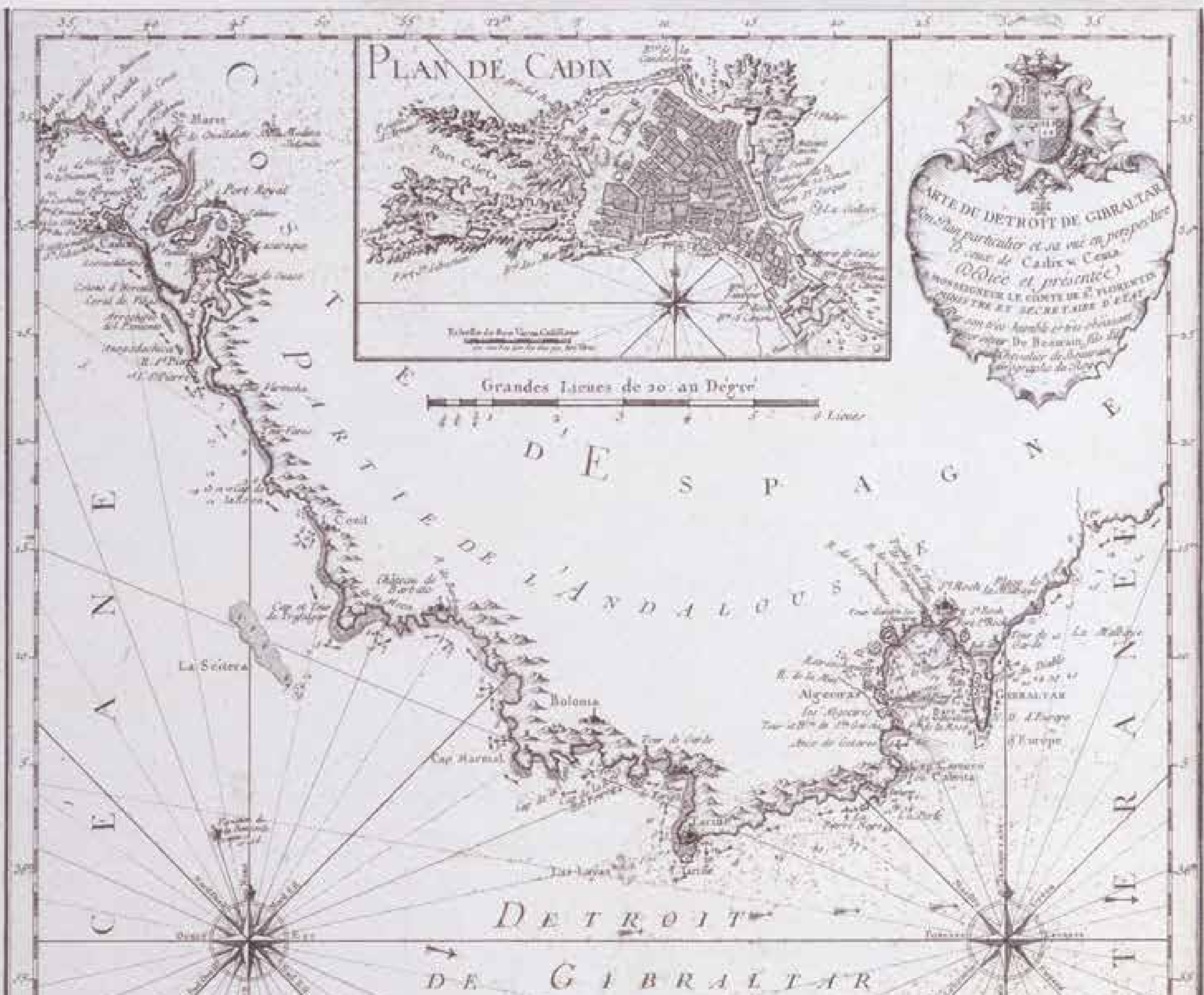
ANNUAL REPORT 2020

50th Anniversary
1970 - 2020

ACERINOX

1st annual integrated
REPORT 2020


Carte du Detroit de Gibraltar
Plan de Cadix
Grandes Lieues de 20 au Degré
Partie de l'Andalousie
Espagne
Detroit de Gibraltar
Coste d'Afrique
Royaume
Ocean
Mer Mediterranée
Port de Ceuta
Baye de Ceuta
Ceuta au Roy d'Espagne
Port Royal
Conil
La Sécirera
Bolonia
Cap Marmol
Tarife
Algesiras
Gibraltar
Cap Malabate
Cap Spartel
Arzille
Tetuan
A Paris, rue Gilles-coeur, la 1re Porte Cochere à droite en entrant par le Quai des Augustins

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Letter from the Chairman

Dear shareholders,

I have the pleasure of addressing you all once more to inform you of the 2020 results and to summarise the most significant events occurring during the year.

2020 was a tremendously complicated year globally due to the COVID-19 pandemic, which has devastated the entire world and has had consequences for everyone on a personal level, and most certainly also on an economic level.

Given the circumstances we had to endure, we addressed you on several occasions during 2020, and in particular as recently as the 2019 General Shareholders' Meeting, which we had to postpone until 22 October 2020, so I believe you have been fully informed of the decisions we have been taking to safeguard and ensure, above all, the health and safety of all our employees, as well as the key decisions regarding the business, with the aim of guaranteeing its continuity and ensuring the least possible impact on its performance.

2020 was a very special year for our company, as September marked the 50th anniversary since its incorporation. Circumstances prevented us from celebrating the anniversary with the grandeur we would have liked, but there is no doubt that this anniversary is a unique opportunity to appreciate all that has been achieved so far and to thank so many people for their effort, dedication and trust over the years.

In 2020 Acerinox presented the Group's Annual Integrated Report for the first time. In this report, through eleven chapters and six appendices, the traditional Management Report, Sustainability Report and Statement of Non-Financial Information are integrated, providing in-depth information on the different business areas and all the actions undertaken by the company, always under the premise of demonstrating that Acerinox is a long-term sustainable company, promoting economic, social and environmental sustainability under the philosophy that the ultimate aim of today's company is to achieve the right balance between these three concepts.

In this letter, I would like to highlight and summarise the aspects that I consider most significant, and I invite you to read the report to learn more in this connection.

Acerinox's Results

The effects of the pandemic on the global economy have been devastating. In 2019 the global economy grew by 2.8% and prior to COVID-19 it was expected to grow by 3.3% in 2020; however, the reality at the end of the year is that it contracted by 3.5%. The economies of the most important markets for Acerinox *performed very negatively: the US economy fell by 3.5%, the Eurozone economy by 6.8%, with Spain decreasing by 10.8%, the Asean zone economy by 3.7% and the South African economy by 7.5%. All countries performed negatively, except the Chinese economy, which grew by 2.3%, giving an idea of the magnitude of the impact that the pandemic has had on the global economy.*

The stainless steel sector began 2020 with a recovery in all markets; however, the impact of the global spread of COVID-19, especially in the second quarter of the year, significantly reduced demand and production, affecting prices, which evolved in a disparate way depending on the market, with the North American market remaining stable and the Asian and European markets decreasing.

Apparent consumption of flat products fell by 10% in the North American market, 14% in Europe and 20% in South Africa, and world production was estimated at 51 million tonnes, down by just 3% compared to 2019, due to production growth in China of approximately 3%.

With regard to the special alloys market, which has been significant for us since the incorporation of VDM in March, demand fell sharply in the various industrial sectors that consume these products: the aerospace industry fell by 37%, automotive by 25%, oil and gas by 23% and electronics and electrical engineering by 8%, with only the chemical industry, which includes power generation, remaining stable. According to SMR studies, the production of special alloys fell by approximately 20% in 2020.

In this extraordinarily difficult macroeconomic environment, the results obtained by Acerinox can be considered positive. Turnover totalled EUR 4,668 million, just 2% lower than in 2019, with melting shop production also 2% lower. EBITDA totalling EUR 384 million was generated, 5% higher than last year, maintaining an 8% EBITDA margin, and profit before taxes and minority interests of EUR 132 million was achieved, 5.7 times higher than in 2019. The Group also recognised very good cash generation; operating cash flow totalled EUR 421 million, of which EUR 337 million related to the stainless division and EUR 84 million corresponded to the ten months of contribution by VDM, which enabled a dividend of EUR 135 million to be paid and payments for investments totalling EUR 99 million to be made, increasing debt by only EUR 278 million despite the increase of EUR 398 million that occurred in March as a result of the acquisition of VDM Metals.

These results have been achieved primarily due to, once again, the very good performance of our American subsidiary NAS, and also the integration of VDM into our consolidation perimeter since March, as well as the company's swift reaction to the coronavirus crisis with efficient management of costs and working capital. In the stainless steel division, personnel and maintenance expenses were reduced by a commendable 16%, thus enabling that, in this division, despite a 15% drop in net sales, EBITDA only fell by 5%, which is undoubtedly a very good result given the impact of the pandemic on the markets in which we operate and the effect it has had on the industry in general.

As is usual, following the recommendations of the regulators and accounting standards, an asset impairment amounting to EUR 41 million was recognised in Bahru Stainless at 30 June, with no additional impairment arising on the Group's assets at year-end. Likewise, deferred tax assets were impaired in the amount of EUR 24 million. Taking these adjustments into account, profit after taxes and minority interests amounted to EUR 49 million compared to a loss of EUR 60 million in 2019.

Another key objective that we considered a priority during the year was the financial management of the company, focused on strengthening long-term financing and preserving liquidity as a fundamental weapon in the crisis situation in which we are immersed. In this sense, we can be satisfied since, at 31 December, 83% of our total financing had maturities of more than one year and 90% of the loans were at fixed interest rates. On the other hand, at that date, we had immediate liquidity of EUR 1,772 million, which more than covered our company's total term debt maturities.

The other major milestone of 2020 was the incorporation of VDM Metals into our Group, culminating one of Acerinox's most significant strategic transactions in recent years. This incorporation has made us world leader in high performance alloys and has transformed our company by incorporating this branch of business activity, which is complementary to our traditional business and will enable us to develop very significant growth opportunities as soon as the markets normalise and stabilise. Fortunately, the integration process taking place is progressing at a good pace, in spite of the mobility difficulties that have been imposed on us.

Innovation

In such a competitive environment, the innovation strategy is a clear element to guaranteeing the future development of our products, to guaranteeing the competitiveness and quality of our offer and to developing our commitment to sustainability.

In 2020, we continued to make decisive progress in this strategy through three main axes:

First, with the significant investment efforts that we are making in new equipment and in the maintenance and improvement of existing equipment, earmarking almost EUR 102 million in this connection.

Secondly, with the deployment of our Digital Transformation strategy, which is embodied in the Excellence 360º programme, with the main objective of optimising our entire supply chain and with the aim of achieving annual EBITDA returns of EUR 125 million from 2023.

Thirdly, with our Research, Development and Innovation strategy, focused on the increasingly necessary offer of solutions to our customers with high value added, in which the integration of VDM can help us to make a very significant quantitative and qualitative leap forward. And also with the innovation of our processes, optimising the way we produce and market our products.

The Environment

We are strongly committed to the development of a low-carbon economy and to the fight against climate change, and we want to be an important player in the solution to the problem the world faces.

Acerinox is a benchmark in terms of the circular economy due to its continual search for eco-efficiency and the fact that its product, stainless steel, is a model of the circular economy as it fulfils the four "R"s thereof: reduce, reuse, re-manufacture and recycle.

We act in the fight against climate change through the emission reduction measures we implement, the control of risks related to climate change and the specific commitments we have made, such as:

- Achieving climate neutrality by 2050.

- A 20% reduction in emissions intensity (scope 1+2) by 2030, using 2015 data as a reference point.

- A 7.5% reduction in energy intensity by 2030, using 2015 as a reference point for the calculation.

Acerinox Positive Impact 360º

Many of the aforementioned actions and objectives, along with many other matters, have been included in the Acerinox Sustainability Plan called "Acerinox Positive Impact 360º", which was developed and approved by the Board of Directors during 2020. This plan includes all the developments concerning Sustainability, as well as our Corporate Social Responsibility policy, through the following five main axes:

- Ethical, responsible and transparent governance.

- Eco-efficiency and the fight against climate change.

- Circular economy and sustainable product.

- A team committed to our culture, diversity and safety.

- Supply chain and impact on the community.

For each axis, lines of action and the actions thereof to be developed have been defined in two time frames, the priority, 2021-2023, and another, 2024-2025. All this guarantees Acerinox's contribution to the Sustainable Development Goals of the 2030 Agenda and compliance with the 10 Principles of the United Nations Global Compact.

Corporate Governance

In such a complicated year, the Company's governing bodies had to double their dedication to business monitoring, to the Company's strategic issues, as well as to the development of corporate matters that are the responsibility of the Board and its Committees. Proof of this increased activity is the fact that in 2020 the governing bodies of Acerinox met on 41 occasions compared to 28 in 2019.

In 2020 the number of directors decreased as a result of the resignation in August of the Proprietary Directors Mr Ryo Hattori and Mr Mitsuo Ikeda of NIPPON STEEL STAINLESS STEEL CORPORATION (NSSSC), heir company of Nisshin Steel, one of the founders of Acerinox in 1970. With these resignations, and the stepping down from the Board of Mr Braulio Médel due to him reaching the statutory retirement age and no longer being eligible for re-election, and the appointment of Ms Leticia Iglesias Herraiz and Mr Francisco Javier García Sanz as directors at the last General Shareholder's Meeting, the Board decreased to twelve members, achieving 33.3% in female representation.

Also worthy of note is the creation of a new Sustainability Committee within the Board, whose function is to be the working body specialised in this matter, advising and promoting sustainability within the Board and within the company itself. One of its first tasks was to review and propose for approval by the Board the aforementioned Sustainability Plan of our Company, "Acerinox Positive Impact 360".

Lastly, I wish to highlight that the Board of Directors, with the recommendation of the Appointments, Remuneration and Corporate Governance Committee, approved the proposal of the Chief Executive Officer *for the creation of the Chief Operating Officer (COO) position and the subsequent appointment of Mr Hans Helmrich, the organisational changes of Acerinox Europa and the appointment of Mr Fernando Gutiérrez as Chief Executive Officer (CEO) of Acerinox Europa, as well as the appointment of Mr Daniel Azpitarte as VDM Integration Director.*

Evolution of the shares

The stock markets were characterised by high volatility during 2020, with the first half of the year being heavily affected by the consequences of Covid-19, which generated great uncertainty, and the second half improving, due to the positive evolution of the economies and the confidence in the possibilities of controlling the pandemic.

All indices of the American stock market performed very positively, while all indicators of the European stock market performed negatively, except for the German DAX and the Swedish OMX. Our reference index, the IBEX35, decreased by 15% and was the worst of all European indices.

Acerinox shares ended the year with a decrease of 10%, with performance very much in line with the IBEX35 throughout the year, although Acerinox shares demonstrated better performance at the end of the year than the IBEX35, which enabled us to outperform the Spanish index.

So far in 2021, up to 15 March, Acerinox shares have increased by 15%, compared to the IBEX35, which grew by 7%. Our shares are some of the most recommended with 86% of recommendations being to buy, 14% to hold and no recommendations to sell.

The average target price of the analysts who follow our shares is EUR 11.6 per share, which gives us a revaluation potential of approximately 12%.

It is worth highlighting the shareholders' remuneration totalling EUR 0.50 per share that was approved by the General Shareholders' Meeting, with EUR 0.40 being paid as a dividend and EUR 0.10 as a share premium refund.

Future trends

We have been saying for a long time that we are immersed in an environment whose fundamental characteristic is uncertainty, and if this has always been true, it is even more so now in these times of pandemic. Within this complex environment, today we can fortunately say that we are beginning to see positive signs and the light at the end of the tunnel, which indicate that there may be an end to this nightmare we are living, perhaps sooner for some than for others, with winners and losers, but there is hope.

It is clear that the vaccines and the speed with which they are deployed, and the stimuli that governments, central banks and multinational institutions are implementing in the different regions of the world are the key to a powerful recovery of the world's economies. But it is also true that nothing is going to be served to us on a plate and, therefore, the degree of success of the policies applied in all areas, the degree of efficiency with which we know how to use and take advantage of the stimuli and the speed with which they are implemented, will be the differentiating factors in the degree of recovery of countries' economies.

According to OECD forecasts, we currently believe that the regions that will have strong and positive growth in the next two years, 2021 and 2022, and will therefore recover or surpass pre-pandemic GDP levels, will be Asia, particularly China and India, and the United States, all of which will achieve this by 2021. The Eurozone as a whole, with Germany and France leading, and Brazil, will achieve this in 2022, with Spain, along with certain other countries, lagging behind and being expected to achieve this by 2023. In other words, there will be a recovery, but it will be differentiated by country and region.

This situation is an excellent opportunity for a company as global as Acerinox, given its significant presence in the United States and Europe. And the incorporation of VDM, world leader in special alloys, gives us an opportunity to play a very important role in the future projects necessary to achieve the energy and digital transformation objectives that are being launched around the world, reinforcing that long-awaited recovery.

If we add to this our 2021-2025 Strategic Plan, recently approved by the Board, which defines specific objectives in the short-, medium- and long-term, which establishes actions to reinforce our strengths and endeavours to correct our weaknesses, which focuses on innovation and the development and attraction of talent as key tools for the future, and which is based on four basic axes: Sustainability in its broadest sense, the maintenance of a solid Balance Sheet Structure, the search for continual Excellence and the generation of Value Added. As I am sure you will understand, I have no doubt that our company will emerge from the difficult situation in which we find ourselves strengthened and with a winning momentum.

Our task now is to consolidate the opportunities we have and to continue working as we have always done, with dedication and enthusiasm, because if we are able to achieve this, we will undoubtedly have great prospects for the future.

I would like to end by thanking all the people who make up the human team of our company for their work and dedication, who have once again proved their worth during the critical and difficult circumstances we have experienced.

I would also like to thank the Management Team and the Board of Directors, who have demonstrated all their effort and dedication during this difficult year. And finally, as always, I wish to express my sincere thanks to all our shareholders for their trust and support.

Regards,
Rafael Miranda
Chairman of the Board of Directors

Letter from the Chief Executive Officer

Dear shareholders,

I must begin by acknowledging the trust placed in the Acerinox Management Team and the honour it gives me to be able to address you once more to report on the 2020 results.

2020 has undoubtedly been a different year that we will never forget: the year in which we celebrated 50 years since the Company's incorporation, the year in which we acquired VDM Metals and the year of Covid-19.

We began the year with the excitement of celebrating our 50th Anniversary at a turning point in our path, presenting a change of strategy based mainly on the diversification of our business activities towards products with greater value added, for which we announced the acquisition of the German company VDM Metals, a global leader in the manufacture of high performance alloys.

We also hoped to see a recovery in the stainless steel market following two years of declining apparent consumption in the regions where we are most active, the United States and Europe.

However, in a cyclical and volatile market such as ours, in which we are accustomed to very rapid cyclical changes, we were surprised by the drastic and unexpected effects of the pandemic, which, moving rapidly from east to west, collapsed most sectors of the economy and paralysed activity in almost every country on the planet. We only have to cast our minds back to scenes in Madrid, like in many other capitals, with their high streets completely empty, desolate.

Fortunately, the speed of the spread of the virus towards the west gave us enough time to anticipate the health measures in our facilities, always putting people's safety first and applying what we had learned in Asia to more western work centres, as well as promoting working from home. As a result, we had virtually no infections among employees, although we still had to lament illnesses and deaths among Group employees.

I would like to highlight the enormous effort made by our safety and prevention staff, who implemented and enforced protective measures, as well as the efforts made by our information systems staff, who, in record time, supplied us with equipment and prepared the means necessary to work from home when the type of activity allowed. Technology has undoubtedly played a crucial role in this crisis and has significantly boosted remote working, which has suddenly become commonplace in our lives.

Covid-19 characterised economic activity in 2020, and to understand our results it is necessary to explain how the measures adopted by the different countries and how changes in consumer habits affected our markets.

Internally, the factors that most influenced Acerinox's 2020 results were: the flexibility achieved to adapt our costs to the business activities, the integration of VDM and the tremendous commitment shown by all those who work at the Group and who made a colossal effort to carry out all plans without losing sight of our long-term strategy. There is no doubt that the liquidity we had at our disposal, totalling more than 1,700 million, provided the necessary peace of mind to carry out our plans.

On the international stage, it is worth noting how production and transport difficulties have affected global supply chains, which together with the trade protection measures that have emerged in many countries in recent years, have slowed global trade and to some extent have prompted a return to regionalism, or at least a risk-minimising combination of the two procurement models.

From 2020 onwards, we must report on two business lines in Acerinox: the traditional stainless steel line and the recently established high performance alloys line, which, although complementary, do not exactly follow the same parameters.

Stainless steel largely depends on the distribution sector, where more standard steel grades are traded and stocked, leading to a more speculative demand based on business expectations and future price evolution.

On the other hand, high performance alloys are used mainly in projects for the chemical, oil and aerospace industries, which makes it primarily dependent on investor confidence in the real economy. Stainless steel is also involved in these projects but mostly through the distribution sector.

Finally, consumer goods sectors, such as the automotive and household appliances sectors, use both types of materials, which are supplied directly to manufacturers.

We began 2020 with a depressed market situation and with low prices, especially in the Asian markets, which had contaminated the European market as a result of the high volume of imports from these countries. The weak situation was compounded in the first quarter by the effect of the sharp rise in inventories in China, since stainless steel manufacturers did not adjust their production to the pace of the consumer market, which closed after the Chinese New Year due to the pandemic.

Subsequently, the gradual closure of activity considered non-essential around the world characterised the progress of our business, taking into account that each country interpreted the concept of essential in its own way. At the end of March, we had to close the Malaysian plant for 28 days, the South African plant for 35 days and the Spanish plant for only 4 days, while the physical and legal security of our facilities was guaranteed. Only the factories in the United States and Germany remained operational at all times, although they had to adapt to the low level of commercial activity, which still persists in some sectors such as the aeronautical and restaurant and catering equipment, and which led us to work in some factories at only 50% of what is considered normal activity.

Despite such complex circumstances we achieved commendable results, supported by the US business, thanks to which the Consolidated Group's EBITDA in the first quarter of 2020 improved by 15% compared to that of the fourth quarter in 2019, albeit 6% below the first quarter of the previous year.

On 17 March we celebrated, somewhat strangely but with excitement, VDM joining our Group in a ceremony held by video conference due to the inability of travelling. We opted for growth at a time of doubt, which was certainly not what we had expected. Confidence in our solid financial position gave us the courage needed to defy the challenges of the situation, to commit to our long-term strategy and to invest at the most difficult time, which I am sure guarantees the appropriateness of this transaction and its success.

The second half of the year brought all the major uncertainties and difficulties, but it also highlighted all the work undertaken since the 2008 financial crisis, when we became obsessed with the need to provide our business with greater flexibility to be able to adapt to the ups and downs of the economy, overcoming the strong inertness associated with heavy industry and varying production costs to adapt them to our sales, while focusing on cash generation and securing liquidity.

Our consolidated financial statements for the second quarter incorporated the results of VDM for the first time, which helped to offset the 23% decrease in sales compared to the previous quarter, resulting in our adjusted EBITDA for the first half of the year decreasing by just 4% compared to the same period of the previous year.

This underlined one of the objectives of the acquisition of the high performance alloys division, namely its contribution to stabilising our cycles. Furthermore, as a result of it also being a cyclical sector, its greater exposure to investment projects offsets its cycle concerning that of standard stainless steel and, thus, while the stainless steel market collapsed, we continued to deliver consistently the alloys ordered months before. If stainless steel sales decreased considerably in this period, alloy sales remained firm, although the placing of new orders practically stopped and, therefore, in the second half of the year it had to be the improvement of stainless steel which offset the decrease in sales of the new unit.

Gradually the market situation improved, driven by consumer goods sectors such as the automotive sector, the food processing equipment sector and, above all, the household appliances manufacturing sector, which represents the change in consumer habits we have experienced, that of increased investments in the home, where we now spend most of our time.

The hope placed on the vaccines and, as a consequence, the improved outlook for the economy, were key aspects in the change that took place in the stainless steel market at the end of the year, since the good progress of the aforementioned sectors was combined with a stock replenishment process to adapt to the higher sales. Not even the presidential elections in the United States slowed down this trend, of which we tried to take advantage by rapidly increasing our production processes to obtain the best results of the year in the fourth quarter, exceeding the forecasts.

Thus, annual sales totalled EUR 4,668 million, a decrease of just 2% compared to 2019; EBITDA totalled EUR 384 million, resulting in a 5% increase compared to the previous year; and profit after taxes and minority interests totalled EUR 49 million, an improvement of EUR 109 million compared to 2019.

This was undoubtedly a good end to a hectic year in which all types of situations arose with great intensity and in which we had to demonstrate our business knowledge, cost control and optimisation of cash generation, enabling us to maintain the dividend and reduce debt following the acquisition of VDM, ending the year with a very healthy debt ratio of just 2 times EBITDA.

It is also important to highlight the performance of our American company, North American Stainless (NAS), which was able to take advantage of the opportunities in the American market to improve its share and, with an impressive control of the situation, to achieve an excellent result, which has sustained the Consolidated Group's result. This factory remained fully active during the year, although it had to deal with a 10% decline in consumption.

In Europe, multiple situations arose, different in each country, but which gave rise to a 16% drop in the market. In this context and emanating from a very low price scenario inherited from previous years, as well as significant pressure from imports, market conditions deteriorated even further, resulting in it being very difficult to obtain positive results. Through our associations we continue to work to raise awareness of the importance of adopting measures to curb unfair competition from certain Asian countries, which take advantage of a large open market to place their production surpluses at very low prices, resulting in the efforts of European manufacturers to conduct sustainable and high-quality business, both in terms of product and employment, and to lead the circular economy and the reduction of emissions, becoming futile.

In the other countries where we manufacture stainless steel, we have had to rethink and even reinvent our strategy. In the South African factory, Columbus Stainless, we have expanded our range of products by adding certain types of carbon steel, enabling us to optimise the use of our production capacity. These products are a good addition to stainless steel in order to offset, when necessary, the local market's weak situation or the competitive conditions of the export markets. In Malaysia, in Bahru Stainless, we have focused our production activities on products with a higher value added to deal with the mass production of standard types in the neighbouring Indonesia, where Chinese capital has burst in with force, altering the rules of the South-East Asian markets.

Lastly, the high performance alloys division, VDM Metals, provided the stability we needed in the second quarter, and then suffered from the lack of orders caused by the halting of all investments. At the time of writing, a year after this company became a part of the Group, we are more convinced than ever of the correctness of the transaction, not only because it enables us to diversify into another type of alloys, with a high technological level and higher value added, but also because it is a transformational change for the Group, which now offers the widest range of advanced solutions for the industry on the global market. In addition, we are incorporating a team of highly qualified professionals from whom we expect great contributions.

I would also like to stress that we are satisfied with the opportunity arising from the timing of VDM's incorporation under the most difficult conditions, at the point of maximum uncertainty, because the willingness of the people of both organisations has more than made up for the difficulties of working and has ensured that the integration tasks have remained unchanged in accordance with the programme designed in advance and that the cohesion of the teams and the integration of cultures has been strengthened.

Now, at the beginning of 2021, when the situation in all markets, including the high performance alloys market, is clearly improving, we are really looking forward to the possibility of demonstrating our full potential, to also taking advantage of positive scenarios and to being able to offer our shareholders satisfactory results that are reflected in our share price.

To this end, we are strengthening our structure and equipping it with a new organisation in order to meet the new demands. Following the recent creation of the Sustainability, Communication and Institutional Relationships Department, an Integration Department has now been created. This new Department designs, promotes and supervises the VDM integration process and the achievement of the synergies, which will validate our idea that, in this case, one plus one equals more than two. Moreover, a new Chief Operating Officer has been incorporated to lead the stainless steel division, and a new structure has been implemented in Acerinox Europa with a new Chief Executive Officer, to whom a new Manufacturing Director and a new Commercial Director report, which will undoubtedly boost the results of our management in Europe.

A new Board committee, the Sustainability Committee, has also been created, clearly illustrating our intentions in this area, which are none other than to highlight all the efforts we have been making to develop a business model based on the sustainable economy with a product that is the paradigm of the circular economy and with a human group that firmly believes in these principles.

In this sense, for 2020, the year of our 50th anniversary, of the incorporation of VDM and of Covid-19, we presented our first Annual Integrated Report, where you can find our fully transparent financial results and our objectives to be better and more sustainable every day. We have been prolific in this report by providing data on all categories, therefore I recommend you refer to the report for more information on the matters I have mentioned.

This Integrated Report complies with the legal requirements regarding the disclosure of non-financial information and sets forth our progress in sustainability, following international standards such as the Global Reporting Initiative (GRI), and has been verified by external auditors. For yet another year, I reinforce our firm commitment to the 10 Principles of the United Nations Global Compact and I confirm our intention to continue contributing, directly and indirectly, to the 17 Sustainable Development Goals (SDGs) of the United Nations 2030 Agenda.

In short, it has been an intense year, but one that leaves us with the satisfaction of having been able to weather a difficult storm, while at the same time strengthening ourselves to improve our future competitiveness and continue contributing value to society. Of course, this demonstration of good know-how, in such adverse circumstances, has been possible thanks to the effort, commitment and team spirit of all those who work at the Group.

I can say in all honesty that I feel privileged to continue working at this great company where, year after year and in the most difficult circumstances, the full involvement of all staff, who live every day with passion for and dedication to the good of the Group above all else, is demonstrated.

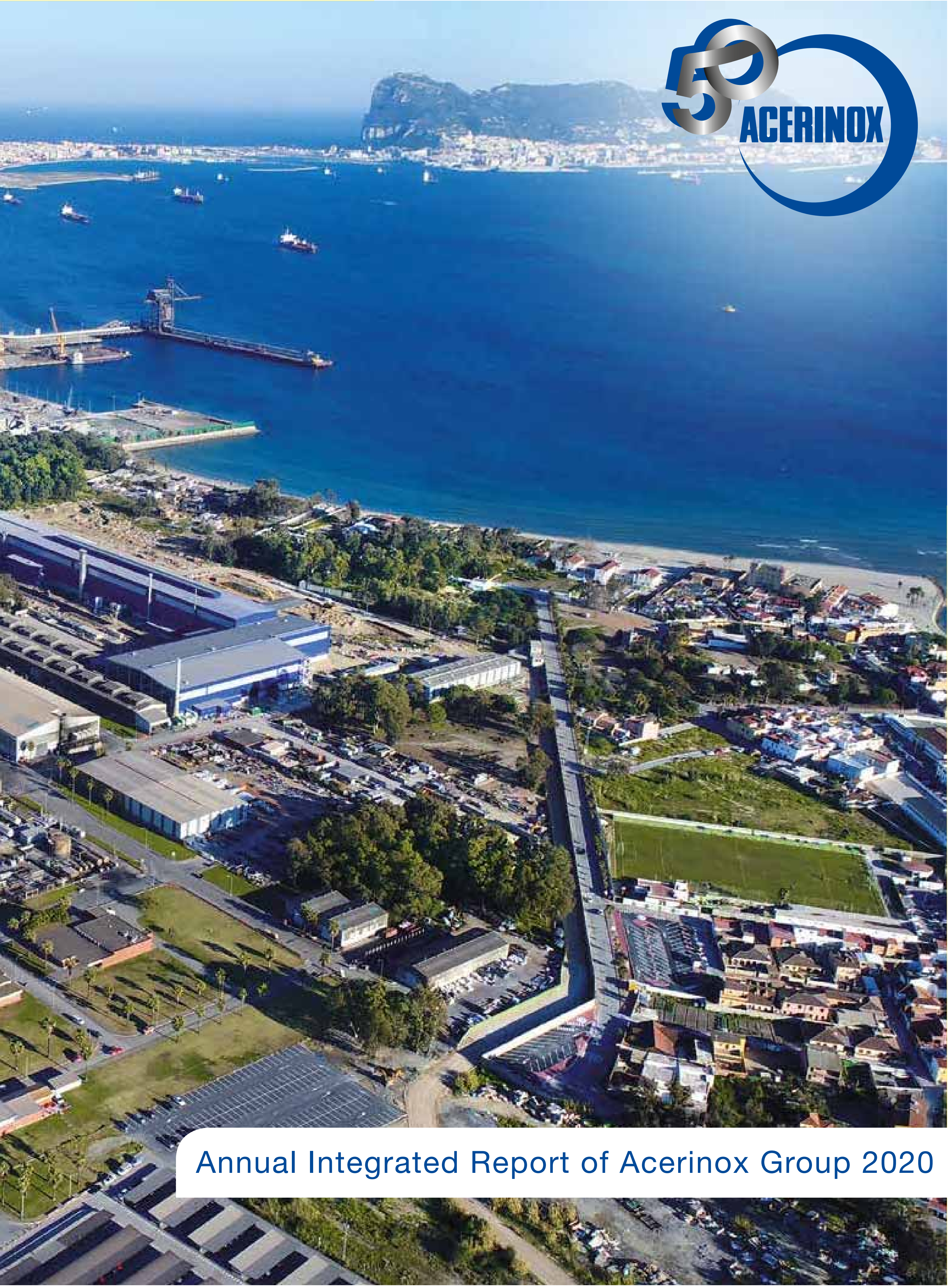
I would like to take the occasion of our 50th Anniversary to thank all those who, at some point in the past or in the present, have contributed to the creation and development of Acerinox, a company to which I have had the honour of belonging for 31 years now.

Finally, I would like to end by expressing my gratitude for the trust you, our shareholders, place in us, which motivates and encourages us to work harder and better, as we are aware of the responsibility that you delegate to us and to which we will endeavour to respond with all our effort and enthusiasm as we share a great project that bodes for a bright future. I would also like to thank our suppliers, customers, banks and friends for the treatment they give us, which makes our growth possible. Of course, and this year more than ever, I would like to show my gratitude to Acerinox's great human team and to my closest collaborators who in such special situations have shown exceptional courage and skill and who have taught me how to overcome difficulties through effort, loyalty and dedication. I have no doubt that with them by our side we will continue to improve and we will continue to be a benchmark in the international stainless steel and high performance alloy sectors, as well as in the Spanish industry.

Kind regards,
Bernardo Velázquez
Chief Executive Officer

April 2021

Acerinox Europa factory, Campo de Gibraltar (Spain).



Annual Integrated Report of Acerinox Group 2020

1.1 Acerinox in figures

Economic performance

€4,668 Million
Total **turnover**

€384 Million
Operating **EBITDA**

€49 Million
Net **profit**

Net financial **debt**
€772 Million

Operating **cash flow**
€421 Million

Our shares

€135 Million
Shareholder remuneration

€2,444 Million
Market capitalisation

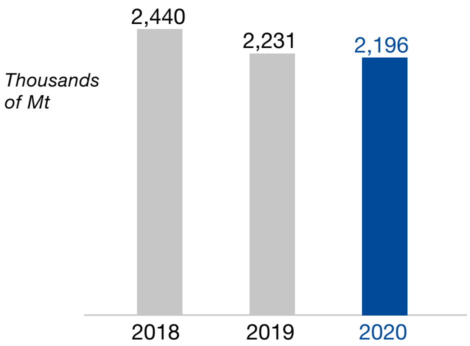
€9.03
Share price at year-end

€67,636,548
Share capital

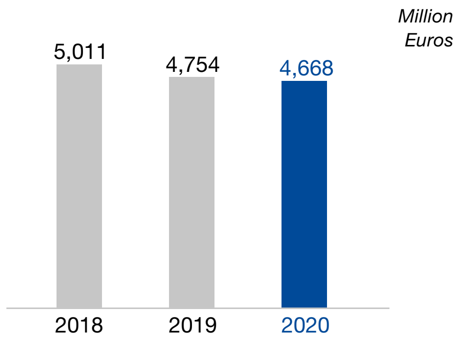
270,546,193
Shares

Acerinox, S.A. Head Office in Madrid

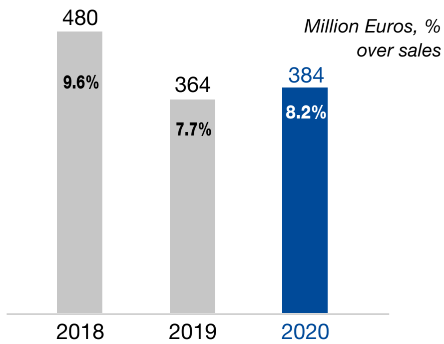
Melting shop production



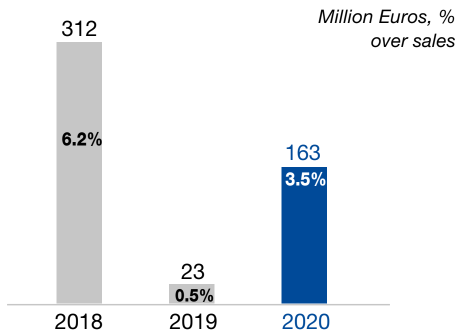
Turnover



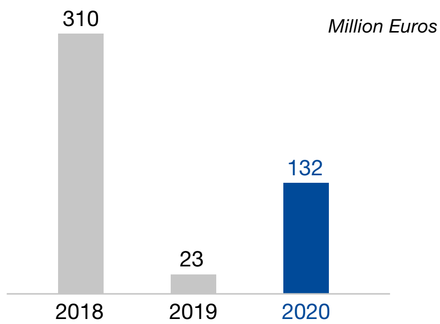
Operating income – EBITDA



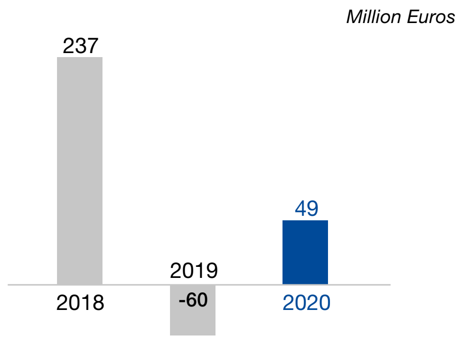
Net operating profit – EBIT



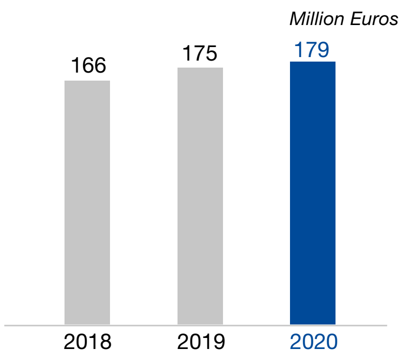
Profit before taxes



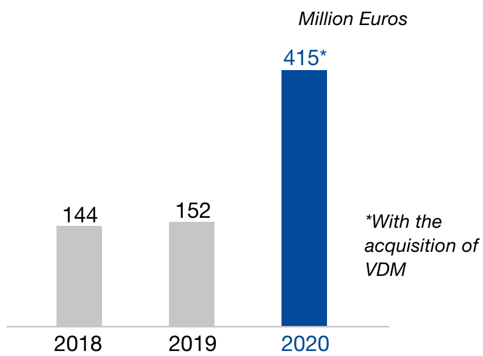
Net Profit/Loss



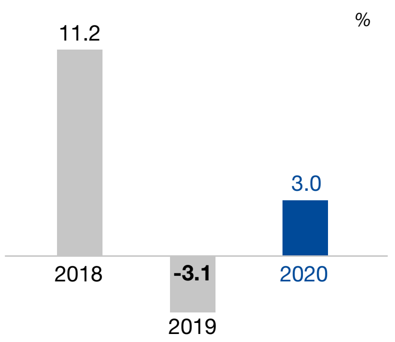
Depreciation and amortisation



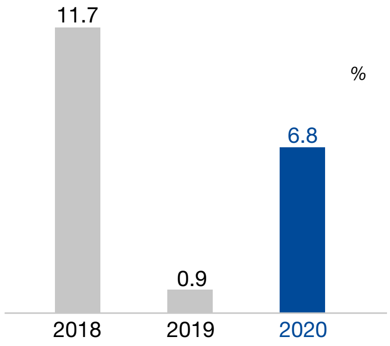
Investments



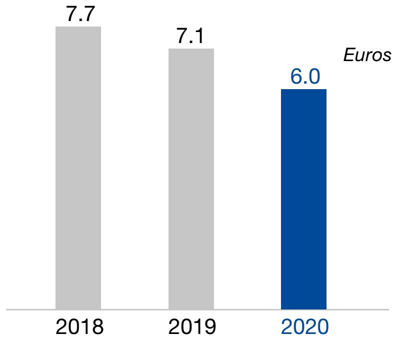
ROE



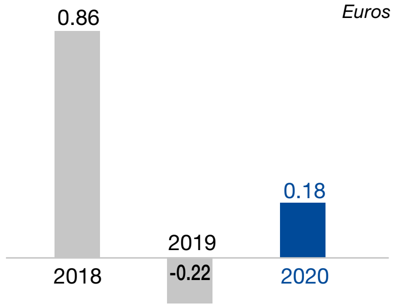
ROCE



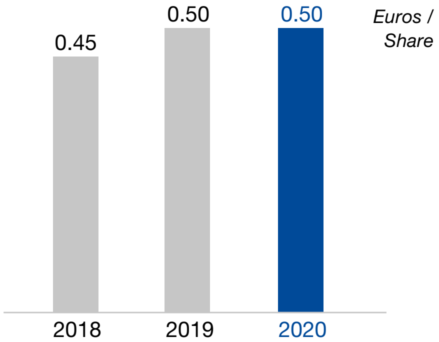
Book value per share at 31 December



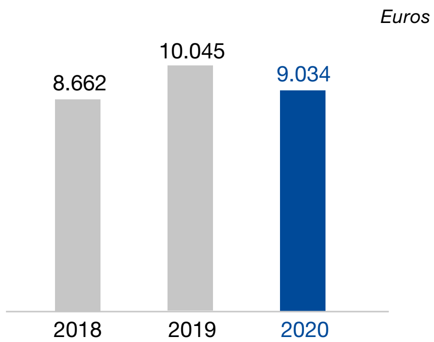
Earnings per share



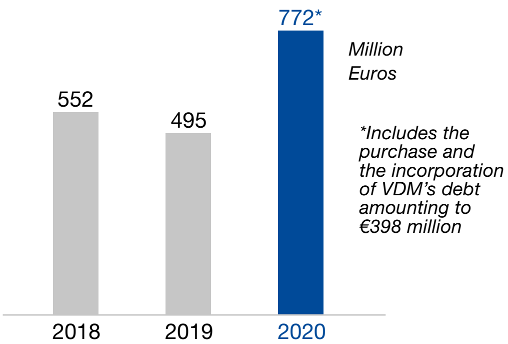
Shareholder remuneration
Euros, dividend + share premium



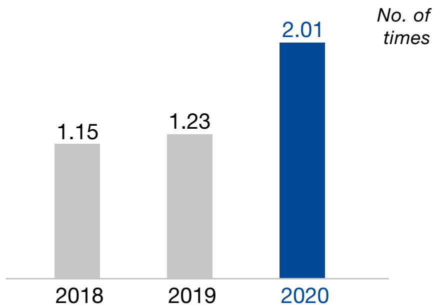
Share price at year end



Net financial debt



Financial debt/EBITDA



Operating and personnel **expenses in stainless over 2019**

-16%

Business model and value chain

13 Factories

22 Service centres

25 Warehouses

53 Commercial offices

27 Commercial agents

57 Sales offices abroad

Global presence

Sales in **96 countries**

Presence in **51 countries**

Production volume

More than 18,000 combinations, the **widest range of products and solutions**

Stainless steel product type reference.

11,000

High performance alloy product type reference.

7,700

Customers

13,700

Number of customers

Acerinox has more than 90 quality certifications

at its factories

Spending on suppliers

€ 3,870 Million

in supplier spending

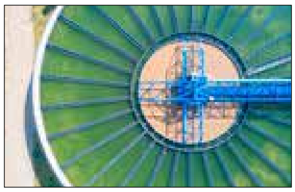
Promoting procurement from local suppliers in the communities in which we operate.

65 % of suppliers are local

Products for every sphere of life

- Transport
- Medical services
- Food
- Water
- Energy
- Architecture
- Household & catering
- Urban forniture





Digitalisation and innovation

€118,7 Million

earmarked for **investments in digitalisation and innovation**

Distribution of the main R&D&I lines of action

Research
to improve quality

Improvements
in production lines

Technological development of new production elements

Digitalisation, automation and control of the production process

Development
of new types of steel and/or finishes

Investments
to optimise the circular economy

Investments
in the fight against climate change

Excellence 360°

Integral vision of the business

Production
Increase reliability and competitiveness

Supply chain
Optimisation of inventories and delivery processes

Commercial
Improve margins. Demand planning

Raw material procurement
Optimise the mix. Predictability of consumption, raw materials, provisions and consumables

Launch of the first environmentally friendly driverless freight vehicles:

- Transport 90 coils of up to 30 tonnes each every day.
- Cover 108 kilometres daily.
- 100% electric -> 0 emissions

Winner of

2 awards
in 2020

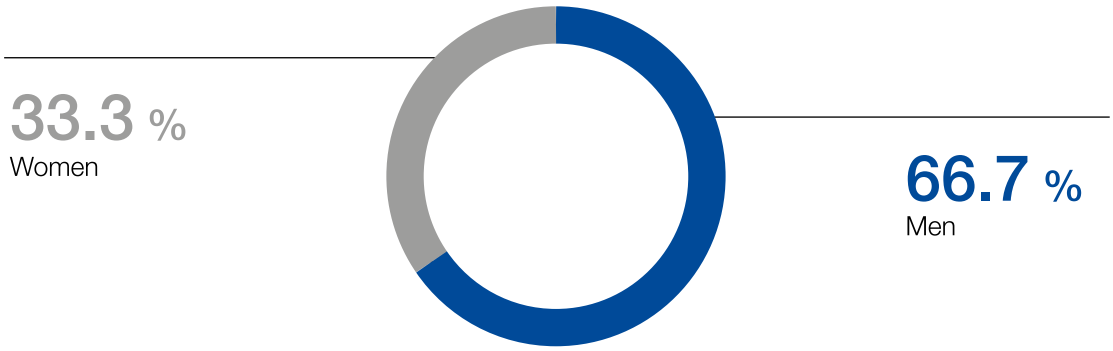
€125 Million
estimated savings
from 2023 onwards

Autonomous guided vehicle for transporting in the Campo de Gibraltar factory (Spain)

Corporate governance

12
Directors

Representation by gender



66.7 %
Independent
Directors

4
Working
commissions

41
Meetings held by
governance bodies

Sustainability

Committed to:

United Nations 2030 Agenda

Direct and indirect contribution to 17 SDGs and greater influence over:

- 8 DECENT WORK AND ECONOMIC GROWTH
- 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE
- 12 RESPONSIBLE CONSUMPTION AND PRODUCTION

United Nations Global Compact

Advanced Level

UN GLOBAL COMPACT
COMMUNICATION ON PROGRESS

This is our **Communication on Progress** in implementing the principles of the **United Nations Global Compact** and supporting broader UN goals.

We welcome feedback on this contents.

- The Environment
- Anti-Corruption
- Human Rights
- Labour Rights

Life Cycle Inventory (Eurofer)

EUROFER
The European Steel Association

Carbon Disclosure Project

CDP

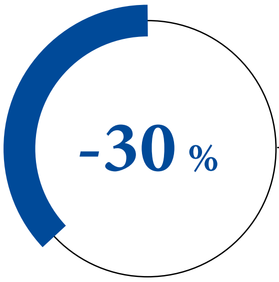
Circular Economy Pact

Climate Action Member (Worldsteel)

CLIMATE ACTION Member
worldsteel ASSOCIATION

Sustainability

Reduction of CO2 emissions compared to the global average for the stainless steel sector

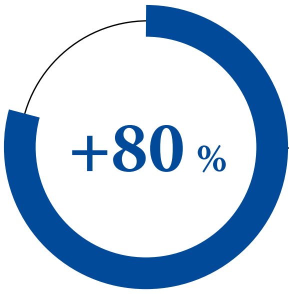


in relative direct emissions,
according to ISSF

Leaders in the circular economy

Volume of material recycled in the production process

recycled content
rate of our products



reuse of
generated waste

Stainless steel scrap to be recycled at the Campo de Gibraltar factory

Sustainable financing

€240 Million
financing through
green and sustainable loans

BBVA CaixaBank* Sabadell*

Collaborating entities

*Agreements formalised in 2021

Eco-efficient product

Our products contribute to:

Advancing in **energy development**

Advancing in the use of hydrogen **as a renewable energy**

Stainless steel, a paradigm of:

The circular **economy**

100% **recyclable product**

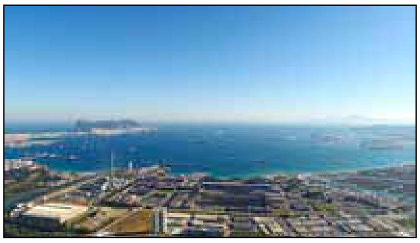
Creation of a specific Sustainability Committee

Health and safety

82.5 %
Decrease in the LTIFR indicator since 2013

*In the 4 main factories of the stainless division

1.2 About us



Acerinox Europa S.A.U.

North American Stainless, Inc

Columbus Stainless

Bahru Stainless

Roldán, S.A. e Inoxfil, S.A.

VDM - METALS

Presence in **5 continents**

Factories on **4 continents**

Presence in **51 countries**

In 2020 the Acerinox Group celebrated its 50th anniversary since its incorporation, becoming the most global company in the manufacture, distribution and sale of stainless steel and, following the acquisition of the company VDM Metals, a global leader in high-performance alloys.

With this acquisition, Acerinox began to operate in a complementary sector, one of high added value and cutting-edge technology, which is complementary to the Group's traditional market. VDM is not only the world's largest manufacturer in its sector, but it also has the most advanced research and the best reputation among its customers.

As a result of the process to integrate this new company, the Group's structure is now made up of a Stainless Steel Division, consisting of six factories, and a High-Performance Alloys Division, which is composed of seven factories. Acerinox is a manufacturing organisation capable of supplying the widest range of products and solutions to any customer on the five continents.

The sale and distribution of products is carried out thanks to the most extensive commercial network in the sector, made up of warehouses, commercial offices, service centres and commercial agents, and is present in 51 countries. This network also has a powerful logistics structure that allows the Group to meet the needs of its customers, keeping them at the centre of the business at all times.

The Group's strategy is focused on process efficiency, productivity, supply chain optimisation and service quality. These are the pillars on which it places its competitive success. To achieve this, Acerinox reinforces its traditional commitment to the continuous digitalisation and sensorisation of its plants by developing a multidisciplinary strategy, based on big data, through which it will continue to permanently perfect each phase of the process.

Sustainability, in its broadest sense (environmental, economic and social), is a cornerstone of a firm commitment to reducing emissions, manufacturing more environmentally friendly materials, guaranteeing the best working conditions and strengthening collaboration with the regions in which it operates.

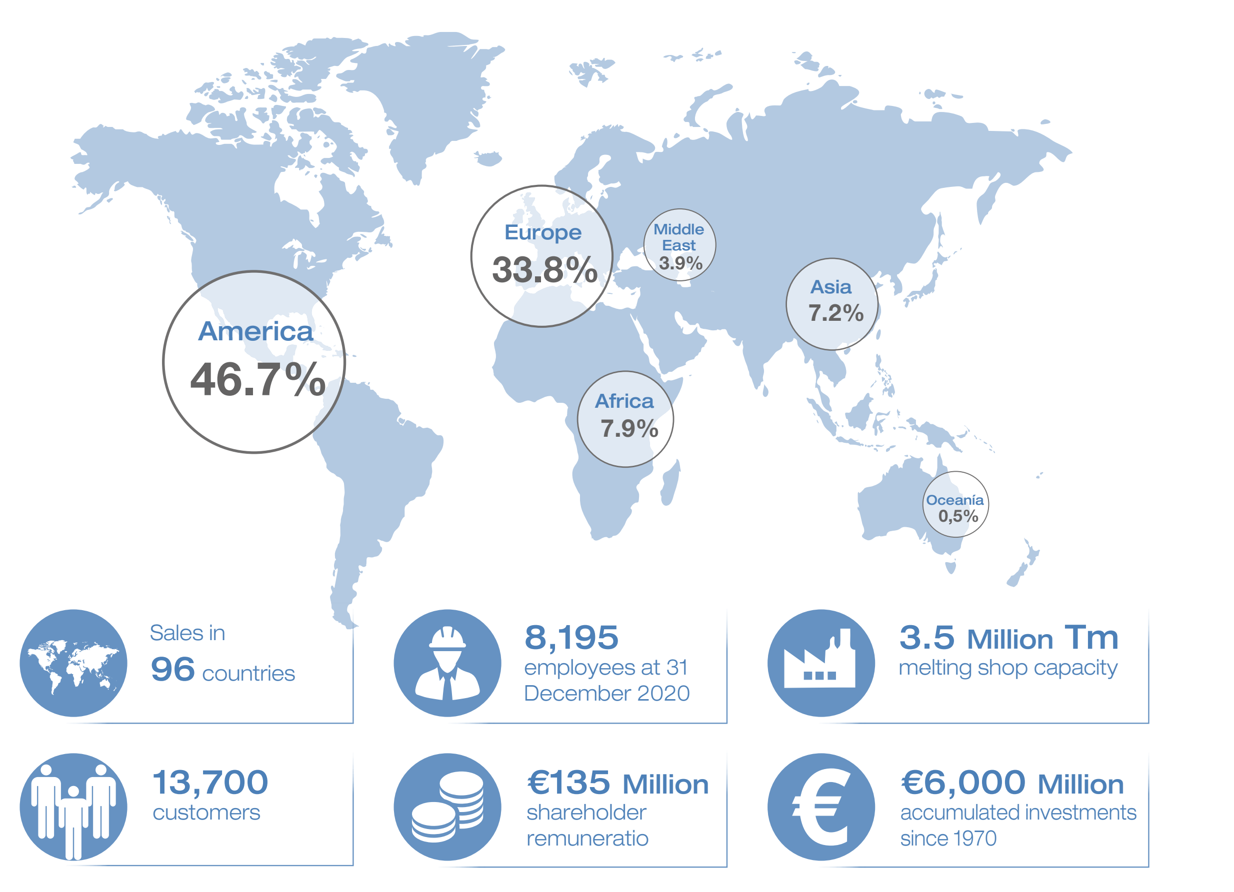
Acerinox, S.A. is a Spanish listed company included in the IBEX 35, the reference index of the Spanish stock exchange, which lists the largest Spanish listed companies.

At 31 December 2020, the main shareholders of the Acerinox Group were Corporación Financiera Alba (19.35%), Nippon Steel Stainless Steel Corporation (15.81%), Danimar 1990, S.L. (4.50%) and Industrial Development Corporation (IDC) (3.26%). Approximately 36,000 legal entities and natural persons have an ownership interest in the company.

For year-end 2020 Acerinox presents an Integrated Report of the Group for the first time, which we invite you to read to learn more about the aspects presented in this introduction, as well as the different business areas and the actions developed by the company.

Key indicators of the Acerinox Group

Consolidated sales by region



1.3 Production companies

Acerinox S.A.

Acerinox, S.A. is the Parent company of the Group and the main holder of the shares of each of its subsidiaries.

Its activity is typical of a holding company and, in addition to the tasks deriving from this role (such as legal, financial, commercial, technical, management and communication services), Acerinox, S.A. also facilitates access to new stainless markets and promotes the exchange of best practices among the various subsidiaries of the Group, providing accounting and advisory services to all the Group companies and carrying out financing activities within the Group.

At 31 December 2020, the share capital was comprised of 270,546,193 ordinary shares with a nominal value of €0.25, each subscribed and paid in full.

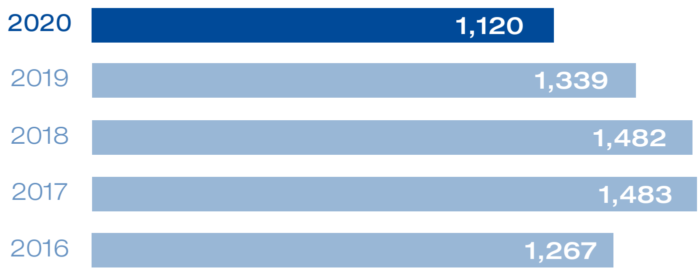
Acerinox, S.A. headquarter in Madrid.

Acerinox Europa S.A.U.

Acerinox Europa was the first integrated factory in the world. In January, the factory celebrated its 50th anniversary and is currently in the midst of a digital transformation process aimed at remaining one of the most technologically advanced factories in the sector. With a melting shop capacity of one million tonnes and an excellent location with its own seaport, Acerinox Europa supplies mainly flat products to the European continent and material for long products to other plants within the Group's production network.

The new investments in the plant in recent years have enabled Acerinox Europa to increase its competitive capacity thanks to an improvement in efficiency and an expansion of the range of products and solutions for its customers. In recent years the factory has continued to achieve new quality standards, consolidating its competitiveness.

Annual turnover in million Euros



EMPLOYEES at 31 December 2020	1,809
ANNUAL MELTING SHOP PRODUCTION	679,212 Mt/annual
ACERINOX OWNERSHIP INTEREST	100%

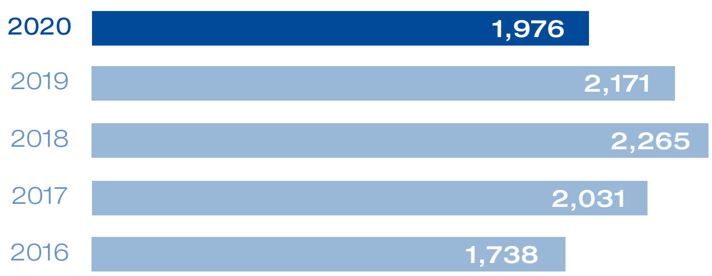
Campo de Gibraltar factory (Spain)

North American Stainless, Inc

North American Stainless (NAS), an integrated factory of the Acerinox Group, is the most efficient and advanced stainless steel manufacturing plant in the world. Built in 1990 in Ghent (Kentucky), this factory supplies flat and long products to the North American continent. NAS has the most advanced manufacturing equipment and very high levels of efficiency, excellence and quality, holding the largest market share in North America and offering the widest range of products.

Its position on the banks of the Ohio River and its ease of access to the country's main stainless steel-consuming areas by road place the plant in a privileged position. It is worth noting that in 2020 NAS celebrated its thirtieth anniversary as one of the most efficient stainless steel production plants.

Annual turnover in million Euros



EMPLOYEES at 31 December 2020	1,493
ANNUAL MELTING SHOP PRODUCTION	1,012,006 Mt/annual
ACERINOX OWNERSHIP INTEREST	100%

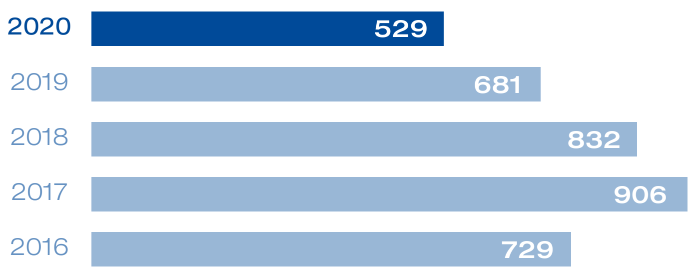
Kentucky factory (the US)

Columbus Stainless

Columbus Stainless, Middelburg (South Africa), is the only integrated stainless steel factory in Africa. This plant is the main supplier to the domestic market and to the different areas of consumption on the continent, of which it is the leader.

The Columbus factory is equipped with the most efficient machinery and the most significant technological advances in the sector, as well as having a considerable competitive advantage due to its location, not only for distributing its finished products but also thanks to its proximity to the material extraction sources, especially ferrochrome. This plant also supplies semi-finished flat products to other Group factories.

Annual turnover in million Euros



EMPLOYEES at 31 December 2020	1,270
ANNUAL MELTING SHOP PRODUCTION	453,051 Mt/annual
ACERINOX OWNERSHIP INTEREST	76%

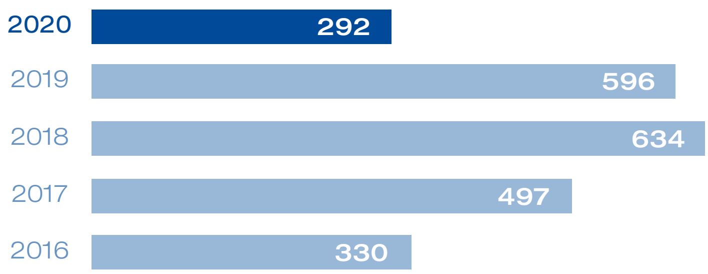
Middelburg factory (South Africa)

Bahru Stainless

Bahru Stainless is one of the most technologically advanced stainless steel production plants in South-East Asia. The plant is located in one of the most strategic points for world trade, the Malacca Strait in Johor (Malaysia). Bahru has its own port with direct access to both the Indian and the Pacific Oceans, enabling it to benefit from considerable competitive advantages in terms of distribution.

This factory has cold rolling lines and focuses on supplying the Asian market, as well as adding to the Group's global production through the purchase of semi-finished products from other Group factories, providing advantages to Acerinox's global distribution and sales network.

Annual turnover in million Euros



EMPLOYEES at 31 December 2020	448
ANNUAL PRODUCTION	115,296 Mt/annual
ACERINOX OWNERSHIP INTEREST	98.15%

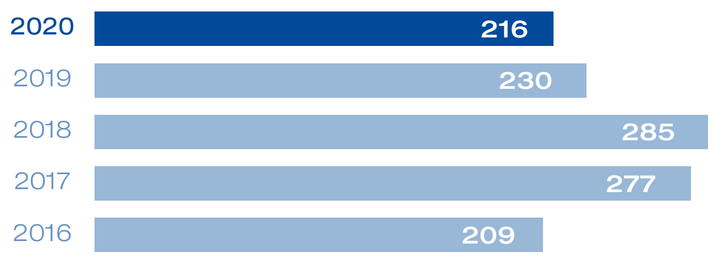
Johor Bahru factory (Malaysia)

Roldán, S.A. & Inoxfil, S.A.

Roldán and Inoxfil are, together with NAS, the other two long product manufacturing plants of the stainless steel division. At Roldán, Ponferrada (Spain), angle bars, bars and wire rods are produced and some of these products are sent to Inoxfil, Igualada (Spain), for wire drawing.

Inoxfil is, therefore, the last production link in a network that begins after receiving billets from Acerinox Europa, since the latter is the only plant of the Group in Spain that has a melting shop. The long products manufactured by the two plants supply both the domestic market and international customers, and its stainless steels are present in some of the most emblematic international projects.

Annual turnover in million Euros



EMPLOYEES at 31 December 2020	489
ANNUAL PRODUCTION	91,980 Mt/annual
ACERINOX OWNERSHIP INTEREST	100%

Inoxfil factory in Igualada (Spain)

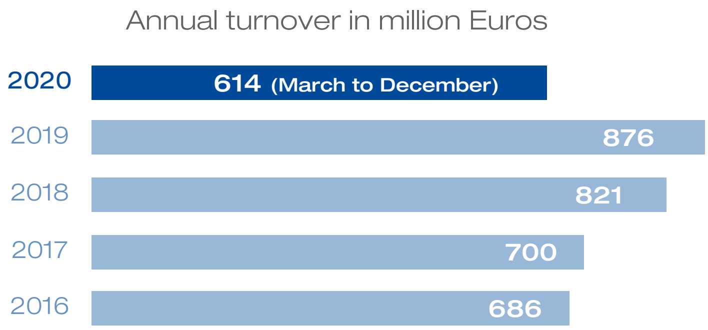
Roldan factory in Ponferrada (Spain)

VDM - METALS

VDM Metals is a global leader in the manufacture of high-performance alloy flat and long products, characterised by its strong value-added and very significant R&D&I component. Almost 2,000 employees make up the company acquired by Acerinox in March 2020, which has 7 factories in Germany and the United States. This company offers a structure that has become the Acerinox Group's high-performance alloys division.

Five of its production plants are located in Germany: the Unna plant, where the melting shop is located with an electric arc furnace and induction furnaces for primary metallurgy, a vacuum ladle furnace and a vacuum converter for secondary metallurgy, and electroslag and arc remelt furnaces. The Unna plant also has a forge for the production of thick bars and a powder manufacturing facility; the Duisburg plant processes ingots cast in Unna in its hot rolling mill; the Siegen plant has a hot rolling mill to process the slabs rolled in Duisburg; the Werdohl plant, which produces precision strips and wire for the high-performance alloys division; and the Altena plant has finishing lines for sheets, plates and fine diameter bars.

The remaining two factories can be found in the US; one plant is located in Florham Park (New Jersey), which has a melting shop that uses vacuum induction melting furnaces and electroslag remelt furnaces, and the Reno plant (Nevada), which produces long, flat, round and square products, mainly for the aerospace industry.



EMPLOYEES at 31 December 2020	1,872
ANNUAL MELTING SHOP PRODUCTION	64,134 Mt/annual
ACERINOX OWNERSHIP INTEREST	100%

VDM Metals factory in Altena (Germany)

Bright annealing line at VDM

1.4 Commercial subsidiaries

Stainless Steel Division

Factories	6
Service centres	18
Warehouses	25
Sales offices	35
Sales agents	12

America

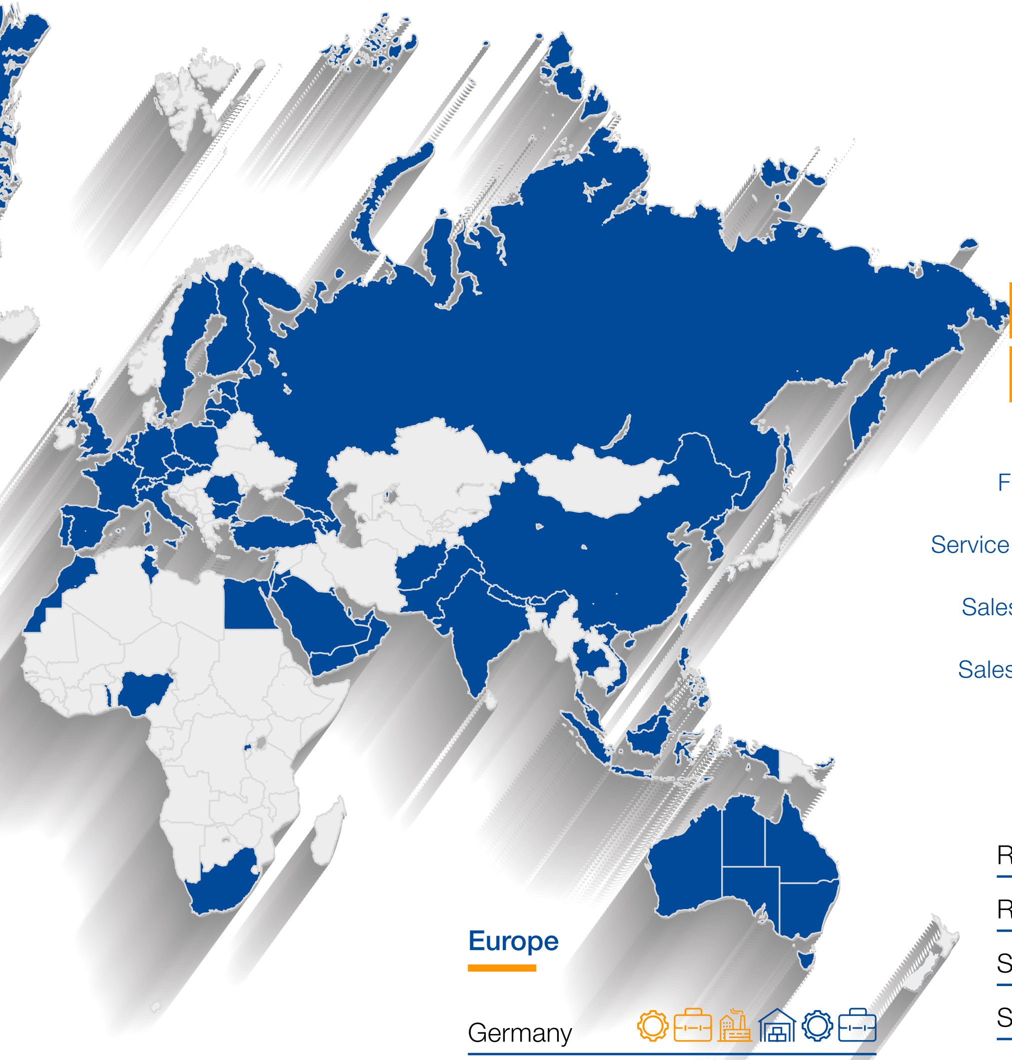
Argentina
Brazil
Canada
Chile
Colombia
USA
Mexico
Panama
Peru
Venezuela

Africa

Egypt
Morocco
Nigeria
South Africa
Tunisia

Asia

Armenia
Azerbaijan
China
South Korea
Philippines
Georgia
Hong Kong
India
Indonesia
Malaysia
Pakistan
Singapore
Taiwan
Thailand
Turkmenistan
Vietnam



High Performance Alloys Division

Factories	7
Service centres	4
Sales offices	18
Sales agents	15

Europe

- Germany
- Austria
- Belgium
- Bulgaria
- Slovakia
- Spain
- Estonia
- Finland
- France
- Italy
- Latvia
- Lithuania
- Netherlands
- Poland
- Portugal
- UK
- Czech Rep.
- Romania
- Russia
- Sweden
- Switzerland

Middle East

- Saudi Arabia
- Bahrain
- UAE
- Israel
- Jordan
- Kuwait
- Lebanon
- Oman
- Qatar
- Turkey

Oceania

- Australia

NAS factory in Kentucky (the US)


ACERINOX

2. 2020: A year of challenges and opportunities

2020 was a year that enabled Acerinox to consolidate its strength and sustainability. While the Group - in the midst of the pandemic - maintained its business activities, guaranteeing the health and safety of all its employees, the acquisition of the German company VDM, a leader in technology and research, took place. Furthermore, Acerinox celebrated half a century of sustained and responsible growth.

2.1 Managing the effects of COVID-19

From the outset, Acerinox demonstrated its versatility and swiftness in managing the sudden global crisis caused by Covid-19. Its status as a global company was essential in detecting and internalising the seriousness of the situation, gathering crucial information, creating the appropriate mechanisms and starting to adopt measures anticipating the circumstances.

COVID-19 Information Booklet

The Group puts the health and safety of its employees and those who interact with Acerinox before any other interest, and this was once again demonstrated. A Covid Emergency Response Team was immediately set up to coordinate the measures, announcements and restrictions that everyone was to strictly comply with and which served as a channel to reach every department in all the Group's factories with fluidity.

In parallel, Acerinox was able to guarantee a safe workplace for all employees with the distribution of facemasks, PPEs, hydro-alcoholic gels and all the necessary sanitary resources. This endeavour was particularly complicated during the first few weeks and was not only limited to the company's stakeholders, but was also channelled, at the Campo de Gibraltar plant, towards donations to social organisations in the area, as described in the Social Action section.

In addition, internal communication was strengthened by explaining the measures, regulations, safety conditions, the restructuring of shifts and timetables, the distribution of prevention guides and protocols, etc. Some of the guides, such as the Covid-19 Information Manual, are available on the main homepage of the corporate website: *www.acerinox.com*.

The swift adoption of all these measures enabled the company to maintain its manufacturing activity at relatively normal levels, except for some temporary plant closures ordered by the governments of different states.

Acerinox became the first steel company to receive the AENOR (the Spanish Association for Standardisation and Certification) certification for its protocols against COVID-19 after assessing various aspects relating to coronavirus risk management at the Acerinox Europa plant. The seal certifies that the safety measures developed by Acerinox respect the criteria and recommendations outlined by the health authorities and provide safe working spaces for its employees, customers and suppliers in its plant.

AENOR audited the health and safety conditions, both for employees and for customers and suppliers, in which the activities are carried out in the Acerinox Europa plant (Campo de Gibraltar).

The measures to be taken and the correct adoption of decisions and restrictions were reflected in a protocol establishing 5 possible phases ranging from the most severe situation to the mildest situation, the scenarios the Group would face in each of these situations and the initiatives to implement to mitigate their impact on people and the business.

The situation resulted in us having to continue to work on greater flexibility, agility in our reactions, optimisation of supply chains, implementation of new technologies, strengthening of analytical models in different areas and commitment to sustainability. But all this would not have been possible without the effort and commitment of the Group's employees, helped by the technological infrastructure that we had already implemented and which, for Acerinox, is a facilitator to develop and optimise processes, to communicate and to create and improve business models.

The crisis caused by the pandemic once again highlighted the importance of Acerinox's role as a stable generator of productive fabric and economic sustainability. A total of 8,255 suppliers worldwide (2,881 more than in 2019, due mainly to the incorporation of VDM Metals) were able to serve the company, allowing them to maintain their historical turnover at a time of great instability.

Almost two out of every three suppliers (64%) were local companies. In other words, companies that operate in the areas where Acerinox production centres are located, which highlights the Group's commitment to the generation of wealth and social fabric in the areas where its factories are located.

8,255 suppliers worldwide were able to serve the company, allowing them to maintain their historical turnover at a time of great instability

2.2 VDM, an added value for Acerinox

In March 2020 Acerinox, S.A. reached an agreement with Lindsay Goldberg Vogel GmbH and Falcon Metals BV for the acquisition of VDM Metals Holding GmbH (VDM Metals), a company with its headquarters in Germany and a world leader in the production of special alloys.

Manufacturing of thick bars at VDM Metals

With this transaction, Acerinox is able to access new applications in sectors such as aerospace, chemical industry, automotive and electronics, hydrocarbons, industrial emissions control, water treatment and purification and renewable energies, among others.

Acerinox has converted VDM into its special projects division, with which it will help very diverse industries to select the best materials from the widest range of products and services, whether that be stainless steels or high performance alloys, or developing alloys that are tailored to their needs with tailor-made projects.

Thus, Acerinox opened the door to a different sector, one of high added value and cutting-edge technology, which is complementary to our traditional market. With this acquisition Acerinox expects to develop significant synergies as it is not only the world's largest manufacturer, but it also has the most advanced research and the best reputation among its customers.

Complementary business with significant synergies

The activities carried out and the products traditionally manufactured by Acerinox and VDM are absolutely complementary, and the acquisition has clear production, sales and distribution advantages for both companies, providing significant recurring synergies which were initially estimated at EUR 14 million per year and are currently estimated at approximately EUR 22 million.

In order to achieve optimal coordination of all these processes, Acerinox focused its efforts on the integration of both companies to optimise the value of these synergies. To this end, an Integration team was created which, from the acquisition until 31 December 2020, coordinated 8 transformation projects, 20 work teams, 1,095 activities and with 150 professionals participating in the integration from a number of continents thanks to the installation of new remote collaboration work tools and the versatility and training of employees in using these tools.

A transaction resulting from a prudent financial strategy

The purchase agreement concluded with a transaction valued at EUR 532 million. Acerinox paid EUR 313 million (having converted most of the financing into green loans) and assumed debt of EUR 85 million.

This strategic move, carried out during the COVID-19 lockdown and at a time of great instability, was made possible thanks to a prudent strategy of prioritising cash generation, debt reduction and balance sheet strength: a financial strategy that was vital for undertaking the acquisition and, even acknowledging that the coronavirus crisis represented a transitory situation, the Group guaranteed liquidity by obtaining additional loans.

2.3 50th Anniversary

On Wednesday 30 September 1970 the articles of incorporation of the Spanish stainless steel manufacturing company, Acerinox, were signed in Madrid. A year earlier, the project to build a stainless steel factory was presented for the Campo de Gibraltar Development Pole; and so began the success story of a company that now, 50 years later, looks to the next half century with new challenges and opportunities as one of the strongest and most competitive companies in the sector.

50th Anniversary Book

Among the activities organised to celebrate its 50th Anniversary, Acerinox published a commemorative book, in English and Spanish, which takes a glance at the history of the company, describes the company's production centres and distribution network, highlights the efficiency of its production processes, explains the continuous advances in digitalisation and Industry 4.0 and exemplifies just a few of the many applications of our products.

Half a century of existence in good shape, despite the difficult challenges to which we are being subjected, demonstrates how sustainable our company is", as explained by Bernardo Velázquez, Chief Executive Officer, in his opening letter in the book.

Aerial view of the Acerinox grounds in Campo de Gibraltar (1970)

Website: www.acerinox50.com

Acerinox50.com was the digital venture to communicate the 50th anniversary. This is a responsive website, with the correct display of the content on all devices and available in Spanish and English, in which the Group highlights areas such as its ‘360º Future’, Sustainability, the many successes achieved during its history, focused on the growth of tomorrow but also on “honouring, as a way of thanking those who built and put their work, enthusiasm and hopes” into building this company.

Expansión Special: A future to be built

On 26 October 2020, the highly regarded Spanish economic and business newspaper, Expansión, published a special 8-page feature with nationwide circulation in Spain. On Friday 23 October 2020, this newspaper published a note on the front page of the newspaper announcing the release of this special feature.

Its contents included the advances in Excellence 360 and Industry 4.0, the integration of VDM Metals as a division in the Group, the progress in Sustainability and financial strength, as well as letters from the Chairman, Rafael Miranda, and the CEO, Bernardo Velázquez.

Europa Sur Special Feature: 50 years of steel

A few days after the Expansión Special was published, on 31 October 2020, all the Joly Group’s media outlets in Andalusia, Southern Spain, published a 16-page special feature, which takes a glance at the history of Acerinox Europa and the promising future of the plant as one of the most efficient and technologically advanced in the world. This special feature offered the readers of Joly’s 9 Andalusian newspapers a look at how the link between efficiency and sustainability is one of the strategic pillars of growth and development of new processes, new products and new forms of production, and how the plant always prioritises the safety of employees and the rest of the Stakeholders.

Think Acerinox Magazine

To celebrate the 50th Anniversary, the Group also launched its new corporate magazine, Think Acerinox, showing, in Spanish and English, “a new way of looking at our company and the universe that is generated around our business activities, offering a closer view from which the value of processes, assets and equipment are communicated”, as stated in its editorial. In the publication, we highlight different properties of our stainless steels, we transmit the values that make up this Group and we show the industrial processes and the technological advances achieved.

3. Financial strength

In a year marked by the global health crisis and the acquisition of VDM, the Group stood out in the financial market for its strategy of profitable, efficient and sustainable growth. Testament to this is that 2020 was the second consecutive year in which Acerinox's stock market performance outperformed the IBEX 35.

3.1 Global context

The stainless steel sector

2020 began with a recovery in all markets in the stainless steel sector. Following the spread of COVID-19 worldwide, demand fell and supply failed to adjust accordingly.

Base prices behaved differently in the different markets. Prices remained steady in the North American market, while in Asia, production surpluses in China and Indonesia brought down prices, and this eventually affected the European market.

The market was extremely unstable, with falling production and falling demand, and signs of recovery were only noticed in the last two months of the year.

Stainless steel coils with 2B and BA finish

3.1.1 Europe

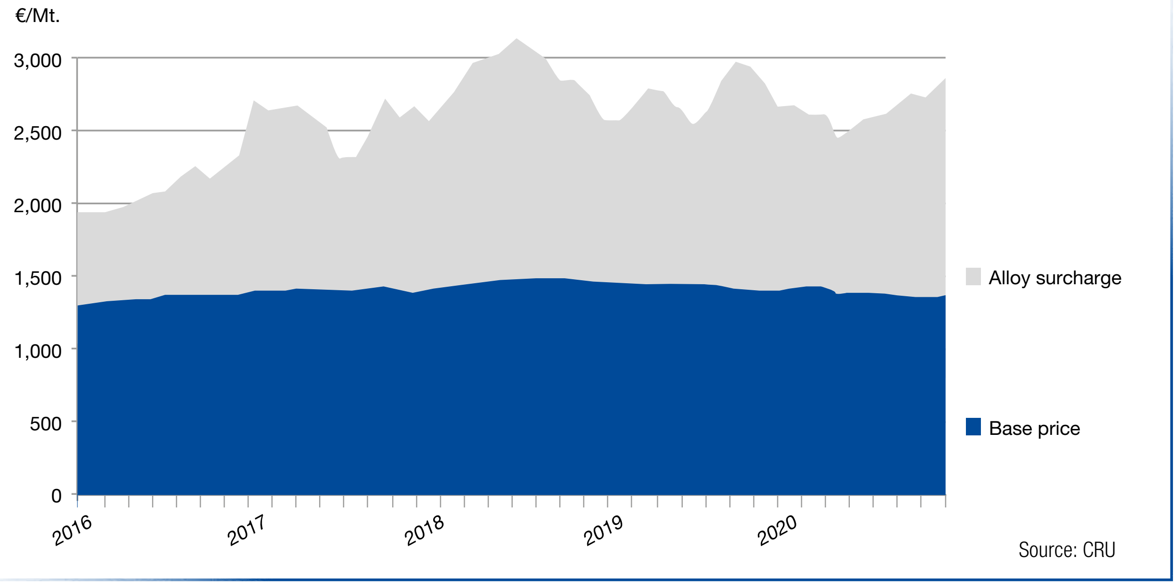
Apparent consumption of flat products decreased by approximately 14% in 2020. Following the hiatus experienced in the second quarter due to COVID-19, which saw a 30% decrease, it gradually recovered in the second half of the year, with improved performance in Northern Europe and in sectors such as household appliances and construction.

With increasing pressure from imports by third countries in prior months, the European Union introduced measures and embarked upon a number of procedures:

1) Anti-dumping tariffs for hot-rolled products from China (up to 19%), Indonesia (up to 17%), and Taiwan (up to 7.5%). The tariffs were introduced as a provisional measure in April, and on a permanent basis in October.
2) On 30 September 2020 the initiation of an anti-dumping investigation on imports of cold-rolled products from India and Indonesia was announced, and provisional measures are expected to be imposed in the second quarter of 2021.

Since they were not designed for a declining market, the definitive safeguarding measures did not manage to stop all imports, which maintained a penetration of approximately 25% in the case of cold-rolled flat products, while hot-rolled fell from 40% to 17% due to the aforementioned anti-dumping measures.

Price of stainless steel plate, AISI 304 cold-rolled 2.0 mm
2016-2020 in €/tonne



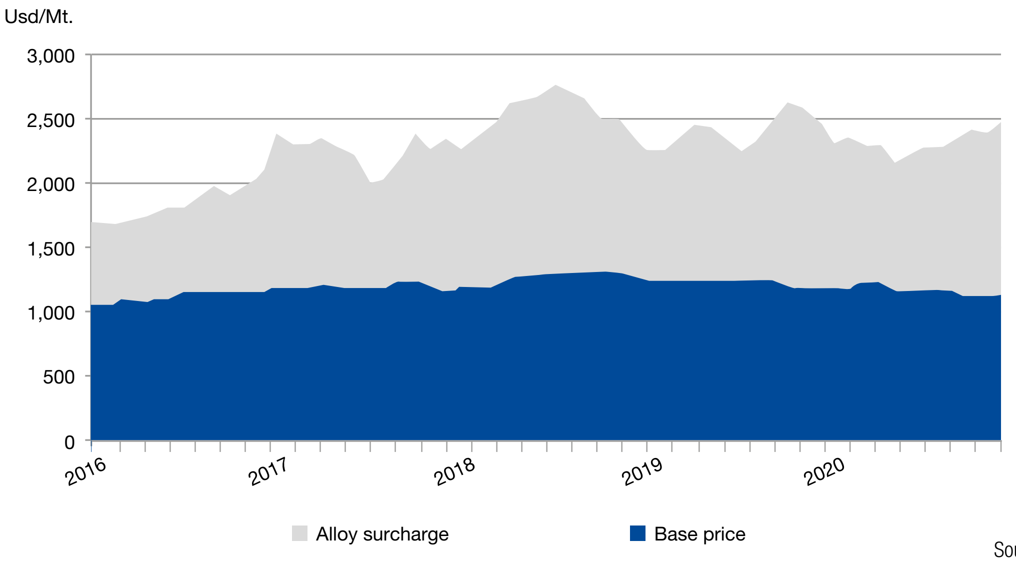
3.1.2 America

According to the latest figures, apparent consumption of flat products in the North American market fell by approximately 10% in 2020. Demand recovered during the third and fourth quarters, mainly in sectors such as household appliances and automotive, while construction also made a comeback.

The North American authorities maintained the tariff on slabs from Indonesia, which was positive for our sector. In this regard, on 22 June 2020 the Supreme Court dismissed the claim by US steel importers against the tariffs imposed since 2018 by Section 232.

Imports remained tight, with a flat product market share of approximately 14%. Inventories in the US remained below the average of recent years, ending the year at all-time lows. In the other North American markets, Mexico and Canada, flat products fell by approximately 20%.

Price of stainless steel plate, AISI 304 cold-rolled 2.0 mm
2016-2020 in USD/tonne



Source: CRU

3.1.3 Africa, Middle East and Turkey

The South African economy fell by 6.0% year-on-year in the third quarter of 2020, easing from a record 17.5% decline in the second quarter. The South African government recently announced that it was to propose measures to help the local ferrochrome industry, including imposing a tax on the export of chrome ore. This measure will favour the local production of stainless steel.

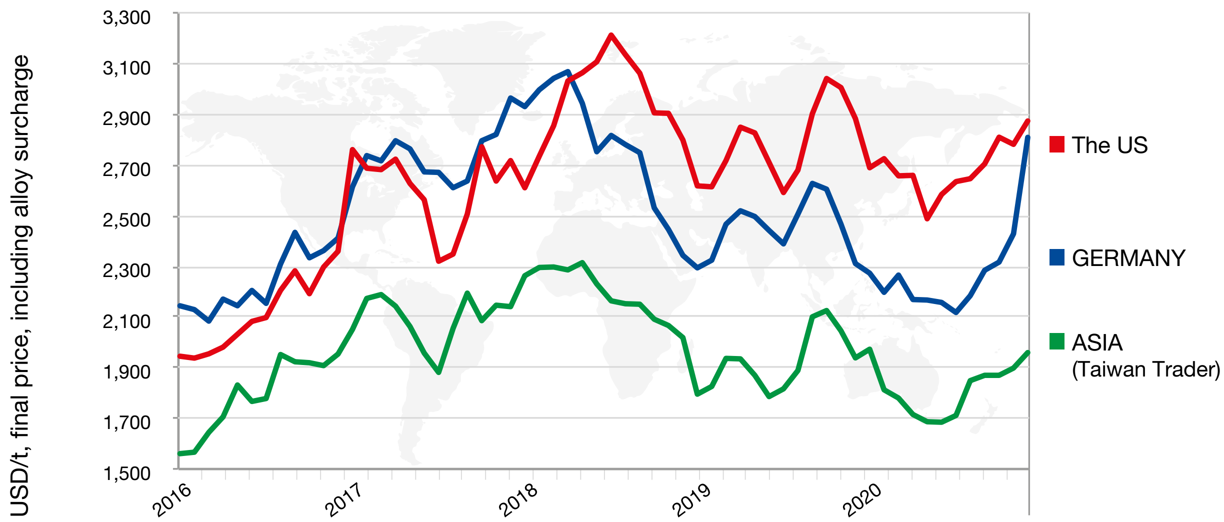
In addition, the market in Turkey continued to grow and ended the year with an increase of 12%.

3.1.4 Asia

In the Asian markets the situation continued to worsen as a result of production surpluses in China and Indonesia, which led to a continued fall in prices.

The impact of COVID-19 in China brought down consumption and prices, although production was affected slightly less, as shown by the slight 2% decrease during the first half of the year, compared to other regions in the world, posting decreases of 23% in Asia, 20% in the US and 16% in Europe. This contrast was particularly evident in the third quarter, with a 30% increase in China and a 27% decrease in other Asian countries. The Malaysian government imposed provisional anti-dumping measures on imports from Vietnam and Indonesia.

Price of stainless steel plate, AISI 304 cold-rolled 2.0 mm
2016-2020



Source: CRU

3.1.5 High performance alloys

The nickel alloys market

With a sales volume of more than 37,000 tonnes in 2020, VDM Metals remained the world's largest manufacturer of these materials.

In 2020 this market experienced a 19.7% decrease in production (285,000 tonnes), according to a study by market analyst SMR. The sector's largest market was the United States, followed by China, Japan, Germany and France. According to SMR, approximately 355,000 tonnes of nickel alloys were produced globally in 2019.

The main consumer sector for nickel alloys is the aerospace industry. However, for the high performance alloys division, the main sectors are the chemical industry and the oil and gas industry. In addition to these sectors, VDM Metals also supplies the automotive industry and the electronics and electrical engineering sectors.

According to the latest studies, the decline in demand in 2020 mainly affected the aerospace industry (-37%), followed by the automotive industry (-25%), the oil and gas industry (-23%) and the electronics and electrical engineering sector (-8%). Overall, demand in the chemical industry (including power generation) remained almost at the same level as in 2019. For other applications, the decline in demand was 18%.

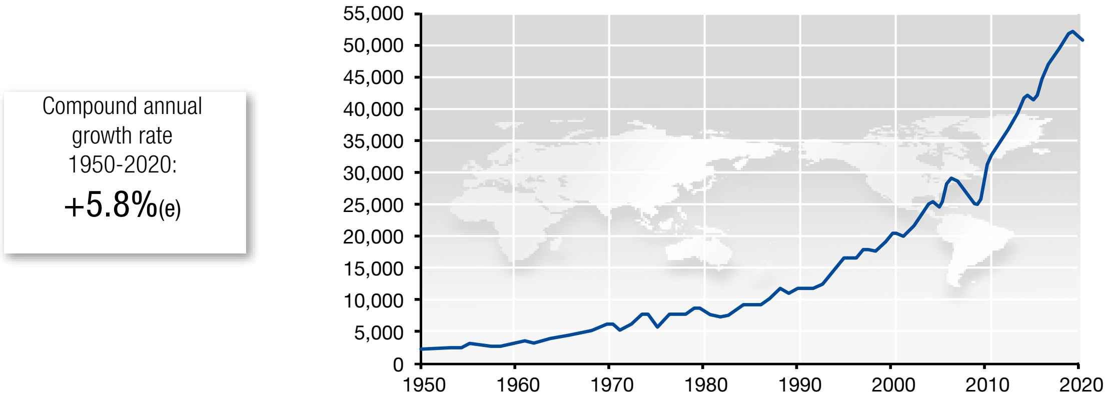
Global market

G.D.P. Growth (FMI-World Economic Outlook)

	2019	2020	2021p
China	6.1	2.3	8.1
Germany	0.6	-5.4	3.5
India	4.2	-8	11.5
ASEAN 5	4.8	-3.7	5.2
South Africa	0.2	-7.5	2.8
Spain	2.0	-11.1	5.9
The US	2.3	-3.4	5.1
Eurozone	1.2	-7.2	4.2
Global	3.6	-3.5	5.5

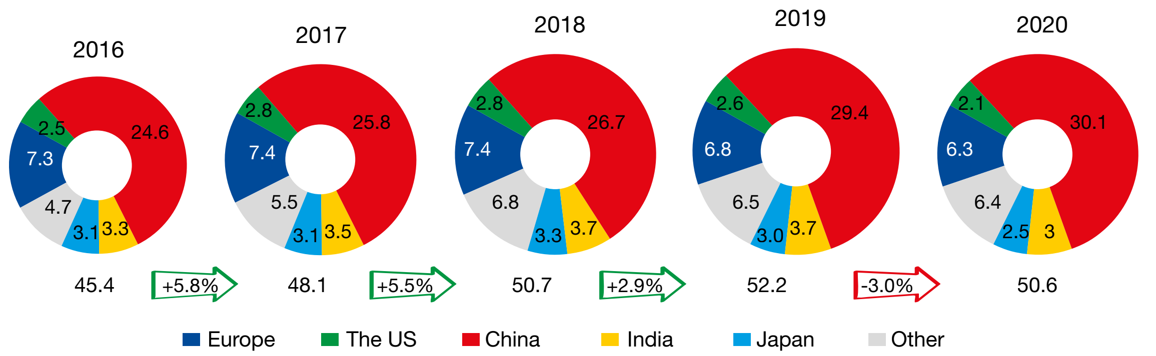
3.2. Global Production

Global Production of Stainless Steel 1950 - 2020 thousands of tonnes



Evolution of global melting shop production

(Million Mt)



Evolution of global melting shop production

		1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total
2019	Thousand Mt	12,711	13,404	13,685	12,418	52,218
2020		11,614	11,541	13,557	13,974	50,686

Melting shop production by region/country (Thousand Mt)

		2019	2020	Variation
Europe	Thousand Mt	6,805	6,368	-6.4%
The US		2,593	2,144	-17.3%
China		29,400	30,139	2.5%
India		3,933	3,085	-21.6%
Japan		2,963	2,483	-16.2%
Other		6,524	6,467	0.87%
TOTAL		52,218	50,686	-3.0%

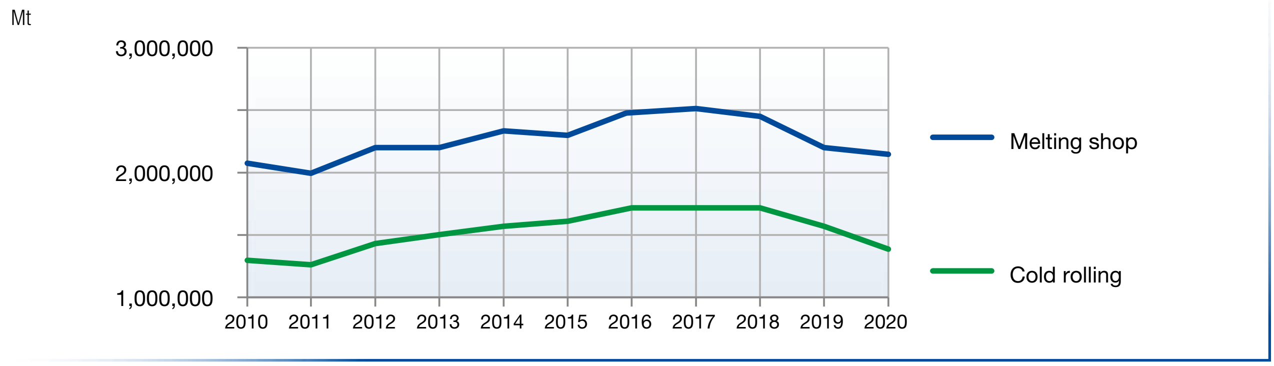
3.3 Production of the Acerinox Group

Stainless Division

The Group was able to cushion the adverse effects of the coronavirus pandemic over the course of the year. The impact during the second quarter was considerable, however, production began to recover in the last two quarters of the year.

This resulted in a 3.9% drop in melting shop production, a 5.2% drop in hot rolling and a 13.9% drop in cold rolling.

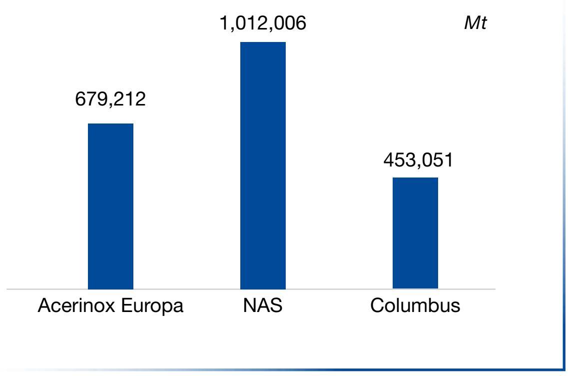
Evolution of the Acerinox factories total production



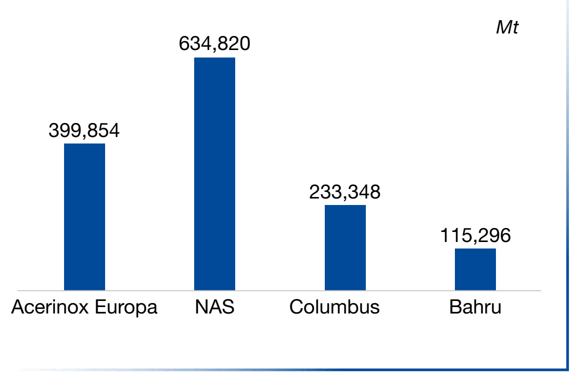
Quarterly evolution of the Stainless Division's production

Thousand Mt	2020					2019	2020 / 2019 Variation
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Accumulated	Jan-Dec	
Melting shop	599	420	524	601	**2,144**	2,231	**-3.9%**
Cold rolling	393	291	331	369	**1,383**	1,607	**-13.9%**
Long product (Hot rolling)	57	49	51	53	**210**	220	**-4.2%**

Melting shop production



Cold rolling production



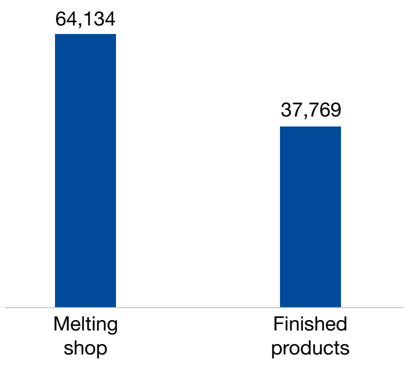
High Performance Alloys (HPA) Division

The high-performance alloys division also suffered from the effects of coronavirus. This Division saw a 9.5% decrease in its melting shop production and an 11.8% decrease in total finished products.

Quarterly evolution of the HPA Division's production

Thousand Mt	2020					2019	2020 / 2019 Variation
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Accumulated	Jan-Dec	
Melting shop	19	18	14	13	**64**	71	**-9.5%**
Finished products	10	11	10	8	**38**	43	**-11.8%**

VDM production (Mt)



3.4 Raw materials

Nickel

The nickel production surplus, together with the advancement of the pandemic during the first quarter of the year, caused the price to fall, reaching an annual low of USD 11,098/Mt in March.

The strong recovery of nickel consumption in China, mainly nickel pig iron, together with renewed expectations of consumption in electric car batteries, led to a sustained increase in prices, peaking in mid-December at over USD 17,600/Mt.

Nickel inventories on the LME rose by more than 80 thousand tonnes in the first two months of the year to 235 thousand tonnes, remaining stable for the rest of the year to end at a level of 246,000 tonnes. In contrast, Shanghai warehouses reduced their stocks during the year by more than 19 thousand tonnes, ending the year above 18 thousand tonnes. Nevertheless, the year ended with global stocks of 16 weeks of estimated consumption.

Official price of nickel on the LME (2019-2020)

Average spot price / three months in USD/Mt

Ferrochrome

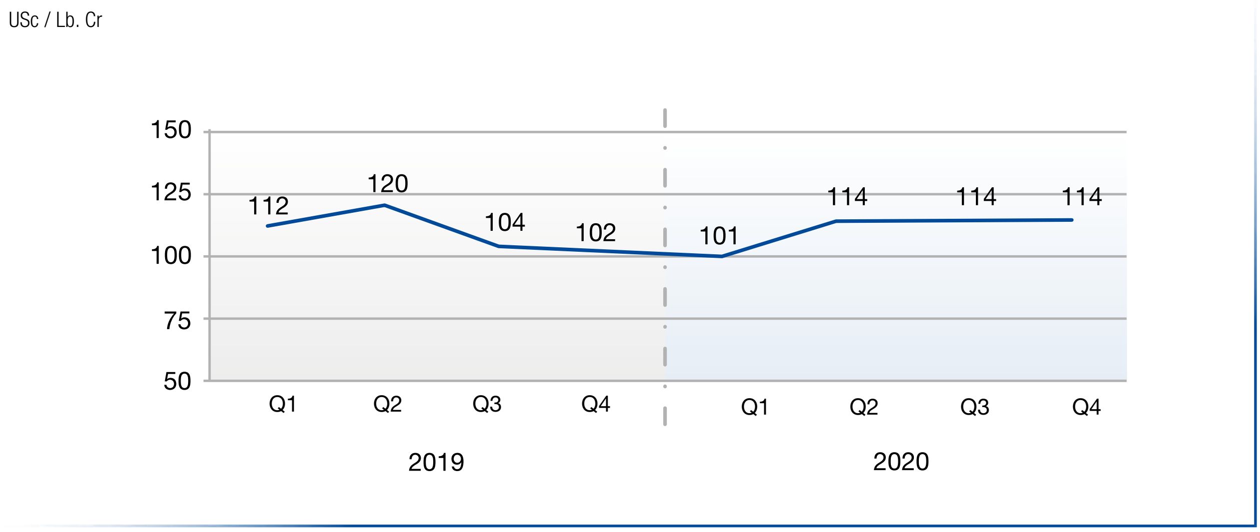
Despite it being one of the most closely linked raw materials to the evolution of the stainless steel market, ferrochrome prices remained stable from Q2 onwards.

This was due mainly to the recovery of the stainless steel sector in China and the reduction of ferrochrome production in South Africa. The aforementioned reduction in South Africa was due to the closure of the industry during April due to coronavirus and to the production cuts that have been widespread throughout the year.

The South African government's announcement in October, yet to be confirmed, of an export tax on chrome ore has so far had no effect on prices.

Scrap in the port of the Campo de Gibraltar factory

Average quarterly prices of ferrochrome



Molybdenum

The fall in demand in molybdenum-intensive sectors such as oil, gas and transport caused prices to fall during the first part of the year, reaching a minimum level of 7 USc/Lb in July.

Prices recovered progressively during the second half of the year, due mainly to the dramatic increase in Chinese imports, to end the year at values slightly above 10 USc/Lb. In 2020, the volume of net molybdenum unit imports from China is estimated to have grown 100 times more than in 2019.

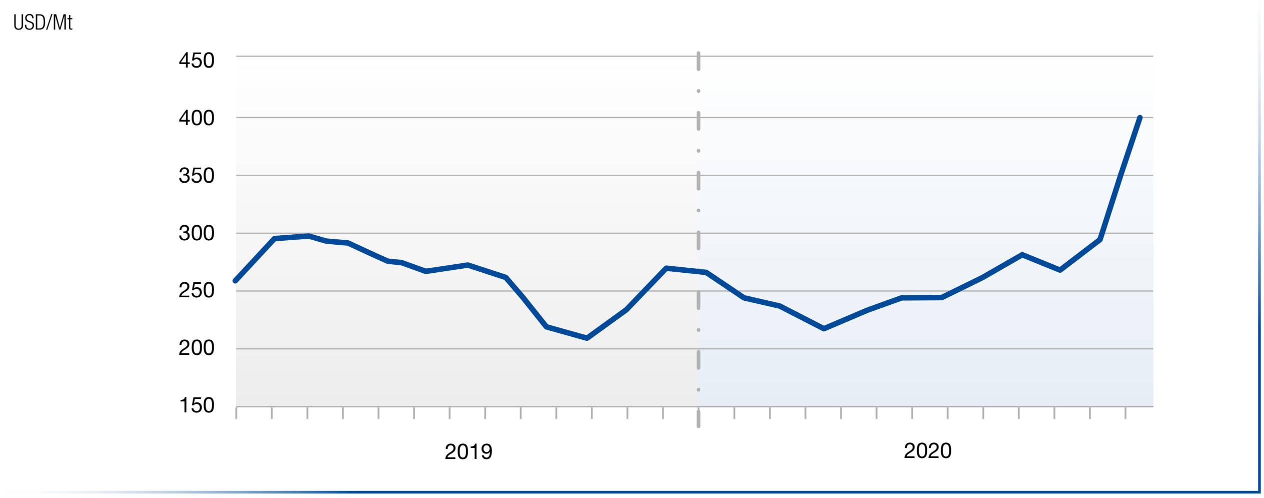
Price of molybdenum

Ferrous scrap

The halting of activity in Asia due to the effects of coronavirus explains the drop in price of ferrous scrap in the first quarter of the year.

The significant rise in iron ore prices, low production capacities in the steel industry and the reactivation of the sector in Q3, led to an increase in prices of finished carbon steel products as well as scrap; year-end prices totalled USD 400/Mt, the highest level in the last 9 years.

Price of ferrous scrap HMS 1&2 FOB Rotterdam (monthly averages)



Beer kegs made from stainless steel

3.5 2020 Results

3.5.1 Results

In such a complicated year, as described in this report, the results of the Acerinox Group were most satisfactory.

EBITDA increased by 5% against 2019, despite the worldwide impact of COVID-19, with a fall in the apparent consumption of stainless steel by 10% in the US and 14% in Europe. This was made possible by cost-cutting and a diversification of the product range through the purchase of VDM. The Group's debt at year-end stood at EUR 278 million following the acquisition of VDM, increasing the Group's debt in March to EUR 398 million. Operating cash flow totalled EUR 421 million, enabling the company to pay out a cash dividend (EUR 135 million) and maintain investment payments amounting to EUR 99 million.

The purchase of VDM by Acerinox was formalised on 17 March, therefore, its contribution in 2020 was limited to 10 months.

The most significant figures for the year and the variation compared to 2019 are as follows:

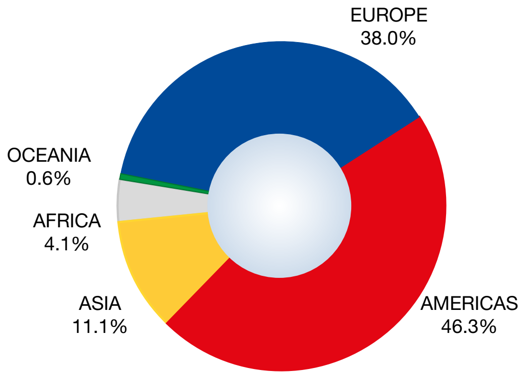
Million Euros	Stainless Group				
	Jan/Dec 19	%	Jan/Dec 20	%	20/19 variation
Net sales	4,754	100%	4,055	100%	**-14.70%**
Adjusted EBITDA	402	8.45%	358	8.83%	**-10.91%**
Expenses from VDM acquisition	-	-	-14	-0.35%	-
EBITDA	364	7.65%	344	8.48%	**-5.49%**
EBIT	23	0.48%	147	3.63%	**549.94%**
Result before tax	23	0.49%	120	2.96%	**419.89%**
Result attributed to the Parent	-60	-1.25%	40	0.99%	-

	High Performance Alloys		Consolidated Group				
	March/Dic 20	%	Jan/Dec 19	%	Jan/Dec 20	%	20/19 Variation
Net sales	614	100%	4,754	100%	4,668	100%	**-1.8%**
Adjusted EBITDA	40	6.5%	402	8.45%	398	8.52%	**-0.99%**
Expenses from VDM acquisition	-	-	-	-	-14	-0.3%	-
EBITDA	40	6.5%	364	7.65%	384	8.22%	**5.47%**
EBIT	20	3.2%	23	0.48%	163	3.49%	**620.31%**
Result before tax	16	2.57%	23	0.49%	132	2.82%	**470.19%**
Result attributed to the Parent	9	1.43%	-60	-1.25%	49	1.05%	-

Geographical distribution of Acerinox turnover - 2020

€4,668 Million

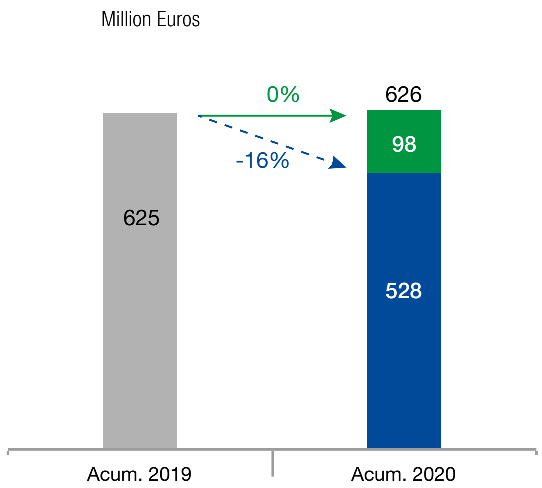
in turnover in 2020, giving rise to a 2% decrease.
Morover, sales in tonnes decreased by 5%



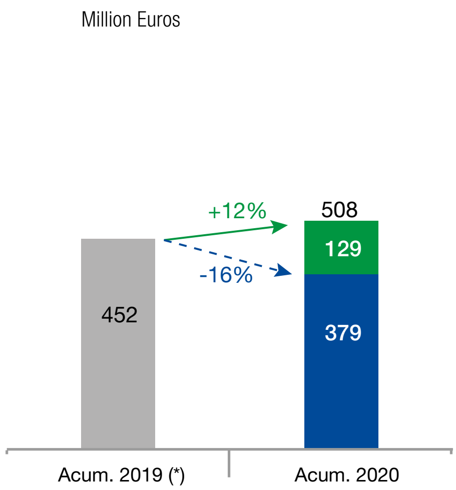
The Group's swift response to the coronavirus crisis enabled it to reduce significantly both fixed and variable costs. Personnel and operating expenses of the Stainless Steel Division decreased by 16%. The Consolidated Group's expenses rose by 5% following the incorporation of VDM.

The breakdown is set out in the diagrams below, which show trends in the stainless steel division and the contribution by VDM in 2020, compared to 2019:

Operating expenses



Personnel expenses

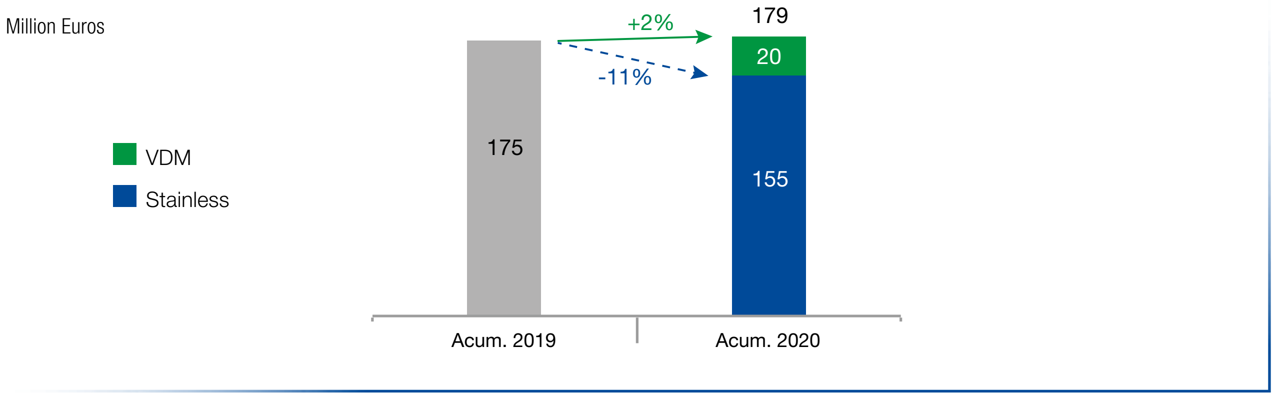


Stainless VDM

(*) 2019 includes EUR 38 million relating to the provision for the layoff plan at Acerinox Europa

Amortisation and depreciation in the stainless division fell by 11%. For the Group, including VDM, amortisation and depreciation amounted to EUR 179 million, an increase of 2% compared to 2019.

Depreciation and amortisation

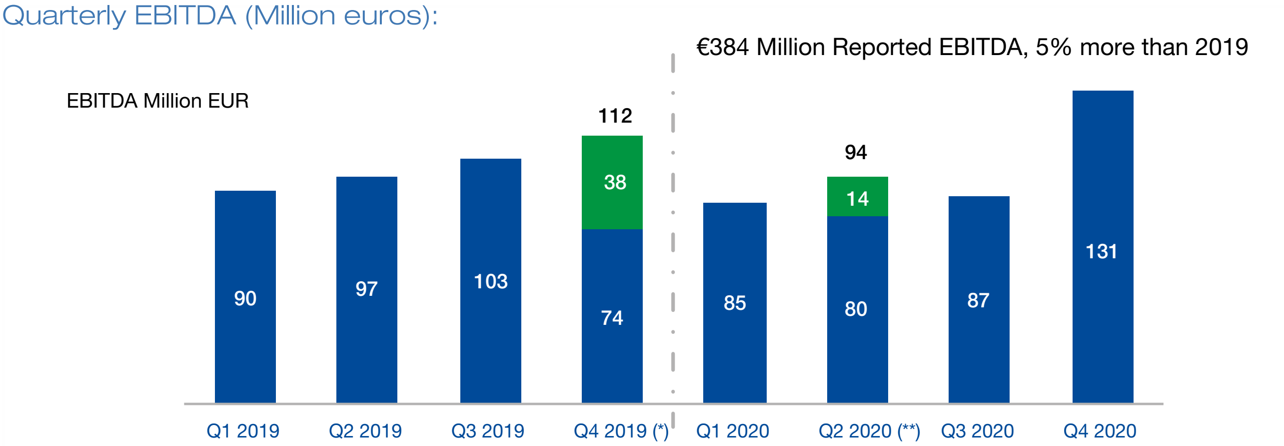


Cost-cutting and diversification to the high-performance alloy sector succeeded in neutralising the economic impact of the pandemic. Adjusted EBITDA, disregarding the EUR 14 million for the costs from the purchase of VDM, amounted to EUR 398 million, a decrease of just 1% compared to 2019. Reported EBITDA amounted to EUR 384 million, an increase of 5% compared to 2019.

In line with the regulator's recommendations, at 30 June an impairment test was carried out in view of the worldwide economic impact of COVID-19. As a result of the valuations, only an impairment of the assets of Bahru Stainless of EUR 43 million was necessary, which had an impact on EBIT.

EBIT stood at EUR 163 million, compared to EUR 23 million in 2019 following year-end adjustments, and adjusted EBIT (disregarding the EUR 14 million for the costs from the purchase of VDM and EUR 43 million relating to asset impairment) totalled EUR 220 million, 3% less than the adjusted figure for 2019.

Quarterly EBITDA (Million euros):



2019 adjusted EBITDA (*): EBITDA not including the EUR 38 million relating to the provision for the layoff plan at Acerinox Europa
2020 adjusted EBITDA (**): EBITDA, disregarding the EUR 14 million for the costs from the purchase of VDM in the second quarter of 2020

The net financial result was EUR -32 million. The increase in financial expenses was due to financing the purchase of VDM and integrating its debt. This impact was offset by financial income amounting to EUR 7 million and positive exchange rate variations totalling EUR 6 million.

€132 Million

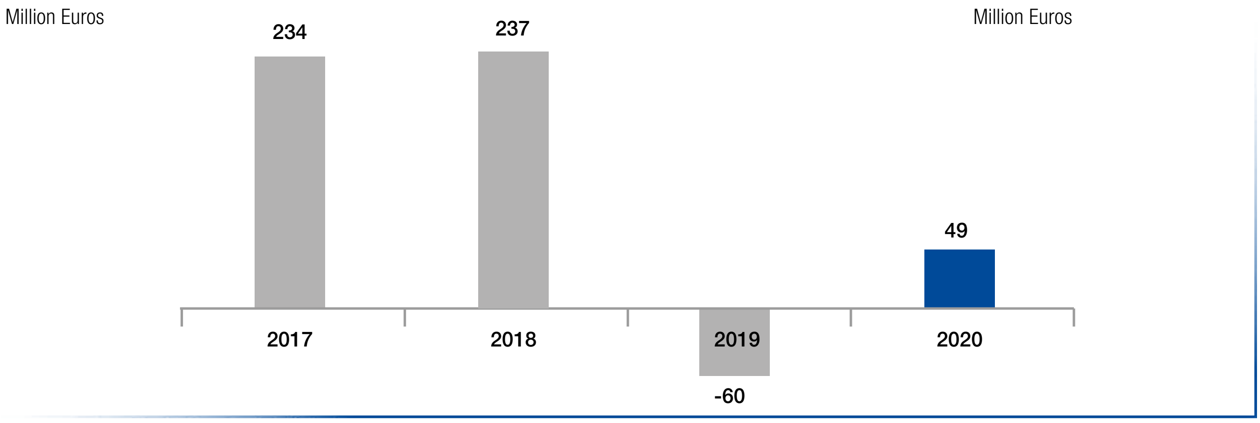
Profit before taxes
(€23 million in 2019)

€49 Million

Profit after taxes and minority interests
(-€60 million in 2019)

At year-end, and taking into account the restrictions imposed by Spanish law in accounting terms to recover tax loss carryforwards, deferred tax assets were impaired in the amount of EUR 24 million. This measure, a consequence of the Company's accounting prudence, may be reversed in future years, when the uncertainties described have been clarified.

Profit/Loss after taxes and minority interests



Stainless steel decantation tanks for wine industry

3.5.2 Cash flow generation

Cash flow generation, established as one of the priority objectives in the Group's Strategic Plan, also performed outstandingly.

The sound results obtained and the control of the working capital enabled the Group to secure an operating cash flow of EUR 421 million, its highest since 2012, of which EUR 337 million were accounted for by the Stainless Steel Division, and EUR 84 million by the ten months of contribution by VDM.

Operating working capital fell by EUR 236 million. Worthy of note is the EUR 223 million decrease in inventories.

Cash Flow

Million euros	2020 QUARTERS				2020	2019
	Jan - Mar	Apr - Jun	Jul - Sep	Oct - Dec	Jan - Dec	Jan - Dec
EBITDA	**85**	**80**	**87**	**131**	**384**	**364**
Working capital variation	-97	63	74	183	223	96
Operating working capital variation	-65	50	65	186	236	44
- Inventories (*)	9	95	92	27	223	2
- Customers (*)	-47	93	-1	38	83	41
- Suppliers (*)	-27	-139	-26	122	-70	0
Other working capital adjustments	-32	13	9	-3	-13	52
- Acerinox Europa layoffs payment	-26	0	0	0	-26	---
- Others	-6	13	9	-3	13	52
Income tax	-23	-3	-49	-24	-99	-116
Financial expenses	-3	-9	-13	-11	-36	-15
Other adjustments to results	3	-20	-8	-26	-51	29
OPERATING CASH FLOW	**-36**	**111**	**91**	**254**	**421**	**359**
Payments for VDM Acquisition	-313	0	0	0	-313	---
Payments for investments	-23	-27	-29	-19	-99	-128
FREE CASH FLOW	**-373**	**84**	**62**	**235**	**8**	**231**
Dividends and treasury shares	0	0	0	-135	-135	-184
CASH FLOW AFTER DIVIDENDS	**-373**	**84**	**62**	**100**	**-127**	**47**
Conversion differences	13	-16	-31	-35	-70	10
Grants and others	0	0	0	4	4	0
Net financial debt acquired from VDM	0	-85	0	0	-85	---
Variation in net financial debt	**-360 ∧**	**-17 ∧**	**31 ∨**	**68 ∨**	**-278 ∧**	**57 ∨**

(*) This figure does not coincide with the variation in the balance sheet items for the purchase of VDM

Following investment payments totalling EUR 99 million (disregarding the acquisition of VDM), the free cash flow generated stood at EUR 322 million, leading to the distribution of a cash dividend (EUR 135 million) and mitigating the increase in debt. Despite the EUR 398 million from the acquisition of VDM and the incorporation of its debt in March, at 31 December the Group's debt had only risen by EUR 278 million.

3.5.3 Balance sheet

Million euros

ASSETS	2020	2019	Variation
Non-current assets	**2,070**	**1,933**	**7,0%**
Current assets	**2,664**	**2,463**	**8.1%**
Inventories	1,182	1,016	16.4%
Debtors	532	555	-4.1%
Trade debtors	464	484	-4.1%
Other debtors	68	71	-4.1%
Cash	917	877	4.6%
Other current financial assets	32	16	105.9%
TOTAL ASSETS	4,733	4,397	7.6%

LIABILITIES	2020	2019	Variation
Equity	**1,615**	**1,929**	**-16.3%**
Non-current liabilities	**1,827**	**1,254**	**45.7%**
Interest-bearing loans and borrowings	1,410	1,052	34.0%
Other non current liabilities	417	202	106.6%
Current liabilities	**1,291**	**1,214**	**6.3%**
Interest-bearing loans and borrowings	280	320	-12.6%
Trade creditors	879	784	12.2%
Other current liabilities	132	110	19.8%
TOTAL EQUITY AND LIABILITIES	4,733	4,397	7.6%

Operating working capital increased by EUR 51 million due to the acquisition of VDM, which added working capital totalling EUR 287 million to the initial balance sheet. The Stainless Group decreased the working capital by EUR 175 million, and VDM, since the acquisition, by EUR 62 million

Operating working capital

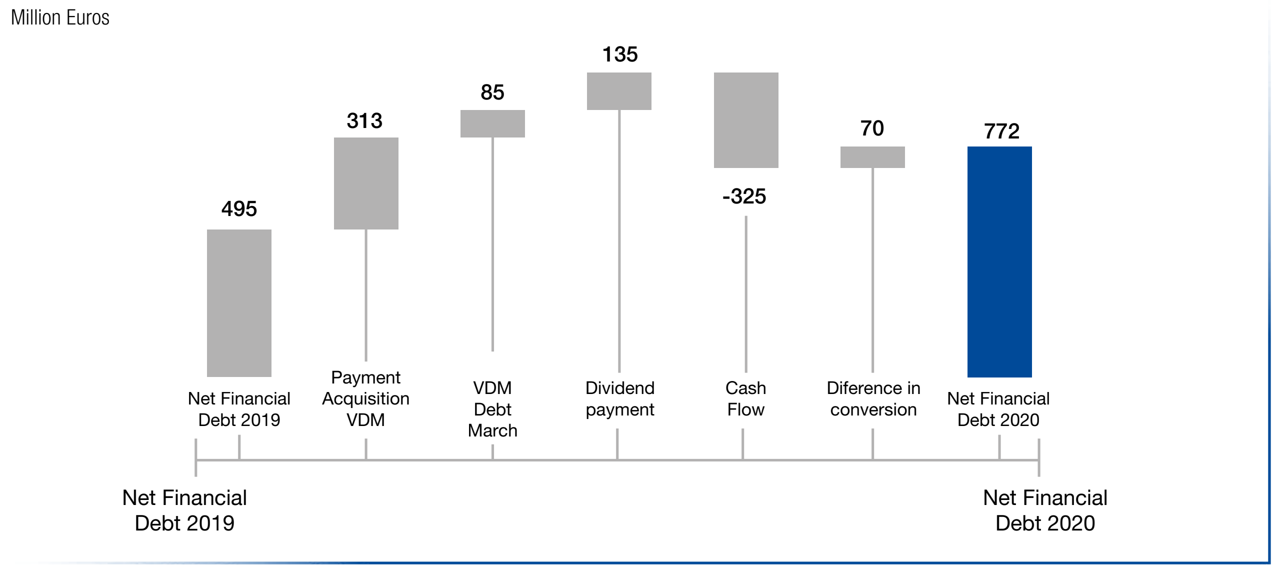
Million Euros

	December 2020	December 2019
Inventories	1,182	1,016
Trade debtors	464	484
Trade creditors	879	784
Working capital	767	716

At 31 December 2020, the Group's net financial debt amounted to EUR 772 million, an increase of EUR 278 million (31 December 2019: EUR 495 million) as a result of the acquisition of VDM (EUR 313 million) and the incorporation of its debt (EUR 85 million).

The depreciation of the Dollar in 2020 resulted in a lower counter equivalent in Euros of the Group's high cash flow in the United States, which increased net financial debt by EUR 70 million as a result of translation differences.

Net Financial Debt



3.5.4 Financing

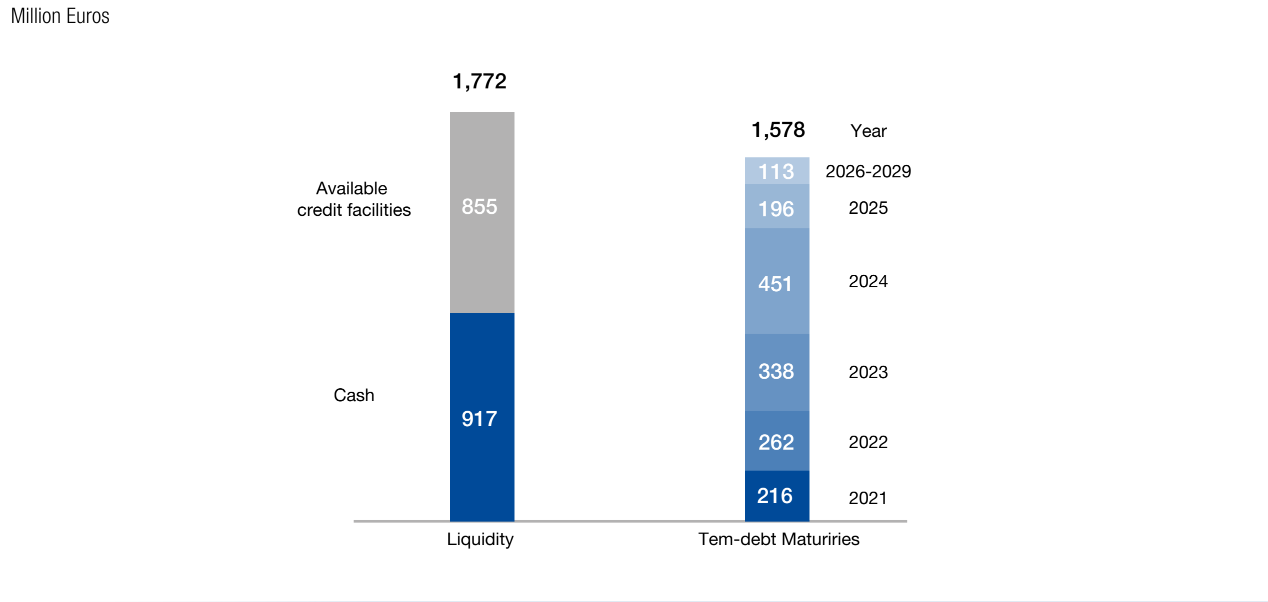
The Group gave priority to long-term financing and securing liquidity in the course of the year. Long-term financing featured entering into loans for the acquisition of VDM. Three of these loans were considered green loans (BBVA in 2020; CaixaBank and Sabadell in 2021). The external consultant Sustainalytics confirmed that the operations were in line with the 2019 Sustainability Linked Loan Principles, the principles that serve as the basis for this type of transaction. Thus, the margin on the loan has been linked to the evolution of two indicators established, which will be reviewed annually: relative emissions intensity (direct and indirect) per tonne of steel produced and the frequency of occupational accidents. Liquidity was also guaranteed through several financing and loan operations in Spain with the Group's banks, backed by the Spanish Official Credit Institute, in addition to the renewal and contracting of new loan schemes.

At 31 December, 83% of all Group financing had maturities of over one year. 90% of the Group's loans are at fixed interest rates.

At 31 December 2020, Acerinox had immediate liquidity amounting to EUR 1,772 million, of which EUR 917 million corresponded to cash and EUR 855 million corresponded to available credit facilities.

The Group's total term debt maturities amounted to EUR 1,578 million and are fully covered by current liquidity.

Term debt maturities



Kitchen knives with stainless steel supplied by Acerinox

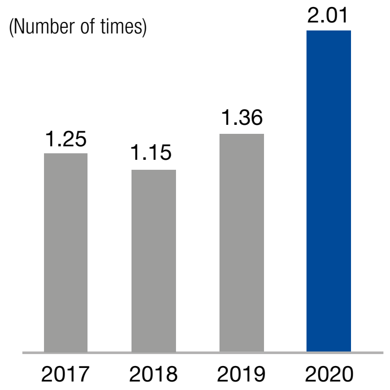
3.5.5 Financial ratios

Net Financial Debt / EBITDA was 2.01x.

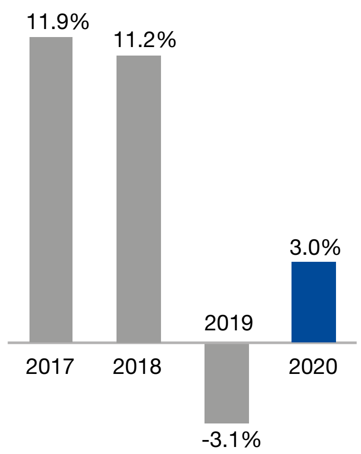
The increase was due to the increase in debt from the acquisition of VDM.

In 2020 the ROE amounted to 3.0%, while the ROCE amounted to 6.8%

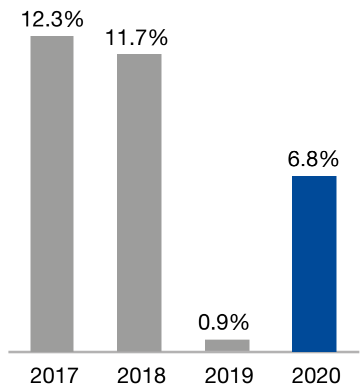
Net Financial Debt / Adjusted EBITDA



ROE



ROCE



Alternative Performance Measure

(Definitions of terms used)

- **Excellence 360º Plan:** estimated efficiency savings for the 2019-2023 period
- **Operating Working Capital:** Inventories + Trade receivables – Trade payables
- **Net Cash Flow:** Results after taxes and minority interests + depreciation and amortisation
- **Net Financial Debt:** Bank borrowings + bond issuance - cash
- **Net Financial Debt / EBITDA:** Net Financial Debt / annualised EBITDA
- **EBIT:** Operating income
- **Adjusted EBIT:** EBIT, stripping out material extraordinary items
- **EBITDA:** Operating income + depreciation and amortisation + variation of current provisions
- **Adjusted EBITDA:** EBITDA, stripping out material extraordinary items
- **Debt Ratio:** Net Financial Debt / Equity
- **Net financial result:** Financial income – financial expenses ± exchange rate variations
- **ROCE:** Operating income / (Equity + Net financial debt)
- **ROE:** Results after taxes and minority interests / Equity
- **ICR (interest coverage ratio):** EBIT / Interest expense

3.5.6 Average period of payment to suppliers

In relation to the Spanish Accounting and Audit Institute (ICAC) Resolution of 29 January 2016 on the disclosures to be included in notes to financial statements, the average period of payment to suppliers of the Spanish companies forming part of the Acerinox Group, having deducted the payments made to Group companies, is as follows:

	2020	2019
	Days	Days
Average period of payment to suppliers	73 days	69 days
Ratio of transactions settled	75 days	70 days
Ratio of transactions not yet settled	54 days	57 days
	Amount	Amount
Total payments made	1,948,440	1,511,280
Total payments outstanding	239,428	181,685

3.5.7 Evolution of the stock market

Acerinox, S.A. shares

At 31 December 2020, Acerinox's share capital totalled EUR 67,636,548.25, and was represented by 270,546,193 shares with a nominal value of EUR 0.25 per share.

All of the shares are listed on the official stock markets in Madrid and Barcelona, and are traded on the Continuous Market.

At 31 December 2020, there were 36,200 Acerinox shareholders.

	Number of shares	% Share capital
Corporación Financiera Alba, S.A.	52,337,949	19.35%
Nippon Steel Stainless Steel Corporation	42,774,066	15.81%
Danimar 1990, S.L.	12,175,083	4.50%
Industrial Development Corporation	8,809,294	3.26%
Treasury shares**	93,420	0.03%
Remaining investors	154,356,381	57.05%

*The percentage of domestic shareholders was 40% and foreign shareholders was 60%
**In 2020 the amount of treasury shares did not vary compared to 2019.

Analyst and Investor Relationships

Maintaining seamless and efficient communication with the financial markets, shareholders and investors is a priority for the Acerinox Group. The Investor Relations team has intensively and pro-actively assisted the investment community, adapting swiftly and efficiently to the new situation caused by the global pandemic.

Thanks to the digital transformation already in place in Acerinox, the schedule of activities and commitments was not affected. All this enabled the team to attend 28 events organised by brokers (conferences and roadshows), and with the direct contacts maintained by Acerinox, nearly 300 meetings were attended.

The most significant matters addressed were the following:

- In the first part of the year, investors focused on the aspects arising as a result of COVID-19, such as the emergency measures implemented, the affected sectors, liquidity and flexibility to reduce investments.
- Integration of VDM.
- Exit of Nippon Steel from the Acerinox Board of Directors.
- CSR Policy in Acerinox.
- Evolution of the markets by region.
- Statement of profit or loss, debt and cash targets.

The prestigious publication, Institutional Investor, awarded Acerinox in different categories of the 2020 ALL-EUROPE EXECUTIVE TEAM:

2020 All Europe Executive Team	2020 All Europe Executive Team Small & Mid Cap
Most honored company	Best CEO, no.3
Best CFO, no.2	Best CFO, no.1
	Best ESG, no.1
	Best IR programme, no.2

Stainless steel sink

Evolution of the shares

If anything has characterised the evolution of the stock market in 2020 it has been volatility: the first six months of the year were earmarked by COVID-19 with great uncertainty across the world and the markets, and the second six months of the year were bullish due to positive macro news and confidence in the control of the pandemic.

Of the European indices, only the German Dax and the Swedish OMX remained positive. The IBEX 35 decreased by 15%, lagging behind the major European indices. In Wall Street, with technology companies dominating, new records were set.

Evolution of the main global indices in 2020

	% 2020
NASDAQ-100 Index	43.64%
CSI 300	27.21%
S&P 500	16.26%
Nikkei	16.01%
DJ Industrial	7.25%
Germany DAX (TR)	3.55%
Euro STOXX 50	-5.14%
Ftse MIB	-5.42%
France CAC 40	-7.14%
FTSE 100	-14.34%
IBEX 35	-15.45%

Source: Nasdaq

Only nine IBEX companies ended the year in the black, including Solaria, Siemens Gamesa, Iberdrola and Acciona, which shows the Spanish index's commitment to renewable energies. IAG and Telefónica, among others, ended the year at the bottom of the selective index.

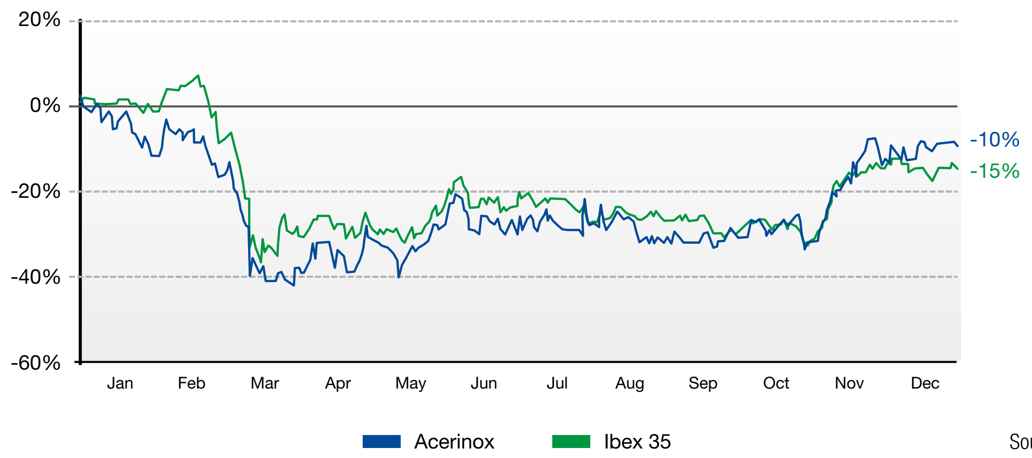
Acerinox was no stranger to this situation and ended the year with a decrease of 10%. The price of Acerinox shares was very similar to that of the IBEX 35, although the cyclical shift of investors following the vaccine announcements, anticipating economic recovery, meant that Acerinox's end-of-year performance was better than that of the IBEX.

In November and December Acerinox shares rose by 33%.

This is the second consecutive year that Acerinox has outperformed the IBEX 35.

Stock market evolution of Acerinox and the IBEX 35

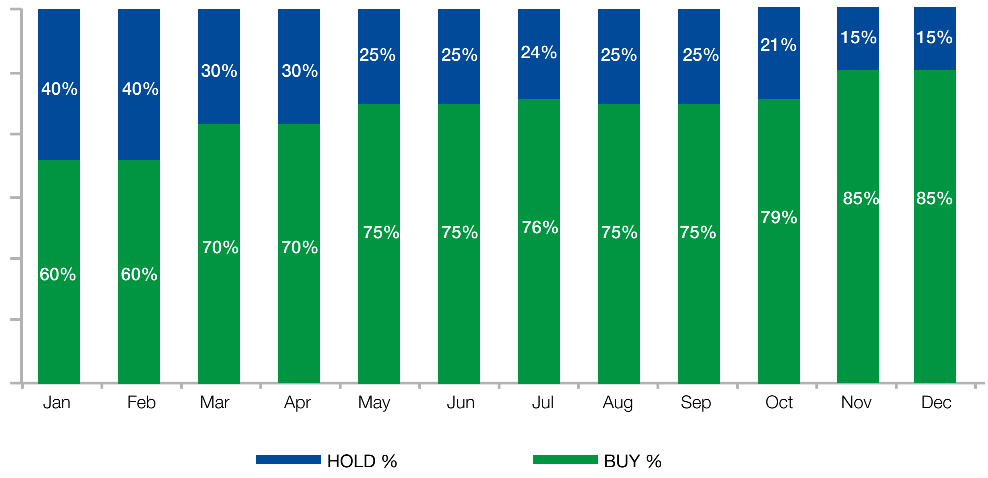
Daily percentage data, 2020.



Source: Nasdaq

Financial strength

The evolution of analysts' recommendations was positive throughout the year, increasing from 60% buy recommendations to 85% at year-end. There were no "Sell" recommendations from analysts following Acerinox in 2020. The following chart shows the evolution of recommendations throughout the year:

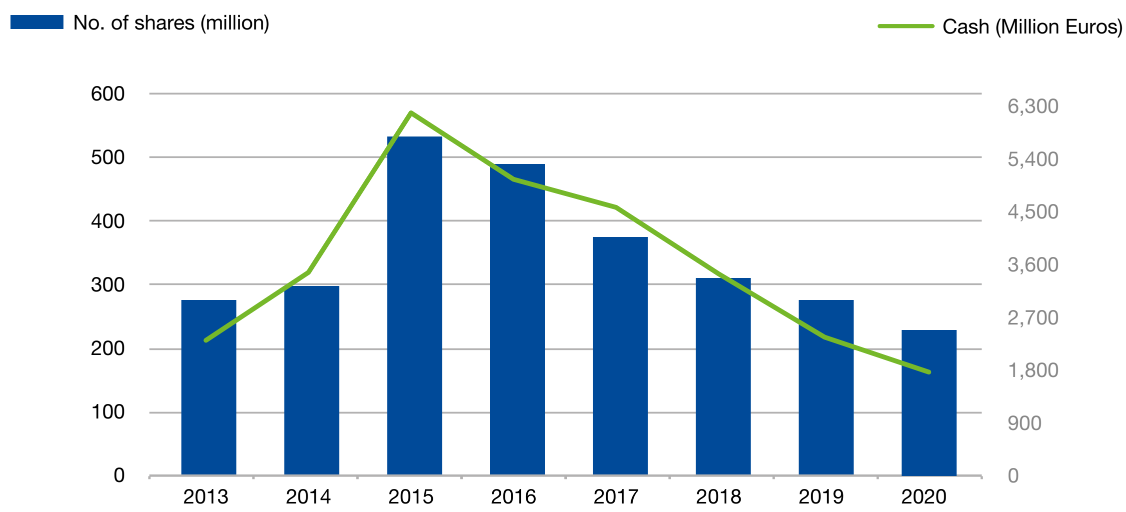


(Source: Bloomberg)

In 2020, Acerinox shares were traded on the 257 days that the Continuous Market was open. The total number of shares traded amounted to 236,177,023, equivalent to 0.87 times the number of shares that make up the share capital, with an average daily trading of 918,976 shares.

€1,805,294,383.78, Scope of volume traded in 2020, representing a daily average of €7,024,491.

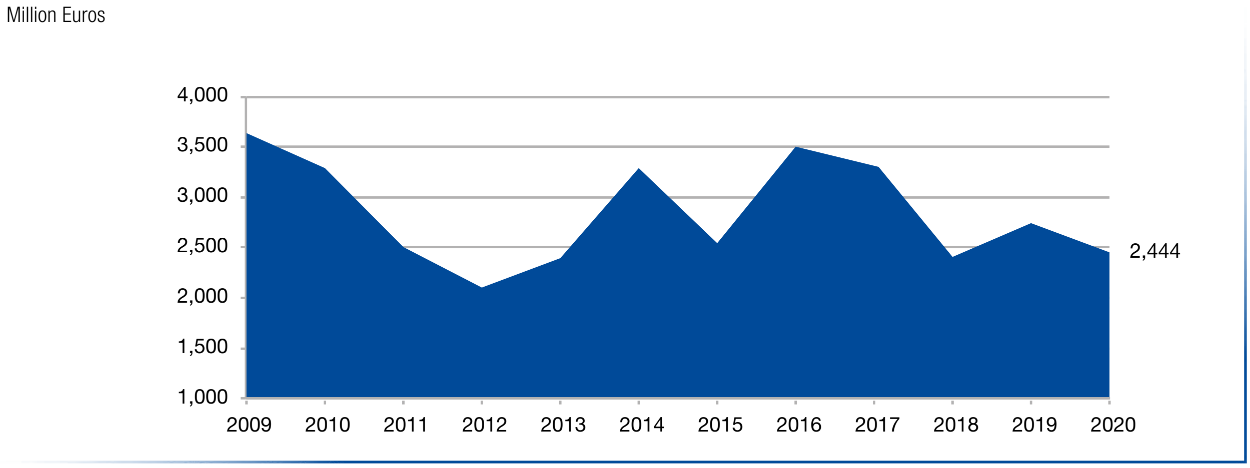
Share trading and cash



3.5.8 Capitalisation

At 31 December 2020, Acerinox's market capitalisation totalled EUR 2,444 million.

Market capitalisation of Acerinox, S.A.



3.5.9 Shareholder remuneration

Acerinox held the General Shareholders' Meeting by electronic means on 22 October 2020. The agreements approved in the Meeting included a shareholder remuneration of EUR 0.50 per share to each of the shares outstanding, with the first payment of EUR 0.40 being made on 2 December 2020, and the second payment of EUR 0.10, through a share premium refund, being made on 3 December 2020.

Shareholder remuneration €135,226 thousand.

High-temperature alloys from VDM Metals for automotive component.

Columbus factory in Middelburg (South Africa)


ACERINOX

4. Corporate Governance

The Group's Corporate Governance model ensures compliance with strict principles of ethics, integrity and transparency. In 2020, Acerinox reinforced the integrity of its long-standing commitment to sustainable development by creating a Sustainability Committee within its highest governance body.

4.1 Corporate Governance

The assessment of the Board and its committees is carried out every three years by an external consultant and during the remaining years by the internal services, although following as much as possible the same methodology as the aforementioned consultant in order to be able to make comparisons.

These processes generate action plans with identified areas for improvement, which the Board implements and regularly monitors. The assessment for 2020 was carried out by an independent expert, KPMG. As a result of the conclusions and with the help of the expert, an action and improvement plan was prepared to drive forward the few actions in the areas where it is considered that there may still be progress to be made.

Unsurprisingly, given the complicated year, the governing bodies of Acerinox, S.A. met a total of 41 times, excluding the General Shareholder's Meeting. This increase in corporate activity was not due to the fact that a

Sanitising gel dispenser made of stainless steel specific body increased its attention to the governance of the Company, but rather that all the governing bodies of the Group, without exception, increased their number of meetings. In fact, the difficulties of economic life in 2020 prompted closer monitoring of the business in a changing environment. In 2020, the governing bodies, as well as the Company's management, had to deal with transport stoppages in many countries, the closing of factories by government order, ongoing collective bargaining, the acquisition and subsequent integration of the German company VDM, with a total of 18 companies, and their subsequent assimilation and integration process.

This growth has gone hand in hand with an increase in the quantity and quality of the information that has reached the various bodies, either at the discretion of Management or at the request of the Directors.

The 2020 Annual Corporate Governance Report of Acerinox, S.A. forms part of the Management Report and, from the date of publication of the financial statements, is available on the Spanish National Securities Market Commission's website and on the Acerinox website.

4.2 The Board of Directors and its Committees

In 2020 the number of Directors decreased as a result of the resignation in August of the Proprietary Directors of NIPPON STEEL NSSC, heir company of Nisshin Steel, one of the founders of Acerinox in 1970, which has recently been absorbed by a third company. The Directors Mr Hattori and Mr Ikeda communicated their resignations and their reasons to the Board in a letter sent through the Chairman, which gave rise to the corresponding Relevant Information Disclosure.

Mr Braulio Médel also stepped down from the Board, as he has reached the statutory retirement age and is no longer eligible for re-election. Mr Médel served three terms as Independent Director, following his first appointment in 2008.

As a result of the aforementioned, the number of members of the Board of Directors decreased to twelve, although the maximum number foreseen in the Articles of Association has not changed.

Acerinox's Articles of Association and Regulation for the General Meeting of Shareholders were modified. This was due to several reasons, the most urgent of which was to incorporate without undue delay the changes that would facilitate the holding of General Shareholder's Meetings in the future by electronic means. Acerinox also wished to incorporate into these policies the amendments required by recent regulatory changes.

Following the Recommendations of the Code of Good Governance and the most solid corporate trends, at the end of 2020, the Board resolved to create a new Committee dedicated to Sustainability, denominated the Sustainability Committee, whose function is to be the specialised working body on this matter and to assist the Board of Directors in this area. Ms Rosa Mª García Piñeiro, Independent Director, was appointed as the Chair of the Committee. Ms Garcia has extensive experience in this field, as well as in the industry in general, and is the fourth female to chair a Committee following Belén Romana, Laura Abasolo and Laura G. Molero, current Chair of the Appointments, Remuneration and Corporate Governance Committee.

The shareholders' decision at the General Shareholder's Meeting to appoint Ms Leticia Iglesias, a person with extensive experience in auditing and financial control, resulted in the number of women on the Board totalling four at the date of reporting (33.3 %). In the same General Shareholders' Meeting, Mr Francisco Javier García Sanz, who has held numerous positions in the automotive world both in General Motors and subsequently in the VAG Group (Volkswagen), was appointed as an Independent Director.

Internal regulation

Together with the aforementioned amendments to the Articles of Association and the Regulation for the General Meeting of Shareholders, the Board of Directors modified its own Regulations and approved the new wording of the Policy for the Selection of Directors and the General Policy for Communication, Contact and Engagement with Shareholders, Institutional Investors, Asset Managers, Financial Intermediaries and Proxy Advisers of Acerinox, S.A. and its Group of Companies, as a consequence of the entry into force of the Shareholders' Involvement Directive.

Similarly, a new wording of the Internal Regulation for Conduct in the Security Markets was approved to adapt this regulation to the new standards in this area and to include therein the content of the former General Policy of Conduct in Treasury Shares.

		Director			Committee				Other
Name	Position	Executive	Proprietary	Independent	Executive	Audit	Appointments and remuneration	Sustainability	First appointment
Rafael Miranda Robredo	Chairman			√	√C		√		2014
Bernardo Velázquez Herreros	CEO	√			√			√	2010
Rosa María García Piñeiro	Director			√	√			√C	2017
Laura G. Molero	Director			√		√	√C		2017
Donald Johnston	Director			√	√	√C			2014
Francisco Javier García Sanz	Director			√	√		√		2020
Pablo Gómez Garzón	Director		√			√		√	2019
Tomás Hevia Armengol	Director		√		√				2016
Leticia Iglesias Herraiz	Director			√		√			2020
Ignacio Martín San Vicente	Director			√	√			√	2018
Marta Martínez Alonso	Director			√				√	2017
Santos Martínez-Conde	Director		√		√		√		2002
Luis Gimeno Valledor	Secretary				SEC	SEC	SEC	SEC	–

Changes to the Board of Directors

Appointments: Francisco Javier García Sanz and Leticia Iglesias Herranz

Step-downs: Ryo Hattori, Mitsuo Ikeda and Braulio Medel

Regulation of the Board of Directors

Composition of the Board of Directors

Rafael
Miranda Robredo
Chairman

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

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

Condition

- *Member of the Board of Directors and President since 23 April 2014, re-elected in 2018. Owner of 28,592 shares (31 December 2018)*
- *External Independent*

Bernardo
Velázquez Herreros
CEO

Mr Bernardo Velázquez Herreros, an Industrial Engineer through ICAI, is the Acerinox CEO and member of the Executive Committee and the Sustainability Committee.

Since he joined the Marketing Department of Acerinox in 1990, he has risen through successive positions of growing responsibility within the company, gaining in-depth experience in the international stainless steel trade.

On his return to Spain in 2005, following his experiences in Mexico and Australia, he took up the positions of Assistant Managing Director, Chief Information Officer and Corporate Planning Director. In 2007 he was named Managing Director, a position he held until his appointment as CEO in July 2010.

Mr Velázquez is currently Chairman of Acerinox Europa S.A.U. (Spain) and North American Stainless (USA). He is also Chairman of UNESID (Spanish Association of Iron and Steel Companies), Chairman of the International Stainless Steel Forum (ISSF), as well as a board member of World Steel (International Association of Steel Manufacturers). He was also Chairman of the Stainless Steel Eurofer's Group

Condition

- *Member of the Board of Directors since 2010, re-elected in 2014 and 2018. CEO since 2010. Owner of 19,995 shares (31 December 2018).*
- *Executive Director*

Rosa María
García Piñeiro
Independent

Ms Rosa Mª García Piñeiro, of Spanish nationality, has been an Independent Director since 2017, Chair of the Sustainability Committee since 2020 and member of the Executive Committee since March 2018. She is an Industrial Engineer and holds a Masters in Industrial Organisation and Management from the University of Vigo and the National University of Ireland, as well as a Master in Environmental Engineering from the Environmental Organisation School of Madrid and an Executive MBA from Haute École de Commerce, among others.

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

Condition

- *Member of the Board of Directors since 2017*
- *External Independent*

Laura
González Molero
Independent

Ms Laura González Molero, of Spanish nationality, has been an Independent Director since 2017, member of the Audit Committee since 2017 and Chair of the Appointments, Remuneration and Corporate Governance Committee since 2018. She holds a degree in Pharmacy, Industrial speciality, from the University Complutense of Madrid and an Executive MBA from IE Business School.

Ms González Molero is currently the Chair of APD (Management Progress Association). She has developed her professional career in chemical-pharmaceutical international companies, holding the positions of Chief Executive Officer and President of Merck España, President of Bayer Latin America and Independent Director of Calidad Pascual. She is currently Independent Director of Adecco Foundation (NGO), Bankia, Ezentis Group and Viscofan.

Condition

- *Member of the Board of Directors since 2017*
- *External Independent*

Donald
Johnston
Independent

Mr. Donald Johnson, of North American and British nationality, has been an Independent Director and member of the Executive Committee since 2015 and Chairman of the Audit Commission since 2018, being part there of since 2014. He has a Bachelor of Arts in Political Sciences from Middleburg College and a Master of Arts in International Economy and Latin American Studies from Johns Hopkins University. Mr. Johnston is currently an Independent Director of Merlin Properties Socimi and Independent Director of Sabadell Bank.

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

Condition

- *Member of the Board of Directors since 29 October 2014, re-elected in 2019. Owner of 6 shares (31 december 2018).*
- *External Independent*

Francisco Javier
García Sanz
Independent

Mr Francisco Javier García Sanz, of Spanish nationality, is an Independent Director and member of the Executive Committee and the Appointments, Remuneration and Corporate Governance Committee since 2020.

He holds a Degree in Business Administration and an Honorary Doctorate from the University of Stuttgart (2008), and has been awarded the Grand Cross of the Order of Civil Merit. He currently sits on the Boards of Directors of Criteria Caixa and Hochtief AG.

García Sanz was Executive Director of Global Purchasing at General Motors Corporation in Detroit (USA). Subsequently, he joined the Volkswagen Group, where he became the Vice President, and the Executive Vice President of SEAT, S.A., becoming a Director in 1997 and Chairman of the Board in 2007. Mr García Sanz has also held the position of President of the Spanish Association of Car and Lorry Manufacturers (ANFAC). In 2009 he was appointed Chairman of the Wolfsburg Football Team, a position he held until 2018.

Condition

- *Member of the Board of Directors since 2020*
- *External Independent*

Pablo
Gómez Garzón
Proprietary

Mr Pablo Gómez Garzón holds a degree in Business Administration from the University College of Financial Studies of Madrid (CUNEF) and is currently a member of the Investments Department of Corporación Financiera Alba S.A and, simultaneously, Observer Director of Verisure. Pablo Gómez has been a member of the Audit Committee since 2019 and a member of the Sustainability Committee since 2020.

Previously, he had developed his professional activity in the Merger and Acquisition Departments of BNP Paribas in Madrid and London as well as is ABN Amro in Madrid. He has been a member of the Board of Directors of Clínica Baviera, ACS Servicios y Concesiones, and ACS Servicios, Comunicaciones y Energía.

Condition

- *Member of the Board of Directors since 30 May 2002*
- *External Proprietary representing Corporación Financiera Alba S.A*

Tomás
Hevia Armengol
Proprietary

Mr. Tomás Hevía Armengol, of Spanish nationality, was appointed as Proprietary Director representing Corporación Financiera Alba in December 2016 and has been a member of the Executive Committee since 2017. He has a degree in Business Administration and Law from Universidad Pontificia de Comillas of Madrid and an MBA from IESE Business School of the University of Navarra. Mr. Tomás Hevía is currently a member of the Investments Department of Corporación Financiera Alba.

He previously developed his professional career in the Mergers and Acquisitions Department and the Equity Capital Markets Department of the Royal Bank of Scotland and ABN AMRO in Madrid and London. He is member of the Board of Artá Capital SGEIC, S.A, Observer Director in Parques Reunidos and he has been member of the Board of Directors of Clínica Baviera, ACS Servicios y concesiones, Dragados and Antevenio.

Condition

- *Member of the Board of Directors since 2017*
- *External Proprietary representing Corporación Financiera Alba, S.A.*

Leticia
Iglesias Herraiz
Independent

Ms Leticia Iglesias Herraiz, of Spanish nationality, is an Independent Director and member of the Audit Committee since 2020.

She holds a Degree in Economics and Business Sciences from the Universidad Pontificia de Comillas (ICADE), and she is a member of the Spanish Official Register of Auditors (ROAC) of the Ministry of Economy and Finance.

Iglesias Herraiz is currently an Independent Director of AENA SME, S.A., LAR España Real Estate SOCIMI, ABANCA Corporación Bancaria, S.A., and ABANCA Servicios Financieros, E.F.C. S.A. During her professional career, she has been an Independent Director of Banco Mare Nostrum, S.A. (BMN), in addition to holding the position of CEO at the Spanish Institute of Chartered Accountants (ICJCE) and Deputy Director of the Spanish National Securities Market Commission (CNMV).

Condition

- *Member of the Board of Directors since 2020*
- *Independent Director*

Ignacio
Martín San Vicente
Independent

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

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

Condition

- *Member of the Board of Directors since 2018, ratified in 2019.*
- *Independent External*

Marta
Martínez Alonso
Independent

Ms Marta Martínez Alonso, of Spanish nationality, has been an Independent Director since 2017, a member of the Sustainability Committee since 2020 and a member of the Audit Committee from 2018 to 2020. Marta Martínez Alonso holds a degree in Mathematical Sciences from the University Complutense of Madrid and studied a PADE course (Senior Management Programme) at IESE.

Ms Martínez Alonso is currently, General Manager of IBM for Europe, Middle East and Africa. Also in IBM, she has been President of IBM Spain, Portugal, Greece and Israel, previously General Manager for Global Technology Services and was executive in the telecommunications sector for Spain and Portugal since her incorporation in 2003.

Condition

- *Member of the Board of Directors since 2017*
- *External Independent*

Santos Martínez-Conde
Gutiérrez-Barquín
Proprietary

Mr Santos Martínez-Conde Gutiérrez-Barquín, of Spanish nationality, has been a member of the Board since 2002, as well as being a member of the Executive Committee and the Appointments, Remuneration and Corporate Governance Committee. He is a Civil Engineer, has a Master in Business Administration from ICADE and a Diploma in Nuclear Technology from ICAI.

Mr Martínez-Conde is currently a Director of Corporación Financiera Alba, S.A., Indra Sistemas, S.A. and CIE Automotive, S.A. He has also held the position of Chief Executive Officer of Corporación Financiera Alba, S.A. and has been a Board Member of Bolsas Mercados Españolas SA as well as of numerous companies, both listed and unlisted, in various sectors.

He has developed the rest of his professional career in Sener Técnica Naval e Industrial, S.A., Técnicas Reunidas, S.A., Bestinver, S.A., Corporación Borealis, S.A. y Banco Urquijo, S.A.

Condition

- *Member of the Board of Directors since 30 May 2002. Re-elected in 2006, 2010, 2014 and 2018. Owner of 8,741 shares (31 December 2016).*
- *External Proprietary representing Corporación Financiera Alba, S.A.*

Luis
Gimeno Valledor

Secretary

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

Mr Gimeno was appointed Director-General of Public service in 1996 and Director General of Taxation of the Madrid Autonomous Region in 1998, where he remained until 2000. From 200 to 2008 he worked as a lawyer for Cuatrecasas, a firm in which he was an Equity Partner.

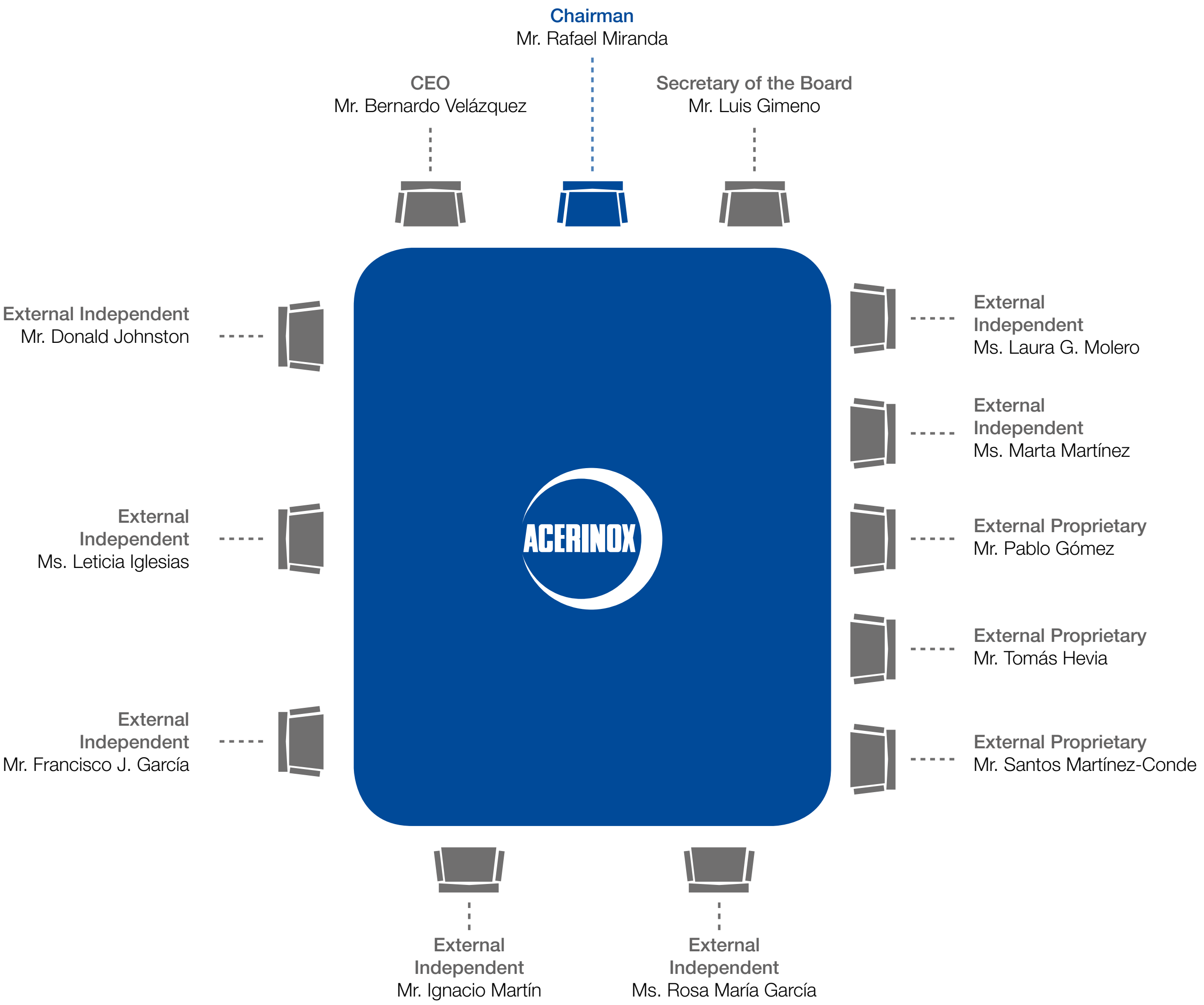
In 2008 he joined the Acerinox Group as Secretary General, acting as Board Secretary since 2016.

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

Condition

- *Secretary to the Board of Directors*

Board of Directors



The Executive Committee

The Executive Committee, made up of eight members, held eight meetings in 2020.

For more information on the composition and competences of the Executive Committee, please click on the following link:

Audit Committee

The Audit Committee, made up of four Directors, held ten meetings in 2020.

For more information on the composition and competences of the Audit Committee, please click on the following link:

The Appointments, Remuneration and Corporate Governance Committee

The Appointments, Remuneration and Corporate Governance Committee, made up of four Directors, held nine meetings in 2020.

For more information on the composition and competences of the Appointments, Remuneration and Corporate Governance Committee, please click on the following link:

The Sustainability Committee

The Sustainability Committee, made up of five Directors, held one meeting in 2020, which was its inaugural meeting.

For more information on the composition and competences of the Sustainability Committee, please click on the following link:

Senior Management Committee

At 31 December 2020, the Acerinox Senior Management Committee was composed by the following people:

BERNARDO VELÁZQUEZ	Chief Executive Officer
HANS HELMRICH	Chief Operating Officer
DANIEL AZPITARTE	Integration Director of the High Performance Alloys project
MIGUEL FERRANDIS	Chief Financial Officer
OSWALD WOLFE	Director of Institutional Relations, Sustainability and Communication
LUIS GIMENO	Secretary-General
FERNANDO GUTIÉRREZ	CEO of Acerinox Europa & Raw Materials Director
CRISTÓBAL FUENTES	CEO of NAS
JOHAN STRYDOM	CEO of Columbus Stainless
MARK DAVIS	CEO of Bahru Stainless

4.3 General Shareholders' Meeting

The General Shareholders' Meeting was held on 22 October 2020 in Madrid, Spain, under the chairmanship of Mr Rafael Miranda Robredo. For the first time in the Group's history and as a result of the COVID-19 pandemic, the General Shareholders' Meeting was held by electronic means.

The 2020 General Shareholders' Meeting, which celebrated the 50th anniversary, experienced considerable changes due to the context in which it took place.

It was the first time in the Group's history that a General Shareholders' Meeting was held fully by electronic means. This was because the meeting initially convened for the end of February was impossible to hold due to the state of alarm in Spain that restricted meetings in the city where it was to be held, forcing it to be postponed. It was a good decision since although it was held - in October - and by electronic means, without the attendance of shareholders, the delay made it possible to gain visibility of the economy and to take decisions, in particular, to maintain the dividend, with the economic indicators indicating that the global economy, and above all those of the Group, were already on the road to recovery.

The meeting was a success in terms of participation and its smooth running, thanks to the fact that our teams adapted very quickly to the situation and were able to use technologies that were not very familiar with.

The General Shareholders' Meeting was attended by 875 shareholders present and represented, holding 169,614,567 shares and representing 62.69% of the subscribed capital with voting rights.

The items on the Agenda were approved in their entirety with the following majorities:

General Shareholders' Meeting held on 22 October 2020 by electronic means

	Votes in favour %	Votes against %
1. Approval of the financial statements	92.932	0.002
2. Approval of the Statement of Non-Financial Information	93.104	0.058
3. Distribution of the results	99.270	0.727
4. Approval of the management of the Board of Directors	92.844	0.002
5. Approval of the dividends	99.154	0.843
6. Approval of the distribution of the share premium	99.723	0.274
7.1. Appointment of Ms Leticia Iglesias Herraiz as Independent Director.	92.586	0.519
7.2. Appointment of Mr Francisco Javier García Sanz as Independent Director.	92.785	0.375
8. Reappointment of the auditor	93.103	0.058
9. Authorisation to the Board of certain powers regarding bonds, obligations and convertible debentures	37.086	30.855
10. Authorisation to the Board to acquire treasury shares	92.263	0.673
11. Authorisation to the Board of Directors for the acquisition of shares of ACERINOX, S.A. for the payment of the Third Cycle (2020-2022) of the First Multiannual Remuneration Plan or Long Term Incentive Plan (LTI) established for Executive Directors and the remaining members of the Group's Senior Management.	92.713	0.436
12. Vote on the Annual Report on Remuneration of Directors of ACERINOX, S.A.	92.071	0.916
13. Approval of the Second Multiannual Remuneration Plan or Long Term Incentive Plan (LTI) for 2021-2025 for Executive Directors and members of the Acerinox Group's Senior Management.	90.726	2.11
14. Amendment of the Company's Articles of Association	---	
15. Amendment of the Regulation for the General Meeting of Shareholders.	---	
16. Delegation for the execution, correction, and authorisation of the resolutions adopted at the General Shareholders' Meeting	99.995	0.001
17. Information from the Chairman on the most relevant aspects regarding Corporate Governance of the Company.	---	

4.4 Main Executives of the Group's Companies

Top Executives of the Industrial Companies

Acerinox Europa:
FERNANDO GUTIÉRREZ

North American Stainless:
CRISTÓBAL FUENTES

VDM:
NICLAS MÜLLER

Columbus Stainless:
JOHAN STRYDOM

Bahru Stainless:
MARK DAVIS

Roldán:
JORGE RODRÍGUEZ

Inoxfil:
ÁNGEL BRUÑÉN

Executives of the commercial companies

SPAIN

Inoxcenter:
LUIS GUTIERREZ

Inoxidables de Euskadi:
JOSÉ CRUZ DE VICIOLA

By continent (in alphabetical order):

AFRICA

Acerinox Egypt:
MOHAMED KOTB

AMERICA

Acerinox Argentina (Argentina):
JOSÉ CARLOS RODRIGUEZ

Acerinox Brasil (Brazil):
ÍÑIGO PRADO

Acerinox Chile (Chile):
JAIME DEL DIEGO

Acerinox Colombia (Colombia):
GONZALO DEL CAMPO

Acerinox, S.A. Venezuela (Venezuela):
GONZALO DEL CAMPO

Acerinox Perú (Peru):
MARÍA CECILIA NÚÑEZ DE TOLEDO

NAS México (Mexico):
EDGAR GARZA

NAS Canadá (Canada):
ROGER MANSFIELD

ASIA

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

Acerinox India (India):
PRATIK KACHCHHI

Acerinox SC. Malaysia (Malaysia):
BARRY FOO

Acerinox S.A. Shanghai (China):
MARY XU

Acerinox Indonesia S.A. (Indonesia):
AMELIA CHRISTINA SODIK

Acerinox SEA (Vietnam):
HANG TRAN THI THANH

Acerinox SEA (Thailand):
PRAWIT LERTWIMONRAT

Acerinox SEA (Phillipines):
ENRIQUE DAVID B. SANTIAGO

Acerinox Pacific (Korea):
JUNGHO CHOI

Acerinox Pacific (Hong Kong):
JACKY LAW

Acerinox Pacific (Taiwan):
SAMUEL TAM

Acerinox Middle East (United Arab Emirates):
FERNANDO GÓMEZ

EUROPE

Acerinox Deutschland (Germany):
JOACHIM MAAS

Acerinox Benelux (Belgium):
ANEL VILJOEN

Acerinox France (France):
JAAN ROXAN

Acerinox Italia (Italy):
GIOVANNI DE CARLI

Acerinox Polska (Poland):
PILAR SENISE

Acerinox Scandinavia (Sweden):
JAN GJERLAUG

Acerinox Schweiz (Switzerland):
IVANA WENDEL

Acerinox UK (United Kingdom):
PABLO CANTLE

Acerinox Russia (Russia):
ROMAN BUTYRIN

Acerinox Metal Sanayi (Turkey):
BULENT BOLAYIR

Acerol (Portugal):
DANIEL SILLERO

OCEANÍA

Acerinox Australasia (Australia):
CLAUDIO LEÓN DE LA BARRA

Executives of the high performance alloys division's commercial companies

VDM Metals Group
DR. NICLAS MÜLLER
DANIEL AZPITARTE ZEMP
FRANK MORRIS
ROLF SCHENCKING

VDM Metals GmbH – Representative Office in the Russian Federation
ANDREY ZALIZNYAK

VDM Metals Austria GmbH
DR. SASCHA KREMMER

VDM Metals Benelux B.V.
JOS VAN LITH

VDM Metals France S.A.S.
ERIC VIDAL

VDM Metals Italia S.r.l.
EDRO ROCCA

VDM Metals U.K. Ltd.
DAVID MUNASINGHE

VDM Metals Canada Ltd.
JOSHUA ROBERTS

VDM Metals de México S.A. de C.V.
DR. KARL LINTERMANNS FANDER

VDM Metals USA, LLC
TONY ELFSTROM
GEORGE KRAMER
AXEL OEHLERS

VDM Metals Australia Pty. Ltd.
LUTZ TORIEDT

VDM Metals Japan K.K.
EDUARD GABRIC

VDM Metals Korea Co. Ltd.
SEUNG CHUN CHANG

VDM High Performance Metals Trading Co., Ltd. (China)
BAOJUN LI

4.5 Events after the reporting period

No significant events took place from 31 December 2020 to the date on which the financial statements were authorised for issue that would affect the authorisation thereof.

5. Sustainable, ethical and responsible management

For another year, Acerinox has strived to generate real value for all stakeholders and for future generations, while at the same time caring for the prosperity of people and the environment. All this has taken place in a responsible manner, contributing to the sustainable development of societies and without sacrificing ethics or corporate values.

5.1 Stakeholders and materiality analysis

Groups, individuals and organisations that have a relationship with the Group and influence its management systems, activities and decision-making are considered Stakeholders. The following stakeholders have been identified.

- **Shareholders and investors:** The main aim is to offer them an attractive and sustainable return.
- **Customers:** There are different channels to obtain their opinion and degree of satisfaction with our products and services.
- **Employees:** They are the Group's main asset, therefore it is essential to promote and guarantee communication with them.
- **Suppliers:** Suppliers have at their disposal the Suppliers' Portal, where they can find all the information concerning the general terms and conditions of contract and tenders.
- **Competitors:** With their direct influence on the market and their participation in industry associations, organisations and other events.
- **The media:** Constant contact is maintained with the media, who are kept informed of the latest news on the Group's products, services and any other information of interest.
- **Society:** This includes the local communities where Acerinox operates, the education sector and civil society in general, who show their concern for social and environmental issues through social networks.

In 2020 Acerinox prepared a diagnosis and a study aimed at articulating the company's actions concerning sustainability during the current decade. Worthy of note is a materiality analysis study that was conducted to identify and prioritise the most significant environmental, social and good governance issues for both stakeholders and the company.

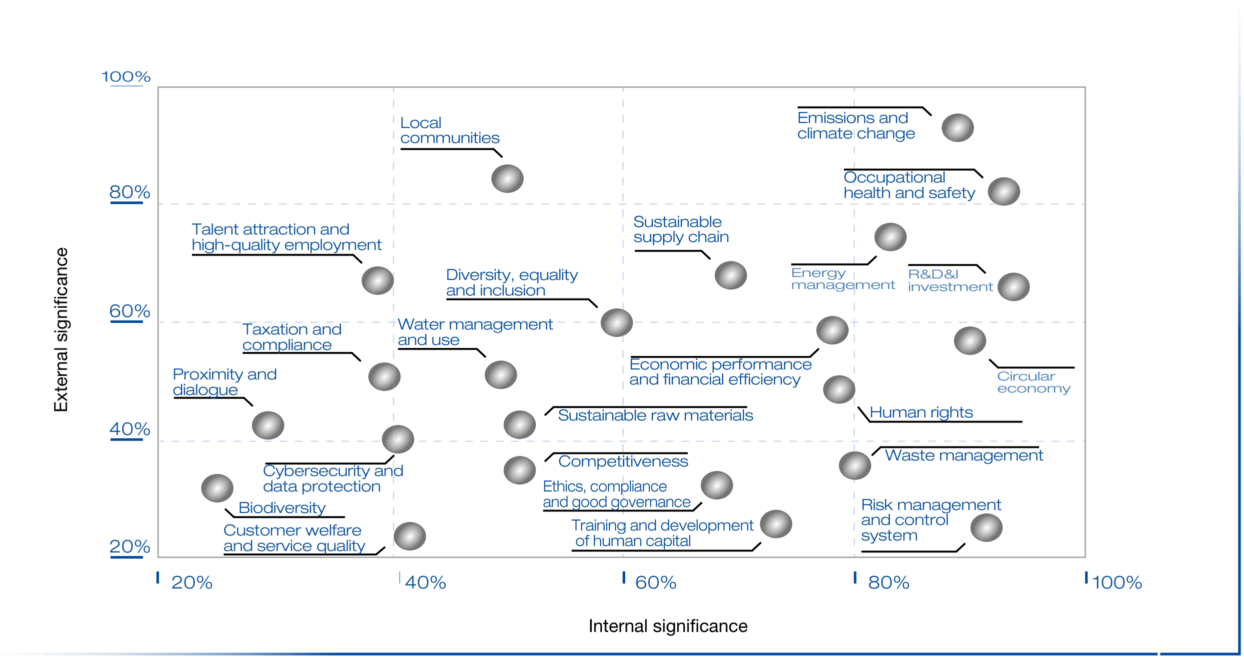
This analysis allows Acerinox
to align its strategy and course of action with the demands of its stakeholders

The methodology used for the preparation of the materiality analysis focused on identifying strategic issues for the Group that may be key to the development of the business model in the short-, medium- and long-term, with a view to sustainability. It consisted of benchmarking with leading companies in the sector and other companies considered benchmarks in terms of sustainability and certain customers. The analysis was based on the sustainability reports, non-financial information statements, sustainability policies and information available on the websites of the companies analysed.

A representative sample of international benchmark companies was taken in order to obtain relevant information for an in-depth analysis. These companies were selected for their relevance, their innovative initiatives or for being benchmarks in sustainability and corporate responsibility good practices, giving them a noteworthy position in line with the analysis required.

Furthermore, a study of the global trends and the main reporting frameworks, such as the GRI standards, the Sustainable Development Goals, the Global Compact, the CDP, the TCFD (Task Force on Climate-related Financial Disclosures), the FTSE4Good and the Dow Jones Sustainability Index was carried out. This external analysis was supplemented by an internal analysis, the results of which were as follows:

Materiality analysis



Matters that have had an internal and external rating of more than 35% are considered material; as listed below:

Occupational health and safety
R&D&I investment
Emissions and climate change
Circular economy
Risk management and control system
Energy management
Economic performance and financial efficiency
Human rights
Waste management
Training and development of human capital
Sustainable supply chain
Ethics, compliance and good governance
Diversity, equality and inclusion
Local communities
Water management and use
Sustainable raw materials
Competitiveness
Talent attraction and job quality
Taxation and compliance
Cybersecurity and data protection
Customer welfare and service quality
Proximity and dialogue

These matters were taken into account in the table of contents and content of this report.
In this connection, with regard the reporting of information required by Law 11/2018, the contents included in Biodiversity (the measures taken to preserve or restore biodiversity and the impacts caused by activities or operations in protected areas) and the actions taken to combat food waste are not considered material.

5.2 Sustainability strategy

The strategic vision of Acerinox has always contributed to the sustainable development of the societies in which it has operated. This way of understanding the business from its origin has now been put into practice in a model based on the continuous search for an economic, social and environmental balance, generating real value for all stakeholders today while preserving the legacy for future generations.

This firm commitment from Senior Management to achieve economic objectives in the short-term, without neglecting the vocation towards sustainability over time, is being supported by the ambitious guidelines of the European Union related to its determination to commit to a Circular Industrialisation that offers sustainable products, such as stainless steel. In this connection, it is worth noting the following European initiatives launched in 2020, with which Acerinox is strengthened:

- Sustainable Corporate Governance Directive project aimed at integrating sustainability into its management at the highest level in order to enhance responsible long-term investments that improve productivity and efficiency.

- Circular Economy Action Plan that links competitiveness with sustainability by focusing on the processes that use recycled materials and manufacture durable and clean products that can be recycled at the end of their useful life. This action plan emphasises the importance of circularity as an essential requirement for achieving the climate neutrality target.

Acerinox has also kept pace with the new sustainability recommendations for listed companies of the Spanish National Securities Market Commission (CNMV). Thus, the creation of a Sustainability Department, which forms part of Senior Management, was reinforced in 2020 with the creation of a specific Sustainability Committee within the Board.

Based on these principles, work has been carried out throughout 2020 to prepare a Sustainability Plan to support and reinforce the business strategy, for the company to respond to social, environmental and good governance challenges, with a global vision, reducing risks and developing opportunities. This Plan has been called “Acerinox Positive Impact 360°”, which has been approved by the Board of Directors, and defines a series of actions based on the five main pillars that contribute value to the “Excellence 360°” Plan, which are summarised below:

- Ethical, responsible and transparent governance
- Eco-efficiency and the fight against climate change
- Circular economy and sustainable product
- Committed team, culture, diversity and safety
- Supply chain and impact on the community

For each of the pillars, lines of action and several actions to be developed have been established with a priority action plan for 2021-2023 and another plan for 2024-2025. All this guarantees Acerinox's contribution to the Sustainable Development Goals of the 2030 Agenda and compliance with the 10 Principles of the United Nations Global Compact, as justified in the appendices.

Throughout this report, the various commitments of the Strategic Plan are articulated in chapters and the significant objectives already assumed by Senior Management are outlined. In summary, it is possible to affirm that these commitments allow the Group to be beside its customers when they need sustainable materials, in support of shareholders when they demand results, involved in the development of its professionals, committed to its suppliers and concerned about respect for the environment.

Water treatment plant made with stainless steel components

5.3 Contribution to sustainable development

In 2020 Acerinox reached 50 years of contributing to sustainable development in a way that is very much in line with the principles and objectives promoted by the United Nations.

As a result, Acerinox adheres to the 10 principles of the United Nations Global Compact, as can be seen in Appendix 4. In response to the commitment to publish the Progress Report, this report details, at an "Advanced" level, the progress achieved in the 4 areas of the Pact:

- Human Rights
- Labour Rights
- The Environment
- Anti-corruption

Since 2015, when the United Nations published the 2030 Agenda, Acerinox has been linking the contribution of its activities to society with the 17 Sustainable Development Goals (SDGs), as reported in Appendix 5.

Within the Group's contribution to these SDGs, in some cases it is a direct contribution and in others an indirect contribution throughout our value chain and the long life cycle of our products. With regard to the direct SDGs, it is worth noting the Group's greater influencing capacity on SDGs 8, 9 and 12:

» **SDG 8:** Decent work and economic growth

» **SDG 9:** Industry, innovation and infrastructure

» **SDG 12:** Responsible consumption and production

Washing machine drum made of stainless steel

5.4 Ethics and Compliance

Acting in a responsible and ethical way is a fundamental and transversal pillar in all activities carried on by Acerinox.

The Group has developed a framework of policies, standards and management systems that contribute to the adequate definition and implementation of processes in order to comply with regulatory requirements and the obligations assumed in this area.

Code of Conduct and Best Practices

The Acerinox Group has a Code of Conduct and Best Practices, which was approved by the Board of Directors on 25 October 2016.

Main objectives of the Code of Conduct and Best Practices:

1. *Regulate the permitted and forbidden types of conduct in the Acerinox Group.*
2. *Establish the ethical principles and general rules that must guide the actions of the Group, the employees and the directors among themselves and in their relations with their stakeholders, with whom the Group, directly or indirectly, interacts.*

Code of Conduct and Best Practices

Who/what does it protect?	What commitments are made?
Employees	Conflicts of interest
Occupational health and safety	Presents, gifts and favours
Customers	Prevention of corruption
Suppliers	Use and protection of the Group's assets
Competitors	Contribution to the welfare state
Shareholders	Private or confidential information
	Inside information
	Environmental protection
	General rules for procurement and sales
	Prevention of harassment in the workplace
	Truthful, adequate and useful information

Acerinox communicates and disseminates the Code among all its employees, who must accept and comply with the principles and norms established therein. The Code of Conduct is given to each employee upon joining the company and is available on the corporate website.

The line managers who have been informed of possible breaches or violations of the Code must in turn notify immediately, prior to any further action, the Internal Audit Service, which shall inform the Code of Conduct Monitoring Committee. Moreover, Acerinox has various complaints channels available to its employees and stakeholders.

Also, to ensure the rights and duties established in this Code are exercised, all managers and employees of the Group may send by e-mail any doubts arising from its interpretation and scope to the Secretary-General of Acerinox, S.A. who shall provide the appropriate response following consultation, if necessary, with the corresponding business units, companies or bodies.

The functions of the Monitoring Committee, which reports to the Board of Directors through the Audit Committee and the Chief Executive Officer, include supervising compliance with and internal dissemination of the Code among all employees, interpreting the Code of Conduct, providing a Complaints Channel to gather information on compliance with the Code of Conduct, and controlling and supervising the processing of files and their resolution.

The Code is available on the Group's website:

Complaints Channels

Through the Code of Conduct and Best Practices, Acerinox prohibits any manifestation, expression or intent to, directly or indirectly, denigrate or discriminate personally or professionally any employee of the Group. There are various channels available to employees and collaborators for them to express possible non-compliance in this area.

Acerinox has various complaints channels available to its employees and any person external to the organisation.

These complaints channels are a communication tool accessible to all Acerinox employees and stakeholders to report behaviour that breaches or may breach the guidelines established in this Code.

Any person who has knowledge or well-founded suspicions of a breach of the Group's Code of Conduct and Best Practices is obliged to inform a line manager or the Internal Audit Service, or must report it through the mechanisms that Acerinox makes available for the filing of complaints.

Complaints channels available.

- Complaints channel on the corporate website.
- Email address (comitededenuncias@acerinox.com).
- Postal address (Comité de Denuncias, Acerinox S.A., Santiago de Compostela 100, 28035 Madrid, Spain).

What guarantees are made?

- Confidentiality of the complainant's data and the data and background information handled, unless the disclosure of information is required by law or a court injunction.
- The absence of reprisals against employees who report suspected breaches in good faith.
- Respect for the rights of those allegedly involved in a possible breach.
- Comprehensive analysis of the information on the basis of which it promotes its performance.
- The actions and investigations that are carried out as a consequence of a complaint shall be carried out independently, swiftly and confidentially, guaranteeing the rights of the complainant and the individuals under investigation, and in accordance with the Complaints and Internal Investigations Protocol. The complaints are managed by the Code of Conduct Monitoring Committee (comprising the Chief Compliance Officer, the Internal Audit Director and the Secretary-General), which proceeds in accordance with section four of the aforementioned Code and the Complaints and Internal Investigations Protocol.

- Breaches of Acerinox's Code of Conduct and Best Practices can lead to labour sanctions, without prejudice to the possible administrative or criminal proceedings that may also ensue, always in accordance with the legislation in force in the area in which it occurs.

Ethics and compliance training

Acerinox considers communication and training within the ethical and compliance framework established by the Group to be a key aspect in achieving behaviours aligned with the expectations of Acerinox and its Stakeholders.

Therefore, Acerinox has made a considerable effort over the years to develop different initiatives to transmit this importance to the different stakeholders, developing different communication and training programmes for its employees and the Board of Directors, as well as for its suppliers.

Communication and training on ethics and compliance	2020	2019
Board of Directors		
Members of the Board of Directors and Senior Management	56	39
Members of the Board of Directors and Senior Management informed of anti-corruption policies and procedures	54	34
Members of the Board of Directors and Senior Management trained in anti-corruption matters	23	22
Employees		
Employees informed of the policies and procedures	98%	100%
Employees trained in anti-corruption matters	0.9%	40%
Suppliers		
Number of Suppliers	8,255	5,374
Suppliers informed of the Group's policies and procedures on anti-corruption matters	4,640	4,854

Stainless steel automotive exhaust system

The Board of Directors approved the Code of Conduct and Best Practices in its different versions and the Group's Crime Prevention Model, following the relevant advice. The Board is also the editor and approving body of the Code of Conduct on the stock markets and the Conflicts of Interest Prevention Policy.

The Board and the Audit Committee rely on the Group's internal audit services and the functions of the Chief Compliance Officer for their supervisory work in these matters and to verify the implementation of the prevention and compliance measures. Both the Internal Audit Department and the Chief Compliance Officer report regularly to the Board, and more frequently to the Audit Committee.

Board members can access the essential rules governing these matters at any time through the Company's portal or through the Director's Portal, in addition to obtaining any specific information through the usual channels.

Specifically, in 2020, two training sessions were held; the first session was for all employees of the Group's non-Spanish European companies concerning the Code of Conduct and data protection, and the second session was for all employees of the Group's European companies concerning personal data security measures.

Viewpoint with stainless steel railings

Protection of Human Rights

As a Group with presence in more than 50 countries and a workforce of over 8,195 employees with diverse socio-cultural backgrounds, championing Human Rights in all locations where Acerinox operates is fundamental.

Therefore, Acerinox is committed to acting in a way that is compatible with the international declarations on Human Rights in all its locations, having developed various policies and plans for this purpose and applying due diligence in this connection.

In 2020, as in previous years, Acerinox did not receive any complaints concerning Human Rights violations.

Policies and plans

The Acerinox Code of Conduct and Best Practices

Acerinox expresses its commitment and adherence to the human rights and public freedoms recognised in national and international law, and to the principles upon which the United Nations Global Compact is based. Acerinox also expresses its advocacy of and compliance with the provisions of the International Labour Organisation's fundamental conventions.

It also expresses its total rejection of child labour and forced labour.

Acerinox's General Policy on Corporate Social Responsibility

The General Policy on Corporate Social Responsibility (CSR) includes, as one of its general principles of action, supporting, through its adoption and circulation, the integration of the principles of the United Nations Global Compact, as well as other international instruments, especially those concerning human rights, labour practices, the environment and the fight against corruption.

With regard to their employees, the Acerinox Group companies must respect the human rights recognised under national and international legislation, and especially those whose infringement degrades workers as a whole - rejecting child, forced or mandatory labour - (with explicit rejection of child labour and forced or compulsory labour), as well as the rights of ethnic minorities located in those places where the Group performs its activities.

Adherence to the UN Global Compact initiative

The Group is a signatory of the principles of the United Nations Global Compact, which include, among others, the following principles in relation to human rights:

- Principle 1: "Businesses should support and respect the protection of internationally proclaimed human rights".
- Principle 2: "Businesses should make sure that they are not complicit in Human Rights abuses".

With regard to respect for labour rights, Acerinox's actions in this connection are detailed in the Human Capital chapter and in the Health and Safety chapter.

Fight against corruption and bribery

Acerinox is committed to zero tolerance towards corruption, bribery, fraud or other similar illegal activities in all its actions. The Board ensures compliance with the policies via the Chief Compliance Officer with the crime prevention model, which was approved by the Board itself, and the complaints channels as means of detection. The Board approved and monitors implementation of the crime prevention.

Information and measures to combat corruption and bribery within the Group are based fundamentally on the provisions of the Code of Conduct and Best Practices and the Crime Prevention Model, which set out the Group's commitments and ethical responsibilities and also constitute the main tools for regulatory compliance and criminal prevention, establishing the measures to prevent money laundering. In 2020, no corruption cases arose.

In 2020 the Board of Directors of Acerinox, S.A. approved Instructions for the establishment of the Bribery Prevention Programme, which follows the structure of the ISO 37001 standard on Anti-Bribery Management Systems.

5.5 Risks and opportunities

The Acerinox Group has a Risk Management and Control Policy that establishes the basic principles and general framework for the control and management of all types of risks faced by the Company and the Group.

This policy is available on the Group's website:

Based on the aforementioned policy, the Acerinox Group's Board of Directors and Senior Management have promoted the Risk Management Model. This model is designed to identify, classify, and assess potential events that could affect all significant organisational units and functions. The main objective of this model is to manage the risks and provide reasonable security in the achievement of its objectives, whether these are strategic, operational, compliance or information-related.

Once the model has been defined, managing the risks enables the mechanisms and basic principles to be established for the management of opportunities and risks, enabling:

- The strategic objectives determined by the Group to be achieved
- Full guarantees for the shareholders to be provided
- The Group's results and reputation to be protected
- The interests of the Group's key Stakeholders to be defended
- Business stability and financial solidity in a sustained manner over time to be guaranteed

The main risks are as follows:

- **Economic cycles**
- **Competition**
- **Cybersecurity**
- **Legislative changes, Environment and CO2 Emissions**
- **Overcapacity**
- **Financial**
- **Trade barriers**
- **Strategic plans**
- **Customers**
- **Legislation**
- **Commodity price volatility**
- **Reputational risks**

More information in the Annual Accounts: note 4 / financial risk management.

Nonetheless, it is important to highlight the risks that are particularly affected by the ecological transition and climate change.

Accordingly, new manufacturing technologies and improvements in the production processes contribute to operational excellence, and they are key in enhancing efficiency and competitiveness and providing excellent opportunities to achieve more efficient energy and resource consumption, thus advancing towards carbon neutrality.

In addition, since it is a metal that can be almost completely recycled on an indefinite basis, stainless steel contributes to lower emission levels than other products made from non-reusable materials.

Acerinox also believes that there are great opportunities that can arise with appropriate adaptation to climate change.

The main opportunities include:

- **The possibility of introducing products in emerging markets, for example in hydrogen production and its entire value chain or in already firmly established renewable energies.**
- **The cost savings associated with the consumption of electricity from renewable sources.**
- **Improvements in the efficiency of the supply network.**
- **Implementation of the Best Available Techniques (BATs) for iron, steel and ferrous metals enables the incorporation of energy efficiency improvement measures in the production chain, with the subsequent reduction of consumption and emissions.**
- **Strong market positioning through the offering of a low-emission product with a high recycling rate (it is a fully recyclable product).**

Stainless steel racks for the storing of fuel used in nuclear power plant pool

6. Committed to customers and users

Acerinox's fundamental purpose is to serve its direct customers and indirect users who, over time, will enjoy the benefits of a stainless steel and a high-performance alloy that are the solution to humanity's major challenges in terms of sustainable development, such as its pioneering contribution to the Circular Economy. It is no surprise that during the pandemic the Group's activity was considered essential due to its sustainable impact on sectors as fundamental as healthcare, food, water, renewable energies, construction and new technologies.

Acerinox's end product is a paradigm of the circular economy. In fact, this concept in its own right is implicit in the properties of stainless steel: it can be recycled as many times as necessary without a loss of quality and after having fulfilled its function in any application. Stainless steel and high performance alloys are among the well-known cost-effective products whose life cycle best responds to the four 'R's' on which the idea of circular economy is based: reduce, reuse, remanufacture and recycle. This also results in low life-cycle costs.

At Acerinox, the circular economy encompasses all phases of the product manufacturing cycle, from acquisition of the raw materials to their subsequent processing, distribution and sale, as well as the collecting of materials for their reuse. It is a cycle that is intrinsic to the production processes of Acerinox's factories, and that is why the Group signed the Circular Economy Pact in 2017 along with the other companies in the sector, in an agreement that involves maintaining the value of products, materials and resources within the economy for as long as possible, and thus minimising the generation of waste.

Gathering customer experience and feedback on the Group's products and services is essential to maintaining long-lasting, value-sharing relationships with them. The main channel used by Acerinox to collect this information is through the satisfaction surveys (an index that improved significantly in 2020) sent by the commercial subsidiaries on a regular basis. The matters addressed in this survey include product quality, sustainability and concern for similar trends, Acerinox's brand image and its main strengths and weaknesses, competitive positioning, and other general matters.

Customer complaints are handled through the Commercial Department, either directly from the Parent or by the respective local offices where Acerinox operates. The customer communicates directly with these departments by e-mail or by means of a telephone call to report an incident or complaint. The addresses and telephone numbers of these departments can be found via the following link: https://www.acerinox.com/en/contacto/. The Commercial Department records this notification in a specific application for the handling of complaints, in which the customer's details, the product information and a description of the complaint, among other things, are included.

The products manufactured with stainless steel or high performance alloys supplied by Acerinox are considered strategic by many governments, as is the case, for example, of the materials used in clinics, hospitals and surgical elements that, due to their hygienic and antibacterial properties, have been incorporated into sanitary protocols and, therefore, their demand has continued to grow to prevent the effects of pandemics.

The variety of applications of these materials is extensive, covering the most diverse sectors and proving attractive, due to their properties and beauty, for emblematic buildings, such as the new Santiago Bernabéu Stadium, which will be clad with the Group's stainless steel.

Acerinox's customers can be found in various key sectors of the economy and even in strategic sectors for States and Nations and for the evolution and preservation of the environmental indices.

The Acerinox Europa plant (Los Barrios, Cádiz, Spain) was commissioned to manufacture the material that will clad the new Real Madrid Stadium, one of the most emblematic buildings in the sporting world that also enjoys a privileged location on Madrid's Paseo de la Castellana.

The façade of the new stadium will have a unique design, allowing images to be projected and providing lighting effects. For this project, Acerinox developed new finishes to reduce the reflection of sunlight on users, vehicles and adjacent buildings.

Acerinox will also supply the steel for the stadium's retractable roof, which will consist of a fixed part and a retractable part, the latter located over the pitch. This will offer a roof that can be opened (in just 15 minutes) or closed depending on the needs and activities to be held in the stadium, allowing for a greater variety of shows

Model of the Santiago Bernabéu Stadium, which incorporates stainless steel cladding

Stainless steel, in this iconic case and in the rest of its applications, contributes to improving the environmental impact on society at all levels. Examples include the following:

Food

The food industry is one of the most delicate sectors for people's health. Everything related to food products, whether for their transportation, production or handling, must meet very stringent requirements. That is why stainless steel, which offers all these guarantees, is essential for this industry.
There are numerous applications of stainless steel in this industry, for example in distilleries, where alcoholic beverage production processes require high pressure and high temperatures, and certain products are particularly corrosive.

This material is also present in open sea fishing facilities. The interiors of fishing vessels are designed almost entirely in stainless steel to ensure high durability and to preserve the intrinsic properties of the product they hold. Blanchers used in vegetable processing as a pre-treatment to soften tissues in preparation for other preservation processes is another example of the presence of stainless steel in the food industry.

Healthcare sector

These are materials that enable the meticulous disinfection necessary in hospitals and health centres, and are therefore essential in the manufacture of medical and hospital utensils and furniture. Stainless steel also prevents the spread of bacteria on its surface.

These materials also make up other components, such as implants, prostheses and fixation elements used to set bones and repair fractures, among others, as stainless steel reduces the risk of allergies that can occur in some patients. This is why surgical and dental instruments are also made of these materials.

Energy

Stainless steel and high performance alloys are present in the field of energy and in all its applications, from the extraction and distribution of hydrocarbons to new, greener and more sustainable energy sources. Two examples of the latter are alloy powders for additive manufacturing and welding consumables for different joining techniques and processes used in chemical and petrochemical plants, as well as in environmental and energy technology.

Energy and climate change:

- **Thermosolar facilities:** Thanks to stainless steel's resistance to corrosion, molten salt tanks made with this material offer a heat storage system for solar parks that allows solar heat to be retained for 10-15 hours. This technology allows solar plants to operate without disruptions and, therefore, contributes to making solar energy commercially viable.

- **Biomass:** Stainless steel can withstand the corrosive materials used in the digester. Stainless steel biogas plants contribute threefold to green energy generation: they solve organic waste disposal problems (including manure), they save fossil fuel reserves and they improve the CO2 balance.

Transport

Stainless steel is present in the transport industry both in the manufacture of vehicles and in other components: turbines, containers, fuel tanks, etc. Stainless steel is even present in the aerospace sector. Its durability, efficiency, strength and lightness make it a versatile material that meets the strict mechanical, corrosion and safety requirements, among others, of this sector. In the automotive industry, high performance alloys are very important, for example in turbochargers, an essential part for reducing fuel consumption and emission rates at simultaneously high engine power thanks to the superalloys.

Lorry with stainless steel tank

Household and catering

Many kitchen utensils found in every home are made of stainless steel. Home electrical appliances such as washing machines, fridges and ovens have stainless steel parts. In fact, this material has played a fundamental role in the design of everyday objects that we use in our domestic sphere, as well as in restaurants and hotels. Its rust resistance and ease of cleaning have made stainless steel an essential element in these types of goods.

This material can be found in spas and industrial kitchens such as those used in hotels, restaurants and catering companies, and especially in cutlery.

Water

The qualities of stainless steel, such as its low corrosion rate, that it does not contaminate water and that it does not need an additional coating, among many others, make it an essential material in transport, storage and water treatment. It is simple to manufacture, lightweight, easy to transport and allows on-site design corrections and modifications to be made, so it can be adapted to all kinds of shapes.

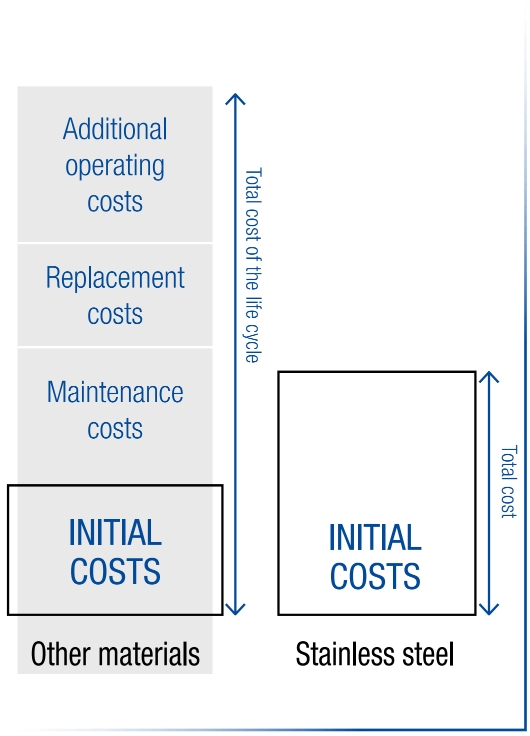
Its use helps to achieve the objectives of waste water treatment, aimed at producing an effluent that can be reused again in our environment and generating a sludge or solid waste that can be used as compost or biogas. The latter, suitably purified, can produce electrical energy by means of turbines.

- **Desalination:** Converting seawater into drinking water is the preferred solution for supplying water in many arid regions. Stainless steel provides unparalleled solutions for the desalination industry, as seawater combined with high temperatures creates a corrosive environment that stainless steel can withstand. Stainless steel improves the lives of millions of people by providing access to drinking water.
- **Wastewater treatment:** Water is endlessly recycled, but it must be purified, as only approximately 1% of the earth's water is safe to drink. Stainless steel is the ideal material for processes such as water purification, and it also helps to prevent pollution in lakes and rivers. Therefore, since the late 1960s, stainless steel has been the material of choice for the construction of wastewater treatment plants.
- **Water supply:** Drinking water is extracted, treated, stored and transported in stainless steel equipment. Health awareness and the search for durable building solutions are leading more and more homeowners to choose stainless steel.

Civil engineering works and architecture

More and more buildings and architectural elements are being made with stainless steel. The LEED (Leadership in Energy Environment Design) Gold certification recognises stainless steel as a material that uses less water, is energy efficient, does not emit any toxins and has an innovative design. The 4th version of LEED recognised favourable changes for stainless steel, such as a greater emphasis on the life cycle and stricter requirements for volatile organic compound emissions (which is a major advantage over other materials such as plastics).

The maintenance of bridges, as far as civil works are concerned, that have been built with stainless steel is practically null. The initial investment is clearly offset by the many maintenance costs associated with conventional bridges, such as those associated with repainting, corrosion replacement or other operational costs. A stainless steel bridge can last for more than 100 years.



National Museum of the United States Army on the outskirts of Washington D.C., cladded with stainless steel sheets supplied by NAS

Additive manufacturing: the future in which Acerinox already plays a part

One of the new manufacturing processes is known as Additive Manufacturing based on 3D printing. The Group's product catalogue expanded following the acquisition of VDM to include metal powders, which can be made of cobalt, nickel, stainless steel or so-called superalloys. 3D printing enables high precision and flexibility during manufacturing. It also avoids large amounts of waste, as only the material that is strictly necessary is used. This manufacturing system is already present in many industries:

- **Aeronautical:** In the construction of turbine elements with the aim of reducing weight and emissions.
- **Chemical industry:** To ensure corrosion resistance.
- **Healthcare:** With the incorporation of dental implants and other medical implants (tissue engineering).

Process and product certifications and controls

All factories and workplaces of the Acerinox Group comply with the quality and environmental controls required by the legislation in each country, in addition to each of them implementing Environmental Management Systems in accordance with the ISO 14001:2015 standard. In addition, each of the subsidiaries has assumed standards that exceed the legislative requirements in various fields such as quality, safety and the environment.

Moreover, Acerinox undergoes a series of annual external audits of the Group's Information Systems, both at the Parent and at all subsidiaries. These audits are conducted by external agencies that verify the status of these systems, and by customers, and they review aspects such as cybersecurity and IT controls.

Acerinox Europa

NAS

Columbus

Bahru

Roldan

Inoxfil

VDM

7. Committed to our people

The prestige of Acerinox and its products is thanks to the sum of the talent and effort of the thousands of people who form and have formed part of this incredible Group. The pandemic has highlighted the importance for the sustainable development of Acerinox's aim to industrialise both mature and emerging markets in a responsible manner. In this way, the Group has contributed to generating stable, high-quality and well-paid employment, to guaranteeing a safe and healthy environment and to offering diverse and enriching relationships.

7.1 Generating stable and high-quality employment

Acerinox promotes a working environment based on the trust and commitment that characterises a family business, while offering the enriching experiences of a multinational with presence on the five continents.

The pandemic that defined 2020 highlighted the importance of the industry for the sustainable development of the regions, as it guarantees stable employment and remuneration above the Spanish and European average. Furthermore, Acerinox, maintaining the Group's commitment to high-quality employment specially at a time when so many jobs have been destroyed globally.

Total number of employees at year-end 8,195								
Acerinox Europa	Acerinox S.A.	Bahru	Columbus	Inoxfil	NAS	Roldán	VDM	Subsidiaries & Service Centres
1,809	80	448	1,270	106	1,493	383	1,872	734

These figures demonstrate that, in addition to increasing the number of employees in mature markets such as Europe and the US, Acerinox also provides skilled employment in emerging countries, thus meeting very significant targets of the 2030 Agenda.

	Number of employees by contract type	
	Indefinite	Temporary
Employees	8,027	168
%	98%	2%

If at a time of economic recession the contribution by companies to sustainable development is appreciated for its capacity to generate employment, then the commitment to stability is even more valued. In this regard, Acerinox stands out since 98% of employees have an indefinite contract with the company.

Work organisation

Acerinox endeavours to promote measures that reconcile the personal, family and working lives of all employees, including disconnecting from work, by implementing shifts, working hours, breaks and other provisions concerning work organisation in labour agreements or, where applicable, in agreements established directly with employees.

The agreements take into account the specific characteristics relating to occupational health and safety.

As far as working hours are concerned, in the factories, shifts are usually divided into three groups of eight hours each or two groups of 12 hours, depending on the agreement reached with the workers' representatives. Thus, the activity of the factories is continuously maintained (with some exceptions). This organisation of shifts and breaks was affected in some cases in 2020 by the Covid pandemic and, where applicable, was communicated and agreed with the employee representatives.

Acerinox does not have specific measures related to disconnecting from work beyond those established in collective bargaining agreements and agreements reached with employees.

Remuneration system

The Group maintains a fair and transparent remuneration policy without any gender-based distinction, thus committing to an effective remuneration balance between men and women.

The collective bargaining agreements of each plant establish the remuneration systems, defining the jobs with their corresponding salary levels and integrating all the remuneration items received by the workers, including the characteristics of the work itself. The remuneration system defined in the agreements is uniform for all staff in the same professional classification category.

The Acerinox Group's salary gap, considering the difference between the average fixed remuneration plus variable remuneration of men and women, is 7.94%.

The incorporation of female workers in Acerinox has mainly occurred in recent years, which implies differences in the total remuneration received for seniority complement. Another factor to take into account is the inclusion of other salary items related to shift differentials, carried out mostly by men.

Acerinox has a General Policy for the Remuneration of Group Directors. This policy sets out the conditions and considerations regarding the directors' remuneration.

In 2020 the total remuneration received by the members of the Board of Directors was EUR 2,430 thousand, of which the four female Directors received EUR 349 thousand. Moreover, the average remuneration to Senior Management was EUR 406,341.

Training

Professional development is a basic right of every individual and a necessity for the company.

Acerinox believes that the development of its professionals is a priority, since without the correct training there is no quality or innovation. Therefore, the Group promotes training courses among its employees, boosting the company's competitiveness through the knowledge of its employees.

Some training courses are compulsory, necessary and recurring, such as safety and risk prevention courses.

Others are strongly encouraged by the company, including those through systems arising from collective bargaining.

Employees actively participate in the training plans that the Group makes available to them, thus enabling them to keep abreast of the necessary knowledge and skills to achieve the best performance when carrying out their duties.

Employees who hold managerial or leadership positions facilitate attendance to the various courses, whenever they do not significantly hinder or hamper operations or the productivity of the corresponding unit.

Control room at the Acerinox Europa factory

7.2 A diversity that enriches

At the Acerinox Group, diversity and equality are understood as the sum of different potentials that allow the Group to multiply opportunities and achieve unique results, competing successfully in the markets in which it operates. The industrial sector, and especially the steel industry, has traditionally been male-dominated and, therefore, less female-dominated.

In order to close this gap, the Group is working on a cultural change to help achieve a gender balance in both operational positions in production and in leadership positions, with the aim of fostering a pool of talent. In 2020 a qualitative leap was made in this area with the approval of the Acerinox Group's Equality Plan, which is based on eight lines of action that provide the backbone for the actions to be carried out:

1 Communication & awareness

2 Selection & hiring

3 Classification & promotion, under-representation of women

4 Professional training & development

5 Remuneration

6 Co-responsibility & reconciliation

7 Occupational risk and harassment prevention

8 Gender-based violence

The actions that arise from these lines include: disseminating Acerinox's commitment internally and externally; designing a job position levelling system for exempt employees based on their contribution to the business; providing training in the field of Equality in the company, promoting women's professional careers through the acquisition of skills and abilities, among many others. These actions implemented by Acerinox in the field of equality are aimed at guaranteeing and promoting equal treatment and opportunities in a real and effective way among all the Group's professionals.

The Group's diversity is based on the support of the Board of Directors and Senior Management, who incorporate this concept as a strategic priority. The challenges of recent years, the digital transformation, the coexistence between different generations and an increasingly uncertain and volatile environment have led the company to pay special attention to strategic diversity management, not only focusing on age, gender, race or disability, but also on interests, habits, hobbies, personal and family situations, opinions, etc.

To this end, Acerinox has proposed to continue strengthening the diversity and inclusion strategy for the 2020-2025 period, basing itself on: being a benchmark in diversity, promoting a company with a culture of diversity, emphasising the creation of processes that reinforce these objectives, eliminating possible biases and developing diversity management at a social level. These challenges will not only help the Group to put its employees at the centre, but they will also help to understand diversity in all its variables, enabling Acerinox to enhance knowledge sharing and creativity to achieve greater competitiveness and efficiency.

Objective: Increase the number of new recruits from ethnic minorities by 10%

For Acerinox, the ability to make the most of the available talent becomes a business opportunity. Thus, diversity management is a strategic pillar and a fundamental criterion in the Group's decisions.

In order to corroborate all these principles, the 2020 figures are mentioned below as evidence:

Acerinox: Women of steel

- Although women have not historically been drawn towards studies and jobs related to the industry in the same proportion as men, the percentage of women is higher than the average for our sector, having experienced a 16.27% increase in female incorporations in the Group in 2020.

- Despite inheriting the historical shortage of female vocations in the industry, Acerinox does not see a glass ceiling for women when they approach positions of responsibility. In fact, the percentage of female executives reaching Director is **4 times higher** than the percentage of women at entry level.

- In a traditionally male sector, Acerinox has been committed for many years to promoting women's careers, with an increase of **19.6** % in the percentage of women hired compared to 2019.

	Number of employees by age group		
	<30	30-50	>50
Employees	1,095	4,794	2,306
%	13.4%	58.5%	28.1%

Employees from 64 nationalities

- During recent crises and restructuring processes, the over-45s have become part of the vulnerable groups in terms of employment. However, Acerinox has always been particularly determined not to discriminate against an individual on the basis of age, as evidenced by senior talent over the age of 50 accounting for almost 30% of the workforce.

- Also worthy of note is Acerinox's commitment to youth employment (which has been hard hit by crises) and to offering a full professional career from the start until retirement. This wide range of opportunities for colleagues from up to 5 decades apart and with 64 nationalities spread across all continents, offers generational and cultural diversity that enriches both personally and professionally.

- Acerinox promotes the care, respect and inclusion of people with different abilities in the workplace. The Group's plants employ 242 people with a disability recognised by local legislation.

7.3 Health & Safety

For the Acerinox Group, there is nothing more important than the Health and Safety of people. The commitment to occupational risk prevention extends from Senior Management, with the support of the Board, to each and every employee. Furthermore, this commitment is extended to external workers who carry out their functions at Acerinox facilities, who must assume the measures and requirements implemented by Acerinox.

The Group has health and safety management procedures and systems that contribute to more effective control and prevention of occupational hazards and risks. In addition, teamwork is encouraged through Working Groups with representatives from all Acerinox plants, with the aim of sharing best practices and unifying the Group's safety criteria.

Acerinox continuously monitors the health and safety conditions at the sites where the Group operates. When an incident occurs, the Group implements the various established procedures whose purpose is, firstly, to remedy the incident and, secondly, to study the factors that have led to the incident arising in order to incorporate new measures to prevent it from occurring again. In order to carry out this control and monitoring, tools such as SCAT are used to enable detailed accident investigation.

The Group's different centres have Health and Safety Committees, which represent the entire workforce and have the main mission of supervising and managing the needs in this area, together with providing advice to workers on all matters relating to the prevention of occupational risks. One of the key issues, which is also addressed in these committees, is the training requirement. Safety knowledge makes it possible to work safely and in a healthy environment. Therefore, employees have a duty to know and comply with the standards on occupational health and safety, and to ensure their own safety and that of those around them.

Objective: Reduce the LTIFR indicator by 10% every year

To show its commitment to reducing accident rates, the Group signed a green loan, the interest on which varies according to the achievement of the annual reduction target set. This target was endorsed by the operation's external consultant Sustainalytics, ensuring that this loan was aligned with the '*2019 Sustainability Linked Loan Principles*'. The combined LTIFR x1.000.000 indicator for the Acerinox Europa, North American Stainless, Columbus Stainless and Bahru Stainless factories was 3.75.

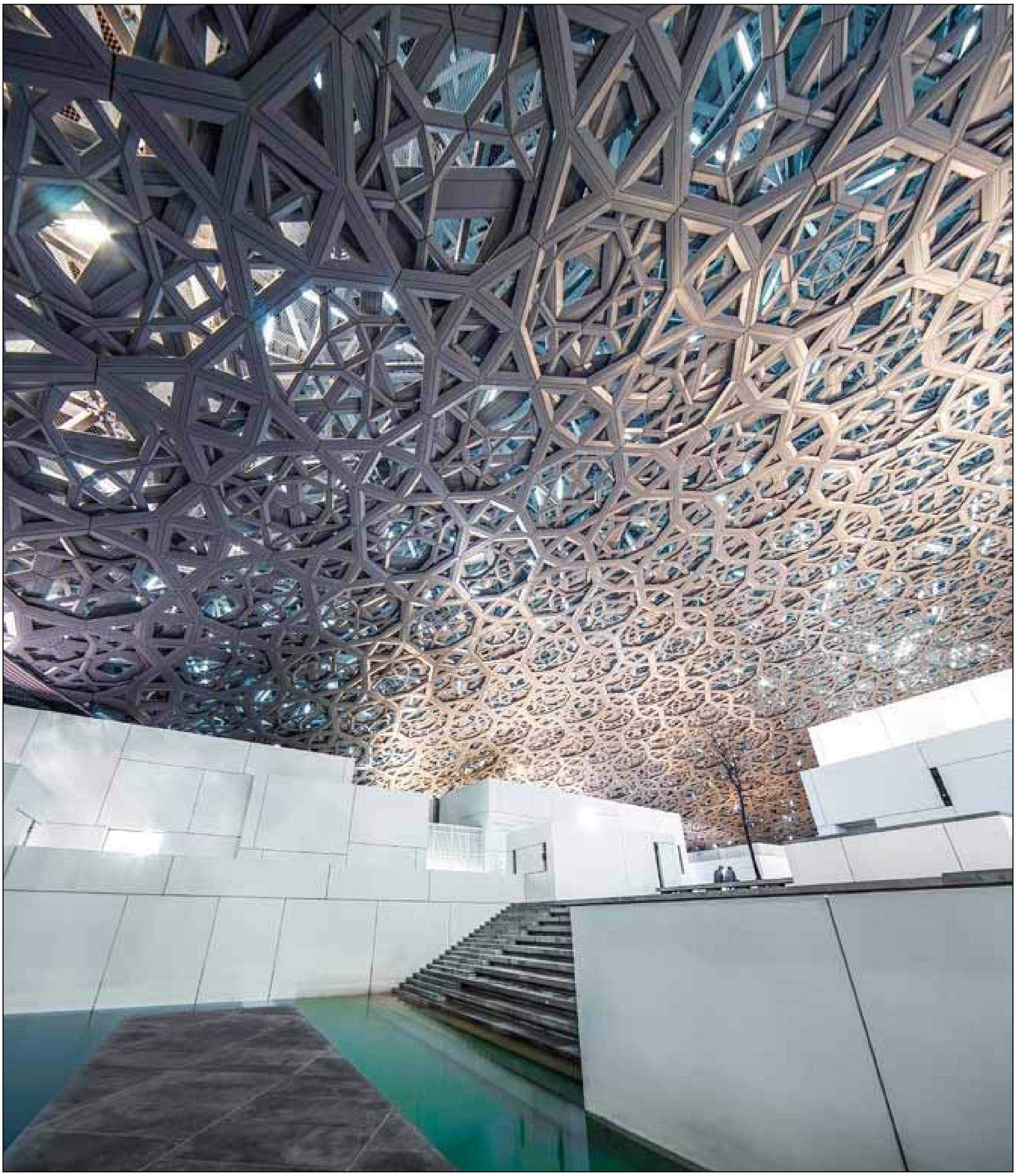
To encourage continuous improvements in safety, senior management and factory managers have a variable remuneration system that is linked to the achievement of a series of accident rate indicators.

Improving the quality of life of employees.

Aware of the difficulty of exercising during the pandemic, Acerinox Europa launched the mobile phone application "AppTC MOVERSE" in line with its "ACero" Zero Accidents programme, offering individualised exercises to work on two pathologies:

1. Backache
2. Overweight / Obesity

As part of the company's adherence to the Luxembourg Declaration and within the framework of the healthy lifestyles and work programmes being implemented by Acerinox, workers are guaranteed regular monitoring of their state of health according to the work-inherent risks.



Roof of the Louvre Museum in Abu Dhabi made of stainless steel supplied by Acerinox

Bahru Stainless factory in Johor Bahru (Malaysia)


ACERINOX

8. Committed to the environment

Acerinox has always invested in achieving maximum efficiency (including eco-efficiency) and in a circular production model aimed at a long life cycle of non-polluting and recyclable products that curb climate change and resource consumption. This commitment is backed by engineers, architects and scientists who recommend stainless steel as the sustainable material par excellence. Testament to this commitment to the environment is the fact that the Group was the first in the sector to link a loan to sustainability targets.

The Group believes that its growth must be linked to a low-carbon economy, to a drive towards a circular economy, and to environmental protection to the highest extent.

This vision is based on achieving an efficient production system at all levels (energy, with low emissions, promoting a business model that is committed to the circular economy, reducing water consumption, etc.). All this is possible thanks to a system of continuous improvement, where performance converges with the internal productivity, competitiveness and environmental objectives.

The identification and management of environmental risks is essential for Acerinox. The 5.5 **Risks and opportunities** section of this report includes more information in this connection. In addition to legislative obligations, the Group's own factories have environmental risk control procedures in place, with the corresponding assessment of probability and severity.

All Acerinox Group factories have an environmental management system according to the ISO 14001 standard.

The Group believes that the innovation and R&D&I strategy must go hand in hand with the environmental challenges in order to manufacture a sustainable product and face all these challenges. Eco-efficient management of production processes, from the source to the end of the product's life cycle, is an example of competitiveness and sustainability.

All Acerinox Group factories have an environmental management system.
* To view the certificates, please refer to page 106 of this report.

8.1 Circular economy

To ensure sustainable growth, it is essential to make efficient use of resources and to promote all kinds of initiatives that contribute to the circular economy, a concept that evolves from a traditional linear economy model to a circular economy model.

Acerinox is a pioneer and a benchmark in terms of the circular economy due to its continuous search for eco-efficiency and the fact that stainless steel can be recycled indefinitely as many times as necessary and without any loss in its properties after the end of its useful life. Thus, this material is an example of recyclability and recoverability in any type of application to which it is subjected. Its long-lasting life cycle together with its ability to remain in good condition in the long-term and the low maintenance it requires, minimises the negative impact on the environment, making it the sustainable material par excellence for engineers, architects and scientists.

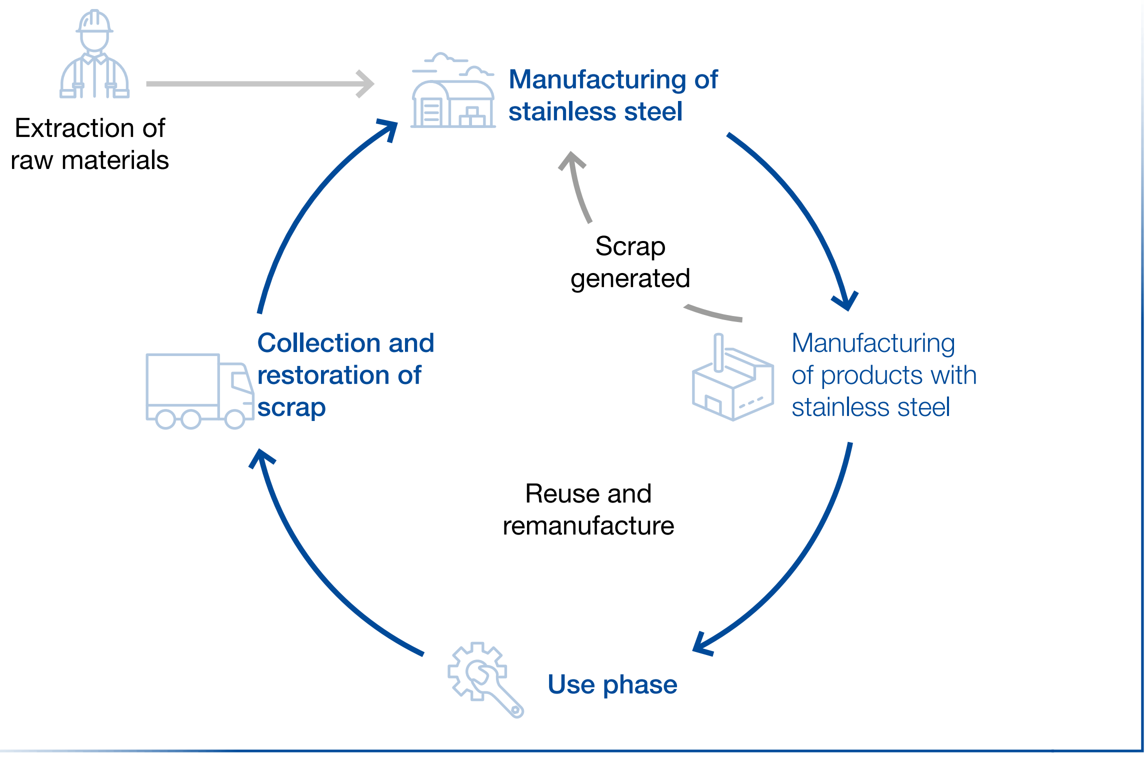
Life Cycle Inventory

Assessing the impact of the product’s life cycle is a great mechanism for raising awareness and promoting the circular economy and waste management. Therefore, Acerinox participates in the “Life Cycle Inventory” study developed by Eurofer (European Steel Association). The scope of the study encompasses the extraction of the raw materials right through to the end of its useful life as a product. This method developed by Eurofer is internationally recognised through the ISO 14040: 2006 and ISO 14044: 2006 standards and enables the quantification of emissions, the environmental impacts generated, the resources consumed, and the possible health-related impacts linked to the products placed on the market.

Life cycle study

Stainless recycling process

Diagram of the circular economy



Stainless steel is a sustainable material by definition. Some of the properties that characterise this material are:

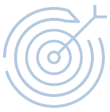
- Reusable
- Recyclable
- Long-lasting
- High performing
- Versatile
- Aesthetically pleasing
- Resistant
- Hygienic

The Acerinox Group supports and strongly believes in the circular economy since, in addition to the environmental contribution, it is an example of efficiency and responsible resource management. For this reason, in 2017 Acerinox signed the Spanish Circular Economy Pact to address the environmental, economic and technological challenges involved. The commitment entails:

- Maintaining the value of products, materials and resources for as long as possible.
- Minimising waste generation.
- Implementing and promoting the recycling, reuse and valorisation of the waste generated.

A testament to our commitment and the results achieved is NAS winning first prize in the Sustainability category at the ISSF Awards organised by the International Stainless Steel Forum (ISSF). North American Stainless was awarded the prize following its development of a project that reuses slag as a building material, turning it into tiles and outdoor paving stones. NAS developed this idea with a company, Truce Global, to which it has already supplied 12,000 tonnes of this material as an alternative to Portland cement; this material is even more resistant than Portland cement.

Sustainability Award Case Studies



Acerinox's objective:

Reduce by 90% the waste sent to landfill by 2030, using 2020 data as a reference point.

Photovoltaic panels made with stainless steel components

Best practices

There are other projects aimed at promoting the circular economy.

- **"ComFuturo" Programme:** Acerinox helps to promote the talent of new researchers by collaborating with the CSIC General Foundation (FGCSIC). This programme aims to encourage and promote the work of young researchers in an area of great interest and concern, the circular economy. Specifically, Acerinox supports a project taking place for the development and valorisation of steel slag, the aim of which is to reuse this waste product as an additive in photocatalytic construction materials.

- **Escorinox-2:** Project fully funded by Acerinox with the Córdoba University. The Escorinox 2 project consists of studying the application of stainless steel slag as a substitute for cement and limestone filler in the manufacture of self-compacting concrete. The results obtained show that the concrete manufactured displays similar mechanical behaviour to that of a traditional self-compacting concrete. The study demonstrated that it is possible to produce self-compacting concrete with up to 50% less cement and with only a 14% reduction in compressive strength, meeting the technical requirements for its application. The next step is to advance the Escorinox-3 project towards full-scale application.

- **Recovery of neutralisation sludge:** The Bahru factory obtained approval from the Malaysian Department of Environment (DOE) for a project regarding the recovery of acid pickling neutralisation sludge for processing into building bricks. This project was in collaboration with the University Technology Malaysia Construction Research Centre (UTM CRC) and Eco Greenbuild Industries. The end product is 100% recycled, of which 70% is acid pickling sludge from stainless steel, clay sludge from the ceramic industry and coal bottom ash from power plants. The remaining 30% is comprised of recycled cement. The product meets the national requirements of Construction Industry Development Board (CIDB) Building Standards and is certified in accordance with the SIRIM MS 2282-3: 2010. The advantages of these bricks compared to conventional bricks include greater uniformity, increased compressive strength, lower moisture penetrability, fire resistance, improved sound insulation and greater dimensional accuracy.

- **Example of the use of slag generated during the stainless steel manufacturing process:** NAS generates large quantities of slag as part of the steel manufacturing process and will continue to produce this waste stream. Once treated to remove the steel, slag is known as aggregate, which has been approved by the Kentucky Division of Waste Management to be used for multiple purposes, such as cement production among others. NAS has been working with a local company to develop products that can be manufactured using aggregates thanks to their cementitious properties.

  For that, NAS is diverting several thousand tonnes as aggregate to this company to develop architectural products. The aggregate is used as an alternative raw-material to sand-based Portland Cement. Geo-polymers are used to physically and chemically encapsulate the aggregate to make a comparable if not more resilient building product. . The final products are various tiles and outdoor paving stones.

  Given that this aggregate-based cold ceramic relies on steel waste as the primary raw material rather than Portland cement, this cementitious material does not contribute to air pollutants such as NO2, SO2, and CO since it does not rely on energy intensive kilns or other firing processes. Similarly, the environmental and social impacts of sand extraction are avoided altogether. Along with the lower ambient air pollution, these products have an 80% lower carbon footprint compared to traditional cement production methods. All products exceed product-based ASTM standards. While finishing this research and development phase, a production facility near NAS is being constructed so that these architectural products can be manufactured using NAS aggregate and be economically competitive with traditional Portland-cement products.

- **Beneficial use of used Tundish lining in NAS:**
Currently the leftover lining of Tundish of the Continuous Casting are being landfilled after the casting sequence has been completed. It is estimated that 90% of the working lining weight remains after each sequence, leading to an average of approximately 200 MT of material being landfilled each month. The linings from the tundish consist of approximately 85% MgO, making it a good alternative source of MgO to use as a slag former in the EAFs. The reuse of this material would reduce our quantity of waste to the landfill and purchases of dolomitic lime.

The host company and community will benefit from this practice because NAS will be reducing the amount of material that is landfilled thus extending the lifespan of the landfill for the community to use. NAS and the employees will benefit by saving money by reducing the number of flux purchases. The total global carbon footprint will be reduced due to the material being calcined once and used twice.

- **Reuse of WWTP sludge in NAS**
Lime stabilised pickle liquor sludge is produced from the neutralisation of pickling acids at Waste Water Treatment Plants (WWTPs). After pressing the sludge to reduce water content, the sludge is sent to a landfill for disposal. This sludge has very high lime content and contains metals from the pickling process.

This waste stream constitutes 89% of the non-hazardous waste at NAS.

First action, NAS set out and continues to search for ways to reduce the quantity of acid used at the mills to reduce the quantity of sludge being generated. Second, NAS still needed to find an alternative disposal technique or use of the sludge. Several years ago, the NAS's lime supplier asked NAS for high lime bearing waste to be used as backfill in their mine to 1) reduce the volume of ventilation required for the mine and 2) to provide stability to the mine's pillars.

After testing and evaluating the sludge characteristics, it was agreed that the most efficient way to introduce the material into the mine was by using an injection well. To this end, the lime supplier was able to obtain an Underground Injection Well Permit to use both WWTP sludge and sediment from a storm water reservoir. The lime supplier will now take our sludge, rehydrate it on their site and pump the material to the areas where it is needed. This material will be mixed with stormwater reservoir sediment and mine overburden to create backfill in the mine.

The location of the mine is a short distance from NAS and will make the beneficial use of the WWTP sludge economically feasible

The benefits of sending the material to the mine is that the material will not be placed in a landfill, but will be providing benefits to the mine from which the lime was originally extracted. The sludge is not hazardous and is below groundwater level so contamination of groundwater will not occur. When this sludge is placed into the mine, less ventilation in will be required, and when significant quantities are in place, it will provide strength to the pillars that support the mine ceilings from collapse.

One of the principles of action established in Acerinox's policy is the optimisation of the management of hazardous and non-hazardous waste. Therefore, the Group sets goals and objectives related to the reduction of waste, the promotion of good practices and the use of those materials that can be recycled.

8.2 Climate change and energy

Climate change

The adoption of measures aimed at mitigating the effects of climate change is part of the sustainable core business at Acerinox and is one of the core principles in the performance of the Group's activities, not only as a company but also due to its products, since stainless steel is a model of the circular economy as it fulfils the four "R"s (Reduce, Reuse, Re-manufacture and Recycle), and it also contributes to the fight against climate change by minimising emissions.

The Group requires all its production centres around the world to comply with environmental standards and regulations that go beyond local legislation, thus helping to alleviate a global problem such as climate change.

The continuous investments in new manufacturing technologies and improvements in the production processes contribute to operational excellence, and they are key in enhancing efficiency and competitiveness and providing excellent opportunities to achieve optimised energy and resource consumption, thus advancing towards carbon neutrality. In addition, since it is a material that can be almost completely recycled on an indefinite basis, stainless steel contributes to lower emission levels than other products made from non-reusable materials.

Acerinox is recognised as a benchmark in the fight against climate change thanks to the emission-reducing measures it puts in place and to minimising the risks relating to climate change.

Stainless steel for the food industry

In 2020 Acerinox signed the steel industry's first loan linked to sustainability targets to partially finance the acquisition of VDM. The financial costs shall be linked to sustainable commitments. Thus, the interest on the loan will evolve according to the company's relative emissions intensity. The Group continues to move towards a more sustainable transition, promoting the creation of shared value and taking into account the social and environmental impacts of its business activities.

Every year Acerinox participates in the CDP report concerning climate change. Acerinox got a B grade that improves that of the previous year, that of the European average and that of the sector worldwide. This "B" ranking is an improvement compared to 2019. Furthermore, Acerinox is a member of the Worldsteel Climate Action Programme, which recognises those manufacturers who collaborate in a programme to collect emissions information.

Acerinox's direct emissions are 30% lower than the stainless sector average, according to the International Stainless Steel Forum (ISSF).

The European Union recognises that companies that are committed to the circular economy, such as Acerinox, are fundamental in the fight against climate change.

Acerinox direct emissions:

0.31 Tn CO2 / Tn produced vs 0.44 Tn CO2 / Tn of ISSF

Commitments and objectives

- Acerinox reaffirms its commitment to achieve climate neutrality by 2050.

This commitment aims to prevent the global average temperature increase from exceeding 2°C in line with the Paris Agreement (COP21).

- Reducing GHG emissions intensity (Scope 1+2) by 20% by 2030, using 2015 data as a reference point

The greenhouse gas emissions are verified annually by an external body accredited according to ISO 14.064. Furthermore, Acerinox Europa and VDM form part of the EU CO2 Emissions Trading System (EU ETS)

Even with the incorporation of VDM into the Group, in 2020 total CO2 equivalent emitted was 4.44% lower than in 2019, evidencing the continuous improvement in this area. In relative terms, and despite the pandemic's impact on production with the hiatus of certain factories, the stainless steel division's intensity also improved by 1.76%.

The commitment to reduce greenhouse gases also extends to all other atmospheric emissions. Acerinox is working to reduce its emissions of nitrogen oxides, volatile organic compounds and particulate matter.

The plants have catalytic towers where nitrogen oxides are converted into molecular nitrogen, thus minimising these emissions.

Energy

The production of stainless steel requires large volumes of energy and electricity, which is why Acerinox is known as an electro-intensive company.

When competing in international markets, the efficient use of energy is a differentiating factor, both competitively and sustainably. This requires comprehensive controls and monitoring methods for all processes. Acerinox is committed to incorporating the most advanced technologies and systems to achieve efficient energy consumption, thus avoiding the intrinsically associated emissions, constituting a strategic criterion in the investments and acquisitions made in its facilities.

Award winners

Testament to this vision that defines the Group is the bronze award received by Acerinox Europa in the sustainability category from the International Stainless Steel Forum (ISSF) after justifying a reduction of 480180 KWh of energy per year.

Kitchen furniture with stainless steel components

Long-term objectives of the Sustainability Strategic Plan

- **Reduce the Stainless Division's energy intensity by 7.5% by 2030, using 2015 as a reference point for the calculation.**

The Acerinox Group is opting for renewable energies. In 2020 3 PPAs came into force in Acerinox Europa with capacities of 9.48 MW, 8.8 MW and 6 MW together with the corresponding guarantee of origin.

The Group's total energy consumption decreased by 2.14% compared to 2019, demonstrating its ongoing commitment to improving energy efficiency. Acerinox Europa has the ISO 50001 energy management system, the purpose of which is to ensure continuous improvement in energy efficiency.

Acerinox, a pioneer in renewable hydrogen

Hydrogen is set to be a key energy driver for decarbonisation, especially in the metal industry.

Acerinox closely follows all the advances and regulatory frameworks that may affect the development of this technology both at European level (through the European Green Deal and the European Hydrogen Strategy that falls within the aforementioned framework) and at national level in Spain (Integrated National Energy and Climate Plan, the Climate Change and Energy Transition Act, and the Hydrogen Roadmap).

- Investment in initiatives designed to improve production efficiency and reduce emissions: **€ 5,770,775**
- Environmental expenditure: **€ 91,083,692**

Best practices

There are currently several projects relating to the use of hydrogen in different processes under review and in the early stages.

1. . Replacement of grey hydrogen (ammonia cracking) used in BA finishing towers with green hydrogen

2. Replacement of natural gas with hydrogen

   a. Seek to secure the supply of green hydrogen through the consortium created with other companies to form part of the European restructuring and recovery funds, Next Generation. The project report is being finalised. The document approved by the Spanish government, "Hydrogen Roadmap: a commitment to renewable hydrogen", identifies the San Roque-Los Barrios area, where the Acerinox Europa factory is located, as one of the possible centres or industrial clusters for the production of green hydrogen.

   b. The first tests for the substitution of natural gas as a fuel were initiated. Tests began at the Acerinox Europa factory where a mixture of natural gas and hydrogen was used to test its performance.

Coil with BA finish in the NAS factory in Kentucky

8.3 Water consumption management

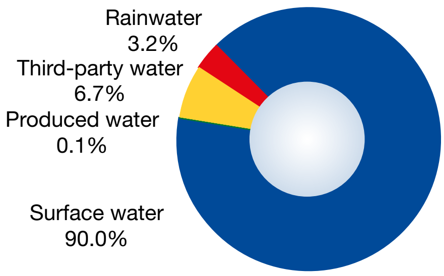
Water is an essential resource and, therefore, its appropriate management is one of the main environmental challenges. To guarantee responsible and sustainable use, Acerinox has water recirculation systems in its plants, as well as treatment systems to return as much water as possible to the environment in the same or better condition, in terms of purity and quality, than when first collected.

Since Acerinox has factories in South Africa and Spain, which are water-scarce areas, the Group reinforces its measures to secure the necessary water (for example, in times of drought) while also facilitating access for use by local communities.

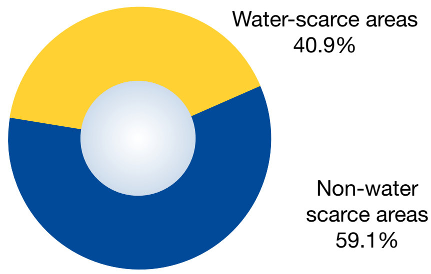
In this regard, in 2020 Acerinox continued to improve the indicators related to water consumption, as detailed below:

Distribution of the total water withdrawn by source: 9,049,899 m3 in 2020.

4.3 % reduction in withdrawn water compared to 2019

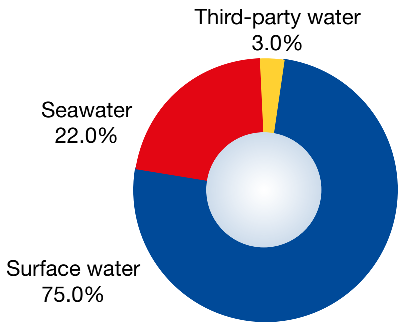


Distribution of the total water withdrawn in water-scarce/non-water scarce areas:

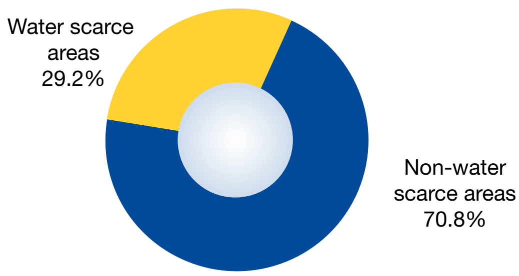


Distribution of the total water discharged by discharge destination: 5,575,011 m3 in 2020.

2.8% reduction in discharged water compared to 2019



Distribution of the total water discharged in water-scarce/non-water scarce areas:



The water in our factories

Acerinox Europa:

The factory seeks to constantly recirculate the water used, and discharges wat cannot be recirculated into the Algeciras Bay. Acerinox Europa exhaustively monitors a large number of parameters is carried out at all times to ensure that the water discharged into the environment complies with the properties established by the Integrated Environmental Authorisation. To this end, the water is pre-treated by processes such as flocculation, decantation and neutralisation.

North American Stainless:

The water withdrawn for use in the factory originates from the Ohio River. Prior to use, the water is treated with polymers and undergoes various filtering processes to remove solid particles. Rainwater is also collected.

Throughout the process, the water is reused as many times as possible until its characteristics are no longer suitable for further use in the production of NAS' products. One example is reusing the water from the pickling lines for the subsequent production of acid or caustic products. The final effluent water is discharged back into the Ohio River in the same or better conditions, thus avoiding any possible environmental impact. All this is possible thanks to real-time monitoring of a large number of parameters that define water quality.

Columbus Stainless:

The South African factory is located in a water-scarce area. Therefore, adapting to this scenario requires a great deal of effort to raise awareness and implement measures to prioritise water use.

1. The factory's water is reused as much as possible thanks to the effluent treatment plant where processes such as reverse osmosis and evaporation are applied. Also, in line with our circular economy vision, the concentrated brine is sold as a calcium nitrate product.
2. In order to use water in a sustainable manner, reservoirs were constructed to collect rainwater during the wet season to supply the factory.
3. Use of water from the municipal network. Columbus Stainless is a member of an association that promotes measures for the sustainable and efficient use of water resources (*Upper Olifants Catchment Management Forum*). In addition, the principle known as Zero Effluents is applied.

Reservoir for the storing of rainwater at the Columbus factory

Bahru Stainless:

Water is withdrawn via artificial reservoirs located close to the factory. These reservoirs are fed by rainwater, so the water passes through a treatment plant before use. Before the water is discharged, it passes through the waste water treatment plant located inside the factory to ensure that the final effluent meets the A standard according to local legislation (National Environmental Legislation Requirements).

Roldán:

The water used in the industrial processes comes from the Sil River thanks to the authorisation provided by the Miño-Sil Hydrographic Confederation. In addition to this withdrawal source, rainwater is also collected through pipelines and directed to the treatment plant. One measure to improve efficiency is the implementation of closed circuits, so that after the water has been used in the processes, it can pass through the treatment plant to remove suspended solids and any remaining grease or oil through processes such as neutralisation and filtering. The water is discharged into the sewage system and into the Sil River. Both discharging processes are monitored to measure their qualities and improve them through neutralisation and flocculation processes.

Inoxfil:

The water consumed comes from the public network that serves the industrial estate where Inoxfil is located. The water entering the factory is subjected to a descaling process There is also a physical-chemical treatment plant that treats the water from the surface treatment processes. The effluent is discharged into the municipal sewerage system after it has been treated through processes such as coagulation and flocculation at a connection point where the process water, sanitary water and rain water converge.

VDM:

The main processes to which the water is subjected in the various VDM facilities include neutralisation with lime, flocculation, sedimentation tanks and filtration.

Hong Kong–Zhuhai–Macau Bridge with reinforcing stainless steel supplied by Roldan, S.A.

Water quality

The Group's factories have strict measures in place to prevent, avoid and act should other discharges or spillages arising from the storing of other substances occur.

The factories have neutralisation plants for treating acidic and basic waters, as well as emergency dams to prevent discharges into the environment and other safety instruments to eliminate any potential spillages. The tanks are equipped with a permanent secondary containment mechanism, as well as cleaning and emergency shutdown services.

In order to remain faithful to the principle of continuous improvement, Acerinox has set itself the goal to:

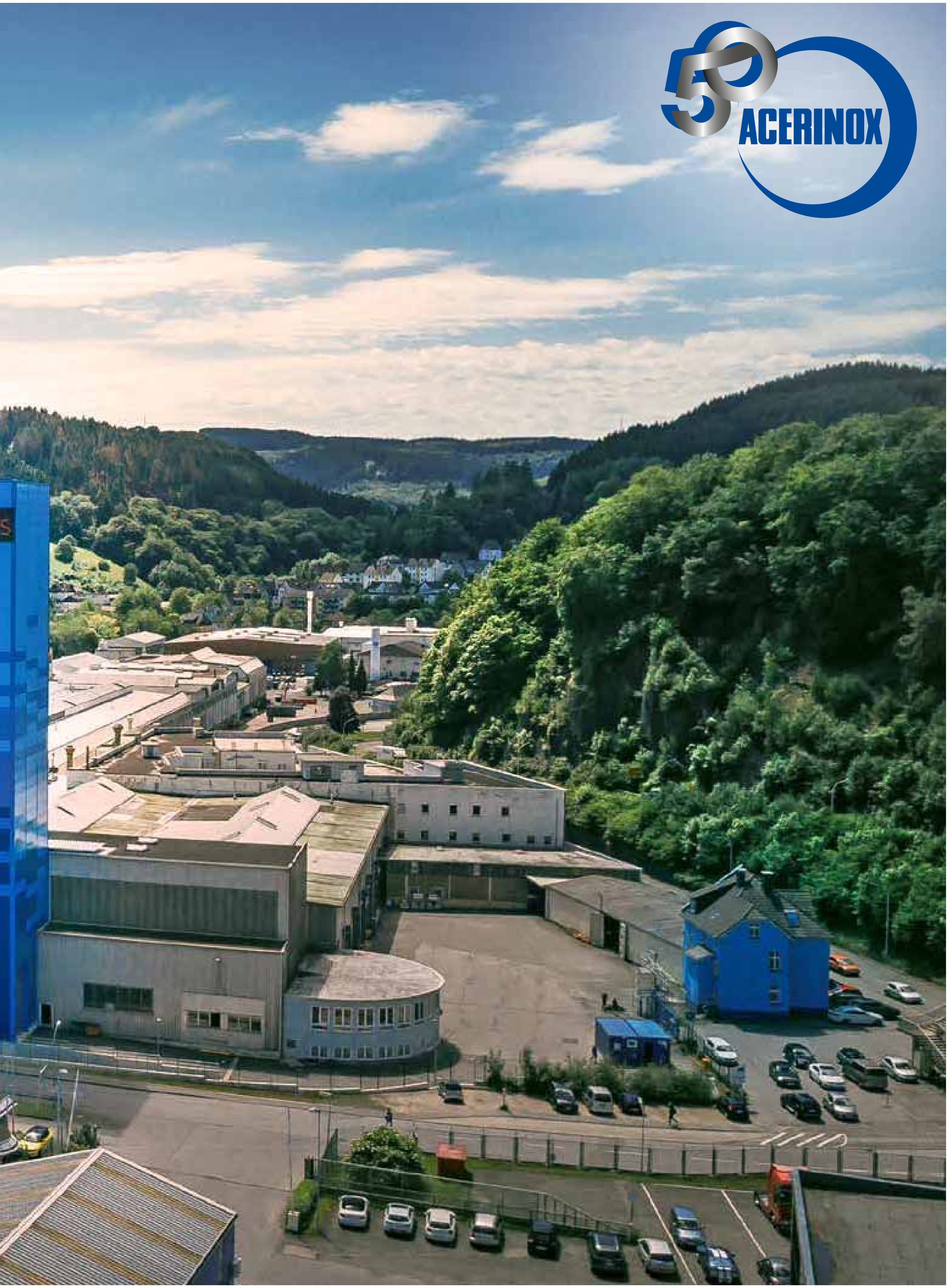
Reduce the Stainless Division's specific water withdrawal by 20% by 2030, using 2015 as a reference point

Biodiversity

Study of the non-native species rugulopteryx okamurae in the Algeciras Bay.

Acerinox supports the research being carried out by the University of Seville to determine the distribution of the Asian species rugulopteryx okamurae along the coasts of the Algeciras Bay. Localising the species in each of its different stages will not only allow us to restrict the area occupied by it in its non-native range, but also to reflect the diversity of impacts that it can generate in local communities.

VDM Metals factory in Werdohl (Germany)


ACERINOX

9. Committed to innovation and the digital transformation

Faced with the new challenges brought about by the digital transformation, the Group continues to make progress by reinforcing its long-standing commitment to innovation as a guarantee of competitiveness and sustainability. Cutting-edge investments in digitalisation, minimisation of environmental impacts, progress in safety, optimisation of the supply chain and improvements in the production process and product quality always offer an economic return, an increase in productivity and an increase in reliability that drive sustainable growth. In order to maintain and improve its market position, Acerinox has the firm intention of approaching both the digital transformation and the sustainable transformation with determination and at the same time.

9.1 Innovation strategy

9.1.1 Investments in fixed assets

In 2020 the Group's companies focused their investment efforts on new equipment and on the maintenance and improvement of existing equipment, amounting to €101.6 million. This area was affected by the situation caused by the pandemic.

At Acerinox Europa, investments were made for the installation of canopy hoods in the roofs of the melting shop warehouses to reduce diffuse emissions, and for the completion of the temporary waste storage facility. Both of the aforementioned have had a very positive environmental impact on the factory's production process. A ladle furnace was installed in the melting shop, which, in addition to offering an environmental improvement, will also optimise the production process. A new coil marking robot was installed in the hot rolling mill to improve product traceability, and furnace closing rollers and an automatic inspection system was installed in the cold rolling mill to improve the quality of the process.

At NAS, investments were made to maintain existing equipment, upgrade some of the plant's production lines and improve safety in various areas of the plant. Numerous upgrades took place in the melting shop, including that of several electrolytic pickling tanks and the pickling upgrade project, which will be completed in 2021. In addition, a number of line inspection and quality control tools were added to improve product and process quality.

Columbus Stainless made investments in projects such as the ladle furnace, the expansion of the raw material storage and the investment in energy-saving technology in the Electric Arc Furnace and extraction fans for in-plant production.

The Bahru plant's investments were mostly for the maintenance and renovation of the factory's production units.

In VDM Metals, investments enabled the continuous casting unit at the Unna plant to be upgraded. In addition, thanks to these funds, a new welding robot was installed at the Altena plant and wire cleaning equipment was installed at the Werdohl plant to improve product quality. Moreover, laboratory equipment in all facilities and fire prevention equipment in the plants were upgraded.

At the Roldán plant in Ponferrada, Spain, investments were made in maintenance, aimed at consolidating the plant's competitiveness. Two automation projects were completed: a cold-rolled round bar packaging line and the complete automation of the cold rolling processing line for anglebars and reinforcing ribbed bars.

The Group‘s total investments in fixed assets:

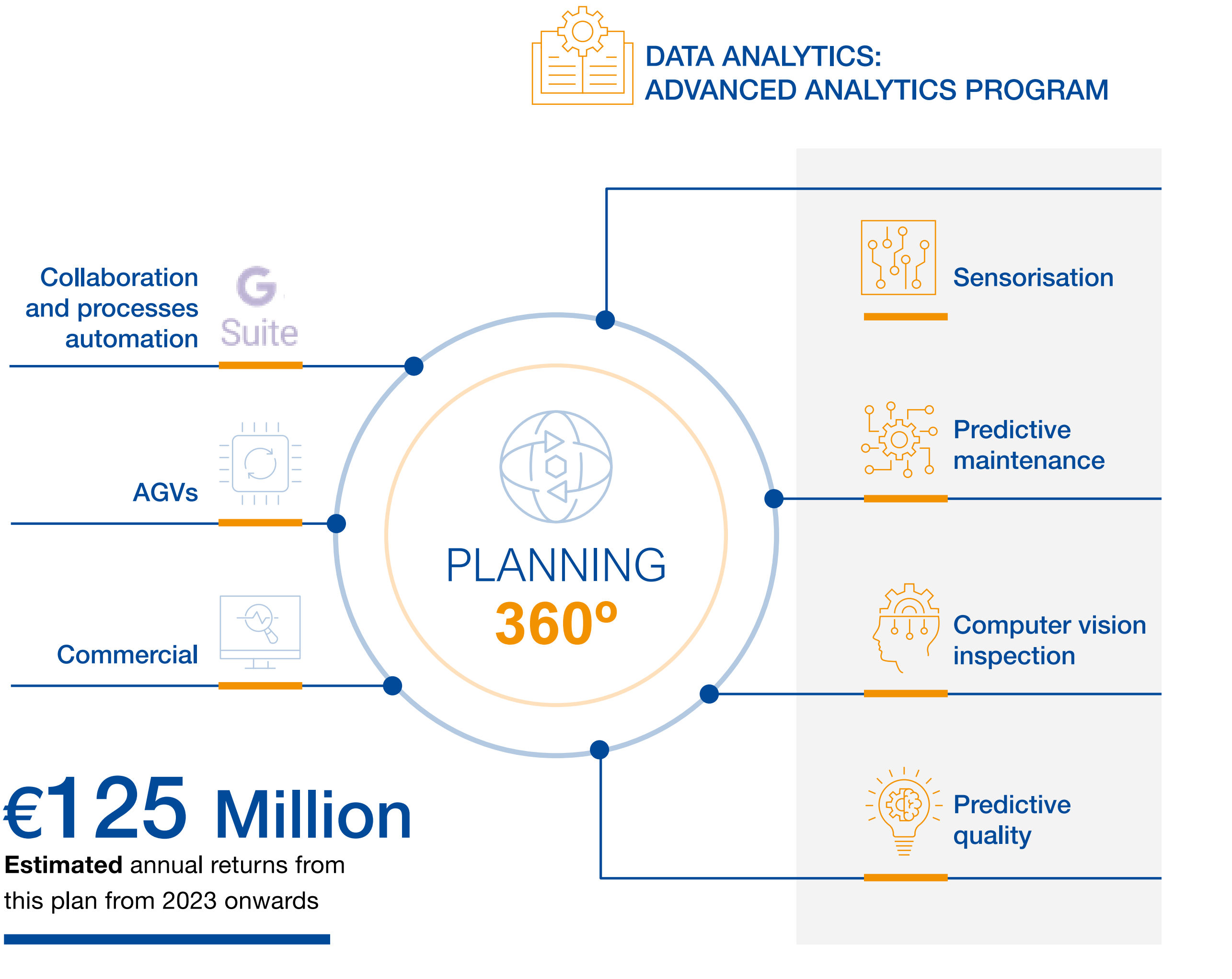
€101,579,489

Oil refinery

9.1.2 Excellence 360°

In 2020 Acerinox strengthened its multidisciplinary Excellence 360° strategy, which includes all the projects that make up the company's Digital Strategy.

The main objective of Excellence 360° is to optimise the entire supply chain, from the moment an order is received to the moment it is delivered to the customer. EBITDA returns of EUR 125 million are expected annually from this plan from 2023 onwards, with an increase in process reliability and productivity, an optimisation of the stock and delivery process, an improvement in margins and an optimisation of the raw material mix during procurement. This project positions Acerinox at the forefront of an increasingly competitive market.



Excellence 360° consists of three major projects: firstly, 360° Planning, secondly, the Advanced Analytics Program; and thirdly, Process Automation and Robotisation. In 2020 projects continued to take place in each of these areas:

1. **360° Planning:** Implementation of a finishing shop and transport optimisation tool, as well as a Group-wide demand planning tool.

   Meanwhile, the second phase of the project was launched to optimise the planning of the cold rolling mill.

2. ***Advanced Analytics Program:*** This program responds to the strategic approach of data-driven decision making. The program's methodology consists of training teams in data analysis through actual use cases that have a direct impact on Operational Excellence.
   In 2020 three use cases were launched, with an impact of EUR 1.3 million on the profit or loss.

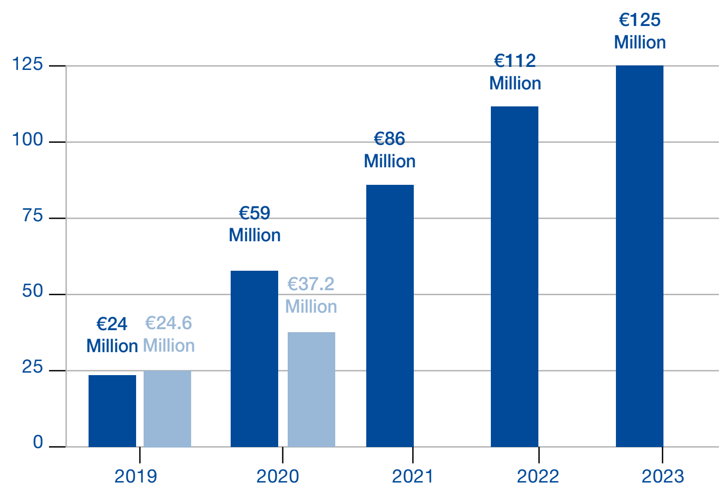
   - Predictive model to optimise the stainless steel melting process, with a positive environmental impact by reducing electricity consumption.
   - Predictive models for the reduction of quality defects in the hot rolling mill.

   As a result of the implementation of this program, new sensors continue to be identified and installed to capture data to improve predictive models.

AGVs Video

3. ***Process Automation and Robotisation:*** Deployment of Autonomous Guided Vehicles (AGVs). These vehicles are capable of transporting 90 coils every day, covering 108 kilometres permanently outdoors. These vehicles are constantly moving, facilitated by its autonomous battery change, allowing for increased flexibility; process automation; the elimination of administrative procedures and tasks with no added value, as well as real-time stock updates.

In the second year of Excellence 360º Acerinox obtained savings estimated at more than EUR 37 million, representing 30% of the total scope.



In 2020, a new edition of the Connected Industry Forum was launched, for which Acerinox is a patron together with other relevant industrial and technological companies. It is a privileged forum where experiences on all topics related to the Connected Industry are shared. In 2020, the main topic was how to implement advanced computer vision in the industry, digital twins and the role of the person in the whole Digital Transformation process.

In 2020, Acerinox Europa won two awards thanks to its ‘Autonomous Logistics’ project, through which the factory implemented Autonomous Guided Vehicles (AGVs): the 5th ‘Impulse for Connected Industry’ award and the ABB Ability Digital Award. In the Impulse for Connected Industry award, organised by the Industry 4.0 Observatory, Acerinox shared the prize with a Grupo Antolin project, beating more than 30 candidates. The award finalists also included the ‘Electric Arc Furnace Optimisation’ project developed at North American Stainless. The second award received was the prestigious ABB Ability Digital Award, which aims to highlight and recognise public and private entities that are committed to the development and application of digital technologies to improve business competitiveness and sustainability.

9.1.3 R&D&I

The Acerinox Group considers its commitment to Research, Development and Innovation as a fundamental element in the way it produces and markets its products. The increasingly competitive reality makes it even more necessary to offer customers solutions with strong value added. In this regard, all R&D&I actions are aimed at promoting and developing new production elements, implementing improvements in production lines, developing new types of steel and/or finishes, improving quality and digitalisation, and automating and/or controlling the production process. All the aforementioned is aimed at supporting the sustainable growth of the Group and increasing its productivity and efficiency, thus making it more sustainable, as well as reducing costs.

The Group has laboratories and systems in all its factories with the objective of continuously improving both the production process and the product itself. To this end, the Group is committed to investing in order to achieve new applications, thicknesses, textures, glosses, efficiencies, savings and improvements in sustainability. This will arise through new tools such as lasers, high precision cameras, infra-red cameras and the most sophisticated technological advances to apply to production processes in each of the workshops.

With the incorporation of the company VDM Metals, the Group has gained experience in Research, Development and Innovation. The German firm is synonymous with innovation and experience, proximity to customers and efficiency. The firm not only seeks to develop new materials, but also to detect hidden performance potentials in alloys that are already on the market and that can be prepared for further applications. Experts from the research and development sector accompany the projects until the customer’s qualification. In this way, solutions are created that will be applied not only to new products, but also to innovative techniques and processes. The close work between the manufacturer and the customer allows, on the one hand, the knowledge of the needs and particular characteristics of the customer, knowing exactly what they demand; and on the other hand, the implementation of a very specific production process, aiming to meet these needs and giving the final product strong value added.

Acerinox Rafael Naranjo awards

As in previous years, Acerinox reinforces this desire for innovation with a series of awards for innovation projects that stand out. Acerinox Europa, NAS and Columbus (the Group's integrated factories) hold the Rafael Naranjo awards ceremony every year. As a result of the pandemic, in 2020 these awards could not be held at NAS or Acerinox Europa. However, the 2nd edition of the Rafael Naranjo awards was able to be held at the Columbus factory, which rewarded four projects aimed at improving business development and occupational health and safety. On the other hand, the V Acerinox prize, was awarded to Celeste Villarroel Kristiansen, a student at the High Technical School of Architecture of Madrid. The highly innovative project presents a stainless steel architectural envelope over buildings, which is further proof of the product's multiple capabilities, with an elegant design.

In addition to research and internal promotion, Acerinox collaborates with different public bodies and institutions, as well as universities, in promoting these subjects. In the search for different alloys or the expansion of the applications for the use of stainless steel. Acerinox maintains close collaboration with the Spanish Ministry of Industry through the CDTI (Centre for Development) and the Higher Council for Scientific Research (CSIC).

2020 R&D&I investments	
COMPANY	AMOUNT
ACERINOX EUROPA, S.A.U.	6,600
NAS	2,743
COLUMBUS	439
ROLDAN	1,750
Inoxfil	450
VDM	5,300
Group total	**17,282**

Thousands of euros

Rafael Naranjo award ceremony for Columbus factory staff

10. Committed to the supply chain

To ensure efficiency excellence, Acerinox is a "responsible buyer" that approves, contracts and assesses its suppliers with ethical, social and environmental criteria. Nevertheless, 2020 was a year for maintaining our "sustainable customer" ethos by supporting the supply chain's turnover and employment, paying special attention to local suppliers.

10.1 Suppliers. Responsible procurement

Suppliers and supply chain

The crisis caused by the pandemic once again highlighted the importance of Acerinox's role as a stable generator of the production system and economic sustainability. In this regard, a total of 8,255 suppliers worldwide (2,881 more than in 2019, due mainly to the incorporation of VDM Metals) were able to service a company considered an essential activity, allowing them to maintain their historical turnover at a time of great instability.

Almost two out of every three suppliers (64%) were local companies, 25 percentage points more than in 2019. In other words, companies that operate in the areas where Acerinox production centres are located, which highlights the Group's commitment to the generation of wealth and social fabric in the areas where its factories are located, in addition to further assurance of supply in case of disruption of global trade.

Procurement management

As part of its business strategy, one of Acerinox's objectives is supply chain planning and management, in its commitment to improving operations in the acquisition of raw materials and goods and in the evolution towards production systems based on more efficient models.

In its procurement management model, Acerinox establishes a number of general common guidelines for all the Group's subsidiaries, which in turn develop their own procedures to control and guarantee a supply chain that meets the requirements demanded by the Group and the legal and regulatory standards. To this end, the supplier selection processes are based on the principles of openness, equality and transparency, promoting among its suppliers the same principles that inspire the Group as a responsible company.

It is worth mentioning the product liability risk. The Group has a public and transparent procedure for the accreditation of suppliers to ensure compliance with quality standards.

Ethical, environmental and social principles are reflected in the approval processes, as well as in the:

General Terms and Conditions

Code of Conduct

* This report integrates the Management Report, the Sustainability Report and the Statement of Non-Financial Information.

Both documents, available on the Group's website, establish the performance that the Group expects from its suppliers.

Acerinox has different processes to control the sustainability and responsibility of its suppliers.

Accreditation

Suppliers must comply with the requirements defined by each factory in matters such as the environment, health and safety and labour practices, and their activity must be compatible with international declarations of Human Rights. In addition, the suppliers must be aligned with the 10 Global Compact Principles.

General Terms and Conditions

These terms and conditions, which must be accepted by the supplier, include labour contracting and compliance with tax and labour legislation (for which they must provide evidence), respect for the environment, contribution to sustainable development and innovation in products and processes.

Periodic assessments

These assessments check that quality, environmental, health and safety and hygiene requirements are maintained. This rating will make it possible to confirm or reject the level of confidence granted by the accreditation. In 2020 no supplier audits took place. Inspections are carried out at the suppliers' premises throughout the year to confirm compliance with good practices linked to the corporate responsibility strategy.

Cloud Gate sculpture in Chicago, made of NAS stainless steel

11. Committed to the community

Coronavirus has had a very serious impact from a socio-economic point of view on a global scale. Acerinox has therefore strengthened its commitment to the vulnerable groups through its social action and has not neglected its relationships with associations and academic institutions through which it manages and develops the Group's future, nor has it neglected its tax obligations. All this is to promote the advancement of the economy and the society of the communities in which the Group operates.

11.1 Social Action

Commitment as a Group

In 2020, the world was affected by the COVID-19 pandemic. The Acerinox Group's Social Action was also involved, trying to mitigate the effects of the pandemic on people's health with social and labour measures. It is worth highlighting the efforts of the whole group to maintain as many jobs as possible.

The crisis has also brought about a time of opportunity. On a social level, and also in the Acerinox Group, the necessity to look more carefully at the different needs that were previously less apparent arose. The difficult circumstances we have experienced as a society, the health of employees and their families, the possibility of working from home, and the complexity of enduring this uncertain period have posed a series of challenges that will help us to face the future with a desire to improve our surroundings with even more strength if possible.

In the specific actions carried out by the Group (institutionally or through its employees), it is possible to highlight different areas that summarise these actions, either directly or through funding. Actions aimed at benefiting health; actions relating to education; and other actions in relation to sustainable growth and the eradication of poverty. In total, investments of approximately €770,000 were distributed.

The Acerinox Group against COVID-19

+60% of the social action was carried out by the Group

+ than €470,000 earmarked for aid

Diversity of the aid provided to local communities where the Group operates.

Healthcare supplies, direct aid and donations to organisations to alleviate the effects of the pandemic.

Shareholder remuneration	Taxes paid	Personnel expenses	Social Action	Direct economic value generated	Economic value distributed
€135 Million	€99 Million	€508 Million	€770 thousand	€4,720 Million	€4,557 Million

Pedestrian walkway in Singapore

2020 main initiatives

In 2020 the main initiatives carried out by the Group and their relationship with the sustainable development goals were as follows:

ACERINOX	Collaboration with NGOs such as Cáritas.
VDM Metals	Collaboration with the Balthasar Hospice for children and young people
NAS	Support to the Carroll County Ministerial Association, providing funds and Christmas gifts for children, as well as contributing to the needs of the association.

Support to COVID-19 aid programmes.
Sponsorship of the Association for a Smile Project.
Collaboration with local sports schools and sponsorships.

Support to COVID-19 aid programmes.
Support to medical and social organisations that contribute to programmes such as suicide prevention and fibrosis.

Support to COVID-19 aid programmes.
Collaboration with NGOs in social action work with specific programmes to combat AIDS.

Collaboration with health programmes in Königsborn.

Support to various associations that promote education at all levels. Providing financial or leadership development assistance.
Support to the Employee Tender Loving Care Group, a Foundation that helps unemployed people find jobs.

Donation of stainless steel from our production processes for local buildings such as churches and schools.

The Broad-Based Black Economic Empowerment programme (B-BBEE) to integrate the black community into the dynamics of employment and economic growth.

Sponsor of Ohio Valley United Charities, which contribute to various programmes, such as child abuse prevention.

Socio-cultural collaborations in favour of the community, for example with neighbourhood associations.

Support to local businesses through commercial space, security, water and electricity.

Bottle top repository and the sign lettering of Los Cortijillos Nursery and Primary School

Collaboration with the Ohio River Foundation for education on and preservation of the river’s resources.

11.2 Collaboration with higher education

One of Acerinox's most significant social contributions is its collaboration with educational entities, specifically with universities.

Acerinox has partnership agreements with more than 20 universities and vocational training centres, thus helping to identify and develop the talent of the new generations of future professionals, who are key to the industry.

Acerinox Europa	
Universidad de Cádiz (UCA)	Universidad Complutense de Madrid
Universidad de Sevilla (US)	Universidad Internacional de la Rioja
Universidad Pablo de Olavide	Universidad Pontificia de Comillas
Universidad de Málaga	Universidad Politécnica de Barcelona

Acerinox S.A	
Universidad Carlos III	Universidad Pontificia de Comillas
Universidad de los Andes (Bogotá)	Universidad Rey Juan Carlos
Universidad Complutense de Madrid	
Universidad Politécnica de Madrid	

Bahru Stainless	
SEGI Univeristy Kuala Lumpur	

Columbus Stainless	
University of Pretoria	University of Cape Town

North American Stainless	
University of Kentucky	University of Louisville
University of Cincinnati	Jefferson Community and Technical College in Carrollton

Roldán	
Universidad de León	Universidad de Santiago de Compostela
Universidad de Salamanca	Universidad de Oviedo
Universidad de Valladolid	Universidad Pompeu Fabra
Universidad de La Coruña	

VDM	
University of Pittsburgh	University of Science and Technology Beijing
University of Oxford	Friedrich-Alexander-Universität Erlangen-Nürnberg
Monash University in Melbourne	Ruhr-Universität Bochum

11.3 Collaboration with associations

An important contribution of the Group involves the various associations to which it belongs or with which it collaborates directly. The main associations, by company, are the following:

Acerinox Europa/Acerinox S.A.

International Stainless Steel Forum (ISSF)
European Steel Association (EUROFER)
Fundación Consejo España-USA
Unión Nacional de Empresas Siderúrgicas (UNESID)
Asociación de grandes industrias del Campo de Gibraltar
Asoc. para la investigación y desarrollo del Acero Inoxidable (CEDINOX)
Real Instituto Elcano Asociación de Empresas de Gran Consumo de Energía (AEGE)
Asociación Instituto de Auditores Internos
Instituto de Ingeniería de España
Red Española del Pacto Mundial de las Naciones Unidas
CDP Worldwide (Europe) Gmbh
Iniciativa Gerentes de Riesgos (IGREA)
Asociación para el Progreso de la Dirección (APD)
Círculo de Empresarios Asociación de Emisores Españoles
Hispanic-Malaysian Business Association
Asociación de Empresas Gran Consumo de Energía
Círculo Empresarios
SERES, Fundación Sociedad y Empresa Responsable
Universidad Comillas
Asociación Española de Codificación Comercio
Instituto de Oficiales de Cumplimiento
Instituto de Ingeniería de España

Bahru Stainless

Malaysian Iron & Steel Industry Federation (MISIF)
Federation of Malaysian Manufacturers (FMM)
Malaysian Employers Federation (MEF)
Malaysian International Chamber of Commerce & Industry (MICCI)
Malaysian Steel Institute (MSI)
International Stainless Steel Forum (ISSF)
Spain Malaysian Chamber of Commerce

Columbus Stainless

South African Stainless Steel Development Association (SASSDA)
Manufacturing Circle
South African Iron and Steel Institute (SAISI)
National Association of Automotive Component and Allied Manufacturers (NAACAM)
Steel and Engineering Industrial Federation of South Africa (SEIFSA)
Middelburg Chamber of Commerce (MCCI)
International Stainless Steel Forum (ISSF)

Columbus Stainless

Mpumalanga Stainless Initiative (NPO)
Steve Tshwete Local Municipality Local Economic Development Forum
Spain South African Chamber of Commerce

North American Stainless

American Iron and Steel Institute
Employers Resource Association
Concrete Reinforcing Steel Institute
Kentucky Chamber of Commerce
Carroll County Chamber of Commerce
Northern Kentucky Chamber of Commerce
Kentucky Association of Manufacturing
National Association of Manufacturers
Metal Service Institute
Central Ohio River Business Association
Kentucky Industrial Utility Customers
Kentucky Excellence in Environmental Leadership
International Stainless Steel Forum
US Chamber of Commerce
World Steel Association
ASTM Standards Committee
National Association of Corrosion Engineers
SASFT (Strategic Alliance of Steel Fuel Tanks)
American Institute of Steel Construction
Precision Machining Technology Association
National Shooting Sport Federation (Barrel and Component Manufacturing)
World of Concrete (Rebar)
National Transportation Product Evaluation Program (Rebar)

VDM

Wirtschaftsvereinigung Metalle / GDB
Wirtschaftsvereinigung Stahl
Stahlindustrie VDeH
Deutscher Verbund für Schweißen und verwandte Verfahren (DVS)
Bundesverband der Deutschen Luft-und Raumfahrtindustrie (BDLI)
Gesellschaft für Korrisionschutz e.V.
National Association of Corrosion Engineers (NACE)
Material Technology Institute (MIT)
AMCHAM - American Chamber of Commerce in Germany

11.4 Tax action

The Tax Policy of Acerinox, S.A. and its Group of Companies consists mainly of ensuring compliance with the applicable tax legislation and ensuring adequate alignment of the policy adopted by the entities belonging to the Group for which the Parent, as established by law, is Acerinox, S.A., thus avoiding tax risks and inefficiencies in the execution of business decisions.

This policy, available on the corporate website **www.acerinox.com**, addresses the Principles, Good Tax Practices, Monitoring and Control, Dissemination and Updating of the Corporate -Tax Policy and the Group's commitment to the tax authorities. The management and responsibility of the Acerinox Group's tax matters lies with the Head of Tax.

The tax policy of Acerinox can be downloaded via the following link:

Public subsidies received in 2020 (Thousand Euros)

	2020
R&D	252
Environmental	2,307
Allocation of CO_2 rights	5,793
Subsidies due to COVID-19	2,218
Training	372
Other	0
Total	10,942

Stainless steel anchor

Profit/ Loss before tax and tax paid by country (Thousand Euros)

Country	Profit/Loss before tax	Income tax
Spain	592,371	-4,213
The US	300,240	94,031
South Africa	-27,091	48
Malaysia	-92,137	57
Canada	5,435	1,579
Mexico	3,198	666
Portugal	77	127
France	189	281
Germany	20,042	1,869
Italy	2,013	2,923
The UK	797	112
Sweden	-210	0
Switzerland	-338	3
Austria	748	50
Poland	1,017	335
Chile	457	0
Argentina	366	14
Belgium	752	140
Russia	216	0
Turkey	607	118
Brazil	105	38
Colombia	17	69
Peru	76	0
Australia	234	0
China	4,006	796
Hong Kong	-221	-5
Japan	1,152	84
Korea	423	0
Singapore	-41	62
India	-75	0
United Arab Emirates	77	0
Luxembourg	1,016	1
Total	**815,518**	**99,185**

Crude oil secondary column made of stainless steel supplied by Acerinox for the petrochemical industry


ESA

APPENDIX 1 - Additional information

The Environment

Main raw materials (Tonnes)

Ferroalloys	619,490
Gases	311,353
Acids	37,715
Recycled material*	2,075,910
Recycled acid**	15,913

*Recycled material includes purchased scrap, internal process scrap and metal recovered from slag and recycled waste.
**Recycled acid: Total amount of nitric acid and hydrofluoric acid recovered.

Waste management (Tonnes)

		2020		2019*
Total waste	**1,382,841**	**%**	**1,401,201**	**%**
Landfill	302,191	21.9%	401,318	28.6%
Recycled / Recovered	1,079,247	78.0%	998,373	71.3%
Other (R&D&I)	1,403	0.1%	1,510	0.1%
Total non-hazardous waste	**1,253,389**	**90.64%**	**1,261,893**	**90.06%**
Landfill	232,600	18.6%	316,452	25.1%
Recycled / Recovered	1,019,386	81.3%	943,931	74.8%
Other (R&D&I)	1,403	0.1%	1,510	0.1%
Total hazardous waste	**129,452**	**9.36%**	**139,308**	**9.94%**
Landfill	69,591	53.8%	84,866	60.9%
Recycled / Recovered	59,861	46.2%	54,442	39.1%
Other (R&D&I)	0	0.0%	0	0.0%

* 2019 data have been recalculated in line with the improved considerations taken into account for the calculation of 2020 data.

CO2e emissions (Tonnes)

			2020			2019*
	Total	**Stainless**	**HPA**	**Total**	**Stainless**	**HPA**
Scope 1	**816,337**	726,775	89,562	**785,771**	785,771	N/A
Scope 2	**1,952,157**	1,873,183	78,974	**2,111,364**	2,111,364	N/A
Total (Scope 1+2)	**2,768,494**	2,599,958	168,536	**2,897,135**	2,897,135	N/A

* 2019 data are corrected according to ISO 14064.

Co2e emissions intensity (Tonnes of Co2e/Tonne)

	2020			2019		
	Total	Stainless	HPA	Total	Stainless	HPA
Intensity (Scope 1+2)	**1.15**	1.11	2.63	**1.13**	1.13	N/A

The commitment to reduce greenhouse gases also extends to all other atmospheric emissions. Acerinox is working to reduce its emissions of nitrogen oxides, volatile organic compounds and particulate matter.

Other emissions (Tonnes)

	2020			2019*		
	Total	Stainless	HPA	Total	Stainless	HPA
NOx	**618**	589	29	**983**	983	N/A
VOCs	**27**	27	0	**24**	-	N/A
Particulate Matter	**424**	424	0	**295**	-	N/A

*2019 data have been recalculated in line with the improved considerations taken into account for the calculation of 2020 data.

The plants have catalytic towers where nitrogen oxides are converted into molecular nitrogen, thus reducing the emissions of this air pollution.

Energy consumption (GJ)

	2020			2019		
	Total	Stainless	HPA	Total	Stainless	HPA
Natural gas*	**11,559,423**	10,577,977	981,446	**11,626,381**	11,626,381	-
Diesel	**164,586**	158,418	6,168	**167,122**	167,122	-
Electricity	**10,011,179**	9,423,528	587,652	**10,416,846**	10,416,846	-
Total consumption	**21,735,188**	20,159,923	1,575,265	**22,210,349**	22,210,349	-

* The natural gas data relating to the High Performance Alloys Division includes both natural gas and mixed gas

Energy intensity (GJ/Tonne)

	2020			2019		
	Total	Stainless	HPA	Total	Stainless	HPA
Intensity	**9.01**	8.59	24.56	**8.49**	8.49	-

Electricity consumption (GJ)

	2020			2019		
	Total	Stainless	HPA	Total	Stainless	HPA
Renewable	**1,640,998**	1,486,799	154,199	**0**	0	-
Non-renewable	**8,370,182**	7,936,729	433,453	**10,416,846**	10,416,846	-
Total	**10,011,179**	9,423,528	587,652	**10,416,846**	10,416,846	-

The Environment

Water withdrawal (m3)

2020	Total			Stainless		HPA	
	Total	Non-water-scarce areas	Water-scarce areas	Non-water-scarce areas	Water-scarce areas	Non-water-scarce areas	Water-scarce areas
Surface water	**8,145,389**	4,945,572	3,199,817	4,654,015	3,199,817	291,557	-
Groundwater	**0**	0	0	0	0	0	-
Seawater	**0**	0	0	0	0	0	-
Produced water	**5,216**	5,216	0	5,216	0	0	-
Third-party water	**603,114**	401,251	201,863	220,560	201,863	180,691	-
Rainwater	**296,180**	0	296,180	0	296,180	0	-
Total	**9,049,899**	**5,352,039**	**3,697,860**	**4,879,791**	**3,697,860**	**472,248**	**0**

2019	Total			Stainless		HPA	
	Total	Non-water-scarce areas	Water-scarce areas	Non-water-scarce areas	Water-scarce areas	Non-water-scarce areas	Water-scarce areas
Surface water	**8,879,282**	5,162,616	3,716,666	5,162,616	3,716,666	N/A	N/A
Groundwater	**0**	0	0	0	0	N/A	N/A
Seawater	**0**	0	0	0	0	N/A	N/A
Produced water	**65,340**	65,340	0	65,340	0	N/A	N/A
Third-party water	**515,649**	211,203	304,446	211,203	304,446	N/A	N/A
Rainwater	**0**	0	0	0	0	N/A	N/A
Total	**9,460,271**	**5,439,159**	**4,021,112**	**5,439,159**	**4,021,112**	**N/A**	**N/A**

Water discharge (m3)

2020	Total			Stainless		HPA	
	Total	Non-water-scarce areas	Water-scarce areas	Non-water-scarce areas	Water-scarce areas	Non-water-scarce areas	Water-scarce areas
Surface water	**4,183,772**	3,810,232	373,540	3,691,638	373,540	118,594	-
Groundwater	**0**	0	0	0	0	0	-
Seawater	**1,221,457**	0	1,221,457	0	1,221,457	0	-
Third-party water	**169,782**	135,222	34,560	0	34,560	135,222	-
Total	**5,575,011**	**3,945,454**	**1,629,557**	**3,691,638**	**1,629,557**	**253,816**	**0**

2019	Total			Stainless		HPA	
	Total	Non-water-scarce areas	Water-scarce areas	Non-water-scarce areas	Water-scarce areas	Non-water-scarce areas	Water-scarce areas
Surface water	**4,268,513**	3,828,404	440,109	3,828,404	440,109	N/A	N/A
Groundwater	**0**	0	0	0	0	N/A	N/A
Seawater	**1,434,018**	0	1,434,018	0	1,434,018	N/A	N/A
Third-party water	**35,500**	0	35,500	0	35,500	N/A	N/A
Total	**5,738,031**	**3,828,404**	**1,909,627**	**3,828,404**	**1,909,627**	**N/A**	**N/A**

Water consumption (m3)

	Total			Stainless		HPA	
	Total	Non-water-scarce areas	Water-scarce areas	Non-water-scarce areas	Water-scarce areas	Non-water-scarce areas	Water-scarce areas
2020	**3,474,888**	**1,406,585**	**2,068,303**	1,188,153	2,068,303	218,432	0
2019	**3,722,240**	**1,610,755**	**2,111,485**	1,610,755	2,111,485	-	-

Customers and suppliers

Number of Suppliers

	2020		2019	
Total suppliers	**8,255**	**%**	**5,374**	**%**
Local	5,316	64.39%	3,239	60.27%
Non-local	2,939	35.61%	2,135	39.73%
Accredited	2,065	25.02%	1,782	33.16%
Not accredited	6,190	74.98%	3,592	66.84%
New suppliers	647	7.84%	-	-%

Spending on suppliers (€)

	2020		2019	
Total suppliers	**3,870,025,267**	**%**	**3,725,000,000**	**%**
Local	1,360,269,431	35.15%	1,453,000,000	39.01%
Non-local	2,509,755,837	64.85%	2,272,000,000	60.99%
Accredited	2,368,929,026	61.21%	-	-%
Not accredited	1,501,096,241	38.79%	-	-%

Contracting terms

Assessment using environmental criteria		%
Total suppliers	**2,314**	**28.04%**
New suppliers	237	36.63%
Assessment using social criteria		**%**
Total suppliers	**2,304**	**27.92%**
New suppliers	315	48.69%

Impact on the supply chain. Assessment of the supplier management model

Assessment using environmental criteria	
Total number of suppliers whose environmental impact has been assessed	211
Total number of suppliers with significant potential and actual environmental impacts	4
Total number of suppliers with significant actual environmental impacts with which improvements have been agreed following the environmental assessment	2
Total number of suppliers with significant actual environmental impacts with which the relationship has been terminated as a result of the environmental assessment	1
Total percentage of suppliers with significant actual and potential negative environmental impacts with which improvements have been agreed following the environmental assessment	50.00%
Total percentage of suppliers with actual and potential impacts with which the relationship has been terminated as a result of the environmental assessment	25.00%

Assessment using social criteria	
Total number of active suppliers whose social impact has been assessed	32
Total number of active suppliers with significant potential and actual negative social impacts	0
Total number of active suppliers with significant actual social impacts with which improvements have been agreed following the social assessment	0
Total number of active suppliers with significant actual social impacts with which the relationship has been terminated as a result of the social assessment	0
Total percentage of active suppliers with significant actual and potential negative social impacts with which improvements have been agreed following the social assessment	-%
Total percentage of active suppliers with actual and potential impacts with which the relationship has been terminated as a result of the social assessment	-%

Health and Safety

Own employees accident rate

	2020			2019		
	Men	Women	Total	Men	Women	Total
Hours worked	12,255,303	1,695,378	**13,950,680**	11,032,648	1,419,807	**12,452,455**
Total accidents	219	6	**225**	205	6	**211**
Fatalities	0	0	**0**	0	0	**0**
Accidents with sick leave	116	2	**118**	114	2	**116**
TRIFR x 200,000	3.57	0.71	**3.23**	-	-	**-**
LTIFR x 200,000	1.89	0.24	**1.69**	2.07	0.28	**1.86**
Hours of absenteeism*	511,466	54,834	**566,300**	141,280	7,632	**148,912**
Absenteeism rate (%)	4.17%	3.23%	**4.06%**	6.72%	4.96%	**6.55%**
Work-related illnesses	0	0	**0**	1	0	**1**
Fatalities from work-related illnesses	0	0	**0**	0	0	**0**

*Includes the number of hours of absenteeism caused by sick leave due to an occupational accident, non-work-related illness, unjustified causes, in itinere accidents and strikes. The scope of the report has increased compared to 2019 due to the inclusion of VDM, service centres and offices.
TRIFR: (No. of accidents recorded / No. of hours worked) * 200,000
LTIFR: (No. of accidents with sick leave / No. of hours worked) * 200,000

Contractors accident rate

	2020		
	Men	Women	Total
Hours worked	1,603,527	381,683	**1,985,210**
Total accidents	105	3	**108**
Fatalities	0	0	**0**
Accidents with sick leave	50	1	**51**
TRIFR x 200.000	13.10	1.57	**10.88**
LTIFR x 200.000	6.24	0.52	**5.14**
Absenteeism rate (%) *	2.54%	0.06%	**2.06%**
Work-related illnesses	0	0	**0**
Fatalities from work-related illnesses	0	0	**0**

Employees covered by occupational health and safety management systems

	2020	2019
Number of employees covered by a health and safety management system	6,705	3,683
Percentage of employees covered by a health and safety management system	82.99%	62.00%

Workforce

Average number of employees in 2020

Acerinox Europa	Acerinox S.A.	Bahru	Columbus	Inoxfil	NAS	Roldán	VDM	Subsidiaries & Service Centres
1,816	76	544	1,280	107	1,448	382	1,859	744

Number of employees by type of contract and gender

		2020	2019
Permanent contract	Men	7,012	5,292
	Women	1,015	636
	Total	**8,027**	**5,928**
Temporary contract	Men	141	32
	Women	27	17
	Total	**168**	**49**
Total		**8,195**	**5,977**

Number of employees by type of working day and gender

		2020	2019
Full-time	Men	7,138	5,291
	Women	987	637
	Total	**8,125**	**5,928**
Part-time	Men	15	33
	Women	55	16
	Total	**70**	**49**
Total		**8,195**	**5,977**

Number of employees by age group and gender

		2020	2019
<30	Men	926	817
	Women	169	133
	Total	**1,095**	**950**
30-50	Men	4,169	3,276
	Women	625	404
	Total	**4,794**	**3,680**
>50	Men	2,060	1,231
	Women	246	116
	Total	**2,306**	**1,347**
Total		**8,195**	**5,977**

Number of employees by professional category and gender

		2020*
Director	Men	24
	Women	4
	Total	**28**
Manager	Men	242
	Women	43
	Total	**285**
Analista	Men	580
	Women	181
	Total	**761**
Especialista	Men	337
	Women	135
	Total	**472**
Administrativo	Men	627
	Women	480
	Total	**1,107**
Operario	Men	5,345
	Women	197
	Total	**5,542**
Total		**8,195**

* New professional categories were established in 2020, increasing from the five represented in 2019 to the current six.

Number of employees by contract type and age group

		2020	2019
Permanent contract	<30	1,011	868
	30-50	4,714	3,610
	>50	2,301	1,346
	Total	**8,026**	**5,824**
Temporary contract	<30	84	82
	30-50	80	70
	>50	5	1
	Total	**169**	**153**
Total		**8,195**	**5,977**

Number of employees by type of working day and age group

		2020	2019
Full-time	<30	1,093	931
	30-50	4,744	3,662
	>50	2,287	1,343
	Total	**8,124**	**5,936**
Part-time	<30	2	19
	30-50	50	18
	>50	19	4
	Total	**71**	**41**
Total		**8,195**	**5,977**

Number of employees by contract type and professional category

		2020*
Permanent contract	Director	28
	Manager	284
	Analyst	755
	Specialist	464
	Administrative staff	1,088
	Operator	5,407
	Total	**8,026**
Temporary contract	Director	0
	Manager	1
	Analyst	6
	Specialist	8
	Administrative staff	19
	Operator	135
	Total	**169**
Total		**8,195**

* New professional categories were established in 2020, increasing from the five represented in 2019 to the current six.

Number of employees by type of working day and professional category

		2020*
Full-time	Director	28
	Manager	284
	Analyst	760
	Specialist	468
	Administrative staff	1,060
	Operator	5,524
	Total	**8,124**
Part-time	Director	0
	Manager	1
	Analyst	2
	Specialist	4
	Administrative staff	46
	Operator	18
	Total	**71**
Total		**8,195**

* New professional categories were established in 2020, increasing from the five represented in 2019 to the current six.

Employment

New hires by age group and gender

		2020	2019
<30	Men	243	282
	Women	37	39
	Total	**280**	**321**
30-50	Men	215	209
	Women	55	39
	Total	**270**	**248**
>50	Men	16	7
	Women	2	2
	Total	**18**	**9**
Total		**568**	**578**

Rate of hires

		2020	2019
<30	Men	26.24%	34.52%
	Women	21.89%	29.32%
	Total	**25.57%**	**30.79%**
30-50	Men	5.16%	6.38%
	Women	8.80%	9.65%
	Total	**5.63%**	**6.74%**
>50	Men	0.78%	0.57%
	Women	0.81%	1.72%
	Total	**0.78%**	**0.67%**
Total		**6.93%**	**9.67%**

Voluntary departures by age group and gender

		2020	2019
<30	Men	84	111
	Women	11	14
	Total	**95**	**125**
30-50	Men	113	111
	Women	21	9
	Total	**134**	**120**
>50	Men	41	18
	Women	8	3
	Total	**49**	**21**
Total		**278**	**266**

Staff turnover rate

		2020	2019
<30	Men	9.07%	13.59%
	Women	6.51%	10.53%
	Total	**8.68%**	**13.16%**
30-50	Men	2.71%	3.39%
	Women	3.36%	2.23%
	Total	**2.80%**	**3.26%**
>50	Men	1.99%	1.46%
	Women	3.25%	2.59%
	Total	**2.12%**	**1.56%**
Total		**3.39%**	**4.45%**

Layoffs

Number of layoffs by professional category and gender

		2020*
Director	Men	0
	Women	0
	Total	**0**
Manager	Men	1
	Women	1
	Total	**2**
Analista	Men	6
	Women	0
	Total	**6**
Especialista	Men	7
	Women	1
	Total	**8**
Administrativo	Men	3
	Women	9
	Total	**12**
Operario	Men	124
	Women	4
	Total	**128**
Total		**156**

* New professional categories were established in 2020, increasing from the five represented in 2019 to the current six.

Number of layoffs by age group and gender

		2020	2019
<30	Men	20	71
	Women	4	11
	Total	**24**	**82**
30-50	Men	51	93
	Women	6	3
	Total	**57**	**96**
>50	Men	70	25
	Women	5	1
	Total	**75**	**26**
Total		**156**	**204**

Training and performance

Number of employees trained

		2020*
Director	Men	7
	Women	3
	Total	**10**
Manager	Men	163
	Women	36
	Total	**199**
Analyst	Men	445
	Women	135
	Total	**580**
Specialist	Men	221
	Women	71
	Total	**292**
Administrative staff	Men	359
	Women	227
	Total	**586**
Operator	Men	3,624
	Women	129
	Total	**3,753**
Total		**5,420**

* New professional categories were established in 2020, increasing from the five represented in 2019 to the current six.

Hours of training

		2020*
Director	Men	41
	Women	40
	Total	**81**
Manager	Men	3,529
	Women	747
	Total	**4,276**
Analyst	Men	9,963
	Women	2,261
	Total	**12,225**
Specialist	Men	3,484
	Women	930
	Total	**4,414**
Administrative staff	Men	6,905
	Women	5,493
	Total	**12,398**
Operator	Men	363,830
	Women	12,128
	Total	**375,958**
Total		**409,352**

* New professional categories were established in 2020, increasing from the five represented in 2019 to the current six.

Hours of training by employee

		2020*
Director	Men	1.7
	Women	10.0
	Total	**2.9**
Manager	Men	14.6
	Women	17.4
	Total	**15.0**
Analyst	Men	17.2
	Women	12.5
	Total	**16.1**
Specialist	Men	10.3
	Women	6.9
	Total	**9.4**
Administrative staff	Men	11.0
	Women	11.4
	Total	**11.2**
Operator	Men	68.1
	Women	61.6
	Total	**67.8**
Total		**50.0**

* New professional categories were established in 2020, increasing from the five represented in 2019 to the current six.

Number of employees who received a performance appraisal

		2020*
Director	Men	7
	Women	4
	Total	**11**
Manager	Men	110
	Women	31
	Total	**141**
Analyst	Men	294
	Women	118
	Total	**412**
Specialist	Men	140
	Women	54
	Total	**194**
Administrative staff	Men	264
	Women	190
	Total	**454**
Operator	Men	1,268
	Women	67
	Total	**1,335**
Total		**2,547**

* New professional categories were established in 2020, increasing from the five represented in 2019 to the current six.

% of the workforce subject to a performance appraisal

		2020*
Director	Men	29.17%
	Women	100.00%
	Total	**39.29%**
Manager	Men	48.67%
	Women	75.61%
	Total	**52.81%**
Analyst	Men	53.65%
	Women	70.66%
	Total	**57.62%**
Specialist	Men	49.47%
	Women	51.92%
	Total	**50.13%**
Administrative staff	Men	43.85%
	Women	46.80%
	Total	**45.04%**
Operator	Men	24.24%
	Women	34.36%
	Total	**24.60%**
Total		**32.52%**

* New professional categories were established in 2020, increasing from the five represented in 2019 to the current six.

Benefits for employees

Parental leave

		2020	2019
Employees who had the right to parental leave	Men	6,253	4,856
	Women	804	625
	Total	**7,057**	**5,481**
Employees who used their right to parental leave	Men	251	222
	Women	48	37
	Total	**299**	**259**
Employees who returned to work after their parental leave ended	Men	250	222
	Women	37	37
	Total	**287**	**259**
Employees who returned to work after their parental leave and who were still employees 12 months after returning to work	Men	204	221
	Women	27	37
	Total	**231**	**258**

No. of employees covered by a collective bargaining agreements

	2020		2019	
Acerinox Europa	1,809	100%	1,934	92%
Acerinox S.A.*	69	86%	207	100%
Bahru Stainless	235	53%	571	60%
Centros de servicio	166	100%	-	-%
Columbus Stainless	693	55%	1,289	54%
Inoxfil	106	100%	107	100%
North American Stainless	NA	NA	NA	NA
Roldán	382	100%	375	99%
VDM	1,635	87%	-	-%

* The 207 Acerinox, S.A. employees in 2019 are broken down into Acerinox, S.A. and service centres in 2020

Return-to-work and retention rate

		2020	2019
Return-to-work rate	Men	99.60%	100%
	Women	77.08%	100%
	Total	**95.99%**	**100%**
Employee retention rate	Men	94.44%	100%
	Women	84.38%	100%
	Total	**93.15%**	**100%**

% of workforce with access to

	2020	2019
Life insurance	65%	81%
Medical insurance	47%	100%
Disability coverage	97%	100%
Pension fund	65%	58%
Transport compensation	58%	61%
Study scholarships for workers / workers' children	50%	61%
Disability allowances	26%	67%
Family death aid	38%	-%
School / Nursery aid	26%	-%
Food aid	43%	-%
Ownership interest in the company	0%	-%

Contractors

Number of contractors

		2020
Total workforce	Men	6,981
	Women	1,890
	Total	**8,871**

Remuneration and salary gap**

Average remuneration by professional category (€)

	2020*
Director	€ 331,544
Manager	€ 121,361
Analyst	€ 62,430
Specialist	€ 47,838
Administrative staff	€ 48,674
Operator	€ 44,050

* New professional categories were established in 2020

Average remuneration by age group (€)

	2020
<30	€ 36,702
30-50	€ 47,444
>50	€ 59,871

Average remuneration by gender (€)

	2020
Men	€ 50,048
Women	€ 46,072

Salary gap by professional category (%)

	2020*
Director	-1.84%
Manager	20.36%
Analyst	10.09%
Specialist	15.15%
Administrative staff	-1.85%
Operator	23.25%

* New professional categories were established in 2020
**The scope of the remuneration and salary gap data covers 99% of the workforce

Average basic salary (€)

	Men	Women
Director	€ 160,487	€ 124,103
Manager	€ 98,219	€ 75,449
Analyst	€ 49,469	€48,782
Specialist	€ 43,828	€ 36,337
Administrative staff	€ 31,990	€ 33,746
Operator	€ 21,006	€ 16,742

* New professional categories were established in 2020

Ratio of female/male basic salary by professional category

	2020
Director	0.84
Manager	0.83
Analyst	0.90
Specialist	0.86
Administrative staff	1.08
Operator	0.81

**The scope of the remuneration and salary gap data covers 99% of the workforce

APPENDIX 2 - GRI Content table

GRI Standard	Disclosure	Page/Reference	External assurance
GRI 101: Foundation 2016 / GRI 102: General Disclosures 2016			
Organisational profile	102-1 Name of the organisation	Acerinox, S.A.	√
	102-2 Activities, brands, products, and services	28-36	√
	102-3 Location of headquarters	The registered office of Acerinox, S.A. is: Calle Santiago de Compostela 100 28035 Madrid, Spain.	√
	102-4 Location of operations	28-36	√
	102-5 Ownership and legal form	28-36	√
	102-6 Markets served	38-39	√
	102-7 Scale of the organisation	38-39	√
	102-8 Information on employees and other workers	107-111	√
	102-9 Supply chain	138-139	√
	102-10 Significant changes to the organisation and its supply chain	138-139	√
	102-11 Precautionary principle or approach	116	√
	102-12 External initiatives	25	√
	102-13 Membership of associations	144-145	√
Strategy	102-14 Statement from senior decision-maker	https://www.acerinox.com/opencms901/export/sites/acerinox/.content/galerias/galeria-descargas/CEOs-speech-during-the-Shareholders-General-Meeting-2020.pdf	√
	102-15 Key impacts, risks, and opportunities	98-99	√
Ethics and integrity	102-16 Values, principles, standards, and norms of behaviour	93-98	√
Governance	102-18 Governance structure	75-83	√
Stakeholder engagement	102-40 List of stakeholder groups	88-89	√
	102-41 Collective bargaining agreements	107-108	√
	102-42 Identifying and selecting stakeholders	88-89	√
	102-43 Approach to stakeholder engagement	88-89	√
	102-44 Key topics and concerns raised	88-89	√
Reporting practice	102-45 Entities included in the consolidated financial statements	28-36	
	102-46 Defining report content and topic boundaries	88-89	
	102-47 List of material topics	88-89	
	102-48 Restatements of information	Amended data from prior years includes an explanatory note	√
	102-49 Changes in reporting	In 2020 Acerinox integrated the sustainability report, the management report and the non-financial information report into a single report.	√
	102-50 Reporting period	2020 calendar year (1 January to 31 December	√
	2020)	Los datos de ejercicios anteriores modificados incluyen nota aclaratoria	√
	102-51 Date of most recent report	2019 calendar year (1 January to 31 December	√
	2019)	Año natural 2020 (1 de enero a 31 de diciembre de 2020).	√
	102-52 Reporting cycle	The reporting cycle is annual.	√
	102-53 Contact point for questions regarding the report	inigo.rodriguez@acerinox.com	√
	102-54 Claims of reporting in accordance with the GRI Standards	This report has been prepared in accordance with GRI Standards: Core Option.	√
	102-55 GRI content index	168-173	√
	102-56 External assurance	The Acerinox Group has obtained external assurance for the report, in accordance with the international standard ISAE 3000, through an independent third party: Deloitte	√

GRI Standard	Disclosure	Page/Reference	External assurance
GRI 101: Foundation 2016 / GRI 102: General Disclosures 2016			
Economic performance			
GRI 103: Management approach 2016	103-1 Explanation of the material topic and its boundary	88-89	√
	103-2 The management approach and its components	88-89	√
	103-3 Evaluation of the management approach	88-89	√
GRI 201: Economic performance 2016	201-1 Direct economic value generated and distributed	140-141	√
	201-4 Financial assistance received from government	146-147	√
Indirect economic impacts			
GRI 103: Management approach 2016	103-1 Explanation of the material topic and its boundary	88-89	√
	103-2 The management approach and its components	88-89	√
	103-3 Evaluation of the management approach	88-89	√
GRI 203: Indirect economic impacts 2016	203-1 Infrastructure investments and services supported	140-143	√
	203-2 Significant indirect economic impacts	140-143	√
Procurement practices			
GRI 103: Management approach 2016	103-1 Explanation of the material topic and its boundary	88-89	√
	103-2 The management approach and its components	88-89	√
	103-3 Evaluation of the management approach	88-89	√
GRI 204: Procurement practices 2016	204-1 Proportion of spending on local suppliers	153	√
Anti-corruption			
GRI 103: Management approach 2016	103-1 Explanation of the material topic and its boundary	88-89	√
	103-2 The management approach and its components	88-89	√
	103-3 Evaluation of the management approach	88-89	√
GRI 205: Anti-corruption 2016	205-1 Operations assessed for risks related to corruption	All employees of the Group must comply with the anti-corruption guidelines. Furthermore, Acerinox endorses the United Nations Global Compact.	√
	205-2 Communication and training about anti-corruption policies and procedures	98	√
	205-3 Confirmed incidents of corruption and actions taken	In 2020 no significant incidents of corruption were reported.	√
Anti-competitive behaviour			
GRI 103: Management approach 2016	103-1 Explanation of the material topic and its boundary	88-89	√
	103-2 The management approach and its components	88-89	√
	103-3 Evaluation of the management approach	88-89	√
GRI 206: Anti-competitive behaviour 2016	206-1 Legal actions for anti-competitive behaviour, anti-trust, and monopoly practices	In 2020 no significant legal action concerning anti-competitive behaviour, anti-trust, and monopoly practices was taken.	√
Tax			
GRI 103: Management approach 2016	103-1 Explanation of the material topic and its boundary	88-89	√
	103-2 The management approach and its components	88-89	√
	103-3 Evaluation of the management approach	88-89	√
GRI 207: Tax 2019	207-1 Approach to tax	146-147	√
	207-2 Tax governance, control and risk management	146-147	√
	207-3 Stakeholder engagement and management	146-147	√
	207-4 Country-by-country reporting	146-147	√
Materials			
GRI 103: Management approach 2016	103-1 Explanation of the material topic and its boundary	88-89	√
	103-2 The management approach and its components	88-89	√
	103-3 Evaluation of the management approach	88-89	√
GRI 301: Materials 2016	301-1 Materials used by weight or volume	150	√
	301-2 Recycled input materials used	150	√

GRI Standard	Disclosure	Page/Reference	External assurance
GRI 101: Foundation 2016 / GRI 102: General Disclosures 2016			
Energy			
GRI 103: Management approach 2016	103-1 Explanation of the material topic and its boundary	88-89	√
	103-2 The management approach and its components	88-89	√
	103-3 Evaluation of the management approach	88-89	√
GRI 302: Energy 2016	302-1 Energy consumption within the organisation	151	√
	302-3 Energy intensity	151	√
	302-4 Reduction of energy consumption	124	√
Water			
GRI 103: Management approach 2016	103-1 Explanation of the material topic and its boundary	88-89	√
	103-2 The management approach and its components	88-89	√
	103-3 Evaluation of the management approach	88-89	√
GRI 303: Water and effluents 2018	303-1 Interactions with water as a shared resource	126-129	√
	303-2 Management of water discharge-related impacts	126-129	√
	303-3 Water withdrawal	152-153	√
	303-4 Water discharge	152-153	√
	303-5 Water consumption	152-153	√
Biodiversity			
GRI 103: Management approach 2016	103-1 Explanation of the material topic and its boundary	88-89	√
	103-2 The management approach and its components	88-89	√
	103-3 Evaluation of the management approach	88-89	√
GRI 304: Biodiversity 2016	304-2 Significant impacts of activities, products, and services on biodiversity	The activities and operations carried out by Acerinox do not have a direct influence on biodiversity or protected areas	√
	304-3 Habitats protected or restored	126-129	√
Emissions and climate change			
GRI 103: Management approach 2016	103-1 Explanation of the material topic and its boundary	88-89	√
	103-2 The management approach and its components	88-89	√
	103-3 Evaluation of the management approach	88-89	√
GRI 305: Emissions 2016	305-1 Direct (Scope 1) GHG emissions	150-151	√
	305-2 Energy indirect (Scope 2) GHG emissions	150-151	√
	305-4 GHG emissions intensity	150-151	√
	305-5 Reduction of GHG emissions	121-124	√
	305-7 Nitrogen oxides (NOX), sulphur oxides (SOX), and other significant air emissions	150-151	√
Effluents and waste			
GRI 103: Management approach 2016	103-1 Explanation of the material topic and its boundary	88-89	√
	103-2 The management approach and its components	88-89	√
	103-3 Evaluation of the management approach	88-89	√
RI 306: Effluents and waste 2016	306-2 Waste by type and disposal method	150	√
	306-3 Significant spills	In 2020 no significant spillages were recorded	√
Environmental compliance			
GRI 103: Management approach 2016	103-1 Explanation of the material topic and its boundary	88-89	√
	103-2 The management approach and its components	88-89	√
	103-3 Evaluation of the management approach	88-89	√
GRI 307: Environmental compliance 2016	307-1 Non-compliance with environmental laws and regulations	In 2020 no significant sanctions were recorded	√

GRI Standard	Disclosure	Page/Reference	External assurance
GRI 101: Foundation 2016 / GRI 102: General Disclosures 2016			
Supplier environmental assessment			
GRI 103: Management approach 2016	103-1 Explanation of the material topic and its boundary	88-89	√
GRI 103: Management approach 2016	103-2 The management approach and its components	88-89	√
GRI 103: Management approach 2016	103-3 Evaluation of the management approach	88-89	√
GRI 308: Supplier environmental assessment 2016	308-1 New suppliers that were screened using environmental criteria	153-154	√
GRI 308: Supplier environmental assessment 2016	308-2 Negative environmental impacts in the supply chain and actions taken	153-154	√
Employment			
GRI 103: Management approach 2016	103-1 Explanation of the material topic and its boundary	88-89	√
GRI 103: Management approach 2016	103-2 The management approach and its components	88-89	√
GRI 103: Management approach 2016	103-3 Evaluation of the management approach	88-89	√
GRI 401: Employment 2016	401-1 New employee hires and employee turnover	156-161	√
GRI 401: Employment 2016	401-2 Benefits provided to full-time employees that are not provided to temporary or part-time employees	164-166	√
GRI 401: Employment 2016	401-3 Parental leave	164-166	√
Labour/Management relations			
GRI 103: Management approach 2016	103-1 Explanation of the material topic and its boundary	88-89	√
GRI 103: Management approach 2016	103-2 The management approach and its components	88-89	√
GRI 103: Management approach 2016	103-3 Evaluation of the management approach	88-89	√
GRI 402: Labour/ Management relations 2016	402-1 Minimum notice periods regarding operational changes	Minimum notice periods are in accordance with current legislation and the steel industry collective agreement.	√
Occupational health and safety			
GRI 103: Management approach 2016	103-1 Explanation of the material topic and its boundary	88-89	√
GRI 103: Management approach 2016	103-2 The management approach and its components	88-89	√
GRI 103: Management approach 2016	103-3 Evaluation of the management approach	88-89	√
GRI 403: Occupational health and safety 2018	403-1 Occupational health and safety management system	100-106	√
GRI 403: Occupational health and safety 2018	403-2 Hazard identification, risk assessment, and incident investigation	112	√
GRI 403: Occupational health and safety 2018	403-3 Occupational health services	112-113	√
GRI 403: Occupational health and safety 2018	403-4 Worker participation, consultation, and communication on occupational health and safety	112-113	
GRI 403: Occupational health and safety 2018	403-5 Worker training on occupational health and safety	112-113	√
GRI 403: Occupational health and safety 2018	403-6 Promotion of worker health	112-113	√
GRI 403: Occupational health and safety 2018	403-7 Prevention and mitigation of occupational health and safety impacts directly linked by business relationships	100	√
GRI 403: Occupational health and safety 2018	403-8 Workers covered by an occupational health and safety management system	156	√
Training and education			
GRI 103: Management approach 2016	103-1 Explanation of the material topic and its boundary	88-89	√
GRI 103: Management approach 2016	103-2 The management approach and its components	88-89	√
GRI 103: Management approach 2016	103-3 Evaluation of the management approach	88-89	√
GRI 404: Training and education 2016	404-1 Average hours of training per year per employee	163	√
GRI 404: Training and education 2016	404-2 Programmes for upgrading employee skills and transition assistance programmes	164	√
GRI 404: Training and education 2016	404-3 Percentage of employees receiving regular performance and career development reviews	164-166	√
Diversity and equal opportunity			
GRI 103: Management approach 2016	103-1 Explanation of the material topic and its boundary	88-89	√
GRI 103: Management approach 2016	103-2 The management approach and its components	88-89	√
GRI 103: Management approach 2016	103-3 Evaluation of the management approach	88-89	√
GRI 405: Diversity and equal opportunity 2016	405-1 Diversity of governance bodies and employees	75-83	√
GRI 405: Diversity and equal opportunity 2016	405-2 Ratio of basic salary and remuneration of women to men	166-167	√

GRI Standard	Disclosure	Page/Reference	External assurance
GRI 101: Foundation 2016 / GRI 102: General Disclosures 2016			
Non-discrimination			
GRI 103: Management approach 2016	103-1 Explanation of the material topic and its boundary	88-89	√
	103-2 The management approach and its components	88-89	√
	103-3 Evaluation of the management approach	88-89	√
GRI 406: Non-discrimination 2016	406-1 Incidents of discrimination and corrective actions taken	In 2020 no significant incidents of discrimination were reported.	√
Freedom of association and collective bargaining			
GRI 103: Management approach 2016	103-1 Explanation of the material topic and its boundary	88-89	√
	103-2 The management approach and its components	88-89	√
	103-3 Evaluation of the management approach	88-89	√
GRI 407: Freedom of association and collective bargaining 2016	407-1 Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk	In 2020, the Acerinox Group did not record any operations or suppliers whose right to freedom of association and collective bargaining was at risk.	√
Child labour			
GRI 103: Management approach 2016	103-1 Explanation of the material topic and its boundary	88-89	√
	103-2 The management approach and its components	88-89	√
	103-3 Evaluation of the management approach	88-89	√
GRI 408: Child labour 2016	408-1 Operations and suppliers at significant risk for incidents of child labour	In 2020, the Acerinox Group did not record any operations or suppliers with significant risk of cases of child labour. All Acerinox Group companies support the abolition of child labour. Acerinox is a signatory of the United Nations Global Compact.	√
Forced or compulsory labour			
GRI 103: Management approach 2016	103-1 Explanation of the material topic and its boundary	88-89	√
	103-2 The management approach and its components	88-89	√
	103-3 Evaluation of the management approach	88-89	√
GRI 409: Forced or compulsory labour 2016	409-1 Operations and suppliers at significant risk for incidents of forced or compulsory labour	In 2020, the Acerinox Group did not record any operations or suppliers with significant risk of cases of forced or compulsory labour. All Acerinox Group companies support the abolition of all forms of forced labour or that performed under duress. Acerinox is a signatory of the United Nations Global Compact.	√
Local communities			
GRI 103: Management approach 2016	103-1 Explanation of the material topic and its boundary	88-89	√
	103-2 The management approach and its components	88-89	√
	103-3 Evaluation of the management approach	88-89	√
GRI 413: Local communities 2016	413-1 Operations with local community engagement, impact assessments, and development programmes	140-143	√
Supplier social assessment			
GRI 103: Management approach 2016	103-1 Explanation of the material topic and its boundary	88-89	√
	103-2 The management approach and its components	88-89	√
	103-3 Evaluation of the management approach	88-89	√
GRI 414: Supplier social assessment 2016	414-1 New suppliers that were screened using social criteria	153-154	√
	414-2 Negative social impacts in the supply chain and actions taken	153-154	√

GRI Standard	Disclosure	Page/Reference	External assurance
GRI 101: Foundation 2016 / GRI 102: General Disclosures 2016			
Customer health and safety			
GRI 103: Management approach 2016	103-1 Explanation of the material topic and its boundary	88-89	√
	103-2 The management approach and its components	88-89	√
	103-3 Evaluation of the management approach	88-89	√
GRI 416: Customer health and safety 2016	416-1 Assessment of the health and safety impacts of product and service categories	106	√
	416-2 Incidents of non-compliance concerning the health and safety impacts of products and services	In 2020 no significant incidents concerning the health and safety impacts of products and services categories were recorded.	√
Customer privacy			
GRI 103: Management approach 2016	103-1 Explanation of the material topic and its boundary	88-89	√
	103-2 The management approach and its components	88-89	√
	103-3 Evaluation of the management approach	88-89	√
GRI 418: Customer privacy 2016	418-1 Substantiated complaints concerning breaches of customer privacy and losses of customer data	In 2020, no significant complaints regarding breaches of customer privacy and losses of customer data were made through the established complaints channels.	√
Socioeconomic compliance			
GRI 103: Management approach 2016	103-1 Explanation of the material topic and its boundary	88-89	√
	103-2 The management approach and its components	88-89	√
	103-3 Evaluation of the management approach	88-89	√
GRI 419: Socioeconomic compliance 2016	419-1 Non-compliance with laws and regulations in the social and economic area	In 2020, no significant sanctions or non-monetary sanctions were received for non-compliance with social or economic laws or regulations.	√

APPENDIX 3 - Statement of non-financial information content table

Information required by the Law on Non-Financial Information	Associated reporting criteria (GRI Standard)	Page/Reference
Business model		
Brief description of the Group's business model (business environment and organisation)	102-2 Activities, brands, products, and services 102-7 Scale of the organisation	28-39
Geographical presence	102-3 Location of headquarters 102-4 Location of operations 102-6 Markets served	28-39
Objectives and strategies of the organisation	102-14 Statement from senior decision-maker	https://www.acerinox.com/opencms901/export/sites/acerinox/.content/galerias/galeria-descargas/CEOs-speech-during-the-Shareholders-General-Meeting-2020.pdf
Main factors and trends that may affect its future development	102-15 Key impacts, risks, and opportunities	98-99
Mention in the report to the national, European or International reporting framework used for the selection of key indicators of non-financial results included in each of the Materiality sections	102-54 Claims of reporting in accordance with the GRI Standards 102-46 and 102-47	This report has been prepared in accordance with the core option of the GRI disclosures.
Environmental Matters		
General information		
A description of the policies applied by the group concerning such matters, which will include the due diligence procedures applied to the identification, evaluation, prevention and mitigation of significant risks and impacts, and on their verification and control, as well as the measures that have been adopted.	103-2 The management approach and its components	88-89, 116
The results of these policies, which must include relevant non-financial key performance indicators that allow for the monitoring and evaluation of the progress made and that promote the comparability between companies and industries, in accordance with the national, European or international reference frameworks used for each matter.	103-2 The management approach and its components 103-3 Evaluation of the management approach	88-89, 116-129, 150-153
The main risks related to these issues linked to the Group's activities, including, among others, when relevant and proportionate, their business relationships, products or services that may have negative effects in those areas, and how the group manages those risks, explaining the procedures used to detect and evaluate them according to national, European or international reference frameworks for each matter. Information on the impacts that have been detected must be included, offering a breakdown thereof, in particular on the main short-, medium- and long-term risks.	102-15 Key impacts, risks, and opportunities	98-99
Current and foreseeable effects of the company's activities on the environment and, where applicable, on health and safety	102-15 Key impacts, risks, and opportunities	98-99
Environmental evaluation and certification procedures	103-2 The management approach and its components	88-89, 116
Resources dedicated to the prevention of environmental risks	Note 8 of the Group's financial statements	255-265
Application of the precautionary principle	102-11 Precautionary principle or approach	116
Number of provisions and guarantees for environmental risks	Note 8 of the Group's financial statements	255-265
Pollution		
Measures to prevent, reduce or remedy emissions that seriously affect the environment, taking into account any form of air pollution specific to an activity, including noise and light pollution.	103-2 The management approach and its components 305-5 Reduction of GHG emissions	88-89 y 116-129

Information required by the Law on Non-Financial Information	Associated reporting criteria (GRI Standard)	Page/Reference
Circular Economy and Waste Prevention and Management		
Measures regarding prevention, recycling, reuse, other forms of recovery and disposal of waste Actions to combat food waste.	103-2 The management approach and its components 306-1: Water discharge by quality and destination 306-2 Materials used by weight or volume	88-89, 116-120
Sustainable use of resources		
Water consumption and water supply in accordance with the local restrictions	303-1 Interactions with water as a shared resource 303-2 Management of water discharge-related impacts 303-3 Water withdrawal 303-4 Water discharges 303-5 Water consumption	121-127 152-153
Consumption of raw materials and the measures adopted to improve the efficiency of their use	301-1 Materials used by weight or volume	121-127 152-153
Direct and indirect energy consumption	103-2 The management approach and its components 302-1 Energy consumption within the organisation	88-89, 151
Measures implemented to improve energy efficiency	103-2 The management approach and its components 302-4 Reduction of energy consumption	88-89, 124
Use of renewable energies	302-1 Energy consumption within the organisation	121-124, 151
Climate change		
The main elements of the greenhouse gas emissions generated as a result of company activities, including the use of goods and services which it produces.	305-1 Direct (Scope 1) GHG emissions 305-2 Energy indirect (Scope 2) GHG emissions	150-151
Measures adopted to adapt to the consequences of climate change.	103-2 The management approach and its components	121-123
Voluntary reduction goals established in the medium- and long term to reduce GHG emissions and the measures implemented for this purpose.	305-5 Reduction of GHG emissions	121-124
Protecting Biodiversity		
Measures implemented to preserve or restore biodiversity.	304-2 Significant impacts of activities, products and services on biodiversity.	The activities and operations performed by Acerinox do not have direct influence on the biodiversity and protected areas.
Impacts caused by activities or operations in protected areas.	304-2 Significant impacts of activities, products and services on biodiversity.	
Social issues and those relating to personnel		
General information		
A description of the policies applied by the group concerning such matters, which will include the due diligence procedures applied to the identification, evaluation, prevention and mitigation of significant risks and impacts, and on their verification and control, as well as the measures that have been adopted.	103-2 The management approach and its components	88-89, 107-112
The results of these policies, which must include relevant non-financial key performance indicators that allow for the monitoring and evaluation of the progress made and that promote the comparability between companies and industries, in accordance with the national, European or international reference frameworks used for each matter.	103-2 The management approach and its components 103-3 Evaluation of the management approach	88-89, 155-167
The main risks related to these issues linked to the Group's activities, including, among others, when relevant and proportionate, their business relationships, products or services that may have negative effects in those areas, and how the group manages those risks, explaining the procedures used to detect and evaluate them according to national, European or international reference frameworks for each matter. Information on the impacts that have been detected must be included, offering a breakdown thereof, in particular on the main short-, medium- and long-term risks.	102-15 Key impacts, risks, and opportunities	98-99

Information required by the Law on Non-Financial Information	Associated reporting criteria (GRI Standard)	Page/Reference
Employment		
Total number and distribution of employees based on criteria representing diversity (gender, age, country, etc.)	102-8 Information on employees and other workers 405-1 Diversity of governance bodies and employees	107-111 156-167
Total number and distribution of employment contract types, annual average of permanent, temporary and part-time contracts by gender, age and professional category	102-8 Information on employees and other workers	107-111, 156-167
Number of dismissals by gender, age and professional classification	103-2 The management approach and its components	88-89, 161
Average remunerations and their evolution broken down by gender, age and professional category or equal value	405-2 Ratio of basic salary and remuneration of women to men 103-2 The management approach and its components	166-167
Salary gap, the remuneration of equal job positions and the company's average	405-2 Ratio of basic salary and remuneration of women to men	108, 166-167
The average remuneration of directors and managers, including variable remuneration, attendance fees, compensation, payment to long-term savings forecast systems and any other benefits, broken down by gender	102-35 Remuneration policies	108, 166-167
Implementation of policies on the disconnection from work during non-work hours	Acerinox does not have specific measures related to disconnecting from work beyond those established in collective bargaining agreements and agreements reached with employees	
Disabled employees	405-1 Diversity of governance bodies and employees	111
Work organisation		
Organisation of the working schedule	103-2 The management approach and its components	107-108
Number of hours of absenteeism	403-2 Types of injury and rates of injury, occupational diseases, lost days, absenteeism and number of work-related fatalities	112
Measures designed to facilitate the enjoyment of the conciliation of personal and professional lives of the employees and to encourage joint responsibility of these measures by both parents	401-3 Parental leave	164
Health and safety		
Occupational health and safety conditions	403-3 Workers with high incidence or high risk of diseases related to their occupation	112
Accidents at work, in particular their frequency and severity, as well as occupational illnesses; broken down by gender.	403-2 Types of injury and rates of injury, occupational diseases, lost days, absenteeism and number of work-related fatalities	112
Social relations		
Organisation of social dialogue, including procedures for informing and consulting staff and negotiating with them	103-2 The management approach and its components	107-108
Percentage of employees covered by collective bargaining agreements	102-41 Collective bargaining agreements	164
The balance of collective bargaining agreements, particularly in the field of occupational health and safety	403-4 Health and safety topics covered in formal agreements with trade unions (2018 version)	112
Training		
Policies implemented in the field of training	103-2 The management approach and its components 404-2 Programmes for upgrading employee skills and transition assistance programmes	107-111, 88-89, 95-96
Total number of hours of training by professional category	404-1 Average hours of training per year per employee	162-163
Universal accessibility for people with disabilities		
Universal accessibility for people with disabilities	103-2 The management approach and its components	88-89
Equality		
Measures adopted to promote equal treatment and opportunities between men and women	103-2 The management approach and its components	88-89, 107-111
Equality plans (Chapter III of Organic Law 3/2007, of 22 March, for effective equality between women and men), measures adopted to promote employment, protocols against sexual harassment and on the basis of gender, integration and universal accessibility for people with disabilities	103-2 The management approach and its components	88-89, 107-111
The policy against all types of discrimination and, where appropriate, management of diversity	103-2 The management approach and its components	88-89, 111-114

Information required by the Law on Non-Financial Information	Associated reporting criteria (GRI Standard)	Page/Reference
Respect for human rights		
Información general		
A description of the policies applied by the group concerning such matters, which will include the due diligence procedures applied to the identification, evaluation, prevention and mitigation of significant risks and impacts, and on their verification and control, as well as the measures that have been adopted.	103-2 The management approach and its components	88-89, 92-93, 97, 139
The results of these policies, which must include relevant non-financial key performance indicators that allow for the monitoring and evaluation of the progress made and that promote the comparability between companies and industries, in accordance with the national, European or international reference frameworks used for each matter.	103-2 The management approach and its components 103-3 Evaluation of the management approach	88-89, 92, 97, 139
The main risks related to these issues linked to the Group's activities, including, among others, when relevant and proportionate, their business relationships, products or services that may have negative effects in those areas, and how the group manages those risks, explaining the procedures used to detect and evaluate them according to national, European or international reference frameworks for each matter. Information on the impacts that have been detected must be included, offering a breakdown thereof, in particular on the main short-, medium- and long-term risks.	102-15 Key impacts, risks, and opportunities	98-99
Detailed information		
Application of due diligence procedures with regard to human rights; prevention of the risks of human rights violations and, where appropriate, measures to mitigate, manage and remedy any abuse which may have been committed	102-16 Values, principles, standards, and norms of behaviour 102-17 Mechanisms for advice and concerns about ethics 410-1 Security personnel trained in human rights policies or procedures 412-1 Operations that have been subject to human rights reviews or impact assessments	93-98
Reports of cases of human rights violations	In 2020, no significant sanctions or non-monetary sanctions were received for non-compliance with social or economic laws or regulations.	
Promotion of and compliance with the provisions of the fundamental agreements of the International Labour Organisation related to the respect for freedom of association and the right to collective bargaining, the elimination of discrimination in employment and occupation, the elimination of forced or compulsory labour and the effective abolition of child labour.	In 2020, the Acerinox Group did not record any operations or suppliers with significant risk of cases of child labour. All Acerinox Group companies support the abolition of chil labour. Acerinox is a signatory of the United Nations Global Compact.	
Fight against corruption and bribery		
General information		
A description of the policies applied by the group concerning such matters, which will include the due diligence procedures applied to the identification, evaluation, prevention and mitigation of significant risks and impacts, and on their verification and control, as well as the measures that have been adopted.	103-2 The management approach and its components	88-89, 98
The results of these policies, which must include relevant non-financial key performance indicators that allow for the monitoring and evaluation of the progress made and that promote the comparability between companies and industries, in accordance with the national, European or international reference frameworks used for each matter.	103-2 The management approach and its components 103-3 Evaluation of the management approach	88-89, 98
The main risks related to these issues linked to the Group's activities, including, among others, when relevant and proportionate, their business relationships, products or services that may have negative effects in those areas, and how the group manages those risks, explaining the procedures used to detect and evaluate them according to national, European or international reference frameworks for each matter. Information on the impacts that have been detected must be included, offering a breakdown thereof, in particular on the main short-, medium- and long-term risks.	102-15 Key impacts, risks, and opportunities	98-99
Detailed information		
Measures adopted to prevent corruption and bribery	102-16 Values, principles, standards, and norms of behaviour 102-17 Mechanisms for advice and concerns about ethics 103-2 The management approach and its components 205-1 Operations assessed for risks related to corruption 205-2 Communication and training about anti-corruption policies and procedures	88-89

Information required by the Law on Non-Financial Information	Associated reporting criteria (GRI Standard)	Page/Reference
Detailed information		
Measures to combat money laundering	103-2 The management approach and its components 102-16 Values, principles, standards, and norms of behaviour 102-17 Mechanisms for advice and concerns about ethics	88-89, 98
Contributions to foundations and not-for-profit entities	102-13 Membership of associations 201-1 Direct economic value generated and distributed	144-145
Company information		
General information		
A description of the policies applied by the group concerning such matters, which will include the due diligence procedures applied to the identification, evaluation, prevention and mitigation of significant risks and impacts, and on their verification and control, as well as the measures that have been adopted.	103-2 The management approach and its components	88-89, 98-99
The results of these policies, which must include relevant non-financial key performance indicators that allow for the monitoring and evaluation of the progress made and that promote the comparability between companies and industries, in accordance with the national, European or international reference frameworks used for each matter.	103-2 The management approach and its components 103-3 Evaluation of the management approach	88-89, 98-99
The main risks related to these issues linked to the Group's activities, including, among others, when relevant and proportionate, their business relationships, products or services that may have negative effects in those areas, and how the group manages those risks, explaining the procedures used to detect and evaluate them according to national, European or international reference frameworks for each matter. Information on the impacts that have been detected must be included, offering a breakdown thereof, in particular on the main short-, medium- and long-term risks.	102-15 Key impacts, risks, and opportunities	98-99
The Company's commitments to sustainable development		
The impact of the company's activity on employment and local development	103-2 The management approach and its components 204-1 Proportion of spending on local suppliers	88-89 100-106
The impact of the company's activity on local populations and the region	204-1 Proportion of spending on local suppliers 413-1 Operations with local community engagement, impact assessments, and development programmes 413-2 Operations with significant actual and potential negative impacts on local communities	153-154 140-143
Relationships maintained with local community players and the modalities of dialogue therewith.	102-43 Approach to stakeholder engagement 413-1 Operations with local community engagement, impact assessments, and development programmes	88-89 100-106
Association or sponsorship actions	103-2 The management approach and its components	88-89, 144-145
Subcontracting and suppliers		
The inclusion of social issues, gender equality and environmental issues in the purchasing policy	414-1 New suppliers that were screened using social criteria 103-2 The management approach and its components	88-89, 95
Consideration in relations with suppliers and subcontractors of their social and environmental responsibility	102-9 Supply chain 308-1 New suppliers that were screened using environmental criteria 414-1 New suppliers that were screened using social criteria	138-139
Supervision and audits systems and the results thereof	102-9 Supply chain 308-2 Negative environmental impacts in the supply chain and actions taken 414-2 Negative social impacts in the supply chain and actions taken	138-139
Consumers		
Measures taken for the health and safety of consumers	Non-material. The business does not deal directly with end consumers.	
Complaint systems, complaints received and their resolution	Non-material. The business does not deal directly with end consumers.	
Tax Information		
Profits obtained by country	207-4 Country-by-country reporting	146-147
Income tax paid	207-4 Country-by-country reporting	146-147
Public subsidies received	201-4 Financial assistance received from government.	138-139

APPENDIX 4 - Principles of the global compact

Relationship with the 10 principles of the Global Compact

Scope	Principle of the Global Compact	Relation with SDG	Reference
Human Rights	1. "Businesses should support and respect the protection of internationally proclaimed human rights" 2. "Businesses should make sure that they are not complicit in human rights abuses"	1,2,3,4,5,6,7,8,10,11,16,17	Point 5.4 Ethics and compliance - Protection of Human Rights Table in APPENDIX 3 - STATEMENT OF NON-FINANCIAL INFORMATION CONTENT TABLE
Working standards	3. "Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining" 4. "Businesses should uphold the elimination of all forms of forced and compulsory labour" 5. "Businesses should uphold the effective abolition of child labour" 6. "Businesses should uphold the elimination of discrimination in respect of employment and occupation"	2,6,7,9,11,12,13,14,15,17	Table in APPENDIX 2 - GRI CONTENT TABLE Table in APPENDIX 2 - GRI CONTENT TABLE Point 5.4 Ethics and compliance - Code of conduct Table in APPENDIX 3 - STATEMENT OF NON-FINANCIAL INFORMATION CONTENT TABLE Point 5.4 Ethics and compliance - Code of conduct 7.2 A diversity that enriches Table in APPENDIX 2 - GRI CONTENT TABLE Table in APPENDIX 3 - STATEMENT OF NON-FINANCIAL INFORMATION CONTENT TABLE
Environment	7. "Businesses should support a precautionary approach to environmental challenges" 8. "Businesses should undertake initiatives to promote greater environmental responsibility" 9. "Businesses should encourage the development and diffusion of environmentally friendly technologies"	1,3,5,8,9,10,16,17	Point 1.2 About us Point 8 Committed to the Environment Point 8.1 Circular economy Table in APPENDIX 3 - STATEMENT OF NON-FINANCIAL INFORMATION CONTENT TABLE
Anti-corruption	10. "Businesses should work against corruption in all its forms, including extortion and bribery"	3,10,16,17	Point 5.4 Ethics and compliance. - Fight against corruption and bribery

ODS icons
Spanish version

ODS icons
English version

APPENDIX 5 - Sustainable development goals

Sustainable development Goal	Relationship with the 10 principles of the Global Compact	Reference
Goal 1: **No poverty**	1,2,3,4,5,6	Point 11 Committed to the community 11.1 Social action
Goal 2: **Zero Hunger**	1,2,7,8,9	Point 11 Committed to the community 11.1 Social action
Goal 3: **Good health and well-being**	1,2,3,4,5,6,10	Table in APPENDIX 2 - GRI CONTENT TABLE Point 7.1 Generating stable and high-quality employment 7.3 Health & Safety Point 11 Committed to the community 11.1 Social action
Goal 4: **Quality education**	1,2	Table in APPENDIX 2 - GRI CONTENT TABLE Point 11 Committed to the community 11.1 Social action - Collaborating with educational institutions
Goal 5: **Gender equality**	1,2,3,4,5,6	Table in APPENDIX 2 - GRI CONTENT TABLE Point 7.1 Generating stable and high-quality employment 7.2 A diversity that enriches
Goal 6: **Clean water and sanitation**	1,2,7,8,9	Table in APPENDIX 2 - GRI CONTENT TABLE Point 8 COMMITTED TO THE ENVIRONMENT Point 8.3 Water consumption management
Goal 7: **Affordable and clean energy**	1,2,7,8,9	Table in APPENDIX 2 - GRI CONTENT TABLE Point 8 COMMITTED TO THE ENVIRONMENT Point 8.2 Climate change and energy
Goal 8: **Decent work and economic growth**	1,2,3,4,5,6	Table in APPENDIX 2 - GRI CONTENT TABLE Point 11 Committed to the community 11.1 Social action
Goal 9: **Industry, innovation and infrastructure**	3,4,5,6,7,8,9	Table in APPENDIX 2 - GRI CONTENT TABLE 9. COMMITTED TO INNOVATION 9.1 Innovation strategy

	Sustainable development Goal	Relationship with the 10 principles of the Global Compact	Reference
	Goal 10: **Reduced inequalities**	1,2,3,4,5,6,10	Table in APPENDIX 2 - GRI CONTENT TABLE Point 7.1 Generating stable and high-quality employment 7.2 A diversity that enriches
	Goal 11: **Sustainable cities and communities**	1,2,7,8,9	Table in APPENDIX 2 - GRI CONTENT TABLE Point 11 Committed to the community 11.1 Social action
	Goal 12: **Responsible consumption and production**	7,8,9	Table in APPENDIX 2 - GRI CONTENT TABLE Point 11 Committed to the community 11.1 Social action
	Goal 13: **Climate action**	7,8,9	Table in APPENDIX 2 - GRI CONTENT TABLE Point 8 COMMITTED TO THE ENVIRONMENT Point 8.2 Climate change and energy
	Goal 14: **Life below water**	7,8,9	Table in APPENDIX 2 - GRI CONTENT TABLE Point 8 COMMITTED TO THE ENVIRONMENT Point 8.3 Water consumption management Point 11 Committed to the community 11.1 Social action
	Goal 15: **Life on land**	7,8,9	Table in APPENDIX 2 - GRI CONTENT TABLE Point 8 COMMITTED TO THE ENVIRONMENT
	Goal 16: **Peace, justice and strong institutions**	1,2,3,4,5,6,10	Table in APPENDIX 2 - GRI CONTENT TABLE Point 11 Committed to the community 11.1 Social action
	Goal 17: **Partnerships for the goals**	1,2,3,4,5,6,7,8,9,10	Table in APPENDIX 2 - GRI CONTENT TABLE Point 10 Committed to the community 11.2 & 11.3 Social action - Collaborating with educational institutions Collaborating with associations

APPENDIX 6 - Verification report

Acerinox, S.A. and Subsidiaries

Independent limited assurance report on the Consolidated Non-Financial Statement of Acerinox, S.A. and Subsidiaries

February 25th, 2021

Deloitte.

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Translation of a report originally issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails.

INDEPENDENT LIMITED ASSURANCE REPORT

To the Shareholders of Acerinox S.A.:

In accordance with Article 49 of the Spanish Commercial Code, we have performed the verification, with a scope of limited assurance, of the Non-Financial Information Statement (hereinafter, NIFS) for the year ended 31 December 2020 included in the Annual Integrated Report of Acerinox, S.A. (hereinafter, the Parent Company) and subsidiaries (hereinafter, the Group), which forms part of the Group's Consolidated Management Report.

The Annual Integrated Report includes information additional to that required by current Spanish corporate legislation relating to non-financial reporting and by the Global Reporting Initiative Standards for sustainability reporting (GRI standards), that was not the subject matter of our verification. In this regard, our work was limited solely to verification of the information identified in Appendix 2 "GRI content table" and in Appendix 3 "Statement of non-financial information content table".

Responsibilities of the Directors and of Management

The preparation of the NFIS included in the Annual Integrated Report of the Group, as well as its content, are the responsibility of the Board of Directors of the Parent Company. The NFIS was prepared in accordance with the content specified in current Spanish corporate legislation, with GRI standards in their core option, as well as other criteria described as indicated for each matter in Appendix 2 "GRI content table" and in Appendix 3 "Statement of non-financial information content table".

These responsibilities also include the design, implementation and maintenance of such internal control as is determined to be necessary to enable the NFIS to be free from material misstatement, whether due to fraud or error.

The Directors and the Management of the Parent Company are also responsible for defining, implementing, adapting and maintaining the management systems from which the information necessary for the preparation of the NFIS is obtained.

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA), which is based on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Deloitte, S.L. Inscrita en el Registro Mercantil de Madrid, tomo 13.650, sección 8ª, folio 188, hoja M-54414, inscripción 96ª. C.I.F.: B-79104469.
Domicilio social: Plaza Pablo Ruiz Picasso, 1, Torre Picasso, 28020, Madrid.

Our firm applies International Standard on Quality Control 1 (ISQC 1) and, accordingly, maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Our engagement team consisted of professionals who are experts in reviews of non-financial information and, specifically, in information about economic, social and environmental performance.

Our Responsibility

Our responsibility is to express our conclusions in an independent limited assurance report based on the work performed. We conducted our review in accordance with the requirements established in International Standard on Assurance Engagements (ISAE) 3000 Revised, Assurance Engagements other than Audits or Reviews of Historical Financial Information, currently in force, issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC), and with the guidelines published by the Spanish Institute of Certified Public Accountants on attestation engagements on regarding non-financial information statements.

The procedures performed in a limited assurance engagement vary in nature and timing from and are less in extent than for a reasonable assurance engagement and, consequently, the level of assurance provided is also lower.

Our work consisted in requesting information from management and the various units of the Group that participated in the preparation of the NFIS, reviewing the processes used to compile and validate the information presented in the NFIS, and carrying out the following analytical procedures and sample-based review tests:

- Meetings held with Group personnel to ascertain the business model, policies and management approaches applied, and the main risks relating to these matters, and to obtain the information required for the external verification.
- Analysis of the scope, relevance and completeness of the contents included in the NFIS based on the materiality analysis performed by the Group and described in the chapter 5.1 "Stakeholders and materiality analysis" of the Annual Integrated Report, also considering the contents required under current Spanish corporate legislation.
- Analysis of the processes used to compile and validate the data included in the 2020 NFIS.
- Review of the information relating to risks and the policies and management approaches applied in relation to the material matters described in the 2020 NFIS.

- Verification, by means of sample-based review tests, of the information relating to the contents included in the 2020 NFIS, and the appropriate compilation thereof based on the data furnished by information sources.
- Obtainment of a representation letter from the directors and management.

Conclusion

Based on the procedures performed, no matter has come to our attention that causes us to believe that the NFIS of the Group for the year ended December 31, 2020 has not been prepared, in all material respects, in accordance with the content specified in current Spanish corporate legislation and in keeping with the criteria of the selected GRI standards in their core option, as well as those other criteria described in accordance with what is mentioned for each subject in Appendix 2 "GRI content table" and in Appendix 3 "Statement of non-financial information content table".

Use and distribution

This report has been prepared in response to the requirement established in current Spanish corporate legislation, so it may not be suitable for other purposes and jurisdictions.

DELOITTE, S.L

February 25th,2021

Mª Concepción Iglesias Jiménez

Interior tower BA in NAS

ACERINOX, S.A.
and Subsidiaries

Financial Statements
of the Consolidated Group
for the year ended 31 December 2020

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group (see Note 2). In the event of a discrepancy, the Spanish-language version prevails.

Acerinox, S.A. and its subsidiaries

Auditor´s report
Consolidated annual accounts at December 31, 2020
Consolidated management report

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 the consolidated annual accounts

To the shareholders of Acerinox, S.A.,

Report on the consolidated annual accounts

Opinion

We have audited the consolidated annual accounts of Acerinox, S.A. (the Parent company) and its subsidiaries (the Group), which comprise the statement of financial position as at December 31, 2020, and the statement of profit or loss, statement of comprehensive income, statement of changes in equity, statement of cash flows and related notes, all consolidated, for the year then ended.

In our opinion, the accompanying consolidated annual accounts present fairly, in all material respects, the equity and financial position of the Group as at December 31, 2020, as well as its financial performance and cash flows, all consolidated, for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU) and other provisions of the financial reporting framework applicable in Spain.

Basis for opinion

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

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

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

Key audit matters

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

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Inscrita en el R.O.A.C. con el número S0242 - CIF: B-79 031290

Key audit matter	How our audit addressed the key audit matter
VDM Metals Group business combination	
Business combinations are complex processes and, as detailed in note 2.5.c) of the accompanying consolidated report, are agreements that determine significant accounting impacts, both on the consolidated statement of financial position and in the consolidated statement of profit or loss of the current year and future years of the Group, as they require the identification, valuation and accounting of the assets acquired and the liabilities and commitments assumed, and the consequent goodwill. The Group, in financial year 2020, has carried out the acquisition of the VDM Metals Group as described in note 5.1 of the attached consolidated report. The accounting record, at fair value, of the assets acquired and the liabilities assumed has required the use of different valuation methodologies based on complex judgments and estimates. The Group Management has hired an expert on whom it has relied to carry out the mentioned exercise. The valuation criteria, as well as the judgments and estimates made have a significant impact on the Group annual accounts for the year 2020, which motivates it to be considered a key issue for our audit.	First, we have obtained a complete understanding of the conditions of the acquisition agreements, including the consideration transferred, and of the financial statements related to the acquisition; and we have proceeded to review the value assignments and valuations of the assets acquired and the registered obligations provided by the Group Management, as well as the final process for determining goodwill. With the support of our firm's experts in business combinations, we have analyzed the accounting treatment and the methodology used for the valuation of recorded assets and liabilities, as well as the discount rates applied. Moreover, we have evaluated the competence, capacity, objectivity and conclusions of the expert hired by the Group Management, as well as the adequacy of their work as audit evidence. As a result of our analysis, we have been able to verify the consistency of the criteria applied by the Group Management and of the amounts recorded in the accounting for the business combination carried out in financial year 2020, as well as the suitability of the information provided in the consolidated annual accounts attached.
VDM Metals Group goodwill recovery	
As indicated in notes 2.7, 2.11 and 7.1 of the attached consolidated annual report, the goodwill recorded in 2020 basically includes that arising from the acquisition of 100% of the stake in the company VDM Metals Holding, Gmbh. The Group Management has estimated the recoverable value of said goodwill (note 2.11 of the attached consolidated report).	First, we have understood the relevant processes and controls related to the goodwill impairment assessment prepared by the Group Management, including those related to the preparation of budgets and the analysis and monitoring of projections, which constitute the basis for the main judgments and estimates made by the Group Management.

Key audit matter	How our audit addressed the key audit matter
For the recoverable value calculations, Group Management has used cash flow projections based on financial budgets approved by Management that have required relevant judgments and estimates that include, among others, the operating result on sales and discount and growth rates in the long term. The most significant assumptions used by the Group Management and the sensitivity analysis performed are summarized in note 7.1 of the attached consolidated report. Deviations in these Management's variables and estimates can determine important variations in the calculations made and, therefore, in the analysis of the goodwill recovery. This fact, together with the relevance of the financial statements line item, motivates it to be a key audit matter.	In relation to the estimated cash flows, we have analyzed the methodology of the calculations made, we have compared the projected annual flows with those actually achieved in fiscal year 2020, and we have contrasted the key assumptions used by the Group Management with historical results, available comparable, relevant industry factors and other external sources. For this we have relied on valuation experts from our firm. Additionally, we have evaluated the reasonableness of the sensitivity disclosed in the accompanying consolidated annual accounts. As a result of the analysis performed, we consider that the conclusions of the Group Management regarding the non-existence of goodwill impairment, the estimates made and the information disclosed in the accompanying consolidated annual accounts are adequately supported and are consistent with the information currently available.
Recovery of property, plant and equipment	
As indicated in notes 2.11 and 8.1 of the accompanying consolidated annual report, the Group Management assesses at the end of each fiscal year if there are indications of impairment of assets. In the event of such an indication, the Group Management estimates its recoverable amount. Note 8.1 details the Cash Generating Units (CGUs) that show signs of impairment. For the calculations of recoverable value through value in use, Group Management uses cash flow projections based on financial budgets approved by Management that require relevant judgments and estimates that include, among others, operating results on sales, discount rates and long-term growth, considering that the projected flows are subject to high uncertainty. For the specific case of Bahru Stainless CGU, as mentioned in note 8.1 of the attached consolidated report, the Group Management has relied on an expert to determine the recoverable value based on the fair value less cost of sale in the context of an impairment test analysis from the perspective of a market participant.	As a starting point for our procedures, we have understood the relevant processes and controls related to the evaluation of impairments in property, plant and equipment by Group Management, including those related to the preparation of budgets and the analysis and monitoring of projections, which constitute the basis for the main judgments and estimates made by the Group Management. In relation to the estimated cash flows, we have analyzed the methodology of the calculations made, we have compared the projected annual flows with those actually achieved in fiscal year 2020, and we have contrasted the key assumptions used by the Group Management with historical results, available comparable, relevant industry factors and other external sources. For this we have relied on valuation experts from our firm. Moreover, we have evaluated the competence, capacity, objectivity and conclusions of the expert hired by the Group Management, as well as the adequacy of their work as audit evidence.

Key audit matter	How our audit addressed the key audit matter
The most significant assumptions used by the Group Management and the sensitivity analysis performed are summarized in note 8.1 of the attached consolidated report. As mentioned in said note 8.1, in 2020 an impairment of 41,159 thousand euros has been recorded for the net assets of the Bahru Stainless CGU. Deviations in the variables and estimates of Management can determine important variations in the conclusions reached and, therefore, in the analysis of the recovery of property, plant and equipment. This fact, together with the relevance of this financial statement line item and the consequent impairment recorded, motivates it to be a key audit matter.	Additionally, we have evaluated the reasonableness of the sensitivity analysis disclosed in the accompanying consolidated annual accounts. As a result of the procedures performed, we consider that the conclusions of the Group Management on the estimates made and the consequent impairment recorded, as well as the information disclosed in the accompanying consolidated annual accounts, are adequately supported and are consistent with the information currently available.
Recovery of deferred tax assets	
As of December 31, 2020, the accompanying consolidated annual accounts reflect an amount of 107,273 thousand euros of deferred tax assets, and net of an amount of 50,903 thousand euros of deferred tax liabilities, the recovery of which depends on the generation of positive taxable income bases in the Corporate Tax in future years (notes 2.19, 3.j and 19.3.3 of the attached consolidated report). The recognition and recovery of these deferred tax assets is analyzed by the Group Management by estimating the tax bases for the coming years, based on the business plans of the different Group companies, and on the planning possibilities that allow the tax legislation applicable to each company and to the consolidated tax group headed by the parent company. As mentioned in note 19.2, in 2020 an amount of 23,655 thousand euros was written off as a result of the aforementioned analysis.	First, we have proceeded to understand and evaluate the criteria used by the Group Management to estimate the possibilities of using and recovering deferred tax assets in the following years, related to business plans. Based on the business plans prepared by the Group Management, we have compared the projected annual cash flows with those actually achieved in 2020 and we have contrasted the key assumptions, estimates and calculations made for their preparation, comparing them with the historical, comparable performance available, relevant industry factors and other external sources. As part of the analysis, we have also evaluated the tax adjustments considered for the estimation of tax bases, the applicable tax regulations, as well as the decisions about the possibilities of using the tax benefits corresponding to the different companies of the Group.

Key audit matter	How our audit addressed the key audit matter
Consequently, the conclusion on the recognition and recovery of the deferred tax assets shown in the attached consolidated statement of financial position is subject to significant judgments and estimates by the Group Management both with respect to future tax results and to the applicable tax regulations in the different jurisdictions where it operates. This fact, together with the relevance of this financial statement line item and the consequent deregistration, motivates it to be a key audit matter.	The analysis performed have made it possible to verify that the calculations and estimates made by the Group Management, as well as the conclusions reached, in relation to the recognition, recovery and consequent write-off of deferred tax assets, are consistent with the current situation, with the expectations of future results of the Group and with its tax planning possibilities available in the current legislation.

Other information: Consolidated management report

Other information comprises only the consolidated management report for the 2020 financial year, the formulation of which is the responsibility of the Parent company´s directors and does not form an integral part of the consolidated annual accounts.

Our audit opinion on the consolidated annual accounts does not cover the consolidated management report. Our responsibility regarding the consolidated management report, in accordance with legislation governing the audit practice, is to:

a) Verify only that the statement of non-financial information and certain information included in the Annual Corporate Governance Report, as referred to in the Auditing Act, has been provided in the manner required by applicable legislation and, if not, we are obliged to disclose that fact.

b) Evaluate and report on the consistency between the rest of the information included in the consolidated management report and the consolidated annual accounts as a result of our knowledge of the Group obtained during the audit of the aforementioned financial statements, as well as to evaluate and report on whether the content and presentation of this part of the consolidated management report is in accordance with applicable regulations. If, based on the work we have performed, we conclude that material misstatements exist, we are required to report that fact.

On the basis of the work performed, as described above, we have verified that the information mentioned in section a) above has been provided in the manner required by applicable legislation and that the rest of the information contained in the consolidated management report is consistent with that contained in the consolidated annual accounts for the 2020 financial year, and its content and presentation are in accordance with applicable regulations.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Report on other legal and regulatory requirements

European single electronic format

We have examined the digital files of the European single electronic format (ESEF) of Acerinox, S.A. and its subsidiaries for the 2020 financial year that comprise an XHTML file which includes the consolidated annual accounts for the financial year and XBRL files with tagging performed by the entity, which will form part of the annual financial report.

The directors of Acerinox, S.A. are responsible for presenting the annual financial report for the 2020 financial year in accordance with the formatting and markup requirements established in the Delegated Regulation (EU) 2019/815 of 17 December 2018 of the European Commission (hereinafter the ESEF Regulation).

Our responsibility is to examine the digital files prepared by the Parent company´s directors, in accordance with legislation governing the audit practice in Spain. This legislation requires that we plan and execute our audit procedures in order to verify whether the content of the consolidated annual accounts included in the aforementioned digital files completely agrees with that of the consolidated annual accounts that we have audited, and whether the format and markup of these accounts and of the aforementioned files has been effected, in all material respects, in accordance with the requirements established in the ESEF Regulation.

In our opinion, the digital files examined completely agree with the audited consolidated annual accounts, and these are presented and have been marked up, in all material respects, in accordance with the requirements established in the ESEF Regulation.

Report to the Parent company´s audit committee

The opinion expressed in this report is consistent with the content of our additional report to the Parent company's audit committee dated February 23, 2021.

Appointment period

The General Ordinary Shareholders' Meeting held on October 22, 2020 appointed us as auditors of the Group for a period of one year, as from the year ended December 31, 2020.

Previously, we were appointed by resolution of the General Shareholders' Meeting for a period of three years and we have audited the accounts continuously since the year ended December 31, 2017.

Services provided

Services provided, other than the audit of the accounts, to the audited Group, have been disclosed in the note 21 of the consolidated annual accounts.

PricewaterhouseCoopers Auditores, S.L. (S0242)

Jon Toledano Irigoyen (20518)

February 26, 2021

CONSOLIDATED FINANCIAL STATEMENTS

1. CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Amounts in thousands of euros at 31 December 2020 and 2019)

ASSETS	Notes	2020	2019
Non-current assets			
Goodwill	7	51,064	1,235
Other intangible assets	7	49,576	3,233
Property, plant and equipment	8	1,821,931	1,793,740
Investment property	9	13,326	16,343
Right-of-use assets	10	15,252	6,379
Investments accounted for using the equity method	5.3	390	0
Financial assets at fair value through other comprehensive income	12	8,151	10,402
Deferred tax assets	19	107,273	101,033
Other non-current financial assets	12	2,571	968
TOTAL NON-CURRENT ASSETS		2,069,534	1,933,333
Current assets			
Inventories	11	1,182,488	1,016,263
Trade and other receivables	12	507,006	523,060
Other current financial assets	12	22,661	7,112
Current income tax assets	19	34,302	40,094
Cash and cash equivalents	13	917,118	876,935
TOTAL CURRENT ASSETS		2,663,575	2,463,464
TOTAL ASSETS		4,733,109	4,396,797

The accompanying Notes 1 to 22 are an integral part of these consolidated financial statements.

(Amounts in thousands of euros at 31 December 2020 and 2019)

EQUITY AND LIABILITIES	Notes	2020	2019
Equity			
Share capital	14	67,637	67,637
Share premium	14	258	27,313
Reserves	14	1,585,881	1,760,500
Profit (Loss) for the year	14	49,049	-59,545
Translation differences	14	-131,919	76,331
Other equity instruments	14	2,170	1,446
Shares of the Parent	14	-1,062	-1,062
EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT		1,572,014	1,872,620
Non-controlling interests	14	42,966	56,369
TOTAL EQUITY		1,614,980	1,928,989
Non-current liabilities			
Deferred income	15	12,911	10,310
Debt instruments and other marketable securities	12	74,650	74,550
Bank borrowings	12	1,335,039	977,187
Long-term provisions	16	196,761	49,092
Deferred tax liabilities	19	179,044	126,915
Other non-current financial liabilities	12	28,561	15,629
TOTAL NON-CURRENT LIABILITIES		1,826,966	1,253,683
Current liabilities			
Debt instruments and other marketable securities	12	1,634	1,634
Bank borrowings	12	278,034	318,197
Trade and other payables	12	987,559	857,823
Current income tax liabilities	19	6,142	27,582
Other current financial liabilities	12	17,794	8,889
TOTAL CURRENT LIABILITIES		1,291,163	1,214,125
TOTAL EQUITY AND LIABILITIES		4,733,109	4,396,797

The accompanying Notes 1 to 22 are an integral part of these consolidated financial statements.

2. CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

(Amounts in thousands of euros at 31 December 2020 and 2019)

	Notes	2020	2019
Revenue	17	4,668,488	4,753,878
Other operating income	17	34,698	24,289
In-house work on non-current assets	17	2,898	7,611
Changes in inventories of finished goods and work in progress		-116,615	-39,455
Procurements		-3,051,833	-3,297,515
Staff costs	17	-507,526	-452,247
Depreciation and amortisation charge	7, 8, 9, 10	-179,090	-175,305
Other operating expenses	17	-646,732	-633,156
Impairment of goodwill and property, plant and equipment	7.8	-41,159	-165,453
PROFIT FROM OPERATIONS		163,129	22,647
Finance income	18	7,459	19,045
Finance costs	18	-45,110	-34,331
Exchange differences	18	10,485	16,978
Remeasurement of financial instruments at fair value	18	-4,346	-1,256
PROFIT FROM ORDINARY ACTIVITIES		131,617	23,083
Income tax	19	-87,644	-99,121
Other taxes	19	-1,335	7,829
PROFIT (LOSS) FOR THE YEAR		42,638	-68,209
Attributable to:			
NON-CONTROLLING INTERESTS		-6,411	-8,664
NET PROFIT (LOSS) ATTRIBUTABLE TO THE GROUP		49,049	-59,545
Basic and diluted earnings per share (in euros)	14.9	0.18	-0.22

The accompanying Notes 1 to 22 are an integral part of these consolidated financial statements.

3. CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in thousands of euros at 31 December 2020 and 2019)

	Notes	2020	2019
A) PROFIT (LOSS) PER CONSOLIDATED STATEMENT OF PROFIT OR LOSS		42,638	-68,209
B) OTHER COMPREHENSIVE INCOME - ITEMS NOT RECLASSIFIED TO PROFIT OR LOSS		-4,403	-834
1. Arising from measurement of equity instruments at fair value through other comprehensive income	12.2.5	-2,294	-1,112
2. Arising from actuarial gains and losses and other adjustments	16.1	-4,016	
3. Tax effect	19	1,907	278
C) OTHER COMPREHENSIVE INCOME - ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS		-218,073	-38,243
1. Arising from cash flow hedges			
- Revaluation gains (losses)	12.2.6	-6,569	-5,430
- Amounts transferred to profit or loss	12.2.6	2,814	2,483
2. Translation differences			
- Revaluation gains (losses)		-215,254	-36,030
- Amounts transferred to profit or loss			
3. Tax effect	19	936	734
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		-179,838	-107,286
a) Attributable to the Parent		-166,423	-100,949
b) Attributable to non-controlling interests		-13,415	-6,337

The accompanying Notes 1 to 22 are an integral part of these consolidated financial statements.

4. CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Amounts in thousands of euros at 31 December 2020 and 2019)

	Notes	Equity attributable to shareholders of the Parent											Non-controlling interests	TOTAL EQUITY
		Share capital	Share premium	Retained earnings in reserves (including profit or loss for the year)	Reserves for revaluation of non-current assets	Reserves for cash flow hedges	Reserves for fair value adjustments to financial assets	Reserves for actuarial adjustments	Translation differences	Other equity instruments	Treasury shares	TOTAL		
Equity at 31/12/18		69,017	81,403	1,804,068	5,242	-3,453	-5,023	173	113,991	601	-3,417	2,062,602	56,697	2,119,299
2019 loss				-59,545								-59,545	-8,664	-68,209
Measurement of financial assets at fair value through other comprehensive income (net of tax)	12.2.5						-834					-834		-834
Cash flow hedges (net of tax)	12.2.6					-2,213						-2,213		-2,213
Translation differences	14.4								-38,357			-38,357	2,327	-36,030
Income and expense recognised in equity		0	0	0	0	-2,213	-834	0	-38,357	0	0	-41,404	2,327	-39,077
Total comprehensive income		0	0	-59,545	0	-2,213	-834	0	-38,357	0	0	-100,949	-6,337	-107,286
Dividends paid	14.2		-54,090	-81,136								-135,226		-135,226
Transactions with shareholders		0	-54,090	-81,136	0	0	0	0	0	0	0	-135,226	0	-135,226
Acquisition of treasury shares	14.1										-48,693	-48,693		-48,693
Redemption of treasury shares	14.1	-1,380		-49,680							51,048	-12		-12
Acquisition of non-controlling interests	5.2			-4,015					697			-3,318	5,993	2,675
Senior executive long-term incentive plan	16.1.3									845		845	16	861
Hyperinflation adjustments	14.6			198								198		198
Transfers				-5,023			5,023							
Other changes				97,173								97,173		97,173
Equity at 31/12/19		67,637	27,313	1,702,040	5,242	-5,666	-834	173	76,331	1,446	-1,062	1,872,620	56,369	1,928,989
2020 profit				49,049								49,049	-6,411	42,638
Financial assets at fair value through other comprehensive income (net of tax)	12.2.5						-1,719					-1,719		-1,719
Cash flow hedges (net of tax)	12.2.6					-2,819						-2,819		-2,819
Actuarial adjustments to obligations	16.1							-2,684				-2,684		-2,684
Translation differences	14.4								-208,250			-208,250	-7,004	-215,254
Income and expense recognised in equity		0	0	0	0	-2,819	-1,719	-2,684	-208,250	0	0	-215,472	-7,004	-222,476
Total comprehensive income		0	0	49,049	0	-2,819	-1,720	-2,684	-208,250	0	0	-166,423	-13,415	-179,838
Capital increase (scrip dividend)														
Dividends paid	14.2		-27,055	-108,218								-135,273		-135,273
Transactions with shareholders		0	-27,055	-108,218	0	0	0	0	0	0	0	-135,273	0	-135,273
Senior executive long-term incentive plan	16.1.3									724		724	12	736
Hyperinflation adjustments	14.6			140								140		140
Other changes	14.4			226								226		226
Equity at 31/12/20		67,637	258	1,643,237	5,242	-8,485	-2,553	-2,511	-131,919	2,170	-1,062	1,572,014	42,966	1,614,980

The accompanying Notes 1 to 22 are an integral part of these consolidated financial statements.

5. CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in thousands of euros at 31 December 2020 and 2019)

	Notes	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**131,617**	**23,083**
Adjustments for:			
Depreciation and amortisation charge	7, 8, 9, 10	179,090	175,305
Impairment losses		23,645	163,549
Net changes in provisions and allowances		11,004	42,267
Recognition of grants in profit or loss	15	-7,144	-8,124
Gains or losses on disposals of non-current assets	8.9	3,790	-3,688
Gains or losses on disposals of financial instruments			
Changes in fair value of financial instruments		-6,709	-27,565
Finance income	18	-7,458	-19,045
Finance costs	18	45,111	34,331
Share of results of associates			
Other income and expenses		-40,151	13,041
Changes in working capital:			
(Increase)/Decrease in trade and other receivables		33,555	91,509
(Increase)/Decrease in inventories		191,431	21,106
Increase/(Decrease) in trade and other payables		-2,201	-16,733
Other cash flows from operating activities			
Interest paid		-43,162	-33,420
Interest received		7,399	18,808
Income tax paid		-99,272	-115,701
NET CASH FLOWS FROM OPERATING ACTIVITIES		420,545	358,723
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property, plant and equipment		-99,704	-144,715
Acquisition of intangible assets		-1,728	-940
Acquisition of subsidiary, net of cash acquired	5	-273,563	
Acquisition of other financial assets		-790	-185
Proceeds from disposal of property, plant and equipment		3,244	15,159
Proceeds from disposal of intangible assets			
Proceeds from disposal of other financial assets		4	3
Dividends received		60	237
Other proceeds/(payments) relating to investing activities			2,676
NET CASH FLOWS FROM INVESTING ACTIVITIES		-372,477	-127,765
CASH FLOWS FROM FINANCING ACTIVITIES			
Issue of own equity instruments			
Acquisition of treasury shares			-48,693
Disposal of treasury shares			-12
Income from borrowings	12.2.3	839,432	420,453
Repayment of interest-bearing liabilities	12.2.3	-636,661	-456,575
Dividends paid	14	-108,218	-81,136
Distribution of share premium	14	-27,055	-54,090
Contribution from non-controlling interests			
NET CASH FLOWS FROM FINANCING ACTIVITIES		67,498	-220,053
NET INCREASE IN CASH AND CASH EQUIVALENTS		115,566	10,905
Cash and cash equivalents at beginning of year	13	876,935	850,113
Effect of foreign exchange rate changes		-75,383	15,917
CASH AND CASH EQUIVALENTS AT END OF YEAR	13	917,118	876,935

The accompanying Notes 1 to 22 are an integral part of these consolidated financial statements.

CONTENTS: NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 GENERAL INFORMATION

Name of the Parent: Acerinox, S.A. ("the Company").

Incorporation: the Company was incorporated as a public limited liability company for an indefinite period of time on 30 September 1970.

Registered office: calle Santiago de Compostela, no. 100, Madrid, Spain.

Company object and main business activities: The Group's main business activities, which coincide with the Company object, consist of the manufacture, processing and marketing of stainless steel products and special alloys. These activities are performed through its subsidiaries.

Through its stainless steel division, the Acerinox Group is one of the world's main stainless steel manufacturers, with a melting shop production capacity of 3.5 million tonnes. It has six stainless steel factories: two flat product factories, located in Spain and South Africa; one flat and long product factory in the USA; two long product factories in Spain; and one flat product factory in Malaysia, which at the reporting date has cold-rolling production lines. Also, the Group has a network of commercial subsidiaries in Spain and abroad which engage mainly in marketing all of its products.

In the high-performance alloys division, the Acerinox Group is a global leader in specialty alloys through VDM.

As of 17 March 2020, Acerinox acquired 100% of the shares in VDM Metals Holding GmbH (VDM), a German-based group of companies with 5 factories in Germany and 2 in the US, and its own distribution network for the distribution of its products.

With this transaction, Acerinox Group is diversifying into higher value-added areas. VDM represents a great opportunity for Acerinox to grow in new markets and sectors such as aerospace, chemical industry, medical, hydrocarbons and renewable energy, water treatment and emission control.

Note 5.1 includes detailed information on this transaction.

Note 5 details all the companies included in the scope of consolidation of Acerinox and the business activities they each perform.

The Parent's main business activity is that of a holding company, in its condition as the Parent of the Acerinox Group. Also, the Company provides legal, accounting and advisory services to all Group companies and performs financing activities within the Group.

Fiscal year: The fiscal year of Acerinox, S.A. and of all its Group companies covers 12 months. It begins on 1 January and ends on 31 December. Although the fiscal year of the companies that make up the VDM Group began on 1 October and ended on 30 September, the bylaws were amended with effect from 1 January 2021, thus aligning the fiscal and accounting year with the calendar year. With respect to 2020, all the balances and transactions of the acquired group from its acquisition up to 31 December 2020 were included.

Authorisation for issue of the consolidated financial statements: These consolidated financial statements were authorised for issue by the Board of Directors of Acerinox, S.A. on 25 February 2021.

NOTE 2 – ACCOUNTING POLICIES

2.1 Statement of compliance

These consolidated financial statements of the Group were prepared in accordance with the International Financial Reporting Standards (IFRSs) and related interpretations (IFRICs) adopted by the European Union ("EU-IFRSs") and with the other provisions of the applicable regulatory financial reporting framework.

As a result of the purchase of VDM, the Group assessed the accounting policies applied by all the companies belonging to the group and ensured that they were standardised in line with the policies established by the Acerinox Group which are detailed in this note.

The consolidated financial statements for 2020 were prepared using the same accounting principles (EU-IFRSs) as were used for 2019, except for the amendments adopted by the European Union and mandatorily applicable from 1 January 2020 onwards, which were as follows:

- Definition of a Business (Amendments to IFRS 3): these amendments provide assistance in determining whether a business or a group of assets has been acquired. The amended definition emphasises that the output of a business is to provide goods and services to customers, whereas the previous definition focused on returns in the form of dividends, lower costs or other economic benefits to investors and others. These amendments affect business combinations the acquisition date of which is on or after 1 January 2020. The Group took these amendments into account when recognising the business combination that took place upon acquisition of all the shares of VDM Metals Holding GmbH.

- Definition of Material (Amendments to IAS 1 and IAS 8): no impact on the Group.

- Amendments to IFRS 9, IFRS 7 and IAS 39 relating to the interest rate benchmark reform: the amendments provide certain exemptions in relation to the interest rate benchmark reform (IBOR), which relate mainly to hedge accounting. The IBOR reform should not generally cause hedge accounting to cease. However, any hedge ineffectiveness must continue to be recognised in profit or loss. The application of these amendments did not have any impact on the Group.

- Covid-19-Related Rent Concessions (Amendment to IFRS 16): the IASB issued an amendment to IFRS 16, Leases, which provides an optional practical expedient for lessees when assessing whether a covid-19-related rent concession constitutes a lease modification. Lessees can opt to account for such lease concessions as if they were not lease modifications. In many cases, this will result in accounting for the concession as variable lease payments in the period(s) in which the event or condition that triggers the reduced payment occurs. The amendment does not grant the same option to lessors, who are required to apply the current requirements of IFRS 16 and to consider whether or not a modification of the corresponding lease has occurred. This amendment is effective for annual reporting periods beginning on or after 1 June 2020, although it must be applied retrospectively and from 1 June 2020 at the latest for annual reporting periods beginning on or after 1 January 2020. The Group was not affected, as it did not have any significant leases affected by covid-19.

2.2 Assessment of the main standards, amendments and interpretations that will be mandatorily applicable the coming years

There are new standards, amendments and interpretations which will be mandatorily applicable in the coming years and have not been applied early.

The standards, amendments or interpretations not yet adopted by the European Union that could have an impact for the Group and will be mandatorily applicable in the coming years are as follows:

- Amendments to IFRS 10 and IAS 28: these amendments clarify the accounting treatment of sales and contributions of assets between an investor and its associates and joint ventures. The amendments only apply when an investor sells or contributes assets to its associate or joint venture. The Group does not expect the application of these amendments to have any impact, as the interests in associates are not material.

- Classification of Liabilities as Current or Non-current (Amendments to IAS 1): these amendments clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date. The effective date of application of these amendments is 1 January 2022, although their early adoption is allowed. The Group does not expect the application of these amendments to have any impact on its consolidated financial statements. These amendments have not yet been approved for use in the European Union.

- Property, Plant and Equipment – Proceeds before Intended Use (Amendments to IAS 16): these amendments prohibit the deduction from the cost of property, plant and equipment of any proceeds from the sale of items produced while an entity is preparing the asset for its intended use. The proceeds from the sale of any such samples, together with the related production costs, must be recognised in profit or loss. The amendments also clarify that an entity is considered to be testing whether an asset functions correctly when it assesses the asset's physical and technical performance. That is to say, the asset's financial performance is not relevant to this assessment. Therefore, an asset could be ready to operate in the manner intended by management and be subject to depreciation before the level of operation expected by management is achieved. The effective date of application of these amendments is 1 January 2022. Until the reporting date, the Group had always recognised in profit or loss the proceeds from the sale of items produced while the assets were being readied for their intended use; accordingly, the application of these amendments did not have any impact on the Group. With regard to the date on which the items are ready for their intended use, as established in the Group's policies, an asset is considered to be ready for its intended use, and can therefore begin to be depreciated, when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. These amendments have not yet been approved for use in the European Union.

- Onerous Contracts – Costs of Fulfilling a Contract (Amendments to IAS 37): these amendments explain that the direct cost of fulfilling a contract includes the incremental costs of fulfilling that contract or an allocation of other costs that relate directly to fulfilling contracts. They also clarify that before recognising a separate provision for an onerous contract, the entity shall recognise any impairment losses on the assets used to fulfil the contract, rather than the assets dedicated to that contract. The effective date of application of these amendments is 1 January 2022. These amendments have not yet been approved for use in the European Union. The Group does not expect any impact to arise from the application of these amendments, as it does not have contracts of this nature.

- Reference to the Conceptual Framework (Amendments to IFRS 3): IFRS 3 has been updated to refer to the 2018 Conceptual Framework in order to determine what constitutes an asset or a liability in a business combination. Also, a new exception was added in IFRS 3 for liabilities and contingent liabilities. The effective date of application of these amendments is 1 January 2022. The amendments have not yet been approved for use in the European Union. The Group will take the amendments into consideration in future business combinations.

- Annual Improvements to IFRSs, 2018-2020 cycle: these amendments affect IFRS 1, IFRS 9, IFRS 16 and IAS 41 and apply to annual reporting periods beginning on or after 1 January 2022. No impacts are expected at the Group.

2.3 Basis of presentation of the consolidated financial statements

These consolidated financial statements of the Group were formally prepared by the Parent's directors to present fairly the Group's consolidated equity and consolidated financial position as at 31 December 2020 and 2019, and the consolidated results of its operations, the changes in consolidated equity and the consolidated cash flows of the Group for the years then ended.

The figures for 2019 are presented for comparison purposes with the figures for 2020 for each item in the consolidated financial statements.

These consolidated financial statements were prepared in euros, rounding the figures off to the nearest thousand, and were prepared on a historical cost basis, except for the following assets and liabilities which were measured at fair value: derivative financial instruments, financial assets at fair value through other comprehensive income and the defined benefit plans. Inventories were measured at the lower of cost and net realisable value.

These consolidated financial statements were prepared on the basis of the separate accounting records of the Parent and of each of the subsidiaries that make up the Acerinox Group. The consolidated financial statements include certain adjustments and reclassifications made to unify the accounting and presentation policies applied by the Group companies with those applied by the Company.

Preparation of the consolidated financial statements in accordance with EU-IFRSs requires the Parent's directors to make certain judgements, estimates and assumptions that affect the application of the accounting policies and, therefore, the figures presented in the consolidated statement of financial position and consolidated statement of profit or loss. The estimates made are based on historical experience and other factors that are considered reasonable. The Group could revise such estimates if changes were to occur in certain events or circumstances. The areas requiring the greatest degree of judgement in applying EU-IFRSs and those involving estimates that are significant for the consolidated financial statements are disclosed in **Note 3**. Also, Note 4 provides qualitative and quantitative information on the risks assumed that could affect future years.

The consolidated financial statements for 2019 were approved by the shareholders at the Annual General Meeting held on 22 October 2020. The Group's consolidated financial statements for 2020 have not yet been approved by the shareholders at the Annual General Meeting. The Company's Board of Directors considers that these consolidated financial statements will be approved by the shareholders at the Annual General Meeting without any changes.

2.4 Going concern and accrual bases of accounting

The consolidated financial statements were prepared in accordance with the going concern basis of accounting. Revenue and expenses are recognised on an accrual basis and not on the basis of their dates of collection or payment.

2.5 Basis of consolidation

a) Subsidiaries

Subsidiaries are companies over which the Company directly or indirectly exercises control. The Company is deemed to exercise control when it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. Also, the Company is deemed to have power when it has existing substantive voting rights that give it the current ability to govern the financial and operating activities and policies of the subsidiary.

The financial statements of the subsidiaries are included in the annual consolidated financial statements from the date on which the Group obtains control, and are excluded from consolidation on the date that control ceases to exist.

The Group assesses the date on which control is obtained, also taking into account the possible restrictions established in the contracts that prevent control from being obtained until circumstances that are beyond the Group's control arise, such as approval by an international body or any other condition precedent provided for in the contract.

The Group took into account potential voting rights to assess the degree of control it exercises over the Group companies.

The accounting policies of the subsidiaries were adapted to the Group's accounting policies.

All the subsidiaries that form part of the Acerinox Group and were included in the scope of consolidation at 31 December 2020 and 2019 are listed in **Note 5**. Also, **Note 5.1** includes information on the business combination that occurred in 2020 with the purchase of the VDM Group.

b) Non-controlling interests

"Non-Controlling Interests" represents the portion of the Group's profit or loss and net assets attributable to non-controlling interests. The share of non-controlling interests both in the Group's net assets and in comprehensive income for the year are presented separately in consolidated equity, in the consolidated statement of profit or loss and in the consolidated statement of comprehensive income.

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

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

When the share of equity held by non-controlling interests changes, the Group adjusts the carrying amount of the controlling and non-controlling interests to reflect the changes that have arisen in its relative interests in the subsidiary. The Group recognises directly in equity the difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received, and attributes that difference to the owners of the Parent. The profit or loss attributable to the non-controlling shareholder from the date of acquisition is recognised as profit or loss attributable to non-controlling interests.

The Group assesses whether there are any clauses or financial instruments in contracts with non-controlling interests that could oblige the entity to deliver cash or another financial asset, or to settle it as if it were a financial liability, in order to determine its classification and measurement. For this purpose, all the terms and conditions agreed between the members of the Group and the holders of the instrument are considered. To the extent that there is an obligation or settlement provision, the instrument is classified as a financial liability in the consolidated financial statements.

These options are occasionally conditional on the occurrence of an uncertain future event beyond the control of both the issuer and the holder of the instrument. If, in addition, the issuer of such an instrument does not have the unconditional right to avoid delivering cash or another financial asset, it is deemed to be a financial liability of the issuer unless, inter alia, the part of the contingent settlement provision that could require settlement in cash or another financial asset is not genuine, i.e. is extremely exceptional, highly abnormal and very unlikely.

c) Business combinations

The Group applied IFRS 3, Business Combinations (revised 2008) to business combinations carried out on or after 1 January 2010.

The Group applies the acquisition method for business combinations.

The acquisition date is that on which the Group obtains control of the acquiree. The Group considers that control is obtained when the investor, due to its involvement with the acquiree, is exposed, or has rights, to variable returns and has the ability to affect those returns through its power over the investee. In an acquisition, the Group is generally deemed to have obtained control when the consideration is legally transferred and the assets and liabilities of the acquiree are acquired and assumed, respectively. However, control may be obtained at a prior date if, by means of a written agreement, a prior date of obtainment of control is envisaged. The Group considers all pertinent facts and circumstances in order to identify the acquisition date.

The consideration transferred in a business combination is calculated as the sum of the acquisition-date fair values of the assets transferred, the liabilities incurred or assumed, the equity interests issued and any contingent consideration that is contingent on future events or the fulfilment of certain conditions in exchange for control of the acquiree.

The consideration transferred excludes any amounts that are not part of the exchange for the acquiree. The costs associated with an acquisition are recognised as expenses on an accrual basis.

The Group recognises at their acquisition-date fair value the assets acquired and the liabilities assumed (and any non-controlling interest in the acquiree). The liabilities assumed include contingent liabilities to the extent that they represent present obligations that arise from past events and their fair value can be measured reliably. Also, the Group recognises indemnification assets granted by the seller at the same time that it recognises the indemnified item and following the same measurement criteria as those used for the indemnified item, considering, where applicable, the risk of default and any contractual limitation on the indemnified amount.

Exempt from application of this criterion are non-current assets and disposal groups classified as held for sale, long-term defined benefit obligation liabilities, share-based payment transactions, deferred tax assets and liabilities and intangible assets arising from the acquisition of previously granted rights.

The assets acquired and liabilities assumed are classified and designated for subsequent measurement on the basis of the contractual terms, economic conditions, operating and accounting policies and other pertinent conditions existing at the acquisition date, except in the case of leases in which the business acquired is the lessor and insurance contracts.

The acquirer's application of the recognition principle and conditions may result in recognising some assets and liabilities that the acquiree had not previously recognised as assets and liabilities in its financial statements.

Any excess of the consideration transferred plus the value assigned to the non-controlling interests over the net amount of the assets acquired and the liabilities assumed is recognised as goodwill.

If the business combination can only be provisionally calculated, the identifiable net assets are initially recognised at their provisional amounts, recognising the valuation adjustments made in the measurement period as if they had been known at the acquisition date and restating, where applicable, the comparative figures for the previous year. In any event, adjustments to provisional amounts only reflect information on facts and circumstances that existed at the acquisition date and, if known, would have affected the measurement of the amounts recognised at that date.

After the measurement period ends, the initial accounting for a business combination is revised only to correct an error.

Until they are settled, cancelled or expire, contingent liabilities are measured at the higher of the amount initially recognised less the amounts that should be recognised in profit or loss in accordance with the standard on recognition of revenue from customers and the amount that would be recognised in accordance with the standard on measuring provisions.

d) Associates

Associates are all entities over which the Group exercises significant influence in relation to financial and operating decisions, but over which it does not have control or joint control. In general terms, the Group is considered to exercise significant influence when it holds more than 20% of the voting power.

The financial statements of the associates are included in the consolidated financial statements using the equity method. The Group's share of the post-acquisition profits or losses of its associates is recognised in profit or loss for each year with a credit or charge to "Share of Results of Companies Accounted for Using the Equity Method" in the consolidated statement of profit or loss.

Losses of associates attributable to the Group are limited to the value of the net investment, since the Group has not incurred legal or constructive obligations.

The Group does not have any significant investments in associates.

e) Balances and transactions eliminated on consolidation

Intra-Group balances and transactions, as well as unrealised gains or losses with third parties arising from such transactions, are eliminated on preparation of the consolidated financial statements.

2.6 Translation differences

a) Functional and presentation currency

The items included in the financial statements of each Group company are measured using the currency of the primary economic environment in which the company operates (its functional currency). The functional currency of the majority of the Group companies is the local currency, except for Bahru Stainless, NAS Canada and NAS México, the functional currency of which is the US dollar. The consolidated financial statements are presented in thousands of euros, since the euro is the functional and presentation currency of the Parent.

b) Foreign currency transactions, balances and cash flows

Foreign currency transactions are translated to the functional currency using the exchange rate prevailing at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated at the reporting date at the exchange rates then prevailing. Any exchange differences that arise from such translation are recognised in profit or loss.

Non-monetary assets and liabilities denominated in foreign currencies and recognised at historical cost are translated to the functional currency using the exchange rates prevailing at the date of the transaction. The historical cost of non-monetary assets belonging to countries considered to be hyperinflationary is remeasured at the end of each reporting period, applying a price index to express them in terms of the measuring unit current at the end of the reporting period Section d) of this Note includes a detailed description of the measurement of line items corresponding to hyperinflationary economies.

Non-monetary assets and liabilities denominated in foreign currencies and measured at fair value are translated to the corresponding functional currency by applying the measurement date exchange rate. Exchange differences on non-monetary items measured at fair value are presented as a component of the fair value gain or loss.

In presenting the consolidated statement of cash flows, cash flows arising from transactions in a foreign currency are translated to the functional currency by applying the exchange rates prevailing at the date of the cash flow.

Exchange differences resulting from the settlement of foreign currency transactions and from translation to the functional currency of monetary assets and liabilities denominated in foreign currency are recognised in profit or loss.

c) Translation of foreign operations

For the preparation of the Group's consolidated financial statements, the assets and liabilities of the companies whose functional currency is not the euro are translated to euros by applying the exchange rates prevailing at the reporting date; on the other hand, income and expenses are measured at the average exchange rate for the period. Any exchange differences arising from that measurement are recognised as a separate component of equity and of the consolidated statement of comprehensive income ("Translation Differences"). The translation differences are reclassified to profit or loss when the company that generates them ceases to form part of the Group.

The Group applied the exemption for first-time application provided for in IFRS 1 in relation to cumulative translation differences and, accordingly, the translation differences recognised in the consolidated financial statements that were generated prior to 1 January 2004 are shown in retained earnings in reserves. Also, the Group did not retrospectively apply IAS 21, The Effects of Changes in Foreign Exchange Rates, to the goodwill that had arisen in the business combinations that occurred prior to the date of transition to the IFRSs. Therefore, the goodwill is considered to be an asset of the acquirer and not of the acquiree; accordingly, it will not experience fluctuations as a result of changes in the exchange rate of the acquiree.

In presenting the consolidated statement of cash flows, cash flows, including the comparative balances of foreign subsidiaries, are translated to euros by applying the same criteria as those applied for the restatement of the financial statements.

d) Restatement of financial information concerning hyperinflationary economies

On 1 July 2018, Argentina was declared to be a hyperinflationary economy, as it met the classification requirements established in IAS 29. The Acerinox Group has an entity in Argentina, as detailed in **Note 5**.

The financial statements of an entity that reports in the currency of a hyperinflationary economy are stated in terms of the measuring unit current at the reporting date. Both the comparative figures for the previous year and the information for prior periods are restated only when they are significant for the Group, in terms of the measuring unit current at the end of the reporting period. Since most of the non-monetary items are recognised at historical cost, the restated cost of each item is determined by applying to the historical cost and to the accumulated depreciation and amortisation charge the change in a general price index from the date of acquisition until the end of the reporting period. The Group did not restate the balances for prior years since the impact is not significant.

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

All the items in the statement of comprehensive income shall be stated in the monetary unit current at the end of the reporting period. For this purpose, all the amounts shall be restated to reflect the change in the general price index from the date on which the income and expenses were included in the financial statements.

Gains or losses arising from the net currency position shall be included in profit or loss for the year.

Note 14.6 includes the impacts of the measurement of the financial statements of Acerinox Argentina pursuant to this standard both in 2020 and 2019, following the declaration classifying Argentina as a hyperinflationary economy.

2.7 Intangible assets

The Group recognises an intangible asset only if it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity and if the cost of the asset can be measured reliably.

The Group recognises all the intangible assets identified in a business combination separately from goodwill, irrespective of whether the acquiree had recognised the asset prior to the business combination occurring.

Intangible assets are initially recognised at cost. The cost of intangible assets acquired in a business combination is equal to the acquisition-date fair value. The fair value of an intangible asset will reflect the expectations of the market participants at the acquisition date about the probability that the expected future economic benefits embodied in the asset will flow to the entity.

a) Goodwill

Business combinations are accounted for using the acquisition method. Goodwill represents the excess of the cost of acquisition of the Group's interest over the fair value of the identifiable net assets of the acquiree at the acquisition date (assets, liabilities and contingent liabilities).

In the case of the Acerinox Group, the goodwill recognised in the consolidated financial statements includes mainly the goodwill that arose in 2020 on acquisition of all the shares of VDM Metals holding, GmbH. The goodwill that arose on acquisition of a controlling interest in Columbus Stainless, Ltd. in 2002 was written down in full in 2019, as explained in **Note 7.1**.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not amortised but rather is assessed annually (or more frequently if events indicating a potential impairment loss on the asset are identified) for impairment, pursuant to IAS 36. Accordingly, goodwill is allocated to each of the cash-generating units of the company to which the economic benefits of the business combination synergies are expected to flow (see Note 2.11). If the recoverable amount of the cash-generating unit is lower than the carrying amount of the goodwill, the corresponding impairment loss shall be recognised. The recoverable amount of the cash-generating units to which the Group's goodwill is allocated is determined based on calculations of their value in use (see **Note 2.11**).

Gains from a bargain purchase arising from a business combination are recognised directly in profit or loss, once the assets, liabilities and contingent liabilities of the acquiree have been remeasured, as established in the standard.

Internally generated goodwill is not recognised as an asset.

b) Internally generated intangible assets

Research expenditure aimed at acquiring new scientific or technical knowledge is recognised as an expense in the consolidated statement of profit or loss when incurred.

Development expenditure relating to research findings applied to produce new products and processes, or to significantly improve existing products and processes, is capitalised if the product or process is considered technically and commercially feasible, if the Group has the resources required to complete the development programme and if it is considered that it will generate future cash flows that will enable its recovery.

Development expenditure is capitalised by crediting "In-house Work on Non-Current Assets" in the consolidated statement of profit or loss. The capitalised costs include the cost of materials, direct labour and directly attributable general expenses.

The Group does not capitalise development expenditure in cases in which, following the start-up of the project, the future cash flows of the projects obtained through research and development activities are not monitored.

The costs incurred in performing activities for which the costs attributable to the research phase cannot be clearly distinguished from those corresponding to the intangible asset development phase are recognised in the consolidated statement of profit or loss.

Capitalised development expenditure is not amortised when the project is under way. Once these projects have been successfully concluded, the expenditure is amortised systematically over their estimated useful lives. In the event that the circumstances that permitted capitalisation of the project expenditure change, the portion not yet amortised is taken to profit or loss in the year of the change in circumstances.

The findings of the R&D+i activities are patented in many cases, especially in the Group's new division dedicated to the manufacture of special alloys. As a result of the business combination, the Group recognised an asset at the fair value of certain of the special alloy patents owned by the VDM Group, which it hopes will generate economic benefits in the coming years. The fair value was estimated using the relief from royalty (RFR) method.

c) Customer portfolio

As a consequence of the business combination which occurred in 2020, the Group recognised an intangible asset arising from the customer portfolio of the acquired company.

The Group considers that the relationship with customers arising from a business combination is an identifiable asset provided that it arises from contractual or other legal rights, the rights are separable and they are expected to generate future economic benefits. It is an asset with a finite useful life.

VDM has a long history of enduring relationships with customers, which are formalised through agreements.

The multi-period excess earnings method was used to measure this intangible asset.

d) Computer software

Acquired licenses for computer software are capitalised based on the costs incurred to acquire them and prepare them for use of the specific software.

Computer software development and maintenance costs are recognised as such on an accrual basis.

Costs directly related to the production of unique and identifiable computer software by the Group, provided that they are likely to generate economic benefits exceeding those costs over more than one year, are recognised as intangible assets. The capitalised costs include direct labour and directly attributable general expenses.

e) Amortisation

Intangible assets with finite useful lives are amortised systematically over the years of their useful life. Intangible assets are amortised from the date on which they become ready for use.

The estimated useful lives are as follows:

- Intellectual property: 5 years
- Patents: 14 years
- Customer portfolio: 15 years
- Computer software: 2-5 years

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

The residual value, the amortisation method and the useful life of the assets are reviewed, and adjusted if necessary, at each reporting date. Changes in the criteria initially established are accounted for as a change in estimate.

2.8 Property, plant and equipment

a) Owned assets

Property, plant and equipment are stated at cost or deemed cost less any accumulated depreciation and any recognised impairment losses. Property, plant and equipment acquired in business combinations are recognised at acquisition-date fair value.

In the event that an item of property, plant and equipment requires a period of time to get ready for its intended use, it is classified as property, plant and equipment in the course of construction. An asset is considered to be ready for its intended use when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Once in use, it is reclassified to the corresponding category of property, plant and equipment, depending on its nature.

The cost of the property, plant and equipment constructed by the Group is determined by following the same principles that would be used had it been acquired, also taking into account the criteria established for the production cost of inventories. The production cost is capitalised by crediting the costs attributable to the asset to accounts under “In-house Work on Non-Current Assets” in the consolidated statement of profit or loss.

Borrowing costs arising from loans directly related to financing the construction of items of property, plant and equipment are capitalised as a portion of the cost until the start-up of the asset. Also, the Group capitalises certain borrowing costs corresponding to loans that are not directly earmarked for the financing of investments, applying a capitalisation rate to the amounts used to finance these assets. This capitalisation rate is calculated based on the weighted average of the borrowing costs applicable to loans received by the entity which differ from those specifically designated to finance the asset. The amount of the capitalised costs does not in any case exceed the total amount of borrowing costs incurred in the period.

The cost of property, plant and equipment includes the costs related to major repairs, which are capitalised and depreciated over the estimated period until the next major repair.

After initial recognition of the asset and once it is ready for use, only the costs incurred for improvements that it is probable will give rise to future economic benefits and that can be measured reliably are capitalised. In this connection, the costs of day-to-day servicing of property, plant and equipment are recognised in profit or loss as they are incurred.

The Group classifies spare parts as inventories, unless they are expected to be used for more than one year, in which case they are classified as property, plant and equipment and are depreciated over their useful life. Once a spare part has been used to replace a damaged part, it is written off at its carrying amount. Property, plant and equipment spare parts are classified under “Plant and Machinery” in the breakdown of property, plant and equipment in **Note 8**.

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

b) Depreciation

Items of property, plant and equipment are depreciated systematically on a straight-line basis over the years of their useful life. For these purposes, depreciable amount is understood to be acquisition or deemed cost less residual value. The Group calculates the depreciation charge separately for each part of an item of property, plant and equipment whose cost is significant in relation to the total cost of the item.

The residual value, the depreciation method and the useful life of the assets are reviewed, and adjusted if necessary, at each reporting date. Changes in the criteria initially established are accounted for as a change in estimate.

Land is not depreciated, unless it is acquired in usufruct for a certain number of years, in which case it is depreciated over the term of the usufruct.

Property, plant and equipment is depreciated over the following years of useful life:

- Buildings: 10-50
- Plant and machinery: 3-30
- Other items of property, plant and equipment: 2-10

2.9 Investment property

Investment property is considered to consist of the buildings owned by the Group that are not occupied by it and are held to earn returns, either through rental or for capital appreciation.

The Group only transfers items between “Property, Plant and Equipment” and “Investment Property” when a change in the use of the property occurs.

Investment property is initially recognised at cost, including transaction costs. After initial recognition, the Company applies the same requirements established for property, plant and equipment.

Lease income is recognised as indicated in **Note 2.20-b**.

2.10 Right-of-use assets

Initial application

The Group began to apply the new standard on leases (IFRS 16) on 1 January 2019. It applied the standard retrospectively, i.e. recognising the cumulative effect in the consolidated statement of financial position at the date of initial application, without restating the comparative information.

When acting as lessee, the Group recognised a lease liability at the date of initial application for all leases previously classified as operating leases in accordance with IAS 17 (except for short-term leases and leases for which the underlying asset is of low value). This lease liability was measured at the present value of the remaining lease payments, discounted using either the interest rate implicit in the lease, if that rate could be readily determined, or the incremental borrowing rate, in cases where the rate was not established in the lease. At the same time, the Group recognised a right-of-use asset measured at an amount equal to that of the lease liability.

For leases classified as finance leases under IAS 17, the carrying amount of the lease asset and lease liability was their carrying amount at the date of initial application.

Also, the Acerinox Group availed itself of the practical expedient permitted by the standard upon transition whereby it did not reassess whether a contract was, or contained, a lease on the date of initial application. Instead, it applied this standard to the contracts previously identified as leases in accordance with IAS 17 and IFRIC 4: Determining Whether an Arrangement Contains a Lease. Consequently, the Group only applies the requirements relating to the identification of a lease to contracts entered into (or amended) on or after the date of initial application, 1 January 2019.

The Group did not recognise the lease liability or the right-of-use asset for leases with a term ending within the 12 months following the date of initial application. In these cases, such lease payments were recognised as an expense on a straight-line basis over the lease term.

Measurement basis

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a specified period of time in exchange for consideration.

When the Group acts as lessee, it recognises in the consolidated statement of financial position the assets and liabilities arising from the lease (except in the case of short-term leases and leases for which the underlying asset is of low value). The Group measures the right-of-use asset at cost, corresponding to the present value of the lease payments expected to be made over the lease term.

In order to determine the lease payments, the Group takes into account:

a) fixed payments, less any lease incentives receivable;

b) variable lease payments that depend on an index or a rate;

c) the amounts expected to be payable by the lessee under residual value guarantees;

d) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and

e) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

The Group measures lease liabilities at the present value of the total remaining lease payments, discounted using either the interest rate implicit in the lease, if that rate can be readily determined, or the lessee's incremental borrowing rate, for cases in which the rate is not established in the lease.

The Group considers the lease term to be the non-revocable period of a lease, plus the periods covered by the option to extend the lease, if the lessee is reasonably certain to exercise that option.

In determining the term of the lease and assessing the length of the non-revocable period of a lease, an entity applies the definition of a contract and determines the period for which the contract is enforceable. A lease is no longer enforceable when the lessee and the lessor each has the right to terminate the lease without permission from the other party.

After the commencement date, the Group measures the asset at its initial cost less accumulated depreciation and any accumulated impairment losses, adjusted to reflect any remeasurement of the lease liability.

Also, after the commencement date the Group measures the lease liability at amortised cost using the effective interest method. Whenever there are changes in contracts, the lessee shall remeasure the lease liability in order to reflect the new lease payments. The amount of the remeasurement of the lease liability shall be recognised as an adjustment to the right-of-use asset.

The Group took into account the amendment to IFRS 16 issued by the International Accounting Standards Committee when assessing the modifications to the leases and the incentives granted to the Group as a result of the Covid-19 pandemic, in cases in which it acts as lessee. This amendment provides a practical expedient whereby the lessee can choose not to assess whether the Covid-19-related concessions represent a lease modification.

In the case of short-term leases and leases for which the underlying asset is of low value, the Group recognises the lease payments as expenses on a straight-line basis over the lease term.

To determine the lease term, the Group considers the non-revocable term of the lease, to which it adds:

- the periods covered by the option to extend the lease, if reasonably certain that it will exercise that option; and
- the periods covered by the option to terminate the lease, if reasonably certain that it will not exercise that option.

A lease ceases to be enforceable when the lessee and the lessor each has the right to terminate the lease without permission from the other party with no more than an insignificant penalty.

Note 10 includes detailed information on the right-of-use assets and lease liabilities recognised by the Group.

2.11 Impairment of non-financial assets

The carrying amount of the Group's non-financial assets other than inventories and deferred tax assets is reviewed at the end of each reporting period in order to assess whether any indication of impairment thereof exists. If such an indication exists, the Group estimates the recoverable amount of the asset.

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

As established in **Note 2.7**, the recoverable amount of goodwill, which is not amortised, and of intangible assets not yet available for use is estimated at the end of each reporting period, unless prior to this date indications of a possible loss of value had been identified, in which case the assets would be tested for impairment.

Impairment losses on an asset are recognised whenever the carrying amount of the asset, or of the corresponding cash-generating unit, exceeds its recoverable amount. Impairment losses on an asset are recognised as an expense in the consolidated statement of profit or loss.

The recoverable amount of an asset is the higher of fair value less costs of disposal and value in use.

In order to determine the fair value, the Group may hire an independent valuer.

Value in use is the present value of estimated cash flows, applying a discount rate that reflects the present market valuation of the time value of money and the specific risks of the asset in question. For assets that do not generate cash inflows themselves, the recoverable amount is calculated based on the cash-generating unit to which the asset belongs, considered as the smallest identifiable group of assets capable of generating cash inflows for the entity that are largely independent of the cash inflows from other assets or groups of assets.

In estimating the value in use of an asset, the Group takes into account the estimated future cash flows that the entity expects to obtain from the asset, expectations regarding possible variations in the amount or timing of those future cash flows, the time value of money and the risks inherent in the asset in question and any other factors that any other market participant would reflect in pricing the future cash flows derived from the asset.

The effects of uncertainties in estimating the asset's value in use may be reflected as adjustments to future cash flows or as adjustments to the discount rate, with the result being a weighted average of all possible outcomes.

In determining value in use, the Group bases its cash flow projections on reasonable and well-founded assumptions that represent management's best estimates of the set of economic conditions that will prevail over the remaining life of the asset, giving greater weight to external evidence. Also, these cash flow projections are based on the budgets most recently approved by management. These projections generally cover a maximum period of five years, unless a longer time period can be justified.

The Group estimates cash flow projections beyond the period covered by the budgets, extrapolating such projections using a constant growth rate which does not exceed the average long-term growth rate of the stainless steel industry, or the rate of the country or countries in which the entity operates.

Management assesses the reasonableness of the assumptions on which its current cash flow projections are based by examining the causes of differences between past and current cash flow projections, ensuring that the assumptions on which its current cash flow projections are based are consistent with actual past performance, and considering that the effects of subsequent events or circumstances that did not exist when those actual cash flows were generated justify those differences.

Notes 7.1 and **8.1** detail the variables and assumptions used by the Group to calculate recoverable amounts and identify the cash-generating units.

Except in the case of goodwill, impairment losses on an asset which were recognised in prior years are reversed through profit or loss only if there has been a change in the estimates used to determine the asset's recoverable amount since the most recent impairment loss was recognised. However, the new carrying amount may not exceed the carrying amount (net of depreciation and amortisation) that would have been determined had no impairment loss been recognised.

2.12 Financial instruments

The Group has applied IFRS 9 to measure its financial instruments since 1 January 2018.

The Group recognises a financial asset or financial liability in its consolidated statement of financial position when, and only when, it becomes a party to the contractual terms and conditions of the instrument in question.

2.12.1 Classification

The Group classifies financial assets on the basis of their measurement either at amortised cost or at fair value through profit or loss or other comprehensive income. The basis for classification depends on the entity's business model and the characteristics of the financial asset's contractual cash flows.

Financial liabilities are classified on the basis of their measurement. In general terms, they are classified as being measured at amortised cost, except for financial liabilities measured at fair value through profit or loss or other comprehensive income.

The Group does not generally reclassify any financial assets or liabilities, unless the business model changes.

2.12.2 Financial assets

A financial asset is any contractual right to receive cash or another financial asset.

Financial assets are initially recognised at fair value plus the transaction costs that are directly attributable to their acquisition or issue.

They are subsequently measured on the basis of each of the categories in which they have been classified:

a) Financial assets at fair value through profit or loss

The Group includes derivative financial instruments in this category, unless they are designated as hedge accounting instruments and meet the effectiveness conditions to be accounted for as such.

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

The changes in fair value are recognised in profit or loss. The changes in fair value of financial instruments used to hedge items classified in financial profit or loss are recognised under “Remeasurement of Financial Instruments at Fair Value”. However, for derivatives used to hedge the prices of raw materials used by the Company in the production cycle or earmarked for sale and which are not designated as hedges for accounting purposes, such changes are recognised under “Other Operating Income” or “Other Operating Expenses”, depending on whether the measurement gives rise to a gain or a loss.

b) Financial assets at amortised cost

This category includes non-derivative financial assets with fixed or determinable payments which are not traded in an active market. Specifically, it includes loans granted and accounts receivable. They are classified as non-current only when they mature after more than 12 months from the reporting date. They are initially recognised at fair value which, in the absence of evidence to the contrary, is the transaction price plus any directly attributable transaction costs, and are subsequently measured at amortised cost using the effective interest method, except for accounts receivable measured at their transaction price as they do not have a significant financial component, they are expected to be received in the short term and the effect of not discounting the related cash flows is not significant.

The Group makes the required valuation adjustments in accordance with the expected credit loss model, which takes into account historical claims incurred and other external factors. The impairment losses are calculated as the difference between the carrying amount of the aforementioned assets and the present value of the estimated future cash flows that they are expected to generate, discounted at the effective interest rate calculated upon initial recognition. These losses are recognised as an expense in the consolidated statement of profit or loss and are reversed with the recognition of income in profit or loss when the causes of their original recognition cease to exist.

The impairment loss model used by the Group is based on a historical analysis of the average credit losses at each of the subsidiaries and on the claims incurred under the credit insurance policies taken out, taking into account any non-recoverable amount (maximum coverage of 85%-90% and deductibles), and any post-claim recoveries, whether from the insurance company or the customers themselves. These estimates are reviewed within the Group’s credit risk control system (Commercial, Financial and Commercial Risk Departments, the Risk Committee and the Corporate Risk Management Department), which continuously monitors the particular markets of each subsidiary, receives the input of specialists from insurance companies and reviews future estimates from international organisations of renowned prestige (IMF, OECD, etc.), also taking into account the macroeconomic estimates of each country. The Group takes into account and monitors significant changes in credit risk that may arise during the terms of the loans.

Amounts relating to discounted notes and bills and factoring of trade receivables are classified until maturity as trade receivables and, simultaneously, as current bank borrowings, unless substantially all the risks and rewards associated with those assets have been transferred, in which case they are derecognised.

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

Most of the factoring arrangements entered into by the Group meet this definition and, therefore, are derecognised from the consolidated statement of financial position.

c) Financial assets at fair value through other comprehensive income

This category includes the Group’s ownership interests in the share capital of other companies over which it does not have control or exercise significant influence, and which it does not hold for trading.

These assets are generally classified as assets measured at fair value through profit or loss; however, the Group availed itself of the irrevocable option permitted by the standard to choose, on initial recognition, to present subsequent changes in fair value in other comprehensive income, since these assets are not held for trading.

They are initially recognised at fair value which, unless there is evidence to the contrary, is the transaction price plus any directly attributable transaction costs.

These assets are subsequently measured at fair value, provided that this can be measured reliably, recognising the gain or loss in other comprehensive income.

The fair value of listed securities is determined by reference to the share price. The fair value of financial assets not listed on an organised market is calculated by discounting future cash flows.

Ownership interests in the share capital of companies included in this category and whose market value cannot be measured reliably are measured at acquisition cost less any impairment losses.

Acquisitions and disposals of investments are recognised at the date on which the Group undertakes to acquire or sell the asset. Investments are derecognised when the rights to the cash flows from the investments expire or have been transferred and the Group has transferred substantially all the risks and rewards of their ownership.

The difference between the selling price and the fair value of available-for-sale financial assets is recognised in other comprehensive income.

2.12.3 Financial liabilities

For measurement purposes, the Group's financial liabilities are classified under the following categories:

a) Financial liabilities at amortised cost

This category includes the accounts payable and bonds issued by the Group.

It includes non-derivative financial liabilities with fixed or determinable payments. They are initially recognised at cost, which matches their fair value, less any transaction costs incurred. They are subsequently measured at amortised cost using the effective interest method. Any difference between the amount paid (net of transaction costs) and the repayment value is recognised in profit or loss. However, trade payables maturing within one year which do not have a contractual interest rate and are expected to be paid at short term are stated at their nominal value.

The Group derecognises a financial liability when the obligation specified in the contract is either discharged or cancelled or expires.

When debt is refinanced, the Group assesses the significance of the modifications made to determine whether they are substantially different and, therefore, recognises the effects of the new agreement as if it were an extinguishment and, simultaneously, the recognition of a new loan. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Also, the Group has entered into reverse factoring arrangements with various banks in order to manage payments to suppliers. Trade payables payment of which is managed by the banks are recognised under "Trade and Other Payables" until the related obligation is discharged or cancelled or expires.

b) Financial liabilities at fair value through profit or loss

The Group includes derivative financial instruments in this category, provided that they are not financial guarantee contracts or designated as hedging instruments.

They are measured at fair value. The amount of the change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability shall be presented in other comprehensive income. The remaining amount of the change in the fair value of the liability shall be presented in profit or loss, unless such treatment would create an accounting mismatch in profit or loss, in which case the entire fair value change shall be recognised in profit or loss.

The fair value of financial instruments used to hedge items classified in financial profit or loss (exchange differences and interest) is recognised under "Remeasurement of Financial Instruments at Fair Value". However, for derivatives used to hedge the prices of raw materials used by the Company in the production cycle or earmarked for sale and which are not designated as hedges for accounting purposes, such changes are recognised under "Other Operating Income" or "Other Operating Expenses", depending on whether the measurement gives rise to a gain or a loss.

At the Acerinox Group, derivative financial instruments are generally used on a short-term basis and, therefore, the change attributable to the credit risk is not significant.

2.12.4Hedge accounting

The aim of hedge accounting is to represent in the consolidated financial statements the effect of the Group's risk management activities in which derivative financial instruments are used to hedge exposure to certain risks that might affect the consolidated statement of profit or loss. A hedging relationship qualifies for hedge accounting under IFRS 9 only if the following criteria are met:

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

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

(c) The hedging relationship meets the following hedge effectiveness requirements:

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

ii. The credit risk does not dominate the value changes resulting from that economic relationship.

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

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

Derivative financial instruments are initially recognised at acquisition cost, which matches fair value, and are subsequently measured at fair value.

Derivative financial instruments that do not qualify for hedge accounting are classified and measured as financial assets or liabilities at fair value through profit or loss. Derivative financial instruments that qualify for cash flow hedge accounting are treated as cash flow hedges and, therefore, the unrealised gain or loss arising from them is accounted for based on the type of item covered. Also, the effective portion of the realised gain or loss on the derivative financial instrument is initially recognised in the consolidated statement of comprehensive income and is subsequently recognised in profit or loss in the year or years in which the hedged transaction affects profit or loss.

The Group prospectively discontinues hedge accounting when the hedging instrument expires, is sold or the hedge no longer meets the criteria for hedge accounting. In such cases, the cumulative gain or loss recognised in equity is recognised in profit or loss.

The Group only undertakes cash flow hedges.

2.12.5 Fair value measurement

Financial instruments recognised at fair value are classified, based on the valuation inputs, in the following hierarchies:

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

LEVEL 2: includes financial instruments the fair value of which is determined by reference to variables, other than quoted prices, observable in the market.

LEVEL 3: includes financial instruments the value of which is determined by reference to variables that are not observable in the market.

2.13 Inventories

Inventories are initially recognised at acquisition or production cost. Subsequently, when the net realisable value of inventories is lower than their acquisition or production cost, the appropriate write-downs are made, with the related effect recognised in profit or loss.

The Group uses the same cost formula for all inventories that have the same nature and a similar use within the Group. They are measured using the weighted average cost formula.

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

Net realisable value is the expected selling price of those goods less costs to sell. In the case of work in progress, the estimated costs of completion are also deducted from this price.

The Group does not write down raw materials if the finished products in which they will be incorporated are expected to be disposed of at or above production cost.

Any write-downs that reduce inventories to their net realisable value are reversed, up to the cost of the inventories, if the circumstances that gave rise to the write-downs cease to exist.

2.13.1 Emission allowances

The Group recognises CO2 emission allowances as inventories.

CO2 emission allowances are measured at acquisition cost. Freely allocated emission allowances are initially recognised at their market value on surrender. Simultaneously, a balancing entry for a grant is recognised for the same amount under “Deferred Income”.

Emission allowances remain classified as inventories until surrendered.

At the end of each reporting period the Group assesses whether the market value of the allowances is lower than their carrying amount in order to determine whether there are any indications of impairment. If such indications exist, the Group determines whether the allowances will be used in the production process or earmarked for sale, and only in the second case shall the appropriate write-downs be recognised. These write-downs are reversed when the causes that gave rise to the write-down of the emission allowances cease to exist.

A provision for contingencies and charges is recognised for expenses relating to greenhouse gas emissions. This provision is maintained until the Group is required to discharge this obligation by surrendering the corresponding emission allowances. These expenses are incurred as the greenhouse gases are emitted.

In the case of freely allocated emission allowances, at the same time as the expense is recognised, the corresponding part of the deferred income account is cancelled, using an operating income account as the balancing entry.

In the case of exchanges of emission allowances, and since the Group’s allowances were all freely acquired, the accounting treatment adopted by the Group is that applied to exchanges that lack commercial substance. The Group derecognises allowances surrendered at their carrying amount, and the amount received is recognised at fair value on surrender. The difference between the two values is recognised under “Deferred Income”.

Note 11, Inventories, includes detailed information on the emission allowances allocated and used in 2020 and 2019.

2.14 Cash and cash equivalents

Cash and cash equivalents include cash on hand, demand deposits at banks and other short-term, highly liquid investments, provided that they are readily convertible to cash and are subject to an insignificant risk of changes in value.

In the consolidated statement of cash flows, the Group classifies interest received and paid as cash flows from operating activities, dividends received as cash flows from investing activities and dividends paid as cash flows from financing activities.

2.15 Grants

2.15.1 Grants related to assets

Grants related to assets are grants received by the Group for the acquisition of property, plant and equipment and intangible assets. They are recognised under “Deferred Income” in the consolidated statement of financial position. They are initially recognised at the original amount awarded, provided that there is reasonable assurance that the grants will be received and the Group fulfils all the conditions attaching to them. They are subsequently taken to profit or loss on a straight-line basis over the useful lives of the related assets financed by the grants.

2.15.2 Grants related to income

Grants related to income are grants received to finance specific expenses. They are recognised as income as the expenses are incurred. Grants relating to the free allocation of CO_2 emission allowances are credited to profit or loss when the related greenhouse gas emission expense is recognised.

In 2020, as a result of the pandemic, numerous countries introduced aid packages in an attempt to alleviate the effects of the crisis on production activity and protect workers. In many cases, the measures implemented included social security payment exemptions. Any state aid resulting from the pandemic, whether in the form of direct payments, subsidies or temporary reductions in social security or other tax payments, was recognised in the year as income from grants.

2.16 Employee benefits

Certain Group companies have the following long-term obligations to their employees:

a) Defined contribution plans

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

Certain Group companies make mandatory, voluntary or contractual pension plan and life insurance policy contributions. Once the contributions have been paid, the Group does not have additional payment obligations. The contributions are classified as employee benefits and are recognised in profit or loss on an accrual basis. The benefits paid in advance are recognised as an asset to the extent that they may give rise to a cash refund or a reduction in future payments. No provisions are recognised for the defined contribution plans, since they do not give rise to future obligations for the Group.

b) Defined benefit plans and other obligations

A defined benefit plan is an obligation acquired by the Group to its employees to remunerate services rendered. These obligations are established in accordance with the local legislation in certain countries or contracts signed to that effect, or are included in collective bargaining agreements prevailing at certain Group companies.

Accrued obligations are calculated as the present value of the accumulated benefits accrued by the employees until the reporting date, using actuarial assumptions. The calculations are made by independent experts. The Group companies recognise any corresponding provisions to cover these obligations.

The existing obligations may be classified as follows:

- Pension plans: certain Group companies have acquired obligations to certain of their employees when they reach retirement age.
- Early retirement benefits: certain Group companies are required to pay benefits to certain of their employees if they opt to take early retirement.
- Supplements: these plans relate to obligations agreed upon with certain Group employees to supplement their remuneration on retirement.
- Other post-employment obligations: certain Group companies offer medical care to their retired former employees. The right to benefits of this nature is usually conditional upon the employee remaining at the Group until retirement and for a specified minimum number of years. The expected expenditure relating to these benefits is accrued over the employees' working lives.
- Collective redundancy procedures: in 2019 the Group company Acerinox Europa, S.A.U. reached an agreement with its workers in relation to a workforce restructuring process by approving an early retirement plan which enabled the workers who have entered into the plan to retire early in accordance with certain terms and conditions thereof once they have reached a certain age. The Group recognised a liability for the present value of the obligations arising from the plan. In 2020, due to the fact that the obligations acquired were outsourced to an insurance company, the Group derecognised the provision relating to those outsourced obligations, once they had been paid.

Termination benefits are recognised as staff costs only when the Group is demonstrably committed to severing its link to an employee or group of employees prior to the normal retirement date.

The Group meets the obligations relating to the outsourcing of these commitments in the countries where this is applicable.

The defined benefit liability recognised in the consolidated statement of financial position corresponds to the present value of the defined benefit obligations existing at the reporting date less the fair value of the plan assets at that date. The Group recognises changes in the actuarial valuation of the obligations in other comprehensive income.

Where plan assets include qualifying insurance policies that exactly match the amount and timing of some or all of the benefits payable under the plan, the fair value of the insurance policies is considered equal to the present value of the related payment obligations and, accordingly, the Group nets the two positions in the consolidated statement of financial position.

The actuarial value of both the post-employment obligations and the pension benefits that have not been outsourced is calculated by an independent expert. The measurement is performed using the projected unit credit method, taking into account mortality tables, interest rates, discount rates, expected future salary increases and growth rates. In the case of post-employment obligations, estimates of future increases in healthcare expenses are also taken into account.

c) Share-based payment transactions

The Group applies IFRS 2, Share-based Payment, to equity-settled transactions in which the entity receives goods or services in exchange for shares of the Parent.

At its meeting held on 22 March 2018, the Board of Directors of Acerinox, S.A. approved a multi-year remuneration or long-term incentive (LTI) plan enabling the CEO and senior executives of the Acerinox Group to receive a portion of their variable remuneration in the form of treasury shares of Acerinox, S.A. **Note 16.1.3** includes detailed information on the characteristics of the approved plan.

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

The Group measures the goods or services received, as well as the corresponding increase in equity, at the fair value of the equity instruments granted, at the grant date. Fair value is determined by the market price of the entity's shares adjusted to take into account the terms and conditions on which those shares were granted (except for vesting conditions, other than market conditions, which are excluded from the determination of fair value). For this purpose, the Group uses the valuation of an independent expert, who used a valuation method accepted in accordance with customary market techniques.

When the obligation to deliver its own equity instruments is to the employees of a subsidiary, the events must be qualified as a “contribution”, in which case the Parent shall recognise an increase in the value of its interest in the subsidiary, with a credit to its own equity instruments, and measure it at the fair value of the equity instruments transferred at the grant date.

Upon delivery of the shares, the accounting difference between the equity item cancelled and the treasury shares delivered is recognised with a charge to the Parent’s reserves.

2.17 Provisions

The Group recognises a provision when:

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

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

(iii) the amount can be estimated reliably.

The amounts recognised in the consolidated statement of financial position correspond to the best estimate at the reporting date of the disbursements required to discharge the present obligation, after taking into account the risks and uncertainties relating to the provision and, where significant, the interest cost arising from discounting, provided that the disbursements that are to be made in each period can be reliably estimated.

2.18 Current/Non-current classification

In the consolidated statement of financial position the Group classifies assets and liabilities as current and non-current items. For such purpose, assets and liabilities are considered to be current when they are expected to be realised or settled within 12 months after the reporting date, or when they are cash or cash equivalents.

2.19 Income tax

The income tax expense comprises current tax and deferred tax.

Current tax is the tax expected to be paid in respect of the consolidated taxable profit or tax loss for the year, using tax rates enacted at the consolidated statement of financial position date and applicable to the current year. Current tax also includes any adjustment to the tax payable or receivable for prior years.

Deferred taxes are calculated using the balance sheet liability method based on the temporary differences that arise between the tax bases of the assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred taxes are determined by applying the tax rates (and laws) enacted, or substantively enacted, at the consolidated statement of financial position date, and which are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

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

Deferred tax liabilities are always recognised. Deferred tax assets are recognised to the extent that it is considered probable that taxable profits or deferred tax liabilities will arise in the future against which the temporary differences can be offset.

The Group recognises in the consolidated statement of financial position the deferred tax assets arising from tax loss or tax credit carryforwards, provided that they are recoverable in a reasonable period of time, also taking into account the legally established limits for their use. The Group considered a period of ten years to be reasonable if permitted by tax legislation. For this purpose, the Group performs future earnings projections approved by management, which take into account present macroeconomic and market circumstances, and adjusts these projections based on current tax legislation in order to determine the taxable profit or tax loss.

Deferred tax assets are reduced when it is no longer considered probable that sufficient future taxable income will be generated or there are no deferred tax liabilities against which the assets can be offset. Reductions are reversed if there is renewed expectation that sufficient taxable income will be available against which the derecognised balance can be utilised. Both the deferred tax asset reduction and its subsequent reversal are recognised as an increase or decrease in the tax expense, respectively, in profit or loss in the year in which they arise.

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

Deferred tax assets and liabilities are recognised in the consolidated statement of financial position under non-current assets or non-current liabilities, irrespective of the expected date of realisation or settlement.

When tax audits result in a tax deficiency to be settled, the Group generally recognises such amounts as a current expense for the amount payable, and a deferred tax expense for the change in assets or liabilities arising from temporary differences resulting from the related tax assessment. If the amount payable is contested and the Group decides to file an appeal against the tax assessment, and furthermore considers that a favourable outcome for the Group is highly probable, it recognises an asset for the amounts previously paid and which it estimates will be recovered.

Certain companies forming part of the consolidated Group have reserves which could be taxable if distributed, since certain legislation envisages withholdings at source that affect the payment of dividends. Also, in Spain, where the Parent of the Acerinox Group has its registered office, an amendment was approved, effective for tax periods beginning on or after 1 January 2021, which affects the tax exemption applicable to dividends received from Group companies, provided that certain conditions are met. This amendment reduces to 95% the aforementioned exemption for dividends from qualifying ownership interests, whereby companies shall be taxed on 5% of such gains, treated as non-deductible expenses relating to management of the ownership interest. The Group recognises the tax effect in this connection whenever it considers that the reserves will have to be distributed in the foreseeable future, which will give rise to the reversal of the temporary difference. That is to say, the Parent shall not recognise a deferred tax liability when it considers that such reserves will not be distributed in the foreseeable future. The Group shall also reverse the temporary difference, against profit or loss for the year, when legislative changes eliminate or reduce the tax liability relating to those reserves.

The Company has been taxed under the consolidated tax regime since 1998. As agreed by the shareholders at the Annual General Meeting held on 28 May 2003, Acerinox, S.A. and certain of the subsidiaries with registered office in Spain form part of a consolidated tax group on an indefinite basis, with the exception of Metalinox Bilbao, S.A.U. and Inoxidables de Euskadi, S.A.U., which file tax returns separately. At 31 December 2020 and 2019, the consolidated tax group was made up of: Acerinox, S.A., Acerinox Europa, S.A.U., Roldan, S.A., Inoxfil, S.A., Inoxcenter, S.L.U. and Inoxcenter Canarias, S.A.U. As a result of the consolidated tax regime, reciprocal receivables and payables between Group companies arise, due to the offset of tax bases between them.

2.20 Revenue recognition

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

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

The Group takes into consideration the five-step model to determine when, and for what amounts, revenue should be recognised.

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

A contract is an agreement between two or more parties that creates enforceable rights and obligations. A contract does not exist if each party to the contract has the unilateral enforceable right to terminate an unperformed contract without compensating the other party (or parties).

The main types of the Group's revenue and other income are as follows:

a) Sales and services

Revenue from the sale of goods is recognised in the consolidated statement of profit or loss when control of the goods is transferred to the buyer. No revenue is recognised if significant doubts exist in relation to the recovery of the amount owed or the possible return of the goods. Sales revenue is recognised at the transaction price, which is the amount of consideration to which the entity expects to be entitled in exchange for transferring the goods or services promised to a customer, excluding amounts collected on behalf of third parties.

A contract is an agreement between two or more parties that creates enforceable rights and obligations. A contract does not exist if each party to the contract has the unilateral enforceable right to terminate a contract without compensating the other party (or parties). The stainless steel sales process is performed through sales orders. From this perspective, the orders arranged by the Group with customers do not give rise to a right or obligation enforceable in advance, since the parties are entitled to unilaterally terminate an unperformed contract without compensating the other party until such time as the goods are delivered. Therefore, no obligation arises until the goods are delivered.

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

The Group considers all of the following factors when determining the transaction price:

(a) variable consideration;

(b) constraining estimates of variable consideration;

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

(d) non-cash consideration; and

(e) consideration payable to the customer.

Revenue is recognised net of taxes, returns and discounts that the Group considers probable at the date the revenue is recognised, and after the elimination of intra-Group sales.

b) Lease income

Lease income is recognised in profit or loss on a straight-line basis over the term of the lease.

c) Dividend income

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

2.21 Environment

The Group carries out actions the main objective of which is to prevent, reduce or repair the damage that might be caused to the environment as a result of its business activities.

Expenses arising from environmental activities are recognised as expenses in the year in which they are incurred. However, the Group recognises environmental provisions, where necessary, by applying the general criteria detailed in **Note 2.17**.

The items of property, plant and equipment acquired to be used on a lasting basis in the Group's operations and the ultimate purpose of which is to minimise environmental impact and protect and improve the environment, including the reduction or elimination of pollution, are recognised as assets using measurement, presentation and disclosure criteria consistent with those discussed in **Note 2.8**.

2.22 Changes in accounting estimates and policies and correction of errors

The Group applies IAS 8 to recognise changes in accounting estimates, changes in accounting policies and the correction of errors. In this regard, the Group recognises changes in accounting estimates in the year in which they occur. Accounting errors are corrected in the year in which they occurred, restating the comparative information presented in the consolidated financial statements, where the errors are material. Changes in policies are recognised retrospectively, adjusting the opening balances of each affected equity component, from the previous year presented, unless a specific transitional provision exists for the initial application of a standard or interpretation.

NOTE 3 ACCOUNTING ESTIMATES AND JUDGEMENTS

In preparing the consolidated financial statements, Company management is required to make certain judgements, estimates and assumptions that affect the application of the accounting policies and, therefore, the figures presented in these consolidated financial statements.

The accounting estimates and judgements are assessed on an ongoing basis and are based on historical experience and other factors, including expectations regarding future events that are considered to be reasonable. The Company may revise such estimates if changes were to occur in certain events or circumstances.

The Group makes estimates and judgements regarding the future. The resulting accounting estimates may differ from the corresponding actual results. Changes in estimates are recognised in the Group's consolidated financial statements prospectively, as established in IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors.

The main estimates made by the Group are as follows:

a) Impairment losses on goodwill and other non-financial assets

Once a year, the Group tests goodwill for impairment, in accordance with the accounting policy detailed in **Note 2.11**.

At each reporting date the Group reviews whether there is any indication that its property, plant and equipment has become impaired, taking into account the criteria established in the policy. If any such indications exist, the entity estimates the recoverable amount of the asset in question. The recoverable amount of an asset is the higher of fair value less costs to sell and value in use.

The recoverable amounts of the cash-generating units were determined, in certain cases, on the basis of the calculation of their value in use and, in other cases, on the basis of the fair value less costs of disposal. The fair value estimates were made by an independent valuer.

The calculations of value in use are made using reasonable assumptions based on past returns and future market production and development expectations. Certain of these assumptions relate to sales, margins, discount rates and perpetuity growth rates, which involve a high degree of judgement. **Notes 7.1** and **8.1** detail the analyses conducted by the Group in 2020 and 2019.

b) Business combinations

As explained in the accounting policy relating to business combinations (see Note 2.5), the Group measures business combinations in accordance with IFRS 3.

The consideration transferred in a business combination is calculated as the sum of the acquisition-date fair values of the assets transferred, the liabilities incurred or assumed, the equity interests issued and any contingent consideration that depends on future events or the fulfilment of certain conditions in exchange for control of the acquiree.

The Group engaged an independent expert (KPMG Asesores, S.L.) to perform the fair value estimates and subsequently determine the amount of goodwill resulting from the acquisition of the VDM Metals Group, as explained in **Note 5.1**.

c) Useful lives of plant and equipment

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

The Group company Columbus Stainless (Pty) Ltd. re-estimated the useful lives of certain equipment in both 2020 and 2019, as explained in **Note 8**.

d) Fair value of derivatives and other financial instruments

The Group acquires derivative financial instruments to hedge its exposure to exchange rate and interest rate fluctuations. The fair value of financial instruments not traded in active markets is determined using valuation techniques based mainly on market conditions existing at each reporting date, and provided that financial information is available to carry out this valuation. **Note 12.2.4** provides further information on the financial instruments measured on the basis of these assumptions.

e) Provisions

As indicated in **Note 2.17**, the provisions recognised in the consolidated statement of financial position reflect the best estimate at the reporting date of the amount expected to be required to settle the obligation, provided that the materialisation of this outflow of resources is considered probable. Changes in envisaged circumstances could cause these estimates to vary, and they would be revised if necessary.

In the case of provisions arising from litigation in respect of which there are legal proceedings under way, the lawyers or independent experts determine the likelihood of occurrence of the events giving rise to the need to recognise a provision. In cases in which it is considered possible, although not probable, that an outflow of resources will occur or it is difficult to reliably determine the amount of the provision, the Group shall consider the provision to be a contingent liability and disclose the information in the notes (see **Note 16**).

f) Net realisable value

As mentioned in Note 2.13, the Group estimates the net realisable values of its inventories in order to recognise the appropriate valuation adjustments. The expected selling prices of the inventories less costs to sell are taken into account when determining the net realisable value.

g) Determination of credit losses using the expected credit loss model

As mentioned in **Note 2.12.2**, the Group has defined a new impairment loss model based on a historical analysis of the average credit losses at each of the subsidiaries and on the claims incurred under the credit insurance policies taken out, taking into account any non-recoverable amount (maximum coverage of 85%-95% and deductibles) and any post-claim recoveries, whether from the insurance company or the customers themselves. These estimates are reviewed within the Group's credit risk control system (Commercial, Financial and Commercial Risk Departments, the Risk Committee and the Corporate Risk Management Department), which continuously monitors the particular markets of each subsidiary, receives the input of specialists from insurance companies and reviews future estimates from international organisations of renowned prestige (IMF, OECD, etc.), also taking into account the macroeconomic estimates of each country. The Group takes into account and monitors significant changes in credit risk that may arise during the terms of the loans.

h) Determination of employee benefit obligations

Pension and similar obligations are determined on the basis of actuarial valuations which take into account statistical rates published by official bodies relating to future valuations such as expectations of salary increases, growth rates, mortality rates, discount rates, etc. These rates may vary significantly depending on economic and market conditions, which would cause variations in the obligations recognised in the consolidated financial statements.

The Group recognises in the consolidated statement of financial position the amounts arising from its employee benefit obligations, based on the actuarial valuations performed by independent experts.

Note 16.1 includes detailed information on the assumptions used in 2020 to perform the valuations.

i) Hyperinflation adjustments

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

The financial statements of Acerinox Argentina were stated in terms of the measuring unit current at the end of the reporting period. The restated cost of each non-monetary item in the financial statements was determined by applying to its historical cost and accumulated depreciation the change in a general price index from the date of acquisition to the end of the reporting period.

In 2020 the components of owners' equity, except retained earnings and any revaluation surplus, were restated by applying a general price index to the various items from the date on which the components were contributed or otherwise arose. Restated retained earnings are the result of applying these indices to the other amounts in the statement of financial position.

All the items in the statement of comprehensive income were also restated in the monetary unit current at the end of the reporting period. For this purpose, all the amounts were restated by applying an index calculated on the basis of the change in the general price index from the date on which the income and expenses were recognised in the financial statements.

The gain or loss arising from the net currency position was included in profit or loss.

Note 14.6 includes the impacts of the measurement in accordance with this standard, which in any case were immaterial to the Group.

j) Recoverability of tax loss and tax credit carryforwards

Separately from tax legislation, which in many cases allows the recovery of tax losses without limitation, as established in the related accounting policy (see **Note 2.19**), the Group recognises in the consolidated statement of financial position the deferred tax assets arising from tax loss and tax credit carryforwards, provided that they are recoverable over a reasonable period of time, which the Group has set at ten years. The Group regularly assesses the recoverability of available tax assets through earnings projections approved by management, to conclude as to whether they will be recoverable in the aforementioned reasonable period.

The Group also takes into account the limitations on the offset of tax losses stipulated under certain legislation. **Note 19.3** details the Group's existing tax assets and the bases used to determine the recoverability of recognised tax assets.

Based on the earnings projections performed by the Group, taking into account the present macroeconomic and market conditions, certain tax assets, which had previously been recognised, proved to be non-recoverable within a reasonable period of time. Therefore, in 2020 the Group derecognised them from the consolidated statement of profit or loss, as explained in **Note 19.3.3**.

k) Recognition of a deferred tax liability arising from investments in subsidiaries

As established in the accounting policies (see **Note 2.19**), certain companies forming part of the consolidated Group have reserves which could be taxable if distributed, since certain legislation envisages withholdings at source that affect the payment of dividends, as well as limitations on the deductibility of gains from other countries distributed in the form of dividends. The Group recognises the tax effect in this connection provided that it considers that such reserves will have to be distributed in the foreseeable future. At the same time, the Group shall also reverse this temporary difference against profit or loss when new legislative changes eliminate or reduce the tax liability of these reserves.

For such purpose, at 31 December 2018 the Group recognised a liability of EUR 25 million relating to the foreseeable distribution of reserves for an amount of EUR 250 million from the US Group company North American Stainless. The Protocol amending the Convention between the United States of America and the Kingdom of Spain for the Avoidance of Double Taxation entered into force on 27 November 2019. The Protocol amended several articles of the existing Convention, including the article referring to dividends and interest, so that dividends from shares representing 80% or more of the capital with voting rights of the company paying the dividends will not be subject to taxation at source, and a series of requirements are also set out for the application of this exemption, with which the Group complies. Under those requirements, it is no longer necessary to recognise a deferred tax liability in this connection. **Note 19** includes a detailed explanation of this reversal.

As a result of the entry into force in Spain, as of 1 January 2021, of the amendment to income tax affecting the tax exemption for dividends received from Group companies, the aforementioned tax exemption for dividends received from qualifying ownership interests applicable to the Parent of the Acerinox Group will be reduced to 95%, whereby it shall be taxed on 5% of the dividends it receives from its subsidiaries, which shall be treated as non-deductible expenses relating to management of the ownership interest. This amendment means that the Group must recognise the tax effect in this connection provided that it considers that reserves of subsidiaries will have to be distributed in the foreseeable future.

Each year the Group analyses whether these retained earnings held by the Group companies will be distributed to the Parent. In 2020 it was not necessary to recognise a deferred tax liability arising from investments in subsidiaries, as in that year a significant proportion of the reserves held by North American Stainless had already been distributed and, since this company holds significant retained earnings, no additional repatriation of reserves is expected. Future repatriations of dividends are expected to be made on the basis of the results obtained year by year.

l) Determination of lease terms

The new IFRS 16 standard requires the recognition of assets and liabilities arising from leases in the statement of financial position. For this purpose, at inception of a contract the Group will have to assess whether the contract is, or contains, a lease.

Also, the Group measures the right-of-use asset at cost, corresponding to the present value of the lease payments expected to be made over the lease term. Accordingly, the Group is required to analyse both the amount of the payments it expects to make (both fixed and variable payments or penalties) and the lease term, for which purpose it must take into account the options for extending the lease.

Note 10 includes detailed information on leases and their recognition and measurement in the Group’s consolidated financial statements.

NOTE 4 - FINANCIAL RISK MANAGEMENT

The Group's activities, in both its stainless steel and special alloy divisions, are exposed to various financial risks: market risk (foreign currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Group aims to minimise the potential adverse effects on its financial profitability through the use of derivative financial instruments, where appropriate to the risks, and by taking out insurance policies. **Note 12.2.6** includes a detailed analysis of the Group's derivative financial instruments at year-end.

The Group does not acquire financial instruments for speculative purposes.

4.1 Market risk

Market risk arises from changes in market prices due to exchange rate or interest rate fluctuations or changes in prices of raw and other materials, which can affect the Company's earnings, its equity and the measurement of its assets and liabilities.

4.1.1 Foreign currency risk

The Group operates internationally and in various currencies, particularly in the US dollar, and is therefore exposed to foreign currency risk. Foreign currency risk arises from commercial transactions and financing and investment operations, and from the translation of financial statements the functional currencies of which differ from the consolidated Group's presentation currency (the euro).

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

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

The derivative financial instruments used by the Group to hedge this risk consist of foreign currency purchase and sale forward contracts negotiated by the Group's Treasury Department in accordance with the policies approved by management.

Where necessary, the Group uses other types of financial derivatives such as cross-currency swaps to control foreign currency risk in financial transactions. At 2020 year-end, no derivatives of this nature had been arranged, as no financing had been arranged in currencies other than the functional currency.

Although the entity's business model is to hedge foreign currency risk through the use of derivative financial instruments and there is an economic relationship between the hedged item and the hedging instrument, the Group does not formally document the relationship and, therefore, most of the currency forwards arranged by the Group do not qualify as cash flow hedges. Accordingly, they cannot be recognised in accordance with the policy set out in Note 2.12.4. Those that do not meet such conditions were recognised in accordance with the accounting policy determined for financial instruments at fair value through profit or loss.

In general, financial instruments designated to hedge foreign currency risk exposure arising from commercial transactions or transactions between Group companies are not treated for accounting purposes as hedging instruments. However, those used to hedge financing transactions with banks would be treated as such.

The Group only hedges cash flow risks for transactions performed in foreign currencies that are recognised in the consolidated statement of financial position; accordingly, any change in the derivative valuation is recognised in profit and loss and is offset by any changes that occur at each reporting date in the monetary items recognised in foreign currencies. The designation of these instruments as hedging instruments does not give rise to any accounting differences in the Group's consolidated statement of profit or loss.

VDM, which constitutes the special alloys division following its inclusion in the Acerinox Group in March 2020, is also exposed to exchange rate volatility risk, particularly in relation to the US dollar. VDM hedges all its risk exposure in relation to currencies other than the euro and the US dollar when amounts are billed, whilst for the US dollar, due to its ability to net the expected cash inflows and outflows in this currency, it only hedges the differences that exceed certain limits, through currency forwards.

The fair value of foreign currency forward contracts is equal to their market value at the reporting date, i.e. the present value of the difference between the current forward rate and the contract rate.

Note 12.2.6 details the financial instruments arranged by the Group to hedge this type of risk at 31 December 2020 and 2019.

Lastly, the Group is exposed to foreign currency risk as a result of the translation of the separate financial statements the functional currency of which differs from the Group's presentation currency, particularly the US dollar and the South African rand. The USD/EUR exchange rate at 2020 year-end was 1.2271, while at 2019 year-end it stood at 1.1234 (USD depreciation of 9% for the year). The exchange rate of the South African rand to the euro at 2020 year-end was 18.0219, while at 2019 year-end it was 15.7773 (rand depreciation of 14%).

The Group does not use financial instruments to hedge foreign investments in currencies other than the euro, since these are strategic long-term investments that the Group does not intend to sell or settle. Note 14.4 includes a breakdown of the changes in translation difference items in the year.

Sensitivity to changes in these currencies with respect to the euro, with other variables remaining constant and based on the translation rates at the end of 2020 and 2019, respectively, was as follows:

(Amounts in thousands of euros)

	Profit or loss		Equity	
	10% appreciation	10% depreciation	10% appreciation	10% depreciation
31 December 2020				
USD	16,916	-13,841	131,520	-107,607
ZAR	-1,643	1,344	19,891	-16,274
31 December 2019				
USD	10,332	-8,453	203,558	-166,548
ZAR	-1,939	1,587	25,278	-20,682

4.1.2 Interest rate risk

The Group's financing comes from various countries and is provided in various currencies (mainly in the euro, the US dollar and the South African rand), with a range of maturity dates and mostly variable interest rates.

The Group's financial liabilities and financial assets are exposed to fluctuations in interest rates. To manage this risk, interest rate curves are analysed regularly and derivatives are occasionally used. These derivatives take the form of interest rate swaps which qualify for recognition for accounting purposes as cash flow hedging instruments. The fair value of interest rate swaps is the estimated amount that the Group would receive or pay to terminate the swap at the reporting date, taking into account interest and exchange rates at that date and the credit risk associated with the swap counterparties.

In 2020 the Group arranged five long-term loans to purchase VDM. In order to reduce the risk of interest rate fluctuations, the Group arranged interest rate hedges amounting to EUR 160 million, equal to the amount of the new loans arranged with CaixaBank and the Spanish Official Credit Institute ("ICO"). Also, the Group arranged three new fixed-rate loans totalling EUR 190 million with BBVA, Sabadell and Liberbank.

In addition, in order to guarantee the Group's liquidity, Acerinox executed two long-term fixed-rate financing transactions in Spain with Banco Santander and Bankinter for an amount of EUR 110 million, secured by the ICO.

As in 2019, in 2020 the Group continued to reduce the cost of its short-term loans by renegotiating their reference interest rates. In this connection, the Group performed two other financing transactions (also fixed-rate) with Banco Sabadell and Banco Cooperativo Español amounting to EUR 145 million.

In 2019, in order to reduce the risk of floating interest rate changes, the Group arranged interest rate hedges amounting to EUR 210 million, equal to the amount of the new loans arranged with Bankia and CaixaBank. Also, the Group entered into three new fixed-rate loan agreements with Bankinter, Kutxabank and Unicaja amounting to EUR 120 million.

Note 12.2.6 details the financial instruments arranged by the Group to hedge this type of risk at 31 December 2020 and 2019.

In relation to the Group's interest rate sensitivity, had interest rates on its outstanding debt at year-end been 100 basis points higher, with all other variables remaining constant, the consolidated profit after tax would have been EUR 1.9 million lower (EUR 1.58 million lower in 2019) due to higher borrowing costs on floating-rate debt. The effect on the Group's equity of such an increase in interest rates across the entire interest rate curve would have been an increase of EUR 17.8 million (2019: an increase of EUR 15.85 million), since the higher borrowing costs would have been comfortably offset by increases in the values of its interest rate hedging derivatives held at the reporting date.

4.1.3 Price risk

The Group is exposed to several types of price risk:

1. Risk arising from changes in the price of securities held in listed companies

The risk arising from changes in the price of securities held in listed companies relates to the portfolio of shares currently held by the Group in Nippon Steel & Sumitomo Metal Corporation (Nippon). The Group does not hedge this risk with derivative financial instruments. Upon adoption of the new standard for measuring financial instruments (IFRS 9), the Group categorised these instruments as financial assets at fair value through other comprehensive income and, accordingly, recognises any changes in equity. The impact of the fluctuations in listed securities in 2020 is explained in **Note 12.2.5**.

2. Risk of changes in raw material prices

When explaining the Group's exposure to this risk, a distinction must be made between the stainless steel division and the high-performance alloys division since, although both of the Group's divisions use metals listed on the London Metal Exchange as raw materials, the performance of demand and the way in which raw material price changes affect the markets are substantially different in each division.

2.1 Raw materials used for the stainless steel division

Stainless steel is an iron alloy with a minimum chromium content of 10.5%, which also contains other metals such as nickel or molybdenum to give it specific properties. Due to fluctuations in the prices of raw materials used in the manufacturing process, as both nickel and molybdenum are listed on the London Metal Exchange, stainless steel prices can be very volatile, since these fluctuations in raw material prices are reflected, to the extent possible, in the selling price by means of the "alloy surcharge".

The cost of raw materials accounts for approximately 65-70% of the total product cost, of which the cost of nickel represents approximately 40-50%. Nickel price volatility has a direct and significant effect on the cost of stainless steel. Therefore, the strategy for setting selling prices and the repercussion of such fluctuations is one of the most critical functions and requires significant knowledge of the market. In Europe, South Africa and the United States, selling prices usually comprise a base price and a variable component known as the alloy surcharge. The alloy surcharge is a mathematical formula, calculated on a monthly basis by each of the market's stainless steel producers, that takes into account changes in the prices of certain raw materials (particularly nickel, chromium and molybdenum) and fluctuations in the EUR/USD exchange rate. The application of this alloy surcharge allows nickel price fluctuations on the London Metal Exchange to be passed on to customers during the order manufacturing phase, as well as fluctuations in the prices of other raw materials and in the EUR/USD exchange rate. This natural hedge is applied to 90% of the Group's sales (a portion of the sales in Europe, America and South Africa).

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

In 2020 the mitigating effect of the alloy surcharge on the risk of price changes performed differently in the United States and in Europe. In the North American market, the alloy surcharge was observed by the market and contributed towards price stability, as evidenced by the consistency of the margins maintained by North American Stainless throughout the year.

Conversely, in Europe the traditional base price + alloy surcharge model was replaced by an effective price system. The price trend was not determined by fluctuations in raw material prices but rather by the double adverse impact of Covid-19 on consumption and, as in 2019, the tariff barriers in the various markets. These barriers affected import flows into Europe, and neither the provisional safeguard measures established by the European Commission in July 2018 nor the definitive measures that entered into force in February 2019 had the envisaged effect in a bear market.

2.2 Raw materials used for the high-performance alloys division

The high-performance alloys division involves alloys whose content of listed metals such as Nickel is much higher than that of stainless steel. In its production process, VDM also uses other listed metals such as copper, cobalt, aluminium and molybdenum. Metal content represents two thirds of the total product cost and the selling price of those products is ten times higher than that of stainless steel. The manufacturing period lasts around three to four months until the products are billed and, accordingly, the Group must purchase metals several months before they are sold. Due to the proportion of the total product cost represented by the metals, customers always demand set prices and VDM guarantees a set price for the customer on receiving the orders, thus assuming the full raw material price volatility risk. To this end, VDM has a metal trading department which is responsible for managing this risk by arranging derivatives on the LME (London Metal Exchange). These derivatives hedge the risks relating to the metal content of the manufactured products. In the case of metals not listed on the LME, VDM undertakes natural hedges through its physical stock.

At 31 December 2020, the derivative instruments arranged for metals used by the Group did not qualify for hedge accounting and, therefore, any changes in the measurement of such derivatives at the reporting date were recognised in profit or loss under "Other Operating Income" or "Other Operating Expenses".

A 20% increase in the price of the listed metals, which the Group hedges through forward purchases and sales, would impact the measurement of the derivatives with additional gains of EUR 12.5 million; conversely, a 20% decrease in the price of those metals would have a negative impact of EUR -12.5 million on the Group's results, as hedge accounting would not apply.

Hedge accounting is applied on a voluntary basis, and a separate decision on whether to apply it is taken on a case-by-case basis for each transaction. To avoid the volatility caused by the measurement of these derivatives with respect to the Group's profit or loss, an analysis was conducted of the economic model and the hedging relationships to evaluate the possible application of hedge accounting to these derivatives. Accordingly, for new derivatives arranged on or after 1 January 2021, the relationships shall be documented and a model has been implemented to ensure the effectiveness of the hedge. Therefore, from that date the Group will begin to apply hedge accounting to recognise these financial instruments.

3. Risk of price distortion due to the accumulation of stock in the market

The stainless steel market is characterised by robust demand, which has grown at an annual rate of approximately 6% for over 50 years. The demand for stainless steel for all industrial applications and its presence in all industries guarantee that this growth rate will be sustained in the coming years. Although end consumption continues to grow steadily, the fact that this market is largely controlled by independent wholesalers leads to volatility in apparent consumption, based on their expectations regarding nickel price trends on the London Metal Exchange (LME) and their resulting stockpiling or inventory realisation strategies.

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

4. Risk of overstatement of inventories

The convenience of maintaining sufficient inventory levels at the Group's warehouses entails the risk that these inventories might be overstated with respect to their market price. The Group mitigates this risk by keeping strict control of its inventory levels.

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

Conclusion:

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

4.1.4 Impact of the Covid-19 pandemic

One of the factors which undoubtedly had the greatest influence in 2020 was the Covid-19 pandemic, which affected levels of industrial activity, the growth of the world economy and the consumption of stainless steel and high-performance alloys, with unprecedented economic consequences at global level.

A Covid Emergency Response Team was immediately created to coordinate the measures. Employee safety has been paramount for the Group at all times. Protocols and action plans were established and trips and meetings were cancelled, while teleworking was encouraged where possible and working shifts were organised to reduce contact and ensure business continuity at all times.

Acerinox became the first steel manufacturer to achieve AENOR certification for protocols against Covid-19 after assessing various matters concerning management of Covid-19-related risks at the Acerinox Europa plant. This seal certifies that the safety measures deployed by Acerinox meet the criteria and recommendations of the health authorities and provide safe work spaces for employees, customers and suppliers at its plant.

In the case of the stainless steel division, manufacturing activity was affected differently depending on the country in question: the Acerinox factories in Spain had to halt production for four days in March, while in the US activity continued throughout the year, although it did decrease with respect to the same period of 2019. The factory in South Africa halted production for the entire month of April and in Malaysia activity was halted from mid-March until the end of April.

In Europe, estimates of apparent consumption of flat products envisaged a decrease of 14% in 2020. As the safeguards were not designed for a bear market, they did not curb imports, which maintained a penetration level of around 25% in the case of flat products and continued to exert huge pressure on prices.

Apparent consumption in the American market also fell by 10%, according to estimates.

The impact of Covid-19 in the Asian markets caused a reduction in consumption and in prices, but less so in production. Inventories at the Wuxi and Foshan warehouses decreased in the second quarter, although they remain at high levels.

With regard to the high-performance alloys market, according to data from SMR the decreases in apparent consumption were sharper than in the stainless steel industry, particularly from the beginning of the second half of the year onwards, at a global level of around 20%. By market, noteworthy decreases occurred in Europe (17%), America (30%) and China (2%).

In terms of sectors, a considerable number of industries that are key to the high-performance alloys market were seriously affected by the pandemic. One of the most significant is the aerospace industry, with decreases of 45%, followed by the oil and gas industry (26%) and the automotive industry (25%). Other industries such as the chemical industry and the electronic components industry were less affected, but they nevertheless suffered falls of 8% and 12%, respectively.

The Group has stepped up its efforts in this period to reduce costs across all its units. Furthermore, the investments to be made in the year were reviewed, postponing those that were not strictly necessary and optimising working capital needs.

At Acerinox Europa, an agreement was reached with the workers' committee of the Campo de Gibraltar (Cádiz) factory, whereby a furlough-type arrangement (Spanish ERTE) due to production-related circumstances was approved, and this agreement was backed by the four trade unions represented on the committee. The agreement envisages a duration of one year from 5 May 2020, includes the entire workforce and allows for the adaptation of staff to the production needs prevailing at any given time, thus providing considerable flexibility for management purposes. This agreement creates an environment of safety and certainty which is beneficial to all parties, helps to maintain jobs and will enable to workforce to be adapted to the backlog.

All of the Group's factories have generally adopted various measures to alleviate the effects of Covid-19, such as furlough-type arrangements, reduced working hours and mandatory holidays.

In 2020, despite the exceptional circumstances caused by the global pandemic, the Group showed its financial strength and the effectiveness of being a global producer with factories in four continents, which enabled it to make the most of the favourable situation of certain markets with respect to others.

Despite the exceptional circumstances, effective risk management enabled the Group to avoid being as seriously affected as players in other industries.

With regard to credit risk, non-payment and delays in payment were no higher than in any year prior to the Covid-19 situation.

Even considering the fact that the effects of Covid-19 on the global economy are still difficult to quantify, the Group's financial strength guarantees that its financing will not be affected under any circumstances. Thanks to the strategy undertaken in recent years, the Acerinox Group's liquidity position is optimal for facing the current scenario.

4.2 Credit risk

Credit risk is defined as the possible loss that could be incurred through failure of a customer or debtor to meet contractual obligations.

The Group's exposure to credit risk is determined by the individual characteristics of each customer and, where applicable, by the risk inherent to the country in which the customer operates. Due to the diversity of its customers and the countries in which the Group operates, credit risk is not concentrated in any individual customer, sector or geographical region. None of the Group's customers, including whether in the stainless steel or the high-performance alloys division, account for more than 10% of the Group's total sales.

The Group hedges its commercial and political risks either through credit insurance companies, or through letters of credit and bank guarantees extended by banks of recognised solvency located in countries with low financial risk. Credit insurance hedges between 85% and 95% of declared commercial risks, depending on the country in which the customer is located and the insurance company, and between 90% and 95% of political risks. The Group's main credit insurer has an A2 credit rating from Moody's and an A (Excellent) rating from A.M. Best. The inclusion of the VDM Metals Group in the Acerinox Group did not give rise to substantial changes in this connection, since the former also covers commercial risks through insurance companies.

In 2020 payouts of EUR 1,858 thousand were collected under the credit insurance policy (2019: EUR 1,482 thousand).

A Risk Committee is responsible for monitoring the Group's credit risk policy. New customers are analysed in conjunction with the insurance company, which assigns a covered amount, enabling the Group to offer its general payment terms to those that fulfil the required credit conditions. Where required, the Risk Committee also performs a case-by-case analysis of customers' creditworthiness, setting credit limits and payment terms. Otherwise, payment in cash is required.

The Risk Committee consists of representatives from the sales, financial and legal departments. The risks of the companies that make up the Acerinox Group are analysed and information is, in turn, received from the delegated risk committees of Bahru Stainless, Columbus, North American Stainless and Grupinox (the latter of which represents the sales network in Spain). The Delegated Risk Committee of VDM Metals will be set up shortly.

Among other duties, the Risk Committee reviews the status of past-due debts, monitors sales with excessive exposure and authorises the transfer of internal risk or, depending on the amount, requests approval from the Management Committee.

The Group has long-standing commercial relationships with many of its customers. Delays in payment result in specific monitoring of future deliveries, payment terms and the review of credit limits.

Where permitted under local legislation in the country in which the customer operates, retention of title clauses may exist, and in certain cases do exist, to secure recovery of goods in the event of default.

The Group occasionally uses other financial instruments to reduce credit risk, such as factoring operations. The Group derecognises factored financial assets when the risks and rewards of these assets have been substantially transferred. VDM has also arranged a non-recourse factoring agreement through which it transfers substantially all the risks and rewards to the financial institution.

The Group makes the valuation adjustments to trade receivables it deems necessary based on an expected credit loss model which analyses the average credit losses at each of the subsidiaries and the claims incurred on the credit insurance policies taken out, as detailed in **Note 2.12.2**.

Note 12.2.1 details the changes in valuation adjustments to trade receivables.

The consolidated balance of trade receivables at 31 December 2020 was EUR 463,796 thousand (2019: EUR 483,660 thousand), and revenue in 2020 amounted to EUR 4,668,488 thousand (2019: EUR 4,753,878 thousand). This represented an average collection period of 36 days at the Group (2019: 37 days).

Credit risk insurance was taken out for 55% of consolidated net sales (2019: 55%). Cash conditions existed for 2% of sales (2019: 1%). Confirmed letters of credit or guarantees were used to hedge credit risk in 1% of consolidated net sales (2019: 2%). Domestic sales by North American Stainless Inc., which entail a very low risk due to the collection period of under 30 days, accounted for 37% of consolidated net sales (2019: 40%), allowing deliveries to be controlled and reducing potential impairment losses.

The analysis of the age of the receivables is as follows:

(Amounts in thousands of euros)

	2020	% receivables	2019	% receivables
Not past due	416,585	90%	409,565	85%
Less than 30 days	34,203	7%	56,479	12%
Between 30 and 60 days	5,481	1%	11,298	2%
Between 60 and 90 days	2,101	0%	1,515	0%
More than 90 days	5,426	1%	4,803	1%
TOTAL	**463,796**		**483,660**	

The Group has made provisions for EUR 5,631 thousand (2019: EUR 4,656 thousand). A provision was made for EUR 968 thousand in 2020 (2019: EUR 1,109 thousand), accounting for 0.021% of sales in 2020 (2019: 0.023%). The Group's expected credit loss ratio is 0.025% (2019: 0.027%). The allowance for doubtful debts that VDM had recognised at the acquisition date amounted to EUR 855 thousand.

Most of the past-due receivables are insured and generally reflect customary delays in trading activity (72% of past-due receivables are aged less than 30 days). At 17 February 2021, over 89% of the aforementioned past-due balances had been collected (2019: 83%).

In view of the default rates in all industries, the Group considers that the above figures are highly satisfactory and confirm the success of its commercial risk policy.

With regard to credit risk, non-payment and delays in payment were no higher than in any year prior to the Covid-19 situation. Also, the Group does not expect significant impacts in the future in view of the risk coverage policy in place and the high percentage of risks covered.

Any advances to non-current asset suppliers are hedged through bank guarantees issued by the supplier and confirmed by banks of recognised solvency.

In relation to the credit risk of bank balances, as a general rule only banks and financial institutions that are rated by an independent third party with a "Ba3" credit rating from Moody's are accepted. The Group has no significant concentration of risk, as the likelihood of default by the banks and financial institutions thus authorised is remote, based on their high credit ratings.

Impact of Covid-19 on the Acerinox Group's credit risk

With regard to credit risk, non-payment and delays in payment were no higher than in any year prior to the Covid-19 situation.

All aspects of the business were affected by the pandemic and, on a global level, also the credit insurance sector. From the beginning of March 2020, credit insurance companies began to apply very restrictive policies regarding risk limits granted and their renewal, conducting in-depth reviews based on strictly technical criteria and also on specific industries and countries. In this regard, the Group has made a great effort to harness its commercial experience with long-standing customers.

Also, credit risk aid was included among the support measures which were provided to various industries and approved by several EU Member States to alleviate the economic effects of the pandemic. The European Commission approved the measures presented by various Member States, most notably Germany, which envisaged allocating up to EUR 30,000 million to the reinsurance of transactions of credit risk insurers in Germany in order to maintain the limits applied to their insurees and cover the transactions until the end of the year. The latter measure has had a positive effect on the coverage of VDM Metal's sales.

In Spain, measures similar to those indicated above were expected, although they did not materialise in the same way. Royal Decree-Law 15/2020 authorised the Insurance Settlement Consortium to perform credit reinsurance activities, but the credit insurers would assume the losses, although they would be deferred over time. This has meant that insurance companies operating in Spain have continued to seek to tighten credit limits and, consequently, it makes maintaining the risks necessary to meet the Acerinox Group's sales levels a more difficult task.

As indicated previously, the Acerinox Group permanently monitors delays in payment. This monitoring intensified in 2020 in order to minimise the impact of the pandemic on the Group's accounts receivable, and the Group activated protocols for case-by-case monitoring of customers in particularly difficult situations, working together with the insurance companies.

Despite all the foregoing, it should be noted that 2020 was a year with a very low level of default, even in countries which suffered major currency depreciation.

4.3 Liquidity risk

Liquidity risk is the risk of not being able to meet present and future obligations or not having the funds required to perform the Group's activities.

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

Although access to liquidity has improved considerably over the last two years, the Group has ensured its liquidity and flexibility through existing long-term loans and financing facilities for amounts exceeding the quantities required at any given time. Also, the Group has maintained liquidity with respect to 2019 through several financing and credit transactions in Spain performed with the banks with which the Group usually works, secured by the ICO.

The Group's cash is centrally managed in order to optimise resources. The Group's net debt is primarily concentrated within the Parent of the Group (more than 90% of total gross debt at year-end).

Based on its cash flow estimates and considering its investment plans, the Group has sufficient funding to meet its obligations, and maintains a sufficient level of undrawn credit facilities, together with high levels of liquidity, to hedge liquidity risk. In 2020 and 2019 no defaults occurred on the principal or interest of the Group's various financing facilities.

Even considering the fact that the effects of Covid-19 on the global economy are still difficult to quantify, the Group's financial strength guarantees that its financing will not be affected under any circumstances. Thanks to the strategy undertaken in recent years, the Acerinox Group's liquidity position is optimal for facing the current scenario.

At year-end the Group had access to short- and long-term financing facilities totalling EUR 2,544 million and approved non-recourse factoring facilities amounting to EUR 520 million. At 31 December 2020, the amount drawn down against the financing facilities was EUR 1,689 million and that of the factoring facilities was EUR 204 million, of which EUR 53,7 million relate to the use by the VDM Metals Group. In 2019 the short- and long-term financing facilities available to the Group amounted to EUR 1,965 million, and non-recourse factoring facilities amounted to EUR 420 million, while the drawdowns against the financing facilities amounted to EUR 1,372 million and drawdowns against the factoring facilities amounted to EUR 155 million. At 31 December 2020, cash and cash equivalents amounted to EUR 917,118 thousand (2019: EUR 876,935 thousand).

The high levels of bank borrowings to guarantee medium-term liquidity, together with the ongoing effort to reduce working capital, continue to result in high levels of cash at the Group. Cash and cash equivalent balances are available and there is no restriction on their use.

The Group makes short-term cash placements –never exceeding three months– and only at banks of recognised solvency.

In addition, the Group continuously monitors the maturity profile of its financial debt in order to establish the longest possible annual maturities.

In this connection, the most noteworthy financing transactions in 2020 consisted of the arrangement of five long-term loans amounting to EUR 350 million to acquire VDM, entered into with BBVA, CaixaBank, ICO, Sabadell and Liberbank. Also worthy of note were the renegotiation of a portion of the debt and the signing of new loan agreements with the Group's banks, which were secured by the ICO to ensure liquidity. The volume of these transactions was EUR 255 million and includes transactions relating to pre-existing and new loans. The transactions relating to the pre-existing loans include the improvements in the financial conditions offered by Banco Sabadell amounting to EUR 125 million, and the transactions relating to the new loans include the signing of a loan for EUR 20 million with Banco Cooperativo Español and two ICO-secured loan agreements for EUR 100 million with Banco Santander and EUR 10 million with Bankinter. These financing transactions are explained in **Note 12.2.**3.

The most noteworthy financing transactions in 2019 were the restructuring and extension of the maturity date of the Borrowing Base Facility of Columbus Stainless (Pty) Ltd. for ZAR 3,500 million and the renewal of the syndicated factoring agreement for EUR 370 million. Also, a large portion of the existing debt was renegotiated and new loan agreements were signed for the purpose of extending the maturity of those loans and reducing costs. The total volume of these transactions was EUR 330 million and included transactions relating to pre-existing and new loans. The transactions relating to the pre-existing loans included the improvements in Kutxabank's financial conditions, and the transactions relating to the new loans included the signing of a loan for EUR 160 million with Bankia (of which EUR 120 million were used to repay the previous loan), a loan for EUR 40 million with Unicaja (of which EUR 25 million were also used to repay the previous loan) and two loan agreements with Bankinter and CaixaBank for EUR 15 million and EUR 50 million, respectively.

The financing of VDM's activities is based on three fundamental pillars:

- A factoring agreement
- A long-term loan agreement amounting initially to EUR 75 million, payable quarterly
- A revolving syndicated credit facility amounting to EUR 150 million arranged in 2018 for a period of three years and renewable for a further two years

Following the inclusion of VDM in the Group, the former's liquidity is also monitored centrally.

The analysis of the Group's payment obligations at the end of 2020 is as follows:

Amounts in thousands of euros)

	2020							
		Future cash flow maturities (payments)						
	Amount at 31/12/20	Amount of future payments	Less than 6 months	6-12 months	1-2 years	2-5 years	More than 5 years	Undetermined maturity
Non-current payables	1,409,689	-1,467,069	-7,124	-10,764	-325,704	-1,009,158	-114,319	
Current payables	279,668	-281,936	-204,733	-77,204				
Payable to suppliers and other payables	945,814	-945,814	-945,814					
Other non-current financial liabilities	20,193	-20,193						-20,193
FINANCIAL DERIVATIVES								
Hedges through interest rate swaps	12,053	-11,929	-1,821	-1,853	-3,262	-4,467	-526	
Commodity derivatives - purchases	-1,702	1,702	1,184	423	95			
Commodity derivatives - sales	1,432	-1,432	-910	-522				
Currency forwards against exports	-17,255	17,255	17,255					
Currency forwards against imports	9,209	-9,209	-9,209					
TOTAL	2,659,101	-2,718,625	-1,151,171	-89,919	-328,871	-1,013,625	-114,845	-20,193

The balances of “Payable to Suppliers and Other Payables” do not include payables to public authorities.

“Other Non-Current Financial Liabilities” includes mainly advances on grants, deposits and guarantees with undetermined maturity.

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

Approved investments not recognised under property, plant and equipment under construction at the reporting date are not included.

4.4 Brexit

On 31 January 2020, the United Kingdom of Great Britain and Northern Ireland ceased to be an EU Member State and began to be considered a third country, following the ratification of the Agreement on the withdrawal of the United Kingdom of Great Britain and Northern Ireland from the European Union. The Withdrawal Agreement envisaged a transition period from its entry into force until 31 December 2020, during which EU law continued to be applied in the UK, with certain exceptions. The main purpose of the transition period was to provide a time period for citizens, entities and public authorities to adapt to the new situation, and to provide a framework of stability for the negotiation of an agreement on the future relationship between the EU and the UK. The negotiations over the agreement culminated on 24 December 2020, after an agreement in principal was reached in relation to a Trade and Cooperation Agreement and an Information Security Agreement, among others. These agreements entered into force on 1 January 2021.

On 1 January 2021, the UK ceased to enjoy the rights and obligations it had held as an EU Member State and which it had also largely held during the transition period envisaged in the Withdrawal Agreement. This will create new barriers to the trade of goods and services and to mobility and cross-border exchanges which do not currently exist, in both directions.

However, the Acerinox Group considers that this departure will not have a significant impact on its consolidated financial statements, beyond the administrative and tax changes that it entails. The Group has only one distribution subsidiary and has no production assets in that country. The subsidiary imports the material that is manufactured at any of the Group’s manufacturing plants and sells it in the United Kingdom. The non-current assets held by the Group in the UK total EUR 3.9 million (with the Group’s total non-current assets amounting to EUR 1,821,931 thousand). Also, sales made in that country represent just 3% of the Group’s total sales. Any flight of customers that may occur as a result of Brexit should not lead to a decrease in the Group’s sales, as this can be offset in any other country, given that it is a global market.

4.5 Capital management

The aims of the capital management policy are:

- to safeguard the Company’s capacity to continue its sustained growth;
- to provide sufficient returns to shareholders; and
- to maintain an optimal capital structure.

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

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

Net financial debt is taken to be the sum of current and non-current bank borrowings, plus bonds issued, less cash and cash equivalents. EBITDA reflects profit or loss from operations, less depreciation and amortisation, changes in operating provisions and allowances, and impairment losses recognised in the year.

The net financial debt/EBITDA ratio, standing at 2.01 (2019: 1.36), is satisfactory in the Group’s industry, particularly in a year in which the acquisition and inclusion of VDM increased borrowings by EUR 398 million in March. The cash flows generated in 2020 resulted in an increase of just EUR 278 million in year-end debt.

The Group comfortably complies with all the covenants included in the financing loan agreements, as detailed in **Note 12.2.3**.

The Group’s objective is to remunerate shareholders and undertake investments in property, plant and equipment with the cash generated by its operating activities.

In 2020 cash flows from operating activities amounted to EUR 421 million (2019: EUR 359 million). A working capital reduction of EUR 223 million in 2020 (2019: EUR 96 million) contributed to this significant generation of cash.

After making investments totalling EUR 100 million in property, plant and equipment (2019: EUR 145 million) and remunerating shareholders with an amount of EUR 135 million (same amount as in 2019), the remaining amount was used to reduce a portion of the Group's debt, which in 2020 increased as a result of the investment to acquire the VDM Group and the assumption of its net financial debt. In 2019 shares amounting to EUR 50 million were acquired for redemption.

The gearing ratio increased to 47.80% due to the acquisition of VDM (2019: 25.6%).

The financial strategy implemented in 2020 was flexible in order to adapt to priorities at any given time.

At the beginning of the year, the Group focused on ensuring competitive financing for the acquisition of VDM: five loan agreements were entered into for a total of EUR 350 million at a cost of less than 1%. In the second quarter, in view of the uncertainties arising from the pandemic, actions were taken to ensure the Group's liquidity: Acerinox ended 2020 with immediate liquidity of EUR 1,772 million. In the second half of the year, the Group focused on reducing working capital and generating cash flows.

Most of the previously approved investments were maintained. The 2008-2020 strategic plan, reviewed for the 2016-2020 period, is not designed on the basis of criteria of opportunity but by industrial rationality and long-term efficiency, which supports its continued application if the Group's financial situation so allows, despite temporary adverse economic situations.

The shareholders at the Annual General Meeting held on 22 October 2020 approved a dividend distribution of EUR 0.40/share in cash, which was paid out on 2 December. Likewise, it was resolved to distribute EUR 0.10/share out of the share premium, which was paid out on 3 December. In 2020 the Group decided to maintain the level of the dividend to be distributed to its shareholders in spite of the adverse circumstances of the pandemic.

4.6 Insurance

The geographical diversification of the Group's factories (with three integrated stainless steel flat product manufacturing plants, one cold-rolling plant and three long product manufacturing plants) ensures that an accident would not affect more than one third of total stainless steel production. This guarantees the continuity of the business, while adequate coordination between the other factories mitigates the consequences of material damage to any of the facilities.

Sufficient coverage has been arranged for the Group's factories through material damage and loss-of-profit insurance policies, which account for over 56.38% of the Acerinox Group's insurance expenditure. Also, all assets under construction are covered by the insurance policies taken out by the respective suppliers as well as the global building and assembly policy.

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

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

VDM Metals has a set of insurance policies which is very similar, and in certain cases complementary, to the Acerinox Group's insurance programme. In any case, a global review of the Group's policies is being carried out as a result of the inclusion of VDM Metals in order to optimise the Group's insurance programme.

NOTE 5 - SCOPE OF CONSOLIDATION

5.1 Business combinations

As explained in **Note 1** to these consolidated financial statements, on 17 March 2020 Acerinox, S.A. signed a closing memorandum formalising the agreement for the acquisition of all the shares of VDM Metals Holding GmbH (VDM), representing 100% of the voting rights, following approval of the share purchase by the competition authorities of the United States, the EU and Taiwan on 13 December 2019, 25 February and 9 March 2020, respectively. These approvals represented the closing condition established in the agreement to perform the transaction.

With this transaction, the Acerinox Group plans to diversify towards sectors with greater value added, and it represents an opportunity to grow in new markets and sectors such as aerospace, the chemical industry, the medical industry, hydrocarbons and renewable energies, water treatment and emissions control, since these represent the main markets of the newly acquired Group.

VDM Metals Holding GmbH, which has its registered office in Germany, is the parent of the group of companies that compose the VDM Group, which is a world leader in the production of special alloys and high-performance stainless steel. The VDM Group has five factories in Germany, two in the US and five service centres. It also has a portfolio of around 1,700 customers and about two thousand employees. Within its production chain, it has a product portfolio which includes flat products (sheets and strips), long products (bars and wire), tubing material and pieces for forging, with high nickel content. VDM also operates a commercial distribution business dealing in semi-finished goods and metal components. All the products are made of high-performance metal alloys with high nickel content, which requires the use of state-of-the-art technologies with high-temperature corrosive treatment processes. VDM is a leader in R&D+i activities.

VDM will be included in the Acerinox Group as a new division at the same level as the other major production subsidiaries, North American Stainless (US), Columbus (South Africa), Acerinox Europa and Roldan (Spain), and Bahru Stainless (Malaysia).

The acquired business generated revenue and profit after tax for the Group amounting to EUR 613,618 thousand and EUR 8,754 thousand, respectively, in the period from the acquisition to 31 December 2020. Had the acquisition taken place on 1 January 2020, the VDM Group's revenue and profit for the period ended 31 December 2020 would have amounted to EUR 748,358 thousand and EUR 10,856 thousand, respectively.

The detail of the consideration transferred, the fair value of the net assets acquired and goodwill is as follows:

	Thousands of euros
Cash paid	313,315
Total consideration transferred	**313,315**
Fair value of net assets acquired	263,486
GOODWILL	**49,829**

There is no contingent consideration depending on future events or compliance with certain conditions in exchange for control of the acquired business.

The Group recognised costs of EUR 16,380 thousand related to the transaction, of which EUR 14,736 thousand were recognised as expenses in the year and EUR 1,644 thousand were recognised in 2019.

Goodwill represents the excess of the cost of acquisition of the interest in the VDM Group over the fair value of the identifiable net assets of the acquiree at the acquisition date (assets, liabilities and contingent liabilities). The most significant factors that gave rise to the recognition of the goodwill were the Group's diversification, access to new markets with better margins, possible future synergies and the technical experience of VDM's employees. Goodwill is not tax-deductible.

Goodwill must be allocated to each of the cash-generating units (CGUs) of the company to which the economic benefits of the business combination synergies are expected to flow. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

The Group considered the following factors when allocating goodwill:

- The CGU must represent the lowest level within the entity managed by company management and in relation to which the entity makes decisions.
- The CGU must not be larger than the operating segment recognised for the acquired business.

The VDM Group has 16 entities, as detailed in **Note 5.2**, which include:

- VDM Metals Holding GmbH: holding company of the group, which performs management functions
- VDM Metals GmbH, a manufacturing company which has five factories in Germany and engages in the manufacture of special alloys
- VDM Metals International GmbH, which centralises raw material purchases and product distribution worldwide and has quality and R&D+i departments
- VDM Metals USA LLC., which has two factories in the USA dedicated exclusively to the manufacture of long products
- Various distributors worldwide

VDM's production process is fully integrated. Each factory engages in a particular part of the production process, which requires coordination between them. The same applies to the US factory, which manufactures a specific type of product but also requires a supply of raw material from the factories located in Germany and, therefore, its ability to generate cash flows is equally dependent.

In view of the foregoing, the goodwill generated in the business combination was allocated in full to the high-performance alloys operating segment (see **Note 6**), which includes all the VDM Group entities.

IFRS 3 establishes that the measurement period of the business combination shall not exceed one year from the acquisition date. At the reporting date of these consolidated financial statements, the measurement process had ended. The Group completed the fair value measurement of all the assets acquired and liabilities assumed and obtained the final independent valuer's report.

The detail of the assets and liabilities recognised at fair value as a result of the acquisition is as follows:

	Fair value (thousands of euros)	Carrying amount (thousands of euros)
Non-current assets		
Intangible assets	48,940	13,889
Property, plant and equipment	254,722	147,502
Right-of-use assets	10,411	10,411
Investments accounted for using the equity method	390	16
Deferred tax assets	24,631	24,631
Other non-current financial assets	756	756
TOTAL NON-CURRENT ASSETS	**339,850**	**197,205**
Current assets		
Inventories	390,504	389,695
Trade and other receivables (*)	78,312	75,674
Other current financial assets	2,437	2,437
Current income tax assets	3,793	3,793
TOTAL CURRENT ASSETS (excluding cash)	**475,046**	**471,599**
Non-current liabilities		
Bank borrowings	-120,386	-120,386
Long-term provisions	-172,066	-166,033
Deferred tax liabilities	-78,758	-33,080
Other non-current financial liabilities	-7,579	-7,579
TOTAL NON-CURRENT LIABILITIES	**-378,789**	**-327,078**
Current liabilities		
Bank borrowings	-4,519	-4,519
Trade and other payables	-192,488	-192,488
Current income tax liabilities	-5,887	-5,887
Other current financial liabilities	-9,479	-9,479
TOTAL CURRENT LIABILITIES	**-212,373**	**-212,373**
TOTAL NET ASSETS ACQUIRED	**223,734**	**129,353**
Cash paid	313,315	
Cash and cash equivalents of the acquiree	-39,752	-39,752
Net cash flows paid in the acquisition	**273,563**	

(*) "Trade and other receivables" includes an allowance for doubtful debts amounting to EUR 855 thousand.

The Acerinox Group performed a purchase price allocation (PPA) on the assets, liabilities and contingent liabilities based on their fair values with the assistance of an independent expert, who measured them using various accepted valuation methods.

Following the valuation, the Group considered that the carrying amount of the assets and liabilities at the acquisition date corresponded to their fair value, except for the following items:

- Plant, machinery and equipment
- Patents
- Investments in associates
- Emission allowances and the related provision

The following methodologies were used to measure these assets:

- Plant, machinery and equipment – replacement cost less accumulated depreciation at the acquisition date. Databases of market values were used to estimate replacement costs, as well as studies on changes in costs of those assets. The estimation of the useful lives took into account the age and condition of the assets, as well as published industry studies on expected useful lives. An economic obsolescence rate was also taken into account.

- Patents – royalty relief method. According to this method, the value of the asset reflects the savings obtained by being the owner of the patent. This valuation technique is based on the assumption that if a licence must be acquired to use from a third-party patent, the third party would require payment of a percentage of the income arising from use of the patent. This saving in costs, or exemption from payment of royalties, represents the value of the patent, which consists of discounting to present value the income expected to be obtained from the patent over its useful life. The useful life was estimated at 14 years, based on the years over which the asset is expected to be used. The royalty rate used in the valuation is 6% and the discount rate is 12.9%.

- Emission allowances and the related provision – market value at acquisition date

In addition, intangible assets related to the customer portfolio were identified. VDM has a significant portfolio of customers, many of whom have a long-standing relationship with the group. Eight of VDM's ten main customers have a relationship with the group spanning over 20 years. The multi-period excess earnings method was used to measure these assets. In accordance with this method, the value of the intangible asset is calculated as the present value of the cash flows it generates. Since this asset normally generates cash flows together with other tangible and intangible assets (non-current assets, working capital, brand, workforce, etc.), the estimated cost of using the rest of the aforementioned assets ("cost of the contributing assets") should be subtracted from the estimated cash flows associated with the asset being valued. The estimated useful life is 15 years, the customer attrition rate is 6.7% and the discount rate is 12.9%.

Also, a contingent liability was identified in the measurement process, which VDM had not recognised in its consolidated financial statements at the acquisition date, arising from a tax audit initiated on 19 March 2019 at one of the VDM Group's subsidiaries, VDM Metals Italia, S.r.l., relating to the period from 2013 to 2018. **Note 16.1** includes detailed information on this contingent liability, which had been settled at the reporting date of these consolidated financial statements.

As a result of the recognised increases in carrying amount with the respect to its tax bases, a deferred tax liability of EUR 45,678 thousand was recognised.

The fair values recognised were not affected by the pandemic. The Group expects to recover the cash flows from the second half of 2021 and beyond, especially from 2022 onwards. In its impairment analysis of goodwill, the Group took into account the impact of Covid-19 when estimating the future cash flows, as explained in **Note 7.1**.

In relation to the acquisition, Acerinox has received a guarantee from the former owner for an amount of EUR 15,000 thousand, valid for a period of 12 months from the acquisition date, to cover possible partial repayments of the price initially paid and possible repayments for transactions defined as prohibited under the purchase and sale agreement. This guarantee has not been recognised for accounting purposes.

5.2 Changes in the scope of consolidation

On 17 March 2020, Acerinox, S.A. acquired all the shares of VDM Metals Holding GmbH. The company holds ownership interests in various entities, as shown in the table below, which are included from the acquisition date in the consolidated financial statements of the Acerinox Group:

Company	Country	% Ownership
VDM Metals GmbH	Germany	100%
VDM Metals International GmbH	Germany	100%
VDM-Unterstützungskasse GmbH	Germany	100%
VDM Metals UK Ltd	UK	100%
VDM Metals Benelux B.V.	Netherlands	100%
VDM Metals France S.A.S.	France	100%
VDM Metals Austria GmbH	Austria	100%
VDM Metals Italia S.r.l.	Italy	100%
VDM Metals Canada Ltd.	Canada	100%
VDM Metals Australia (Pty) Ltd.	Australia	100%
VDM Metals Japan K.K.	Japan	100%
VDM (Shanghai) High Performance Metals Trad. Co. Ltd.	China	100%
VDM Metals de México, S.A. de C.V.	Mexico	100%
VDM Metals USA LLC.	US	100%
VDM Metals Korea Co. Ltd.	South Korea	100%
VDM High Performance Metals Nantong Co. Ltd.	China	100%
MOL Katalysator-technik GmbH	Germany	20.45%
Evidal Schmöle Verwaltungsgesell-schaft GmbH	Germany	50%

In 2019 the Group increased its ownership interest in the Malaysian company Bahru Stainless to 98.15% (compared with 97% at the end of 2018 following the acquisition of 30% from the Japanese shareholder Nisshin Steel Co. Ltd). This increase was due to the dilution of the non-controlling shareholder's interest as it did not participate in the capital increase carried out at this company in proportion to its interest, as explained in **Note 5.3**.

5.3 Subsidiaries and associates

Subsidiaries

At 31 December 2020 and 2019, in addition to Acerinox, S.A., the scope of consolidation of the Acerinox Group included 54 fully consolidated subsidiaries.

The detail of investments in associates in 2020 is as follows:

	2020				
		OWNERSHIP INTEREST			
FULLY CONSOLIDATED COMPANIES	COUNTRY	COST (in thousands of euros)	% NOMINAL VALUE	HOLDER OF OWNERSHIP INTEREST	AUDITOR
ACERINOX (SCHWEIZ) A.G.	Mellingen - Switzerland	327	100%	ACERINOX, S.A.	PWC
ACERINOX ARGENTINA, S.A.	Buenos Aires - Argentina	598	90%	ACERINOX, S.A.	Estudio Canil
		13	10%	INOXIDABLES DE EUSKADI, S.A.U.	
ACERINOX AUSTRALASIA (PTY) LTD.	Sydney - Australia	385	100%	ACERINOX, S.A.	
ACERINOX BENELUX, S.A. - N.V.	Brussels - Belgium	209	100%	ACERINOX, S.A.	PWC
ACX DO BRASIL REPRESENTAÇOES, LTDA	Sao Paulo - Brazil	373	100%	ACERINOX, S.A.	
		0	0.001%	INOXIDABLES DE EUSKADI, S.A.U.	
ACERINOX CHILE, S.A.	Santiago de Chile - Chile	7,545	100%	ACERINOX, S.A.	PWC
ACERINOX COLOMBIA, S.A.S.	Bogotá, D.C. - Colombia	68	100%	ACERINOX, S.A.	
ACERINOX DEUTSCHLAND GMBH	Langenfeld - Germany	45,496	100%	ACERINOX, S.A.	PWC
ACERINOX EUROPA, S.A.U.	Algeciras - Spain	341,381	100%	ACERINOX, S.A.	PWC
ACERINOX FRANCE, S.A.S.	Paris - France	18,060	99.98%	ACERINOX, S.A.	PWC
		0	0.02%	INOXIDABLES DE EUSKADI, S.A.U.	
ACERINOX INDIA PVT LTD.	Mumbai - India	155	100%	ACERINOX, S.A.	ISK & Associates
ACERINOX ITALIA, S.R.L.	Milan - Italy	78,844	100%	ACERINOX, S.A.	Collegio Sindicale - Studio Revisori Associatti
ACERINOX METAL SANAYII VE TICARET L.S.	Gümü suyu / Beyo lu - Turkey	150	99.73%	ACERINOX, S.A.	
		0	0.27%	INOXIDABLES DE EUSKADI, S.A.U.	
ACERINOX MIDDLE EAST DMCC (DUBAI)	Dubai - United Arab Emirates	10	100%	ACERINOX, S.A.	Al Sharid Auditing and Management Consultancy
ACERINOX PACIFIC, LTD.	Wan Chai - Hong Kong	7,467	100%	ACERINOX, S.A.	PWC
ACERINOX POLSKA, SP Z O.O.	Warsaw - Poland	25,174	99.98%	ACERINOX, S.A.	PWC
		4	0.02%	INOXIDABLES DE EUSKADI, S.A.U.	
ACERINOX RUSSIA LLC	Saint Petersburg - Russia	100	100.00%	ACERINOX, S.A.	
ACERINOX SCANDINAVIA AB	Malmö - Sweden	31,909	100%	ACERINOX, S.A.	PWC
ACERINOX S.C. MALAYSIA SDN. BHD	Johor - Malaysia	19,476	100%	ACERINOX, S.A.	PWC

	2020				
		OWNERSHIP INTEREST			
FULLY CONSOLIDATED COMPANIES	COUNTRY	COST (in thousands of euros)	% NOMINAL VALUE	HOLDER OF OWNERSHIP INTEREST	AUDITOR
ACERINOX SHANGHAI CO., LTD.	Shanghai - China	1,620	100%	ACERINOX, S.A.	Shanghai ShenZhou DaTong
ACERINOX (SEA), PTE LTD.	Singapore - Singapore	193	100%	ACERINOX, S.A.	PWC
ACERINOX UK, LTD.	Birmingham - United Kingdom	28,444	100%	ACERINOX, S.A.	PWC
ACEROL - COMÉRCIO E INDÚSTRIA DE AÇOS INOXIDÁVEIS, UNIPESSOAL, LDA.	Trofa - Portugal	15,828	100%	ACERINOX, S.A.	PWC
BAHRU STAINLESS, SDN. BHD	Johor - Malaysia	0	98.15%	ACERINOX, S.A.	PWC
COLUMBUS STAINLESS (PTY) LTD.	Middelburg - South Africa	159,698	76%	ACERINOX, S.A.	PWC
CORPORACIÓN ACERINOX PERÚ, S.A.C.	Lima - Peru	314	100%	ACERINOX, S.A.	
INOX RE, S.A.	Luxembourg	1,225	100%	ACERINOX, S.A.	PWC
INOXCENTER CANARIAS, S.A.U.	Telde (Gran Canaria) - Spain	270	100%	INOXCENTER	PWC
INOXCENTER, S.L.U.	Barcelona - Spain	17,758	100%	ACERINOX, S.A.	PWC
INOXFIL, S.A.	Igualada (Barcelona) - Spain	6,247	100%	ROLDAN, S.A.	PWC
INOXIDABLES DE EUSKADI, S.A.U.	Vitoria - Spain	2,705	100%	ACERINOX EUROPA, S.A.U.	PWC
INOXPLATE - COMÉRCIO DE PRODUCTOS DE AÇO INOXIDÁVEL, UNIPESSOAL, LDA.	Trofa - Portugal	11,043	100%	ACEROL - COMÉRCIO E INDÚSTRIA DE AÇOS INOXIDÁVEIS, UNIPESSOAL, LDA.	
METALINOX BILBAO, S.A.U.	Galdakao (Vizcaya) - Spain	3,718	100%	ACERINOX, S.A.	PWC
NORTH AMERICAN STAINLESS, INC.	Kentucky - US	545,473	100%	ACERINOX, S.A.	PWC
NORTH AMERICAN STAINLESS CANADA, INC.	Canada	5,091	100%	NORTH AMERICAN STAINLESS, INC.	PWC
NORTH AMERICAN STAINLESS MÉXICO, S.A. DE C.V.	Apodaca - N.L., Mexico	18,948	100%	NORTH AMERICAN STAINLESS, INC.	PWC
NORTH AMERICAN STAINLESS FINANCIAL INVESTMENTS, LTD.	Kentucky - US	15	100%	ACERINOX, S.A.	
ROLDAN, S.A.	Ponferrada - Spain	17,405	100%	ACERINOX, S.A.	PWC
VDM METALS HOLDING GMBH	Werdohl - Germany	313,315	100%	ACERINOX, S.A.	PWC
VDM METALS INTERNATIONAL GMBH	Werdohl - Germany	51,404	100%	VDM METALS HOLDING, GMBH.	PWC
VDM METALS GMBH	Werdohl - Germany	61,815	100%	VDM METALS HOLDING, GMBH.	PWC
VDM (SHANGHAI) HIGH PERFORMANCE METALS TRAD. CO. LTD.	Shanghai - China	200	100%	VDM METALS, GMBH	Pan-China Certified Public Accounts
VDM HIGH PERFORMANCE METALS NANTONG CO. LTD.	Nantong - China	849	100%	VDM METALS HOLDING, GMBH	Pan-China Certified Public Accounts

	2020				
		OWNERSHIP INTEREST			
FULLY CONSOLIDATED COMPANIES	COUNTRY	COST (in thousands of euros)	% NOMINAL VALUE	HOLDER OF OWNERSHIP INTEREST	AUDITOR
VDM METALS AUSTRALIA (PTY) LTD.	Mulgrave - Australia	1,322	100%	VDM METALS, GMBH	
VDM METALS AUSTRIA GMBH	Brunn am Gebirge - Austria	4,515	100%	VDM METALS, GMBH	
VDM METALS BENELUX B.V.	Zwijndrecht - Belgium	2,535	100%	VDM METALS, GMBH	BDO
VDM METALS CANADA LTD.	Vaughan - Canada	336	100%	VDM METALS, GMBH	
VDM METALS DE MÉXICO, S.A. DE C.V.	Naucalpan de Juárez - Mexico	30	100%	VDM METALS, GMBH	Grant Thornton
VDM METALS FRANCE S.A.S.	Saint-Priest - France	8,465	100%	VDM METALS, GMBH	
VDM METALS ITALIA S.R.L.	Sesto San Giovanni - Italy	10,281	100%	VDM METALS, GMBH	
VDM METALS JAPAN K.K.	Tokyo - Japan	178	100%	VDM METALS, GMBH	
VDM METALS KOREA CO. LTD.	Seoul - Korea	103	100%	VDM METALS, GMBH	
VDM METALS UK LTD.	Claygate-Esher - UK	100	100%	VDM METALS, GMBH	BDO
VDM METALS USA LLC	Florham Park - USA	27,649	100%	VDM METALS, GMBH	PWC

The activities of the Group companies are as follows:

- Acerinox, S.A.: holding company of the Acerinox Group. The Company provides legal, accounting and advisory services to all the Group companies and carries out financing activities within the Group.
- Acerinox Europa, S.A.U.: manufacture and marketing of flat stainless steel products.
- North American Stainless, Inc.: manufacture and marketing of flat and long stainless steel products.
- Columbus Stainless (Pty) Ltd.: manufacture and marketing of flat stainless steel products.
- Bahru Stainless, Sdn, Bhd: cold rolling and marketing of flat stainless steel products.
- Roldan, S.A.: manufacture and marketing of long stainless steel products.
- Inoxfil, S.A.: manufacture and marketing of stainless steel wire.
- VDM Holding Metals GmbH: holding company of the group of companies that make up VDM metals.
- VDM Metals International GmbH, wholly owned by VDM Holding Metals GmbH, performs the VDM Group's research and development functions, purchases raw materials, manages the supply chain, manages metal product hedges and trading, distributes products of the VDM Group and also has a Quality Department.
- VDM Metals GmbH is the entity which owns the production plants and is responsible for transforming raw materials into high-performance alloys.
- Inox Re, S.A.: reinsurance company.
- Inoxplate, Comercio de productos de Aço Inoxidável, Unipessoal Lda: owner of the industrial building in which the Group company in Portugal -Acerol, Comércio e indústria de Aços inoxidáveis- carries out its operating activities and receives income from its lease.
- North American Stainless Financial Investment, Inc.: provision of foreign trade advisory services.
- The rest of the companies, which are direct investees of either Acerinox, S.A. or the VDM subgroup, engage in the marketing of stainless steel products or high-performance alloys.

The detail of investments in associates in 2019 is as follows:

	2019				
		OWNERSHIP INTEREST			
FULLY CONSOLIDATED COMPANIES	COUNTRY	COST (in thousands of euros)	% NOMINAL VALUE	HOLDER OF OWNERSHIP INTEREST	AUDITOR
ACERINOX (SCHWEIZ) A.G.	Mellingen - Switzerland	327	100%	ACERINOX, S.A.	PWC
ACERINOX ARGENTINA, S.A.	Buenos Aires - Argentina	598	90%	ACERINOX, S.A.	Chinen, Morbelli y Asociados
		13	10%	INOXIDABLES DE EUSKADI, S.A.U.	
ACERINOX AUSTRALASIA (PTY) LTD.	Sydney - Australia	385	100%	ACERINOX, S.A.	
ACERINOX BENELUX, S.A. - N.V.	Brussels - Belgium	209	100%	ACERINOX, S.A.	PWC
ACX DO BRASIL REPRESENTAÇOES, LTDA	Sao Paulo - Brazil	373	100%	ACERINOX, S.A.	
		0	0.001%	INOXIDABLES DE EUSKADI, S.A.U.	
ACERINOX CHILE, S.A.	Santiago de Chile - Chile	7,545	100%	ACERINOX, S.A.	PWC
ACERINOX COLOMBIA, S.A.S.	Bogotá, D.C. - Colombia	68	100%	ACERINOX, S.A.	
ACERINOX DEUTSCHLAND GMBH	Langenfeld - Germany	45,496	100%	ACERINOX, S.A.	PWC
ACERINOX EUROPA, S.A.U.	Algeciras - Spain	341,381	100%	ACERINOX, S.A.	PWC
ACERINOX FRANCE, S.A.S.	Paris - France	18,060	99.98%	ACERINOX, S.A.	PWC
		0	0.02%	INOXIDABLES DE EUSKADI, S.A.U.	
ACERINOX INDIA PVT LTD.	Mumbai - India	155	100%	ACERINOX, S.A.	ISK & Associates
ACERINOX ITALIA, S.R.L.	Milan - Italy	78,844	100%	ACERINOX, S.A.	Collegio Sindicale - Studio Revisori Associatti
ACERINOX METAL SANAYII VE TICARET L.S.	Gümü suyu / Beyo lu - Turkey	150	99.73%	ACERINOX, S.A.	
		0	0.27%	INOXIDABLES DE EUSKADI, S.A.U.	
ACERINOX MIDDLE EAST DMCC (DUBAI)	Dubai - United Arab Emirates	10	100%	ACERINOX, S.A.	Al Sharid Auditing and Management Consultancy
ACERINOX PACIFIC, LTD.	Wan Chai - Hong Kong	7,467	100%	ACERINOX, S.A.	PWC
ACERINOX POLSKA, SP Z O.O.	Warsaw - Poland	25,174	99.98%	ACERINOX, S.A.	PWC
		4	0.02%	INOXIDABLES DE EUSKADI, S.A.U.	
ACERINOX RUSSIA LLC	Saint Petersburg - Russia	100	100%	ACERINOX, S.A.	
ACERINOX SCANDINAVIA AB	Malmö - Sweden	31,909	100%	ACERINOX, S.A.	PWC
ACERINOX S.C. MALAYSIA SDN. BHD	Johor - Malaysia	19,476	100%	ACERINOX, S.A.	PWC
ACERINOX SHANGHAI CO., LTD.	Shanghai - China	1,620	100%	ACERINOX, S.A.	Shanghai ShenZhou DaTong
ACERINOX (SEA), PTE LTD.	Singapore - Singapore	193	100%	ACERINOX, S.A.	PWC
ACERINOX UK, LTD.	Birmingham - United Kingdom	28,444	100%	ACERINOX, S.A.	PWC

	2019				
		OWNERSHIP INTEREST			
FULLY CONSOLIDATED COMPANIES	COUNTRY	COST (in thousands of euros)	% NOMINAL VALUE	HOLDER OF OWNERSHIP INTEREST	AUDITOR
ACEROL - COMÉRCIO E INDÚSTRIA DE AÇOS INOXIDÁVEIS, UNIPESSOAL, LDA.	Trofa - Portugal	15,828	100%	ACERINOX, S.A.	PWC
BAHRU STAINLESS, SDN. BHD	Johor - Malaysia	86,329	98.15%	ACERINOX, S.A.	PWC
COLUMBUS STAINLESS (PTY) LTD.	Middelburg - South Africa	175,147	76%	ACERINOX, S.A.	PWC
CORPORACIÓN ACERINOX PERÚ, S.A.C.	Lima - Peru	314	100%	ACERINOX, S.A.	
INOX RE, S.A.	Luxembourg	1,225	100%	ACERINOX, S.A.	PWC
INOXCENTER CANARIAS, S.A.U.	Telde (Gran Canaria) - Spain	270	100%	INOXCENTER	PWC
INOXCENTER, S.L.U.	Barcelona - Spain	17,758	100%	ACERINOX, S.A.	PWC
INOXFIL, S.A.	Igualada (Barcelona) - Spain	6,247	100%	ROLDAN, S.A.	PWC
INOXIDABLES DE EUSKADI, S.A.U.	Vitoria - Spain	2,705	100%	ACERINOX EUROPA, S.A.U.	PWC
INOXPLATE - COMÉRCIO DE PRODUCTOS DE AÇO INOXIDÁVEL, UNIPESSOAL, LDA.	Trofa - Portugal	11,843	100%	ACEROL - COMÉRCIO E INDÚSTRIA DE AÇOS INOXIDÁVEIS, UNIPESSOAL, LDA.	
METALINOX BILBAO, S.A.U.	Galdakao (Vizcaya) - Spain	3,718	100%	ACERINOX, S.A.	PWC
NORTH AMERICAN STAINLESS, INC.	Kentucky - US	545,339	100%	ACERINOX, S.A.	PWC
NORTH AMERICAN STAINLESS CANADA, INC.	Canada	5,091	100%	NORTH AMERICAN STAINLESS, INC.	PWC
NORTH AMERICAN STAINLESS MÉXICO, S.A. DE C.V.	Apodaca - N.L., Mexico	18,948	100%	NORTH AMERICAN STAINLESS, INC.	PWC
NORTH AMERICAN STAINLESS FINANCIAL INVESTMENTS, LTD.	Kentucky - US	15	100%	ACERINOX, S.A.	
ROLDAN, S.A.	Ponferrada - Spain	17,405	99.77%	ACERINOX, S.A.	PWC

Associates

The detail of investments in associates in 2020 is as follows:

		2020		
		OWNERSHIP INTEREST		
ASSOCIATES	COUNTRY	COST (in thousands of euros)	% NOMINAL VALUE	HOLDER OF OWNERSHIP INTEREST
BETINOKS PASLANMAZ ÇELIK A.S.	Turkey	0	0.25	ACERINOX, S.A.
MOL Katalysator technik GmbH	Germany	390	0.2045	VDM METALS, GMBH
Evidal Schmöle Verwaltungsgesellschaft mbH	Germany	0	0.5	VDM METALS, GMBH

The new associates belonging to the VDM Group are two entities which are scantly material for the Group, the ownership interests in which are measured at cost, as the Group is not involved in their management and therefore, does not have their financial statements. MOL Katalysatortechnik, GmbH engages in the production and distribution of mineral and metal catalysts. On the other hand, EVIDAL Schmöle Verwaltungsgesellschaft GmbH only manages the pension funds of one of the former manufacturing companies.

The detail of investments in associates in 2019 is as follows:

		2019		
		OWNERSHIP INTEREST		
ASSOCIATES	COUNTRY	COST (in thousands of euros)	% NOMINAL VALUE	HOLDER OF OWNERSHIP INTEREST
BETINOKS PASLANMAZ ÇELIK A.S.	Turkey	0	25%	ACERINOX, S.A.

5.4 Capital increases and reductions

There were no capital increases in 2020; however, the Group company Inoxplate, Lda., with headquarters in Portugal, a wholly-owned investee of the Portuguese company Acerol, Ltda., reimbursed supplementary contributions of EUR 800 thousand to its parent.

The following capital increase took place in 2019:

Bahru Stainless Sdn. Bhd.

At its meeting held on 26 February 2019, the Board of Directors of Acerinox, S.A. resolved to carry out a capital increase at Bahru Stainless, with no cash contribution, through the conversion into capital of USD 332.5 million from the loan granted by Acerinox, S.A. to its subsidiary. Acerinox, S.A.'s ownership interest in Bahru Stainless was 97% prior to the capital increase.

The Annual General Meeting of Bahru was held on 22 July and approved the capital increase. In turn, the non-controlling shareholder took part in the capital increase through a cash contribution of USD 3 million, which diluted its ownership interest to 1.85%.

Acerinox, S.A. recognised an increase in its investments in Group companies amounting to EUR 296,663 thousand, equal to the fair value of the loan converted into capital, and which did not differ significantly from its carrying amount at that date.

There were no capital reductions at any Group companies in 2019.

5.5 Impairment of investments

At 31 December 2020 and 2019, the Parent analysed the recoverability of its investments in Group companies with indications of impairment to determine whether their carrying amount exceeded their recoverable amount. As a result of the analyses conducted in 2020, the Parent recognised impairment losses on its investments in Bahru Stainless, Sdn. Bhd and Columbus Stainless (Pty) Ltd.

- In 2020 the Parent recognised impairment losses of EUR 86,329 thousand, equal to the total value of its ownership interest in Bahru Stainless Sdn. Bhd., as its recoverable amount, calculated on the basis of its fair value less costs of disposal, was lower than its carrying amount.

- In the case of Columbus Stainless, Ltd., the Parent recognised impairment of EUR 15,498 thousand on its investment, as its recoverable amount, calculated by discounting expected cash flows, proved to be less than its carrying amount. At 31 December 2020, the value of this investment in the separate financial statements of Acerinox, S.A., which was equal to its recoverable amount, was EUR 159,698 thousand.

In 2019 the Parent recognised an impairment loss of EUR 237,313 on its ownership interest in Bahru Stainless, Sdn. Bhd., leading the investment to be valued at EUR 86,329 thousand, equal to its recoverable amount, in the separate financial statements of Acerinox, S.A. Also, in 2019 an impairment loss of EUR 104,565 thousand was recognised on Acerinox, S.A.'s ownership interest in Columbus Stainless, Ltd., as its recoverable amount, calculated by discounting expected cash flows, proved to be less than its carrying amount, with the latter amounting to EUR 175,147 thousand at 2019 year-end.

This impairment does not have an impact on consolidated profit or loss as these companies are fully consolidated. A detailed breakdown of the analyses conducted is included in the notes to the Parent's separate financial statements. With respect to the consolidated financial statements, in view of the indication of impairment represented by the decrease in the recoverable amount of the investment, recovery analyses were carried out on the assets, as explained in **Note 8.1**.

NOTE 6 SEGMENT REPORTING

As described below, the Group is internally organised by operating segments, which are the strategic business units. The strategic business units have different products and services and are managed separately. Group management reviews internal reports for each unit at least monthly. On acquisition of the VDM Group, a new segment known as the "High-performance alloys" segment came into existence. This segment includes the products developed by the VDM Group. Due to the technical specifications of its products and markets, Group management has decided to manage this segment separately.

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

- Flat stainless steel products: slabs, flats, coils, sheets, strips, circles and flat bars.
- Long stainless steel products: bars, angles, wire and wire rod.
- High-performance alloys: special alloys with high nickel content. This segment includes all the companies in the VDM Metals subgroup.
- Other: other stainless steel products not included in the above segments.

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

The "unallocated" segment includes the activities of the holding company and activities that cannot be allocated to any of the specific operating segments. As described in **Note 1**, the main activity of the holding company, the Parent of the Acerinox Group, is the provision of legal, accounting and advisory services to all Group companies, as well as the performance of financing activities within the Group, as all the Group's financing is centralised through Acerinox, S.A.

The results of the "unallocated" segment reflect only the expenses (both operating expenses and finance costs) relating to the holding company's activities, since revenue, which is always generated from Group companies, was eliminated on consolidation. The holding company centralises most of the Group's financing, as can be seen from the amount of the liabilities of the "unallocated" segment. For this reason, the segment's finance costs are the highest.

Revenue and all items reflected in the statement of profit or loss by segment are presented on a consolidated basis, i.e. after eliminating income and expenses from Group companies, except for sales between segments, which are reflected separately.

Inter-segment transfers and transactions are performed on an arm's length basis, under commercial terms and conditions that would be available for unrelated third parties.

A segment's performance is measured on the basis of its gross profit from operations and net profit before tax. The Group considers that this information is the most relevant when assessing the performance of the segment in relation to other comparables in the industry.

6.1 Operating segments

Segment results for the year ended 31 December 2020 are as follows:

(Amounts in thousands of euros)

	2020						
	Flat products	Long products	Other	High-performance alloys	Unallocated	Adjustments	Total
Statement of profit or loss							
Revenue	3,631,504	567,044	32,629	630,866	2,416	-158,375	4,706,084
Inter-segment sales	-150,188	-8,187	0	0	0	158,375	0
Total revenue	**3,481,316**	**558,857**	**32,629**	**630,866**	**2,416**	**0**	**4,706,084**
Gross profit from operations	267,685	111,040	711	39,699	-35,757	0	383,378
Depreciation and amortisation	-140,346	-14,050	-173	-23,762	-759	0	-179,090
Impairment losses	-41,159	0	0	0	0	0	-41,159
Finance income	7,299	3	7	90	60	0	7,459
Finance costs	-12,905	-148	-173	-8,007	-23,877	0	-45,110
Exchange differences	774	21	0	3,591	1,753	0	6,139
Profit (loss) before tax	**81,348**	**96,866**	**372**	**11,611**	**-58,580**	**0**	**131,617**
Income tax	-69,804	-13,479	-423	-2,623	-2,650	0	-88,979
Consolidated profit (loss) for the year	**11,544**	**83,387**	**-51**	**8,988**	**-61,230**	**0**	**42,638**
Attributable to:							
Non-controlling interests	-6,402	-9	0	0	0	0	-6,411
Net profit (loss) attributable to the Group	**17,946**	**83,396**	**-51**	**8,988**	**-61,230**	**0**	**49,049**
Statement of financial position							
Segment assets	3,320,063	374,525	17,924	772,415	247,792	0	4,732,719
Investments accounted for using the equity method	0	0	0	390	0	0	390
Property, plant and equipment	1,486,664	81,867	4,453	252,383	9,890	0	1,835,257
Total consolidated assets	**3,320,063**	**374,525**	**17,924**	**772,805**	**247,792**	**0**	**4,733,109**
Segment liabilities	1,029,432	23,640	11,702	507,873	1,545,482	0	3,118,129
Unallocated liabilities							
Total consolidated liabilities (excluding equity)	**1,029,432**	**23,640**	**11,702**	**507,873**	**1,545,482**		**3,118,129**
Property, plant and equipment	1,486,664	81,867	4,453	252,383	9,890		1,835,257
Investments in non-current assets	78,438	3,834	22	18,889	396		101,579

Unallocated liabilities essentially comprise the Parent's financial debt.

In 2020 the gross profit from operations of the unallocated segment includes the expenses relating to the purchase of VDM which, as explained in **Note 5.1**, amount to EUR 14,736 thousand.

The data for 2019 are as follows:

(Amounts in thousands of euros)

	2019						
	Flat products	Long products	Other	High-performance alloys	Unallocated	Adjustments	Total
Statement of profit or loss							
Revenue	4,281,574	641,636	38,161	0	2,575	-178,168	4,785,778
Inter-segment sales	-168,703	-9,465	0	0	0	178,168	0
Total revenue	**4,112,871**	**632,171**	**38,161**	**0**	**2,575**	**0**	**4,785,778**
Gross profit (loss) from operations	271,148	111,916	2,109	0	-21,768	0	363,405
Depreciation and amortisation	-160,234	-14,155	-172	0	-744	0	-175,305
Impairment losses	-165,453	0	0	0	0	0	-165,453
Finance income	18,786	15	8	0	236	0	19,045
Finance costs	-13,100	-164	-171	0	-20,896	0	-34,331
Exchange differences	3,530	-59	0	0	12,251	0	15,722
Profit (loss) before tax	**-45,323**	**97,553**	**1,774**	**0**	**-30,921**	**0**	**23,083**
Income tax	-13,909	-21,755	-439	0	-55,189	0	-91,292
Consolidated profit (loss) for the year	**-59,232**	**75,798**	**1,335**	**0**	**-86,110**	**0**	**-68,209**
Attributable to:							
Non-controlling interests	-8,674	10	0	0	0	0	-8,664
Net profit (loss) attributable to the Group	**-50,558**	**75,788**	**1,335**	**0**	**-86,110**	**0**	**-59,545**
Statement of financial position							
Segment assets	3,928,820	368,693	21,112	0	78,172	0	4,396,797
Property, plant and equipment	1,698,233	97,204	4,575	0	10,071	0	1,810,083
Total consolidated assets	**3,928,820**	**368,693**	**21,112**	**0**	**78,172**	**0**	**4,396,797**
Segment liabilities	1,196,966	31,161	16,041	0	1,223,640	0	2,467,808
Total consolidated liabilities (excluding equity)	**1,196,966**	**31,161**	**16,041**	**0**	**1,223,640**	**0**	**2,467,808**
Property, plant and equipment	**1,698,233**	**97,204**	**4,575**	**0**	**10,071**	**0**	**1,810,083**
Investments in non-current assets	**144,613**	**6,856**	**21**	**0**	**197**	**0**	**151,687**

There are no significant items that have not been reflected in cash flows other than depreciation and amortisation and impairment.

6.2 Geographical segments

Revenue from geographical segments is presented on the basis of customer location. Segment assets are determined by the geographical location of those assets.

The data relating to geographical segments in 2020 is presented below:

(Amounts in thousands of euros)

	2020						
	Spain	Rest of Europe	America	Africa	Asia	Other	Total
Revenue by destination of goods	331,836	1,439,886	2,162,768	189,254	515,895	28,849	**4,668,488**
Segment assets	1,225,518	923,672	1,640,445	391,574	547,125	4,775	**4,733,109**
Property, plant and equipment	413,576	272,042	614,690	118,879	402,644	100	**1,821,931**
Investment property	3,085	10,241	0	0	0	0	**13,326**
Investments in non-current assets	33,824	19,396	33,874	12,457	2,025	2	**101,579**

The data for 2019 are as follows:

(Amounts in thousands of euros)

	2019						
	Spain	Rest of Europe	America	Africa	Asia	Other	Total
Revenue by destination of goods	408,602	1,274,801	2,274,241	202,226	569,968	24,040	**4,753,878**
Segment assets	1,087,626	267,190	1,843,632	459,268	738,832	250	**4,396,798**
Property, plant and equipment	415,634	44,488	689,315	138,490	505,813	0	**1,793,740**
Investment property	3,126	13,217	0	0	0	0	**16,343**
Investments in non-current assets	70,808	581	42,270	32,829	5,199	0	**151,687**

The Group sells its products in over 80 countries across the 5 continents. The Group's sales in each of the following countries exceeded 5% of total consolidated sales in 2020 and 2019: United States 38.90% (2019: 40.32%); Germany 8.36% (2019: 6%); Spain 7.26% (2019: 8.67%); and Italy 6.17% (2019: 5.37%). These sales also include the sales of the high-performance alloys segment.

No single transaction with an external customer exceeded 10% of the consolidated Group's total revenue for 2020 or 2019.

NOTE 7 INTANGIBLE ASSETS

The detail of the main classes of intangible assets and of the changes therein is as follows:

(Amounts in thousands of euros)

COST	Development expenditure	Intellectual property	Computer software and other	Customer portfolio	SUBTOTAL	Goodwill
Balance at 1 January 2019	**0**	**24,312**	**26,045**	**0**	**50,357**	**69,124**
Acquisitions	0	0	953	0	953	0
Transfers	0	0	748	0	748	0
Disposals	0	0	-47	0	-47	0
Translation differences	0	0	100	0	100	0
Balance at 31 December 2019	**0**	**24,312**	**27,799**	**0**	**52,111**	**69,124**
Business combinations	16,620	7,964	22,430	29,200	76,214	49,829
Acquisitions	978	160	1,556	0	2,694	0
Transfers	0	0	522	0	522	0
Disposals	-1,243	-99	-107	0	-1,449	0
Translation differences	0	0	-498	0	-498	0
Balance at 31 December 2020	**16,355**	**32,337**	**51,702**	**29,200**	**129,594**	**118,953**

ACCUMULATED AMORTISATION AND IMPAIRMENT LOSSES	Development expenditure	Intellectual property	Computer software and other	Customer portfolio	SUBTOTAL	Goodwill
Balance at 1 January 2019	**0**	**24,312**	**23,796**	**0**	**48,108**	**0**
Charge for the year	0	0	743	0	743	0
Impairment losses	0	0	0	0	0	-67,889
Disposals	0	0	-47	0	-47	0
Translation differences	0	0	74	0	74	0
Balance at 31 December 2019	**0**	**24,312**	**24,566**	**0**	**48,878**	**-67,889**
Business combination	7,048	710	19,516	0	27,274	0
Charge for the year	931	503	1,756	1,622	4,812	0
Transfers	0	0	-1	0	-1	0
Disposals	-480	-53	-107	0	-640	0
Translation differences	0	0	-305	0	-305	0
Balance at 31 December 2020	**7,499**	**25,472**	**45,425**	**1,622**	**80,018**	**-67,889**

CARRYING AMOUNT	Development expenditure	Intellectual property	Computer software and other	Customer portfolio	SUBTOTAL	Goodwill
Cost at 31 December 2018	0	24,312	26,045	0	50,357	69,124
Accumulated amortisation and impairment losses	0	-24,312	-23,796	0	-48,108	0
Carrying amount at 31 December 2018	**0**	**0**	**2,249**	**0**	**2,249**	**69,124**
Cost at 31 December 2019	0	24,312	27,799	0	52,111	69,124
Accumulated amortisation and impairment losses	0	-24,312	-24,566	0	-48,878	67,889
Carrying amount at 31 December 2019	**0**	**0**	**3,233**	**0**	**3,233**	**1,235**
Cost at 31 December 2020	16,355	32,337	51,702	29,200	129,594	118,953
Accumulated amortisation and impairment losses	-7,499	-25,472	-45,425	-1,622	-80,018	-67,889
Carrying amount at 31 December 2020	**8,856**	**6,865**	**6,277**	**27,578**	**49,576**	**51,064**

The amortisation charge for the year is included under "Depreciation and Amortisation Charge" in the consolidated statement of profit or loss.

At 31 December 2020, the Group had entered into agreements to acquire intangible assets amounting to EUR 1,132 thousand (2019: EUR 897 thousand).

Research and development expenditure

Research and development are a cornerstone of VDM's business model. VDM works with customers to develop new products aimed at satisfying the demand needs of industry sectors that require special alloys that are resistant to very high temperatures. Most of the projects are carried out in collaboration with customers and research institutes. The fair value of VDM's research projects and patents at the acquisition date, measured using the relief from royalty (RFR) method, amounts to EUR 21,917 thousand.

The research and development expenditure incurred by the Group's stainless steel division does not generally meet the criteria for capitalisation and, accordingly, it is recognised as an expense, depending on its nature, as it is incurred. The research and development and technological innovation (R&D+i) expenses recognised directly as expenses for the year in the consolidated statement of profit or loss amount to EUR 17,283 thousand (2019: EUR 12,035 thousand), of which EUR 5.3 million relate to R&D+i expenditure incurred by the VDM Group.

The VDM Group does, however, capitalise costs relating to R&D+i projects in which the research findings are used to produce new products and processes, or to significantly improve existing products and processes, provided that the product or process proves to be technically and commercially feasible, the Group has the resources required to complete the development programme and it is considered that they will generate future cash flows that will enable their recovery. The total R&D+i expenditure capitalised in 2020 amounts to EUR 978 thousand, relating to three projects. VDM has 26 employees working on 54 R&D+i projects.

Customer portfolio

The allocation of the purchase price of the VDM Group to the net assets and liabilities identified led to the identification of new intangible assets, arising from the valuation of the customer portfolio. These assets had not previously been recognised for accounting purposes in the separate financial statements of the VDM Group. The multi-period excess earnings method was used to measure this group of intangible assets.

It is standard industry practice to recognise both relationships with customers and the backlog as two of the most important intangible assets arising from a business combination. Both assets were valued jointly in the purchase price allocation process. The estimated fair value at the acquisition date was EUR 29,200 thousand.

Goodwill

At 31 December 2020, the goodwill included in the consolidated statement of financial position in 2020, amounting to EUR 49,829 thousand, reflected that arising from the business combination performed as a result of the acquisition of the VDM Group. The goodwill was allocated to the VDM cash-generating unit (CGU) which, as a whole, belongs to the high-performance alloys segment. The amount of the goodwill is final, since the Group has concluded all the valuations and no facts or circumstances have occurred or come to light since the acquisition date that would require the valuations performed to be adjusted.

Prior to 31 December 2019, the Group had recognised goodwill amounting to EUR 67.9 million, arising from the acquisition of a controlling interest in Columbus Stainless, Ltd. in 2002. That goodwill was allocated to the Columbus cash-generating unit (CGU), which only manufactures and sells flat products. As explained in **Note 7.1**, following the impairment analysis performed at year-end, this goodwill was written down in full by the Group.

7.1 Impairment of goodwill

The Group estimates the recoverable amount of goodwill on an annual basis, or more frequently where indications of possible impairment are identified. Accordingly, goodwill is allocated to each of the cash-generating units of the company to which the economic benefits of the business combination synergies are expected to flow.

The recoverable amount of a CGU is determined on the basis of the calculation of its value in use. These calculations use cash flow projections based on five-year financial budgets approved by management. Cash flows beyond this five-year period are extrapolated using the estimated growth rates indicated below. The terminal value is calculated by taking into consideration average amounts calculated on the basis of figures achieved in the past and also in the budgeted period, which enables bull and bear cycles to be standardised.

VDM

At 31 December 2020, the goodwill included in the consolidated statement of financial position, amounting to EUR 51.1 million, reflected mainly EUR 49.8 million arising from the business combination performed in 2020 as a result of the acquisition of the VDM Metals Group. The goodwill was allocated to the VDM Metals cash-generating unit (CGU) which, as a whole, belongs to the high-performance alloys segment, as explained in **Note 5.1**.

With respect to the five-year budgets, the estimated sales and production volumes are based on current capacities using existing machines and equipment, and take into account the evolution of both future demand and the prices by market, checked against estimates made by independent industry experts, such as the CRU Group and SMR (Steel & Metals Market Research). Management determines production costs by taking into account the current situation, the efficiency plans implemented and future price developments.

The discount rates used are before-tax values and reflect specific risks relating to the relevant segments. Other significant assumptions such as exchange rates and raw material prices are tied to the most recent values recorded in the pertinent markets.

The Covid-19 pandemic continues to have a serious impact on the global economy. Since its performance cannot be reliably predicted at medium term, in order to work out the various scenarios and probability of occurrence of the key assumptions, in addition to reviewing consistency with historical performance, management placed particular emphasis on the possible changes.

With a sales volume exceeding 37,000 tonnes in 2020, VDM Metals continued to be the leading global manufacturer of nickel alloys.

In 2020 this market experienced a 19.7% drop in demand worldwide, totalling 285,000 tonnes, according to a study by the market analyst SMR. The largest market in the industry was the US, followed by China, Japan, Germany and France. According to the same source, approximately 355,000 tonnes of nickel alloys were produced globally in 2019.

The largest consumer of nickel alloys is the aerospace industry. However, the main consumers of the Acerinox Group high-performance alloys division are the chemical industry and the oil and gas industry. In addition to these industries, VDM Metals supplies the automotive industry and the electronics and electrical engineering industries among others.

According to the most recent studies, the aerospace industry was the most heavily affected by the drop in demand in 2020 (-37%), followed by the automotive industry (-25%), the oil and gas industry (-23%) and the electronics and electrical engineering industries (-8%). Global demand in the chemical industry (including power generation) remained at virtually the same level as in 2019. There was an 18% drop in demand for other uses.

The pandemic affected the high-performance alloys sector later than the stainless steel sector, with the former experiencing a sharper decline in sales volumes from the beginning of the second half of the year onwards. A slight recovery is expected in 2021, becoming more substantial from 2022 onwards. Consequently, the scenario considered by management to be the most probable, which is thus reflected in the five-year budgets, is that 2021, and particularly 2022, will see a gradual recovery to pre-Covid-19 levels and that the demand for high-performance alloys will ultimately not be affected at long term. Meanwhile, future price stability is expected.

The Group is confident that the flows to perpetuity will materialise, mainly in terms of its use of production capacity and margins, using a perpetuity growth rate (g) of 1.8% in line with expected long-term inflation for the main markets in which VDM operates.

The key assumptions used to calculate the value in use were as follows:

	2020
Budgeted EBIT margin (*)	7.8%
Weighted average growth rate, g (**)	1.8%
Pre-tax discount rate(***)	11.8%
Post-tax discount rate (***)	8.3%

(*) Five-year budgeted average EBIT margin. EBIT is defined as profit or loss from operations and expressed as a margin or percentage of revenue.

(**) Rate used to extrapolate cash flows beyond the budgeted period.

(***) Discount rate: weighted average cost of capital (WACC).

The discount rate (WACC or weighted average cost of capital) was calculated on the basis of the interest rates of the German sovereign debt (ten-year treasury bond) and a capital structure, market risk premiums and ratios of similar companies.

With respect to the terminal value, adjustments were performed to obtain flows to perpetuity, depreciation and amortisation were matched to the investments and changes in working capital were also calculated based on average amounts, deemed consistent in the long term, increased by the growth rate (g). The EBIT margin projected to perpetuity does not differ from that achieved by the Group in previous years.

Another assumption is the price of raw materials, particularly nickel, which is set when drawing up the budget. This is extrapolated and remains constant during the period of analysis.

Essentially, due to the uncertain environment governing the markets in which VDM operates, and the aforementioned global pandemic situation, the Group analysed the probability of occurrence of the key assumptions by adjusting the estimated budgets, as well as those of the terminal year, to normalised values that take into account the results obtained in the past. The residual value determined by the tests represents 77% of the total recoverable amount.

The impairment test conducted at 31 December 2020 shows an excess of the recoverable amount (EUR 586,312 thousand) over the carrying amount (EUR 574,642 thousand) of EUR 11,669 thousand. Consequently, it is not necessary to recognise any impairment losses on goodwill.

However, a sensitivity analysis has been performed to include the scenarios within the range of variability that the Group considers possible due to uncertainties.

	Change	+Excess -Impairment	Change	+Excess -Impairment
Budgeted average EBIT margin	+9.2%	+75,550	-4.4%	-18,882

In order to achieve an impairment of the carrying amount, the discount rate (WACC) would have to be increased to 8.4%. In the case of the growth rate (g), it would have to be reduced to 1.5% and the budgeted average EBIT margin would have to be reduced to 7.6%, with the other two assumptions remaining unchanged.

This minimal sensitivity to changes in the key assumptions is due to the recent purchase of the company, the price of which was based on budgets and valuations in line with those performed in this impairment test.

Analysis of impairment tests in 2019:

Columbus

Prior to 31 December 2019, the Group performed an impairment test on the goodwill amounting to EUR 67.889 million arising from the acquisition of a controlling interest in Columbus Stainless, Ltd. in 2002. That goodwill, which was allocated to the Columbus cash-generating unit (CGU), which only manufactures and sells stainless steel flat products, was written down in full, as described below.

This impairment test reflected a recoverable amount of EUR 239,796 thousand, EUR 67,662 thousand lower than the carrying amount of EUR 307,458 thousand. As a result, the Group wrote down the full amount of goodwill, totalling EUR 67,889 thousand. It was not necessary to recognise any impairment losses on the company's other assets.

Note 8.1 describes the main assumptions used in 2019.

NOTE 8 PROPERTY, PLANT AND EQUIPMENT

The detail of the various items of property, plant and equipment and of the changes therein in 2020 and 2019 is shown in the following table:

(Amounts in thousands of euros)

COST	Land and buildings	Plant and machinery	Other items of property, plant and equipment	Property, plant and equipment in the course of construction	TOTAL
Balance at 31 December 2018	816,162	3,818,777	88,950	192,621	4,916,510
Hyperinflation adjustments	179	35	56		270
Additions	2,426	58,127	3,862	86,319	150,734
Transfers	40,673	188,351	2,113	-232,809	-1,672
Disposals	-4,872	-20,877	-1,605		-27,354
Translation differences	9,927	57,674	762	370	68,733
Balance at 31 December 2019	864,495	4,102,087	94,138	46,501	5,107,221
Business combinations	120,034	407,321	63,938	9,060	600,353
Hyperinflation adjustments	117	21	32		170
Additions	940	27,882	10,475	59,588	98,885
Transfers	2,502	35,635	268	-38,126	279
Disposals	-915	-17,557	-4,133		-22,605
Translation differences	-44,685	-247,252	-3,882	-1,562	-297,381
Balance at 31 December 2020	942,488	4,308,137	160,836	75,461	5,486,922

ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES	Land and buildings	Plant and machinery	Other items of property, plant and equipment	Property, plant and equipment in the course of construction	TOTAL
Balance at 31 December 2018	350,538	2,591,117	83,948		3,025,603
Charge for the year	17,816	147,688	5,179		170,683
Impairment losses		97,564			97,564
Hyperinflation adjustments	104	28	50		182
Transfers	-8	-91	-40		-139
Disposals	-1,952	-14,358	-1,571		-17,881
Translation differences	3,320	33,428	721		37,469
Balance at 31 December 2019	369,818	2,855,376	88,287		3,313,481
Business combinations	39,247	261,076	45,308		345,631
Charge for the year	21,660	142,231	4,534		168,425
Impairment losses		41,159			41,159
Hyperinflation adjustments	70	17	30		117
Transfers	8,585	31	-8,194		422
Disposals	-693	-13,342	-4,018		-18,053
Translation differences	-17,217	-165,205	-3,769		-186,191
Balance at 31 December 2020	421,470	3,121,343	122,178		3,664,991

CARRYING AMOUNT	Land and buildings	Plant and machinery	Other items of property, plant and equipment	Property, plant and equipment in the course of construction	TOTAL
Cost at 31 December 2018	816,162	3,818,777	88,950	192,621	4,916,510
Accumulated depreciation and impairment losses	-350,538	-2,591,117	-83,948		-3,025,603
Carrying amount at 31 December 2018	465,624	1,227,660	5,002	192,621	1,890,907
Cost at 31 December 2019	864,495	4,102,087	94,138	46,501	5,107,221
Accumulated depreciation and impairment losses	-369,818	-2,855,376	-88,287		-3,313,481
Carrying amount at 31 December 2019	494,677	1,246,711	5,851	46,501	1,793,740
Cost at 31 December 2020	942,488	4,308,137	160,836	75,461	5,486,922
Accumulated depreciation and impairment losses	-421,470	-3,121,343	-122,178		-3,664,991
Carrying amount at 31 December 2020	521,018	1,186,794	38,658	75,461	1,821,931

The depreciation charge for the year is included under “Depreciation and Amortisation Charge” in the consolidated statement of profit or loss.

The difference between the depreciation and amortisation charge included in the consolidated statement of profit or loss and consolidated statement of cash flows and the sum of the amounts charged reflected in the tables relating to property, plant and equipment, intangible assets, investment property and right-of-use assets is due to the hyperinflation adjustments made to all the profit or loss items of the Argentine entity, which, in the case of the depreciation and amortisation charge, amount to EUR 14 thousand.

Any impairment of property, plant and equipment and goodwill is included under a separate, specific heading in the consolidated statement of profit or loss.

Business combinations

As explained in **Note 5.1**, as a result of the acquisition of the VDM Group and pursuant to the standard relating to business combinations, the Group estimated the fair value of all the acquired VDM Group's assets and liabilities. With respect to property, plant and equipment, the fair value estimates made by the independent valuer based on the replacement value method less accumulated depreciation disclosed an excess of EUR 107,220 thousand over the carrying amount of the entity's assets and liabilities. The property, plant and equipment included in the Group's consolidated financial statements as a result of the business combination amounts to EUR 254,722 million.

Investments

The investments made in 2020 in both property, plant and equipment and intangible assets amounted to EUR 101,579 thousand. Due to the circumstances relating to the pandemic, the Group limited investments in property, plant and equipment and intangible assets as much as possible in 2020. Around EUR 50 million of the total investments relate to recurring investments in maintenance. In the case of Acerinox Europa, the total investments (including investments in maintenance) amount to EUR 31 million, including most notably environmental investments such as the installation of canopy hoods in the roofing and a ladle furnace, which will enable the production process to be optimised. The investments made by North American Stainless amount to EUR 34 million and are aimed at maintaining the existing equipment, updating certain of the Group's production lines and improving safety. The investments made by Columbus Stainless in 2020 amount to EUR 12 million, including most notably the installation of a ladle furnace and the extension of the raw material warehouses. Lastly, in 2020 the VDM Group invested EUR 19 million at several of its production plants, with notable actions including the upgrading of the continuous casting unit at the Unna plant, the installation of a new welding robot at the Altena plant and the installation of wire cleaning equipment to improve product quality at the Werdohl plant.

In 2019 the investments amounted to EUR 151,687 thousand, around EUR 50 million of which related to recurring investments in maintenance. Also of note were EUR 46 million of investments made by the Spanish Group company Acerinox Europa, relating mainly to the last invoices received to complete the investments in the new rolling mill and the fifth annealing and pickling line, which were brought into operation in 2019. In addition, investments were made in a ladle furnace enabling the company to optimise the steel production process. Noteworthy at North American Stainless were investments of around EUR 18 million to renew and improve certain lines. The main investment made in 2019 by Columbus Stainless, totalling EUR 25 million, was also a ladle furnace and improvements to various lines.

In 2019 the Group obtained loans amounting to EUR 33,161 thousand from the Spanish Ministry of Industry under the financial support programme for industrial investment within the framework of the public policy of reindustrialisation and strengthening of industrial competitiveness (REINDUS). This financing related to the investments made in Acerinox Europa's factory in Palmones and the Roldan factory in Ponferrada in six different projects. These are ten-year loans with a three-year grace period and an interest rate of 1.6%, for which the Group had to provide guarantees for 10% of the loans granted.

Property, plant and equipment in the course of construction

The detail of the investments classified under this heading is as follows:

(Amounts in thousands of euros)

	2020	2019
Buildings	5,415	3,812
Plant and machinery	61,475	37,852
Other items of property, plant and equipment	8,571	4,612
Advances	0	225
TOTAL	75,461	46,501

Of the total amount recognised under "Property, Plant and Equipment in the Course of Construction", of note were the EUR 42,782 thousand invested in Acx Europa (2019: EUR 25,334 thousand), relating mainly to the ladle furnace, which had yet to be put into operation at the reporting date, and EUR 18,542 thousand in the US company North American Stainless (2019: 14,022 million). The amount classified by the VDM Group at 2020 year-end under "Property, Plant and Equipment in the Course of Construction" was EUR 7,365 thousand.

The total transfers of property, plant and equipment in the course of construction to finished items of property, plant and equipment in 2020 amounted to EUR 38,126 thousand.

EUR 232,809 thousand were transferred in 2019, of which EUR 150,748 thousand related to the reclassification by Acerinox Europa of the investments in the new rolling mill and in the fifth annealing and pickling line after having reached the optimum production volumes and quality determined by management. This transfer took place in January and gave rise to an increase in depreciation of approximately EUR 7.5 million in 2019. At Acerinox Europa, EUR 19,471 thousand were also reclassified from property, plant and equipment in the course of construction to finished items of property, plant and equipment in connection with the renovations carried out on the AP3 annealing and pickling line.

Property, plant and equipment located outside Spain

The detail of the property, plant and equipment, including investment property, located outside Spain is as follows:

(Amounts in thousands of euros)

	2020		2019	
	Cost	Accumulated depreciation	Cost	Accumulated depreciation
Land and buildings	659,709	-260,649	585,684	-212,516
Plant and machinery	2,965,314	-2,010,497	2,674,822	-1,675,500
Other items of property, plant and equipment	108,970	-74,816	44,179	-41,907
Property, plant and equipment in the course of construction	30,566	0	16,561	0
TOTAL	3,764,559	-2,345,962	3,321,246	-1,929,923

Changes in estimates

As explained in Note 3, the Group periodically reviews estimated useful lives based on the valuations conducted by experts from the appropriate entity. In 2020 the Group company Columbus Stainless reviewed the useful lives of items whose useful life was about to end, extending it in those cases where the items were still in use. The technological improvements and maintenance plans performed on an ongoing basis by the company lead the projected useful lives to be lengthened, since the company considers that it will continue to obtain cash flows from the use of these assets. The carrying amount of the assets whose useful life had been estimated totalled EUR 689 thousand, and the impact of the reduction in depreciation in 2020 amounted to EUR 561 thousand.

The Group accounted for the change in estimate prospectively, as stipulated in IAS 8.

Useful lives were also re-estimated in 2019, which led to an impact of just EUR 52 thousand on profit or loss.

Guarantees

None of the Group's assets had been pledged to secure bank borrowings at 31 December 2020 or 2019.

Obligations and commitments

At 31 December 2020, the Group had entered into agreements to acquire new equipment and facilities for EUR 32,623 thousand, of which EUR 18,700 thousand relate to the investments made by Acerinox Europa, EUR 8,359 thousand to those made by North American Stainless and EUR 3,801 thousand to those made by the VDM Group.

At 31 December 2019, the Group had entered into agreements to acquire new equipment and facilities for EUR 56,295 thousand, of which EUR 29,848 thousand related to investments made by Acerinox Europa and EUR 20,076 thousand to those made by North American Stainless.

Capitalisation of borrowing costs

Borrowing costs of EUR 26 thousand relating to Columbus Stainless were capitalised in 2020 (2019: EUR 397 thousand, also relating to the same Group company). The capitalisation rate in 2020 was 6.77% (2019: 8.95%).

Disposals of property plan and equipment

Losses on the sale or retirement of property, plant and equipment recognised under “Other Operating Expenses” in the consolidated statement of profit or loss for 2020 amount to EUR 4,544 thousand (2019: EUR 3,501 thousand) and relate mainly to disposals of replacement items of property, plant and equipment from Group warehouses, either because they had become obsolete or were used for maintenance work.

Gains on the sale or retirement of property, plant and equipment recognised under “Other Operating Income” in the consolidated statement of profit or loss for 2020 amount to EUR 754 thousand and relate mainly to the sale of an industrial building in the UK owned by Acerinox UK, Ltd. which had been classified as investment property (2019: EUR 7,189 thousand, relating mainly to the sale of an industrial building in California owned by the Group company North American Stainless).

Environment

The items of property, plant and equipment the purpose of which is to minimise environmental impact and protect and improve the environment at 31 December 2020 and 2019 were as follows:

(Amounts in thousands of euros)	2020		2019	
Nature and intended purpose	Gross value	Accumulated depreciation	Gross value	Accumulated depreciation
Water treatment	98,729	-74,727	105,387	-71,459
Acid neutralisation	59,970	-43,553	62,457	-41,558
Gas emission treatment	83,247	-68,185	81,386	-68,276
Automatic additions system	8,095	-6,473	8,482	-6,482
Other items	113,687	-88,080	117,620	-87,612
Total	363,728	-281,018	375,332	-275,387

In 2020 the Group received an environmental grant of EUR 2,088 thousand to offset the costs of indirect greenhouse gas emissions. In 2019 it received EUR 4,891 thousand to offset the costs of indirect greenhouse gas emissions. Both grants were recognised as income in the year under "Other Operating Income".

In 2020 the Group incurred ordinary environmental expenses of EUR 91,084 thousand (2019: EUR 100,205 thousand).

Property, plant and equipment not used in operations

Group property, plant and equipment not used in operations include several industrial buildings, all of which are classified as investment property. The detail and valuations of these properties are disclosed in **Note 9**.

Other disclosures

There were no legal proceedings, attachments or similar measures that could affect items of property, plant or equipment at 31 December 2020 or 2019.

The Group companies have taken out several insurance policies to cover the risks to which their property, plant and equipment are subject. It is considered that these policies sufficiently cover such risks.

8.1 Impairment losses

As established in IAS 36, and as mentioned in the accounting policies (see Note 2.11), at each reporting date the Group assesses whether there is any indication that its assets might have become impaired. The value of an asset is impaired when its carrying amount exceeds its recoverable amount. To assess indications of impairment, the Group takes into account both external sources of information (technological changes, significant fluctuations in market interest rates, market value of the assets) and internal sources of information (evidence of obsolescence, sustained losses at the entity, substantial deviation from estimates, etc.).

Property, plant and equipment and intangible assets represent 41.22% of the Group's total assets. A breakdown by company shows that 94.6% of the Group's total property, plant and equipment and intangible assets are located at its factories, with the remaining 5.4% held at the other 33 subsidiaries:

SUBSIDIARIES	2020	2019
ACERINOX EUROPA, S.A.U.	19.65%	19.93%
ROLDAN, S.A.	1.11%	1.16%
INOXFIL, S.A.	0.17%	0.19%
NORTH AMERICAN STAINLESS INC.	31.72%	37.40%
COLUMBUS STAINLESS (PTY) Ltd.	6.48%	7.65%
BAHRU STAINLESS	21.70%	27.69%
VDM METALS GROUP	13.75%	-
Other subsidiaries	5.42%	5.98%
TOTAL	100.00%	100.00%

Since individual assets do not generate cash inflows independently, as the whole production process needs to be completed, impairment is not estimated on an individual basis but by allocating the assets to cash-generating units. In the case of factories, the smallest cash-generating units that can be considered encompass each factory as a whole.

The uncertain evolution of the global Covid-19 pandemic and its repercussions on activity and sales levels led the Group to pay particular attention when preparing the estimates made at 2020 year-end. There mere existence of the pandemic is already an indication of impairment.

The measures taken by the various governments in 2020 to curb the spread and fatality rate of the pandemic for society at large affected the whole of the Acerinox Group. Measures such as the lockdown imposed on the population and the total shutdown of all activities defined as non-essential affected the Bahru Stainless and Columbus Stainless factories in particular, which were ordered by their respective governments to halt activities for the whole of April and several days in March.

2020 commenced with a recovery in all markets throughout the stainless steel industry. Demand fell as a result of the global expansion of Covid-19, while supply did not adapt in the same way.

There is major uncertainty regarding the ultimate impact of the pandemic and subsequent expected recovery. As a result of this situation, various international organisations are reviewing their estimates on an extremely frequent basis.

The Group has applied various probability-of-occurrence scenarios to the estimates for the 2021-2025 period, reflecting the high level of uncertainty caused by Covid-19. Based on the various publications and latest updates by international bodies (IMF, OECD, etc.), the most widely-accepted trend involves a recovery throughout 2021, particularly from 2022 onwards, which will gradually become sustained over the subsequent five-year period, through to a virtual recovery from the negative impact of 2020.

In this context, the Group has contemplated various scenarios envisaging this gradual recovery from 2021, with varying degrees of swiftness, but under no circumstances is it considered that Covid-19 will affect the terminal values calculated to perpetuity.

Following this analysis, the various scenarios were weighted on the basis of the highest or lowest probability of occurrence and the final outcome was expressed in the budgets prepared by management. These budgets reflect the most probable scenario: a gradual recovery commencing in 2021, and particularly from subsequent years onwards.

In 2020 there were indications of impairment at Bahru Stainless, Sdn. Bhd., Columbus Stainless (Pty) Ltd., Acerinox Europa, S.A.U., Roldan, S.A, Inoxfil, S.A. and Acerinox S.C. Malaysia Sdn. Bhd.

The indications of impairment, besides the pandemic itself, are based on the losses recognised and/or on substantial deviation from the estimates made. The main impairment tests conducted are detailed below:

Bahru Stainless Sdn. Bhd.

This is the Acerinox Group's most recently built factory, located in Johor, Malaysia. It operates mainly in markets of the ASEAN region, where there is a significant price differential with other international markets due largely to the overcapacity still existing in the Chinese market and the resulting pressure on the international market, particularly in the Asia-Pacific region. In addition, the various ASEAN countries, and Asian countries in general, reacted to Chinese overcapacity by instituting anti-dumping or protectionist measures in their local markets.

The situation has continued to worsen in the Asian markets as a result of the production surpluses from China and Indonesia, which caused a continuous drop in prices. The impact of Covid-19 in China caused a reduction in consumption and in prices, but less so in production. Inventories at the Wuxi and Foshan warehouses remained above normal levels.

By industry, for the third consecutive year, China experienced a downturn in the automotive industry, on this occasion a more moderate decrease of -2.0% in comparison with 2019 (-7.5%), according to CAAM (China Association of Automobile Manufacturers), in contrast with the continued excellent performance of the construction industry, which grew by +7.0% (2019: +9.9%), according to data from the NBS (National Bureau of Statistics).

In conclusion, given the uncertain evolution of the global Covid-19 pandemic, the persistence of low prices in recent years, and the increasing instability created by protectionist measures in international trade flows, the Group has concluded that the forecast flows of Bahru are subject to high uncertainty

In light of all these constraints, the Group decided to once again request the support of the independent valuation firm that it had previously engaged in 2019. Together with this firm, the Group adjusted the main assumptions of the budgeted cash flows and the impairment test calculations.

In this connection, the independent valuation firm provided assistance in estimating the recoverable amount (based on fair value less costs of disposal) in the context of an impairment test analysis from the perspective of a market participant.

To estimate the fair value of Bahru Stainless, an income approach was used, based on a discounted cash flow (DCF) analysis using projections adapted in accordance to the study perspective. The initial estimates were adjusted on the basis of performance indicators and market assumptions.

During the second half of the year the Group has recovered the activity at the factory after the forced closure imposed by the Malaysian government due to the evolution of the COVID 19 pandemic. The margins achieved prove the suitability of the market comparison used as a reference.

Within the possible range of post-tax discount rates (WACC), 9.25% was used based on the beta under the approach of a market participant. A finite life was also considered (26 years), projecting maintenance investments only. In addition to the projected investments, the projected statement of profit or loss includes maintenance expenses arising during the finite life. The projected finite life, until 2046, envisages both rises and falls in the budgeted gross margin, taking into account the current uncertainty.

Tax allowances and tax credit carryforwards were also considered, in addition to the availability of rights over the unused land.

In 2020 impairment tests were conducted in both June and December, with the support of the same independent firm. At 30 June, as a result of the valuations performed, the Group recognised an impairment loss on the property, plant and equipment of Bahru Stainless of USD 47,152 thousand (EUR 41,159 thousand converted at the average exchange rate of the year).

Various scenarios were contemplated at 31 December, in this case varying the post-tax discount rate (WACC) with a range of 9.25% to 10.00%.

Since the impairment loss recognised at June fell within the estimated range, the Group decided that it should continue to be recognised at 31 December.

The post-tax discount rate (WACC) of 9.25% (2019: 9.75%) and the budgeted EBIT margin (profit or loss from operations as a percentage of revenue) of 1.6% (2019: 2.4%) were considered to be key assumptions in the impairment test.

Although various scenarios were applied to the key assumptions, the final result accepted as the most probable was also submitted to a sensitivity analysis. Impairment would begin to occur if the discount rate (WACC) were increased by 2.4%. With respect to budgeted earnings, impairment would begin to occur if the gross margin were reduced by 0.73% for each year of the estimated period (2021 to 2046).

Columbus Stainless (Pty) Ltd.

Columbus Stainless, Middelburg (South Africa) is the only integrated stainless steel factory in Africa. It is the main supplier of both the domestic market and the various consumer areas of the continent, in which it is the leader. The Columbus factory, the most technologically advanced in the industry, is equipped with the most efficient machinery and has a considerable competitive advantage due to its location, not just for the distribution of finished goods but also because of its proximity to sources of raw materials, particularly ferrochrome. It also supplies semi-finished flat products to other Group factories.

The South African economy declined by 6.0% year-on-year in the third quarter of 2020, easing a record fall of 17.5% in the second quarter. The South African government recently approved an aid package to support the local ferrochrome industry. Among the measures envisaged in the package was the imposition of an export tax on chrome ore. This measure will stimulate local stainless steel production.

Base prices had a mixed performance across the various markets, remaining more or less stable in Europe and North America, but experiencing a sharper fall in Asia due to the production surpluses from China and Indonesia.

Columbus has diversified its product mix in view of the lack of local production, entering new niche markets for nickel-free steel. This diversification will allow for a major improvement in the use of installed production capacity, better absorption of fixed costs and, in short, improved margins.

With respect to the five-year budgets, the estimated sales and production volumes are based on current capacities using existing machines and equipment, and take into account the evolution of both future demand and prices, with respect to the company's product mix, as estimated by independent industry experts. Management determines production costs by taking into account the current situation, the efficiency plans implemented and future price developments.

Demand estimates were based on SMR (Steel & Metals Market Research) and Oxford Economics publications.

The discount rates used are before-tax values and reflect specific risks relating to the relevant segments. Other significant assumptions such as exchange rates and raw material prices are tied to the most recent values recorded in the pertinent markets.

The Parent is confident that the flows to perpetuity will materialise, mainly in terms of its use of production capacity and margins. They were calculated using growth rates estimated on the basis of the expected long-term inflation rate.

The key assumptions used to calculate the value in use were as follows:

	2020	2019
Budgeted EBIT margin (*)	3.7%	2.8%
Weighted average growth rate, g (**)	4.7%	5.1%
Pre-tax discount rate (***)	17.2%	16.5%
Post-tax discount rate (***)	13.4%	12.8%

(*) Five-year budgeted average EBIT margin. EBIT is defined as profit or loss from operations and expressed as a margin or percentage of revenue.

(**) For greater objectivity, the South African rand inflation benchmark was used for both periods.

Used to extrapolate cash flows beyond the budgeted period

(***) Discount rate: weighted average cost of capital (WACC).

The average EBIT margin stated for this budgetary year was achieved in various prior periods, specifically in the 2014-2017 period (3.8%), when the current diversified production mix, which is improving the company's margins, was not yet included.

The discount rate (WACC or weighted average cost of capital) was calculated on the basis of the interest rates of the South African sovereign debt (ten-year swap of the South African rand) and a capital structure, market risk premiums and ratios of similar companies. The reference currency in this connection was the South African rand, since all the cash flows are estimated in this currency.

With respect to the terminal value, adjustments were performed to obtain flows to perpetuity, depreciation and amortisation were matched to the investments and changes in working capital were also calculated based on average amounts, deemed consistent in the long term, increased by the growth rate (g). The growth rate (g), like the discount rate, is estimated on the basis of the South African rand and calculated in accordance with the expected long-term inflation in that currency. At the terminal value, the EBIT margin considered is lower than the average for the explicit budgetary period and similar to that of the impairment test conducted in 2019, prior to the pandemic.

Other assumptions are the ZAR/EUR exchange rate (18 ZAR/EUR) and the price of raw materials (USD 15,000/t), which are established when drawing up the budget. Both are extrapolated and kept constant during the period of analysis. The variables used in 2019 were 16.28 ZAR/EUR for the exchange rate and USD 13,700/t for the price of the raw materials.

Due to the uncertain environment clouding the markets in which Columbus operates, the Group analysed the probability of occurrence of the key assumptions by adjusting the estimated budgets, as well as those of the terminal year, to normalised values that mainly take into account the results obtained in the past, in addition to the company's new production mix. The residual value considered in the tests represents 41% of the total recoverable amount.

The impairment test conducted at 31 December 2020 reflects a recoverable amount of EUR 269,556 thousand which exceeds the carrying amount of EUR 241,680 thousand (241.680 thousand) by EUR 27,876 thousand (2019: impairment of EUR 67,662 thousand). It was not necessary to recognise any impairment losses on the company's assets.

However, a sensitivity analysis was conducted to include the scenarios contemplated within the range of changes considered possible by the Group as a result of the uncertainty:

	Change	+Excess -Impairment	Change	+Excess -Impairment
Budgeted average EBIT margin	+23.6%	+45,495	-39.9%	-1,942

For impairment to begin to occur in the various scenarios, it would be necessary to increase the discount rate (WACC) by 11.9%. The growth rate (g) would have to be reduced by 83% to 0.8% and the budgeted average EBIT margin would have to fall by 37.3% to 2.3%, with the other two assumptions remaining constant, for impairment to occur.

Acerinox Europa, S.A.U.

Acerinox Europa was the first integrated stainless steel factory in the world and 2021 will mark the fifty-year anniversary of the moment the first stone was laid for its construction. It will celebrate this anniversary in the midst of a digital transformation process aimed at maintaining the Company's position as one of the most technologically advanced factories in the industry. Boasting a melting shop capacity of one million tonnes, a privileged location and its own seaport, Acerinox Europa mainly supplies flat products to Europe and material for long products to other plants in the Group's manufacturing network.

The fresh investments made in the plant in recent years have enabled it to increase its competitiveness thanks to improved efficiency and an extended range of solutions and products for its customers. In recent years, the factory has continued to achieve new quality standards, consolidating its competitiveness.

In Europe, apparent consumption of flat products dropped by around 14% in 2020. Following the standstill experienced in the second quarter due to the Covid-19 pandemic, which entailed a fall of 30%, the second half of the year saw a recovery, with improved performance in northern Europe and in industries such as the domestic appliance and construction industries.

Due to the growing pressure of third-country imports, the European Union has been opening investigations and imposing safeguard measures against such imports. These measures are summarised as follows:

- Anti-dumping duties for hot-rolled products from China (up to 19%), Indonesia (up to 17%) and Taiwan (up to 7.5%). These duties were implemented provisionally in April and definitively in October.
- The commencement of an anti-dumping investigation for imports of cold-rolled products from India and Indonesia was announced on 30 September. Provisional measures are expected to be imposed in this connection in the second quarter of 2021.

As the safeguards were not designed for a bear market, they did not entirely curb imports, which maintained a 25% penetration level in the case of cold-rolled flat products, while the penetration level of hot-rolled flat products dropped from 40% to 17% as a result of the aforementioned anti-dumping measures.

The Group took into account all these circumstances and the adjustments to the macroeconomic forecasts in preparing the five-year budgets.

The key assumptions of the budgets prepared in 2020 envisage a recovery in line with the market growth estimated by SMR (Steel & Metals Market Research) in its latest review. With respect to prices, the situation of the backlog is taken into consideration when making the estimates. In addition, the efficiency plans implemented by the Group and the plans to reduce fixed costs were also factors considered in the preparation of the budgets.

The recoverable amount of the items was determined in accordance with their value in use.

To determine the value in use of the assets, the estimate of future cash flows that the entity expects to obtain from the assets and the discount rate, i.e. the weighted average cost of capital (WACC), were taken in account.

The key assumptions used to calculate the value in use were as follows:

	2020	2019
Budgeted EBIT margin (*)	2.8%	4.4%
Weighted average growth rate, g (**)	1.8%	2.5%
Pre-tax discount rate (***)	8.5%	7.0%
Post-tax discount rate (***)	6.8%	5.8%

((*) Five-year budgeted average EBIT margin. EBIT is defined as profit or loss from operations and expressed as a margin or percentage of revenue.

(**) Used to extrapolate cash flows beyond the budgeted period.

(***) Discount rate: weighted average cost of capital (WACC).

The average EBIT margin stated for this budgetary period was achieved and surpassed in various prior periods, most recently in the 2014-2018 period (3.1%).

To determine the discount rate, the financing or leverage structure was considered on the basis of market participant assumptions, the interest rates of the sovereign debt of Spain (ten-year bond) and a capital structure, market risk premiums and ratios of similar companies.

With respect to the terminal value, adjustments were performed to obtain flows to perpetuity, depreciation and amortisation were matched to the investments and changes in working capital were also calculated based on average amounts, deemed consistent in the long term, increased by the growth rate (g). The growth rate (g) was estimated on the basis of expected long-term inflation. The residual value considered in the tests represents 78% of the total recoverable amount. At the terminal value, the EBIT margin considered remains in line with that of the impairment test conducted in 2019, prior to the pandemic.

The impairment test performed at 31 December 2020 reveals a recoverable amount (EUR 790,336 thousand), which exceeds the carrying amount (EUR 615,379 thousand) by EUR 174,957 thousand (2019: Exceeding EUR 639,559 thousand). Consequently, no impairment is to be registered.

However, a sensitivity analysis was conducted to include the scenarios contemplated within the range of changes considered possible by the Group as a result of the uncertainty

	Change	+Excess -Impairment	Change	+Excess -Impairment
Budgeted average EBIT margin	+16.3%	+308,224	-12.8%	+70,305

It would be necessary to increase the discount rate (WACC) by 21.3% for the carrying amount to begin to show impairment. The growth rate (g) would have to be brought to zero, the WACC would have to be increased by 8.6% and the budgeted average EBIT margin would have to fall by 21.4% to an average value of 2.2%, with the other two assumptions remaining constant, for impairment to occur.

Roldan, S.A.

Roldan is the eldest industrial facility of the Acerinox Group and one of the three manufacture plants for long product production. Roldan is located in Ponferrada (Leon, Spain) and produces angles, bars and wire rod. Part of its production is sent to Inoxfil, located in Igualada (Barcelona, Spain).

The long product manufactured in this plant supplies both the national market and international customers and its stainless steels are present in some of the most emblematic international projects.

The five-year budget and the key assumptions used, follow the same guidelines as those referred for Acerinox Europa and with the appropriate reference to the stainless steel long products market.

The recoverable amount of the assets was determined in accordance with the value in use.

To determine the value in use of the assets, the estimate of future cash flows that the entity expects to obtain from the assets and the discount rate, i.e. the weighted average cost of capital (WACC), were taken in account.

The key assumptions used to calculate the value in use were as follows:

	2020
Budgeted EBIT margin (*)	3,4%
Weighted average growth rate, g (**)	1,8%
Pre-tax discount rate (***)	8,6%
Post-tax discount rate (***)	6,8%

(*) Five-year budgeted average EBIT margin. EBIT is defined as profit or loss from operations and expressed as a margin or percentage of revenue.

(**) Used to extrapolate cash flows beyond the budgeted period.

(***) Discount rate: weighted average cost of capital (WACC).

The average EBIT margin stated for this budgetary period was achieved and surpassed in various prior periods, particularly in 2017-19 (3.5%).

To determine the discount rate, the financing or leverage structure was considered on the basis of market participant assumptions, the interest rates of the sovereign debt of Spain (ten-year bond) and a capital structure, market risk premiums and ratios of similar companies.

With respect to the terminal value, adjustments were performed to obtain flows to perpetuity, depreciation and amortisation were matched to the investments and changes in working capital were also calculated based on average amounts, deemed consistent in the long term, increased by the growth rate (g). The growth rate (g) was estimated on the basis of expected long-term inflation. The residual value considered in the tests represents 73% of the total recoverable amount. At the terminal value, the EBIT margin considered remains in line with that of the impairment test conducted in 2019, prior to the pandemic.

The impairment test performed as of 31 December 2020 reveals an excess of the recoverable amount (EUR 111.207 thousand) over the carrying amount (EUR 60.241 thousand) of EUR 50,967 thousand, so that no impairment of the Company's assets is required.

However, a sensitivity analysis has been performed to include the scenarios within the range of variability that the Group considers possible due to uncertainties:

	Change	+Excess -Impairment	Change	+Excess -Impairment
Budgeted average EBIT margin	+10.2%	+62,676	-23.8%	+23,644

To achieve an impairment of the carrying amount, the discount rate (WACC) would have to be increased by 64.6% and the growth rate (g) would have to be 0. The planned average EBIT margin would have to be reduced by 44.4% to an average value of 1.9%, with the other two assumptions remaining unchanged.

Inoxfil, S.A.

Inoxfil, S.A. is one of the Group's two long product plants in Spain and engages in the manufacture of stainless steel wire. Located in Igualada (Barcelona, Spain), this company is wholly owned by the Group company Roldan, S.A., located in Ponferrada (León, Spain). Inoxfil receives the wire rod from Roldan to complete its manufacturing process. This is therefore the final production link in a network starting when Roldan receives the billet from Acerinox Europa, this being the only Group plant with a melting shop in Spain.

The long product manufactured by this plant is supplied to both the internal market and to international customers, and its stainless steels are present in some of the most iconic international projects.

The five-year budget and key variables used follow the same guidelines stated for Acerinox Europa, duly contextualised in the stainless steel long products market.

The recoverable amount of the assets was determined in accordance with their value in use.

To determine the value in use of the assets, the estimate of future cash flows that the entity expects to obtain from the assets and the discount rate, i.e. the weighted average cost of capital (WACC), were taken in account.

The key assumptions used to calculate the value in use were as follows:

	2020	2019
Budgeted EBIT margin (*)	4.5%	2.7%
Weighted average growth rate, g (**)	1.8%	2.5%
Pre-tax discount rate (***)	8.2%	6.8%
Post-tax discount rate (***)	6.8%	5.8%

((*) Five-year budgeted average EBIT margin. EBIT is defined as profit or loss from operations and expressed as a margin or percentage of revenue.

(**) Used to extrapolate cash flows beyond the budgeted period.

(***) Discount rate: weighted average cost of capital (WACC).

The average EBIT margin stated for this budgetary period was achieved and surpassed in various prior periods, most recently in 2017 (4.8%).

To determine the discount rate, the financing or leverage structure was considered on the basis of market participant assumptions, the interest rates of the sovereign debt of Spain (ten-year bond) and a capital structure, market risk premiums and ratios of similar companies.

With respect to the terminal value, adjustments were performed to obtain flows to perpetuity, depreciation and amortisation were matched to the investments and changes in working capital were also calculated based on average amounts, deemed consistent in the long term, increased by the growth rate (g). The growth rate (g) was estimated on the basis of expected long-term inflation. The residual value considered in the tests represents 71% of the total recoverable amount. At the terminal value, the EBIT margin remains slightly above that of the impairment test conducted in 2019, prior to the pandemic.

The impairment test performed at 31 December 2020 reflects a recoverable amount of (EUR 22,583 thousand) which exceeds the carrying amount (EUR 7,994 thousand) by EUR 14,590 thousand (Exceeding EUR 15.657 thousand). Consequently, it was not necessary to recognise any impairment loss.

However, a sensitivity analysis was conducted to include the scenarios contemplated within the range of changes considered possible by the Group as a result of the uncertainty:

	Change	+Excess -Impairment	Change	+Excess -Impairment
Budgeted average EBIT margin	+31.6%	+21,393	-55.2%	+2.705

For the carrying amount to begin to show impairment, it would be necessary to multiply the discount rate (WACC) by 2.8, bring the growth rate (g) to zero and reduce the budgeted average EBIT margin by 67.8% to an average value of 1.4%, with the other two assumptions remaining constant.

Acerinox S.C. Malaysia Sdn. Bhd.

This subsidiary markets part of the production of Bahru Stainless in the Malaysian market and it was affected by low prices in the local market. The situation has continued to worsen in the Asian markets as a result of the production surpluses from China and Indonesia, which caused a continuous drop in prices. The impact of Covid-19 in China caused a reduction in consumption and in prices, but less so in production. Inventories at the Wuxi and Foshan warehouses remained above normal levels.

The recoverable amount of the items was determined in accordance with their value in use.

To determine the value in use of the assets, the estimate of future cash flows that the entity expects to obtain from the assets and the discount rate, i.e. the weighted average cost of capital (WACC), were taken in account.

The key assumptions used to calculate the value in use were as follows:

	2020	2019
Budgeted EBIT margin (*)	5.2%	5.2%
Weighted average growth rate,g (**)	2.1%	2.5%
Pre-tax discount rate (***)	9.5%	6.8%
Post-tax discount rate (***)	8.2%	5.8%

(*) Five-year budgeted average EBIT margin. EBIT is defined as profit or loss from operations and expressed as a margin or percentage of revenue.

(**) Used to extrapolate cash flows beyond the budgeted period.

(***) Discount rate: weighted average cost of capital (WACC).

The average EBIT margin stated for this budgetary period was achieved and surpassed in various prior periods, most recently in 2017 (9.0%).

To determine the value in use of the assets, the estimate of future cash flows that the entity expects to obtain from the assets and the discount rate, i.e. the weighted average cost of capital (WACC), were taken in account.

To determine this discount rate, the financing or leverage structure was considered based on market participant assumptions, the interest rates of the sovereign debt of Malaysia (ten-year bond) and a capital structure, market risk premiums and ratios of similar companies.

To estimate the future cash flows of this commercial subsidiary, five-year budgets approved by management were used, considering as reasonable assumptions and best estimates those based on the information available at the date of the analysis, regarding the economic conditions that will arise over the remaining useful life of the assets, and the objectives set by management.

The discount rate (WACC or weighted average cost of capital) was calculated on the basis of the interest rates of the Malaysian sovereign debt (Malaysian ringgit ten-year bond) and a capital structure, market risk premiums and ratios of similar companies.

The estimates of the projections for the years following the explicit five-year period are extrapolated using a perpetuity growth rate based on expected long-term inflation. The residual value considered in the tests represents 75% of the total recoverable amount. At the terminal value, the EBIT margin remains consistent with that of the impairment test conducted in 2019, prior to the pandemic.

The impairment test performed at 31 December 2020 reflects a recoverable amount (EUR 34,601 thousand), which exceeds the carrying amount (EUR 8,178 thousand) by EUR 26,423 thousand (Exceeding EUR 28,563 thousand in 2019). Consequently, it was not necessary to recognise any impairment loss.

However, a sensitivity analysis was conducted to include the scenarios contemplated within the range of changes considered possible by the Group as a result of the uncertainty:

	Change	+Excess -Impairment	Change	+Excess -Impairment
Budgeted average EBIT margin	+16.3%	+34,095	-66.2%	+2,737

For the carrying amount to begin to show impairment, it would be necessary to multiply the discount rate (WACC) by 3.7 and bring the growth rate (g) to zero. The budgeted average EBIT margin would have to be reduced by 74.2% to an average value of 1.4%, with the other two assumptions remaining constant, for impairment to occur.

Impairment analyses conducted in 2019

The companies showing indications of impairment in 2019 were Bahru Stainless Sdn. Bhd., Columbus Stainless (Pty) Ltd., Acerinox Europa, S.A.U., Inoxfil, S.A. and Acerinox S.C. Malaysia Sdn. Bhd.

As a result of the analyses conducted in 2019, it was necessary to recognise impairment losses of EUR 97,234 thousand at Bahru Stainless Sdn. Bhd. Additionally, as indicated in Note 7.1, the goodwill associated with Columbus Stainless (Pty) Ltd., amounting to EUR 67,889 thousand, was written down in full. No impairment losses were recognised on the company's other assets.

The recoverable amount of the assets of the other companies analysed exceeded their carrying amount and, therefore, no impairment losses were recognised. The sensitivity analyses conducted also enabled the Group to conclude that a substantial change to all the assumptions would be required for impairment to begin to occur.

NOTE 9 – INVESTMENT PROPERTY

“Investment Property” includes Group-owned buildings not occupied by the Group which are held to earn returns, either through rental or through capital appreciation and subsequent disposal of the buildings.

The Group has several industrial buildings classified under this category, which are located in Spain and in other countries and are owned by various subsidiaries. These industrial buildings had been used to carry on commercial activities but are currently idle, and the Group has therefore earmarked them for lease or sale.

The detail of the changes in investment property in 2020 and 2019 is as follows:

(Amounts in thousands of euros)

COST	2020	2019
Opening balance	20,771	20,611
Disposals	-3,096	0
Translation differences	-176	160
Balance at 31 December	17,499	20,771
ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES	2020	2019
Opening balance	4,428	4,076
Charge for the year	299	327
Disposals	-524	0
Translation differences	-30	25
Balance at 31 December	4,173	4,428
CARRYING AMOUNT	2020	2019
Cost at 31 December	17,499	20,771
Accumulated depreciation and impairment losses	-4,173	-4,428
Carrying amount at 31 December	13,326	16,343

In 2020 an industrial building in the UK owned by the Group subsidiary Acerinox, UK, Ltd. was sold. The carrying amount of the sold industrial building at 31 December 2019 was EUR 2,572 thousand and the proceeds from the sale amounted to EUR 3,327 thousand. The Company obtained a gain of EUR 718 thousand in 2020 in this connection, recognised under “Other Operating Income” in the Group’s consolidated statement of profit or loss. There were no additions or disposals of investment property in 2019.

Total income from the lease of warehouses amounted to EUR 378 thousand in 2020 (2019: EUR 509 thousand). The associated operating expenses, including repair and maintenance expenses, amounted to EUR 215 thousand (2019: EUR 193 thousand).

The market value of all the investment property exceeded the carrying amount thereof and amounted to EUR 19,190 thousand at 31 December 2020 (2019: EUR 21,128 thousand). This valuation takes into account observable market variables such as offers and prices per square metre of premises available in the geographical area of the Group’s investment property and, therefore, the determination of fair value is classified within the LEVEL 2 hierarchy in accordance with the policy established in **Note 2.12.5**.

NOTE 10 RIGHT-OF-USE ASSETS (LEASES)

The detail of the right-of use assets, measured in accordance with the present value of future lease payments, and of the changes therein in 2020 is as follows:

COST	Land and buildings	Plant and machinery	Other items of property, plant and equipment	Property, plant and equipment in the course of construction	TOTAL
Balance at 31 December 2019	**2,379**	**4,222**	**3,169**	**288**	**10,058**
Business combinations	10,055	1,520	1,560	0	13,135
Additions	468	2,400	1,402	0	4,270
Remeasurement	0	262			262
Transfers	-532	0	-6	-263	-801
Disposals	-1,382	-1,275	-746	0	-3,403
Translation differences	-49	-5	-231	-25	-310
Balance at 31 December 2020	**10,939**	**7,124**	**5,148**	**0**	**23,211**

ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES	Land and buildings	Plant and machinery	Other items of property, plant and equipment	Property, plant and equipment in the course of construction	TOTAL
Balance at 31 December 2019	**435**	**2,208**	**1,036**	**0**	**3,679**
Business combinations	2,008	317	398	0	2,723
Charge for the year	1,712	2,237	1,590	0	5,539
Transfers	-397	0	-24	0	-421
Disposals	-1,391	-1,275	-743	0	-3,409
Translation differences	-22	-2	-128	0	-152
Balance at 31 December 2019	**2,345**	**3,485**	**2,129**	**0**	**7,959**

CARRYING AMOUNT	Land and buildings	Plant and machinery	Other items of property, plant and equipment	Property, plant and equipment in the course of construction	TOTAL
Cost at 31 December 2019	2,379	4,222	3,169	288	10,058
Accumulated depreciation and impairment losses	-435	-2,208	-1,036	0	-3,679
Carrying amount at 31 December 2019	**1,944**	**2,014**	**2,133**	**288**	**6,379**
Cost at 31 December 2020	10,939	7,124	5,148	0	23,211
Accumulated depreciation and impairment losses	-2,345	-3,485	-2,129	0	-7,959
Carrying amount at 31 December 2020	**8,594**	**3,639**	**3,019**	**0**	**15,252**

In its initial application of the standard, the Group recognised right-of-use assets measured at an amount equal to that of the lease liability.

The borrowing costs on the lease liabilities recognised by the Group at 31 December 2020 amounted to EUR 207 thousand (2019: EUR 181 thousand). The interest rate used is the interest rate implicit in the lease, or the lessee's incremental borrowing rate if the former is not practicable to determine.

"Transfers" includes the reclassification of the finance leases recognised by the Group under "Property, Plant and Equipment" at the end of the 2019.

The lease expenses recognised under "Operating Expenses" in the consolidated statement of profit or loss relating to low-value assets or short-term leases amounted to EUR 9,794 thousand (2019: EUR 8,934 thousand)..

The term of the Group's leases and the amount of the payments remaining as of 1 January 2020 are as follows:

(Amounts in thousands of euros)

	2020	2019
	Amount of future payments	Amount of future payments
Within 2 years	5,701	2,739
Between 2 and 5 years	5,338	1,213
Between 5 and 10 years	1,700	0
More than 10 years	1,578	1,671
TOTAL	14,317	5,623

The amount of the leases exceeding ten years relates mainly to a plot of land that the Group company Inoxcenter, S.L.U. has leased to the consortium of the Barcelona free trade zone, on which the Group has constructed an industrial building owned by it.

At 31 December 2020, the balance of the lease liabilities was EUR 14,317 thousand, most of which were recognised under "Other Non-Current Financial Liabilities" (31 December 2019: EUR 5,623 thousand).

None of the Group's leases were substantially modified as a result of the health crisis caused by the Covid-19 coronavirus, and it did not obtain any significant concessions in the form of a reduction in lease payments.

NOTE 11 INVENTORIES

The detail of "Inventories" in the consolidated statement of financial position as at 31 December is as follows:

(Amounts in thousands of euros)

	2020	2019
Raw materials and other supplies	358,823	351,873
Work in progress	343,121	158,038
Finished goods	403,986	434,663
By-products, waste products and materials recovered	76,259	69,977
Advances	299	1,712
TOTAL	1,182,488	1,016,263

"Raw materials and other supplies" includes EUR 16,721 thousand relating to the measurement of the emission allowances held by the Group at 2020 year-end (2019: EUR 12,249 thousand).

The changes in finished goods and work in progress in the year, according to the consolidated statements of financial position as at 31 December 2020 and 2019, shown above, differ from the figures recognised in the respective consolidated statements of profit or loss as a result of translation differences. Also, due to the acquisition of VDM, in 2020 the Group included the latter's inventories, which amounted to EUR 331,048 thousand at year-end.

The cost of goods sold was calculated in accordance with the policy defined in Note 2.13 and amounted to EUR 4,109 million in 2020 (2019: EUR 4,224 million).

In 2020 the Group recognised an adjustment of EUR 14,281 thousand in order to measure its inventories at net realisable value where this was lower than cost. This amount includes EUR 6,186 thousand from the high-performance alloys division. An adjustment of EUR 20,182 thousand was recognised in 2019.

Obligations and commitments

At 31 December 2020, the consolidated Group had commitments to purchase raw materials for EUR 176,163 thousand (2019: EUR 242,877 thousand). Although there were no firm sale commitments at those reporting dates, there were formal orders for which the Group does not foresee any circumstances that could prevent delivery by the agreed deadlines.

The Group does not have any inventories with a cycle exceeding one year and, therefore, no borrowing costs were capitalised in this connection.

The Group companies have taken out several insurance policies to cover the risks to which their inventories are subject. It is considered that these policies sufficiently cover such risks.

11.1 Emission allowances

The Group recognises emission allowances as inventories.

On 15 November 2013, the Spanish Cabinet approved Acerinox Europa, S.A.U.'s final allocation of greenhouse gas emission allowances for no consideration for the 2013-2020 period, totalling 1,867,754 allowances. The yearly distribution of the allowances is detailed below:

2013	2.014	2.015	2.016	2017	2018	2019	2020
248,936	244,613	240,239	235,818	231,350	226,839	222,272	217,687

The following allowances were allocated to the Group company Roldan, S.A.:

2013	2.014	2.015	2.016	2017	2018	2019	2020
26,857	26,391	25,919	25,442	24,960	24,473	23,980	23,486

In 2020, due to the acquisition of the VDM Group, which also holds CO_2 emission allowances, its allowances were incorporated by the Group at the acquisition date. The allocations obtained by VDM free of charge fall short of the plants' requirements, and it is therefore necessary to acquire allowances on the market. The Company recognises the allowances acquired at acquisition cost and for no consideration under "Grants". A total of 107,947 allowances were incorporated by the Group at the acquisition date. They were measured at their fair value at that date, which was determined by their trading price at the acquisition date (EUR 23.38/allowance). EUR 2,523 thousand were recognised under "Inventories".

With respect to the allocations for the 2021-2030 period, the first notification regarding the Activity Level Report (ALR) will be submitted to the Spanish Office for Climate Change by 28 February 2021. In this initial presentation, it is necessary for the facilities to submit their ALRs duly completed with activity level data for 2019 and 2020, together with the corresponding assurance report.

The changes in emission allowances in 2020 and 2019 were follows:

	Number of allowances	Value (in thousands of euros)
Balance at 31/12/18	1,057,158	7,951
Allocation for the year	246,252	6,151
Disposals	-245,538	-1,853
Balance at 31/12/19	1,057,872	12,249
Business combination	107,947	1,529
Allocation for the year	291,039	6,787
Disposals	-302,680	-3,843
Balance at 31/12/20	1,154,178	16,721

255,084 CO_2 emission allowances were used in 2020, and these allowances will be surrendered in 2021 (2019: 232,730, surrendered in 2020). The Group has not sold its surplus allowances.

Greenhouse gas emissions are verified each year by an ISO 14064-accredited external body. In addition, both Acerinox Europa and VDM are included in the EU Emissions Trading System (EU ETS).

The expense for the year in respect of CO_2 emissions totalled EUR 3,841 thousand in 2020 (2019: EUR 2,742 thousand) and is included under "Other Operating Expenses". This expense is equal to the value allocated to the allowances used in the year, which is the market value of these allowances when allocated.

Disposals for the year related to CO_2 emission allowances used in the previous year audited and approved by an independent expert.

The Group does not trade in CO_2 emission allowances; it merely acquires those required for internal use, as necessary. The Group does not hold any futures contracts for the acquisition of emission allowances.

There are no significant contingencies for emission-related fines.

NOTE 12 FINANCIAL INSTRUMENTS

12.1 General considerations

A financial instrument is a contract that gives rise to a financial asset at one company and, simultaneously, a financial liability or an equity instrument at another. The Group recognises a financial instrument in its consolidated statement of financial position when it becomes party to the contract or legal transaction.

12.2 Categories of financial assets and liabilities

At year-end the Group's financial assets were as follows:

(Amounts in thousands of euros)

Clases	Non-current financial instruments						Current financial instruments					
	Equity instruments		Debt securities		Loans, derivatives and other		Equity instruments		Debt securities		Loans, derivatives and other	
Category	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Loans and receivables					2,284	920					507,440	524,000
Held-to-maturity investments												
Equity instruments:												
- At fair value through other comprehensive income	7,821	10,115										
- At cost	287	287										
Assets at fair value through profit or loss	43				287						22,227	6,038
Hedging derivatives						48						134
TOTAL	8,151	10,402	0	0	2,571	968	0	0	0	0	529,667	530,172

At year-end the Group's financial liabilities were as follows:

(Amounts in thousands of euros)

Clases	Non-current financial instruments						Current financial instruments					
	Bank borrowings		Debt instruments and other marketable securities		Derivatives and other		Bank borrowings		Debt instruments and other marketable securities		Derivatives and other	
Category	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Financial liabilities at amortised cost	1,335,039	977,187	74,650	74,550	20,105	9,681	278,034	318,197	1,634	1,634	987,559	857,823
Liabilities at fair value through profit or loss					88						14,109	6,299
Hedging derivatives					8,368	5,948					3,685	2,590
TOTAL	1.335.039	977.187	74.650	74.550	28.561	15.629	278.034	318.197	1.634	1.634	1.005.353	866.712

12.2.1 Financial assets at amortised cost

The detail of the financial assets measured at amortised cost at 31 December is as follows:

(Amounts in thousands of euros)

	2020	2019
Trade receivables	463,796	483,660
Employee receivables	879	421
Tax receivables	26,921	29,204
Other receivables	11,296	5,809
Current prepayments and accrued income	9,745	8,622
Deposits and guarantees	59	75
Other receivables	375	865
Write-downs of uncollectible debts	-5,631	-4,656
TOTAL	507,440	524,000

The amount recognised as tax receivables relates mainly to VAT settlements.

As explained in the accounting policies, the Group measures accounts receivable at their transaction price, provided that they do not have a significant financial component, they are expected to be received in the short term and the effect of not discounting the cash flows is not material. The Group does not have any non-current balances receivable.

Write-downs of uncollectible debts relate in full to trade receivables. The changes therein were as follows:

(Amounts in thousands of euros)

	2020	2019
Beginning balance	4,656	4,487
Business combination	855	0
Charge for the year	968	1,109
Amount used	-242	-130
Amount reversed	-519	-819
Translation differences	-87	9
Balance at 31 December	5,631	4,656

The changes in valuation adjustments are included under “Other Operating Expenses” in the consolidated statement of profit or loss.

No interest was earned on impaired financial assets in 2020 or 2019.

No valuation adjustments were recognised for uncollectible receivables from related parties in 2020 or 2019.

At 31 December 2020, certain Group companies had receivables amounting to EUR 204,009 thousand factored on a non-recourse basis to banks in exchange for cash (31 December 2019: EUR 154,556 thousand). Of this amount, EUR 53,677 thousand relate to the factoring arranged by the VDM Group. This group has arranged a factoring facility amounting to EUR 100 million with Postbank Factoring GmbH. The factored amounts were derecognised as they met the conditions specified in IFRS 9 regarding the transfer of risks and rewards.

12.2.2 Trade and other payables

The detail of “Trade and Other Payables” in the consolidated statements of financial position as at 31 December 2020 and 2019 is as follows:

(Amounts in thousands of euros)

	2020	2019
Payable to suppliers and trade payables for services received	880,520	785,299
Remuneration payable	38,612	29,753
Payable to non-current asset suppliers	12,147	13,156
Tax and social security payable	41,745	22,457
Dividends payable	47	0
Other payables	5,367	1,522
Short-term provisions	9,121	5,636
TOTAL	987,559	857,823

Most of the amount included under tax and social security payables relates to amounts payable for VAT settlements and personal income tax withholdings. EUR 4,867 thousand relate to social security payables (2019: EUR 4,608 thousand).

In relation to the Spanish Accounting and Audit Institute (ICAC) Resolution of 29 January 2016 on the disclosures to be included in notes to financial statements, the average period of payment to suppliers of the Spanish companies forming part of the Acerinox Group, having deducted the payments made to Group companies, is as follows:

	2020	2019
Average period of payment to suppliers	73 days	69 days
Ratio of transactions settled	75 days	70 days
Ratio of transactions not yet settled	54 days	57 days

	Amount	Amount
Total payments made	1,948,440	1,511,280
Total payments outstanding	239,428	181,685

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

12.2.3 Bank borrowings and bonds issued

The detail of the financial debt line items in the consolidated statements of financial position as at 31 December 2020 and 2019, including both bank borrowings and bonds issued by the Group in the year, is as follows:

(Amounts in thousands of euros)

	Non-current		Current	
	2020	2019	2020	2019
Bonds issued	74,650	74,550	1,634	1,634
Bank loans	1,335,039	977,187	278,034	318,197
Total non-current borrowings	1,409,689	1,051,737	279,668	319,831

There is currently a private placement of EUR 75 million performed by Deutsche Bank AG, London Branch in July 2014, which has a term of ten years.

The detail of the maturity of the outstanding debt at 31 December 2020 is as follows:

(Amounts in thousands of euros)	2021	2022	2023	2024	2025 and subsequent years	TOTAL
Financial debt	279,667	310,399	338,637	451,437	309,216	1,689,357
Total financial debt	279,667	310,399	338,637	451,437	309,216	1,689,357

The 2019 figures were as follows:

Amounts in thousands of euros)

	2020	2021	2022	2023	2024 and subsequent years	TOTAL
Financial debt	319,831	211,944	206,778	199,015	434,000	1,371,568
Total financial debt	319,831	211,944	206,778	199,015	434,000	1,371,568

The breakdown of the debt by currency is as follows:

(Amounts in thousands of euros)

	Non-current payables		Current payables	
	2020	2019	2020	2019
EUR	1,389,316	1,051,737	207,344	210,517
USD	20,373			40,668
ZAR			72,324	68,646
TOTAL	1,409,689	1,051,737	279,668	319,831

The breakdown of the debt by interest rate is as follows:

(Amounts in thousands of euros)

	Non-current payables		Current payables	
	2020	2019	2020	2019
Fixed	643,861	555,938	145,967	120,556
Floating	765,828	495,798	133,701	199,275
TOTAL	1,409,689	1,051,737	279,668	319,831

Fixed-rate debt solely includes borrowings originally arranged at fixed rates (bank loans and private placements) and does not include borrowings for which interest rates have been fixed by arranging derivatives.

The fair value of fixed-rate bank borrowings and private placements was EUR 838,886 thousand at 31 December 2020, and their carrying amount was EUR 789,828 thousand. The fair value of these borrowings at 31 December 2019 amounted to EUR 705,579 thousand (carrying amount of EUR 676,494 thousand).

The interest rates of the floating-rate loans are reviewed at least once a year.

The weighted average cost of the financing instruments in euros at the end of 2020 was 1.35% before hedging, for a total of EUR 1,617 million at year-end, 2.24% for USD 25 million of financing and 6.14% for ZAR 1,303 million of financing. In 2019 the cost of the loans in euros was 1.40% before hedging, for an amount of EUR 1,262 million, 2.91% for USD 45.7 million and 9% for ZAR 1.83 million of financing.

The Group has arranged interest rate swaps whereby it can exchange floating-rate borrowings for fixed-rate borrowings, as described in **Note 12.2.6**.

At 31 December 2020, accrued interest payable on bank borrowings amounted to EUR 1,688 thousand (31 December 2019: EUR 1,129 thousand). In addition, accrued interest payable on bonds issued amounted to EUR 1,634 thousand at 2020 year-end (2019 year-end: EUR 1,634 thousand).

The total borrowing costs calculated using the effective interest rate on loans at amortised cost amounted to EUR 1,055 thousand (2019: EUR 1,247 thousand).

At 31 December 2020, the Acerinox Group had arranged bank credit facilities and private placements amounting to EUR 2,544 million (31 December 2019: EUR 1,965 million), in addition to approved non-recourse factoring facilities amounting to EUR 520 million (31 December 2019: EUR 420 million). At 31 December 2020, the amount drawn down against the credit facilities was EUR 1,689 million (31 December 2019: EUR 1,372 million drawn down) and that of the factoring facilities was EUR 204 million, of which EUR 53.7 million relate to the VDM Metals Group (31 December 2019: EUR 155 million drawn down against factoring facilities).

The financial debt assumed by the Group on acquisition of VDM amounted to EUR 124,905 thousand at the acquisition date, as detailed in Note 5.1. This financing consists of a long-term loan arranged with IKB, the outstanding balance of which was EUR 32.8 million at 2020 year-end, and which has a final maturity in September 2022, and a syndicated revolving credit facility (RCF) of up to EUR 150 million, maturing in 2022, arranged with Deutsche Bank, HSBC, Unicredit and Landesbank Hessen-Thüringen Girozentrale (Helaba), of which EUR 25.4 million had been drawn down at 31 December 2020.

Certain Group companies have arranged reverse factoring facilities with various banks to manage payments to suppliers. Trade payables payment of which is managed by the banks are recognised under “Trade and Other Payables” until the related obligation is discharged or cancelled or expires. The Group uses reverse factoring solely as a payment instrument, but offers its suppliers the possibility of obtaining financing through such instruments. With respect to the Acerinox Group, invoices are paid by their due date without any advantage being gained from the use of reverse factoring.

Main financing transactions undertaken in the year

The most significant financing transactions in the year were as follows:

Transactions performed prior to the state of alarm:

- The refinancing of a loan from Banco Sabadell in January 2020, amounting to EUR 125 million, whereby the financing conditions were improved and the final maturity was extended to 2025.

- The arrangement of a credit facility of EUR 20 million between Acerinox Europa, S.A.U. and CaixaBank in February 2020.

- The arrangement of five long-term loans totalling EUR 350 million to finance the purchase of the VDM Metals Group in March. These loans were arranged with five financial institutions (BBVA, CaixaBank, Sabadell, the Spanish Official Credit Institute (ICO) and Liberbank). The loans arranged with the first four institutions amount to EUR 80 million and have a five-year final maturity in the case of the first three banks and an eight-year final maturity in the case of the ICO. The loan arranged with Liberbank amounts to EUR 30 million and has a seven-year final maturity.

Most significant transactions performed after the state of alarm:

- A long-term loan of EUR 20 million, with a five-year final maturity, was arranged with Banco Cooperativo Español in June.

- Also, four ICO-secured financing transactions were renewed in order to provide the Acerinox Group with sufficient liquidity to mitigate the economic effects of Covid-19. In this connection, two credit facilities were renewed, one with Banco Sabadell, amounting to EUR 80 million, and the other with BBVA, amounting to EUR 50 million. In addition, a three-year loan amounting to EUR 100 million was arranged with Banco Santander in June 2020 and drawn down in full on 1 July 2020, and another three-year loan, amounting to EUR 10 million, was arranged with Bankinter in October 2020. A new ICO-secured credit facility, amounting to EUR 45 million, was also arranged with Bankia.

- Lastly, in order to continue to guarantee the Group's liquidity, short-term credit facilities totalling EUR 244 million and USD 105 million were renewed.

Regarding debt renegotiations, the Group assessed the significance of the modifications made to determine whether they were substantially different, in accordance with the criteria established in the accounting policy defined in Note 2.12.3, and recognised the effects of certain of the new agreements as an extinguishment and simultaneous recognition of a new loan. In 2020 the amount of fees and commissions recognised in profit or loss in relation to the loan arranged with Sabadell, which was derecognised from liabilities, amounted to EUR 176 thousand.

The most noteworthy financing transactions in 2019 were as follows:

- The restructuring of the Borrowing Base Facility of Columbus Stainless (Pty) Ltd., amounting to ZAR 3,500 million, and the extension of its maturity date. This transaction, which was originally entered into in April 2015 and renewed in 2017 for a further two and a half years, was extended for another four years, and certain modifications were made to its structure to provide Columbus with greater flexibility. The participating entities include Deutsche Bank AG, Johannesburg Branch, Bankinter, S.A., Banco Bilbao Vizcaya Argentaria, S.A., FirstRand Bank Limited, Banco Santander, S.A., Banco de Sabadell, S.A. London Branch, CaixaBank, S.A., Investec Bank Limited, Nedbank Limited and HSBC Bank Plc Johannesburg. The agent of the transaction continues to be Deutsche Bank AG, Amsterdam Branch. This facility is recognised under "Current Liabilities - Bank Borrowings" in the consolidated statement of financial position at the amount drawn down. At 31 December 2020, ZAR 1,083 million had been drawn down from this credit facility.

- Another significant operation in 2019 was the renewal of the syndicated factoring agreement between several Acerinox Group subsidiaries and Abanca, BBVA, Banca March, Banco Sabadell, Bankia, Bankinter, BMCE International, CaixaBank and Santander Factoring y Confirming for EUR 370 million until 30 June 2021, with the possibility of automatic renewal for a further year.

- In addition, the Spanish Ministry of Industry, Trade and Tourism granted several fixed-rate loans to Acerinox Europa, S.A. for a total amount of EUR 30.6 million and to Roldan for EUR 2.5 million.

- In the first half of 2019, four new loan agreements were entered into, namely: a three-year bullet loan agreement with Bankinter for EUR 15 million; a five-year loan agreement with CaixaBank for EUR 50 million, with a three-year grace period; another with Bankia for EUR 160 million, of which EUR 120 million were used to repay the previous loan, disbursed on 28 June 2019 with final maturity on 28 June 2024, with a three-year grace period and a repayment schedule of five six-monthly instalments of EUR 32 million each; and one with Unicaja for EUR 40 million (of which EUR 25 million were also used to repay the previous loan). All these loans were granted to Acerinox, S.A.

- In addition, the loan arranged with Kutxabank for EUR 65 million, of which EUR 15 million consisted of new debt, was refinanced, with an extension of its maturity until 2024 and improved financing conditions. This loan was also granted to Acerinox, S.A.

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

The detail of the changes in non-current bank borrowings, not including bond issues, is as follows:

(Amounts in thousands of euros)

	Non-current payables		Current payables	
	2020	2019	2020	2019
Beginning balance	977,187	951,841	318,197	374,254
Business combination	120,386	0	4,519	0
Additions	687,613	313,161	147,327	105,902
Repayment of debt and interest	-256,596	-120,968	-373,383	-331,865
Transfers to short term	-193,551	-168,095	193,361	168,095
Translation differences and other	0	1,248	-11,987	1,811
Balance at 31 December	1,335,039	977,187	278,034	318,197

The reconciliation of the changes in non-current and current borrowings to the consolidated statement of cash flows is as follows:

- The detail of income from borrowings recognised in the consolidated statement of cash flows is as follows:

(Amounts in thousands of euros)

	2020	2019
Grants related to assets	3,761	337
Bonds		
Non-current bank borrowings	694,234	313,161
Current bank borrowings	140,705	105,902
Other payables (finance leases)	732	1,053
Total income from borrowings	839,432	420,453

- The breakdown of the debt repayments recognised in the consolidated statement of cash flows is as follows:

(Amounts in thousands of euros)

	2020	2019
Grants related to assets		
Bonds		
Non-current bank borrowings	-264,132	-120,968
Current bank borrowings	-367,273	-331,865
Other payables (finance leases)	-5,256	-3,742
Total repayment of interest-bearing liabilities	-636,661	-456,575

Non-current borrowings subject to achievement of ratios

a) Ratios linked to earnings

Currently, no loan agreement entered into by Acerinox, S.A. contains covenants linked to ratios that take into account the Group's results. An exception to this is the VDM incorporated debt, in respect of which there is an undertaking to maintain, over the life of the syndicated revolving credit facility arranged with Deutsche Bank, HSBC, Unicredit and Helaba and of the long-term loan arranged with IKB, the quarterly financial ratios to be achieved which relate consolidated net financial debt and 12-month adjusted EBITDA, an interest coverage ratio and a minimum equity amount.

b) Ratios linked to equity

Three loans arranged in the first half of 2020 for the acquisition of VDM, specifically those arranged with BBVA, CaixaBank and the ICO, amounting to EUR 80 million each, are subject to compliance with the aforementioned financial ratios relating to maintaining minimum consolidated equity levels.

In addition to those three loans, there are three other financing agreements subject to the achievement of financial ratios also relating to the maintenance of minimum consolidated equity levels, namely, the loan arranged in March 2017 with Banca March for EUR 50 million and transferred to a securitisation fund upon arrangement, the loan arranged with the European Investment Bank (EIB) in December 2017 for EUR 70 million and the loan arranged in March 2018 with the Spanish Official Credit Institute (ICO) for EUR 100 million. This type of ratio is standard market practice in financing with these maturities, as the loan arranged with Banca March has a term of seven years, the EIB loan has a term of ten years and the ICO loan has a term of eight years.

Additionally, the Group company Columbus Stainless has structured financing (a Borrowing Base Facility) which is also subject to the achievement of a ratio relating to the maintenance of minimum equity levels at that company. This financing facility is recognised under "Current Liabilities - Bank Borrowings" in the consolidated statement of financial position at the amount drawn down. At 31 December 2020, ZAR 1,303 million had been drawn down from this credit facility. At 2019 year-end ZAR 1,083 million had been drawn down from this credit facility.

At 2020 year-end (as in 2019) Acerinox, S.A., VDM and Columbus Stainless, Ltd. had achieved all the ratios required under the aforementioned agreements.

12.2.4 Fair value measurement

As established in the accounting policies, the Group measures the following assets at fair value: financial assets at fair value through other comprehensive income and derivative financial instruments.

In 2020, due to the business combination performed by the Group, the acquisition-date fair values of the assets acquired and the liabilities assumed as a result of the acquisition were calculated. Note 5.1 includes detailed information on the valuation methods used.

Financial instruments recognised at fair value are classified, based on the valuation inputs, in the following hierarchies:

LEVEL 1: quoted prices in active markets

LEVEL 2: observable market variables other than quoted prices

LEVEL 3: variables not observable in the market

The Group's position at 31 December 2020 and 2019 was as follows:

(Amounts in thousands of euros)

	2020			2019		
	LEVEL 1	LEVEL 2	LEVEL 3	LEVEL 1	LEVEL 2	LEVEL 3
Available-for-sale financial assets	7,821			10,115		
Financial derivatives (assets)		22,514			6,220	
TOTAL	7,821	22,514	0	10,115	6,220	0
	LEVEL 1	LEVEL 2	LEVEL 3	LEVEL 1	LEVEL 2	LEVEL 3
Financial derivatives (liabilities)		26,250			14,837	
TOTAL	0	26,250	0	0	14,837	0

No financial assets or financial liabilities measured at fair value were transferred between levels.

In the case of Level 2 financial instruments, the Group uses generally accepted valuation techniques that take into account spot and future exchange rates at the measurement date, forward interest rates, interest rate spreads and credit risk of both the Group and its counterparty, i.e. the financial institutions with which it operates.

12.2.5 Financial assets at fair value through other comprehensive income

This section includes the shares that the Group does not intend to sell and that it had designated in this category on initial recognition.

The value of the financial assets designated as at fair value through other comprehensive income amounted to EUR 8,151 thousand at year-end, of which EUR 7,821 thousand related to Acerinox, S.A.'s investment in the Japanese company Nippon Steel & Sumitomo Metal Corporation (Nippon), a company listed on the Tokyo Stock Exchange. This value is equal to the fair value of the shares at 31 December 2020 and coincides with their closing price. With respect to 2019, the value of the financial assets designated as at fair value through other comprehensive income amounted to EUR 10,402 thousand, of which EUR 10,115 thousand related to Acerinox, S.A.'s investment in the Japanese company Nippon.

The market value of Nippon's shares at 31 December 2020 was JPY 1,328 per share (31 December 2019: JPY 1,654 per share). Acerinox, S.A. holds 747,346 shares in this company, which represents a scantly significant percentage of ownership in the Japanese group. The devaluation, recognised in other comprehensive income in 2020, amounted to EUR -2,294 thousand (2019: EUR -1,112 thousand).

Between 2017 and 2018 Nippon acquired 100% of shares of Nisshin Steel Co. Limited (Nisshin)

Accordingly, based on the agreements reached at the Extraordinary General Meeting called by Nisshin Steel Co., Ltd., it was determined that effective from 1 January 2019 the shares of Nisshin Steel Co., Ltd. would be exchanged for shares of Nippon Steel & Sumitomo Metal Corporation (Nippon). As a result of these agreements, Acerinox received 0.71 shares of Nippon Steel & Sumitomo Metal Corporation for each share of Nisshin Steel Co. Ltd., which totalizes 747.346 shares. Nisshin's shares were delisted on 26 December 2018.

In 2019 the Group derecognised the shares that it held at 31 December 2018 at their fair value at that date (EUR 11,227 thousand) and initially recognised the new shares at the same amount, since this was the fair value on the effective date of the exchange. The amount of the accumulated reserves in other comprehensive income as a result of the measurement at fair value through other comprehensive income (EUR -5,023 thousand) was reclassified to "Retained Earnings in Reserves".

The Group decided to maintain the classification of this share portfolio under "Financial Assets Measured at Fair Value through Other Comprehensive Income", since this is a strategic holding and the shares are not earmarked for sale. Nisshin Steel has, in turn, a 15.81% ownership interest in Acerinox.

Acerinox, S.A. did not purchase or sell any shares of Nippon Steel & Sumitomo Metal Corporation in 2020 or 2019.

Also, in 2015 the Group company Acerinox Europa acquired a non-controlling interest of 8.48% in Fortia Energía, S.L., whose object is the acquisition of electricity on behalf of its shareholders, for EUR 275 thousand. This investment enables the Group's Spanish factories to obtain more competitive electricity prices. The investment is measured at acquisition cost, as there are insufficient data to measure it at fair value. In any event, the Group does not consider that there are any indications of impairment in this connection.

12.2.6 Derivative financial instruments

As detailed in **Note 4**, in relation to market risk the Group is essentially exposed to the following three types of risk in the course of its business activities: foreign currency risk, interest rate risk and raw material price risk. The Group uses derivative financial instruments to hedge its exposure to certain risks.

The Group classifies derivative financial instruments that do not qualify for hedge accounting in the category of assets and liabilities measured at fair value through profit or loss. Those that qualify as hedging instruments are classified as hedging derivatives and are accounted for by applying the accounting policy defined in **Note 2.12.4**.

In 2020, due to the acquisition of the VDM Metals Group, "Derivative Financial Instruments" included, in addition to exchange rate and interest rate derivatives, futures contracts relating to the metal prices quoted on the LME ("London Metal Exchange"). The fair value of these futures contracts is estimated on the basis of the difference between the futures prices quoted on the LME for the aforementioned raw materials at the contract's expiration date and the futures price established in each contract.

The detail of the derivative financial instruments, classified by category, is as follows:

(Amounts in thousands of euros)

	2020		2019	
	Assets	Liabilities	Assets	Liabilities
Hedging derivatives	0	12,053	182	8,538
Derivatives at fair value through profit or loss	22,514	14,197	6,038	6,299
TOTAL	22,514	26,250	6,220	14,837

The increase in the line items relating to derivative financial instruments is due to the inclusion of VDM Metals in the Group. As explained in **Note 4.1**, VDM arranges derivatives to hedge metal purchases and futures contracts to hedge the raw material price risk. It also hedges foreign currency risk using derivatives. Until 31 December 2020, VDM did not apply hedge accounting to any of the Group's financial hedging transactions, and any derivative used was measured at fair value, with any changes in value being recognised in profit or loss.

Hedge accounting is applied on a voluntary basis, and a decision on whether to apply it is taken on a case-by-case basis for each transaction. To avoid the volatility caused by the measurement of these derivatives with respect to the Group's profit or loss, an analysis was conducted of the economic model and the hedging relationships to evaluate the possible application of hedge accounting to these derivatives. Accordingly, for new derivatives arranged on or after 1 January 2021, the relationships shall be documented and a model has been implemented to ensure the effectiveness of the hedge. Therefore, from that date the Group will begin to apply hedge accounting to recognise these financial instruments.

The following table provides a breakdown of the Group's derivative financial instruments at 31 December 2020 and 2019 by type of hedged risk:

(Amounts in thousands of euros)

	2020		2019	
	Assets	Liabilities	Assets	Liabilities
Currency forwards	18,496	10,449	6,038	6,299
Interest rate swaps	0	12,053	182	8,538
Commodity futures contracts	4,018	3,748	0	0
TOTAL	22,514	26,250	6,220	14,837

As explained in **Note 4.1.2**, in 2020 the Group performed two swaps with CaixaBank and BBVA in order to hedge the interest rate risk of the floating-rate loans arranged with CaixaBank and the ICO for terms and amounts equal to the cash flows derived from the loans associated with each instrument. The notional amount of the hedged loans is EUR 160 million. At 31 December 2020, both interest rate derivatives met the conditions to be classified as cash flow hedging instruments.

In 2019 the Group arranged interest rate hedges amounting to EUR 210 million, equal to the amount of the new loans arranged with CaixaBank and Bankia.

Foreign currency risk

The Group operates in a large number of countries and bills customers in various currencies, depending on the country where it is billing. It therefore arranges certain financial instruments to hedge cash flow risks arising from the settlement of balances in foreign currencies. The transactions arranged consist mainly of foreign currency purchase and sale forward contracts.

The Group uses derivative financial instruments to hedge most of its commercial and financial transactions performed in currencies other than the functional currency of each country.

Although the entity's business model is to hedge foreign currency risk through the use of derivative financial instruments and there is an economic relationship between the hedged item and the hedging instrument, the Group does not formally document the relationship and, therefore, most of the currency forwards arranged by the Group do not qualify as cash flow hedges. Accordingly, they cannot be recognised in accordance with the policy set out in Note 2.12.4. Those that do not meet such conditions were recognised in accordance with the accounting policy determined for financial instruments at fair value through profit or loss.

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

At 31 December 2020, the effect on profit or loss of measuring these derivatives at market value was negative, i.e. EUR -4,346 thousand, and was recognised under "Remeasurement of Financial Instruments at Fair Value" in the consolidated statement of profit or loss (2019: EUR -1,256 thousand). The exchange gains obtained by the Group in the year amounted to EUR 10,485 thousand (2019: gains of EUR 16,978 thousand). The differences between the two amounts are due mainly to the interest rate differentials between the currencies involved in the currency forward arranged.

At 31 December 2020, all the currency forwards covered mainly receivables (assets) and payables (liabilities) and related to both commercial and financing transactions between Group companies. At 31 December 2020, the fair value of the Group's currency forwards totalled EUR 8,047 thousand (2019: EUR -261 thousand), of which EUR 18,496 thousand were recognised under assets (2019: EUR 6,038 thousand) and EUR 10,449 thousand under liabilities (2019: EUR 6,299 thousand). None of those currency forwards were accounted for as hedges at the end of 2020 or 2019. In 2020 EUR -143 thousand were transferred from the consolidated statement of comprehensive income to profit or loss for the year (2019: EUR -157 thousand).

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

At 31 December 2020, the Group had used contracts for foreign currency transactions amounting to EUR 345 million for foreign currency sales and EUR 453 million for foreign currency purchases. At 31 December 2019, EUR 304 million were used for foreign currency sales and EUR 279 million for foreign currency purchases. The detail of these foreign currency forward contracts, by currency, is as follows:

(Amounts in thousands of euros)

	2020		2019	
	Assets	Liabilities	Assets	Liabilities
USD	550,582	337,280	184,056	300,344
EUR	33,209	5,380	57,932	6,805
GBP	36,792	2,396	16,635	481
SEK	2,800	18	6,205	23
CAD	3,044	2		
AUD	9,045	2,011	16,003	100
NZD	422		86	
JPY	2,539,974	97,248		
MYR	223,291		220,420	1,082

At 31 December 2020 and 2019, there were no bank borrowings in currencies other than the functional currency and, therefore, the Group no longer has any derivative financial instruments to hedge exposure to foreign currency risk or interest rate risk.

Interest rate risk

In order to hedge the interest rate risk on a portion of its current and non-current bank borrowings, the Group had arranged the following swaps at 31 December 2020:

	Notional amount arranged	Outstanding amount	Expiry
Floating to fixed rate	EUR 30 million	EUR 30 million	2023
Floating to fixed rate	EUR 70 million	EUR 70 million	2028
Floating to fixed rate	EUR 50 million	EUR 40 million	2022
Floating to fixed rate	EUR 100 million	EUR 95 million	2026
Floating to fixed rate	EUR 50 million	EUR 50 million	2024
Floating to fixed rate	EUR 160 million	EUR 160 million	2024
Floating to fixed rate	EUR 80 million	EUR 80 million	2025
Floating to fixed rate	EUR 80 million	EUR 80 million	2028

The average interest rate of euro-denominated financing hedged by a derivative financial instrument, totalling EUR 605 million at year-end, was 1.16% (2019: 1.34%). The credit spread on these borrowings is included in both cases.

At 31 December 2020 and 2019, no interest rate hedges in USD had been arranged.

At 31 December 2020, all interest rate derivatives met the conditions to be classified as cash flow hedging instruments.

The detail at 31 December 2019 was as follows:

	Notional amount arranged	Outstanding amount	Expiry
Floating to fixed rate	EUR 76.13 million	EUR 4.48 million	2020
Floating to fixed rate	EUR 30 million	EUR 30 million	2023
Floating to fixed rate	EUR 70 million	EUR 70 million	2028
Floating to fixed rate	EUR 50 million	EUR 50 million	2022
Floating to fixed rate	EUR 100 million	EUR 100 million	2026
Floating to fixed rate	EUR 50 million	EUR 50 million	2024
Floating to fixed rate	EUR 160 million	EUR 160 million	2024

The fair value of the interest rate swaps was based on the market value of equivalent derivative financial instruments at the reporting date and amounted to EUR -12,053 thousand (31 December 2019: EUR -8,356 thousand). These amounts are recognised in the Group's consolidated statement of financial position under the following line items:

	2020		2019	
	Current	Non-current	Current	Non-current
Other financial assets			134	48
Other financial liabilities	3,685	8,368	2,590	5,948

At 31 December 2020 and 2019, the derivatives arranged qualified as cash flow hedging instruments and, therefore, the unrealised loss of EUR -6,569 thousand on their measurement at fair value was recognised in the consolidated statement of comprehensive income (2019: loss of EUR -5,430 thousand).

In 2020, EUR 2,957 thousand were transferred from the consolidated statement of comprehensive income to profit or loss for the year (2019: EUR 2,640 thousand). Combined with the EUR -143 thousand arising from the foreign currency hedges referred to in the previous section, the amount totalled EUR 2,814 thousand and is included in the consolidated statement of comprehensive income (2019: EUR -157 thousand and a total of EUR 2,483 thousand).

The Group has documented the effectiveness of the derivatives arranged to be recognised as hedging instruments, as detailed in **Note 2.12.4**. The hedging transactions were arranged for periods and amounts equal to the cash flows arising from the borrowings associated with each instrument. The financial instruments considered to be hedges were not ineffective at any point in 2020 or 2019.

Risk of changes in raw material prices

As explained in **Note 4.1.3**, the Group is exposed to the risk of raw material price volatility, primarily in its special alloys division, since it is unable to pass these fluctuations on to the customers through the selling price. High-performance alloys have a high metal content and are mainly composed of nickel, but they also contain other metals that are listed on the LME. For this reason, VDM uses derivative financial instruments to guarantee set prices for its customers and ensure that those prices are aligned with its costs, thus maintaining margins. The financial instruments used are based on arranging futures contracts on the prices listed on the LME.

Until 31 December 2020, VDM did not apply hedge accounting to any of the Group's financial hedging transactions, and any derivative used was measured at fair value, with any changes in value being recognised in profit or loss under "Other Operating Income".

The detail of the nominal values of the purchase and sale futures contracts arranged by the Group at year-end and the fair value measurement thereof is as follows:

(Amounts in thousands of euros)

		Fair value of derivative	
	Nominal value	Assets	Liabilities
Purchase	70,987	3,639	1,937
Sale	15,938	379	1,811
TOTAL	0	4,018	3,749

All the assets and liabilities arising from derivative financial instruments in this category are current, except for the EUR 95 thousand included as non-current financial assets in the consolidated statement of financial position.

NOTE 13 CASH AND CASH EQUIVALENTS

The detail of “Cash and Cash Equivalents” in the consolidated statements of financial position as at 31 December is as follows:

(Amounts in thousands of euros)

	2020	2019
Cash on hand and at banks	369,600	149,146
Short-term bank deposits	547,518	727,789
TOTAL	917,118	876,935

In 2020 the Group made cash placements in both US dollars and South African rand. The effective interest rate on the short-term bank deposits in 2020 was 0.26% for the dollar (2019: 1.94%) and 3.8% for the rand (2019: 6.5%). The average term of the placements is between one day and three months, and they have been deposited at banks of recognised financial solvency.

All cash and cash equivalents are held in current accounts or current deposits, and there were no restricted cash balances at year-end.

NOTE 14 EQUITY

14.1 Subscribed capital, share premium and treasury shares

The detail of the changes in the shares outstanding in 2020 and 2019 is as follows:

	No. shares (thousands)	Ordinary shares (thousands)	Treasury shares (in thousands of euros)	Share capital (in thousands of euros)	Share premium (in thousands of euros)
At 1 January 2019	276,067	276,067	-3,417	69,017	81,403
Capital increase (scrip dividend)					
Distribution of share premium					-54,090
Acquisition of treasury shares			-48,693		
Redemption of treasury shares	-5,521	-5,521	51,048	-1,380	
At 31 December 2019	270,546	270,546	-1,062	67,637	27,313
Capital increase (scrip dividend)					
Distribution of share premium					-27,055
Acquisition of treasury shares					
Redemption of treasury shares					
At 31 December 2020	270,546	270,546	-1,062	67,637	258

a) Share capital

The Parent’s share capital solely comprises ordinary shares. All these shares carry the same rights and there are no bylaw restrictions on their transfer.

There were no changes in share capital in 2020.

The share capital at 31 December 2020 and 2019 therefore consisted of 270,546,193 ordinary shares of EUR 0.25 par value each, yielding capital of EUR 67,637 thousand. The shares have been fully subscribed and paid.

The Annual General Meeting held on 11 April 2019 approved a reduction of the capital of Acerinox, S.A. by EUR 1,380,337.50 through the redemption of 5,521,350 treasury shares. On 9 May the Board of Directors resolved to execute this resolution. Effective from 13 June, the redeemed shares were delisted from the Madrid and Barcelona Stock Exchanges.

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

At 31 December 2020, the only shareholders with an ownership interest equal to or exceeding 10% of the share capital of Acerinox, S.A. were Corporación Financiera Alba, S.A., with 19.35% in both 2020 and 2019, and Nippon Steel & Sumitomo Metal Corporation, with 15.81% in both 2020 and 2019.

b) Share premium

The shareholders at the Annual General Meeting held on 22 October 2020 approved a reimbursement of shareholder contributions out of the share premium, amounting to EUR 0.10 per share, which resulted in a reduction of the share premium and a payment to shareholders of EUR 27,055 thousand.

The shareholders at the Annual General Meeting held on 11 April 2019 approved a reimbursement of shareholder contributions out of the share premium, amounting to EUR 0.20 per share, which resulted in a reduction of the share premium and a payment to shareholders of EUR 54,090 thousand.

The share premium has the same restrictions and may be used for the same purposes as the voluntary reserves of the Parent, including its conversion into share capital.

c) Treasury shares

At 2020 year-end the Group held 93,320 treasury shares amounting to EUR 1,062 thousand.

In order to improve the earnings per share by reducing the number of shares issued in the four years (2013-2016) in which the dividend was paid via a scrip dividend, the meeting of the Board of Directors of Acerinox held on 19 December 2018, making use of the authorisation granted for a period of five years by the General Meeting of the Company held in June 2014, and under the provisions of Article 17 of Regulation (EU) No. 596/2014 on market abuse, approved a First Share Buy-Back Programme with the aim of reducing the share capital of Acerinox, S.A. through the redemption of treasury shares. The maximum investment would be EUR 66 million and the maximum number of shares to be acquired could not exceed 5,521,350, representing 2% of the Company's capital.

Under the buy-back programme, the shares had to be purchased at market price and under the price and volume conditions set out in Article 3 of Commission Delegated Regulation (EU) 2016/1052 of 8 March 2016. The Company could not purchase shares at a price higher than the higher of the price of the last independent trade and the highest current independent purchase bid on the trading venue where the purchase is carried out.

The Company would not purchase on any trading day more than 25% of the average daily volume of the shares on the trading venue on which the purchase is carried out. The average daily volume of the Company's shares for the purposes of the foregoing calculation would be based on the average daily volume traded during the twenty business days preceding the date of each purchase. This limit would apply for the entire duration of the programme.

The maximum term of the approved plan was from 21 December 2018 to 20 March 2019, inclusive.

Acerinox, S.A. reserved the right to terminate the Programme if, prior to its expiry date, shares had been acquired for a purchase price that reached the maximum investment price or the maximum number of shares covered by the Programme. It could also be terminated early in the event of any other circumstance that made doing so advisable.

At 31 December 2018, 368,320 shares had been purchased and the remaining shares were purchased in 2019 for a total of EUR 51 million, bringing the total number to 5,521,350.

Following the capital reduction approved by the General Meeting through the redemption of 5,521,350 treasury shares, the treasury shares at 2019 year-end amounted to 93,320 shares with a total value of EUR 1,062 thousand.

No shares were acquired in 2020 for the multi-year remuneration plan or the long-term incentive plan established for the Group's senior executives and CEO.

14.2 Distribution of dividends

Following the enactment by the Spanish Cabinet of Royal Decree 463/2020, of 14 March, declaring a state of alarm, and the subsequent enactment of Royal Decree Law 11/2020, of 31 March, the Board of Directors of Acerinox, S.A., at its meeting held on 13 April 2020, resolved to call off the Annual General Meeting that had been scheduled to take place in a single session at the Company's registered office (calle Santiago de Compostela, no. 100, 28035, Madrid) on 22 April 2020 at 12:00 p.m. Under the aforementioned legislation, the Board of Directors opted to call off the Annual General Meeting in a show of responsibility towards the Company, its shareholders, employees, customers and suppliers, and towards the Spanish company as a whole. The Annual General Meeting finally took place telematically on 22 October.

The shareholders at the aforementioned Annual General Meeting approved the distribution of a cash dividend of EUR 0.40 (gross) per share outstanding, with a charge to unrestricted reserves. This dividend of EUR 108,218 thousand was paid on 2 December 2020.

The shareholders at the Annual General Meeting held on 11 April 2019 approved the distribution of a cash dividend of EUR 0.30 (gross) per share outstanding, with a charge to unrestricted reserves. This dividend of EUR 81,136 thousand was paid on 5 June 2019.

14.3 Reserves

a) Retained earnings in reserves

“Retained Earnings in Reserves” includes consolidated profit or loss for the year and reserves of fully consolidated companies and of the Parent, other than those mentioned below.

The detail of the reserves by company is included in **Note 14.5**.

There are no restrictions on the transfer of funds by any Group company in the form of dividends, except for the non-distributable reserves required by the applicable legislation. At 31 December 2020, the Group had EUR 38,114 thousand in reserves and retained earnings subject to restrictions (31 December 2019: EUR 37,684 thousand).

The Parent’s legal reserve, which is included under “Retained Earnings in Reserves” in the consolidated statement of changes in equity, was recognised in compliance with Article 274 of the Spanish Limited Liability Companies Law, which establishes that 10% of profit for each year must be transferred to the legal reserve until the balance of this reserve reaches at least 20% of share capital. At 31 December 2020, the Company had appropriated an amount equal to 20% of its share capital to this reserve (31 December 2019: 19.81%), totalling EUR 13,527 thousand in 2020 (2019: EUR 13,399 thousand).

The legal reserve is not distributable to shareholders and can only be used to offset losses, in the event that sufficient other reserves are not available for this purpose, in which case the reserve must be replenished with future profits.

b) Property, plant and equipment revaluation reserve

In accordance with Royal Decree-Law 7/1996, of 7 June, on urgent tax measures and measures to foster and deregulate the economy, the Parent revalued its items of property, plant and equipment. The amount of the reserve reflects the revaluation gains, net of tax at 3%.

The tax authorities had a three-year period from 31 December 1996 in which to conduct a tax audit. Since such an audit did not take place, the aforementioned balance may be used to eliminate losses or increase the Company’s share capital.

The balance of this account may only be distributed, either directly or indirectly, once the gain has been realised.

c) Valuation adjustments relating to hedges

“Valuation Adjustments Relating to Hedges” includes cumulative net changes in the fair value of cash flow hedging instruments associated with highly probable future transactions.

d) Fair value adjustments to financial assets

The Company has designated certain financial instruments as at fair value through comprehensive income. In accordance with the related accounting policy, changes in the fair value of these instruments are recognised directly in the consolidated statement of comprehensive income. **Note 12.2.5** provides a detailed description of the instruments classified as available for sale and the measurement thereof.

e) Reserve for actuarial adjustments

This reserve includes the changes in the actuarial value of the defined benefit plan obligations. The increase in 2020 was due to the business combination through which Acerinox, S.A. acquired all the shares of the VDM Metals Group. As detailed in Note 16.1, this group has significant pension obligations to its employees. As described in the accounting policy defined in Note 2.16, the Group recognises changes in the actuarial valuation of the obligations in other comprehensive income.

14.4 Translation differences

The detail of the changes in "Translation Differences" is included in the consolidated statement of changes in equity.

The breakdown of the cumulative translation differences by company at the end of 2020 and 2019 and the functional currencies of their respective financial statements are as follows:

(Amounts in thousands of euros)

GROUP COMPANIES	Currency	2020	2019
ACERINOX (SCHWEIZ) A.G.	CHF	1,360	1,345
ACERINOX ARGENTINA, S.A.	ARS	-5,551	-5,410
ACERINOX AUSTRALASIA (PTY) LTD.	AUD	28	26
ACX DO BRASIL REPRESENTAÇOES, LTDA.	BRL	-323	-215
ACERINOX CHILE, S.A.	CLP	-596	-508
ACERINOX COLOMBIA, S.A.S.	COP	-166	-96
ACERINOX INDIA PVT LTD.	INR	-58	-43
ACERINOX METAL SANAYII VE TICARET L.S.	TRY	-1,030	-714
ACERINOX MIDDLE EAST DMCC (DUBAI)	AED	-29	56
ACERINOX PACIFIC, LTD.	HKD	-4,930	-4,841
ACERINOX POLSKA, SP Z O.O.	PLN	-3,154	-1,403
ACERINOX RUSSIA LLC.	RUB	-190	-50
ACERINOX SCANDINAVIA AB	SEK	-4,559	-5,661
ACERINOX S.C. MALAYSIA SDN. BHD.	MYR	-1,877	-2,179
ACERINOX (SEA), PTE LTD.	SGD	54	154
ACERINOX SHANGHAI CO., LTD.	CNY	818	908
ACERINOX UK, LTD.	GBP	-7,041	-5,555
BAHRU STAINLESS, SDN. BHD.	USD	57,354	58,617
COLUMBUS STAINLESS, INC.	ZAR	-163,804	-141,702
CORPORACIÓN ACERINOX PERÚ, S.A.C.	PEN	-29	-24
NORTH AMERICAN STAINLESS CANADA, INC.	USD	-1,402	2,588
NORTH AMERICAN STAINLESS MÉXICO, S.A. DE C.V.	USD	2,145	5,137
NORTH AMERICAN STAINLESS FINANCIAL INVESTMENTS, LTD.	USD	2	4
NORTH AMERICAN STAINLESS, INC.	USD	994	175,897
VDM METALS GROUP	-	65	0
TOTAL		-131,919	76,331

The origin of the changes arising in 2020 and 2019 is detailed below:

(Amounts in thousands of euros)

	2020	2019
Beginning balance	76,331	113,991
Translation differences in equity	-190,579	58,484
Translation differences in profit or loss	-10,334	-764
Translation differences in investments in Group companies	-2,038	-4,445
Translation differences in the distribution of dividends	-5,223	-91,511
Purchase of non-controlling interests	0	697
Other changes	-76	-121
Balance at 31 December	-131,919	76,331

The translation difference resulting from the measurement of equity was negative, i.e. EUR -190,579, due to the depreciation of the US dollar (9%) and the rand (14%) with respect to the exchange rates at 2019 year-end. The EUR/USD exchange rate applied at the end of 2020 was 1.2271 (2019: 1.1234), while the EUR/ZAR rate was 18.0219 in 2020 (2019: 15.7773).

This difference was nevertheless positive in 2019, i.e. EUR 58,484, due to the appreciation of both the US dollar and the rand. The EUR/USD exchange rate applied at the end of 2019 was 1.1234 (2018: 1.1450), while the EUR/ZAR rate was 15.7773 in 2019 (2018: 16.4594).

Also of note in 2019 was the decrease in the translation differences as a result of repatriation of dividends. The reduction in equity of foreign companies due to the distribution of dividends (USD 920 million charged to reserves of North American Stainless) was measured in the consolidated financial statements at historical exchange rates. According to the translation methods set out in the standards on consolidation, the reserves of the Group companies whose functional currency is different from the presentation currency are measured at the historical exchange rate. The translation differences reflect the variance between the historical exchange rate and the year-end exchange rate. This decrease in translation differences does not give rise to a reduction in the Group's equity, since it is a transfer from the subsidiary's equity to the Parent's reserves, as reflected in the consolidated statement of changes in equity. The difference between the EUR 91,511 thousand shown in the table and the EUR 97,173 reflected in "Other Changes" corresponding to 2019 in the consolidated statement of changes in equity is due to the difference between the exchange rate at year-end and the exchange rate at which the dividends are received at Acerinox, S.A.

The repatriation of dividends, which was also significant in 2020, did not have the same impact on translation differences, since the historical exchange rate at which the distributed reserves were measured was similar to the exchange rate at 2020 year-end.

14.5 Detail of reserves, profit or loss and non-controlling interests: Contribution by company

At 31 December 2020 and 2019, the contribution of each of the consolidated companies to reserves and consolidated profit or loss is detailed as follows:

(Amounts in thousands of euros)	2020				2019			
	Contribution to reserves	Contribution to profit or loss	Profit (Loss) attributable to non-controlling interests	Total non-controlling interests	Contribution to reserves	Contribution to profit or loss	Profit (Loss) attributable to non-controlling interests	Total non-controlling interests
ACERINOX, S.A.	1,673,298	-25,118			1,044,164	-57,485		
ACERINOX (SCHWEIZ) A.G.	997	-332			902	95		
ACERINOX ARGENTINA, S.A.	5,154	216			5,208	-195		
ACERINOX AUSTRALASIA (PTY) LTD.	214	-54			182	32		
ACERINOX BENELUX, S.A. - N.V.	834	281			270	564		
ACX DO BRASIL REPRESENTAÇOES, LTDA.	194	74			181	14		
ACERINOX CHILE, S.A.	-1,948	502			-2,107	160		
ACERINOX COLOMBIA, S.A.S.	584	8			446	138		
ACERINOX DEUTSCHLAND GMBH	-21,645	836			-23,168	1,522		
ACERINOX EUROPA, S.A.U.	-29,086	-61,879			28,579	-57,665		
ACERINOX FRANCE, S.A.S.	-8,033	-461			-9,013	980		
ACERINOX ITALIA, S.R.L.	-36,132	1,017			-25,109	-11,024		
ACERINOX INDIA PVT LTD.	74	-75			135	-60		
ACERINOX METAL SANAYII VE TICARET L.S.	1,546	473			996	550		
ACERINOX MIDDLE EAST DMCC (DUBAI)	871	77			652	219		
ACERINOX PACIFIC, LTD.	-20,707	-213			-20,760	54		
ACERINOX POLSKA, SP Z O.O.	2,403	698			2,038	364		
ACERINOX RUSSIA LLC.	482	170			490	-7		
ACERINOX SCANDINAVIA AB	1,288	-718			21	1,267		
ACERINOX S.C. MALAYSIA SDN. BHD.	-40,108	510			-39,514	-595		
ACERINOX SHANGHAI CO., LTD.	754	1,162			641	1,075		
ACERINOX (SEA), PTE LTD.	1,139	-33			753	387		

(Amounts in thousands of euros)	2020				2019			
	Contribution to reserves	Contribution to profit or loss	Profit (Loss) attributable to non-controlling interests	Total non-controlling interests	Contribution to reserves	Contribution to profit or loss	Profit (Loss) attributable to non-controlling interests	Total non-controlling interests
ACERINOX UK, LTD.	4,865	229			4,364	501		
ACEROL - COMÉRCIO E INDÚSTRIA DE AÇOS INOXIDÁVEIS, UNIPESSOAL, LDA.	-2,792	-203			-3,021	228		
BAHRU STAINLESS, BDN. BHD.	-451,392	-90,834	-1,712	-109	-286,552	-164,841	-3,161	1,627
COLUMBUS STAINLESS (PTY) LTD.	34,156	-14,145	-4,669	42,965	120,284	-69,155	-5,511	54,602
CORPORACIÓN ACERINOX PERÚ, S.A.C.	-300	76			-234	-66		
INOX RE, S.A.	31,629	1,600			30,889	740		
INOXCENTER CANARIAS, S.A.U.	1,816	-366			1,692	124		
INOXCENTER, S.L.U.	-9,341	-5,287			-10,130	788		
INOXFIL, S.A.	1,073	-4,664	-11	6	1,431	-358	-1	17
INOXIDABLES DE EUSKADI, S.A.U.	4,824	-41			4,318	506		
INOXPLATE - COMÉRCIO DE PRODUCTOS DE AÇO INOXIDÁVEL, UNIPESSOAL, LDA.	1,840	121			1,724	116		
METALINOX BILBAO, S.A.U.	14,813	1			14,064	749		
NORTH AMERICAN STAINLESS CANADA, INC.	36,475	3,886			31,135	5,340		
NORTH AMERICAN STAINLESS MÉXICO, S.A. DE C.V.	9,827	1,896			6,450	3,376		
NORTH AMERICAN STAINLESS FINANCIAL INVESTMENTS, LTD.	-8,729	8,729			-9,742	9,740		
NORTH AMERICAN STAINLESS, INC.	356,888	230,124			856,038	268,418		
ROLDAN, S.A.	35,662	-8,202	-19	104	31,803	3,859	9	123
VDM METALS HOLDING, GMBH	-7,606	8,988						
TOTAL	1,585,881	49,049	-6,411	42,966	1,760,500	-59,545	-8,664	56,369

In 2020 the Group company North American Stainless distributed dividends of EUR 773 million to the Parent, which explains the changes in the reserves of both Acerinox, S.A. and the US entity.

14.6 Hyperinflation adjustments

Since 1 July 2018, Argentina has been classified as a hyperinflationary economy due to meeting the qualification requirements established in IAS 29. The Acerinox Group has an entity in Argentina which engages exclusively in the marketing of stainless steel in that country and, accordingly, the amount of its assets and liabilities and its contribution to the Group's results are not significant. The Group did not restate the comparative figures for the previous period as the impacts are not significant for the Group.

The financial statements of Acerinox Argentina for both 2019 and 2020 were expressed in terms of the measuring unit current at the end of the reporting period. The restated cost of each non-monetary item in the financial statements was determined by applying to its historical cost and accumulated depreciation and amortisation charge the change in a general price index from the date of acquisition to the end of the reporting period. The revaluation of non-monetary assets amounted to EUR 169 thousand (2019: EUR 270 thousand).

The components of owners' equity, except retained earnings and any revaluation surplus, were restated by applying a general price index to the various items from the dates on which the components were contributed or otherwise arose. Restated retained earnings are the result of applying these indices to the other amounts in the consolidated statement of financial position. The impact on reserves amounted to EUR 140 thousand, as reflected in the consolidated statement of changes in equity (2019: EUR 198 thousand).

All the items in the consolidated statement of comprehensive income were also restated in the monetary unit current at the end of the reporting period. For this purpose, all the amounts were restated by applying an index calculated on the basis of the change in the general price index from the date on which the income and expenses were recognised in the financial statements. The amount recognised in the consolidated statement of profit or loss for this item was EUR 111 thousand (2019: EUR 263 thousand).

14.7 Non-controlling interests

At the end of 2020, the companies with non-controlling interests were Columbus Stainless, Ltd. (Columbus), with an interest of 24% held by the South African group IDC (Industrial Development Corporation), and Bahru Stainless Sdn. Bhd. (Bahru), whose non-controlling interests were reduced to 1.85% owned by Hanwa, Co. Ltd.

There are no rights to protect non-controlling interests that may restrict the entity's ability to access or use assets, or settle the entity's liabilities.

Neither of these companies distributed dividends in 2020 or 2019.

The detail of the main items in the financial statements of Columbus, which was the only Group company with significant non-controlling interests at year-end, is as follows:

Columbus

	2020	2019
Non-current assets	119,806	139,877
Current assets	289,323	330,840
Total assets	**409,129**	**470,717**
Non-current liabilities	9,062	18,673
Current liabilities	221,049	224,538
Total liabilities	**230,111**	**243,211**
Statement of profit or loss	**2020**	**2019**
Revenue	528,821	681,379
Loss for the year	**-19,455**	**-22,964**
Cash flows	**2020**	**2019**
Cash flows from operating activities	-47,442	20,057
Cash flows from investing activities	-13,193	-32,236
Cash flows from financing activities	12,212	68,551
Total cash flows generated	**-48,423**	**56,372**

When Columbus Stainless was incorporated, Acerinox signed a Shareholders Agreement in December 2001 with the three South African partners, Highveld Steel and Vanadium Corporation, Ltd., Samancor, Ltd. and IDC, which held ownership interests therein.

In Clause 9 of that agreement it was stipulated that in the event of a change of control at Acerinox, S.A., by virtue of which a shareholder acquired shares of Acerinox, S.A. that afforded it a majority of votes at the General Meeting or on the Board, the shareholders would be able to exercise a put option on their ownership interests vis-à-vis Acerinox, S.A.

In the 18 years that have passed, two of the three partners who signed the agreement, Highveld and Samancor, have renounced their shareholdings, and the third, IDC, a state entity supporting industrial development in South Africa, has increased its ownership interest from 12% to 24%, given its interest in supporting the creation of wealth, the maintenance of employment and the status of the stainless steel industry as a strategic industry for the country. IDC recently declared that this was a strategic and long-term interest.

Consequently, the exercise of this option, with respect to the aforementioned assumption, is highly unlikely for the only minority shareholder of Columbus Stainless, since its permanence is not determined by the presence of Acerinox, as it was in the case of the other shareholders, but by support to the national industry.

14.8 Distribution of profit

The proposed distribution of profit of the Parent, Acerinox, S.A., for 2020 that the Board of Directors will submit for approval by the shareholders at the Annual General Meeting is as follows:

	2020
Distributable profit:	
Profit for the year	655,351,828
Distribution:	
Dividends	135,273,096
To voluntary reserves	520,078,732

The Board of Directors of Acerinox, S.A. has decided to propose to the next Annual General Meeting of the Company a dividend distribution of EUR 0.50 per share.

The Annual General Meeting held telematically on 22 October approved the following distribution of the Parent’s profit for 2019:

	2019
Distributable profit:	
Profit for the year	438,827,598
Distribution:	
To legal reserve	128,597
Dividends	108,218,477
Offset of prior years' losses	186,367,543
To voluntary reserves	144,112,981

Also, the shareholders at the Annual General Meeting resolved to distribute a dividend of EUR 0.50 per share, of which EUR 0.10 per share would be charged to the share premium.

14.9 Earnings per share

The basic earnings per share are calculated by dividing the profit for the year attributable to equity holders of the Parent by the weighted average number of ordinary shares outstanding in the year.

	2020	2019
Profit (Loss) attributable to the Group	49,049	-59,545
Weighted average number of ordinary shares outstanding	270,546,193	272,992,909
Earnings per share (in euros)	0.18	-0.22

Although there were other equity instruments that gave access to capital at 31 December 2020, as indicated in **Note 16.1.3**, these do not have a significant effect on the calculation of earnings per share and, therefore, diluted earnings or losses per share are the same as basic earnings or losses per share.

NOTE 15 DEFERRED INCOME

"Deferred Income" includes non-refundable government aid, including emission allowances received for no consideration (see **Note 11.1**) and other grants related to assets. The changes therein were as follows:

(Amounts in thousands of euros)	2020	2019
Balance at 1 January	10,310	6,876
Aid granted	10,942	11,771
Allocation to profit or loss	-8,341	-8,337
Balance at 31 December	12,911	10,310

The amount recognised under "Deferred Income" includes mainly aid received by Acerinox Europa for its research and development and environmental activities, and the balancing entry for emission allowances allocated for no consideration under the National Allocation Plan and not used in the year (see **Note 11.1**).

In 2020, as a result of the pandemic, numerous countries introduced aid packages in an attempt to alleviate the effects of the crisis on production activity and protect workers. In many cases, the measures implemented included social security payment exemptions.

In Spain, Royal Decree-Laws 8/2020, of 17 March, 18/2020, of 12 May, and 24/2020, of 26 June, established the exception whereby in the case of furlough-type arrangements (Spanish "ERTEs") authorised on the basis of temporary force majeure related to Covid-19, and in the case of collective redundancy procedures due to economic, technical, organisational and production reasons, companies shall be exempt from paying the company contribution, including the contribution for unemployment, the wage guarantee fund and professional training, in accordance with the proportions and conditions envisaged in the aforementioned regulatory legislation.

Pursuant to the policy described in **Note 2.15**, the Group recognised this relief as a grant and, therefore, it is included under "Other Operating Income" in the consolidated statement of profit or loss.

The detail of the grants received in 2020 is as follows:

(Amounts in thousands of euros)	2020	2019
R&D	252	455
Environment	2,307	4,891
Allocation of CO2 allowances	5,793	6,151
Covid-19-related aid	2,218	0
Training	372	272
Other	0	2
Total	10,942	11,771

The Group considers that it has met or will meet all the conditions for receiving the grants in the period stipulated and, therefore, there are no significant contingencies in connection with the grants obtained.

NOTE 16 PROVISIONS AND CONTINGENCIES

The detail of the long-term provisions included in the consolidated statements of financial position as at 31 December 2020 and 2019 is as follows:

(Amounts in thousands of euros)

	2020	2019
Employee benefits	182,591	36,353
Other provisions	14,170	12,739
TOTAL	196,761	49,092

16.1 Employee benefits

16.1.1 Defined contribution plans

In accordance with their domestic legislation, certain Group companies make contributions to pension plans managed by external entities. An expense of EUR 15,157 thousand was recognised in this connection under “Staff Costs” in the consolidated statement of profit or loss for 2020 (2019: EUR 10,966 thousand).

16.1.2 Defined benefit plans

The detail of the provisions for employee benefits, by type of obligation, is as follows:

(Amounts in thousands of euros)	2020	2019
Pension plans	156,309	0
Early retirement benefits	1,704	424
Supplements	14,803	639
Post-employment obligations	8,767	9,273
Restructuring plans	1,008	26,016
TOTAL	182,591	36,352

The defined benefit liability recognised in the consolidated statement of financial position corresponds to the present value of the defined benefit obligations existing at the reporting date less the fair value of the plan assets at that date.

The detail of the main liabilities recognised by the Group is as follows:

Pension plans

Due to historical circumstances, the VDM Group guarantees pension plans to its employees, mainly in Germany. The pension obligations are discharged under voluntary plans established by the company prior to the acquisition. Nowadays, new hires cannot benefit from obligations of this nature. These obligations take into consideration various remuneration schemes representing various risk profiles and are based on individual and collective regulations. All these obligations are pension plans that provide benefits to plan members in the form of a guaranteed pension level payable throughout their lifetime. The level of this pension is based on the years of service and, depending on the case, may be based on the final salary, average salary or even fixed amounts. Since the obligations undertaken by the company in this connection are not outsourced, the company fulfils the related payment obligation when it falls due.

The weighted average term of the defined benefit obligations is 18.6 years.

The pension obligations assumed by the Group on acquisition amounted to EUR 149,927 thousand.

The actuarial valuation of these obligations is conducted annually by an independent expert.

The detail of the amounts recognised in the consolidated statement of financial position and of the changes in the net defined benefit obligations in 2020 is as follows:

Balance at 31 December 2019	0
Business combination	149,927
Contributions paid	-2,833
Service cost recognised in profit or loss	4,338
Interest cost	861
Actuarial loss recognised in comprehensive income	4,016
Balance at 31 December 2020	156,309

The detail of the expected due date of undiscounted pensions is as follows:

	Amount
2021	4,005
2022	4,115
2023	4,550
2024	4,439
2025	4,546
2026 - 2030	25,767
Total	47,422

The actuarial assumptions used in this valuation are as follows:

Discount rate	0.60
Inflation	2.50
Pension dynamic with adjustment according to Sec. 16	1.70
Pension dynamic with adjustment according to inflation	1.70
Mortality rate	Richttafeln 2018 G

The sensitivity analysis performed by the company gave rise to the following adjustments to the pension obligations, based on changes in certain assumptions:

		Changes in pension obligations
Discount rate	Reduction of 0.50 basis points	16,283
Salary increase	Increase of 0.50 basis points	3,849
Pension increase	Increase of 0.25 basis points	217
Mortality rate	One-year increase in life expectancy	5,258

Post-employment obligations

Post-employment obligations relate to medical care plans provided by Columbus Stainless to plan members following their retirement. No new members have joined the plan. The company generally performs actuarial valuations of the obligations assumed. The most recent valuation was performed in 2017. The company decided not to recognise the actuarial adjustments obtained in 2020 due to the decision to extend the working life of its employees from 60 to 65 years, effective from 1 January 2021. The company has arranged for a new valuation to be performed, under new terms and conditions, which will be recognised in 2021. No significant changes are expected. The assumptions used in the latest valuation were a discount rate of 9.5% and a medical cost inflation rate of 6.75%. The beginning and closing balances for the year are reconciled as follows:

(Amounts in thousands of euros)

	2.020	2.019
Balance at 1 January	9,273	8,236
Contributions paid	-299	-730
Service cost recognised in profit or loss	191	199
Interest cost	757	801
Actuarial loss recognised in comprehensive income	0	0
Translation differences	-1,155	-357
Balance at 31 December	8,767	9,273

The discount rates applied are based on the expected growth rates of health insurance policies. Any changes in these rates may have an impact on both the obligations recognised and on comprehensive income. An increase of one percentage point in the discount rate would increase the obligation by EUR 1.2 million (2019: EUR 1.6 million). By contrast, a decrease of one percentage point in the discount rate would reduce the obligation by EUR 1.1 million in 2020 (2019: EUR 1.1 million).

Collective redundancy procedure at Acerinox Europa, S.A.U.

On 13 November 2019, the representatives of Acerinox Europa, S.A.U. entered into an agreement with the workers' representatives at the Out-of-Court Labour Dispute Resolution Department (SERCLA) of the Autonomous Community Government of Andalusia, whereby the workforce of the Campo de Gibraltar (Cádiz) factory was reduced by 215 people, 183 due to age and voluntary redundancy, and another 32 due to a lack of versatility, 8 of which formed part of the reduction voluntarily.

These last-mentioned 32 employees left immediately after the execution of the aforementioned agreement and prior to year-end. The expense incurred as a result of these dismissals amounted to EUR 2,802 thousand, included under "Staff Costs" in the consolidated statement of profit or loss, as reflected in **Note 17.2**.

The remaining departures, i.e. those leaving the company due to age reasons, will take place gradually until the end of 2022, as the employees signed up to the plan reach 60 years of age. 126 employees involved in the collective redundancy procedure left the company in 2020.

The company performed an actuarial calculation of the obligations arising from the approved early retirement plan, including 183 workers and amounting to EUR 26,016 thousand. This amount was recognised in 2019 under "Staff Costs" in the statement of profit or loss. A discount rate of 0% was used to determine the actuarial valuation. Considering that the financial term of the payments measured was 2.9 years, the discount rate obtained over the three-year term of the highest credit quality corporate debt (AA) curve would be -0.072%. In view of this negative rate, a 0.00% discount rate was decided upon. No mortality discount was considered due to the characteristics of the obligations, since in the event of the death of an employee the payments due would in any case either be collected by the employee's beneficiaries or recovered by Acerinox.

In January 2020 the Group outsourced the obligations in this connection, in respect of which the payment made was equal to the amount recognised in 2019. As a result of this outsourcing, the insurance company is responsible for paying early retirement benefits to employees when they retire. EUR 3,392 thousand were paid in 2020 in this connection with a charge to the insurance policy taken out.

At 31 December the existing liabilities relating to the future payments to be made by the Group were duly outsourced and covered in full. Accordingly, it was not necessary for the Group to recognise any additional liabilities. Any differences arising between the amount of the provision and the insurance taken out are charged or credited to profit or loss for the year.

The company also provisioned EUR 9,254 thousand relating to the contribution to the Treasury established in Additional Provision Sixteen of Law 27/2011, amended by Royal Decree 1484/2012, accrued as a result of the presence of certain workers of over 50 years of age. This contribution will be payable to the pertinent authority in accordance with the aforementioned legislation. This provision is included under "Other Provisions", as disclosed in **Note 16.2**.

Therefore, the total cost of the collective redundancy was EUR 38.1 million, to be paid over approximately 3.5 years (with the calculation including the contribution to the Treasury and taking the reference year to be that in which the workers turn 64 years of age).

The saving made as a result of the collective redundancy was increased by the saving arising from the policy of non-coverage of vacancies due to retirement, implemented from May until the approval of the collective redundancy procedure, which entailed the natural wastage of a further 31 positions.

In relation to the collective redundancy procedure, in 2020 the Company claimed exceptional aid on the basis of Royal Decree 908/2013, of 22 November, in favour of workers involved in company restructuring processes. This aid is subject to the workers signing up to a special agreement with the social security authorities and will be used to pay for social security contributions. On 11 December 2020, notification was received regarding the granting of aid amounting to EUR 3,991 thousand to Acerinox Europa, S.A.U. At the same time, in accordance with the report received from the independent expert advising the Group on this process, the entity recognised a provision equal to 25% of the aid obtained, to cover any refunds of this aid that might have to be paid through the insurance company, due mainly to employees who decide to take early retirement. A provision of EUR 998 thousand was recognised in this connection. The Group recognised both amounts under “Other Operating Expenses” in the consolidated statement of profit or loss.

In addition, there are obligations arising from certain senior executive retirement benefit arrangements amounting to EUR 14.8 million (2019: EUR 13.1 million). Since these obligations were appropriately insured in both 2020 and 2019, and their estimated amount was covered by cash flows arising from the insurance policies taken out for this purpose, no liabilities were recognised in this connection.

The assumptions used to calculate the fair value are detailed below:

Mortality table	PERM/F-2000P
CPI	1.50%
Salary increase rate	1.50%
Social security growth rate	1.50%
Retirement age	65 years
Valuation method	Projected unit credit method

16.1.3 Share-based payment transactions

At its meeting held on 22 March 2018, the Board of Directors of Acerinox, S.A. approved a multi-year remuneration or long-term incentive (LTI) plan enabling the CEO and senior executives of the Acerinox Group to receive a portion of their variable remuneration in the form of treasury shares of Acerinox, S.A. The target amount is 30-50% of their base salary, subject to a personal limit of 200% of the respective target. This plan was subsequently submitted to, and approved by, the shareholders of Acerinox at the General Meeting held on 10 May 2018.

The approved LTI plan consists of three three-year cycles. The First Cycle of the plan ran from 1 January 2018 to 31 December 2020. The Second Cycle commenced on 1 January 2019 and ends on 31 December 2021, and the Third Cycle commenced on 1 January 2020 and ends on 31 December 2022.

On 1 January 2020, the third three-year cycle of the multi-year remuneration plan came into force. The second cycle had entered into force on 1 January 2019.

Under the remuneration plan, employees receive shares of the Parent (“Performance Shares”) at the end of each cycle. The delivery of the shares and the number to be delivered are contingent upon the fulfilment of certain vesting requirements relating to the employee remaining in service and the achievement of individual corporate objectives, certain of which depend on market circumstances.

Upon conclusion of the first cycle and authorisation for issue of the consolidated financial statements for 2020, the Group has 30 days in which to determine the number of shares to be delivered to each of the employees signed up to the plan. Upon delivery of the shares, the accounting difference between the equity item cancelled and the treasury shares delivered is recognised with a charge to the Parent’s reserves.

The Group presumes that the services are to be provided over the irrevocability or vesting period as consideration for the future delivery of the shares. Accordingly, the services rendered are recognised on a straight-line basis over the period in which the rights to receive those shares become irrevocable.

The Group measures the goods or services received, as well as the corresponding increase in equity, at fair value on the date the equity instruments are granted.

To calculate this theoretical number of shares, the shares of Acerinox, S.A. are measured at their quoted price 30 trading days prior to commencement of the plan, and their subsequent increase or decrease in value is assumed by the employee. The resulting number of Performance Shares is used as the basis for determining the actual number of Acerinox, S.A. shares to be delivered (if any) at the end of each cycle, depending on the extent to which objectives are achieved and subject to compliance with the requirements set out in the regulations governing each plan.

The Group engaged an independent expert to calculate the percentage of objectives achieved, subject to market conditions. Using accepted valuation techniques (the Monte Carlo method), the expert calculated the reasonable percentage of shares attributable to each employee subject to the remuneration plan. According to this valuation, the number of shares to be delivered in the performance of each of the plan cycles would be 78,853 shares, which would represent 0.08% of the share capital of Acerinox, S.A. at the end of the three cycles.

The expense incurred in 2020 amounted to EUR 736 thousand (2019: EUR 861 thousand), the balancing entry of which was recognised under “Other Equity Instruments”. The amount recognised at year-end under “Other Equity Instruments” in the consolidated statement of financial position totalled EUR 2,170 thousand (2019: EUR 1,446 thousand).

16.2 Other provisions

The changes in 2020 and 2019 were as follows:

(Amounts in thousands of euros)

	Litigation	CO2	Other provisions	Total
At 31 December 2018	8,139	1,856	434	10,429
Period provision		1,846	2	1,848
Amount used		-1,906		-1,906
Reversals				0
Transfers from short term				0
Translation differences			-9	-9
At 31 December 2019	305	2,746	9,688	12,739
Business combination			1,171	1,171
Period provision		3,018	551	3,569
Amount used		-2,681	-596	-3,277
Reversals	-5			-5
Transfers from short term				0
Translation differences			-27	-27
At 31 December 2020	300	3,083	10,787	14,170

CO2

This heading includes the provisions relating to CO2 emissions in 2020, for which the emission allowances had yet to be surrendered at year-end (see **Note 11.1**).

"Amount used" in the year includes the derecognition of emission allowances for 2020, totalling EUR 2,681 thousand (2019: EUR 1,852 thousand) (see **Note 11.1**).

Litigation

At the end of 2020 the Group continued to be involved in litigation with the Italian tax authorities concerning transfer pricing adjustments made, which are explained in detail in Note 19.5. These legal proceedings relate to the adjustments imposed by the Italian authorities as a result of the purchase and sale transactions between the Italian Group company and Columbus Stainless (Pty) Ltd. The Italian company is currently in discussions with the tax authorities. A request has been submitted to postpone the court hearing at the request of the Italian authorities, since they have expressed their openness to negotiating agreements relating to the adjustments with third countries for the 2007-2013 period in the terms requested by the company. Based on the opinion of the experts, the Group has maintained the provision of EUR 11.2 million. The Group considers that it is not necessary to increase the amount thereof, since the agreements are at an advanced stage and it is foreseeable that the amount recognised is sufficient to cover the possible outcome of the agreements, including interest.

As established in IFRIC 23, on 1 January 2019 the Group reclassified this provision from "Long-Term Provisions" in the consolidated statement of financial position to "Deferred Tax Liabilities", as it relates to a tax payable that is not expected to be settled in the short term.

Other provisions

"Other Provisions" includes mainly the measurement by Acerinox Europa, S.A.U. of the obligations arising from the collective redundancy procedure implemented in 2020 and those relating to the contribution to the Treasury set forth in Additional Provision Sixteen of Law 27/2011, amended by Royal Decree 1484/2012. The amount of this obligation, as verified by an independent expert, totals EUR 9,254 thousand. When calculating the provision, the characteristics of the employees included in the collective redundancy procedure were taken into account, together with observance of the legal requirements established by law and the applicable percentages. Note 16.1.2 sets out the details of this collective redundancy procedure.

Inoxcenter, S.L.U. also recognised a provision for this item based on the collective redundancy procedure carried out in 2013, amounting to EUR 386 thousand.

16.3 Guarantees provided

At 31 December 2020, the Group had provided guarantees to third parties, mainly public authorities, totalling EUR 18.6 million (2019: EUR 18 million). This amount includes the guarantees totalling EUR 1.5 million provided to the Italian tax authorities as a result of the tax assessments arising from the tax audits described in Note 19.5. In 2019 guarantees amounting to EUR 3.7 million were also provided to the Spanish Ministry of Industry for loans obtained under the financial support programme for industrial investment within the framework of the public policy for reindustrialisation and strengthening of industrial competitiveness (REINDUS), as explained in Note 8. Guarantees totalling EUR 2.5 million were also deposited with the customs authorities.

Group management does not expect any significant liabilities to arise from these guarantees.

16.4 Contingencies

Gas Natural Comercializadora, S.A. initiated declaratory proceedings against the Group companies Acerinox Europa, S.A.U., Roldan, S.A. and Inoxfil, S.A. for an alleged breach of the natural gas supply contracts, requesting payment of the compensation for unilateral termination agreed therein, totalling EUR 8.2 million. Gas Natural Comercializadora, S.A. submitted a bid in the supply service tender held by Acerinox in 2016 and 2017, but a different company was selected. The claim was resolved in the first instance by means of a judgment dated 18 June 2019, whereby the court dismissed Gas Natural's complaint in full and ordered the claimant to pay costs. The Group subsequently reached a settlement with Gas Natural whereby the latter paid the Group the specified costs and undertook to refrain from lodging an appeal. The judgment therefore became final and the proceedings were deemed closed.

NOTE 17 INCOME AND EXPENSES

17.1 Revenue

The detail of "Revenue" in 2020 and 2019 is as follows:

(Amounts in thousands of euros)	2019	2018
Sales of goods	4,663,433	4,748,268
Services rendered	5,055	5,610
In-house work on non-current assets	2,898	7,611
Operating lease income	651	836
Gains on disposals of non-current assets	754	7,189
Income from aid and grants	5,323	5,595
Income from emission allowances granted	3,018	2,742
Fair value measurement of derivatives	12,930	0
Other income	12,022	7,927
TOTAL	4,706,084	4,785,778

Noteworthy in 2020 was the recognition of revenue arising from the fair value measurement of the derivatives used by the Group to hedge its exposure to the volatility of the purchase prices of metal, mainly nickel. As explained in **Note 12.2.6**, at the date of preparation of these consolidated financial statements the arranged derivatives had not met the requirements to qualify for hedge accounting and, accordingly, the Group recognised the changes in value in this connection under "Other Operating Income" in the consolidated statement of profit or loss.

"Other Income" includes the extraordinary aid granted by the Spanish Ministry of Employment to workers involved in company restructuring processes, pursuant to Royal Decree 908/2013, of 22 November, discussed in **Note 16.1**.

"In-House Work on Non-Current Assets" includes mainly the capitalised expenses relating to the investments made at Acerinox Europa, S.A.U., as well as the capitalised R&D+i expenses incurred by VDM, as detailed in **Note 7**.

"Gains on Disposals of Non-Current Assets" in 2020 includes mainly the gain obtained on the sale of an industrial building in the United Kingdom, as explained in **Note 9**. In 2019 this line item included mainly the gain obtained on the sale of an industrial building in the state of California (USA) owned by the Group company North American Stainless.

17.2 Staff costs

The detail of "Staff Costs" incurred in 2020 and 2019 is as follows:

(Amounts in thousands of euros)	2020	2019
Wages and salaries	385,922	313,298
Social security costs	91,749	76,374
Pension plan contributions to employees	13,312	9,171
Defined benefit plan contributions	1,845	1,795
Termination benefits	3,201	3,226
Changes in provision for employee benefits	1,810	36,365
Other staff costs	9,687	12,018
TOTAL	507,526	452,247

At Acerinox Europa, an agreement was reached with the workers' committee of the Campo de Gibraltar (Cádiz) factory, whereby a furlough-type arrangement (Spanish ERTE) due to production-related circumstances was approved, and this agreement was backed by the four trade unions represented on the committee. The agreement envisages a duration of one year from 5 May 2020, includes the entire workforce and allows for the adaptation of staff to the production needs prevailing at any given time, thus providing considerable flexibility for management purposes. This agreement created an environment of safety and certainty which was beneficial to all parties, helped to maintain jobs and enabled the workforce to be adapted to the backlog.

All of the Group's factories have generally adopted various measures to alleviate the effects of Covid-19, such as furlough-type arrangements, reduced working hours and mandatory holidays.

The inclusion of VDM in the Group led to an increase of EUR 128,825 thousand in staff costs from the acquisition date, as well as an additional 1,801 employees, at year-end.

"Changes in Provisions for Employee Benefits" in 2019 included the effects recognised as a result of the collective redundancy procedure carried out by Acerinox Europa, S.A.U., as mentioned in **Note 16.1**.

The average number of employees for 2020 and 2019, by category, is as follows:

	2020		2019	
	Men	Women	Men	Women
Senior Vice President	10	0	8	0
Director	11	4	12	4
Manager	238	41	184	41
Analyst / Supervisor	579	174	244	102
Specialist	326	135	189	119
Administrative staff	625	477	508	415
Operators	5,474	181	4,900	182
TOTAL	7,264	1.011	6,045	863

The detail of the employees, including directors, at 31 December, by gender and category, is as follows:

	2020		2019	
	Men	Women	Men	Women
Board members	8	4	10	3
Senior Vice President	10	0	9	0
Director	13	4	12	4
Manager	242	43	197	40
Analyst / Supervisor	579	182	247	93
Specialist	337	136	181	125
Administrative staff	627	480	482	436
Operator	5,344	197	4,754	162
TOTAL	7,161	1,046	5,892	863

These figures do not include 100 workers who availed themselves of the partial retirement plan in 2020 (2019: 100 workers, who were, however, included in the detail above).

At 31 December 2020, the number of employees in Spain with a disability equal to or greater than 33% was 44 (42 men and 2 women) (31 December 2019: 44 (42 men and 2 women)).

At 31 December 2020, two of the Group's Spanish companies were not complying with the provisions of the Spanish General Law on the Rights and Social Integration of Disabled Persons. The companies mentioned are Acerinox, S.A. and Acerinox Europa, S.A.U. In both cases due to retirements that took place during the year. In case of Acerinox, S.A the noncompliance had already been remedied by the time the accounts were closed and in the case of Acerinox the necessary measures are being taken.

The increase in the number of Group employees is due to the inclusion of the VDM employees in the Group's workforce (2020 year-end: 1,801 employees). At Acerinox Europa, the collective redundancy procedure approved in 2019 resulted in the departure of 126 employees in 2020 (2019: 32 employees). The other employees signed up to the plan will leave the company as they reach the early retirement age set out in the plan.

On 22 November 2019, management of Acerinox Europa and the legal representatives of the plant's employees signed the new four-year collective bargaining agreement which provides for a salary increase of 2% per year. The agreement also establishes, among other measures, social policies for employees aimed at fostering work-life balance, as well as new benefits to promote the education of employees' children.

17.3 Other operating expenses

The detail of "Other Operating Expenses" is as follows:

(Amounts in thousands of euros)	2020	2019
Rental income	9,794	8,934
Commercial expenses	155,206	177,146
Utilities	207,928	222,159
Maintenance	60,967	66,198
Outside services	126,613	88,647
Insurance	18,302	15,520
Banking services	3,724	4,203
Other operating expenses	25,341	23,504
Taxes other than income tax	18,522	18,956
Change in short-term provisions	243	329
Losses on disposals of non-current assets	4,544	3,501
Other non-recurring expenses	15,548	4,059
TOTAL	646,732	633,156

The increase in certain line items, relating mainly to outside services, is due to the inclusion of VDM in the Group.

"Non-Recurring Expenses" includes the expenses arising from the acquisition of the VDM Group, amounting to EUR 14,736 thousand, as described in **Note 5.1**.

NOTE 18 NET FINANCE COSTS

The detail of "Net Finance Costs" is as follows:

(Amounts in thousands of euros)

	2020	2019
Interest and other finance income	7,399	18,808
Dividend income	60	237
Reversal of impairment losses on financial assets		
Gains on disposals of investments in consolidated companies		
TOTAL FINANCE INCOME	**7,459**	**19,045**
Interest expenses and other finance costs	-45,110	-34,331
Loss on hedging instruments		
Loss on liquidation of investments in consolidated companies		
Impairment losses on financial assets		
TOTAL FINANCE COSTS	-45,110	-34,331
Exchange gains	10,485	16,978
Net losses on remeasurement of financial instruments at fair value (currency forwards)	-4,346	-1,256
FINANCE INCOME FROM EXCHANGE DIFFERENCES	**6,139**	**15,722**
NET FINANCE COSTS	**-31,512**	**436**

"Interest Income" includes mainly the income arising from the cash placements made by the Group. The decrease with respect to 2019 is due mainly to the reduction in the USD interest rate.

Borrowing costs include mainly the interest accrued on bank borrowings and bonds issued, which are explained in Note 12.2.3. The increase with respect to 2019 is due to the new financing obtained by the Group for the acquisition of VDM, and to the Group's assumption of the latter's debt.

Lastly, gains or losses from translation differences arise in the course of the Group's commercial transactions as well as its financial and investment transactions. The Group uses derivative financial instruments to hedge most of the transactions performed in a currency other than the functional currency of each country. The use of these instruments ensures that any exchange rate fluctuations are offset by changes with the opposite sign in respect of the arranged derivative. The differences between the two amounts are due mainly to the interest rate differentials between the currencies involved in the currency forward arranged.

NOTE 19 TAX MATTERS

19.1 Legislative amendments

The legislative amendments enacted in 2020 relate mainly to exceptional measures implemented as a result of the pandemic. Most of these measures are temporary and attempt to alleviate the impact of Covid-19 by offering the possibility of deferring tax payments and reducing the limitations on the use of tax loss carryforwards, together with other relief, such as the VAT reduction in Germany from 19% to 16%, applicable until 31 December 2020.

Besides these temporary measures, the Spanish General State Budget Law for 2021 (Law 11/2020, of 30 December) was published in the Official State Gazette in Spain on 31 December 2020. This Law includes, among other measures, an income tax amendment affecting the tax exemption for dividends received from Group companies in certain circumstances. With respect to the Group, the exemption applicable to dividends obtained from qualifying subsidiaries will be limited, for tax periods beginning on or after 1 January 2021, to 95% of the amount of the dividends. The Parent of the Group will now be taxed on 5% of the dividends that it receives from its subsidiaries, which will be treated as non-deductible expenses relating to management of the ownership interest. This reduction could give rise to the recognition of a deferred tax liability for the undistributed retained earnings of Group companies expected to be repatriated in the form of dividends in the foreseeable future. The Group does not expect to distribute any dividends from the reserves of Group companies and, accordingly, it did not recognise a deferred tax liability in this connection, as explained in **Note 19.3**.

In the case of the UK, the tax rate, which was expected to be reduced to 17% from 2021, remained at 19% as the proposed cut was not implemented. Since the Group company Acerinox, UK had recognised deferred tax assets at a rate of 17%, it adjusted them to the new tax rates, which had a positive impact of just EUR 25 thousand on the statement of profit or loss.

With respect to 2019, the most significant amendments affecting the Group were as follows:

- The Protocol amending the 1990 Convention between the United States of America and the Kingdom of Spain for the Avoidance of Double Taxation entered into force on 27 November 2019. The protocol amends several articles of the existing Convention, including the article referring to withholding tax on dividends and interest. Under this amendment, dividends are not taxed at source when the parent has held at least 80% of the voting shares in the preceding 12 months. The Group meets a series of requirements also established for the application of this exemption. As mentioned in Note 3, this enabled the Group to reverse the deferred tax liability of EUR 25 million that it had recognised at 31 December 2018. In December Acerinox, S.A. received a tax-free dividend of USD 770 million (EUR 701 million) from North American Stainless, Inc. In 2020 North American Stainless, Inc. distributed a dividend of USD 948 million (EUR 773 million) to the Parent.
- In 2019 an income tax amendment, applicable from 2020, was approved in Malaysia, establishing a limitation of 20% of tax-EBITDA on the deductibility of interest from Group companies. Any interest not deducted in a given year may be deducted in future years, with no limit on the number of years. This is therefore a temporary difference that generates a deferred tax asset, thus reducing tax losses. This measure does not, therefore, have any impact on the consolidated financial statements.

19.2 Income tax expense

The income tax expense recognised was as follows:

(Amounts in thousands of euros)	2020	2019
Current tax	83,004	80,351
Deferred tax	-19,015	-42,217
Impairment of tax assets	23,655	60,987
Total income tax	87,644	99,121

Note 19.3.3 explains the recoverability analyses conducted by the Group in 2020, which led to the recognition of an impairment loss of EUR 23,655 thousand. In 2019 the Group also recognised impairment losses on tax assets amounting to EUR 60,987 thousand.

The amount recognised under “Other Taxes” in the consolidated statement of profit or loss includes the taxes paid abroad as a result of the withholdings made on the payment of interest and dividends, the detail of which is as follows:

(Amounts in thousands of euros)	2020	2019
Withholdings on dividends	-102	-13,496
Withholdings on interest and other income	-1,233	-3,675
Reversal of deferred tax liabilities arising from investments in subsidiaries		25,000
Other taxes	-1,335	7,829

From 27 November 2019, following the approval of the protocol amending the double taxation convention between Spain and the United States, the Group is no longer required to withhold tax on the dividends repatriated by its US subsidiary North American Stainless. In 2019 the Group therefore reversed the deferred tax liability of EUR 25 million recognised in prior years in relation to investments in subsidiaries. **Note 19.3.1** provides a detailed explanation of the reasons for the reversal.

The Parent received dividends from its subsidiaries in the amount of EUR 782 million, most of which were exempt from tax withholdings (2019: EUR 835 million, of which EUR 701 million were exempt from taxation).

Withholdings on interest payments are deductible from income tax under the double taxation conventions, and they reduce the income tax expense.

A reconciliation of the income tax expense recognised in the consolidated statement of profit or loss to the accounting profit is presented below:

(Amounts in thousands of euros)

	2020		2019	
Net profit (loss) for the year		49,049		-59,545
Non-controlling interests		-6,411		-8,664
Income tax		87,644		99,121
Other taxes		1,335		-7,829
Profit before tax		131,617		23,083
Income tax using the local tax rate	25.00%	32,904	25.00%	5,771
Effect on tax charge:				
Effect of tax rates of foreign companies		-5,562		-5,639
Non-deductible expenses		18,723		27,063
Tax incentives not recognised in profit or loss		-2,968		-6,552
Non-taxable income		84		-822
Prior years' adjustment		185		775
Adjustment of tax rates relating to deferred taxes		-9		-6
Provision for tax litigation, tax assessments and tax agreements		-1,586		-46
Unrecognised tax assets		22,286		17,372
Impairment of tax assets		23,655		60,987
Recognition of deferred taxes arising from investments in subsidiaries				
Other		-68		218
Total income tax		87,644		99,121

Several factors had a negative effect on the income tax expense in 2020:

- Firstly, the impairment of tax assets recognised by the Group, amounting to EUR 23,655 thousand (2019: EUR 60,987 thousand), as explained in Note 19.3.3. Although most of the tax assets recognised can be used for tax purposes without any time limitation, for accounting purposes regulations only allow those which are expected to be recovered within a reasonable period to be recognised. The Group deems a period of ten years to be reasonable.

- Secondly, due to the impact of the pandemic on the profit or loss of certain Group companies, mainly in Spain, the Group decided not to recognise deferred tax assets arising from the tax losses generated in 2020, amounting to EUR 18,468 thousand, by the companies that file consolidated tax returns as part of a tax group in Spain. Similarly, the Group did not recognise any tax assets at subsidiaries with losses not expected to be recovered within a reasonable period. This resulted in an expense of EUR 22,286 thousand in 2020 (2019: EUR 17,372 thousand).

- "Non-Deductible Expenses" includes impairment losses of EUR 41,159 thousand (2019: EUR 98,886 thousand) on non-current assets recognised by Bahru Stainless, which are not deductible for tax purposes until the related assets are realised. Although this is a temporary difference, the Group did not recognise any deferred tax assets in this connection, since the recognition criteria were not met. Consequently, this had a negative effect on the income tax expense for the year.

The tax incentives and other tax credits not recognised in the consolidated statement of profit or loss relate mainly to tax credits for R&D+i activities and for the elimination of double taxation.

With respect to 2019, in addition to the aforementioned tax expense impacts, it is worth noting the recognition of the outcome of the mutual agreements between the Spanish and Italian tax authorities arising from the tax audits under way. The details of these agreements are explained in **Note 19.5**.

19.3 Deferred taxes

The changes in deferred tax assets and liabilities were as follows:

(Amounts in thousands of euros)

	2020		2019	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Balance at 1 January	101,033	126,915	141,946	164,877
Expense (Income) for the year	2,043	-16,972	27,216	-40,001
Tax recognised directly in equity	2,235	-608	697	-315
Foreign exchange rate changes	-196	-10,015	-76	2,736
Business combination	24,631	78,758		
Transfers	1,182	1,182	-7,762	53
Other changes	-23,655	-216	-60,988	-435
Balance at 31 December	107,273	179,044	101,033	126,915

The balance recognised under "Other changes" in deferred tax assets includes mainly the impairment losses recognised in 2020 and 2019.

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

(Amounts in thousands of euros)

	Assets		Liabilities		Net balance	
	2020	2019	2020	2019	2020	2019
Goodwill and other intangible assets	5,943	5,875	-15,286	-346	-9,343	5,529
Property, plant and equipment	1,755	2,079	-156,673	-134,923	-154,918	-132,844
Financial assets	4,405	3,502	906	-2,773	5,311	729
Investments in subsidiaries						
Inventories	3,584	1,443	-36,506	-935	-32,922	508
Other assets	197	392	-3,246		-3,049	392
Provisions	6,201	4,762	25	-24	6,226	4,738
Employee benefit plans	43,984	16,149	3,577	-1	47,561	16,148
Financial liabilities	3,684	3	-416	-220	3,268	-217
Other liabilities	55	17	-11,139	-11,101	-11,084	-11,084
Non-deductible finance costs	108	177			108	177
Other tax credits	20,293	16,737			20,293	16,737
Unused tax losses	67,967	84,494			67,967	84,494
Provision for tax litigation			-11,189	-11,189	-11,189	-11,189
Deferred tax assets/(liabilities)	158,176	135,630	-229,947	-161,512	-71,771	-25,882
Offset of deferred tax assets and liabilities	-50,903	-34,597	50,903	34,597		
Deferred tax assets/(liabilities)	107,273	101,033	-179,044	-126,915	-71,771	-25,882

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

As laid down in the income tax accounting policy (see Note 2.19), the Group only offsets deferred tax assets and liabilities if it has a legally enforceable right to do so, the assets and liabilities correspond to the same tax authority and the Group plans to realise current tax assets or settle current tax liabilities on a net basis.

Of note in 2020 was the recognition of deferred tax assets and liabilities arising from the business combination performed on acquisition of the VDM Metals Group. As a result of that acquisition, the deferred tax assets and liabilities that this group had recognised at the acquisition date, amounting to EUR 24,631 thousand and EUR 78,758 thousand, respectively, were included in the Acerinox Group's consolidated financial statements. The deferred tax assets recognised arise mainly from employee pension plan obligations. On the other hand, the deferred tax liabilities arise from the different measurement of inventories for accounting and tax purposes. Also, as indicated in Note 5.1, the Group recognised a deferred tax liability of EUR 45,678 thousand relating to the measurement of the assets and liabilities at fair value at the acquisition date, as established in the applicable accounting standard. The origin of the aforementioned deferred tax liability is detailed as follows:

Amounts in thousands of euros)

	2020
Intangible assets	11,220
Property, plant and equipment	34,145
Investments in associates	122
Inventories	265
Provisions	-74
Total deferred tax liabilities	45,678

Also worthy of note was the decrease in deferred tax assets arising from unused tax loss carryforwards, as a result of the impairment loss of EUR 23,655 thousand recognised in 2020. However, the Group did recognise deferred tax assets in certain countries in which there were sufficient liabilities to offset them or where their recoverability could be justified. **Note 19.3.3** details the recoverability analyses performed by the Group.

In 2019 the Group was able to deduct for tax purposes the finance costs not deducted in previous years as a result of the limitations established by certain laws, which prevent finance charges from being deducted when they exceed a certain percentage of the adjusted profit or loss from operations. The profit from operations of the Spanish tax group enabled these costs to be deducted in 2019, due to the repatriation of dividends from subsidiaries to the Parent.

In 2019 the Group also recognised a deferred tax asset associated with impairment of goodwill. This asset is offset by the deferred tax liability generated by the Parent due to the 5% annual tax deductibility of the aforementioned goodwill in Spain.

19.3.1 Deferred tax liabilities

In addition to the deferred tax liabilities indicated in the preceding section, arising from the acquisition of VDM, of note are deferred tax liabilities recognised under “Property, Plant and Equipment”, which relate mainly to the different tax and accounting treatment of depreciation permitted by the legislation in force in certain countries. These liabilities arose mainly from North American Stainless, Inc., Columbus Stainless, Ltd. and the VDM Metals Group.

With respect to the deferred tax liabilities arising from investments in subsidiaries, as explained in the note regarding legislative amendments, the Spanish General State Budget Law for 2021 (Law 11/2020, of 30 December) includes, among other measures, an income tax amendment affecting the exemption from taxation of dividends received from Group companies in certain circumstances. The impact of this amendment on the Group is that the 100% exemption previously applicable to dividends obtained from qualifying subsidiaries will be limited, for tax periods beginning on or after 1 January 2021, to 95% of the amount of the dividends, which means that the Parent of the Group will now be taxed on 5% of the dividends that it receives from its subsidiaries.

This reduction could give rise to the recognition of a deferred tax liability for the undistributed retained earnings of Group companies expected to be repatriated in the form of dividends in the foreseeable future. The liability would amount to EUR 5,966 thousand.

Although the Group does not have a general policy of distributing dividends from subsidiaries to the Parent, each year the Group analyses the equity position of all its subsidiaries, while also taking into account existing taxes, in order to determine whether reserves should be repatriated through the distribution of dividends. In view of the significant amount of dividends distributed by North American Stainless in the last two years, the Group does not consider that it will distribute dividends from the reserves of the Group companies in the foreseeable future and, accordingly, it did not recognise a deferred tax liability in this connection. Also, there are very few companies in the consolidated Group that have significant distributable reserves that will be distributed in the foreseeable future.

The Protocol amending the 1990 Convention between the United States of America and the Kingdom of Spain for the Avoidance of Double Taxation entered into force on 27 November 2019. The protocol amended several articles of the then-existing Convention, including the article referring to withholding tax on dividends and interest. As a result, dividends will not be taxed at source when the parent has held at least 80% of the voting shares in the preceding 12 months. The Group meets a series of requirements also established for the application of this exemption.

This allowed the Group to reverse the deferred tax liability of EUR 25 million which it had recognised at 31 December 2018 for the possible repatriation of reserves from the Group company in the United States, North American Stainless.

In April the Parent received dividends amounting to EUR 134 million from the Group company North American Stainless. Since these dividends were distributed prior to the approval of the protocol, they were subject to a 10% withholding tax in the country of origin, which the Group offset by reversing the temporary difference. At year-end, the remaining amount of EUR 11.6 million was reversed, since the withholding tax on dividends for the Group had been eliminated.

19.3.2 Deferred tax assets

At 31 December 2020 and 2019, the Group had tax assets arising from tax loss carryforwards, to be used within the following periods:

(Amounts in thousands of euros)

	2020	2019
1 to 5 years	3,537	252
6 to 10 years	80,523	70,507
11 to 20 years		
21 to 30 years	2,747	2,962
No time limit	171,609	124,579
TOTAL	258,416	198,300

Not all the tax assets included in the table have been recognised by the Group. The recognised tax assets amounted to EUR 67,967 thousand in 2020 (2019: EUR 84,494 thousand).

The distribution by country of the recognised tax assets is as follows:

(Amounts in thousands of euros)

	2020	2019
Spain	43,084	66,806
South Africa	15,236	9,750
US	1,355	
France	3,241	3,189
Portugal	62	
Sweden	3,619	3,432
Chile	962	984
UK	406	333
Peru	2	
TOTAL	67,967	84,494

In 2020 there was a decrease in the tax assets recognised, due mainly to the impairment loss recognised by the Group for accounting purposes, as explained in the following Note.

In 2019 there was a decrease in the tax assets available in Italy due to the mutual agreements reached by the Spanish and Italian tax authorities, which resulted in the elimination of double taxation and the transfer to Spain of a portion of the tax losses in Italy.

A comparison of the two tables above reveals that the Group has unrecognised tax assets amounting to EUR 194,301 thousand, equal to tax losses of EUR 770 million, which were not recognised for accounting purposes as they did not meet the recognition criteria (2019: EUR 143,291 thousand of unrecognised tax assets, equal to losses of EUR 595 million). Of these amounts, EUR 83,556 thousand have a seven-year recovery period, while the rest have an unlimited recovery period.

Also, the Group has tax assets not recognised for accounting purposes arising from temporary differences amounting to EUR 159.2 million (2019: EUR 133.8 million) as a result of the impairment charges for accounting purposes on Acerinox, S.A.'s ownership interests in certain of its investees, in addition to the impairment losses on assets in both 2020 and 2019 which were not recognised as the timing of the reversal was not known. These assets are not deductible until the assets giving rise to the related temporary difference are realised.

On 22 June 2015, the Group company Bahru Stainless received confirmation from the Malaysian Ministry of Economy that tax relief had been approved in respect of the investments made in the country from 2009 to 2014. This relief consists of income tax credits for an amount equal to the investments made in certain items of property, plant and equipment, totalling MYR 1,806 million (EUR 364 million). As in the case of the tax loss carryforwards, the Group did not recognise a deferred tax asset in this connection as it was still unable to estimate the timing of the recoverability thereof at the reporting date. At the same time, the company also has unused temporary differences as a result of the different depreciation and amortisation methods for accounting and tax purposes ("capital allowances"), amounting to EUR 372 million. These temporary differences have an unlimited utilisation period in Malaysia. As a result of these two forms of relief, the company will not have to pay tax once it begins to generate taxable profits, despite the restriction on the use of tax losses.

The Group company North American Stainless is also entitled to tax relief for investments in assets that contribute to recycling. This relief is deducted from the calculation of the Kentucky State tax and amounted to EUR 509 million at year-end. Of the total tax relief, EUR 19.7 million expire in 2028, EUR 9.9 million expire in 2029 and the rest are unlimited. Application of this relief is limited to 50% of the tax payable in the State of Kentucky, or USD 2.5 million/year. The Group only recognises a deferred tax asset for assets arising from investments which expire and relate to a specific tax relief programme approved in 2005 by the State of Kentucky (Major Credits Program). At 2020 year-end EUR 4.2 million were recognised as deferred tax assets.

Deferred tax assets arising from deductions pending utilisation, amounting to EUR 20,293 thousand (2019: EUR 16,737 thousand), relate mainly to the Spanish tax group, except for the EUR 4.2 million mentioned in the preceding paragraph in relation to North American Stainless and EUR 362 thousand in relation to Columbus. The Group also took these tax benefits into consideration when conducting the recoverability analyses.

19.3.3 Analysis of the recoverability of deferred tax assets

As stated in the accounting policies, the Group recognises deferred tax assets in the consolidated statement of financial position provided that those assets are recoverable within a reasonable period, also taking into consideration the legally established limitations on their use. The Group considers a period of approximately ten years to be reasonable if permitted by tax legislation.

To assess the recoverability of the unused tax assets, the Group prepares a five- to ten-year budget for each of the companies with recognised tax assets, based on which it performs the tax adjustments necessary to determine the tax bases. The Group also takes into account the limitations on the offset of tax bases established in the respective jurisdictions. In addition, the Group assesses the existence of deferred tax liabilities against which tax losses may be offset in the future.

In preparing budgets, the Group considers the financial and macroeconomic circumstances and those of the stainless steel market itself, adapted to the entity's operating environment. Parameters such as expected growth, use of installed production capacity, prices, etc. are projected on the basis of the forecasts and reports of independent experts, as well as on historical figures and the targets set by management. Relevant key assumptions such as exchange rates and raw material prices are extrapolated using highly conservative criteria, tied at all times to the most recent values recorded in the pertinent markets at the date of the analysis.

As explained in the preceding Note, at year-end the Group companies that recognised tax assets in their financial statements were mainly the Spanish entities and the South African entity Columbus Stainless.

- In the case of the Spanish entities, the tax assets arise mainly from the consolidated tax group in Spain, which comprises all the Spanish Group companies with the exception of those established in the regions of Álava, Vizcaya and Guipúzcoa. Tax assets arising from unrecovered tax losses amounted to EUR 143 million at year-end. In 2020, due to the economic crisis arising from the pandemic, the companies forming part of the Spanish consolidated tax group generated tax losses of EUR 73.9 million, the related tax assets of which, amounting to EUR 18,468 thousand, the Group opted not to recognise. Additionally, in 2019, due to the poor performance of the markets, particularly in Europe, and the unprecedented drop in prices as a result of the rise in imports, losses were also incurred by a number of the Group's Spanish companies. The mutual agreements reached by the Spanish and Italian tax authorities in 2019, which completely eliminated double taxation and enabled the initial adjustments proposed in Italy to be reduced, also increased the tax losses in Spain, which led to an increase of EUR 6 million in deferred tax assets.

  It is important to note that there are significant restrictions on the use of tax losses in Spain. In the case of the Spanish tax group, just 25% of the taxable profit generated in a given year can be used to offset prior years' losses. In the case of entities subject to the tax regimes in force in Álava, Vizcaya and Guipúzcoa, the limitation is 50%.

  The uncertainty arising from the pandemic, which has led to an unprecedented crisis in many industries, together with the weakness of the markets due to inefficient safeguards, caused the estimates of growth in future years to be downgraded. The Group took into account all these circumstances and the adjustments to the macroeconomic forecasts in preparing the five-year budgets.

  In Europe, the main market for the Group's Spanish factories, apparent consumption of flat products dropped by around 14% in 2020, following the stoppage experienced in the second quarter due to Covid-19, during which period consumption dropped by 30%. Additionally, in view of the growing pressure of third-country imports, the European Union has been opening investigations and imposing safeguard measures against such imports.

  The key assumptions considered in the preparation of the budgets are based on demand estimates, raw material and selling prices, exchange rates, consumer price increases and the Company's strategy itself. With respect to demand, demand estimates by the ISSF

(International Stainless Steel Forum) and SMR (Steel & Metals Market Research) forecast a V-shaped recovery for the stainless steel industry. Regarding prices, sources such as CRU predict price increases from 2021. Lastly, the efficiency plans implemented by the Group, the conversion of fixed costs into variable costs and the reduction in staff costs as a result of the staff restructuring process implemented in 2019 were also factors considered in the preparation of the budgets. Based on the foregoing considerations, and in view of the uncertainty regarding the general recovery of the economy, the estimates for future years reflect improving operating margins, despite being well below estimates made in 2019.

In view of all the above, the five-year budgets prepared by management and extrapolated to a ten-year period, considering the estimated yields and historical margins, only justify the recovery of EUR 40 million over the next ten years and all the tax credit carryforwards. Accordingly, the Group recognised an impairment loss of EUR 23.6 million as an expense under “Income Tax” in the consolidated statement of profit or loss for 2020. Also, the Group was unable to recognise the tax assets amounting to EUR 18.5 million relating to the tax losses generated in 2020.

Since there is no time limitation on the recoverability of these tax assets for tax purposes, if circumstances were to reverse in a future year and the budgets enabled the recovery of the assets within a reasonable period to be justified, the Group could once again recognise those deferred tax assets.

Sensitivity analyses were performed on these estimates to determine the risk that a change in the assumptions may require an additional impairment loss to be recognised on these deferred tax assets. Clearly, in 2020, as the tax asset was written down to the limit indicated in the estimates, any budget shortfall would cause a further reduction in the tax assets. Among the possible ten-year projection scenarios, the Group selected that which it deems the most reasonable on the basis of historical factors. If the projected earnings for the next ten years were to decrease by 10%, the recovery period for the recognised tax assets would increase to eleven years instead of ten.

- In the case of Columbus, the tax assets recognised by the subsidiary were generated in the last two years. The entity has sufficient deferred tax liabilities to offset the aforementioned assets. These liabilities arise from the different accounting and tax treatment for depreciation and amortisation, and they therefore reverse each year. In addition, there are no quantitative or time limitations on the use of tax losses in South Africa, as explained in **Note 7.1**.

The results of Columbus in 2020 were also adversely affected as a result of the pandemic. The South African economy suffered a record decline of 17.5% in the second quarter, in which the factory was shut down for virtually the whole of April, and ended 2020 with a year-on-year decrease of 6%. In view of the falls in local demand in the stainless steel market and the low prices in Europe, Columbus saw an opportunity to supply the South African carbon steel market, due the lack of local supply in this sector and the tariffs on this product in South Africa. From August, Columbus began to manufacture carbon steel, since it did not require any additional investments or new equipment in order to do so. This enabled it to cover its production capacity, dilute fixed costs and also achieve healthy margins. In 2020 the company billed 68 thousand tonnes of carbon steel, compared with the 302 thousand tonnes of stainless steel sold throughout the year. The company is also involved in negotiations to sign a two-yearly agreement for this type of steel. Despite this new opportunity, the Group’s five-year results forecast is very cautious, and even falls below the forecast made in 2019. It nevertheless amply justifies the recognition of the tax assets generated in 2020.

- With respect to the other European entities, the recognised tax assets arose from the crisis years, and the amount thereof has been reduced since 2013 through the generation of profits, enabling their partial recovery. The transfer pricing policies adopted by the Group to remunerate and define transactions with distributors render it unlikely that those entities will suffer significant losses. In 2020, in view of the exceptional circumstances brought about by the pandemic, the falls in apparent consumption and the significant reduction in sales, certain of the Group companies experienced poorer results than in 2019. However, the Group’s factories have offset those losses. The Group analysed the recoverability of the tax assets and concluded that, based on the estimated results and given the absence of any quantitative or time limitations in those countries, they are expected to be recoverable within a reasonable period never exceeding ten years. The existence of a transfer pricing bilateral advance pricing agreement with similar entities and the various mutual agreements reached in various countries make it unlikely that the results of those entities will differ significantly from the projected results. Therefore, the conclusions reached are not expected to change.

19.4 Current tax

At 31 December 2020, the Group had a current income tax asset balance of EUR 34,302 thousand (2019: EUR 40,094 thousand) and a current income tax liability of EUR 6,143 thousand (2019: EUR 27,582 thousand).

The asset balance includes mainly the balance receivable in Spain as a result of the tax return for 2019, filed in July 2020, which gave rise to a tax refund of EUR 29,360 thousand which had not yet been collected at year-end. The balance receivable arises from the minimum tax prepayment of 23% of the earnings generated in the period, as established by Spanish legislation. This minimum 23% tax prepayment became applicable when the Parent received a dividend of EUR 134 million in April 2019.

19.5 Tax audits and years open for review

19.5.1 Tax audits

Developments in 2020

- In 2019 the Spanish Tax Agency (AEAT) proposed that the Acerinox Group represent Spain in the OECD ICAP 2.0 Programme ("International Compliance Assurance Programme"), and Acerinox voluntarily agreed to participate.

  ICAP is a voluntary programme for a multilateral co-operative risk assessment and assurance process. It is designed to provide an efficient, effective and coordinated approach in order to give multinational (MNE) groups that are willing to engage actively, openly and totally transparently with greater tax certainty with respect to the activities and transactions within the scope of the programme.

  The Spanish, UK, Canadian and US tax authorities are assessing the Acerinox Group's transactions with related parties in those countries. This programme recognises the tax and transparency best practices governing Acerinox's operations and builds trust among all those participating in the programme.

- The tax audit in Spain of the companies composing the Spanish consolidated tax group for the period from 2013 to 2016 and in relation to VAT, personal income tax and income tax was concluded in 2020. The tax audit resulted in minor adjustments for the Group, as explained below.

- In Italy, following completion of the mutual agreement procedure between the Spanish and Italian tax authorities and the complete elimination of double taxation, the Group submitted petitions to resume the appeals for judicial review to the provincial authorities of Milan on 8 April 2020 in order to extrapolate the treatment ultimately accepted in the mutual agreement to the adjustments made by the tax inspectors that affect other countries. At the request of the Italian authorities, the court hearing initially scheduled for 3 November was postponed, since they proposed that an attempt be made to reach an agreement for the 2007-2013 period in the terms requested by the company. Due to the pandemic and the need for the competent authority to grant final authorisation for the agreement, the negotiations are suffering delays. However, the Group expects to be able to conclude them in the first half of 2021.

- As explained in the consolidated financial statements for 2019, following the signing of the mutual agreement, new tax assessments relating to 2014 were received in Italy, which resulted in an adjustment of EUR 2.3 million to the tax base, also relating to transfer pricing, and an additional adjustment of EUR 512 thousand to the tax base for a provision that the authorities considered to be non-deductible that year, creating a temporary difference deductible in subsequent years. On 25 June 2020, the Group submitted pleadings against those tax assessments to the Milan Provincial Court and also requested the suspension of payment of the tax debt. Also, in October 2020 the Group submitted requests for the elimination of double taxation in both Spain and Italy. Both competent authorities granted the respective requests leave to proceed.

- In Germany, the claims under way, in which the Group company Acerinox Deutschland, GmbH sought to recover EUR 2 million from the German authorities, were concluded. The tax assessments and adjustments received enabled the company to collect the amounts that it had provisioned as tax receivables. At the same time, the tax audit relating to the 2011-2014 period was concluded without adjustments.

  On 14 December 2020, the Company received a notification of commencement of a tax audit relating to the 2015-2018 period. Due to the pandemic, this tax audit is currently suspended.

- In Malaysia, a notification was received from the tax authorities on 22 January 2020 regarding the completion of the tax audit for 2010 to 2013, with no adjustments. This tax audit commenced in January 2015.

- With respect to VDM, on 19 March 2019 a tax audit commenced at one of the Group's subsidiaries (VDM Metals Italia, S.r.l.) for the 2013-2018 period. At the date of acquisition of the VDM Group by Acerinox, the tax assessments had yet to be issued. However, the preliminary report that was issued concluded that they could possibly give rise to adjustments. At the acquisition date, the Group considered this to be a contingent liability and therefore recognised EUR 5.8 million in this connection. Lastly, in November 2020 tax assessments were received with transfer pricing adjustments. The amount payable as a result of these tax assessments totalled EUR 1.9 million plus interest of EUR 232 thousand and, therefore, the Group reversed the excessive provision.

The detail of the status each of the tax audits under way at 2020 year-end, or that were concluded but signed on a contested basis and are currently under appeal, is as follows:

Spain

On 17 October 2018, a notification was received regarding the commencement of tax audits of Acerinox, S.A., Acerinox Europa, S.A.U., Inoxcenter, S.L.U. and Roldan, S.A. for the following taxes and periods:

Income tax	2013 to 2016
VAT	10/2014 to 12/2016
Personal income tax withholdings	10/2014 to 12/2016
Non-resident income tax withholdings	10/2014 to 12/2016

On 12 February 2020, Acerinox Europa, S.A.U., Inoxcenter, S.L.U. and Roldan, S.A. signed the tax assessments on an uncontested basis with respect to all the aforementioned taxes. Also, on 25 June Acerinox, S.A. signed the tax assessments relating to individual taxes on an uncontested basis, as well as those relating to income tax under the consolidated tax regime. The tax assessments resulted in an income tax charge of EUR 110 thousand plus interest of EUR 9 thousand for 2013 to 2016. No penalties were imposed. With respect to VAT, the tax assessments included adjustments under the deductible proportion rule amounting to EUR 220 thousand of VAT payable plus interest of EUR 53 thousand for the whole of the audited period.

On 3 February 2020, the Group company Acerinox Europa, S.A.U. was notified of the commencement of a tax audit relating to import duties and import VAT for 2018. On 15 July the tax assessments were signed on an uncontested basis, without adjustments, bringing this procedure to an end.

On 22 March 2019, a notification was received from the Spanish Tax Agency regarding the commencement of a tax audit relating to import duties, import VAT and anti-dumping duties for 2017 at Acerinox Europa, S.A.U. The tax assessments were signed on an uncontested basis on 18 July, without adjustments, bringing the procedure to an end.

Italy

Acerinox Italia

In 2011 the subsidiary Acerinox Italia, S.r.l. underwent a tax audit for 2007, 2008 and 2009.

Between 2012 and 2014 the tax assessments for the three years were received, primarily indicating transfer pricing adjustments in relation to sale and purchase transactions between the company and the Group's factories. The resulting tax payable amounted to EUR 16 million, plus interest of EUR 3.5 million. No penalties were imposed.

Subsequently, in 2016, 2017, 2018 and 2019, without receiving prior notice of the commencement of tax audits, the Company received transfer pricing tax assessments relating to 2011, 2012, 2013 and 2014, which automatically applied criteria similar to those followed in the previous tax audits. These tax assessments resulted in adjustments to the tax base of EUR 4.3 million in 2011, EUR 4.9 million in 2012, EUR 3 million in 2013 and EUR 2.3 million in 2014, and amounts payable of EUR 1.5 million, EUR 1.6 million, EUR 1 million and EUR 954 thousand, respectively. No penalties were imposed in this case either. The Group lodged appeals against all these tax assessments at the Milan Provincial Tax Commission within the respective time limits, and at the same time requested the suspension of payment of the debts until the end of the procedures. In addition, a request was filed at the Spanish and Italian authorities to eliminate double taxation on the basis of Convention 90/436/EEC, of 23 July 1990. The Group has provided guarantees of EUR 1.5 million to cover the suspension of the debts in Italy. In addition, in December 2018 the request for the elimination of double taxation with South Africa was submitted in Italy in respect of the tax audits under way in relation to 2011 to 2013.

On 3 October 2019, both the Group entity in Italy and the Spanish entities affected by the adjustments were notified of the mutual agreement reached by the Spanish and Italian authorities for 2007 to 2013, which reduced the transfer pricing adjustments initially proposed by the Italian tax inspectors for the Spanish entities from EUR 84 million to EUR 41 million and completely eliminated double taxation. Following the aforementioned agreements, Spain recognised a tax refund of EUR 5.8 million and an increase in the tax losses equal to EUR 5.9 million in tax assets. In Italy, the agreements resulted in the elimination of all the tax losses and, accordingly, the Group derecognised tax assets recognised amounting to EUR 8.3 million. The amounts recoverable in Spain were received on 17 February 2020. The Group nevertheless submitted pleadings in Spain against the execution of the agreements, due to failure to recognise late-payment interest for the refundable amount of EUR 5.9 million.

Although the agreement only extends to the transactions performed between the Italian entity and the respective factories in Spain, the same agreement should technically apply to sale and purchase transactions with third countries. The Group is currently involved in discussions with the Italian authorities to extend the treatment ultimately approved in the mutual agreement to adjustments with third countries. The Group has also requested a mutual agreement in both Spain and South Africa for the elimination of double taxation between the two countries.

On 8 April 2020, the Group submitted petitions to the provincial authorities of Milan to resume the appeals which had been lodged but were subsequently suspended pending completion of the mutual agreement procedures. Discussions with the authorities are ongoing, although the pandemic in Italy has held back all proceedings. A request has been submitted to postpone the court hearing at the request of the Italian authorities, since they have expressed their openness to negotiating agreements relating to the adjustments with third countries for the 2007-2013 period in the terms requested by the company. Due to the pandemic and the need for the competent authorities to authorise the agreements, the negotiations are suffering delays. However, the Group expects to be able to conclude them in the first half of 2021.

At the 2019 reporting date, in view of the uncertainty regarding the outcome of these agreements and based on the opinion of the experts advising it on this matter, the Group had recognised a provision of EUR 11.2 million in the consolidated financial statements, equal to the amount that would be payable in Italy if the treatment agreed by the Italian and Spanish authorities were applied to all the adjustments. This amount includes both tax payable and late-payment interest. This provision is recognised under “Deferred Tax Liabilities” in the consolidated statement of financial position, as established in the IFRIC 23 standard mandatorily applicable from 1 January 2019.

This provision was reviewed in 2020, and the Group considers that it is not necessary to increase the amount thereof, since the agreements are at an advanced stage and it is foreseeable that the amount recognised is sufficient to cover the possible outcome of the agreements.

With respect to the new tax assessments received in Italy in relation to 2014, the Group submitted pleadings against them to Milan Provincial Court on 25 June 2020 and also requested the suspension of payments. Also, in October 2020 the Group submitted requests for the elimination of double taxation in both Spain and Italy. Both requests were granted leave to proceed.

VDM Italia

With respect to VDM, on 19 March 2019 a tax audit was initiated at one of the Group’s subsidiaries (VDM Metals Italia S.r.l.), relating to 2013 to 2018. At the date of acquisition of the VDM Group by Acerinox, the tax assessments had yet to be issued. However, the preliminary report that was issued concluded that they could possibly give rise to adjustments to the tax base. Given the uncertainty regarding the amount payable and the projected schedule of the outflows of economic benefits that would arise from the provision, the Group considered at the acquisition date that this was a contingent liability and, therefore, recognised it in accordance with the standard relating to business combinations (**Note 5.1** describes the detail of the recognition of the business combination).

Following negotiations with the authorities, in November 2020 the tax assessments concluding this procedure, and claiming transfer pricing adjustments for the sales made by VDM Metal International GmbH in Italy, were received. The aforementioned adjustments increased the tax bases in Italy in the 2013-2018 period by EUR 9.5 million. The amount payable as a result of these tax assessments was EUR 1.9 million plus interest of EUR 232 thousand, which has already been paid.

Malaysia

On 20 January 2015, notification was received of commencement of a tax audit at Acerinox SC Malaysia, Sdn. Bhd. in relation to transfer pricing from 2010 to 2013. A notification was received from the tax authorities on 22 January 2019 regarding the completion of the tax audit for 2010 to 2013, with no adjustments.

In the case of Bahru Stainless, on 24 and 28 December 2014 notifications were received regarding the commencement of tax audits in relation to 2010 and 2011. A notification was subsequently issued on 4 March 2015 regarding the extension of the tax audit to 2012 and 2013. At the date of preparation of these consolidated financial statements all the requested information had been submitted. On 23 February 2017, notification was received regarding the resumption of the tax audits for 2010 to 2014, and no additional information has been requested since then.

Germany

With respect to the tax audits relating to 2007, 2008, 2009 and 2010, which commenced in 2011 at the Group subsidiary Acerinox Deutschland, GmbH, tax assessments relating to income tax, the solidarity surcharge and VAT were received on 8 July 2014. The tax assessments mainly determined transfer pricing adjustments to the tax base totalling EUR 58.8 million, arising from sale and purchase transactions between the subsidiary and the Group’s manufacturing companies. No penalties were imposed. The company filed the pertinent pleadings on 8 August 2014.

The tax charge payable in Germany as a result of the tax assessments totalled EUR 2,804 thousand for income tax plus the solidarity surcharge and EUR 489 thousand in interest. In addition, all tax loss carryforwards were eliminated. The aforementioned amounts were paid in 2014. Subsequently, as the adjustments arising from the tax assessments eliminated all existing tax loss carryforwards, the authorities claimed taxes on the results generated in all subsequent years. The amounts paid totalled EUR 8.8 million, which were recognised in Germany as accounts receivable, as they were considered likely to be recovered following the request for elimination of double taxation.

In November 2015 requests were submitted for the elimination of double taxation in both Spain and Germany. Any transfer pricing adjustment for transactions performed with companies resident in Spain is protected by the Convention on the elimination of double taxation (90/436/EEC).

On 5 October 2017, a notification was received regarding the completion of the mutual agreement procedure and the termination of the agreement reached for 2007 to 2010. This agreement led to a 40% reduction in the adjustments relating to transactions between Spain and the German subsidiary. The tax recovered in Spain in 2018 as a result of this agreement amounted to EUR 3.8 million, plus EUR 1.4 million in interest, all of which was recognised as income. The Group also recognised EUR 3.7 million of tax assets recoverable in Spain. With respect to Germany, notices regarding the execution of the agreements reached with Spain were received; however, the agreements did not apply the same criteria to transactions with third countries. This resulted in the recovery in Germany of EUR 6.4 million, which had previously been recognised as an account receivable.

At a meeting held with the German tax authorities on 10 December 2018, it was decided that the agreements reached with Spain as a result of the mutual agreement procedure (MAP) would be extended to transactions performed with third countries, which led to an additional reduction in adjustments, amounting to EUR 1.6 million, in Germany. The Group estimated that it would recover an additional EUR 2 million following the aforementioned agreements. In 2020 all the outstanding amounts receivable were collected and the procedure was concluded. The tax audit relating to 2011 to 2014, which the German authorities had decided to postpone until completion of the outstanding mutual agreement procedures, was also concluded.

A bilateral advance pricing agreement (APA) was entered into between Spain and Germany in 2018, covering the period from 2013 to 2021 and offering the Group full assurance with respect to the transfer pricing policy to be applied to purchase and sale transactions between the Spanish factories and the German subsidiary, thus eliminating transfer pricing risks with Germany.

On 14 December 2020, the Group company in Germany, Acerinox Deutschland, GmbH, was notified of the commencement of a tax audit relating to 2015 to 2018. As a result of the pandemic, the tax audit has been postponed until a future date that has yet to be determined.

Portugal

On 28 April 2020, notification was given of the commencement of a tax audit at the Group subsidiary Acerol, Ltda for income tax relating to 2017. Notification of the conclusion of this tax audit, without any type of adjustment, was received on 25 June.

19.5.2 Years open for review

Under current legislation, taxes cannot be deemed to have been definitively settled until the tax returns filed have been reviewed by the tax authorities or until the statute-of-limitations period has expired.

Spain

Pursuant to the Spanish Income Tax Law, tax loss carryforwards declared in the tax returns for years open for review become statute-barred ten years from the day following the final day of the period established for filing the tax return or self-assessment for the tax period in which the right to offset arose. Once this period has elapsed, taxpayers must demonstrate that the tax loss carryforwards that they wish to offset, and the amount thereof, are appropriate by submitting the assessment or self-assessment and the accounting records, together with evidence that they were filed at the Mercantile Registry within the aforementioned period.

At 31 December 2020 and 2019, Acerinox, S.A. and the companies in the consolidated tax group had all the taxes applicable to them open for review by the tax authorities in relation to the following years:

Type of tax

	2020	2019
Income tax	2017 to 2020	2017 to 2019
VAT	2017 to 2020	2017 to 2019
Customs duties	2019 to 2020	2018 to 2019
Personal income tax withholdings	2017 to 2020	2017 to 2019

Other countries

The other Group entities have the taxes for the years established by their respective local jurisdictions open for review. The directors of the Parent and of its subsidiaries do not expect that any significant additional liabilities will arise in the event of a tax audit.

NOTE 20 RELATED PARTY BALANCES AND TRANSACTIONS

20.1 Related parties

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

- associates accounted for using the equity method;

- key executives of the Group and members of the Boards of Directors of the various Group companies; and

- significant shareholders of the Parent.

Transactions performed between the Company and its subsidiaries, which are related parties, are carried out, from the standpoint of their subject-matter or terms and conditions, in the ordinary course of the Company's business activities and have been eliminated on consolidation. Therefore, they are not disclosed in this Note.

20.2 Related party transactions and balances

The detail of all the related party transactions, which are all performed on an arm's length basis, is as follows. It was not necessary to make value judgements or estimates in relation to related party transactions.

a) Associates

No transactions were performed with associates in 2020 or 2019.

b) Directors and key management personnel

The remuneration received in 2020 by the ten senior executives (2019: nine), who do not hold positions on the Board of Directors of Acerinox, S.A., amounts to EUR 4,063 thousand. Of this amount, EUR 2,442 thousand relate to salaries, EUR 130 thousand to attendance fees, EUR 1,352 thousand to variable remuneration based on the previous year's results and EUR 139 thousand to remuneration in kind. In 2019 the nine senior executives received EUR 4,185 thousand, of which EUR 2,342 thousand related to salaries, EUR 144 thousand to attendance fees, EUR 1,542 thousand to variable remuneration based on the previous year's results and EUR 157 thousand to remuneration in kind.

In 2020 the members of the Board of Directors of Acerinox, S.A., including those who also hold senior executive positions and sit on the Boards of Directors other Group companies, earned EUR 2,431 thousand in fixed allowances, attendance fees, and fixed and variable salaries (the latter based on the previous year's results), of which EUR 1,316 thousand related to salaries and fixed allowances for directors, EUR 637 thousand to attendance fees, EUR 463 thousand to variable remuneration based on the previous year's results and EUR 15 thousand to remuneration in kind. In 2019 the remuneration received amounted to EUR 2,596 thousand, of which EUR 1,391 thousand related to salaries and fixed allowances for directors, EUR 565 thousand to attendance fees, EUR 625 thousand to variable remuneration based on the previous year's results and EUR 15 thousand to remuneration in kind.

There are obligations arising from certain senior executive retirement benefit arrangements amounting to EUR 14.8 million (2019: EUR 13.1 million), of which EUR 5 million relate to the CEO (2019: EUR 4.5 million). In 2020 and 2019 these obligations were duly covered by insurance contracts, to which EUR 1,760 thousand and EUR 1,749 thousand, respectively, were contributed in those years. There were no obligations to proprietary or independent directors of Acerinox, S.A. at 31 December 2020, no advances or loans had been granted to the members of the Board of Directors or senior executives, and there were no balances receivable from or payable to them.

In relation to the multi-year remuneration or long-term incentive (LTI) plan, the terms and conditions of which are detailed in Note 16.1.2, the expense incurred in 2020 in relation to the CEO and senior executives, the balancing entry of which is recognised under "Other Equity Instruments", amounts to EUR 736 thousand, of which EUR 206 thousand relate to the CEO (2019: EUR 861 thousand, of which EUR 241 thousand relate to the CEO).

The Parent's directors and the persons related to them were not involved in any conflict of interest that had to be reported pursuant to Article 229 of the Spanish Consolidated Limited Liability Companies Law.

The Group has taken out a third-party liability insurance policy which covers the directors and senior executives, as well as Group employees. The premium paid in 2020 amounted to EUR 510 thousand (2019: EUR 149 thousand), due to the inclusion of the VDM Group employees.

In 2020 and 2019 the members of the Board of Directors did not perform any transactions with the Company or with Group companies that were outside the normal course of business or were not on an arm's length basis.

c) Significant shareholders

In 2019 Corporación Financiera Alba, a shareholder of Acerinox, S.A., ceased to form part of the March Group and, therefore, Banca March ceased to be a related party for the Group.

The Acerinox Group performed the following commercial transactions either with its shareholder Nippon Steel & Sumitomo Metal Corporation or with other companies belonging to its group:

(Amounts in thousands of euros)

	2020	2019
Dividends	60	236
Sales of goods	1,150	2,092
Trade and other receivables	209	399
Rendering of services	13	144

NOTE 21 AUDIT FEES

The shareholders at the Annual General Meeting held on 22 October 2020 resolved to reappoint the auditors PricewaterhouseCoopers Auditores, S.L. to perform the review and statutory audit of the financial statements of Acerinox, S.A. and its consolidated Group for 2020.

The detail of the fees and expenses incurred for services rendered by the audit firms that audited the Acerinox Group's financial statements in 2020 and 2019, respectively, and their associate firms, is as follows:

(Amounts in thousands of euros)

	2020			2019		
	PWC Auditores, S.L.	PWC Internacional	TOTAL	PWC Auditores, S.L.	PWC Internacional	TOTAL
Audit services	317	1,400	1,717	285	591	876
Tax counselling services	66	19	84	65	9	74
Other audit-related services		41	41		1	1
TOTAL	383	1,460	1,842	350	601	951

The increase in PWC International's audit services is mainly due to the integration of VDM into the Group, which includes, not only the annual fees for the statutory purpose audit of the separate and consolidated financial statements amounting to EUR 478 thousand, but also an extraordinary amount of EUR 350 thousand for the audit of the balance sheet at the acquisition date, and the amended periods to align VDM's financial year with the calendar year of the Acerinox Group.

"Other audit-related services" includes the limited review of the interim condensed consolidated financial statements as at 30 June 2020 and 2019, the report on agreed-upon procedures regarding the system of Internal Control over Financial Reporting (ICFR) and the report on agreed-upon procedures relating to the achievement of the financial ratios required by the Borrowing Base Facility of Columbus Stainless and the ICO in Spain, and other agreed-upon procedures performed in accordance with ISRS 4400 in Malaysia.

The amounts detailed in the foregoing table include the total fees for services rendered in 2020 and 2019, irrespective of when they were billed. Included for the first time in 2020 are the audit services performed at VDM, consisting of the audit of the financial statements at the acquisition date, the half-yearly review, the statutory audit at its September close and the audit at 31 December 2020.

Other audit firms billed the Group in 2020 for fees and expenses for audit services amounting to EUR 210 thousand (2019: EUR 89 thousand).

NOTE 22 EVENTS AFTER THE REPORTING PERIOD

No significant events took place from 31 December 2020 to the date on which these consolidated financial statements were authorised for issue that would affect the authorisation thereof.

Governing Bodies

Composition of the Board of Directors .

Chairman

RAFAEL MIRANDA ROBREDO

Chief Executive Officer:

BERNARDO VELÁZQUEZ HERREROS

Members of the Board:

ROSA MARÍA GARCÍA PIÑEIRO
LAURA GONZÁLEZ MOLERO
DONALD JOHNSTON
FRANCISCO JAVIER GARCÍA SANZ
PABLO GÓMEZ GARZÓN
TOMÁS HEVIA ARMENGOL
LETICIA IGLESIAS HERRAIZ
IGNACIO MARTÍN SAN VICENTE
MARTA MARTÍNEZ ALONSO
SANTOS MARTÍNEZ-CONDE GUTIÉRREZ-BARQUÍN

Secretary of the Board:

LUIS GIMENO VALLEDOR

The Executive Committee

RAFAEL MIRANDA ROBREDO (Chairman)
BERNARDO VELÁZQUEZ HERREROS
ROSA MARÍA GARCÍA PIÑEIRO
FRANCISO JAVIER GARCÍA SANZ
TOMÁS HEVIA ARMENGOL
GEORGE DONALD JOHNSTON
IGNACIO MARTÍN SAN VICENTE
SANTOS MARTÍNEZ-CONDE GUTIÉRREZ-BARQUÍN

Secretary:

LUIS GIMENO VALLEDOR

The Appointments, Remuneration and Corporate Governance Committee

LAURA GONZÁLEZ MOLERO (Chairwoman)
RAFAEL MIRANDA ROBREDO
FRANCISCO JAVIER GARCÍA SANZ
SANTOS MARTÍNEZ-CONDE GUTIÉRREZ-BARQUÍN

Secretary:
LUIS GIMENO VALLEDOR

Audit Committee

GEORGE DONALD JOHNSTON (Chairman)
PABLO GÓMEZ GARZÓN
LAURA GONZÁLEZ MOLERO
LETICIA IGLESIAS HERRAIZ

Secretary:
LUIS GIMENO VALLEDOR

The Sustainability Committee

ROSA Mª GARCÏA PIÑEIRO (Chairwoman)
PABLO GÓMEZ GARZÓN
IGNACIO MARTÍN SAN VICENTE
MARTA MARTÍNEZ ALONSO
BERNARDO VELÁZQUEZ HERREROS

Secretary:
LUIS GIMENO VALLEDOR

Senior Management Committee

BERNARDO VELÁZQUEZ HERREROS
Chief Executive Officer

HANS HELMRICH
Chief Operating Officer

DANIEL AZPITARTE
Integration Director of the High Performance Alloys project

MIGUEL FERRANDIS
Chief Financial Officer

OSWALD WOLFE GÓMEZ
Director of Institutional Relations, Sustainability and Communication

LUIS GIMENO VALLEDOR
Secretary-General

FERNANDO GUTIÉRREZ
CEO of Acerinox Europa & Raw Materials Director

CRISTÓBAL FUENTES
CEO of NAS

JOHAN STRYDOM
CEO of Columbus Stainless

MARK DAVIS
CEO of Bahru Stainless

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