by trade wars, we are optimistic for future movements in demand. This situation, together with good levels in the European market, allows us to expect a good third quarter, in line with the second quarter; and cumulative figures for the year would be above the same period of last year.

Main economic-financial figures

CONSOLIDATED GROUP	Year 2018					2017
	Q1	Q2	Q3	Q4	Accumulated	Jan-Jun
Production (Thousand mt)						
Melting shop	668	639			**1,307**	1,273
Hot rolling shop	577	561			**1,138**	1,128
Cold rolling shop	462	471			**932**	875
Long product (hot rolling)	65	70			**134**	118
Net sales (million EUR)	1,254	1,334			**2,588**	2,444
Gross operating result / EBITDA (million EUR)	118	151			**268**	317
% over sales	9.4%	11.3%			**10.4%**	13.0%
EBIT (million EUR)	76	108			**184**	227
% over sales	6.1%	8.1%			**7.1%**	9.3%
Result before taxes and minorities (million EUR)	76	105			**182**	217
Result after taxes and minorities (million EUR)	58	80			**138**	151
Depreciation (million EUR)	41	42			**83**	89
Net cash flow (million EUR)	99	122			**221**	240
Number of empoyees	6,692	6,818			**6,818**	6,794
Net financial debt (million EUR)	667	537			**537**	663
Debt to equity (%)	33.9%	26.6%			**26.6%**	33.2%
Number of shares (million)	276	276			**276**	276
Return to shareholders (per share)	---	---			**---**	---
Daily average shares traded (nº of shares, million)	1.22	1.16			**1.19**	1.65
Result after taxes and minorities per share	0.21	0.29			**0.50**	0.55
Net cash flow per share	0.36	0.44			**0.80**	0.87

Alternative Performance Measures (definitions of terms used)

Saving relating to the Excellence Plans: estimated saving on efficiency on the basis of this study defined in each Plan

Operating Working Capital: Inventories + Trade receivables – Trade payables

Net Cash Flow: Results after taxes and minority interest + depreciation and amortization

Net Financial Debt: Debt with banks + bond issuance - cash

Net Financial Debt / EBITDA: Net Financial Debt / annualized EBITDA

EBIT: Operating income

EBITDA: Operating income + depreciation and amortization + variation of current provisions

Debt Ratio: Net Financial Debt / Equity

Net financial result: Financial income – financial expenses ± exchange rate variations

ROCE: Operating income / (Equity + Net financial debt)

ROE: Results after taxes and minority interest / Equity

ICR (interest coverage ratio): EBIT/Net financial result

ACERINOX, S.A. AND SUBSIDIARIES

Condensed consolidated interim financial statements for the first half of 2018

30 June 2018

(Free translation from the original issued in Spanish.

In the event of discrepancy,

the Spanish-language version prevails)

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

(Figures in thousands of euros at 30 June 2018 and 31 December 2017)

	Note	30-jun-18	31-dic-17
ASSETS			
Non-current assets			
Goodwill	7	69.124	69.124
Other intangible assets	7	2.125	2.510
Property, plant and equipment	8	1.876.443	1.868.408
Investment property	8	17.237	17.720
Assets available for sale	10		14.763
At fair value through other comprehensive income	10	12.759	
Deferred tax assets		149.250	170.602
Other non-current financial assets	10, 12	4.343	4.491
TOTAL NON-CURRENT ASSETS		**2.131.281**	**2.147.618**
Current assets			
Inventories	9	1.049.704	990.484
Trade and other receivables	10, 12	730.423	601.617
Other current financial assets	10, 12	11.748	23.040
Current tax assets		23.034	20.717
Cash and cash equivalents		788.620	620.536
TOTAL CURRENT ASSETS		**2.603.529**	**2.256.394**
TOTAL ASSETS		**4.734.810**	**4.404.012**

The condensed notes 1 to 21 are an integral part of these condensed consolidated interim financial statements.

(Figures in thousands of euros at 30 June 2018 and 31 December 2017)

	Note	30-jun-18	31-dic-17
LIABILITIES			
Equity			
Subscribed capital		69.017	69.017
Share premium		81.403	81.403
Reserves		1.605.664	1.499.499
Profit for the year		138.020	234.144
Translation differences		59.296	13.073
Other equity instruments	3.1	291	
Shares of the Parent		-1.062	-1
EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT		**1.952.629**	**1.897.135**
Non-controlling interests		61.987	73.161
TOTAL EQUITY		**2.014.616**	**1.970.296**
Non-current liabilities			
Deferred income		7.890	6.947
Issue of bonds and other marketable securities	10, 11	74.400	74.350
Bank borrowings	10, 11	1.019.134	862.328
Non-current provisions		27.183	28.402
Deferred tax liabilities		166.831	174.401
Other non-current financial liabilities	10, 12	6.105	2.949
TOTAL NON-CURRENT LIABILITIES		**1.301.543**	**1.149.377**
Current liabilities			
Bonds and other marketable securities	10, 11	53.479	51.592
Bank borrowings	10, 11	178.345	241.488
Trade and other payables	10	1.026.360	941.476
Current tax liabilities		12.774	21.212
Other current financial liabilities	10, 12	147.693	28.571
TOTAL CURRENT LIABILITIES		**1.418.651**	**1.284.339**
TOTAL LIABILITIES		**4.734.810**	**4.404.012**

The condensed notes 1 to 21 are an integral part of these condensed consolidated interim financial statements.

2. CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

(Figures in thousands of euros at 30 June 2018 and 2017)

	Note	30-jun-18	30-jun-17
Revenue	**18**	**2.587.940**	**2.443.822**
Other operating income	18	5.012	6.286
Self-constructed non-current assets	18	3.925	2.550
Changes in inventories of finished goods and work in progress		24.790	87.505
Supplies		-1.827.577	-1.700.829
Personnel expenses		-199.175	-199.673
Amortisation and depreciation	7, 8	-83.097	-89.166
Other operating expenses		-328.108	-323.483
RESULTS FROM OPERATING ACTIVITIES		**183.710**	**227.012**
Finance income		8.212	3.992
Finance costs		-16.240	-19.742
Translation differences		13.299	28.789
Fair value measurement of financial instruments		-7.035	-23.263
PROFIT FROM ORDINARY ACTIVITIES		**181.946**	**216.788**
Income tax	15	-48.515	-71.166
Other taxes		-1.827	-1.365
PROFIT FOR THE PERIOD		**131.604**	**144.257**
Attributable to:			
NON-CONTROLLING INTERESTS		**-6.416**	**-6.499**
NET PROFIT ATTRIBUTABLE TO THE GROUP		**138.020**	**150.756**
Basic and diluted earnings per share (in Euros)		0,50	0,55

The condensed notes 1 to 21 are an integral part of these condensed consolidated interim financial statements.

3. CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

(Figures in thousands of euros at 30 June 2017 and 2016)

	30-jun-18	30-jun-17
A) PROFIT FOR THE YEAR	**131.604**	**144.257**
B) OTHER COMPREHENSIVE INCOME - ITEMS NOT RECYCLED TO PROFIT OR LOSS FOR THE PERIOD	**-1.502**	**-1.601**
1. From recognition of equity instruments at fair value through other comprehensive income	-2.003	-2.135
2. Actuarial gains and losses and other adjustments		
3. Tax effect	501	534
C) OTHER COMPREHENSIVE INCOME - ITEMS THAT MAY BE RECYCLED TO PROFIT OR LOSS FOR THE PERIOD	**39.203**	**-186.089**
1. Cash flow hedges		
- Valuation gains/(losses)	-3.809	-3.046
- Amounts transferred to the income statement	697	4.054
2. Translation differences		
- Valuation gains/(losses)	41.556	-186.823
- Amounts transferred to the income statement		
3. Tax effect	759	-274
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**169.305**	**-43.433**
a) Attributable to the Parent	180.494	-32.989
b) Attributable to non-controlling interests	-11.189	-10.444

The condensed notes 1 to 21 are an integral part of these condensed consolidated interim financial statements.

4. CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

Movement for the reported period is as follows:

(Figures in thousands of euros)

	Equity attributable to shareholders of the parent									
	Subscribed capital	Share premium	Reserves (includes profit for the year)	Other equity instruments	Translation differences	Valuation adjustments	Treasury shares	TOTAL	Non-controlling interests	TOTAL EQUITY
Total equity at 31/12/2017	**69.017**	**81.403**	**1.736.265**	**0**	**13.073**	**-2.622**	**-1**	**1.897.135**	**73.161**	**1.970.296**
Year-to-date result at June 2018			**138.020**					**138.020**	**-6.416**	**131.604**
Cash flow hedges (net of tax)						-2.353		**-2.353**		**-2.353**
Valuation of equity instruments (net of tax)						-1.502		**-1.502**		**-1.502**
Translation differences					46.329			**46.329**	-4.773	**41.556**
Net profit directly recognised in equity					**46.329**	**-3.855**		**42.474**	**-4.773**	**37.701**
Total comprehensive income	**0**	**0**	**138.020**	**0**	**46.329**	**-3.855**	**0**	**180.494**	**-11.189**	**169.305**
Distribution of dividend			-124.230					**-124.230**		**-124.230**
Aquisition of shares from non-controlling interests								**0**		**0**
Transactions with shareholders	**0**	**0**	**-124.230**	**0**	**0**	**0**	**0**	**-124.230**	**0**	**-124.230**
Acquisition of own shares							-1.061	**-1.061**		**-1.061**
Long-term incentive plan for senior managers				291				**291**	15	**306**
Other changes			106		-106			**0**		**0**
Total equity at 30/06/18	**69.017**	**81.403**	**1.750.161**	**291**	**59.296**	**-6.477**	**-1.062**	**1.952.629**	**61.987**	**2.014.616**

The condensed notes 1 to 21 are an integral part of these condensed consolidated interim financial statements.

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

(Figures in thousands of euros)

	Equity attributable to shareholders of the parent								Non-controlling interests	TOTAL EQUITY
	Subscribed capital	Share premium	Reserves (includes profit for the year)	Interim dividend	Translation differences	Valuation adjustments	Treasury shares	TOTAL		
Total equity at 31/12/2016	**69.017**	**81.403**	**1.632.336**	**0**	**301.736**	**-5.801**	**-1**	**2.078.690**	**89.989**	**2.168.679**
Year-to-date result at June 2017			**150.756**					**150.756**	**-6.499**	**144.257**
Cash flow hedges (net of tax)						739		**739**	-5	**734**
Valuation of equity instruments (net of tax)						-1.601		**-1.601**		**-1.601**
Translation differences					-182.883			**-182.883**	-3.940	**-186.823**
Net profit directly recognised in equity					**-182.883**	**-862**		**-183.745**	**-3.945**	**-187.690**
Total comprehensive income	**0**	**0**	**150.756**	**0**	**-182.883**	**-862**	**0**	**-32.989**	**-10.444**	**-43.433**
Distribution of dividend			-124.230					**-124.230**		**-124.230**
Aquisition of shares from non-controlling interests								**0**		**0**
Transactions with shareholders	**0**	**0**	**-124.230**	**0**	**0**	**0**	**0**	**-124.230**	**0**	**-124.230**
Acquisition of own shares								**0**		**0**
Other changes			-1					**-1**		**-1**
Total equity at 30/06/17	**69.017**	**81.403**	**1.658.861**	**0**	**118.853**	**-6.663**	**-1**	**1.921.470**	**79.545**	**2.001.015**

The condensed notes 1 to 21 are an integral part of these condensed consolidated interim financial statements.

5. CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

(Figures in thousands of euros at 30 June 2018 and 2017)

	30-jun-18	30-jun-17
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit/(loss) before tax	**181.946**	**216.788**
Adjustments for:		
Depreciation	83.097	89.166
Impairment losses	-524	7.449
Change in provisions	-226	172
Grants recognised in the income statement	1.015	-1.009
Gains/(losses) on disposal of fixed assets	746	538
Proceeds from sale of financial instruments		
Change in fair value of financial instruments	9.165	27.513
Finance income	-8.212	-3.992
Finance costs	16.240	19.742
Other income and expense	-9.889	-43.930
Changes in working capital:		
(Increase)/decrease in trade and other receivables	-113.398	-101.804
(Increase)/decrease in inventories	-62.446	-148.684
(Increase)/decrease in trade and other payables	89.580	69.989
Other cash flows from operating activities		
Interest paid	-13.805	-17.574
Interest received	6.929	3.990
Income tax paid	-49.093	-51.762
NET CASH FROM OPERATING ACTIVITIES	**131.125**	**66.592**
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property, plant and equipment	-63.402	-80.136
Acquisition of intangible assets	-257	-323
Dependent acquisition, net of cash proceeds		
Acquisition of other financial assets	-119	-41
Proceeds from sale of property, plant and equipment	619	443
Proceeds from sale of intangible assets		
Proceeds from sale of other financial assets	1	107
Dividends received		2
NET CASH FROM INVESTING ACTIVITIES	**-63.158**	**-79.948**
CASH FLOWS FROM FINANCING ACTIVITIES		
Acquisition of own shares	-1.061	
External financing received	306.177	277.216
Repayment of interest-bearing liabilities	-214.116	-241.280
NET CASH FROM FINANCING ACTIVITIES	**91.000**	**35.936**
NET INCREASE IN CASH AND CASH EQUIVALENTS	**158.967**	**22.580**
Cash and cash equivalents at the beginning of the period	620.536	598.470
Effect of exchange rate fluctuations	9.117	-39.807
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**788.620**	**581.243**

The condensed notes 1 to 21 are an integral part of these condensed consolidated interim financial statements.

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6. NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

NOTE 1 - GENERAL INFORMATION

Acerinox, S.A. (hereinafter the Company) was incorporated with limited liability and for an indefinite term under the laws of Spain on 30 September 1970. Its registered office is located at Calle Santiago de Compostela, 100, Madrid, Spain.

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

The latest approved annual financial statements, which were for 2017, are publicly available at the Company's headquarters, on the Group's website (www.acerinox.es) and on the website of the Spanish National Securities Market Commission (CNMV).

These condensed consolidated interim financial statements were authorised for issue by the Board of Directors on 26 July 2018.

NOTE 2 – STATEMENT OF COMPLIANCE

The condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 — Interim Financial Reporting. These financial statements do not include all the information required of complete financial statements and should be read and interpreted in conjunction with the Group's published annual financial statements for the year ended 31 December 2017.

NOTE 3 – ACCOUNTING POLICIES

The condensed consolidated interim financial statements for the first half of 2018 have been prepared 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.

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 for certain employees via the delivery of shares in Acerinox, S.A.

Note 3.1 contains a description of the new standards adopted by the Group, as well as the analysis made with respect to the new standards IFRS 9 and IFRS 15, which are effective from 1 January 2018.

These condensed consolidated interim financial statements of the Acerinox Group have been prepared in accordance with International Financial Reporting Standards (IFRS) and related interpretations (IFRIC), as adopted by the European Union (hereinafter IFRS-EU) and other provisions of the applicable financial reporting framework.

3.1 New standards adopted by the Group in 2018

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.

On 22nd March 2018, the Board of Directors 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 Shareholders' Meeting of Acerinox, held on 10 may 2018, who approved the First Cycle of the aforementioned 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.

The Group recognises services received as personnel expenses from the date they begin to accrue and simultaneously recognises the corresponding increase in equity against “Other equity instruments“.

Under the remuneration plan, employees receive shares in 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 associated expense accrued through to June 2018 was Euro 306 thousand, 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.

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 measured using an accepted valuation method and taking account of the vesting conditions, which are market-based.

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.

IFRS 9 — Financial Instruments

The Group has started to apply this new International Financial Reporting Standard on the mandatory start date, i.e. 1 January 2018, with no significant impact.

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 non-recyclable comprehensive income, 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.

There have been no changes in the classification and measurement of financial liabilities, except for recognition of changes in credit risk in other comprehensive income for liabilities designated at fair value through profit or loss.

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

- Accounts receivable: measured at amortised cost, in accordance with the policy explained in **Note 2.11.2.b)** of its financial statements for 2017. The Group maintains continues to apply this measurement criteria with the new standard.
- 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.

Note 10 includes a diagram comparing the classification changes made by the Group under the new standard. Under no circumstances have these changes entailed a change in their measurement.

- 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% 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 of renowned international bodies (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 and 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 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.

3.2 New mandatory standards and interpretations to take effect in future periods

A number of new standards and interpretations have also been published. These will be obligatory for forthcoming annual periods and have not been adopted early. The consolidated annual financial statements for 2017 include details of the standards or interpretations already adopted or pending adoption by the European Union and that will be obligatory in the coming years. The most significant of these are as follows.

- IFRS 16 — Leases. Effective for annual periods beginning on or after 1 January 2019. This standard requires companies to recognise lease assets and liabilities in the statement of financial position (except for short-term leases and leases of low-value assets). At the end of 2017, the Group assessed all assets leased from third parties, concluding that the Acerinox Group owns most of its productive assets except for a plot of land that Group company Inoxcenter, S.L.U. has leased to the consortium in the free zone of Barcelona, on which the Group has an industrial building it owns. The lease has a term of ten years that is automatically renewed, and the cost of the rent is 120 thousand euros/year. Meanwhile, the Group has only a few lease agreements for assets of little value (cars, forklifts and computer equipment). Furthermore, in the case of commercial subsidiaries that only employee 2-5 people, there are also some lease agreements for spaces in office buildings over which the Group has no control.

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

  The Group is currently scrutinising its long-term lease agreements in which the underlying asset is low value, so as to determine whether the exception may be applied, or whether to carry out recognition under the new standard. Lease expenses at 30 June 2018 amounted to Euro 5 million (Euro 10 million in 2017).

- 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.

- Annual Improvements to IFRS. 2015-2017 cycle: the amendments apply to IFRS 3, IFRS 11, IAS 12 and IAS 23 and will apply to annual periods beginning on or after 1 January 2019, all subject to adoption by the EU.

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

NOTE 4 – ACCOUNTING ESTIMATES AND JUDGEMENTS

The accounting estimates and judgements used by the Group during this interim period have been applied consistently with those used for the latest approved annual financial statements, which were for 2017.

NOTE 5 - SEASONAL OR CYCLICAL NATURE OF TRANSACTIONS

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

NOTE 6 – SIGNIFICANT EVENTS TAKING PLACE IN THE FIRST HALF OF 2018

Stainless Steel Market

The global stainless steel market has been characterised in the first half of the year by resilient demand in all markets and deviations of imports from United States to other markets, due to section 232 implementation. This has led to a favourable situation in the United States, unlike Europe and Asia where prices have suffered downward pressure, mainly starting in the second quarter.

The price of nickel has been rising over the first half of the year thanks to the positive outlook for consumption of the metal, as well as to the continued fall in inventories on the LME and in Shanghai.

Lower demand and high inventory levels in China prompted a fall of 15.1% in the price of ferrochrome in the first quarter. However, improving global demand and inventory re-stocking in China allowed the price to correct upwards in the second quarter.

Alloy surcharges, after falling in January, have shown an upward trend with the increases in the price of nickel and ferrochrome.

Results

The net sales in the first half of the year (2,588 million euros) have undergone a rise of 5.9% with respect to the same period the previous year, due to increases in shipments.

Cumulative EBITDA[1] to June (268 million euros) is 15.4% lower than that for the same period the previous year, although it is 55.9% up on the previous six months. EBITDA for the second quarter at 151 million euros is 20.0% higher than the same period last year and 28.2% higher than in the first quarter of 2018.

Result before taxes for the half of the year stands at 182 million euros, compared with the figure of 217 million euros for the same period of 2017.

Result after taxes and minorities for the half-year was 138 million euros, 8.4% lower than the first six months of 2017 and 65.5% higher than the second six months of 2017.

The operating cash flow was 131 million euros over the half year, and the free cash flow after investments was 68 million euros.

Net financial debt[2] at 30th June was at 537 million euros, a decrease of 72 million euros relative to the level on 31st December 2017.

[1] EBITDA = Operating income - depreciation & amortisation - change in provisions for Euro -1,385 million recorded under other operating expense in the income statement. (-666 thousand euros as of 30 June 2017)
[2] Net financial debt = Issue of bonds and other marketable securities (both current and non-current) + current and non-current financial liabilities with credit institutions - cash and cash equivalents.

NOTE 7 – INTANGIBLE ASSETS

Movement in intangible assets is as follows:

(Figures 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**
Additions		289	289	
Transfers		1	1	
Disposals		-11	-11	
Translation differences		-155	-155	
Balance at 30 June 2018	**24.312**	**26.053**	**50.365**	**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**
Charges		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**
Charges		639	639	
Disposals		-11	-11	
Translation differences		-119	-119	
Balance at 30 June 2018	**24.312**	**23.928**	**48.240**	**0**
CARRYING AMOUNT	**Industrial property**	**Computer software and other**	**SUBTOTAL**	**Goodwill**
Cost at 1 January 2017	24.312	25.195	49.507	69.124
Accumulated amortisation and impairment	-24.310	-22.428	-46.738	
Carrying amount at 1 January 2017	**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 30 June 2018	24.312	26.053	50.365	69.124
Accumulated amortisation and impairment	-24.312	-23.928	-48.240	
Carrying amount at 30 June 2018	**0**	**2.125**	**2.125**	**69.124**

Impairment

The Group did not recognise any impairment on intangible assets at 30 June 2018 or 30 June 2017.

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

NOTE 8 – PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY

Movement in property, plant and equipment and investment property is as follows:

(Figures in thousands of euros)

COST	Land and buildings	Technical installations and machinery	Other property, plant and equipment	Property, plant and equipment under construction	TOTAL Property, plant and equipment	Investment property
Balance at 1 January 2017	**831.028**	**3.882.624**	**88.535**	**159.152**	**4.961.339**	**22.417**
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	-138
Translation differences	-58.641	-291.382	-3.723	-14.170	-367.916	-114
Balance at 31 December 2017	**790.224**	**3.709.269**	**86.287**	**126.866**	**4.712.646**	**22.165**
Additions	429	15.401	1.763	47.373	64.966	
Transfers	323	12.548	776	-13.648	-1	
Disposals	-41	-3.455	-1.501		-4.997	-717
Translation differences	10.394	34.912	297	238	45.841	4
Balance at 30 June 2018	**801.329**	**3.768.675**	**87.622**	**160.829**	**4.818.455**	**21.452**

ACCUMULATED AMORTISATION AND IMPAIRMENT	Land and buildings	Technical installations and machinery	Other property, plant and equipment	Property, plant and equipment under construction	TOTAL	Investment property
Balance at 1 January 2017	**332.598**	**2.475.879**	**84.695**	**0**	**2.893.172**	**4.181**
Charges	16.787	146.924	4.350		168.061	368
Transfers	270	149	-419		0	
Disposals	-3.224	-36.441	-2.850		-42.515	-89
Translation differences	-18.469	-152.237	-3.774		-174.480	-15
Balance at 31 December 2017	**327.962**	**2.434.274**	**82.002**	**0**	**2.844.238**	**4.445**
Charges	7.746	71.961	2.589		82.296	162
Disposals	-5	-1.991	-1.492		-3.488	-392
Translation differences	3.156	15.364	446		18.966	
Balance at 30 June 2018	**338.859**	**2.519.608**	**83.545**	**0**	**2.942.012**	**4.215**

CARRYING AMOUNT	Land and buildings	Technical installations and machinery	Other property, plant and equipment	Property, plant and equipment under construction	TOTAL Property, plant and equipment	Investment property
Cost at 1 January 2017	831.028	3.882.624	88.535	159.152	4.961.339	22.417
Accumulated amortisation and impairment	-332.598	-2.475.879	-84.695		-2.893.172	-4.181
Carrying amount at 1 January 2017	**498.430**	**1.406.745**	**3.840**	**159.152**	**2.068.167**	**18.236**
Cost at 31 December 2017	790.224	3.709.269	86.287	126.866	4.712.646	22.165
Accumulated amortisation and impairment	-327.962	-2.434.274	-82.002		-2.844.238	-4.445
Carrying amount at 31 December 2017	**462.262**	**1.274.995**	**4.285**	**126.866**	**1.868.408**	**17.720**
Cost at 30 June 2018	801.329	3.768.675	87.622	160.829	4.818.455	21.452
Accumulated amortisation and impairment	-338.859	-2.519.608	-83.545		-2.942.012	-4.215
Carrying amount at 30 June 2018	**462.470**	**1.249.067**	**4.077**	**160.829**	**1.876.443**	**17.237**

While investment property accounts for a relatively insignificant part of the Group's total assets, it was presented separately in the balance sheet at the end of 2017. It was previously reported under property, plant and equipment.

Investments made in property, plant and equipment and intangible assets during the period totalled Euro 65,255 thousand, of which Euro 46,420 thousand relates to investments made by Acerinox Europa in the new rolling mill

and a fifth annealing and pickling line, while Euro 10,212 thousand was invested by NAS. Investments in the first half of 2017 amounted to Euro 68,384 thousand (of which Euro 25,813 thousand was invested by North American Stainless in its new rolling mill and bright annealing (BA) line brought on line at year-end 2017, while Euro 33,519 thousand was invested by Acerinox Europa).

Disposals of fixed assets

The gain on the sale of property, plant and equipment or the removal of assets from service totalled Euro 246 thousand and has been recognised under Other operating income in the income statement at June 2018 (Euro 398 thousand at June 2017). The Group has disposed of a warehouse that had been classified as investment property, generating a gain of Euro 223 thousand. The carrying amount of the warehouse was Euro 325 thousand.

Losses on the sale of property, plant and equipment or the removal of assets from service totalled Euro 991 thousand at June 2018 and are recognised under Other operating expenses on the income statement (Euro 936 thousand at June 2017). Most these losses related to the derecognition of spares parts for property, plant and equipment.

Impairment losses

As stated in the annual financial statements of the Acerinox Group, the carrying amounts of property, plant and equipment are reviewed at each reporting date to determine whether there are any indications of impairment. At the period end, there were no significant events that required the Group to evaluate the estimations and calculations made at the reporting date for its annual financial statements.

Commitments

At 30 June 2018, the Group had entered into contracts to acquire new equipment and installations for Euro 53,511 thousand, of which Euro 32,949 thousand relate to investments being made by Acerinox Europa. 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.

NOTE 9 – INVENTORIES

Details are as follows:

(Figures in thousands of euros)

	At 30 June 2018	**At 31 December 2017**
Raw materials and other supplies	355.834	322.042
Work in progress	246.211	194.718
Finished goods	402.246	433.583
By-products, waste and recoverable materials	45.224	39.952
Advances	189	189
TOTAL	**1.049.704**	**990.484**

Raw materials and other supplies includes Euro 7,951 thousand relating to valuation of the emission allowance held by the Group at the end of the period. (Euro 7,911 thousand at 31 December 2017).

The adjustment recognised at 30 June 2018 to measure inventories at their net realisable value amounts to Euro 1,427 thousand (Euro 2,273 thousand at 31 December 2017).

NOTE 10 – FINANCIAL INSTRUMENTS

Details of the Group's financial assets, except investments in associates, at 30 June 2018 and year-end 2017 are as follows:

(Figures in thousands of euros)

Classes / Categories	Non-current financial instruments						Current financial instruments					
	Equity instruments		Debt securities		Loans, derivatives and other		Equity instruments		Debt securities		Loans, derivatives and other	
	2.018	2.017	2.018	2.017	2.018	2.017	2.018	2.017	2.018	2.017	2.018	2.017
Loans and receivables					4.343	4.491					735.513	606.694
Held-to-maturity investments												
Equity instruments												
- At fair value through other comprehensive income	12.471	14.474										
- At cost	288	289										
Assets at fair value through profit or loss												
- Held for trading											5.481	17.007
- Other												
Hedging derivatives											1.177	956
TOTAL	**12.759**	**14.763**	**0**	**0**	**4.343**	**4.491**	**0**	**0**	**0**	**0**	**742.171**	**624.657**

At 30 June 2018 and year-end 2017 the Group had the following financial liabilities:

(Figures in thousands of euros)

Classes / Categories	Non-current financial instruments						Current financial instruments					
	Loans and borrowings		Bonds and other marketable securities		Payables, derivatives and other		Loans and borrowings		Bonds and other marketable securities		Payables, derivatives and other	
	2.018	2.017	2.018	2.017	2.018	2.017	2.018	2.017	2.018	2.017	2.018	2.017
Loans and payables	1.019.134	862.328	74.400	74.350	2.547	2.652	178.345	241.488	53.479	51.592	1.150.590	941.476
Liabilities at fair value through profit or loss												
- Held for trading											22.964	28.048
- Other												
Hedging derivatives					3.558	297					499	523
TOTAL	**1.019.134**	**862.328**	**74.400**	**74.350**	**6.105**	**2.949**	**178.345**	**241.488**	**53.479**	**51.592**	**1.174.053**	**970.047**

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	At fair value through other comprehensive income	14.763	14.763
Derivatives not reported under hedge accounting	Derivatives at fair value through profit or loss	At fair value through profit or loss	17.007	17.007
Hedging derivatives	Hedging instruments	Hedging instruments	956	956

NOTE 11 – LOANS AND BORROWINGS

At 30 June 2018, the Acerinox Group's bank financing facilities and private placements amounted to Euro 2,033 million, while approved non-recourse factoring facilities totalled Euro 420 million (Euro 1,964 million at 31 December 2017 for both bank and factoring facilities). A total of Euro 1,325 million had been drawn under the bank facilities at 30 June 2018, while Euro 177 million had been utilised under the factoring facilities (Euro 1,230 million and Euro 150 million at 31 December 2017, respectively).

The most significant financing transaction in the first half of 2018 was the signing with the Spanish Official Credit Institute (ICO) of an eight-year loan worth Euro 100 million. 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 Euro 5 million each, starting in September 2020, and eight half-yearly instalments of Euro 10 million 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 Euro 70 million that Acerinox S.A. signed with the European Investment Bank in December 2017 was delivered in June.

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

The fair value of the Group's financial debt does not differ significantly from its amortised cost.

In addition to the annual compliance ratio discussed previously for the new loan signed the ICO, the Group has a number of other loans in effect that are subject to compliance with certain annual financial ratios. These loans are detailed in the Group's consolidated annual financial statements at 31 December 2017.

NOTE 12 – DERIVATIVE FINANCIAL INSTRUMENTS

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

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

Derivative financial instruments classified by category are as follows:

(Figures in thousands of euros)

	30-jun-18		31-dic-17	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Hedging derivatives	1.273	4.058	956	820
Derivatives at fair value through profit or loss	5.385	22.963	17.007	28.048
TOTAL	**6.658**	**27.021**	**17.963**	**28.868**

As explained in Note 3.1, the Group has not modified the classification or measurement of its financial instruments following the entry into force of the new IFRS 9.

A breakdown of the Group's financial derivatives at 30 June 2018 and 31 December 2017 by type of hedged risk is as follows:

(Figures in thousands of euros)

	30-jun-18		31-dic-17	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Forward exchange contracts	5.902	22.964	17.007	28.066
Interest rate swaps		4.057		802
Cross-currency swaps	756		956	
TOTAL	**6.658**	**27.021**	**17.963**	**28.868**

During the first half of the year, the Group hedged the interest rate on various loans amounting to Euro 220 million.

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

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

At 30 June 2018 and 31 December 2017, the situation at the Group of financial instruments measured at fair value (which include not only derivative financial instruments, but also available-for-sale financial assets) was as follows:

(Figures in thousands of euros)

	30-jun-18			31-dic-17		
	LEVEL 1	**LEVEL 2**	**LEVEL 3**	**LEVEL 1**	**LEVEL 2**	**LEVEL 3**
Equity instruments	12.471			14.474		
Financial derivatives (assets)		6.658			17.963	
TOTAL	**12.471**	**6.658**	**0**	**14.474**	**17.963**	**0**
	LEVEL 1	**LEVEL 2**	**LEVEL 3**	**LEVEL 1**	**LEVEL 2**	**LEVEL 3**
Financial derivatives (liabilities)		27.021			28.868	
TOTAL	**0**	**27.021**	**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 institution with which it operates.

NOTE 13 – APPLICATION OF PROFIT AND DISTRIBUTION OF DIVIDENDS

At the general meeting held on 10 May 2018, shareholders agreed that the parent'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

At the same meeting, shareholders also agreed a cash dividend, charged to unrestricted reserves, of Euro 0.45 gross per share for each outstanding share of the Company entitled to receive such a dividend.

The dividend was paid on 5 July 2018 to those persons who were Acerinox shareholders at the close of trading in the continuous market on 30 June 2018. The company recognised the dividend payable in the amount of Euro 124,320 thousand under Other current financial liabilities on the consolidated balance sheet.

In relation to the same period of 2017, shareholders agreed at the general meeting held on 1 June 2017 to distribute a cash dividend of Euro 0.45 gross per share, charged to unrestricted reserves. The dividend amounted to Euro 124,230 thousand and was paid on 5 July 2017, whereupon the Group recognised a liability for that amount under Other current financial liabilities on the consolidated balance sheet.

NOTE 14 - CHANGES IN THE CONSOLIDATED GROUP

There were no changes in the scope of consolidation in the period.

NOTE 15 – TAXATION

The tax rate shown in the Group's consolidated income statement for the reported interim period was 27.7%, compared with 33.5% for the same period in the previous year. The main factor behind the reduction in the tax rate at the Acerinox Group was the reduction in tax rates approved under the US Government's tax reform. This has effectively lowered federal tax by 14 percentage points, falling from 35% at 31 December 2017 to 21% starting this year. Meanwhile, the Group upholds a policy of not capitalising the tax credits of certain companies, although these losses make a lower contribution to the total consolidated result.

A lower amount of tax credits was capitalised during the period compared to year-end owing to the Group's strong results.

The following legislative changes were approved during the period and will affect income tax at one or more of the Group's companies:

- A number of changes were approved during the period in relation to local corporate income tax law for the regions of Álava, Biscay 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 period 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 515 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. Despite this limitation, the Group is confident that it will continue to recover prior years' tax losses within a period of 10 years.

- Changes to the tax law in Kentucky: the main changes affecting the Group are 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. The Group is currently appraising the impact of this change in the law, although it is confident that it will not have a significant effect.

With respect to the tax inspections and lawsuits in progress discussed in the Acerinox Group's annual financial statements for 2017, the following changes have since occurred in the first half of the year:

Portugal

As explained in the 2017 financial statements, the Spanish tax agency enforced the mutual agreement procedure (MAP) reached with the Portuguese authorities in June 2017, whereby the Group has recovered in Spain a total of Euro 1.3 million for 2007 in corporate income tax, plus Euro 254 thousand in interest.

At year-end 2017, the agreement had yet to be enforced in Portugal and the previously paid amount of Euro 633 thousand had yet to be returned. In 2018, the Portuguese tax authorities have paid a total of Euro 678 thousand, which includes the outstanding principal plus interest. Since the Group had already recognised the amounts receivable, the payment has had no significant impact on the accounts.

Italy

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 2012.

In relation to the latest proceedings received for the 2011 and 2012 annual periods, and as explained in the Group's annual financial statements for 2017, the Group has now presented requests to remove double taxation both in Spain and Italy, and also lodged appeals before the Italian courts. The Group is also readying a request to eliminate double taxation with South Africa for the part relating to acquisitions from Group company Columbus Stainless.

During the period, there were no movements in the provision appropriated at year-end 2017, which amounted to 7.2 million euros, as there were no developments that would warrant a re-estimation of the same.

Germany

As explained in the 2017 financial statements, notification was received on 5 October 2017 of the finalisation of the mutual agreement procedure and of the agreements reached for 2007 to 2010. These agreements have reduced by 40% the adjustments initially proposed by the German authorities on transactions between Spain and the Group's German subsidiary. The tax recovered in Spain this year has amounted to Euro 3.8 million, plus Euro 1.4 million in interest, all of which has been recognised as income for the year. The Group has also recognised a total of Euro 3.7 million in tax credits recoverable in Spain. Meanwhile, the Group has recognised a reduction of Euro 7.5 million in tax credits in Germany, bringing the Group's net result in this period to a positive Euro 1.4 million due to the interest paid in Spain.

The German tax authorities have honoured the adjustments envisaged in the mutual agreement procedure for 2007 to 2010 and proceeded to pay a total of Euro 5.8 million. Since this had already been recognised as a receivable, it has not generated any income for the Group in 2018. The Group is currently in negotiations with the German authorities to make the same arrangement applicable to adjustments with third countries. In the interests of consistency, tax authorities should apply the same criteria, though claims may be brought before the courts if this is not the case and a number of appeals have been lodged against these decisions.

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, 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.

The tax inspections for 2011 to 2014 will be closed once the Group manages to negotiate with the German authorities the final position in relation to acquisitions from other countries, notably South Africa.

The Group has yet to review the estimated provision of Euro 6,092 thousand calculated at the end of 2017, since an agreement has yet to be reached with regard to the transfer price adjustments on transactions between Germany and third countries and also because the inspection proceedings are still under way. The Group will re-estimate the provision once there is evidence that the relevant agreements have been reached, although it is confident that no additional provision will need to be posted.

Poland

Tax inspection proceedings for 2015 corporate income tax at Group company Acerinox Polska S.P. Zoo. have now drawn to a close in this period. The company is required to pay additional tax of Euro 90 thousand this year, plus Euro 16 thousand in interest.

Malaysia

Tax inspection proceedings at the company Acerinox SC Malaysia have been resumed this year. El Grupo has responded to all matters raised and has received no further notice since March. There have been no further developments in relation to the inspection proceedings at Group company Bahru Stainless.

NOTE 16 – LITIGATION

There were no significant cases of litigation during the period.

NOTE 17 – CONTINGENT ASSETS AND LIABILITIES

At the end of the half-year period, the Group had no new contingent assets or liabilities beyond those mentioned in the annual financial statements for 2017.

NOTE 18 - SEGMENT REPORTING

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

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

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

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

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

Inter-segment sales prices are established in accordance with normal commercial terms and conditions governing unrelated third parties.

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

There have been no significant changes in the assets and liabilities assigned to each segment in comparison with those presented in the Group's annual financial statements at 31 December 2017. A majority of the investments in the half-year period were made by Acerinox Europa, a maker of flat products. Hence, a majority of these investments were allocated to the flat segment.

18.1 Operating segments

Details of revenues by operating segment are as follows:

(Figures in thousands of euros)

	30-jun-18			30-jun-17		
	Ordinary revenues from external customers	**Ordinary revenues between segments**	**Total revenues**	**Ordinary revenues from external customers**	**Ordinary revenues between segments**	**Total revenues**
Flat products	2.219.635	173.073	2.392.708	2.112.303	151.721	2.264.024
Long products	369.769	12.326	382.095	328.334	9.386	337.720
Other	5.873		5.873	10.358		10.358
Unallocated	1.600		1.600	1.663		1.663
(-) Inter-segment adjustments and eliminations of income		-185.399	-185.399		-161.107	-161.107
TOTAL	**2.596.877**	**0**	**2.596.877**	**2.452.658**	**0**	**2.452.658**

No single transaction with an external customer exceeded 10% of the Group's consolidated revenues at June 2018 or 2017.

Details of consolidated profit by operating segment are as follows:

(Figures in thousands of euros)

	At 30 June 2018	**At 30 June 2017**
Flat products	141.859	199.648
Long products	53.441	33.096
Other stainless steel products	1.763	1.898
Total profit of reported segments	**197.063**	**234.642**
(+/-) Unallocated profit	-15.117	-17.854
(+/-) Elimination of internal profit (between segments)		
(+/-) Other profit		
PROFIT/(LOSS) BEFORE TAX	**181.946**	**216.788**

18.2 Geographical segments

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

Details of revenue by geographical area at 30 June 2018 and 2017 are as follows:

(Figures in thousands of euros)

	At 30 June 2018	At 30 June 2016
Spain	254.937	261.904
Rest of Europe	701.755	650.233
Americas	1.158.107	1.124.096
Africa	127.324	110.974
Asia	333.505	288.257
Other	12.312	8.357
TOTAL	**2.587.940**	**2.443.822**

NOTE 19 – AVERAGE HEADCOUNT

The average headcount at the Group in the first half of 2018 was 6,915 employees (6,089 men and 826 women). The headcount at 30 June 2017 was 6,888 (6,079 men and 809 women).

The headcount at 30 June was 7,005 (7,007 at 30 June 2017).

NOTE 20 – RELATED PARTY TRANSACTIONS

- **Identity of related parties**

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

- Equity-accounted associates.
- Key management personnel of the Group and members of the boards of directors of Group companies, as well as their related parties.
- Significant shareholders of the parent.

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

All transactions between related parties are carried out on an arm's length basis.

Details of transactions with related parties are as follows:

- **Balances and transactions with associates**

The Group did not conduct any transactions with associates during this interim period or during the same period of 2017.

- **Balances and transactions with significant shareholders**

At 30 June 2018, the Group had entered into the following financing transactions with Banca March, part of the March Group (shareholder of Corporación Financiera Alba), all of which are on an arm's length basis:

- Non-current loan of Euro 30 million, which had been drawn down in full.

- Guarantees totalling Euro 0.06 million.
- Reverse factoring facilities for Euro 3 million, of which Euro 0 million had been drawn down.
- Non-recourse factoring facilities for Euro 70 million, of which Euro 27.56 million had been drawn down.

Transactions with this same entity at 30 June 2017 were as follows:

- Non-current loan of Euro 30 million, which had been drawn down in full.
- Guarantees totalling Euro 0.06 million.
- Reverse factoring facilities for Euro 3 million, of which Euro 0.21 million had been drawn down.
- Non-recourse factoring facilities for Euro 70 million, of which Euro 24.17 million had been drawn down.

Insurance premiums brokered through March-JLT Correduría de Seguros amount to Euro 7,614 thousand at 30 June 2018 (Euro 7,898 at 30 June 2017).

The balance of transactions with Banca March is as follows:

(Figures in thousands of euros)

	At 30 June 2018	At 30 June 2017
Interest	935	264
Commissions		750
TOTAL	**935**	**1.014**

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

(Figures in thousands of euros)

	At 30 June 2018	At 30 June 2017
Services received	251	422
Finance costs		24
Sale of goods	1.331	691

At period end receivables from the Nisshin group amount to Euro 425 thousand (Euro 430 thousand at 30 June 2017).

- **Directors and key management personnel**

Remuneration received by the members of senior management who do not hold positions on the Board of Directors of Acerinox, S.A. amounted to Euro 1,445 thousand at 30 June 2018 (Euro 1,038 received in the same period of 2017). Euro 482 thousand of this amount relates to salaries (Euro 463 thousand in 2017), Euro 44 thousand comprises per diem allowances (Euro 45 thousand in 2017) and Euro 919 thousand reflect other remuneration (Euro 530 thousand in 2017).

At 30 June 2018, the members of the Board of Directors of Acerinox, S.A., including those that hold key management positions and sit on the boards of other Group companies, have received Euro 1,666 thousand in fixed pay, remuneration for attending board meetings and fixed and variable salaries (Euro 1,227 thousand in the same period of 2017), of which Euro 634 thousand relates to salaries and fixed remuneration for board members (Euro 528 thousand in 2017), Euro 258 thousand comprises allowances (Euro 190 thousand in 2017) and Euro 774 thousand relates to other remuneration (Euro 509 thousand in 2017).

There are obligations under from certain contractual covenants agreed with Senior Management, derived from retirement compromises, amounting 9.9 million euros as of 31st December 2017, out of which 3,2 million euros correspond to the Chief Executive Officer. These obligations were properly insured and their estimated amount covered by cash flows arising from the insurance policies contracted. As a result, no liability in this connection is recognised.

At 30 June 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.

The expense accrued up to June 2018 for the Chief Executive Officer and Senior Management under the multi-year remuneration plan or long-term incentive plan (the terms and conditions of which are outlined in note 3.1), whose balancing entry is recorded in "other equity instruments", amounts to 200 thousand euros (out of which 86 thousand euros correspond to the Chief Executive Officer).

All transactions carried out between members of the Board of Directors and the Company or Group companies in the first half of 2018 have been ordinary transactions on an arm's length basis.

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.

NOTE 21 – SUBSEQUENT EVENTS AFTER THE REPORTING PERIOD

Dividend

On 5 July 2018, the Company paid out a dividend of Euro 0.45 per share, giving a total of Euro 124,230 thousand.

Protective measures for imports of steel products in the European Union

On 18 July the European Commission announced provisional protective measures affecting imports of a series of steel products.

These measures are intended to ensure the supply of European consumers, and protect against the diversion of exports of steel from other countries to the European Union as a consequence of the tariffs recently imposed by the United Sates (Section 232). These safeguard measures came into force on Thursday 19 July and will remain in force for 200 days, subject to publication of the definitive measures.