CIE Automotive, S.A.
and subsidiaries

Audit Report,
Consolidated Annual Accounts at 31 December 2016
and directors' Report for 2016

"This version of our report is a free translation of the original, which was prepared in Spanish. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation."

INDEPENDENT AUDITOR'S REPORT ON CONSOLIDATED ANNUAL ACCOUNTS

To the shareholders of CIE Automotive, S.A.:

Report on the Consolidated Annual Accounts

We have audited the accompanying consolidated annual accounts of CIE Automotive, S.A. and its subsidiaries, which comprise the consolidated balance sheet as at December 31, 2016, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated cash flow statement and related notes for the year then ended.

Directors' Responsibility for the Consolidated Annual Accounts

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated annual accounts. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated annual accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the parent company's directors' preparation of the consolidated annual accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the presentation of the consolidated annual accounts taken as a whole.

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

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Opinion

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

Report on Other Legal and Regulatory Requirements

The accompanying consolidated directors' Report for 2016 contains the explanations which the parent company's directors consider appropriate regarding CIE Automotive, S.A. and its subsidiaries' situation, the development of their business and other matters and does not form an integral part of the consolidated annual accounts. We have verified that the accounting information contained in the directors' Report is in agreement with that of the consolidated annual accounts for 2016. Our work as auditors is limited to checking the directors' Report in accordance with the scope mentioned in this paragraph and does not include a review of information other than that obtained from CIE Automotive, S.A. and its subsidiaries' accounting records.

PricewaterhouseCoopers Auditores, S.L.

Original in Spanish signed by Francisco Javier Domingo

27 February 2017

CIE AUTOMOTIVE, S.A. AND SUBSIDIARIES (Consolidated)

Consolidated Annual Accounts
and Consolidated Directors ' Report
for the year ended
31 December 2016

CIE AUTOMOTIVE, S.A. AND SUBSIDIARIES

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CIE AUTOMOTIVE, S.A. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2016
(Thousand euro)

		At 31 December	
	Note	2016	2015
ASSETS			
Non-current assets			
Property, plant and equipment	6	1,166,742	971,521
Goodwill	7	1,240,169	905,802
Other intangible assets	7	56,837	45,598
Non-current financial assets	8	10,560	11,985
Investments in associates	8	11,799	9,545
Deferred tax assets	23	234,499	223,310
Other non-current assets	9	11,738	5,471
		2,732,344	2,173,232
Current assets			
Inventories	11	355,349	293,754
Trade and other receivables	10	477,886	365,061
Other current assets	-	11,901	6,181
Current tax assets	-	62,873	60,432
Other current financial assets	8	57,088	85,702
Cash and cash equivalents	12	372,550	261,011
		1,337,647	1,072,141
Disposal group assets classified as held-for-sale	13	6,746	24,776
Total assets		4,076,737	3,270,149

The accompanying notes to the annual accounts set out on pages 7 to 95 form an integral part of these consolidated annual accounts.

CIE AUTOMOTIVE, S.A. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2016
(Thousand euro)

		At 31 December	
	Note	2016	2015
EQUITY			
Capital and reserves attributable to the parent company´s shareholders			
Share capital	14	32,250	32,250
Share premium	14	152,171	152,171
Retained earnings	15	647,826	511,177
Interim dividend	15	(25,800)	(20,640)
Cumulative exchange differences	15/16	(44,470)	(97,869)
Non-controlling interests	18	501,329	307,901
Total equity		**1,263,306**	**884,990**
Deferred income	19	**14,406**	**17,765**
LIABILITIES			
Non-current liabilities			
Non-current provisions	25	147,108	110,861
Non-current borrowings	20	1,015,899	828,265
Deferred tax liabilities	23	87,207	71,615
Other non-current liabilities	22	104,616	81,755
		1,354,830	1,092,496
Current liabilities			
Current borrowings	20	215,084	172,489
Trade and other payables	21	957,004	815,320
Other current financial liabilities	8	14,898	16,078
Current tax liabilities	22	72,154	56,780
Current provisions	25	21,474	11,108
Other current liabilities	22	161,828	199,098
		1,442,442	1,270,873
Disposal group liabilities classified as held-for-sale	13	1,753	4,025
Total liabilities		2,799,025	2,367,394
Total equity and liabilities		4,076,737	3,270,149

The accompanying notes to the annual accounts set out on pages 7 to 95 form an integral part of these consolidated annual accounts.

CIE AUTOMOTIVE, S.A. AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2016
(Thousand euro)

	Note	Year ended 31 December 2016	2015
OPERATING REVENUE		**2,967,002**	**2,725,224**
Revenue	26	2,879,042	2,631,520
Other operating income	26	80,715	90,493
Change in inventories of finished goods and work in progress	11/26	7,245	3,211
OPERATING EXPENSES		**(2,687,676)**	**(2,480,918)**
Consumption of raw materials and secondary materials	11	(1,619,033)	(1,470,442)
Employee benefit expense	28	(631,723)	(600,378)
Depreciation and amortisation	5	(128,144)	(121,168)
Other operating income/(expenses)	27	(308,776)	(288,930)
OPERATING PROFIT		**279,326**	**244,306**
Finance income	29	10,351	14,760
Finance costs	29	(42,841)	(53,438)
Net exchange differences	29	2,053	10,310
Change in fair value of assets and liabilities taken to income statement	29	1,122	(30,431)
Share of profit/(loss) of associates	8	1,244	1,163
PROFIT BEFORE TAX		**251,255**	**186,670**
Income tax	30	(49,485)	(40,092)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		**201,770**	**146,578**
LOSS FOR THE YEAR FROM DISCONTINUED OPERATIONS	13	(11,567)	**(763)**
PROFIT FOR THE YEAR		**190,203**	**145,815**
PROFIT ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	18	**(27,853)**	**(16,751)**
PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT		**162,350**	**129,064**
Earnings per share from continuing and discontinued operations attributable to shareholders of the parent (expressed in euro per share)			
- Basic earnings per share:	31	1.26	1.00
From continuing operations		1.35	1.01
From discontinued operations		(0.09)	(0.01)
- Diluted earnings per share:	31	1.26	1.00
From continuing operations		1.35	1.01
From discontinued operations		(0.09)	(0.01)

The accompanying notes to the annual accounts set out on pages 7 to 95 form an integral part of these consolidated annual accounts.

CIE AUTOMOTIVE, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016
(Thousand euro)

	Note	Year ended 31 December 2016	Year ended 31 December 2015
PROFIT FOR THE YEAR		190,203	145,815
OTHER COMPREHENSIVE INCOME FOR THE YEAR			
Entries that may be reclassified to profit or loss:			
- Cash flow hedges	8	(5,378)	(11,387)
- Net investment hedge	2.11/8	9,170	(35,871)
- Currency translation differences	16/18	53,562	(29,632)
- Other comprehensive income for the year		(923)	885
- Tax effect	23	(7,616)	905
Total entries that may be reclassified to profit or loss		**48,815**	**(75,100)**
Entries that may not be reclassified subsequently to profit or loss:			
- Actuarial gains and losses	24/25	(2,831)	(798)
- Tax effect	23	536	270
Total items that may not be reclassified to profit or loss:		**(2,295)**	**(528)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		236,723	70,187
Attributable to:			
- Owners of the parent Company	15	206,293	56,435
. Continuing operations		217,860	57,198
. Discontinued operations	13	(11,567)	(763)
- Non-controlling interests	18	30,430	13,752
		236,723	70,187

The accompanying notes to the annual accounts set out on pages 7 to 95 form an integral part of these consolidated annual accounts.

CIE AUTOMOTIVE, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016
(Thousand euro)

	Share capital (Note 14)	Share premium (Note 14)	First-time IFRS-EU application reserve and other restatement reserves (Note 15)	Cumulative exchange differences (Note 16)	Retained earnings (Note 15)	Interim dividend (Note 15)	Non-controlling interests (Note 18)	Total equity
Balance at 1 January 2015	**32,250**	**152,171**	**4,903**	**(70,590)**	**455,985**	**(12,900)**	**299,813**	**861,632**
Total comprehensive income for 2015	-	-	**(46,110)**	**(26,519)**	**129,064**	**-**	**13,752**	**70,187**
Distribution of 2014 profit	-	-	-	-	(25,800)	12,900	-	(12,900)
Interim dividend 2015	-	-	-	-	-	(20,640)	-	(20,640)
Consolidation scope changes (Note 1)	-	-	-	-	(5,037)	-	(838)	(5,875)
Other movements (*)	-	-	(339)	(760)	(1,489)	-	(4,826)	(7,414)
Balance at 31 December 2015	**32,250**	**152,171**	**(41,546)**	**(97,869)**	**552,723**	**(20,640)**	**307,901**	**884,990**
Total comprehensive income for 2016	-	-	**(5,582)**	**49,525**	**162,350**	**-**	**30,430**	**236,723**
Distribution of 2015 profit	-	-	-	-	(42,570)	20,640	-	(21,930)
Interim dividend 2016	-	-	-	-	-	(25,800)	-	(25,800)
Consolidation scope changes (Note 1)	-	-	-	3,639	26,672	-	167,205	197,516
Other movements (**)	-	-	-	235	(4,221)	-	(4,207)	(8,193)
Balance at 31 December 2016	**32,250**	**152,171**	**(47,128)**	**(44,470)**	**694,954**	**(25,800)**	**501,329**	**1,263,306**

(*) Basically relates to the distribution of dividends to non-controlling interests (Note 18) and effect of equity method of Concesionaria Chile Salud Siglo XXI, S.A. (Note 8).

(**) Basically relates to the distribution of dividends to non-controlling interests (Note 18)

The accompanying notes to the annual accounts set out on pages 7 to 95 form an integral part of these consolidated annual accounts.

CIE AUTOMOTIVE, S.A. AND SUBSIDIARIES

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2016
(Thousand euro)

	Note	Year ended 31 December 2016	Year ended 31 December 2015
Cash flows from operating activities			
Cash generated from continuing and discontinued operations	33	419,168	416,026
Interest paid		(37,556)	(43,926)
Interest received		6,144	7,976
Income tax paid		(43,313)	(31,912)
Net cash generated from operating activities		344,443	348,164
Cash flows from investing activities			
Acquisition/ disposal of subsidiaries, net of cash acquired / transferred	22/35	(312,892)	(31,918)
Acquisition of property, plant and equipment	6	(182,515)	(159,479)
Acquisition of intangible assets	7	(10,826)	(12,573)
Acquisition of shares to non-controlling partners	1	(108,926)	-
Proceeds from the sale of property, plant and equipment and intangible assets	33	11,960	5,442
Acquisition/disposal of others financial assets	8	24,766	4,088
Net cash used in investing activities		(578,433)	(194,440)
Cash flows from financing activities			
Proceeds from borrowings	20	465,669	166,901
Income (net of reimbursements) from high- rotation borrowings	20	(15,454)	(54,368)
Loan repayments	20	(306,285)	(253,455)
Capital increase in subsidiaries	1	87,681	-
Dominion Group IPO	1	154,267	-
Grants received (net)	19	(157)	3,728
Other debts repayment	22	-	(16,597)
Dividends paid to shareholders of the parent Company	15	(42,570)	(25,800)
Other payments/income to/from non-controlling interests		(6,368)	(3,765)
Net cash (used in)/from financing activities		336,783	(183,356)
Exchange gains/(losses) on cash and cash equivalents		8,746	(7,056)
Net (decrease)/increase in cash, cash equivalents and bank overdrafts		111,539	(36,688)
Cash, cash equivalents and bank overdrafts at beginning of year	12	261,011	297,699
Cash, cash equivalents and bank overdrafts at end of year	12	372,550	261,011

The accompanying notes to the annual accounts set out on pages 7 to 95 form an integral part of these consolidated annual accounts.

CIE AUTOMOTIVE, S.A. AND SUBSIDIARIES

NOTES TO THE 2016 CONSOLIDATED FINANCIAL STATEMENTS
(Thousand euro)

1. General information and Regulatory Framework

1.1 CIE Automotive Group and activities

Activity

The CIE Automotive Group carries out its activities in two core business Line: the Automotive sector and the Solutions and Services sector (Smart Innovation) which are described below:

- Automotive

  The automotive business is carried out through an industrial group formed by several companies that are mainly engaged in the design, manufacture and sale of automotive components and sub-assemblies, as well as, biofuels on the world automotive market, using complementary technologies – aluminium, forging, metals and plastics - and several associated processes: machining, welding, painting and assembly.

  Its main facilities are located in Europe: Spain (Alava, Barcelona, Cádiz, Guipúzcoa, Orense, Madrid and Vizcaya), Germany, France, the United Kingdom, Portugal, the Czech Republic, Romania, Italy, Morocco, Lithuania, Slovakia, NAFTA (Mexico and the United States of America), South America (Brazil), India, the People's Republic of China, Guatemala and Russia.

- Solutions & Services (Smart Innovation)

  The Group, through a group of companies, led by the company Global Dominion Access, S.A. and with stable presence in 28 countries and more than 5,000 employees, supported on a business model which combines knowledge and technology, develops its activities, offering Solutions and Services that actively contribute to make more efficient the production processes of its clients. With a global and multisector approach, this subgroup operates, among others, in the Industry, Energy, Bank, Health, Education and Technology sectors, by covering both, the private and public fields.

  Its main facilities are located in Europe (Spain, Germany, France, Italy, the United Kingdom, Poland and Denmark), Latin America (Mexico, Brazil, Peru, Argentina, Chile, Ecuador, the Dominican Republic and Colombia), the United States and Canada, so on in Asia (Saudi Arabia, India, Oman, Qatar, UAE, Israel, Vietnam and the Phillippines), and Africa (South Africa and Angola).

The parent Company's registered office is located at "Calle Alameda Mazarredo 69, 8º piso", Bilbao.

Group structure

At present CIE Automotive, S.A. (publicly listed) has a 100% direct stake in: CIE Berriz, S.L.; Autokomp Ingeniería, S.A.U., Advanced Comfort System Ibérica, S.L.U., Advanced Comfort System France, S.A.S and, lastly, 50.01% stake in Global Dominion Access, S.A. (2015: 62.95%), which are, mainly, holding companies to which the CIE Automotive Group's productive companies report to.

The list of subsidiaries and associates at 31 December 2016, together with the information concerning them, is disclosed in the Appendix to these consolidated annual accounts.

All subsidiaries under the control of CIE Automotive Group have been consolidated using the full consolidation method.

At the end of 2014, the subsidiary CIE Automotive Hispamoldes, S.L. was consolidated using the equity method. On 16 March 2015 the Group acquired the remaining 50% of CIE Automotive Hispamoldes, S.L., gaining control on the subsidiary and being consolidated by using the full consolidation method. In October 2015 CIE Berriz, S.L. carried out the merger by absorption of several companies, including CIE Automotive Hispamoldes, S.L.

The associate companies consolidated under the equity method are as follows:

(Thousand euro)

	% interest	
	31.12.2016	31.12.2015
Belgium Forge, N.V. (1)	100%	100%
Biocombustibles La Seda, S.L. (3)	-	40%
Galfor Eólica, S.L. (2)	26%	27%
Gescrap – Autometal Comercio de Sucatas, Ltd.	30%	30%
Antolin - CIE Czech Republic, s.r.o.	30%	30%
Gescrap Autometal de México, S.A. de C.V. and subsidiaries	30%	30%
Centro Near Servicios Financieros, S.L.	11.50%	14.48%
Advance Flight Systems, S.L.	10.00%	18.89%
Sociedad Concesionaria Chile Salud Siglo XXI, S.A.	15.00%	18.89%
Crest Geartech Ltd. (1)	51.38%	53.21%
Huerto Solar La Alcardeteña, S.A.	18.50%	-
BAS Project Corporation, S.L.	12.50%	-

(1) In liquidation / dormant.

(2) Company being launched.

(3) Liquidated in 2016

Public offering of shares in Autometal

After the completion of the takeover bid, in order to discontinue the trading of the Brazilian company Autometal S.A., a process was started to restructure the CIE Automotive Group in Brazil through (a) the sale to CIE Berriz, S.L. of all its business interests located abroad, completed in the second half of 2014, and (b) the reverse merger in February 2015 of the holding parent company of the Group's companies located in Brazil, CIE Autometal, S.A. and its operational parent, Autometal, S.A. the latter being the surviving acquiring company.

Public offering of subscription and sale of shares in Global Dominion Access, S.A.

The Group's subsidiary Global Dominion Access, S.A. started trading its shares on the Spanish Stock Exchange on 27 April 2016. The offering, addressed to qualified investors and whose brochure was approved by the Spanish Securities Market Commission (CNMV) on 14 April 2016, has been fully subscribed, in collaboration with the responsible banks of this transaction, a price of 2.74 was set for each share.

As a result of the transaction, 54,744,525 new company shares have been issued, representing 33.31% of share capital post IPO (once all shares have been issued). In addition, the stabilisation agent made use of the "green shoe" option available to the financial entities involved in the operation, for a maximum of 15% of the shares issued, resulting in the issue of an additional 5,130,938 shares.

The funds obtained as a result of the offer will permit financing the company's growth, identifying new business opportunities in accordance with its strategy. Also, they will contribute to improving the robustness of its balance sheet, helping to position the Company with a clear market advantage in connection with the tender of relevant new projects.

Also in April 2016 and prior to the IPO, CIE Automotive S.A. has acquired from minority shareholders a total of 15,757,731 shares at a price equal to the one of the public offering, which amounts to €2.74 per share, and preferential subscription rights over a total of 21,040 shares in the subsidiary Global Dominion Access S.A. at a price of €2.4 million. After these operations, CIE Automotive's stake in the Dominion group has gone from 62.95% to 50.01%.

Changes in the scope of consolidation

2016

a) **Automotive segment**

On January 2 2016, Autometal S.A. has sold to Autokomp Ingeniería, S.A.U. 143,683,928 shares of the company Componentes Automotivos Taubaté Ltda, by the amount of €40,654 thousand, representing 100% of the company's capital. This operation had no effect on the consolidated Group.

In 2012 the Group acquired 65% of the US Company Century Plastics, LLC and granted the selling shareholders a put option over the remaining 35% of the company's capital, exercisable in May 2016. At this date, through its US subsidiary, CIE Automotive USA Inc, the Group has entered into a contract for the acquisition of the 35%, which until that date had been owned by that company's original shareholders. The operation has amounted to USD 68.8 million (approximately €60.8 million) and has been paid in cash. This operation has resulted in the reclassification of €6.6 million between controlling and non-controlling interests in the Group's equity.

On July 17 2016, CIE Berriz, S.L. has sold to Autokomp Ingeniería, S.A.U. the total amount of shares owned by Nanjing Forgings Automotive Co Ltd, by the amount of €21,349 thousand, representing 50% of the company's capital. This operation had no effect on the consolidated Group.

In August 2016, through CIE Berriz, S.L., the Group has acquired all of the share capital of Grupo Amaya Tellería. The purchase price for this transaction has amounted to €155 million (€112 million paid upon the transaction close, €13 million of assumed debt with former shareholders, and remaining €30 million due in the first quarter of 2017) and the assumption of Grupo Amaya Tellería's net debt (Note 35).

In September 2016, CIE Automotive S.A., through its subsidiary in India, Mahindra CIE Automotive Ltd, has signed an agreement for the acquisition of all of the share capital of the Indian company BillForge Pvt. The purchase price agreed amounts to INR13,312 million (approximately €178 million).

Also in September 2016, the Group has performed a capital share increase in its indian subsidiary Mahindra CIE Automotive, Ltd. By issuing 54,491,563 new shares, for a total value amounting to INR10,898 million (€145 million approximately at the date of share capital increase), fully subscribed and disbursed in cash. Part of this capital share increase, 22,500 thousand shares, INR4,500 million (approximately €60 million) were subscribed and disbursed by the subsidiary Participaciones Internacionales Autometal Dos, S.L.U. After this capital increase, the share percentage of the Group in the Mahindra CIE amounts to 51.38% (2015: 53.21%). This transaction has resulted in an increase of €87.7 million in the Group's equity, with a net impact of €18.4 million within "Retained Earnings" and €69.3 million within "Non-Controlling Interests".

On 18 October 2016, the merger of the companies CIE Hispamoldes Plastiques, s.a.r.l. d'au. and CIE Automotive Maroc, s.a.r.l. d'au. took place, both Moroccan, and being the last the absorbing company which persists. This merger had no impact at a consolidated level.

On 12 December 2016, the Group has liquidated the holding companies RS Automotive, N.V. and Advanced Comfort System International, N.V. After this liquidation, their subsidiary companies Advanced Comfort System Ibérica, S.L.U and Advanced Comfort System France, S.A.S. have come to be held by the Group's Parent Company, CIE Automotive, S.A. This transaction had no impact at a consolidated level.

Additionally, on 31 December 2016, the liquidation of Biocombustibles La Seda, S.L. has been approved. This liquidation had no impact at a consolidated level.

At the same date, and with accounting effect of 31 December 2016, the merger between CIE Autometal de México, S.A. de C.V. (absorbing company) and Inmobiliaria El Puente, S.A. de C.V. (absorbed company) has taken place. This liquidation had no impact at a consolidated level.

b) Solutions and Services (Smart Innovation)

In 6 May 2016, the Group, through its US subsidiary Beroa Corporation, LLC, acquired 100% of the shares of the US Company Commonwealth Dynamics Inc. (hereinafter CDI). This transaction entails the acquisition of 100% control over the following companies:

- Commonwealth Dynamics Inc. (USA)
- Commonwealth Constructors Inc. (USA)
- Commonwealth Landmark Inc. (USA)
- Commonwealth Dynamics Limited (Canada)
- Commonwealth Power Chile, SPA (Chile)
- Commonwealth Power de Mexico S.A. de C.V. (Mexico)
- Commonwealth Power, S.A. (Peru)
- Commonwealth Power Private Limited (India)

This subgroup, based in New Hampshire (EEUU), is a niche company with over 35 years' experience in providing engineering solutions and executing high complexity projects for a wide range of industrial sectors.

Commonwealth Dynamics focuses its activity in countries with a significant industrial presence, such as USA, Chile, Mexico, Peru and India and its customers include most leading companies in those countries.

The transaction price amounts to USD 10 million which breaks down as follows: USD 2 million have been paid upon the formalisation of the acquisition and leaving; USD 6 million (estimated amount) payable in 2018, 2019 or 2020, depending on the payment option offered to the seller, for an amount equivalent to the subgroup's average aggregate EBITDA for the last three years, according to the payment date, multiplied by 6, to be reduced by the corresponding financial debt; USD 2 million (estimated amount) relating to 2.5% of the order portfolio at the payment date indicated above.

At the beginning of the year 2016, the remaining 10% of the Argentinian subsidiary Dominion S.R.L. (formerly Beroa de Argentina, S.R.L.) was purchased for a total amount of €977 thousand to the former shareholder of Beroa Group (Servit Servicios Industriales Técnico, S.L.). This amount was met by the compensation of a credit held by the Group with this company. This transaction has resulted in a decrease on equity equal to the compensated credit.

On 10 February 2016 Global Dominion Access has submitted an offer as part of the bankruptcy proceedings requested by Abantia Empresarial, S.L. and subsidiaries (the Abantia Group hereinafter), to acquire the Installation, Maintenance, Industrial and Renewable Energy Promotion production units, which represent most of the Abantia Group's business.

On 24 May 2016 the Group, through its subsidiary Dominion Industry & Infrastructures (incorporated in March 2016 by Global Dominion Access, S.A.), has completed the acquisition which has been approved by the Mercantile Court responsible for the bankruptcy proceedings of the Abantia Group and by the workers' representatives in legal terms.

The acquisition of the business entails paying a price of €2 million plus the losses arising from the date of approval of the acquisition request to the date on which control is acquired, which comprises the months of March, April and May 2016. Losses related to these three months are estimated in an additional amount of €1.5 million.

The breakdown of the assets awarded and the labour and social security liabilities assumed is included in note 35 of business combinations.

In April and May 2016 the remaining 10.75% of the subsidiary Global Near, S.L. has been acquired together with an additional 8.741% of the subsidiary Wiseconversion, S.L. The overall price paid on both operations has amounted to €157 thousand, which has been paid in cash to the relevant minority shareholders. This acquisition resulted in a reclassification of the group's equity between controlling and non-controlling interests by generating an output in equity for the paid purchase price.

Additionally, in May 2016 a capital increase has been carried out, in the associate Advanced Flight Systems S.L., resulting in the dilution of the Group's interest from 30% in December 2015 to 20%.

On 16 June 2016, as part of Abengoa's Restructuring Plan (parent group), the purchase-sales agreement has been executed through which Instalaciones Inabensa, S.A. sells to the Group company Dominion Networks, S.L., the assets, goods, contracts and rights attached to the so-called Protisa business– protisa thermal, sound and fire proofing, carrying out all activities associated with the conduct and exploitation of commercial, import, export and machine and material distribution operations connected with thermal, sound and fire proofing protection. These assets, goods, contracts and rights include certain property, plant and equipment, supplier and contractor contracts, qualified technical personnel, contracts under execution, classifications and references of work connected with this business and trade marks, patents and trials on fireproof mortars. These assets have not been registered within the consolidated balance sheet as not been deemed significant for the Group’s consolidated financial information.

The acquisition price of this line of business has amounted to €300 thousand. It was agreed that this price included the amounts payable to personnel for holidays and extra salary payments in 2016. Part of that price, €200 thousand, has been paid upon the signing of the sales agreement while the remainder, €100 thousand, will be paid within a period of 90 days from the signature of the sales agreement.

In July 2016 an additional 15% capital share of the Group company Interbox Technology, S.L. is purchased, increasing its share from 60% to 75%. The purchase price has amounted to €500 thousand.

The purchase agreement under which Global Dominion Access, S.A. acquires 100% of the shares of Norproyectos 2000, S.L. (subsequently renamed Dominion Energy, S.L.) is placed on public record on 15 September 2016. This company encompasses the EPC activities and maintenance operations (also known as the energy assets) formerly carried out by Grupo Eléctrico Scorpio, S.A.

The purchase price was approximately €17.8 million, made up of a fixed sum of €8.8 million and an earn out of up to €9 million. The earnout is tied to the EBITDA generated by the company which holds the energy assets acquired from an identified pipeline of projects and opportunities during the five following years of its acquisition date.

With this transaction, Dominion incorporates to its perimeter the team that manages Grupo Eléctrico Scorpio, S.A.'s energy division, including its CEO and former owner; a backlog of renewable energy projects worth an estimated €50 million; and a 25% interest in BAS Project Corporation, S.L., a company specialised in the identification and development of renewable energy projects which has an exclusivity agreement with the Group.

On 14 November 2016, Dominion has acquired US firm, International Chimney Corporation (ICC). With a track record dating back almost 90 years, ICC, based in Williamsville (New York) is a leading specialist in the North American market, in the design, engineering, inspection and repair of industrial structures. Its wide catalogue also includes other services related to as isolates, assembly projects, structure transport, demolition and emergency lighting.

The grounds of the operation, there were a high level of recurrence of their services, with the strong synergies of its portfolio with the one of complex solutions offered by Commonwealth Dynamics, Inc., will led to manage a large industry portfolio contributed by both companies, an authentic “One Stop Shop”, which contributes to the remaining specialists of Dominion Industry, and also to those coming from Abantia and Protisa (as mentioned above).

The purchase price agreed amounts approximately to USD15 million, to be paid as follows: USD6 million at the close, USD5 million in 2017, and USD4 million in 2018. It is also considered a potential earnout payable in 2020 in the event that the company outperforms its targets for 2017-2019; the acquisition-date value of this contingent payment amounts to USD3.9million, equivalent to 6 times average EBITDA generated by ICC, decreased by USD15 million.

Additionally, in December 2016, and with effects on 1 January 2016, the merger between de Brazilian companies Halógica Tecnología, S.A. and Prosat Comunicaçoes, Ltda., and the reverse merger between Global Dominion Brasil Participaçoes, Ltda. And Halógica Tecnología, S.A. This transactions have no impact at a consolidated level.

Also in December 2016 the Group company Near Technologies, S.L. has changed its entity name to Dominion Digital, S.L.

<u>2015</u>

a) Automotive segment

The main company and consolidation perimenter changes carried out in the past fiscal year were described as follows:

In February 2015 the reverse merger occurred of the holding company, parent of the group companies in Brazil, CIE Autometal, S.A. and its operational parent, Autometal, S.A., the absorbing company that lives on. This merger had no impact at the consolidation level.

On 26 February 2015 the General Meeting of the subsidiary Metalcastello, S.p.A., approved the restoration of the company's share capital, with negative equity, to the value of €10 million. None of the non-controlling shareholders came to the capital increase and therefore the Group, through the holding company Mahindra Gears Global Ltd, became the owner of 53.21% of the share capital of Metalcastello, S.p.A. This operation led to the reclassification of €1,078 thousand between controlling and non-controlling interests in the Group's equity.

On 16 March 2015, CIE Berriz, S.L. acquired 125 shares of CIE Automotive Hispamoldes, S.L., for €250 thousand, representing 50% of its share capital and becoming its sole shareholder and solving the Investment Agreement entered into with the Hispamoldes Group in 2011 for the company's constitution. This business combination is described in Note 35.

In June 2015 Participaciones Internacionales Autometal, S.L.U. sold to CIE Berriz, S.L. 468,121 shares of CIE Autometal México, S.A.P.I. de C.V., representing 24.9% of the company's share capital. This transaction had no impact at the consolidation level.

In June 2015 CIE Automotive, S.A. sold to CIE Berriz, S.L. 12,160,201 shares, representing 26.96% of the share capital of CIE Automotive Nuevos Mercados, S.L. This transaction had no impact at the consolidation level.

In June 2015, the company Antonlin-Czech Republic, s.r.o. has increased its capital for an amount of CZK 82,230 thousand (€3,000 thosand approximately). This capital increase was fully subscribed, proportionally by CIE Berriz, S.L. and Grupo Antolín Irausa, S.A. (Note 8).

In August 2015 CIE Berriz, S.L., as the sole shareholder of Bionor Trasformación, S.A.U., CIE Automotive Nuevos Mercados, S.L.U., CIE Automotive Hispamoldes, S.L. and Participaciones Internacionales Autometal, S.L.U., carried out the merger by absorption, with effect for accounting purposes as from 1 January 2015, those companies, through the transfer as the whole of their assets and liabilities to CIE Berriz, S.L., the acquiring company, as the universal successor, comprising all elements that set the assets and liabilities of Bionor Trasformación, S.A.U., CIE Automotive Nuevos Mercados, S.L.U., CIE Automotive Hispamoldes, S.L. and Participaciones Internacionales Autometal, S.L.U. being, the acquiring company subrogated to the position of the rights and obligations. All the above was in accordance with the common merger plan filed with the Mercantile Register of Bizkaia on 19 June 2015. This transaction had no impact at the consolidation level.

In October 2015, Plasfil Plásticos da Figueira, S.A. acquired 72,500 shares of ApoloBlue Tratamentos, Ltda (renamed as CIE Stratis Tratamentos, Ltda. as of today) for €700 thousand, representing 45% of its share capital and becoming its sole shareholder. The effect of this operation within CIE Groups' share capital was not material.

On 15 October 2015, CIE Autometal de México, S.A.P.I de C.V. sold to Autokomp Ingeniería, S.A.U., 211,779 shares of Forjas de Celaya, S.A. de C.V. for USD 13,673 thousand (approximately €12,034 thousand), representing 100% of the company's share capital. This operation had no effect on the Group consolidation.

b) Solutions and Services (Smart Innovation)

In February 2015 Global Dominion Access, S.A. acquired 4,500 shares of the newly founded company Chile Salud Siglo XXI, S.A., of Chilean nationality, for CLP 5,247 million, equivalent to approximately €7.5 million, with a implicit goodwill in the acquisition of CLP 1,367 million, equivalent to the date of acquisition to €1.9 million (Note 8). As a result, Global Dominion Access, S.A. owns a 30% interest in that company.

In October 2015 Global Dominion Access, S.A. acquired, at fair value, the interest that the subsidiary Dominion Instalaciones y Montajes S.A.U. had in Bilcan Global Services, S.L. As a result, Global Dominion Access, S.A. on 31 December 2015, had a direct interest of 100% in that company. This transaction had no impact in Groups' consolidated figures.

In December 2015, the subsidiary parent company of Beroa subgroup, Beroa Thermal Energy, S.L. (BTE) signed some call and put options with minority shareholders who have the 20% of the Italian company Chimneys and Refractories International, S.R.L. The put option granted to these minority shareholders has a fix price payable in cash and will be able to be exercised in case the subsidiary accumulated earnings in the coming 5 years (from 2015 to 2019) reach or exceed the amount of €12.18 million. It will also be able to be exercised during 2020 or before if this amount is reached in an earlier date. The call option in favour of BTE has exactly the same terms as the put option and the same fix price payable in cash. This agreement involves a purchase commitment of an additional 20% of the Italian subsidiary.

This acquisition which involves an outstanding debt of €5.1 million determined the disappearance of this minority shareholder for a value of €1.6 million (Note 18) and a decrease in the consolidated reserves for an amount of €3.5 million.

On 10 November 2014, the dependent company Dominion Instalaciones y Montajes, S.A.U. constituted with other third partner the society Interbox Technology, S.L., being the 60% of share capital subscribed by Dominion Group. The corporate object of the established entity is to offer commercial agency and marketing services for operators and OEMs from telecommunication sector. The activity of this dependent company began in 2015.

Additionally, in 2015 with effect for accounting purposes 1 January 2015, it was carried out the merger of Your Phone, S.L. (the acquiring company) and Tiendas Conexión, S.L. (the merged company) modifying the corporate name of the acquiring company to Tiendas Conexión, S.L.U., and the merger of Sur conexión, S.L (the acquiring company) and Your Phone Franquicias, S.L.U. (the merged company) and the merger of Bilcan Global Services, S.L. (the acquiring company) and Servicios al Operador Móvil 21, S.L. (the merged company). These operations had not impact on the consolidated balances.

Shareholders of the Group's parent Company

The companies holding a direct or indirect shareholding of more than 10% in CIE Automotive, S.A. at 31 December 2016 and 2015 are as follows (Note 14):

(Thousand euro)

	% interest	
	2016	2015
Acek Desarrollo y Gestión Industrial, S.L. (***)	(*) 20.909%	(*) 22.909%
Mahindra & Mahindra, Ltd.	(**) 12.435%	(**) 12.435%

(*) 7.808% directly and indirectly through Risteel Corporation, B.V., the remaining 13.101%, (9.808% and 13.101% in 2015).

(**) Indirectly through Mahindra Overseas Investment Company Mauritius, Ltd.

(***) Former "Corporación Gestamp, S.L."

Authorisation for issue

These consolidated annual accounts were authorised for issue by the Board of Directors on 27 February 2017 and are pending to be ratified by the Group parent Company's shareholders. However, management expects them to be approved without modification.

1.2 Regulatory framework

Certain companies of the Automotive segment develop their activity in the production and sale of biofuel which is a specific sector with a particular regulatory framework (hydrocarbon sector). Among the obligations that are determined by this regulation include the maintenance of minimum safety stock levels of petroleum products and the annual accreditation of the Spanish Market & Competence Commission (CNMC) regarding the ownership of the minimum quantity of certificates of biofuels.

On 5 May 2014 was approved the order for the amount in relation to the assignation of the production capacity by the Secretary of State of Energy for the biofuel production plants for a two year period. The order was in force up to 1 May 2016.

Up to the date of approval of these consolidated annual accounts, no renewal order of this assignation has been published.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated annual accounts are set out below. Except as indicated in Note 2.1.1, these policies have been consistently applied to all the years presented.

2.1 Basis of presentation

The Group's consolidated annual accounts for the year ended 31 December 2016 have been prepared in accordance with the International Financial Reporting Standards (IFRS) adopted for utilisation in the European Union (IFRS-EU) and approved under European Commission Regulations in force at 31 December 2016.

The consolidated annual accounts have been prepared under the historical cost convention, as modified by the revaluation of financial investments available for sale and financial assets and liabilities (including derivative instruments) at fair value through profit or loss.

The preparation of consolidated annual accounts in conformity with IFRS-EU requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated annual accounts are disclosed in Note 4.

The profit and losses account in exercises 2016 and 2015 does not include unusual items that require a detail or a conciliation of balances.

Certain International Financial Reporting Standards are effective from 1 January 2016, prompting the Group to adapt its consolidated annual accounts. The standards effective in the year are detailed below.

The consolidated annual accounts are not affected by aspect that may contravene applicable presentation bases.

2.1.1 List and summary of standards, amendments to standards and interpretations published to date

a) Mandatory standards, amendments and interpretations for all years starting as from 1 January 2016

Annual improvements to IFRS, 2010 to 2012 cycle

In December 2013 the IASB published the Annual Improvements to the IFRS for the Cycle 2010-2012. The modifications incorporated in these Annual Improvements generally apply for the annual exercises that begin from February 1, 2015. The main changes refer to:

- IFRS 2 "Payments based on share": Definition of "condition for the irrevocability of the concession".
- IFRS 3 "Business combinations": Accounting of a contingent consideration in a business combination.
- IFRS 8 "Operating segments": Information to reveal about the aggregation of operating segments and reconciliation of total assets of all segments that are reported to the assets of the entity.
- IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets": Proportional restatement of accumulated amortisation when the revaluation model is used.
- IAS 24 "Disclosure of related parties": Entities that provide key management personnel services as related party.

These amendments have not had a significant impact on the Group Consolidated Annual Accounts.

IAS 19 (Amendment) "Defined benefit plans: Employee contributions"

The IAS 19 (reviewed in 2011) distinguishes between employee contributions related to the given service and those not linked to the service. Moreover the current modification distinguishes between contributions linked to service only in the year in which they arise and those linked to service in more than one year. The amendment allows the contributions linked to service that does not vary with the duration deduct from the cost of benefits earned in the year in which the related service is provided. Service-related contributions that vary depending on the length of a service must be extended during the service term using the same method of allocation applied to the service provisions. The change applies to the years commenced 1 February 2015 and will be applied retrospectively. Early adoption is permitted.

This amendment has not had a significant impact on the Group Consolidated Annual Accounts.

IFRS 11 (Amendment) "Accounting for Acquisitions of Interests in Joint Operations"

This standard requires the principles on business combination accounting to be applied to an investor acquiring an interest in a joint operation, which makes up a business. Specifically, identifiable assets and liabilities should be measured at fair value, the costs related to the acquisition should be recognised as an expense, the deferred tax should be recognised and the residual value should be recognised as goodwill. All other principles on business combination accounting apply unless they conflict with IFRS 11. This amendment will be applicable prospectively to years starting on or after 1 January 2016 although early adoption is permitted.

The Group has not joint ventures at present.

IAS 16 (Amendment) and IAS 38 (Amendment) "Clarification of acceptable methods of depreciation and amortisation"

This amendment clarifies that it is inappropriate to use revenue-base methods to calculate the depreciation of an asset because revenue generated by an activity, which includes the use of an asset generally, reflects factors other than the consumption of the economic benefits in the asset. The IASB also clarifies that revenue is generally assumed to be an inappropriate basis for assessing consumption of the economic benefits in an intangible asset. This amendment is effective in the years starting on or after 1 January 2016 and will be applicable prospectively. Early application of the amendment is permitted.

This amendment has not had a significant impact on the Group Consolidated Annual Accounts.

IAS 16 (Amendment) and IAS 41 (Amendment) "Agriculture: Manufacturing plants"

Under these amendments, bearer plants have to be accounted for in the same way as other items of property, plant and equipment, separate from other biological assets.

The Group has not assets that would be affected by this changes.

IAS 27 (Amendment) "Equity method in separate financial statements"

IAS 27 has been restated to re-establish the option of using the equity method to account for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements. The definition of separate financial statements has also been clarified. Any entity choosing to switch to the equity method must apply the amendments in annual periods beginning on or after 1 January 2016.

The Company's separate financial statements are not prepared under IFRS-EU, so that this amendment does not affect it.

Annual Improvements to IFRS Cycle 2012- 2014:

The amendments affect IFRS 5, IFRS 7, IAS 19 and IAS 34 and will apply to the years starting on and after 01 January 2016, subject to adoption by the EU. The main amendments relate to:

- IFRS 5 “Non-current assets held for sale and discontinued operations”. Changes in disposal methods.
- IFRS 7, “Financial instruments: Disclosures”. Continuing involvement in government contracts.
- IAS 19 “Employee benefits”: Determining the discount rate for post-employment benefits.
- IAS 34 "Interim financial reporting" Information reported elsewhere in interim financial report.

These amendments have not had a significant impact on the Group Consolidated Annual Accounts.

IAS 1 (Amendment) "Disclosure Initiatives"

The amendments to IAS 1 encourage companies to apply professional judgement in determining what information to disclose in their financial statements.

The amendments to IAS 1 may be applied immediately and become mandatory for the years beginning on and after 1 January 2016.

These amendments have not had a significant impact on the Group Consolidated Annual Accounts.

IFRS 10 (Amendment), IFRS 12 (Amendment) and IAS 28 (Amendment) “Investment entities”. Applying the Consolidation Exception"

The Group does not have any entities affected by these amendments.

b) Standards, amendments and interpretations not yet in force, although could be taken in advance of the exercises beginning after 1st January 2016.

At the date of signature of this Consolidated Annual Accounts, the IASB and the IFRS Interpretations Committee had published rules, modifications and interpretations that will be detailed below, though the Group has not adopted them beforehand.

IFRS 9 “Financial instruments:

It approaches the classification, valuation and recognition of financial assets and financial liabilities. The complete version of the IFRS 9 published in July 2014 and replaces the guide of the IAS 39 about the classification and valuation of financial instruments. The IFRS 9 maintains but simplifies the mixed valuation model and establishes three main categories of valuation for the financial assets: amortized cost, fair value with changes in results and fair value with changes in another global result. The base of classification depends on the entity business model and the characteristics of the contractual flows of cash of the financial assets. In relation to financial liabilities there have been changes from the classification and valuation , except for the recognition of changes in own credit risk in other comprehensive income for liabilities designated at fair value through profit or loss. Under IFRS9, there is a new model of impairment losses, the model of expected credit losses, which replaces the model impairment losses incurred in IAS 39 and which will lead to recognition of losses before it has been done in IAS 39. The IFRS 9 relaxes the requirements for the coverage effectiveness. IFRS 9 replaces this line by stipulating an economic relationship between the hedged item and the hedging instrument. It also requires the hedged ratio is the same as the ratio used by the entity to manage risk. Lastly, extensive information is required, including reconciliation of the initial and final amounts of the provision for estimated credit losses, assumptions and data, and a reconciliation of the transition between the categories of initial classification under IAS 39 and the new classification categories under IFRS 9.

IFRS 9 is effective for years starting on or after 1 January 2018; early application is permitted. IFRS 9 will be applied retroactively but restatement of the comparative figures will not be required. If an entity elects to apply IFRS 9 early, it should apply all the requirements at the same time. Entities applying the standard before 1 February 2015 continue to have the option of applying it in phases.

Although the Group has not early-applied this standard, it has analysed the potential impact on the aspects liable to be affected the most (hedge accounting and impairment losses). The Group's management believes that the changes to hedge accounting will not have any effect on its accounting practices or records although they may make application and documentation of hedge accounting a little easier.

As for impairment losses, in light of the Group's system for accepting and analysing customers, it does not expect application of the new standard to have a material impact.

IFRS 15 "Ordinary revenues from Contracts with Customers"

In May 2014, the IASB and FASB jointly issued a converging statement on the recognition of revenue from contracts with customers. Under this standard, revenue is recognised when a customer obtains control of an asset or service, i.e., when it has both the ability to direct the use and obtain the benefits of the asset or service. IFRS 15 includes new guidance in order to determine whether revenue should be recognised over time or at a point in time. It requires broad disclosure of both recognised revenues and revenues expected to be recognised in the future in relation to existing contracts. Similarly, quantitative and qualitative information should be provided on the significant judgements made by management in determining revenue recognised and any changes in such judgements.

Subsequently, in April 2016 the IASB published amendments to this standard. Although they do not amend the basic principles, they provide clarification on the most complex aspects.

IFRS 15 will be effective for the years commencing on or after 01 January 2018 although early adoption is permitted.

The Group's management is in the process analysing the main contracts with customers with the aim of identifying the various existing performance obligations and the likely allocation of transaction prices to these obligations. More specifically, in the automotive segment, the contracts likely to be impacted and therefore under analysis are the mould sales and certain multi-year sales contracts. In the smart innovation segment, the Group executes large-scale EPC contracts. Management is in the process of analysing those projects applying the philosophy underpinning IFRS 15. This segment also sells certain technology products under the scope of contracts entered into with other firms in which it can act as agent or principal. The Group is analysing whether, in keeping with the practical guidance for analysing and applying IFRS 15, there may be transactions that are currently presented at their gross amounts that should be presented at their net amounts in respect of the parts of these contracts in which certain management matters are shared with other players qualifying as the principal. Nevertheless, these possible changes are not expected to have a significant impact on the Group's revenue or net profit at the consolidated level.

c) Standards, amendments and interpretations of existing standards that cannot be early adopted or have not been adopted by the European Union:

At the date of these Consolidated Annual Accounts were prepared, the IASB and IFRS Interpretations Committee had published the following standards, amendments and interpretations that have not yet been adopted by the European Union.

IFRS 10 (Amendment) and IAS 28 (Amendment) "Sale or contribution of assets between an investor and its associates or joint ventures"

These amendments clarify the accounting treatment of the sale or contribution of assets between an investor and its associates and joint ventures. This will depend on whether the non-monetary assets sold or contributed to an associate or joint venture constitute a business. The investor will recognise the total gain or loss when the non-monetary assets constitute a "business". If the assets do not meet the definition of a business, the investor should recognise the profit or loss to the extent of other investors' interests.

The criteria used by the Group are already aligned with these amendments so that they are not expected to have a significant impact when adopted by the European Union.

IFRS 16 "Leases"

In January 2016, the IASB published this new standard, as a result of a joint project with the FASB, which repeals IAS 17, "Leases". The IASB and FASB reached the same conclusions on several topics connected with accounting for leases, including the definition of a lease, the requirement, as a general rule, to recognise leases on the balance sheet and the measurement of lease liabilities. There are still differences between IASB and FASB as regards the recognition and presentation of lease expenses in the income statement and cash flow statement.

This IFRS will apply to annual reporting periods beginning on or after 1 January 2019. It may be adopted early if IFRS 15 but only if the entity is at the same time applying IFRS 15 Revenue from contracts with customers.

Management is in the process of analysing the Group's main existing operating leases in order to quantify the recognition on its balance sheet of the right of use associated with the leased items and the corresponding liability in respect of the instalments payable under the lease payment schedules. Note 34 discloses the Group's non-cancellable operating leases. The Group is currently analysing all of these agreements, as well as others in the services segment that may classify as operating leases and would be affected by this new standard.

Based on the information currently under analysis, management estimates that the accounting effects of application of the new standard (in terms of the intangible assets and financial liabilities to be recognised) on the balance sheet and income statement (presentation and reclassification in profit and loss over time) will not have a significant impact on the Group's financial position or earnings performance.

IAS 7 (Amendment) "Disclosure Initiatives"

An entity is required to disclose information, which enables users to understand changes in liabilities arising from financing activities. This includes changes arising from:

- Cash flows, such as use and repayment of loans; and
- Non-monetary changes, such as acquisitions, disposals and unrealised exchange differences.

Liabilities deriving from financing activities are liabilities for which cash flows were or will be classified in the cash flow statement as cash flows from financing activities. Additionally, the new disclosure requirement includes disclosing the changes in financial assets (e.g. assets covering liabilities arising from financing activities) if cash flows from those financial assets were included or future cash flows will be included in cash from financing activities.

The amendment suggests that including a reconciliation of opening and closing balances in the balance sheet for liabilities from financing activities would fulfil this requirement although no specific format is established.

Although the Group is analysing these new disclosure requirements, it believes that its current disclosures already meet the criteria stated in this amendment that has yet to be adopted by the European Union.

IAS 12 (Amendment) "Recognition of deferred tax assets for unrealised losses"

The amendments to IAS 12 clarify the requirements for the recognition of deferred tax assets for unrealised losses. The amendment clarifies the accounting treatment of deferred tax when an asset is measured at fair value and that fair value is less than the asset's tax base. It also clarifies other aspects of accounting for deferred tax assets.

This amendment will apply to annual reporting periods beginning on or after 1 January 2017.

Management does not expect adoption of this amendment by the European Union to have a significant impact on the Group.

IFRS 15 (Amendment) "Clarifications to IFRS 15 'Revenue from contracts with customers''

The IASB has amended IFRS 15 with the aim of:

- Clarifying the guidance on identifying performance obligations, accounting for licences of intellectual property and the principal versus agent assessment (gross versus net revenue presentation).
- Adding new and amended illustrative examples for each of these areas of guidance.
- Including additional practical expedients related to transition to the new revenue standard.

Although these amendments do not alter the underlying premise of IFRS 15, they do clarify some of the more complex aspects of applying this standard.

The amendments are effective for annual reporting periods beginning on or after 1 January 2018, subject to adoption by the European Union.

The potential consequences of these amendments are being evaluated along with the ongoing assessment by the Group of how it will be affected by first-time application of IFRS 15.

IFRS 2 (Amendment): "Classification and measurement of share-based payment transactions"

The amendment to IFRS 2, which was developed through the IFRS Interpretations Committee, clarifies how to account for certain types of share-based payment transactions. In this respect, it provides the requirements for accounting for:

- The effects of the conditions for the irreversibility and non-determinant conditions for the irreversibility of the grant on the measurement of share-based payments settled in cash;

- Share-based payments, settled net of tax withholdings; and
- The amendment of the terms and conditions of a share-based payment, which changes the classification of the transaction from cash settled to equity settled.

IFRS 2 is effective for years starting on or after 1 January 2018; early application is permitted.

Given the scant volume of share-based payment transactions, this amendment is not expected to have a significant impact when adopted by the European Union.

IFRS 4 (Amendment) 'Applying IFRS 9 'Financial instruments' with IFRS 4 'Insurance contracts''

This amendment affects insurance companies and will therefore not affect the Group.

Annual improvements to IFRS: 2014 - 2016 cycle

The improvements affect IFRS 1, IFRS 12 and IAS 28 and are applicable in annual reporting periods beginning on or after 1 January 2018 in the case of the changes made to IFRS 1 and IAS 28 and 1 January 2017 for those corresponding to IFRS 12, all of which subject to adoption by the European Union. The main amendments relate to:

- IFRS 1 - 'First-time adoption of the International Financial Reporting Standards'. Deletion of short-term exemptions for first-time adopters.
- IFRS 12 - 'Disclosures of interests in other entities': Clarification about the scope of the disclosure requirements.
- IAS 28 - 'Investments in associates and joint ventures' Measuring an associate or joint venture at fair value.

These improvements are not expected to affect the Group when adopted by the European Union.

IAS 40 (Amendment) 'Transfers of investment property'

This amendment clarifies that in order to transfer a property in or out of investment properties, there has to be an evident change of use. To conclude whether there has been a change of use, there has to be an assessment of whether the property complies with the definition of an investment property.

This amendment is effective for annual reporting periods beginning on or after 1 January 2018. Early adoption is permitted.

The Group does not have or expect to have investment properties.

IFRIC 22, 'Foreign currency transactions and advanced consideration'

This Interpretation tackles how to determine the date of the transaction when applying the standard on foreign currency transactions, IAS 21. The Interpretation applies where an entity either pays or receives consideration in advance for foreign currency-denominated contracts.

The amendment is effective for annual periods beginning on or after 1 January 2018. Earlier application is permitted.

In light of the Group's current situation, this Interpretation is not expected to have a significant impact on it when it is adopted by the European Union.

2.2 Consolidation principles

a) Subsidiaries

Subsidiaries are all entities (including special-purpose companies) over which the Group has control. The Group controls an entity when it is exposed, or has right, to obtain a few variable performances for his implication in the informed one and has aptitude to use his power on her to influence these performances.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations. The amount paid for the acquisition of a subsidiary consists of the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes the fair value of any asset or liability that originates from a contingent consideration agreement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed in the year as incurred.

If the business combination is performed in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date through profit or loss.

Any contingent compensation to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in profit or loss.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. The accounting policies followed by subsidiaries have been modified where necessary to ensure consistency with policies adopted by the Group.

The accompanying Appendix sets out the identification particulars of subsidiaries.

Annual accounts/financial statements used in the consolidation accounts are, in all cases, dates of 31 December of each year.

b) Changes in ownership interests in subsidiaries without change of control

The Group recognises transactions involving non-controlling interests that do not result in loss of control as transactions with the owners of the Group's equity in their capacity as owners. In acquisitions of non-controlling interests, the fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals of non-controlling interests are also recognised in equity.

c) Disposal of subsidiaries

When the Group ceases to have control or significant influence, any retained interest in the entity is re-measured to fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

d) Joint operations

The Group applies IFRS 11 to all the joint agreements. The investments in joint agreements under IFRS 11 qualify as joint operations or as joint business, depending on the rights and commitments of every investor. The Group has evaluated the nature of his joint agreements and has determined that are joint business. The joint business is assessed using the participation method.

Under the participation method, the interests in joint business are recognised initially to its cost and it adjusts from then to recognize the participation of the Group in the benefits and losses later to the acquisition and movements in another global result. When the participation of the Group in the losses in a joint business equalizes or overcomes his interests in joint business (what includes any long-term interest that, in substance, forms a part of the clear investment of the Group in the joint business), the Group does not recognize additional losses, as long as it has not incurred in any obligation or done payments on behalf of the joint business.

The earnings not realized in transactions between the Group and its joint business is eliminated in the measure of the participation of the Group in the joint business. The losses not realized also are eliminated until the transaction provides evidence of a loss for deterioration of the value of the transferred assets. The countable policies of the joint business have been modified when it is necessary to assure the uniformity with the policies adopted as the Group.

For more detailed information on these joint ventures, see Note 37.

e) Associates

Associates (Note 8.c)) are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investment in associates includes any goodwill (net of impairment) identified on acquisition (Note 2.7.a)). Note 2.8 outlines the impairment policy in respect of non-financial assets, including goodwill.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss.

The Group's share of its associates post-acquisition profits or losses is recognised in the income statement and its share of post-acquisition movements in reserves is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

At each reporting date, the Group determines if there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of the impairment loss as the difference between the recoverable amount of the associate and its carrying amount and recognises the amount adjacent to "share of profit/(loss) of associates" in the income statement.

Profits and losses resulting from upstream and downstream transactions between the Group and its associates are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of impairment of the asset transferred. The accounting policies of associates have been changed where necessary to ensure consistency with policies adopted by the Group.

Dilution gains or losses arising in associates are recognised in the income statement.

2.3 Segment information

Operating segments are reported consistently with the internal reporting provided to the chief operating decision-maker. The highest decision-making body is responsible for allocating resources to and assessing the performance of the operating segments. The maximum decision-making body is the Executive Steering Committee.

Segment information is disclosed in Note 5.

2.4 Foreign currency translation

a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). All Group companies use the currency of their country of origin as their functional currency, except, basically, for the Mexican companies in the automotive segment (Appendix), whose functional currency was defined on 1 January 2009 as the US dollar.

The consolidated annual accounts are presented in euro, which is the Group's functional currency and presentation currency.

b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Exchange gains and losses are presented in the income statement under "Net exchange differences".

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available for sale, are included in other comprehensive income.

c) Group entities

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of the balance sheet;

(ii) Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(iii) All resulting exchange differences are recognised in the other comprehensive income.

On consolidation, any exchange differences arising from the translation of net investments in foreign operations and loans and other instruments in foreign currency and designated as hedges of such investments are taken to equity. When realised, or when the investment ceases to be classified as a net investment in a foreign operation, these differences are recognised in the income statement as part of the gain or loss on the sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

The Group has defined net investment hedges at 31 December 2016 and 2015 (Note 3.2).

2.5 Property, plant and equipment

Items of property, plant and equipment are recognised at cost less accumulated depreciation and any accumulated impairment losses, except for land, which is presented net of impairment losses.

Historic cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment transferred from equity.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset only when it is probable that the future economic benefits associated with the item will flow to the Group and the cost of the asset can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Land is not depreciated. Depreciation of other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

	Estimated useful lives:
Buildings	10 – 50
Vehicles	3 – 15
Furniture, fittings and equipment	3 – 15

The depreciation policy historically applied by the CIE Automotive Group to productive assets (plant, machinery and tools) is to systematically apply depreciation based on the useful lives of the assets concerned. Specifically in the automotive segment, these useful lives are estimated in accordance with the actual production levels attained by the assets (i.e. in accordance with the units of production method based on the understanding that this best reflects the expected pattern of consumption of the future economic benefits embodied by the assets) and their residual value, as well as a maximum useful life for each asset.

(Thousand euro)

By using the units of production method, annual depreciation charges adapt to significant changes in production levels. Production levels are considered lower than normal when the components produced are lower than a number set by the Technical Management at each CIE Automotive Group company. In cases where production levels vary significantly, the Group companies depreciate each asset based on the number of components produced, while taking into consideration their maximum useful lives. Regardless of the number of years of useful life of each asset based on normal production circumstances, in the event of significant declines in production levels there is a maximum useful life that each of the assets cannot exceed, due to both physical wear and tear and the passage of time.

The useful lives and depreciation rates for assets under normal production circumstances are as follows:

	Useful life (*)	Annual rate %
Machinery	10 - 20 years	5 -10%
Plant	10 - 20 years	5 - 10%
Tools	3 - 6.7 years	15% - 33.33%

(*) Years of useful life in accordance with estimated normalised units of production.

The residual value and useful lives of the assets are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.8).

Gains and losses on the sale of items of property, plant and equipment are determined by comparing the proceeds with the carrying amount and are recognised within "Other income" (Note 26 and 33).

2.6 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. All other borrowing costs are recognised in profit or loss.

2.7 Intangible assets

a) Goodwill

Goodwill represents the excess of acquisition cost over the Group's interest in the acquisition-date fair value of the net identifiable assets, liabilities and contingent liabilities of the subsidiary acquired. Goodwill arising on acquisitions of subsidiaries is included in intangible assets. Goodwill is tested annually for impairment and is carried at cost less cumulative impairment losses; goodwill impairment cannot be reversed in the future. Gains and losses on the sale of an entity include the carrying amount of goodwill allocated to the entity sold.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units (CGUs), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level (Note 2.8).

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying amount of generating unit contaning goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognised immediately as an expense and is not subsequently reversed.

b) Research and development expenses

Research expenditure is recognised as an expense as incurred. The costs incurred in development projects (associated with the design and testing of new products or product upgrades) are recognised as an intangible asset when the success of the development is deemed probable taking into account its technical and commercial feasibility, management intends to complete the project and has the technical and financial resources to do so, has the ability to use or sell the asset and generate potential economic benefits and the costs involved may be reliably estimated. Other development expenditures are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Development costs with a finite useful life that have been capitalised are amortised from the start of commercial production of the product on a straight-line basis over the period in which it is expected to generate economic benefits, which does not exceed five years.

Any intangible assets so recognised are subject to impairment testing under IAS 36.

c) **Trademarks and licences**

Trademarks and licences acquired from third parties are presented at cost. Those acquired through business combinations are recognised at fair value at the acquisition date. Trademarks and licences have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and licences over their estimated useful lives.

d) **Computer software**

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Costs associated with developing or maintaining computer software programs are recognised as an expense when incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that are deemed likely to generate economic benefits in excess of costs beyond one year, are recognised as intangible assets. Directly attributable costs include software developer costs and an appropriate portion of relevant overheads.

Computer programs acquired from third parties or developed in-house that are capitalised are amortised over their estimated useful lives, which do not exceed 5 years and the period after which begin to be amortized once activated, is not greater than 1 year.

2.8 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Non-financial assets other than goodwill that have suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.9 Non-current assets (disposal groups) held for sale

The Group classifies a non-current asset (or disposal group) as held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. Non-current assets (or disposal groups) classified as held-for-sale are measured at the lower of their carrying amount and fair value less costs to sell, if the carrying amount will be recovered primarily through the sale rather than through continuing use.

2.10 Financial assets

2.10.1 Classification

The Group classifies its financial assets into the following categories: fair value through profit or loss, loans and receivables, investments held to maturity and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of investments at the time of initial recognition.

a) **Financial assets at fair value through profit or loss**

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if it was acquired principally for the purpose of selling it in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months, otherwise they are classified as non-current.

b) **Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for amounts maturing more than 12 months after the end of the reporting period, which are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet (Note 10).

c) Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities which Group management has the positive intention and ability to hold to maturity. If the Group disposes of a significant amount of the held-to-maturity assets, the entire category is reclassified as available-for-sale. Financial assets held to maturity are included under non-current assets, except for those that mature within 12 months of the reporting date.

d) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

2.10.2 Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade-date, i.e. the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity financial assets are carried at amortised cost using the effective interest rate method.

Gains or losses arising from changes in the fair value of the financial assets at fair value through profit or loss are presented in the income statement within 'Net gains/losses on financial instruments at fair value' in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement as part of other income when the Group's right to receive payments is set.

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences on monetary securities are recognised in the income statement. Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognised in equity.

Unrealised gains and losses resulting from changes in the fair value of non-monetary instruments classified as available for sale are recognised in other comprehensive income.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as gains and losses from investment securities.

The fair value of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value using measurement techniques which include the use of recent arm's length transactions between knowledgeable, willing parties, benchmarking of other instruments that are substantially the same, discounted cash flow analysis and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

2.10.3 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

2.10.4 Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired.

A financial asset or a group of financial assets is impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in payment terms or economic conditions that correlate with defaults.

In the loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

Impairment testing of receivables is described in Note 2.13.

2.11 Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured to fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either:

a) Hedges of the fair value of recognised liabilities (fair value hedge);

b) Hedges of a particular risk associated with a recognised asset/liability or a highly probable forecast transaction (cash flow hedge); or

c) Hedges of a net investment in a foreign operation (net investment hedge).

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative instruments used for hedging purposes are disclosed in Note 8. Movements on the hedging reserve in equity are shown in Note 15. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months, and as a current asset or liability when the residual maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

a) Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The Group only applies fair value hedge accounting for hedging fixed interest risk on borrowings. The gain or loss relating to the effective portion of interest rate swaps hedging fixed-rate borrowings is recognised in the income statement within 'finance income/costs'. The gain or loss relating to the ineffective portion is recognised in the income statement within 'Gains/losses on financial instruments at fair value'. Changes in the fair value of hedged fixed-rate borrowings attributable to interest rate risk are recognised in the income statement within "finance income/costs".

If a hedge ceases to meet the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity.

b) Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement within 'Gains/losses on financial instruments at fair value'.

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss (for example, when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of interest rate swaps hedging floating-rate borrowings is recognised in the income statement within finance income/cost. The gain or loss on the effective portion of foreign currency forward contracts which hedge export sales is recognised in the income statement within "revenue". However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory or fixed assets), the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability. The deferred amounts are ultimately recognised in cost of goods sold in the case of inventories or in depreciation in the case of property, plant and equipment.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

c) Net investment hedges

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement in the heading corresponding to the hedged underlying.

Gains and losses accumulated in equity are included in the income statement when the foreign operation is sold.

d) Derivatives that do not qualify for hedge accounting

Certain derivatives do not qualify for hedge accounting and are recognised at fair value through profit or loss. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the income statement.

2.12 Inventories

Inventories are measured at the lower of cost and net realisable value. Cost is basically determined as follows:

a) Automotive segment

- Commercial: at acquisition cost, including certain direct costs incurred on the purchase.
- Raw materials and other supplies: at the acquisition price calculated by the methods of average price/FIFO. This acquisition price includes the purchase invoices as well as additional costs until their availability in the storehouse.
- Finished products and in process of manufacture: to pre-established costs, which do not present significant diversions with regard to the royal incurred costs. These costs include the raw materials, labour cost of direct work and direct and indirect expenses of manufacture (based on an operative normal capacity), but it does not include costs for interests.

Obsolete or slow-moving items are written down to their realisable value.

Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

b) Solutions & Services (Smart Innovation)

The inventories are measured at acquisition/production cost or their net realisable value, the smaller. The cost of production includes the direct and indirect cost of production.

When the net realisable value of inventories is less than cost, the corresponding impairment charges are recognised as an expense in the income statement. If the circumstances that caused the impairment cease to exist, it is reversed and the reversal is recognised as income in the income statement.

The net realisable value is the estimated selling price in the ordinary course of business, less estimated selling expenses.

2.13 Trade receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less, they are classified as current assets.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the original effective interest method, less provision for impairment. A provision for impairment of trade receivables is recognised when there is objective evidence that the Group will not be able to collect all amounts due under the original terms of the receivables. Indications of impairment are deemed to exist when the debtor is in serious financial difficulty, it is probable that the borrower will enter bankruptcy or other financial reorganisation, and in the event of payment default or delinquency. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The carrying amount of the asset is reduced as the provision is used and the loss is recognised in the income statement. When a receivable is deemed uncollectible it is written off against the provision for receivables. Any subsequent recovery of previously written-off amounts is recognised in the income statement.

Financing through the discounting of bills of exchange is not written off from trade receivables until they are collected and is reflected as bank financing.

Financing by means of non-recourse factoring or the sale of trade receivables triggers the derecognition of the receivable as all associated risks are transferred to the financial institution in question.

2.14 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. In the balance sheet, bank overdrafts are shown within borrowings in current liabilities.

2.15 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

When a Group company acquires shares of the parent company (treasury shares), the amount paid, including any directly attributable incremental cost (net of income tax) is deducted from equity attributable to the parent's equity owners until the shares are cancelled, reissued or sold. When these shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the parent's equity owners.

2.16 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in deferred income as deferred government grants and are credited to the income statement on a straight-line basis over the expected lives of the related assets. Tax credits in respect of R&D investment, deemed equivalent to grants under IAS 20, are recognised as operating grants in the income statement to the extent they relate to R&D expenditure that has not been capitalised (Note 2.19.b)).

The gain on a loan granted by a Government Body at below market interest rates is measured as the difference between the instrument's carrying amount in accordance with IAS 39, 'Financial instruments: Recognition and measurement', and the amount received; a grant is recognised in the amount of this difference and is recorded in the income statement or in liabilities as a deferred government grant depending on whether the loan finances current expenses or investments in property, plant and equipment.

2.17 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.18 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer their settlement for at least 12 months after the end of the reporting period.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facilities will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

2.19 Current and deferred income tax

a) Corporate Income tax

Corporate income tax expense for the year comprises current and deferred tax and is calculated on the basis of profit before tax, adjusted for any permanent and/or temporary differences envisaged in the tax laws enacted or substantively enacted at the balance sheet date regarding the calculation of taxable income in the countries where the company and its subsidiaries operate. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Tax credits and deductions and the tax effect of applying unused tax losses that have not been capitalised are treated as a reduction in income tax expense for the year in which they are applied or offset.

The parent Company is taxed under the tax consolidation system in the regional territory of Bizkaia together with the subsidiaries listed below:

- CIE Berriz, S.L
- Autokomp Ingeniería, S.A.U.
- CIE Mecauto, S.A.U.
- CIE Udalbide, S.A.U.
- Egaña 2, S.L.
- Gameko Fabricación de Componentes, S.A.
- Inyectametal, S.A.
- Leaz Valorización, S.L.U.
- Orbelan Plásticos, S.A.
- Transformaciones Metalúrgicas Norma, S.A.
- Alfa Deco, S.A.U.
- Alurecy, S.A.U.
- Componentes de Automoción Recytec, S.L.U.
- Nova Recyd, S.A.U.
- Recyde, S.A.U.
- Alcasting Legutiano, S.L.U.
- Bionor Berantevilla, S.L.U.
- VIA Operador Petrolífero, S.L.U. (Dissolution and liquidation registered at the Mercantile Register as of 22 January 2017)
- Mecanizaciones del Sur - Mecasur, S.A.
- Gestión de Aceites Vegetales, S.L.
- Reciclado de Residuos Grasos, S.L.U.
- Reciclados Ecológicos de Residuos, S.L.U.
- Biodiesel Mediterráneo, S.L.U.
- Participaciones Internacionales Autometal Dos, S.L.U.
- PIA Forging Products, S.L. (Company established as of 20 June 2016)

After the acquisition of Grupo Amaya Tellería and the corresponding approvals, the following companies will be incorporated as from

2017:

- Industrias Amaya Tellería, S.A.U.
- Grupo Amaya Tellería, S.L.U. (representative of the Tax Group).
- GAT Staff, S.L.U.

During 2016 the above mentioned companies of Amaya Tellería have been taxed under the tax consolidation system in Bizkaia, being its representative Grupo Amaya Tellería, S.L.U.

In 2015, considering the amendments introduced into regulation, the Group has chosen to tax within a fiscal consolidation tax regime for the following companies under the regulation of Spanish Territory Regime:

- Grupo Componentes Vilanova, S.L. (representative of the Tax Group).
- Biosur Transformación, S.L.U.
- Advanced Comfort Systems Ibérica, S.L.U.

After the acquisition of Grupo Amaya Tellería and the corresponding approvals, the company Denat 2007, S.L. will be incorporated to this tax consolidation regime as from 2017.

Furthermore, by effect on 1 January 2015, it was obtained the consideration of group of companies by the tributary pertinent administration, being the dominant one: Global Dominion Access, S.A. and the other companies:

- ECI Telecom Ibérica, S.A.
- Dominion Instalaciones y Montajes, S.A.U.
- Dominion Investigación y Desarrollo, S.L.U.
- Beroa Thermal Energy, S.L.
- Beroa Ibéria, S.A.
- Global Near, S.L.
- Near Technologies, S.L.U.(entity name changed to Dominion Digital, S.L.U as of December 2016)
- Dominion Ampliffica, S.L. (entity name changed to Dominion West Africa, S.L.U as of December 2016)
- Global Ampliffica, S.L.
- Ampliffica, S.L.U.

Furthermore, also by effect on 1 January 2015, it was constituted the fiscal group, being the dominant one: Bilcan Global Services, S.L. (merged in 2015 with Servicios al Operador Movil 21, S.L.) and the rest in 2016:

- Dominion Centro de Control, S.L.U.
- Dominion Networks S.L.U.
- Sur Conexión, S.L.
- Tiendas Conexión, S.L.U.
- Eurologística Directa Móvil 21, S.L.U.
- Dominion Industry & Infrastructures, S.L., new entity, incorporated to the tax Group during the year 2016.

Outside Spain it exists the following fiscal groups:

- In Germany: led by the company Mahindra Forgings Europe AG and in which also participate the followings: Gesenkschmiede Schneider GmbH, Jeco Jellinghaus GmbH and Falkenroth Umformtechnik GmbH.
- In Germany: led by the company Beroa Technology Group GmbH and in which also participate the followings: Beroa Deutschland GmbH, Burwitz Montageservice GmbH and Karrena Betonanlagen und Fahrmischer GmbH (without activity).
- In United States: led by the company CIE Automotive USA Inc and in which also participate Century Plastics LLC and CIE Automotive USA Investments.
- In United States: led by the subsidiary company Beroa Corporation LLC and in which also participate Beroa US LLC, Karrena International LLC and Karrena International Chimneys LLC. This subgroup has also incorporated the American acquired companies in 2016 Commonwealth Dynamics Inc., Commonwealth Constructors Inc, International Chimney Corporation and Capital International Steel Works, Inc.
- The Dutch companies RS Automotive B.V. and Advanced Comfort Systems International, B.V. taxed as a unique fiscal unit. Both companies have been dissolved and liquidated in 2016.

The other CIE Automotive Group companies file individual returns.

b) Deferred tax

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects either accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except when the Group can control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets deriving from the carryforward of unused tax credits and unused tax losses are recognised to the extent that it is probable that future taxable profit will be available against which the tax assets can be utilised. In the case of tax allowances in respect of investments, the tax credit is accrued as a decrease in expense over the period during which the items of property, plant and equipment that generated the tax credit are depreciated (Note 2.5); this right is recognised with a credit to deferred income (Note 19). Tax deductions in respect of R&D investment are classified, depending on the nature of the subsidy, upon recognition as operating grants so long as the R&D costs have not been capitalised (Note 2.16).

Deferred tax assets corresponding to utilised or recognised tax credits relating to R&D activities are recognised in profit or loss on a systematic basis over the periods during which the Group companies expense the costs associated with these activities, based on management's assessment that treatment as a grant best reflects the economic substance of the tax credit. Accordingly, in keeping with IAS 20, the Group treats the tax credit recognised or used as other operating income.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset the amounts recognised under these headings and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.20 Employee benefits

a) Pension obligations

The Group's plans are funded through payments to insurance companies or externally-administered funds, determined by periodic actuarial calculations. The Group has defined benefit plans and defined contribution of non-significant amounts. A defined benefit plan defines the amount of benefits that an employee will receive, normally on the basis of one or more factors such as age, years of service and compensation.

A defined benefit plan is a plan under which the Group pays fixed contributions to a fund and is required to pay additional contributions if the fund does not have sufficient assets to pay all employees the benefits related to the services provided in the current year and prior years.

The liability recognised in the balance sheet in connection with defined benefit plans is the present value of defined benefit commitments at the reporting date less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the obligation is calculated by discounting the estimated future cash outflows using the interest rates of high quality corporate bonds denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related obligation.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity (in other comprehensive income) in the period in which they arise in the case of post-employment benefits and in the income statement in the case of long-term employee benefits.

Under IAS 19 Revised, past-service costs are recognised immediately in the income statement.

b) Termination benefits

Termination benefits are paid to employees as a result of the Company's decision to terminate employment contracts before the retirement age or when employees voluntarily agree to resign in return for benefits offered by the Company. The Group recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or as a result of an offer of termination benefits made to encourage voluntary redundancy. Benefits falling due more than twelve months after the end of the reporting period are discounted to their present value.

c) Profit-sharing and bonus plans

The Group recognizes a liability and an expense for bonuses based on a formula that takes into consideration the profit attributable to the parent Company's shareholders after certain adjustments. The Group recognizes a provision when contractually obliged or when there is a past practice that has created a constructive obligation.

2.21 Share-based payments

At 31 December 2016 CIE Automotive Group maintains several share-based payment plans settled in equity instruments of the following subsidiaries: Mahindra CIE Automotive Ltd, listed on the Indian stock market (Appendix).

Under these plans, the CIE Automotive Group receives services from the plan beneficiaries in exchange for equity instruments (options) in the aforementioned subsidiaries.

The fair value of the employee services received in exchange for the grant of such shares/ options is recognised as employee benefit expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- Including any market performance conditions;
- Excluding the impact of any service vesting conditions (for example, remaining an employee of the entity over a specified time period).

Non-market performance and service conditions are included in the assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period during which all the specified vesting conditions are to be satisfied.

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision of original estimates, if any, in the income statement, with a corresponding adjustment to equity.

The total cost of the services rendered by the beneficiaries is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied (continued service at the company).

The balancing entry for the staff cost recognised is dividend income from the subsidiaries whose shares underlie the options granted and are deliverable at the end of the term of the plan. Delivery of the aforementioned equity instrument gives arise to the corresponding change against the Group´s equity.

Likewise, the General Meeting of shareholders, held on 30 April 2014, approved a long term incentive based on the increase of CIE Automotive S.A. share value, on behalf of a group of senior executives of the Group. The liquidation of this incentive, which due to Group decision will be in cash, will be held in March 2018 (Note 36).

The total estimated cost of this incentive is recognised as personnel costs and independent professional's services in the period when the conditions must be fulfilled.

2.22 Provisions

Provisions for specific liabilities and charges are recognised when:

(i) The Group has a present legal or constructive obligation as a result of past events;
(ii) It is probable that an outflow of resources will be required to settle the obligation; and
(iii) The amount has been reliably estimated.

Restructuring provisions include employee termination payments. Provisions are not recognised for future operating losses.

When there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the probability of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as interest expense.

2.23 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable on the sale of goods and services in the ordinary course of the Group's business activities, stated net of discounts, returns and value added taxes and after the elimination of intragroup sales. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities. Revenue is recognised as follows:

a) Sales of goods

Sales of goods are recognised when a Group company has delivered the products to the customer, the customer has accepted the products and it is probable that the future economic benefits will flow to the seller Accumulated experience is used to estimate and provide for returns at the time of sale.

b) Rendered services

The Group sells telecommunication system integration services and network and automation related IT consultancy services, carrying out all phases of the project, including engineering, supply, installation and start-up, for public and private enterprises. These services are rendered in accordance with a specific date and materials, or a fixed price contract.

Revenue from specific date and materials contracts, which normally relate to the rendering of telecommunication system integration services, are recognised at the rates stipulated in the contract as the related man hours are worked and direct expenses incurred.

Revenues deriving from fixed-price contracts relating to both engineering maintenance work and network installations and industrial maintenance are recognised using the percentage of completion method. According to the percentage of completion method, the revenues are recognised depending on the services performed or the percentage of completion of contracts in relation to the total services or work contracts to develop. Normally, in the smaller-scale works the billing milestones are coupled with the margins estimated in each moment. This kind of contracts have a short-term duration and normally, the estimated percentage of completion does not exceed one month and a half of the billing at financial year-end for the technology services and more than one month for the industrial services.

Largest works or EPC's involve a higher percentage of estimation depending on the situation of the project at the end of each year, for which the related revenue or costs incurred to date is recorded over the estimated margin draft. Normally, the time horizon for estimating the share of income through the progress of these projects will not exceed three months billing year end.

Expected losses on these contracts are recognised immediately as an expense of the year as soon as they are known and can be quantified.

If unfolding circumstances change the initial estimates of revenue, costs or the percentage of completion, management would proceed to review these estimates. Revisions may result in increases or decreases in estimated revenue and costs which are recognised in the income statement in the period in which the circumstances giving rise to the revisions are known by management. In the particular case of revenue upwards, those are recognised only if the increase has been approved by the customer.

The revenue recognised by the percentage of completion (unbilled revenue) at 31 December 2016 on the net revenue amounts to €55.7 million, 9.1% of the total revenue from the Solutions and Services segment (Smart Innovation) (2015, €49.7 million, representing 9.5%) (Note 10).

Additionally some services encompassed within the CGU's Commercial Services of Solutions and Services segment (Smart Innovation) are related to services where this CGU companies act in some cases as principal in the contract with the client, recording all sales and purchasing transactions, and in others as commission agent, recording as income only the amount of the agreed commission on each transaction, not existing risk for the Group on the inventory in its power and accounts receivable and not having the capacity to set the prices of sale. The Group has billed to third parties, acting as an agent, an amount of approximately €208 million, being recorded as net revenue only the amount of the applicable charges amounting to €11million (2015: €114 million and €7 million). Mainly of these sales are made on the spot and only awaiting charge the commission with the relevant operator of the last months of the period.

When the Group acts as principal in an arrangement, revenue is recognised when it is probable that the profit or economic benefits associated with the transaction will flow to the Group and the amount of revenue and costs incurred or to be incurred can be measured reliably. Revenue is measured at the fair value of the consideration received or pending of receipt, net of any discounts, price reductions or similar promotions the Company may grant, as well as, net of the interests arising from the nominal amount of credits. Applicable indirect taxes on transactions which are reimbursed by third parties are not included.

c) Interest income

Interest income is recognised using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues updating the receivable as interest income. Interest income on impaired loans is recognised either as cash is collected or on a cost-recovery basis as conditions warrant.

d) Royalty revenue

Revenue from royalties is recognised on an accruals basis in accordance with the substance of the relevant agreements.

e) Dividend income

Dividend income is recognised when the right to receive payment is established.

2.24 Leases

Finance leases

Leases of property, plant and equipment in which the Group retains substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is apportioned between the reduction of the outstanding liability and the finance charge so as to produce a constant rate of interest on the outstanding liability. The corresponding lease obligation, net of finance charges, is included in long-term payables. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term.

Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

2.25 Dividend distribution

Dividend distribution to the parent Company's shareholders is recognised as a liability in the Group's consolidated annual accounts in the period in which the dividends are approved by the parent Company's shareholders.

2.26 Environmental disclosures

Costs incurred by the Group as part of its business activities that are intended to protect the environment and/or improve its environmental record are expensed currently. These costs are capitalised when the expenses represent additions to items of property, plant and equipment intended to make them more environmentally-friendly and minimise their impact on the environment.

2.27 Current and non-current balances

Those amounts with longer maturity to 12 months from the closing date of the period are considered as non-current balances, assets and liabilities.

3. Financial risk management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

In the broadest sense, the goal of the management of financial risk is to control the incidents generated by fluctuations in exchange and interest rates and the price of raw materials. Management of these risk factors, which is the responsibility of the Group's Finance Department, focuses on the arrangement of financial instruments in order to build, as far as possible, exposure to favourable trends in exchange and interest rates, subject to compatibility with the mitigation, in part or in whole, of the adverse effects of an unfavourable environment.

a) **Market risk**

i) Foreign exchange risk

CIE Automotive Group's presence in international markets obliges it to arrange an exchange rate risk management policy. The overriding objective is to reduce the adverse impact on its activities in general and on the income statement in particular of the variation in exchange rates so that it is possible to hedge against adverse movements and, if appropriate, leverage favourable trends.

In order to arrange such a policy, CIE Automotive Group uses the Management Scope concept. This concept encompasses all collection / payment flows in a currency other than the euro expected to materialise over a specific time period. The Management Scope includes assets and liabilities denominated in foreign currency and firm or highly probable commitments for purchases or sales in a currency other than the euro. Assets and liabilities denominated in foreign currency are subject to management, irrespective of timing, while firm commitments for purchases or sales that form part of the Management Scope are also subject to management if they are expected to be recognised on the balance sheet within a period of no more than 18 months.

Once defined the Management Scope, CIE Automotive Group uses a series of financial instruments for risk management purposes that in some instances permit a certain degree of flexibility. These instruments are essentially the following:

- Current forwards: These contracts lock in an exchange rate for a specific date; the timing can be adjusted to match expected cash flows.
- Other instruments: Other hedging derivatives may also be used, the arrangement of which requires specific approval by the relevant management body. This body must be informed beforehand as to whether or not it complies with requirements for consideration as a hedging instrument, therefore qualifying for hedge accounting.

CIE Automotive Group protects against loss of value as a result of movements in the exchange rates other than the euro in which its investments in foreign operations are denominated by similarly denominating, to the extent possible, its borrowings in the currency of the countries of these operations if the market is sufficiently deep or in a strong currency such as the dollar, insofar as dollar correlation to the local currency is significantly higher than that of the euro. Correlation, estimated cost and depth of the debt and derivative markets determine policy in each country.

The Group has several investments in foreign operations whose net assets are denominated in US dollars, exposing it to foreign exchange translation risk. The exchange risk on the net assets of CIE Automotive Group's foreign operations is mainly managed through natural hedges achieved by borrowings (loans) denominated in the corresponding foreign currency.

The exposure on the rest of the assets denominated in other foreign currencies in respect of operations in countries outside the Eurozone is mitigated basically by borrowings denominated in these currencies.

If at 31 December 2016, the euro had been depreciated/appreciated by 10% with respect to all other functional currencies other than euro, all other variables remaining constant, equity would have increased/decreased by €111/€91 million (2015: increased/decreased by €78/€48 million), due to the impact of the net assets contributed by the subsidiaries operating in a functional currency different from the euro.

If the average rate of exchange of the euro had depreciated/appreciated by 10% in 2016 with respect to all functional currencies other than the euro, all other variables remaining constant, profit after tax for the year would have been €8,364/€6,843 thousand higher/ lower, respectively (2015: €1,030/€2,027 thousand higher/higher, mainly as a result of the exchange gains/losses on the translation of accounts receivable denominated in currencies other than the euro.

(ii) Price risk

The Group is exposed to equity securities price risk because of investments that are classified on the consolidated balance sheet either as available-for-sale or at fair value through profit or loss. However, the scant weight of these securities as a percentage of total Group assets and equity means that this risk factor is not material.

iii) Interest rate risk

Group's borrowings are largely benchmarked to variable rates, exposing it to interest rate risk, with a direct impact on the income statement. The general objective of interest rate risk management strategy is to reduce the adverse impact of increases in interest rates and to leverage as far as possible the positive impact of potential interest rate cuts.

In order to attain this objective, the risk management strategy materialises in the arrangement of financial instruments designed to provide such flexibility. The strategy expressly contemplates the possibility of arranging hedges for identifiable and measurable portions of cash flows, which enables hedge efficiency testing as required to evidence that the hedging instrument reduces the risk of the hedged item in the portion designated and is not incompatible with the established strategy and objectives.

The Management Scope encompasses the borrowings recognised in the balance sheet of the Group and any of its companies. On occasion, hedges are arranged to cover loans committed and in the final stages of arrangement the principal on which needs to be hedged against rate increases.

In order to manage this risk factor, the Group uses financial derivatives that may qualify as hedging instruments and therefore hedge accounting. The corresponding accounting standard (IAS 39) does not specify the type of derivatives that may be considered hedging instruments except for options issued or sold. It does, however, specify the prerequisites for consideration as hedging instruments. In line with the management of foreign exchange risk, the arrangement of any financial derivative which is suspected not to comply with the prerequisites for consideration as a hedging instrument requires the express approval of the relevant management body. By way of example, the basic hedging instruments are the following:

- Interest-rate swaps: Through these derivatives, the Group's segments convert the benchmarked variable interest rate on a loan to a fixed benchmark with respect to all or part of the loan and affecting all or part of the term of the loan.
- Other instruments: As discussed in the section on foreign exchange risk management, other hedging derivatives may also be used, the arrangement of which requires the specific approval of the relevant management body. The management body must be informed beforehand as to whether the instrument meets the prerequisites for qualifying as a hedging instrument and, by extension, hedge accounting.

If during 2016 the average interest rate on borrowings denominated in euro had been 10 basis points higher/lower, all other variables remaining constant, profit after tax for the year would have been €830 thousand higher/lower (2015: €752 thousand), largely as a result of an increase/decrease in the interest expense on floating-rate loans.

Specifically, in relation to the valuation of the derivatives, a 10 basis point increase/decrease throughout the interest rate curve taken into consideration when measuring the hedging and non-hedging derivatives would have increased/decreased equity by €1,186/€1,455 thousand, respectively (2015: €1,278/€1,779 thousand increase/decrease, respectively) except from the impact on profit for the year. The impact on profit for the year would have been €29/€8 thousand (2015: €24/€22 thousand).

b) Liquidity risk

The prudent management of liquidity risk entails maintaining enough cash and available financing through sufficient credit facilities. In this respect, the Group's strategy, articulated by its Treasury Department, is to maintain the necessary financing flexibility by maintaining sufficient headroom on its undrawn committed borrowing facilities. Additionally, and on the basis of its liquidity needs, the Group uses liquidity facilities (non-recourse factoring and the sale of receivables, transferring the related risks and rewards), which as a matter of policy do not exceed roughly one-third of trade receivable balances and other receivables, in order to preserve the level of liquidity and working capital structure required under its business plans.

Management monitors the Group's forecast liquidity requirements together with the trend in net debt. The calculation of liquidity and net debt at 31 December 2016 and 2015 as follows:

(Thousand euro)

	2016	2015
Cash and cash equivalents (Note 12)	372,550	261,011
Other current financial assets (Note 8)	57,088	85,702
Undrawn lines of credit (Note 20)	268,268	145,955
Liquidity buffer	**697,906**	**492,668**
Bank borrowings (Note 20)	1,230,983	1,000,754
Other current financial liabilities (Note 8)	14,898	16,078
Cash and cash equivalents (Note 12)	(372,550)	(261,011)
Other current financial assets (Note 8)	(57,088)	(85,702)
Net financial debt	**816,243**	**670,119**

Group´s financial department estimates that actions in progress will allow avoiding lack of liquidity situations. In that sense, is considered that cash generation in 2017 will allow facing all year payments without increasing net financial debt.

Group´s financial department monitors Group´s liquidity needs previsions in order to ensure that there is enough cash to meet operative needs at the same time that maintains undrawn credit facilities at any time to ensure Group that doesn't fail limits and rates ("covenants") established by financial entities.

The Group is strategically diversifying the financial markets and financing sources, it taps as a tool for eliminating liquidity risk and retaining financing flexibility in light of the situation prevailing in the European financial markets; this strategy has opened up access to internationalize the banking pool, reducing Spanish and Brazilian banks burden.

Amounts payable to credit institutions in the short term include recurring loans originating from the recurring discounting of commercial paper issued by Group customers (2016: €23.0 million; 2015: €14.1 million) and from recurring import financing (2016: 0; 2015: €0.6 million) (Note 20).

Although this component of the bank debt is presented as a current liability for accounting purposes, it is stable as evidenced by the usual operation of the business, and therefore provides financing that is equivalent to long-term debt.

Noteworthy is the existence at 31 December 2016 of €268 million of undrawn credit lines and loans (31 December 2015: €146.0 million) (Note 20).

The following table shows a breakdown of working capital in the Group's consolidated balance sheet at 31 December 2016 as compared with 31 December 2015, stating the relative significance of each item:

	2016	2015
Inventories	355,349	293,754
Trade and other receivables	477,886	365,061
Other current assets	11,901	6,181
Current tax assets	62,873	60,432
Current operating assets	**908,009**	**725,428**
Other current financial assets	57,088	85,702
Cash and other cash equivalents	372,550	261,011
CURRENT ASSETS	**1,337,647**	**1,072,141**
Trade and other payables	957,004	815,320
Current tax liabilities	72,154	56,780
Current provisions	21,474	11,108
Other current liabilities	161,828	199,098
Current operating liabilities	**1,212,460**	**1,082,306**
Current financial borrowings	215,084	172,489
Other current financial liabilities	14,898	16,078
CURRENT LIABILITIES	**1,442,442**	**1,270,873**
TOTAL WORKING CAPITAL	**(104,795)**	**(198,732)**

Although the standalone figure for working capital is not a key parameter for the understanding of the financial statements, the Group actively manages working capital through net operating working capital and short- and long-term net borrowings, on the basis of the solidity, quality and stability of relations with customers and suppliers, and comprehensive monitoring of the situation with respect to financial institutions, many credit lines being automatically renewed.

One of the Group's strategies is to ensure the optimisation and maximum saturation of the resources assigned to the business. The Group therefore pays special attention to the net operating working capital invested in the business. In this regard, as in previous years, considerable work has been performed to control and reduce collection periods for trade and other receivables and to optimize the accounts payable, with the support of bank operational mobilization of resources, as well as to minimise inventories through excellent logistic and industrial management, allowing JIT (just in time) supplies to our customers.

However, the Group Management effectively controls the periods of payment of expenses and the period of performance of the current assets, conducting a comprehensive monitoring of cash projections, in order to ensure that it has sufficient cash to meet the needs operational while maintaining adequate availability of credit facilities not used at all times so that the Group does not breach the limits and indexes ("covenants") established by the funding. Therefore, it is estimated that the cash generation in 2017 will meet the needs enough to meet the commitments in the short term, avoiding any actions ongoing tense situation in the cash position.

As a consequence of the above, there are no risks affecting the Company's liquidity situation.

In Notes 20 and 22 financial borrowings and other non-current liabilities are disclosed by maturity.

There are no restrictions to the use of cash/other cash equivalents.

c) Credit risk

Credit risk is managed by customer groups. Credit risk arising from cash and cash equivalents, derivative financial instruments and bank deposits is considered immaterial in view of the creditworthiness of the banks the Group works with. If management detects liquidity risk in respect of its banks under certain specific circumstances, it recognises the corresponding impairment provisions if necessary (Note 8).

In addition, each segment has specific policies for managing customer credit risk; these policies factor in the customers' financial position, past experience and other customer specific factors.

With respect to customer credit limits, it should be noted that Group policy is not to concentrate more than 10% of business volumes with individual customers or manufacturing platforms.

Given the characteristics of the Group's customers, management has historically deemed that receivables due within 60 days, in the automotive segment, and between 120 and 180 in the Smart Innovation segment (Note 5), present no credit risk. The Group continues to consider the credit quality of these outstanding balances to be strong.

An analysis of the age of assets that are past due but are not impaired is provided in Note 10.

d) Raw material price risk

The Group has not a significant risk in raw price variations. In these societies were the risk could exist in market specific situations (plants of the automotive segments which use raw materials with market price), the risk is controlled thanks to price financing repercussion agreements to customers.

3.2 Hedge accounting

IAS 39 is very strict about the need for documenting that an instrument meets the conditions to be considered as hedging.

To this end, the Group has established clear and specific guidance for preparing the documentation setting out all the necessary aspects for identifying and monitoring hedging relationships under this standard. At the inception of the hedge there is formal designation and documentation of the hedging relationship, including identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness. A hedge is expected to be effective if at the inception of the hedge and in subsequent periods it is expected to achieve offsetting changes in cash flows attributable to the hedged risk within a range of 80% - 125%.

The treatment and classification of the Group's hedging transactions are described below:

a) Fair value hedges of a recognised asset or liability or a firm commitment

Changes in the fair value of these derivatives are recognised in the income statement together with any change in the fair values of the assets or liabilities hedged which is attributable to the hedged risk.

b) Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are reclassified to the income statement in the period in which the hedged item affects profit or loss (for instance, when the forecast sale that is hedged takes place). However, when a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or liability, the gains or losses previously deferred in equity are removed from equity and included in the initial cost of the asset or liability.

When a hedging instrument expires or is sold, or when a hedge no longer meets the requirements for hedge accounting, any cumulative gain or loss that remains recognised in equity remains in equity and is reclassified to profit or loss when the forecast transaction occurs.

Occasionally, despite the goal of achieving a perfect hedge of flows, mismatches may arise between the characteristics of the hedges and the debts hedged. Once a mismatch is detected, and provided that this does not entail disproportionate costs, the derivative is fine-tuned in order to adapt it to the new characteristics of the underlying.

This circumstance may arise in the case of a hedge arranged in anticipation of a highly probable underlying which, when confirmed, requires the readjustment of the derivative to adapt it to the underlying to which it is designated. This situation may arise whether or not the derivative is designated as a hedge at inception i.e., if the underlying has been defined as a highly probable transaction.

c) Net investment hedges

At 31 December 2016 and 2015 the Group has investments with net assets exposed to foreign currency conversion risk, denominated in US dollars through CIE Berriz, S.L. and borrowings denominated in US dollars formalised by Autometal, S.A. and CIE Autometal S.A. (merged in 2015 with CIE Autometal, S.A., being Autometal S.A. the acquiring company) (Note 1).

d) Derivatives that do not qualify for hedge accounting

Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement.

e) Effectiveness testing and estimate of the fair value of hedging derivatives

Effectiveness testing: The valuation method used by the Group relates to its risk management strategy. If the main terms of the hedging instrument and hedged underlying match, the changes in cash flows attributable to the hedged risk may be entirely offset.

The Group uses one of three available methods to measure the effectiveness of its hedges. The most common is the offset method (dollar offset), which is used to measure the effectiveness of cash flow hedges on both a retrospective and prospective basis.

Based on the underlying asset and the type of hedge, the Group also uses the variance reduction method and the linear regression methods. The only condition is that the method applied to each hedge to measure its effectiveness must be maintained throughout the life of the hedge.

Measurement of the hedging derivative: The Group uses several tools to measure and manage derivative-related risk. The measurement of derivative instruments is carried out internally; these measurements are cross-checked against valuations provided by independent advisors not related to any financial institution. Professional market tools provided by platforms licensed from Reuters and Bloomberg and specialised financial analytics libraries are used for this purpose.

3.3 Fair value estimation

IFRS 13, 'Fair value measurements' explains how to estimate fair value when other international accounting standards so require. This standard stipulates the fair value disclosure requirements applicable to non-financial assets and liabilities.

(Thousand euro)

IFRS 13 defines fair value as the value that would be received or paid, in an orderly transaction on the measurement date, for an asset or liability, regardless of whether this value is directly observable or has been estimated using valuation techniques. To this end the data used must be consistent with the assumptions that market participants would use in considering such a transaction.

Although IFRS 13 leaves the principles set down in other standards intact, it does establish the overall framework for measuring assets and liabilities at fair value when doing so is mandatory under other standards and stipulates additional fair value disclosure requirements.

The Group complies with IFRS 13 requirements in measuring its assets and liabilities at fair value when such fair value measurement is required under other international financial reporting standards.

On the basis of the contents of IFRS 13 and in accordance with IFRS 7 on financial instruments measured at fair value, the Group reports on how it estimates fair value by level using the following fair value hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets and liabilities (Level 1).
- Inputs other than Level 1 quoted prices that are observable for the asset or liability, either directly (for example, as prices) or indirectly (for example, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2016 and 31 December 2015:

31 December 2016	Level 2	Level 3	2016
Assets			
- Derivatives (Note 8)	9,242	-	9,242
Total assets at fair value	**9,242**	**-**	**9,242**
Liabilities			
- Derivatives (Note 8)	(14,898)	-	(14,898)
- Other fair value liabilities	-	(37,098)	(37,098)
Total liabilities at fair value	**(14,898)**	**(37,098)**	**(51,996)**

31 December 2015	Level 2	Level 3	2015
Assets			
- Derivatives (Note 8)	5,774	-	5,774
Total assets at fair value	**5,774**	**-**	**5,774**
Liabilities			
- Derivatives (Note 8)	(16,078)	-	(16,078)
- Other fair value liabilities	-	(34,089)	(34,089)
Total liabilities at fair value	**(16,078)**	**(34,089)**	**(50,167)**

There were no transfers between levels during 2016 and 2015.

a) Level 2 financial instruments

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. The Group uses a variety of methods such as estimated discounted cash flows and makes assumptions that are based on market conditions existing at each balance sheet date. If all the significant inputs required to calculate an instrument's fair value are observable, the instrument is included in Level 2.

Specific financial instrument valuation techniques include:

- Fair value of interest rate swaps is calculated as the present value of the estimated future cash flows.

(Thousand euro)

- Fair value of forward foreign exchange contracts is determined using forward exchange rates quoted at the balance sheet date.
- It is assumed that the carrying amounts of trade receivables and payables approximate their fair values.
- Fair value of financial liabilities for financial reporting purposes is estimated by discounting future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

The instruments included in Level 2 relate to derivatives (Note 8).

b) Level 3 financial instruments

If one or more of significant inputs not based on observable market data, the financial instrument is included in Level 3.

The instruments included in Level 3 correspond to the best estimation of the outstanding debt for the acquisition of Beroa in 2014 and the corresponding amounts due of the purchases of CDI, ICC and the energy assets of Grupo Eléctrico Scorpio. These liabilities have been registered according to the conditions specified in the purchase contracts where involved financial parameters (EBITDA and net financial debt) that must be considered in the future (Note 22).

The key assumptions for the valuation of these liabilities are based on expected future profits generated by the company (Notes 1 and 22). The assumptions used for these estimates coincide with the detailed in the test of deterioration of funds of trade. Changes in EBITDA of 5% (maximum estimated upward or downward rate EBITDA could be exposed to), would imply a variation in the financial liability to be paid up or down of € 2.5 million (2015: €2.3 million).

The Group at 31 December 2016 and 2015 has no agreements to offset financial assets against financial liabilities.

3.4 Capital risk management

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group can adjust the amount of dividends payable to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the leverage ratio. This ratio is calculated as net debt divided by total capital used. Net debt is calculated as total borrowings plus current financial liabilities less cash, cash equivalents and current financial assets, all of which as shown in the consolidated annual accounts. Total capital employed is calculated as 'equity', as shown in the consolidated annual accounts, plus net debt.

During 2016, the Group's strategy, which was unchanged from prior years, was to maintain the gearing ratio at close to 0.5. The gearing ratios at 31 December 2016 and 2015 were as follows:

	2016	2015
Borrowings (Note 20)	1,230,983	1,000,754
Current financial liabilities (Note 8)	14,898	16,078
Less: Cash and cash equivalents and current financial assets (Notes 8 and 12)	(429,638)	(346,713)
Net debt (Note 3.1.b))	816,243	670,119
Equity	1,263,306	884,990
Total capital used	2,079,549	1,555,109
Gearing ratio	**0.39**	**0.43**

At 31 December 2016 and 2015, the Group has agreements formalised related with credit and bank loans that oblige it to comply with certain covenants (Note 20).

4. Accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1 Critical accounting estimates and judgements

The Group makes estimates and judgements concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

a) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2.7. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates. The results of this analysis and quantification of the resulting sensitivities are detailed in the Note 7.

If the estimated rate used to discount the cash flows had been 10% higher than management's estimates, the Group would still not have needed to reduce the carrying amount of goodwill (Note 7).

With respect to the assumptions used to project the EBITDA (operating profit plus depreciation and amortisation, essential for calculating free cash flow) of the CGUs and their future growth, management modelled the most conservative scenario so that underperformance in respect of EBITDA is considered unlikely. Simulations using other growth rates and 10% variations in EBITDA do not indicate the need for impairment provisions in either 2016 or 2015 (Note 7).

b) Estimated fair value of assets, liabilities and contingent liabilities associated with a business combination

In business combinations, the Group classifies or designates, at the acquisition date, the identifiable assets acquired and liabilities assumed as necessary, based on contractual agreements, financial conditions, accounting policies and operating conditions or other pertinent circumstances that exist at the acquisition date in order to subsequently measure the identifiable assets acquired and liabilities assumed, including contingent liabilities, at their acquisition date fair value.

The measurement of the assets acquired and liabilities assumed at fair value requires the use of estimates that depend on the nature of those assets and liabilities in accordance with their prior classification and which, in general, are based on generally accepted measurement methods that take into consideration discounted cash flows associated with those assets and liabilities, comparable quoted prices on active markets and other procedures, as disclosed in the relevant notes to the annual financial statements, broken down by nature. In the case of the fair value of property, plant and equipment, fundamentally consisting of buildings used in operations, the Group uses appraisals prepared by independent experts.

In 2012 the group acquired 65% of the US Company Century Plastics, LLC and granting shareholders a put option over the remaining 35% of the company's capital, which has been executed in May 2016. As a result, in previous years a liability was recognised to record the contingent consideration which was expected to be paid to cancel the put option. This compensation has been calculated taking into account, among other variables, the company's real EBITDA in 2015.

In 2015, and in view of the fact that the company's results have far exceeded forecasts, the Group re-estimated the present value of the contingent consideration, recognising an increase in the liability of USD 38.9 million (€35.6 million) and reclassifying the entire amount to short term in an amount of USD 70 million (€64.2 million). The effect of this re-estimation was registered in the income statement within "Change in fair value of assets and liabilities taken to the income statement" in 2015.

In May 2016, the put option was exercised over the remaining 35% at an agreed final price of USD 68.8 million (approximately €60.8 million at the put exercise date). This amount was paid in cash. The effect on the variation in the value of the contingent consideration of USD 1.1 million (approximately €1 million) was recognised under " Change in the fair value of assets and liabilities taken to the income statement" for period ended 31 December 2016.

In April 2015, it was been agreed with VEP, former shareholder of the ACS Group, the anticipation of the outstanding amount and the corresponding settlement of all the rights and duties derivated from the contract. This operation required a final disbursement of €6,763 thousand, generating a positive result of €4 million over the contingent consideration previously registered as fair value within the section "Change in fair value of assets and liabilities taken to income statement" for period ended 31 December 2015.

c) Percentage of completion of rendering of services contracts (Solutions and Services Segment)

The accounting of the contracts of rendering services according to the percentage of completion or ending of the same ones is based on estimations of the total of costs incurred on the total ones estimated for the completion. Changes in these estimations have impact in the recognised results of the works in accomplishment. The estimations are constantly monitored and fitted if necessary (Note 2.23).

d) Income tax

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. The Group recognises deferred taxes which, in accordance with prevailing legislation in different tax jurisdictions, result from multiple temporary differences in respect of assets and liabilities. Nonetheless, there are certain transactions and calculations with respect to which the ultimate calculation of the tax is uncertain in the ordinary course of business. In prior years, the Group had recognised liabilities for possible tax contingencies based on estimates of potential additional taxes due.

The calculation of income tax expense did not demand significant estimates except with respect to the amount of tax credits recognised in the year.

If the final outcome (on judgment areas) differs unfavourable by 10% from Management estimates, deferred assets would decrease and income tax would increase by approximately €9.2 million (2015: €7.2 million) and if these changes evolved favourably, these deferred tax assets would increase and the income tax would decrease by approximately €9.8million (2015: €2 million).

e) Fair value of derivatives or other financial instruments

The fair value of financial instruments that are not quoted in an active market (e.g. OTC derivatives) is determined by using valuation techniques. The Group exercises judgement in selecting a range of methods and making assumptions which are based primarily on prevailing market conditions at the reporting date.

Note 3.1.a). iii) provides a sensitivity analysis for changes to the main assumptions with regard to the measurement of interes rate derivatives.

In relation to the valuation of the derivative associated with the quoted price in the market share of CIE Automotive, S.A. (Note 8) a variation of 10% in the share price would affect the result for increasing / decreasing by €2,572 thousand.

f) Pension benefits

The present value of the Group's pension obligations depends on a series of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations.

The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension obligation.

Other key assumptions for employee benefits are based in part on current market conditions. Note 24 contains further information and a sensitivity analysis for changes to the most significant estimates.

g) Product warranties

Product warranty risks are recognised when there is a firm claim not covered by the relevant insurance policy.

Due to the nature of its business, the Solutions and Services segment (Smart Innovation) does not offer product warranties other than those relating to the proper performance of the work for which it is employed. Management estimates the corresponding provision for existing punctual claims, according to the technical studies and estimates based on experience in each of the services provided, as well as recent trends that might suggest that past cost information may differ from future claims. There is no claims history to determine the need for a provision of guarantees.

4.2. Significant judgments in applying accounting policies

The most significant judgements and estimates made in applying the accounting policies described in Note 2 relate to:

- The assumptions and calculations used to test goodwill for impairment, as detailed in Notes 2.7.a), 4.1.a) and 7.
- Estimates in respect of the recognition and utilisation of tax credits, as outlined in Notes 2.19.b), 4.1.d), 23 and 30.
- Estimation of the useful lives of property, plant and equipment (Note 2.5).

- In order to value financial derivatives and other assets, the Group uses valuation techniques that are widely used in the financial markets. In general, the valuation of any financial derivative is based on discounted cash flow analysis, based on the interest rate curve, from which the zero coupon curve is derived together with the discount factors and the implicit forward rates. To value instruments that include options, the Group uses the implied volatility priced in by the markets and option pricing models, such as Black-Scholes for Plain vanilla options or Vanna-Volga for barrier options. The Group uses professional market applications to this end and engages an independent external advisor when necessary.
- Estimation of the services provided by employees that are remunerated by means of share-based payments (Notes 2.21 and 28).
- Percentage of completion or ending of rendering services contracts.

5. Segment information

The Executive Steering Committee, consisting of five members of the Board of Directors, is the Group's chief operating decision-making body. The Executive Steering Committee reviews the Group's internal financial information for the purposes of evaluating performance and assigning resources to segments.

Management has determined the operating segments based on the structure of the reports reviewed by the Executive Steering Committee.

The Executive Steering Committee analyses the business of CIE Automotive Group from a geographical perspective and from the different business lines (segments) that the Group has.

The Group operates with two different segments:

- Automotive
- Solutions & Services (Smart Innovation)

The activity of the current segments and their geographic distribution (in case of Automotive) is now disclosed:

<u>Automotive segment</u>

This segment relates to the production of parts and components for the automotive industry, operating as a TIER 2 supplier in most cases. Although the Group supplies certain automobile manufacturers (OEMs) directly, on these occasions the Group usually acts as a TIER 2 supplier, with the OEMs assuming the role of the TIER 1 supplier.

The Group's business model is based on two strategic focal points: multi-technology and the global market, implying the ability to supply technology worldwide.

• Multi-technology: command of different technologies and processes enables the Group to offer complex high value-added products. The Group has the capacity to design and manufacture products using alternative or complementary technologies.

• Global market: worldwide industrialisation and supply capacity. The Group's customers are global and it has the ability to supply them from difference geographic areas.

Following the inclusion in the Group of the companies acquired from the Mahindra & Mahindra Group, and the creation of the Mahindra CIE Automotive, Ltd. Group, CIE Automotive Group has begun to analyse the Automotive operating segment on the basis of its management units, distinguishing basically Mahindra CIE Group from the automotive businesses in Brazil and Mexico, and the other Automotive companies, located mainly in Europe.

In fact, subsegments within automotive segment, are as follows:

- NAFTA: it includes, basically, Group companies located in Mexico and United States.
- Brazil: it includes basically Automotive Group companies located in Brazil.
- Mahindra CIE and Asia: it includes the business of manufacturing forging components that existed in the group including the annual results of the companies CIE Galfor, S.A.U. and CIE Legazpi, S.A.U. (Spanish companies), and U.A.B. CIE LT Forge (Lithuanian company) and the companies that joined the Group as from 4 October 2013 located in India and Europe, those which joined the Group in December 2014 located in India and Italy and those acquired in September 2016 from the BillForge Group. Moreover, and not being significant as a differentiated segment, the Group companies that operate in the Chinese market are included here (*).

(Thousand euro)

- Europe - Rest of Automotive: it includes all non-dependent of Mahindra CIE subgroup manufacturing businesses basically located in Europe.

(*) Until 2015 the Chinese company Advanced Comfort Systems Shanghai Co. Ltd., not significant for these purposes was included in Europe – Rest of Automotive as it was consolidated with its European parent. Since 2016 it is included in the segment Mahindra CIE and Asia.

Solutions & Services Segment (Smart Innovation)

The companies included in this segment offer a sum of solutions and services which aim to make more efficient the productive processes of their customers, always under the common denominator of intelligent sensorization and environmental data collection and an active application of knowledge and technology (Smart Innovation concept).

The qualification of solution or service corresponds to the scope offered to the client: Solution when offering to make efficient a productive process that the client will remain to manage. On the opposite, service when we take a complete process of one of our clients (outsourcing) and we manage it completely.

Under the previous portfolio, and orientated to clients in sectors that go from the Technological one, to Energy, Bank, Health, Education up to the Industrial sector, the ranges of the Solutions and Services given include integral projects of hospital equipment, optimization of communications and low currents, construction of renewable energies, supply, sensitizing and meteorological prediction, energy efficiency, design and construction of solar towers, ovens and productive plants, solutions of bank business, digital and communication strategies, drugstore and dietetics, etc. and services of monitoring, installation and maintenance of networks of telecommunications, bank, education, governmental, industrial maintenance, distribution services and commercial processes.

The Executive Steering Committee assesses the performance of the continuing operations of its operating segments based mainly on key financial metrics such as sales, EBITDA (Operating profit plus amortisation and depreciation) and EBIT (Operating profit). The information received by the Executive Steering Committee also includes globally a breakdown of finance income and costs and tax issues, as well as, profit/loss from discontinued operations (Note 13). Although these last items are analysed at the Group level since they are essentially managed in a centralised manner.

Segment information

The earnings performance by segment:

	2016					
	Automotive					
	NAFTA	Brazil	Mahindra CIE and Asia	Europe – Rest of Automotive	Solutions and Services	Total
Revenue	518,272	201,006	797,977	749,273	612,514	2,879,042
Other operating expenses and income (excluding depreciation and amortisation)	(399,197)	(184,072)	(704,113)	(618,829)	(565,361)	(2,471,572)
Depreciation, amortisation and impairment	(22,592)	(8,663)	(35,713)	(46,805)	(14,371)	(128,144)
EBIT (Operating profit)	96,483	8,271	58,151	83,639	32,782	279,326
EBITDA	119,075	16,934	93,864	130,444	47,153	407,470

	2015					
	Automotive					
	NAFTA	Brazil	Mahindra CIE and Asia	Europe – Rest of Automotive	Solutions and Services	Total
Revenue	484,246	182,613	771,956	667,684	525,021	2,631,520
Other operating expenses and income (excluding depreciation and amortisation)	(377,318)	(170,893)	(689,376)	(544,991)	(483,468)	(2,266,046)
Depreciation, amortisation and impairment	(19,497)	(10,394)	(33,907)	(44,997)	(12,373)	(121,168)
EBIT (Operating profit)	87,431	1,326	48,673	77,696	29,180	244,306
EBITDA	106,928	11,720	82,580	122,693	41,553	365,474

(Thousand euro)

Transfers or transactions between segments (which are not significant) are carried out in the same terms and conditions as usual commercial transactions with third parties.

Other items disclosed by segment included in the income statement are the following:

	2016					
	Automotive					
	NAFTA	Brazil	Mahindra CIE and Asia	Europe – Rest of Automotive	Solutions and Services	Total
Depreciation and amortisation:	(22,592)	(8,663)	(35,713)	(46,805)	(14,371)	(128,144)
Property, plant and equipment	(20,183)	(8,432)	(34,348)	(42,314)	(6,585)	(111,862)
Intangible assets	(1,753)	(231)	(1,128)	(4,380)	(7,786)	(15,278)
Impairment	(656)	-	(237)	(111)	-	(1,004)

	2015					
	Automotive					
	NAFTA	Brazil	Mahindra CIE and Asia	Europe – Rest of Automotive	Solutions and Services	Total
Depreciation and amortisation:	(19,497)	(10,394)	(33,907)	(44,997)	(12,373)	(121,168)
Property, plant and equipment	(17,485)	(10,182)	(32,660)	(39,568)	(6,757)	(106,652)
Intangible assets	(2,012)	(212)	(1,247)	(5,323)	(5,616)	(14,410)
Impairment	-	-	-	(106)	-	(106)

The reconciliation of Operating profit to Profit attributable to owners of the parent at 31 December 2016 and 2015:

	2016	2015
Operating profit	279,326	244,306
– Finance income/(expense) (Note 29)	(31,333)	(36,012)
– Gains /(losses) on financial instruments (Note 29)	896	7,644
– Change in fair value of assets and liabilities taken to income statement (Note 29)	1,122	(30,431)
– Interest in the results of equity method companies (Note 8)	1,244	1,163
– Income tax (Note 30)	(49,485)	(40,092)
– Gain/loss after tax from discontinued operations (Note 13)	(11,567)	(763)
– Non-controlling interests (attributed profit (Note 18))	(27,853)	(16,751)
Profit attributed to the parent Company	**162,350**	**129,064**

Segment assets and liabilities at year end and investments made during the year:

	31 December 2016					
	Automotive					
	NAFTA	Brazil	Mahindra CIE and Asia	Europe – Rest of Automotive	Solutions and Services	Total
Investments in associates (Note 8)	1,623	646	-	1,154	8,376	11,799
Rest of assets	580,756	351,931	1,387,963	936,370	807,918	4,064,938
Total assets	582,379	352,577	1,387,963	937,524	816,294	4,076,737
Total liabilities	332,346	184,114	576,189	1,164,638	541,738	2,799,025
Fixed Asset additions (Notes 6 and 7)	66,754	13,075	36,477	65,754	11,281	193,341
Disposal of assets net of depreciation and amortisation (Notes 6 and 7)	(1,325)	(596)	(2,159)	(1,697)	(1,121)	(6,898)
Net investments for the year (Notes 6 and 7)(1)	65,429	12,479	34,318	64,057	10,160	186,443

(1) Excluding Goodwill movemets

(Thousand euro)

	31 December 2015					
	Automotive					
	NAFTA	Brazil	Mahindra CIE and Asia	Europe – Rest of Automotive	Solutions and Services	Total
Investments in associates (Note 8)	623	450	-	1,203	7,269	9,545
Rest of assets	474,452	291,824	1,109,775	786,856	597,697	3,260,604
Total assets	475,075	292,274	1,109,775	788,059	604,966	3,270,149
Total liabilities	307,027	175,924	495,408	895,128	493,907	2,367,394
Fixed Asset additions (Notes 6 and 7)	53,466	16,512	37,181	52,352	12,541	172,052
Disposal of assets net of depreciation and amortisation (Notes 6 and 7)	(1,116)	(539)	(504)	(2,199)	(1,128)	(5,486)
Net investments for the year (Notes 6 and 7) (1)	52,350	15,973	36,677	50,153	11,413	166,566

(1) Excluding Goodwill movements

Segment assets mainly include property, plant and equipment, intangible assets (including goodwill), deferred tax assets, inventories, accounts receivable and cash. Investments in investees included in the consolidation scope are shown separately.

Segment liabilities include operating liabilities and long-term financing, excluding intragroup liabilities eliminated on consolidation.

Investments in non-current assets include additions to property, plant and equipment (Note 6) and intangible assets (Note 7).

Revenue and non-current assets by geographic area:

	Revenue		Non-current assets (*)	
	2016	2015	2016	2015
AUTOMOTIVE				
Spain (**)	235,995	183,681	236,895	231,430
Rest of Europe	962,179	958,318	608,737	506,213
Brazil	201,006	182,613	253,739	164,030
NAFTA	518,272	484,246	422,873	323,478
Asia (***)	349,076	297,641	635,201	443,283
Total Automotive	2,266,528	2,106,499	2,157,445	1,668,434
SOLUTIONS AND SERVICES (SMART INNOVATION)				
Spain	238,240	174,057	136,715	93,734
Rest of Europe	130,804	127,645	137,124	147,252
America	166,767	130,932	38,532	13,016
Asia & Oceania and others	76,703	92,387	5,670	5,956
Solutions and Services Segment (Smart Innovation)	612,514	525,021	318,041	259,958
TOTAL	2,879,042	2,631,520	2,475,486	1,928,392

(*) Non-current assets that are not financial instruments and deferred tax assets.

(**) Sales in Spain in the Automotive segment mainly go to end customers that are located abroad.

(***) This line includes the Indian companies of the Mahindra Group, (European companies being recognised in a separate line), as well as the Group companies located in China.

a) Customer information

The Group's sales policy limits its credit risk.

In no instance does invoicing per customer or platform in automotive segment account for more than 9.2% of total revenue (2015: 10.9%).

In the segment of Solutions and Services, sales revenue for one customer have not exceeded by 10% of the turnover of the segment for the years 2016 and 2015. Sales of this customer in 2016 have amounted to €59,959 thousand (2015, €83,171 thousand), which represents 9.8% for the year 2016.

(Thousand euro)

6. Property, plant and equipment

Set out below is a breakdown of property, plant and equipment showing movements:

2016:

	Balance at 31/12/2015	Additions/(Changes) in the scope of consolidation (Note 35)	Additions	Disposals	Transfers and other (*)	Balance at 31/12/2016
Cost						
Land and buildings	466,336	44,651	2,631	(6,932)	14,614	521,300
Plant and machinery	1,512,331	148,602	42,105	(37,643)	135,303	1,800,698
Other fixed assets	260,478	19,749	21,343	(52,318)	56,973	306,225
Prepayments and assets under construction	155,054	11,913	116,436	(1,625)	(170,236)	111,542
	2,394,199	224,915	182,515	(98,518)	36,654	2,739,765
Depreciation						
Land and buildings	(166,306)	(7,179)	(11,796)	4,325	3,139	(177,817)
Plant and machinery	(971,530)	(104,767)	(82,103)	37,545	(10,690)	(1,131,545)
Other fixed assets	(274,416)	(21,685)	(17,963)	49,542	11,177	(253,345)
	(1,412,252)	(133,631)	(111,862)	91,412	3,626	(1,562,707)
Provisions						
Plant and machinery	(10,426)	-	(1,004)	1,066	48	(10,316)
	(10,426)	-	(1,004)	1,066	48	(10,316)
Carrying amount	971,521					1,166,742

(*) Mainly includes the effect of exchange differencies of the currencies in which the property, plant and equipment of foreign subsidiaries are denominated and transfers from prepayments and assets under construction to PPE held for use.

2015:

	Balance at 31/12/2014	Additions/(Changes) in the scope of consolidation (Note 35)	Additions	Disposals	Transfers and other (*)	Balance at 31/12/2015
Cost						
Land and buildings	449,264	-	2,951	(92)	14,213	466,336
Plant and machinery	1,415,792	139	34,873	(33,791)	95,318	1,512,331
Other fixed assets	265,690	16	14,458	(2,639)	(17,047)	260,478
Prepayments and assets under construction	157,426	-	107,197	(3,424)	(106,145)	155,054
	2,288,172	155	159,479	(39,946)	(13,661)	2,394,199
Depreciation						
Land and buildings	(155,970)	-	(10,492)	1	155	(166,306)
Plant and machinery	(935,383)	(18)	(74,540)	30,349	8,062	(971,530)
Other fixed assets	(258,486)	-	(21,620)	4,114	1,576	(274,416)
	(1,349,839)	(18)	(106,652)	34,464	9,793	(1,412,252)
Provisions						
Plant and machinery	(10,372)	-	(106)	173	(121)	(10,426)
	(10,372)	-	(106)	173	(121)	(10,426)
Carrying amount	927,961					971,521

(*) Mainly includes the effect of exchange differences of the currencies in which the property, plant and equipment of foreign subsidiaries are denominated and transfers from prepayments and assets under construction to PPE held for use.

a) Property, plant and equipment by geographical area

Set out below is a breakdown of property, plant and equipment by geographical location at 31 December 2016 and 2015 (in million euro):

	2016			2015		
	Cost	Accumulated depreciation/ Provisions	Carrying amount	Cost	Accumulated depreciation/ Provisions	Carrying amount
America	790	(368)	422	630	(304)	326
Europe	1,573	(1,046)	527	1,484	(1,005)	479
Asia	377	(159)	218	280	(114)	166
	2,740	**(1,573)**	**1,167**	**2,394**	**(1,423)**	**971**

b) Assets not used in operations

At 31 December 2016 and 2015 no significant items of property, plant and equipment were not used in active use.

c) Property, plant and equipment subject to restrictions on title

At 31 December 2016, there are items of property, plant and equipment (land and buildings) with a carrying amount of €11.4 million (2015: €43.2 million) are pledged to guarantee debts with government bodies and financial institutions with outstanding balances at year-end 2016 of €7.1million (2015: €10.2 million) (Note 22).

d) Insurance

The Group has taken out a number of insurance policies to cover risks relating to property, plant and equipment. The coverage provided by these policies is considered to be sufficient.

e) Finance leases

Plant and equipment include the following amounts in respect of finance leases under which the Group is the lessee:

	2016	2015
Cost-capitalised finance lease	26,450	27,865
Accumulated depreciation	(10,109)	(10,508)
Carrying amount	**16,341**	**17,357**

The amounts payable under finance leases are carried under Other liabilities (Note 22).

f) Capitalisation of borrowing costs

The Group did not capitalise any borrowing costs in 2016 or 2015 involving significant amounts.

(Thousand euro)

7. Intangible assets

Set out below is an analysis of the main intangible asset classes showing movements in assets:

2016:

	Balance at 31/12/2015	Additions/(Changes) in the scope of consolidation (Note 35)	Additions	Disposals	Transfers and other (*)	Balance at 31/12/2016
Cost						
Goodwill on consolidation	905,802	312,501	-	-	21,866	1,240,169
R&D (development)	64,683	-	2,498	(6,916)	(4,478)	55,787
Computer applications	64,900	3,340	7,234	(1,927)	(247)	73,300
Prepayments and other	18,215	18,720	1,094	(387)	(715)	36,927
	1,053,600	334,561	10,826	(9,230)	16,426	1,406,183
Accumulated amortisation	(102,200)	(5,513)	(15,278)	8,372	5,442	(109,177)
Provisions	-	-	-	-	-	-
Carrying amount	951,400					1,297,006

(*) Mainly includes the impact of currency fluctuations on the intangible assets held by the Group's foreign subsidiaries.

2015:

	Balance at 31/12/2014	Additions/(Changes) in the scope of consolidation (Note 35)	Additions	Disposals	Transfers and other (*)	Balance at 31/12/2015
Cost						
Goodwill on consolidation	897,410	5,547	-	-	2,845	905,802
R&D (development)	67,789	-	3,914	(4,630)	(2,390)	64,683
Computer applications	59,214	-	7,520	(2,166)	332	64,900
Prepayments and other	21,131	(2,500)	1,139	(304)	(1,251)	18,215
	1,045,544	3,047	12,573	(7,100)	(464)	1,053,600
Accumulated amortisation	(99,537)	-	(14,410)	6,923	4,824	(102,200)
Provisions	(53)	-	-	-	53	-
Carrying amount	945,954					951,400

(*) Mainly includes the impact of currency fluctuations on the intangible assets held by the Group's foreign subsidiaries.

The additions/ (changes) in goodwill (Note 35) break down as follows:

Segments	2016	2015
Automotive	273,179	420
Solutions and Services (Smart Innovation)	39,322	5,127
	312,501	5,547

a) Testing for impairment losses on goodwill

Goodwill has been assigned to the Group's cash-generating units (CGUs) on the basis of the criterion of grouping together under each CGU all the Group's assets and liabilities that jointly and indivisibly generate cash flows in an area of the business from a technology and/or geographical and/or customer viewpoint, on the basis of the synergies and risks shared.

(Thousand euro)

The breakdown of goodwill at the resulting CGU level is set out below:

Cash-generating units	Goodwill 2016	Goodwill 2015
Automotive segment:		
Brazil	110,573	58,276
NAFTA	143,878	101,549
Mahindra-CIE	542,713	410,093
Rest of Automotive (Europe)	204,417	136,543
Solutions and Services Segment (Smart Innovation):		
Solutions	150,760	115,684
T&T services	26,736	27,865
Industry services	28,628	23,328
Commercial services	32,464	32,464
	1,240,169	905,802

The recoverable amount of CGUs is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated on the basis of conservative estimated growth rates that are in all instances lower than the average long-run growth rate for the business in which each of the CGUs operates.

b) Key assumptions used in the calculation of value in use

As in prior years, the pre-tax discount rate was determined on the basis of the weighted average cost of capital (WACC) plus a premium to reflect the tax effect. The WACC was determined using the Capital Asset Pricing Model (CAPM), which is widely used for discount rate calculation purposes. In certain instances, the discount rate calculation additionally factors in a specific risk premium to reflect the characteristics and the risk profile intrinsic to the cash flow projections of each CGU.

The discount rates applied to cash flow projections were as follows:

	2016	2015
Automotive		
Brazil	11.00%	11.31%
NAFTA	5.57%-8.58%	6.89%-8.44%
Mahindra-CIE	5.34%-12.85%	5.9%-13.14%
Rest of Automotive (Europe)	5.35%-12.13%	5.92%-13.51%
Solutions and Services (Smart Innovation)	6%-12%	6.5%-12%
Solutions	6.5%-15%	7%-15%
T&T Services	5.5%-10%	6%-10%
Industry Services	7%	7%
Commercial Service		

The applied WACC ranges are derived from the cash flows that are generated in different countries with different country risks characteristics.

This discount rate is after taxes and reflects the specific risks associated with the relevant segments.

The main changes in discount rates compared to those used in the previous year are mainly determined by the variations in risk-free rates.

Group management determined budgeted EBITDA (operating profit plus depreciation, amortisations and possible impairments) margins in preparing its business plans, taking into account operations with a similar structure to current operations and based on prior experience. These EBITDA's (operating result plus amortisation and depreciation) vary by type of business as follows:

(Thousand euro)

	% of revenue	
	2016	2015
Automotive	3.5%-40.90%	5.49%-32.58%
Solutions and Services (Smart Innovation)	5.0%-10.7%	6.5%-10.4%

Other forecast net movements in cash and flows related to tax are factored in to EBITDAs in order to obtain after-tax free cash flow for each year.

The result of using pre-tax cash flows and discount rates does not differ significantly from the outcome of using after-tax cash flows and discount rates.

Cash flows beyond the five-year period covered by the Group's forecasts are extrapolated applying prudent assumptions with respect to the forecast future growth rate (between 0% and 4%), based on GDP growth estimates and the inflation rate in each market, and evaluating the level of investment required to achieve such growth. For calculating the residual value these flows are updated considering the discount rate used in the projections and deduced by the growth rate considered.

c) **Results of the analysis**

The Group has verified that goodwill did not suffer any impairment loss in either 2016 or 2015, existing a great clearance regarding the value in use taking into consideration the hypothesis detailed in the preceding paragraphs of the net assets of each CGU in both years. Note 4 includes the sensitivity analysis with respect to the goodwill impairment calculation.

The recoverable amount of the CGUs was determined based on value-in-use calculations, which require the use of estimates. To calculate value in use in 2016 and 2015, the assumptions used to project the related cash flows reflect the overall situation of the Group's operating markets as well as factoring in their projected performance.

Note 4.1.a) includes data on the sensitivity of these calculations.

8. Financial assets

Movements in the Group's financial assets are as follows:

	Held-to-maturity financial assets	Derivative financial instruments	Investments in associates	Total
At 1 January 2015	**109,911**	**(10,274)**	**(39)**	**99,598**
Additions	7,721	(18)	(4) 8,404	16,107
Disposals	(24,013)	3,818	(5) (40)	(20,235)
Transfers and other movements (1)	(2,450)	1,953	(185)	(682)
Fair value adjustment				
- Profit or loss	744	5,604	-	6,348
- Equity	-	(11,387)	(1,292)	(12,679)
Share of profit/(loss) of associates	-	-	1,163	1,163
At 31 December 2015	**91,913**	**(2) (10,304)**	**(3) 8,011**	**89,620**
Changes in the scope of consolidation	3,501	(121)	628	4,008
Additions	7,892	-	986	8,878
Disposals	(40,937)	7,293	-	(33,644)
Transfers and other movements (1)	(1,283)	(1,163)	1,869	(577)
Fair value adjustment				
- Profit or loss	(2,680)	4,017	(441)	896
- Equity	-	(5,378)	(2,034)	(7,412)
Share of profit/(loss) of associates	-	-	1,244	1,244
At 31 December 2016	**58,406**	**(2) (5,656)**	**(3) 10,263**	**63,013**
2015				
Non Current	11,985	-	-	**11,985**
Current	79,928	5,774	-	**85,702**
Investments in associates	-	-	9,545	**9,545**
2016				
Non Current	10,560	-	-	**10,560**
Current	47,846	9,242	-	**57,088**
Investments in associates	-	-	11,799	**11,799**

(Thousand euro)

(1) Mainly includes the impact of currency fluctuations on the financial assets held by the Group's foreign subsidiaries and transfers.

(2) This total is presented net of €14,898 thousand (31 December 2015: €16,078 thousand) corresponding to derivatives recognised on the liability side of the consolidated balance sheet (Note 8.b)).

(3) Of this amount, €1,536 thousand (2015: € 1,534 thousand) are recognised as a non-current provision on the liability side of the balance sheet in order to prevent a negative balance in respect of the cost of the investment in this company (Note 25).

(4) It was related to the addition made in the new company "Concesionaria Chile Salud Siglo XXI, S.A." in 2015 as well as to the capital subscription that is proportional to the participation in Czech company, Antolin -CIE Czech Republic, s.r.o (Note 1).

(5) This included the effect of the equity value of the CIE Automotive Hispamoldes, S.L. written off from Investments in associates due to its consideration as fully consolidated method and its subsequent merger (Note 1 y 35).

All the assets recognised at fair value, are traded in an active market from which the value is obtained at each date (Note 3.3).

At 31 December 2016 and 2015, all the Group's financial assets that did not mature or become impaired during the year are considered as high quality and show no signs of impairment.

a) Financial assets held to maturity

	2016	2015
Term deposits	34,610	46,734
Short-term loans	23,783	42,321
Long-term loans	13	2,858
	58,406	**91,913**

The term deposits and loans bear market interest rates in the countries in which the financial assets are held.

No held-to-maturity financial asset has been reclassified.

Financial assets held to maturity show an impairment loss of €11.3 million generated in 2012 and 2013 by a liquidity issue in one of the Brazilian financial institutions with which the Group operated.

The maximum exposure to credit risk at the reporting date is the carrying amount of the assets.

b) Financial derivatives instruments

	2016		2015	
	Assets	Liabilities	Assets	Liabilities
Swaps (interest rate)				
- cash flow hedges	-	(11,549)	-	(7,369)
- not hedged	-	(125)	-	(627)
Equity Swap	9,242	-	5,411	-
Foreign currency forward contracts	-	(39)	363	(3)
Hedge of a net investment in foreign operations	-	(3,185)	-	(8,079)
Total	**9,242**	**(14,898)**	**5,774**	**(16,078)**

- Swaps (interest rate and others)

  The notional principal on interest-rate swaps (variable to fixed rate) classified as hedging instruments, outstanding at 31 December 2016 amounts to €486million and USD25 million and DKK10 million (2015: €450 million and USD 31.7 million and DKK 10 million).

  Additionally, there are Interest rate swaps (variable to fixed) which principal notional outstanding at 31 December 2016 amounts to €7.9million, which have been classified as non-hedging (2015: €35 million).

(Thousand euro)

- Equity swap

  On 6 August 2014 the Parent Company arranged a derivative associated with the listed share price of CIE Automotive, S.A. The underlying of the operation amounts to 1.25 million shares with an initial value of 11.121 euro per share. This instrument does not qualify for classification as a hedge and at 31 December 2016 is valued at €9,242 thousand (31 December 2015: €5,411 thousand).

- Foreign currency forward contracts

  The notional principal amounts of forward contracts in foreign currency outstanding at 31 December 2016 amounts to USD 8.5 million, classified as hedging instruments (2015: USD 30 million classified as non-hedging instrument).

- Hedge of a net investment in foreign operations

  At 31 December 2016 and 2015 part of the Group's borrowings, denominated in US dollars, are designated as a hedge of the net investment in the Group's subsidiaries in the NAFTA Automotive segment amounting to €11.8 million (€45.4 million at 31 December 2015).

  The positive effect of foreign exchange differences amounting to €9.2 million (€35.9 million negative at 31 December 2015) caused by the conversion of the above-mentioned debt has been recognised in equity in the Consolidated Statement of Comprehensive Income.

c) Investments in associates

Except for the companies set out below, all subsidiaries have been consolidated under the full consolidation method.

The companies consolidated under the equity method are as follows (Note 1):

	% effective interest		Value of interest		Share in profit /(loss)	
	2016	2015	2016	2015	2016	2015
Gescrap - Autometal Comercio de Sucatas, Ltd.	30.00%	30.00%	646	450	135	88
Gescrap - Autometal de México, S.A. de C.V.	30.00%	30.00%	1,623	623	929	153
Antolin- Czech Republic, s.r.o.	30.00%	30.00%	1,157	1,210	(665)	94
Centro Near Servicios Financieros, S.L.	11.50%	14.48%	-	-	169	(55)
Advance Flight Systems, S.L.	10.00%	18.89%	60	-	(92)	(190)
Sociedad Concesionaria Chile Salud Siglo XXI, S.A.	15.00%	18.89%	7,883	7,269	2,016	1,084
Huero Solar La Alcardeteña, S.A.	18.50%	-	433	-	-	-
BAS Project Corporation, S.L.	12.50%	-	-	-	(1,248)	-
Other (*)	-	-	(3)	(7)	-	(11)
			11,799	9,545	1,244	1,163

(*) Companies that are either not material or are in the process of being liquidated. The provision for the losses accumulated on these investments in associates and losses on commitments assumed by them amounting to €1,536thousand (31 December 2015: €1,534 thousand) are included in "Non-current provisions" under liabilities on the consolidated balance sheet.

In December 2016, a capital share increase has been carried out in the company Antolin Czech Republic, s.r.o. amounting to CZK16,215 thousand. In June 2015, the same company increased capital by CZK82,230 thousand. Both capital share increases were fully subscribed proportionally by CIE Berriz, S.L. and Grupo Antolin Irausa, S.A. (Note 1).

The shares in BAS Project Corporation, S.L. and Huerto Solar La Alcardeteña, S.A. have been incorporated after the acquisition of some energy assets of Grupo Energético Scorpio, S.A. and Abantia's some business lines, respectively (Note 35).

In February 2015, Global Dominion Access, S.A. acquired 4,500 shares of the Chilean company Concesionaria Chile Salud Siglo XXI, S.A., amounting to 5,247 million Chilean pesos, equivalent to €7.5 million in the date of acquisition, with an inherent goodwill in the acquisition of Chilean pesos 1,367 million, equivalent to €1.9 million in the date of acquisition. In this way, Dominion Access Global, S.A. held a 30% interest in this company. These shares were pledged as security for the company's financial debt.

The impact in the the profit and loss account in 2016 of Bas Project Corporation, S.L. corresponds to a consolidation adjustment to reduce the existing gains on certain transactions between this company and the Group that have not been made to third parties. An amount of €1.1 million have been credited to the loan granted by the Group to this company.

(Thousand euro)

Moreover, in May 2016 a capital increase was made in the associate company Advanced Flight Systems, S.L. After it, the Group decreased its share from 30% existing in December 2015 to 20%.

There are no significant restrictions on the ability to access to those assets. There are no contingent liabilities related to these investments in associates. None of these companies is listed on a stock exchange.

9. Other non-current assets

This balance sheet heading includes loans to third parties totalling €4,058 thousand (€3,383 thousand in 2015) related mainly to the automotive segment, as disclosed below by maturity date:

	2016	2015
Between 1 and 2 years	2,917	1,977
Between 3 and 5 years	548	813
More than 5 years	593	593
	4,058	**3,383**

Loans to Group companies, associates and third parties accrue interest at variable rates benchmarked to Euribor. As a result, their fair value does not differ significantly from their carrying amount.

10. Trade and other receivables

	2016	2015
Trade receivables	402,097	309,051
Trade receivables, pending invoices (Note 2.23.b)	55,668	49,738
Less: Provision for impairment of receivables	(16,574)	(14,958)
Trade receivables – Net	441,191	343,831
Other receivables	36,695	21,230
Total	**477,886**	**365,061**

The fair values of trade and other receivables arrived at by discounting the related cash flows at market rates do not differ from their carrying amounts.

Trade receivables caption includes those balances on product sales as well as amounts invoiced to customers for work completed or services provided and pending collection at the year end.

Trade receivables, percentage of completion, that is part of a balance of pending invoices, reflect unbilled revenue on the basis of the percentage of completion of work or services in progress at the year end. The balance outstanding at 31 December 2015 has been billed throughout the year 2016, the balance outstanding at 31 December 2016 corresponds to projects begun in 2016.

At 31 December 2016 trade and other receivables discounted and advanced by financial institutions amount to €23 million (2015: €14.1 million). These balances have been accounted for as a bank loans (Note 20).

The amounts covered by non-recourse factoring or account receivable sales agreements at year-end have been derecognised as the risks of ownership have been transferred to the financial institutions and the Group has no continuing involvement. At 31 December 2016 this balance amounts to €224.2 million (2015: €178.3 million).

There is no concentration of credit risk with respect to trade receivables, as the Group has a large number of internationally dispersed customers (Note 5).

Given the characteristics of the Group's customers, balances receivable due in less than 60 days in the Automotive segment and 120 - 180 days in the Smart Innovation segment (Note 5) have historically entailed no credit risk as they fall within the normal collection period in the sector. The Group considers that the credit quality of these outstanding balances, which it deems neither impaired nor non-performing, is high. They mostly relate to payments associated with business disagreements that are set to be resolved in the short term.

At 31 December 2016 balances receivable due in more than 60 days that have expired amounts to €16 million (2015: €13.2 million) within the automotive segment request and due in more than 120 days amounts to €8 million (2015: €9 million) in the Smart innovation segment. However, most of these balances are not impaired as they related to a number of independent customers for whom there is no recent history of default. In addition, many payments are related to industrialisation milestones or the percentage of completion, so that it is nor estimated a great impairment for the balance receivable than the one registered.

The ageing analysis of these trade receivables that are expired is as follows:

	2016	2015
Between 2 and 4 months	7,479	7,935
Between 4 to 12 months	7,873	8,424
More than 12 months	11,267	10,283
	26,619	26,642
(Provision)	(16,574)	(14,958)
	10,045	11,684

Trade receivables that are deemed impaired and have therefore been provisioned for mainly relate to balances that are past due by more than 18 months. The Group expects to recover a portion of its provisions trade receivables. The other classes within trade and other receivables do not contain impaired assets.

The credit quality of trade receivables not due or impaired is considered high and free of credit risk.

Movements on the Group provision for impairment of trade receivable in 2016 and 2015 are as follows:

	2016	2015
Opening balance	**14,958**	**18,069**
Changes in consolidation scope	1,688	-
Additions (Note 27)	3,035	2,383
Recoveries (Note 27)	(1,275)	(2,795)
Transfers	-	(57)
Receivables written-off	(1,832)	(2,642)
Closing balance	**16,574**	**14,958**

The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables mentioned above.

The carrying amounts of the Group's trade and other receivables are denominated in the following currencies (thousand euro):

	2016	2015
Euro	181,650	148,688
US dollar	125,092	80,542
Brazilian real	26,725	31,672
Indian rupee	47,471	36,916
Other	76,827	60,971
	457,765	358,789

11. Inventories

	2016	2015
Goods held for resale	12,187	6,898
Raw materials and supplies	171,449	138,104
Work in progress and semi-finished goods	68,644	60,137
Finished goods	88,908	75,378
Prepayments to suppliers	14,161	13,237
	355,349	293,754

The Group has insurance policies to cover the risks affecting its inventories and considers the coverage provided sufficient.

(Thousand euro)

The cost of inventories recognised as an expense and included in the cost of goods sold breaks down as follows:

2016

	Goods held for resale, raw materials and supplies	Work in progress and finished goods	Total
Opening balance	145,002	135,515	280,517
Changes in consolidation scope (Note 35)	14,695	13,967	28,662
Purchases /Changes in provisions	1,631,461	(1,682)	1,629,779
Other movements (*)	11,511	2,507	14,018
Closing balance	(183,636)	(157,552)	(341,188)
Cost of sales	**1,619,033**	**(7,245)**	**1,611,788**

2015

	Goods held for resale, raw materials and supplies	Work in progress and finished goods	Total
Opening balance	144,169	129,250	273,419
Changes in consolidation scope (Note 35)	99	87	186
Purchases /Changes in provisions	1,482,900	362	1,483,262
Other movements (*)	(11,724)	2,605	(9,119)
Closing balance	(145,002)	(135,515)	(280,517)
Cost of sales	**1,470,442**	**(3,211)**	**1,467,231**

(*) Corresponds mainly to the effect of exchange rate fluctuations on the companies located abroad.

The carrying amount of work in progress and finished goods includes the following provisions for obsolescence, the movement in which is presented below:

	Amount
At 1 January 2015	**15,268**
Additions (Note 27)	3,175
Balance write-offs/ transfers	(2,437)
At 31 December 2015	**16,006**
Changes in consolidation scope	1,711
Additions (Note 27)	4,214
Balance write-offs/ transfers	(5,871)
At 31 December 2016	**16,060**

12. Cash and cash equivalents

Cash and other cash equivalents at 31 December 2016 and 2015 break down as follows:

	2016	2015
Cash and banks	304,314	201,710
Current bank deposits	68,236	59,301
	372,550	**261,011**

Current bank deposits relate to investments of cash surpluses maturing in less than three months or available immediately.

These deposits earn interest at a market rate (country-specific) that ranged between 0.45% and 14% in 2016, depending on the currency (2015: 0.2% - 13.5%).

The carrying amount of cash at Group companies is denominated in the following currencies:

(Thousand euro)

	2016	2015
Euro	135,584	104,967
US dollar	100,073	74,781
Brazilian real	37,482	27,930
Indian rupee	2,027	3,751
Chinese yuan	13,510	9,883
Russian ruble	24,744	160
Chilean peso	20,125	1,748
Other	39,005	37,791
	372,550	261,011

13. Disposal groups classified as held-for-sale and discontinued operations

a) Automotive segment

In 2012 the Group decided to discontinue its virgin oil-based biodiesel production activities, including the related raw material plantation activity (jatropha) and to sell Biosur Transformación, S.L.U. At the year end 2016 and 2015 the commitment to the sales plan which has not been materialized is still in place. The fact that sale has not been materialized has not been due to the price of the operation but to the strategy of bidders. These activities can be clearly distinguished operationally and for financial reporting purposes. They represented a separate line of business.

b) Solutions and Services segment (Smart Innovation)

At the end of 2013 the Beroa subgroup took the decision to discontinue the cement mixer production activity carried out by the German subsidiary Karrena Betonanlagen und Farmischer GmbH. This activity can be clearly distinguished operationally and for financial reporting purposes. It represents a separate line of business within the subgroup's business and corresponds to a separate legal entity. Its net assets were measured at fair value. Since the decision was taken to discontinue its operations, the company has carried out residual operating activities and is realising its net assets which mainly comprise current assets.

The information concerning the disposal of Group's assets and liabilities classified as held for sale related to the situations described above is summarised below:

Assets of disposal group classified as held for sale:

	2016	2015
Property, plant and equipment	5,675	22,400
Inventories	-	192
Other current assets	1,069	2,182
Other non-current assets	2	2
Total	**6,746**	**24,776**

Liabilities of disposal group classified as held for sale:

	2016	2015
Capital grants	1,057	1,057
Deferred tax liabilities	352	352
Borrowings	-	161
Payables	108	2,239
Other current liabilities	236	216
Total	**1,753**	**4,025**

Estimated impairment losses were calculated by estimating the recoverable amounts of each asset.

In the specific case of the subsidiary Biosur Transformación, S.L.U., the Group's business valuation is based on the recoverable amount of the company's net assets. A reputable independent expert was commissioned to perform this study. Each of the assets included in the appraisal was classified based on its qualitative characteristics and sized based on its quantitative characteristics. After analysing these characteristics, the recoverable amount of the assets was determined, based on quoted prices on the most significant active markets in each case.

In 2016, every revaluation assumption was assessed, performing a new determination on the assets value, by considering new transaction in the market, understanding and analysing the similarities of those assets with the assets held by the Group, and resulting this analysis in the registration of an impairment amounting to €15,136 thousand. In 2015 all the assumptions of the assessments were revalued, not involving any change in estimates on the sales value of net assets of the company, so no additional significant impairment was performed.

An analysis of the result of the discontinued operations detailed above, and the result recognised on the re-measurement of assets or disposal groups, is as follows:

	2016	2015
Revenue	980	6
Other revenue	745	227
Total income	1,725	233
Consumption	(192)	(133)
Staff costs	(110)	(481)
Impairment of fixed assets	(15,136)	(70)
Other expenses	(1,736)	(408)
Total expenses	(17,174)	(1,092)
Profit/(loss) before tax of discontinued operations	**(15,449)**	**(859)**
Tax	3,882	96
PROFIT/(LOSS) AFTER TAX OF DISCONTINUED OPERATIONS	**(11,567)**	**(763)**

Cash flows generated in 2015 and 2016, in these discontinued operations are irrelevant, as during the last years the companies have been virtually dormant.

14. Share capital and share premium

	No. shares (thousand)	Subscribed capital	Share premium	Total
At 1 January 2015	**129,000**	**32,250**	**152,171**	**184,421**
At 31 December 2015 and 2016	**129,000**	**32,250**	**152,171**	**184,421**

a) Share capital

At 31 December 2016 and 2015 there were no movements in the parent's capital.

In accordance with the above, the share capital of CIE Automotive, S.A. at 31 December 2016 and 2015 is represented by 129,000,000 fully paid ordinary bearer shares, represented through accounting entries, with a par value of €0.25 each, listed on the Spanish stock market. The companies that hold a direct or indirect interest of more than 10% are as follows:

	% interest	
	2016	2015
Acek Desarrollo y Gestión Industrial, S.L. (***)	(*) 20.909%	(*)22.909%
Mahindra & Mahindra, Ltd	(**) 12.435%	(**) 12.435%

(*) 7.808% directly and indirectly through Risteel Corporation, B.V., the remaining 13.101%, (9.808% and 13.101% in 2015).

(**) Indirectly through Mahindra Overseas Investment Company Mauritius, Ltd.

(***) Formerly Corporacion Gestamp, S.L.

The stock price of the parent company CIE Automotive, S.A. listed in the Madrid Stock Exchange was €18.515 at 31 December 2016.

b) Share premium

This reserve is freely available for distribution.

(Thousand euro)

c) Treasury shares

At 31 December 2016 and 2015 the parent Company has no treasury shares and nor are there any movements on treasury shares.

Similarly, the mandate conferred at the Annual General Meeting of 26 April 2016, whereby the parent Company's Board of Directors of the parent Company is empowered to buy at any time and as often as it considers appropriate shares in CIE Automotive, S.A. through any legal means, including acquisitions with a charge to profit for the year and/or freely available reserves, and to subsequently dispose of or redeem such shares, in accordance with article 146 et seq. of the Spanish Companies Act 2010, is in effect until 26 April 2021.

15. Retained earnings

Movements in retained earnings are as follows:

	Retained earnings and first-time application of IFRS-EU reserve					
	Legal reserve	Reserve in consolidated companies and effect of first-time application of IFRS-EU (Note 17)	Profit and loss	Subtotal	Cumulative exchange differences (Note 16)	Total
At 1 January 2016	**6,450**	**375,663**	**129,064**	**511,177**	**(97,869)**	**413,308**
Distribution of 2015 profit	-	86,494	(129,064)	(42,570)	-	(42,570)
Income/(expense) recognised directly in equity, net	-	(5,582)	162,350	156,768	49,525	206,293
Changes in consolidation scope and business combinations (Note 35)	-	26,672	-	26,672	3,639	30,311
Other changes	-	(4,221)	-	(4,221)	235	(3,986)
At 31 December 2016	**6,450**	**479,026**	**162,350**	**647,826**	**(44,470)**	**603,356**

	Retained earnings and first-time application of IFRS-EU reserve					
	Legal reserve	Reserve in consolidated companies and effect of first-time application of IFRS-EU (Note 17)	Profit and loss	Subtotal	Cumulative exchange differences (Note 16)	Total
At 1 January 2015	**5,941**	**373,899**	**81,048**	**460,888**	**(70,590)**	**390,298**
Distribution of 2014 profit	509	54,739	(81,048)	(25,800)	-	(25,800)
Income/(expense) recognised directly in equity, net	-	(46,110)	129,064	82,954	(26,519)	56,435
Changes in consolidation scope and business combinations (Note 35)	-	(5,037)	-	(5,037)	-	(5,037)
Other changes	-	(1,828)	-	(1,828)	(760)	(2,588)
At 31 December 2015	**6,450**	**375,663**	**129,064**	**511,177**	**(97,869)**	**413,308**

a) Legal reserve

In accordance with Article 274 of the Spanish Companies Act, 10% of profits must be transferred to the legal reserve each year until it represents at least 20% of share capital. In 2016 and 2015, the legal reserve reaches the established minimum limit.

The legal reserve may be used to increase capital in an amount equal to the portion of the balance that exceeds 10% of capital after the increase.

Otherwise, until it exceeds 20% of share capital and provided there are no sufficient available reserves, the legal reserve may only be used to offset losses.

b) Dividends paid

At December 14 2016, the Board of Directors has approved the payment of an interim dividend from 2016 profit of €0.20 gross per share carrying dividend rights, implying a total payout of €25,800 thousand. Payment was made on January 5, 2017.

(Thousand euro)

The amount to distribute did not exceed the profit obtained since the last financial year, deducting the tax estimation, according to Article 277 of Spain Corporate Enterprise Act.

The provisional accounting statement at October 31 2016, which has been formulated according to legal requirements and shows the existence of enough cash-flow to distribute the dividend mentioned above, is as follows:

Provisional cash-flow statement	Amount
Profit forecast:	
- Available net profit for 2016	78,131
To deduct:	
- Legal reserve	-
Maximum amount to distribute	78,131
Amount distribution proposal	(25,800)
Treasury forecast for one year	123,526
Interim dividend	(25,800)

On 26 April 2016, the shareholders of CIE Automotive, S.A. in general meeting approved the motion for the distribution of 2015 profit (individual) as well as the distribution of a final dividend of €0.17 (gross) per share carrying dividend rights, amounted to a total payment of €21,930 thousand. The payment was made on 5 July 2016.

On 15 December 2015, the Board of Directors approved the payment of an interim dividend from 2015 profit of €0.16 gross per share carrying dividend rights, implying a total payout of €20,640 thousand. Payment was made on 4 January 2016.

On 30 April 2015, the shareholders of CIE Automotive, S.A. in general meeting approved the motion for the distribution of 2014 profit (individual) as well as the distribution of a final dividend of €0.1 (gross) per share carrying dividend rights, amounting to a total payment of €12,900 thousand. Payment was made on 3 July 2015.

On 17 December 2014 the Board of Directors approved the payment of an interim dividend on account of profits for 2014 of a gross amount of €0.1 per share carrying dividend rights, which represented a total of €12,900 thousand. Payment was made on 5 January 2015.

This amount to distribute did not exceed the profit obtained since the last financial year, deducting the tax estimation, in accordance with Article 277 of the Spanish Companies Act. Similarly, the provisional accounting statement was prepared in accordance with legal requirements and which evidenced the existence of sufficient liquidity to complete the pay-out of the aforementioned dividend.

c) Proposal for the distribution of results

The proposal for distributing the parent Company's 2016 profit, determined in accordance with accounting principles generally accepted in Spain (legislation applicable to the parent Company), that will be presented to the shareholders at the General Meeting, alongside the shareholder-approved distribution for 2015, is as follows:

	Under Spanish GAAP	
	2016	**2015**
Available for distribution		
Profit/(loss) for the year	63,765	92,809
Distribution		
To Voluntary reserves	10,875	50,239
To Interim dividend	25,800	20,640
To Final dividend	27,090	21,930
	63,765	**92,809**

16. Cumulative exchange differences

The breakdown of cumulative exchange differences by segment at year-end 2016 and 2015 is as follows:

	2016	2015
Segments		
Automotive Segment	(36,656)	(89,525)
Solutions and Services Segment (Smart Innovation)	(7,814)	(8,344)
	(44,470)	(97,869)

17. Reserves in consolidated companies and effect of first conversion

The amount of the reserve in consolidated companies and the effect of first-time application of IFRS-EU amounts at €479,026 thousand and €375,663 at 31 December 2016 and 2015, respectively.

This heading records, in addition to the reserves in consolidated companies, the effects of the adjustments made in conjunction with transition to IFRS on the date of first-time application, 1 January 2005, and the effect of valuing certain financial assets/liabilities at market prices (Note 8).

18. Non-controlling interests

Movements in non-controlling interests are as follows:

	2016	2015
Opening balance	**307,901**	**299,813**
Net income/(expense) recognised directly in equity:		
- Profit for the year	27,853	16,751
- Exchange differences	4,037	(3,113)
- Other (gross cash-flow hedges, tax effect, etc.)	(1,460)	114
	30,430	13,752
Dividend paid to non-controlling interests	(3,658)	(3,765)
Changes in consolidation scope and business combinations (Notes 1 and 35)	167,205	(838)
Other changes	(549)	(1,061)
Closing balance	**501,329**	**307,901**

The breakdown by segment is set out below:

Segment	2016	2015
Automotive	360,709	266,731
Solutions and Services segment (Smart Innovation)	140,620	41,170
	501,329	307,901

The breakdown of non-controlling interests by Company/Subgroup is as follows (thousand euro):

	% Non-controlling	Non-controlling interest	Income attributable to non-controlling interest
Ejercicio 2016			
Mahindra CIE Subgroup	48.62%	323,587	14,229
Dominion Subgroup (1)	49.99%	140,620	10,960
Other minor		37,122	2,664
		501,329	27,853
Ejercicio 2015			
Mahindra CIE Subgroup	46.79%	237,650	14,487
Dominion Subgroup (1)	36.15%	41,170	7,552
Other minor		29,081	(5,288)
		307,901	16,751

(1) Includes non-controlling interests amounting to to €5,764 thousand (2015: €4,823 thousand) and profit attributable to non-controlling interests amounting to €749 thousand (2015: €1,398 thousand), corresponding to subsidiaries from the Dominion subgroup.

(Thousand euro)

19. Deferred income

The movement in deferred income is as follows:

2016

	Opening balance	Additions	Disposals	Transfers and other (*)	Taken to profit and loss	Closing balance
Tax credits on investment deductions	1,630	-	-	-	(141)	1,489
Capital grants	15,011	327	(1,551)	27	(2,796)	11,018
Other deferred income	1,124	1,152	(85)	(79)	(213)	1,899
	17,765	1,479	(1,636)	(52)	(3,150)	14,406

(*) Relates basically to the exchange rate effect and €22 thousand incorporations (Note35).

2015

	Opening balance	Additions	Disposals	Transfers and other (*)	Taken to profit and loss	Closing balance
Tax credits on investment deductions	1,826	-	-	-	(196)	1,630
Capital grants	14,450	3,210	(76)	2	(2,575)	15,011
Other deferred income	728	896	(302)	-	(198)	1,124
	17,004	4,106	(378)	2	(2,969)	17,765

(*) Relates basically to the exchange rate effect.

The conditions relating to tax credits and grants have been met and therefore the Group does not expect to have to return them.

20. Borrowings

	2016	2015
Non-current		
Bank borrowings (*)	1,015,899	828,265
	1,015,899	828,265
Current		
Bank borrowings (*)	192,124	157,790
Import trade finance (*) (Note 10)	-	579
Discounted bills pending maturity and prepayments export bills (Note 10)	22,960	14,120
	215,084	172,489
	1,230,983	1,000,754

The Group's policy is to diversify its financing sources. There is no concentration risk in respect of its bank borrowings as the Group works with multiple entities.

The exposure of the Group's bank borrowings (*) to interest rate changes is as follows:

	Balance at 31 December	At 1 year	At 5 years
At 31 December 2016			
Total borrowings (*)	1,208,023	1,015,899	145,750
Effect of interest rate swaps (Note 8)	(218,941)	(453,769)	(887)
Risk	989,082	562,130	144,863
At 31 December 2015			
Total borrowings (*)	986,634	828,265	23,856
Effect of interest rate swaps (Note 8)	(239,031)	(172,919)	-
Risk	747,603	655,346	23,856

Non-current borrowings have the following maturities:

(Thousand euro)

	2016	2015
Between 1 and 2 years	53,557	200,346
Between 3 and 5 years	816,592	604,063
Over 5 years	145,750	23,856
	1,015,899	828,265

The effective interest rates at the balance sheet dates were the usual market rates (benchmark rate plus a market spread) and there were no significant differences with respect to other companies of a similar size and with similar risk and borrowing levels.

Bank borrowings carry interest at market rates, by currency, plus a spread that ranges between 70 and 994 basis points (2015: between 75 and 600 basis points).

The carrying amounts and fair values of current and non-current borrowings do not differ significantly since a important portion thereof has been arranged recently and, in all cases, they accrue interest at market rates; note additionally the effect of the interest-rate hedges described in Notes 3.1.a) and 8.

The carrying amount of the Group's borrowings is denominated in the following currencies:

	2016	2015
Euro	1,030,343	839,522
US dollar	159,829	132,158
Brazilian real	12,810	16,545
Other	28,001	12,529
	1,230,983	1,000,754

At 31 December 2016 the Group had drawn down bank facilities in the amount of €233 million (2015: €251 million). The total limit on these facilities is €501 million (2015: € 397 million).

The Group has the following loans and undrawn credit lines:

	2016	2015
Floating rate:		
– Expiring within one year	145,596	78,826
– Expiring beyond one year	122,672	67,129
	268,268	145,955

On 28 July 2014 CIE Automotive, S.A. entered into a new financing arrangement with a syndicate of six financial institutions for €450 million. The amortisation period stood at 5 years, with an average term of 4.7 years. This improved the average term of the Company's financing and also improved the economic terms and conditions of the syndicated financing in effect.

On 13 April 2015 the syndicated loan was novated and a decrease in the initially negotiated spread was agreed. Similarly, it was agreed to extend the maturity periods, establishing the new final maturity date in April 2020.

On 14 July 2016, the parent Company signed a second novation with respect to the syndicated financing arranged in 2014. According to this novation, the total amount was increased by €150 million, to €600 million, the maturity period was extended for another year, the last payment therefore being due in April 2021 and a change was agreed in the margin initially negotiated and novated in 2015.

The drawn amount on 31 December 2016 amounted to €550 million (2015: €450 million), and its interest rate was indexed to Euribor plus a variable margin based on the Net Finance Debt/EBITDA ratio.

Similarly, on that same date, a new loan was arranged with several financial institutions amounting to €85 million and with final maturity in 10 years. Part of this finance agreement was contracted to a fixed interest rate, and the other part to a variable interest rate indexed to Euribor.

At 23 June 2014 the Company entered into a financing contract with the European Investment Bank (EIB) for €70 million and with a repayment period of 7 years, in order to finance the Company and Group's R&D activities connected with automotive parts. At 31 December 2016 and 2015 the drawn down balance amounts to €70 million and bears a fixed interest.

(Thousand euro)

Likewise, at 31 December 2014 the Group held two additional long-term loans with the European Investment Bank (EIB) formed in 2010 and 2012 for a total amount pending of repayment of €30 million. These loans have an interest rate indexed to the Euribor. In the year 2015 these loans were cancelled by mutual agreement.

In the second half of 2013, the Group obtained a bilateral loan of USD 120 million from a Mexican financial institution, through the Mexican subsidiary CIE Autometal de México, S.A. de C.V., for a seven-year term and a one-year grace period, at a floating interest rate indexed to LIBOR, on conditions in line with current market price parameters. The balance at 31 December 2016 amounted to €71 million (at 31 December 2015: €87 million).

On 11 May 2016, the Group, through its US subsidiary CIE Automotive USA Investments, arranged two loans of USD 35 million each, with final maturity at 3 and 5 years, respectively, at a variable interest rate, linked to LIBOR. The balance at 31 December 2016 amounted to €66.5 million.

On 11 November 2016, Group subsidiary Global Dominion Access, S.A. has arranged a syndicated loan with five financial institutions for a total maximum amount of €60 million, divided in (i) Tranche A, a long-term loan of €36 million is due in November 2021 and (ii) tranch B, which consists of a revolving credit line up to €24 million due 11 November 2019 (maximum 11 November 2021). As of 31 December 2016, only tranche A had been fully drawn.

In addition, on 18 November 2016, Global Dominion Access S.A. has entered into a loan agreement with the European Investment Bank (EIB) for up to €25 million; this loan was fully drawn as of 31 December 2016 and is due in the year 2025.

All such financing is subject to compliance with certain ratios that are customary in the market for these types of contracts. These ratios are fulfilled at 31 December 2016 and 2015.

The Group also, through its Brazilian subsidiaries, has a number of loans denominated in US dollars for a total of €11.8 million in December 2016 (31 December 2015: €45 million), maturing in 2017.

The rest of balances included in borrowing related loans on to bank credits distributed in different companies of the Group and contracted without specific additional guarantees and to interest rates of market in effect in the different countries.

In 2016, the Group has repaid €318 million related to bank credits and loans (2015: €293 million) and new loans and additional credit accounts have been arranged to the amount of €466 million included those disclosed above(2015: €167 million).

These repayments largely reflect a debt refinancing effort designed to extend and enhance the Group's debt maturity profile.

21. Trade and other payables

	2016	2015
Trade payables	861,862	732,539
Advances of trade receivables (Note 2.23.b))	29,483	27,371
Other account payables	65,659	55,410
	957,004	**815,320**

At 31 December 2016 advances received on services reflect the excess between advances received from customers of work in progress for to €29.5 million, and the income recorded in accordance with the progress of the work (€27.4 million in 2015) (Note 2.23b)).

The fair values of these payables do not differ from their carrying amounts.

The breakdown of trade payables settled during 2016 and 2015 those pending of payment at the year-end in relation to the legally-permitted payment terms stipulated in Spanish Law 15/2,010 of 5 of July, is as follows:

	Days	
	2016	2015
Average payment period to suppliers	84	71
Paid operations ratio	91	85
Outstanding operations ratio	73	54

(Thousand euro)

	Thousand euro	
	2016	2015
Total payments made	860,717	627,295
Total outstanding payments	570,255	486,727

While some companies have exceeded the time limit to domestic suppliers established in Law 15/2010, since 2016 we have launched a series of measures essentially intended to the identification of the deviations through the monitoring and periodic analysis of the accounts payable to suppliers, of the review and improvement of internal management procedures of suppliers as well as the compliance and, in its case update, of the conditions laid down in the commercial operations subject to the applicable regulations.

22. Other liabilities

	2016	2015
Non Current		
Fixed asset suppliers	7,599	5,246
Deferred taxes and social security payable	17,811	3,623
Other non-current debts	79,206	72,886
	104,616	81,755
Current		
Current tax liabilities	63,513	55,791
Deferred taxes and social security payable	8,641	989
Fixed asset suppliers	21,604	24,077
Accrued wages and salaries	63,781	52,685
Other current liabilities	63,117	113,357
Accruals and deferred income	13,326	8,979
	233,982	255,878

The fair values of these liabilities do not differ significantly from their carrying amounts.

The balances included under Deferred taxes and social security payable within current and non-current payables include liabilities generated by the deferral of VAT, personal income tax and social security payments as well as several other items (repayment of grants, court bonds and other).

Other non-current liabilities

At 31 December 2016 this heading includes loans to finance investment projects received from public financing institutions totalling to €33,595 thousand (2015: €35,331 thousand), being €27,477thousand (2015: €30,587 thousand) classified as other long term liabilities; and the renegociated loan in December 2014 with COFIDES, which at 31 December 2016 held a balance of €8,750 thousand, being classified in the long term €6,250 thousand (2015: €8,750 thousand), and will be paid-back in 12 half-yearly instalments with a 1-year grace period (until 2016), and accrues an interest at a rate benchmarked to Euribor plus a market spread.

In addition, this heading includes the following amounts derived from corporate operations concluded within the Solutions and Services (Smart Innovation) segment in 2016 (Note 1):

- In May 2016 the Group purchased all shares of Commonwealth Dynamics, Inc. The price of this transaction has amounted to €9.1 million (Note 35), from which €2 million have already been paid in 2016 when the agreement formalisation took place. The remaining amount, estimated at €7.7 million as of December 2016, is registered as other long term liabilities, is estimated to be paid in 2020. This amount includes a contingent price calculated by EBITDA generated by the business in the following three years and the payment related to the profitability of the acquired project portfolio.
- In September 2016 the Group has purchased some of the energy assets of Grupo Eléctrico Scorpio, S.A., The price of this transaction has been estimated at €17.8 million (Note 35), and €0.4 million have already been paid in 2016, leaving €17.4 million outstanding, (€1.4 million payable in 2017, €7 million payable in 2018 and contingent consideration of up to €9 million, to be calculated as 33% of the EBITDA generated by the acquired business over the next five years (excluding projects already in the pipeline as of the transaction date), payable in 2022.

(Thousand euro)

- In November 2016 the Group has purchased all the shares of International Chimney Corporation. The price of this transaction has amounted to €17.4 million (Note 35) from which €6 million have already been paid. Of the remainder, €4.8 million is due in 2017 and are registered as other short term liabilities. As of 31 December 2016, there is an additional amount of €7.5 million registered as other long term liabilities related to the payments amounting to €3.8 million to be paid in 2018; and a contingent earnout of €3.7 million, to be calculated as a function of the EBITDA generated by this business over the next three years, is due in 2020.

In April 2015, a final agreement was reached with VEP, former shareholder of the ACS Group, in order to advance the payment of the part outstanding and thereby settle all the rights and obligations of the contract. This operation resulted in a final disbursement of €6,763 thousand, generating a profit of €4 million with respect to the contingent liability previously recognised at fair value registered as "Change in fair value of assets and liabilities taken to income statement" in 2015.

On 31 December 2015 the Group held a non-current debt amounting to €19,659 million payable to Instituto Sectorial de Promoción y Gestión de Empresas Dos, S.A. related to the purchase of the share in Beroa, and existing additional €14,430 thousand payable in the short term registered as other current liabilities which have been paid in 2016. On 31 December 2016, the amount for the last payment due in 2017 amounts to €16,693 thousand, and is registered as other current liabilities. This amount has been re-estimated according to the agreement achieved in 2014 for the Beroa Group acquisition, generating a gain amounting to €2,966 thousand related to the contingent payable, which has been registered within "Change in fair value of assets and liabilities taken to income statement" in the profit and loss account.

Also Solutions and Services segment (Smart Innovation), last year, made commitments to purchase shares at 20% of non-controlling interests of the Italian subsidiary Chimneys and Refractories International S.R.L. amounting to €4,695 thousand (€5,175 thousand in 2015) (Note 1).

At 31 December 2014, there were included loans granted by its previous shareholders to companies acquired in the business combination of Global Near, S.L. and Bilcan Global Services, S.L. for an amount of €16,597 thousand. These loans were settled in 2015.

Other non-current liabilities have the following maturities:

	2016	2015
Between 1 and 2 years	27,326	36,981
Between 2 and 5 years	51,736	28,935
Over 5 years	25,554	15,839
	104,616	**81,755**

Other current liabilities

The balance of "Other current liabilities" includes among others the short-term amount dependent on payment associated with acquisitions realised by the Group CIE Automotive (Note 35), registered at fair value.

As of 31 December 2016 there is an outstanding debt amounting to €30 million due in march 2017 related to Grupo Amaya Tellería, S.L. acquisition (Note 1 and 35).

As of 28 January 2016 the pending debt regarding the acquisition of the share of CIE Automotive Nuevos Mercados, S.L. (merged with CIE Berriz, S.L. in 2015) to Ekarpen, S.P.E., S.A. was paid amounting to €24 million, according to the agreed schedule.

Also in 2015, it was recorded under this heading the liability emerged from the recognition of the right granted to the minority partners on the remaining 35 per cent of the share capital of the company Century Plastics, LLC, which has been exerted in the month of May 2016. The consideration was calculated taking, among other variables, the actual EBITDA of the company during the financial year 2015. In previous fiscal years, and with an evolution of the results of the company much higher than expected, the Group proceeded to estimate again the current value of the purchase consideration contingent, registering an increase of that liability of USD39 million (€34.4 million) and reclassifying the total amount in the short term, for a value of USD70 million, €64.2 million. The effect of this reassessment was been registered under the heading "Changes in fair value of assets and liabilities taken to income statement "of the Income statement for the year (Note 4.1.b)) and "Net exchange differences" for an amount of €1 million respectively.

(Thousand euro)

23. Deferred taxes

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

	2016	2015
Deferred tax assets:		
- Deferred tax assets to be recovered after more than 12 months	177,879	153,885
- Deferred tax assets to be recovered within 12 months	56,620	69,425
	234,499	223,310
Deferred tax liabilities:		
- Deferred tax liabilities to be recovered after more than 12 months	65,609	68,476
- Deferred tax liabilities to be recovered within 12 months	21,598	3,139
	87,207	71,615
Net	147,292	151,695

The overall movement in the deferred tax account is as follows:

	2016	2015
Opening balance	151,695	154,739
Additions/changes in consolidation scope (Note 35)	(4,088)	(2,240)
(Charged)/credited to the income statement (Note 30)	6,554	5,697
(Charged)/credited to equity	(4,375)	1,175
Transfers and reclassifications (*)	(2,494)	(7,676)
Closing balance	147,292	151,695

(*) Includes movements on deferred items due to foreign currency exchange fluctuations.

The movement in deferred income tax assets and liabilities during the year is as follows:

Deferred tax assets:	Hedging instruments	Impairment losses and other	Tax losses	Tax credits	Total
At 1 January 2015	4,520	71,915	79,469	74,798	230,702
(Charged)/credited to the income statement	3,224	(4,595)	4,101	(*) 360	3,090
(Charged)/ credited directly to equity	1,310	(135)	-	-	1,175
Transfers and reclassifications (**)	(4,482)	(2,332)	2,669	(7,512)	(11,657)
At 31 December 2015	4,572	64,853	86,239	67,646	223,310
Additions/changes in consolidation scope (Note 35)	-	3,250	144	-	3,394
(Charged)/credited to the income statement	(2,479)	20,658	(5,966)	(*) (2,553)	9,660
(Charged)/ credited directly to equity	1,625	(8,706)	-	2,741	(4,340)
Transfers and reclassifications (**)	387	154	2,701	(767)	2,475
At 31 December 2016	4,105	80,209	83,118	67,067	234,499

(*) Tax credits related to R&D investments, in the amount of €207 thousand, are recognised as grants relating to costs, in accordance with IAS 20. (2015: €3,257 thousand).

(**) Includes, among other items, the effect of foreign exchange fluctuations on these balances in the foreign subsidiaries.

Deferred income tax liabilities	Deducted goodwill	Fair value gains (*)	Exchange differences	Accelerated tax depreciation and other	Total
At 1 January 2015	16,338	32,331	42	27,252	75,963
Changes/additions to consolidation scope (Note 35)	-	2,240	-	-	2,240
Charged/(credited) to the income statement	1,260	(221)	14	(3,660)	(2,607)
Transfers and reclassifications (**)	(3,862)	(917)	(34)	832	(3,981)
At 31 December 2015	13,736	33,433	22	24,424	71,615
Changes/additions to consolidation scope (Note 35)	-	5,013	-	2,469	7,482
Charged/(credited) to the income statement	882	(22)	3,112	(866)	3,106
Charged/(credited) to equity	-	-	-	35	35
Transfers and reclassifications (**)	3,946	1,752	169	(898)	4,969
At 31 December 2016	18,564	40,176	3,303	25,164	87,207

(Thousand euro)

(*) Includes the effect of measuring assets at fair value on first-time application of IFRS-EU, the allocation of fair value re-measurement gains on the acquisition of subsidiaries and loan revaluations.

(**) Includes, among other items, the effect of foreign exchange fluctuations on these balances in the foreign subsidiaries.

Deferred income tax assets are recognised for tax loss carry-forwards and unused tax credits to the extent that the realisation of the related tax benefit through future taxable profits is probable, being its estimated recoverability less than 10 years.

The deferred tax assets that were capitalised by the consolidated Group at 31 December 2016 and 2015 are as follows:

	2016		2015	
	Tax losses	Tax credits	Tax losses	Tax credits
Spain	41,912	62,583	52,335	61,293
Rest of Europe	15,562	2,069	13,678	3,605
Brazil	15,975	-	12,171	-
Mexico	9,505	-	7,895	468
Asia and others	164	2,415	160	2,280
	83,118	**67,067**	**86,239**	**67,646**

Losses and tax credits in Spain are mainly related to the provincial tax group of Automotive segment and Solutions and Services segment (Note 2.19.a)). The Group has performed a recoverability analysis for which all the activated credits would be recoverable in 10 years.

In the Foral Territory the tax bases generated in year 2014 and earlier prescribe in 2028. For Spanish laws, Brazil and the most significants of the rest of Europe Territory have no limitation period. The prescription of tax losses in Mexico is 10 years.

The Group did not recognise deferred income tax assets of €98 million (2015: €54 million) in respect of losses generated by certain Spanish and other foreing factories amounting to €340 million (2015: €193 million) that can be carried forward against future taxable income.

Additionally, there are tax credits for unused deductions that have not been recognised amounting to €57 million (2015: €47 million).

24. Commitments with employees

Set out below is a breakdown of employee benefit provisions classified by country:

Breakdown by country	**2016**	**2015**
Germany (1)	39,993	39,488
India (2)	4,192	3,646
Italy (3)	2,979	2,784
France (4)	1,193	1,383
Total (Note 25)	**48,357**	**47,301**

The commitments of post-employment plans and other long-term benefits to the personnel that several companies in the Group guarantee to certain groups are disclosed by country, the following ones:

1) Post-employment benefit plans and other long-term employee benefits in Germany which are entirely under internal fund :

- Long term employee benefits:
    - Award for time served.
    - Supplements derived from partial retirement agreements.
- Post-employment benefits:
    - Lifetime pension and retirement plans.
    - The benefit plans guaranteed by the group Beroa to its employees are commitments of cash benefits defined to the retirement. The group Beroa guarantees a life revenue from the retirement for those employees with entry date previous to 1 January, 2001 that have 10 years of service in the date of cessation. The commitment is gathered in internal fund.

(Thousand euro)

2) Post-employment benefit plans in India which are mainly under internal fund:
   - Lifetime pensions and retirement plans.
   - Retirement awards. This commitment is financed externally under insurance contracts.
   - Retirement awards in case of rescission of the labor relation.
3) Post-employment benefit plans in Italy. Nowadays the model of pensions is TFR. It was a defined benefit plan that was transformed to a Define Contribution plan by the Reform of the Pensions that took place in December, 2005.
4) Benefit plans in France under internal fund:
   - The guaranteed benefit plans by the group Beroa to its employees are commitments of cash benefits defined to the retirement derived from collective agreements.
   - The benefit of the retirement depends on the years of service in the company.

The movement in provisions by type of plan and country are as follows:

<u>Post-employment plans:</u>

	Germany	India	Italy	France	Total
At 1 January 2015	38,776	3,284	3,191	1,389	46,640
Cost of current services	155	203	3	44	405
Interest Expense/(Income)	867	-	-	-	867
Recalculation of values:					
- (Gains)/Losses due to changes in financial assumptions	454	212	(120)	150	696
Exchange rate differences	-	220	-	-	220
Payments by employers	(2,275)	(273)	(290)	(200)	(3,038)
At 31 December 2015	37,977	3,646	2,784	1,383	45,790

	Germany	India	Italy	France	Total
At 1 January 2016	37,977	3,646	2,784	1,383	45,790
Additions to the consolidation scope	-	133	-	-	133
Cost of current services	193	589	-	138	920
Interest Expense/(Income)	774	-	54	9	837
Recalculation of values:					
- (Gains)/Losses due to changes in financial assumptions	1,857	397	180	19	2,453
Exchange rate differences	-	55	-	-	55
Payments by employers	(2,089)	(628)	(39)	(356)	(3,112)
At 31 December 2016	38,712	4,192	2,979	1,193	47,076

<u>Long-term employee benefits:</u>

The movement of the obligation and provision for the long-term plans during the year has been the following:

(Thousand euro)

	Amount
At 1 January 2015	**1,916**
Cost of current services	192
Interest expense/(income)	26
Actuarial gains/losses recognised in results	6
Payments by employers	(629)
At 31 December 2015	**1,511**
Cost of current services	99
Interest expense/(income)	21
Actuarial gains/losses recognised in results	12
Payments by employers	(362)
At 31 December 2016	**1,281**

The financial-actuarial assumptions used in the actuarial valuations are set out below:

2016:

	2016			
	Germany	India	Italy	France
Interest rate	1.45%-1.50%	6.70%-7.30%	1.00%	0.8%
Expected performance active plan	N/A	7.50%-8.00%	N/A	2.00%
Future growth of wages	2,30% - 2,50%	7%	0%	2.00%
Future growth of pensions	1,00% - 1,75%	0%-7%	3.000%	2.00%
Table of mortality	RT 2005 G - Heubeck 2005G-Richttafeln 2005 G /Heubeck 2005 G	Indian assured lives Mortality (2006-08)Ult	RG48	Women TF00-02;MEN TH00-02
Retirement age	63 - 65 years	58 years for workers, 60 years for others	-	62 years
Method of valuation	PUC	PUC	TFR	PUC

2015:

	2015			
	Germany	India	Italy	France
Interest rate	1.90% - 2.30%	7.50%-8.00%	1.58%	2.30%
Expected performance active plan	N/A	7.50%-900%	N/A	2.50%
Future growth of wages	2.50% - 2.70%	5.00%-7.00%	0%	2.00%
Future growth of pensions	1.00% - 1.25%	0%-7%	2.63%	2.00%
Table of mortality	RT 2005 G - Heubeck 2005G-Richttafeln 2005 G /Heubeck 2005 G	Indian assured lives Mortality (2006-08)Ult	RG48	Women TF00-02;MEN TH00-02
Retirement age	63 - 65 years	58 years for workers, 60 years for others	-	62 years
Method of valuation	PUC	PUC	TFR	PUC

(Thousand euro)

The curve used for the determination of the interest rate for the most significant commitments is: "IBoxx € Corporates AA Subindices von Markit1",

The weighted average duration of defined benefit commitments is in the range 11.1 – 16 years.

In the most significant plans of the Group, based on the mortality table used, the life expectancy for men and women is the following:

	Germany
Life expectancy of a person that would retire at the 2016 year end:	
- Men	19.13
- Women	23.19
Life expectancy of a person that would retire 20 years after the 2016 year end:	
- Men	38.86
- Women	43.96

Contributions to these pension plans during the next year 2017, would amount to €926 thousand.

25. Provisions

The breakdown of the movements in Group provisions in 2016 and 2015 is as follows:

	Amount
At 1 January 2015	**128,708**
- Additions to consolidation scope (Note 35)	4
- Additions	23,344
- Amounts used	(16,851)
- Unused amounts reversed	(13,283)
- Charged/(credited) to Equity	798
- Transfers and other movements (*)	(751)
At 31 December 2015	**121,969**
- Additions to consolidation scope (Note 35)	29,984
- Additions	36,927
- Amounts used	(20,589)
- Unused amounts reversed	(6,107)
- Charged/(credited) to Equity	2,831
- Transfers and other movements (*)	3,567
At 31 December 2016	**168,582**
Non-current provisions	**147,108**
Current provisions	**21,474**

(*) Mainly relate to exchange rate effects.

Non-current provisions at 31 December 2016 mainly include the following:

- A €10.5 million provision (2015: (€7.6 million) corresponding almost entirely to tax contingencies in Brazil, of which €2 million are on court deposit pending court rulings (2015: €1.5 million).
- A €1.5 million provision established to guarantee the sale of assets and closure and winding up of companies in 2016 and 2015.
- A provision for other personnel liabilities amounting to €86.6million (2015: €69.6 million), including €48.4 million relating to pension plans (Note 24) of Mahindra Group's companies added to the Group on 4 October 2013 and 31 December 2014 and Beroa Thermal Energy, S.L in June 2014 (2015: €47.3 million).
- A €48.5 million provision (2015: €32.2 million) to cover the operating risks of the business which it is considered may crystallize in the long term.

Current provisions at 31 December 2016 relate basically to the streamlining of the Group's productive structure in Spain (2016: €3.9 million (2015: €1.0 million) , as well as, provisions for operational business risk at in several Group companies that are expected to be materialized in the short term (2016: €9.6 million ; 2015: €6.8 million). This heading also includes provisions for tax contingencies and customer claims at certain subsidiaries (2016: €8 million; 2015: €3.3 million).

26. Operating income

	2016	2015
Revenue		
- Sale of products and services	2,879,042	2,631,520
Changes in inventories of finished goods and work in progress (Note 11)	7,245	3,211
Other income	80,715	90,493
	2,967,002	2,725,224

"Other income" basically includes the government grants relating to income and the transfer of grants relating to assets to the income statement, as well as the sale of scrap metal and gains on the sale of assets totalling €5,062 thousand (€44 thousand losses in 2015).

The breakdown by currency of revenue invoiced in foreign currency (equivalent amounts in thousand euro) is as follows:

	2016	2015
US dollar	611,736	550,281
Brazilian real	216,091	206,409
Indian rupee	223,942	216,656
Other	326,323	300,904
	1,378,092	1,274,250

27. Other operating income/(expenses)

	2016	2015
Utilities	54,886	68,583
Transport	33,052	34,258
Repairs	52,762	47,374
Operating leases	21,568	26,124
Provision for impairment of accounts receivable (Note 10)	1,760	(412)
Provision for inventory impairment (obsolescence) (Note 11)	4,214	3,175
Other operating expenses	140,534	110,038
Other operating income (Note 35)	-	(210)
	308,776	288,930

28. Employee benefit expense

	2016	2015
Wages and salaries	470,336	442,199
Share-based payments	11,492	5,664
Social security cost	91,176	85,840
Other welfare expenses	48,987	48,301
Personnel restructuring costs	9,732	18,374
	631,723	600,378

The average Group headcount by category is as follows:

Category	2016	2015
Executives	609	567
University graduates, specialists and administrative employees	7,217	7,574
Semi-skilled workers	15,864	14,887
	23,690	23,028

The gender breakdown of the Group's Staff and Board of Directors at 31 December 2016 and 2015 is as follows:

	2016			2015		
Category	Men	Women	Total	Men	Women	Total (*)
Members of the Board of Directors (*)	11	2	13	11	2	13
Executives	637	46	683	517	41	558
University graduates, specialists and administrative employees	6,500	1,466	7,966	5,651	1,470	7,121
Semi-skilled workers	14,994	2,427	17,421	12,975	2,153	15,128
	22,142	3,941	26,083	19,154	3,666	22,820

(*) Two of the members of the Board of Directors act as well an executive directors of the Group.

Share-based payments

Mahindra CIE Automotive, Ltd. (formerly Mahindra Forgings Ltd.)

The Group, through the companies acquired in 2013, had a number of remuneration plans based on shares in its subsidiaries Mahindra CIE Automotive, Ltd, (formerly Mahindra Forgings Ltd.) and Mahindra Composites Ltd. In accordance with the various remuneration plans, beneficiaries can be employees and management of the company itself, its subsidiaries and/or its parent company who are eligible and fulfil plan eligibility criteria.

The granted options by the company Mahindra Forgings Ltd. are divided into three tranches:

- Up to 400,000 options will be exercised at a fixed price of 83 rupees.
- Up to 750,000 options will be exercised at a fixed price of 197 rupees.
- Other options will be exercised at a price equal to the market price of the stock less a discount of not more than 15% of the average share price on the grant date. The final exercise price will be determined by the Management Committee. The options vest in tranches determined by the company's remuneration committee and are subject to completion of a one-year vesting period. Once they are vested, the options may be exercised as from the vesting date for a maximum period of five years.

On the other hand, in case of the options granted by the entity Mahindra Composites Ltd., the striking price is equal to the market price of the shares less a discount not exceeding 15% of the average value thereof on the grant date. The options, which had similar conditions to described as the correspondents to Mahindra CIE Automotive Ltd, they were divided in three equal sections, where every section is determined that the employees complete 12 months, 24 months and 36 months. Respectively of period o of service (period of consolidation). The options are exercisable from the date of consolidation up to a maximum of 5 years.

Movements in the number of stock options issues and related fair values for 2016 and 2015 are set out below:

	Fair value (thousand euro)	No. of options (Thousand)
At 1 January 2015	2,452	1,538
Canceled	(93)	(125)
Forfeited	(470)	(548)
Net exchange differences	89	-
At 31 December 2015	1,978	865
Granted	2,241	1,591
Canceled	(231)	(327)
Forfeited	(218)	(257)
Net exchange differences	77	-
At 31 December 2016	3,847	1,872

At 31 December 2015, of the 865,479 options issued, 298,387 options could be exercised at 2015 year end.

(Thousand euro)

At 31 December 2016, of the 1,872,193 options issued, 295,465 options could be exercised at 2016 year end.

Stock options outstanding at the year-end have the following expiration dates and exercise prices:

2016:

No. option to closing	Exercise price for action (*)	Maturity
67,365	83-197	2017
228,100	57	2020
2,118	44	2021
1,574,610	150	2025
1,872,193		

(*) Figures presented in Indian rupees due to being more representative of the option's value.

2015:

No. option to closing	Exercise price for action (*)	Maturity
85,218	25.71 – 197	2016
205,169	83 – 197	2017
8,000	52.67 – 97	2019
461,583	57	2020
105,509	44	2021
865,479		

(*) Figures presented in Indian rupees due to being more representative of the option's value.

29. Finance income and expenses

	2016	2015
Finance costs:		
- Bank borrowings interest	(42,841)	(53,438)
Interest income:		
- Other interest and finance income	9,455	8,412
Net gains/(losses) on foreign currency transactions	2,053	10,310
Net gains/(losses) on financial instruments at fair value (Note 8)	896	6,348
Change in fair value of assets and liabilities taken to P&L (Note 22)	1,122	(30,431)
	(29,315)	**(58,799)**

30. Income tax

	2016	2015
Current year tax	51,950	42,436
Net variation deferred tax (Note 23)	(*)(6,347)	(*) (2,440)
Total income tax expense	**45,603**	**39,996**
Tax expense of discontinued operations (deferred)	3,882	96
Tax expense of continuing operations	**49,485**	**40,092**

(*) Does not include tax credits related to R&D investments amounting to €207 thousand recognised as operating grants in accordance with IAS 20 (2015: €3,257 thousand).

The reconciliation of the Group's accounting profit and taxable profit is as follows:

(Thousand euro)

	2016	2015
Consolidated accounting profit before tax for the year from continuing operations	251,255	186,670
Accounting profit before tax from discontinued operations (Note 13)	(15,449)	(859)
Consolidation adjustments	79,692	44,643
Aggregate profit before taxes in consolidated companies	315,498	230,454
Income not subject to tax and non-deductible expenses (*)	(119,792)	(64,483)
Net temporary differences in individual companies (**)	6,433	(16,732)
Offset of tax-loss	(59,107)	(67,422)
Aggregate taxable profit	**143,032**	**81,817**

(*) Dividends distributed among Group companies, and other permanent differences totalling €96 million, and €23 million, respectively (2015: €49 million and €15 million, respectively).

(**) Net temporary differences in the individual companies basically include adjustments for workforce restructuring and differences for accounting and tax purposes in the recognition of expenses and income and in the recognition and reversal of provisions.

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

	2016	2015
Aggregate profit before taxes in consolidated companies	315,498	230,454
Tax calculated at domestic tax rates applicable to profits in the respective countries	86,956	61,158
Income not subject to tax	(33,016)	(17,697)
Utilisation of tax credits and tax losses	(1,990)	(1,025)
Deferred tax expense/(income) (Note 23)	(6,347)	(2,440)
Tax expense	**45,603**	**39,996**
Transfer to discontinued operations	3,882	96
	49,485	**40,092**

The theoretical tax rates vary in accordance with the various tax domiciles, the most important of which are as follows:

	Nominal rate	
	2016	2015
Basque Region	28%	28%
Rest of Spain	25%-28%	25%-28%
Mexico	30%	30%
Brazil	34%	34%
Rest of Europe (average rate)	15% - 35%	15% - 35%
China	25%	25%
Rest of America	21%-35%	21%-35%
India	30%	30%

As mentioned in Note 2.19, some companies of the Group are authorised to file consolidated tax returns.

Generally speaking, the Group companies have their tax returns open to inspection for all years for which the statute applying under the various bodies of tax legislation for each company has not lapsed. This statute ranges between 4 and 6 years from when the tax obligation falls due and the deadline for filling tax returns passes.

The corporate income tax legislation applicable to the parent Company of the Group in 2016 is that relating to Bizkaia Regional Regulation 11/2013 (5 December).

The directors of the parent's company have calculated the amounts associated with this tax for 2016 and those years open to inspection in accordance with legislation in force at each year end on the understanding that the final outcome of the various legal proceedings and appeals that have been filed in this respect will not have a significant impact on the financial statements taken as a whole.

During 2016 and 2015, non-current assets have been sold, generating a capital gain amounting to €424 and €47 thousand, covered by the reinvestment tax exemption. The total amount of the sale has already been invested in new non-current assets. There are therefore no pending additional investments to cover the reinvestment.

Each of the companies that have applied this incentive will disclose the relevant information required by law in its individual annual accounts.

31. Earnings per share

a) Basic

Basic earnings per share are calculated by dividing the profit attributable to the Parent Company's shareholders by the weighted average number of ordinary shares outstanding in the year, excluding treasury shares acquired by the parent Company (Note 14).

	2016	2015
Profit attributable to the Parent Company's shareholders (thousand euro)	162,350	129,064
Profit /(loss) from discontinued operations attributable to the Parent Company's shareholders (thousand euro) (*)	(11,596)	(734)
Weighted average number of ordinary shares outstanding (thousand)	129,000	129,000
Basic earnings per share from continuing operations (euro per share)	1.35	1.01
Basic earnings per share from discontinued operations (euro per share)	(0.09)	(0.01)

(*) Of the profit /(loss) from discontinued operations of the CIE Automotive Group, €(11,567) thousand (Note 13) relates to the shareholders of the Group's Parent Company (2015: €(763) thousand).

b) Diluted

The year-on -year remuneration agreement based on the performance of the share price of CIE Automotive, S.A., described in Note 36.f) may have potentially dilutive effect in accordance with IAS 33. Following the relevant calculations, the effects of these agreements are considered not to result in the dilution of basic earnings per share calculated above.

32. Dividend per share

On December 14 2016, the Board of Directors has approved the payment of an interim dividend from 2016 profit of €0.20 gross per share carrying dividend rights, implying a total payout of €25,800 thousand. Payment was made on January 5, 2017.

On 26 April 2016, the shareholders of the Parent Company in general meeting approved the motion for the distribution of 2015 profit (individual) as well as the distribution of a final dividend of €0.17 (gross) per share carrying dividend rights, amounted to a total payment of €21,930 thousand. The payment was made on 5 July 2016.

On 15 December 2015, the Board of Directors approved the payment of an interim dividend from 2015 profit of €0.16 per share carrying dividend rights, implying a total payout of €20,640 thousand. Payment was made on 4 January 2016.

On 30 April 2015, the shareholders of the Parent Company in general meeting approved the motion for the distribution of 2014 profit (individual) as well as the distribution of a final dividend of €0.1 (gross) per share carrying dividend rights, amounting to a total payment of €12,900 thousand. Payment was made on 03 July 2015.

On 17 December 2014 the Board of Directors approved the payment of an interim dividend on account of profits for 2014 of a gross amount of €0.1 per share carrying dividend rights, which represented a total of €12,900 thousand. Payment was made on 5 January 2015.

(Thousand euro)

33. Cash generated from operating activities

	2016	2015
Profit/(loss) for the year	190,203	145,815
Adjustments:		
– Taxes (Note 30)	51,950	42,436
– Deferred tax (Notes 23 and 30)	(6,347)	(2,440)
– Grants released to income (Note 19)	(3,150)	(2,969)
– Depreciation of property, plant and equipment (Note 6)	111,862	106,652
– Amortisation of intangible assets (Note 7)	15,278	14,410
– Asset impairment charge (Notes 6 and 7)	1,004	106
– (Profit)/loss on disposal of property, plant and equipment (see below)	(5,062)	44
– Net change in provisions (Note 25)	10,231	(4,883)
– Net (gains)/losses on re-measurement to fair value of derivative financial instruments (Note 8)	(896)	(6,348)
– Change in the fair value in assets and liabilities taken to Income statement (Notes 22, 29 and 35)	(1,122)	30,431
– Interest income (Note 29)	(9,455)	(8,412)
– Interest expense (Note 29)	42,841	53,438
– Exchange differences (Note 29)	(2,053)	(10,310)
– Pre-tax loss from the year from discontinued operations (Note 13)	15,449	763
– Share of loss/(profit) of associates (Note 8)	(1,244)	(1,163)
Changes in working capital (excluding the effects of acquisitions and exchange differences on consolidation):		
– Inventories	(20,567)	(15,485)
– Trade and other receivables	(13,183)	(72,363)
– Other assets	(12,340)	(2,816)
– Trade and other payables	55,769	149,120
Cash generated from operating activities	**419,168**	**416,026**

In the cash flow statement, revenues from the sale fixed assets include:

	2016	2015
Carrying amount (Notes 6 and 7)	6,898	5,486
Profit /(loss) on disposal of property, plant and equipment (Note 26)	5,062	(44)
Proceeds from disposal of property, plant and equipment	**11,960**	**5,442**

34. Commitments, guarantees and other disclosures

a) Commitments for the purchase of fixed assets and leases

Capital expenditure contracted for at the balance sheet date but not yet incurred is as follows:

	2016	2015
Property, plant and equipment	37,479	31,773
Obligations deriving from irrevocable lease contracts	56,867	53,429

These investments are financed mainly through the cash generated by the Group's activities and structured via payment agreements with suppliers and equipment vendors and if necessary, bank borrowings.

(Thousand euro)

b) Operating lease commitments

The Group has been leasing various offices and warehouses under irrevocable operating lease agreements since 2008. The lease terms are between 5 and 10 years, and the majority of lease agreements are renewable at the end of the lease period at market rates. The Group also leases various plants and items of machinery under cancellable operating lease agreements. The Group is required to provide six months' notice to terminate these agreements.

The total minimum future payments for irrevocable operating leases are as follows:

	2016	2015
Less than 1 year	15,139	11,278
One to five years	24,636	18,665
More than five years	17,092	23,486
	56,867	53,429

c) Other information

The Solutions and Services (Smart Innovation) segment has granted guarantees for work or services provided to customers and commercial guarantees amounting to approximately €109.5 million (2015: approximately €111.5 million).

Those guarantees issued by financial entities are presented to customers as a commitment of the properly executed contracts, prepayments received from clients, cover of the guarantee periods and the sustaining of offers and bids. Failure to fulfil the commitments made would mean forfeit these guarantees with the cash outflow. We estimate that the probability of occurrence is remote.

35. Business combinations

2016

Automotive segment

Consolidation scope changes have been described in Note 1.

In August 2016, CIE Berriz S.L. has completed the acquisition of all of the share capital of Grupo Amaya Tellería for a purchase price of €142 million (€112 million paid in the date of transaction, whilst the remaning amount will be paid back in the first quarter of 2017), and assumed the net finance debt of the Group.

Additionally, within the context of this transaction, CIE Berriz, S.L. assumes the obligations that prior shareholders held with the Group at the date of the transactions related to the sale of assets and debt subrogation, for a total approximate amount of €14 million.

The business combination for the takeover of Grupo Amaya Tellería for the 100% of its shares, is summarised as follows:

	Amount
Purchase price	141,936
Assumed debt	13,852
Fair value of the net assets acquired	(11,441)
Goodwill (Note 7)	144,347

This goodwill embodied the future economic benefits expected to derive from the business acquired and the synergies expected to be generated by its acquisition by the Group.

The recognised amounts of identifiable assets acquired and liabilities assumed were as follows:

(Thousand euro)

	Fair value of the net assets acquired
Fixed assets	39,608
Inventories	13,838
Accounts receivable	35,807
Other non-current assets	97
Deferred taxes	1,036
Other current assets	16,712
Cash and cash equivalents	19,272
Assets acquired	**126,370**
Bank borrowings	45,480
Provisions	27,059
Accounts payable	17,870
Deferred tax	46
Other liabilities	24,474
Liabilities assumed	**114,929**
Total net assets acquired	**11,441**

The fair value of the fixed assets acquired has been established on the basis of appraisals performed by independent experts familiar with the market whose estimates, which did not factor in additional limitations or risks, were based on market purchase or new build prices and considering the various assets' residual useful lives.

The Group has recognised pre-existing contingent liabilities in respect of the acquired businesses in the amount of €11.8 million corresponding to the valuation of some potential business risks of its subsidiaries. The Group has estimated the amount of all potential futures payments which could cover the negative outcome of outstanding contingencies.

The cash flows deriving from the transaction were as follows:

	Amount
Cash paid	111,936
Cash and cash equivalents at the entity acquired	(19,272)
Outflow of cash on the acquisition	**92,664**

The outstanding payment of €30 million, which will be paid in the first trimester of 2017, registered within “Other current liabilities”(Note 22).

Analysis of the business combination and allocation of the purchase price to the net assets acquired are virtually complete so that the numbers presented above are not expected to differ materially.

In September 2016, CIE Automotive S.A. has closed the acquisition of all of the share capital of India's BillForge Pvt. Ltd. through its Indian subsidiary, Mahindra CIE Automotive Ltd. The purchase price has amounted to INR13,312 million (approximately €178 million) which has been fully paid in cash.

The business combination for the takeover of the BillForge Group for the 100% of its shares, is summarised as follows:

	Amount (*)
Purchase price	177,790
Fair value of the net assets acquired	(48,958)
Goodwill (Note 7)	**128,832**

(*) Original price stated in rupees (INR) translated to euro using the acquisition-date exchange rate.

This goodwill embodies the future economic benefits expected to derive from the business acquired and the synergies expected to be generated by its acquisition by the Group.

(Thousand euro)

The recognised amounts of identifiable assets acquired and liabilities assumed were as follows:

	Fair value of the net assets acquired
Fixed assets	46,053
Other non-current financial assets	516
Deferred taxes	161
Inventories	15,717
Accounts receivable	17,119
Other current assets	1,962
Other current financial assets	610
Cash and cash equivalents	2,567
Assets acquired	**84,705**
Bank borrowings	18,113
Provisions	595
Accounts payable	9,656
Deferred tax	5,094
Other liabilities	2,289
Liabilities assumed	**35,747**
Total net assets acquired	**48,958**

The fair value of the fixed assets acquired was established on the basis of appraisals performed by independent experts familiar with the market whose estimates, which did not factor in additional limitations or risks, were based on market purchase prices or new building prices and considering the various assets' residual useful lives.

The cash flows deriving from the transaction were as follows:

	Amount (*)
Cash paid	177.790
Cash and cash equivalents at the entity acquired	(2,567)
Outflow of cash on the acquisition	**175,223**

(*) Original price stated in rupees (INR) translated to euro using the acquisition-date exchange rate.

Analysis of the business combination and allocation of the purchase price to the net assets acquired are virtually complete so that the numbers presented above are not expected to differ materially.

Revenue from these business combinations related to the Automotive segment have amounted to €89 million. Had these business combinations taken place on 1 January 2016, revenue would had amounted to €219 million.

Solutions and Services Segment (Smart Innovation)

Consolidation scope changes are described in Note 1.

On 6 May 2016 the Group acquired, through its US subsidiary Beroa Corporation LLC, a US corporate group parented by Commonwealth Dynamics, Inc. (CDI). This acquisition entails the acquisition of 100% control over the following companies:

- Commonwealth Dynamics Inc (USA)
- Commonwealth Constructors Inc (USA)
- Commonwealth Landmark Inc (USA)
- Commonwealth Dynamics Limited (Canada)
- Commonwealth Power Chile, SPA (Chile)
- Commonwealth Power de Mexico S.A. de C.V. (Mexico)
- Commonwealth Power, S.A. (Peru)
- Commonwealth Power Private Limited (India)

(Thousand euro)

This subgroup, based in New Hampshire (USA), is a niche company with over 35 years' experience in providing engineering solutions and executing high complexity projects for a wide range of industrial sectors.

CDI focuses its activity in countries with a significant industrial presence, such as USA, Chile, Mexico, Peru and India and its customers include most leading companies in those countries.

The transaction price amounts to USD 10 million which breaks down as follows: USD 2 million have been paid upon the formalisation of the acquisition, leaving a) USD 6 million (estimated amount) payable in 2018, 2019 or 2020, depending on the payment option offered to the seller, for an amount equivalent to the subgroup's average aggregate EBITDA for the last three years, according to the payment date, multiplied by 6, to be reduced by the corresponding financial debt; b) USD 2 million (estimated amount) relating to 2.5% of the order portfolio at the payment date indicated above.

Summarised below is a breakdown of the net assets acquired and goodwill resulting on the transaction:

	Amount (*)
Acquisition price	9,085
Fair value of the net assets acquired	(366)
Goodwill (Note 7)	**8,719**

(*) Original amount in US dollars translated to euro at the exchange rate on the acquisition date.

This goodwill was initially attributed to future returns and synergies on the businesses acquired within the Group.

The net assets acquired at fair value arising on the acquisition are detailed below:

	Fair value of the net assets acquired
Fixed assets	184
Deferred tax assets	1,122
Trade receivables	5,235
Other assets	253
Cash and cash equivalents	1,839
Assets acquired	**8,633**
Trade payables	5,826
Other liabilities	2,441
Liabilities acquired	**8,267**
Total net assets acquired	**366**

The process of allocation of the price paid to the assets and liabilities acquired based on valuation carried out internally is virtually finalized, and it is not expected to vary materially.

The movement in cash funds on the operation was as follows:

	Amount (*)
Consideration paid in the year	2,017
Cash and cash equivalents in the Group acquired	(1,839)
	178

(*) Original amount in US dollars converted to euro at the exchange rate on the acquisition date.

The outstanding amount of €7.7 million accounted as on 31st December 2016 (7.1 million euro at transaction’s date) will be paid, as agreed, in 2020, and it is registered within “other non-current liabilities” (Note 22).

In February 2016, Global Dominion Access submitted an offer as part of the bankruptcy proceedings requested by Abantia Empresarial, S.L. and subsidiaries (the Abantia Group), to acquire the Installation, Maintenance, Industrial and Renewable Energy Promotion production units, which represent most of the Abantia Group's business.

(Thousand euro)

On 24 May 2016 ,the Group, through its subsidiary Dominion Industry & Infrastructures (incorporated in March 2016 by Global Dominion Access, S.A.), has completed the acquisition which has been approved by the Mercantile Court responsible for the bankruptcy proceedings of the Abantia Group and by the workers' representatives in legal terms.

The acquisition of the business entails paying a price of €2 million plus the losses arising from the date of approval of the acquisition request to the date on which control is acquired, i.e., during the months of March, April and May 2016, estimated at an additional €1.5 million.

Summarised below is a breakdown of the net assets acquired and goodwill resulting on the operation:

	Amount
Acquisition price	3,500
Fair value of the negative net assets acquired	6,500
Goodwill (Note 7)	**10,000**

This goodwill was attributed to future returns and synergies on the businesses acquired within the Group.

The net assets acquired at fair value arising on the acquisition are detailed below:

	Fair value of the net assets acquired
Fixed assets	10,623
Other financial assets	433
Trade receivables	18,350
Other assets	269
Cash and cash equivalents	4,305
Assets acquired	**33,980**
Non-current provisions	2,330
Trade payables	20,022
Staff payables	4,335
Other liabilities	13,793
Liabilities acquired	**40,480**
Total net assets acquired	**(6,500)**

The process of allocation of the price paid to the assets and liabilities acquired based on valuation carried out internally is still on going. As a part of this process, an intangible asset was identified relating to the customer portfolio, whose provisional measurement at the date of these accounts amounts to €9,121 thousand. This measurement will be adjusted within the time period permitted under applicable legislation, following the application of the "MERM" measurement method, based on the excess of earnings over contributing assets required to exploit the intangible asset.

The movement in cash funds on the operation was as follows:

	Amount
Total consideration on operation	3,500
Cash and cash equivalents at the entity acquired	(4,305)
	(805)

On 16 June 2016, the purchase-sales agreement has been executed under which Instalaciones Inabensa, S.A., as part of the Restructuring Plan of Abengoa (parent group), sells to the Group company Dominion Networks, S.L., the assets, goods, contracts and rights attached to the so-called Protisa business– Protisa thermal, sound and fire proofing, carrying out all activities associated with the conduct and exploitation of commercial, import, export and machine and material distillation operations connected with thermal, sound and fire proofing protection.

(Thousand euro)

These assets, goods, contracts and rights include certain property, plant and equipment elements, supplier contracts, qualified technical personnel, contracts under execution, classifications and references of work connected with this business and trade marks, patents and trials on fireproof mortars. In any case, in a preliminary analysis related to the valuation of the acquired intangible assets, it is estimated that due to the low significance of these assets in the context of the consolidated financial information taken as a whole, they have not been subject to accounting recognition.

The acquisition price of this line of business amounted to €300 thousand. It was agreed that that price included the amounts payable to personnel for holidays and extra salary payments in 2016. Part of this price, €200 thousand, have been paid when the agreement has been signed, and the rest €100 thousand, were settled within 90 days from the signing date.

Summarised below there is a breakdown of the net assets acquired and goodwill resulting on the operation:

	Amount
Acquisition price	300
Fair value of the net assets acquired	-
Goodwill (Note 7)	**300**

This goodwill was initially attributed to future returns and synergies on the businesses acquired in the Group.

The net assets acquired at fair value arising on the acquisition are detailed below:

	Fair value of the net assets acquired
Fixed assets	529
Assets acquired	**529**
Payables	433
Accrued wages and salaries	96
Liabilities acquired	**529**
Total net assets acquired	**-**

The process of allocation of the price paid to the assets and liabilities acquired based on a valuation carried out internally is still on going.

The movement in cash funds on the operation was as follows:

	Amount
Total consideration on operation	200
Cash and cash equivalents at the entity acquired	-
	200

The purchase agreement under which Global Dominion Access, S.A. acquires 100% of the shares of Norproyectos 2000, S.L. (subsequently renamed Dominion Energy, S.L.) is placed on public record on 15 September 2016. This company encompasses the EPC activities and maintenance operations (also known as the energy assets) formerly carried out by Grupo Eléctrico Scorpio, S.A.

The purchase price was approximately €17.8 million, made up of a fixed sum of €8.8 million (of which €0.4 million have been paid during the year, €1.4million are to be paid in 2017) and an earnout of up to €9 million. The earnout is tied to the EBITDA generated by the company which holds the energy assets acquired from an identified pipeline of projects and opportunities during the first five years after the acquisition.

Due to this transaction, Dominion incorporates to its perimeter the team that manages Grupo Eléctrico Scorpio, S.A.'s Energy Division, including its CEO and former owner; a backlog of renewable energy projects worth an estimated €50 million; and a 25% interest in BAS Project Corporation, a company specialised in the identification and development of renewable energy projects which has an exclusivity agreement with the Group. As a result, the Group has demonstrated once again its ability to integrate valuable expertise and fortifies its supply of renewable energy solutions and services.

(Thousand euro)

Below is a summary of the net assets acquired and the goodwill resulting from this transaction:

	Amount
Purchase price	17,800
Fair value of the net assets acquired	(4,323)
Goodwill (Note 7)	**13,477**

This goodwill embodied the future economic benefits and synergies the acquired businesses are expected to generate within the Group.

The fair values of the net assets acquired as part of this business combination are broken down below:

	Fair value of the net assets acquired
Fixed assets	7,107
Non-current financial assets	188
Inventories	3
Trade receivables	439
Cash and cash equivalents	223
Assets acquired	**7,960**
Deferred tax liabilities	1,680
Trade payables	1,410
Other liabilities	547
Liabilities assumed	**3,637**
Total net assets acquired	**4,323**

The process of allocating the purchase price to the net assets acquired, on the basis of valuations performed internally, is not yet complete. However, a preliminary analysis has identified an intangible asset corresponding to the acquired business's 'customer portfolio' (backlog) initially measured at the reporting date at €7,000 thousand using a "MERM" valuation model, based on the excess of earnings over contributing assets required to exploit the intangible asset. This measurement will be adjusted as necessary within the timeframe allowed under applicable accounting rules.

The movement in cash funds on the operation was as follows:

	Amount
Consideration paid during the year	390
Cash and cash equivalents acquired	(223)
	167

The outstanding payable amounts to €17.4 million which will be paid back as follows: €1.4 million in 2017, registered within "Other current liabilities"; €7 million euro in 2018, registered within "Other non-current liabilities" and €9 million euro of contingent price, payable in 2022, also registered in "Other non-current liabilities" (Note 22).

On 14 November 2016, Dominion has acquired US firm, International Chimney Corporation (ICC). With a track record dating back almost 90 years, ICC, based in Williamsville (New York), is a leading specialist in the North American market, in the design, engineering, inspection and repair of industrial structures.

The purchase price agreed amounts approximately to USD 15 million, to be paid as follows: USD 6 million at the close, on USD 5 million in 2017, and USD 4 million in 2018. It is also considered a potential earnout payable in 2020 in the event that the company outperforms its targets for 2017-2019; the acquisition-date value of this contingent payment amounts to USD 3.9 million at year end.

(Thousand euro)

Below there is a summary of the net assets acquired and the goodwill resulting from this transaction:

	Amount (*)
Purchase price	17,385
Fair value of the net liabilities acquired	(10,559)
Goodwill (Note 7)	**6,826**

(*) Original price stated in US dollars (USD) translated to euro using the acquisition-date exchange rate.

This goodwill embodied the future economic benefits and synergies the acquired businesses are expected to generate within the Group.

The fair values of the net assets acquired as part of this business combination are broken down below:

	Fair value of the net assets acquired
Fixed assets	3,727
Deferred taxes	1,075
Inventory	572
Trade receivables	11,738
Other assets	935
Other current financial assets	2,195
Cash and cash equivalents	1,263
Assets acquired	**21,505**
Deferred tax liabilities	662
Bank borrowings	1,184
Trade payables	6,376
Other liabilities	2,724
Liabilities assumed	**10,946**
Total net assets acquired	**10,559**

(*) Original price stated in US dollars (USD) translated to euro using the acquisition-date exchange rate.

The movement in cash funds on the operation was as follows:

	Amount (*)
Consideration paid during the year	5,954
Cash and cash equivalents acquired	(1,263)
	4,691

(*) Original price stated in US dollars (USD) translated to euro using the acquisition-date exchange rate.

The remaining payable amount at 31st December 2016 of €12.3 million (€11.4 million at transaction's date) will be paid as follows: 1) 4.8 million to be paid in 2017; 2) 3.8 million to be paid in 2018 and 3) 3.7 million in 2020; all of the registered as other non-current and current payables (Note 22).

Revenue and losses of the business combinations integrated in 2016 amounted to €106,418 and €1,511 thousand, respectively. If the business combinations would have taken place on January 1, 2016, these would amount to €151,895 thousand and losses of €4,271 thousand, respectively. It should be noted that when considering revenue and the losses of these business combinations, of the current year, that some of them are groups of assets and liabilities whose activity was not itself quantified in a separate and individualized way because they are parts of a whole company. This is the case of the business combinations of Abantia and Protisa, in which the acquisition involves the integration of a series of assets and liabilities with an activity that is not quantifiable for the months of 2016 that have not been integrated within the Group. Also, in the case of Dominion Energy, this is an activity that began at the time of the acquisition of the net assets by the Group. Therefore, for the three cases mentioned, the number of revenue and income for the additional months of 2016 not acquired has been considered as nil.

(Thousand euro)

2015

Automotive segment

In March 2015 CIE Berriz S.L. acquired from Plásticos de Palencia, S.A the 50% interest held in the joint venture Grupo CIE Automotive Hispamoldes, S.L. (Appendix). As a result, CIE Automotive became the sole shareholder of this Group. Following this acquisition, the merger by absorption of this company by CIE Berriz, S.L. was completed (Note 1).

The acquisition price paid amounted to €250 thousand which was paid in full on the date of purchase.

In 2015 this business combination achieved in stages resulted in the recognition of a profit in the consolidated income statement amounting to €210 thousand. This profit resulted from the measurement at fair value (€250 thousand) of the interest held, prior to the acquisition of the 50% stake, by the Group in the equity of the subgroup acquired (€40 thousand) and calculated at the date on which control was acquired (Note 27).

The fair value of the previous interest was equal to the purchase price of 50%.

As a result of the above, the business combination to acquire control of the CIE Automotive Hispamoldes, S.L. Group in March 2015 and therefore, related to the 100% interest, is summarised below:

	Amount
Acquisition price	500
Fair value of the net assets acquired	(80)
Goodwill (Note 7)	**420**

This goodwill was allocated to the future performance of the business acquired and the synergies which are expected to be obtained after the acquisition by the Group.

The total amount of the consideration for the acquisition of control breaks down as follows:

	Amount
Fair value of prior interest	250
Purchase price of the 50% acquired during the year	250
Total consideration	**500**

The assets and liabilities arising on the acquisition were as follows:

	Fair value of the net assets acquired
Fixed assets	137
Inventories	186
Receivables	686
Other current assets	48
Cash and cash equivalents	107
Assets acquired	**1,164**
Provisions	4
Accounts payable	1,071
Other liabilities	9
Liabilities acquired non-controlling interests	**1,084**
Total net assets acquired	**80**

The fair value of the net assets acquired did not differ from carrying amounts in the CIE Automotive Hispamoldes, S.L. Group. There were no other intangible assets meeting the conditions for recognition on a stand-alone basis or contingent liabilities or other accounting assets and liabilities with a fair value differing from carrying amount. At the date of consolidated annual accounts for the year ended 31 December 2015, the business combination was completed.

The movement in cash funds on the operation was as follows:

(Thousand euro)

	Amount
Amount paid	250
Cash and cash equivalents in the subsidiary acquired	(107)
Outflow of cash on the acquisition	**143**

36. Related-party transactions

The direct shareholders of the Group (including minority interests), key executive managers, close relatives and those companies consolidated using the equity method are considered related parties.

The following transactions were carried out with related parties:

a) Compensation and loans to key management personnel

The total compensation paid to key management personnel in 2016, excluding those included within the compensation paid to the members of the Board of Directors, amounted to €3,026 thousand (2015: €2,768 thousand).

The Group has entered into no commitments related to pensions or other types of complementary post-emplayment benefits with key management personnel.

At year end 2016 and 2015 there is a balance receivable related to operations with these affiliates amounting to €1,500 thousand, which is classified as non-current assets.

b) Balances and transactions during the year with Group companies and related parties

	2016	2015
Transactions effected:		
- Services received	7,063	7,522
- Services rendered	852	567
- Purchases (*)	28,472	44,437
- Sales (*)	165,586	174,884

(*) Both, purchases and sales, correspond basically with sales-purchase operations with Mahindra & Mahindra Group.

Balances with Group companies and related parties are as follows:

	2016	2015
Balances:		
- Accounts receivable from related parties	19,417	22,298
- Accounts payable to related parties	(6,563)	(6,159)
- Accounts receivable from entities with significant influence	16,800	39,326
- Accounts payable from entities with significant influence	(16,693)	(34,089)
- Dividend pending payment	(25,800)	(20,640)

c) Balances and transactions with companies with significant influence with parent Company

In 2014 they were performed business combination operations with the company Instituto Sectorial de Promoción y Gestión de Empresas Dos, S.A. (INSSEC2), one of whose shareholders has significant influence on the Group.

These business combinations correspond to business combinations of the groups of companies headed by the companies Beroa Thermal Energy, S.L., Bilcan Global Services, S.L. and Global Near, S.L. Over those companies INSSEC2 had a 50%, 69.69% and 79.09%, respectively, at the date of business combination.

In 2014 after these operations, INSSEC 2 became shareholder of Global Dominion Access, S.A. with a total interest of 16.97% in the company and creditor amounting to €42 million. The amount of this debt is calculated by applying the percentage owned by INSSEC2 in Beroa Group EBITDA corresponding to that group in each of the three years (2014, 2015 and 2016) by a multiplier of 7.5x, net of the corresponding debt and will be payable during years 2015, 2016 and 2017. In 2015 the first payment amounting to €7,911 thousand was performed, and was proceeded to re-estimate the financial liability amounting to €34,089 thousand at year end 2015. During 2016, it has proceeded to the payment of the second instalment amounted to €14,430 thousand, being the outstanding payable amount of €19,659 thousand, payable in 2017 (Note 22).

There are no warranties delivered on these outstanding amounts.

Additionally, during the year 2015 the other debts with INSECC2 were paid back for an amount of €16,597 thousand (Note 22).

d) Compensation of the directors of the parent Company

Total compensation paid to the members of the Board of Directors has amounted to €5,691 thousand (2015: €3,483 thousand). The members of the Board of Directors received no compensation in respect of bonuses or profit sharing arrangements. Nor did they receive shares, or sell or exercise stock options or other rights related to pension plans or insurance policies of which they are beneficiaries.

At 2016 year end, there is a balance receivable (at present value) of €455 thousand arising from other transactions with these related parties (2015: €606 thousand), classified in current assets.

The parent Company has entered into no commitments relating to pensions or other types of complementary retirement remuneration with senior management personnel.

e) Article 228 of the Spanish Companies Act

In the duty to avoid situations of conflict of interest of the parent Company, during the exercise the administrators who have occupied charges in the Board of Directors during have complied with the obligations foreseen in the article 228 of the restated text of the Law of Capital companies. Likewise, both managing directors and their relatives have abstained from incurring in the suppositions of conflict of interest foreseen in the article 229 of the above mentioned norm. No communication about direct or indirect conflicts of interest has been notified during the current year to the Board of Directors.

f) Complementary long-term incentive based on the increase in value of the shares of CIE Automotive, S.A.

During the General Shareholders' Meeting of 30 April 2014, a long-term incentive was approved, based on the increase in value of the shares of CIE Automotive, S.A., in favour of the CEO and certain managers and other people owing to their special relationship with the Company.

The incentive will consist of the payment of an extraordinary total remuneration proved of multiplying a maximum of 1,800,000 rights by the increase of the market price of shares of CIE Automotive in the period 2013-2017, being its contribution base €6 per share and the closing value will be the average of the market price of the last quarter of 2017, in the terms approved by the Shareholders' General Meeting.

The individual assignment of these rights was determined in 2014 by the parent Company's Appointments and Remuneration Committee. Following the Group's decision, settlement will presumably take place in cash in a lump sum at 31 March 2018. (Note 2.21).

The incentive depends on two conditions:

- Interrupted continuity of beneficiaries' services.
- The fulfillment of the objectives of Group's Strategic Plan for 2013- 2017, measured according to EBITDA levels (operating profit plus amortisation and impairment) obtained in the period.

The incentive conditions contain situations of early liquidation due to certain supervening causes.

At 31 December 2016 the estimated amount of that remuneration has resulted in an accrued expense in 2016 of €12,424 thousand (Note 28) (31 December 2015, €6,123 thousand).

37. Joint ventures

On 20 July 2007 and together with Plásticos de Palencia, CIE Automotive Hispamoldes, S.L. was incorporated with initial capital of €250 thousand, 50% owned by CIE Automotive, S.A. and Plásticos de Palencia, respectively. Subsequently, on 28 December 2011, the company's capital was increased by €250 thousand. This capital increase was 50% subscribed by CIE Automotive, S.A.

In the first semester of 2015, as explained in Note 1, the Group, through its subsidiary CIE Berriz, S.L., acquired 50% of the share capital of CIE Automotive Hispamoldes, S.L, becoming its sole shareholder and terminating the Investment Agreement entered into in 2011 with the Hismpamoldes Group. As a result, this company was consolidated using the full consolidation method.

At 31 December 2016 and 2015 there are no joint venture agreements in the Group.

(Thousand euro)

38. Joint arragements (UTEs)

The Solutions and Services (Smart Innovation) segment participates in several temporary consortia (UTEs for their acronym in Spanish). The following amounts represent the Group's percentage interest in the assets and liabilities, and sales and results of these joint arrangements. They are included in the consolidated balance sheet and income statement:

Name	Current assets	Current liabilities	Expenses	Profit/(loss)
2016	17,965	16,876	11,364	562
2015	107	107	-	-

The staff in joint arrangements in which the Group holds shares amounts to 86 people, considering them as a whole and excluding the share hold percentage of the Group (0 person in 2015).

39. Other information

a) Auditors fees

The fees charged by PricewaterhouseCoopers Auditores, S.L. for audit services performed in 2016 total €2,331 thousand (2015: €2,065 thousand).

The amount relating to 2016 and 2015 also include the audit of the interim financial statements.

Other services provided by PricewaterhouseCoopers Auditores, S.L. and other firms associated with the PricewaterhouseCoopers trademark amounted to €596 thousand (2015: €392 thousand).

The fees charged by other firms for financial statements audit services in respect of other investees amount to €451 thousand in 2016 (2015: €505 thousand). This amount includes the services rendered for all the period of the companies joined to the consolidation scope in the period.

b) Environmental issues

The parent Company and its subsidiaries have adapted their production facilities to meet the legislative environmental requirements of the countries in which they are located.

Investments in assets intended to make them more environmentally-friendly and to minimise their impact on the environment are capitalised in property, plant and equipment.

The expenses deriving from environmental action incurred during the year basically relate to waste removal expenses.

The Group's property, plant and equipment include facilities aimed at environmental protection and improvement. This work is carried out by in-house employees and external specialist providers, as part of the strategic environmental plan implemented to minimise the environmental risks associated with its operations and improve the Group's environmental management and record. The combined amounts of investments and expenses accrued in 2016 in relation to environmental protection worked amounted to €4.7 million (2015: €2.1 million) and are recorded under the element headings of "Property, plant and equipment" on the accompanying balance sheet and "Other operating income/expenses" on the accompanying income statement.

40. Events after the balance sheet date

On 16 January 2017, the Group through its Brazilian subsidiary Autometal, S.A., has acquired an additional 34.9% of the share capital of the also Brazilian company, Durametal, S.A. for an amount of 20 million Brazilian reales (approximately €5.8 million). After this acquisition, the share hold percentage hold by the Group in Durametal, S.A. amounts to 84.9%.

Also, on February 7, 2017, the Group signed a contract for the acquisition of the entire share capital of the US corporation Newcor, Inc ("Newcor"). The transaction, when materialized, will mean an estimated investment by CIE Automotive of USD106 million (approximately €100 million) in the payment of the price of the operation (to be disbursed in cash). This amount represents a value equivalent to 5 times the EBITDA of Newcor for the year 2016.

Newcor is a company specialized in the design and production of high precision machined components and subassemblies, powertrain and transmissions for the automotive sector and has three production plants in the State of Michigan. Its annual sales amount to approximately USD150 million and its customers include the leading vehicle builders (OEM) and Tier 1 suppliers, with a significant presence in the United States of America.

The closing of the transaction is conditioned to the obtaining of the habitual authorizations in this type of transactions, among which is the authorization of the authorities of Competence. It is hoped to be closed during the first quarter of the current year 2017.

The costs of these transactions will be paid by using CIE Automotive's ordinary finance resources.

CIE AUTOMOTIVE, S.A. AND SUBSIDIARIES

APPENDICES TO THE NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR 2016

APPENDIX: LIST OF SUBSIDIARIES AND ASSOCIATES

Company	Parent Company	Activity	Registered office	% effective shareholding of CIE Automotive: Direct	% effective shareholding of CIE Automotive: Indirect
CIE Berriz, S.L. (*) (merged in 2015 with CIE Automotive Hispamoldes, S.L., Bionor Transformación, S.A.U., Participaciones Internacionales Autometal, S.L.U., CIE Automotive Nuevos Mercados, S.L.)	CIE Automotive, S.A.	Holding company	Vizcaya	100.00%	-
Antolin-CIE Czech Republic s.r.o.	CIE Berriz, S.L.	Manufacture of automotive components	Czech Republic	-	30.00%
Belgium Forge, N.V. (in liquidation)	CIE Berriz, S.L.	Manufacture of automotive components	Belgium	-	100.00%
CIE Udalbide, S.A.U.	CIE Berriz, S.L.	Manufacture of automotive components	Vizcaya	-	100.00%
CIE Mecauto, S.A.U.	CIE Berriz, S.L.	Manufacture of automotive components	Alava	-	100.00%
Mecanizaciones del Sur-Mecasur, S.A.	CIE Berriz, S.L.	Manufacture of automotive components	Alava	-	100.00%
Gameko Fabricación de Componentes, S.A.	CIE Berriz, S.L.	Manufacture of automotive components	Alava	-	100.00%
Grupo Componentes Vilanova, S.L.	CIE Berriz, S.L.	Manufacture of automotive components	Barcelona	-	100.00%
Alfa Deco, S.A.U.	CIE Berriz, S.L.	Manufacture of automotive components	Guipuzcoa	-	100.00%
Alurecy, S.A.U.	CIE Berriz, S.L.	Manufacture of automotive components	Vizcaya	-	100.00%
Componentes de Automoción Recytec, S.L.U.	CIE Berriz, S.L.	Manufacture of automotive components	Alava	-	100.00%
Componentes de Dirección Recylan, S.L.U.	CIE Berriz, S.L.	Manufacture of automotive components	Navarre	-	100.00%
Nova Recyd, S.A.U.	CIE Berriz, S.L.	Manufacture of automotive components	Alava	-	100.00%
Recyde, S.A.U.	CIE Berriz, S.L.	Manufacture of automotive components	Guipuzcoa	-	100.00%
Recyde CZ, s.r.o.	CIE Berriz, S.L.	Manufacture of automotive components	Czech Republic	-	100.00%
CIE Zdánice, s.r.o.	CIE Berriz, S.L.	Manufacture of automotive components	Czech Republic	-	100.00%
Alcasting Legutiano, S.L.U.	CIE Berriz, S.L.	Manufacture of automotive components	Alava	-	100.00%
Egaña 2, S.L.	CIE Berriz, S.L.	Manufacture of automotive components	Vizcaya	-	100.00%
Inyectametal, S.A.	CIE Berriz, S.L.	Manufacture of automotive components	Vizcaya	-	100.00%
Orbelan Plásticos, S.A.	CIE Berriz, S.L.	Manufacture of automotive components	Guipuzcoa	-	100.00%
Transformaciones Metalúrgicas Norma, S.A.	CIE Berriz, S.L.	Manufacture of automotive components	Guipuzcoa	-	100.00%
Plasfil Plásticos da Figueira, S.A. (*)	CIE Berriz, S.L.	Manufacture of automotive components	Portugal	-	100.00%
CIE Stratis-Tratamentos, Ltda (formerly ApoloBlue Tratamentos, Lda)	Plasfil Plásticos da Figueira, S.A.	Manufacture of automobile components	Portugal	-	100.00%
CIE Metal CZ, s.r.o.	CIE Berriz, S.L.	Manufacture of automotive components	Czech Republic	-	100.00%
CIE Plasty CZ, s.r.o.	CIE Berriz, S.L.	Manufacture of automotive components	Czech Republic	-	100.00%
CIE Unitools Press CZ, a.s.	CIE Berriz, S.L.	Manufacture of automotive components	Czech Republic	-	100.00%
CIE Joamar, s.r.o.	CIE Berriz, S.L.	Manufacture of automotive components	Czech Republic	-	100.00%
CIE Automotive Maroc, s.a.r.l. d'au (2)	CIE Berriz, S.L.	Manufacture of automotive components	Morocco	-	100.00%
CIE Praga Louny, a.s. (*)	CIE Berriz, S.L.	Manufacture of automotive components	Czech Republic	-	100.00%
Praga Service, s.r.o.	CIE Praga Louny, a.s.	Facilities	Czech Republic	-	100.00%
CIE Deutschland, GmbH	CIE Berriz, S.L.	Services and installations	Germany	-	100.00%
Leaz Valorización, S.L.U. (dormant)	CIE Berriz, S.L.	Waste management and recovery	Vizcaya	-	100.00%
CIE Compiègne, S.A.S.	CIE Berriz, S.L.	Manufacture of automotive components	France	-	100.00%
Autometal, S.A. (*) (4)	CIE Berriz, S.L.	Manufacture of automotive components	Brazil	-	100.00%
Naturoil Combustíveis Renováveis, S.A.	Autometal, S.A.	Biofuel production and sale	Brazil	-	100.00%
Bioauto Participações, S.A. (*)	Autometal, S.A.	Holding company	Brazil	-	75.00%
Bioauto MT Agroindustrial, Ltda.	Bioauto Participações, S.A.	Agro-biotechnology	Brazil	-	75.00%
Durametal, S.A.	Autometal, S.A.	Manufacture of automotive components	Brazil	-	50.00%
Autometal SBC Injeção, Pintura e Cromação de Plásticos, Ltda. (*)	Autometal, S.A.	Manufacture of automobile components	Brazil	-	100.00%
Autocromo Cromaçao de Plásticos Ltda	Autometal SBC Injeção, Pintura e Cromação de Plásticos, Ltda.	Manufacture of automotive components	Brazil	-	100.00%
Autometal Investimentos e Imóveis, Ltda (*)	Autometal, S.A.	Services and installations	Brazil	-	100.00%

CIE AUTOMOTIVE, S.A. AND SUBSIDIARIES

APPENDICES TO THE NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR 2016

APPENDIX: LIST OF SUBSIDIARIES AND ASSOCIATES

Company	Parent Company	Activity	Registered office	% effective shareholding of CIE Automotive Direct	Indirect
Gescrap – Autometal Comercio de Sucatas Ltda	Autometal Investimentos e Imóveis, Ltda	Scrap business	Brazil	-	30.00%
Jardim Sistemas Automotivos e Industriais, S.A.	Autometal, S.A.	Manufacture of automotive components	Brazil	-	100.00%
Metalúrgica Nakayone, Ltda.	Autometal, S.A.	Manufacture of automotive components	Brazil	-	100.00%
CIE Autometal de México, S.A. de C.V. (*) (merged with Inmobiliaria El Puente, S.A. de C.V. during 2016)	CIE Berriz, S.L.	Holding company	Mexico	-	100.00%
Pintura y Ensambles de México, S.A. de C.V.	CIE Autometal de México, S.A. de C.V.	Manufacture of automotive components	Mexico	-	100.00%
CIE Celaya, S.A.P.I. de C.V.	CIE Autometal de México, S.A. de C.V.	Manufacture of automotive components	Mexico	-	100.00%
Gescrap Autometal de Mexico, S.A. de C.V. (*)	CIE Autometal de México, S.A. de C.V.	Scrap business	Mexico	-	30.00%
Gescrap Autometal Mexico Servicios, S.A. de C.V.	Gescrap Autometal de Mexico, S.A. de C.V.	Services and installations	Mexico	-	30.00%
Pintura, Estampado y Montaje, S.A.P.I. de C.V.	CIE Autometal de México, S.A. de C.V.	Manufacture of automotive components	Mexico	-	100.00%
Maquinados Automotrices y Talleres Industriales de Celaya, S.A. de C.V.	CIE Autometal de México, S.A. de C.V.	Manufacture of automotive components	Mexico	-	100.00%
CIE Berriz México Servicios Administrativos, S.A. de C.V.	CIE Autometal de México, S.A. de C.V.	Services and installations	Mexico	-	100.00%
Nugar, S.A .de C.V.	CIE Autometal de México, S.A. de C.V.	Manufacture of automotive components	Mexico	-	100.00%
Percaser de Mexico, S.A. de C.V.	CIE Autometal de México, S.A. de C.V.	Services and installations	Mexico	-	100.00%
Servicat S. Cont., Adm. Y Técnicos, S.A. de C.V.	CIE Autometal de México, S.A. de C.V.	Services and installations	Mexico	-	100.00%
CIE Automotive, USA Inc (*)	CIE Autometal de México, S.A. de C.V.	Services and installations	USA	-	100.00%
CIE Automotive USA Investments (1)	CIE Automotive, USA Inc	Holding company	USA	-	100.00%
Century Plastics, Llc	CIE Automotive, USA Inc	Manufacture of automotive components	USA	-	100.00%
Participaciones Internacionales Autometal Dos S.L.U.(*)	CIE Berriz, S.L.	Holding company	Vizcaya	-	100.00%
PIA Forging Products, S.L.U. (1)	Participaciones Internacionales Autometal Dos S.L.U.	Holding company	Vizcaya	-	100.00%
Mahindra CIE Automotive, Ltd. (*)	Participaciones Internacionales Autometal Dos S.L.U.	Manufacture of automotive components	India	-	51.38%
Stokes Group Limited (*)	Mahindra CIE Automotive, Ltd.	Manufacture of automotive components	UK	-	51.38%
Stokes Forgings Limited	Stokes Group Limited	Manufacture of automotive components	UK	-	51.38%
Stokes Forgings Dudley Limited	Stokes Group Limited	Manufacture of automotive components	UK	-	51.38%
Mahindra Forging Global	Mahindra CIE Automotive, Ltd.	Holding company	Republic of Mauritius	-	51.38%
Mahindra Forgings International Limited (*)	Mahindra CIE Automotive, Ltd.	Holding company	Republic of Mauritius	-	51.38%
Mahindra Forgings Europe AG (*)	Mahindra Forgings International Limited	Holding company	Germany	-	51.38%
Gesenkschmiede Schneider GmbH	Mahindra Forgings Europe AG	Manufacture of automotive components	Germany	-	51.38%
Jeco Jellinghaus GmbH	Mahindra Forgings Europe AG	Manufacture of automotive components	Germany	-	51.38%
Falkenroth Umformtechnik GmbH	Mahindra Forgings Europe AG	Manufacture of automotive components	Germany	-	51.38%
Schoneweiss & Co. GmbH	Mahindra Forgings Europe AG	Manufacture of automotive components	Germany	-	51.38%
CIE Galfor, S.A.U. (*)	Mahindra CIE Automotive, Ltd.	Manufacture of automotive components	Orense	-	51.38%
CIE Legazpi, S.A.U.	CIE Galfor, S.A.U.	Manufacture of automotive components	Guipuzcoa	-	51.38%
UAB CIE LT Forge	CIE Galfor, S.A.U.	Manufacture of automotive components	Lithuania	-	51.38%
Galfor Eólica, S.L.	CIE Galfor, S.A.U.	Electricity production and sale	Orense	-	25.69%
Mahindra Gears Global Ltd (*)	Mahindra CIE Automotive, Ltd.	Holding company	Republic of Mauritius	-	51.38%
Metalcastello S.p.A. (*)	Mahindra Gears Global Ltd	Manufacture of automotive components	Italy	-	51.38%
Crest Geartech Ltd	Metalcastello S.p.A.	Manufacture of automotive components	India	-	51.38%
Mahindra Gears Transmission Private Ltd	Mahindra CIE Automotive, Ltd.	Manufacture of automotive components	India		51.38%
BillForge Pvt.Ltd (*) (1)	Mahindra CIE Automotive, Ltd.	Manufacture of automotive components	India	-	51.38%
BillForge Global DMCC (1)	BillForge Pvt.Ltd	Holding company	Dubai	-	51.38%
BillForge de Mexico S de RL de C.V. (1)	BillForge Pvt.Ltd	Manufacture of automotive components	Mexico	-	51.38%
BF Precision Pvt. Ltd. (1)	BillForge Pvt.Ltd	Manufacture of automotive components	India	-	51.38%
Bionor Berantevilla, S.L.U.	CIE Berriz, S.L.	Biofuel production and sale	Alava	-	100.00%
Biosur Transformación, S.L.U.	CIE Berriz, S.L.	Biofuel production and sale	Huelva	-	100.00%
Comlube s.r.l. (*) (in liquidation)	CIE Berriz, S.L.	Biofuel production and sale	Italy	-	80.00%
Glycoleo s.r.l. (dormant)	Comlube s.r.l.	Production and marketing of glycerine	Italy	-	40.80%
Biocombustibles de Guatemala, S.A.	CIE Berriz, S.L.	Agro-biotechnology	Guatemala	-	51.00%

CIE AUTOMOTIVE, S.A. AND SUBSIDIARIES

APPENDICES TO THE NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR 2016

APPENDIX: LIST OF SUBSIDIARIES AND ASSOCIATES

				% effective shareholding of CIE Automotive	
Company	Parent Company	Activity	Registered office	Direct	Indirect
Gestión de Aceites Vegetales, S.L. (*)	CIE Berriz, S.L.	Marketing of fatty oils	Madrid	-	88.73%
Reciclado de Residuos Grasos, S.L.U.	Gestión de Aceites Vegetales, S.L.	Marketing of fatty oils	Madrid	-	88.73%
Reciclados Ecológicos de Residuos, S.L.U.	CIE Berriz, S.L.	Marketing of fatty oils	Alicante	-	100.00%
Recogida de Aceites y Grasas Maresme, S.L.	CIE Berriz, S.L.	Marketing of fatty oils	Barcelona	-	51.00%
Biodiesel Mediterráneo, S.L.U.	CIE Berriz, S.L.	Biofuel production and sale	Alicante	-	100.00%
Denat 2007, S.L. (1)	CIE Berriz, S.L.	Manufacture of automotive components	Vigo	-	100,00%
Grupo Amaya Tellería, S.L.U. (1)(*)	CIE Berriz, S.L.	Holding company	Vizcaya	-	100,00%
GAT Staff, S.L.U. (1)	Grupo Amaya Tellería, S.L.U.	Manufacture of automotive components	Vizcaya	-	100,00%
Industrias Amaya Tellería, S.A.U. (1)	Grupo Amaya Tellería, S.L.U.	Manufacture of automotive components	Vizcaya	-	100,00%
MAR SK, s.r.o. (1)	Grupo Amaya Tellería, S.L.U.	Manufacture of automotive components	Slovakia	-	100,00%
Autocom Componentes Automotivos do Brasil LTDA. (1)	Grupo Amaya Tellería, S.L.U.	Manufacture of automotive components	Brazil	-	100,00%
GAT México, S.A. de C.V. (1)	Grupo Amaya Tellería, S.L.U.	Manufacture of automotive components	Mexico	-	100,00%
Advanced Comfort Systems Ibérica, S.L.U.	CIE Automotive, S.A.	Manufacture of automotive components	Orense	100.00%	-
Advanced Comfort Systems France, S.A.S. (*)	CIE Automotive, S.A.	Manufacture of automotive components	France	100.00%	-
Advanced Comfort Systems Romania, S.R.L.	Advanced Comfort Systems France, S.A.S.	Manufacture of automotive components	Romania	-	100.00%
Advanced Comfort Systems México, S.A. de C.V.	Advanced Comfort Systems France, S.A.S.	Manufacture of automotive components	Mexico	-	100.00%
Advanced Comfort Systems Shanghai Co. Ltd.	Advanced Comfort Systems France, S.A.S.	Manufacture of automotive components	China	-	100.00%
SC CIE Matricon, S.A.	CIE Berriz, S.L.	Manufacture of automotive components	Romania	-	100.00%
CIE Automotive Parts (Shanghai) Co., Ltd.	CIE Berriz, S.L.	Manufacture of automotive components	China	-	100.00%
CIE Automotive Rus, LLC.	CIE Berriz, S.L.	Manufacture of automotive components	Russia		100.00%
Global Dominion Access, S.A. (*)	CIE Automotive, S.A.	Holding company / Technological Solutions and Services	Vizcaya	50.01%	-
Dominion Industry & Infrastructures, S.L. (*) (1)	Global Dominion Access, S.A.	Technological Solutions and Services	Barcelona	-	50.01%
Solfuture Gestión, S.L. (1)	Dominion Industry & Infrastructures, S.L.	Technological Solutions and Services	Barcelona	-	25.01%
Huerto Solar La Alcardeteña, S.A. (1)	Dominion Industry & Infrastructures, S.L.	Technological Solutions and Services	Toledo	-	18.50%
Desolaba, S.A. de C.V. (1)	Dominion Industry & Infrastructures, S.L.	Technological Solutions and Services	Mexico	-	50.01%
El Salvador Solar 1, S.A. de C.V. (1)	Dominion Industry & Infrastructures, S.L.	Technological Solutions and Services	El Salvador	-	40.01%
El Salvador Solar 2, S.A. de C.V. (1)	Dominion Industry & Infrastructures, S.L.	Technological Solutions and Services	El Salvador	-	40.01%
Montelux, S.R.L. (1)	Dominion Industry & Infrastructures, S.L.	Technological Solutions and Services	Dominican Republic	-	35.01%
Abasol S.P.A. (1)	Dominion Industry & Infrastructures, S.L.	Technological Solutions and Services	Chile	-	50.01%
Rovello S.P.A. (1)	Dominion Industry & Infrastructures, S.L.	Technological Solutions and Services	Chile	-	50.01%
Pinetell S.P.A. (1)	Dominion Industry & Infrastructures, S.L.	Technological Solutions and Services	Chile	-	50.01%
Rosinol S.P.A. (1)	Dominion Industry & Infrastructures, S.L.	Technological Solutions and Services	Chile	-	50.01%
Dominion Energy, S.L.U. (1) (*)	Global Dominion Access, S.A.	Technological Solutions and Services	Vizcaya	-	50.01%
Dominion Energy México, S.A. de C.V. (1)	Dominion Energy, S.L.U.	Technological Solutions and Services	Mexico	-	50.00%
Dominion Centroamericana, S.A. (1)	Dominion Energy, S.L.U.	Technological Solutions and Services	Panama	-	50.01%
Dominion Ecuador Niec, S.A. (1)	Dominion Energy, S.L.U.	Technological Solutions and Services	Ecuador	-	50.01%
BAS Project Corporation, S.L.	Dominion Energy, S.L.U.	Technological Solutions and Services	Vizcaya	-	12.50%
Dominion Instalaciones y Montajes, S.A.U. (*)	Global Dominion Access, S.A.	Technological Solutions and Services	Vizcaya	-	50.01%
E.C.I. Telecom Ibérica, S.A.	Dominion Instalaciones y Montajes, S.A.U.	Technological Solutions and Services	Madrid	-	50.01%
Interbox Technology, S.L.	Dominion Instalaciones y Montajes, S.A.U.	Commercial services	Vizcaya	-	37.51%
Dominion West Africa, S.L. (formerly Dominion Ampliffica, S.L.)	Dominion Instalaciones y Montajes, S.A.U.	Commercial services	Vizcaya	-	50.01%
Dominion Investigación y Desarrollo S.L.U.	Global Dominion Access, S.A.	Technological Solutions and Services	Vizcaya	-	50.01%
Halógica Tecnología, S.A. (merged in 2016 with Prosat Comunicaçoes, Ltda and Global Dominion Brasil Participaçoes, Ltda.) (*)	Global Dominion Access, S.A.	Technological Solutions and Services	Brazil	-	50.01%
Dominion Instalaçoes e Montagnes do Brasil Ltda.	Halógica Tecnología, S.A.	Technological Solutions and Services	Brazil	-	50.01%
Mexicana de Electrónica Industrial, S.A. de C.V. (*)	Global Dominion Access, S.A.	Technological Solutions and Services	Mexico	-	50.01%

CIE AUTOMOTIVE, S.A. AND SUBSIDIARIES

APPENDICES TO THE NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR 2016

APPENDIX: LIST OF SUBSIDIARIES AND ASSOCIATES

Company	Parent Company	Activity	Registered office	% effective shareholding of CIE Automotive Direct	% effective shareholding of CIE Automotive Indirect
Dominion Tecnologías de la Información, S.A. de C.V.	Mexicana de Electrónica Industrial, S.A. de C.V.	Technological Solutions and Services	Mexico	-	50.01%
Dominion Baires, S.A.	Global Dominion Access, S.A.	Technological Solutions and Services	Argentina	-	47.51%
Dominion SPA	Global Dominion Access, S.A.	Technological Solutions and Services	Chile	-	50.01%
Dominion Perú Soluciones y Servicios S.A.C.	Global Dominion Access, S.A.	Technological Solutions and Services	Peru	-	49.51%
Dominion Honduras SRL	Global Dominion Access, S.A.	Technological Solutions and Services	Honduras	-	49.51%
Visual Line, S.L.	Global Dominion Access, S.A.	Technological Solutions and Services	Vizcaya	-	27.51%
Sociedad concesionaria Chile Salud Siglo XXI S.A.	Global Dominion Access, S.A.	Technological Solutions and Services	Chile	-	15.00%
Beroa Thermal Energy, S.L. (*)	Global Dominion Access, S.A.	Holding company	Vizcaya	-	50.01%
Beroa France SAS	Beroa Thermal Energy, S.L.	Industrial services	France	-	50.01%
Steelcon Chimneys Esbjerg A/S (*)	Beroa Thermal Energy, S.L.	Industrial solutions	Denmark	-	50.01%
Steelcon Slovakia s.r.o	Steelcon Chimney Esjberg A/S	Industrial solutions	Slovakia	-	50.01%
Dominion Global Pty.Ltd.	Beroa Thermal Energy, S.L.	Industrial solutions and services	Australia	-	50.01%
Beroa Corporation LLC (*)	Beroa Thermal Energy, S.L.	Holding company	USA	-	50.01%
Commonwealth Dynamics Inc (*) (1)	Beroa Corporation LLC	Industrial solutions	USA	-	50.01%
Commonwealth Power de Mexico S.A. de C.V. (in liquidation) (1)	Commonwealth Dynamics Inc	Industrial solutions	Mexico	-	50.01%
Commonwealth Power (India), Private Limited (1)	Commonwealth Dynamics Inc	Industrial solutions	India	-	50.01%
Commonwealth Constructors Inc (1)	Beroa Corporation LLC	Industrial solutions	USA	-	50.01%
Commonwealth Landmark Inc (in liquidation) (1)	Beroa Corporation LLC	Dormant	USA	-	50.01%
Commonwealth Dynamics Limited (1)	Beroa Corporation LLC	Industrial solutions	Canada	-	50.01%
Commonwealth Power Chile, SPA (in liquidation) (1)	Beroa Corporation LLC	Industrial solutions	Chile	-	50.01%
International Chimney Corporation (1) (*)	Beroa Corporation LLC	Industrial solutions	USA	-	50.01%
Capital International Steel Works, Inc. (1)	International Chimney Corporation	Industrial solutions	USA	-	50.01%
International Chimney Canada (1)	International Chimney Corporation	Industrial solutions	Canada	-	50.01%
Karrena International LLC (*)	Beroa Corporation LLC	Industrial solutions	USA	-	50.01%
Karrena International Chimneys LLC	Karrena International LLC	Industrial solutions	USA	-	50.01%
Beroa Ibéria S.A.(*)	Beroa Thermal Energy, S.L.	Industrial solutions and services	Vizcaya	-	50.01%
Dominion Industry México, S.A. de C.V.	Beroa Ibéria S.A.	Industrial services	Mexico	-	50.01%
Dominion SRL	Beroa Ibéria S.A.	Industrial services	Argentina	-	45.01%
Altac South Africa Propietary Limited	Beroa Ibéria S.A.	Industrial solutions	South Africa	-	50.01%
Chimneys and Refractories Intern. S.R.L. (*)	Beroa Thermal Energy, S.L.	Industrial solutions	Italy	-	45.01%
Chimneys and Refractories Intern. S.P.A.	Chimneys and Refractories Intern. S.R.L.	Industrial solutions (dormant)	Chile	-	45.01%
Dominion-Uniseven Industrial Services Pvt, Ltd.	Beroa Thermal Energy, S.L.	Industrial services	India	-	35.00%
Refractories & Chimneys Construction Co. Ltda. (3)	Beroa Thermal Energy, S.L.	Industrial solutions	Saudi Arabia	-	49.16%
Beroa Technology Group GmbH (*)	Beroa Thermal Energy, S.L.	Holding company	Germany	-	50.01%
Karrena Betonanlagen und Fahrmischer GmbH (*)(in liquidation)	Beroa Technology Group GmbH	Construction and sale of cement mixers (dormant)	Germany	-	50.01%
HIT-Industrietechnik GmbH (for sale)	Karrena Betonanlagen und Fahrmischer GmbH	Metal welding	Germany	-	26.01%
Bierrum International Ltd.	Beroa Technology Group GmbH	Industrial solutions	UK	-	50.01%
Beroa NovoCOS GmbH	Beroa Technology Group GmbH	Industrial services	Germany	-	50.01%
Beroa International Co LLC	Beroa Technology Group GmbH	Industrial services	Oman	-	35.01%
Beroa Refractory & Insulation L.L.C	Beroa Technology Group GmbH	Industrial services	United Arab Emirates	-	24.50%
Beroa Nexus Company LLC	Beroa Technology Group GmbH	Industrial services	Qatar	-	24.50%
Beroa Deutschland GmbH (*)	Beroa Technology Group GmbH	Industrial solutions and services	Germany	-	50.01%
Karrena SRL (in liquidation)	Beroa Deutschland GmbH	Industrial services (dormant)	Italy	-	50.01%
Karrena Construction Thérmique S.A.	Beroa Deutschland GmbH	Industrial services (dormant)	France	-	50.01%
Beroa Polska Sp. Z o.o.	Beroa Deutschland GmbH	Industrial solutions and services	Poland	-	50.01%
Karrena Arabia Co. Ltd.	Beroa Deutschland GmbH	Industrial solutions and services	Saudi Arabia	-	27.51%

CIE AUTOMOTIVE, S.A. AND SUBSIDIARIES

APPENDICES TO THE NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR 2016

APPENDIX: LIST OF SUBSIDIARIES AND ASSOCIATES

Company	Parent Company	Activity	Registered office	% effective shareholding of CIE Automotive Direct	% effective shareholding of CIE Automotive Indirect
Beroa Chile Limitada	Beroa Deutschland GmbH	Industrial services (dormant)	Chile	-	50.01%
Burwitz Montageservice GmbH	Beroa Deutschland GmbH	Industrial solutions and services	Germany	-	50.01%
F&S Feuerfestbau GmbH & Co KG	Beroa Deutschland GmbH	Industrial solutions and services	Germany	-	25.51%
F&S Beteiligungs GmbH	Beroa Deutschland GmbH	Holding company	Germany	-	25.51%
Beroa Abu Obaid Industrial Insulation Company Co. W.L.L.	Beroa Deutschland GmbH (Beroa Technology Group GmbH until 2015)	Industrial services	Bahrain	-	22.50%
Global Near, S.L. (*)	Global Dominion Access, S.A.	Holding company	Vizcaya	-	50.01%
Dominion Digital, S.L.U. (*)(8)	Global Near, S.L.	Technological solutions	Vizcaya	-	50.01%
Tapquo, S.L.	Dominion Digital, S.L.U.(8)	Technological solutions	Vizcaya	-	50.01%
Advanced Flight Systems, S.L.	Dominion Digital, S.L.U.(8)	Technological solutions	Vizcaya	-	10.00%
Centro Near Servicios Financieros, S.L.	Global Near, S.L.	Technological solutions	Vizcaya	-	11.50%
DM Informática, S.A. de C.V.	Global Near, S.L.	Technological solutions	Mexico	-	50.01%
Near Technologies Mexico, S.A. de C.V.	Global Near, S.L.	Technological solutions	Mexico	-	50.01%
Bilcan Global Services, S.L. (*) (5)	Global Dominion Access, S.A.	Holding company	Cantabria	-	50.01%
Eurologística Directa Móvil 21, S.L.U.	Bilcan Global Services, S.L.	Commercial services	Madrid	-	50.01%
Tiendas Conexión, S.L.U. (6)	Bilcan Global Services, S.L.	Commercial services	Cantabria	-	50.01%
Sur Conexión, S.L.U (7)	Bilcan Global Services, S.L.	Commercial services	Cantabria	-	50.01%
Ampliffica, S.L.U. (*)(9)	Bilcan Global Services, S.L.	Holding company and technological solutions	Vizcaya	-	50.01%
Ampliffica Mexico, S.A. de C.V.	Ampliffica, S.L.U.(9)	Technological solutions	Mexico	-	50.01%
Wiseconversion, S.L.	Ampliffica, S.L.U.(9)	Technological solutions	Vizcaya	-	50.01%
Dominion Networks, S.L.U.	Bilcan Global Services, S.L.	Technology services	Madrid	-	50.01%
Dominion Centro de Control, S.L.U.	Bilcan Global Services, S.L.	Technology services	Madrid	-	50.01%
Autokomp Ingeniería, S.A.U. (*)	CIE Automotive, S.A.	Services and installations	Vizcaya	100.00%	
Forjas de Celaya, S.A. de C.V.	Autokomp Ingeniería, S.A.U.	Manufacture of automotive components	Mexico	-	100.00%
Nanjing Automotive Forging Co., Ltd.	Autokomp Ingeniería, S.A.U.	Manufacture of automotive components	China	-	50,00%
Componentes Automotivos Taubaté, Ltda. (*)	Autokomp Ingeniería, S.A.U.	Holding company	Brazil	-	100.00%
Autoforjas, Ltda.	Componentes Automotivos Taubaté, Ltda.	Manufacture of automotive components	Brazil	-	100.00%

(1) Companies added to consolidation scope in 2016 together with their subsidiaries.
(2) Merged in 2016 with CIE Hispamoldes Plastiques, s.a.r.l. d'au.
(3) The shares of Refractories & Chimneys Construction Co. Ltda. are 17% owned by Chimneys and Refractories Intern. S.R.L. and 83% by Beroa Technology Group GmbH, the group owning a total stake of 49.16%.
(4) Merged in 2015 with CIE Autometal S.A.
(5) Result of the merger between Bilcan Global Services, S.L. and Servicios Al Operador Móvil, S.L.
(6) Result of the merger between Your Phone, S.L. and Tiendas Conexión, S.L.
(7) Result of the merger between Sur Conexión, S.L. and Your Phone Franquicias, S.L.U.
(8) Formerly known as Near Technologies, S.L.U.
(9) Merged in 2016 through a reverse merger with Global Ampliffica, S.L.

(*) Parent of all investees listed subsequently in the table. (*) Parent company of all investees appearing subsequently in the table.

CIE AUTOMOTIVE, S.A. AND SUBSIDIARIES

DIRECTORS' REPORT FOR 2016
(Thousand euro)

1. CIE AUTOMOTIVE GROUP

1.1 Profile of the Group

CIE Automotive (from now on, “CIE” or “The Group”, interchangeably) is an industrial group specialist in high value-added processes, which develops its activity in two business areas: automotive components and applied innovation.

The business of **automotive components** encompassed the design, production and distribution of integral services, components and sub-assemblies for the global automotive market. This is CIE Automotive’s main activity since its foundation.

The business of **applied innovation** consists on the digitalization of the productive activities of the clients to increase its efficiency by means of a wide offer of solutions and technological services. This activity depends on Dominion, CIE Automotive's subsidiary since 2011.

1.2 Mission, vision, and values

Mission

We are an Industrial Group specialist in management of high value-added processes.

- We have devoted this concept of being a supplier of components and sub-assemblies for the global automotive market, with an action based on the utilization of complementary technologies and diverse associate processes.
- We apply this conception in the management, with an overall view in all the phases of the chain value.

We grow on a supported and profitable way to position ourselves as partner of reference across the satisfaction of our clients with integral, innovative and high value-added competitive solutions.

We look for the excellence on the following commitments:

- The continued improvement of processes and its efficient management.
- The promotion of participation, implication and teamwork in a pleasant and sure environment.
- The transparency and integrity in all our actions.
- Respect for the environment.

Vision

We aspire to be an:

- Industrial Group of reference specialist in high value-added processes.

Become the example of a socially responsible company by our commitment to:

- People and their fundamental right.
- Environment, encouraging initiatives to promote greater environmental responsibility
- Value creation
- Collaboration with stakeholders
- Excellence in management

Be a benchmark within the value chain for:

- Quality
- Technology
- Service
- Innovation
- Eco design

Values

People:

- Respecting their fundamental rights.
- Providing fair working conditions.
- Encouraging
    - Their initiative, creativity and innovativeness;
    - Participation and teamwork;
    - Their Capacity to attain goals and create value;
    - Positive attitude to change and continuous improvement.

Environment:

- Maintaining a precautionary approach.
- Working to minimize any negative impact.

Transparency in management:

- Promoting responsibility, integrity and commitment to a job well done.
- Making public clearly all relevant data of our activity so that they are known and understood.

Stakeholders:

- Promoting honest relationships.
- Respecting their rights.

Legality:

- Respecting national and international standards.

Honesty, fairness and integrity are the foundation of our values.

1.3 Business units

Automotive components

CIE Automotive is a supplier of completeness services, components and sub-assemblies for the automotive market.

The Group develops all its line of products across seven basic processes or technologies: forging, machining, aluminium, stamping, plastic, iron smelting and painting. With them, components and sub-assemblies are made for all the parts of a vehicle, such as: engine and transmission, chassis and sets of direction, and exterior and interior of the vehicle.

The customer portfolio is divided into two big categories: vehicle´s manufacturers (OEMs) and suppliers of the first level (TIER 1). Both categories represent, to equal parts, 50% of total sales.

Since its creation, the company has been gaining managerial volume in a sustainable way thanks to a unique business model, capable of avoiding adverse economic cycles and of increasing the profitability for its shareholders every year.

Five differential features support CIE Automotive’s business:

- Multilocation
- Diversification
- Multitechnology
- Management creating value
- Investments control

Applied Innovation

The Group is working on an autonomous and independent innovation project through its subsidiary Dominion.

Dominion is CIE Automotive's multi-sector, smart innovation platform. Its mission is to render productive processes more efficient either by means of fully outsourcing these processes or by implementing solutions based on specialised technology and platforms.

In services area, Dominion's business is focused on the development of powerful technology platforms designed to make higher-quality and more efficient use of resources. To this end, these platforms gather large amounts of data which are then handled in control centres in order to optimise management of a multi-tasking workforce and guarantee job quality and safety.

In solutions segment, customer and sector knowledge are key. Dominion makes productive processes more efficient by implementing technology provided by its partners or developed in-house. Layering in Dominion's financial acumen and its track record managing complex projects enables it to offer end-to-end EPC solutions. This is known as 360º solutions.

The company's business is specialised in three fields of expertise: Telecommunications and Technology (T&T), Industry and Renewable Energy.

What sets Dominion apart.

Dominion's approach to value creation, underpinned by its smart innovation model, is articulated around four key dimensions which are very similar to its parent CIE Automotive's key success drivers.

Dominion's 4 Ds are: Digitalisation, Diversification, Decentralisation and Disciplined Finances.

2. EVOLUTION OF THE BUSINESS

2. 1 Summary of the year

Europe:

This is CIE Automotive’s main market. The Group has 42 manufacturing facilities (two of which are multi-technology) in 11 countries: Spain, France, Germany, Italy, Portugal and the UK in Western Europe and the Czech Republic, Lithuania, Romania, Slovakia and Russia in Central and Eastern Europe. It also has one factory in Morocco.

CIE Automotive's factories are characterised by their specialisation, process automation, strategic commitment to innovation and continuous improvement philosophy. Against this backdrop, in 2016, CIE Legazpi continued to make progress on the automation of its forging lines and LT Forge successfully completed the transfer of several crankshaft projects. For the first time, the Group won orders for petrol direct injection parts.

During the year, the European forging factories integrated in the wake of the alliance with Mahindra - Mahindra Forgings Europe - continued to execute their action plan for bringing their margins in line with those of the rest of the Group's factories. This year, 2016, was a tough year for Mahindra Forgings Europe. The closure at the end of 2015 of Jeco, due to significant financial difficulties, and the subsequent transfer of several low-volume yet highly complex parts to other factories in Germany triggered congestion in the construction of tools, the certification process, in materials procurement and production circuits, etc, in turn prompting a period marked by quality and delivery issues, causing several customers to complain.

Fortunately, things began to improve by the middle of the year and the situation at year-end 2016 was deemed reasonable, meaning on-time deliveries, normal quality standards and the dissipation of customer tensions. Although this period of troubles meant the loss of the odd piece of business with certain customers, the fallout was reasonably contained. In early 2017, we are observing a stabilising situation free of issues on either the delivery or quality fronts.

NAFTA

CIE Automotive has 12 manufacturing facilities in Mexico (one of which multi-technology) and in the US which service the light vehicle market in NAFTA (US, Mexico and Canada) and, to a lesser extent, the Brazilian, European and Asian markets. This region is the Group's most profitable as well as one of its highest-potential markets, which is why the company plans on continuing to invest to increase its installed capacity.

In Mexico, CIE Automotive expanded its facilities, executing four greenfield builds in the machining, forging, stamping and aluminium areas; these facilities are expected to generate aggregate revenue of approximately €150 million in the coming years. The addition of the new factory following the acquisition of BillForge is expected to bear fruit in 2017.

In the US, the acquisition of the remaining 35% of Century Plastics reinforced the Group's position in the world's second-largest vehicle maker. After the growth of recent years, 2016 was marked by stability. It is worth highlighting the announcement by CIE Automotive in February 2017, subsequent to year-end, of the acquisition of American company Newcor, which has three machining factories in the US.

Asia:

CIE Automotive has 21 manufacturing facilities in Asia (one of which multi-technology). It entered this market via its strategic alliance with the Indian conglomerate Mahindra Mahindra, which culminated in the creation of the Mahindra CIE group.

In India, one of the region's main growth engines, the Group manufactures forged, smelted, machined, stamped and magnetic parts, as well as making composites. These factories are lifting their margins and establishing contacts with the main global customers.

This process will be bolstered by the purchase by Mahindra CIE of 100% of the shares of BillForge Private Limited, which has factories devoted to precision forging and machining in Bangalore, Coimbatore and Haridwar.

In China, the world's largest car producer, CIE Automotive increased its production by 44.1% in 2016. In this market it mainly makes products for the European OEMs with a manufacturing presence in this market. CIE has two factories in China, one of which is a multi-technology facility.

In the years to come, the Group expects to continue to expand in other countries in South-east Asia and win business from the Japanese and Korean OEMs, the market leaders in this region.

Brazil:

CIE Automotive's 12 factories in Brazil (three of which multi-technology) are specialised in the manufacture of plastic, stamped, forged, iron-cast, aluminium-injected and machined parts and are particularly competitive in plastic technology, colour body paintwork and chrome plating.

Despite turbulence on the political and economic fronts, in 2016, the factories continued to raise their efficiency and margins, leveraging their specialisation in value-added products.

Notwithstanding the difficulties of recent years, Brazil is still the world's ninth-largest vehicle producer and its ratio of vehicles per inhabitant remains well below that of developed economies, which is why CIE Automotive remains strategically committed to this market. Capacity utilisation remained high at most of CIE Automotive's Brazilian facilities, shaped in part by the closure of multiple local suppliers which have not been able to survive the crisis.

Solutions & Services:

Dominion has six divisions which are tasked with channelling Dominion's multi-sector, multi-technology proposition to the market:

- Dominion T&T Services is devoted to efficient management of productive processes by leveraging know-how.
- Dominion Commercial focuses specifically on commercial process efficiency.
- Dominion Industry concentrates on know-how in the manufacturing arena, proposing solutions and services that render productive processes in the various sub-sectors more efficient.
- Dominion Digital is home to Dominion's ability to design and develop in-house technology platforms and solutions configured to address areas for improvement detected in its customers' processes either directly or via projects with other divisions of Dominion.
- Dominion Engineering designs and executes integration projects which combine the firm's know-how and innovation capabilities with those of its partners, global leaders in their respective areas of expertise.
- Dominion 360 represents Dominion's technological, operational and financial innovation capabilities applied to large-scale EPC projects.

2.2 Financial indicators:

CONSOLIDATED GROUP:

(Thousand euro)	2016	2015
Consolidated revenue	2,879,042	2,631,520
Gross operating profit/(loss)-EBITDA	407,470	365,474
Net operating profit/(loss)-EBIT	279,326	244,306
Profit/(loss) before taxes cont. act.-EBT	251,255	186,670
Profit/(loss) for the year cont. act.	201,770	146,578
Profit/(loss) on discontinued operations	(11,567)	(763)
Profit/(loss) attributable to non-controlling interests	(27,853)	(16,751)
Profit/(loss) attributable to parent Company	162,350	129,064

Business performance:

Another year marked by record levels of revenue, EBITDA and net profit. Revenues were 9% higher year-on-year, while EBITDA were 11% stronger and net profit grew by 26% to €162 million in 2016 comparing to 2015.

Dominion's earnings performance was marked by a mix of non-recurring gains and charges which summed to a net charge of €2.1 million.

- The charges: the labour case in Brazil (€1.8m); restructuring work (€1.6m); and severance payments in connection with the acquisition of Abantia (€2.1m).
- The gains: a favourable ruling in a lawsuit with Abengoa (€2.1m) and the reversal of provisions related to lawsuits (€1.3m).

Below the EBITDA line there were also non-recurring items, again a mix of gains and losses.

- The gains, totalling €7 million, derived from the restatement of financial instruments to fair value and positive exchange differences.
- The Group also reported €4 million of gains within taxation based on an internal estimate of the Group's recurring taxation.
- Non-recurring losses, after tax, amounted to €11.5 million and derived from the remeasurement of available-for-sale assets on the basis of recent comparable market transactions.

In short, stripping out these non-recurring items, the Group would have reported €2.1 million more EBIT and net profit.

2.3 Predictable evolution of the Group

In May 2016, CIE Automotive presented its 2016-2020 Business Plan. These plan is marked by an ambitious target, namely that of doubling net profit over five years by means of organic growth to over €250 million by 2020, enabling shareholder remuneration in excess of €300 million throughout the projection horizon.

Market backdrop

Vehicle sales rose by 5% worldwide in 2016 to 92 million units. As a result, turnover in the automotive sector hit a new record, albeit still lacking the dynamism observed prior to the crisis.

China topped the country ranks by sales, recording growth of 12% thanks to stimulus programmes, followed by the US, which remained in second place, despite restrained demand for the most of the year, and Japan, where sales grew by 4.9%. Western Europe, as did Central Europe, continued to recover: the market grew by 6%. Meanwhile, some emerging markets such as Brazil and Russia continued to show signs of fragility, contracting by 20% and 11%, respectively.

In a year in which the overall figures point to sector strength, the trend in sales revealed certain weaknesses. Growth in China continues to slow; nevertheless, its growth remains the envy of the developed world. In Europe, Brexit unexpectedly cast uncertainty over the outlook for the market, while in the US, buying slowed during the tempestuous election campaign which culminated in the surprise victory of Donald Trump.

Against this backdrop, the outlook for the car industry is for continued strong growth in the coming years, albeit slowing with respect to prior years. Growth in China is set to continue to slow.

Western Europe will not be able to avoid the consequences of the UK's departure from the European Union, although there is scope for the European Central Bank to mitigate these consequences.

The arrival of Donald Trump in the White House with his plans to cut taxes and invest in infrastructure may well reactivate consumer spending and drive demand for vehicles; any new infrastructure would not, however, have an impact until late 2017.

Trends in the vehicle industry

The vehicle industry is being shaped by a series of trends that are destined to have a significant impact on the automotive parts industry:

- Widening vehicle margins
- Production of more environmentally-friendly vehicles
- Progress on vehicle autonomy

Dominion in its environment

Dominion's business is highly dependent on economic momentum in the various sectors and geographies in which it operates. Since it is a global supplier, its performance is shaped by global economic trends.

According to the International Monetary Fund (IMF), the global economy grew by a modest 3.1% in 2016, compared to 3.2% in 2015, a stable average that masks more pronounced differences between the various blocks of countries.

In the advanced economies, growth was more vigorous than expected, at 1.6%, fuelled by revitalisation of the manufacturing industry and the depletion of inventories. Growth picked up sharply in the US in the second half after a weak first half, with the economy at close to full employment. In the eurozone, growth remained below its rate of potential output. However, the preliminary figures for the last months of the year are more encouraging than initially anticipated for certain economies, including Spain and the UK, where internal demand has withstood the Brexit test better than expected. In Japan, meanwhile, growth topped forecasts.

The emerging economies registered growth of 4.1%, the same as in 2015. Some economies slowed unexpectedly, particularly some of the Latin American economies, such as Argentina and Brazil; on the other hand, Turkey, China and Russia outperformed expectations slightly.
Dominion's performance is also shaped by certain macro-trends which throw up opportunities for the Group's smart innovation business:

- Business process outsourcing
- Growing regulatory requirements and search for energy efficiency
- Demand for end-to-end solutions and services
- Growth potential deriving from current market fragmentation

2.4 2016-2020 Business Plan

Last year, CIE Automotive unveiled its new 2016-2020 Business Plan to the market, undertaking to double net profit to over €250 million within five years' time by means of organic growth.

Business Plan levers

The new business plan was published after the Group delivered ahead of schedule, in 2015, some of the key targets laid down in its prior 2013-2017 Business Plan, such as that of doubling 2013 profits.

The company has therefore laid unbeatable foundations for achieving these new challenges, having successfully implemented the lines of initiative targeted in 2013: penetration of the Asian market (via the alliance with India's Mahindra Mahindra), growth via greenfields (built in Mexico, Brazil, China, India and Russia) and maintenance of a solid financial position thanks to disciplined investment and new sources of financing.

The new 2016-2020 Business Plan is based on the same key factors that have enabled CIE Automotive to deliver its targets for the past 20 years: industrial vocation coupled with financial-mindedness, compelling customer, geographic and product diversification, continued focus on process efficiency, decentralisation and simplification of the chain of command implementing a business-minded mentality and a strict opportunity cost and expected returns-based M&A policy.

New factors are also coming into play such as the Group's growing reputation, generational succession and progress in today's digital world towards smart factories (factories 4.0).

Lines of initiative

CIE Automotive has pledged to pursue the following lines of initiative and deliver the targets associated with each:

a) Organic growth:

CIE Automotive plans to increase its market and customer penetration and develop value-added components with the aim of driving compound annual revenue growth of 7%. To achieve this, it will undertake 19 greenfield projects (building new facilities or expanding existing ones), adding capacity in all key geographies.

The goals enshrined in the 2016-2020 Business Plan include a return on net assets (RONA) of between 20% and 25%, expansion of the EBIT margin to 12% by means of productive upgrades and capital expenditure of approximately 6% of revenue per year.

This scenario will translate into healthy cash flow generation, enabling the Group to commit to a leverage ratio (net debt/EBITDA) of around 0.5x by the end of the projection period.

b) M&A-led growth:

As a result of the low leverage CIE Automotive would present if it meets its organic growth targets, over the five year horizon the Group would be in a position to acquire new companies that would add around €1 billion to revenue (€700m in the automotive business and €300m in smart innovation) without driving its net debt-to-EBITDA ratio above 2x by the end of the period.

Sustainability

The 2016-2020 Business Plan includes the initiatives contemplated in CIE Automotive's Corporate Social Responsibility Plan, embracing the action plans envisaged in the 2015-2018 Sustainability Plan.

This plan sets the following targets:

- Supporting CIE Automotive's Business Plan and mitigating reputational risks.
- Enhancing the Group's CSR positioning.
- Increasing non-financial information controls and security.
- Responding appropriately to customer needs in the CSR arena.
- Capturing new talent to facilitate growth.
- Mitigating supply chain risks.
- Responding to good governance regulatory requirements and recommendations.

Based on CIE Automotive's current level of readiness and prioritisation in terms of their impact on the organisation, the following initiatives were undertaken in 2016:

- Formulation of CIE Automotive's Ethics Framework to guarantee knowledge, oversight and application of the Group's rules of conduct in all its business markets. To this end, the new Code of Conduct, approved in December 2015, was distributed throughout the entire organisation, and the Whistle-Blowing Channel was fine-tuned to enhance its effectiveness and fit-for-purpose.

- Systematisation of the process of identifying stakeholder expectations and aligning these with the idiosyncrasies of each of the geographies in which CIE has a significant presence and with the business strategy.
- Website publication of certain corporate policies within the purview of the Board of Directors to ensure compliance with Spain's Corporate Enterprises Act and reinforce CIE Automotive body of internal rules and regulations.
- Approval of a Tax Strategy and associated reporting model and publication of the Tax Strategy, enabling the Board of Directors to oversee the correct functioning of the tax compliance function, thereby mitigating tax risks.
- Integration of ESG risks into supply chain management to reinforce CIE Automotive's purchasing processes with a dual objective: effective management of ESG risks posed by suppliers and management of the associated reputational risk.
- Definition of a Talent Development Plan to guarantee coverage of key positions and retain the most talented professionals.
- Establishment of an Eco-Efficiency Plan, including a monitoring regime with specific reduction targets at the factory level and a reporting system for the related information so that performance in this connection can be duly monitored.
- Definition of a Community Action Management Model so that CIE Automotive can effectively manage the donations and other community contributions made across its business markets. To compile all this information, the Group conducted a global survey using SAP.

Other lines of initiative are in the process of implementation; they are related to integrating ESG criteria into the growth, employee training, risk identification and management efficiency processes, among others.

3. QUALITY AND ENVIRONMENT

The Group CIE Automotive, as company with vision of future, in correspondence with the principle of sustainable development, is permanently committed with respect to the environment in all its activities. This commitment, clearly explicit in its declaration of mission, vision and values, is fully integrated in their management model.

The Group supports his bet for being kept as leader of ecodesign of products for the market of automotive, in the same way that Dominion is a bet decided on the sustainability and for promoting businesses that try an improvement of different aspects the reduction of the environmental fingerprint and consumptions of matters of the companies for that it develops projects, as well as a major job safety and the support to the social development in the zones in which it has presence.

The Group works to support the necessary balance between its industrial activity and its environment. With our attitude of systematic review, we manage to anticipate and to minimize the environmental impact of our activities from the design of the product. Likewise, our knowledge about productive processes allows us to decide on what aspects we must focus our efforts to optimize our consumption of raw materials, energy, water, etc.

CIE Automotive has a last generation system of recycling what allows to re-use internally, like example, thousands of tons of shaving aluminium proceeding from the processes of machining, for the smelting of new pieces or also the scrap, raw material for the fusor towers.

The water is other of the resources with a more intensive use in the production of pieces that need the processing of materials at high temperatures. CIE Automotive has own facilities for its treatment and recovery in different qualities to reduce to the maximum its spillages.

Last generation products with sustainable vocation

CIE Automotive does not bet only for the sustainability in its processes, its commitment is also implicit in its products in which is working for the substitution of metallic materials for plastic substitute, which lightens the weight and in consequence, reduces the consumption of the engines. The Group continues investigating the management of the fluids in the environment of the engine to meet with the protocols of gas emission to the atmosphere.

In this respect, there are projects underway to develop eco-efficient pieces of engine as the lid of butt with a system of blowby gas of the combustion.

(Thousand euro)

The sustainability in CIE Automotive´s business

CIE Automotive contemplates the goal to turn into paradigm of the sustainability into the sector of the automotive. This market is going to face serious challenges in the future as the progressive incorporation of ecological engines as response of the increase of the oil price and the increase of the environmental requirements in the cities. In these new engines, CIE Automotive has much to contribute.

The organization is constantly working within each of its plants to improve different aspects such as reducing the impact on the environment, increase security in work and social action support in those most disadvantaged areas.

Continuous improvement

Each year, CIE Automotive adds new companies to its fold, making it increasingly important to be able to convey our best practices wherever they are needed.

Our ability to improve continuously goes beyond the borders of each company and technology class (aluminium, stamping, machining, etc.,) and is crucial to the transfer of best practices.

The basic indicators in this respect are clearly trending in the right direction, indicating that this process is very much alive and well in all areas of the management effort.

Certifications

All of CIE Automotive's factories are certified under the ISO/TS standard that is mandatory in the automotive market.

In 2016, revised versions of the ISO 9000 quality standards and ISO 14000 environmental standards were published. In addition, the automotive-specific standard ISO/TS 16949 has become IATF 16949.

In light of these new requirements, in addition to the corporate social responsibility effort, we have made the required updates, which are set to be rolled out throughout the entire CIE organisation in early 2017.

It is a requirement in the Automotive market that the entire supply chain be certified by a third party, an independent certification body, in keeping with the standards laid down by ISO/TS 16949 and ISO 14000.

CIE Automotive goes beyond this requirement by additionally committing to certifying all its factories under the OSHAS 18000 health and safety standard, as is enshrined in its triple certification pledge which is applied to all the new companies it brings on board.

The table below outlines the certification status of the Group's plants on these three fronts:

Certification	CIE plants	Certified factories	%
ISO TS 16949	85	82	96
ISO 14000	85	74	87
OHSAS 18000	85	41	48
ISCC (*)	1	1	100

(*) International Sustainability and Carbon Certification

Recognition

CIE Automotive received a series of prizes in 2016, having been named best supplier by several leading OEMs.

These prizes endorse and raise the visibility of the work performed by everyone comprising CIE Automotive, motivating us to forge ahead with our continuous improvement and customer satisfaction efforts.

Key customer awards:

- Ford, “Top Suppliers Awards 2016” for Autometal Camaçari and CIE Autocom Brasil.
- PSA "PSA Best Plant 2016" awarded to ACS Orense.
- General Motors gave its “Supplier Quality Excellence Award” to the following plants: MAR SK, Egaña and Udalbide in Europa and PEMSA Celaya in the Americas.

- M&M "Excellence Award" for Forging Pune and Gears Rajkot, both in India.
- Cummins awarded "Preferred Supplier" status to Foundry, Urse.
- VW "Zero Defects Strategy" was awarded to PEMSA Celaya.
- Nissan Group gave its "Regional supplier quality award" to PEMSA Celaya.
- Sisamex named CIE Legazpi "Excellent Supplier".

4. HUMAN RESOURCES

CIE Automotive is aware that its human capital is the base on what to construct its strategy and the management key of the success of the Group.

CIE Automotive is formed by a great team close to 26,000 people, with a continued growth, and to be facing always new challenges, have turned us into an organization:

- Dynamic, innovative, orientated to the change and in constant improvement.
- Plural, where there have content people with all academic levels and experience, from newly titled to the most experienced.
- Formed for people with passion for learning, creating and innovating, looking always for a better way of doing things. For this, people are our major assets. They are those who lead the change, assuming his vital and professional project. In consequence, we promote the Professional Development in our organization with personalized career plans at all the levels.
- Bets on the Permanent training and adapted to our programs of development.

The Group CIE Automotive is characterized by the importance granted to people in the company. Their growth, professional and personal developments are key for us. We consider the formation and the development to be one of the Props of the Company and a basic process in the management of the Human Resources.

Because of it, we have a Professional Development Program (PDP) in which the Formation and Evaluation is an essential tool to advance towards our Vision.

Through the Professional Development Program, the Group offers all the tools and possible opportunities of professional growth to its employees, and this one is also the axis around which revolves the Model of Persons' Management, with which are defined profiles and skills of its staff, it is evaluated the management of the executives, controls and technical staff, simultaneously the areas of improvement and the career plans and formation are designed.

Once again, in 2016, the Group undertook numerous training initiatives, providing over 494,000 hours of training in the Automotive business. These activities were analysed continually to ensure strict control over quality and check their effectiveness. The knowledge acquired by course participants is not only evaluated during the courses but also subsequently, on the job, when a second check is performed to verify application of the concepts learned.
In this way, the training work promoted by CIE Automotive has always the guarantee to be aligned not only with the staff needs, but also with the organization objectives.

Zero Risk

An industrial activity like CIE Automotive needs to observe the most demanding procedure of prevention of labor risks. The Group demonstrates this priority through one of its goals of quality, that of zero accidents.

In 2016, as in previous years, the area of Prevention of Labor Risks has stood out for its formative and prevention effort in areas such as the safety and ergonomics, with special focus on high-level training for the middle management in which was given numerous hours of class organized in diverse courses.

At the same time it has been kept a strict internal audit of the systems of management of labor risks in the plants, observing some standards over the legal requirements established by the authorities. The same level of exigency has been applied at the moment of valuing, coordinating and certifying the contracts and auxiliary companies that have access to CIE Automotive's facilities, considered in this respect with the same responsibility toward prevention of risks as any other member of the Group.

(Thousand euro)

CIE Automotive's plants have continued developing its own plans of prevention of labor risks, main tool and of proven efficiency, to observe the fulfillment of the corrector actions, of reduction of labor accident rate and optimization of the preventive actions.

This host of initiatives translated into growth in the number of the Group's plants certified under the OSHAS standard (to 41), evidencing the commitment to the prevention of accidents in the workplace and the effectiveness of its strategy in this arena.

As every year, CIE Automotive continues taking part actively and is a distinguished member of one of the more important associations and forums dedicated to the prevention of labor risks, as the Forum Guipúzcoa of Prevention of Labour Risks (ADEGI) or the Committee of Prevention of the employer from Alava (SEA).

Internal communication

In the same way CIE Automotive supports a transparent communication with the sector, the authorities and the company, internally it has different tools that allow, not only to transmit the news and relevant facts of its activity between its own personnel, but to share a corporate common culture, based on the same values and aims, as well as the best practices.

Not only through satisfaction surveys, tool that allows the direction to know the efficiency of the policies developed in different areas, but also through the Portal CIE Automotive, that continues being a fundamental element for the internal communication, and an internal magazine "Noticias", which provides every six months the innovations of the company, the company has supported its effort for having all its professionals informed about its activities of training, new techniques and technologies, as well as on the international experience of the Group.

Number of employees

The number of employees of the group CIE has doubled in the recent years, being the numbers to closing of each exercise:

2010	12,352
2011	14,335
2012	16,284
2013	18,435
2014	23,528
2015	22,820
2016	26,083

The distribution of sexes is, to the closing of 2016:

Men	85%
Woman	15%

5. CORPORATE SOCIAL RESPONSIBILITY

The Board of Directors of CIE is responsible for setting the Group's Corporate Social Responsibility Policy, which it approved in 2015, in order to establish the basic principles and general framework governing management of the sustainability practices embraced by the Group.

The principles of this policy are the basis for the integration of corporate responsibility into the business model and in its strategy, creating long-term value for all stakeholders and for Company itself.

The monitoring Corporate Social Responsibility Policy of CIE Automotive, S.A. is responsible for the Corporate Social Responsibility Committee, established in 2015, who delegates to the new Corporate Social Responsibility Transversal Committee the monitoring regarding the application of its principles. This committee consists of eight members of different areas. The application of performance of the Corporate Social Responsibility Policy and the possible associated risks are embedded within the Risk Control and Management Policy, where following the methodology of ISO 31000 (methodology regarding the risk management generally accepted in the market) and with the participation of Senior Management and Management Team, it is produced an annual risk map.

The main tasks performed on Corporate Social Responsibility in 2016 were:

- Preparation of the 2015 Annual Report, paying particular attention to materiality, transparency and accessibility criteria. Oversight of compliance with the 10 principles of the Global Compact, which CIE adhered to in October 2015, and derive from:
  - the Universal Declaration of Human Rights.
  - the International Labour Organisation's Declaration of Fundamental Principles and Rights at Work.
  - the Rio Declaration on Environment and Development.
  - the United Nations Convention Against Corruption.

  Adhesion to the Global Compact prompted the implementation in 2016 of various policies and procedures, engaging and involving key suppliers in this process. The company has established corporate social responsibility controls, using the SAP Process Control tool, to measure its performance on various fronts: supply chain, human resources, environmental management.

- On-target execution of the 2015-2018 Strategic Corporate Social Responsibility and Sustainability Plan with the assistance and contributions of the senior officers and executive team.

- In terms of community work, the Group collaborated with the Real Sociedad Foundation, providing sports equipment to children's clubs, and pilot-tested a collaboration with the Vizcaya Food Bank.

- Addressing the questions and concerns of CSR and sustainability analysts: VIGEO, FTSE, MSCI and ECOVADIS.

- Membership of Forética to encourage the integration of ESG criteria into the Group's strategy and management. CIE is also a member partner of the Transparency, Governance and Integrity Cluster set up by Forética, which has created the ethical and CSR standard known as SGE 21, the first social responsibility management system to enable voluntary certification.

Lastly, CIE Automotive received a prize from the San Prudencio Foundation in the Social Responsibility Initiative category for its commitment to Basque society by creating jobs and wealth. Moreover, as a result of its good work on the CSR front, Renault gave CIE's Moroccan factory a prize in this category as part of its Supplier Awards for 2016.

6. FINANCIAL RISK MANAGEMENT

CIE Automotive has a Policy of Identification and Management of risks, which allows them to identify, evaluate and give response to eventual contingencies in the development of its activity, which, in case of materializing, might difficulty attainment of the corporate objectives.

This policy, whose supervision relapses into the Commission of Audit and Fulfillment, identifies the different types of risks that the company faces - between them, the financials or economics, the contingent liabilities and other risks out of the balance sheet, fixes the level of risks that are considered acceptable and establishes the opportune measures to mitigate its impact in case it was materialized. To put it into practice, the company possesses informational systems and internal control.

The procedure of global management of CIE Automotive’s risks is based on the methodology ISO 31000, one process of constant cycle in five phases: identification of the risks, evaluation of the same ones, determination of the response, follow-up of the approved actions and report of the realized analysis.

Annually, a Corporate Map of Risks is drawn, which contemplates and values not only the risks inherent to the countries, markets and businesses where it operates, also internal operation of the company.

Financial risk factors

The Group’s activities expose it to a variety of financial risks: market risk (including currency risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group’s overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group’s financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

In the broadest sense, the goal of the management of financial risk is to control the incidents generated by fluctuations in exchange and interest rates and the price of raw materials. Management of these risk factors, which is the responsibility of the Group's Finance Department, focuses on the arrangement of financial instruments in order to build, as far as possible, exposure to favorable trends in exchange and interest rates, subject to compatibility with the mitigation, in part or in whole, of the adverse effects of an unfavorable environment.

a) Market Risk

(i) Foreign Exchange risk

The Group's presence in international markets obliges it to arrange an exchange rate risk management policy. The overriding objective is to reduce the adverse impact on its activities in general and on the income statement in particular of the variation in exchange rates so that it is possible to hedge against adverse movements and, if appropriate, leverage favourable trends.

In order to arrange such a policy, the Group uses the Management Scope concept. This concept encompasses all collection / payment flows in a currency other than the euro expected to materialize over a specific time period. The Management Scope includes assets and liabilities denominated in foreign currency and firm or highly probable commitments for purchases or sales in a currency other than the euro. Assets and liabilities denominated in foreign currency are subject to management, irrespective of timing, while firm commitments for purchases or sales that form part of the Management Scope are also subject to management if they are expected to be recognized on the balance sheet within a period of no more than 18 months.

Having defined the Management Scope, the Group uses a series of financial instruments for risk management purposes that in some instances permit a certain degree of flexibility. These instruments are essentially the following:

- Currency forwards: These contracts lock in an exchange rate for a specific date; the timing can be adjusted to match expected cash flows.
- Other instruments: Other hedging derivatives may also be used, the arrangement of which requires specific approval by the relevant management body. This body must be informed beforehand as to whether or not it complies with requirements for consideration as a hedging instrument, therefore qualifying for hedge accounting.

The Group protects against loss of value as a result of movements in the exchange rates other than the euro in which its investments in foreign operations are denominated by similarly denominating, to the extent possible, its borrowings in the currency of the countries of these operations if the market is sufficiently deep or in a strong currency such as the dollar, insofar as dollar correlation to the local currency is significantly higher than that of the euro. Correlation, estimated cost and depth of the debt and derivative markets determine policy in each country.

The Group has several investments in foreign operations whose net assets are denominated in US dollars, exposing it to foreign exchange translation risk. The exchange risk on the net assets of the Group's foreign operations is mainly managed through natural hedges achieved by borrowings (loans) denominated in the corresponding foreign currency.

The exposure on the rest of the assets denominated in other foreign currencies in respect of operations in countries outside the Eurozone is mitigated basically by denominating borrowings in these currencies.

In 2014 and 2013 the Group acquired majority shareholdings in companies located in India, so that from this year on, the trend in the Indian Rupee will be monitored in the same manner as other international Group investments denominated in currencies other than the euro.

(ii) Price risk

CIE Automotive Group is exposed to equity securities price risk because of investments that are classified on the consolidated balance sheet either as available-for-sale or at fair value through profit or loss. However, the scant weight of these securities as a percentage of total Group assets and equity means that this risk factor is not material.

iii) Interest rate risk

The Group's borrowings are largely benchmarked to variable rates, exposing it to interest rate risk, with a direct impact on the income statement. The general objective of interest rate risk management strategy is to reduce the adverse impact of increases in interest rates and to leverage as far as possible the positive impact of potential interest rate cuts.

In order to attain this objective, the risk management strategy materializes in the arrangement of financial instruments designed to provide such flexibility. The strategy expressly contemplates the possibility of arranging hedges for identifiable and measurable portions of cash flows, which enables hedge efficiency testing as required to evidence that the hedging instrument reduces the risk of the hedged item in the portion designated and is not incompatible with the established strategy and objectives.

The Management Scope encompasses the borrowings recognized in the balance sheet of the Group and any of its companies. On occasion, hedges are arranged to cover loans committed and in the final stages of arrangement and which principal on which needs to be hedged against rate increases.

In order to manage this risk factor, the Group uses financial derivatives that may be qualified as hedging instruments and therefore hedge accounting. The corresponding accounting standard (IAS 39) does not specify the type of derivatives that may be considered hedging instruments except for options issued or sold. It does, however, specify the prerequisites for consideration as hedging instruments. In line with the management of foreign exchange risk, the arrangement of any financial derivative which is suspected not to comply with the prerequisites for consideration as a hedging instrument requires the express approval of the relevant management body. By way of example, the basic hedging instruments are the following:

- Interest-rate swaps: Through these derivatives, the Group's segments convert the benchmarked variable interest rate of a loan to a fixed benchmark with respect to all or part of the loan and affecting all or part of the term of the loan.
- Other instruments: As discussed in the section on foreign exchange risk management, other hedging derivatives may also be used, the arrangement of which requires the specific approval of the relevant management body. The management body must be informed beforehand as to whether the instrument meets the prerequisites for qualifying as a hedging instrument and, by extension, hedge accounting.

Liquidity Risk

The Group carries out the prudent management of liquidity risk, maintaining enough cash and available financing through sufficient credit facilities. In this respect, the Group's strategy, articulated by its Treasury Department, is to maintain the necessary financing flexibility by maintaining sufficient headroom on its undrawn committed borrowing facilities. Additionally, and on the basis of its liquidity needs, the Group uses liquidity facilities (non-recourse factoring and the sale of receivables, transferring the related risks and rewards), which as a matter of policy do not exceed roughly one-third of trade receivable balances and other receivables, in order to preserve the level of liquidity and working capital structure required under its business plans.

Management monitors the Group's forecast liquidity requirements together with the trend in net financial debt.

The Group believes that the on-going initiatives will prevent liquidity shortfalls. In this respect, it is estimated that cash generated in 2017 will enable payments for the year to be settled with no need to increase the net financial debt.

The Group monitors the Group's forecast liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining enough headroom on its undrawn committed borrowing facilities at all times so that the Group does not breach borrowing limits or covenants on any of its borrowing facilities.

In addition, the Group is strategically diversifying the financial markets and financing sources as a tool for eliminating liquidity risk and retaining financing flexibility in light of the situation prevailing in the European financial markets; this strategy has opened up access to the Brazilian, Mexican and Indian financial markets.

There are no restrictions regarding the use of cash/cash equivalents.

Noteworthy is the existence at 31 December 2016 of €268 million of undrawn credit lines and loans.

Although the standalone figure for working capital is not a key parameter for the understanding of the Group financial statements, the Group actively manages working capital through net operating working and short- and long-term net borrowings, on the basis of the solidity, quality and stability of relations with customers and suppliers, and comprehensive monitoring of the situation with respect to financial institutions, many credit lines being automatically renewed.

One of the Group's strategies is to ensure the optimization and maximum saturation of the resources assigned to the business. The Group therefore pays special attention to the net operating working capital invested in the business. In this regard, as in previous years, considerable work has been performed to control and reduce collection periods for trade and other receivables, as well as to minimize inventories through excellent logistic and industrial management, allowing JIT (just in time) supplies to our customers.

The Groups' managements controls effectively the expenditure payments periods and the realization of the working capital through an intensive monitoring of cash flow forecast. Thus, it fulfills with the objective of ensuring that the Company has sufficient cash in order to face the operative requirements and that maintains all the time enough availability regarding the credits not used, in order not to fail meeting with the covenants established by financing. Hence, it is estimated that the cash flow generation in 2017 will cover the requirements for facing up the short-term commitments, and for avoiding through current acts any tense situation regarding cash flow position.

b) Credit risk

Credit risk are managed by customer groups. Credit risk arising from cash and cash equivalents, derivative financial instruments and bank deposits is considered immaterial in view of the creditworthiness of the banks the Group works with. If management detects liquidity risk in respect of its banks under certain specific circumstances, it recognizes impairment provisions as warranted.

In addition, each segment has specific policies for managing customer credit risk; these policies factor in the customers' financial position, past experience and other customer-specifics.

With respect to customer credit limits, it should be noted that Group policy is not to concentrate more than 10% of business volumes with individual customers or manufacturing platforms.

Given the characteristics of the Group's customers, management has historically deemed that receivables due within 60 days, in the automotive segment, and between 120 and 180 in the Smart Innovation segment (Note 5), presenting no credit risk. The Group continues to consider the credit quality of these outstanding balances to be strong.

c) Raw material price risk

The Group has not a significant risk in raw price variations. In these societies when the risk could exist in market specific situations (plants of the automotive segments which use raw materials with market price), the risk is controlled thanks to financing prices agreements to customers.

7. R&D ACTIVITES

Having analysed the trends and challenges looming for the years to come in the automotive industry, in 2016, CIE Automotive continued to pursue and fine-tune its R&D activities, which are concentrated around its key products and processes, in order to satisfactorily respond to its customers' foreseeable demands in the future.

On the one hand, the Group extended its efforts related to the vehicle weight reduction trend, mainly via the main structures, the fuel consumption and emission reduction trend, development of products using new materials, including multi-material structures, the development of new joining technologies and the manufacture of prototypes embedded with these new concepts.

Another important part of the R&D effort was associated with analysis of how the parts made by the Group can contribute to reducing the fuel consumption and emissions of petrol and diesel internal combustion engines and increasing their efficiency, prompting us to work on surface finishings in an attempt to reduce friction.

We continue to work towards Industry 4.0 with the aim of progressing towards smart factories. Here we are working on three main fronts: increasing quality, making production lines more flexible and introducing smart technology into productive processes.

As a result, the convergence and cross-fertilization of the physical and digital worlds remained a core thrust of the R&D effort. More specifically, analysing what kind of sensors and smart systems we need, detecting real production conditions and systematising controls and information, identifying what level of automation we want to attain and how to best deploy robotics looking at ideas such as making robotic lines more flexible and using collaborative robotics were some of the priority issues worked on in 2016, without neglecting the need to implement data processing, communication and visualisation systems into the production process and our value chain.

In parallel, we continue to work to stay at the forefront of what the OEMs and TIER 1 suppliers are doing on the R&D front by means of our continued presence in various regional, national and international forums.

(Thousand euro)

The following stood out last year: CIE Automotive presides the automotive cluster in the Basque region, ACICAE; we are members of the management board of the national association of OEMs and part makers, SERNAUTO; we are members of the technology taskforces of the European associations, ERTRAC, CLEPA and EGVIA, helping to define the strategic agendas that will be later presented in the form of recommendations to the European Commission with the aim of having them reflected in the work programmes of the various H2020 tender calls; and we preside the Industry 4.0 pilot test in the Basque region.

8. TRADING IN TREASURY SHARES

At 31 December 2016 and 2015, the parent Company does not have treasury shares and no movements have taken place in 2016.

The mandate awarded by the Shareholders' General Meeting celebrated on 26 April 2021, is valid until 26 April 2016 by which the Board of Directors of the Company is authorized to acquire CIE Automotive S.A. shares, at any time, and whenever considered appropriate through any of the means accepted by the law even charged to the income statement and/or unrestricted reserves, or being sold or amortized thereafter in accordance with article 146 and its regulations from the Law on Corporations.

9. AVERAGE PAYMENT PERIOD TO SUPPLIERS

The breakdown of trade payables settled during 2016 and 2015 those pending of payment at the year-end in relation to the legally-permitted payment terms stipulated in Spanish Law 15/2,010 of 5 of July, is as follows:

	Days	
	2016	2015
Paid operations ratio	84	71
Outstanding operations ratio	91	85
Average payment period to suppliers	73	54

	Thousand euros	
	2016	2015
Total payments made	860,717	627,295
Total outstanding payments	570,255	486,727

Although some companies have exceeded the payment term stipulated for national suppliers in Spanish Law 15/2010, in 2016 a series of measures were rolled out with the aim of identifying deviations by means of ongoing monitoring and analysis of supplier accounts payable, the review and enhancement of internal supplier management procedures and fulfilment of the terms and conditions defined in the business transactions subject to this legislation, updating these terms where required.

10. STOCK EXCHANGE INFORMATION

Share price gains mirroring business growth

CIE Automotive’s share price performance mirrored the company’s business and earnings momentum, rallying throughout the year.

In a year marked by volatility across the main markets, CIE Automotive's shares gained nearly 20%, peaking at €18.98 and ending 2016 at €18.52, implying a market capitalisation at year-end of €2.39 billion.

Dividend

CIE Automotive maintains its politics to remunerate one third of the estimated net profit. The Board of Directors approved in December an interim dividend agreeing the disbursement of an interim dividend charged to 2016 of €0.20 per share. Disbursement was effective January 5, 2017.

11. EVENTS AFTER THE BALANCE SHEET DATE

On 16 January 2017, the Group through its Brazilian subsidiary Autometal, S.A., has acquired an additional 34.9% of the share capital of the also Brazilian company, Durametal, S.A. for an amount of 20 million Brazilian reales (approximately €5.8 million). After this acquisition, the share hold percentage hold by the Group in Durametal, S.A. amounts to 84.9%.

Also, on February 7, 2017, the Group signed a contract for the acquisition of the entire share capital of the US corporation Newcor, Inc ("Newcor"). The transaction, when materialized, will mean an estimated investment by CIE Automotive of USD106 million (approximately €100 million) in the payment of the price of the operation (to be disbursed in cash). This amount represents a value equivalent to 5 times the EBITDA of Newcor for the year 2016.

Newcor is a company specialized in the design and production of high precision machined components and subassemblies, powertrain and transmissions for the automotive sector and has three production plants in the State of Michigan. Its annual sales amount to approximately USD150 million and its customers include the leading vehicle builders (OEM) and Tier 1 suppliers, with a significant presence in the United States of America.

The closing of the transaction is conditioned to the obtaining of the habitual authorizations in this type of transactions, among which is the authorization of the authorities of Competence. It is hoped to be closed during the first quarter of the current year 2017.

The costs of these transactions will be paid by using CIE Automotive's ordinary finance resources.

APPENDIX I

CORPORATE GOVERNANCE ANNUAL REPORT OF LISTED COMPANIES

COMPANY IDENTIFICATION DATA

PERIOD OF REFERENCE CLOSING DATE:	12/31/2016

T.I.N.	A-20014452

COMPANY NAME
CIE AUTOMOTIVE, S.A.

REGISTERED OFFICE
ALAMEDA MAZARREDO, 69 - 8º - 48009 BILBAO (VIZCAYA)

CORPORATE GOVERNANCE ANNUAL REPORT FOR LISTED COMPANIES

A. STRUCTURE OF OWNERSHIP

A.1 Complete the following table on the company's capital:

Date of latest modification	Share capital (€)	Number of shares	Number of voting rights
06/06/2014	32,250,000.00	129,000,000	129,000,000

State whether there are different classes of shares with different associated rights:

YES [ ] NO [X]

A.2 Give details on the direct and indirect holders of significant interest in your company at the year-end, excluding Directors:

Name of shareholder	Number of direct voting rights	Number of indirect voting rights	% total voting rights
MAHINDRA & MAHINDRA LTD	0	16,040,706	12.43%
QMC II IBERIAN CAPITAL FUND, FIL	4,417,679	0	3.42%
ALANTRA ASSET MANAGEMENT, SGIIC, S.A.	0	7,169,286	5.56%
INVERSIONES, ESTRATEGIA Y CONOCIMIENTO GLOBAL CYP, S.L.	6,450,000	0	5.00%
RISTEEL CORPORATION, B.V.	16,900,021	0	13.10%

Name of the indirect holder of the interest	Through: Name of the direct holder of the interest	Number of direct voting rights
MAHINDRA & MAHINDRA LTD	MAHINDRA OVERSEAS INVESTMENT COMPANY (MAURITIUS) LTD.	16,040,706
ALANTRA ASSET MANAGEMENT, SGIIC, S.A.	OTHER SHAREHOLDERS	7,169,286

List the most significant changes in the shareholder structure during the year:

Name of shareholder	Date of the transaction	Description of the transaction
SANTANDER ASSET MANAGEMENT S.A., SGIIG	04/18/2016	Decrease a 3% of share capital

A.3 Complete the following tables on members of the Board Directors´ voting rights at the company:

Name of the Director	Number of direct voting rights	Number of indirect voting rights	% total voting rights
MR. FERMÍN DEL RIO SANZ DE ACEDO	25,000	0	0.02%
MR. ANTONIO MARÍA PRADERA JAUREGUI	6,450,009	6,450,000	10.00%
MR. JESÚS MARÍA HERRERA BARANDIARAN	450,000	0	0.35%
ADDVALIA CAPITAL, S.A.	6,450,208	0	5.00%
MR. VANKIPURAM PARTHASARATHY	5	0	0.00%

Name of the Director	Number of direct voting rights	Number of indirect voting rights	% total voting rights
ACEK DESARROLLO Y GESTION INDUSTRIAL, S.L.	10,072,182	16,900,021	20.91%
ELIDOZA PROMOCION DE EMPRESAS, S.L.	12,386,138	0	9.60%

Name of the indirect holder of the interest	Through: Name of the direct holder of the interest	Number of voting rights
MR ANTONIO MARÍA PRADERA JAUREGUI	INVERSIONES, ESTRATEGIA Y CONOCIMIENTO GLOBAL CYP, S.L.	6,450,000
ACEK DESARROLLO Y GESTION INDUSTRIAL, S.L.	RISTEEL CORPORATION, B.V.	16,900,021

% total of voting rights held by the Board of Directors	49.84 %

Complete the following tables on members of the Board of Directors who hold rights about shares in the Company.

A.4 Indicate family, commercial, contractual or corporate relationships among significant shareholders known to the company, if any, except any that are insignificant and those deriving from ordinary commercial business:

A.5 Indicate commercial, contractual or corporate relationships between significant shareholders and the company and/or its group, if any, except any that are insignificant and those deriving from ordinary commercial business:

A.6 Indicate any shareholders' agreements of which the Company has been notified in pursuance of Articles 530 and 531 of the Spanish Companies Law. Describe briefly, if any, indicating the shareholders bound by the agreement:

YES [ ] NO [X]

Indicate any concerted actions among Company shareholders of which the Company is aware. Describe briefly, if any:

YES [ ] NO [X]

Expressly indicate any change or break-up of those agreements or concerted actions, if any, that have taken place during the year:

Not applicable

A.7 Indicate any individuals or entities that exercise or may exercise control over the Company in pursuance of Article 4 of the Stock Market Act. Identify any that exist:

YES [ ] NO [X]

OBSERVATIONS

A.8 Complete the following tables on the Company's treasury stock:

At the close of the financial year:

Number of direct shares	Number of indirect shares (*)	% total of share capital
0	0	0.00%

(*) Through:

Give details on any significant variations during the year, according to the established in Royal Decree 1362/2007:

EXPLAIN SIGNIFICANT VARIATIONS

A.9 Indicate the terms and conditions of the authorization granted by the General Meeting to the Board of Directors to issue, repurchase or sell treasury shares.

It is valid until April 26, 2021, inclusive, the mandate given by the General Meeting of Shareholders held on April 26, 2016, whereby the Board of Directors of CIE Automotive S.A. is authorized to acquire, at any time and as often as deemed fit, shares of CIE Automotive, SA, by any lawful means, including from benefits of exercise and / or unrestricted reserves, as well as that they can subsequently sell or redeem thereof, all in accordance with Article 146 and related provisions of the Spanish Companies Law.

A.9.bis Estimated free float:

	%
Estimated floating capital	36.49%

A.10 Indicate whether there are any restrictions on the transfer of securities and / or any restrictions on voting rights. In particular, the existence of any restrictions that may impede the acquisition of control of the company through the purchase of shares in the market will be communicated.

YES [ ] NO [X]

A.11 Indicate whether the General Shareholders' Meeting has resulted in measures to neutralize a takeover bid under Law 6/2007.

YES [X] NO [ ]

If so, explain the measures approved and the terms under which the restrictions would become ineffective:

At the General Shareholders' Meeting of CIE Automotive, S.A. held on 23 April 2008, the following arrangement was adopted as a result of point three of the agenda:

SIX.- Approval of the exclusion of limitations on the action to be taken by the Company's governing and management bodies, and those within its group, in the terms established by Article 60.bis.2 of Law 24/1988, of 28 July, on the Stock Market and Article 28.5 of Royal Decree 1066/2007, of 27 July.

In accordance with the provisions of Article 60.bis.2 of Law 24/1988, of 28 July, on the Stock Market and Article 28.5 of Royal Decree 1066/2007, of 27 July, on the public bidding system to acquire shares, stipulate that the limitations referred to by Article 60.bis.2 and Article 28.5 of Royal Decree 1066/2007, of 27 July, will not be applicable to the governing bodies at the Company and the Group in the event that the Company is the target of a public share offering presented by a Company that is not domiciled in Spain and is not subject to these regulations or their equivalent, including those referring to the rules necessary for the General Meeting to adopt resolutions or, by an entity directly or indirectly controlled by such a company, in accordance with the provisions of Article 4 of Law 24/1988, of 28 July, on the Stock Market.

A.12 Indicate whether the company has issued securities that are not traded on an EU regulated market.

YES [ ] NO [X]

If so, indicate the different classes of shares and, for each one, the rights and obligations conferred.

B. SHAREHOLDERS' MEETING

B.1 Indicate whether there are any differences between the quorums for General Meetings and the minimums stipulated in the Spanish Companies Law and, if appropriate, explain.

YES [X] NO [ ]

	% quorum different than that established under Article 193 SCL for general cases	% quorum different than that established under Article 194 SCL for special cases defined by Article 194 SCL
Quorum required for 1st call	50.00%	0.00%
Quorum required for 2nd call	0.00%	0.00%

Description of the differences

Article 13 of the Articles of Association establishes that an ordinary or extraordinary General Shareholders Meeting will be validly called to order on first call when the shareholders present or represented own at least 50% of voting share capital. At second call, the General Shareholders Meeting shall be validly convened regardless of the percentage of capital in attendance. However, when an ordinary or extraordinary General Shareholders Meeting is to adopt any of the resolutions referred to by Article 194 of the Spanish Companies Law, at least 25% of voting share capital must be present or represented on second call.

As a result, a reinforced quorum is established with respect to Article 193 of the Spanish Companies Law to hold a meeting on first call (not the case with Article 194 of the Spanish Companies Law).

B.2 Indicate and explain, if appropriate, if there are any differences between the system used for adopting corporate resolutions in the system stipulated in the Spanish Companies Law (SCL):

YES [ ] NO [X]

Describe how it differs from the system contemplated in the Spanish Companies Law.

B.3 State the rules applicable to the amendment of the Articles of Association. In particular, the majorities provided for amending the Articles to will be communicated and, where appropriate, the rules laid down for the protection of the rights of the partners in the amendment of the Articles.

Regulations applicable to the amendment of the articles of association of CIE Automotive S.A. is captured by the Spanish Companies Law not existing in the Articles of Association different majorities of applicable law or rules laid down for the protection of members others than those set out in the rules of general nature.

B.4 Detail the figures of attendance at the Shareholders Meetings held during the reporting year and the previous year:

	Attendance figures				
Date of the General Meeting	% physically present	% represented by proxy	% distance voters		Total
			Electronic voting	Other	
04/30/2015	39.65%	39.01%	0.00%	0.00%	78.66%
04/26/2016	67.59%	15.57%	0.00%	0.00%	83.16%

B.5 State whether any restrictions are established in the Articles of Association requiring a minimum number of shares to attend General Meetings:

YES [ ] NO [X]

B.6 Abrogated section

B.7 Indicate the address and means of access to the company website to information on corporate governance and other information on General Meetings to be made available to shareholders via the website of the Company.

CIE Automotive,S.A.'s website where it is available the information of corporate governance and other information about the General Shareholders Meetings is http://www.cieautomotive.com/web/investors-website.

C. STRUCTURE OF GOVERNANCE AT THE COMPANY

C.1 Board of Directors

C.1.1 State the maximum and minimum number of Directors stipulated in the Articles of Association:

Maximum number of Directors	15
Minimum number of Directors	6

C.1.2. Complete the following table with the names of the directors:

Name of the Director	Representative	Category of the Director	Position on the Board	Date of first appointment	Date of last appointment	Election procedure
MR JUAN MARÍA RIBERAS MERA		Proprietary	BOARD MEMBER	10/27/2010	04/26/2016	GENERAL SHAREHOLDERS' MEETING AGREEMENT
MR. FERMÍN DEL RIO SANZ DE ACEDO		Executive	BOARD MEMBER	12/21/2005	04/26/2016	GENERAL SHAREHOLDERS' MEETING AGREEMENT
MR. ANTONIO MARÍA PRADERA JAUREGUI		Executive	CHAIRMAN	06/24/2002	04/26/2016	GENERAL SHAREHOLDERS' MEETING AGREEMENT
MR. CARLOS SOLCHAGA CATALÁN		Independent	INDEPENDENT COORDINATING DIRECTOR	10/27/2010	04/26/2016	GENERAL SHAREHOLDERS' MEETING AGREEMENT
MR. JESUS MARÍA HERRERA BARANDIARAN		Executive	CHIEF EXECUTIVE OFFICER	01/21/2013	04/26/2016	GENERAL SHAREHOLDERS' MEETING AGREEMENT
MR ÁNGEL MANUEL OCHOA CRESPO		Independent	BOARD MEMBER	10/27/2010	04/26/2016	GENERAL SHAREHOLDERS' MEETING AGREEMENT

Name of the Director	Representative	Category of the Director	Position on the Board	Date of first appointment	Date of last appointment	Election procedure
MR. FRANCISCO JOSÉ RIBERAS MERA		Proprietary	BOARD MEMBER	10/27/2010	04/26/2016	GENERAL SHAREHOLDERS' MEETING AGREEMENT
ADDVALIA CAPITAL, S.A.	MRS. MARÍA TERESA SALEGUI ARBIZU	Proprietary	BOARD MEMBER	04/26/2007	04/26/2016	GENERAL SHAREHOLDERS' MEETING AGREEMENT
MR. VANKIPURAM PARTHASARATHY		Proprietary	BOARD MEMBER	10/04/2013	04/26/2016	GENERAL SHAREHOLDERS' MEETING AGREEMENT
ACEK DESARROLLO Y GESTIÓN INDUSTRIAL, S.L.	MR. FRANCISCO LOPEZ PEÑA	Proprietary	BOARD MEMBER	10/27/2010	04/26/2016	GENERAL SHAREHOLDERS' MEETING AGREEMENT
QMC DIRECTORSHIPS, S.L.	MR. JACOBO LLANZA FIGUEROA	Proprietary	BOARD MEMBER	05/12/2005	04/26/2016	GENERAL SHAREHOLDERS' MEETING AGREEMENT
ELIDOZA PROMOCIÓN DE EMPRESAS, S.L.	MRS. GOIZALDE EGAÑA GARITAGOITIA	Proprietary	1st VICE CHAIRMAN	06/24/2002	04/26/2016	GENERAL SHAREHOLDERS' MEETING AGREEMENT
MR. SHRIPRAKASH SHUKLA		Proprietary	BOARD MEMBER	06/25/2015	04/26/2016	GENERAL SHAREHOLDERS' MEETING AGREEMENT

Total number of Directors	13

Indicate the ceases that have occurred in the Board of Directors during the year:

C.1.3. Complete the following tables about Board members and their classification:

EXECUTIVE DIRECTORS

Name of the Director	Position in Company's organization
DON FERMÍN DEL RIO SANZ DE ACEBO	ASSISTANT TO THE CHAIRMAN
MR. ANTONIO MARÍA PRADERA JAUREGUI	CHAIRMAN
MR. JESÚS MARÍA HERRERA BARANDIARAN	CHIEF EXECUTIVE OFFICER

Total number of executive Directors	3
Total percent of the Board	23.08%

PROPRIETARY EXTERNAL DIRECTORS

Name of the Director	Name of the significant shareholder represented or that proposed the appointment
MR. JUAN MARÍA RIBERAS MERA	ACEK DESARROLLO Y GESTIÓN INDUSTRIAL, S.L.
MR. FRANCISCO JOSE RIBERAS MERA	ACEK DESARROLLO Y GESTIÓN INDUSTRIAL, S.L.
ADDVALIA CAPITAL, S.A.	ADDVALIA CAPITAL, S.A.
MR. VANKIPURAM PARTHASARATHY	MAHINDRA & MAHINDRA LTD
ACEK DESARROLLO Y GESTION INDUSTRIAL, S.L.	ACEK DESARROLLO Y GESTIÓN INDUSTRIAL, S.L.
QMC DIRECTORSHIPS, S.L.	ALANTRA ASSET MANAGEMENT, SGIIC, S.L.

ELIDOZA PROMOCION DE EMPRESAS, S.L.	ELIDOZA PROMOCIÓN DE EMPRESAS, S.L.
MR. SHRIPRAKASH SHUKLA	MAHINDRA & MAHINDRA LTD

Total number of proprietary directors	8
Total percent of the Board	61.54%

INDEPENDENT EXTERNAL DIRECTORS

Name of the Director:

MR. CARLOS SOLCHAGA CATALÁN

Profile:

Economist from Universidad Complutense de Madrid (1966) and post-graduate studies at Alfred P. Sloan School at the Massachusetts Institute of Technology (M.I.T.) (1971).

In 1980 he was elected Member of Parliament as a representative of the PSOE and successively re-elected in 1982, 1986, 1989 and 1993 and was the Chair of the Socialist Group in 1993-94. Member of the Basque Government prior to the approval of the Euskadi Autonomy Statute (1979-80), Chair of the Interim Committee at the International Monetary Fund (from 1991 to 1993) and Minister of Industry and Energy in Spain (1982-85) and Minister of Economy and Finance (1985-1993).

Since leaving political activity, it has been an international consultant for various institutions in different countries.

He is currently an International Consultant and Partner-Director of Solchaga Recio Asociados (Consultancy). Chair of Fundacion Euroamerica, Vice-Chair of Real Patronato del Museo Nacional Centro de Arte Reina Sofia, Chair of Fundacion Arquitectura y Sociedad, Chair of the Advisory Council of the Law Firm Roca Junyent, Member of the Scientific Council of Real Instituto Elcano and Member of Board of Directors of Cie Automotive, Duro felgera y Pharma Mar, S.A. Equally, complements his activity with conferences and journals for dissemination.

Name of the Director:

MR ÁNGEL MANUEL OCHOA CRESPO

Profile:

Degree in Economics and Business from Universidad del País Vasco and Master of International Business Administration (M.I.B.A.) from United States International University (U.S.I.U.) San Diego, Ca. USA.

With more than 21 years' experience in the financial field. Accounting Executive and Manager from the Multinationals Department of Barclays Bank. Accounting Manager and co-director of the Corporate Banking of Lloyds Bank. Assistant General Manager of Banque Privée Edmon de Rothschild Europe, subsidiary in Spain, taking part in assembly and development of the bank since its opening in Spain. Member of the Steering Committee of the Bank and direct responsible of the following fields: private banking, institutional banking, investment management, estate and tax planning, and internal resources (management, human resources, etc.). Chairman of the Sabadell Atlántico Bank in Basque Country and Cantabria. At the same time, he has been member of the board of directors of several Open-ended Investment Companies (SICAVs).

Currently, he is an investment advisor. Partner of Angel Ochoa Crespo EAFI (financial advisory company), registered in the CNMV with nº 24. He holds the position of independent director of CIE Automotive, S.A. and director and secretary of ISLOPAN, S.A. that is dedicated to the real-state business and financial investment.

Total number of independent Directors	2
Total percent of the Board	15.38%

Indicate whether any director qualified as an independent perceives from the company or its group, any amount or benefit for a concept other than of remuneration, or maintains or has maintained during the last year, a business relationship with the society or any group company, either on their own behalf or as a significant shareholder, director or senior manager of a company that has or had such a relationship.

Not applicable

If so, a reasoned statement of the board on the reasons why it considers that the Director can perform its functions as an independent Director should be included.

OTHER EXTERNAL DIRECTORS

Identify all other external directors and explain why these cannot be considered Institutional or independent directors and detail their relationships with the company, its executives or shareholders:

Indicate any variations during the year in the type of each Director:

C.1.4 Complete the following table with information on the number of female Directors for the past 4 years, and the nature of such female Directors:

	Number of female directors				% over each kind of directors			
	Year ended 2016	Year ended 2015	Year ended 2014	Year ended 2013	Year ended 2016	Year ended 2015	Year ended 2014	Year ended 2013
Executive	0	0	0	0	0.00%	0.00%	0.00%	0.00%
Proprietary	2	2	2	2	25.00%	22.22%	22.22%	20,00%
Independent	0	0	0	0	0.00%	0.00%	0.00%	0.00%
Other Outsiders	0	0	0	0	0.00%	0.00%	0.00%	0.00%
Total:	2	2	2	2	15.38%	15.38%	15.38%	14.29%

C.1.5 Explain the measures, if any, have been taken to seek to include in the board a number of women that would achieve a balanced representation of women and men:

Explanation of the measures

In the exercise of its functions, the Appointments and Compensation Committee must submit their proposals to ensure that is taken into consideration people who possess the qualifications and skills required for the position, and that the process of selection of candidates does not suffer from implicit biases that hinder the selection of persons of either sex.

C.1.6 Explain the measures, if any, had agreed the Appointments Committee for that selection procedures do not suffer from implicit biases that hinder the selection of female directors and the company deliberately search and include among the potential candidates, women who meet the professional profile searched for:

Explanation of the measures

Appointments and Compensation Committee must ensure that people of both sexes who possess the qualifications and ability required for the position are taken into consideration.

When, despite the measures, if any, have been taken, the number of female directors are few or no, explain the reasons justifying:

Explanation of the measures

The appointment of new directors depends in large measure on the appearance of vacancies within the Board of Directors, which does not happen often. At this time the people who are part of the Board meet the required conditions. It will ensure that, there would be no bias whatsoever in the selection of directors in future appointments.

C.1.6 bis. Explain the conclusions of the appointments committee on the verification of compliance with the director selection policy. In particular, explain how this policy pursues the goal of having at least 30% of total board places occupied by female directors before the year 2020.

Explanation of the measures

Appointments and Compensation Committee has concluded that despite the fact that the directors selection policy complies with requirements, is an objective fact that the number of female directors (around 15%), differs from the objective established for 2020. In this sense, in case vacancies occur (which does not happen usually), respective parts will be encouraged to promote the selection of female directors until the objective is achieved.

C.1.7 Explain how is the representation on the board of the controlling shareholders:

Controlling shareholders (see heading A.2) have appointed proprietary external directors on the Board of Directors. Detail of proprietary external directors is provided in the heading C.1.3.

C.1.8 Explain why proprietary directors have been appointed at the instance of shareholders with less than 3% interest in the Company, if appropriate:

Indicate whether any formal requests for a presence on the Board have not been met from shareholders with an interest equal to or greater than that of others at whose request proprietary directors have been appointed. If appropriate, explain why such requests were denied.

YES [ ] NO [X]

C.1.9 State whether or not any Director has left the position before the end of the term, if the Director provided an explanation, and how, to the Board and, in the event this was done in writing to the entire Board, explained at least the reasons provided:

C.1.10 State the powers, if any, delegated to the managing director(s):

Name of the Director

MR. JESUS MARÍA HERRERA BARANDIARAN

Brief description

The Chief Executive Officer has all the functions of the Board except those that cannot be delegated.

C.1.11 Name the directors, if any, who are also directors or executives of other companies in the same group as the listed company:

Name of the Director	Name of the Group company	Position	Do you have executive functions?
MR. FERMÍN DEL RIO SANZ DE ACEDO	GESCRAP-AUTOMETAL COMERCIO DE SUCATAS, S.A.	BOARD MEMBER	NO
MR. FERMÍN DEL RIO SANZ DE ACEDO	GESCRAP AUTOMETAL MÉXICO, S.A. DE C.V.	BOARD MEMBER	NO
MR. FERMÍN DEL RIO SANZ DE ACEDO	GESCRAP AUTOMETAL MÉXICO SERVICIOS, S.A. DE C.V.	BOARD MEMBER	NO
MR. FERMÍN DEL RIO SANZ DE ACEDO	AUTOMETAL, S.A.	CHAIRMAN	NO
MR. ANTONIO MARÍA PRADERA JAUREGUI	AUTOKOMP INGENIERÍA,S.A.U.	CHAIRMAN	NO
MR. ANTONIO MARÍA PRADERA JAUREGUI	MAHINDRA CIE AUTOMOTIVE, LTD	BOARD MEMBER	NO
MR. ANTONIO MARÍA PRADERA JAUREGUI	MAHINDRA FORGINGS EUROPE, AG	BOARD MEMBER	NO
MR. ANTONIO MARÍA PRADERA JAUREGUI	AUTOMETAL, S.A.	BOARD MEMBER	NO
MR. ANTONIO MARÍA PRADERA JAUREGUI	CIE BERRIZ, S.L.	CHAIRMAN	NO
MR. JESÚS MARÍA HERRERA BARANDIARAN	CIE BERRIZ, S.L.; CIE GALFOR S.A.U.; CIE LEGAZPI, S.A.U.; AUTOKOMP INGENIERÍA, S.A.U.	BOARD MEMBER	NO
MR. JESÚS MARÍA HERRERA BARANDIARAN	MAHINDRA CIE AUTOMOTIVE, LTD	BOARD MEMBER	NO
MR. JESÚS MARÍA HERRERA BARANDIARAN	MAHINDRA FORGINGS EUROPE, AG	CHAIRMAN	NO
MR. JESÚS MARÍA HERRERA BARANDIARAN	ALCASTING LEGUTIANO, S.L.	BOARD MEMBER	NO
MR. JESÚS MARÍA HERRERA BARANDIARAN	ALFA DECO, S.A.U.	BOARD MEMBER	NO
MR. JESÚS MARÍA HERRERA BARANDIARAN	ALURECY, S.A.U.	BOARD MEMBER	NO
MR. JESÚS MARÍA HERRERA BARANDIARAN	BIODIESEL MEDITERRANEO, S.L.U.	BOARD MEMBER	NO
MR. JESÚS MARÍA HERRERA BARANDIARAN	BIONOR BERANTEVILLA, S.L.U.	BOARD MEMBER	NO
MR. JESÚS MARÍA HERRERA BARANDIARAN	BIOSUR TRANSFORMACION, S.L.U.	BOARD MEMBER	NO
MR. JESÚS MARÍA HERRERA BARANDIARAN	RECICLADO DE RESIDUOS GRASOS, S.L.U.	BOARD MEMBER	NO
MR. JESÚS MARÍA HERRERA BARANDIARAN	RECICLADOS ECOLÓGICOS DE RESIDUOS, S.L.U.	BOARD MEMBER	NO
MR. JESÚS MARÍA HERRERA BARANDIARAN	CIE MECAUTO, S.A.U.	BOARD MEMBER	NO
MR. JESÚS MARÍA HERRERA BARANDIARAN	CIE UDALBIDE, S.A.U.	BOARD MEMBER	NO
MR. JESÚS MARÍA HERRERA BARANDIARAN	COMPONENTES DE AUTOMOCIÓN RECYTEC, S.L.U.	BOARD MEMBER	NO
MR. JESÚS MARÍA HERRERA BARANDIARAN	COMPONENTES DE DIRECCIÓN RECYLAN, S.L.U.	BOARD MEMBER	NO
MR. JESÚS MARÍA HERRERA BARANDIARAN	EGAÑA 2, S.L.	BOARD MEMBER	NO
MR. JESÚS MARÍA HERRERA BARANDIARAN	GAMEKO FABRICACION DE COMPONENTES, S.A.	BOARD MEMBER	NO
MR. JESÚS MARÍA HERRERA BARANDIARAN	GRUPO COMPONENTES VILANOVA, S.L.	BOARD MEMBER	NO
MR. JESÚS MARÍA HERRERA BARANDIARAN	INYECTAMETAL, S.A.	BOARD MEMBER	NO
MR. JESÚS MARÍA HERRERA BARANDIARAN	LEAZ VALORIZACIÓN, S.L.U.	BOARD MEMBER	NO

Name of the Director	Name of the Group company	Position	Do you have executive functions?
MR. JESÚS MARÍA HERRERA BARANDIARAN	MECANIZACIONES DEL SUR, MECASUR, S.A.	BOARD MEMBER	NO
MR. JESÚS MARÍA HERRERA BARANDIARAN	NOVA RECYD, S.A.U.	BOARD MEMBER	NO
MR. JESÚS MARÍA HERRERA BARANDIARAN	ORBELAN PLÁSTICOS, S.A.	BOARD MEMBER	NO
MR. JESÚS MARÍA HERRERA BARANDIARAN	PLASFIL PLÁSTICOS DA FIGUEIRA, S.A.	CHAIRMAN	NO
MR. JESÚS MARÍA HERRERA BARANDIARAN	RECYDE, S.A.U.	BOARD MEMBER	NO
MR. JESÚS MARÍA HERRERA BARANDIARAN	TRANSFORMACIONES METALÚRGICAS NORMA, S.A.	BOARD MEMBER	NO
MR. JESÚS MARÍA HERRERA BARANDIARAN	CIE AUTOMETAL DE MÉXICO, S.A.P.I. DE C.V.	CHAIRMAN	NO
MR. JESÚS MARÍA HERRERA BARANDIARAN	CIE BERRIZ MÉXICO SERVICIOS ADMINISTRATIVOS S.A. DE C.V.	CHAIRMAN	NO
MR. JESÚS MARÍA HERRERA BARANDIARAN	CIE CELAYA S.A.P.I. DE C.V.	CHAIRMAN	NO
MR. JESÚS MARÍA HERRERA BARANDIARAN	FORJAS DE CELAYA S.A. DE C.V.	CHAIRMAM	NO
MR. JESÚS MARÍA HERRERA BARANDIARAN	MAQUINADOS AUTOMOTRICES Y TALLERES INDUSTRIALES CELAYA S.A. DE C.V.	CHAIRMAM	NO
MR. JESÚS MARÍA HERRERA BARANDIARAN	PERCASER DE MÉXICO S.A. DE C.V.	CHAIRMAM	NO
MR. JESÚS MARÍA HERRERA BARANDIARAN	PINTURA ESTAMPADO Y MONTAJE S.A.P.I. DE C.V.	CHAIRMAM	NO
MR. JESÚS MARÍA HERRERA BARANDIARAN	PINTURA Y ENSAMBLES DE MÉXICO, S.A. DE C.V.	CHAIRMAM	NO
MR. JESÚS MARÍA HERRERA BARANDIARAN	SERVICAT SERVICIOS CONTABLES ADMINISTRATIVOS Y TÉCNICOS S.A. DE C.V.	CHAIRMAM	NO
MR. JESÚS MARÍA HERRERA BARANDIARAN	AUTOMETAL, S.A.	BOARD MEMBER	NO
MR. JESÚS MARÍA HERRERA BARANDIARAN	ADVANCE COMFORT SYSTEMS IBÉRICA, S.L.	BOARD MEMBER	NO
MR. ANTONIO MARÍA PRADERA JAUREGUI	GLOBAL DOMINION ACCESS, S.A.	CHAIRMAN	NO
MR. FERMIN DEL RIO SANZ DE ACEDO	GLOBAL DOMINION ACCESS, S.A.	BOARD MEMBER	NO
MR. FRANCISCO JOSÉ RIBERAS MERA	GLOBAL DOMINION ACCESS, S.A.	BOARD MEMBER	NO
MR. JESÚS MARÍA HERRERA BARANDIARAN	GLOBAL DOMINION ACCESS, S.A.	BOARD MEMBER	NO
MR. JESÚS MARÍA HERRERA BARANDIARAN	DENAT 2007, S.L.U.	BOARD MEMBER	NO
MR. JESÚS MARÍA HERRERA BARANDIARAN	GRUPO AMAYA TELLERÍA, S.L.U.	BOARD MEMBER	NO
MR. JESÚS MARÍA HERRERA BARANDIARAN	GAT STAFF, S.L.U.	BOARD MEMBER	NO
MR. JESÚS MARÍA HERRERA BARANDIARAN	INDUSTRIAS AMAYA TELLERÍA, S.A.U.	BOARD MEMBER	NO
MR. JESÚS MARÍA HERRERA BARANDIARAN	GAT MÉXICO, S.A. DE C.V.	CHAIRMAM	NO

C.1.12 Name company directors, if any, on the Boards of non-group companies listed on stock exchanges, insofar as the company has been notified:

Name of the Director	Name of the listed company	Position
MR. ANTONIO MARÍA PRADERA JAUREGUI	TUBACEX, S.A.	BOARD MEMBER
MR. ANTONIO MARÍA PRADERA JAUREGUI	CORPORACIÓN FINANCIERA ALBA, S.A.	BOARD MEMBER
MR. CARLOS SOLCHAGA CATALÁN	DURO FELGUERA. S.A.	BOARD MEMBER
MR. CARLOS SOLCHAGA CATALÁN	PHARMA MAR, S.A.	BOARD MEMBER
ADDVALIA CAPITAL, S.A.	VIDRALA, S.A.	BOARD MEMBER
QMC DIRECTORSHIPS, S.L.	ADVEO GROUP INTERNATIONAL, S.A.	BOARD MEMBER
QMC DIRECTORSHIPS, S.L.	TUBOS REUNIDOS, S.A.	BOARD MEMBER

C.1.13 Indicate and, if appropriate, explain whether the company has established rules on the number of boards on which its Directors may sit:

YES [ ] NO [X]

C.1.14 Abrogated section

C.1.15 Indicate the total remuneration of the Board of Directors:

Remuneration of the Board of Directors (thousand euros)	5,691
Amount of the global remuneration corresponding to the benefits accrued by current directors on pensions (thousand euros)	0
Amount of the global remuneration corresponding to the benefits accrued by the former directors on pensions (thousand euros)	0

C.1.16 List the members of senior management who are not executive directors and show the total compensation earned by them during the year:

Name	Position
MR. ALEXANDER TORRES COLOMAR	DIRECTOR OF PLASTIC OF BRAZIL
MR. AITOR ZAZPE GOÑI	DIRECTOR OF BIOFUEL, PLASTIC OF EUROPE AND HUMAN RESOURCES
MR. JUSTINO UNAMUNO URCELAY	DIRECTOR OF CIE FORGE EUROPE AND CHINA, AND METAL EUROPE
MR. MIKEL FÉLIX BARANDIARAN LANDIN	CHIEF EXECUTIVE OFFICER OF GLOBAL DOMINION ACCESS, S.A.
MR. ZENON VÁZQUEZ IRIZAR	FINANCIAL DIRECTOR
MSS. MARÍA MIÑAMBRES GARCÍA	DIRECTOR OF CORPORATE AUDIT AND MANAGEMENT CONTROL
MR. ANDER ARENAZA ÁLVAREZ	DIRECTOR OF ALUMINIUM AND MACHINING EUROPE AND CEO OF MAHINDRA CIE AUTOMOTIVE LIMITED
MR. JOSÉ LUIS CASTELO SÁNCHEZ	DIRECTOR OF STAMPING MEXICO
MSS. SUSANA MOLINUEVO APELLÁNIZ	DIRECTOR OF INTERNAL AUDIT, COMPLIANCE AND CORPORATE SOCIAL RESPONSIBILITY
MSS. LOREA ARISTIZÁBAL ABÁSOLO	DIRECTOR OF CORPORATE DEVELOPMENT AND INVESTOR RELATIONSHIP
MR. JOSÉ MANUEL ESMORIS ESMORIS	DIRECTOR OF R&D

Total senior management compensation (thousand euros)	3,026

C.1.17 Name any directors who are also directors of companies holding significant interest in the company and/or companies pertaining to its Group:

Name of the Director	Name of the significant shareholder	Position
MR. ANTONIO MARÍA PRADERA JAUREGUI	INVERSIONES, ESTRATEGIA Y CONOCIMIENTO GLOBAL CYP, S.L.	CHAIRMAN
MR. FRANCISCO JOSÉ RIBERAS MERA	INVERSIONES, ESTRATEGIA Y CONOCIMIENTO GLOBAL CYP, S.L.	BOARD MEMBER

Describe any significant relationships other than those contemplated in the previous section between Board of Directors´ Members and significant shareholders and/or companies pertaining to their Group:

C.1.18 Indicate whether any modifications have been made during the year to the Board of Directors' Regulations:

YES [ ] NO [X]

C.1.19 Indicate the procedures for selecting, appointing, re-electing, evaluating and removing Directors. Describe the competent bodies, procedures to be followed and the criteria applied in each of the procedures.

The appointment of the members of the Board of Directors is the responsibility of the General Shareholders' Meeting, without prejudice to the power of the Board to designate members by co-optation in the event of vacancies.
To this effect, Article 23 of the Articles of Association lays down that:

"4. In order to be appointed a member of the administrative body, it is not required to be a shareholder.

5. The members of the administrative body shall hold office for four years and may be re-elected once or more times for equivalent periods.

6. The members of the administrative body designated by co-optation shall hold their position until the first General Shareholders' Meeting.

7. The members of the administrative body shall cease to hold office when so decided by the General Shareholders' Meeting, when they report their resignation to the Company and when the period of their appointment elapses. In this latter case, their resignation shall be take effect on the day on which the following General Shareholders' Meeting is held or once the legal term for holding the Meeting to approve the previous year's annual accounts elapses.

8. Members of the administrative body shall perform the job and comply with the duties imposed by the Law with the diligence of an organized businessman, considering the nature of the job and the functions attributed to each. In addition, the members of the board of directors shall perform the job with the loyalty of a loyal representative, acting in good way and in the best interest of the Company. The Regulation of the Board of Directors will develop the specific duties for directors from the Law, and particularly, confidentiality and loyalty, paying special attention to situations of conflict of interest."

Similarly, Article 23 of the regulations of the Board of Directors lays down the following:

"Article 23. Appointment of Directors.

1.- The Directors shall be designated by the General Shareholders' Meeting or by the Board of Directors in accordance with the Law.

2.- The proposal for the appointment and re-election of directors that the Board of Directors submits to the General Shareholders' Meeting for consideration and the resolutions concerning appointments adopted by that body by virtue of the powers of co-optation legally attributed to, it shall be preceded by the corresponding proposal from the Appointments and Compensation Committee in case of independent directors, or by a report in case of the remaining director.
When the Board disagrees with the Appointments and Compensation Committees' report, it shall set out the reasons for its decision and place them on record.

3. Proposals and reports from the Appointments and Compensation Committee should assess expressly the reputation, suitability solvency, competence, expertise, qualification, training, availability and commitment to its role of the candidates. For this purpose, the Appointments and Compensation Committee will determine estimated time of dedication, in number of annual hours for non-executive directors detailing into the corresponding report or proposal.

4.The Appointments and Compensation Committee shall propose or inform in each case, the assignment of the director to one of the categories specified in the regulation and review it annually."

C.1.20 Explain, if applicable, to what extent this evaluation has prompted significant changes in its internal organisation and the procedures applicable to its activities:

Description of modifications
Not applicable

C.1.20.bis Describe the assessment process undertaken by the board of directors and the areas evaluated, with the aid of an external facilitator, with respect to the composition, duties and powers of its committees, the performance of the chairman of the board of directors and the company's chief executive officer and the performance and contribution of individual directors.

The Appointments and Compensation Committee conducts an annual evaluation of the performance of individual directors, without being assisted by any external consultant.

C.1.20.ter Explain, if applicable, the business relationship the advisor or any group company maintains with the company or any group company.

Not applicable

C.1.21 Indicate cases in which Directors are obliged to resign.

Article 26 of the Regulations of the Board of Directors CIE AUTOMOTIVE, S.A indicates that:

"Article 26. Removal of Directors

1. The resignation of one or more of the Directors shall take place in the terms of applicable legislation.

2. Directors hold their positions at the pleasure of the Board of Directors and, if deemed appropriate, must present their resignations in the following cases:

a) In the case of Proprietary External Directors, when he or the shareholder that he represents transfers his shareholding in the company.

b) In the case of executive directors, provided that the Board considers it appropriate and in any event, when he no longer holds his executive position in the company and/ or companies of the group.

c) When they are involved in a legal conflict of interest.

d) When they are tried for an alleged offence or are subject to disciplinary proceedings owing to a serious or very serious infringement of legislation, instigated by the supervisory authorities.

e) In the case of CEOs, they shall resign at 65 but may continue as Directors without prejudice to the provisions of paragraph b) above.

f) When they are seriously reprimanded by the Board of Directors prior a report from the Audit and Compliance Committee owing to the breach of their obligations as Directors."

C.1.22 Abrogated section

C.1.23. Is a reinforced majority, other than those legally stipulated, required for any kind of decision?:

YES [ ] NO [X]

If so, explain differences

C.1.24 State whether there are specific requirements, other than those relating to directors, for appointment as Chair.

YES ☐ NO ☒

C.1.25 State whether the Chairman has a casting vote:

YES ☐ NO ☒

C.1.26 State whether the Articles of Association or the Board Regulations set any age limit for Directors:

YES ☒ NO ☐

Age limit for Chair:
Age limit for Director: 65 years old.
Age limit Board Member:

C.1.27 State whether the Articles of Association or the Board Regulations set a limited term of office for independent directors other than defined in the normative

YES ☐ NO ☒

C.1.28. Indicate whether the Articles of Association or rules of the Board of Directors establish specific rules for delegate voting at the board, how to do it and, in particular, the maximum number of delegations that may have a director, and if it has established mandatory delegate to a director of the same type. If applicable, briefly detail these rules

Heading 2 of Article 22 of the Board Regulations of CIE Automotive, S.A. reads as follows:

“2. Directors must attend the meetings of the Board of Directors and, if they cannot do it personally, delegate its task to another director, together with appropriate instructions. Non-executive directors may delegate to another non-executive director. It cannot be delegated representation on matters in which the director is in situation of conflict of interest. The proxy shall be given for each meeting of the Board of Directors, and can be communicated through whatever resources set for the meetings.”

C.1.29 Indicate the number of meetings held by the Board of Directors over the year. Also indicate any meetings that were held in the absence of the Chair. In computing, the representations made with specific instructions will be considered assistances.

Number of Board meetings	6
Number of Board meetings without the Chair	0

If the President is executive director, indicate the number of meetings held without the assistance or representation of any executive director and chaired the coordinating:

Number of Board meetings	0

Indicate the number of meetings held during the year by the various Board Committees:

COMMITTEE	No. of Meetings
Audit and Compliance Committee	4
Appointments and Compensation Committee	3
Delegate Executive Committee	3
Corporate Social Responsibility	1

C.1.30 State the number of meetings held by the Board of Directors during the year with all members being in attendance. In computing, the representations made with specific instructions will be considered assistances.

Number of Director assistances during the year	6
% Number of assistances compared with the total votes cast during the year	97.43%

C.1.31 Indicate whether the individual and consolidated annual accounts presented to the Board for approval were previously certified:

YES [ ] NO [X]

If appropriate, name the person(s) who certify the Company's individual or consolidated annual accounts before they are approved by the Board:

C.1.32 Explain the mechanisms, if any, established by the Board to avoid a qualified audit report on the individual and consolidated annual accounts from being presented to shareholders at a General Meeting.

In accordance with Article 3 of the Audit and Compliance Committee Regulations, the following functions, among others, correspond to the Audit and Compliance Committee:

"e) Analyze, together with the auditors, the significant weaknesses of the internal control system detected during the audit.

f) Supervise the process of drawing up and presentation of financial information.

g) Propose the appointment or replacement of the external auditors to the Board of Directors for its submission to the General Shareholders' Meeting, as well as the conditions the agreement with the auditors under the regulations applicable and regularly receive information about audit plan and its performance, as well as preserve their independence in the performance of their duties.

h) Oversee Corporate Audit department's activity, which shall functionally answers to the Audit and Compliance Committee.

i) Establish appropriate relationships with the auditors to receive information of any issues that may put at risk their independence, for its consideration by the Commission and any others related to the development process of the audit, as well as other communications envisaged in the audit legislation statements and in other auditing regulations.

In any case, it shall receive annually from the auditors a confirmation of their independence in relation to the Company or subsidiary companies with direct or indirect interest, as well as information about additional services provided and the fees received from these entities by the auditors or by people or companies involved to these in accordance with auditing legislation."

C.1.33 Is the Secretary of the Board a Director? :

YES [ ] NO [X]

If the Secretary have not the condition of director complete the following table:

Name of the Director	Agent
MR. ROBERTO ALONSO RUIZ	

C.1.34 Abrogated section

C.1.35 Describe the mechanisms, if any, established by the company to safeguard the independence of external auditors, financial analysts, investment banks and rating agencies:

Article 46 of the Regulations of the Board of Directors governs the relationships with external auditors:

“Article 46. Relations with the Auditors

1. The relationships between the Board of Directors and the Company's external auditors will be channelled through the Audit and Compliance Committee, in the terms established by the Articles of Association and the Audit and Compliance Committee Regulations.

2. The Board of Directors will report in the notes to the annual accounts the fees that have been paid by the Company each year for the audit firm for services other than audit.

3. Also, the Board of Directors shall endeavour to prepare the financial statements in such a way as not to give rise to qualifications by the auditors. However, if the Board considers that it should stand by its judgment, it must publicly explain the content and scope of the discrepancy.

By virtue of this mandate, the Audit and Compliance Committee will maintain relations with external auditors to receive information regarding issues that may put their independence into question in any other issues relating to the audit of the accounts, as well as any other communications established under audit legislation and technical regulations.”

C.1.36 Indicate whether or not the Company has changed its external auditor during the year. If so, name the outgoing and incoming auditor:

YES [ ] NO [X]

If the Company had any disagreements with the outgoing auditor, indicate their content:

C.1.37 State whether or not the audit firm does any work for the Company and/or its Group other than standard audit work and, if so, indicate the amount of the fees received for such work and the percentage it represents of the total fees invoiced to the Company and/or its group:

YES [X] NO [ ]

	Company	Group	Total
Sum of services other than auditing (thousand euro)	77	519	596

Amount of work other than standard audit work/Total amount invoiced by the audit firm (in %)	33.05%	19.27%	20.37%

C.1.38 State whether the audit report for the financial statements for the preceding year contain any reservations or qualifications. If so, indicate the reasons given by the Chairman of the Audit Committee to explain the content and scope of those qualifications or reservations.

YES [ ] NO [X]

C.1.39 State the number of periods that the current audit firm has performed the audit of the company's and/or its group's financial statements without interruption. Indicate the number of periods audited by the current auditing firm as a percentage of the periods in which the annual accounts have been audited:

	Company	Group
Number of consecutive years	15	15
Number of years audited by the present audit firm / Number of years the company has been audited (%)	45.45%	45.45%

C.1.40 Indicate, and provide details, if there is an established procedure for Directors to receive external advice:

YES [X] NO [ ]

Procedure details

Article 29 of the Regulations of the Board of Directors expressly establishes the procedure applicable to obtaining expert advice:

"Article 29. Expert advice.

1. In order to obtain assistance when carrying out their duties, outside Directors may request the hiring, at the Company's request, of legal, accounting, financial or other experts if considered necessary to adequately perform their duties. The request must necessarily involve specific issues of particular complexity.

2. The request must be made through the Chairman of the Board of Directors and may be vetoed by the Board of Directors if it is considered that:

a) Such assistance is not required for the adequate performance of the duties with which Directors are charged;
b) The related cost is not reasonable in light of the importance of the issue concerned and the Company's assets and revenues;
c) The assistance being requested may be adequately provided by experts and technicians already employed by the Company or others that are already working for the Company
d) May give rise to a risk to the confidentiality of the information that must be disclosed."

C.1.41 Indicate, providing details as necessary, if there is an established procedure for Directors to obtain any information they may need to prepare for the Meetings of the governing bodies sufficiently in advance:

YES [x] NO [ ]

Procedure details

Article 20.2 Regulations of the Board of Directors establishes the following:

"2. Call of the ordinary meetings shall be carried out by letter, fax, telegram or electronic mail, which will be sent to the President or, in accordance with his instructions, by the Secretary or the Vice Secretary. The call shall be issued in advance according with the Statutes. The call will always include the agenda of the meeting and, if possible, it will be accompanied by relevant information."

Similarly, Article 28 of the Regulations of the Board of Directors lays down the following:

“Article 28. The right to information.

1. The Director may request information that reasonably needs regarding the company, if considered necessary to adequately perform his duties. The right of information should be extended to the Group´s subsidiary companies, whether they are national or foreign.

2. In order not to disrupt the ordinary management of the company, the exercising of the faculties will be channeled through the President who will meet the requests of the Director by releasing the information directly, or identifying the suitable interlocutors of the company, or by arbitrating the measures in order to conduct the desirable procedures of examination and inspection.

3. The Board of Directors may refuse the requested information if, in his judgment, the request could undermine the social interests, all of these without prejudice to the provisions of the Spanish Companies Law.”

C.1.42 Indicate, providing details if appropriate, if the Company has established rules requiring Directors to report and, if necessary, resigned in any cases that could be detrimental to the Company’s reputation:

YES	X	NO	

Explain the rules

In accordance with the established in Article 26.2. of the Regulations of the Board of Directors, Directors serve at the pleasure of the Board of Directors and must present, if deemed advisable, their resignation when subject to any criminal proceedings or disciplinary proceedings due to any serious or very serious matter being investigated by regulatory authorities.

C.1.43 Indicate whether the Company has been notified by any director that he/she has been charged with, or is being tried for, any of the crimes contemplated under Article 213 of the Spanish Companies Law:

YES		NO	X

Indicate whether or not the Board of Directors has analysed the case. If the answer is affirmative, provide a reasoned explanation of the decision taken as to whether or not the Director should continue in the post or, if so, indicate the actions taken by the Board until the date of this report or it intends to make.

C.1.44 Detail significant agreements entered into by the company and which come into force, are amended or terminated in the event of change of control of the company following a takeover bid, and its effects.

Not applicable.

C.1.45 Identify in aggregate and specify, in detail, the agreements between the company and its directors and executives or employees providing for compensation, indemnity or shield, when they resign or are made redundant without valid reason or if the contractual relationship is to an end during a takeover bid or other operations.

Number of beneficiaries: 1

Type of beneficiary:

GLOBAL DOMINION ACCESS, S.A. CHIEF EXECUTIVE OFFICER

Description of the arrangement:

Chief Executive Officer Agreement including an early termination provision, which complies with the quantitative criterion set out in recommendation 64.

Indicate whether these contracts must be reported and / or approved by the bodies of the company or its group:

	Board of Directors	General Shareholders Meeting
Board authorizing clauses	YES	NO

	YES	NO
Is the General Meeting reported about the clauses?		X

C.2 Committees of the Board of Directors

C.2.1 List all the Board of Directors' Committees, its members and the ratio of proprietary and independent external directors that form it:

AUDIT AND COMPLIANCE COMMITTEE

Name	Position	Type
MR. CARLOS SOLCHAGA CATALÁN	CHAIRMAN	INDEPENDENT
MR. ÁNGEL MANUEL OCHOA CRESPO	BOARD MEMBER	INDEPENDENT
ADDVALIA CAPITAL, S.A.	BOARD MEMBER	PROPRIETARY

% of proprietary directors	33.33%
% of independent directors	66.67%
% of other external directors	0.00%

Explain the functions assigned to the committee, describe the procedures and rules of organization and operation thereof and summarize the most important activities during the year.

The procedures and rules regarding the organization of the Commission are included in the corresponding regulations, which is available within the corporate website: http://www.cieautomotive.com/investors-website/comisiones-del-consejo-de-administracion
With respect to its duties, the Audit and Compliance Committee has the task of attending the Board of Directors of the Company in monitoring financial statements as well as in carrying out control of CIE Automotive, S.A. and companies that are part of the Group.

The Commission tasks are as follows:

a) Review periodically risk policies and propose the amendment and update to the Board of Directors.
b) Approve policies relating to the employment of the auditor.
c) Inform the General Shareholders' Meeting regarding the issues raised by shareholders regarding its competency.
d) Monitor the internal control effectiveness of the Company and the Group, as well as its risk management systems, including tax.
e) Analyse, together with the auditors, significant weaknesses of the internal control system detected during the audit.
f) Supervise the process of the preparation and presentation of financial information.
g) Propose the appointment or replacement of the external auditors to the Board of Directors for its submission to the General Shareholders' Meeting, as well as the conditions the agreement with the auditors under the regulations applicable and regularly receive information about audit plan and its performance, as well as preserve their independence in the performance of their duties.
h) Monitor the activity of Internal Audit, which will depend on the Audit and Compliance Committee.
i) Establish appropriate relationships with the auditors to receive information of any issues that may put at risk their independence, for its consideration by the Commission and any others related to the development process of the audit, as well as other communications envisaged in the audit legislation statements and in other auditing regulations.

In any case, it shall receive annually from the auditors a confirmation of their independence in relation to the Company or subsidiary companies with direct or indirect interest, as well as information about additional services provided and the fees received from these entities by the auditors or by people or companies involved to these in accordance with auditing legislation.
j) Annually issue, prior to the auditors report, a declaration stating an opinion regarding the independence of the auditors. In any case, this report shall mention the additional services delivered referred to in the previous section, under the terms established by law.
k) Inform the Board of Directors regarding the financial information, which because of its condition as a listed company, the Company must public periodically and must ensure that the interim financial statements are prepared under the same accounting principles as the annual accounts and consider the necessity of a limited review by the auditor.
l) Inform the Board of Directors, prior to the decision making, of the creation or acquisition of shares in special purpose companies or those domiciled in countries or territories considered tax havens, and any other transactions or operations whose complexity might affect to the Group's transparency.
m) Other functions that might be agreed by the Board of Directors of the Company.

Identify the Director Member of the audit committee that has been appointed taking into account their knowledge and experience in accounting, auditing or both and report on the number of years that the President of this Committee has been in office.

Name of Director with expertise	MR. CARLOS SOLCHAGA CATALAN
Number of years in office	2

APPOINTMENTS AND COMPENSATION COMMITTEE

Name	Position	Type
MR. ÁNGEL MANUEL OCHOA CRESPO	CHAIRMAN	INDEPENDENT
MR. CARLOS SOLCHAGA CATALÁN	BOARD MEMBER	INDEPENDENT
MR. FRANCISCO JOSÉ RIBERAS MERA	BOARD MEMBER	PROPRIETARY

% of proprietary directors	33.33%
% of independent directors	66.67%
% of other external directors	0.00%

Explain the committee's duties, describe the procedures and organisational and operational rules and summarise the main actions taken during the year.

The procedures and rules regarding the organization of the Commission are included in the corresponding regulations, which is available within the corporate website: http://www.cieautomotive.com/investors-website/comisiones-del-consejo-de-administracion
With respect to its duties, the Appointment and Remuneration Committee is an informative and advisory internal body, without executive functions, with faculties to obtain information, advisory and proposals within its domain. In this sense, the Commission tasks are as follows:

a) Propose to the Board of Directors the remuneration policies for directors and senior executive and review them periodically, proposing, if necessary, its amendment and updating to the Board of Directors.
b) Report and review the criteria to be followed regarding the composition of the Board of Directors and the selection of candidates, and in particular, the required skills, knowledge and experience as well as the evaluation of the time and devotion required in order to perform correctly their duties.
c) Ensure that when there are new vacancies or the appointment of new directors, there are no bias within the selection procedures, and particularly, ones that might obstruct the selection of a female director.
d) Set up a goal of representation for the under-represented sex on the Board of Directors and develop guidance on how to achieve that objective.
e) Submit to the Board of Directors suggestions for the appointment of independent directors to be appointed by co-optation or for their submission to the decision of the General Meeting of Shareholders; suggest for re-election or removal of such directors by the General Meeting of Shareholders; and inform about the separation proposals of such directors made by the Board of Directors.
f) Report the suggestions for the appointment of the remaining directors to be appointed by co-optation or for their submission to the decision of the General Meeting of Shareholders, as well as suggestions for re-election or removal of such directors made by the General Meeting of Shareholders.
g) Report or draw up proposals for the appointment of internal positions of the Board of Directors, as well as members who should form part of each committee.

h) Examine and organize the succession of the Board of Directors Chairman and the Chief Executive of the Company and in this case, where appropriate, make suggestions to the Board of Directors so that such succession occurs in an ordered and planned way in accordance with succession plan approved by the Board of Directors.
i) Suggest to the Board of Directors the system and the amount of annual remuneration of directors, as well as the individual remuneration of executive directors and other basic terms of their contracts, including any eventual allowance or compensations that may be established in case of separation, in accordance with the directors remuneration policy that has been approved by the General Meeting of Shareholders.
j) Monitor the candidates' selection process for senior executives of the Company and report the proposals made by the Chief Executive Officer of the Company concerning the appointment or removal of senior managers.
k) Report and submit to the Board of Directors proposals made by the Chief Executive Officer of the Company related to the structure of remuneration of senior managers and the basic terms of their contracts.
l) Ensure that remuneration programs of the Company are compliance, and inform about the documents to be approved by the Board of Directors for its general dissemination with regard to information of remuneration, including the Annual Report on Remuneration paid to the Directors and sections corresponding to the annual Corporate Governance Report of the Company.
m) Other functions that might be agreed in the Company's' Board of Directors.

DELEGATED EXECUTIVE COMMITTEE

Name	Position	Type
MR ANTONIO MARÍA PRADERA JAUREGUI	CHAIRMAN	EXECUTIVE
MR. FERMIN DEL RIO SANZ DE ACEDO	BOARD MEMBER	EXECUTIVE
MR. JESUS MARÍA HERRERA BARANDIARAN	BOARD MEMBER	EXECUTIVE
MR. FRANCISCO JOSE RIBERAS MERA	BOARD MEMBER	PROPRIETARY
ELIDOZA PROMOCION DE EMPRESAS, S.L.	BOARD MEMBER	PROPRIETARY

% of executive members	60.00%
% of proprietary directors	40.00%
% of independent directors	0.00%
% of other external directors	0.00%

Explain the committee's duties, describe the procedure and organisational and operational rules and summarise the main actions taken during the year.

According to Article 16 of the Regulations of the Board of Directors, as delegated by the Board, and as a permanent institution, the Executive Committee will have -unless the Board of Directors determines other thing- all the powers inherent to the Board of Directors, except for the ones that are legally or statutory undelegated powers and the specifically reserved for the Board of Directors.

The Executive Committee shall meet at least once a month and others if it is deemed appropriate by the Chairman, who may also suspend one or more of the ordinary meetings when he deems appropriate in its sole judgment. At the same time, it will also meet when it is requested by two of the directors of the Commission. The Executive Committee shall deal with all matters within the competence of the Board, that in consideration of the Commission, should be resolved without further delay, with the only exceptions of accountability, the presentation of balance sheets at the General Meeting, the powers which are given to the Board without the power of delegation and the Board of Directors' powers that are legally or statutory non-transferable.

Indicate whether the delegate or executive committee reflects the participation on the board of the different directors according to their category:

YES [X] NO [ ]

CORPORATE SOCIAL RESPONSIBILITY COMMITTEE

Name	Position	Type
ELIDOZA PROMOCIÓN DE EMPRESAS, S.L.	CHAIRMAN	PROPRIETARY

Name	Position	Type
ACEK DESARROLLO Y GESTIÓN INDUSTRIAL, S.L.	BOARD MEMBER	PROPRIETARY
ADDVALIA CAPITAL, S.A.	BOARD MEMBER	PROPRIETARY

% of proprietary directors	100.00%
% of independent directors	0.00%
% of other external directors	0.00%

Explain the committee's duties, describe the procedure and organisational and operational rules and summarise the main actions taken during the year.

The procedures and rules regarding the organization of the Commission are included in the corresponding regulations, which is available within the corporate website: http://www.cieautomotive.com/investors-website/comisiones-del-consejo-de-administracion
With respect to its duties, the Corporate Social Responsibility Committee is an informative and advisory internal body, without executive functions, with faculties to obtain information, advisory and proposals within its domain. In this sense, the Corporate Social Responsibility Committee tasks are as follows:

a) Review periodically the corporate governance policies and propose to the Board of Directors, for approval or submission to the General Meeting of Shareholders, amendments and updates that contribute to its development and continuous improvement.
b) Boost strategy of corporate governance and Company's sustainability.
c)Monitor the compliance of legal requirements and standards of corporate governance.
d) Know, promote, guide and monitor performance of the Company in the area of corporate social responsibility and sustainability and report to the Board of Directors and the Executive Committee, as appropriate.
e) Evaluate and revise the company policies of social responsibility plans and follow up their compliance.
f) Report on the implementation by the foundational entities related to the Group's activities of public interest and corporate social responsibility entrusted to them.
g) Report prior to its approval, the Annual Report of Corporate Governance of the Company, gathering for this purpose the reports issued by the Audit and Compliance Committee and the Appointments and Compensation Committee, regarding with the sections of the report that fall within their competence, and if it is published, the report or annual sustainability memorandum.
h) Promote within the Company the existence of a Code of Ethics; propose its approval to the Board of Directors and its subsequent amendments, as well as promoting any relevant issue regarding the knowledge and compliance with the Code of Ethics.
i) Review policies and internal procedures of the Company in order to prove their effectiveness in preventing inappropriate behaviors and identify any policies or procedures that are more effective in promoting the high ethical standards.
j) Other functions that might be agreed on the Board of Directors of the Company.

C.2.2 Complete the following table with information on the number of female directors comprising the committees of the Board of Directors during the last four years.

	Number of female directors							
	Year ended 2016		**Year ended 2015**		**Year ended 2014**		**Year ended 2013**	
	Number	**%**	**Number**	**%**	**Number**	**%**	**Number**	**%**
AUDIT AND COMPLIANCE COMMITTEE	1	33.00%	2	50.00%	2	66.00%	1	33.00%
APPOINTMENTS AND COMPENSATION COMMITTEE	0	0.00%	0	0.00%	0	0.00%	0	0.00%
DELEGATED EXECUTIVE COMMITTEE	1	20.00%	1	20.00%	1	16.00%	1	16.00%
CORPORATE SOCIAL RESPONSIBILITY COMMITTE	2	66.00%	2	66.66%	-	-	-	-

C.2.3 Abrogated section

C.2.4. Abrogated section

C.2.5 Indicate, where applicable, if there are any rules and regulations for the Board Committees, where they are available for consultation and any changes or amendments made during the year. Likewise indicate whether an annual report on the activities of each Committee has been prepared on a voluntary basis.

Each of the Board of Directors Committees described in the previous paragraphs have its own regulations. These are available within the corporate website: http://www.cieautomotive.com/web/investors-website/comisiones-del-consejo-de-administracion. There have not been modifications to these regulations during this year. The Audit and Compliance Committee has prepared the corresponding report related to its activities during 2016.

C.2.6 Abrogated section

D. RELATED PARTY AND INTRAGROUP TRANSACTIONS

D.1 Explain, if applicable, the procedures for approving related-party or intragroup transactions.

Procedure for approval of transactions with related parties

Operations that the company or its subsidiaries conducted with directors, significant shareholders or shareholders represented on the Board of Directors or persons related to them must be submitted, prior to the approval of the Board of Directors. In any case, these operations are performed under market conditions.

D.2 Provide a breakdown of the relevant transactions made during the year because of their nature or the sums involved between companies or entities of the Group and the Company's significant shareholders:

Name of Significant Shareholder	Group Company	Nature of the Relationship	Type of Transaction	Amount (thousand €)
MAHINDRA & MAHINDRA LTD	MAHINDRA CIE AUTOMOTIVE LTD	Commercial	Sale of goods	137,789
MAHINDRA & MAHINDRA LTD	MAHINDRA CIE AUTOMOTIVE LTD	Commercial	Purchase of goods	22,686
MAHINDRA & MAHINDRA LTD	MAHINDRA CIE AUTOMOTIVE LTD	Commercial	Reception of services	2,524

D.3 Provide a breakdown of the relevant transactions because of their nature or the sums involved between the Company or entities of its Group, and the Directors or Senior Managers of the Company:

Name of Directors	Name of Related Party	Link	Type of transaction	Amount (thousand €)
MR. JESÚS MARÍA HERRERA BARANDIARAN	CIE AUTOMOTIVE, S.A.	Contractual	Financing agreements: loans	455
ACEK DESARROLLO Y GESTIÓN INDUSTRIAL, S.L.	MAHINDRA CIE AUTOMOTIVE LTD	Contractual	Sale of goods or not	8,010
ACEK DESARROLLO Y GESTIÓN INDUSTRIAL, S.L.	CIE AUTOMOTIVE MEXICO	Contractual	Sale of goods or not	18,674
ACEK DESARROLLO Y GESTIÓN INDUSTRIAL, S.L.	CIE AUTOMOTIVE MEXICO	Contractual	Purchase of goods or not	5,786

D.4 Provide a breakdown of the relevant transactions made by the Company with other companies belonging to its same Group provided they are not eliminated in the process of consolidation and are not part of the Company's routine business.

In any case, any group transaction carried out with entities established in countries or territories considered as a tax haven will be informed:

Corporate name of the group company:

CIE BERRIZ, S.L.

Amount (thousand euros): 27,209

Brief description of the operation:

CIE BERRIZ, S.L. proceeded to lend to the subsidiary of MAHINDRA CIE AUTOMOTIVE Limited in Mauritius, Mahindra Gears Global Limited. The purpose of this funding is that the company could underwrite a capital injection in its Italian subsidiary, METALCASTELLO Spa. The debt under this funding amounts to EUR 27.2 million.

It should be noted that the company Mahindra Gears Global Limited is a company that was included in the scope of CIE Automotive, S.A. as a result of integration of the companies in the Mahindra Group. In accordance with the best practices, the procedures required to eliminate this company are under way (it will be an acquisition by reverse merger carried out by Metalcastello Spa).

D.5 Provide the amount of transactions with other related parties.

6,504 (thousand euros)

D.6 List the mechanisms established to identify, determine and settle possible conflicts of interests between the Company and/or its Group and its Directors, Executive Managers or significant shareholders.

Article 34 of the Regulations of the Board of Directors lays down the following:

"Article 34. - Conflicts of Interest.

1. Directors must take necessary measures to avoid incurring conflicts of interest in accordance with the established by law.

2. A conflict of interest is deemed to exist in those cases in which there is a direct or indirect collision between the Company's interests and the Director's personal interests. The Director has a personal interest when the matter affects him/her or a related person. For the purposes of these Regulations, persons related to a Director are considered to be:

1º.- The Director's spouse or persons with a similar relationship.

2º.- Ascendants, descendants and siblings of the director or his/her spouse.

3º.- The spouses of the director's ascendants, descendants and siblings.

4º.- Companies in which the director, either personally or through an intermediary, is in one of the situations defined by Article 4 of Law 24/1988, of 28 July, on the Stock Market.

Related people are considered to be the following with respect to a legal person director:

1º.- Shareholders who, with respect to the legal person Director, is in one of the situations defined by Article 4 of Law 24/1988, of 28 July, on the Stock Market.

2º.-De facto or actual Directors, liquidators and legal representatives holding general powers-of-attorney granted by the legal person Director.

3º.- The companies that form part of the same group, as defined by Article 4 of Law 24/1988, of 28 July, on the Stock Market, and their shareholders.

4º. - Individuals who, with respect to the legal person director, are considered to be related to the directors in accordance with this section.

3. The following rules will be applicable to conflict of interest situations:

a) Communication: the director must report to the Board of Directors and the Audit and Compliance Committee, through the Chairman or the Secretary, any conflict of interest that arises.

b) Abstention: the director must abstain from attending and intervening in the deliberations and votes that relate to those matters concerning the conflict of interest. Proprietary external directors must abstain from participating in votes regarding matters that may represent a conflict of interest between shareholders that proposed their appointment and the Company.

c) Transparency: the Company will include in the Annual Corporate Governance Report information regarding any conflict of interest involving directors that has been reported by the affected party or by any other means."

D.7 Are more than one of the Group's companies listed in Spain?

YES [X] NO [ ]

Identify the subsidiaries listed in Spain:

Subsidiary listed

GLOBAL DOMINION ACCESS, S.A.

Indicate if they have defined publicly accurately the respective areas of activity and eventual relations of business between them, as well as those of the listed subsidiary company with other group companies;

YES [X] NO [ ]

Define the eventual relations of business between the head company and the listed subsidiary company, and between this one and other group companies.

No relation of business exist.

Identify the mechanisms planned to solve the eventual conflicts of interests between the listed subsidiary and other group companies:

Mechanisms to solve the eventual conflicts of interest

No eventual conflicts of interest. In any case, to avoid conflicts of interest, people who occupies the charge of Director in both CIE Automotive, S.A. and Global Dominion Access, S.A. (and persons related to them) perform their obligations arising from the articles 228 and 229 of the Spanish Companies Law.

E. RISK CONTROL AND MANAGING SYSTEMS

E.1 Explain the scope of the Risk Management System of the Company.

CIE Automotive, S.A. is subject to several risks inherent to the various countries, markets and businesses in which it operates and the activities carried out in each one.
Aware of the importance of the adequate management of those risks, the Board of Directors, through management, has developed and implemented a general policy of identifying and managing risks supervised by the Audit and Compliance Committee.
The overall process for managing corporate risks at CIE Automotive, S.A. is based on the ISO 31000 method, the best practice in this area. The risk management process is based on a continuous cycle, broken down into five phases:

I. Identify the key risks that may affect attaining the Organisation's objectives, including all financial information control objectives.
II. Evaluate them based on probability of occurrence and their impact on the organisation as well as based on the existence of controls.
III. Establish a response to each one.
IV. Monitor the action taken.
V. Report the results of the analysis performed.

E.2 Identify the bodies within the Company responsible for the development and implementation of the Risk Management System:

Responsibility for implementing the risk management system, including tax, lies on the Board of Directors, which relies specifically on the Audit and Compliance Committee for its monitoring and proper operation.The risk management policy of CIE Automotive, S.A. requires all business divisions to identify and assess the risks that must face up when achieving their business objectives in order to identify in advance the appropriate mitigating measures to reduce or eliminate the probability of risk occurrence and / or its possible impact on the goals in case they materialize.

E.3 Describe the main risks that may affect the achievement of business objectives.

In the course of its business, CIE Automotive, S.A. is exposed to a variety of inherent risks in the different lines of business that develops and in countries in which they are held. On the other hand, the different levels of socioeconomic uncertainty that exists in the markets in which CIE Automotive, S.A. operates can make appear risk factors currently unknown or not considered as relevant, that could potentially affect the business, performance and / or the financial position of the company.
Are detailed briefly the main risks, which CIE Automotive, S.A. faces in its business objectives:

a) Management risk

- Regulatory risks: arising from the Securities Market rules, the law for the data protection, the feasible changes in the tax legislation (national and international); and the civil responsibility for integrity of the heritage.
- Financial risks: debt levels, liquidity risk, risks arising from fluctuations in exchange rates, risks arising from changes in interest rates, risks arising from the use of financial derivatives and investment risk.
- Information risks: as much as reputational risk that can affect the image of CIE Automotive, S.A. or risk related to transparency and relationship with analysts and investors.

b) Business risks: Are those that specifically affect each business and depend on the singularity of each activity.

- Operational risks: Risks relating to recruitment and customer relationships, product quality, environmental, purchasing and outsourcing.
- Non-operational risks: Risks related to the prevention, security and health in work, human resources, specific tax applicable to business, the reliability of the accounting and financial information and financial resources and debt management.

For more information regarding the risks and management measures, see the Annual Report 2016.

E.4 Identify whether the entity has a level of risk tolerance, including tax

The Board of Directors approves the acceptable level of risk for each type of risk, type of business and location, as well as levels of allowed deviation based on the strategic objectives and the strategic lines to achieve them. The levels of acceptable risk are regularly updated accordingly with changes in corporate strategy and risk profile business.

Annually the risks that threaten the achievement of the business objectives are identified, including tax risk, and they are valued based on their potential impact on financial results and their probability of occurrence. The combination of the impact and the probability of occurrence determine the severity of the risk.

E.5 Indicate which risks, including tax, have been materialized during the year.

During the year 2016 actions related to the review and definition of the map risk have been taken what has improved the policies related to the detection and minimization of the existing risks. Thanks to the policy detection and risk management there has not been a substantive realization of the above hazards, which have been successfully monitored by the Compliance department and the rest of divisions, having the control systems worked adequately and not having produced any significant impacts on the consolidated financial statements of 2016.

E.6 Explain the response and supervision plans held for the company’s major risks, including tax.

CIE Automotive, S.A.'s geographical diversification and business, together with the high operational decentralization that characterizes the organization, requires the availability of a system of control and supervision of risks. Corporate risk management system is also supported by each business unit, in which each management level is responsible for the compliance with internal rules and procedures.

The evaluation and verification of their effectiveness is performed periodically by Compliance department, which also contributes to the management of the overall risks that CIE Automotive, S.A. faces in the compliance of its targets. Alerts, recommendations and conclusions generated are communicated to CIE Automotive, S.A. management.

For the development of its functions, the Compliance department has qualified and experienced personnel, independent of the business lines staff.

Among the measures taken by CIE Automotive, S.A. for monitoring risks, include:

- Setting goals, strategic guidelines and internal regulations (policy, standards, procedures and manuals).
- Definition, monitoring and continuous evaluation of the design and performance of internal control systems and compliance.

In this regard, during the process of the elaboration of the Risk Map 2016, the Company has worked on the identification of new responses and consolidation lines, for the most relevant risks for the company.
It is important to highlight that CIE Automotive, S.A. has units of analysis, monitoring and control in various areas of management risks, such as:

- Financial risk assessment and management
- Safety and environmental standards
- Corporate Social Responsibility
- Reporting and tax risks
- Risks and continuity information systems
- Insurance

F. DESCRIPTION OF THE MAIN CHARACTERISTICS OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS IN RELATION TO THE PROCESS FOR THE REPORTING OF FINANCIAL INFORMATION.

Describe mechanisms that make control systems and risk management in relation to the process of financial reporting (ICFR) in your company

F.1 Company control environment.

Report, noting the main features of at least:

F.1.1 The bodies and/or functions which are responsible for: (i) the existence and maintaining of an adequate and effective SICFR; (ii) its implementation; and (iii) its supervision.

The Board of Directors of CIE Automotive, S.A., is the body responsible, among other matters, for the updating and on-going improvement of the Company's Corporate Governance System - in accordance with currently-applicable legislation and generally-recognized corporate governance recommendations -, through the resolutions it considers necessary or advisable for this purpose, which are either passed by the Board itself, when they fall within the scope of its competence, or proposed to the General Meeting. These functions are understood to include its responsibility as regards the existence and maintaining of the Company's internal control system (hereinafter the SICFR).

The CIE Automotive, S.A. Audit and Compliance Committee is the body responsible for the supervision of the efficacy of the SICFR, the internal audit function, and the corporate risks management process, and for discussing with the accounting auditors or audit firms any significant weaknesses in the internal control system which have been detected during the course of the audit.

The Audit and Compliance Committee is supported by the Compliance Department to perform these functions, being responsible for the implementation of SICFR and in general, the whole internal control system of CIE Automotive, S.A., ensuring the definition and design of the control procedures which should be implemented in the company's operational planning, compliance with legal regulations, internal policies and procedures.

F.1.2 Whether there exist – particularly in relation to the process for the preparation of financial information – the following:

- Departments and/or mechanisms entrusted with: (i) the design and review of the organizational structure, (ii) clearly defining lines of responsibility and authority, and a suitable distribution of tasks and functions, (iii) ensuring that there are sufficient procedures correctly disseminated within the Company.

The Board of Directors is the ultimate body responsible for defining and periodically reviewing the organizational structure of CIE. The Board delegates to the Company's Management the task of ensuring that subordinate structures are equipped with adequate human and material resources. With regard to the process of the preparation of financial information, there exists a global interrelated financial department which depends on the departments of Audit and Control Management and the Department of Treasury and Finance.

The responsibilities and functions of all people directly involved in the preparation and review of financial information are defined and adequately communicated within the framework of CIE's internal policies and procedures.

There are internal protocols, which guarantee that information on any change that is taking place in relation to the preparation of financial information is distributed to the appropriate personnel in good time and in the correct form. There are also controls in place for the identification of any irregularity in this aspect.

- A code of conduct, including the body responsible for its approval, level of dissemination and instruction, principles and values included (indicate whether any specific mentions are made of the recording of operations and preparation of financial information), and the body responsible for analyzing breaches of such code and proposing corrective action and penalties.

CIE Automotive, S.A. currently has an "Internal Code of Professional Conduct" and an "Internal Regulations on Conduct in relation to Securities Markets". Both documents are published on the corporative website and are distributed to all affected personnel through the communication channels established for this purpose. In either cases, the body responsible for their definition and approval is the Board of Directors.

The Internal Code of Professional Conduct lays down some basic rules and principles whose purpose is to ensure that there is a commitment and transparency in relations and operations with customers, suppliers and employees, the maximization and protection of shareholders' investments and the safeguarding of health, security and environmental issues. The Code also establishes the need for controls over payment operations and over any situation of conflict of interests involving employees. It exists a specific section on the reliability of financial information, where there is laid down a series of specific rules applicable to all people involved in the process for the preparation of financial information.

The functions of the Corporate Social Responsibility include the monitoring of compliance with the aforementioned codes/regulations.

- A whistle-blowing channel for communication to the audit committee of any financial and accounting irregularities, plus possible breaches of the code of conduct and irregular activities taking place within the organization, indicating, where appropriate, the confidential nature of such information.

CIE Automotive, S.A. has a whistle-blowing channel for the receipt of notifications/reports relating to irregular conduct or activities implying any breach of the principles and ethical rules regarding the reliability of financial information laid down in the "Internal Code of Professional Conduct" or in the "Internal Regulations on Conduct in relation to Securities Markets".

There are Regulations setting out the process for the functioning of the whistle-blowing channel, which guarantees that reports can be submitted by either named staff members or anonymously, being always guaranteed the whistleblowers' confidentiality, in case he wants, and a protocol for action for analysis of complaints received, and reported to the Corporate Social Responsibility for monitoring.

- Training and periodic refresher programs aimed at the personnel involved in the preparation and review of financial information and assessment of the SICFR which cover, as a minimum, accounting standards, auditing, internal control and risks management.

As well as a variety of staff training programs, CIE Automotive, S.A. has the following additional resources of which use is made for the training and support of personnel involved in the preparation and review of financial information.

- There is an Accounting Policies Manual, which is updated on an on-going basis.
- There is an Accounting and Management control department, whose tasks is to resolve any doubts regarding the interpretation of the Manual Accounting Policies, and provide advice regarding the treatment of complex transactions.
- There are divisional/regional controllers who are involved in the support provided to all people forming part of the financial function at all the Group's plants and companies, through on-going internal assessment and training.

- When a new company joins the Group, support strategies are developed to train its employees in accordance with the Group's standards and criteria.
- Advice is received from external advisors in relation to changes in accounting, legal and tax rules, which may affect the Company.

F.2 Risk assessment of financial information.

Report at least:

F.2.1. What are the main characteristics of the process of identifying risks, including risks of error or fraud, as to:

- Whether there exists such a process and whether it is documented.

The process of identification and assessment of financial information risks forms part of CIE Automotive, S.A.'s global Corporate Risks Management process. It is based on the ISO 31000 methodology, which constitutes best practice in this area, and takes the form of a procedure with which all personnel involved are familiar.
The risk management process is based on a continuous cycle comprising five phases:

I. The identification of key risks, which may affect the fulfilment of the Organization's objectives, including all financial information control objectives.
II. The evaluation of such risks based on the probability of occurrence and their impact on the organization, and based on the existence of controls.
III. Determination of the required response for each such risk.
IV. Monitoring of the agreed courses of action; and
V. reporting of the results of the analysis made.

The process of identification and assessment of risks are tasks for which the Management and the heads of the various divisions and of other business areas are all responsible. They self-assess the risks identified, with Compliance department acting as coordinator in this process. The result obtained is a Risks Map, and a list of steps to be taken for the proper management of risks. The above is complemented by activities for the monitoring of the management of certain risks, which are carried out by the Compliance department.

- Whether the process covers all financial reporting objectives, (existence and occurrence; integrity; measurement; presentation, breakdown and comparability; and rights and obligations), whether it is updated, and how frequently.

As is indicated in the procedure, the identification and analysis of risks cover all aspects of financial information, which may have a material impact on its reliability.

The Risks Map is required to be updated annually as a minimum. However, in the event of circumstances arising during the year, which require specific steps to be taken for the management of a potential risk, the appropriate measures are adopted.

- The existence of a process for the identification of the consolidation scope taking into account, among other aspects, the possible existence of complex corporate structures, and instrumental or special-purpose companies.

The process for the identification and assessment of risks takes into consideration all processes, group companies and their various structures, and specific characteristics of each country and business line, with particular attention being paid to risks deriving from transactions which, owing to their foreseen level of complexity or significance, require specialized management.

- Whether the process takes into account the effects of other risk types (operational, technological, financial, legal, reputational, environmental, and so on) insofar as these affect the financial statements.

As it has been mentioned above, the model is based on the ISO 31000 methodology that taking as its starting point the Organizations' objectives, results in a Risk Map that is updated annually, monitoring among others, financial risks, tax and legal and those from different typology (operational, strategic, compliance, environmental, Corporate Social Responsibility, fraud, etc.).

- The governing body, which supervises the process.

  This entire process is reviewed and approved by the Audit and Compliance Committee, which is the body, which ultimately determines whether the process of identification, assessment and monitoring of the Company's risks and, specifically, the measures aimed at identifying material risks in relation to financial information, are appropriate and sufficient.

F.3 Control activity.

Report, noting their main features, if you have at least:

F.3.1 Procedures for reviewing and authorising the financial information and description of ICFR to be disclosed to the markets, stating who is responsible in each case and documentation and flow charts of activities and controls (including those addressing the risk of fraud) for each type of transaction that may materially affect the financial statements, including procedures for the closing of accounts and for the separate review of critical judgements, estimates, evaluations and projections.

The Management Board is the highest responsible body for approving and monitoring the Group's financial statements. The Group sends quarterly information to the stock market. This information is prepared by the Audit and Management Control department, which performs a number of control activities during the closing accounting period to ensure reliability of financial information.

In addition to the actual closure-of-accounts procedure, and prior to the process for the preparation and review of financial information, CIE Automotive, S.A. has control procedures and activities taking place in other key areas of the company which purpose is to ensure that transactions are properly recorded, measured, presented and broken down, and accordingly to prevent and detect fraud and thus cover all transactions that could materially affect the CIE Automotive, S.A's financial statements. The key processes of the company, including closing, for which have been defined risk and control matrices, are as follows:

1. Closing, consolidation and reporting
2. Property, plant and equipment
3. Financial assets and liabilities
4. Inventories
5. Revenue/Account receivable
6. Treasury
7. Accruals
8. Cost of sales/Account payable
9. Human Resources
10. Tax

The financial statements are prepared based on a reporting schedule and deadlines, known by all participants in the process, taking into account the time for legal delivery.

Furthermore, and for the review of judgments, opinions, assessments and projections, the Manual of Accounting Policies defines the criteria for CIE Automotive, S.A.'s existing application approach.

The aforementioned significant transactions are reviewed by the company´s Board of Directors through various processes (review, approval and monitoring of the Strategic Plan and Budget, and the review of the most significant accounting estimates and accounting judgments used in the preparation of financial information), once the Audit and Compliance Committee has confirmed that the information is adequate.

F.3.2 Internal control policies and procedures relating to information systems (including, among others, access security, control over changes, operation of such systems, operating continuity and segregation of duties) which support the entity's significant processes in relation to the preparation and publication of financial information.

CIE Automotive, S.A. has internal control policies and procedures in place in respect of information systems, which support its significant processes, including the process for the preparation and review of financial information. This policy and framework policy is based on a catalogue of international standards ISO 27000.

CIE Automotive, S.A. uses information systems for the correct recording and control of its operations; it is therefore highly dependent on their correct functioning.

As part of the process for the identification of risks of misstatement in financial information, CIE Automotive, S.A. identifies the systems and applications, which are relevant in each of the areas or processes considered significant. The systems and applications identified include both those, which are used directly in the preparation of financial information, and those, which are relevant to the efficacy of controls, which reduce the risk of misstatement in such information.

CIE Automotive, S.A. has a "Security Policy Systems" defined at the corporate level aimed at achieving the security objectives identified. The objective is to adopt the pertinent measures of an organizational, technical and documentary nature necessary to guarantee the desired level of security. The work performed in this connection relates to the following areas:

- Access control and user administration.
- Management of changes.
- Back-up and recovery.
- Physical security.
- Control of subcontractors.
- Provision of resources, risk purging and business maintenance.

Critical business processes for CIE Automotive, S.A. have different organizational and technological solutions that guarantee business continuity.

F.3.3 Internal control policies and procedures for supervising the management of activities outsourced to third parties, as well as aspects of assessment, calculation or measurement entrusted to independent experts, which may have a material impact on the financial statements.

In general, CIE Automotive, S.A. does not outsource any activities considered relevant that could affect substantively to financial information. In any case, CIE Automotive, S.A. has a management procedure in place in respect of activities outsourced to third parties, the purpose of which is to define the controls to be applied to activities outsourced to third parties, which have a significant impact on the financial information prepared by CIE Automotive, S.A.

Based on the analysis undertaken, the view has been formed that during 2013 the only area outsourced with a possible material impact on the financial information of the Group is the Information Systems area. In this respect, CIE Automotive, S.A. has verified that the supplier company has the obtained appropriate certifications as to the adequacy of its control environment, and that such certifications are periodically validated by an independent party.

In addition, there are control activities taking place periodically in CIE Automotive, S.A. (included in the aforementioned risk and control matrices) which also play a part in validating the control environment in this area.

Responsibility with respect to other activities in relation to significant transactions which are entrusted to independent experts (e.g. tax advisory services) remains within CIE Automotive, S.A., specific monitoring work being required to guarantee their reliability.

F.4 Communication and information.

Report, noting their main features, if you have at least:

F.4.1 A specific function responsible for defining and updating accounting policies (area or department of accounting policies) and resolve questions or disputes regarding its interpretation, maintaining fluid communication with those responsible for transactions at the organization, as well as an updated accounting policies guide communicated to the units through which the entity operates.

The Role of Accounting Policies is assumed by the Audit and Compliance department, which depends directly from the Chief Executive Officer.

In performing this function, the department assumes the following responsibilities:

- Maintenance and dissemination of CIE Accounting Policy Manual (Continuous Update) to other Group companies.
- Update any changes in accounting rules applicable to all members of the finance function of CIE.
- Resolution of disputes that may arise (individually or in a consolidated level) in the interpretation of the rules to be applied.
Mechanisms for capturing and preparing financial information homogenously.

F.4.2 Mechanisms for financial information gathering and preparation in standard format, application and use by all units of the entity or the group, supporting key financial statements and notes, as well as information concerning ICFR.

CIE Automotive, S.A. has a specific system for financial reporting and consolidation, which is used in all units group, allowing the capture of financial information homogenously. This system is also used, in turn, to the development of aggregation and consolidation of the data reported.

Additionally, for the collection of the ICFR information, CIE is involved in the implementation process of SAP GRC tool in all Group units.

F.5 System performance monitory.

Report, noting its main features, at least:

F.5.1 Monitoring activities conducted by the ICFR audit committee and whether the entity has an internal audit function whose competencies include the support to the committee in its oversight of the internal control system, including ICFR. Also informing of the scope of the assessment of ICFR in the exercise and the process by which the responsible for implementing the evaluation reports its results, if the entity has an action plan detailing any corrective measures, and whether it has considered its impact on financial reporting.

The Audit and Compliance Committee has the following oversight responsibilities of ICFR:

- Supervision of periodic financial information.
- Monitoring and evaluation of the operation of ICFR.
- Knowing the financial reporting process and internal control systems associated with significant risks of company.
- Periodically review internal control and risk management systems, so main risks are identified, managed and properly disclosed.

CIE Automotive, S.A. has a Corporate Internal Audit Department, which depends on the Compliance department and this in turn to the ACC, which coordinates the Internal Auditing teams in Europe, Mexico, Brazil and India whose members are exclusively dedicated to these functions. The main function of the Internal Audit Department is overseeing the internal control system, within which there are included issues such as supervision of the correct implementation of the risk management system, in which it is also included the managing of the risk of fraud, and controls aimed at reliability of financial information.

Based on the results of the risk assessment, the Internal Audit department prepares an annual plan of CIEs' ICFR, to be submitted in each period for approval by the Audit and Compliance Committee responsible for overseeing the ICFR.
The information to be provided to the market or stakeholders about ICFR will have an annual basis and shall cover the period of the corresponding financial report.

F.5.2 If you have a discussion process by which the auditor (in accordance with the provisions of the NTA), the internal audit function and other experts can communicate to senior management and the audit committee or board of the entity significant internal control weaknesses identified during the review process of the annual accounts or those that have been entrusted to them. It should also report on whether an action plan to correct or mitigate the weaknesses observed exists.

The auditor participates actively in the meetings of the Audit and Control Committee. Furthermore, the auditor issues annually a report of internal control weaknesses, which is submitted to the ACC for the adoption of measures deemed appropriate.

Additionally, CIE Automotive, S.A. has a procedure allowing any outside advisors, in the exercise of its activity, to detect the existence of internal control weaknesses, and communicate through Internal Audit department to the ACC's detected issues for discussion, analysis and evaluation.

F.6 Other relevant information.

Not applicable.

F.7 External auditor report.

Report of:

F.7.1 If ICFR information supplied to markets has been reviewed by the external auditor, in which case the entity should include the report as an attachment. Otherwise, it should report its reasons.

CIE Automotive, S.A. has submitted to an External Auditor the effectiveness of internal control system on the Financial Reporting (ICFR), in relation to the financial information contained in the Groups' consolidated annual accounts at December 31, 2016.

A copy of the opinion of the External Auditor is attached.

G. COMPLIANCE WITH CORPORATE GOVERNANCE RECOMMENDATIONS

Indicate the degree of conformance of the company to the recommendations of the Unified Code of Good Governance.

In the event that any recommendation is not followed or partially followed, include a detailed explanation of its reasons so that shareholders, investors and the market in general, have sufficient information to evaluate the behaviour of the Company. General explanation will not be acceptable.

1. The Articles of Association of listed companies should not place an upper limit on the votes that can be cast by a single shareholder, or impose other obstacles to the takeover of the company by means of share purchases on the market.

Comply	X	Explain	

2. When a dominant and a subsidiary company are stock market listed, the two should provide detailed disclosure on:

    a) The type of activity they engage in and any business dealings between them, as well as between the subsidiary and other group companies;
    b) The mechanisms in place to resolve possible conflicts of interest.

Comply	X	Partially comply		Explain		Not applicable	

3. During the annual general meeting, the chairman of the board should verbally inform shareholders in sufficient detail of the most relevant aspects of the company's corporate governance, supplementing the written information circulated in the annual corporate governance report. In particular

   a) Changes taking place since the previous annual general meeting.
   b) The specific reasons for the company not following a given Good Governance Code recommendation, and any alternative procedures followed in its stead.

Comply		Partially comply	X	Explain	

The framework of normal running of the General Shareholders' Meeting, we inform those of the relevant circumstances occurred since the last meeting, including, issues of corporate governance (i.e. adoption of new Board of Directors regulation, creation of the Corporate Social Responsibility Committee, etc.).

However, it is not considered important to emphasize why the CIE Automotive, S.A. does not follow any specific recommendation to the extent that (i) no circumstances seem sufficiently relevant, and (ii) those circumstances, if appropriate, are included in the Annual Corporate Governance Report, (to which shareholders have access)

4. The company should draw up and implement a policy of communication and contacts with shareholders, institutional investors and proxy advisors that complies in full with market abuse regulations and accords equitable treatment to shareholders in the same position.

   This policy should be disclosed on the company's website, complete with details of how it has been put into practice and the identities of the relevant interlocutors or those charged with its implementation.

Comply	X	Partially comply		Explain	

5. The board of directors should not make a proposal to the general meeting for the delegation of powers to issue shares or convertible securities without pre-emptive subscription rights for an amount exceeding 20% of capital at the time of such delegation.

   When a board approves the issuance of shares or convertible securities without pre-emptive subscription rights, the company should immediately post a report on its website explaining the exclusion as envisaged in company legislation.

Comply	X	Partially comply		Explain	

6. Listed companies drawing up the following reports on a voluntary or compulsory basis should publish them on their website well in advance of the annual general meeting, even if their distribution is not obligatory:

   a) Report on auditor independence.
   b) Reviews of the operation of the audit committee and the appointments and remuneration committee.
   c) Audit committee report on third-party transactions.
   d) Report on corporate social responsibility policy.

Comply		Partially comply		Explain	X

CIE Automotive, S.A. does not usually publish these reports on the website, since according to the characteristics of the Company it does not seem relevant; nevertheless, CIE Automotive, S.A. will assess this recommendation in the search for a more complete construction of its corporate governance.

7. The company should broadcast its general meetings live on the corporate website.

Comply		Explain	X

Given the characteristics of CIE Automotive, S.A. shareholders, and in light of the assistance to the Boards, CIE Automotive, S.A. does not consider relevant live broadcast of the Shareholders General Meeting through its website.

8. The Audit committee should strive to ensure that the board of directors could present the company's accounts to the general meeting without limitations or qualifications in the auditor's report. In the exceptional case that qualifications exist, both the chairman of the audit committee and the auditors should give a clear account to shareholders of their scope and content.

Comply	X	Partially comply		Explain	

9. The company should disclose its conditions and procedures for admitting share ownership, the right to attend general meetings and the exercise or delegation of voting rights, and display them permanently on its website.

   Such conditions and procedures should encourage shareholders to attend and exercise their rights and be applied in a non-discriminatory manner.

Comply	X	Partially comply		Explain	

10. When an accredited shareholder exercises the right to supplement the agenda or submit new proposals prior to the general meeting, the company should:

    a) Immediately circulate the supplementary items and new proposals.

    b) Disclose the model of attendance card or proxy appointment or remote voting form duly modified so that new agenda items and alternative proposals can be voted on in the same terms as those submitted by the board of directors.

    c) Put all these items or alternative proposals to the vote applying the same voting rules as for those submitted by the board of directors, with particular regard to presumptions or deductions about the direction of votes.

    d) After the general meeting, disclose the breakdown of votes on such supplementary items or alternative proposals.

Comply		Partially comply		Explain		Not applicable	X

11. In the event that a company plans to pay for attendance at the general meeting, it should first establish a general, long-term policy in this respect.

Comply		Partially comply		Explain		Not applicable	X

12. The board of directors should perform its duties with unity of purpose and independent judgement, according the same treatment to all shareholders in the same position. It should be guided at all times by the company's best interest, understood as the creation of a profitable business that promotes its sustainable success over time, while maximising its economic value.

    In pursuing the corporate interest, it should not only abide by laws and regulations and conduct itself according to principles of good faith, ethics and respect for commonly accepted customs and good practices, but also strive to reconcile its own interests with the legitimate interests of its employees, suppliers, clients and other stakeholders, as well as with the impact of its activities on the broader community and the natural environment.

Comply	X	Partially comply		Explain	

13. The board of directors should have an optimal size to promote its efficient functioning and maximise participation. The recommended range is accordingly between five and fifteen members.

Comply	X	Explain	

14. When The board of directors should approve a director selection policy that:

    a) Is concrete and verifiable.

    b) Ensures that appointment or re-election proposals are based on a prior analysis of the board's needs.

    c) Favours a diversity of knowledge, experience and gender.

    The results of the prior analysis of board needs should be written up in the appointments committee's explanatory report, to be published when the general meeting is convened that will ratify the appointment and re-election of each director.

    The director selection policy should pursue the goal of having at least 30% of total board places occupied by women directors before the year 2020.

    The appointments committee should run an annual check on compliance with the director selection policy and set out its findings in the annual corporate governance report.

Comply		Partially comply	X	Explain	

Given the usual lack of vacancies in the Board of Directors, it does not exist such a policy for the selection of directors, without prejudice that prevail the fulfilment of the required objectives by this recommendation in the Board of Directors' decisions in the context of the various appointments.

15. The Proprietary and independent directors should constitute an ample majority on the board of directors, while the number of executive directors should be the minimum practical bearing in mind the complexity of the corporate group and the ownership interests they control.

Comply	X	Partially comply		Explain	

16. The percentage of proprietary directors out of all non-executive directors should be no greater than the proportion between the ownership stake of the shareholders they represent and the remainder of the company's capital.

This criterion can be relaxed:

a) In large cap companies where few or no equity stakes attain the legal threshold for significant shareholdings.
b) In companies with a plurality of shareholders represented on the board but not otherwise related.

Comply		Explain	X

In line with paragraph (b) of this recommendation, CIE Automotive, S.A. has a number of significant shareholders represented in the Board of Directors, without any relationship. CIE Automotive, S.A. will assess this recommendation in the search for a more complete construction of its corporate governance.

17. Independent directors should be at least half of all directors

However, when the company does not have a large market capitalization, or when a large cap company has shareholders individually or concertedly controlling over 30 per cent of capital, independent directors should occupy, at least, a third of board places.

Comply		Explain	X

CIE Automotive, S.A. believes that the number of independent directors reflects correctly the current shareholding composition of the company. The Board of Directors has the intention to propose to the General Shareholders' Meeting the appointment of new independent directors if this membership varies significantly.

18. The Companies should disclose the following director particulars on their websites and keep them regularly updated:

a) Background and professional experience.
b) Directorships held in other companies, listed or otherwise, and other paid activities they engage in, of whatever nature.
c) Statement of the director class to which they belong, in the case of proprietary directors indicating the shareholder they represent or have links with.
d) Dates of their first appointment as a directors and subsequent re-elections.
e) Shares held in the company, and any options on the

Comply		Partially comply	X	Explain	

Documents relating to the General Shareholders' Meeting, including detailed proposals for resolutions to be adopted, are made available to shareholders from the time of the announcement, as well as on the website of CIE Automotive S.A. and the Shareholder Forum.

As for the content of information that refers to the directors Recommendation 18, the information contained in the Corporate Social Responsibility annual report (which is accessible at all times from the website) is sufficient for the purposes proposed and in relation to the profiles of the members of the Board of Directors.

19. Following verification by the appointments committee, the annual corporate governance report should disclose the reasons for the appointment of proprietary directors at the urging of shareholders controlling less than 3 per cent of capital; and explain any rejection of a formal request for a board place from shareholders whose equity stake is equal to or greater than that of others applying successfully for a proprietary directorship.

Comply		Partially comply		Explain		Not applicable	X

20. Proprietary directors should resign when the shareholders they represent dispose of their ownership interest in its entirety. If such shareholders reduce their stakes, thereby losing some of their entitlement to proprietary directors, the latters' number should be reduced accordingly.

Comply		Partially comply		Explain		Not applicable	X

21. The board of directors should not propose the removal of independent directors before the expiry of their tenure as mandated by the bylaws, except where they find just cause, based on a proposal from the appointments committee. In particular, just cause will be presumed when directors take up new posts or responsibilities that prevent them allocating sufficient time to the work of a director, or are in breach of their fiduciary duties or come under one of the disqualifying grounds for classification as independent enumerated in the applicable legislation.

The removal of independent directors may also be proposed when a takeover bid, merger or similar corporate transaction alters the company's capital structure, provided the changes in board membership ensue from the proportionality criterion set out in recommendation 16.

Comply	X	Explain	

22. Companies should establish rules obliging directors to disclose any circumstance that might harm the organisation's name or reputation, tendering their resignation as the case may be, and, in particular, to inform the board of any criminal charges brought against them and the progress of any subsequent trial.

The moment a director is indicted or tried for any of the offences stated in company legislation, the board of directors should open an investigation and, in light of the particular circumstances, decide whether or not he or she should be called on to resign. The board should give a reasoned account of all such determinations in the annual corporate governance report.

Comply	X	Partially comply		Explain	

23. Directors should express their clear opposition when they feel a proposal submitted for the board's approval might damage the corporate interest. In particular, independents and other directors not subject to potential conflicts of interest should strenuously challenge any decision that could harm the interests of shareholders lacking board representation.

When the board makes material or reiterated decisions about which a director has expressed serious reservations, then he or she must draw the pertinent conclusions. Directors resigning for such causes should set out their reasons in the letter referred to in the next recommendation.

The terms of this recommendation also apply to the secretary of the board, even if he or she is not a director.

Comply		Partially comply		Explain		Not applicable	X

24. Directors who give up their place before their tenure expires, through resignation or otherwise, should state their reasons in a letter to be sent to all members of the board. Whether or not such resignation is disclosed as a material event, the motivating factors should be explained in the annual corporate governance report.

Comply		Partially comply		Explain		Not applicable	X

25. The appointments committee should ensure that non-executive directors have sufficient time available to discharge their responsibilities effectively.

    The board of director's regulations should lay down the maximum number of company boards on which directors can serve.

Comply		Partially comply		Explain	X

With regard to the second point of the recommendation, as a result of the composition of the Company's' Board of Directors, it is not needed to include those obligations to its members.

26. The board should meet with the necessary frequency to properly perform its functions, eight times a year at least, in accordance with a calendar and agendas set at the start of the year, to which each director may propose the addition of initially unscheduled items.

Comply		Partially comply	X	Explain	

For the purposes of the proper functioning of the Board of Directors, it is not understood that it is necessary to hold eight sessions in a year (in 2016, 6 meetings have been held).

27. Companies Director absences should be kept to a strict minimum and quantified in the annual corporate governance report. In the event of absence, directors should delegate their powers of representation with the appropriate instructions.

Comply	X	Partially comply		Explain	

28. When directors or the secretary express concerns about some proposal or, in the case of directors, about the company's performance, and such concerns are not resolved at the meeting, they should be recorded in the minute book if the person expressing them so requests.

Comply		Partially comply		Explain		Not applicable	X

29. The company should provide suitable channels for directors to obtain the advice they need to carry out their duties, extending if necessary to external assistance at the company's expense.

Comply	X	Partially comply		Explain	

30. Companies Regardless of the knowledge directors must possess to carry out their duties, they should also be offered refresher programmes when circumstances so advise.

Comply		Explain		Not applicable	X

31. The agendas of board meetings should clearly indicate on which points directors must arrive at a decision, so they can study the matter beforehand or gather together the material they need.

For reasons of urgency, the chairman may wish to present decisions or resolutions for board approval that were not on the meeting agenda. In such exceptional circumstances, their inclusion will require the express prior consent, duly minuted, of the majority of directors present.

Comply	X	Partially comply		Explain	

32. Directors should be regularly informed of movements in share ownership and of the views of major shareholders, investors and rating agencies on the company and its group.

Comply	X	Partially comply		Explain	

33. The chairman, as the person charged with the efficient functioning of the board of directors, in addition to the functions assigned by law and the company's bylaws, should prepare and submit to the board a schedule of meeting dates and agendas; organise and coordinate regular evaluations of the board and, where appropriate, the company's chief executive officer; exercise leadership of the board and be accountable for its proper functioning; ensure that sufficient time is given to the discussion of strategic issues, and approve and review refresher courses for each director, when circumstances so advise.

Comply	X	Partially comply		Explain	

34. When a lead independent director has been appointed, the bylaws or board of directors regulations should grant him or her the following powers over and above those conferred by law: chairman the board of directors in the absence of the chairman or vice chairmen give voice to the concerns of non-executive directors; maintain contacts with investors and shareholders to hear their views and develop a balanced understanding of their concerns, especially those to do with the company's corporate governance; and coordinate the chairman's succession plan.

Comply	X	Partially comply		Explain		Not applicable	

35. The board secretary should strive to ensure that the board's actions and decisions are informed by the governance recommendations of the Good Governance Code of relevance to the company.

Comply	X	Explain	

36. In The board in full should conduct an annual evaluation, adopting, where necessary, an action plan to correct weakness detected in:

a) The quality and efficiency of the board's operation.
b) The performance and membership of its committees.
c) The diversity of board membership and competences.
d) The performance of the chairman of the board of directors and the company's chief executive.

e) The performance and contribution of individual directors, with particular attention to the chairmen of board committees.

The evaluation of board committees should start from the reports they send the board of directors, while that of the board itself should start from the report of the appointments committee.

Every three years, the board of directors should engage an external facilitator to aid in the evaluation process. This facilitator's independence should be verified by the appointments committee.

Any business dealings that the facilitator or members of its corporate group maintain with the company or members of its corporate group should be detailed in the annual corporate governance report.

The process followed and areas evaluated should be detailed in the annual corporate governance report.

Comply	X	Partially comply		Explain	

37. When an executive committee exists, its membership mix by director class should resemble that of the board. The secretary of the board should also act as secretary to the executive committee.

Comply		Partially comply		Explain	X	Not applicable	

The Executive Committee reflects a composition that it is considered appropriate to the functions assigned to it.

38. The board should be kept fully informed of the business transacted and decisions made by the executive committee. To this end, all directors should receive a copy of the committee's minutes.

Comply		Partially comply		Explain	X	Not applicable	

Given the functions of the Executive Committee and its essential task of monitoring the business, is not necessary to bring minutes of the Executive Commission to the rest of the Board of Directors.

39. All members of the audit committee, particularly its chairman, should be appointed with regard to their knowledge and experience in accounting, auditing and risk management matters. A majority of committee places should be held by independent directors.

Comply	X	Partially comply		Explain	

40. Listed companies should have a unit in charge of the internal audit function, under the supervision of the audit committee, to monitor the effectiveness of reporting and control systems. This unit should report functionally to the board's non-executive chairman or the chairman of the audit committee.

Comply	X	Partially comply		Explain	

41. The head of the unit handling the internal audit function should present an annual work programme to the audit committee, inform it directly of any incidents arising during its implementation and submit an activities report at the end of each year.

Comply	X	Partially comply		Explain		Not applicable	

42. The audit committee should have the following functions over and above those legally assigned:

1. With respect to internal control and reporting systems:

a) Monitor the preparation and the integrity of the financial information prepared on the company and, where appropriate, the group, checking for compliance with legal provisions, the accurate demarcation of the consolidation perimeter, and the correct application of accounting principles.

b) Monitor the independence of the unit handling the internal audit function; propose the selection, appointment, re-election and removal of the head of the internal audit service; propose the service's budget; approve its priorities and work programs, ensuring that it focuses primarily on the main risks the company is exposed to; receive regular report-backs on its activities; and verify that senior management are acting on the findings and recommendations of its reports.

c) Establish and supervise a mechanism whereby staff can report, confidentially and, if appropriate and feasible, anonymously, any significant irregularities that they detect in the course of their duties, in particular financial or accounting irregularities.

2. With regard to the external auditor:

a) Investigate the issues giving rise to the resignation of the external auditor, should this come about.

b) Ensure that the remuneration of the external auditor does not compromise its quality or independence.

c) Ensure that the company notifies any change of external auditor to the CNMV as a material event, accompanied by a statement of any disagreements arising with the outgoing auditor and the reasons for the same.

d) Ensure that the external auditor has a yearly meeting with the board in full to inform it of the work undertaken and developments in the company's risk and accounting positions.

e) Ensure that the company and the external auditor adhere to current regulations on the provision of non-audit services, limits on the concentration of the auditor's business and other requirements concerning auditor independence.

Comply	X	Partially comply		Explain	

43. The audit committee should be empowered to meet with any company employee or manager, even ordering their appearance without the presence of another senior officer.

Comply	X	Partially comply		Explain	

44. The audit committee should be informed of any fundamental changes or corporate transactions the company is planning, so the committee can analyse the operation and report to the board beforehand on its economic conditions and accounting impact and, when applicable, the exchange ratio proposed.

Comply		Partially comply		Explain		Not applicable	X

45. Risk control and management policy should identify at least:

a) The different types of financial and non-financial risk the company is exposed to (including operational, technological, financial, legal, social, environmental, political and reputational risks), with the inclusion under financial or economic risks of contingent liabilities and other off- balance-sheet risks.

b) The setting of the risk level that the company deems acceptable.

c) Measures in place to mitigate the impact of risk events should they occur.

d) The internal reporting and control systems to be used to control and manage the above risks, including contingent liabilities and off-balance-sheet risks.

Comply	X	Partially comply		Explain	

46. Companies should establish a risk control and management function in the charge of one of the company's internal department or units and under the direct supervision of the audit committee or some other dedicated board committee. This function should be expressly charged with the following responsibilities:

a) Ensure that risk control and management systems are functioning correctly and, specifically, that major risks the company is exposed to are correctly identified, managed and quantified.

b) Participate actively in the preparation of risk strategies and in key decisions about their management.

c) Ensure that risk control and management systems are mitigating risks effectively in the frame of the policy drawn up by the board of directors.

Comply	X	Partially comply		Explain	

47. The Appointees to the appointments and remuneration committee - or of the appointments committee and remuneration committee, if separately constituted - should have the right balance of knowledge, skills and experience for the functions they are called on to discharge. The majority of their members should be independent directors.

Comply	X	Partially comply		Explain	

48. Large cap companies should operate separately constituted appointments and remuneration committees.

Comply		Explain		Not applicable	X

49. The appointments committee should consult with the company's chairman and chief executive, especially on matters relating to executive directors.

When there are vacancies on the board, any director may approach the appointments committee to propose candidates that it might consider suitable.

Comply	X	Partially comply		Explain	

50. The remuneration committee should operate independently and have the following functions in addition to those assigned by law:

a) Propose to the board the standard conditions for senior officer contracts.

b) Monitor compliance with the remuneration policy set by the company.

c) Periodically review the remuneration policy for directors and senior officers, including share-based remuneration systems and their application, and ensure that their individual compensation is proportionate to the amounts paid to other directors and senior officers in the company.

d) Ensure that conflicts of interest do not undermine the independence of any external advice the committee engages.

e) Verify the information on director and senior officers' pay contained in corporate documents, including the annual directors' remuneration statement.

Comply	X	Partially comply		Explain	

51. The remuneration committee should consult with the company's chairman and chief executive, especially on matters relating to executive directors and senior officers.

Comply	X	Partially comply		Explain	

52. The terms of reference of supervision and control committees should be set out in the board of director's regulations and aligned with those governing legally mandatory board committees as specified in the preceding sets of recommendations. They should include at least the following terms:

a) Committees should be formed exclusively by non-executive directors, with a majority of independents.

b) They should be chaired by independent directors.

c) The board should appoint the members of such committees with regard to the knowledge, skills and experience of its directors and each committee's terms of reference; discuss their proposals and reports; and provide report-backs on their activities and work at the first board plenary following each committee meeting.

d) They may engage external advice, when they feel it necessary for the discharge of their functions.

e) Meeting proceedings should be minuted and a copy made available to all directors.

Comply		Partially comply		Explain		Not applicable	X

53. The task of supervising compliance with corporate governance rules, internal codes of conduct and corporate social responsibility policy should be assigned to one board committee or split between several, which could be the audit committee, the appointments committee, the corporate social responsibility committee, where one exists, or a dedicated committee established ad hoc by the board under its powers of self-organisation, with at the least the following functions:

a) Monitor compliance with the company's internal codes of conduct and corporate governance rules.

b) Oversee the communication and relations strategy with shareholders and investors, including small and medium-sized shareholders.

c) Periodically evaluate the effectiveness of the company's corporate governance system, to confirm that it is fulfilling its mission to promote the corporate interest and catering, as appropriate, to the legitimate interests of remaining stakeholders.

d) Review the company's corporate social responsibility policy, ensuring that it is geared to value creation.

e) Monitor corporate social responsibility strategy and practices and assess compliance in their respect.

f) Monitor and evaluate the company's interaction with its stakeholder groups.

g) Evaluate all aspects of the non-financial risks the company is exposed to, including operational, technological, legal, social, environmental, political and reputational risks.

h) Coordinate non-financial and diversity reporting processes in accordance with applicable legislation and international benchmarks.

Comply	X	Partially comply		Explain	

54. The corporate social responsibility policy should state the principles or commitments the company will voluntarily adhere to in its dealings with stakeholder groups, specifying at least:

a) The goals of its corporate social responsibility policy and the support instruments to be deployed.

b) The corporate strategy with regard to sustainability, the environment and social issues.

c) Concrete practices in matters relative to: shareholders, employees, clients, suppliers, social welfare issues, the environment, diversity, fiscal responsibility, respect for human rights and the prevention of illegal conducts.

d) The methods or systems for monitoring the results of the practices referred to above, and identifying and managing related risks.

e) The mechanisms for supervising non-financial risk, ethics and business conduct.

f) Channels for stakeholder communication, participation and dialogue.

g) Responsible communication practices that prevent the manipulation of information and protect the company's honour and integrity.

Comply	X	Partially comply		Explain	

55. The company should report on corporate social responsibility developments in its directors' report or in a separate document, using an internationally accepted methodology.

Comply	X	Partially comply		Explain	

56. Director remuneration should be sufficient to attract individuals with the desired profile and compensate the commitment, abilities and responsibility that the post demands, but not so high as to compromise the independent judgement of non-executive directors.

Comply	X	Explain	

57. Variable remuneration linked to the company and the director's performance, the award of shares, options or any other right to acquire shares or to be remunerated on the basis of share price movements, and membership of long-term savings schemes such as pension plans should be confined to executive directors.

The company may consider the share-based remuneration of non-executive directors provided they retain such shares until the end of their mandate. The above condition will not apply to any shares that the director must dispose of to defray costs related to their acquisition.

Comply	X	Partially comply		Explain	

58. In the case of variable awards, remuneration policies should include limits and technical safeguards to ensure they reflect the professional performance of the beneficiaries and not simply the general progress of the markets or the company's sector, or circumstances of that kind.

In particular, variable remuneration items should meet the following conditions:

a) Be subject to predetermined and measurable performance criteria that factor the risk assumed to obtain a given outcome.

b) Promote the long-term sustainability of the Company and include non-financial criteria that are relevant for the company's long-term value, such as compliance with its internal rules and procedures and its risk control and management policies.

c) Be focused on achieving a balance between the delivery of short-, medium- and long-term objectives, such that performance-related pay rewards ongoing achievement, maintained over sufficient time to appreciate its contribution to long-term value creation. This will ensure that performance measurement is not based solely on one-off, occasional or extraordinary events.

Comply	X	Partially comply		Explain		Not applicable	

59. A major part of variable remuneration components should be deferred for a long enough period to ensure that predetermined performance criteria have effectively been met.

Comply	X	Partially comply		Explain		Not applicable	

60. Remuneration linked to company earnings should bear in mind any qualifications stated in the external auditor's report that reduce their amount.

Comply		Partially comply		Explain		Not applicable	X

61. A major part of executive directors' variable remuneration should be linked to the award of shares or financial instruments whose value is linked to the share price.

Comply		Partially comply		Explain		Not applicable	X

62. Following the award of shares, share options or other rights on shares derived from the remuneration system, directors should not be allowed to transfer a number of shares equivalent to twice their annual fixed remuneration, or to exercise the share options or other rights on shares for at least three years after their award.

The above condition will not apply to any shares that the director must dispose of to defray costs related to their acquisition.

Comply		Partially comply		Explain		Not applicable	X

63. Contractual arrangements should include provisions that permit the company to reclaim variable components of remuneration when payment was out of step with the director's actual performance or based on data subsequently found to be misstated.

Comply		Partially comply		Explain		Not applicable	X

64. In addition, the Bank has adopted a policy on the application of malus clauses in the field of remuneration. Termination payments should not exceed a fixed amount equivalent to two years of the director's total annual remuneration and should not be paid until the company confirms that he or she has met the predetermined performance criteria.

Comply		Partially comply	X	Explain		Not applicable	

The agreement between the chief executive officer of Global Dominion Access, S.A. and said company includes a provision granting a compensation in case of early termination that does not strictly comply with the second part of the recommendation.

H. OTHER INFORMATION OF INTEREST

1. If there is a relevant aspect of corporate governance in the society or group entities that have not been picked up in other sections of this report, but it is necessary to include collecting more complete and reasoned information on the structure and governance practices in the company or its group, describe briefly.

2. This section may as well include any other information, clarification or related to previous sections of the report to the extent that they are relevant and not repetitive.

   Specifically, state whether the company is subject to any laws other than the laws of Spain on corporate governance and, if this is the case, include whatever information the Company may be required to provide when different from the information included in this report.

3. The company may also indicate whether voluntarily acceded to other ethical principles or codes of good practice, international, sectorial or other clauses. In your case, the code in question and the date of accession will be identified.

   On 10/15/2015, CIE Automotive, S.A. adhered to the Global Compact, which is an international initiative that promotes implement 10 Principles universally accepted to promote corporate social responsibility (CSR) in the areas of Human Rights, Labor Standards, Environment and Anti-Corruption in the activities and the business strategy of the companies.

This annual corporate governance report was approved by the Board of Directors of the Company at its meeting held on 02/27/2017.

Indicate whether any Directors have voted against or abstained in connection with the approval of this Report.

YES		NO	X

CIE Automotive, S.A.

Report of the auditor
On the "Information relating to the
Internal Financial Reporting Control System"
(IFRCS)

(Free translation of the auditor's report originally issued in Spanish on the consolidated annual accounts prepared in accordance with International Financial Reporting Standards as adopted by the European Union. In the event of a discrepancy, the Spanish language version prevails)

REPORT OF THE AUDITOR RELATING TO THE INTERNAL FINANCIAL REPORTING CONTROL SYSTEM (IFRCS)

To the Directors of CIE Automotive, S.A.:

At the request of the Board of Directors of CIE Automotive, S.A. ("the Entity") and pursuant to our letter of proposal dated 13 December 2016, we have applied certain procedures to the accompanying information concerning the IFRCS included in the "Appendix to the Annual Corporate Governance Report" of CIE Automotive, S.A. for 2016, which summarises the Entity's internal control procedures with respect to its annual financial information.

The Board of Directors is responsible for taking the measures that are necessary to reasonably assure the implementation, maintenance and supervision of an appropriate internal control system, and for developing improvements to said system and preparing and establishing the content of the accompanying Information relating to the IFRCS.

In this connection it must be borne in mind that, irrespective of the design quality and efficiency of the internal financial reporting control system used by the Entity, it can only allow a reasonable - not absolute - degree of assurance in relation to the objectives it seeks to achieve due to the limitations inherent to any internal control system.

In the course of our audit work on the annual accounts in accordance with Technical Audit Standards, the sole purpose of our evaluation of the Entity's internal control system is to enable us to establish the scope, nature and timing of the audit procedures performed on the Entity's annual accounts. Accordingly, the internal control evaluation carried out for the purposes of our audit is not sufficient in scope to enable us to issue a specific opinion on the efficiency of the internal financial reporting control system.

For the purposes of the present report, we have only applied the specific procedures described below and indicated in the Guidelines concerning the auditor's report referring to the information concerning the Financial Reporting Internal Control System for listed entities published by the National Securities Market Commission on its web site, which lays down the work to be performed, the minimum scope of the work and the content of this report. In view of the fact that, in any event, the scope of the work resulting from these procedures is reduced and substantially less than the scope of an audit or an internal control system review, we do not express an opinion on the effectiveness thereof, its design or operational efficiency, in relation to the Entity's annual financial reporting for 2016 described in the accompanying IFRCS information. Therefore, had we applied procedures in addition to those determined by said Guidelines or had we performed an audit or internal control system review in relation to the regulated financial information, other matters could have come to light of which you would have been informed.

As this special work does not constitute an audit and is not subject to the revised Audit Law, we do not express an audit opinion in the terms envisaged in said Law.

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Inscrita en el R.O.A.C. con el número S0242 - CIF: B-79 031290

The procedures applied are as follows:

1. Reading and understanding of the information prepared by the Entity in relation to the IFRCS – breakdown included in the Directors' Report – and evaluation of whether said information covers all the data required as per the minimum content described in Section F, regarding the IFRCS description of the model of Annual Corporate Governance Report, according to the National Securities Market Commission Circular 7/2015 dated 22 December 2015.

2. Making enquiries with personnel in charge of preparing the information mentioned in 1. above in order to: (i) obtain an understanding of the process followed in its preparation; (ii) obtain information that enables us to assess whether the terminology used is in line with the framework of reference; (iii) obtain information as to whether the control procedures described are implemented and functioning in the Entity.

3. Review of supporting documentation explaining the information described in 1. above which will mainly comprise the information made directly available to the persons responsible for preparing the information on the IFRCS. In this respect, said documentation includes reports prepared by the internal audit function, senior management and other internal and external specialists in their support duties for the audit committee.

4. Comparison of the information described in 1. above with the Entity's knowledge of the IFRCS obtained from the application of the procedures performed within the framework of the audit work on the annual accounts.

5. Reading of the minutes of meetings of the Board of Directors, Audit Committee and other committees of the Entity for the purpose of evaluating consistency between the matters dealt with therein in relation to the IFRCS and the information described in 1. above.

6. Obtainment of the letter of representation concerning the work performed, duly signed by the persons responsible for the preparation and drafting of the information mentioned in 1. above.

As a result of the procedures applied to the Information concerning the IFRCS included in the Appendix to the Annual Corporate Governance Report of CIE Automotive, S.A. for FY 2016, no inconsistencies or incidents have come to light by which it could be affected.

This report has been drawn up exclusively within the framework of the requirements laid down by the article 540 of the Capital Companies Law and the Circular 5/2013 issued by the National Securities Market Commission dated 12 June 2013, which has been modified by Circular 7/2015 issued by the National Securities Market Commission dated 22 December 2015, for the purposes of the IFRCS description in Annual Corporate Governance Reports.

PricewaterhouseCoopers Auditores, S.L.

Original in Spanish signed by Francisco Javier Domingo

27 February 2017