

Acerinox, S.A.

Audit Report,
Annual Accounts and Management Report
at 31 December 2018



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

Independent auditor's report on the annual accounts

To the shareholders of Acerinox, S.A.

Report on the annual accounts

Opinion

We have audited the annual accounts of Acerinox, S.A. (the Company), which comprise the balance sheet as at December 31, 2018, and the income statement, statement of changes in equity, cash flow statement and related notes for the year then ended.

In our opinion, the accompanying annual accounts present fairly, in all material respects, the equity and financial position of the Company as at December 31, 20x1, as well as its financial performance and cash flows for the year then ended, in accordance with the applicable financial reporting framework (as identified in Note x of the notes to the annual accounts), and, in particular, with the accounting principles and criteria included therein.

Basis for opinion

We conducted our audit in accordance with legislation governing the audit practice in Spain. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the annual accounts* section of our report.

We are independent of the Company in accordance with the ethical requirements, including those relating to independence, that are relevant to our audit of the annual accounts in Spain, in accordance with legislation governing the audit practice. In this regard, we have not rendered services other than those relating to the audit of the accounts, and situations or circumstances have not arisen that, in accordance with the provisions of the aforementioned legislation, have affected our necessary independence such that it has been compromised.

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

Key Audit Matters (KAM)

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

Key Audit Matters (KAM)	How the matters were handled during the course of the audit
<p><i>Recovery of investments in group companies</i></p> <p>Non-current investments in group companies make up a significant part of the Company's assets and represent 85% of total assets at 31 December 2018 (Note 9 to the accompanying financial statements). The Company makes an annual assessment of any indications of impairment and calculates the recoverable value of the investments recognized in its balance sheet, as is described in Note 9.2.7 to the accompanying financial statements.</p> <p>The Company uses cash flow projections based on financial budgets approved by management to calculate the recoverable value assigning different probabilities of occurrence to the margins projected in cases that cash flows are subject to high uncertainty, which requires relevant judgments and estimates. These estimates include, among other things, operating profits on sales, discount rates and long-term growth. The most significant assumptions used by the Company are summarized in Note 9.2.7 to the accompanying notes to the financial statements.</p> <p>As a result of the analysis performed, the Company booked an impairment in the value of the investment held in Bahru Stainless Sdn. Bhd. amounting €155,454 thousand.</p> <p>Changes in these variables and estimates made by management may give rise to significant variations in the conclusions reached and, therefore, in the analysis of the recovery of the investments in Group companies.</p> <p>This, together with the materiality of this heading, means that this matter was one of significant attention during our audit.</p>	<p>We first gained an understanding of the relevant processes and controls associated with the evaluation of the measurement of the investments in Group companies, as well as the analyses of their recovery and impairment tests carried out by management, including those relating to the preparation of budgets and the analysis and monitoring of projections, which constitute the basis for the primary judgments and estimates made by management.</p> <p>We have verified the calculations of cash flows and we have compared the projected annual flows, which are based on the plans and budgets approved by management, against those actually attained in 2018. These projections are based in plans and budgets approved by management which have been contrasted with management experts for certain investments, as explained in Note 9.2.7.</p> <p>We have also analysed the key assumptions applied, comparing them against past results and other available industry information. To do so, we have obtained the support of valuation experts at our firm who have assessed the model used, the discount rates for calculating the present value of the flows (WACC) and the long-term growth figures applied by the Group, in those cases we deemed it necessary.</p> <p>As a result of our tests and analyses, we consider that management's conclusions regarding the impairment of the investments in Group companies and the disclosures in the accompanying financial statements are adequately supported and consistent with the information currently available.</p>

Key Audit Matters (KAM)	How the matters were handled during the course of the audit
<p><i>Recovery of deferred tax assets</i></p> <p>The Company recorded €76,136 thousand in deferred tax assets at 31 December 2017 whose recovery depends on the generation of taxable income in future years (Note 12 to the accompanying notes to the financial statements).</p> <p>The recovery of these deferred tax assets is analysed by the Company through an estimation of taxable income over 10 years (Note 12.3 to the accompanying financial statements). The estimation of future tax-loss carry forwards is based on the business plans prepared by the various companies pertaining to the tax group and on the planning possibilities permitted by applicable tax legislation taking into account the tax consolidation group (Note 2.3.c to the accompanying financial statements).</p> <p>As a result, the conclusion regarding the recovery of the deferred tax assets that is presented in the accompanying financial statements is subject to significant judgment and estimations by Company management with respect to both future taxable income and the tax legislation currently in force.</p> <p>This, together with the materiality of this heading, means that this matter was one of significant attention during our audit.</p>	
	<p>We first gained an understanding and assessed the criteria used by the Group to estimate the possibility that the deferred tax assets may be applied and recovered in subsequent years, in accordance with the business plans.</p> <p>Based on the business plans prepared by management, we have analysed the key assumptions, estimates and calculations used, comparing them against past results and other available industry information.</p> <p>As part of our analysis we have reviewed the tax adjustments taken into consideration for the estimate of tax-loss carry forwards, applicable tax legislation as well as decisions regarding the possibility of using the taxable profits obtained by the tax consolidation group.</p> <p>The analyses carried out have allowed for the verification that the calculations and estimates made by the Company, as well as the conclusions reached, with respect to the recognition and recovery of deferred tax assets are consistent with current circumstances, in light of the expectations of the tax group obtaining profits in the future and the possibilities arising from tax planning available under current legislation.</p>

Other information: Management report

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

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

- a) A specific level that is applicable to certain information included in the Annual Corporate Governance Report, as defined by Article 35.2.b) of Law 22/2015, on Audits, which consists of only verifying that the aforementioned information has been provided in the management report. If this is not the case we must report this fact.

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

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

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

The Company's directors are responsible for the preparation of the accompanying annual accounts, such that they fairly present the equity, financial position and financial performance of ABC, S.A., in accordance with the financial reporting framework applicable to the entity in Spain, and for such internal control as the directors determine is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

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

The audit committee is responsible for overseeing the process of preparation and presentation of the annual accounts.

Auditor's responsibilities for the audit of the annual accounts

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

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

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

- Identify and assess the risks of material misstatement of the annual accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Company's directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual accounts, including the disclosures, and whether the annual accounts represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

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

Report on other legal and regulatory requirements

Report to the audit committee

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

Appointment period

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

Services provided

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

PricewaterhouseCoopers Auditores, S.L. (S0242)

Original in Spanish signed by
Mar Gallardo (18003)

27 February 2019



ACX S.a

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1- Acerinox S.A

Acerinox S.A.

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

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

The 10

Financial expenses, 32.6 million, were reduced in a 9.5% with respect to 2017. These expenses come from the indebtedness that Acerinox S.A. beard in order to finance its shareholding companies. Financial debt rises to 1,208.6 million euros. During the business year a value impairment of its shares in Bahru Stainless for the amount of 155 million euros was carried out as the estimated recoverable value of the Company calculated upon the basis of an expected discount in cash flows, resulted to be lower than the book value of its shares.

Condensed Profit & Loss Account, Acerinox S.A.

Million €	January - December		
	2018	2017	Variation
Net sales	73.92	69.97	5.7%
Gross margin	73.92	69.97	5.7%
% over sales	100.0%	100.0%	
Gross operating result / EBITDA	54.82	44.95	22.0%
% over sales	74.2%	64.2%	
EBIT	53.58	43.79	22.4%
% over sales	72.5%	62.6%	
Result before taxes	-125.75	12.82	----
Result after taxes	-125.60	8.00	----
Depreciation	1.24	1.16	7.0%
Net cash flow	-124.36	9.16	----

3- Human Resources

As of 31 December 2018, Acerinox parent company was formed by a total of 63 employees of which a 57.1% (36) are men and a 42.8% (27) women.

The workforce grew in a 5% with respect to last business year, being the majoritarian group those who hold a college degree totaling 40 employees.

Fro

4- Evolution of Shares

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

The Ibex 35 registered its annual maximum on 23 January (10,609.50) and the minimum on 27 December (8,363.90), what supposes a clear example of the downward trend during the whole year.

Market evolution of IBEX 35

Daily percentage data, year 2018

2018 was a very volatile year in all markets and very difficult to manage. The main causes which have more significantly affected quotation were: the rise of interest rates by FED, the trade war between the United States and China, the concerns about a possible deceleration of world's econo



The

First Half of the year

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

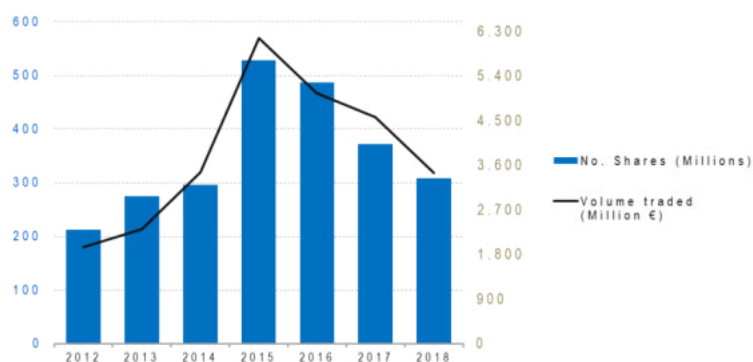
The United States' trade sanctions to the

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

By the end of the year, 60% of the analysts reco

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

Shares and volume traded

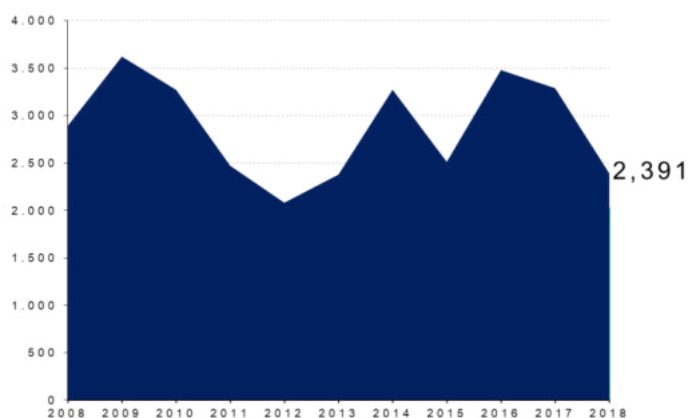


4-1 Capitalization

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

Acerinox, S.A. market capitalization

Million euros



4-2 Shareholders remuneration

The Ordinary Shareholders' General



long term incentive (ILP for its acronym in Spanish) established in favor of Executive Directors and the rest of the Group's Senior

5- R+D+i

The parent company, Acerinox S.A., has not developed any activity related to R+D+i during the 2018 business year.

6- Environment

Sustainability and care for the environ

Stainless steel applications include not few uses related to environment like generating clean energy and saving in its consumption, providing of clean air, treating water, manufacturing healthy food, avoiding dangerous chemical products and limiting air pollution.

In relation to environmental provisions, the Group does not recognize any environmental provision in 2018.

7- Corruption and Bribery

The information and measures relative to the fight against corruption and bribery inside the Acerinox Group are recorded in the Code of Conduit and Good Practices of Acerinox and the Crime Prevention Model, which are the main tools for normative compliance and criminal prevention of the Group. Both have been the subject of a training action divided in three phases, directed to employees and directives of the Group in Spain.

Also, Acerinox Group has approved in the framework of criminal prevention a set of policies and internal norms with the goal of avoiding illicit criminal acts committed in general, and more specifically, the crimes of the juridical person:

- Adherence to the Global Compact UN initiative
- Internal instructions on the chain of authorizations required and the rules of action of the Group's representatives
- Credit entities with which the group works are of renowned prestige and are located in countries not recognized as tax havens, being forbidden the payments in cash or through different means than those authorized.
- No participation in businesses pending on decisions of public administrations, grants or subsidies and the non-financing from political parties, nor associations or tutored foundations, recommended or used by political parties.
- Prohibition of workers and directives of the Group to unlawfully influence political or administrative decisions.
- Not to receive or offer attentions, advantages, handouts or unlawful benefits from persons or entities with which the Acerinox Group keeps or will have business relations.
- In the contracts with third parties there are incorporated as obligations of them the essential principles of the Code of Conduit of Acerinox and the compromise against corruption in any of its variations.

Acerinox has not undertaken any contribution to a sectorial organization.

8- Equality and Diversity

The Board of Directors of Acerinox approved at its reunion in December 2018 the new Diversity Plan of the company in which it records the principles in this area and it establishes the measures to guarantee egalitarian conditions and defense of diversity in the Group activities.

The Board of Directors of Acerinox is a faithful reflection of the Co

Governance Committee as well as in the Audit Commission the proportion is of three Independent and one Proprietary. Both the Board and all the other commissions are chaired by an Independent Director.

Acerinox Group is present in the five continents and is formed by persons of diverse cultures, belonging to the most professed religions in the world and with very different beliefs, orientations and traditions. Diversity is, therefore, consequence of the international character of the company.

The prevention of sexual assault and gender abuse in the place of work is regulated in the Code of Conduit, containing essential declarations of prohibition and prevention of abuses of any kind in the working environment.

Furthermore, Acerinox has deployed a system of complaints in the group companies. The worker who is considered affected has the chance to ask for the adoption of precautionary measures which will be automatically applied while the inquiry is carried out.

Preventive measures and abuse repression have been incorporated to the collective agree

9- Board of Directors of Acerinox SA

RAFAEL MIRANDA ROBREDO

Chairman
External Independent



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

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

BERNARDO VELÁZQUEZ HERREROS

Chief Executive Officer
Executive



Mr. Bernardo Velázquez Herreros, of Spanish nationality, is Industrial Engineer from ICAI and Chief Executive Officer of Acerinox. Since he joined the Marketing Department of Acerinox in 1990, Bernardo Velázquez has assumed successive positions of responsibility in the company, gathering more than 27 years of experience in the international stainless steel trade. On his return to Spain in 2005, following his experiences in Mexico and Australia, he took up the positions of Assistant Managing Director, Chief Information Officer and Corporate Planning Director. In 2007 he was named Managing Director, a position he held until his appointment as CEO in July 2010.

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

PEDRO BALLESTEROS QUINTANA

Director
External Proprietary representing Corporación Financiera Alba



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

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

MANUEL CONTHE GUTIÉRREZ

Director
External Independent



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

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

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

ROSA MARÍA GARCÍA PIÑEIRO

Director
External Independent

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

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



LAURA G. MOLERO

Director
External Independent

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

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



MVULENI GEOFFREY QHENA

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

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

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

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



RYO HATTORI

Director
External Proprietary representing Nisshin Steel

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

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



TOMÁS HEVIA ARMENGOL

Director

External Proprietary representing Corporación Financiera Alba

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

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



DONALD JOHNSTON

Director

External Independent

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

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



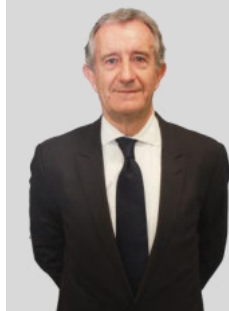
IGNACIO MARTÍN SAN VICENTE

Director

External Independent

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

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



MARTA MARTÍNEZ ALONSO

Director

External Independent

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

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



**SANTOS MARTÍNEZ-CONDE
GUTIÉRREZ-BARQUÍN**
Director

External Proprietary representing Corporación Financiera Alba

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

BRAULIO MEDEL CÁMARA
Director

External Independent

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

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

KATSUHISA MIYAKUSU
Director

External Proprietary representing Nisshin Steel

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

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

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

LUIS GIMENO VALLEDOR
Secretary to the Board

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

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

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

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

10- Corporate Governance

The Acerinox Annual Corporate Governance Report corresponding to 2018 forms part of the Management Report which includes a section on non-financial information in accordance with the Royal-Decree-Law 18/2017 on non-financial information. The Management Report is available on the web page of the National Stock

2. Changes in the Board of Directors

The 2018 General Shareholders'

10-2 Board of Directors and its committees

The Board of Directors

The Board of Directors is the body responsible for directing, administering and representing the Company, without prejudice to the powers conferred on the General Shareholders'

and have held several positions in the steel industry but also in the chemical, pharmaceutical, food, automotive, paper, new technologies and energy industries; some of them having worked in more than one of these sectors. Five of its members come from the financial world, including investment banking, saving banks and the loan sector.

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

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

Pursuant to the Capital Co

The Executive Committee

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

In order to facilitate transparency and communication among the governing bodies, the Co

The Appointments, Remuneration and Corporate Governance Committee

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

APPOINTMENTS, REMUNERATIONS AND CORPORATE GOVERNANCE COMMITTEE

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

AUDIT COMMITTEE

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

SENIOR MANAGEMENT

The Management Committee of Acerinox is made up of eight people: the Chief Executive Officer, the Financial Director, the Commercial Director, the Production Director and the General Secretary:

- BERNARDO VELÁZQUEZ HERREROS (Chief Executive Officer)
- DANIEL AZPITARTE ZEMP (Commercial Director)
- MIGUEL FERRANDIS TORRES (Financial Director)
- ANTONIO MORENO ZORRILLA (Production Director)
- LUIS GIMENO VALLEDOR (General Secretary)



10-3.- Shareholders' General

11- Risks and their management

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

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

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

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

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

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



The main risks are the following:

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

7.1- Financial Risks

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

12- Relevant events after the close of business year

European Union safeguard measures

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

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

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

Thirdly, the boarding clause which gave place to a relevant increase of imports in the summer 2018, in line with the increase of boardings in anticipation to the measures, is no longer applicable.

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

Regarding Acerinox Group it is worth noting how in November 2018 the Commission announced the exclusion of South Africa from the measures, reason why Colu

Nisshin Steel Co, Ltd exchange of shares

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

Purchasing of own shares

As it was explained in the note 13.1, the Board of Directors of Acerinox, S.A. held on 19 December 2018, making use of the authorization granted for a 5 years period by the Shareholders' General