ACERINOX

ANNUAL REPORT 2019

ACERINOX

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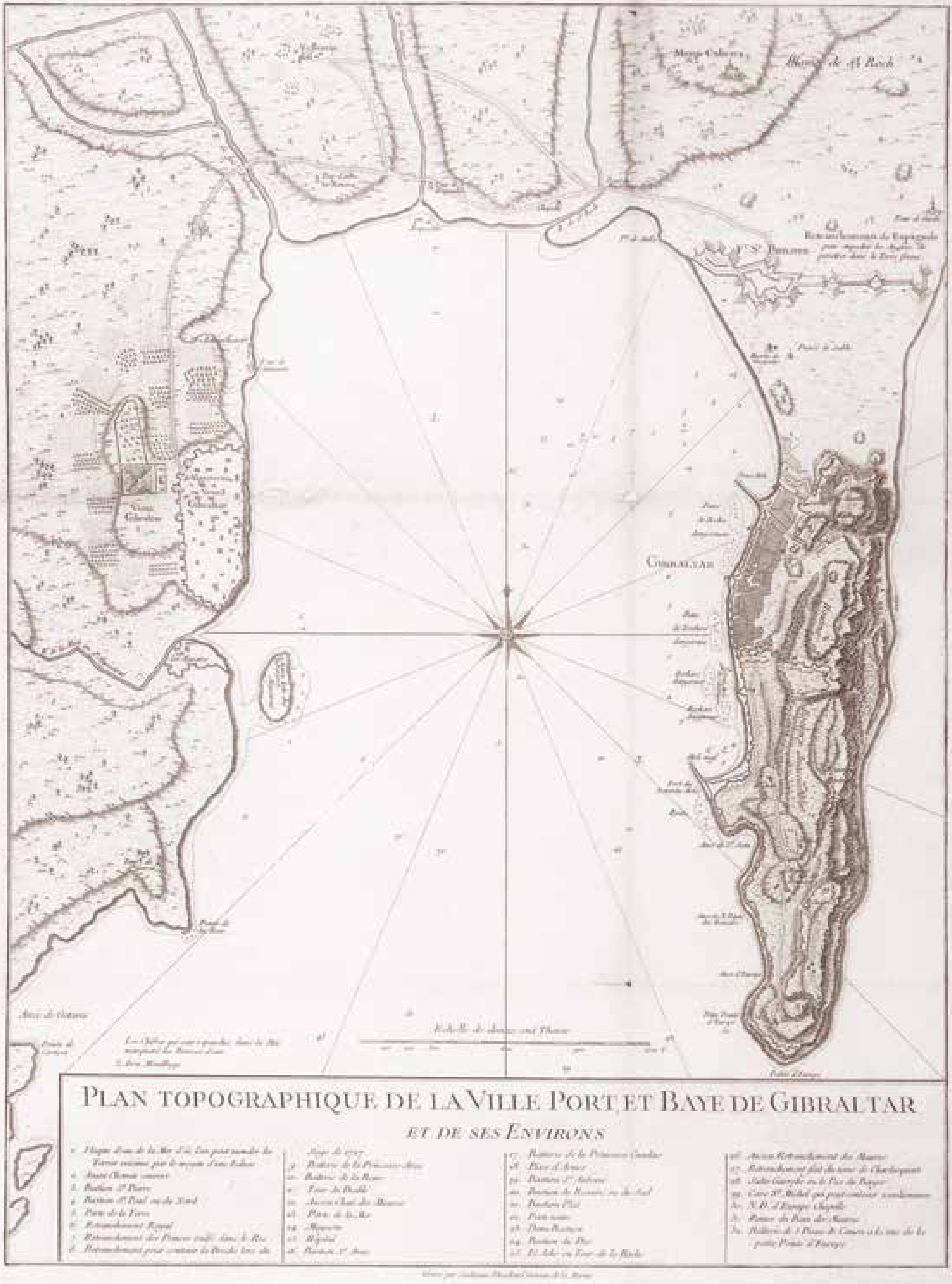
REPORT 2019


PLAN TOPOGRAPHIQUE DE LA VILLE PORT, ET BAYE DE GIBRALTAR
ET DE SES ENVIRONS
GIBRALTAR

Index

Letter from the Chairman

Dear shareholders,

I once again have the privilege of addressing you to inform you of the activities carried on by Acerinox in 2019, the results obtained and the context in which this occurred.

It goes without saying that, firstly, I would like to mention the extraordinary situation in which we are living as I write this letter. We must deal with this situation, manage it with prudence, intelligence and courage, and face it with the total commitment of everyone.

I am of course referring to the pandemic caused by Covid19, which is affecting us individually and economically in a significant way. However, despite the severe impact this situation is having on the world, and particularly on Spain, I am certain that we will be capable of overcoming it with endeavour and sacrifice.

I would like to begin this letter by offering the solidarity of Acerinox and myself with all families who have been directly affected, and we send them our most sincere and loving embrace.

For this reason, and for these families, I would like to take this opportunity to call for unity and solidarity among us all to enable us to overcome together the human and economic impact that this situation will have on our society, so we can return to normality, stability and growth as soon as possible.

Everyone is aware that the situation is very severe and worrying; it is putting from our health to the economic stability of companies and states at risk, and it is also altering our way of life, our habits, the way in which we engage with others, work and even how we enjoy ourselves, our families and our friends.

Now, more than ever, our capacity as a company and the values that shape it are being put to the test, so we must be a benchmark, ensuring, as we always have, to protect the health and safety of our workers whilst setting an example of endeavour, efficiency, commitment, sense of duty, work and tenacity. All this will enable Acerinox, our company, to continue progressing and leading our sector.

Results of Acerinox

2019 was a year marked by a very complicated macroeconomic environment; the economy was already showing signs of a slowdown before the progressive global hiatus caused by coronavirus. However, according to data from the IMF and the World Economic Forum, the global economy grew by 2.9% in 2019 and, before the Covid-19 crisis, was expected to grow by 3.3% in 2020.

Among the markets, worthy of mention is the rise of the Chinese and Indian markets, with growth in 2019 of 6.1% and 4.8%, respectively, and 2020 forecasts of 6% and 5.8%, respectively. These two countries *recorded growth percentages considerably higher than the western markets, with 2.3% growth in the US and 1.2% growth in the Eurozone, and 2020 forecasts of 2% and 1.3%, respectively. Europe's economic powerhouse, Germany, grew by just 0.5% in 2019 and is forecast to grow by 1.1% in 2020.*

In Spain, the growth forecast for 2020 was reduced to 1.6%, having ended 2019 with an increase of 2.0%, growth above the European average. However, according to the OECD's estimates, the country still has certain structural imbalances, such as an unemployment rate of 15%, an uncontrollable public deficit, public debt of 97%, a middle class that has seen its purchasing power decrease in recent years and low private savings.

Despite such a complex setting, although with positive expectations for 2020 before the crisis in which we are immersed commenced, Acerinox achieved a commendable adjusted EBITDA of €402 million, and generated notable cash flows of €231 million, which, for another year, enabled the Group to maintain its investments, with investments in fixed assets totalling €128 million, reduce net debt to an 18-year low of €495 million and increase shareholder remuneration by 44%, allocating €184 million thereto.

These are positive results if we take into account the conditions under which they were achieved. The overproduction in China had a crucial impact on prices in the Asian and European markets, despite its volume decreasing in the last year. Despite the safeguard measures imposed by the European Union, imports continued to access the European market, saturating its capacity and resulting in prices falling at year-end. The exception to the aforementioned, as in prior years, was the US, a market that, despite also being influenced by macroeconomic uncertainties with a drop of 10% in apparent consumption, performed better than the others did with basic prices remaining stable.

Nevertheless, Acerinox achieved the second highest billings in the last decade, €4,754 million, only behind the €5,011 million recognised in 2018. The reported EBITDA, amounting to €364 million, includes the adjustment of €38 million relating to the provision for the labour force adjustment plan in the Acerinox Europa factory.

In 2019, the Acerinox Group felt obliged to make a series of strategic decisions that were particularly significant for its results. At year-end, very conservative projections were made for the coming years, in view of the economic and other uncertainties that could have an effect on overall economic growth. As a result, the company decided to recognise impairments of €98 million in our Bahru Stainless plant, and an impairment of €68 million of the goodwill generated from the acquisition of Columbus Stainless in 2002.

Additionally, impairments of €61 million were made to the tax credits as a result of Spanish legislation. None of the three cases gave rise to cash outflows; however, they did affect the Group's results, giving rise to a loss after tax and minority interests of €60 million.

Acquisition of VDM

There is no doubt that the news for which 2019 will go down in the company's history is the agreement to purchase VDM Metals, world leader in the production of special alloys with production plants in Germany and the US.

This acquisition enables us to diversify towards sectors with greater added value, and offers us the opportunity to grow in new applications within the aerospace, chemical, medical, hydrocarbon, renewable energies, water treatment and emissions control industries, among others.

Upon obtaining all the authorisations from the competition authorities, we proceeded with the closing of the transaction, having incorporated this company into the scope of Acerinox. I would like to take this opportunity to give the warmest welcome to our colleagues at VDM Metals, in whom we have placed our trust to help us continue growing as the efficient and competitive company that we are.

Lastly, I would like to emphasise that the acquisition took place under very favourable conditions for Acerinox, with VDM Metals being valued at €532 million, of which €310 million will be paid and €57 million will be assumed in debt, representing a Company Value/EBITDA of 5.5 times before synergies.

Excellence 360

As you can see, 2019 was a particularly intense and exciting year thanks to the decisions made, the new paths taken and the market conditions.

We cannot face challenges of this scale without applying new technologies and Digital Transformation systems. Together with Sustainability, Efficiency and Excellence, this is one of the strategic fields on which our growth plan is founded in order to manufacture, distribute and sell stainless steel in an even more competitive and efficient way, meeting the needs of our customers and expanding the application of our products.

To unify and reinforce the aforementioned, we launched Excellence 360º. It is a plan that combines the Group's various Digital Strategy projects with the traditional Excellence Plans. It is an ambitious programme with which we expect to gain recurring returns of €125 million from 2030 onwards. In 2019 alone, we obtained savings estimated to have totalled €24 million.

Sustainability

Acerinox's vision is to be a sustainable company in the long term; therefore, we have integrated this concept into the daily tasks of our business. We promote and are committed to sustainability in its broadest sense: economic sustainability together with social and environmental sustainability, assuming this philosophy recently developed in the business world as our own, with which the ultimate goal of the company must be the appropriate balance between these three concepts.

In 2019 this need was met through the creation of a Sustainability Department, which was set up to establish the company's strategy in this connection and respond to the requests for information from our Stakeholders, society in general and the media.

As is the case in so many other areas, Sustainability is an area in which Acerinox was already leading the sector, as demonstrated by the fact that the Group records 30% less emissions than the sector average. However, we want to go further and encompass more processes. We have reaffirmed our commitment to climate neutrality; we form part of the world's most stringent sustainability indexes (such as FTSE and GRI, to which we report our activity) and we have prepared the Sustainability Report with the greatest scope and detail in the company's history, analysing extensively the production plants and the Group's parent in four large areas: Social, Products, the Environment and Health and Safety.

I invite you to read carefully the Sustainability Report, given the vast amount of information it contains.

Acerinox shares

The markets performed positively in 2019 following the crash suffered in the final months of 2018, which were significantly influenced by the geopolitical crises occurring during the year, such as the trade war between the US and China, the UK's exit from the European Union and the monetary policies established by the world's major central banks.

Performance of the Acerinox shares was inconsistent during 2019, reaching their lowest value for the year on 15 August, from which date it rose until year-end by 43%, due mainly to the positive reaction from the markets to the third quarter results issued in November and the agreement to acquire VDM. Lastly, our shares increased by 16% at year-end, outperforming the Ibex 35, which grew by 12%.

Shareholder remuneration increased by 11%, from €0.45 per share to the €0.50 paid in 2019 through the payment of the €0.30 dividend plus the payment of €0.20 with a charge to the share premium.

Furthermore, the share capital of Acerinox was reduced by €1,380,337.50 through the cancellation of 5,521,350 treasury shares, as a result of the implementation of the First Share Buyback Programme approved by the Board of Directors.

Shareholder remuneration increased by 44% as a result of adding the dividend to the share premium and to the amount allocated for the cancellation of the treasury shares.

Corporate governance

The Board of Directors continues to believe that the company's corporate governance is a fundamental element for its management, and strives to develop all aspects thereof according to its best practices in order for the company to be recognised in the markets for its excellence.

Accordingly, it is worth mentioning that the Board of Acerinox is one of the most diverse in the Ibex 35, since it is comprised of four different nationalities and women make up 23.7%, with a commitment to reach 30% as soon as possible. Board members have extensive experience in a wide range of fields, such as industry, finance, the public sector, technology and universities.

In 2019 the governing bodies met a total of 33 times, with both the board and its committees increasing the number of sessions, while the quantity and quality of the information reaching these bodies has improved.

I would like to draw attention to the following most significant developments occurring in 2019:

- *The core activity of the Executive Committee of the Board of Directors focused on analysing the company's strategic opportunities and operations, specifically the VDM transaction and Acerinox's Strategic Plan.*

- *The Audit Committee has once again remained very active in 2019, focusing on the detailed analysis of the financial statements, the relationship with the internal and external auditors, the systematic analysis of the company's risks and the monitoring of the compliance function.*

- *The Appointments, Remuneration and Corporate Governance Committee dedicated it's time to the tasks relating to the appointment of board members and of the senior management team and to the remuneration policy thereof, as well as the promotion and development of talent management* *within the company. It also worked actively in the scope of Corporate Governance, preparing a proposed modification of the Appointments Committee section of the Board of Directors Regulation, promoting the approval of a new General Policy focused on anticipating and regulating conflicts of interest, developing the new competency matrix approved by the board, leading the assessment of the board and its committees, and monitoring Acerinox's Sustainability Plan.*

Coronavirus crisis

In the first four months of 2020, we have been experiencing an unprecedented and extraordinary situation, the global crisis caused by the pandemic originating in China last December and which has spread around the world.

This pandemic is affecting the five continents, virtually all countries; but it is specifically affecting, and with unprecedented harshness, Europe, the US, and even more specifically at this time our country, Spain.

The human tragedy we are experiencing is unparalleled by any other situation through which our generation has had to live, and for this reason I wanted to begin this letter by demonstrating our solidarity with all those who have been affected by these tragic circumstances. I also think now is the moment to thank all those in our society who are on the front line of this battle for their sacrifice, commitment, efforts, and ultimately their work; we are all facing one of the worst moments in recent history.

This health crisis and the strict confinement and economic activity hiatus measures that had to be implemented, will lead to a major economic crisis with incalculable consequences for the global economy, for the economies of regions in which we operate and, naturally, the Spanish economy.

Stock exchanges around the world have anticipated historical declines, with a high degree of volatility and a global recession in spite of the announcement of multi-million stimulus programmes and aid deployed by Institutions, Governments and Central Banks.

Despite the multitude of analyses currently being performed, it is difficult to anticipate how severe the recession will be, how long it will last, how close the recovery is or whether it will be a "V" or "U" bounce back. What we can anticipate are very difficult times and we must prepare ourselves.

I would like to assure you that at Acerinox we are prepared for this expected difficult situation, with the conviction that if we are prepared for the worst, we will be prepared for more benign situations.

In these circumstances, we recognise that there are three very important things for which we must care. Firstly, and above all, the health and safety of our workers, for which we have implemented strict operating protocols. Secondly, which is key, is to look after the cash flows, the liquidity of the company, since looking after this means we control the fundamental elements of the business, such as sales, costs, working capital, etc. Fortunately, we can say that Acerinox has a healthy liquidity position thanks to its prudent financial policy, which will enable the company to withstand extreme scenarios that it may have to face. Thirdly, we must preserve unity, commitment and cooperation within the company. The organisations are demonstrating their worth and are rising to the challenge, and at Acerinox there is no doubt that we will rise to the occasion, as we already demonstrated in the last crisis.

We are a global company with a presence in many markets and with an excellent product, which will continue to be required in the growth process necessary after this crisis.

Acerinox has a much higher fundamental value than that reflected by the current market price, which is affected by the current situation and not by its fundamentals. We are certain that we will emerge from this difficult situation stronger, and that with our current situation and the incorporation of VDM, the time will come when the markets recognise and reflect the intrinsic value of our company.

Before concluding, I would like to thank all those that form part of the Acerinox Group for their efforts and commitment to the company, with which I know they have a great feeling of closeness and belonging. I would like to send a special thank you to our executive team, led by the Chief Executive Officer, which is the backbone of our company. I would, of course, also like to thank the Board of Directors, which constantly takes care of the general interests our company and of our shareholders.

I would like to end this letter by reaffirming the message of support and unity I transmitted at the beginning. We will overcome this extraordinary and emotionally difficult situation with commitment and sacrifice among everyone, with each and every one of us working hard from the position we are in.

Kind regards,
Rafael Miranda Robredo
Chairman of Acerinox

April 2020

Letter from the Chief Executive Officer

Dear shareholders,

I am honoured to address you once more to inform you of the results achieved by Acerinox in 2019 and the context in which these results were obtained, as well as the efforts we are making to maintain our Company at the forefront of the stainless steel sector.

Evidently, one of the events subsequent to 2019 year-end, the COVID-19 coronavirus pandemic, its terrible impact on health, the mortality and its devastating consequences on the global economy, have completely overshadowed the events occurring in 2019, to which it is hard to pay attention and remember. However, I shall focus on the business carried on by Acerinox in 2019, the results obtained and the other relevant matters of our activities, if only to leave a record so that we can remember the year once we have overcome this severe crisis.

As always I will explain our approach, as a Spanish and global industrial company, which is already a challenge in itself in a tremendously competitive world, and a company that is committed to the importance of the industry as a guarantor of quality employment, development and the welfare state. A country without industry, or a Europe without industry, will always be subject to third party interest, and they would find it difficult to defend our lifestyle model. Industry was lacking in Spain during previous crises, but I am confident that this time we will learn that we are also necessary for sustainable development.

In order to explain Acerinox's 2019 results, three key factors that have marked our activity must be mentioned: firstly, the trade war between China and the US, which has increased market uncertainty and volatility; secondly, the slowdown of the main consumer markets, perhaps as a result of the aforementioned but also due to the economy's regular cycle; and lastly, the excess stainless steel production capacity.

It is clear that the rapid development of the Chinese economy has altered global trade flows. China has become the world's factory and it is incredible how fast the country's cities and population are developing. Depending on the approach taken, this reality could be an opportunity, but it could also be a threat. It is seen as a threat by the US, which has gone from being the first country to encourage production with very cheap labour in China and relocate a significant portion of its industry, to seeing how, with this process, they were also exporting employment and a part of their wealth. The decision to reverse this process led to the trade war between the two greatest powers, which has only just begun. At first it was named the "steel war" due to the tariffs imposed to protect the US steel industry; however, negotiations are taking place over a wide spectrum and are attempting to even up the trade balances whilst also trying to defend local employment and supply. Europe must determine its role in this game as we run the risk of being excluded from making critical decisions, since international organisations are losing influence over direct negotiations between two powerhouses and bilateralism is gaining ground in international relations. In this regard, the economy, stock exchanges and also stainless steel markets have moved in line with the declarations made by the leaders of *both countries and the possibilities of agreements, which would bring stability to very volatile markets that are constantly on high alert due to the uncertainty and the lack of visibility.*

Additionally, and perhaps as a result of this uncertainty, we saw how the real economy slowed down in line with the trend that began in the third quarter of the previous year. Following a slight upturn in the first quarter of 2019, the gross domestic product of the main economies declined every quarter to a two-year low in the fourth quarter of 2019. We have always affirmed that the stainless steel sector is very cyclical and anticipates the economic cycles, and we have had two consecutive years in which apparent consumption in Europe and the US has experienced negative growth. This gave us hope for a possible recovery in 2020, which regrettably will not occur as a result of the global crisis caused by the spread of coronavirus.

Lastly, I would like to mention the third and final key factor, the worldwide excess stainless steel production capacity, which amplifies all events and has led to the lowest sales prices in history being established for our materials. Since 2010, when I took on the role of Chief Executive Officer of Acerinox, I have been drawing attention to this problem and to the proliferation of factories in China under the country's strategic plans and without taking into consideration the laws of international markets. If the Chinese manufacturers located in Indonesia, arising as a result of the so-called Silk Road or "One Belt One Road Initiative", are added to this country's production, in 2019 it accounted for 61% of global production, creating severe distortions in all international markets. Since 2000, when China accounted for just 3% of global production, all growth in the production of stainless steel has been driven by China, preventing the development of the other manufacturers in market-oriented economies and compelling us to compete thanks only to the efficiency of our plants and to the continued improvement of our facilities and our costs, since we are unable to increase production due to the low profitability of projects and we cannot grow with corporate operations as a result of the sector's high concentration.

Logically, these circumstances have led to the intensification of global trade regulatory measures, with each country attempting to defend itself against unfair trade practices. In the stainless steel industry there are just seventeen countries with melting shops, of which sixteen have trade measures in force, either import or anti-dumping duties. Only Japan maintains an open market since it is protected by technological barriers that make it difficult for other manufacturers to penetrate this country's market; however, this also prevents Japanese manufacturers from being internationally present given their competitive disadvantages.

According to our estimates, which we have based on data from the International Stainless Steel Forum (ISSF), in 2019 global stainless steel production grew by just 2.9%, whereas the cumulative growth rate in this century is 5.7% per year. Only China and India are thought to have grown, by 10.1% and 5.2%, respectively, whilst production in developed countries has declined significantly: -7.9% in Europe, -7.6% in the US and -9.7% in Japan. In other words, even during a year of economic slowdown, Chinese manufacturers increased production, causing a tremendous strain on the decrease in prices in all international markets and forcing traditional manufacturers, including Acerinox, to reduce production.

Our melting shop production, totalling 2.23 million tonnes, was 8.6% lower than in 2018; hot rolling production, totalling 1.95 million tonnes, was 8.0% lower; and cold rolling production, totalling 1.61 million tonnes, was 8.3% lower than 2018. All our factories recorded lower activity levels compared to 2018, controlling production to guarantee positive cash flow generation and a reduction in debt.

Performance of the Acerinox Group companies was not homogeneous due to the significant differences in prices in the main markets in which they operate. As mentioned, the significant pressure on prices due to exports from China and Indonesia have led to prices falling to record lows in the surrounding countries, and has forced these neighbouring countries to place pressure on the remaining international markets, especially *on those that have insufficient protection measures. This is the case for Europe, where the safeguarding measures established by the European Commission have clearly proven to be insufficient, primarily because they were designed for a growing market and not for the situation in which we find ourselves, where the apparent consumption of stainless steel flat products fell by 4.1% according to our estimates. As always we have been drawing attention; Europe is not capable of reacting as swiftly as current events require, and it is not flexible since its governance system is complex and decision making requires slow bureaucratic processes.*

We must bear in mind that the safeguarding measures were approved following the US government's decision to impose tariffs of 25% on steel imports and to avoid the deflection to Europe of the materials that were being exported to the US. After establishing the first provisional measures in July 2018, the definitive measures were adopted in February 2019, establishing country quotas based on the average imports between 2015 and 2017. Once the quotas have been exceeded, a tariff of 25% would be applied; however, this has not occurred since the measures were sufficient, maintaining the market penetration of imports at approximately 29%.

Given this situation, prices in Europe have come closer than ever to Asian prices and have reached historical lows. Furthermore, in a declining market significant material stocks have accumulated as importers tried to anticipate the enforcement of quotas. These circumstances have profoundly affected the results of three of our factories for which the European market is very important: Acerinox Europa, Columbus and Bahru Stainless. Columbus also suffered from the weakness of the South African market, which fell by 10%, and Bahru Stainless, located in Malaysia, had to compete in South-East Asia, the region with the world's lowest prices.

On the other hand, our US factory, North American Stainless (NAS), benefited from the 25% tax duty in the US, where we are the market's major player with a market share of almost 35%. Despite the sharp decline of 9.3% in apparent flat product consumption, the reduction in imports to 14.5% of the market share has enabled US manufacturers to act by controlling their production to guarantee price stability. With a more stable market and the significant cost reductions we are achieving, NAS performed more than satisfactorily and was the real driving force behind the Group's results.

It is thanks to these intense cost reductions that Acerinox's quarterly results have experienced a positive trend, unlike the economic situation. Quarterly EBITDA rose from €90 million in the first quarter to €97 million in the second quarter, €103 million in the third quarter and €112 million in the fourth quarter, which was subsequently reduced to €74 million as a result of the adjustments made, which will be explained hereinafter. Our billings of €4,754 million, although 5.1% less than 2018, is the second highest of the decade.

I would like to highlight that in this environment we have generated very significant operating cash flows of €359 million, which enabled us to reduce our debt by €57 million to €495 million, after having invested €152 million, increased dividend payments by 11.1% to €0.50 per share and after having repurchased shares for the subsequent write-off thereof totalling €49 million.

This prudent strategy of prioritising cash flow generation and debt reduction, which was just 1.2 times EBITDA at year-end, and the strength of our balance sheet will be vital in addressing the challenges we face, from the acquisition and integration of VDM to overcoming the unexpected economic crisis in which we find ourselves as I write to you.

Prudence and pre-emption have also led us to carry out significant adjustments at year-end, which will improve our situation in the future. Only one of the adjustments made affects our EBITDA, the provision for the cost of the labour force adjustment plan, necessary to reduce the workforce by 215 at Acerinox Europa and improve the factory's competitiveness. This adjustment had an impact of €38 million and did not produce a cash outflow in 2019.

The remaining adjustments, which did not give rise to a cash outflow, were the impairments made in Bahru Stainless amounting to €98 million, and the impairment of the goodwill of Columbus amounting to €68 million. Similarly, as a consequence of changes to Spanish tax laws regarding the application of prior years' tax loss carryforwards, impairments were made on the tax credits amounting to €61 million. I would like to insist that none of these extraordinary and non-recurring impairments gave rise to any cash outflows. Following all these adjustments, in 2019 EBITDA amounted to €364 million, 24% lower than 2018, and a loss after tax and minority interests of €60 million was recognised, compared to a profit of €237 million in 2018.

In 2019, the value of Acerinox's shares increased by 16%, and exceeded 12% of the Spanish IBEX-35 index, due mainly to the boost received following issuance of the results of the third quarter and announcement of the acquisition of VDM, which I will explain hereinafter.

At Acerinox we have always opted for maximum efficiency and process optimisation to maintain competitiveness and our organic growth strategy; however, this growth strategy has been hampered due to the aforementioned excess production capacity. As a result, we have had to put on "standby" our plans to expand in Malaysia, where the construction of a hot-rolling mill and a melting shop were planned in order to complete our integrated manufacturing project, in line with the model of our other factories.

Thus, in recent years organic growth has been focused on upgrading equipment, modernising production processes, investing to improve the environmental impact and continually improving costs. Accordingly, we have successfully undertaken the most recent investments, a rolling mill and a bright annealing line in the US, and another rolling mill and a state-of-the-art annealing line in the Spanish factory.

We have also developed the Excellence 360 plan, in which we have unified our traditional plans of excellence with the improvements that we are already obtaining from applying new digital technologies. We have merged both projects to create our digital strategy since, in a commodities sector like ours, success is based on competitiveness and that always depends on process efficiency, productivity, supply chain optimisation and service quality.

Incorporating more sensors at the critical points of our equipment will add a large volume of data, and the mass analysis thereof will help us to understand and control better our processes, anticipate quality problems and faults and, ultimately, improve our productivity and our efficiency. Furthermore, demand forecasting will enable us to shorten and obtain greater flexibility in the supply chain, react faster to changes in the market and reduce our working capital.

During its first year of implementation, the Excellence 360 plan provided us with annual recurring savings that we have quantified at €24 million. We had planned to achieve progress of 19%, and we achieved 20% of the objectives set for five years, which will provide improvements of €125 million per year to our statement of profit or loss. Undoubtedly, this is an ambitious project on which our success in the future largely depends.

Since 1970, when Acerinox was founded, we have always held these concepts for continuous improvement in our DNA. However, in such a competitive environment, it is not possible to depend solely on cost reductions as, although they are absolutely necessary, they have a limit and this is something that we can never permit, limiting our growth. We must reinvent ourselves in order to maintain our enthusiasm and success in the long term and remain at the forefront of the sector.

To this end, in 2019 we worked intensively, and this analysis and endeavour gave rise to the acquisition of the German company VDM Metals, world leader in the manufacture of special alloys. With this acquisition, Acerinox opens the door to a different sector, one of high added value and cutting-edge technology, which *is complementary to our traditional market. With this transaction we hope to develop significant synergies, since VDM is not only the world's leading manufacturer, it also has the most advanced research and the best reputation among its customers.*

The aim is to not only add the results of a fantastic Company to our financial statements, or stop at the synergies we have identified. The aim is to make VDM our special projects division, with which we will help very developed industries and industries of the future to select the best materials from the widest range of products or develop alloys that are tailored to their needs. In doing so we will add value to Acerinox's traditional products and we will situate ourselves as the best option for advanced tailor-made solutions. In other words, we will lead in the supply of high-alloy materials for their use in very aggressive and highly demanding environments in sectors such as the aerospace, energy, automotive, recycling and water treatment sectors, among others.

We are incorporating into our Group the most advanced technology in the sector in the design and industrial development of special alloys, we are incorporating significant patents and access to more sophisticated and exacting consumers and we are stepping into the future with the most innovative processes, such as powder metallurgy, which is the basis for the three dimensional printing of metallic materials.

VDM Metals has its headquarters in Werdohl, Germany, and has 7 productions plants, 5 in Germany and the remaining 2 in the US. VDM Metals has almost 2,000 highly-qualified employees and, with the exchange of experiences and a mind open to learning new ways of doing things, we will be able to take a significant step in terms of the excellence of our operations. In 2018/19 financial year, which ended 30 September 2019, VDM Metals recognised sales amounting to €852 million and EBITDA totalling €97 million. The company was valued at €532 million, and in March 2020 Acerinox disbursed €310 million to purchase all the ownership interest in the company, having received the necessary authorisations from the European and US competition authorities. The ratio of the company's valuation in relation to its EBITDA is 5.5 times before synergies, which is undoubtedly advantageous and creates value for our shareholders. We are enthusiastic about this project, which marks a before and after in Acerinox's history at a time when we have reached a significant milestone, the year 2020 when we will celebrate the company's 50th anniversary.

Henceforth, we will have two strategic pillars to develop, on the one hand, Excellence, and on the other, Value Creation. These are two very solid and closely related pillars, which can only be sustained by building them on our traditional financial strength that has enabled us to tackle this transaction with relative ease.

However, to achieve strategy and success for Acerinox in the long term, we must complete our project with a strong commitment to sustainability and the circular economy. We manufacture a remarkable and modern material with a growing scope, and which has significant possibilities to expand into new areas of use, due mainly to the lowering of its costs given the demanding competition and the advances achieved in its industrial production. We have always tried to explain the advantages of stainless steel thanks to its useful life, its ability to be recycled endlessly and its low maintenance, which makes it unbeatable when taking into account the life cycle cost of the products manufactured therewith. Henceforth, we will also complement our range of products with special alloys that resist in circumstances where stainless steel properties reach their limits.

When society finally becomes aware of the fact that using and discarding and abusing the planet's resources will only lead to disaster, we must be capable of valuing the use of environmentally-friendly materials, in the same way that we will value the companies that minimise their waste, collaborate actively with society and guarantee quality employment and the professional development of its employees. If this is the path that the developed society, and particularly the European society, has chosen, there is no doubt that responsible purchasing and the appreciation of responsible companies will be the logical consequence of this process in order to sustain our life model.

Accordingly, Acerinox has always actively worked to recycle its waste and use it in other industries within the circular economy, and we also try to minimise our consumption of energy and all other resources. We manufacture a material that is 100% recyclable indefinitely, and more than 90% of our production is obtained from recycled materials, mainly scrap. Being more sustainable also leads to being more competitive and, therefore, we must be capable of introducing our sustainability objectives into our Excellence 360 plan in order to set a truly comprehensive objective. To expand and value our efforts, in 2019 we created the Sustainability Department, which will set new objectives and will monitor their achievement.

We have also worked to improve the lives of our human capital, by reaching agreements of a social nature in our main workplaces and expanding the training plans, and we have achieved the best accident rate in the company's history. We actively collaborate with universities and vocational training centres and, as a result of these efforts, we attract a substantial number of young people to our team since, during their scholarships and collaborations, they gain knowledge of the wide selection of jobs offered by Acerinox and of the possibility of pursuing a comprehensive career with us.

As we approach our fiftieth birthday, we must look back in order to learn from our experiences and set ourselves new goals. We are the successors of a generation that built and developed a company that is now an international benchmark for the steel industry, a generation to which we feel indebted. We continue to lead our sector, being one of the most global Spanish companies, with its decision-making centre in Spain, and we are paving the way in the most modern strategies of good governance, aware of the fact that good governance boosts our position in investors' preferences, makes us proud of what we do and enables us to attract talent to guarantee continuity and the future.

There is no time like the present, close to reaching half a century of existence, to seek new avenues of growth, which will enable us to continue generating value and enthusiasm within this magnificent group of people that I have the honour of leading, all of us who work in Acerinox. You would undoubtedly find it difficult to encounter a company with a human team as capable, attuned and committed as that of Acerinox. It at least makes me feel very proud of my work and admit the privilege I have to work for all of you and for all of those that, in one way or another, are associated to our Group.

I would like to end by thanking you for the trust you place in Acerinox, and commit myself to making every effort possible to strengthening the value of our Company. I would also like to thank our suppliers, customers, institutions and financial analysts for the excellent treatment and friendship shown to us. Naturally, I cannot thank enough Acerinox's human team and, especially, my closest associates, who have made a colossal effort this past year, demonstrating their profession, disposition and commitment. I am certain that, with such support, we will continue to grow and we will remain the international benchmark for the stainless steels sector.

Kind regards,
Bernardo Velázquez
Chief Executive Officer

April 2020

Management Report

Our Figures

MELT-SHOP PRODUCTION
2,231
millions of Mt

REVENUE
4,754
million Euro

GROSS OPERATING RESULT / EBITDA
364
million Euro

NET RESULT
-60
million Euro

INVESTMENTS
152
million Euro

REMUNERATION
0.50
Euro / share

SHARE PRICE AT END OF YEAR
10.05
EUR

Milestones 2019

28 January

A student from the University of Cádiz wins the third edition of the Acerinox awards

February 28

Acerinox presents the best results of the last decade with profits amounted in 237 million euros

05 March

Acerinox launches Excellence 360°, a pioneering plan that will involve returns in EBITDA of 125 million euros in 5 years.

April 11

The Acerinox Shareholders Meeting approves a dividend increase of 11%.

13 May

Acerinox obtains 33 million euros of profit in the first quarter of 2019

June 30

Acerinox announces new appointments in Senior Management in the following areas: Strategy, Sustainability, Institutional Relations and Communication, as well as a new CEO at Bahru Stainless.

26 July

Acerinox presents the results of the second quarter with a profit, after taxes and minorities, which amounted to 37 million euros.

September 26

The Board of Directors approves the realization of a purchase offer to the company VDM Metals, from Germany.

26 October

Acerinox obtains 103 million euros of profits in the first three quarters of the year.

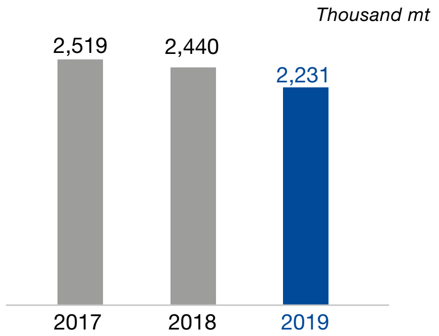
November 8

Acerinox announces the acquisition of VDM Metals after reaching a purchase agreement with Lindsay Goldberg Vögel, pending authorization by the authorities.

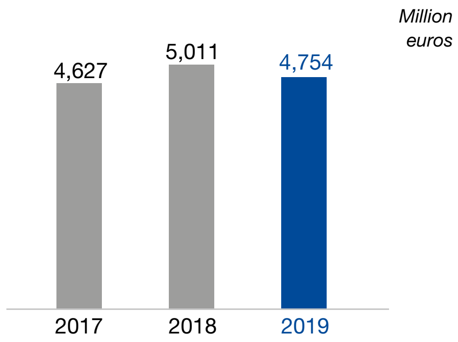
3 December

Acerinox ratifies the commitment, announced by Unesid, of climate neutrality before 2050.

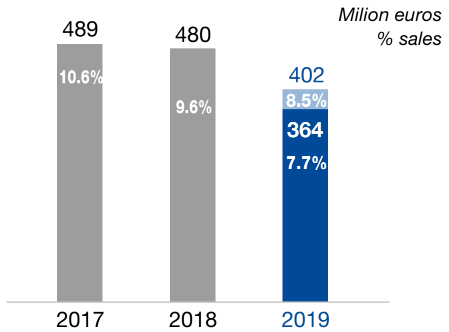
Melting Shop Production



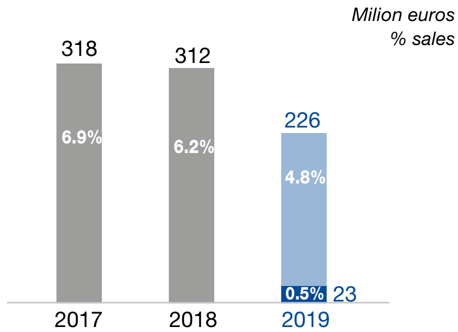
Net Sales



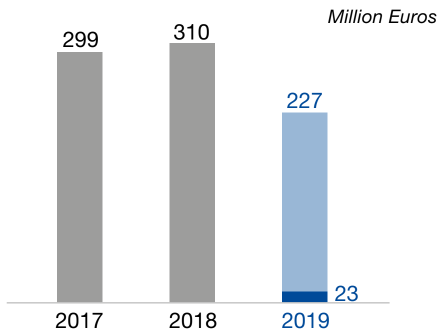
Gross operating result E.B.I.T.D.A.



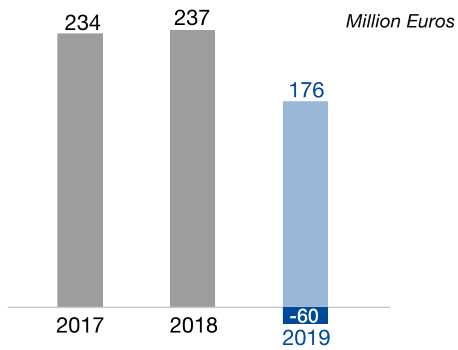
Net operating result E.B.I.T.



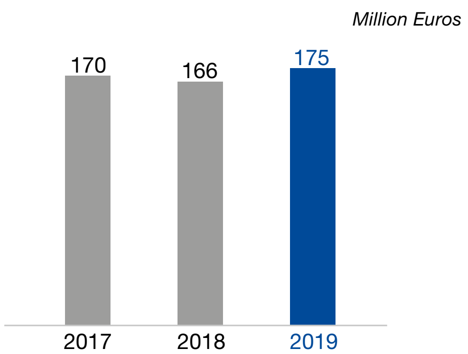
Result before taxes



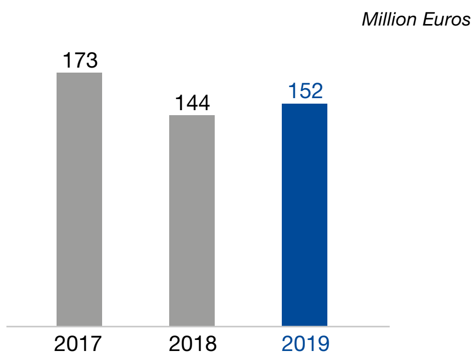
Net result



Amortization



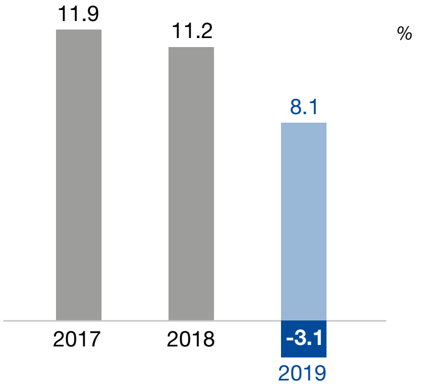
Investments



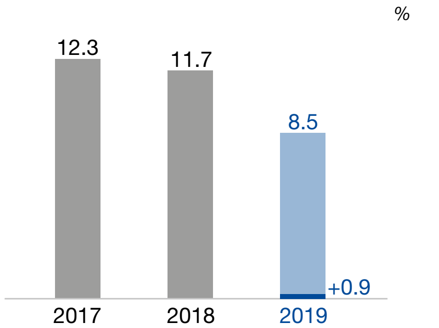
Reported Results *Adjusted Results*

**Light blue bars correspond to the adjusted without deterioration and ERE*

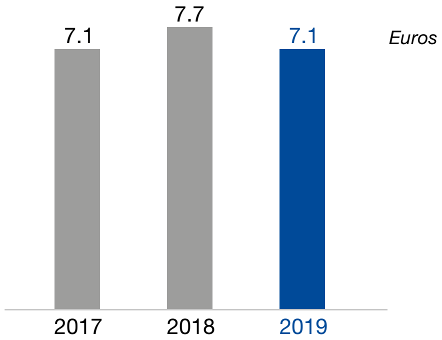
R.O.E.



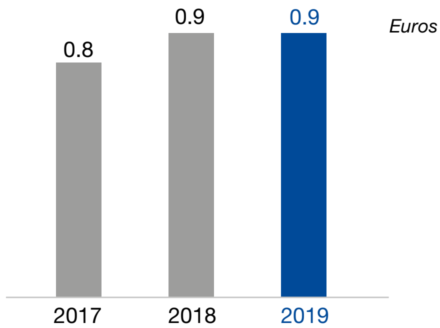
R.O.C.E.



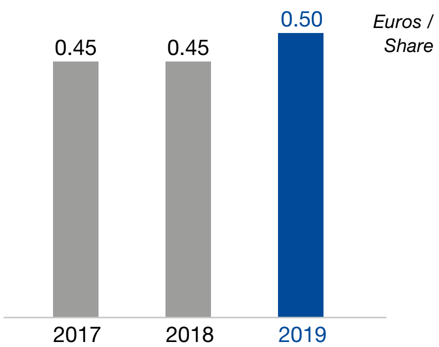
Book value per share
As of 31 December



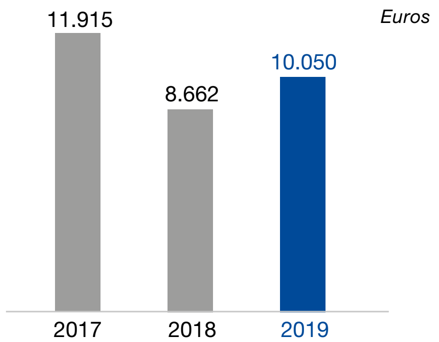
Earnings per share



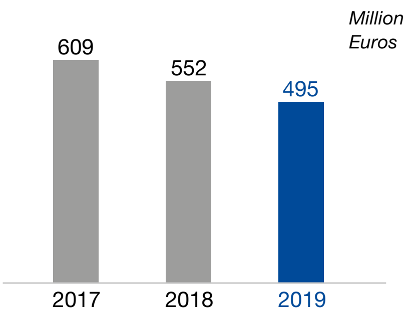
Return to shareholders
Dividend + Issue Premium



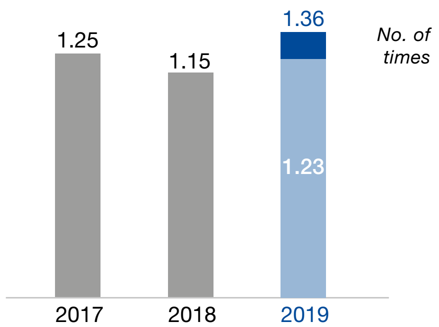
Share value
(Official close of business year)



Net financial debt



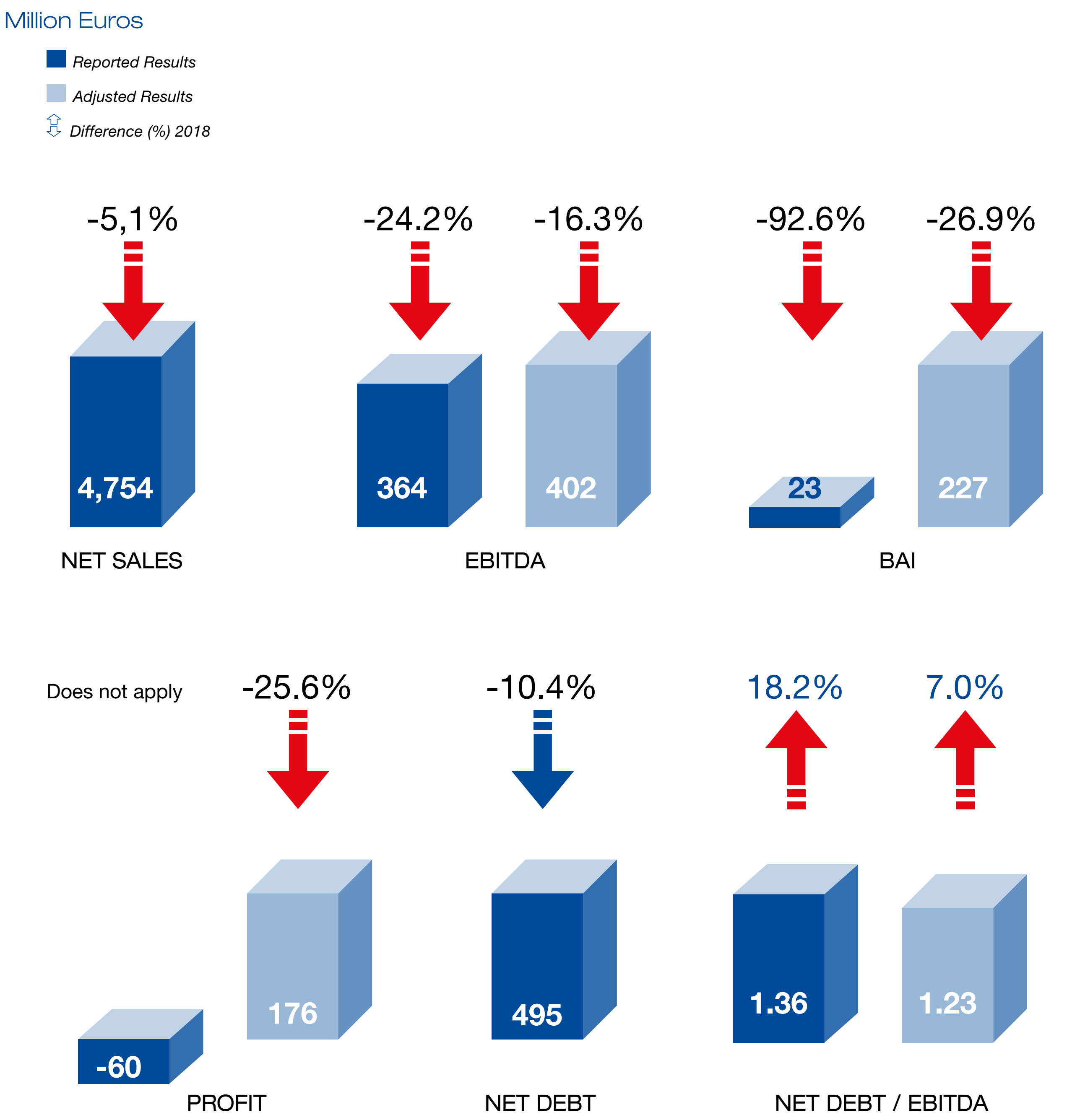
Financial debt / E.B.I.T.D.A.



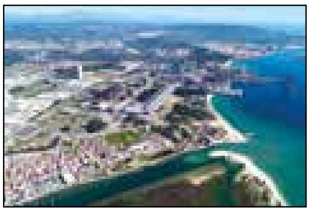
Reported Results *Adjusted Results*

**Light blue bars correspond to the adjusted without deterioration and ERE*

Fiscal year results



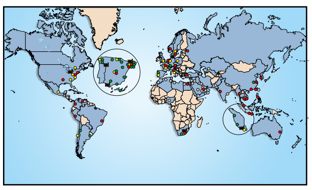
**Light blue bars correspond to the adjusted without deterioration and ERE*



ACERINOX ACHIEVED AN EBITDA OF €402 MILLION IN 2019, AS WELL AS A SIGNIFICANT REDUCTION IN DEBT, €495 MILLION EUROS AND A CASH FLOW OF €231 MILLION EUROS, AFFECTED BY LOW PRICES AND VOLUMES AND A RESTRUCTURING OF STAFF IN SPAIN.

LOWER GROUP'S PRODUCTION AS A RESULT OF LOWER CONSUMPTION AND POLITICAL AND ECONOMIC UNCERTAINTIES AS WELL AS TRADE TENSIONS BETWEEN MAJOR POWERS.

EUROPEAN SAFEGUARD MEASURES DID NOT ACHIEVE THE DESIRABLE DEGREE OF EFFECTIVENESS AND THE US MARKET CONTINUED TO PERFORM AS THE MOST SOLID AND STABLE.



THANKS TO ITS GLOBAL PRESENCE, THE GROUP WAS ABLE TO OFFSET THE PRICE DROPS OF STAINLESS STEEL IN SOME MARKETS WITH THE INCREASE THAT OCCURRED IN THE US

1. About us

Acerinox is the most global stainless steel manufacturing, distribution and sales company in the world with a presence on five continents, factories on four of them, supplying to customers in 81 countries.

The Group has a production network consisting of six factories - strategically located for their distribution advantages or for their proximity to sources of raw materials - in Europe, North America, Africa and Asia.

The marketing and sale of the products is carried out through a network consisting of service centres, warehouses, offices and commercial agents that have the capacity to supply any industrialised region in the world.

The Acerinox Group is one of the most competitive in its sector thanks to its in-depth knowledge of the market built up during half a century of activity, its degree of internationalisation, its management of the organic structure described here and its continuous investment and improvement plans.

The Group's strategic growth is based on the development of economic, social and environmental sustainability, as well as on the strengthening of competitiveness and the creation of value from excellence in all processes. To enhance these areas, the Group is committed to investing in new facilitating tools through its *Excellence 360 plan*, which combines Digital Transformation and internal benchmarking improvements, as well as Talent Management through training, Internal promotion and the attraction and scouting of talent in the market.

Kentucky Factory (USA).

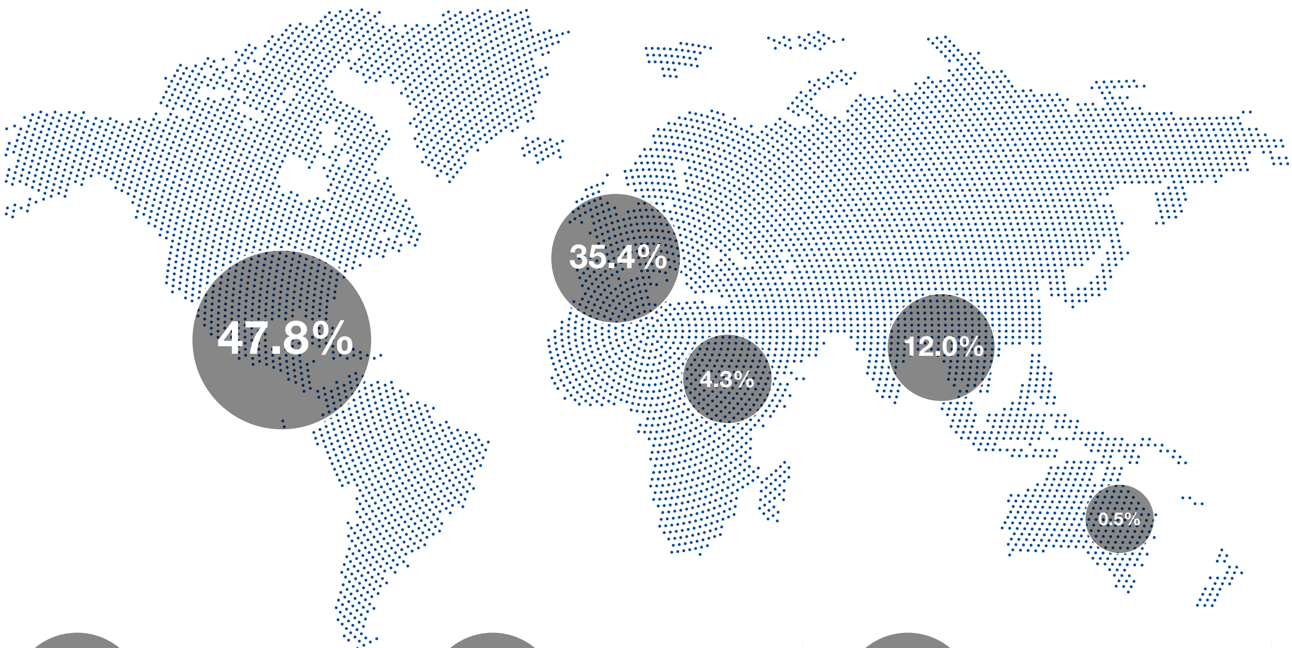
The management of the bodies in charge of directing, managing and representing the Company is carried out through a Corporate Governance policy with which the role of the Board and the committees has been strengthened, their competencies have been defined and the number of external directors has increased.

Acerinox SA is listed on Madrid´s Stock Exchange and is included in the IBEX 35, the reference index of the Spanish stock exchange which lists the largest companies on the stock market in Spain.

The main shareholders of the Acerinox group, as of 31 December 2019, a Corporación Financiera Alba (19.35%), NSSSC (15.81%) *, Omega Capital (4.26%) and Industrial Development Corporation (IDC) (3.26%). About 35,000 legal and natural persons own the company's shares.

We invite you to study this 2019 Management Report of the Acerinox Group in greater detail for each of these aspects.

Main Acerinox's Group magnitudes



We sell in **81** countries

6,605 employees

2.23 M Mt melt shop production per year

12,000 clients world-wide

€184 M return to shareholder

€5.5 billion Cumulative investment since 1990

** On 1 April 2019, the integration of Nisshin Steel Co Ltd. into Nippon Steel & Sumitomo Metal Corporation took place, which in turn became the direct owner of the 42,773,094 shares of Acerinox, SA, on this date was renamed Nippon Steel Stainless Steel Corporation.

1.1 Acerinox S.A. and the production companies

Acerinox, S.A.

EMPLOYEES AS OF 31 DECEMBER 2019	72

Acerinox S.A. is the parent company of the Group and the main holder of the shares of each of the subsidiaries that comprise it.

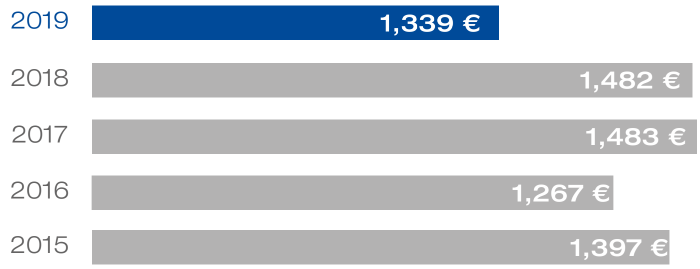
Its activity is the typical of a holding company and, in addition to the work that results from this role (such as legal, financial, commercial, technical, management and communication services) Acerinox S.A. facilitates access to new stainless markets and favors the exchange best practices among the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

The share capital, as of 31 December 2019, was comprised of 270,546,193 million ordinary shares with a nominal value of €0.25, each subscribed and paid up in full.

Madrid Head Office.

Acerinox Europa S.A.U.

Turnovers in million euros



EMPLOYEES AS OF 31 DECEMBER 2019	2,076
MELT SHOP PRODUCTION	725,967 Mt/year
ACERINOX'S CONTRIBUTION	100%

Acerinox Europa (Campo de Gibraltar,1970) was the first stainless steel integrated plant in the world. The knowledge and experience acquired during its design and execution were decisive for the creation of other factories of the Company.

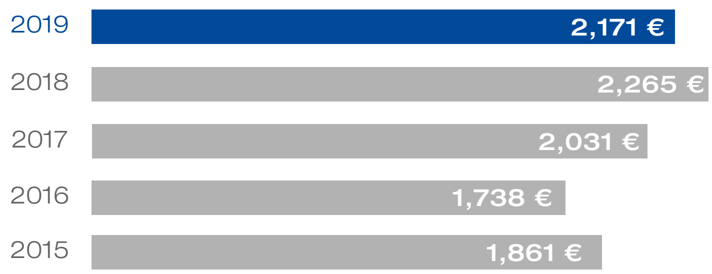
With a nominal melt shop capacity of one million tons, an excellent location with its own seaport, supplies flat products mainly to the European continent, and material for long products to other plants within the Group's production network.

The plant recently expanded its product range thanks to new equipment with the most advanced technological systems available and with a level of competitiveness that has generated new quality standards giving its products greater added value, quality and reliability, as well as reducing both production costs and environmental impact.

Campo of Gibraltar Factory (Spain).

North American Stainless, Inc

Turnovers in million euros



EMPLOYEES AS OF 31 DECEMBER 2019	1,493
MELT SHOP PRODUCTION	1,036,089 Mt/year
ACERINOX'S CONTRIBUTION	100%

North American Stainless (NAS) is the world's most competitive stainless steel plant, and thanks to it, Acerinox is the market leader in the United States. It is a fully integrated factory, built in 1990 by the Acerinox Group in Ghent (Kentucky) and it supplies flat and long products mainly to the North American continent.

NAS has the most advanced manufacturing equipment and levels of efficiency, excellence and quality superior to those of its competitors, with a significant market share and it offers the widest range of products.

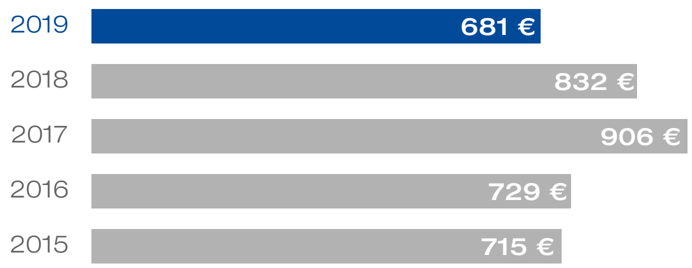
Furthermore, the market penetration of products manufactured in the newly launched bright annealing line during 2019 was a success that exceeded the Group's own expectations, consolidating its leadership position.

The plant is located in a superb position thanks to the advantages in terms of distribution as it has its own river port with navigable access from the centre of the US to the Atlantic via the Ohio and Mississippi rivers. Furthermore, the main stainless steel consumption areas of the country are only a few hours away by road.

Kentucky Factory (USA).

Columbus Stainless

Turnovers in million euros



EMPLOYEES AS OF 31 DECEMBER 2019	1,289
MELT SHOP PRODUCTION	469,143 Mt/year
ACERINOX'S CONTRIBUTION	76%

Columbus Stainless is a leader in the African continent with more than 80% of the South African market share and 50% of the entire continent, as well as being the only stainless steel integrated plant in Africa.

The plant is the main supplier of the domestic market (South Africa is the most important market in the area), as well as the main supplier of the different consumption areas of the continent, in addition to supplying semi-finished flat products to other factories of the Group.

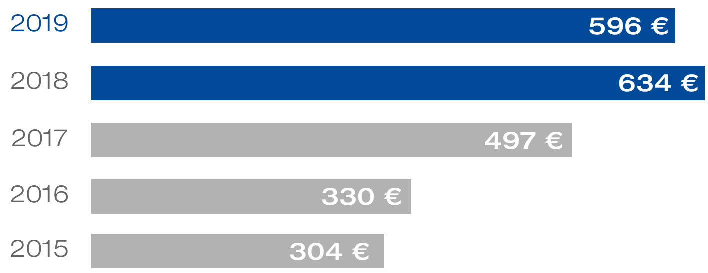
The Columbus plant, equipped with the most efficient machinery in stainless steel production and with the most important technological advances in the sector, has a considerable competitive advantage thanks to its location (Middelburg) together with important chrome extraction and transformation resources, which represents a reduction in production costs compared to other competitors.

The Columbus plant is a modern facility with a range of products capable of satisfying the total demand of its customers and with a wide range of solutions.

Middelburg Factory (South Africa).

Bahru Stainless

Turnovers in million euros



EMPLOYEES AS OF 31 DECEMBER 2019	572
COLD-ROLLING OUTPUT	242,091 Mt/year
ACERINOX'S CONTRIBUTION	98%

Bahru Stainless is probably the world's most cutting-edge and technologically advanced stainless steel production plant.

The plant is in one of the most strategic geographical points for world trade, in Johor (Malaysia), in the Malacca Strait. It has its own port with direct access to both the Indian and the Pacific Oceans, so it has considerable competitive advantages of distribution.

Bahru has cold rolling mills and is aimed at supplying the Asian market (although it distributes its products throughout the world) as well as adding to the Group's global production by purchasing semi-finished product from other Group factories. This material is cold rolled in this plant, improving the production costs of the supplying factories and providing advantages to Acerinox's global distribution and sales network.

Johor Bahru Factory (Malaysia).

Roldán, S.A. and Inoxfil, S.A.

Turnovers in million euros

EMPLEADOS A 31 DE DICIEMBRE DE 2019	572
PARTICIPACIÓN DE ACERINOX	100%

Roldán and Inoxfil are two of the three long product manufacturing plants that the Group has (the third, as already stated, is in the North American Stainless American plant).

Roldan is located in Ponferrada (León, Spain) and it produces angles, bars and wire rods. Part of the latter is sent to Inoxfil, located in Igualada (Barcelona, Spain). It is, therefore, the last production link in a network that begins after receiving billet from Acerinox Europe, since it is the only plant of the Group that has steelworks in Spain.

The long product manufactured by the two plants supplies both the domestic market and international customers and their stainless steels are present in some of the most high-profile international projects. During 2019, Acerinox allocated new investments to Roldán aimed at the installation of production and control equipment and the maintenance of existing ones.

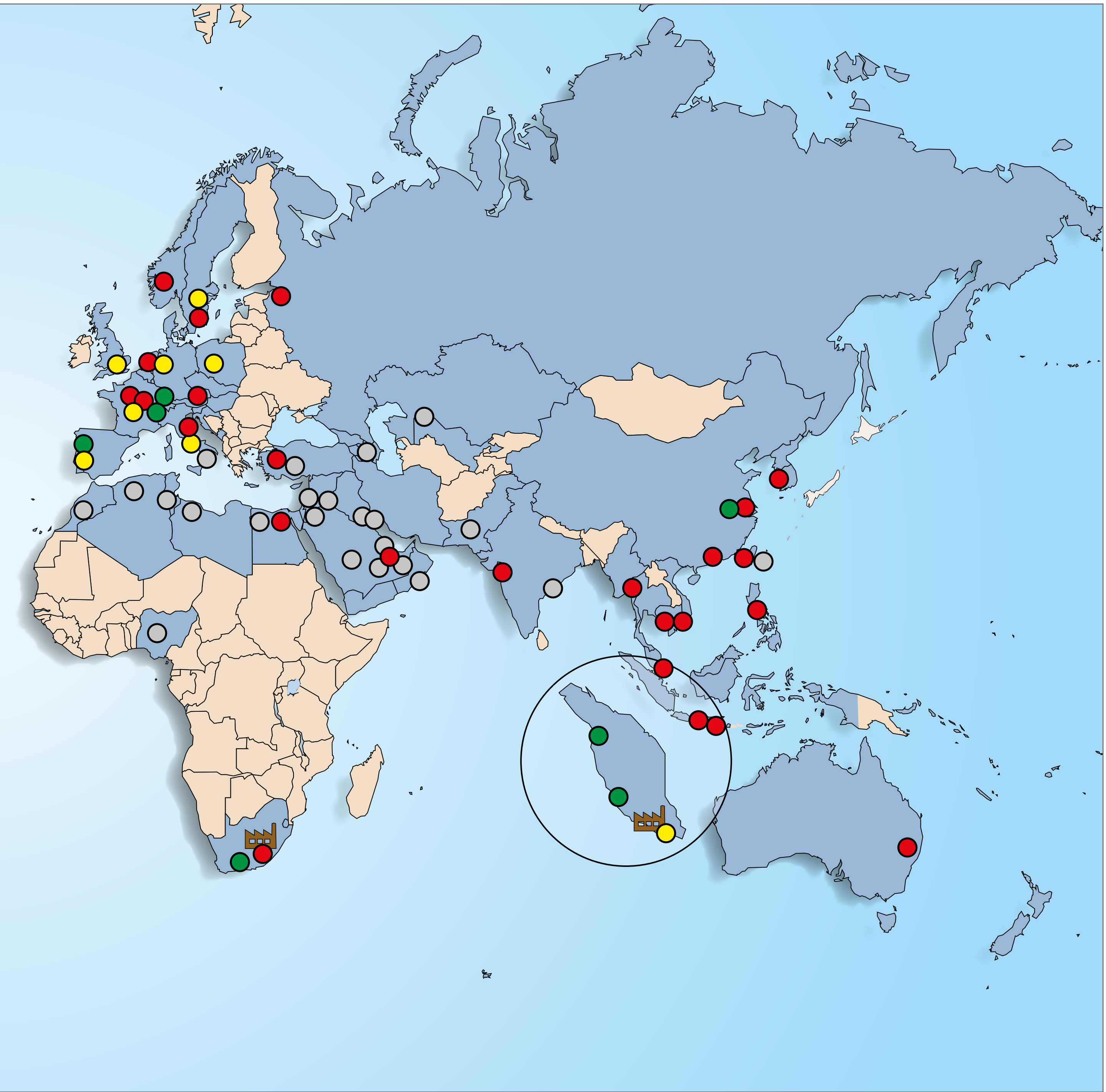
Roldan Factory in Ponferrada (Spain).

1.2 Sales and Distribution Companies

Acerinox Group sells its products worldwide through a marketing network present in 57 countries on five continents.

This is the most global sales structure in the sector, consisting of 35 commercial offices in 31 countries, 15 commercial agents serving 26 states, 18 service centres and 25 warehouses.

The supply capacity achieved by the Acerinox Group through this structure around the world enabled deliveries of stainless steel during 2019 to more than 12,000 customers in 81 countries, which in practice implies the ability to serve all of the industrialised regions in the world.



2. The Acerinox industry in 2019

The deceleration of the world economy, in line with forecasts, was confirmed during 2019, and was more pronounced in the more developed markets.

G.D.P. Growth (IMF WEO) April 2020

	2018	2019	2020p
China	6.6	6.1	1.2
Germany	1.5	0.6	-7.0
India	6.8	4.2	1.9
ASEAN 5	5.2	4.8	-0.6
South Africa	0.8	0.2	-5.8
Spain	2.4	2.0	-8.0
U.S.	2.9	2.3	-5.9
Eurozone	1.9	1.2	-7.5
World	3.6	2.9	-3.0

Stainless Steel Coils, BA finish in our Campo de Gibraltar Mill (Spain).

2.1 Stainless steel market

The year started with an improvement in demand in all markets, completing a first half of the year with a lot of activity followed by a slowdown in the third quarter and staying at low levels in the last.

According to ISSF (International Stainless Steel Forum), world stainless steel production increased 2.9% in 2019 compared with previous year.

The growth in 2019 was once again concentrated in China, being the only country together with India that recorded an increase (10.1%) reaching almost 30 million tons in 2019. To which we must add the production of the Chinese manufacturer Tsingshan in Indonesia, a country in which we estimate that it consolidated the level reached in 2018 of over 2 million tons. This situation generated an excess of supply in the Asian market with very negative effects on prices, which ended up affecting all markets.

All this, in an uncertain environment of geopolitical tensions, such as Brexit in Europe and the growing protectionism at a global level with regard to relations between the US and China.

Indonesia, in just a few years, has been outstanding for having transformed itself into one of the world's leading producers of stainless steel with the Chinese manufacturer Tsingshan, which led to tension the markets, which in turn have reacted with anti-dumping, safeguard and anti-subsidy measures.

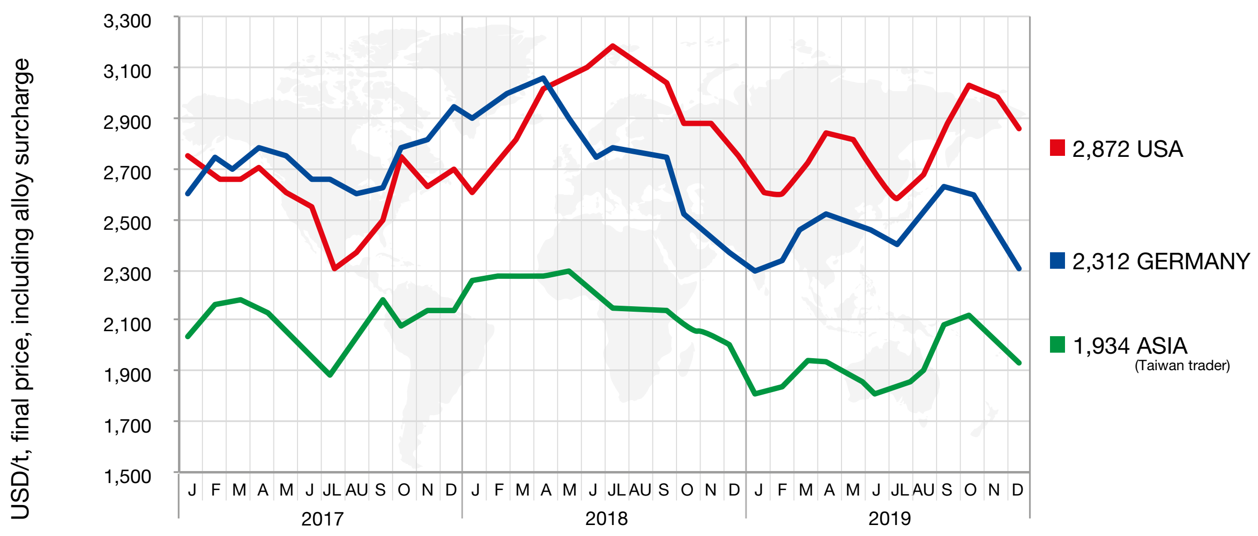
Paradoxically, China was the first market to impose anti-dumping measures in March against Indonesia. And in April, came the denial of the request for exclusion from Section 232 in the United States for slabs from Indonesia (aimed at the joint venture of Allegheny with Tsingshan); the inclusion of Indonesia in the European Union safeguard measures from October, as well as anti-dumping and anti-subsidy investigations in the European Union and in India, which could also impose measures on the latter country in the coming months, with some provisional measures already in place in Europe since April.

Hot Roll Mill in our Middelburg Mill (South-Africa).

It should be noted that, today, virtually all producing countries have some kind of trade barrier in effect, including those where Acerinox has its production plants.

In this complicated environment, Acerinox has reiterated its commitment to the geographic diversification of its operations, adjusting the strategy according to the behaviour of the main markets.

Prices of stainless steel sheet | 2.0 mm cold-rolled AISI 304
2017-2019



Source CRU

2.1.1 Europe

The market trend, in terms of final demand, was in line with the economic slowdown in the EU as a whole, and particularly in the two main stainless steel markets: Germany and Italy At the sector level, according to Eurofer estimates, construction growth of 3.8% stands out, while for both motor vehicles and appliances it revised its estimations downward in January with falls of -5.9% and -1.4% respectively.

The definitive safeguard measures that were adopted in February 2019 amended the preliminary ones imposed in July 2018, establishing annual quotas by country to the main origins (those that accounted for more than 5% of the imports in the three-year period 2015-2017) and a residual quota for the rest, reviewable quarterly.

The 25% tariff was maintained above the quotas. There was also the exclusion of developing countries below the 3% threshold of imports, under the WTO rules, that of countries in the European Economic Area and countries of the preferential trade agreement between the European and Africa was also excluded, including South Africa. Hence our factory, Columbus Stainless, remained unaffected.

In September, a review of the definitive measures was approved, with a reduction of 5% to 3% in the annual increase in quotas, and the inclusion of Indonesia in the residual quota as of 1 October, for having exceeded its imports as a developing country over the threshold of 3% in 2018, both in cold and hot.

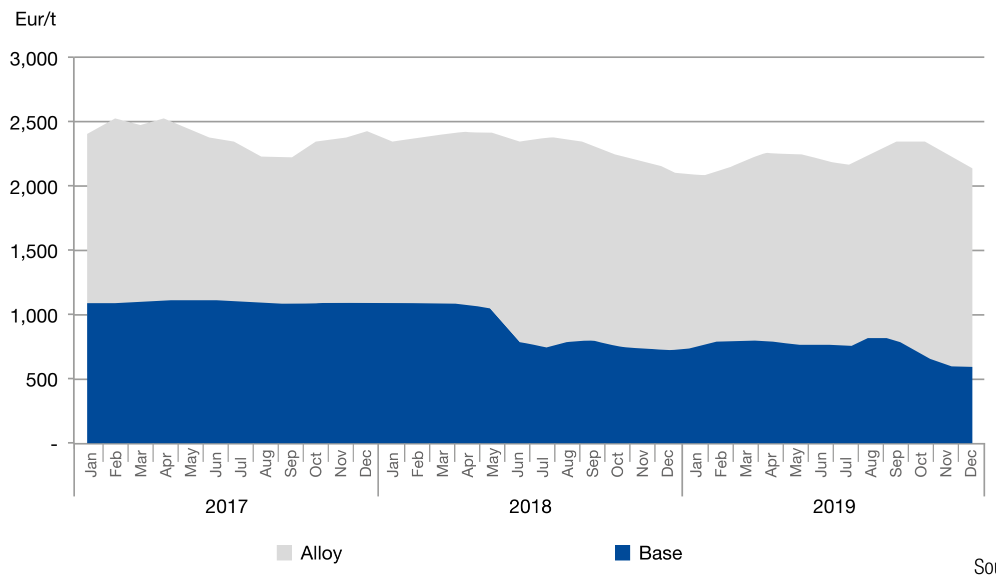
Despite these measures, European producers were unable to prevent the pressure of the imports that, with the US market closed off, found in Europe the main destination of their surplus production. This was reflected in the fact that the imports in Europe was only reduced by 5%, in line with the fall in the market.

The strong increase in imports from Indonesia until it was included in the measures is a fact that must be emphasise. This, together with other imports from Asia, had a very negative impact on prices.

In August, the European Union initiated an anti-dumping investigation on hot rolled flat products from Indonesia, China and Taiwan, with provisional measures implemented in April.

In addition, in October the followed European Union initiated an anti-subsidy investigation on same materials from Indonesia and China, with provisional measures expected to be implemented by July.

Prices of stainless steel sheet | 2.0 mm cold-rolled AISI 304
2017- 2019 in Euros



Source: CRU

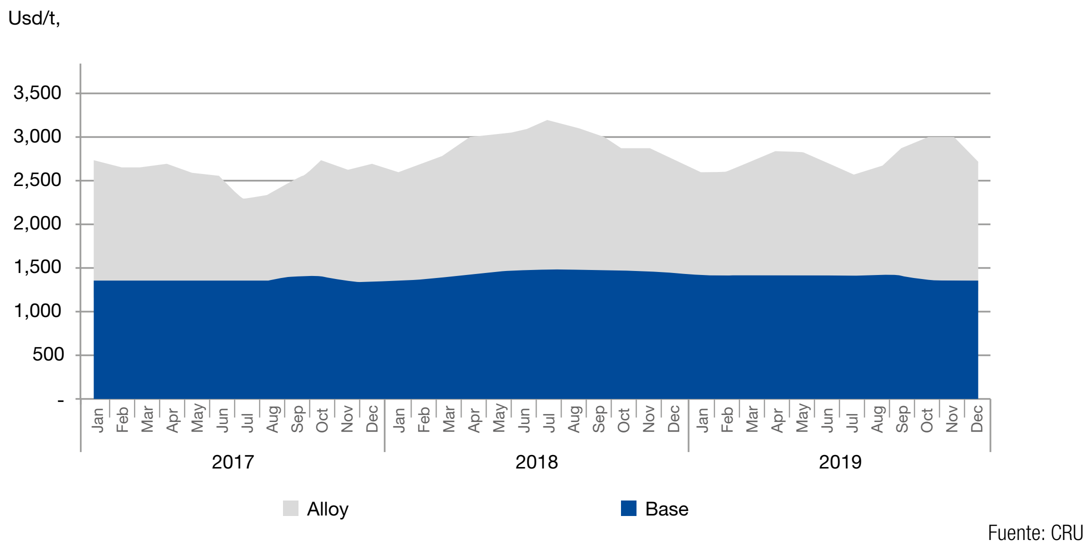
Inventories rose due to the increase in imports, anticipating safeguard measures and were not corrected by lower market consumption.

Meanwhile, the Russian and Eastern European markets also showed decreases in apparent consumption, highlighting the increase in the arrival of Asian products, particularly from China and Taiwan, as a result of import restrictions from the main US markets. and the European Union.

2.1.2 Americas

The American market was no stranger to macroeconomic uncertainties and suffered an apparent drop in consumption of 10% but the strength of its economy, together with the tariffs of Section 232, allowed better performance and greater stability in base prices.

Prices of stainless steel sheet | 2.0 mm cold-rolled AISI 304
2017- 2019 in USD



The reduction of imports by the measures of Section 232, around -26%, partially offset the fall in apparent consumption of flat products, which recorded a decrease of -9.3%.

By activity sectors, according to our data, construction fell -0.3%; motor vehicles by remained flat 0.0%; and the household appliances sector by -7.3%. In this last sector, the materials of the new line of bright annealing of North American Stainless stood out for their great acceptance in the market, exceeding the objectives set by the company.

Inventories in stockists were below average with the usual trend of reductions in the final stretch of the year, ending 2019 with the lowest levels of recent years.

Finally, as we have mentioned, in April, the US Department of Trade rejected the exemption from Section 232 requested by the joint venture between Allegheny and Tsingshan for imports of slabs from Indonesia.

Regarding the neighbouring markets, i.e. Mexico and Canada, ended 2019 with significant drops in apparent consumption of around -15% and -12% respectively, affected by the economic situation, by trade tariffs imposed by the US. and given the uncertainty of the agreements of the new USMCA.

In South America; Brazil, which continued to represent around 70% of the region's consumption, we estimate consumption in 2019 fell by around 2% compared to 2018, due to political instability.

2.1.3 Africa, Middle East and Turkey

The South African economy grew slightly in 2019, although at a lower rate than expected and in any case this increase was not reflected in the sector since the apparent consumption of stainless steel contracted around 10% in 2019, in line with the trend of the main consumer sectors, especially the motor vehicle sector, due to a lack of confidence in the market and the shortage of large projects during the year.

In the markets of North Africa and the Middle East there was a strong demand until Ramadan in May, falling back from that moment, due to the general situation of uncertainty in the area.

In Turkey, one of those negatively impacted by market uncertainties, apparent consumption was reduced by 20%. By final sectors, the white goods maintained figures similar to those of the previous year, motor vehicles fell, and construction was also down to a greater extent.

Black Coils in our Middelburg Mill (South-Africa).

2.1.4 Asia

Overcapacity in Asia was the dominant note during the past year due mainly to the new factory of the Chinese producer Tsingshan that broke into the cold rolling mill market at very low prices, which resulted in lower final prices world-wide and which in turn spread to all Asian market, reaching all-time low prices.

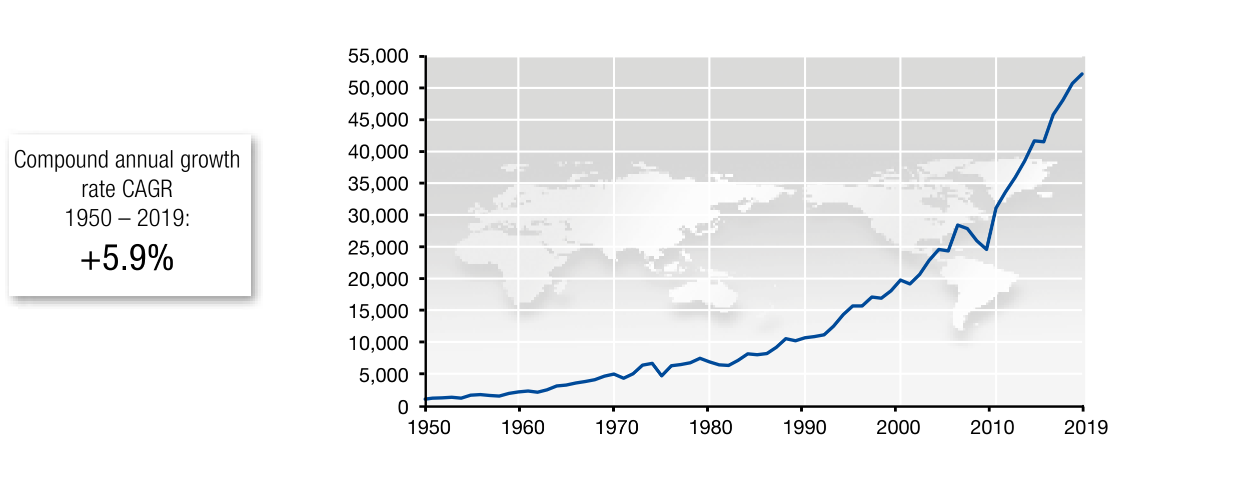
This situation aggravates the excess overcapacity in Asia already mentioned on numerous occasions.

Apparent consumption in China grew but to a lesser extent than production, which led to increased inventories.

2.2 Global Production of Stainless Steel

According to ISSF (International Stainless Steel Forum), production 2019 rose by 2.9% in comparison with 2018.

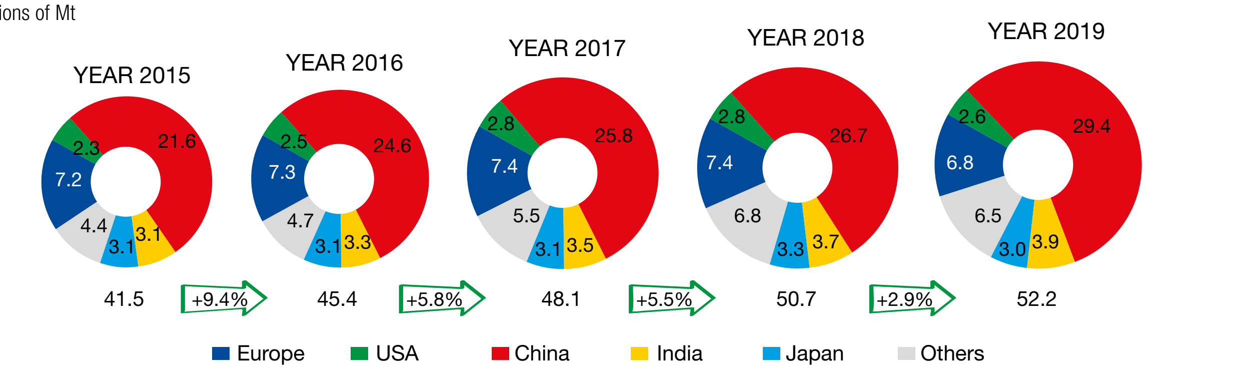
Global production of stainless steel 1950 - 2019 million tons.



The main producer remained China, with 57% of world production, and exceeding 60%, if we add the production of the Chinese manufacturer Tsingshan in Indonesia.

World melt shop production evolution

Millions of Mt



Evolution of world melt shop production

		1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total
2018	Thousands of Mt	12,783	12,987	13,132	11,827	**50,729**
2019		12,711	13,404	13,685	12,418	**52,218**

Melt shop production by regions/countries

	Thousands of Mt	2018	2019	Change
Europe		7,385	6,805	-7.9%
U.S.A		2,808	2,593	-7.6%
China		26,706	29,400	10.1%
India		3,740	3,933	5.2%
Japan		3,283	2,963	-9.7%
Others		6,807	6,524	-4.2%
TOTAL		50,729	52,218	2.9%

Source: ISSF, Acerinox

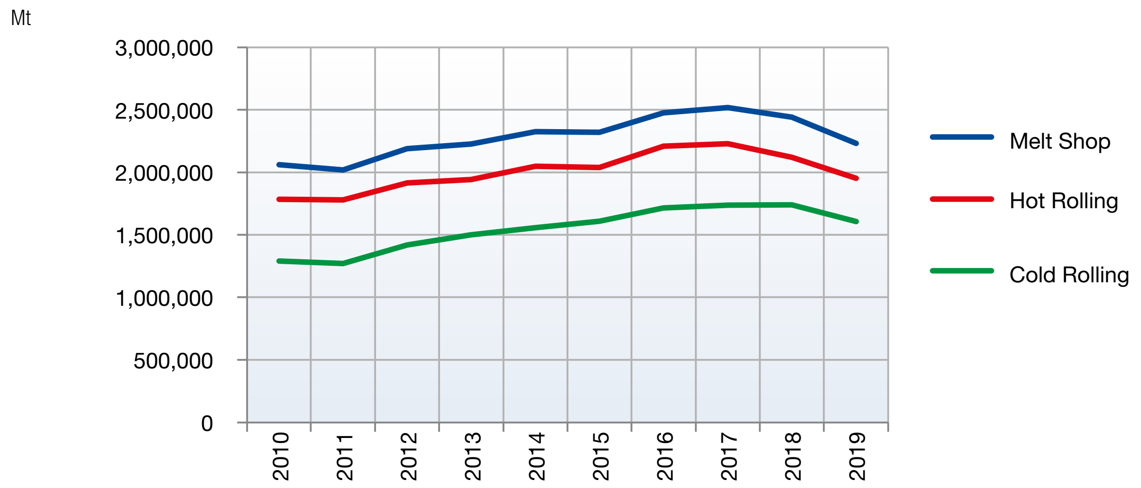
Melting Shop in our Middelburgh Mill (South-Africa).

2.3 Acerinox Group Production

As a result of the reduction in consumption in Europe and the United States, as well as global overcapacity, the Acerinox Group's production figures were affected during 2019.

Hence the total melt shop production of the Group was reduced by 8.57%, as well as hot rolling 8.01% and cold rolling, which fell by 8.28%.

Total official production of Acerinox factories evolution

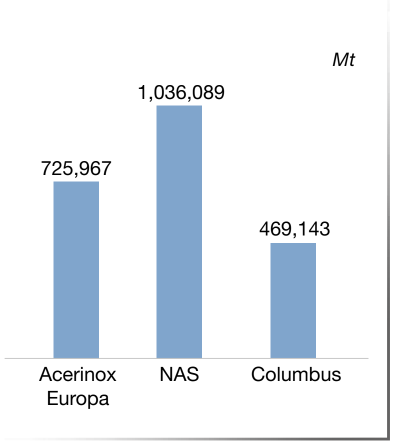


Long production decreased by 13.77% compared to the previous year, recording 219,557 tons compared to 254,629 in the previous year.

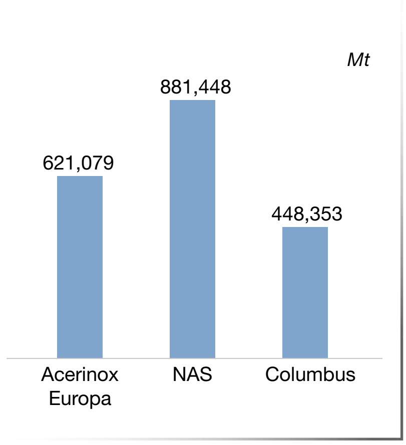
Quarterly evolution of the Group's production

Thousand Mt	Year 2019					Year 2018	2019 / 2018 Variation
	1st Quarter	2nd Quarter	3rd Quarter	4rh Quarter	Accumulated	Jan-Dec	
Melt Shop	627,921	570,119	542,425	490,734	**2,231,199**	2,440,432	**-8.6%**
Hot Rolled	531,072	514,302	471,420	434,086	**1,950,880**	2,120,473	**-8.0%**
Cold Rolled	422,148	441,138	394,119	349,748	**1,607,153**	1,752,329	**-8.3%**
Long Product (Hot Rolled)	65,824	58,312	50,136	45,307	**219,579**	254,629	**-13.8%**

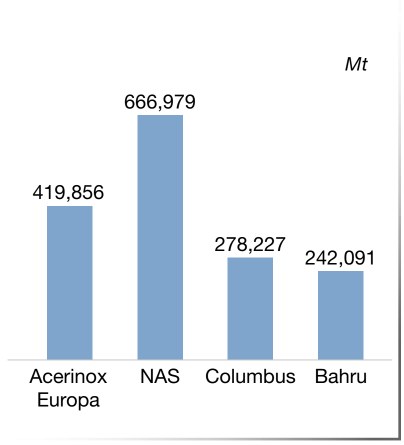
Melt shop production



Hot-rolled production



Cold rolled production



Billet Continous Cast.

3. RAW MATERIALS

The gradual fall in demand, together with trade tensions and their possible impact on consumption, marked a downward trend in prices, with the exception of nickel where speculative movements generated a different behaviour.

Nickel

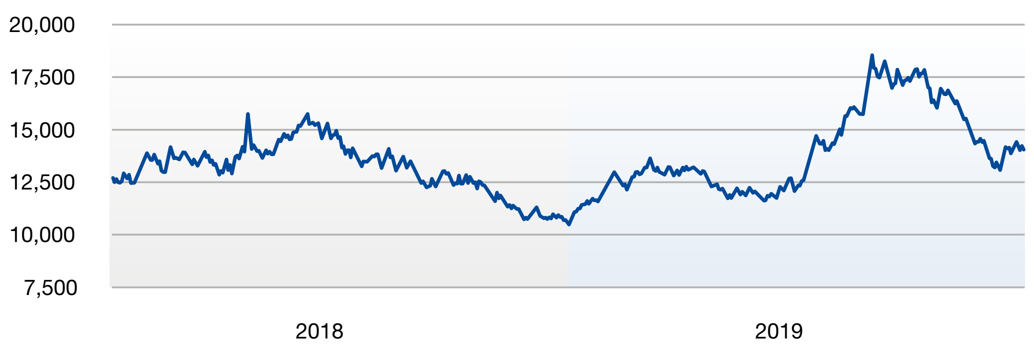
Starting from its yearly low of USD 10,485/Mt on January 2, nickel prices improved over the first half of the year, thanks to the recovery of nickel consumption, mainly in China, closing the semester around USD 12,600/Mt, while the nickel inventories of the London Metal Exchange (LME) gradually declined.

The second half of the year was marked by a sharp rise in nickel prices, mainly due to rumours of a possible bringing forward of the export ban on nickel ore in Indonesia that reached its price in the LME at levels of USD 16,000/Mt in mid-August. At the end of this month, the final confirmation by the Indonesian Government took place, bringing forward the said export ban to 1 January 2020, which caused its price to skyrocket to its yearly high on 2 September at USD 18,550 /Mt.

Nickel inventories fell to 85,830 tonnes just in October, interpreted as a speculative move by an Asian manufacturer to raise the price in the LME, which caused a complaint filed to the EU in front of the WTO dated 23 January 2020 and the beginning of an internal investigation. After that, because of dynamic of the market, return to increase inventories, finishing the year in 153,318 tonnes.

Official price of nickel in the LME (2018 - 2019)

Average spot price / three months in USD/Mt

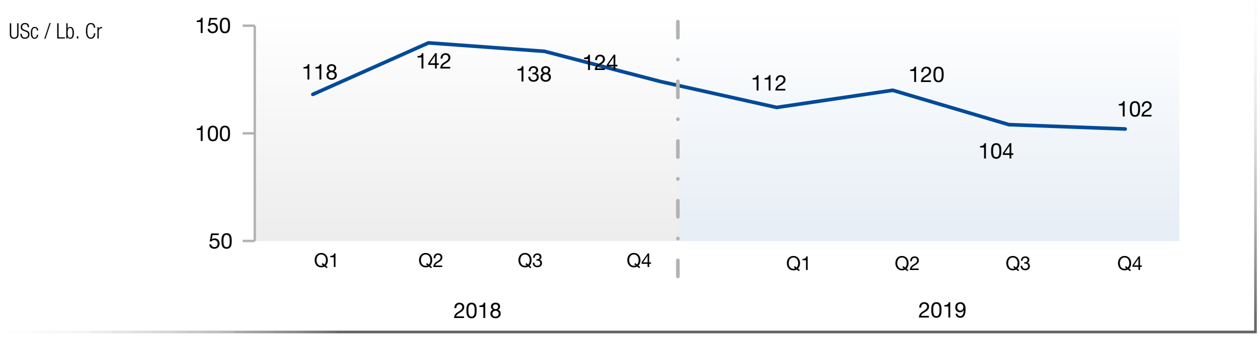


Raw Materials Yard in our Middelburg Mill (South-Africa).

Ferrochrome

During the year, ferrochrome prices remained relatively stable, in line with the demand for stainless steel, moving between 112 USc/ lb at the end of the first quarter, with a slight improvement in the second quarter to 120 USc/ lb then falling by a third, due to the increase in ferrochrome production in China, closing the year at 102 USc/lb, at levels seen in 2016.

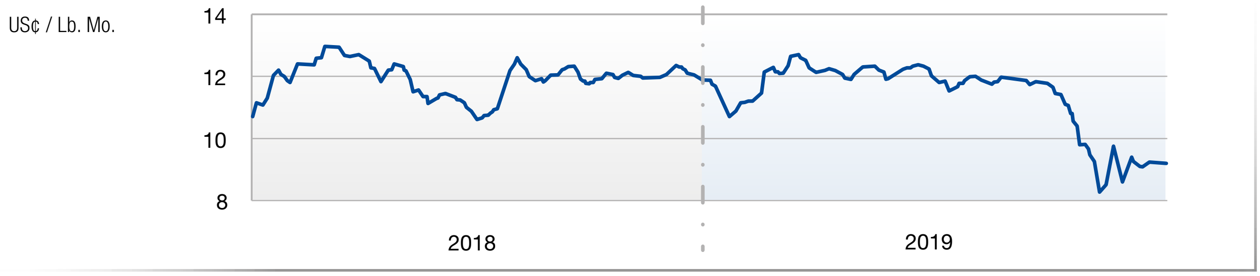
Average quarterly prices of ferrochrome



Molybdenum

Despite a slight decrease at the beginning of the year, molybdenum prices remained stable at around USD12/ lb until the end of September due to the relative strength of demand for special steels and long product, but in October there was a downward correction with a drop in demand for steel, leaving the price at the end of the year at 9.2 USD/lb

Price of molybdenum

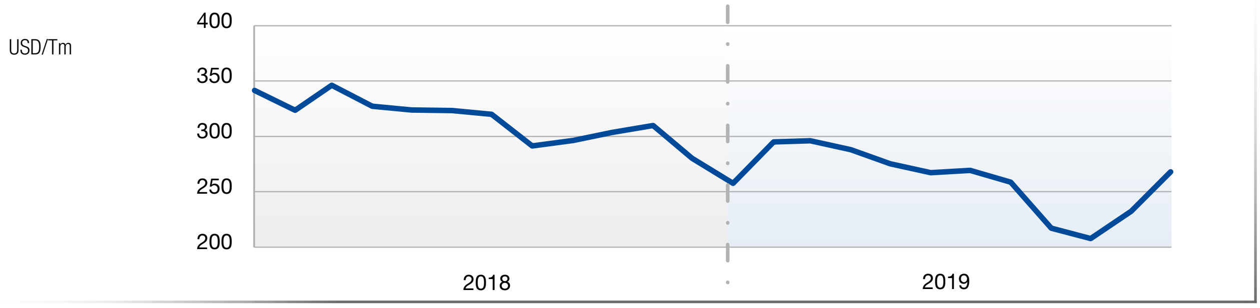


Ferric Scrap

An incident at one of Vale's iron ore mines in Brazil and the risk of iron ore shortages led to a significant price increase during the month of February, reaching levels of 300 USD/Mt.

Since then, the fall in demand dragged prices to USD 200/Mt at the end of September to rise to USD 270/Mt at the end of the year, mainly due to a stock replenishment process in Turkey.

Price of scrap iron HMS 1&2 FOB Rotterdam



4. HUMAN CAPITAL

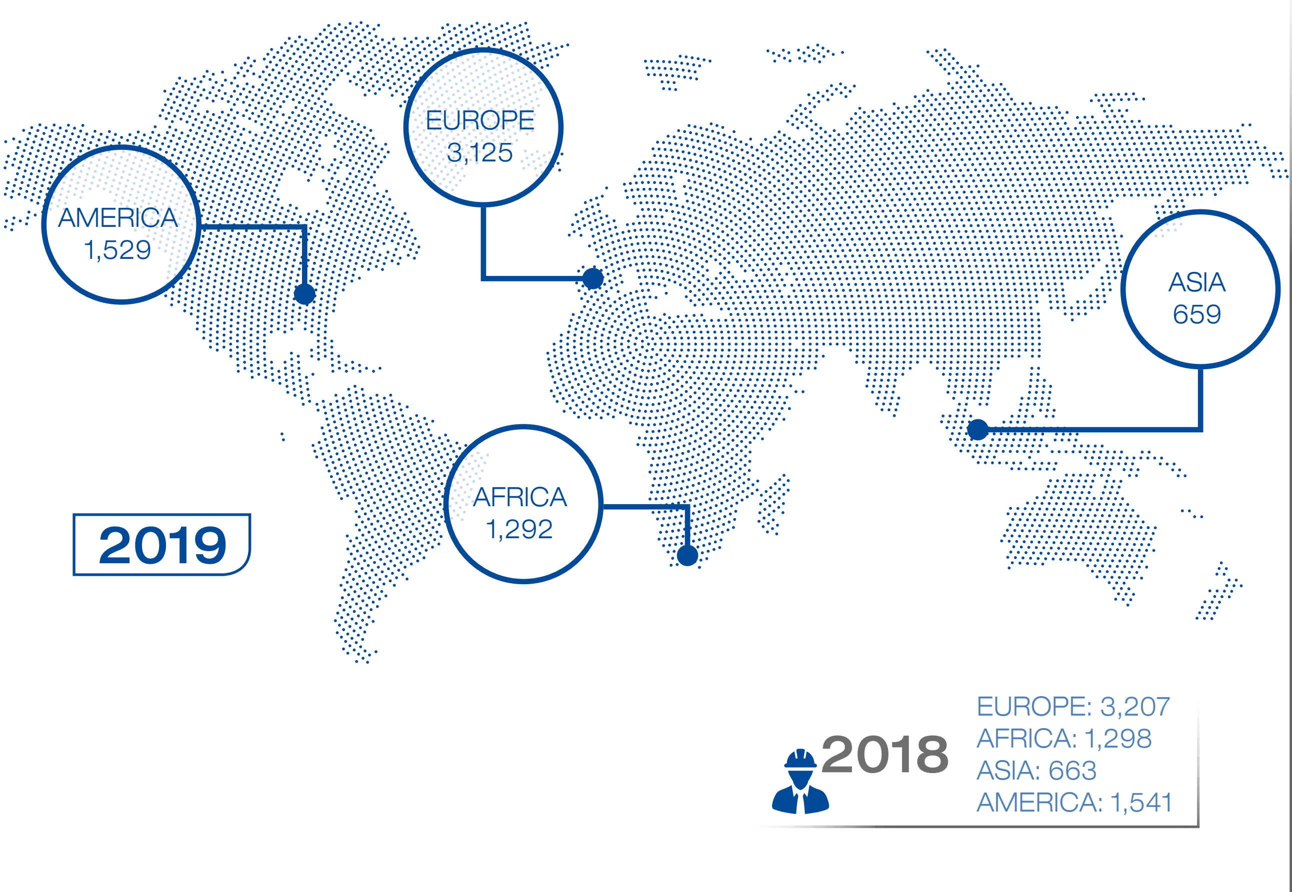
Acerinox is a global company, as the map clearly shows the geographical distribution of the 6,605 employees who were part of the Group as of 31 December, 2019. The figure fell as a consequence of the Group's need to adapt.

Total Group Employees

2017	2018	2019
6,742	6,709	6,605

More than 56.55% of its personnel work outside Spain, a country in which the Group maintains its decision centres, and 52.69% of the workforce are located outside Europe.

Number of employees as of 31 December 2019 by geographical location:



Acerinox's staff is characterized by low turnover and a sense of pride and a deep sense of belonging that, together with good working conditions, training, international projection, the prospect of stable employment and the preference for internal promotion, constitute the foundations that the Group maintains in its Human Resources policy.

Acerinox, in all its companies, is committed to the indefinite contract as a contractual relationship with its employees and more than 90% of the workforce benefits from this type of relationship with the company.

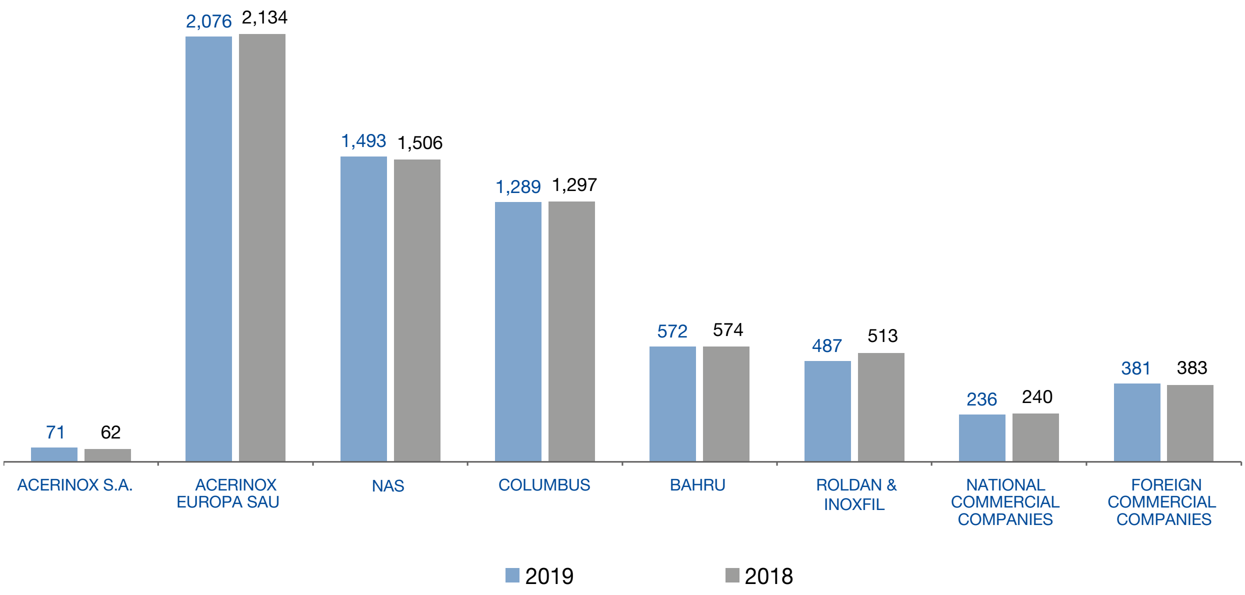
In addition, the Management and the Acerinox workers maintain pay changes linked to productivity and results, having gradually reduced automatically applied items from collective agreements.

Acerinox maintains a close relationship with university institutions around the world for the recruitment and attraction of talent and to offer interesting job opportunities to young graduates.

In 2019, the new collective agreements of Bahru Stainless and Acerinox Europe were signed. In the latter case for a period of four years and setting out pay increases in addition to other social measures to promote work/ personal life balance.

The new ideas and the constant updating with the latest developments are assets that the Group manages through the more than 30 European, American, South African and Malaysian universities and other educational institutions with which it collaborates.

WORKFORCE: 6,605 PEOPLE (6,709 IN 2018)



5. VDM

On 8 November Acerinox announced the purchase of 100% of the German company VDM Metals, after reaching a purchase agreement with Lindsay Goldberg Vogel, a private investment firm and current owner of VDM.

VDM is the world leader in the production of special alloys and is recognized as a leading exponent of R&D in the sector. Headquartered in Werdohl, Germany, it develops and manufactures special nickel and cobalt alloys, as well as high-alloyed stainless steels with special properties. It has 7 production plants between Germany and the United States, about 2,000 employees and in FY 2018/19 it had sales of €852 million and an EBITDA of €97 million.

With this operation, the Acerinox Group plans to diversify into sectors with greater added value and is an opportunity to grow in new markets and sectors such as aerospace, the chemicals industry, the medical industry, hydrocarbons, renewable energy, water treatment and emissions control.

The transaction is valued at 532 million euros of which Acerinox will pay €310 million, taking on €57 million in debt, which means an Enterprise Value/EBITDA of 5.5 x before synergies.

The final closure of this operation is subject to approval by the European and US competition authorities, among others, and is expected to be completed during the first quarter of 2020. At the same time, the purchase was presented to the employee representatives of both companies and until the end of it, Acerinox and VDM Metals will continue to operate as independent companies.

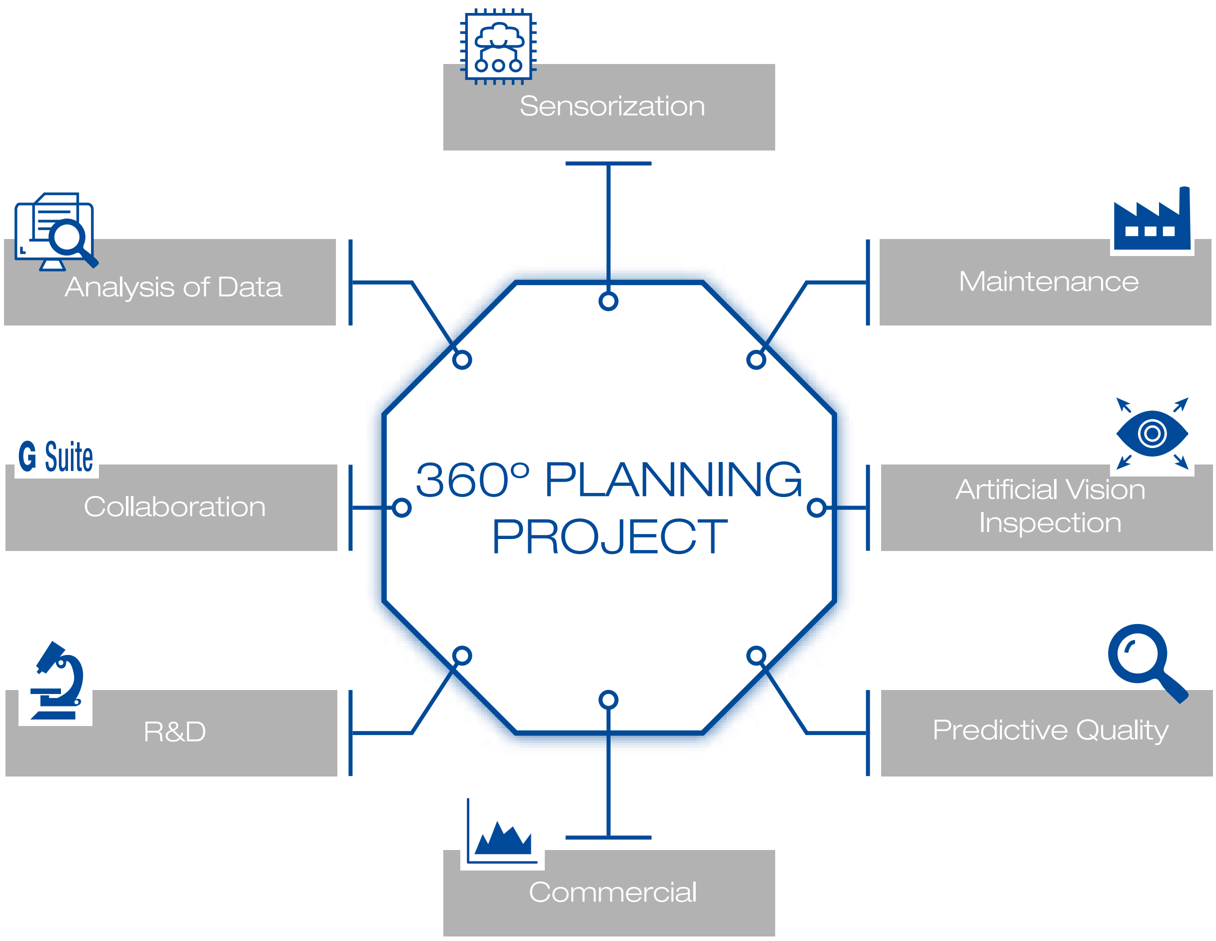
Meeting held in our Head Office with Analysts on the occasion of VDM Metals acquisition.

6. EXCELLENCE 360°

In 2019, all Digital Transformation initiatives were unified within a 5-year plan (2019-2023) called Excellence 360°. This plan brings together the traditional Excellence Plans (2008-2018) and all the projects that constitute the Group's Digital Strategy.

Excellence 360° is focused on strengthening the business comprehensively: Production (increasing quality in the process and productivity), Supply chain (optimising stock and increasing accuracy in deliveries), Commercial/ Sales (improving margins) and Procurement of Raw Materials (optimising the mix at all times). All of this thanks to the use of new technologies and putting the customer at the centre of the business.

The initiatives that comprise Excellence 360° are:



1. 360º Planning: In 2019, the first phase of the new integrated planning model commenced. This phase includes a tool to optimise the factory finishing shop, as well as transportation and a Demand Planning tool.

2. Predictive Quality: Pilot projects under way in all factories focused on predicting quality issues through data analysis; defect seams and chipping in steel, cloud defects in BA and inclusions in steel.

3. Predictive maintenance: Focused on lines that are critical for the continuity of production. New sensorisation, online monitoring and data analysis; hot rolling mill motors, continuous casting in slabs, annealing and pickling lines and vehicle transporting slag cones.

4. Supply efficiency data analytics: Creation of predictive models that optimise the consumption of supplies and consumables; optimisation of refractory consumption AOD and optimisation of the use of electrical power.

In parallel with all projects, an organisation is being created in each factory responsible for implementing the projects and new profiles have been identified to accelerate the transformation of the organisation.

Finally, in 2019 the third and final year of the Chair of Connected Industry of which Acerinox is patron was completed in conjunction with leading industrial and technological companies. The Chair is a privileged forum where opinion is generated with all the topics that revolve around the connected Industry. During 2019, discussions centred on how to integrate robotics into the industry, the potential of Artificial Intelligence, the impact of traceability on the supply chain and finally an analysis of the digital agenda in Spanish industry.

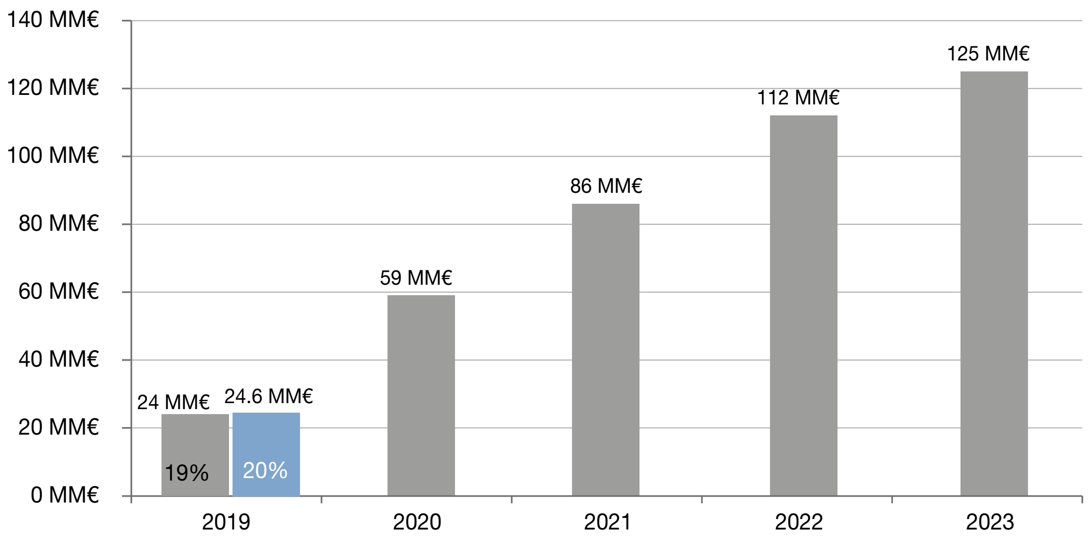
Aeronautical Turbine.

Excellence 360° aims to progressively achieve a return of 125 million euros on a recurring basis from 2023.

In the first year of Excellence 360°, Acerinox achieved savings estimated at more than 24 million euros, which are 20% over the total scope, and which are in line with the target scope of 19% for the first year.

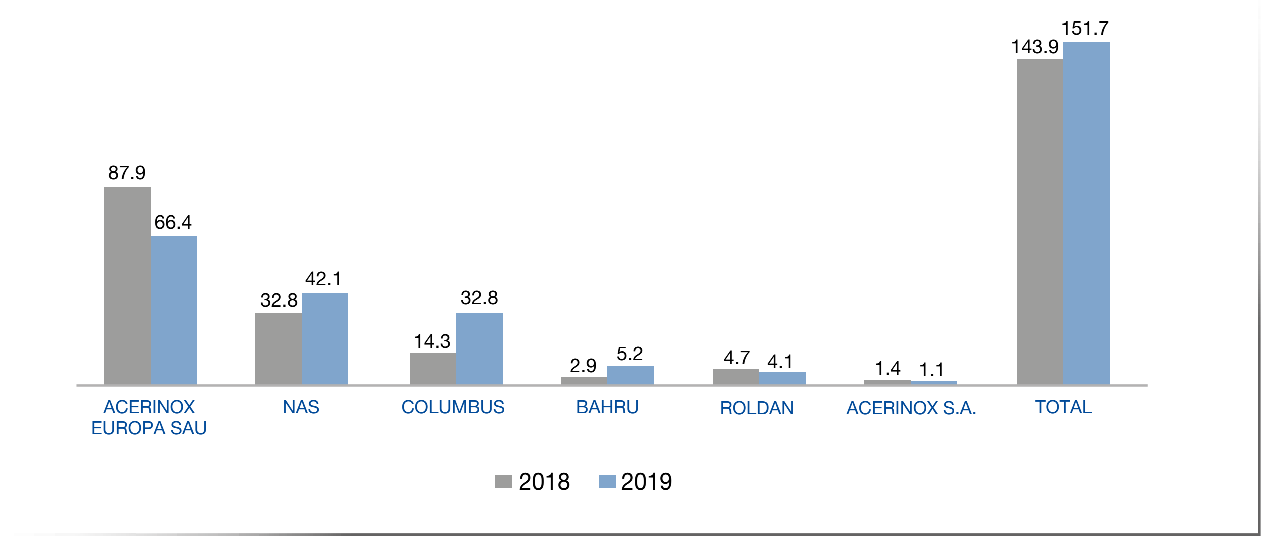
It is, as already mentioned, a crucial area for the company that covers each of the areas involved in the production, distribution and sales processes. For this reason, the Group makes a special effort in the search for tools that improve each of these parts. In that spirit, in 2019 Acerinox reached an agreement with Oracle to start implementing the Oracle Demand Planning Cloud solution, thanks to which it will plan demand accurately. It is software that will add a competitive advantage when it comes to making the corresponding decisions throughout the supply chain, aligning the market behaviour in real time. The solution incorporates statistical algorithms that generate an accurate forecast for each customer and makes it possible to plan the demand for each type of product for each of the regions, for each customer and for each channel, redefining how Acerinox manages its supply chain.

This plan is part of the 360° Planning Project, which has already been reported previously but is fundamental in different areas such as the one at hand. This is a leap of innovation in supply chain management, in collaboration with Minsait (Indra) to develop advanced demand and supply-chain orientated solutions, and that in 2019 began to be rolled out in Acerinox Europe and were then deployed progressively in factories in the United States, South Africa and Malaysia.



7. INVESTMENTS IN FIXED ASSETS

Investments in fixed assets: €151.7 million euros



During financial year 2019, Acerinox continued with its policy of investments in new equipment, and the improvement and maintenance of existing equipment. It allocated €151.7 million in 2019 for this purpose.

At the Acerinox Europe plant, investments of €66.4 million were made and these are broken down into those required to complete the investment of €140 million with which the company developed in 2018 a new annealing and pickling line (AP-5) and a cold laminator line (ZM7), and to complete the investment in upgrading the AP-3 annealing and pickling line. In addition, it invested in a refrigerated vault for the No. 2 electric furnace and began the installation of a ladle furnace, which will enable a greater optimisation of the production processes in the melting shop and a reduction in costs and greater energy efficiency thanks to reducing the consumption of refractory material and electrodes, the reduction of emissions and the increase in availability of the furnace.

At the North American Stainless plant, investments worth €42.1 million were made, which were those required to complete the installation of the new coil splices and finishing equipment line.

At the Columbus Stainless plant, €32.8 million were earmarked mainly to complete the installation of the new SL5 cutting line.

In addition, the new ladle furnace has advanced, which improves the productivity and costs of the steel works.

In the Roldán factory, new investments amounted to €4.1 million for the installation of new production and control equipment.

8. R+D+I

Research and permanent development is one of the most differentiating points that a stainless steel production company as Acerinox can offer as an added value within such a demanding sector.

The Group, aware of this, maintains a continuous commitment to investment in this section with the aim of achieving new applications, thicknesses, textures, brightnesses, efficiencies, savings and sustainability improvements from studies and tests under way in laboratories.

In its research and development departments the Group is working on the search for product improvements and efficiency through new tools such as lasers, high precision, infra-red cameras and the most sophisticated technological advances to apply to production processes in each of the workshops.

Innovative improvements in a sector such as steel-making and in such large-scale processes as those required by stainless steel manufacturing plants and machinery are not limited to one department or a specific laboratory. Every phase of the entire process, every link in the supply chain and every step of management systems is potentially improvable and no one is better place to do so than those who daily use it.

That is why Acerinox Europa, NAS and Columbus (the Group's integrated factories) each year present the Rafael Naranjo Awards with which it seeks to reward the improvement of workers' safety with the sole objective of zero accidents, the pursuit of excellence and efficiency in production processes and the reduction of environmental impact.

In this edition of Acerinox Europe, projects were distinguished in three categories: Quality in Progress, Safety and Environment, with a total prize fund of €45,000 to projects that helped to implement improvements in energy consumption and raw materials reductions, as well as to increase the efficiency of production machines.

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 extension of the applications of 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).

Through the latter project, the company is backing and supporting the Comfuturo programme of the CSIC Foundation, with the aim of attracting and retaining the talent of the best young Spanish researchers to work in areas of practical application in companies. In the case of Acerinox, Eduardo Torroja, a researcher in the Institute of Construction Sciences, is currently developing a slag study project that is part of Acerinox Europe's plant sustainability strategy as a way of transforming what is currently waste into valuable products.

The development of new technologies has been a constant during these 50 years since the founding of Acerinox. Not only organically but also through collaborations with customers and suppliers.

The Group has several specialised facilities for this purpose that have the latest technology for chemical analysis and studies of corrosion or other properties of metal, under the direction of experts in each of the projects.

In these laboratories Acerinox develops new stainless steels aligned with the needs of emerging markets and the latest demands. These studies achieve surface finishing and functionalisation applications for automotive, deep drawing, or for new technologies such as additive manufacturing.

Start up of the SL-5 line in our Columbus Mill in Middelburg (South-Africa).

9. FINANCE

9.1 Results

In an environment as complicated as 2019, the adjusted EBITDA adjusted by the Group of €402 million, and, in particular, the cash flow generation of €231 million, enabled increased shareholder returns by 44%, to €184 million, and a reduction of the group´s net debt by 10% to €495 million, the lowest since 2002.

The historically low price levels seen in Europe, and the increase in record levels of imports despite safeguard measures, led the Group to seek a new efficiency threshold for Acerinox Europa. One of the first measures was to cut 215 jobs, which had an accounting impact for the financial year of €38 million, with no immediate cash outflow. As a consequence, the Group published an adjusted EBITDA of €402 million, separate from the reported EBITDA of €364 million.

At the end of the year, conservative projections regarding price recovery in the Asian and European markets, has led the Group to take impairment losses in Bahru Stainless of €98 million, as well as writing off the goodwill from the acquisition of Columbus Stainless in 2002 of €68 million. Similarly, in view of the limitations imposed by Spanish legislation on tax loss carrybacks from previous years, tax credits were written off amounting to €61 million. All these extraordinary and non-recurring impairments have no effect on cash flow.

The cumulative impact of all these measures amounts to €38 million with regard to EBITDA (lay offs in Acerinox Europa), €204 million with regard to pre-tax result (lay offs, impairment of assets in Bahru and goodwill in Columbus) and €236 million in net result (the foregoing, and the tax credit impairment losses).

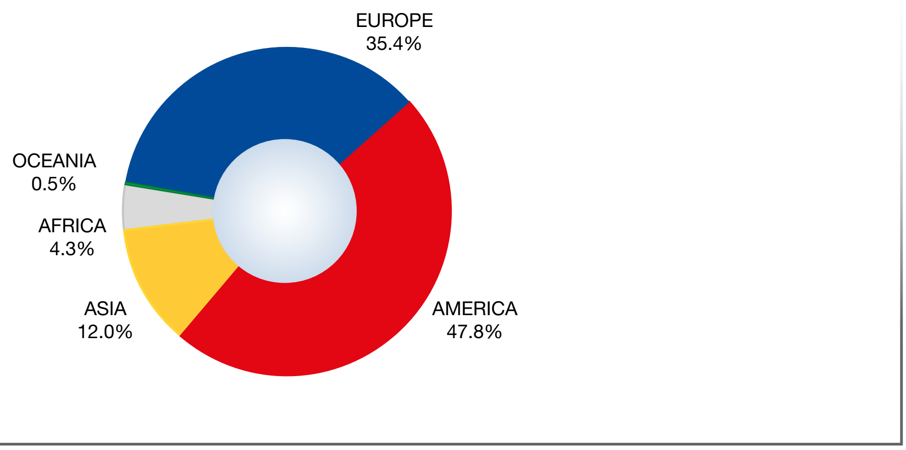
The most significant statistics for the year and the variation compared with the previous year are summarised in the following table (in million euros):

Most significant figures of Acerinox (Million euros)

	2019	2019 Adjusted	2018	Adjusted Variation
Net Sales	4,754	4,754	5,011	-5.1%
EBITDA	364	402	480	-16.3%
EBIT	23	226	312	-27.5%
Gross results (before taxes and minority interests)	23	227	310	-26.9%
Net Result (attributable)	-60	176	237	-25.6%

Revenue for the year: €4.754 billion, fell by 5%, as did sales in tonnes, which also fell by 5%. Nevertheless, it is the second highest in the last decade, only behind 2018.

Geographical distribution of turnovers

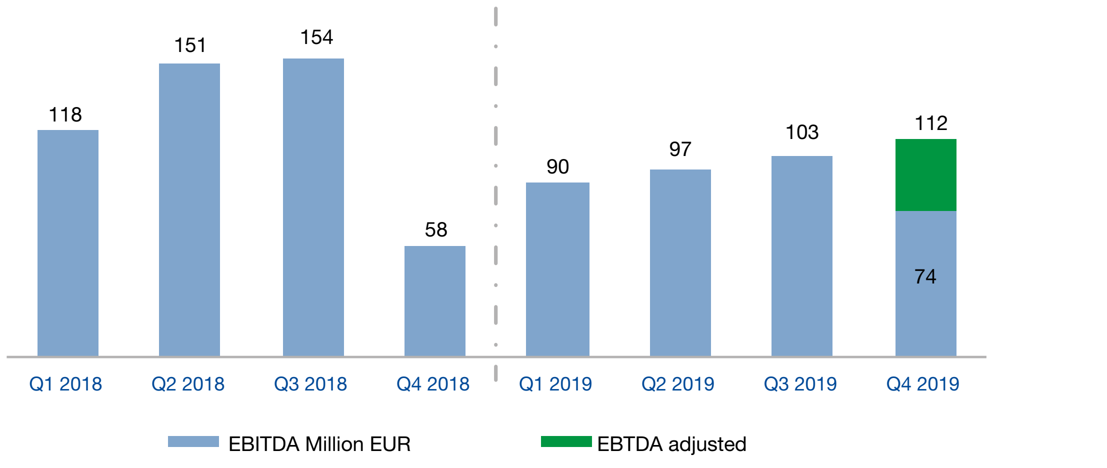


Adjusted EBITDA of €402 million was 16% lower than 2018. The EBITDA margin was 8% (10% in 2018). At the end of the financial year a net inventory adjustment totalling €20 million was carried out.

After making a provision for the lay offs in Acerinox Europa, the reported EBITDA was €364 million.

In such a complex environment, it is worth noting the consistency of the Group's results, with a trend of continuous growth in EBITDA over the last five quarters.

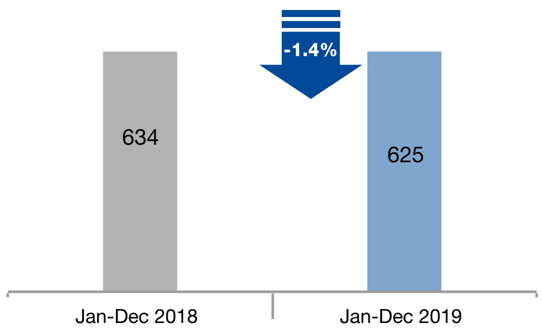
Quarterly EBITDA (million euros)



Personnel costs without taking into account the lay offs amounrted to €414 million, an increase of 5%, while other operating costs, €625 million, decreased by 1%.

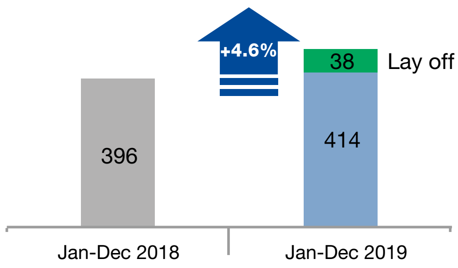
Operating costs

Million euros



Adjusted personnel costs

Million euros



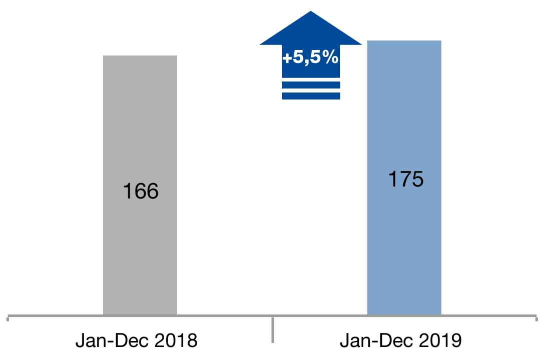
Depreciation of €175 million, was 6% higher than the previous year, mainly due to the depreciation of new investments in Acerinox Europa.

The adjusted EBIT of €226 million, was 28% lower than in 2018 (€312 million). The net financial result of €0.4 million in 2019, improved compared to 2018 (-€2 million).

We believe that it is noteworthy that, closing the financial year with debt of €495 million, the financial management allows the net financial result to be positive.

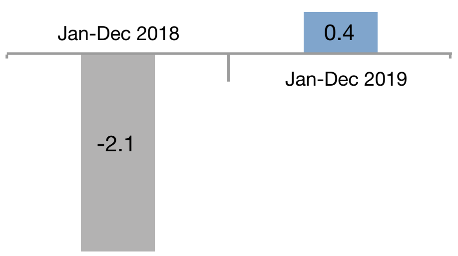
Depreciation

Million euros



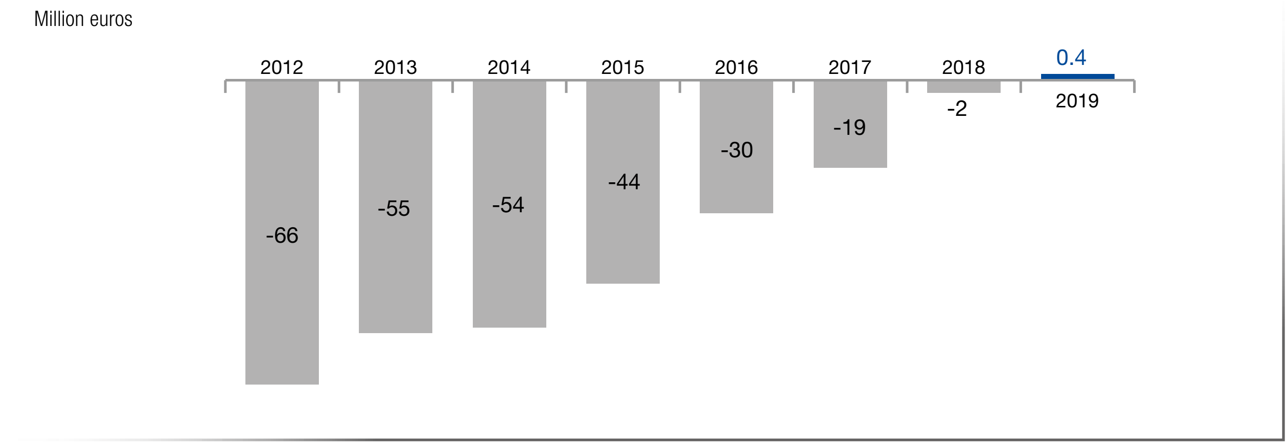
Net financial result

Million euros



It is the eighth consecutive year net financial expenses have reduced, having decreased by €67 million since 2012.

Evolution of the net financial result

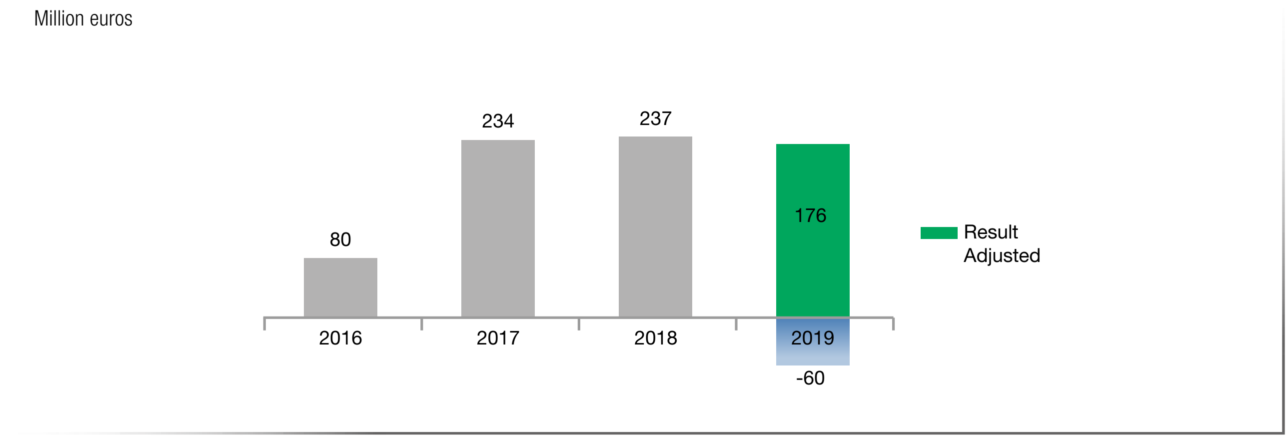


At the end of the financial year, very conservative projections were made for the coming years in view of the economic, tariff, health and political uncertainties and the effect these may have on overall economic growth.

As a result of the foregoing, and taking into account the limitations imposed by Spanish legislation in accounting terms for the recovery of tax losses, deferred tax assets were impaired for an amount of €61 million. This measure, which is a consequence of the Company's accounting prudence, could be reversed in years to come, if the aforementioned uncertainties are resolved.

The profit after tax and minority interests increased to €176 million. After all the end-of-year adjustments discussed, Acerinox reported a loss of €60 million.

Result after taxes and minorities



9.2 Cash flow generation

Cash flow generation, established as one of the priority objectives in the Group's Strategic Plan, was outstanding.

The free cash flow generation of €231 million, enabled the Group to increase returns to shareholders (€184 million) by 44%, and to reduce net financial debt by 10% to €495 million. Despite the increase in the returns to shareholders, debt was reduced by €57 million, the same figure as in 2018.

The reduction in working capital was particulary strong, generating €96 million of cash flow, of which €44 million corresponded to operating cash flow.

The increase in taxes paid with respect to the previous year includes €29 million paid to the Spanish Public Treasury, which will be reimbursed in 2020.

Payments for investments in fixed assets in 2019 amounted to €128 million.

Cash Flow

Million euros

	Jan-Dec 2019	Jan-Dec 2018
EBITDA	**364**	**480**
Changes in working capital	96	-87
Changes in operating working capital	44	-74
- Inventories	2	-28
- Trade debtors	41	27
- Trade creditors	0	-73
Other adjustments to working capital	52	-14
Income tax	-116	-81
Financial expenses	-15	-15
Other adjustments to the result	29	30
OPERATING CASH FLOW	**359**	**326**
Payments for investments on fixed assets	-128	-155
FREE CASH FLOW	**231**	**171**
Dividends and treasury shares	-184	-128
CASH FLOW AFTER DIVIDENS	**47**	**43**
Conversion differences	10	14
Variation in net financial debt	**57** ↓	**57** ↓

9.3 Balance sheet

Operating working capital of €716 million, decreased by €44 million compared to 31 December, 2018, mainly due to the reduction in trade debtors.

Operating working capital

Million euros

	December 2019	December 2018
Inventories	1,016	1,019
Trade debtors	484	525
Trade creditors	784	784
Working capital	716	760

The net financial debt, as of 31 December 2019 of €495 million, was reduced by €57 million (from €552 million as of 31 December 2018).

Million euros

ASSETS	2019	2018	Variation
NON-CURRENT ASSETS	1,933.33	2,133.77	-9.4%
CURRENT ASSETS	2,463.46	2,473.82	-0.4%
Inventories	1,016.26	1,018.74	-0.2%
Debtors	554.52	589.78	-6.0%
- Trade debtors	483.66	524.69	-7.8%
- Other debtors	70.86	65.09	8.9%
Cash	876.94	850.11	3.2%
Other current assets	15.74	15.18	3.7%
TOTAL ASSETS	4,396.80	4,607.59	-4.6%
LIABILITIES	2019	2018	Variation
EQUITY	1,928.99	2,119.30	-9.0%
NON-CURRENT LIABILITIES	1,253.68	1,226.22	2.2%
Interest-bearing loans and borrowings	1,051.74	1,026.29	2.5%
Other non-current liabilities	201.95	199.93	1.0%
CURRENT LIABILITIES	1,214.13	1,262.07	-3.8%
Interest-bearing loans and borrowings	319.83	375.89	-14.9%
Trade creditors	783.86	783.86	0.0%
Other current liabilities	110.44	102.32	7.9%
TOTAL EQUITY AND LIABILITIES	4,396.80	4,607.59	-4.6%
Net Financial Debt	494.63	552.07	
Operating Working Capital	716.06	759.57	

As of 31 December, Acerinox had €1.965 billion in credit lines, 30% of which were available.

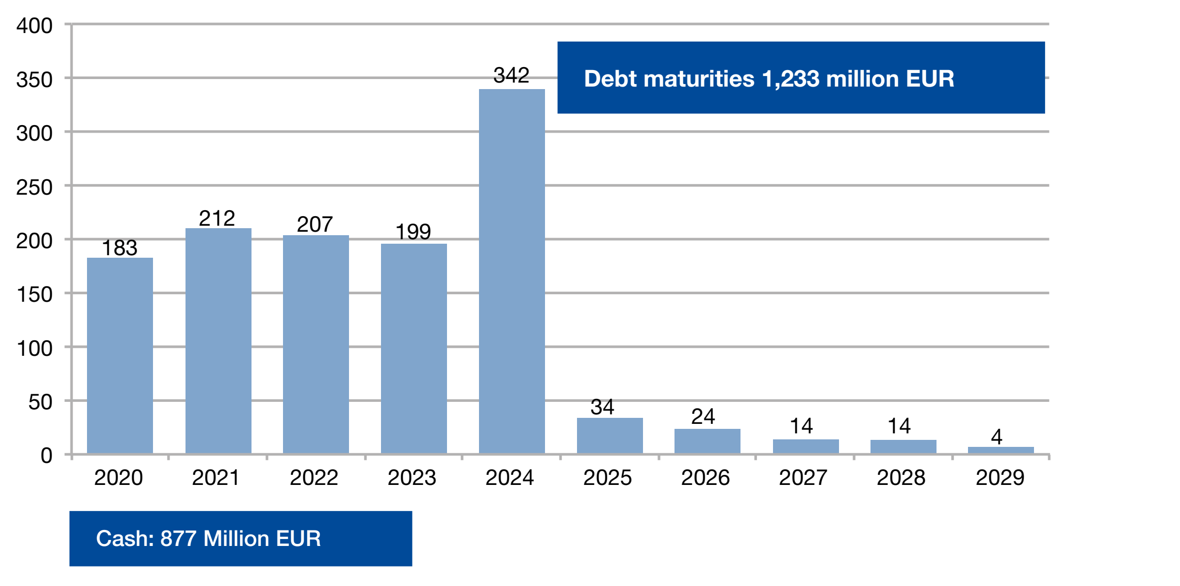
9.4 Financing

The strategy followed during the last number of years has focused on optimising the cost of financing, taking advantage of existing liquidity in the markets, extending maturities, increasing fixed rate debt and benefiting from the low interest rate environment.

All the Group's financing was term debt. Of this, 77% was long-term. 92% of the Group's loans are at fixed interest rates.

The cash deposits held by the Group at the end of the year of €877 million, enable it to cover the maturities of the loans until 2024.

Debt maturities (Million euros)



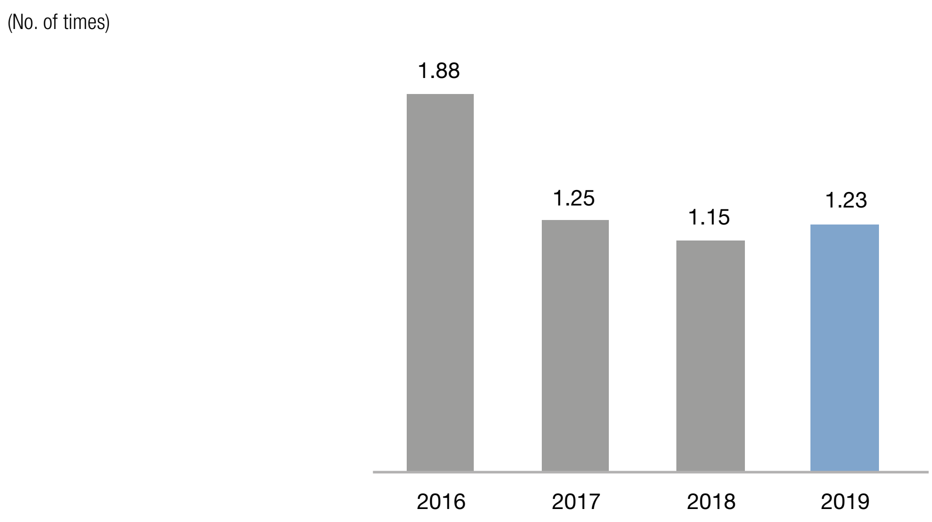
Truck Tanker made of Stainless Steel.

9.5 Financial ratios

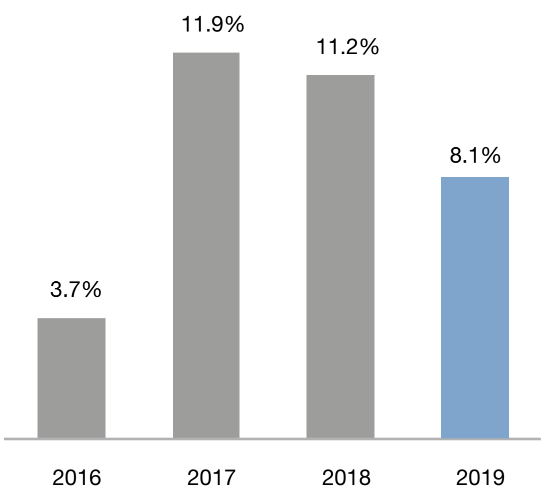
The net financial debt / adjusted EBITDA ratio, 1.23x, has been reduced by 35% since 2016, and remained below 2x for the fourth consecutive year.

The adjusted ROE in 2019 was 8.1% while the ROCE was 8.5%.

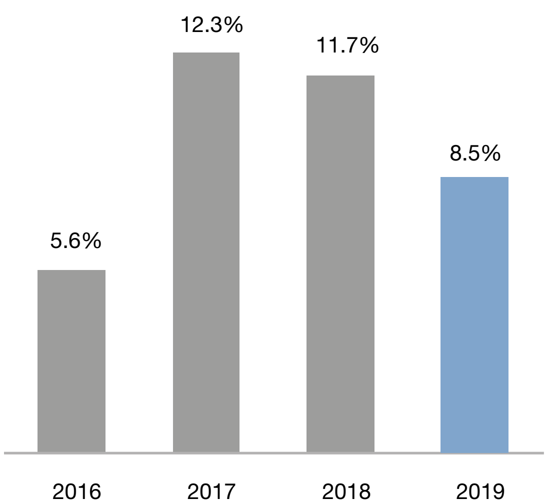
Net financial debt / Adjusted EBITDA



ROE adjusted (%)



ROCE adjusted (%)



9.6 Average payment period to suppliers

With regard to the information to be included in the report in application of the Resolution of 29 January 2016 of the Accounting and Auditing Institute, the average payment period to suppliers of the Spanish companies that are part of the Acerinox Group, and after deducting payments made to Group companies, is as follows:

	2019	2018
	Days	Days
Average payment period to suppliers	63 days	69 days
Ratio of paid operations	64 days	70 days
Outstanding transactions ratio	57 days	65 days

(Figures in thousands of EUR)	Amount	Amount
Total payments made	1,511,280	1,697,685
Total outstanding payments	181,685	234,552

Alternative Performance Measures (definitions):

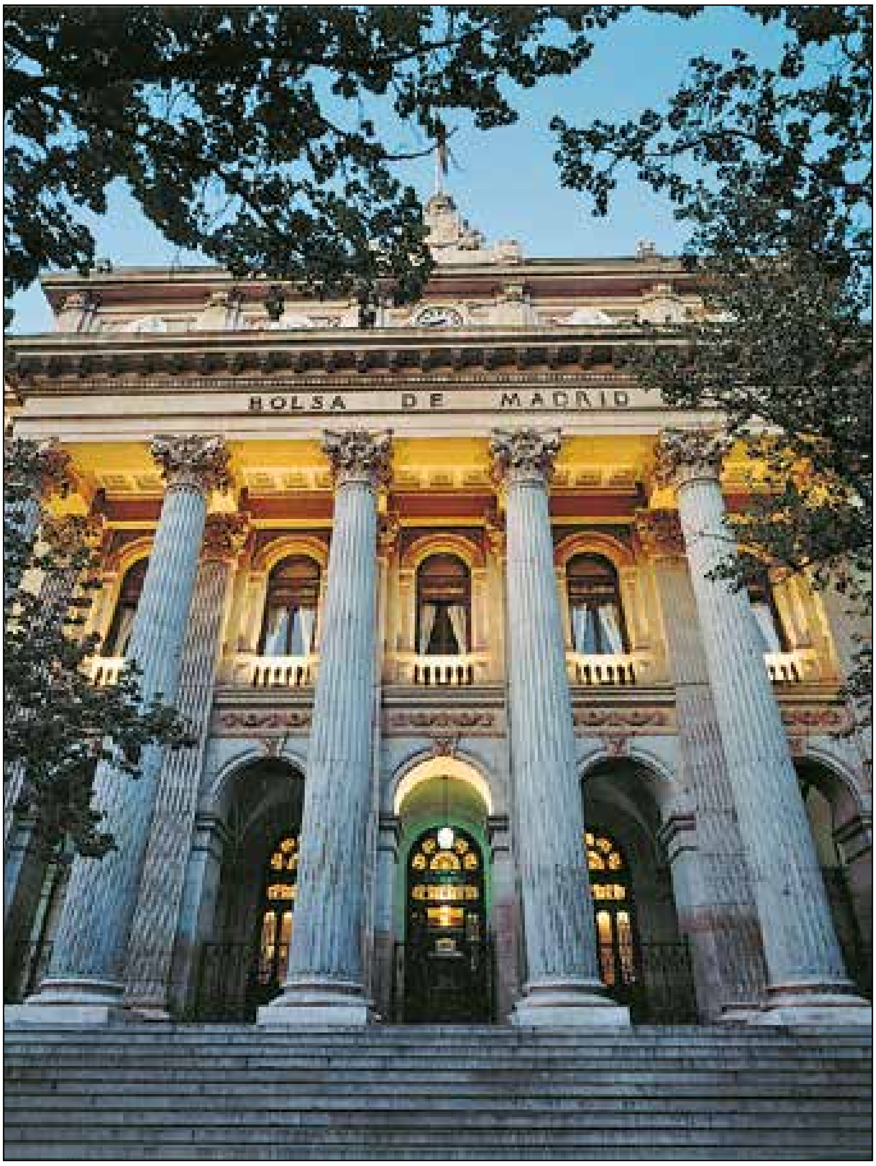
- **Savings concerning Excellence Plans:** Efficiency savings on the basis of the analysis defined for each Plan
- **Working Capital:** Inventories + Accounts Receivable - Accounts Payable
- **Net Cash Flow:** Profits after tax and minority interests + depreciation
- **Net financial debt:** Debt with credit institutions + bond issuance - cash flow
- **Net Financial Debt/EBITDA:** Net Financial Debt/annualised EBITDA
- **EBIT:** Operating result
- **Adjusted EBIT:** EBIT minus the provision for ERE in Acerinox Europa
- **EBITDA:** Gross operating result + depreciation + changes in current provisions
- **Adjusted EBITDA:** EBITDA minus the provision for ERE in Acerinox Europa
- **Profit after taxes and minority interests:** Result obtained without taking into account ERE in Acerinox Europa and year-end impairment losses
- **Debt Ratio:** Net Financial Debt/Net equity
- **Net Financial Result:** Financial revenue - financial costs ± exchange rate differences
- **ROCE:** Operating profit/(Net equity + Net financial debt)
- **Adjusted ROCE:** ROCE minus ERE in Acerinox Europa and year-end impairment losses
- **ROE:** Result after taxes and minority interests/Net equity
- **Adjusted ROE:** ROE minus ERE in Acerinox Europa and year-end impairment losses
- **ICR (interest coverage ratio):** EBIT/Net financial result

9.7 Evolution of the stock market

The geopolitical crises that occurred throughout the year, especially the trade war between the United States and China, the UK's complex process of exiting the European Union, as well as the twists and turns of monetary policies of the world's major central banks set the course, not only in the stainless steel sector, but in the markets in general.

IBEX 35 index closed the year with 12% increase facing the decrease of 15% registered during 2018.

The Fed's announcement of the end of rate hikes at the beginning of the year was instrumental in investors calming down in the face of the risk of recession. In the first half of the year, the IBEX rose 8% to 9,199.



Madrid Stock Exchange.

However, in the rest of the year it was some specific events that generated uncertainties and with it, volatility in stock markets. Continued information issued by the United States, and specifically negotiations with China, seriously concerned investors in August. There was a sharp stock market slump for fear that the tariff battle would lead to a drastic global economic downturn. China responded to tariffs with a devaluation of the yuan (Renminbi), and let it fall to its lowest level against the dollar. The IBEX lost 8,800 (-1.35%) and the Dow Jones -2.9%

In September, rate cuts and asset purchases by central banks sought to restore calm in markets and the investment community.

The stock market landscape improved after learning of the consensus for the first phase of the trade agreement between the major powers and Boris Johnson's victory in the UK general election. Central banks reinforced positive sentiment for investors in December, posing an economic scenario less threatened by risks.

The Spanish Stock Exchange also had to live with institutional paralysis with two elections from which no government has yet emerged at the end of the financial year. Uncertainty drove away many international investors looking for predictable markets, with stable regulatory frameworks.

Market evolution of the IBEX-35

The IBEX marked its annual high on 27 December (9,700.50 points) and the low on 15 August (8,519.00) inflection point of the year, with an upward trend throughout the second half of the year, to close at +12% (-15% in 2018)

Evolution of the main global indices, 2019 and 2018

	% 2019	% 2018
Germany DAX (TR)	+25%	-18%
FTSE MIB	+28%	-16%
IBEX 35	+12%	-15%
Euro STOXX 50	+25%	-14%
FTSE 100	+12%	-12%
France CAC 40	+26%	-11%
S&P 500	+29%	-6%
DJ Industrial	+22%	-6%
NASDAQ-100 Index	+38%	-1%

Source: Bloomberg

In general terms, the year was very positive for variable return investments worldwide. But it should be borne in mind that the stock exchanges suffered a heavy blow in the last months of 2018, especially in December when the main indices closed at a loss. Hence, part of the rise in 2019 may have been due to purely corrective movement.

The stock market rate of Europe's leading stainless steel producers was affected by the US-China trade war, raw material developments and uncertainties worldwide created by protectionist decisions, especially in Europe where the measures taken did not have the expected effect and the level of imports remained high.

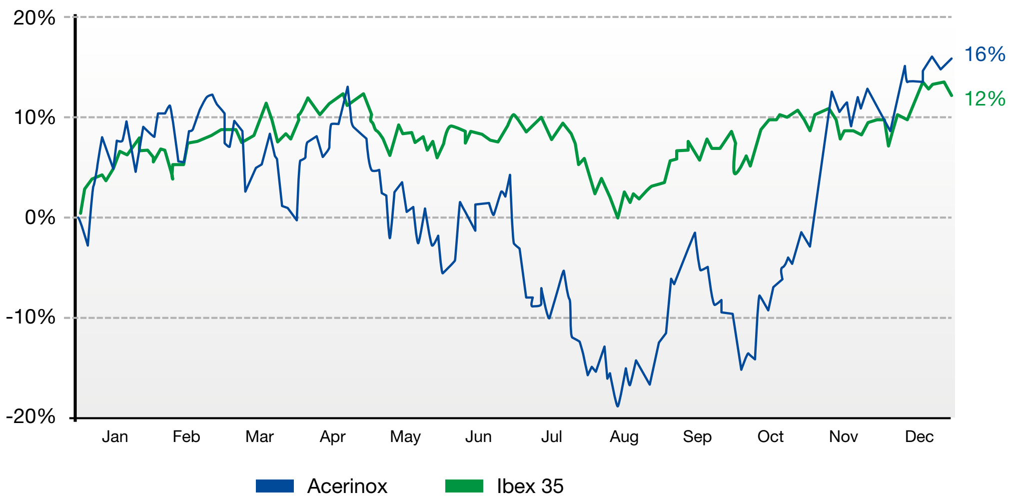
Closing of the stock price of the main European producers. 2019

ACERINOX	OUTOKUMPU	APERAM
+12%	-12%	+24%

Acerinox stock reached the low of the year on August 15 and from then on until the end of the year rose by +43%.

Market Evolution of Acerinox and the IBEX 35

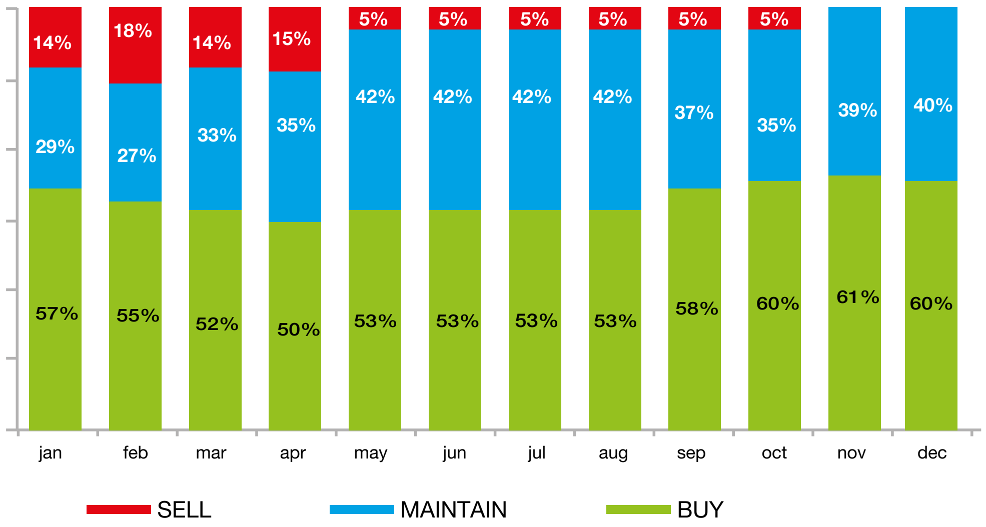
Daily percentage data, 2019.



Source: Bloomberg

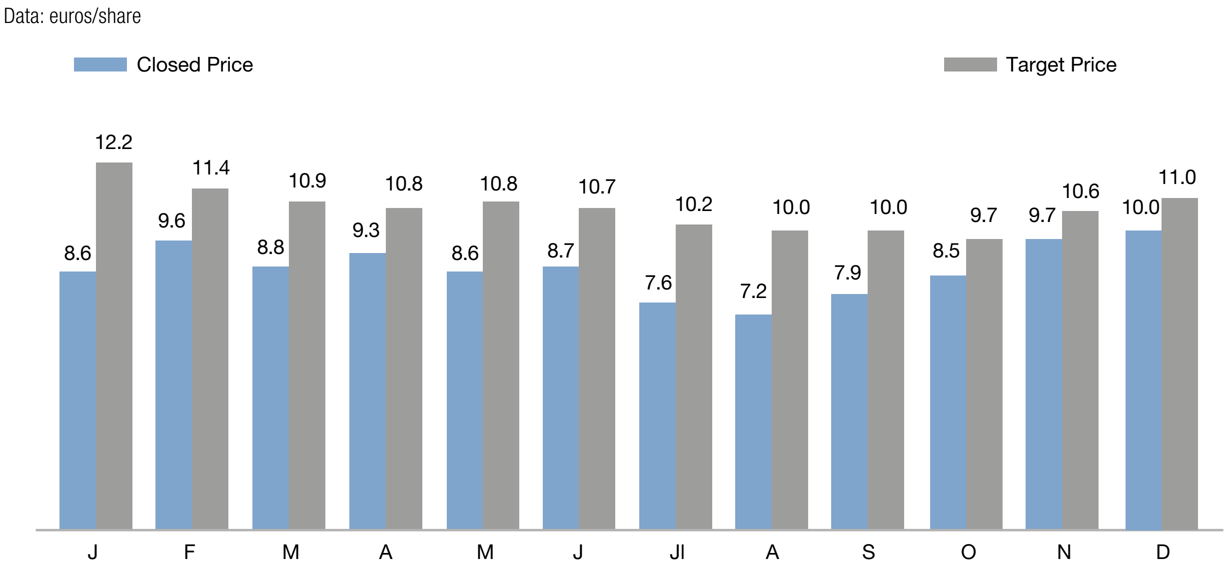
Third quarter results were published on 4 November and Acerinox rose from that date to 31 December, +17% and IBEX rose by +2%. On 8 November Acerinox announced the acquisition agreement of the German company VDM Metals, manufacturer of special alloys, and from that date Acerinox rose +6% and the IBEX gained +1%.

At the end of the financial year there is no recommendation to "sell" by analysts who follow Acerinox. 60% of them recommended "Buy" and 40% "Hold". On the following graph the evolution of recommendations can be seen throughout the year:



(Source: Bloomberg)

In relation to the 12-month target prices estimated by analysts, it was noted that fundamentally in the last months of the year, both target prices and share price, they experienced an upward change, the positive evolution of the results and the good reception of the announcement of the acquisition of VDM Metals.

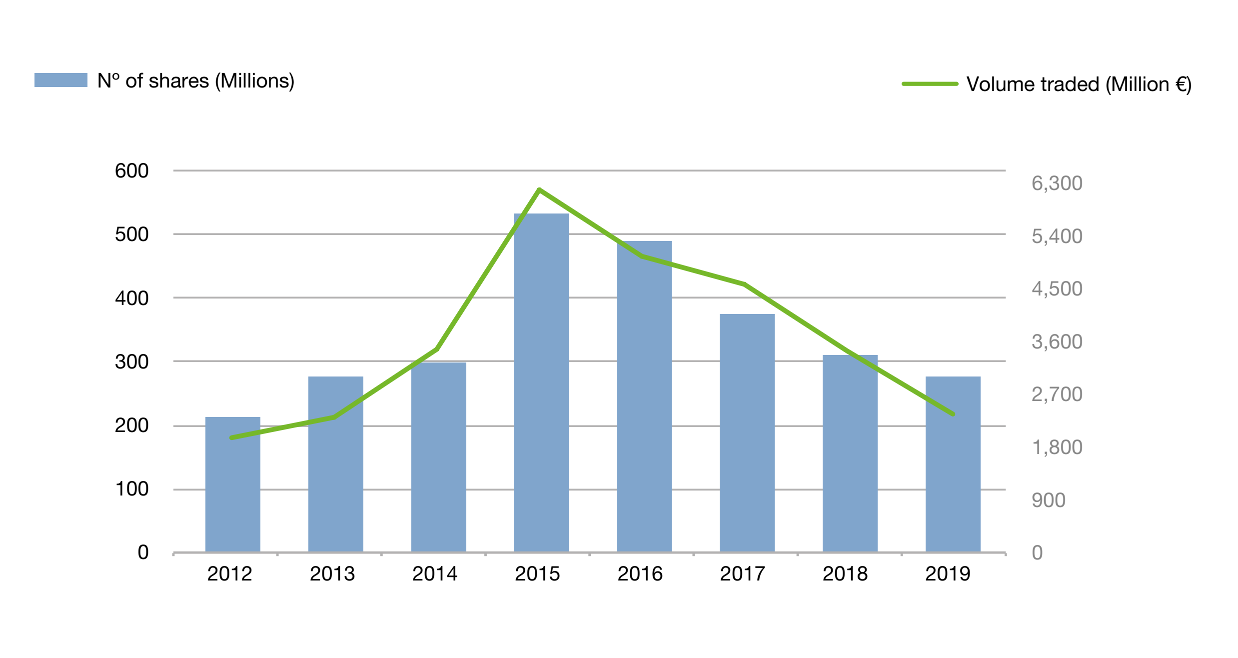


(Source: Bloomberg)

In 2019, Acerinox shares were traded for the 255 days the Continuous Market was open for business. The total number of shares traded was 273,714,078, equivalent to 1.01 times the number of shares that comprise the share capital, with an average daily trading of 1,073,389 shares.

The volume traded in 2019 totalled €2,411,034,437.94, a figure which represents a daily average of €9,455,037.

Share trading and cash

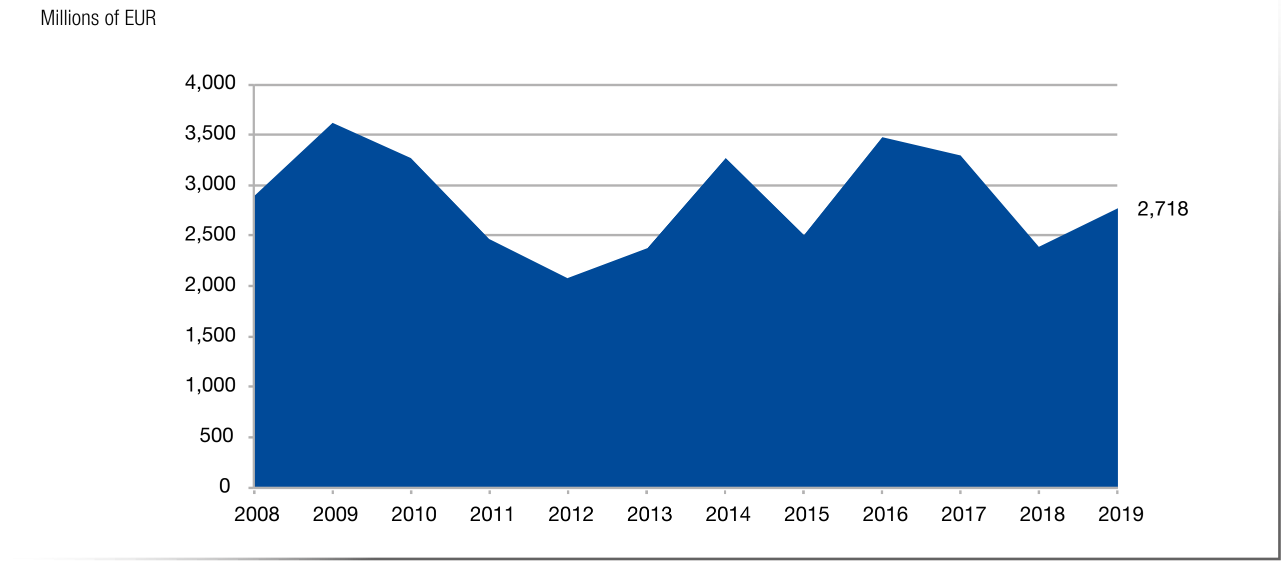


Logistic Centre in Tarragona (Spain).

9.8 Market cap

At the end of 2019, Acerinox's market capitalisation totalled €2.718 billion (14% higher than in 2018).

Market capitalisation of Acerinox, S.A.



9.9 Shareholder Remuneration

The Ordinary General Shareholders' Meeting held on 11 April 2019 approved the distribution of a dividend of €0.30/share in cash, which was paid on 5 June 2019. It was also agreed to distribute an amount of €0.20 per share against the share premium, on 5 July 2019.

With the sum total of the dividend plus the share premium, in 2019 the return to shareholders increased by 11%, from the €0.45 per share which Acerinox had been paying its shareholders without interruption since 2006, to the €0.50 paid in 2019.

9.10 Capital decrease by redemption of own shares

In the General Shareholders' Meeting held on 11 April 2019, it was agreed to reduce Acerinox's share capital by €1,380,337.50 by the redemption of 5,521,350 treasury shares. These shares were acquired within the First Share Buy-Back Programme approved by the Board of Directors held on 20 December 2018 and it was implemented between 21 December 2018 and 20 March 2019.

As a consequence of this share redemption, Acerinox's share capital was established at €67,636,548.25 and is represented by 270,546,193 with a nominal value of twenty five euro cents per share.

The total cost of the acquisition on the Stock Market of the 5,521,350 redeemed shares was €51,048,126.51

9.11 Treasury shares and buy-back

During the 2019 financial year, no shares were acquired for the payment of the first cycle (2018-2020) or the second cycle (2019-2021) of the multiannual remuneration or long-term incentive plan (ILP) established to benefit executive directors and the rest of the group's senior management, approved at the 2018 General Meeting

There are currently 93,320 treasury shares acquired in 2018, intended for payment of the first cycle (2018-2020) of the aforementioned Remuneration Plan for Executive Directors and other senior management staff of the group.

Self guided Vehicle used in our Campo de Gibraltar Mill (Spain) for internal transports.

10. THE RISKS AND THEIR MANAGEMENT

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

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

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

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

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

Moreover, the substantial risks facing the Company on a daily basis requiring full-time management and special surveillance are inter-related and can be summarised in the following diagram:

The main risks are as follows:

- Competition: Business risks related to competition and trade barriers in the various international stainless steel markets.
- Economic Cycles: Demand for products in light of developments in the markets.
- Overcapacity: Business risks related to production overcapacity, especially in China and its impact on reduction of prices.
- Raw Materials: Large variations in their value and availability, especially in short periods of time.
- Cybersecurity: not only the usual daily operation (multi-channel communication, management and control systems...), but also the entire digital transformation process in which the Group is immersed, may be affected by attacks on the confidentiality, integrity and availability of information.
- Financial: Lack of liquidity, restricted access to funding sources, increasing funding costs, the volatility of exchange rates, the volatility of interest rates and credit risks.
- Strategic risks: regulatory uncertainties and the evolution of investments.
- Regulatory risks: Presence in the international arena with activities in numerous countries, regulatory frameworks, and business environments. Special attention to compliance and care with regard to environmental issues.

Presentation of Results for the Year 2019.

10.1 Financial risks

The Group's activities are exposed to diverse financial risks: market risk (exchange rate risk, interest rate risk and price risk), credit risk and liquidity risk. The Group seeks to minimise potential adverse effects on the Group's financial profitability through the use of derivative financial instruments, where appropriate, as well as by taking out insurance. The Group does not acquire financial instruments for speculative purposes The management of financial risks can be consulted in detail, in Note 4 of the accompanying report of the Consolidated Group.

11. CORPORATE GOVERNANCE

- *Appointment of Members of the Board*
- *Re-appointment of Board members*
- *10 sessions held during the year*
- *Assessment of BOD performance*
- *35 sessions of Governance bodies*

- *Shareholder´s General Meeting*
- *VDM*
- *End of the stock purchase program*
- *Capital reduction*
- *Payment of dividend*
- *Approval of Internal Policy*

Traditionally the Acerinox Board has been one of the most diverse of the IBEX 35, coinciding with people of different nationalities (up to five) and coming from several continents. It has represented a great experience in the field of industrial (energy, steelmaking, automotive, renewable energies, chemistry, food to name a few, in the (investment banking, savings banks and banks) the public sector, information technologies, pharmacy and universities.

By gender, the Board currently has 23.7% female members. However, the company is committed to reaching 30% by 2020.

To support this process of seeking and incorporating qualitative diversity, the Board approved a matrix of competencies, which it has also extended to its various committees that allows it to know their strengths and competencies matrix in greater detail and which is a tool that will guide the selection of those who must fill vacancies in the future.

Changes in the Board of Directors

New	**D. Pablo Goméz Garzón** External Proprietary representing Corporación Financiera Alba	**D. Mitsuo Ikeda** External Proprietary representing NSSSC	**D. Ignacio Martín San Vicente** External Independent (Ratification)	**D. George Donald Jonhston** External Independent (Ratification)
Leave	**D. Pedro Ballesteros** External Proprietary representing Corporación Financiera Alba	**D. Katsuhisa Miyakusu** External Proprietary representing NSSSC	**D. Manuel Conthe** External Independent	**D. Mvuleni Geoffrey Qhena** External Proprietary, Representing IDC

11.1 Share Capital

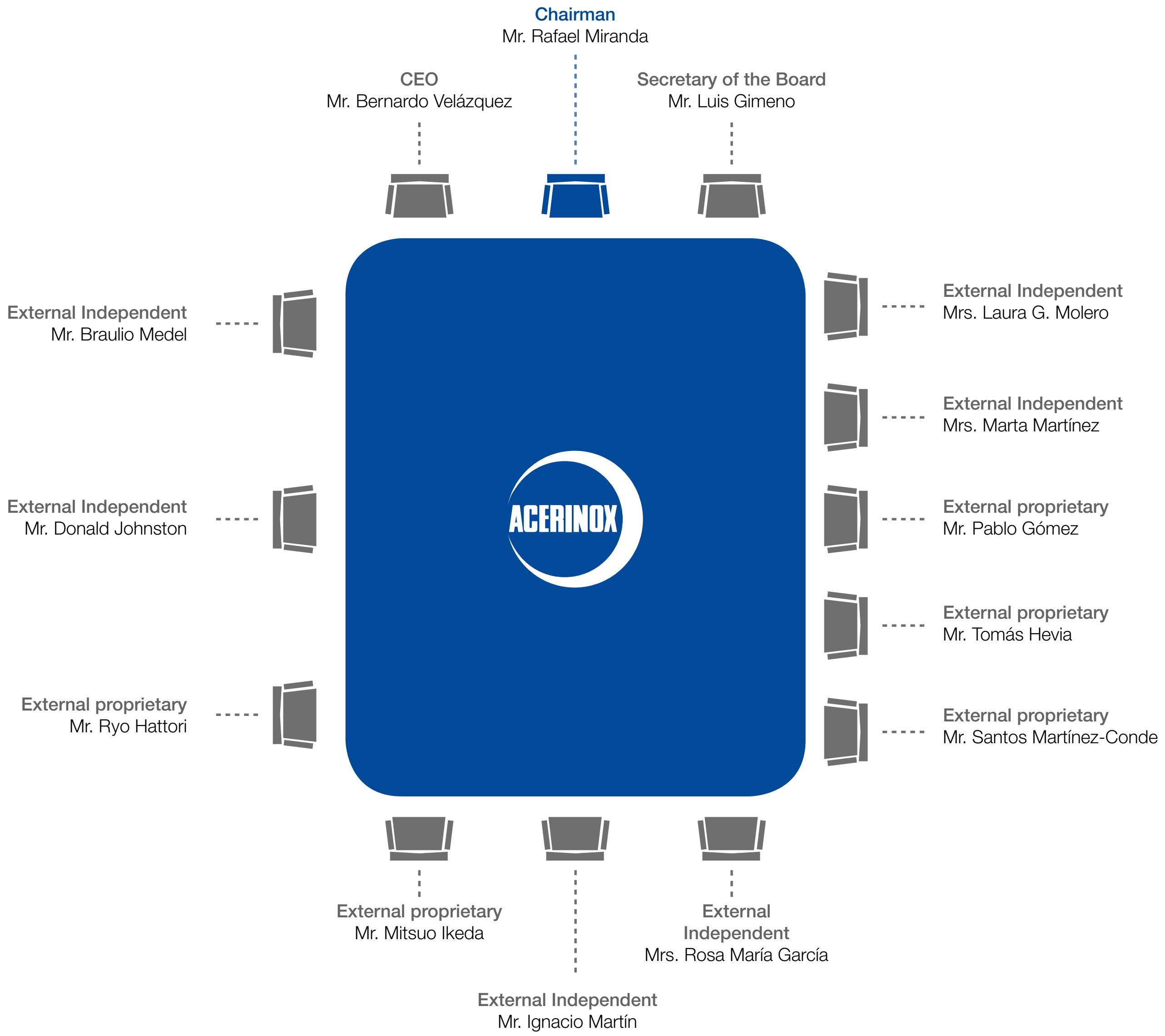
On 31 December 2019, Acerinox's share capital totalled €67,636,548.25, divided into 270,546,193 shares, each with a nominal value of €0.25.

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

As of 31 December 2019, Acerinox had a total of 34,600 shareholders.

11.2 The Board of Directors and its Committees

Board of Directors



The Board of Directors undertook the commitment to carry out an annual assessment of its performance and carry out this exercise every three years through the services of an external consultant. The 2019 assessment increased its scope as all of the directors assessed the performance of all Board bodies, including committees of which they are not members. The result was a higher level of requirements, which resulted in an undoubted stimulus that points to new areas of improvement.

From an organic point of view, both the Board and its Committees increased their activity in this financial year. In addition to the ten meetings held by the Board, the Appointments, Remuneration and Corporate Governance Committee and the Executive Committee also increased in frequency, to six and ten respectively, together with the nine meetings of the Audit Committee amounted to a total of 35 meetings of the Group's governing bodies, not counting the General Meeting. This figure is expected to be maintained in successive years.

Despite the additional effort that the intensification of corporate life entails, the Board reflected on its size, and decided to bring the number of members closer to what can perhaps be regarded as the average of listed companies on the IBEX 35. It therefore proposed that the Board not fill the vacancy left at the end of Mr Manuel Conthe's term of office and has not covered the discharge resulting from the termination of the Proprietary Board Member Mr Mvuleni Qhena.

Since 2016 the largest group in this body is that of the independent directors, with seven members, followed by the five proprietary directors, and one executive director. It has been sought to ensure that this proportion is repeated in the Executive Committee where it has been taken care that there is a proportion similar to that of the shareholders; four independents, one executive and three Proprietary Directors. In the Appointments, Remuneration and Corporate Governance Committee, the distribution is three independent and a proprietary member and the same applies to the Audit Committee. Both in the Board itself as well as the Committees, the chairperson's position is occupied by an independent director.

As the year 2018 ended with the adaptation of the Board's Regulations to the Technical Guide of the National Stock Market Commission on Audit Committees, 2019 does so with an amendment to the Regulation as a result of similar guidance, this time with regard to the Appointments and Remuneration Committees. It is particularly important that the Board preferred to maintain both powers in the same Committee, as opposed to one of the recommendations, which is precisely to split it by assigning its functions to two distinct committees. The Committee further strengthened its powers in matters relating to corporate governance. This Committee was set up as the guarantor of good practice in the internal sphere. A version of the Rules of Procedure of the Board of Directors with the annexes containing the aforementioned amendments can be found on the company's website (www.acerinox.com) .

This policy section must highlight the adoption during 2019 of a new General Policy, number 9, dedicated to foreseeing and regulating conflicts of interest, to laying the groundwork for the procedures in cases where the directors, senior executives of the Company and the companies of their Group and persons linked to one another could be involved. Continuing with policies, the fact that several years have passed since the approval of the oldest ones, changes in regulations, trends in legal doctrine and attitudes of regulators mean that there is a need to review and, where appropriate, make the requisite adjustments to them, work which has already begun and which is expected to be completed in this financial year.

At the request of the Appointments, Remuneration and Corporate Governance Committee, the Board procured its own dissemination and knowledge-enhancing mechanisms. The Board thus held meetings with the aim of examining in depth matters such as raw material markets, the importance of energy in the business objective, the future of stainless steel, the impact of various energy sources on the automotive sector, the growing influence of voting advisors, as well as regular regulatory and case law updates. This good practice is expected to increase in the coming financial years.

This need to improve inputs from decision-making bodies also resulted in the growing presence of third parties, non-members of the corporate bodies in the deliberations. On the one hand, the attendance increased of several managers of the organisation who had to demonstrate in person their expertise and knowledge in specific areas, and did so with the presence lawyers, auditors and investment bankers when they were called upon to do so. These hearings were particularly significant in the Executive Committee, the body that designs the Group's medium-and long-term strategy and where some of the strategic decisions are reviewed for its submission to the Council after discussion and approval.

The governing bodies also promoted, at the proposal of the CEO, the growth in the number of the Group's senior management positions, increasing the number of senior managers, from eight to ten, by assigning the Director of Strategy to this position and with the creation of a new Directorate of Institutional Relations, Sustainability and Communication, which among other functions will consolidate tasks in spheres as important as sustainable growth, energy savings, and the circular economy throughout the Group.

To conclude this section, the Board of Directors was particularly sensitive to the shareholders in this financial year, taking decisions of great importance. On the one hand, the dividend per share increased from €0.45 to €0.50 and on the other it launched a first share repurchase programme for repayment, in order to increase remuneration in 2019 and in successive years. The details of this buy-back transaction, which generated a capital decrease decision by way of the redemption of shares at the General Meeting, can be found in the corresponding section of this report.

General Shareholders Meeting in Madrid on April 11, 2019.

Members of the Board of Directors

RAFAEL MIRANDA ROBREDO

Chairman
Independent External Director

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

During his professional career, Rafael Miranda has held numerous prestigious positions such as CEO of Endesa S.A. and Vice President of the Industrial Division of Campofrío. His career has made him an exemplary model in the business community both for his role in the modernisation of the electrical system and for his management of large corporations. He has been decorated with the Grand Cross of Civil Merit and the Grand Cross of Isabel La Católica, as well as being named Commander of the Order of Bernardo O'Higgins (Chile).

BERNARDO VELÁZQUEZ HERREROS

Chief Executive Officer
Executive

Mr Bernardo Velázquez Herreros, a Spanish national, holds a degree in Industrial Engineering from ICAI and has been the CEO of Acerinox since 2010.

Since joining the Marketing Department of Acerinox in 1990, Bernardo Velázquez has taken on positions of added responsibility within the company, accumulating more than 29 years in the international stainless steel business.

On his return to Spain, after his experience in Mexico and Australia, he held the positions of Assistant Managing Director, Systems Manager and Strategy Manager in 2005. In 2007, he was appointed Managing Director, a position he held until his appointment as Chief Executive Officer in July 2010.

He is also currently Chairman of Acerinox Europa and North American Stainless. He combines these positions with that of Vice-Chairman of the International Stainless Steel Forum (ISSF) and Director of World Steel (International Steel Manufacturers' Association).

ROSA MARÍA GARCÍA PIÑEIRO

Director
Independent External Director

Ms Rosa María García Piñeiro, a Spanish national, has been an independent director since 2017 and member of the Executive Committee since March 2018. She is an Industrial Engineer with a Master's degree in Industrial Organization and Management from the University of Vigo and the National University of Ireland, as well as a Master's degree in Environmental Engineering from the Escuela de Organización Ambiental in Madrid and an Executive MBA from the Haute École de Commerce, among other qualifications.

Ms García Piñeiro is Vice-Chair of Global Sustainability at Alcoa and Chairman of the Alcoa Foundation. She has also served as Chairman of Alcoa Spain. She is a member of the Board of Directors of ENCE Energía y Celulosa.

LAURA G. MOLERO

Director
Independent External Director

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

González Molero is currently president of the Association for the Progress of Management (APD) and developed his career in international pharmaceutical chemical companies, having been CEO and Chairman of Merck Spain and Bayer Latin America and Independent Director at Calidad Pascual. He is currently an Independent Director of Adecco Foundation (NGO), Bankia, Grupo Ezentis and Viscofan.

PABLO GÓMEZ GARZÓN

Director
External Proprietary Director, representing Corporación Financiera Alba, S.A.

Mr Pablo Gómez Garzón, a Spanish national, has a degree in Business Administration and Management from the CUNEF (University College of Financial Studies) in Madrid and he is currently a member of the Investment Department at Corporación Financiera Alba S.A. and also a Board Observer at Verisure.

He previously worked in the Mergers and Takeovers Departments at BNP Paribas in Madrid and London and ABN Amro in Madrid. He has been a members of the Board of Directors of Clínica Baviera, ACS Servicios y Concesiones, and of ACS Servicios, Comunicaciones y Energía.

RYO HATTORI

Director
External Proprietary Director, representing NIPPON STEEL Stainless Steel Corp.

- Mr Ryo Hattori, a Japanese national, holds a degree in Law from the University of Meiji in Japan.

Mr Hattori is the Managing Director for Special Assignments of the Stainless Steel Sales Department and the Overseas Projects Department of NIPPON STEEL Stainless Steel Corporation. He has been a member of the Board of Directors of Acerinox since May 2009, as a Proprietary Director: representing NIPPON STEEL Stainless Steel Corporation, and is also a member of the Executive Committee.

TOMÁS HEVIA ARMENGOL

Director
External Proprietary Director, representing Corporación Financiera Alba, S.A.

Mr Tomás Hevia Armengol, a Spanish national, was appointed as a proprietary director representing Corporación Financiera Alba S.A. in December 2016 and has been a member of the Executive Committee since 2017. He holds a degree in Business Administration and Management and Law from the Comillas Pontifical University in Madrid. Tomás Hevia also holds an MBA from the IESE Business School of the University of Navarre. Tomás Hevia is currently a member of the Investments Department of Corporación Financiera Alba

He previously held positions in the Mergers and Acquisitions and Equity Capital Markets Departments of Royal Bank of Scotland and ABN AMRO in Madrid and London. He is Observer Director of the Board in Parques Reunidos and he has been member of the Board of Clínica Baviera, ACS Servicios y Concesiones, Dragados and Antevenio.

MITSUO IKEDA

Director
External Proprietary Director, representing NIPPON STEEL Stainless Steel Corp.

Mr Mitsuo Ikeda, a Japanese national, was appointed Proprietary Director representing NIPPON STEEL Stainless Steel Corporation in 2019. Ikeda holds a degree in Economics from Sophia University, Japan.

Ikeda has held positions of responsibility within the Japanese steel sector since 1981 and is currently carrying out representative roles at the International Stainless Steel Forum (ISSF).

DONALD JOHNSTON

Director
Independent External Director.

Mr Donald Johnston, with dual United States and British nationality, has been an independent director since 2014, and Chairman of the Audit Committee since 2018. He holds a Bachelor of Arts in Political Science from Middlebury College and Master of Arts in International Economics and Latin-American Studies from Johns Hopkins University. Mr Johnston is currently an Independent Director of Merlin Properties Socimi S.A. and an independent Director of Banco Sabadell.

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

IGNACIO MARTÍN SAN VICENTE

Director
Independent External Director.

Mr Ignacio Martín San Vicente, a Spanish national, has been an independent director since October 2018 and member of the Executive Committee since the same date. He holds a degree in Industrial Engineer from the Higher Technical School of Industrial Engineering in San Sebastián.

His career has been in the industrial sector, where he has worked in positions of responsibility as Executive Chairman of Gamesa and CEO of CIE Automotive. He previously held management positions at companies such as GSB Grupo and GKN Driveline and Alcatel. He is currently a Director on the boards of Repsol, Bankoa and Indra.

MARTA MARTÍNEZ ALONSO

Director
Independent External Director

Ms Marta Martínez Alonso, a Spanish national, has been an independent director since 2017 and a member of the Acerinox Audit Committee since mid-2018. Marta Martínez Alonso received her Bachelor's degree in Mathematical Sciences at the Universidad Complutense de Madrid, and she completed a PADE (Program for High Business Management) at IESE.

Martínez Alonso has been the President of IBM Spain, Portugal, Greece and Israel since 2013. In this same company, she has served as part of General Management of IBM Global Technology Services, and was an executive of the communications sector for Spain and Portugal after joining the company in 2003

SANTOS MARTÍNEZ-CONDE GUTIÉRREZ-BARQUÍN

Director
External Proprietary Director, representing Corporación Financiera Alba S.A.

Mr Santos Martínez-Conde Gutiérrez-Barquín, a Spanish national, has been a member of the Board of Directors since 2002, as an external proprietary Director, representing Corporación Financiera Alba, S.A., and member of the Executive Committee since 2008 and of the Appointments, Remuneration, and Corporate Governance Committee since 2004. He holds a degree in Civil Engineering with a Master's Degree in Business Management from ICADE and a Diploma in Nuclear Technology from ICAI.

Martínez-Conde is the CEO of Corporación Financiera Alba and a Director of Banca March., Indra Sistemas, Bolsas y Mercados Españoles, CIE Automotive and Artá Capital SGECR. He is Chairman of Deyá Capital SCR, Artá Partners and Deyá Capital IV SCR. He has pursued the rest of his career at Sener Técnica Naval e Industrial, Técnicas Reunidas, Bestinver, Corporación Borealis and Banco Urquijo.

BRAULIO MÉDEL CÁMARA

Director
Independent External Director

Mr Braulio Médel Cámara, a Spanish national, has been a member of the Board of Directors and Appointments, Remuneration, and Corporate Governance Committee since 2008. He holds a degree in Economic and Business Sciences from the Complutense University of Madrid and a doctorate in Economic and Business Sciences from the University of Malaga, where he is a Senior Professor of Public Finance. Médel, Chairman of Unicaja Banco S.A. between 1991 and 2016, currently chairs the Unicaja Banking Foundation and the Andalusian Federation of Savings Banks, as well as being Vice Chairman of the Spanish Confederation of Savings Banks, which he headed between 1991 and 1998.

He has also been Vice-Minister of Economy and Finance of the Regional Government of Andalusia and Chairman of the Andalusian Board of Economists' Associations.

LUIS GIMENO VALLEDOR

Secretary of the Board

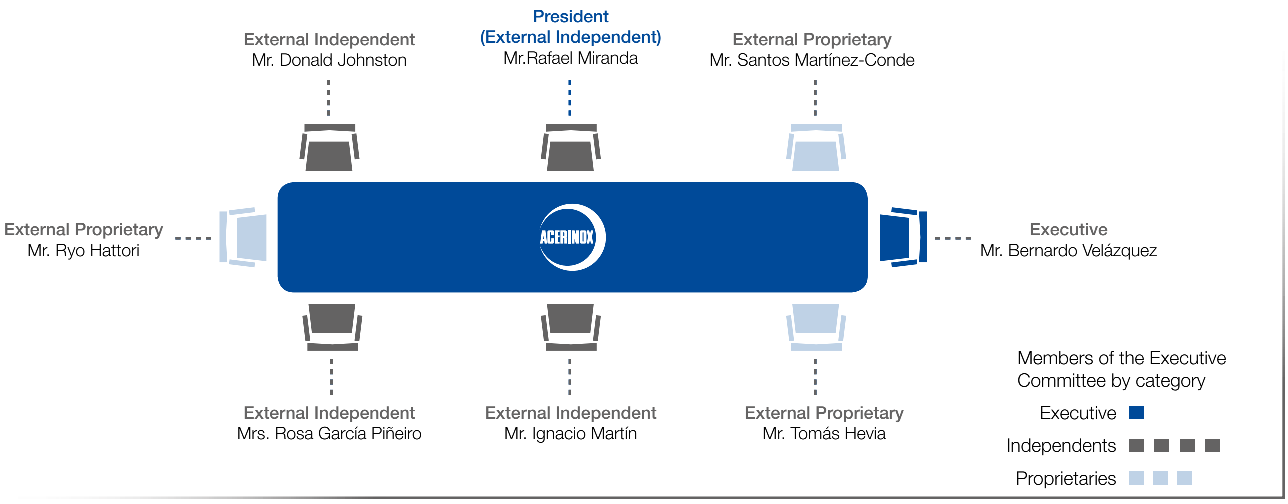
Mr Luis Gimeno Valledor, a Spanish national, holds a degree in Law from the Autonomous University of Madrid. In 1986 he passed the exam for admission to the State Attorneys Service, from which he is currently on voluntary leave.

In 1996 Gimeno was named Managing Director of Public Functions and in 1998 Managing Director of Taxation in the Community of Madrid, where he remained until the year 2000. From then until 2008, he practised law for the firm Cuatrecases, in which he became an Equity Partner.

In 2008, he joined the Acerinox Group as General Secretary and has held the position of Secretary of the Board since 2016.

Between 1996 and 2008 he also taught as a professor at both CEU San Pablo University and the Business Institute.

Executive Committee

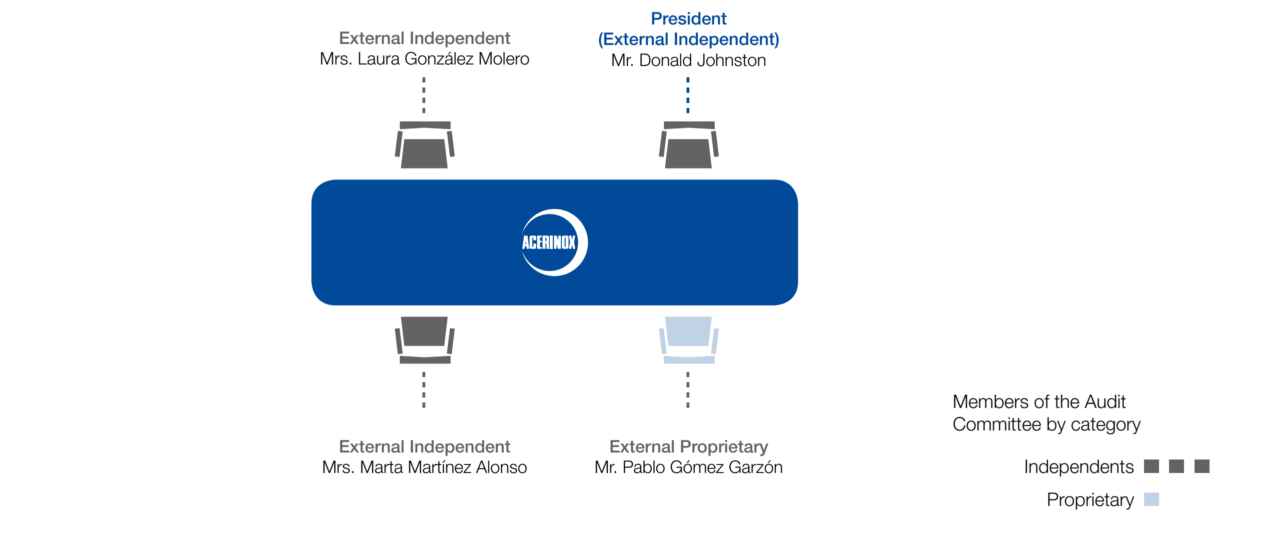


The Board of Directors appointed an Executive Committee in 2008 to attend to the normal course of business and facilitate its regular monitoring. This body is presided by the Chairman of the Board. The Chief Executive Officer is necessarily a member of the Executive Committee.

In order to facilitate transparency and communication among the governance bodies, the Company's rules empower the Chairman to propose to the full Board the ratification or further deliberation of any matter discussed or decided on by the Executive Committee. The committee met on seven occasions in 2019.

For further information regarding its activities, please refer to the web page www.acerinox.com in the section on the 2019 Annual General Meeting.

Audit Committee



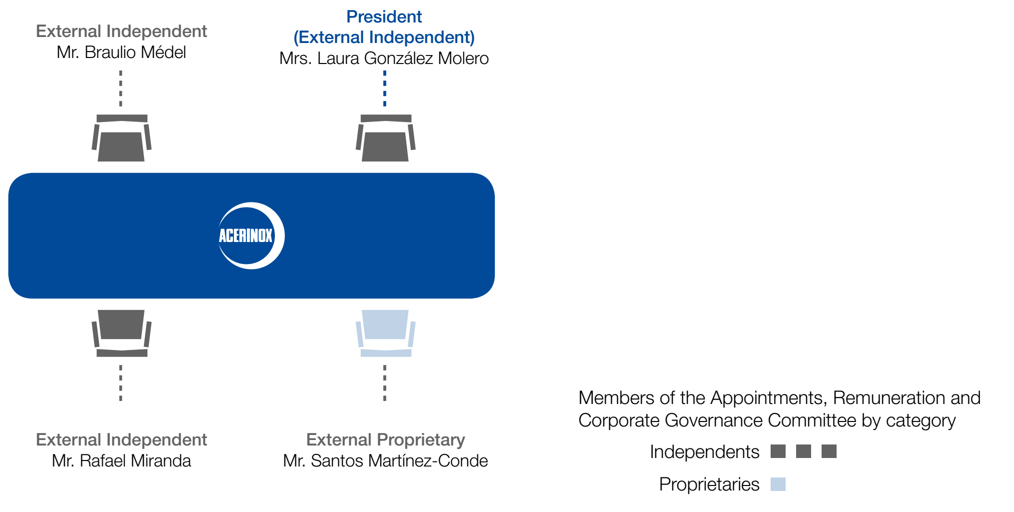
This Committee met in 2019 on a total of nine occasions, allowing it to carry out its planned work schedule and fulfil its main responsibilities, involving:

- Reporting on the annual, biannual and quarterly accounts.
- Supervising internal audit services and the effectiveness of the company's internal monitoring and risk management systems.
- Supervising the process of preparing and presenting the regulated financial information.
- Supervise the Control of the Internal Audit Service and the Crime Prevention Model.

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

For further information regarding its activities, please refer to the web page www.acerinox.com in the section on the 2019 Annual General Meeting.

Appointments, Remuneration and Corporate Governance Committee



During 2019, it held six sessions in which task groups such as appointments, ratifications, re-elections and resignations of directors as well as changes in Senior Management were highlighted, with two new appointments; the review of the reports; matters related to remuneration, Corporate Governance issues, matters related to CSR and sustainability, and regulatory activities and issues assimilated to them.

This Committee coordinates, at the request of the Chairman of the Board of Directors, the assessment of the Board's performance. The Appointments, Remunerations and Corporate Governance Committee is chaired by an Independent Director, and the Secretary of the Board of Directors acts as its secretary.

For further information regarding its activities, please refer to the web page www.acerinox.com in the section on the 2019 Annual General Meeting.

Senior Management Committee

CEO

Seniors Management

BERNARDO VELÁZQUEZ	**Chief Executive Officer**
DANIEL AZPITARTE	Commercial Director
MIGUEL FERRANDIS	Financial Director
ANTONIO MORENO	Production Manager
FERNANDO GUTIÉRREZ	Director of Strategy and Raw Materials
OSWALD WOLFE	Director of Institutional Relations, Sustainability and Communication
LUIS GIMENO	General Secretary
CRISTÓBAL FUENTES	CEO of NAS
JOHAN STRYDOM	CEO of Columbus Stainless
MARK DAVIS	CEO of Bahru Stainless

11.3 General Shareholders' Meeting

The General Shareholders' Meeting was held in Madrid on 11 April 2019 and chaired by Mr Rafael Miranda Robredo. As was the case the previous year, the meeting took place in the Mutua Madrileña Automovilística building, in Paseo de la Castellana, No. 33.

The Meeting was attended by 1,935 shareholders, both present and represented, in possession of 171,337,987 shares, thus accounting for 62.06% of the subscribed voting capital.

The resolutions on the Agenda were passed in their entirety by the following majorities:

	Votes in favour %	Votes against %
1. Approval of the Annual Accounts	99.93	0.006
2. Approval of the Consolidated Statement of Non-Financial Information	80.21	19.721
3. Distribution of Profits	99.99	0.001
4. Approval of the management of the Board of Directors	99.63	0.074
5. Approval of the distribution of dividends	99.99	0.001
6. Approval of the distribution of the share premium	99.99	0.001
7.1. Ratification and appointment of Mr Ignacio Martín San Vicente as an Independent Director	98.96	0.283
7.2. Appointment of Mr George Donald Johnston as an Independent Director	98.62	0.613
7.3. Appointment of Mr Pablo Gómez Garzón	98.93	0.334
7.4. Appointment of Mr Mitsuo Ikeda as a Proprietary Director	98.94	0.332
8. Reduction in the number of Directors from 15 to 14	99.26	0.014
9. Reduction in the share capital due to the redemption of 5,521,350 shares	99.99	0.003
10. Authorisation for the Board to buy back treasury shares	99.72	0.263
11. Approval of the 2nd cycle of the Remuneration Plan for Executive Directors and Senior Management	99.63	0.288
12. Submission to voting of the Annual Report on the Remuneration of Directors of Acerinox S.A.	97.57	1.444
13. The Chairman's report on the most important aspects of the Corporate Governance	---	---
14. Information on the amendment of the Board Regulations	---	---
15 Delegation of powers for the execution, correction and authorisation of the resolutions adopted at the Meeting	99.99	0.001
16. Appointment of scrutineers to approve the Minutes of the Meeting	99.99	0.001

11.4 Main Executives of the Group's Companies

Top Executives of the Industrial Companies

Acerinox Europe:
ANTONIO MORENO

North American Stainless:
CRISTÓBAL FUENTES

Columbus Stainless:
JOHAN STRYDOM

Bahru Stainless:
MARK DAVIS

Roldán:
JORGE RODRÍGUEZ

Inoxfil:
ÁNGEL BRUÑÉN

Top Executives in our Commercial Companies

SPAIN

Inoxcenter:
LUIS GUTIERREZ

Inoxidables de Euskadi:
JOSÉ CRUZ DE VICIOLA

C.S. de Pinto:
FLORENCIO ZURDO

C.S. de Gavá:
JUAN ESTEVE

C.S. de Betanzos:
ÁLVARO SUÁREZ

By continents (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

ASIA

Acerinox South East Asia (Singapore):
IRENE TEO LIN

Acerinox India (India):
PRATIK KACHCHHI

Acerinox SC. Malaysia (Malaysia):
BARRY FOO

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

Acerinox Indonesia SA. (Indonesia):
AMELIA CHRISTINA SODIK

Acerinox SEA (Vietnam):
TRAN THI THANH

Acerinox SEA (Thailand):
PRAWIT LERTWIMONRAT

Acerinox SEA (Philipines):
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 HORAKOVA

Acerinox UK (United Kingdom):
PABLO CANTLE

Acerinox Russia (Russia):
ROMAN BUTYRIN

Acerinox Metal Sanayi (Turkey):
SANTIAGO MUÑOZ

Acerol (Portugal):
DANIEL SILLERO

OCEANÍA

Acerinox Australasia (Australia):
CLAUDIO LEÓN DE LA BARRA

12. SIGNIFICANT EVENTS SINCE THE END OF THE FINANCIAL YEAR

Among the significant events that occurred in the first two months of 2020 were the following:

- Commencement by the European Commission of inspections of hot rolled imports as part of the anti-dumping process launched against China, Indonesia and Taiwan and anti-subsidy measures against China and Indonesia with the aim of being able to implement retroactive measures as the case may be.

- EUROFER, on behalf of European steel manufacturers, has filed a formal complaint with the FCE and the LME on the basis of indications of manipulation of nickel prices on the London Metals Commodities Market by the Chinese manufacturer Tsingshan. This coincided with the application to the US Department of Trade by AISI, the American Association of Steel Manufacturers, to exclude Indonesia from the list of countries with preferential access to the US market.

In January, the US competition authorities gave the green light to the purchase of VDM Metals by Acerinox.

At the time of writing, authorisation was received from the Committee on Foreign Investment in the United States (CFIUS) for the acquisition of VDM. Acerinox is awaiting the decision of the European authorities.

The impact that the expansion of covid-19 (coronavirus) may have on the economy and on our industry is uncertain.

Bernardo Velázquez, Acerinox CEO and Thomas Ludwig, President and Managing Partner of Lindsay Goldberg Vogel (former holding company of VDM Metals).

Interior of the BA Line in our Acerinox Europa Mill in Campo de Gibraltar (Spain).

Consolidated Annual Accounts

SL-5 line in Columbus Mill, Middelburg (South-Africa.

ACERINOX, S.A.
and Subsidiaries

Annual Accounts of the Consolidated Group
31 December 2019

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

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 balance sheet as at December 31, 2019, and the income statement, statement of other comprehensive income, statement of changes in equity, cash flow statement and related notes, all consolidated, for the year then ended.

In our opinion, the accompanying consolidated annual accounts present fairly, in all material respects, the equity and financial position of the Group as at December 31, 2019, 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.

R. M. Madrid, hoja 87.250-1, folio 75, tomo 9.267, libro 8.054, sección 3ª
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
Goodwill recovery	
As indicated in Notes 2.8, 2.12 and 7.1 of the accompanying consolidated report, the Group carries out, at least at the end of each fiscal year, the estimate of the recoverable value of goodwill. For calculations of recoverable value, the Group uses cash flow projections based on financial budgets approved by the Management that require relevant judgments and estimates that include, among others, the operating result on sales and discount and growth rates in the long term, considering that the projected flows are subject to uncertainty. The most significant assumptions used by the Group are summarized in Note 7.1 of the attached consolidated report. As mentioned in this Note 7.1, in the year 2019 there was an impairment of 67,889 thousand euros corresponding to the entire goodwill linked to the acquisition during 2002 of a controlling interest in the company Columbus Stainless , Ltd. Deviations in these variables and management estimates can determine important variations in the calculations made and, therefore, in the goodwill recovery analysis. This fact, together with the relevance of the consequent deterioration recorded, motivates it to be a key issue for our audit.	First, we have proceeded to understand the relevant processes and controls related to the evaluation of impairment in goodwill 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. With regard to cash flows, we have verified the calculations made and compared the projected annual flows, which are based on the plans and budgets approved by the Group Management, with those actually achieved in the year 2019. Likewise, we question the key assumptions used by the Group Management, contrasting them with historical, comparable results available and other external sources. For this we have relied on experts in valuations of our firm that have evaluated the methodology and key assumptions used to calculate the current value of the flows estimated by the Group. Additionally, we have assessed the reasonableness of the sensitivity analysis broken down in the accompanying consolidated annual accounts report. As a result of the analysis performed, we consider that the conclusions of the Group Management on the estimates made and the consequent deterioration recorded, as well as the information disclosed in the attached consolidated annual accounts are adequately supported and consistent with the information currently available.
Recovery of property, plant and equipment	
As indicated in Notes 2.12 and 8.1 of the accompanying consolidated report, the Group assesses at the end of each fiscal year if there are indications of impairment of assets. If there is such an indication, the Group estimates its recoverable amount. Note 8.1 details the Cash Generating Units (CGUs) that show signs of deterioration.	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 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.

For calculations of the recoverable value through the value in use, the Group uses cash flow projections based on financial budgets approved by the Management that require relevant judgments and estimates that include, among others, the operating result on sales, rates discount and long-term growth, considering that the projected flows are subject to high uncertainty. Also, for the Bahru Stainless CGU, the Group Management has relied on an expert to determine the fair value less costs of sales. The most significant assumptions used by the Group are summarized in Note 8.1 of the attached consolidated report. As mentioned in this Note 8.1, in the year 2019 there was an impairment of 97,234 thousand euros of the net assets of the CGU of Bahru Stainless. Deviations in the variables and estimates of the Management can determine important variations in the conclusions reached and, therefore, in the analysis of recovery of property, plant and equipment. This fact, together with the relevance of this heading and the consequent deterioration recorded, motivates it to be a key issue for our	With regard to cash flows, we have verified the calculations made and compared the projected annual flows with those actually achieved in the year 2019. These projections are based on the plans and budgets approved by the Group Management that have been contrasted with experts independent of the Management for certain CGUs, as detailed in Note 8.1. In this case, we have evaluated the competence, capacity, objectivity and conclusions of the expert, as well as the adequacy of his work as audit evidence. Likewise, we question the key assumptions used by the Group Management, contrasting them with historical, comparable results available and other external sources. For this we have relied on experts in valuations of our firm that have evaluated the methodology and key assumptions used to calculate the current value of the flows estimated by the Group. Additionally, we have assessed the reasonableness of the sensitivity analysis broken down in the accompanying consolidated annual accounts report. As a result of the analysis performed, we consider that the conclusions of the Group Management on the estimates made and the consequent deterioration recorded, as well as the information disclosed in the attached consolidated annual accounts are adequately supported and consistent with the information currently available.
Recovery of deferred tax assets	
As of December 31, 2019, the accompanying consolidated annual accounts reflect an amount of 101,033 thousand euros of deferred tax assets, and net of an amount of 34,597 thousand euros of deferred tax liabilities, the recovery of which depends on the generation of bases positive taxable in the Corporation Tax in future years (Notes 2.20, 3.h and 19.3.3 of the attached consolidated report). The recovery of these deferred tax assets is analyzed by the Group by estimating the tax bases, based on the business plans of the different Group companies, and on the planning possibilities allowed by the tax	In the first place, we have proceeded to understand and evaluate the criteria used by the Group to estimate the possibilities of utilization and recovery of deferred tax assets in the following years, related to business plans. Based on the business plans prepared by the Group Management, we have contrasted the key assumptions, estimates and calculations made for their preparation, comparing them with the historical, comparable results available and other external sources. As part of the analysis, we have also evaluated the tax adjustments considered for the estimation

legislation applicable to each company and to the tax group.

As mentioned in Note 19.2, in the year 2019 there was an impairment of 60,987 thousand euros, mainly due to the recovery estimates of the Spanish tax group.

Consequently, the conclusion on the recovery of deferred tax assets shown in the attached consolidated balance sheet is subject to significant judgments and estimates by the Group's Management regarding both future tax results and applicable tax regulations. in the different jurisdictions where it operates.

This fact, together with the relevance of this heading and the consequent deterioration recorded, motivates it to be a key issue for our audit.

of taxable bases, the applicable tax regulations, as well as the decisions about the possibilities of using the tax benefits corresponding to the different Group companies.

The analysis carried out 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 recovery and the consequent deterioration of the 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.

Registration of the Collective Dismissal Procedure in Acerinox Europa, S.A.

As described in Note 2.17.b of the attached consolidated report, termination benefits are recognized as a provision for pensions and similar obligations and as a personnel expense only when the entity has demonstrably committed to terminate the link that binds the company to an employee or group of employees before the normal retirement date, or to pay compensation for termination as a result of an offer made to encourage voluntary termination by employees.

During this year, Acerinox Europa, S.A., agreed with its workers a reduction in the workforce of the Factory of the Campo de Gibraltar (Cádiz) by 215 people (see Note 16.1.2).

As of December 31, 2019, the Group Management considers the outflow of economic resources due to such obligations probable and has recorded a provision for restructuring plans amounting to 26,016 thousand euros (Note 16.1.2), 9,254 thousand euros in other post-employment obligations corresponding to the contribution to the Treasury (Note 16.1.2) and 2,802 thousand euros for compensation (Note 16.1.2).

In the first place, the criteria used by the Group for the estimation of the provision made, as well as the fulfillment of the criteria for recognition of the provision and its adequate accounting in the corresponding fiscal year, have been understood and evaluated.

Likewise, we have analyzed the reasonableness of the information used for the calculation and we have relied on actuarial experts from our firm to verify the data used in the calculation made by the Group Management.

On the other hand, the breakdowns in the consolidated annual accounts have been evaluated in accordance with the applicable regulations.

The analysis carried out have made it possible to verify that the calculations and estimates used by the Group Management are reasonable according to the information currently available and the conclusions reached from said analysis are adequately disclosed in the consolidated annual accounts of the Group.

The relevance of this fact justifies the consideration of this issue as a key issue for our audit.

Other information: Consolidated management report

Other information comprises only the consolidated management report for the 2019 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 information contained in the consolidated management report is defined in the legislation governing the audit practice, which establishes two distinct levels in this regard:

a) A specific level applicable to the consolidated statement of non-financial information and certain information included in the Annual Corporate Governance Report, as defined in article 35.2 b) of Audit Act 22/2015, that consists of verifying solely that the aforementioned information has been provided in the management report or, if appropriate, that the consolidated management report includes the pertinent reference in the manner provided by the legislation and if not, we are required to report that fact.

b) A general level applicable to the rest of the information included in the consolidated management report that consists of evaluating and reporting on the consistency between that information and the consolidated annual accounts as a result of our knowledge of the Group obtained during the audit of the aforementioned financial statements and does not include information different to that obtained as evidence during our audit, as well as evaluating and reporting on whether the content and presentation of that 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 ascertained that the information mentioned in paragraph a) above has been provided in the consolidated management report 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 2019 financial year, and its content and presentation are in accordance with the 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

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 25 february 2019.

Appointment period

Shareholders at the general meeting held on 9 june 2016 appointed us as auditors of the Group for a period of 3 years, as from the year ended 31 December 2017.

Services provided

Services provided to the Group for services other than the audit of the accounts have been provided to the audited company in Note 21 the notes to the consolidated annual

PricewaterhouseCoopers Auditores, S.L. (S0242)

Original in Spanish signed by
Mar Gallardo (18003)
27 February 2020

CONSOLIDATED FINANCIAL STATEMENTS

1. CONSOLIDATED BALANCE SHEETS

(In thousands of euros at 31 December 2019 and 2018)

ASSETS	Note	2019	2018
Non-current assets			
Goodwill	7	1,235	69,124
Other intangible assets	7	3,233	2,249
Property, plant and equipment	8	1,793,740	1,890,907
Investment property	9	16,343	16,535
Right-of-use assets	10	6,379	
Financial assets at fair value with changes through other comprehensive income	12	10,402	11,514
Deferred tax assets	19	101,033	141,946
Other non-current financial assets	12	968	1,498
TOTAL NON-CURRENT ASSETS		1,933,333	2,133,773
Current assets			
Inventories	11	1,016,263	1,018,738
Trade and other receivables	12	523,060	578,126
Other current financial assets	12	7,112	7,747
Current tax assets	19	40,094	19,093
Cash and cash equivalents	13	876,935	850,113
TOTAL CURRENT ASSETS		2,463,464	2,473,817
TOTAL ASSETS		4,396,797	4,607,590

Notes 1 to 22 form an integral part of the consolidated annual accounts.

(In thousands of euros at 31 December 2019 and 2018)

EQUITY AND LIABILITIES	Note	2019	2018
Equity			
Subscribed capital	14	67,637	69,017
Share premium	14	27,313	81,403
Reserves	14	1,760,500	1,563,921
Profit for the year	14	-59,545	237,086
Translation differences	14	76,331	113,991
Other equity instruments	14	1,446	601
Shares of the Parent	14	-1,062	-3,417
EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT		1,872,620	2,062,602
Non-controlling interests	14	56,369	56,697
TOTAL EQUITY		1,928,989	2,119,299
Non-current liabilities			
Deferred income	15	10,310	6,876
Issue of bonds and other marketable securities	12	74,550	74,450
Bank borrowings	12	977,187	951,842
Non-current provisions	16	49,092	19,805
Deferred tax liabilities	19	126,915	164,877
Other non-current financial liabilities	12	15,629	8,373
TOTAL NON-CURRENT LIABILITIES		1,253,683	1,226,223
Current liabilities			
Issue of bonds and other marketable securities	12	1,634	1,635
Bank borrowings	12	318,197	374,254
Trade and other payables	12	857,823	860,370
Current tax liabilities	19	27,582	23,576
Other current financial liabilities	12	8,889	2,233
TOTAL CURRENT LIABILITIES		1,214,125	1,262,068
TOTAL EQUITY AND LIABILITIES		4,396,797	4,607,590

Notes 1 to 22 form an integral part of the consolidated annual accounts.

2. CONSOLIDATED INCOME STATEMENTS

(Figures in thousands of euros)

	Note	2019	2018
Revenue	17	4,753,878	5,010,777
Other operating income	17	24,289	12,608
Self-constructed non-current assets	17	7,611	18,293
Changes in inventories of finished goods and work in progress		-39,455	-4,353
Supplies		-3,297,515	-3,524,212
Personnel expenses	17	-452,247	-395,928
Amortisation and depreciation	7,8,9,10	-175,305	-166,153
Other operating expenses	17	-633,156	-638,937
Impairment of goodwill and tangible assets	7,8	-165,453	
RESULTS FROM OPERATING ACTIVITIES		22,647	312,095
Finance income	18	19,045	18,259
Finance costs	18	-34,331	-33,677
Translation differences	18	16,978	455
Fair value measurement of financial instruments	18	-1,256	12,878
PROFIT FROM ORDINARY ACTIVITIES		23,083	310,010
Income tax	19	-99,121	-89,709
Other taxes	19	7,829	-5,059
PROFIT FOR THE YEAR		-68,209	215,242
Attributable to:			
NON-CONTROLLING INTERESTS		-8,664	-21,844
NET PROFIT ATTRIBUTABLE TO THE PARENT COMPANY		-59,545	237,086
Basic and diluted earnings per share (in Euros)	14,9	-0,22	0,86

Notes 1 to 22 form an integral part of the consolidated annual accounts.

3. CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Figures in thousands of euros)

	Note	2019	2018
A) PROFIT FOR THE YEAR		-68,209	215,242
B) OTHER COMPREHENSIVE INCOME - ITEMS NOT RECYCLED TO PROFIT OR LOSS FOR THE PERIOD		-834	-2,436
1. From recognition of equity instruments at fair value through other comprehensive income	12.2.5	-1,112	-3,248
2. Actuarial gain and losses and other adjustments			865
3. Tax effect	19	278	812
C) OTHER COMPREHENSIVE INCOME - ITEMS THAT MAY BE RECYCLED TO PROFIT OR LOSS FOR THE PERIOD		-38,243	73,039
1. Cash flow hedges			
- Valuation gain / (losses)	12.2.6	-5,430	-6,243
- Amounts transferred to the income statement	12.2.6	2,483	1,919
2. Translation differences			
- Valuation gains / (losses)		-36,030	76,284
- Amounts transferred to the income statement			
3. Tax effect	19	734	1,079
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		-107,286	285,845
a) Attributable to the Parent		-100,949	314,248
b) Attributable to non - controlling interests		-6,337	-28,403

Notes 1 to 22 form an integral part of the consolidated annual accounts.

4. CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Figures in thousands of euros)

		Equity attributable to shareholders of the parent												
		Subscribed capital	Share premium	Retained earnings (including profit for the year)	Property, plant and equipment revaluation reserves	Cash flow hedge reserves	Fair value through other comprehensive income	Actuarial valuation reserves	Translation differences	Other equity instruments	Treasury shares	TOTAL	Non - controlling interests	TOTAL EQUITY
	Note													
Equity at 31/12/2017		69,017	81,403	1,731,023	5,242	-208	-2,587	173	13,073	0	-1	1,897,135	73,161	1,970,296
Profit for 2018				237,086								237,086	-21,844	215,242
Measurement of available for sale assets (net of tax)	12.2.5						-2,436					-2,436		-2,436
Cash flow hedges (net of tax)	12.2.6					-3,245						-3,245		-3,245
Translation differences	14.4								82,843			82,843	-6,559	76,284
Income and expense recognised in equity		0	0	0	0	-3,245	-2,436	0	82,843	0	0	77,162	-6,559	70,603
Total comprehensive income		0	0	237,086	0	-3,245	-2,436	0	82,843	0	0	314,248	-28,403	285,845
Distribution of dividends	14.2			-124,230								-124,230		-124,230
Transactions with shareholders		0	0	-124,230	0	0	0	0	0	0	0	-124,230	0	-124,230
Acquisition of own shares	14.1										-3,416	-3,416		-3,416
Acquisition of non-controlling interests	5.2			-40,646					18,180			-22,466	11,927	-10,539
Long - term incentive plan for senior interests	16.1.3									601		601	12	613
Adjustments for hyperinflation	14.6			351								351		351
Transfers				105					-105			0		0
Other changes				379								379		379
Equity at 31/12/2018		69,017	81,403	1,804,068	5,242	-3,453	-5,023	173	113,991	601	-3,417	2,062,602	56,697	2,119,299
Profit for 2019				-59,545								-59,545	-8,664	-68,209
Valuation of financial assets at fair value through profit or loss (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
Distribution of dividends	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 own shares	14.1										-48,693	-48,693		-48,693
Amortization of own 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
Long - term incentive plan for senior interests	16.1.3									845		845	16	861
Adjustments for hyperinflation	14.6			198								198		198
Transfers	12.2.5			-5,023			5,023					0		0
Other changes	14.4			97,173								97,173		97,173
Equity at 31/12/2019		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

Notes 1 to 22 form an integral part of the consolidated annual accounts.

5. CONSOLIDATED STATEMENTS OF CASH FLOWS

(Figures in thousands of euros)

	Note	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax		23,083	310,010
Adjustments for:			
Depreciation	7.8.9.10	175,305	166,153
Impairment losses		163,549	18,286
Change in provisions		42,267	-1,461
Grants recognised in the income statement	15	-8,124	-1,035
Gains/(losses) on disposal of fixed assets	8.9	-3,688	1,690
Change in fair value of financial instruments		-27,565	-11,633
Finance income	18	-19,045	-18,259
Finance costs	18	34,331	33,677
Other income and expense		13,041	12,755
Changes in working capital:			
(Increase)/decrease in trade and other receivables		91,509	37,824
(Increase)/decrease in inventories		21,106	-48,059
(Increase)/decrease in trade and other payables		-16,733	-77,019
Other cash flows from operating activities			
Interest paid		-33,420	-32,090
Interest received		18,808	16,625
Income tax paid		-115,701	-81,067
NET CASH FROM OPERATING ACTIVITIES		358,723	326,397
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property, plant and equipment		-144,715	-145,243
Acquisition of intangible assets		-940	-903
Acquisition of non-controlling interests	5	0	-10,539
Acquisition of other financial assets		-185	-203
Proceeds from sale of property, plant and equipment		15,159	1,433
Proceeds from sale of other financial assets		3	3
Dividends received		237	118
Other amounts received/paid for investments		2,676	
NET CASH FROM INVESTING ACTIVITIES		-127,765	-155,334
CASH FLOWS FROM FINANCING ACTIVITIES			
Acquisition of own shares	14	-48,693	-3,416
Disposal of treasury shares	12	-12	0
Collection of third - party funds	12.2.3	420,453	645,172
Repayment of interest-bearing liabilities	12.2.3	-456,575	-475,842
Dividends paid	14	-81,136	-124,230
Distribution of share premium	14	-54,090	
Contribution from non-controlling shareholders			
NET CASH FROM FINANCING ACTIVITIES		-220,053	41,684
NET INCREASE IN CASH AND CASH EQUIVALENTS		10,905	212,747
Cash and cash equivalents at beginning of year	13	850,113	620,536
Effect of exchange rate fluctuations		15,917	16,830
CASH AND EQUIVALENTS AT YEAR END	13	876,935	850,113

Notes 1 to 22 form an integral part of the consolidated annual accounts.

CONTENTS: NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS

6. NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS

NOTE 1 GENERAL INFORMATION

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

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

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

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

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

Preparation: the Board of Directors of Acerinox. S.A. prepared these consolidated annual accounts on 26 February 2020.

NOTE 2 ACCOUNTING POLICIES

2.1 Statement of compliance

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

The annual accounts for 2019 have been prepared using the same accounting principles (IFRS-EU) as for 2018. except for the standards and amendments adopted by the European Union. which are obligatory as of 1 January 2019. which are as follows:

- IFRS 16 – Leases: The Group has begun to apply the aforementioned IFRS in this financial year. which replaces IAS 17. The Group has decided to apply the new standard retroactively. i.e. recognising the cumulative effect of the initial application of the standard. at the date of initial application and without restatement of the comparative information. In **note 2.2** there is a description of the new standard. and the Group's analysis of its initial application.

- IFRIC Interpretation 23 — Uncertainty over income tax treatments. The Group applies this standard from 1 January 2019. The standard provides the requirements on how to reflect the effects of uncertainty when accounting for income tax. The Group has tax litigation in various countries. as explained in **note 19** and therefore needs to analyse the effects of uncertainty on its financial statements in order to record its impact if it is considered probable that this will affect the tax expense or deferred tax assets or liabilities. At 31 December 2018. the Group had recognised a provision arising from these uncertain tax litigations. These have been reclassified. in accordance with the standard. from “non-current provisions” on the balance sheet to “deferred tax liabilities”. as a payable tax not expected to be settled in the short term. The company has therefore reclassified it as a non-current tax. The Group made this reclassification on 1 January 2019 without changing the comparative data of the previous year. At year end this provision amounts to 11,2 million euros. as explained in **note 16**.

- Amendment to IFRS 9 — Classification of certain prepayable assets. The Group has applied this standard from 1 January 2019. although it has not had any impact since it does not have instruments that. despite having contractual cash flows consisting of principal and interest payments. do not meet this condition because of the early settlement characteristic.

The Group also includes in these financial statements the new disclosures required by these standards (**Note 10**).

2.2 Impact of the new IFRS 16 standard on leases adopted by the Group in 2019

The Group started applying the new IFRS 16 standard for leases on 1 January 2019.

As set out in the standard. the Group has recognised lease assets and liabilities in the statement of financial position (except for short-term leases and leases of low-value assets).

The Group is applying the exemption in the standard for short-term leases and leases with a low-value underlying asset under which the lessee can continue to record lease payments for such leases as expenses on a straight-line basis over the term of the lease.

With respect to transition. the Group. as permitted by the standard. has decided to apply it retroactively. recognising the cumulative effect of the initial application of the standard on the date of initial application. Therefore. it has not restated the comparative information. The Group has applied the following principles of initial application:

- Where it acts as a lessee. the Group recognises a lease liability on the initial date of application for all leases previously classified as operating leases in accordance with IAS 17 (except in the aforementioned cases). The lease liability has been measured at the current value of remaining lease payments. discounted using either the interest rate implied in the lease – if that rate can be easily determined – or the incremental interest rate of the lessees' debt for cases in which the rate is not established in leases.

- At the same time. the Group has recognised an asset by right measured for an amount equal to the amount of the lease liability.

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

In addition. the Acerinox Group has decided to avail itself of the practical solution that allows the rule in transition whereby it has not re-evaluated whether a contract is. or contains. a lease on the date of initial application. Instead. it has applied this standard to contracts that had previously been identified as leases in accordance with IAS 17 and IFRIC 4 - Determining whether an arrangement contains a lease. Consequently. the Group applies requirements with respect to the identification of a lease to contracts entered into (or modified) from the initial application date. 1 January 2019.

Nor has it recognised the lease liability and the asset for right of use for leases whose term expires within 12 months from the date of initial application. but has accounted for these leases as short-term leases. i.e. as an expense on a straight-line basis over the lease term.

From 1 January 2019. the Group identifies the existence of a lease in new contracts. determines the lease term and measures it in accordance with IFRS 16. as explained in the measurement criteria (**note 2.11**).

Note 10 includes detailed information on right-of-use assets recognised by the Group and lease liabilities.

2.3 Evaluation of the main standards and interpretations that will be mandatory in 2020

A number of new standards and interpretations will be obligatory for forthcoming annual periods and have not been adopted early.

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

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

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

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

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

2.4 Basis of presentation of the consolidated annual accounts

The accompanying consolidated annual accounts have been prepared by the directors of the Parent Company to give a true and fair view of the Group's consolidated equity and consolidated financial position at 31 December 2019 and 2018. as well as the consolidated results of its operations and changes in consolidated equity and consolidated cash flows for the years then ended.

For the purpose of comparison with each of the items in the financial statement. the financial statements for 2019 also include the figures for the previous year.

These consolidated annual accounts are presented in euros. rounded off to the nearest thousand. They have been prepared on a historical cost basis. except for the following assets and liabilities. which have been measured at fair value: derivative financial instruments and financial assets at fair value with changes through other comprehensive income. Inventories have been measured at the lower of cost or net realisable value.

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

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

The shareholders at their annual general meeting held on 11 April 2019 approved the consolidated annual accounts for 2018. The Group's consolidated annual accounts for 2019 are currently pending approval by the shareholders. The directors of the Company believe that these consolidated annual accounts will be approved with no changes by the shareholders at their annual general meeting.

2.5 Going concern assumption and accruals basis

The consolidated annual accounts have been prepared on a going concern basis, Income and expenses are recognised on an accruals basis, irrespective of collections and payments.

2.6 Consolidation principles

a) Subsidiaries

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

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

The Group assesses the time at which control is taken. also taking into account the restrictions imposed in the contracts that prevent control from being taken until circumstances arise that are beyond the Group's control. such as approval by an international body or any other condition precedent provided for in the contract.

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

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

The Acerinox Group's consolidated subsidiaries that are included in the consolidated group as of 31 December 2019 and 2018 are listed in note 5.

b) Non-controlling interests

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

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

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

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

The Group assesses whether there are any clauses or financial instruments in contracts with minority 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.

When classifying a financial instrument in the consolidated financial statements. an entity considers all the terms and conditions agreed between the members of the Group and the holders of the instrument. in order to determine whether the Group has an obligation to deliver cash or another financial asset under the instrument in question. or to settle it in a manner that entails its classification as a liability. To the extent that an obligation or a settlement provision exists. the instrument is classified as a financial liability in the consolidated financial statements.

Sometimes these options are conditional on the occurrence of some uncertain future event that is beyond the control of both the issuer and the holder of the instrument. If. in addition. the issuer of this instrument does not have an unconditional right to avoid delivering cash or another financial asset. it is deemed to be a financial liability of the issuer unless. among other things. the part of the contingent settlement provision that would require settlement in cash or another financial asset is not genuine. i.e. is extremely exceptional. highly abnormal and very improbable.

c) Business combinations

The Group applies the acquisition method for business combinations.

No business combinations took place in 2019 or 2018.

d) Associates

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

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

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

The Group has no significant investments in associates.

e) Balances and transactions eliminated on consolidation

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

2.7 Translation differences

a) Functional and presentation currency

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

b) Foreign currency transactions. balances and cash flows

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

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

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

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency using the exchange rate prevailing at the date on which fair value was determined. Exchange gains and losses on non-monetary items measured at fair value are recorded as a part of the gain or loss on the fair value of the item.

In the consolidated statement of cash flows. cash flows from foreign currency transactions have been translated into the functional currency at the exchange rates prevailing at the dates the cash flows occur.

Exchange gains and losses arising on the settlement of foreign currency transactions and the translation into the functional currency of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

c) Translation of foreign operations

In preparing the Group's consolidated financial statements. the assets and liabilities of entities with a functional currency other than the euro have been translated to euros at the closing rate prevailing at the reporting date. Income and expenses are translated at the average exchange rate for the period; and exchange differences are recognised separately in equity and in the statement of comprehensive income under "translation differences". Translation differences are taken to profit and loss when the company that generates them ceases to form part of the Group.

The Group has applied the exemption permitted by IFRS 1. First-time Adoption of International Financial Reporting Standards. relating to accumulated translation differences. Consequently. translation differences recognised in the consolidated annual accounts generated prior to 1 January 2004 are recognised in retained earnings. Furthermore. the Group did not apply IAS 21. The Effects of Changes in Foreign Exchange Rates. retrospectively to goodwill arising in business combinations that occurred before the date of transition to IFRS. Consequently. goodwill is considered as an asset of the acquirer. not the acquiree. and is therefore not subject to variations due to exchange rate fluctuations affecting the acquiree.

For presentation of the consolidated statement of cash flows. cash flows. including the comparative balances of foreign subsidiaries. are translated into euros applying the same criteria as that used to translate the financial statements.

d) Conversion of financial reporting in hyperinflationary economies

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

The financial statements of an entity whose functional currency is that of a hyperinflationary economy are stated in terms of the current unit of measurement at the end of the reporting period. Both the comparative figures for the previous period and the information relating to previous periods are restated only to the extent that they are significant for the Group. in terms of the current unit of measurement at the end of the reporting period. Since most non-monetary items are carried at historical cost. the restated cost of each item is determined by applying to said historical cost and accumulated depreciation the change in a general price index from the acquisition date to the end of the reporting period. The Group has not restated the balances relating to previous years as their impact is not material.

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

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

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

In **note 14.6** the impacts of the valuation according to this standard in this year and in 2018 of the financial statements of Acerinox Argentina are included. after Argentina had been declared a hyperinflationary economy.

2.8 Intangible assets

a) Goodwill

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

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

After initial recognition. goodwill is measured at cost less any accumulated impairment losses. Goodwill is not amortised. but is estimated annually (or more frequently if events indicating a potential loss in the value of the asset have been identified) if it has suffered an impairment loss in accordance with IAS 36. Hence. goodwill is assigned to each company's cash-generating units expected to benefit from the synergies generated by the business combination. (See note 2.12). Impairment losses are recognised for a cash-generating unit when the recoverable amount of the unit is less than the carrying amount of goodwill. The recoverable amount of the cash-generating unit to which the Group's goodwill is allocated is determined based on its value in use. (See **note 2.12**)

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

Internally generated goodwill is not recognised as an asset.

b) Internally generated intangible assets

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

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

The Group does not capitalise development expenses in cases where. after project start-up. the future flows of projects obtained through research and development activities are not monitored.

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

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

c) Computer software

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

Computer software maintenance or development costs are charged as expenses when incurred.

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

d) Amortisation

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

Estimated useful lives are as follows:

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

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

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

2.9 Property. plant and equipment

a) Owned assets

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

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

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

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

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

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

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

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

b) Amortisation

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

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

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

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

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

2.10 Investment property

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

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

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

Lease income is recognised using the criteria described in **note 2.21 b**).

2.11 Right-of-use assets

Initial application

The Group began to apply the new standard for leases (IFRS-16) on 1 January 2019. It has been applied retroactively. i.e. recognising the cumulative effect in the balance sheet. at the date of initial application and without restatement of the comparative information.

Where it acts as a lessee. the Group recognises a lease liability on the initial date of application for all leases previously classified as operating leases in accordance with IAS 17 (except in short term leases and leases in which the underlying asset is of negligible value). The lease liability has been measured at the current value of remaining lease payments. discounted using either the interest rate implied in the lease – if that rate can be easily determined – or the incremental interest rate of the lessees' debt for cases in which the rate is not established in leases. At the same time. the Group has recognised an asset by right measured for an amount equal to the amount of the lease liability.

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

In addition. the Acerinox Group has decided to avail itself of the practical solution that allows the rule in transition whereby it has not re-evaluated whether a contract is. or contains. a lease on the date of initial application. Instead. it has applied this standard to contracts that had previously been identified as leases in accordance with IAS 17 and IFRIC 4 - Determining whether an arrangement contains a lease. Consequently. the Group applies requirements with respect to the identification of a lease to contracts entered into (or modified) from the initial application date. 1 January 2019.

The Group has not recognised the lease liability and the right-of-use asset for leases whose term expires within twelve months of the date of initial application. In such cases. it has accounted for such leases as short-term leases. i.e. as an expense on a straight-line basis over the lease term.

Measurement basis

The Group assesses whether the contract constitutes. or contains. a lease. A contract constitutes. or contains. a lease if it carries with it the right to control the use of an identified asset for a specified period of time in return for consideration.

When the Group acts as lessor. it recognises lease assets and liabilities in the statement of financial position (except for short-term leases and leases of low-value assets). The Group measures the asset for right of use at cost. equal to the present value of the expected payments to be made for the lease during the period established in the contract.

For the determination of lease payments. the Group takes into account:

a) fixed payments. less the lease incentives to be collected;

b) variable lease payments that depend on an index or rate;

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

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

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

The Group measures the current value of total remaining lease payments. discounted using either the interest rate implied in the lease – if that rate can be easily determined – or the incremental interest rate of the lessees' debt for cases in which the rate is not established in leases.

The Group considers that the term of the lease is the non-revocable period of a lease. plus the periods covered by the option to extend the lease. if the lessee is reasonably certain that he will exercise that option.

In determining the term of the lease and assessing the length of the non-cancellable period of a lease. an entity applies the definition of a contract and determines the period for which the contract is enforceable. A lease ceases to be enforceable when both the lessee and the lessor have the right to terminate the lease without the permission of the other party.

After the initial date. the Group measures the asset at its initial cost less any accumulated amortisation and any accumulated impairment losses. adjusted to reflect any re-evaluation of the lease liability.

Also. after the start date. the Group measures the lease liability at amortised cost using the effective interest method. Whenever there are changes in contracts. the lessee shall reassess the lease liability in order to reflect the lease payments. The amount of the revaluation of the lease liability shall be recognised as an adjustment to the right-of-use asset.

In cases where the leases are short-term or where the underlying asset is of little value. the Group records the lease payments as an expense on a straight-line basis over the term of the lease.

In determining the lease term. the Group considers the non-revocable term of the lease. to which the following is added:

- 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 is reasonably certain that it will not exercise that option.

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

Note 10 includes detailed information on right-of-use assets recognised by the Group and lease liabilities.

2.12 Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets. other than inventories and deferred tax assets. are reviewed at each reporting date to determine whether there are any indications of impairment. If any such indication exists. the Group estimates the recoverable amount of the asset.

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

As set out in **note 2.8**. the recoverable amount of goodwill. which is not amortised. and of intangible assets not yet available for use is estimated at each closing date. unless prior to this date there were indications of a possible loss in value. in which case these are tested for impairment.

Impairment losses are recognised whenever the carrying amount of the asset. or its corresponding cash-generating unit. exceeds its recoverable amount. Impairment losses are expensed in the income statement.

The recoverable amount of the assets is the higher of their fair value less costs to sell and their value in use.

To determine the fair value calculation. the Group may contract an independent valuator

Value in use is the present value of estimated cash flows. applying a discount rate that reflects the current market valuation of the time value of money and the specific risks of the asset in question. For assets that do not generate cash inflows themselves. the recoverable amount is determined for the cash-generating unit to which the asset belongs. considered as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

In estimating the value in use of an asset. the Group takes into account the estimated future cash flows that the entity expects to derive from the asset. expectations about 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. In addition. such cash flow projections are based on the most recent budgets approved by management. These projections generally cover a maximum period of five years. unless a longer 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. nor 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.

Details of the variables and assumptions used by the Group to calculate value in use and identify cash-generating units are provided in **notes 7.1 and 8.1**.

Except in the case of goodwill. impairment losses recognised in prior years are reversed through the income statement provided that there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. However. the new carrying amount cannot exceed the carrying amount (net of amortisation or depreciation) that the asset would have had if no impairment loss had been recorded.

2.13 Financial instruments

The Group began to apply the new IFRS 9 standard on financial instruments on 1 January 2018.

The Group recognises a financial asset or a financial liability in its statement of financial position when. and only when. it becomes a party to the contractual terms of the instrument.

2.13.1Classification

The Group classifies financial assets on the basis of their measurement as: measured 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.

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

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

Financial liabilities are classified on the basis of their measurement. They are generally classified as measured at amortised cost. except where financial liabilities are measured at fair value through profit or loss or in comprehensive income.

In general. the Group shall not reclassify any financial assets or liabilities. unless the business model changes.

2.13.2 Financial assets

A financial asset is any contractual right to receive cash or another financial asset.

At the time of initial recognition. financial assets are measured at fair value. in addition to any transaction costs that are directly attributable to their acquisition or issue.

They are subsequently measured according to 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. except those that are designated as accounting hedges and qualify for recognition as such.

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

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

b) Financial assets at amortised cost

Loans and receivables include non-derivative financial assets with receivables are for a fixed or determinable amount and that are not traded in an active market. Specifically. this includes loans granted and accounts receivable. They are only classified as non-current when they are not due to mature within 12 months of the reporting date. They are initially recognised at fair value which. unless proved otherwise. It coincides with the price of the transaction plus the costs directly attributable thereto and are subsequently measured at amortised cost. using the effective interest method. except for accounts receivable which are measured at transaction price because 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 significant.

The Group makes the necessary valuation corrections in accordance with an expected loss model. which takes into account the historical loss. in addition to other external factors. The amount of the impairment loss is calculated as the difference between the carrying amount and the present value of the estimated future cash flows. discounted at the effective interest rate determined on initial recognition. These losses are recognised as an expense in the consolidated income statement and are reversed with the recognition of the income in profit and loss when their causes are eliminated.

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

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

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

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

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

This category includes the Group's investments in the capital of other companies over which the Group has no control or significant influence and which are not held for trading.

These assets are generally classified as assets measured at fair value through profit or loss. although the Group has taken the option permitted by the standard to opt at initial recognition for subsequent changes in fair value to be presented in other comprehensive income. since these assets are not held for trading.

They are initially recognised at fair value. which is the same as the transaction price plus any transaction costs incurred. in the absence of evidence to the contrary.

These assets are subsequently measured at fair value. provided that this is reliably measurable. and the gain or loss is recognised in other comprehensive income.

The fair value of listed securities is determined by reference to the share price. The fair value of financial assets that are not quoted in official markets is calculated by reference to discounted future cash flows.

Equity investments included in this category whose market value cannot be reliably defined are measured at acquisition cost. less any impairment losses.

Acquisitions and disposals of investments are accounted for at the date on which the Group undertakes to purchase or sell the asset. Investments are derecognised when the contractual rights to the cash flows from the investment expire or have been transferred and the Group has transferred substantially all the risks and rewards of ownership

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

2.13.3 Financial liabilities

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

a) Financial liabilities at amortised cost

This category includes the debits and items to be paid as well as the bonds issued by the Group.

It includes non-derivative financial liabilities with fixed or determinable payments. Debts and payables are initially recognised at cost. which is the same as their fair value. less any transaction costs incurred. These liabilities are subsequently measured at amortised cost using the effective interest method. Any difference between the amount received (net of transaction costs) and the amortised cost is recognised in profit or loss. However. trade payables falling due in less than one year that have no contractual interest rate and are expected to be settled in the short term are measured at their nominal amount.

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

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

The Group has contracted reverse factoring facilities with various financial institutions to manage payments to suppliers. Trade payables settled under the management of financial institutions are recognised under trade and other payables until they are settled or repaid or have expired.

b) Financial liabilities at fair value through profit or loss

This category includes the Group's derivative financial instruments. except for financial guarantee contracts or designated accounting hedging instruments.

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

2.13.4 Hedging operations accounting

The objective of hedging operations accounting is to represent. in the financial statements. the effect of the Group's risk management activities in which financial instruments are used to cover exposures from derivative financial instruments that may affect the income statement for the year. A hedging relationship meets all the requirements for hedge accounting only if all the following conditions are met:

(a) The hedging relationship should consist only of hedging instruments and eligible hedged items.

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

(c) The hedging relationship should meet all of the following hedging effectiveness requirements:

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

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

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

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

Derivative financial instruments are initially recognised at cost of acquisition. which coincides with their fair value. They are subsequently recognised at fair value.

Derivative financial instruments that do not meet hedge accounting requirements are classified and measured as financial assets and financial liabilities at fair value through profit or loss. Where derivatives qualify for recognition as cash flow hedges. they are treated as such and the recognition of any resultant unrealised gain or loss depends on the nature of the hedged item. The effective part of the realised gain or loss on the derivative financial instrument is initially recognised in the consolidated statement of comprehensive income and later transferred to the income statement in the year or years in which the hedged transaction affects profit or loss.

The Group prospectively discontinues the accounting of fair value hedges when the hedging instrument expires. is sold or the hedge no longer meets the criteria for hedge accounting. In these cases. the cumulative gain or loss on the hedging instrument that has been recognised in equity is recorded in profit or loss.

The Group only undertakes cash flow hedges.

2.13.5 Measurement of fair value

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

LEVEL 1: includes financial instruments for which the fair value is determined by reference to market inputs in active markets.

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

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

2.14 Inventories

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

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

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

Net realisable value is the expected selling price of these goods less costs to sell. In the case of work in progress the estimated costs of completion are also deducted from this price.

Raw materials are not written down below cost if the finished goods in which they will be used are expected to be sold at or above cost of production.

Any write-downs that reduce inventories to their net realisable value are reversed. up to the cost of the inventories. if the circumstances that gave rise to the write-downs cease to exist.

2.14.1 Emission allowances

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

CO2 emission allowances are measured at cost of acquisition. Allowances acquired free of charge under the National Allocation Plan pursuant to Law 1/2007 of 9 March are initially measured at market value at the date received. At the same time. a grant is recognised for the same amount under deferred income.

Emission allowances remain classified as inventories until surrendered.

At year end. the Group assesses whether the carrying amount of the allowances exceeds their market value in order to determine whether there are indications of impairment. If there are indications. the Group determines whether these allowances will be used in the production process or earmarked for sale. in which case the necessary impairment losses would be recognised. These provisions are released when the factors leading to the valuation adjustment have ceased to exist.

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

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

In **note 11**. detailed information on emission allowances received and consumed in 2019 and 2018 is included.

2.15 Cash and cash equivalents

Cash and cash equivalents include cash balances. demand deposits with banks and other short-term. highly liquid investments that are readily convertible to cash and which are subject to an insignificant risk of changes in value.

In the consolidated statement of cash flows. the Group classifies interest paid and received as cash flows from operating activities. while dividends received are considered cash flows from investing activities and dividends paid are classified as cash flows used in financing activities.

2.16 Grants

2.16.1 Capital grants

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

2.16.2 Operating grants

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

2.17 Employee benefits

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

a) Defined contribution plans

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

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

b) Defined benefit plans

A defined benefit plan is a commitment entered into by a company with its employees to remunerate services rendered. These benefits have been established based on local legislation in certain countries. contracts signed to that effect. or as included in collective bargaining agreements prevailing in certain Group companies.

Accrued commitments are calculated as the present value of the accumulated benefits accrued by personnel until the reporting date. using actuarial assumptions. Calculations are made by independent experts. Group companies record the corresponding provisions to cover these commitments.

Existing obligations may be classified as:

- Pension plans: certain Group companies have commitments with some employees reaching retirement age.

- Early retirement benefits: certain Group companies have undertaken to pay benefits to employees who opt to take early retirement.

- Supplements: these plans are obligations agreed with certain Group employees to supplement their remuneration on retirement.

- Other post-employment commitments: certain Group companies provide healthcare benefits to their retired employees. Entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

- Redundancy procedures: this year. the Acerinox Europa. S.A.U. Group company reached an agreement with its employees to restructure its workforce by approving an early retirement plan that allows workers assigned to this plan to take early retirement under certain conditions once they reach the age agreed in the plan. The Group has recognised a liability for the present value of the commitments arising from this plan. Compensation for dismissal is recognised as a provision for employee pension benefits and as a personnel cost solely when the company is demonstrably committed to terminating the relationship of an employee or group of employees prior to the normal retirement date.

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

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

When plan assets include insurance policies that exactly match the amount and timing of some or all of the benefits payable under the plan. the fair value of the insurance policies is considered equal to the present value of the related payment obligations. so the Group nets these positions on the balance sheet.

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

c) Share-based payment transactions

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

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

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

The Group recognises the assets or services received. and the corresponding increase in equity. at fair value. on the date of the concession agreement for the equity instruments to be awarded. Fair value is determined by the market price of the entity's shares adjusted to take into account the terms and conditions under which those shares were granted (except for conditions for irrevocability or consolidation. other than market conditions. which are excluded from the determination of fair value). The Group uses the evaluation of an independent expert to do this. who uses an evaluation method accepted by standard 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 company: shall recognise an increase in the value of its interest in the subsidiary. with a credit to its own equity instruments. and shall measure it at the fair value of the equity instruments transferred at the grant date.

At the time the shares are delivered. the accounting difference between the equity item cancelled and the shares delivered is recognised against the reserves of the parent company.

2.18 Provisions

The Group recognises provisions when:

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

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

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

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

2.19 Classification of assets and liabilities as current and non-current

The Group classifies assets and liabilities in the consolidated balance sheet as current and non-current. Assets and liabilities are considered current when the Group expects to realise or settle them within 12 months after the reporting date or they are cash or cash equivalents.

2.20 Income tax

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

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

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

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

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

The Group recognises in the balance sheet the deferred tax assets arising from unused tax losses or deductions. provided that these are recoverable within a reasonable period of time. also taking into account the limitations on their application established by law. The Group has determined that a period of 10 years is reasonable. provided that tax legislation permits it. To this end. the Group makes projections of future results. approved by management. which take into account both the current macroeconomic conditions and the market in order to determine the recoverability of these loans.

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 reduction of deferred tax assets and their subsequent reversal are recognised as a higher or lower tax expense. respectively. in the income statement for the year in which they occur.

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

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

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

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

The Parent Company has filed consolidated tax returns since 1998. As agreed by the shareholders at an annual general meeting held on 28 May 2003. Acerinox. S.A. and some of the Spanish-domiciled subsidiaries form part of a consolidated tax group on an indefinite basis. with the exception of Metalinox Bilbao. S.A.U. and Inoxidables de Euskadi. S.A.U.. which file tax returns separately. At 31 December 2018 and 2017. the consolidated tax group comprised: Acerinox. S.A.. Acerinox Europa. S.A.U.. Roldan. S.A.. Inoxfil. S.A.. Inoxcenter. S.L.U.. and Inoxcenter Canarias. S.A.U. As a result of the tax consolidation regime. reciprocal receivables and payables arise between the companies in the Group as a result of offsetting tax bases between the companies in the Group.

2.21 Income

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

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

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

1. Identify the contract with a customer

2. Identify the performance obligations in the contract

3. Determine the transaction price

4. Allocate the price to the performance obligations

5. Recognise the revenue when (or as) the entity satisfies a performance obligation.

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

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

a) Sales of goods and rendering of services

Revenue from the sale of goods is recognised in the income statement when control of the goods is transferred to the buyer. No revenue is recognised if there are significant uncertainties regarding the recovery of the consideration due. or the possible return of goods. Sales proceeds are recognised at the transaction price. which is the amount of consideration to which the entity expects to be entitled in exchange for transferring the goods or services promised to a customer. excluding amounts collected on behalf of third parties.

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

Depending on the commercial terms 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 these terms of sale into account when determining the timing of revenue recognition. Revenue from the sale of goods is recognised in the income statement when control of the goods passes to the buyer.

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

(a) variable consideration;

(b) limitations on estimates of variable consideration;

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

(d) non-cash consideration; and

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

Revenue is recognised net of taxes. returns and discounts that the Group considers probable at the date the revenue is recognised. and after the elimination of intra-Group sales.

b) Rental income

Rental income from investment property is recognised in the income statement on a straight-line basis over the term of the lease.

c) Income from dividends

Dividend income is recognised when the Group's right to receive it is established.

2.22 Environment

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

Expenses derived from environmental activities are recognised as expenses in the period in which they are incurred. However. where necessary. the Group recognises environmental allowances by applying the general criteria outlined in note 2.18.

Property. plant and equipment acquired by the Group for long-term use to minimise the environmental impact of its activity and protect and improve the environment. including the reduction and elimination of pollution. are recognised as assets. applying the measurement. presentation and disclosure criteria described in **note 2.9**.

2.23 Changes in accounting estimates and policies. and correction of errors

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

NOTE 3. ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

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

The Group's main estimates are as follows:

a) Impairment of goodwill and other non-financial assets

The Group tests goodwill annually for impairment. in accordance with the accounting policy described in **note 2.12**.

The Group reviews property. plant and equipment at each reporting date to ascertain whether there is any indication of impairment. taking into account the criteria set out in the policy. If any such indication exists. the Group estimates the recoverable amount of the asset. The recoverable value of an asset is the higher of fair value less cost to sale or value in use.

Recoverable amount of the Group cash generating units have been calculated based on the value in use; or fair value less cost to sale for certain assets.

The recoverable amounts of the cash-generating units are determined based on their value in use. These calculations are made using reasonable assumptions based on past returns and future production and market development expectations. Some of these assumptions relate to sales. margins. discount rates and growth rates to perpetuity. which involve a high degree of judgement. Details of the analyses conducted by the Group in 2019 and 2018 are included in **notes 7.1 and 8.1**.

b) Useful lives of plant and equipment

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

The Group company Columbus Stainless (Pty). Ltd carried out re-estimations of the useful lives of certain equipment in both 2019 and 2018. as explained in the **note 8**.

c) Fair value of derivatives or other financial instruments

The Group acquires derivative financial instruments to hedge against changes in exchange rates and interest rates. The fair value of financial instruments that are not traded in active markets is determined by using valuation techniques mainly based on market conditions existing at each reporting date. and provided that financial information is available to carry out this valuation. In **note 12.2.4** there is additional information on financial instruments measured in accordance with these assumptions.

d) Provisions

As mentioned in **note 2.18**. the provisions recognised in the consolidated balance sheet reflect the best estimate at the reporting date of the amount expected to be required to settle a liability. provided that the materialisation of this outflow of resources is considered probable. Changes in foreseen circumstances could affect these estimates. which would be revised if necessary.

In the case of provisions arising from litigation in which legal proceedings are pending. it is the lawyers or independent experts who determine the likelihood of occurrence of the events giving rise to the need to enter a provision. In those cases in which it is considered possible. although it is not probable that an outflow of resources will take place or it is difficult to determine reliably the amount of the provision. the Group will consider this to be a contingent liability and will disclose the information in the notes. (**Note 16**)

e) Net realisable value

As mentioned in **note 2.14**. the Group estimates the net realisable value of its inventories to recognise any impairment required. Expected selling prices of inventories less costs to sell are considered when calculating net realisable value.

f) Determination of loan impairment based on expected loss criteria

As mentioned in **note 2.13.2**. the Group has defined a new impairment loss model based on an historical analysis of the average bad debts at each of the subsidiaries and on the claims made under the contracted credit insurance policies. including any non-recoverable amount (maximum coverage of 85%-90% and deductibles). and any amounts subsequently recovered after the claim. whether from the insurance company or the customers themselves. These estimates are reviewed within our credit risk control system (Commercial. Financial and Commercial Risk departments. Risk Committee as well as the Corporate Risk Management Department). which constantly monitors the particular markets of each subsidiary. receives the inputs of specialised experts from insurance companies. and reviews future estimates from international organisations of recognised prestige (IMF. OECD. etc.). also taking into account the macroeconomic estimates of each country. The Group takes into account and monitors the significant variations in credit risk that may occur during the term of the loans.

g) Adjustment for hyperinflation

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

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

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

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

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

In **note 14.6** includes the impacts of the valuation according to this standard. which in any case have been immaterial to the Group.

h) Recoverability of available tax loss carryforwards and deductions

Apart from tax legislation. which in many cases allows the recovery of tax losses without limitation. as established in accounting policy (note 2.20). the Group recognises in the balance sheet the deferred tax assets arising from unused tax losses or deductions provided that these are recoverable over a reasonable period of time. which the Group has set at 10 years. The Group regularly evaluates the recoverability of available tax credits through projections of profit and loss approved by management. to conclude as to whether they will be recoverable in said reasonable period.

The Group takes into account the limitations to offsetting tax loss carryforwards as stipulated in certain legislation. In **note 19.3** details the Group's existing tax credits and the bases used to determine the recoverability of capitalised tax credits are provided.

Based on the Group's projected results. taking into account both the current macroeconomic conditions and the market. certain tax credits. which had previously been capitalised. proved to be not recoverable in a reasonable period of time and. therefore. the Group derecognised them in this year against results. as explained in **note 19.3.3**.

i) Recognition of deferred tax liability for investments in subsidiaries.

As set out in the accounting policy (**note 2.20**) certain companies in the Consolidated Group have reserves that could be subject to tax if distributed. since there are withholdings at source in certain legislation affecting the payment of dividends. The Group recognises any tax effect in this respect provided that it is not deemed likely that the reserves will have to be distributed in the foreseeable future. At the same time. the Group will also reverse this temporary difference against the results of the year when new legislative modifications eliminate or reduce the tax liability of these reserves.

For these purposes. at 31 December 2018. the Group had recognised liabilities of 25 million euros relating to the foreseeable distribution of reserves in the amount of 250 million euros. On 27 November of this year. the Protocol Amending the Convention between the Kingdom of Spain and the United States of America for the Avoidance of Double Taxation entered into force. The Protocol amends several articles of the existing Convention. including the one 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. which the Group complies with. whereby it is no longer necessary to recognise a deferred tax liability for investments in subsidiaries. Further. the Group has repatriated reserves in April amounting to 134 million euros. subject to taxation. Hence. it reverted 13.4 million euros as it does not consider the repatriation of further amounts to be probable. At year end. the Group had reversed the remaining 11.6 million euros. Note 19 includes a detailed explanation of this derecognition.

j) Determination of the terms of leases

The new IFRS 16 requires the recognition of assets and liabilities arising from leases in the statement of financial position. Hence. the Group will have to assess whether the contract constitutes. or contains. a lease.

The Group also measures the asset for right of use at cost. equal to the present value of the expected payments to be made for the lease during the period established in the contract. To this end. the Group is obliged to analyse both the amount of the payments it plans to make (both fixed and variable payments or penalties) and the lease term. for which it must take into account the options for extending the contract.

Note 10 includes detailed information on leases and their recognition and measurement in the Group's financial statements.

NOTE 4. FINANCIAL RISK MANAGEMENT

The Group's activities are exposed to various financial risks: market risk (currency risk. interest rate risk and price risk). credit risk and liquidity risk. The Group aims to minimise the potential adverse effect on its financial profits through the use of derivative financial instruments. where appropriate to the risks. and by taking out insurance policies. In **note 12.2.6** there is a detailed analysis of the Group's derivative financial instruments at year end.

The Group does not acquire financial instruments for speculative purposes.

4.1 Market risk

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

4.1.1 Currency risk

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

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

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

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

The Group also uses. if necessary. other types of derivatives such as cross-currency swaps to control currency risk in financing operations. At year-end there were no outstanding derivatives of this type. since there was no debt in a currency 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 even though 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 exchange rate derivatives arranged by the Group do not qualify as cash flow hedges. hence they cannot be registered in accordance with the policy set out in **note 2.13.4**. Policies that do not comply with these criteria have been registered as financial instruments at fair value through profit or loss.

In general. financial instruments designated to hedge currency risk exposure arising from commercial transactions or transactions between Group companies are not recognised as hedging instruments. However. if they were to be. they would be those intended to hedge financing operations with financial institutions.

The Group only hedges cash flow risks for transactions made in foreign currencies that are registered in the balance sheet. so any change in the derivative valuation is registered in profit and loss account. and is offset by any changes that occur at each reporting date in the monetary items recorded in foreign currencies. The designation of these instruments as hedging instruments does not give rise to any accounting differences in the Group's income statement.

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

In **note 12.2.6** there are details of the financial instruments arranged by the Group to hedge this type of risk at 31 December 2019 and 2018.

Lastly. the Group is exposed to currency risk as a result of the translation to euros of the individual financial statements of companies whose functional currency differs from the Group's presentation currency. particularly the US dollar and the South African rand. The USD-euro exchange rate at 2018 year end was 1.1450. while at 2019 year end it stood at 1.1234 (USD appreciation of 2% for the year). The exchange rate of the South African Rand to the Euro at 2018 year end was 16.4594. while at the end of this year it was 15.7773 (Rand appreciation of 4%).

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. In **note 14.4** a breakdown of the changes in translation difference items during the year is included.

Based on the conversion exchange rates of these currencies against the euro at the end of 2019 and 2018 respectively. sensitivity to changes in exchange rates. with other variables remaining constant. is as follows:

((Expressed in thousands of euros)

	Profit and loss		Equity	
	10% appreciation	10% depreciation	10% appreciation	10% depreciation
31 December 2019				
USD	10,332	-8,453	203,558	-166,548
ZAR	-1,939	1,587	25,278	-20,682
31 December 2018				
USD	18,844	-15,418	226,702	-185,483
ZAR	687	-562	26,739	-21,877

4.1.2 Interest rate risk

The Group's financing comes from various countries and in different currencies (mainly in euro. US dollar and South African rand). with a range of maturity dates and mostly variable interest rates.

The Group's financial liabilities and financial assets are exposed to fluctuations in interest rates. To manage this interest rate risk. curves are analysed regularly and sometimes derivatives may be used. These derivatives take the form of interest rate swaps and qualify for recognition as cash flow hedging instruments. The fair value of interest rate swaps is the estimated amount that the Group would receive or pay to terminate the swap at the reporting date. taking into account interest and exchange rates at that date and the credit risk associated with the swap counterparties.

As in 2018. during 2019 the Group has continued to reduce the cost of its long-term loans by renegotiating their reference interest rate. To this end. Group has extended the maturity of a portion of its long-term loans by increasing the amounts and also reducing the costs thereof.

In 2019. in order to reduce the risk of changes in the variable interest rate. the Group has signed interest rate swaps amounting to 210 million euros. equivalent to the amount of the new loans arranged with Bankia and Caixabank. In addition. three new fixed-rate loan contracts were signed for 120 million euros with Bankinter. Kutxabank and Unicaja.

With regard to 2018. the Group increased the amount of debt with a fixed interest rate. mainly as a result of signing a long-term. fixed-rate financing contract for 125 million euros with Banco Sabadell. At the same time. the volume of interest rate derivatives increased to 250 million euros of new loans signed with Banca March. Caixabank. ICO and BEI.

In **note 12.2.6** there are the details of the financial instruments signed by the Group to hedge this type of risk at 31 December 2019 and 2018.

Regarding the Group's interest rate sensitivity. had interest rates on the outstanding debt at year end been 100 basis points higher. with all other variables remaining constant. the Group's consolidated profit after tax would have been 1.58 million euros lower due to a higher finance cost on variable-rate debt (7.23 million euros lower in 2018). The effect on the Group's equity of higher interest rates across the entire curve would have been an increase of 15.85 million euros (whereas there would have been an increase of 5.29 million euros in 2018). In addition. the higher borrowing costs would have been partially 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 due to changes in the listed price of securities held in listed companies.

The risk of price fluctuations in listed securities relates to the shares presently 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 of valuation of financial instrument (IFRS 9). the Group designated these instruments in the category of financial assets at fair value through other comprehensive income. and any changes are recognised in equity. The impact of the fluctuations in listed securities during the year is explained in **note 12.2.5**.

2. Risk of changes in prices of raw materials

Stainless steel is an iron alloy with a minimum chromium content of 10.5%. which also contains other metals such as nickel or molybdenum to give it specific properties. Due to fluctuations in the prices of raw materials used in the manufacturing process. as both nickel and molybdenum are listed on the London Metal Exchange. stainless steel prices can be very volatile. as these fluctuations are passed on to the customer in the selling price.

The cost of raw materials accounts for approximately 65-70% of the total product cost. of which nickel accounts for 40-50%. Nickel price volatility affects directly and significantly in the cost of stainless steel. The price setting strategy together with its price fluctuations is therefore one of the most critical functions and requires significant knowledge of the market. In Europe. South Africa and the United States. sale prices comprise a base price and a variable component known as the alloy surcharge. The alloy surcharge is a mathematical formula. calculated on a monthly basis by each of the market's stainless steel producers. that takes into account the variation in the price of certain raw materials (particularly nickel. chromium and molybdenum) and fluctuations in the USD/EUR exchange rate. The application of this alloy surcharge allows to transfer to customers nickel price fluctuations on the London Metal Exchange during its production phase. as well as price fluctuations of other raw materials and the USD/EUR exchange rate. This natural hedge is applied to 90% of the Group's sales (Europe. America and South Africa).

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

This year. the mitigating effect of the risk of price variation posed by the alloy surcharge has behaved differently in the United States and Europe. In the North American market. the alloy surcharge has been respected by the market and has contributed to price stability. as evidenced by the consistency of margins maintained by North American Stainless throughout the year. On the other hand. in Europe. as in the previous year. the price trend was not determined by fluctuations in raw materials but by the consequences of tariff barriers in the different markets. These have affected import flows into Europe. without the provisional safeguard measures established by the European Commission in July 2018 or the definitive ones that came into force in February 2019 having had the expected effect. On the contrary. both in the second half of 2018 and in the last quarter of 2019. they have provoked the effect of calling and accelerating imports. which have come to represent. in both moments. 30% of the market. triggering an unprecedented drop in prices in Europe. This increase in imports has occurred at very high levels of stock in the storage sector. and all this has meant that the European market in 2019 has been operating more with an effective price system than with the former traditional scheme of base price + alloy surcharge.

3. Risk of price distortion due to accumulation of stocks on the market

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

Fluctuations in the price of nickel also affect consumer demand. Reductions in the price of nickel tend to go hand in hand with short-term drops in demand. Conversely. a rise in nickel prices tends to go hand in hand with higher demand. To counter the risk derived from the fact that independent wholesalers control the majority of the market. the 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 achieve a significant market share among end customers. therefore. stabilise sales. and reduce this risk.

4. Risk of overvaluation of stocks

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

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

Conclusion:

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

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. when applicable. by the risk corresponding to the country where 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. There is no customer in the Group that exceeds 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 90% of declared commercial risks. depending on the country in which the customer is located and the insurance company. and 90% of political risks. The Group's main credit insurer has an A2 credit rating from Moody's and an "A excellent" rating from A.M. Best.

In 2019 payouts of 1.482 thousand euros have been collected under the credit insurance policy (1.837 thousand euros in 2018).

A risk committee is responsible for monitoring the Group's credit risk policy. New customers are analysed in accordance to the insurance company who is also responsible for the assignment of a risk coverage. which enables the Group to offer its general payment terms to those that fulfil the necessary credit conditions. Where required. the risk committee also performs an individual analysis of customers' creditworthiness. establishing credit limits and payment terms. 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 respective risk committees of Bahru Stainless. Columbus. North American Stainless or Grupinox (which represents the sales network in Spain).

Among other duties. the risk committee reviews the status of past-due debts. monitors sales with excessive exposure. and approves internal loans or. depending on the amount. requests approval from the steering committee.

The Group has long-standing commercial relationships with many of its customers. In the event of a late payment. the Group closely monitors future deliveries. payment terms and reviews credit limits.

Where permitted under local legislation in the country in which the customer operates. retention of title clauses are used to secure recovery of goods in the event of default on payment.

Sometimes the Group also uses other financial instruments to reduce credit risk. such as factoring operations. The Group derecognises factored assets when the risks and rewards of these assets have been substantially transferred.

When necessary. the Group makes valuation adjustments to trade receivables based on an expected loss model which analyses the average insolvencies in each of the subsidiaries and the claims incurred on the credit insurance policies taken out. as detailed in note 2.13.2.

In **note 12.2.1** details of movement in impairment of trade receivables are provided.

At 31 December 2019. consolidated trade receivables amount to 483.660 thousand euros (524.695 thousand euros in 2018). Revenues for 2019 total 4.753.878 thousand euros (5.010.777 thousand euros in 2018). This means an average collection period in the Group of 37 days (38 days in 2018)

Credit risk insurance has been contracted for 55% of consolidated net sales (52% in 2018). Cash conditions exist for 1% (1% in 2018). Confirmed letters of credit or guarantees are used to hedge credit risk in 2% of consolidated net sales (3% in 2018). Domestic sales by North American Stainless Inc.. which entail a very low risk due to the collection period which is under 30 days. account for 40% of consolidated net sales (39% in 2018). allowing deliveries to be controlled and reducing any impairment losses.

The ageing analysis of receivables is as follows:

(Figures in thousands of euros)

	2019	% of payables	2018	% of payables
Outstanding	409,565	85%	433,655	83%
Less than 30 days	56,479	12%	70,462	13%
30 - 60 days	11,298	2%	13,284	2%
60 - 90 days	1,515	0%	2,904	1%
Over 90 days	4,803	1%	4,390	1%
TOTAL	**483,660**	**100%**	**524,695**	**100%**

The Group has made provisions for 4.656 thousand euros (4.487 thousand euros in 2018). A provision was made for an amount of 1.109 thousand euros during the year (620 thousand euros in 2018). accounting for 0.023% of sales in 2019 (0.01% in 2018). The Group’s expected loss ratio is 0.027%

Most of the Group's past-due receivables are insured and generally reflect customary delays in trading activity (76% of past-due receivables are aged less than 30 days). At 18 February 2019. over 89% of the above past-due debt had been collected (88% in 2018).

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

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

With regard to the credit risk of bank balance. as a general rule. only banks and financial institutions that are rated by an independent third party and with a 'Ba3' credit rating from Moody's are accepted. The Group has no significant concentration of risks as the likelihood of a default by the banks and financial institutions that are thus authorised is remote. based on their high credit ratings.

4.3 Liquidity risk

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

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

The Group's cash is centrally managed to optimise resources. The Group's net debt is primarily concentrated within the Parent Company (more than 90% of total gross borrowings at year end).

Based on its forecast treasury cash flow and considering its investment plans. the Group has sufficient funding to meet its commitments. and maintains sufficient balances available for drawdown from credit facilities to hedge liquidity risk. In 2019 and 2018 no defaults occurred on the principal or interests of the loans on the Group's financing position.

At year end the Group has been granted short and long-term financing totalling 1.965 million euros and non-recourse factoring facilities of 420 million euros. 1.372 million euros has been drawn down from financing facilities at 31 December 2019 (155 million euros from factoring facilities). In 2018. the Group had cshort and long-term financing facilities of 1.903 million euros and non-recourse factoring facilities of 420 million euros. Drawdowns from financing facilities amounted to 1.402 million euros and drawdowns from factoring facilities amounted to 152 million euros. At 31 December 2019 cash and cash equivalents amounted to 877 million euros (850 million euros in 2018).

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

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

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

The most noteworthy financing operations 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 370 million euros. Also worthy of note were the renegotiation of part of the existing debt and the signature of new loans for the purpose of debt rescheduling and to reduce costs. The total volume of these operations was 330 million euros. which include operations relating to existing and new loans. The existing ones include the improvements in Kutxabank's financing conditions and the new ones include the signing of a loan for 160 million euros with Bankia. of which 120 million euros were used to repay the previous loan. a loan for 40 million euros with Unicaja. of which 25 million euros were also used to repay the previous loan. and tow new loans for 15 million euros with Bankinter and 50 million euros with Caixabank. The details of these financing operations are provided in **note 12.2.3**.

During 2018. a renegotiation of a large part of the existing debt was also carried out. as well as the signing of new loans. with the same objective as that established for 2019. The total volume of these operations was 405 million euros. which included operations relating to existing loans as well as new ones. The existing ones included Banca March. Abanca. Caixabank. Kutxabank and Banco Sabadell. The new one is a 100 million euro loan contract which was signed with the Spanish Official Credit Institute ("ICO").

The Group's payment obligations analysis at the end of 2019 is as follows:

(Figures in thousands of euros)

	Amount at 31/12/2019	Future cash flow maturities	Less than 6 months	6 to 12 months	1 to 2 years	2 to 5 years	More than 5 years	Indeterminate maturity
Non-current payables	1,051,737	-1,113,043	-5,703	-9,611	-225,172	-777,532	-95,024	
Current payables	319,832	-323,643	-212,219	-111,424				
Suppliers and other payables	835,377	-835,377	-835,377					
Other non - current financial liabilities	9,681							-9,681
FINANCIAL DERIVATIVES								
Hedged operations using interest rate swaps and cross currency swaps	8,356	-8,318	-1,426	-1,292	-2,244	-2,848	-508	
Export exchange rate insurance	-4,275	4,275	4,275					
Import exchange rate insurance	4,537	-4,537	-4,537					
TOTAL	2,225,245	-2,280,642	-1,054,986	-122,327	-227,416	-780,380	-95,532	-9,681

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

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

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

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

4.4 Brexit

Regarding the United Kingdom leaving the European Union. the Acerinox Group does not believe that this will have any material impact on its financial statements. as the Group only has one distribution subsidiary there and it has no productive assets in that country. The subsidiary imports the material that is manufactured in any of the Group's manufacturing plants and sells it in the United Kingdom. The total amount of fixed assets that the Group has in that country is 7.4 million euros (with the Group's total fixed assets being 1.823 million euros). Furthermore. sales made in that country only represent 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 they can be offset in any other country. given that it is a global market.

4.5 Capital management

The aims of the capital management policy are:

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

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

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

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

The net financial debt ratio. 1.36 times (1.15 times in 2018). remains below 2 for the fourth consecutive year. which is a highly satisfactory outcome for a group in our sector.

The Group comfortably complies with all the covenants included in the financing loans. as described in **note 12.2.3**.

Following the investments of 128 million euros (155.3 million euros in 2018). which are described in the cash flow statement as cash flows from investment activities. this year saw a cash flow of 231 million euros generated. 60 million higher than that obtained in 2018. 171.1 million euros. This significant generation of cash was supported by the reduction in working capital in the sum of 96 million euros during the year. The 231 million euros generated were allotted fundamentally to the remuneration of shareholders. The Shareholders' General Meeting resolved to increase the dividend by 11% or 135 million euros and. in addition. shares were purchased for redemption in the sum of 50 million euros. This totals 185 million euros during a year in which the adjusted net profit without including impairment or the Labour Force Adjustment Plan (ERE) totalled 176 million euros. In addition. 57 million euros was allocated to debt reduction which has reduced the Group's net financial debt by 10%. down to 495 million euros. the lowest figure since 2002.

The gearing ratio. at 25.6%. is also the lowest since the year 2002.

The strategy applied during the year focussed on optimising the funding cost by taking advantage of the market liquidity. extending maturities and increased fixed rate debt given the increases expected over the coming years. 92% of Group loans are at fixed interest rates. Net financial costs fell by 2.5 million euros leading to earnings of 0.4 million euros in the net profit for the year.

As stated in **note 12.2.3**. the most important financial operations were the renegotiation of the Borrowing Base Facility contract with Columbus Stainless Pty. Ltd. in the sum of 3.500 million rand. together with the extension of the syndicated factoring contract between several Group subsidiaries in the sum of 370 million euros. Additionally. several loans were signed and renegotiations held for a total of 378 million euros.

The volume of investments aligned with the development of our strategic plan is also maintained. The Strategic Plan 2008-2020. reviewed for the period 2016-2020. is not designed using criteria of timeliness but by industrial rationality and long-term efficiency. which supports its maintenance if the Group's financial situation allows. despite temporary adverse economic situations.

The Shareholders' General Meeting held on 11 April 2019 approved a dividend distribution of 0.30 euros/share in cash. paid out on 5 June. Likewise. it was resolved to distribute 0.20 euros/share from the share premium which was paid out on 5 July. Total remuneration therefore shows an 11% increase over the dividend distributed in previous years.

It was also resolved to redeem treasury shares equivalent to 2% of the share capital at that time.

4.6 Insurance

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

Sufficient coverage has been contracted for the Group's factories through material damage and loss-of-profit insurance policies. which account for over 58.76% of the Acerinox Group's insurance expenditure. All assets under construction are covered by both the insurance policies taken out by the respective suppliers in addition to a global building and assembly policy.

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

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

NOTE 5 SCOPE OF CONSOLIDATION

5.1 Subsidiaries and associates

At 31 December 2019 and 2018. in addition to Acerinox. S.A.. the Acerinox consolidated group includes 38 fully consolidated subsidiaries.

Investments in subsidiaries and associates in 2019 are as follows:

FULLY CONSOLIDATED COMPANIES	2019				
	COUNTRY	PARTICIPACIÓN		COMPANY HOLDING INVESTMENT	AUDITORS
		COST (in thousands Euros)	% OWNERSHIP		
ACERINOX (SCHWEIZ) A,G,	Mellingen -Switzerland	327	100%	ACERINOX S,A	PWC
ACERINOX ARGENTINA S,A,	Buenos Aires - Argentina	598	90%	ACERINOX S,A	Chinen, Morbelli 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	Bogota 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,	Milano - Italia	78,844	100%	ACERINOX S,A	Collegio Sindicale - Studio Revisori Associatti
ACERINOX METAL SANAYII VE TICARET L,S,	Gumussuyu /Beyoglu - Turkey	150	99.73%	ACERINOX S,A	
		0	0.27%	INOXIDABLES DE EUSKADI S,A,U	
ACERINOX MIDDLE EAST DMCC (DUBAI)	Dubai - United Arab Emirates	10	100%	ACERINOX S,A	Al Sharid Auditing and Management Consultancy
ACERINOX PACIFIC LTD,	Wanchai - Hong Kong	7,467	100%	ACERINOX S,A	PWC
ACERINOX POLSKA, SP Z,O,O	Warsaw - Poland	25,174	99.98%	ACERINOX S,A	PWC
		4	0.02%	INOXIDABLES DE EUSKADI S,A,U	
ACERINOX RUSSIA LLC	Saint Petersburg - Russia	100	100.00%	ACERINOX S,A	
ACERINOX SCANDINAVIA AB	Malmo - Suecia	31,909	100%	ACERINOX S,A	PWC
ACERINOX S,C, MALAYSIA SDN, BHD	Johor -Malaysia	19,476	100%	ACERINOX S,A	PWC
ACERINOX SHANGAI CO,, LTD,	Shangai - China	1,620	100%	ACERINOX S,A	Shanghai Shenzhou DaTong
ACERINOX (SEA), PTE LTD,	Singapore - Singapore	193	100%	ACERINOX S,A	PWC
ACERINOX U,K, LTD,	Birmingham - United Kingdom	28,444	100%	ACERINOX S,A	PWC

FULLY CONSOLIDATED COMPANIES	2019				
	COUNTRY	PARTICIPACIÓN		COMPANY HOLDING INVESTMENT	AUDITORS
		COST (in thousands Euros)	% OWNERSHIP		
ACEROL - COMÉRCIO E INDÚSTRIA DE AÇOS INOXIDÁVEIS, UNIPESSOAL, LDA,	Trofa - Portugal	15,828	100%	ACERINOX S,A	PWC
BAHRU STAINLESS, SDN, BHD	Johor -Malaysia	86,329	98.15%	ACERINOX S,A	PWC
COLUMBUS STAINLESS (PTY) LTD,	Middelburg - South Africa	175,147	76%	ACERINOX S,A	PWC
CORPORACIÓN ACERINOX PERU S,A,C	Lima - Peru	314	100%	ACERINOX S,A	
INOX RE, S,A,	Luxembourg	1,225	100%	ACERINOX S,A	PWC
INOXCENTER CANARIAS, S,A,U	Telde (Gran Canaria) - Spain	270	100%	INOXCENTER	PWC
INOXCENTER, S,L,U	Barcelona - Spain	17,758	100%	ACERINOX S,A	PWC
INOXFIL S,A,	Igualada (Barcelona) - Spain	6,247	100%	ROLDAN S,A	PWC
INOXIDABLES DE EUSKADI S,A,U	Vitoria - Spain	2,705	100%	ACERINOX EUROPA, S,A,U	PWC
INOXPLATE - COMÉRCIO DE PRODUCTOS DE AÇO INOXIDÁVEL, UNIPESSOAL, LDA,	Trofa- Portugal	11,843	100%	ACEROL - COMÉRCIO E INDÚSTRIA DE AÇOS INOXIDÁVEIS, UNIPESSOAL, LDA,	
METALINOX BILBAO, S,A,U	Galdácano (Vizcaya) - Spain	3,718	100%	ACERINOX S,A	PWC
NORTH AMERICAN STAINLESS INC,	Kentucky - U,S,A,	545,339	100%	ACERINOX S,A	PWC
NORTH AMERICAN STAINLESS CANADA, INC	Canada	5,091	100%	NORTH AMERICAN STAINLESS INC,	PWC
NORTH AMERICAN STAINLESS MEXICO S,A, DE C,V,	Apodaca - N,L,Mexico	18,948	100%	NORTH AMERICAN STAINLESS INC,	Deloitte
NORTH AMERICAN STAINLESS FINANCIAL INVESTMENTS LTD,	Kentucky - U,S,A,	15	100%	ACERINOX S,A	
ROLDAN S,A,	Ponferrada - Spain	17,405	99.77%	ACERINOX S,A	PWC

	2019		
PARTNER COMPANIES	COUNTRY	% INTEREST	HOLDING COMPANY
BETINOKS PASLANMAZ ÇELIK A,S,	Turkey	25%	ACERINOX S,A

The activities of the Group companies are as follows:

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

Investments in subsidiaries and associates in 2018 are as follows:

FULLY CONSOLIDATED COMPANIES	2018				
	COUNTRY	INTEREST		COMPANY HOLDING INVESTMENT	AUDITORS
		COST (in thousands Euros)	% OWNERSHIP		
ACERINOX (SCHWEIZ) A.G.	Mellingen -Switzerland	327	100%	ACERINOX S,A	PWC
ACERINOX ARGENTINA S.A.	Buenos Aires - Argentina	598	90%	ACERINOX S,A	Chinen, Morbelli 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	Bogota 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	Mehta Chokshi & Shah
ACERINOX ITALIA S.R.L.	Milano - Italia	78,844	100%	ACERINOX S,A	Collegio Sindicale - Studio Revisori Associatti
ACERINOX METAL SANAYII VE TICARET L.S.	Gumussuyu /Beyoglu - Turkey	150	99.73%	ACERINOX S,A	
		0	0.27%	INOXIDABLES DE EUSKADI S,A,U	
ACERINOX MIDDLE EAST DMCC (DUBAI)	Dubai - United Arab Emirates	10	100%	ACERINOX S,A	Al Sharid Auditing and Management Consultancy
ACERINOX PACIFIC LTD.	Wanchai - Hong Kong	7,467	100%	ACERINOX S,A	PWC
ACERINOX POLSKA. SP Z.O.O	Warsaw - Poland	25,174	99.98%	ACERINOX S,A	PWC
		4	0.02%	INOXIDABLES DE EUSKADI S,A,U	
ACERINOX RUSSIA LLC	Saint Petersburg - Russia	100	100.00%	ACERINOX S,A	
ACERINOX SCANDINAVIA AB	Malmo - Suecia	31,909	100%	ACERINOX S,A	PWC
ACERINOX S.C. MALAYSIA SDN. BHD	Johor -Malaysia	19,476	100%	ACERINOX S,A	PWC
ACERINOX SHANGAI CO.. LTD.	Shangai - China	1,620	100%	ACERINOX S,A	Shanghai Shenzhou DaTong
ACERINOX (SEA). PTE LTD.	Singapore - Singapore	193	100%	ACERINOX S,A	PWC
ACERINOX U.K. LTD.	Birmingham - United Kingdom	28,444	100%	ACERINOX S,A	PWC
ACEROL - COMÉRCIO E INDÚSTRIA DE AÇOS INOXIDÁVEIS. UNIPESSOAL. LDA.	Trofa - Portugal	15,828	100%	ACERINOX S,A	PWC
BAHRU STAINLESS. SDN. BHD	Johor -Malaysia	26,917	97%	ACERINOX S,A	PWC
COLUMBUS STAINLESS (PTY) LTD.	Middelburg - South Africa	279,655	76%	ACERINOX S,A	PWC
CORPORACIÓN ACERINOX PERU S.A.C	Lima - Peru	314	100%	ACERINOX S,A	
INOX RE. S.A.	Luxembourg	1,225	100%	ACERINOX S,A	PWC

FULLY CONSOLIDATED COMPANIES	2018				
	COUNTRY	INTEREST		COMPANY HOLDING INVESTMENT	AUDITORS
		COST (in thousands Euros)	% OWNERSHIP		
INOXCENTER CANARIAS. S.A.U	Telde (Gran Canaria) - Spain	270	100%	INOXCENTER	PWC
INOXCENTER. S.L.U	Barcelona - Spain	17,758	100%	ACERINOX S,A	PWC
INOXFIL S.A.	Igualada (Barcelona) - Spain	6,247	100%	ROLDAN S,A	PWC
INOXIDABLES DE EUSKADI S.A.U	Vitoria - Spain	2,705	100%	ACERINOX EUROPA, S,A,U	PWC
INOXPLATE - COMÉRCIO DE PRODUCTOS DE AÇO INOXIDÁVEL. UNIPESSOAL. LDA.	Trofa- Portugal	11,843	100%	ACEROL - COMÉRCIO E INDÚSTRIA DE AÇOS INOXIDÁVEIS, UNIPESSOAL, LDA,	
METALINOX BILBAO. S.A.U	Galdácano (Vizcaya) - Spain	3,718	100%	ACERINOX S,A	PWC
NORTH AMERICAN STAINLESS INC.	Kentucky - U,S,A,	545,183	100%	ACERINOX S,A	PWC
NORTH AMERICAN STAINLESS CANADA. INC	Canada	28,800	100%	NORTH AMERICAN STAINLESS INC,	PWC
NORTH AMERICAN STAINLESS MEXICO S.A. DE C.V.	Apodaca - N,L,Mexico	18,948	100%	NORTH AMERICAN STAINLESS INC,	Deloitte
NORTH AMERICAN STAINLESS FINANCIAL INVESTMENTS LTD.	Kentucky - U,S,A,	15	100%	ACERINOX S,A	
ROLDAN S.A.	Ponferrada - Spain	17,405	99.77%	ACERINOX S,A	PWC

	2018		
PARTNER COMPANY	COUNTRY	% INTEREST	HOLDING COMPANY
BETINOKS PASLANMAZ ÇELIK A,S,	Turkey	25%	ACERINOX S,A

5.2 Changes in the consolidated group

This year the Group increased its stake in the Malaysian company Bahru Stainless to 98.15% (compared to 97% at the end of 2018 after the acquisition of 30% from the Japanese equity holder Nisshin Steel Co. Ltd.). This increase is due to the dilution of the minority shareholder's interest as it did not participate in the capital increase carried out in this company in proportion to its interest. as explained in **note 5.3**

There were no other changes in the scope of consolidation.

In December 2018. Acerinox. S.A. acquired an additional 30% stake in the Group company Bahru Stainless Sdn. Bhd. of its shareholder Nisshin Steel Co. Ltd. to date also a minority shareholder of the Company.

As a result of the acquisition of Nisshin Steel Co. Ltd by the Japanese company Nippon Steel & Sumitomo Metal Corporation and the restructuring of the Japanese Group. and in exercise of the purchase option provided for in the Joint Venture Agreement of 15 January 2009 entered into by Nisshin Steel Co. Ltd. y Acerinox. S.A.. Acerinox acquired a 30% stake in Bahru for 11.9 million USD (10.5 million euros). equivalent at the time to the carrying amount of the shareholding. in accordance with the latest audited accounts. This acquisition increased Acerinox. S.A.'s stake in Bahru Stainless Sdn. Bhd. to 97%.

The Group derecognised the 30% non-controlling interest in the company. The difference between the amount recognised under non-controlling interests and the acquisition value paid was recognised against consolidated reserves amounting to -40.646 thousand euros.

5.3 Capital increases and reductions

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

Bahru Stainless Sdn. Bhd.

At its meeting held on 26 February 2019. the Board of Directors resolved to carry out a capital increase in Bahru Stainless. with no cash contribution. through the capitalization of USD 332.5 million from the loan granted by Acerinox. S.A. to its subsidiary. Acerinox. S.A.'s stake in Bahru Stainless was 97% prior to the capital increase.

On 22 July. the General Meeting of Shareholders of Bahru was held. which approved the capital increase. In turn. the non-controlling shareholder took part in the increase through a cash contribution of USD 3 million. which diluted its stake to 1.85%.

Acerinox. S.A recognised an increase in its investments in Group companies amounting to 296.663 thousand euros. equivalent to the fair value of the capitalised loan. and which does not significantly differ from its carrying amount at that date.

There were no capital reductions in any of the Group's entities.

The following capital increases took place in 2018:

Peru

In 2018. a capital increase of 256 thousand euros was carried out in the Group company Corporación Acerinox Perú. S.A.C. This company was incorporated in 2012 with a share capital composed of 120.001 shares of 1 Peruvian sol with a nominal value each (58 thousand euros). The accumulated losses of 111 thousand euros and the increase in activity made the capital increase necessary.

Inoxplate

The Group company Inoxplate. Lda with headquarters in Portugal. a wholly owned investee of the Portuguese company Acerol. Ltda. reimbursed in 2018 the supplementary contributions to its parent for the amount of 1 million euros.

5.4 Impairment of investments

At 31 December 2019 and 2018 the Parent Company has analysed the recoverability of its investments in Group companies with indications of impairment to determine whether their carrying amount exceeds their recoverable amount. Following the analyses carried out this year. the Parent has only recognised impairment on its investment in the company Bahru Stainless. Sdn. Bhd. and of the company Columbus Stainless Pty. Ltd.

- During the year. the Parent Company has recognised an impairment of 237.313 thousand euros of its investment in the company Bahru Stainless Sdn. Bhd. because its recoverable amount. calculated on the basis of its fair value less costs to sale. is lower than its carrying amount. At 31 December 2019. this investment has been recorded in the individual annual accounts of Acerinox. S.A. at Euros 86.329 thousand. which is equal to its recoverable amount.

- In the case of Columbus Stainless. Ltd. the Parent has recognised impairment of Euros 104.565 thousand on its investment because its recoverable amount. calculated on the basis of discounted expected cash flows. proved to be less than its carrying amount. At 31 December 2019. this investment has been recorded in the individual annual accounts of Acerinox. S.A. at Euros 175.147 thousand. which is equal to its recoverable amount.

During 2018. the Parent company recognised impairment of 155.454 thousand euros on its investment in the company Bahru Stainless. Sdn. Bhd. which meant that the investment was recorded in the individual annual accounts of Acerinox. S.A. at 26.917 thousand euros. which was equal to its recoverable amount. After the capital increase this year of 296.725 thousand euros. the value of the investment amounted to 323.642 thousand euros.

This impairment does not have an impact on consolidated results as these companies are fully consolidated. There is a detailed breakdown of the analyses performed in the Parent Company's individual report.

NOTE 6 SEGMENT REPORTING

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

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

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

The "unallocated" segment reflects the activities of the holding company and activities that cannot be allocated to specific operating segments. As described in note 1. the main activity of the holding company. parent company of the Acerinox Group. is the provision of legal. accounting and advisory services to all Group companies. as well as the performance of financing activities within the Group. as it is through Acerinox. S.A.. where all the Group's financing is centralised.

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

With regard to the so-called "unallocated" segment. which relates mainly to the holding company's own activities. the result reflects only the expenses corresponding to its activities. since revenues. since they are always with Group companies. have been eliminated in consolidation. The costs are mainly financial since the holding company centralises most of the Group's financing. as can be seen from the amount of the liabilities in the "unallocated" segment.

Revenue and all items reflected in the income statement by segments are presented on a consolidated basis. i.e. after eliminating income and expenses from Group companies. except for sales between segments. which are reflected separately.

Inter-segment sales prices are established in accordance with market commercial terms and conditions governing non-related third parties.

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

6.1 Operating segments

Segment results for the year ended 31 December 2019 are as follows:

(Figures in thousands of euros)

	2019					
	Flat products	Long products	Others	Unallocated	Adjustments	Total
Income Statement						
Revenue	4,281,574	641,636	38,161	2,575	-178,168	4,785,778
Inter-segment sales	-168,703	-9,465	0	0	178,168	0
Total revenues	4,112,871	632,171	38,161	2,575		4,785,778
Gross operating profit / loss	271,148	111,916	2,109	-21,768	0	363,405
Amortisation	-160,234	-14,155	-172	-744	0	-175,305
Impairment losses	-165,453	0	0	0	0	-165,453
Finance income	18,786	15	8	236		19,045
Finance costs	-13,100	-164	-171	-20,896		-34,331
Translation differences	3,530	-59	0	12,251		15,722
Profit / loss before tax	-45,323	97,553	1,774	-30,921		23,083
Income tax	-13,909	-21,755	-439	-55,189		-91,292
Consolidated profit / loss for the period	-59,232	75,798	1,335	-86,110		-68,209
Attributable to:						
Non - controlling interests	-8,674	10	0	0		-8,664
Net profit / loss attributable to the Group	-50,558	75,788	1,335	-86,110		-59,545
Balance Sheet						
Segment Assets	3,928,820	368,693	21,112	78,172	0	4,396,797
Total consolidated assets	3,928,820	368,693	21,112	78,172		4,396,797
Segment liabilities	1,196,966	31,161	16,041	1,223,640		2,467,808
Unallocated liabilities						0
Total consolidated liabilities (excluding equity)	1,196,966	31,161	16,041	1,223,640		2,467,808
Property, plant and equipment	1,698,233	97,204	4,575	10,071	0	1,810,083
Investments in property, plant and equipment	144,613	6,856	21	197	0	151,687

Unallocated liabilities essentially comprise the Parent company's financial debt,

2018 figures are as follows:
(Figures in thousands of euros)

	2018					
	Flat product	Long product	Others	Unallocated	Adjustments	Total
Income statement						
Revenue	4,512,180	714,726	40,238	2,812	-228,278	5,041,678
Inter-segment sales	-215,845	-12,433			228,278	0
Total revenues	4,296,335	702,293	40,238	2,812		5,041,678
Gross operating profit/loss	373,856	119,159	2,878	-17,645		478,248
Amortisation	-151,794	-12,954	-162	-1,243		-166,153
Finance income	16,674	114	17	1,454		18,259
Finance costs	-12,374	-9	-177	-21,117		-33,677
Translation differences	6,154	-117		7,296		13,333
Profit/(loss) before tax	232,516	106,193	2,556	-31,255		310,010
Income tax	-88,345	-22,658	-861	17,096		-94,768
Consolidated profit/loss for the period	144,171	83,535	1,695	-14,159		215,242
Attributable to:						
Non-controlling interests	-21,873	29				-21,844
Net profit/loss attributable to the Group	166,044	83,506	1,695	-14,159		237,086
Balance sheet						
Segment assets	4,092,722	381,248	20,763	112,857		4,607,590
Total consolidated assets	4,092,722	381,248	20,763	112,857		4,607,590
Segment liabilities	1,197,714	39,719	14,477	1,236,381		2,488,291
Unallocated liabilities						0
Total consolidated liabilities (excluding equity)	1,197,714	39,719	14,477	1,236,381		2,488,291
Property, plant and equipment	1,792,240	100,270	4,583	10,349		1,907,442
Investments in property, plant and equipment	136,735	6,632	77	452	0	143,896

There are no significant balances that have not been reflected in cash flows other than amortisation and depreciation and impairment.

6.2 Geographical segments

Revenue from geographical segments is presented on the basis of customer location. Segment assets are determined by geographical location.

Data relating to geographical segments in 2019 is presented below:

(Figures in thousands of euros)

	2019						
	Spain	Rest of Europe	Americas	Africa	Asia	Oceania	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		**1,793,740**
Investment property	3,126	13,217					**16,343**
Investments in property, plant and equipment and intangible assets	70,808	581	42,270	32,829	5,199		**151,687**

2018 figures are as follows:

(Figures in thousands of euros)

	2018						
	Spain	Rest of Europe	Americas	Africa	Asia	Oceania	Total
Revenue by destination of goods	463,056	1,278,093	2,369,934	245,059	627,247	27,388	**5,010,777**
Segment assets	1,053,775	309,442	1,940,077	435,710	868,377	209	**4,607,590**
Property, plant and equipment	381,833	45,929	724,124	118,637	620,384		**1,890,907**
Investment property	3,167	13,368					**16,535**
Investments in property, plant and equipment and intangible assets	93,367	399	32,806	14,313	3,011		**143,896**

The Group sells its products in over 80 countries across the five continents. The Group's sales in the following countries exceeded 5% of total consolidated sales in 2019 and 2018: United States 40.32% (39.72% in 2018). Spain 8.67% (9.41% in 2018). Germany 6% (6.53% in 2018) and Italy 5.37% in 2019 (4.74% in 2018).

No single transaction with an external customer exceeded 10% of the Group's consolidated revenues for 2019 or 2018.

NOTE 7 INTANGIBLE ASSETS

Details of the main intangible assets and movement therein are shown below:

(Figures in thousands of euros)

COST	Industrial property	Computer software and other	SUBTOTAL	Goodwill
Balance at 1 January 2018	24,312	25,929	50,241	69,124
Acquisitions		901	901	
Transfers		151	151	
Disposals		-748	-748	
Translation differences		-188	-188	
Balance at 31 December 2018	24,312	26,045	50,357	69,124
Acquisitions		953	953	
Transfers		748	748	
Disposals		-47	-47	
Translation differences		100	100	
Balance at 31 December 2019	24,312	27,799	52,111	69,124
ACCUMULATED AMORTISATION AND IMPAIRMENT	**Industrial property**	**Computer software and other**	**SUBTOTAL**	**Goodwill**
Balance at 1 January 2018	24,312	23,419	47,731	0
Charges		1,299	1,299	
Transfers		-36	-36	
Disposals		-745	-745	
Translation differences		-141	-141	
Balance at 31 December 2018	24,312	23,796	48,108	0
Charges		743	743	
Dotación pérdidas por deterioro			0	-67,889
Transfers			0	
Disposals		-47	-47	
Translation differences		74	74	
Balance at 31 December 2019	24,312	24,566	48,878	-67,889
CARRYING AMOUNT	**Industrial property**	**Computer software and other**	**SUBTOTAL**	**Goodwill**
Cost at 31 December 2017	24,312	25,929	50,241	69,124
Accumulated amortisation and impairment	-24,312	-23,419	-47,731	
Carrying amount at 31 December 2017	0	2,510	2,510	69,124
Cost at 31 December 2018	24,312	26,045	50,357	69,124
Accumulated amortisation and impairment	-24,312	-23,796	-48,108	
Carrying amount at 31 December 2018	0	2,249	2,249	69,124
Cost at 31 December 2019	24,312	27,799	52,111	69,124
Accumulated amortisation and impairment	-24,312	-24,566	-48,878	-67,889
Carrying amount at 31 December 2019	0	3,233	3,233	1,235

Amortisation for the year is shown under amortisation and depreciation in the income statement.

The research and development expenses incurred by the Group do not meet the criteria for capitalisation and are therefore recognised as expenses. by type. when they are incurred. Research and development and innovation (R&D&I) costs directly recognised as expenses for the year and taken to the income statement amount to 12.035 thousand euros (9.547 thousand euros in 2018).

At 31 December 2019. the Group had entered into contracts for the acquisition of intangible assets amounting to 897 thousand euros. (970 in 2018).

7.1 Goodwill impairment testing

The Group estimates the recoverable amount of goodwill on an annual basis. or more frequently. where there are indications of possible impairment. To this end. goodwill is allocated to the company's cash generating units that are expected to benefit from the synergies of a business combination.

Prior to 31 December 2019. the goodwill. amounting to EUR 69.1 million.and mainly relates to the acquisition of a controlling interest in Columbus Stainless. Ltd. in 2002. This goodwill. amounting to 67.889 thousand euros (allocated to the Columbus cash-generating unit –CGU-. which manufactures and sells flat products only) has been completely impaired during 2019. as described in this note.

The recoverable amount of a CGU is determined based on its value in use. These calculations are based on cash flow projections from the financial budgets approved by Management covering a five-year period. Cash flows beyond this five-year period are extrapolated using the estimated growth rates indicated below. The terminal value is calculated taking into account average values calculated on the basis of figures reached in the past and also in the budget period. allowing the standardising of bull and bear cycles.

As far as the 5-year budgets are concerned. the estimated sales and production volumes are based on current capacities with existing machines and equipment and take into account the evolution of both future demand and prices of stainless steel by market. as estimated by independent industry experts. Management determines production costs taking into account the current situation. the efficiency plans put in place and future price developments.

Price forecasts have been made on the basis of estimates made by the company CRU. which provides its subscribers with an estimate of prices on the various stainless steel markets. Demand estimates are based on ISSF and Oxford Economics publications

The discount rates used are before-tax values and reflect specific risks related to the relevant segments. Other significant assumptions such as exchange rates and raw material prices refer to values recorded on the most recent market values.

During 2019. Columbus Stainless. Ltd has been affected by the negative evolution of the markets. especially during the last semester of the year. significantly departing from the budgets approved by Management.

For the global stainless steel sector. the year started with an improvement in the demand on all the markets. showing a first half of a great deal of activity. followed by a slowdown during the third quarter and remaining at low levels during the last. Specifically. the South African economy grew slightly in 2019. although at a lower rate than expected (0.2%). yet such increase was not reflected throughout the sector as the apparent consumption of stainless steel contracted around 10% in 2019. in line with the trend of the main consumption sectors. especially the automotive sector. due to a lack of confidence in the market and the shortage of large projects during the year.

Columbus' results this year were also negatively affected by exceptional circumstances arising during the third quarter of the year. Among such exceptional circumstances. the most significant were the lack of supply of gas and problems with the commissioning of certain improvements implemented in some of the machines. The Group does not expect such events to carry over to future years.

The Company is confident that the flows to perpetuity will materialise. mainly in terms of its use of production capacity and margins. maintaining the growth rate (g) used. The growth rates have been calculated using estimated growth rates for the country and sector. and bearing in mind historical growth in the consumption of stainless steel.

The key assumptions used to calculate the value in use are as follows:

	2019	2018
Budgeted EBIT margin (*)	2.8%	4.5%
Weighted average growth rate (**)	2.5%	2.5%
Pre-tax discount rate applied (***)	16.5%	17.3%
Post-tax discount rate applied (***)	12.8%	13.1%

(*) EBIT margin. considered equivalent to operating profit/loss (as a percentage of net revenue
Average value of the budgeted period.
(**) Used to extrapolate cash flows beyond the budgeted period
(***) WACC. Weighted Average Cost of Capital

The discount rate (WACC or weighted average cost of capital) has been calculated considering the reference of the interest rates of the South African sovereign debt (10-year SWAP of the South African Rand). a capital structure. market risk premiums and coefficients of similar companies.

Regarding the terminal value. a normalization exercise has been performed to obtain flows in perpetuity. the amortisations are equalled to the investments and the variation of the working capital is also calculated based on average amounts. deemed consistent in the long term. increased by growth rate (g).

The growth rate (g) remains constant at 2.5%. In 2019 the global stainless steel market continued to consolidate the historical market growth rate of 5.9% for the 1950-2019 period.

Other assumptions are the euro-rand exchange rate (16.28) and the price of raw materials (13.700 USD/MT). which are established when drawing up the budget. Both are extrapolated and kept constant during the period of analysis. The variables used in 2018 were 16.459 for the exchange rate of the Euro with respect to the Rand and 11.200 USD/MT for the price of the raw materials.

Due to the environment of uncertainty that governs the markets in which Columbus operates. the Group has carried out an analysis of the probability of occurrence of the key assumptions. adjusting the expected budgets. as well as those of the terminal year. to average values obtained in the past and considered as normalised for the future.

All things considered. the impairment test performed as of 31 December 2019 reflects a recoverable value of EUR 239.796 thousand (EUR 356.423 thousand in 2018). falling short of the carrying amount. EUR 307.458 thousand (EUR 280.364 thousand in 2018) by EUR 67.662 thousand (an excess of EUR 76.059 thousand in 2018). Consequently. the Group has impaired its goodwill this year in its aggregate amount of EUR 67.9 thousand. No impairment has been recorded on the company's other assets.

Nonetheless. a sensitivity analysis has been conducted within the range of variations that the Group considers possible:

	Variation	Impairment	Variation	Impairment
Discount rate (WACC)	-6.0%	-54,251	2,5%	-72,736
Perpetual growth rate (g)	70.0%	-53,341	-30,0%	-72,473
Averaged budgeted EBIT margin (*)	25.0%	-53,202	-9,0%	-72,868

The Group has recorded an impairment in the upper range of the analysis

NOTE 8 PROPERTY. PLANT AND EQUIPMENT

Details of property, plant and equipment and movement in 2019 and 2018 are shown in the following table:

(Figures in thousands of euros)

COST	Land and buildings	Technical installations and machinary	Other property plant and equipment	Advances and property, plant and equipment under constructions	TOTAL
Balance at 1 January 2017	790,224	3,709,269	86,287	126,866	4,712,646
Adjustment for hyperinflation	449	77	168		694
Additions	1,017	33,263	3,500	105,215	142,995
Transfers	6,289	31,449	1,984	-39,873	-151
Disposals	-157	-22,817	-3,620		-26,594
Translation differences	18,340	67,536	631	413	86,920
Balance at 31 December 2018	816,162	3,818,777	88,950	192,621	4,916,510
Adjustment for hyperinflation	179	35	56	0	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	0	-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

ACCUMULATED AMORTISATION AND IMPAIRMENT	Land and buildings	Technical installations and machinary	Other property plant and equipment	Advances and property, plant and equipment under constructions	TOTAL
Balance at 31 December 2017	327,962	2,434,274	82,002	0	2,844,238
Charges	16,635	143,365	4,504		164,504
Adjustment for hyperinflation	226	63	157		446
Transfers		33	3		36
Disposals	-61	-19,070	-3,574		-22,705
Translation differences	5,776	32,452	856		39,084
Balance at 31 December 2018	350,538	2,591,117	83,948	0	3,025,603
Charges	17,816	147,688	5,179		170,683
Impairment	0	97,564	0		97,564
Adjustment for hyperinflation	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	0	3,313,481

CARRYING AMOUNT	Terrenos y construcciones	Instalaciones técnicas y maquinaria	Otro inmovilizado	Inmovilizado en curso	TOTAL
Cost at 31 December 2017	790,224	3,709,269	86,287	126,866	4,712,646
Accumulated amortisation and impairment	-327,962	-2,434,274	-82,002		-2,844,238
Carrying amount at 31 December 2017	462,262	1,274,995	4,285	126,866	1,868,408
Cost at 31 December 2018	816,162	3,818,777	88,950	192,621	4,916,510
Accumulated amortisation and impairment	-350,538	-2,591,117	-83,948		-3,025,603
Carrying amount at 31 December 2018	465,624	1,227,660	5,002	192,621	1,890,907
Cost at 31 December 2019	864,495	4,102,087	94,138	46,501	5,107,221
Accumulated amortisation and impairment	-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

Depreciation for the year is shown under amortisation and depreciation in the income statement.

The difference between " amortisation and depreciation" appearing on the income statement and on the statement of cash flows. and the sum of the provisions reflected in the tables of property. plant and equipment. intangible assets. investment property and right-of-use assets is due to the hyperinflation adjustment made to all the profit and loss items of the Argentine entity and that. in the case of the provision for amortisation. amount to 14 thousand euros.

The impairment of fixed assets recorded by the Bahru Stainless Group company is included. together with the goodwill explained in **note 8.1**. in a separate heading in the income statement

Investments

Investments in property. plant and equipment and intangible assets for the year amounted to 151.687 thousand euros. of which 50 million relate to recurring investments in maintenance. Also of note are 46 million euros of investments made by the Spanish company of the Acerinox Group Europe and related mainly to the last invoices received to complete the new rolling mill and the fifth annealing and pickling line. which have been brought into operation this year. as explained below. In addition. investments are also being made in a ladle furnace that will enable the company to optimise the steelmaking process. In the North American Stainless Company. investments amounting to 18 million euros were made to renew and improve certain lines. The main investment made this year by the company Columbus was also a ladle furnace and improvements to various lines. for a total of 25 million euros.

During the year the Group obtained loans from the 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) amounting to 33.161 thousand euros. This financing relates to the investments made in Acerinox Europe's factories in Palmones and Roldan in Ponferrada in six different projects. These are 10-year loans with a 3-year grace period and an interest rate of 1.6%. for which the Group has had to provide guarantees for 10% of the loans granted.

In 2018 the investments made amounted to 143.896 thousand euros. These included 87.851 thousand euros invested by the Spanish Group company Acerinox Europa mainly in a new cold-rolling mill and a fifth annealing and pickling line. The equipment has the most advanced technological systems and a level of competitiveness that will generate new quality standards. while reducing costs and environmental impact. With this new line. Acerinox Europe offers thinner thicknesses (with a width of 1.500 mm) to its end customers. thus expanding its product range.

Property. plant and equipment under construction

Details of the investments classified under this heading are as follows:

(Figures in thousands of euros)

	2019	2018
Buildings	3,812	37,811
Technical installations and machinery	37,852	154,474
Other property, plant and equipment	4,612	336
Advances	225	
TOTAL	46,501	192,621

Of the total amount recognised under this heading. 25 million euros are recognised in Acx Europe (174 million euros in 2018 corresponding to the new rolling mill and the fifth annealing and pickling line started up in this year) and 14 million euros in the American company North American Stainless. in both cases relating to some of the investments mentioned in the previous section and which are still in progress.

From total "transfers" from property plant and equipment under construction to finished property plant and equipment amounting 232.809 thousand euros. an amount of 150.748 thousand euros correspond to the reclassification made by Acerinox Europa of the investments made 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. The reclassified amount has entailed an increase in depreciation this year of around 7.5 million euros. The amount of 19.471 thousand was also reclassified from property. plant and equipment under construction owing to the renovations made to the AP3 annealing and pickling line.

Fixed assets located outside Spain

Details of fixed assets. including investment property. located outside Spain are as follows:

(Figures in thousands of euros)

	2019		2018	
	Cost	Accumulated depreciation	Cost	Accumulated depreciation
Buildings	585,684	-212,516	578,037	-196,141
Technical installations and machinery	2,674,822	-1,675,500	2,657,862	-1,534,675
Other property, plant and equipment	44,179	-41,907	40,008	-38,439
Property, plant and equipment under construction	16,561	0	15,790	
TOTAL	3,321,246	-1,929,923	3,291,697	-1,769,255

Changes in accounting estimates

As explained in **note 3**. the Group periodically reviews estimated useful lives based on the valuations made by experts. During this year the Columbus Stainless Group company reviewed the useful lives of items whose useful life was about to end. extending it in those cases where the items are still in use. This re-estimation has had a negligible impact on the Group's income statement. amounting to 52 thousand euros. As a result of these analyses carried out last year. the Group company Columbus Stainless (Pty). Ltd. changed the useful lives of some of its assets. The technological improvements and maintenance plans implemented by the company led us to forecast a lengthening of useful lives of between 5 and 10 years. The Group accounted for the change in accounting estimates prospectively as stipulated in IAS 8. The impact of the change in accounting estimates on profit and loss at 31 December 2018 was 659 thousand euros. due to the reduction in provisions for this year.

Guarantees

At 31 December 2019 and 2018 none of the Group's assets has been pledged to secure loans and borrowings.

Commitments

At 31 December 2019. the Group had entered into contracts to acquire new equipment and installations for 56.295 thousand euros. of which 29.848 thousand euros relate to investments being made by Acerinox Europa and 20.076 thousand made by North American Stainless. At 31 December 2018 the Group had signed contracts to purchase new equipment and facilities amounting to Euro 64.346 thousand. of which Euro 40.615 thousand was also for new investments made by Acerinox Europa to complete its investments in the new rolling mill and the fifth annealing and pickling line.

Capitalised borrowing costs

Borrowing costs of 397 thousand euros have been capitalised in this year for the company Columbus Stainless (40 thousand euros in 2018. mostly corresponding to the company Columbus Stainless). The capitalisation rate in 2019 was 8.95% (8.57% in 2018).

Disposals of fixed assets

The loss on the sale of property. plant and equipment or the removal of assets from service totals 3.501 thousand euros and is recognised under other operating expenses in the 2019 income statement (2.250 thousand euros in 2018). This balance primarily reflects the disposals of property. plant and equipment from Group warehouses. either as obsolete parts or because they have been used for maintenance work.

The gain on the sale or withdrawal of property. plant and equipment recognised in the consolidated income statement in 2019 under other operating income amounted to 7.189 thousand euros. relating mainly to the sale of an industrial plant in California owned by Group company North American Stainless (560 thousand euros in 2018 relating to the sale of two industrial plants in Spain classified as investment property).

Environment

Property. plant and equipment held to minimise the environmental impact of the Group's activities and to protect and improve the environment at 31 December 2019 and 2018 are as follows:

(Figures in thousands of euros)

	2019		2018	
Nature and use	Gross value	Accumulated depreciation	Gross value	Accumulated depreciation
Water treatment	105,387	-71,459	90,431	-62,621
Acid neutralisation	62,457	-41,558	59,398	-39,175
Gas emission treatment	81,386	-68,276	77,756	-66,481
Automatic additions systems	8,482	-6,482	8,353	-6,208
Other items	117,620	-87,612	115,415	-82,512
Total	375,332	-275,387	351,353	-256,997

In 2019. the Group received an environmental grant of 4.891 thousand euros to offset the costs of indirect greenhouse gas emissions. In 2018. 2.552 thousand euros were received to offset the costs of indirect greenhouse gas emissions. Both grants were recognised as income in other operating income.

In 2019 the Group incurred environment-related ordinary expenses of 100.205 thousand euros (98.241 thousand euros in 2018).

Property. plant and equipment not used in ordinary activities

Group property. plant and equipment not used in ordinary activities include several industrial bays. which are classified as investment property. Details and the valuation of this property are provided in **note 9**.

Other information

At 31 December 2019 and 2018 there are no litigation cases. seizures or similar measures that may affect items of property. plant or equipment.

The Group's companies have taken out insurance policies to cover the risk of damage to their property. plant and equipment. The coverage of these policies is considered sufficient.

8.1 Impairment of assets

As established in IAS 36. and as mentioned in the accounting policies. (note 2.12). the Group assesses whether there are any indications of impairment of the assets at each year end. The value of an asset is impaired when its carrying amount exceeds its recoverable amount. To assess indications of impairment. the Group considers both external sources of information (technological changes. significant fluctuations in market interest rates. market value of the assets) and internal sources of information (evidence of obsolescence. continued losses in the entity. substantial deviation from estimations. etc).

Property. plant and equipment and intangible assets represent 44% of the Group's assets. A breakdown by company shows that 94% of the Group's property. plant and equipment and intangible assets are located in factories. with the remaining 6% held by its 33 other subsidiaries:

SUBSIDIARIES	2019	2018
ACERINOX EUROPA. S.A.U.	19.93%	1.13%
ROLDAN. S.A.	1.16%	1.04%
INOXFIL. S.A.	0.19%	0.19%
NORTH AMERICAN STAINLESS INC.	37.40%	37.26%
COLUMBUS STAINLESS PTY Ltd	7.65%	6.22%
BAHRU STAINLESS	27.69%	32.28%
Remaining subsidiaries	5.98%	5.88%
TOTAL	100.00%	100.00%

The majority of assets do not generate cash inflows independently. as the whole production process needs to be completed. Impairment has therefore not been estimated on an individual basis. but by allocating the assets to cash-generating units. In the case of factories. the smallest cash-generating units that can be considered encompass each factory as a whole.

During this fiscal year there have been indications of impairment at Bahru Stainless Sdn. Bhd.. Columbus Stainless PTY Ltd. Acerinox Europa S.A.U.. Inoxfil. S.A.. and Acerinox S.C. Malaysia Sdn. Bhd.

The indications of impairment are based on the continued losses recorded and/or on the substantial deviation with respect to the estimates made. Following are the details of the main impairment tests conducted:

Bahru Stainless Sdn. Bhd.

It is the most recently created factory of the Acerinox Group. located in Johor. Malaysia. It operates mainly in markets of the ASEAN area. where there is a significant price gap compared to other international markets largely due to the over-capacity in the Chinese market and the resulting pressure on international markets. especially in the Asia-Pacific region. In addition. the different ASEAN countries and. generally. in Asia. reacted to Chinese over-capacity by instituting anti-dumping or protectionist measures in their local markets.

The aforementioned over-capacity in Asia was the dominating note during 2019. mainly to the new factory of the Chinese producer Tsingshan that broke into the cold rolling mill market at very low prices. . which resulted in lower final prices world-wide and which in turn spread to all Asian market. reaching all-time low prices. With all of this. the Asian market has maintained very low prices during the entire year.

During the first half of the year. there had been no relevant breaches of the budgets. but due to the aforesaid market situation of over-capacity. and consequently very low prices. in addition to the increasing tension and regulatory uncertainty in the international trade flows. the evolution of Bahru Stainless has continued to worsen until year end. preventing the transferring of the cost of the products to the final sales prices.

By sectors. China saw a drop for the second consecutive year in the automotive sector. this time of -7.5% in 2019 according to the CAAM (China Association of Automobile Manufacturers). in contrast with the excellent behaviour in construction of +9.9%. according to data from the NBS (National Bureau of Statistics).

In conclusion. due to the uncertainties of the Asian market. resulting from the installed over-capacity. the low prices sustained over the last years and the increasing instability generated from the international trade flows by the numerous international protectionist measures. the Group has considered that the forecast flows of Bahru are subject to a high level of uncertainty.

In light of all these determinants. the Group has decided to request the support of an independent valuation firm. Along with such firm. the main assumptions of the budgeted flows and the performance of the impairment test calculations have been adjusted.

Within such context. the independent valuation firm has aided in the estimate of the recoverable value (premise of reasonable value less cost of sale) in the context of an analysis of impairment test from the perspective of a market participant.

To estimate the fair value of Bahru Stainless. an income approach has been used. based on an analysis of Discounted Cash Flows (DCF) under projections adapted depending on market participants. The initial estimates have been reviewed to adjust them according to performance indicators and market assumptions to approach the perspective of a market participant.

Within the possible range of after tax discount rates (WACC). 9.75% has been considered based on the Beta considered under the approach of a market participant. A finite life has also been considered (25 years) solely projecting maintenance investments. In addition to the projected investments the projected profit and loss statement includes maintenance expenses arising during the finite life.

Negative tax bases and outstanding tax credits have also be considered. in addition to the rights to the land not in use and that could be sellable.

The impairment test conducted as of 31 December 2019 shows a lower recoverable value EUR 389.180 thousand (EUR 633.1998 thousand in 2018) over the carrying amount prior to the impairment. EUR 486.414 thousand (EUR 557.921 thousand in 2018). of EUR 97.234 thousand (an excess of EUR 75.276 thousand in 2018). The after tax discount rate (WACC). 9.75% (8.50% in 2018) and the budgeted EBIT margin. 2.4% (3.2% in 2018) are considered key assumptions in the impairment test.

The Group has conducted sensitivity analyses. By increasing the discount rate (WACC) by 15.6% to 11.25%. a possible impairment of EUR 149.419 thousand would be reached. Regarding the budgeted EBIT. a 5% drop in each of the years considered (2020-2044). could increase the impairment up to EUR 108 million.

Columbus Stainless PTY Ltd.

It has not been necessary to make any impairment of the tangible assets of the company. as evidenced from the analyses shown in note 7.1. although there has been a complete impairment of the goodwill associated with Columbus Stainless.

Acerinox Europa S.A.U.

Acerinox Europa (Campo de Gibraltar. 1970) was the first integral stainless steel factory in the world. The plant was built by the Acerinox Group and the knowledge and experience acquired during their design and performance proved to be determinants in the creation of other Company factories.

The plant recently enhanced its array of steel thanks to new equipment fitted with state of the art technological systems and boasting a level of competitiveness that has given rise to new quality standards. giving the products greater added value. quality and reliability. in addition to reducing production costs and the environmental impact.

2019 started off with an improvement in the demand on all markets. completing a first semester of abundant activity followed by a slowing down in the third quarter and with low levels being maintained during the last. All this amidst geopolitical tensions. such as Brexit in Europe or the increasing protectionism worldwide and the frame of US-China relations.

The European market underwent an evolution. in terms of final demand. in line with the economic slowdown in the EU as a whole. and particularly the two main stainless steel markets: Germany and Italy. At the sector level. according to Eurofer estimates. construction growth of 3.8% is worthy of mention. while for both the automotive and electrical appliances. Eurofer downgraded its estimates in January. with drops of -5.9% and -1.4%. respectively.

The definitive safeguard measures adopted in February 2019. modified those imposed primarily in July 2018. establishing annual quotas per country to the main origins (those that accounted for more than 5% of the imports in the three-year period 2015-2017) and a residual quota for the rest. to be revised quarterly.

The 25% tariff was maintained above the quotas. There was also the exclusion of developing countries below the 3% threshold of imports. under the WTO rules. that of countries in the European Economic Area and countries of the preferential trade agreement between the European and Africa was also excluded. including South Africa. Hence our factory. Columbus Stainless. remained unaffected.

In September. a review of the final measures was approved. providing for a reduction of from 5% to 3% of the annual increase in instalments. and the inclusion of Indonesia in the residual quota as of 1 October. for having exceeded its imports as a developing country over the threshold of 3% in 2018. both in cold and hot.

Despite these measures. European producers were unable to prevent the pressure of the imports that. with the US market closed off. found in Europe the main destination of their surplus production. This was reflected in the fact that the imports in Europe was only reduced by 5%. in line with the fall in the market.

The strong increase in imports from Indonesia until it was included in the measures is a fact that must be emphasise. This. together with other imports from Asia. had a very negative impact on prices.

In August. the European Union initiated an anti-dumping investigation for materials from Indonesia. China and Taiwan. followed by the opening in October of an anti-subsidy investigation for materials from Indonesia and China. in both cases for hot rolled flat products.

Within this context. the results for Acerinox Europe deviated from the budgets initially set for this year.

The Group has taken into account all these circumstances. and all the corrections of the macroeconomic forecasts. in preparing the 5-year budgets.

For price forecasts. the estimates made by CRU have been taken into account. which provides its subscribers a price estimate on the various stainless steel markets. For demand estimates. the publications of SMR (Steel Metals and Market Research) and Oxford Economics have been taken into consideration.

The key assumptions of the budgets prepared during this year provide for a slight increase in demand in Europe in 2020 and a larger growth starting in 2021. as determined by the estimates of the ISSF (International Stainless Steel Forum) and SMR (Steel Metals and Market Research) in their last review of November. Regarding prices. sources such as CRU forecast drops in Europe in 2020. and increases as of 2021. The efficiency plans implemented by the Group and for the reduction of fixed costs have also been factors considered in preparing of the budgets.

The recoverable amount of the elements has been 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 discount rate before taxes (WACC) so calculated is of 7.0% (after taxes 5.8%).

To determine such discount rate. the financing or leverage structure has been considered based on market participants hypotheses. the reference of the interest rates of the sovereign debt of Spain (10-year bond) and a capital structure. market risk premiums and coefficients of similar companies.

The impairment test conducted as of 31 December 2019 shows an excess in recoverable value (EUR 1.347.549 thousand) over the carrying amount (EUR 707.990 thousand) of EUR 639.559 thousand. Consequently. no impairment is to be registered. The discount rate (WACC). 7.0%. the growth rate (g). 2.5%. and the budgeted EBIT margin. 4.4%. are considered key assumptions in the impairment test.

Following a sensitivity analysis entailing different scenarios . impairment of the carrying amount would only occur by increasing the discount rate (WACC) by 36%. in addition to equalling the growth rate (g) to 0. for the carrying amount to begin to show impairment.

The average budgeted EBIT margin. 4.4%. would have to fall by 42.3% to 2.6%. with the other two assumptions remaining constant. for impairment to occur.

Inoxfil. S.A.

Inoxfil. S.A. is one of the long product plants of the Group in Spain and is engaged 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 Roldán to finish its manufacturing process. This is therefore the final production link in a network starting when Roldan receives the billet from Acerinox Europa. as the only Group plant with a steel mill in Spain.

The long product manufactured by this plan is supplied to both the internal market and to international clients. and its stainless steels are present in some of the most iconic projects worldwide.

The recoverable amount of the elements has been 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.

To determine such discount rate. the financing or leverage structure has been considered based on market participants hypotheses. the reference of the interest rates of the sovereign debt of Spain (10-year bond) and a capital structure. market risk premiums and coefficients of similar companies.

The discount rate prior to taxes (WACC) so calculated is 7.0% (after taxes 5.8%).

To estimate the future cash flows of this subsidiary. five-year budgets approved by Management have been 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 would arise over the remaining useful life of the assets. and the objectives marked by Management.

The estimates of the forecasts for the years following the explicit five-year period are extrapolated by using a growth rate to perpetuity of 2.5%.

During this year. there have been no impairment of tangible fixed assets. due to the fact that the value of the business. calculated using the discounted free cash flows method. exceeds the carrying amount of the operating assets.

The impairment test performed on 31 December 2019 shows an excess in recoverable value (EUR 26.824 thousand) over the carrying amount (EUR 11.167 thousand) of EUR 15.657 thousand. The discount rate (WACC). 7.0%. the growth rate (g). 2.5%. and the budgeted EBIT margin. 2.7%. are considered key assumptions in the impairment test.

According to the sensitivity analysis performed. the discount rate (WACC) would have to increase by 48.1%. while simultaneously bringing the growth rate (g) down to zero. for the carrying amount to begin to see impairment.

The budgeted EBIT margin would have to fall by 53.7% to 1.2%. with the other two assumptions remaining constant. for impairment to occur.

Acerinox S.C. Malaysia Sdn. Bhd

This subsidiary markets part of the production of Bahru Stainless in the Malaysian market. and it was affected by low prices in the local market. as mentioned above.

The recoverable amount of the elements has been 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.

To determine such discount rate. the financing or leverage structure has been considered based on market participants hypotheses. the reference of the interest rates of the sovereign debt of Malaysia (10-year bond) and a capital structure. market risk premiums and coefficients of similar companies.

The discount rate before taxes (WACC) so calculated is of 9.7% (9.0% in 2018) and after taxes 8.30% (8.96% in 2018).

To estimate the future cash flows of this subsidiary. five-year budgets approved by Management have been used. considering as reasonable hypotheses and best estimates those based on the information available at the date of the analysis. regarding the economic conditions that would arise over the remaining useful life of the assets. and the objectives marked by Management.

The estimates of the forecasts for the years following the explicit five-year period are extrapolated using a growth rate to perpetuity of 2.5%. same as in the year 2018.

During this year. there have been no impairment of tangible fixed assets. due to the fact that the value of the business. calculated using the discounted free cash flows method. exceeds the carrying amount of the operating assets.

The impairment test conducted at 31 December 2019 shows an excess of recoverable value (EUR 36.444 thousand) over carrying amount (EUR 7.880 thousand). of EUR 28.563 thousand (EUR 27.778 thousand in 2018). The discount rate (WACC). 9.7% (9.0% in 2018). the growth rate (g). 2.5% (2.5% in 2018). and the average budgeted EBIT margin. 5.2% (4.8% in 2018) are considered key assumptions in the impairment test.

According to the sensitivity analysis performed. the discount rate (WACC) would have to increase by 3.8 times its current value (3.5 times in 2018). while simultaneously bringing the growth rate (g) down to zero. for the carrying amount to begin to see impairment.

The average budgeted EBIT margin would have to fall by 74.1% (76.1% in 2018) to 1.4% (1.1% in 2018). with the other two assumptions remaining constant. for impairment to occur.

Impairment analysis conducted in 2018

The companies showing indications of impairment in 2018 were Bahru Stainless Sdn. Bhd. and Acerinox S.C. Malaysia Sdn. Bhd. The analyses conducted during the past year led to a recoverable value of its assets above the carrying amount. Sensitivity analyses conducted also allowed concluding that a substantial change in all assumptions was necessary 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 a return. either through rentals or through capital appreciation and subsequent disposal of the buildings.

The Group has several industrial bays in Spain and other countries classified in this category. and as investment property in different subsidiaries. These are industrial bays which were used to carry out commercial activity but are currently idle. and the Group thus intends to rent or sell them.

Details of movements in investment property in 2019 and 2018 are as follows:

(Figures in thousands of euros)

COST	2019	2018
Opening balance	20,611	22,165
Disposals		-1,529
Translation differences	160	-25
Balance at 31 December	20,771	20,611
ACCUMULATED AMORTISATION AND IMPAIRMENT	**2019**	**2018**
Opening balance	4,076	4,445
Charges	327	337
Disposals		-702
Translation differences	25	-4
Balance at 31 December	4,428	4,076
CARRYING AMOUNT	**2019**	**2018**
Cost at 31 December	20,771	20,611
Accumulated amortisation and impairment	-4,428	-4,076
Carrying amount at 31 December	16,343	16,535

There were no changes in the Group's investment property. whether additions or disposals. In 2018. the Group disposed of two warehouses that had been classified as investment property. the carrying amount of which was 827 thousand euros. The profit for the sale of these warehouses was 507 thousand euros.

Income from the lease of industrial bays amounted to 509 thousand euros in 2019 (523 thousand euros in 2018). The associated operating expenses. including maintenance and repairs. amount to Euros 193 thousand (Euros 194 thousand in 2018).

At 31 December 2019 investment property has a total market value of 21.128 thousand euros (22.849 thousand euros in 2018). This measurement 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 2.13.5**.

NOTE 10 RIGHT-OF-USE ASSETS (LEASES)

Right-of use assets have been measured in accordance with the present value of future lease payments. The detail and movement in this period is as follows:

(Figures in thousands of euros)

COST	Land and buildings	Technical installations and machinery	Other property, plant and equipment	TOTAL
Balance at 1 January 2019	2,311	4,590	974	7,875
Revalorizaciones	15	625		640
Additions	41		778	819
Transfers		-1,013	1,937	924
Disposals			-239	-239
Translation differences	12	20	7	39
Balance at 31 December 2019	2,379	4,222	3,457	10,058

ACCUMULATED AMORTISATION AND IMPAIRMENT	Land and buildings	Technical installations and machinery	Other property, plant and equipment	TOTAL
Balance at 1 January 2019	0	0	0	0
Charges	433	2,207	898	3,538
Transfers			139	139
Disposals				
Translation differences	2	1	-1	2
Balance at 31 December 2019	435	2,208	1,036	3,679

CARRYING AMOUNT	Land and buildings	Technical installations and machinery	Other property, plant and equipment	TOTAL
Cost at 1 January 2019	2,311	4,590	974	7,875
Accumulated amortisation and impairment				
Carrying amount at 1 January 2019	2,311	4,590	974	7,875
Cost at 31 December 2019	2,379	4,222	3,457	10,058
Accumulated amortisation and impairment	-435	-2,208	-1,036	-3,679
Carrying amount at 31 December 2019	1,944	2,014	2,421	6,379

In its initial application of the standard. the Group has recognised right-of-use assets measured for an amount equivalent to the amount of the lease liability.

Interest expense on lease liabilities recognised by the Group at 31 December amounted to 181 thousand euros. The interest rate used is the interest rate implicit in the lease. or the incremental interest rate of the lessee's indebtedness. when that rate is not readily determinable.

The line of "transfers" includes the reclassification of finance leases. which the Group had recorded at the end of last year under property. plant and equipment.

The amount of lease expenses relating to low-value assets or short-term leases recognised under "operating expenses" in the income statement amounted to 8,934 thousand euros.

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

(Figures in thousands of euros)

	Amount of future payments	Amount of future payments
2 years	2,739	1,811
between 2-5 years	1,213	3,821
between 5-10 years		
More than 10 years	1,671	1,740
TOTAL	5,623	7,372
TOTAL	5,623	7,372

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

NOTE 11 INVENTORIES

Details under this heading in the balance sheet at 31 December are as follows:

(Figures in thousands of euros)

	2019	2018
Raw materials and other supplies	351,873	359,574
Work in progress	158,038	194,410
Finished goods	434,663	428,560
By-products, waste and recoverable materials	69,977	35,899
Advances	1,712	295
TOTAL	1,016,263	1,018,738

Raw materials and other suppliers include 12,249 thousand euros reflecting the valuation of the emission allowances held by the Group at the end of the year (7.951 thousand euros in 2018).

The change in finished goods and works in progress in the year. according to the balance sheet at 31 December 2019 and 2018 shown above. differs from the figure in the income statement owing to translation differences.

The cost of goods sold has been calculated in accordance with the policy defined in note 2.14 and amounts to 4,225 million euros in 2019 (4.368 million euros in 2018).

In 2019 the Group wrote inventories down to net realisable value where this was lower than cost. with a total adjustment of 20.182 thousand euros. The adjustment recognised for 2018 amounted to 21,981 thousand euros.

Commitments

At 31 December 2019 the consolidated Group has commitments to purchase raw materials for Euros 242,877 thousand (Euros 223,657 thousand in 2018). Although no firm sales commitments exist at these reporting dates. there are formal orders for which the Group does not foresee any circumstances that could prevent delivery by the agreed deadlines.

The Group does not have any inventories with a cycle exceeding one year and therefore no borrowing costs have been capitalised.

Group companies have taken out insurance policies to cover the risk of damage to their inventories. The coverage of these policies is considered sufficient.

11.1 Emission allowances

Pursuant to the additional provision of Royal Decree 602/2016 of 2 December. the Group classified emission allowances as inventories.

On 15 November 2013 the Spanish Cabinet approved Acerinox Europa. S.A.U.'s definitive allocation of free-of-charge greenhouse gas emission allowances for the 2013-2020 period. 1.867.754 allowances in total. The yearly distribution of the allowances is detailed below:

2013	2014	2015	2016	2017	2018	2019	2020
248,936	244,613	240,239	235,818	231,350	226,839	222,272	217,687

The following allowances were allocated to the Group company Roldan, S,A,:

2013	2014	2015	2016	2017	2018	2019	2020
26,857	26,391	25,919	25,442	24,960	24,473	23,980	23,486

Movement in emission allowances in 2019 and 2018 is as follows:

	Number of allowances	Value (in thousands of Euros)
Balance at 31/12/2017	1,067,447	7,911
Allocation for the year	251,312	1,946
Disposals	-261,601	-1,906
Balance at 31/12/2018	1,057,158	7,951
Allocation for the year	246,252	6,151
Disposals	-245,538	-1,853
Balance at 31/12/19	1,057,872	12,249

In 2019. CO2 emissions were made requiring 232,730 allowances. which will be surrendered in 2020 (248.117 in 2018. surrendered in 2018). The Group has not sold its surplus allowances.

The expense for the year in respect of CO2 emissions totals 2,742 thousand euros in 2019 (1.846 thousand euros in 2018) and is included under other operating expenses. This is the value of the allowances surrendered in the year. equivalent to the market value of these allowances when allocated.

Disposals for the year are allowances surrendered for CO2 emissions in the prior year. This information has been audited and approved by an independent expert.

Present conditions pose no significant risk of a shortfall in emission allowances for the 2018-2020 period. The Group does not hold any futures contracts for the acquisition of emission allowances.

No significant contingency exists in respect of fines over emissions.

NOTE 12 FINANCIAL INSTRUMENTS

12.1 General considerations

A financial instrument is a contract that gives rise to a financial asset in one company and. simultaneously. a financial liability or an equity instrument in another company. The Group recognises a financial instrument in its balance sheet when it becomes compulsory party to the contract or legal transaction.

12.2 Categories of financial assets and liabilities

At year end the Group's financial assets are as shown below:

(Figures in thousands of Euros)

Classes / Categories	Non-current financial instruments						Current financial instruments					
	Equity instruments		Debt securities		Loans, derivatives and other		Equity instruments		Debt securities		Loans, derivatives and other	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Loans and receivables					920	1,498					524,000	583,309
Equity instruments: - At fair value through other comprehensive income	10,115 287	11,227 287										
Activos a valor razonable con cambios en pérdidas y ganancias											6,038	2,564
Hedging derivatives					48						134	
TOTAL	10,402	11,514	0	0	968	1,498	0	0	0	0	530,172	585,873

At year end the Group's financial liabilities are as shown below:

(Figures in thousands of euros)

Classes / Categories	Non-current financial instruments						Current financial instruments					
	Loans and borrowings		Bonds and other marketable securities		Payables, derivatives and other		Loans and borrowings		Bonds and other marketable securities		Payables, derivatives and other	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Financial liabilities at amortised cost	977,187	951,842	74,550	74,450	9,681	3,556	318,197	374,254	1,634	1,635	857,823	860,370
Liabilities at fair value through profit or loss											6,299	1,566
Hedging derivatives					5,948	4,817					2,590	667
TOTAL	977,187	951,842	74,550	74,450	15,629	8,373	318,197	374,254	1,634	1,635	866,712	862,603

12.2.1 Financial assets at amortised cost

The detail of financial assets measured at amortised cost at 31 December is as follows:

(Figures in thousands of euros)

	2019	2018
Trade receivables	483,660	524,695
Personnel	421	447
Public entities	29,204	39,773
Other receivables	5,809	10,263
Adjustments for accruals and deferrals	8,622	7,435
Bonds	75	48
Debtors from the sale of fixed asset		4,472
Other credits	865	663
Valuation adjustments for uncollectibility	-4,656	-4,487
TOTAL	524,000	583,309

The amount that appears under receivables from public entities primarily corresponds to VAT settlements to be paid.

As explained in the valuation standards. the Group records accounts receivable at their transaction price as long 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 cash flows is not material.

Impairment of bad debts corresponds entirely to trade receivables. Movements in this account are as follows:

(Figures in thousands of euros)

	2019	2018
Initial balance	4,487	4,831
Charges	1,109	620
Application	-130	-68
Reversal	-819	-851
Translation differences	9	-45
Balance at 31 December	4,656	4,487

Changes in valuation adjustments have been included under other operating expenses in the income statement.

No interest was accrued on impaired financial assets in 2019 or 2018.

No allowances have been made for bad debts with related parties in 2019 or 2018.

At 31 December 2019. certain Group companies had receivables factored without recourse totalling 154,556 thousand euros with financial institutions in exchange for cash. This amount was equal to 85%-90% of the total amount of the factored invoices. depending on the conditions of the credit insurance coverage. (151.886 thousand euros in 2018). These amounts have been derecognised as they meet the conditions specified in IFRS 9 regarding the transfer of risks and rewards.

12.2.2 Trade and other payables

Details under this heading in the consolidated balance sheet at 31 December 2019 and 2018 are as follows:

(Figures in thousands of euros)

	2019	2018
Suppliers and trade payables	785,299	784,927
Personnel	29,753	30,115
Suppliers of fixed assets	13,156	10,771
Tax and Social Security	22,457	26,555
Other payables	1,522	1,238
Current provisions	5,636	6,764
TOTAL	857,823	860,370

Most of the amount that appears under tax and social security payable corresponds to amounts payable for VAT settlements and withholdings on income tax. An amount of 4,608 thousand euros relates to social security payables (4,176 thousand euros in 2018).

In compliance with the disclosure requirements of the Spanish Accounting and Auditing Institute (ICAC) resolution of 29 January 2016. the average payment period for suppliers of the Spanish companies in the Acerinox Group. having deducted the payments made to Group companies. is as follows:

	2019	2018
Average payment period to suppliers	69 days	69 days
Payments made ratio	70 days	70 days
Outstanding payments ratio	57 days	65 days

(Expressed in thousands of Euros)	Amount	Amount
Total payments made	1,511,280	1,697,685
Total outstanding payments	181,685	234,552

The following table includes payments made to any supplier, whether domestic or foreign, and excludes Group companies.

12.2. 3 Loans and borrowings and bond issues

Details of financial debt in the balance sheet at 31 December 2019 and 2018, including loans and borrowings and bonds issued by the Group during the year, are as follows:

(Figures in thousands of euros)

	Non-current		Current	
	2019	2018	2019	2018
Bonds issued	74,550	74,450	1,634	1,635
Loans and borrowings	977,187	951,842	318,197	374,254
Total financial debt	**1,051,737**	**1,026,292**	**319,831**	**375,889**

In order to diversify the sources of its financing and extend its debt maturities, in July 2014 the Group filed a base prospectus for the issuance of fixed-income securities of Acerinox S.A. for a maximum notional amount of 500 million euros at the Spanish National Securities Market Commission, Since then, Acerinox S,A, has carried out two issues through this prospectus: the first issue of 75 million euros was placed by Deutsche Bank AG, London Branch in July 2014 with a term of ten years and an interest rate of 5%, whilst the second was placed by Banco Bilbao Vizcaya Argentaria, S,A, for a total of 50 million euros in December 2014 with a term of four years and a variable interest rate of 3-month Euribor + 1,75%.

In 2018, the bonds issued in 2014 matured, totalling 50 million euros and with a maturity of 4 years.

Details of the maturity of outstanding debt at 31 December 2019 are as follows:

(Figures 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**

2018 figures are as follows:

(Figures in thousands of euros)

	2020	2021	2022	2023	2023 and subsequent years	TOTAL
Financial debt	375,889	220,014	279,944	160,778	365,556	1,402,181
Total financial debt	**375,889**	**220,014**	**279,944**	**160,778**	**365,556**	**1,402,181**

Debt by currency is as follows:

(Figures in thousands of euros)

	Non-current loans		Current loans	
	2019	2018	2019	2018
EUR	1,051,737	1,026,292	210,517	311,944
USD			40,668	63,943
ZAR			68,646	2
TOTAL	1,051,737	1,026,292	319,831	375,889

Details of debt by interest rate are as follows:

(Figures in thousands of euros)

	Non-current loans		Current loans	
	2019	2018	2019	2018
Fixed	555,938	523,333	120,556	16,667
Variable	495,798	502,959	199,275	359,222
TOTAL	1,051,737	1,026,292	319,831	375,889

Debt at fixed interest rates only include loans originally arranged at fixed rates (with banks and private placements), and do not include borrowings for which interest rates have been fixed by signing derivatives,

The fair value of fixed rate loans and borrowings and private placements is 705,579 thousand euros at 31 December 2019, and their carrying amount is 676,494 thousand euros, The fair value of these borrowings at 31 December 2018 was 580,313 thousand euros (carrying amount of 540,000 euros).

Variable interest rates on loans are reviewed less than once a year,.

The weighted average cost of financing instruments in euros at the end of 2019 was 1,40% before hedging, for a total of 1,262.3 million euros, 2,91% for 45,7 million US dollars and 9% for 1,083 million of financing in ZAR, In 2018, the weighted average cost of financing instruments in euros before hedging was 1,40%, for a total of 1,338 million euros, and the average cost of borrowings in US dollars, amounting to 73 million US dollars, was 3,87%, There was no financing drawn down in ZAR in 2018.

The Group has entered into interest rate swaps whereby it can exchange the variable interest rates on its borrowings for fixed interest rates, as described in **note 12.2.6**.

At 31 December 2019 accrued interest payable in respect of loans and borrowings totals 1,129 thousand euros (1,513 thousand euros in 2018). In addition, accrued interest payable on bonds issued totals 1,634 thousand euros at the 2019 reporting date (1,635 thousand euros in 2018).

Total borrowing costs calculated using the effective interest rate on loans at amortised cost amount to 1,247 thousand euros (1,636 thousand euros in 2018).

At 31 December 2019, the Group has credit facilities with financial institutions with a maximum available limit of 1,965 million euros, of which 1,372 million euros was drawn down at 31 December 2019, At the 2018 year end, the maximum available limit from credit facilities was 1,903 million euros and the amount drawn down on that date was 1,402 million euros.

Certain Group companies have arranged reverse factoring facilities with various financial institutions to manage payments to suppliers, Trade payables settled under the management of financial institutions are recognised under trade and other payables until they are settled or repaid or have expired, The Group uses confirming only as a payment instrument, but not as a financing instrument, Invoices are paid on due date without any advantage being gained from the use of confirming.

Main financing operations undertaken during the year

The most noteworthy financing operations during the year were:

- In 2019, the Borrowing Base Facility of Columbus Stainless Pty Ltd, was restructured and its maturity date was extended, with an amount of ZAR 3,500 million, The transaction, which was originally signed in April 2015 and renewed in 2017 for another two and a half years, was extended for another four years, including modifications in its structure to give Columbus 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 lead arranger of the transaction continues to be Deutsche Bank AG, Amsterdam Branch. This facility is recognised in the balance sheet at the amount drawn down, under bank borrowings of current liabilities, ZAR 1,083 million had been drawn down from this financing facility at 31 December 2019.

- 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 and Confirming for 370 million euros until 30 June 2021, with the possibility of a tacit renewal for another year.

- In addition, the Ministry of Industry, Trade and Tourism granted several fixed-rate loans to Acerinox Europa S,A, for a total amount of 30,6 million euros and to Roldán for 2,5 million euros.

- In the first half of 2019, four new loans were signed: one with Bankinter for a 15 million EUR bullet for three years, one with Caixabank for 50 million euros for five years with a three-year grace period, another with Bankia for 160 million euros, of which 120 million was 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 semi-annual instalments of 32 million euros each and one more with Unicaja of 40 million euros (of which 25 million euros was also used to repay the previous loan), All these loans have been granted to Acerinox S.A.

- In addition, a loan signed with Kutxabank amounting to 65 million, of which 15 million euros were new debt, has been refinanced, with extension of its maturity until 2024 and better financing conditions, This loan was also granted to Acerinox S.A.

Regarding debt renegotiations, the Group has evaluated the importance of the amendments made to determine if they are substantially different, in accordance with the criteria established in the evaluation standard defined in **note 2.13.3**. and has recorded the effects of some of the new agreements as if they were a deregistration and registration of a new loan at the same time, During this fiscal year, the amount of fees recorded as income for the loans signed with Bankia, Kutxabank and Unicaja, which were deregistered from liability, amounted to 266 thousand euros,

The most noteworthy financing operations during 2018 were:

- Signing with the Spanish Official Credit Institute (ICO) of an eight-year loan worth 100 million euros, The loan was paid out at the end of June 2018, and had a final maturity in March 2026, It comes with a two-year interest-only repayment period and will be repaid in four half-yearly instalments of 5 million euros each, starting in September 2020, and eight half-yearly instalments of 10 million euros each, the last falling on the loan maturity date, The loan was awarded to Acerinox S.A. and the Group has committed to fulfil, over the life of the loan, an annual financial ratio between its consolidated net financial debt and its equity.

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

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

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

The details of movements in long-term loans and borrowings (not including bond issues) during 2019 and 2018 are as follows:

(Figures in thousands of euros)

	Non-current payables		Current payables	
	2019	2018	2019	2018
Initial balance	951,842	862,328	374,254	241,488
Additions	313,161	439,930	105,902	204,025
Debt and interest repayment	-120,968	-200,594	-331,865	-225,076
Current transfers	-168,095	-153,250	168,095	153,250
Translation differences	1,248	3,428	1,811	567
Balance at 31 December	977,188	951,842	318,197	374,254

Reconciliation of movements in short and long-term loans and borrowings with the statement of cash flows during 2019 and 2018 are as follows:

- Income from borrowings recorded in the statement of cash flows is as follows:

(Figures in thousands of euros)

	2019	2018
Grants	337	159
Long-term loans and borrowings	313,161	439,930
Short-term loans and borrowings	105,902	204,025
Other debts (Financial leases)	1,053	1,058
Total income from external resources	420,453	645,172

- Debt repayments recorded in the statement of cash flows are broken down as follows:

(Figures in thousands of euros)

	2019	2018
Bond issued		-50,000
Long-term loans and borrowings	-120,968	-200,594
Short-term loans and borrowings	-331,865	-225,076
Other debts (Financial leases)	-3,742	-172
Total repayments of interest-bearing liabilities	-456,575	-475,842

Long-term borrowings subject to covenants

a) Ratios linked to earnings

Currently, no loan agreement signed by Acerinox has convenants linked to ratios that take into account the Group's results.

.b) Ratios linked to equity

None of the new loan agreements signed in 2019 are conditional on the fulfilment of annual financial ratios, The only loans subject to covenants are those detailed below:

At the 2019 reporting date there are three financing contracts subject to covenants, relating to the maintenance of minimum consolidated equity levels, This is the loan signed in March 2017 with Banca March for 50 million euros and transferred to a Securitisation Fund at the time of signature, the loan signed with the European Investment Bank ("EIB") in December 2017 for 70 million euros and the loan signed in March 2018 with the Spanish Official Credit Institute ("ICO") for 100 million euros, This type of ratios is standard market practice in financing with these maturities, as the loan signed with Banca March has a term of 7 years, the EIB one has a term of 10 years and the ICO one has a term of 8 years.

.Additionally, the Group company Columbus Stainless has a structured financing (Borrowing Base Facility) which is also subject to a ratio relating to the maintenance of minimum equity levels in that company, This facility is recognised in the balance sheet at the amount drawn down, under bank borrowings of current liabilities, ZAR 1,083 million had been drawn down from this financing facility at 31 December 2019. At 31 December 2018 no amount has been drawn down from this facility.

.At the year end (as in 2018) Acerinox, S.A. and Columbus Stainless Ltd comply with all ratios required under the contracts mentioned above.

.12,2,4 Measurement of fair value

As established in the accounting policies, the Group measures financial assets at fair value with changes in other comprehensive income and derivative financial instruments.

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

LEVEL 1: quoted prices in active markets

LEVEL 2: observable market variables other than quoted prices

LEVEL 3: variables not observable in the market

The Group's position at 31 December 2019 and 2018 is as follows:

(Figures in thousands of euros)

	2019			2018		
	LEVEL 1	LEVEL 2	LEVEL 3	LEVEL 1	LEVEL 2	LEVEL 3
Available-for-sale financial assets	10,115			11,227		
Financial derivatives (assets)		6,220			2,564	
TOTAL	10,115	6,220	0	11,227	2,564	0
	LEVEL 1	LEVEL 2	LEVEL 3	LEVEL 1	LEVEL 2	LEVEL 3
Financial derivatives (liabilities)		14,837			7,050	
TOTAL	0	14,837	0	0	7,050	0

No financial assets or financial liabilities at fair value have been transferred between levels,

In the case of Level 2 financial instruments, the Group uses generally accepted valuation techniques that take into account spot and future exchange rates at the valuation date, forward interest rates, interest rate spreads and credit risk of both the Group and its counterparty, i.e. the financial institutions with which it operates.

12.2.5 Financial assets at fair value through other comprehensive income

The shares that the Group does not intend to sell and that it has designated in this category at the initial moment are recognised in this section.

The value of financial assets at fair value with changes in other comprehensive income total 10,402 thousand euros at year end, of which 10,115 thousand euros reflect Acerinox's investment in the Japanese company Nippon Steel & Sumitomo Metal Corporation (Nippon), a company listed on the Tokyo Stock Exchange. This value corresponds to the fair value of the shares at 31 December 2019 and coincides with their closing price.

The market value at 31 December 2019 of Nippon's shares was 1,654 JPY per share. Acerinox holds 747,346 shares in this company, which represented a negligible percentage ownership in the Japanese group. The amount of the devaluation, recognised this year in other comprehensive income, amounted to 1,112 thousand euros.

In March 2017, Nippon acquired a significant stake in Nisshin Steel Co. Limited (Nisshin), which enabled them to improve their competitiveness. In May 2018, in order to finalise the synergies between the two Groups, the Board of Directors considered it necessary to acquire control of 100% of the shares of Nisshin in order to complete the consolidation process.

Thus, based on the agreements reached at the extraordinary General Meeting called by Nisshin Steel Co., Ltd. it was determined that effective 1 January 2019, a swap of the shares of Nisshin Steel Co., Ltd. would be carried out for shares of Nippon Steel & Sumitomo Metal Corporation (Nippon). As a consequence of these Acerinox agreements, it received 0.71 shares of Nippon Steel & Sumitomo Metal Corporation for every share in Nisshin Steel Co. Ltd. Nisshin's shares ceased trading on 26 December 2018.

In 2018, the Group determined the fair value of the Nisshin shares to be the market value of the Nippon shares based on the number of shares that would correspond to it as from 1 January 2019. Acerinox owned 1,052,600 shares of Nisshin Steel, Co., which was equivalent, after the exchange equation, to 747,346 shares of Nippon Steel & Sumitomo Metal Corporation. The market value at 31 December 2018 of these shares was 1,892.5 JPY per share. The amount of the devaluation, recognised in other comprehensive income, amounted to -3,248 thousand euros this year.

During this year, the Group has derecognised the shares it held at 31 December 2018 at their fair value at that date (11,227 thousand euros) and initially recognised the new shares for the same amount, since this was the fair value on the effective date of the exchange. The amount of accumulated reserves in other comprehensive income, as a result of the valuation at fair value through other comprehensive income (-5,023 thousand euros) has been reclassified to reserves from accumulated results.

The Group has decided to maintain the classification of this portfolio of shares into financial assets at fair value with changes in other comprehensive income, since this is a strategic holding that is not held with the intention of selling it. Nisshin Steel has, in turn, a 15.81% interest in Acerinox.

Acerinox S.A. did not purchase or sell any shares in Nisshin Steel Holding Co. Limited in 2019 or 2018.

Also in 2015, the Group company Acerinox Europa acquired a non-controlling interest of 7.36% in the company Fortia Energía, S.L., whose corporate purpose is the acquisition of electricity on behalf of its shareholders, for 275 thousand euros. The Group's Spanish factories can obtain more competitive electricity prices as a result of this investment. This investment is measured at cost of acquisition, as there is insufficient data to measure it at fair value. In any event, the Group does not consider there to be indications of impairment.

12.2.6 Derivative financial instruments

As detailed in **note 4**, in relation to market risk, in its activities the Group is essentially exposed to three types of risk: currency risk, interest rate risk and commodity price risk, The Group uses derivative financial instruments to hedge its exposure to certain risks.

The Group classifies derivative financial instruments that do not qualify for hedge accounting as assets and liabilities at fair value through profit or loss, Those that qualify as hedging instruments are classified as hedging derivatives and are recognised by applying the measurement criteria defined in **note 2.13.4**.

Derivative financial instruments classified by category are as follows:

(Figures in thousands of euros)

	2019		2018	
	Assets	Liabilities	Assets	Liabilities
Hedging derivatives	182	8,538		5,484
Derivatives at fair value through profit or loss	6,038	6,299	2,564	1,566
TOTAL	6,220	14,837	2,564	7,050

The following table has a breakdown of the Group's derivative financial instruments at 31 December 2019 and 2018 by type of hedged risk:

(Figures in thousands of euros)

	2019		2018	
	Assets	Liabilities	Assets	Liabilities
Forward exchange rate contracts	6,038	6,299	2,564	1,566
Interest rate swaps	182	8,538		5,484
TOTAL	6,220	14,837	2,564	7,050

As explained in **note 4.1.2**, during this year two swap transactions were closed in order to hedge the interest rate risk of debts contracted at a variable interest rate with Caixabank and Bankia in terms and amounts equivalent to the flows derived from the loans associated with each instrument. The notional amount of the loans hedged is 210 million euros. At 31 December 2019, both interest rate derivatives met the conditions to be classified as cash flow hedging instruments.

In 2018, the Group arranged interest rate hedges amounting to 250 million, equivalent to the amount of the new loans arranged with Banca March, Caixabank, ICO and BEI.

Following the repayment last year of the loan granted by the ICO in USD, the cross currency swap derivative financial instrument was cancelled.

Currency risk

The Group operates in a large number of countries and bills customers in different currencies, depending on the country where it is billing. Therefore it uses certain financial instruments to hedge cash flow risks arising from the settlement of balances in foreign currencies. The contracted operations mainly comprise forward sales and purchases in foreign currencies.

The Group hedges with derivative financial instruments a majority of the commercial and financial transactions carried out in a currency other than the functional currency of a country.

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 foreign currency insurance contracts arranged by the Group do not qualify as cash flow hedges and are therefore accounted for in accordance with the policy set out in **note 2.13.4**. Policies that do not comply with these criteria have been accounted for as 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 contracted. Changes in the derivative are recorded in the income statement, offsetting any changes that occur in foreign currency monetary items.

At 31 December 2019 the effect of measuring these derivatives at market value was negative, i.e. -1,256 thousand euros, which is recognised under remeasurement of financial instruments to fair value in the income statement (positive 12,878 thousand euros in 2018). The exchange gains obtained by the Group in the year amounted to 16,978 thousand euros (455 thousand euros of profit in 2018). The differences between the two amounts are mainly due to the interest rate differentials between the currencies involved in the exchange rate insurance contracted.

At 31 December 2019 all exchange rate insurance policies basically cover both receivables (assets) and payables (liabilities) and include both trade and financing transactions between Group companies. At 31 December 2019, the fair value of the Group's exchange risk insurance totalled -262 thousand euros (998 thousand euros in 2018), of which 6,038 thousand euros is recognised under assets and 6,300 thousand euros under liabilities. Of these, there is no exchange rate insurance at year-end 2019 or 2018 that has been recorded in accordance with hedge accounting. In this year, an amount of -157 thousand euros was transferred from the consolidated statement of comprehensive income to profit and loss for the year (-154 thousand euros in 2018).

All of the Group's forward currency purchase and sale contracts have a term of less than one year.

At 31 December 2019 the Group has used contracts for foreign currency transactions amounting to 304 million euros for currency sales and 279 million euros for currency purchases. At 31 December 2018, 314 thousand euros were used for currency sales and 500 million euros for currency purchases. Details of these forward exchange contracts by currency are as follows:

(In thousands of euros)

	2019		2018	
	Assets	Liabilities	Assets	Liabilities
USD	184,056	300,344	187,229	562,119
EUR	57,932	6,805	67,977	9,058
GBP	16,635	481	11,308	10
SEK	6,205	23	70,441	
AUD	16,003	100	15,105	13
NZD	86			
MYR	220,420	1,082	286,445	
JPY				38,903

At 31 December 2019 and 2018, there were no loans with banks in currencies other than the functional currency and, therefore, the Group no longer has derivative financial instruments to hedge exposure to both currency risk and interest rate risk.

Interest rate risk

In order to hedge the interest rate risk on a portion of its short and long-term bank borrowings, the Group has entered into the following swaps as of 31 December 2019:

	Notional value contracted	Outstanding amount	Maturity
Variable to fixed rate	76,13 million euros	4,48 million euros	2020
Variable to fixed rate	30 million euros	30 million euros	2023
Variable to fixed rate	70 million euros	70 million euros	2028
Variable to fixed rate	50 million euros	50 million euros	2022
Variable to fixed rate	100 million euros	100 million euros	2026
Variable to fixed rate	50 million euros	50 million euros	2024
Variable to fixed rate	160 million euros	160 million euros	2024

The average interest rate of euro-denominated financing hedged by a derivative financial instrument, totalling 464.5 million euros at year-end, is 1.34% (1.97% in 2018). The credit spread has been included in both cases.

At 31 December 2019 and 2018, no interest rate hedges in USD had been arranged.

At 31 December 2019, all interest rate derivatives met the conditions to be classified as cash flow hedging instruments.

Details at 31 December 2018 were as follows:

	Notional value contracted	Outstanding amount	Maturity
Variable to fixed rate	EUR 76.13 million	EUR 13.43 million	2020
Variable to fixed rate	EUR 30 million	EUR 30 million	2023
Variable to fixed rate	EUR 70 million	EUR 70 million	2028
Variable to fixed rate	EUR 50 million	EUR 50 million	2022
Variable to fixed rate	EUR 100 million	100 million euros	2026

The fair value of the fixed interest rate swaps is based on the market value of equivalent derivative financial instruments at the reporting date and amounts to -8,356 thousand euros (-5,484 thousand euros at 31 December 2018), These amounts are recognised in the Group's consolidated balance sheet under the following items:

	2019		2018	
	Current	Non-current	Current	Non-current
Other financial assets	134	48		
Other financial liabilities	2,590	5,948	667	4,817
Importe neto	-2,456	-5,900	-667	-4,817

At 31 December 2019 and 2018 the outstanding derivatives qualify as cash flow hedging instruments and therefore the unrealised loss of -5,430 thousand euros on their measurement at fair value has been recorded in the consolidated statement of comprehensive income (loss of -6,243 thousand euros in 2018).

In 2019, an amount of 2,640 thousand euros was transferred from the consolidated statement of comprehensive income to profit and loss for the year (2,072 thousand euros in 2018). Combined with the -157 thousand euros derived from the currency hedges referred to in the previous section, these totalled 2,483 thousand euros, which appear in the consolidated statement of comprehensive income (-154 in 2018 and a total of 1,919 thousand euros).

The Group has documented the effectiveness of the derivatives contracted to be recognised as hedging instruments, as detailed in **note 2.13.4**. Hedging transactions have been contracted for periods and amounts equivalent to the cash flows derived from the loans associated with each instrument. The financial instruments that are considered hedges were not ineffective at any point in 2019 or 2018.

NOTE 13 CASH AND CASH EQUIVALENTS

Details under this heading in the balance sheet at 31 December are as follows:

(Figures in thousands of euros)

	2019	2018
Cash in hand and at banks	149,146	114,826
Current bank deposits	727,789	735,287
TOTAL	876,935	850,113

During the year the Group made term deposits in both US dollars and South African rand. The effective interest rate on current bank deposits is 1.94% this year for the dollar (2.66% for 2018) and 6.5% for the rand. In 2018, 100% of all deposits had been made by the Group company North American Stainless. The average term of deposits is between one day and one week and they are deposited in banks of recognized financial solvency.

All cash and cash equivalents are held in current accounts or current deposits. There are no unavailable cash balances at year end.

NOTE 14 EQUITY

14.1 Subscribed capital, share premium and treasury shares

Movement of issued and outstanding shares in 2019 and 2018 is as follows:

(Figures in thousands of euros)

	Number of shares (thousand)	Ordinary shares (thousand)	Own shares (thousand)	Share capital (thousands of Euros)	Share premium (thousands of Euros)
Balance at 31 December 2017	276,067	276,067	-1	69,017	81,403
Capital increase (scrip dividend)					
Acquisition of own shares			-3,416		
Disposal of own shares					
Balance at 31 December 2018	276,067	276,067	-3,417	69,017	81,403
Capital increase (scrip dividend)					-54,090
Acquisition of own shares			-48,693		
Disposal of own shares	-5,521	-5,521	51,048	-1,380	
Balance at 31 December 2019	270,546	270,546	-1,062	67,637	27,313

a) Share capital

The Parent Company's share capital solely comprises ordinary shares. All these shares have the same rights and there are no statutory restrictions on their transferability.

The Annual General Meeting held on 11 April 2019 approved a reduction of the capital of Acerinox, S.A. 1,380,337.50 euros through the redemption of 5,521,350 treasury shares. On 9 May the Board of Directors resolved to execute this resolution. On 13 June, the redeemed shares were removed from trading on the Madrid and Barcelona Stock Exchanges.

The share capital at the closing date therefore consisted of 270,546,193 ordinary shares with a nominal value of 25 euro cents each, yielding capital of 67,637 thousand euros.

At 31 December 2018, share capital is represented by 276,067,543 ordinary shares of the same nominal value, fully subscribed and paid up.

All the shares are listed on the Madrid and Barcelona stock exchanges.

At 31 December 2019 the only holders of 10% or more of the share capital of Acerinox, S.A. are Corporación Financiera Alba, S.A., with 19.35% (18.96% in 2018 and Nisshin Steel Holding, Co. Ltd. with 15.81% in 2019 (15.49% in 2018).

b) Share premium

The General Meeting of Shareholders held on 11 April approved a return of contributions to shareholders, charged to the share premium in the amount of 0,20 euros per share, which resulted in a reduction of the same and a payment to shareholders of 54,090 thousand euros.

There was no distribution in financial year 2018.

The share premium is subject to the same restrictions and may be used for the same purpose as the voluntary reserves of the Parent Company, including conversion into share capital.

c) Treasury shares

In order to improve 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 flexible dividend or 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 Repurchase Program with the aim of reducing the share capital of Acerinox, S,A, through the redemption of treasury shares, The maximum investment will be 66 million euros and the maximum number of shares to be acquired may not exceed 5,521,350, representing 2% of the Company's capita.

The shares were to be purchased at market price and under the price and volume conditions set out in Article 3 of the Commission's Delegated Regulation EU 2016/1052 of 8 March 2016. The Company may not acquire shares at a price higher than the highest of the price of the last independent transaction or the highest independent bid at that time at the trading venue where the purchase is made.

The Company shall not buy on any trading day more than 25% of the average daily volume of the shares at the trading venue where the purchase is made. The average daily volume of the Company's shares for the purposes of the foregoing calculation shall be based on the average daily volume traded in the twenty business days prior to the date of each purchase. This limit shall apply for the entire duration of the programme.

The maximum term of the approved plan is from 21 December 2018 to 20 March 2019, inclusive.

Acerinox, S.A. reserves the right to terminate the Programme if, prior to its term limit, shares had been acquired for an acquisition price that reached the maximum investment price or the maximum number of shares covered by the Programme. It may also be terminated early in the event of any other circumstance that makes it advisable.

As of 31 December 2018, 368,320 shares had been acquired and by 31 March 2019, the 5,521,350 shares had been acquired for a total of 51 million euros. The value of the shares in portfolio at year-end 2018 was 3,417 thousand euros.

Following the capital reduction approved by the Shareholders´Meeting through the redemption of 5,521,350 treasury shares. The treasury stock at the close of the year amounted to 93.320 shares with a value of 1,062 thousand euros.

During this financial year, no shares were acquired for the multi-year remuneration plan or long-term incentives established in favour of the Group's Senior Management and the Chief Executive Officer.

14.2 Distribution of dividends

The Board of Directors of Acerinox, S.A. has decided to propose to the next Ordinary General Meeting of the Company a dividend distribution of 0.50 euros per share of which 0.10 euros will be charged to the share premium.

The General Meeting of Shareholders held on 11 April 2019 approved the distribution of a cash dividend, charged to unrestricted reserves, in the amount of 0.30 euros gross for each outstanding share. This dividend of 81,136 thousand euros was paid on 5 June 2019. In addition, a refund of contributions to shareholders was approved with a charge to the share premium of 0.20 euros per share, which was paid out on 5 July in the amount of 54,090 thousand euros.

In 2018, shareholders agreed at the general meeting held on 10 May 2018 to distribute a cash dividend of 0.45 euros gross per share, charged to unrestricted reserves. The dividend was paid on 5 July 2018 totalling 124,230 thousand euros.

14.3 Reserves

a) Retained earnings

Retained earnings include consolidated profit or loss for the year and reserves in fully consolidated companies, as well as Parent Company reserves other than those mentioned below.

Details of reserves by company are included in **note 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 applicable legislation. At 31 December 2019 Euros 37,684 thousand of the Group's reserves and retained earnings are subject to restrictions (Euros 35,352 thousand at 31 December 2018).

The Parent Company's legal reserve, which is included under retained earnings in the statement of changes in equity, has been appropriated in compliance with article 274 of the Spanish Companies Act, which requires companies to transfer 10% of profits for the year to a legal reserve until this reserve reaches an amount equal to 20% of share capital. At 31 December 2019 the Company has appropriated an amount equivalent to 19.81% of its share capital to this reserve (19.41% in 2018), totalling 13,399 thousand euros in 2019, same as in 2018.

The legal reserve is not distributable to shareholders and if it is used to offset losses, if no other reserves are available, the reserve must be replenished with future profits.

b) Property, plant and equipment revaluation reserve

As permitted by Royal Decree-Law 7/1996 of 7 June, containing urgent tax measures and initiatives aimed at boosting and deregulating the economy, the Parent Company revalued its property, plant and equipment, The amount of the reserve reflects the revaluation gains, net of tax at 3%.

The deadline for tax inspection was three years from 31 December 1996, Consequently, as no inspection took place, this balance can be used to offset losses or increase the Company's share capital.

The balance of this account will only be distributable, either directly or indirectly, to the extent that gains have been realised.

c) Hedging reserve

The hedging reserve includes cumulative net changes in the fair value of cash flow hedging instruments associated with highly probable future transactions that are yet to occur.

d) Fair value through other comprehensive income

The Company has classified certain financial instruments as at fair value with changes in comprehensive income, In accordance with the valuation standard, changes in the fair value of these instruments are recognised directly in the consolidated statement of comprehensive income, There is a detailed description of instruments classified as available for sale and their measurement in **note 12,2,5**.

e) Actuarial valuation reserve

This reserve includes the changes in the actuarial value of defined benefit plan obligations,

14,4 Translation differences

Details of movement in this account are included in the consolidated statement of changes in equity.

Details of cumulative translation differences by company at the 2019 and 2018 reporting dates and the functional currencies of their respective financial statements is as follows:

(Figures in thousands of euros)

GROUP COMPANIES	Currency	2019	2018
ACERINOX (SCHWEIZ) A,G,	CHF	1,345	1,248
ACERINOX ARGENTINA S,A,	ARS	-5,410	-5,323
ACERINOX AUSTRALASIA PTY,LTD,	AUD	26	18
ACX DO BRASIL REPRESENTAÇOES, LTDA	BRL	-215	-209
ACERINOX CHILE S,A	CLP	-508	-198
ACERINOX COLOMBIA S,A,S	COP	-96	-100
ACERINOX INDIA PVT LTD	INR	-43	-43
ACERINOX METAL SANAYII VE TICARET L,S,	TRY	-714	-637
ACERINOX MIDDLE EAST DMCC (DUBAI)	AED	56	44
ACERINOX PACIFIC LTD,	HKD	-4,841	-4,871
ACERINOX POLSKA,SP Z,O,O	PLN	-1,403	-1,673
ACERINOX RUSSIA LLC,	RUB	-50	-115
ACERINOX SCANDINAVIA AB	SEK	-5,661	-5,184
ACERINOX S,C, MALAYSIA SDN, BHD	MYR	-2,179	-2,060
ACERINOX (SEA), PTE LTD,	SGD	154	117
ACERINOX SHANGAI CO,, LTD,	CNY	908	889
ACERINOX U,K,, LTD,	GBP	-5,555	-6,897
BAHRU STAINLESS, SDN, BHD	USD	58,617	58,783
COLUMBUS STAINLESS INC,	ZAR	-141,702	-149,122
CORPORACIÓN ACERINOX PERU S,A,C	PEN	-24	-25
NORTH AMERICAN STAINLESS CANADA, INC	USD	2,588	4,436
NORTH AMERICAN STAINLESS MEXICO S,A, DE C,V,	USD	5,137	4,572
NORTH AMERICAN STAINLESS FINANCIAL INVESTMENTS, LTD	USD	4	5
NORTH AMERICAN STAINLESS INC,	USD	175,897	220,336
TOTAL		76,331	113,991

The origin of the fluctuations that have occurred during this year and in 2018 are detailed below.

(Figures in thousands of euros)

	2019	2018
Initial balance	113,991	13,073
Equity translation difference	58,484	85,667
Income translation difference	-764	4,581
Translation difference of interests in Group companies	-4,445	-7,273
Translation difference of dividend distribution	-91,511	
Acquisition of shares from non-controlling interests	697	18,180
Other changes	-121	-237
Balance at 31 December	76,331	113,991

The decrease in translation differences this year (increase in 2018) is mainly due to the reduction in equity of foreign companies as a result of the distribution of dividends (USD 920 million repatriated this year, charged to reserves of the company North American Stainless) and valued in the consolidated accounts at historical exchange rates. According to the translation criteria of the consolidation standards, the reserves of the Group entities whose functional currency is different from the presentation currency shall be valued at the historical exchange rate Translation differences show the variation between the historical exchange rate and the closing exchange rate. Such reduction in translation differences does not give rise to a reduction of the Group's equity, since it is a transfer from the subsidiary's equity to reserves in the parent company, as reflected in the statement of changes in equity. The difference between the 91,511 thousand euros shown in the table and the 97,173 reflected in "other movements" 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.

Translation difference resulting from the valuation of equity was positive, due to both the appreciation of the USD and the Rand. The EUR/USD exchange rate applied at the end of 2019 is 1.1234, compared to 1.1450 at the end of 2018 and 15.7773 for the EUR/Rand in 2019, while at the end of 2018 it was 16.4594.

In 2018, the increase in equity, as a result of conversion differences, was mainly due to the appreciation of the USD by 5%. The impact of the Rand, however, was negative, due to its depreciation by 11.2%.

14,5 Details of reserves, profit/loss and non-controlling interests: Contribution by company

At 31 December 2019 and 2018 details of the contribution of each of the consolidated companies to reserves and consolidated profit and loss are as follows:

(Figures in thousands of Euros)	2019				2018			
	Reserves	Gains/losses	Profit/(loss) attributable to non-controlling interests	Total non-controlling interests	Reserves	Gains/losses	Profit/(loss) attributable to non-controlling interests	Total non-controlling interests
ACERINOX, S,A	1,044,164	-57,485			329,870	12,685		
ACERINOX (SCHWEIZ) A,G,	902	95			1,033	-131		
ACERINOX ARGENTINA S,A,	5,208	-195			5,515	-504		
ACERINOX AUSTRALASIA PTY, LTD,	182	32			52	130		
ACERINOX BENELUX S,A, - N,V,	270	564			240	30		
ACX DO BRASIL REPRESENTAÇOES, LTDA	181	14			25	156		
ACERINOX CHILE, S,A,	-2,107	160			-2,328	221		
ACERINOX COLOMBIA S,A,S	446	138			314	132		
ACERINOX DEUTSCHLAND GMBH	-23,168	1,522			-20,065	-3,103		
ACERINOX EUROPA S,A,U	28,579	-57,665			1,427	27,152		
ACERINOX FRANCE S,A,S	-9,013	980			-8,596	-417		
ACERINOX ITALIA S,R,L,	-25,109	-11,024			-25,112	3		
ACERINOX INDIA PVT LTD	135	-60			80	55		

(Figures in thousands of Euros)	2019				2018			
	Reserves	Gains/losses	Profit/(loss) attributable to non-controlling interests	Total non-controlling interests	Reserves	Gains/losses	Profit/(loss) attributable to non-controlling interests	Total non-controlling interests
ACERINOX METAL SANAYII VE TICARET L,S,	996	550			241	755		
ACERINOX MIDDLE EAST DMCC (DUBAI)	652	219			360	293		
ACERINOX PACIFIC LTD,	-20,760	54			-20,734	-26		
ACERINOX POLSKA, SP Z,O,O	2,038	364			1,710	328		
ACERINOX RUSSIA LLC,	490	-7			300	190		
ACERINOX SCANDINAVIA AB	21	1,267			-748	770		
ACERINOX S,C, MALAYSIA SDN, BHD	-39,514	-595			-39,005	-508		
ACERINOX SHANGAI CO,, LTD,	641	1,075			529	1,122		
ACERINOX (SEA), PTE LTD,	753	387			149	603		
ACERINOX U,K,, LTD,	4,364	501			3,868	496		
ACEROL - COMÉRCIO E INDÚSTRIA DE AÇOS INOXIDÁVEIS, UNIPESSOAL, LDA,	-3,021	228			-3,273	252		
BAHRU STAINLESS, BDN, BHD	-286,552	-164,841	-3,161	1,627	-231,359	-51,178	-23,831	-1,191
COLUMBUS STAINLESS (PTY) LTD,	120,284	-69,155	-5,511	54,602	112,608	7,675	1,952	57,756
CORPORACIÓN ACERINOX PERU S,A,C	-234	-66			-111	-123		
INOX RE, S,A,	30,889	740			28,898	1,991		
INOXCENTER CANARIAS S,A,U	1,692	124			1,564	125		
INOXCENTER, S,L,U	-10,130	788			-12,753	2,667		
INOXFIL S,A,	1,431	-358	-1	17	111	1,319	3	18
INOXIDABLES DE EUSKADI S,A,U	4,318	506			4,070	246		
INOXPLATE - COMÉRCIO DE PRODUCTOS DE AÇO INOXIDÁVEL, UNIPESSOAL, LDA,	1,724	116			1,602	122		
METALINOX BILBAO S,A,U	14,064	749			13,486	539		
NORTH AMERICAN STAINLESS CANADA, INC	31,135	5,340			-1,691	6,555		
NORTH AMERICAN STAINLESS MEXICO S,A, DE C,V,	6,450	3,376			3,835	2,615		
NORTH AMERICAN STAINLESS FINANCIAL INVESTMENTS LTD,	-9,742	9,740			-9,833	9,831		
NORTH AMERICAN STAINLESS INC,	856,038	268,418			1,410,193	199,664		
ROLDAN S,A,	31,803	3,859	9	123	17,449	14,354	32	114
TOTAL	1,760,500	-59,545	-8,664	56,369	1,563,921	237,086	-21,844	56,697

In this year, the Group company North American Stainless distributed dividends to the parent company amounting to 825 million euros, which explains the variation in the reserves of both Acerinox, SA and the American entity.

14.6 Adjustment for hyperinflation

Since July 1, 2018, Argentina has been declared a hyperinflationary economy, having met the qualification requirements of IAS 29. The Acerinox Group has an entity in Argentina, which is solely dedicated to the distribution of stainless steel in this country, so the amount of its assets, liabilities and its contribution to the Group's results are not significant. The Group has not restated the comparative figures for the previous period as the impacts are not significant for the Group.

The financial statements of Acerinox Argentina for both 2018 and 2019 have been stated in terms of the current unit of measurement at the end of the reporting period. The restated cost of each item in the financial statements is determined by applying to its historical cost of said items and accumulated depreciation the change in a general price index from the acquisition date to the end of the reporting period. The revaluation of non-monetary assets amounted to 270 thousand euros (248 thousand euros in 2018).

The components of owners' equity, except retained earnings and revaluation surpluses, have been restated by applying a general price index to the various items from the dates on which they were contributed or from the date they arose otherwise. The restated retained earnings are the result of applying these indices to the remaining amounts in the consolidated balance sheet. The impact on reserves amounted to 198 thousand euros, as reflected in the statement of changes in equity (351 thousand euros in 2018).

All items in the statement of comprehensive income have also been expressed in the current currency unit at the end of the reporting period. To this end, all amounts have been restated by applying an index calculated on the basis the change in the general price index from the date on which income and expenses were recorded in the financial statements. The amount recognised in the income statement for this item amounted to 263 thousand euros (199 thousand euros in 2018).

14.7 Non-controlling interests

At the end of this year, two companies with non-controlling interests are Columbus Stainless, Ltd, (Columbus) 24% of which is held by the South African group IDC (Industrial Development Corporation) and Bahru Stainless Sdn. Bhd, (Bahru) whose minority interests have been reduced to 1.85% owned by Hanwa, Co. Ltd.

As explained in note 5.2, at the close of 2018, Acerinox, S.A. acquired from Nisshin Steel Co, Ltd. its 30% stake in Bahru Stainless Sdn, Bhd. Since the purchase was made at year-end 2018, the Group recognised the results corresponding to the 30% ownership interest up to the acquisition date as results attributed to non-controlling interests.

There are no rights to protect non-controlling interests that may restrict the entity's ability to access or use assets and to settle the entity's liabilities.

Neither of these companies distributed dividends in 2019 or 2018.

The detail of the main items in the financial statements of Columbus, which is the only Group company with significant non-controlling interests at year-end, is as follows:

Columbus

(Figures in thousands of euros)	2019	2018
Non-current assets	139,877	119,806
Current assets	330,840	278,140
Total Assets	**470,717**	**397,946**
Non-current liabilities	18,673	26,597
Current liabilities	224,538	130,699
Total Liabilities	**243,211**	**157,296**
Income statement	**2019**	**2018**
Income from ordinary activities	681,379	831,677
Profit for the year	**-22,964**	**8,134**
Cash flow	**2019**	**2018**
Cash flows from operation	20,057	-26,048
Investment cash flows	-32,236	-13,841
Financing cash flows	68,551	-176
Total generated cash flows	**56,372**	**-40,065**

When Columbus Stainless was founded, Acerinox signed in December 2001 a Shareholder's Agreement, with the three South African partners, Highveld Steel and Vanadium Corporation Ltd,, Samancor Ltd, who held an interest therein.

In clause 9 of that contract it was stipulated that, in the event of a change of control in Acerinox S.A., by virtue of which a shareholder acquires shares of Acerinox, S.A. that gave him a majority of votes in the General Meeting or on the Board, the shareholders may exercise a put option on Acerinox for their interest.

In the 17 years that have passed, two of the three partners who signed the agreement, Highveld and Samancor, have renounced the shareholding, and the third, IDC, a state entity to support industrial development in South Africa, has increased its participation from 12% to 24%, given its interest in supporting the creation of wealth, the maintenance of employment, and the consideration of Stainless Steel as a strategic sector for the country. It has recently declared itself to be its strategic, and long-term involvement.

It is for this reason that the exercise of this option, in the assumption of the mentioned hypothesis, is highly unlikely for the only minority shareholder of Columbus Stainless, since its permanence is not determined, as it was in the other shareholders, by the presence of Acerinox, but by the support to the national industry.

14.8 Distribution of profits

The distribution of earnings of the Parent Company, Acerinox, S.A. for 2019, as proposed by the board of directors, to be submitted to the shareholders for approval at their annual general meeting is as follows:

	2019
Basis of allocation:	
Profit for the year	438,827,598,35
Application:	
Legal reserve	128,597,21
Dividend distribution	108,218,477,20
To compensate prior year losses	186,367,543,13
To distributable reserves	144,112,980,81

The Board of Directors of Acerinox, S.A. has decided to propose to the next Ordinary General Meeting of the Company dividend distribution of 0.50 euros per share of which 0.10 euros will be charged to the share premium at their general meeting held on 11 April 2019, the shareholders agreed that the Parent Company's profit for 2018 should be distributed as follows:

	2018
Basis of allocation:	
Profit for the year	-125,599,654
Application:	
Prior years' losses	-125,599,654

14,9 Earnings per share

Basic earnings per share are calculated by dividing the profit for the year attributable to equity holders of the Parent Company by the weighted average number of ordinary shares outstanding during the year.

(Figures in thousands of euros)

	2019	2018
Profit attributable to the Group	-59,545	237,086
Weighted average number of ordinary shares outstanding	272,992,909	276,067,543
Earnings per share (in Euros)	-0,22	0,86

Although as of December 31, 2019 there are other equity instruments that give access to capital, as indicated in **note 16.1.3**, these do not significantly affect the calculation of earnings per share, therefore diluted earnings per share are the same as basic earnings per share.

NOTE 15 DEFERRED INCOME

Non-refundable government grants, which include emission allowances received free of charge (see **note 11.1**) and other capital grants are included under this heading, Movements in this account are as follow:

(Figures in thousands of euros)

(Datos en miles de euros)	2019	2018
Balance at 1 January	6,876	6,947
Grants awarded	11,771	5,108
Application to results	-8,337	-5,179
Balance at 31 December	10,310	6,876

The amount recognised in deferred income primarily reflects grants received by Acerinox Europe for its research, development activities, the environment and the balancing entry for emission allowances allocated free of charge under the National Allocation Plan and not used during the year (**note 11.1**).

The breakdown of the grants received this year is detailed below:

(Figures in thousands of euros)	2019	2018
R&D	455	147
Environment	4,891	2,552
Allocation of CO2 rights	6,151	1,945
Training	272	290
Other	2	174
Total	11,771	5,108

The Group considers that it has met or will meet all the conditions for receipt of these grants in the period stipulated and therefore no significant contingencies exist in connection with the grants obtained.

NOTE 16 PROVISIONS AND CONTINGENCIES

Details of non-current provisions included in the balance sheets for 2019 and 2018 are as follows:

(Figures in thousands of euros)

	2019	2018
Employee benefits	36,353	9,376
Other provisions	12,739	10,429
TOTAL	49,092	19,805

16.1 Employee benefits

16.1.1 Defined contribution plans

In accordance with legislation in force in their countries of operation, certain Group companies make contributions to pension plans managed by external institutions, An expense of 10,967 thousand euros has been recognised for the year under personnel expenses in the consolidated income statement in respect of such plans (8,099 thousand euros in 2018).

16.1.2 Defined benefit plans

Details of provisions for employee benefits by type of commitment appear in the following table:

(Figures in thousands of euros)	2019	2018
Compensation for early retirement	424	415
Early retirement benefits	639	725
Supplements	9,273	8,236
Post-employment benefits	26,016	
TOTAL	36,352	9,376

The defined benefit liability recognised in the consolidated statement of financial position relates to the present value of the defined benefit obligation at the balance sheet date, minus the fair value of the plan assets at that date.

On November 13, the Acerinox Europa´s, S.A.U. representatives and the workers representation entered into an agreement at the Extra-judicial Labour Conflict Settlement Service (SERCLA) of the Court of Andalusia whereby a reduction of the personnel at the Factory at Campo de Gibraltar (Cadiz) by 215 people was established, 183 of whom were for reasons of age and voluntary ascription, and another 32 for lack of multi-skilling, 8 of which joined voluntarily.

The departure of these last 32 employees took place immediately after the referred Agreement and before year end. The expense accrued by such dismissals amounted to EUR 2,802 thousand, included under item "personnel expenses" in the consolidated income statement, as evidenced by **note 17.2**.

The remaining departures, for age reasons, will take place gradually until the end of 2022, as the employees ascribed to the plan reach 60 years of age.

The Company has conducted an actuarial calculation of the obligations derived from the approved pre-retirement plan, including 183 workers and amounting to EUR 26,016 thousand. This amount has been recognised this year under the item "personnel expenses" of the consolidated income statement. To determine the actuarial valuation, the discount rate used has been of 0%. Considering that the financial duration of the payments valued is of 2.9 years, the discount rate obtained over the 3-year term of the highest credit quality corporate debt (AA) curve would be of -0.072%. Facing such negative rate, the discount rate chosen to be used was of 0.00%. No mortality discount has been considered due to the characteristics of the commitments, as in the event of the death of the employee, the payments due would in any case be collected, either by the beneficiaries of the employee, or recovered by Acerinox.

The Group has proceeded in January 2020 to externalise the commitments with an assurance company, with the payment made being equivalent to the amount registered during such year.

The company has also provisioned EUR 9,254 thousand, corresponding to the contribution to Treasury established in Additional Provision Sixteen of Law 27/2011, pursuant to Royal Decree 1484/2012, accrued upon the presence of certain workers with over 50 years of age. This contribution would be subject to liquidation by the relevant Administration in accordance with the aforesaid regulations. This provision is contained in other provisions which are set out in detail in **note 16.2**

Therefore, the aggregate cost of the collective discharge is EUR 38.1 million, to be amortised over approximately 3.5 years (including the calculation of the contribution to Treasury and using as reference year that in which the workers would have reached 64 years of age).

The savings obtained from the collective discharge would be increased by the savings derived from the policy of non coverage of vacancies due to retirement, implemented from the month of May until the approval of the employment regulation file, which has implied the amortisation of another 31 work posts.

In addition, there are obligations under from certain retirement contractual covenants agreed with senior management in the amount of 13.1 million euros (11.5 million euros in 2018). In 2019 and 2018, these obligations were properly insured in both 2018 and 2017, and their estimated amount covered by cash flows arising from the insurance policies contracted. As a result, no liability in this connection is recognised.

The assumptions used in calculating the fair value are detailed below:

Mortality table	PERM / F2000 P
CPI	1.5%
Wage growth	1.5%
Social Security growth	1.5%
Retirement age	65 years
Accrual accounting method	Projected Unit Credit

Post-employment obligations reflect post-retirement medical care plans provided by Columbus Stainless to specified plan members. No new members have joined the plan. The Company performs actuarial valuations of the obligations every two years. The most recent valuation was performed in 2017. The assumptions used were: discount rate of 9.5%; inflation of medical services 6.75%. The opening balance for the period reconciles with the closing balance as follows:

(Figures in thousands of euros)

	2019	2018
Balance at 1 January	**8,236**	**8,491**
Contributions paid	-320	-287
Service cost recognised in the income statement	199	174
Interest cost	801	712
Actuarial loss recognised in comprehensive income		
Translation differences	357	-854
Balance at 31 December	**9,273**	**8,236**

The discount rates applied are based on expected growth rates of health insurance. Any change in such fees may have an impact in the recognised obligations or in comprehensive income. An increase of one percentage point in the discount rate would increase the obligation by 1.3 million euros (1.6 in 2018). In contrast, a decrease of one percentage point in the discount rate would reduce the obligation by 1.2 million euros in 2019 (1.1 in 2018).

16.1.3 Share-based payment transactions

The Board of Directors of Acerinox, S.A. held on 22 March 2018 approved a multi-year remuneration plan, or long-term incentive plan (LTIP), which will allow the executive board member and senior managers of the Acerinox Group to receive part of their variable remuneration in shares in Acerinox, S.A. The target amount is 30-50% of their base salary, subject to a personal limit of 200% of the respective target. This plan was subsequently submitted to the Acerinox Shareholders' Meeting held on 10 May 2018, which approved the Plan.

The approved LTIP features three three-year cycles. The First Cycle of the Plan extends from 1 January 2018 to 31 December 2020. The Second Cycle starts on 1 January 2019 and ends on 31 December 2021 and the Third Cycle starts on 1 January 2020 and end on 31 December 2022.

On 1 January 2019, the second cycle of the pluri-annual compensation plan has started, which has a duration of three years.

Under the remuneration plan, employees receive shares of the parent company at the end of each cycle ("Performance Shares"). Delivery of the shares and the number to be delivered are conditional on certain vesting requirements, relating to the employee remaining in service and attaining certain individual corporate objectives.

The Group presumes that the services are to be provided over the irrevocability or vesting period as consideration for the future delivery of the shares. Accordingly, the services rendered are reported on a straight line basis over the period in which the rights to receive those shares become irrevocable.

The Group measures the assets or services received, and the corresponding increase in equity, at fair value, on the date of the concession agreement for the equity instruments to be awarded.

When calculating this theoretical number of shares, the shares of Acerinox, S.A. will be measured at their quoted price 30 trading days prior to the start of the plan. The resulting number of Performance Shares will be used as the basis for determining the effective number of shares in Acerinox, S.A. to be delivered (if any) on reaching the end of each cycle, depending on attainment with objectives and subject also to compliance with the requirements set out in the regulations governing each plan.

For the calculation of the part of the percentage of objectives achieved, subject to market conditions, an independent expert has been contracted, which using accepted valuation techniques (Montecarlo Method) has calculated the reasonable percentage of shares attributable to each employee subject to the compensation plan. According to such valuation, the number of shares to be delivered in the performance of each of the plan cycles shall be of 78,853 shares, representing at the end of the 3 cycles 0.08% of the capital of Acerinox, S.A.

The expense accrued during this year amounts to EUR 861 thousand (EUR 613 thousand in 2018). The aggregate amount recognised at the end of the year in the item "other net equity instruments" on the balance sheet amounts to EUR 1,446 thousand (EUR 601 thousand last year).

16.2 Other provisions

Movement in 2019 is as follows:

(Figures in thousands of euros)

	Litigation	CO2	Other provisions	Total
Balance at 31 December 2018	8,139	1,856	434	10,429
Charge to provision		2,742	9,254	11,996
Application		-1,852		-1,852
Reversal	-19			-19
Trasfers	-7,815			-7,815
Translation differences				0
Balance at 31 December 2019	305	2,746	9,688	12,739

CO2

These are provisions for C02 emissions during the year for which the emission allowances have not yet been surrendered at the year end (see **note 11.1**).

Applications for the year are mainly due to the derecognition of emission allowances for 2019, totalling 1,852 thousand euros (1,906 thousand euros in 2018) (see **note 11.**1).

Litigation

At the end of 2018, the Group was involved in litigation with the Italian tax authorities concerning transfer pricing adjustments, which are explained in detail in **note 19.5**. Acting upon the opinion of the experts, the Group had provisioned 7.8 million euros for this item at the end of last year.

On 1 January 2019, the Group reclassified this provision, as required by IFRIC-23, from non-current provisions in the balance sheet to deferred tax liabilities since it is a tax payable that is not expected to be settled in the short term. This reclassification was made without changing the comparative data of the previous year. At year-end and following the mutual agreement reached between the Spanish and Italian authorities explained in **note 19.5**, this provision amounts to 11.2 million euros.

Other provisions

Other provisions fundamentally cover the valuation by Acerinox Europa, S.A.U of the obligations stemming from the labour force adjustment plan executed this year and those related to the contribution to the Treasury as set forth in Additional Provision Sixteen of Law 27/2011, with regard to Royal Decree 1484/2012. The amount of this obligation, as verified by an independent expert, totals 9.254 thousand euros. When calculating the provision, the characteristics of the employees included in the adjustment plan were considered, together with compliance with the legal requisites and applicable percentages. Note 16.1.2 sets out the details of this labour force adjustment plan.

Inoxcenter, S.L.U has also recorded a provision for this item based on the labour force adjustment plan executed in 2013, which totals 386 thousand euros.

16,3 Guarantees provided

At 31 December 2019 the Group has provided guarantees to third parties, mainly government bodies, totalling 18 million euros (23 million euros in 2018). This amount includes the guarantees provided to the Italian tax authorities for the amount of 2.6 million euros, as a result of the assessments arising from inspections that are explained in **note 19.5**. In addition, guarantees were provided in the amount of 3.7 million euros this year to the 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**. Also this year, following re-evaluations of the authorisations, simplifications and waivers of the Customs Authorities, we have been allowed to reduce the amount of guarantees deposited from 11.2 million euros to 2.5 million euros.

Group management does not expect any significant liabilities to arise from these guarantees.

16,4 Contingencies

The company Gas Natural Comercializadora, S.A requested that declaratory proceedings be opened against the Group companies Acerinox Europa, S.A.U., Roldan, S.A. and Inoxfil, S.A. for an alleged breach of the natural gas supply contracts and requested the payment of the compensation due to unilateral termination, as agreed in these contracts, totalling 8.2 million euros. Gas Natural Comercializadora S.A. submitted a bid in the supply service tender held by Acerinox during 2016 and 2017, but a different company was selected. The claim was resolved in the first instance by means of a judgment dated 18 June of this year rejecting the claim filed by Gas Natural in its entirety, with costs being imposed on the claimant. Subsequently, the Group reached an agreement with the aforementioned company Gas Natural whereby the latter paid the Group a certain amount of costs and undertook not to bring an appeal, making the decision final and the procedure has been definitively dismissed.

NOTE 17 INCOME AND EXPENSES

17.1 Revenue

Details of revenue in 2019 and 2018 are as follows:

(Figures in thousands of euros)	2019	2018
Sale of goods	4,748,268	5,005,612
Services rendered	5,610	5,165
Self-constructed assets	7,611	18,293
Operating lease income	836	663
Gains on disposal of fixed assets	7,189	560
Income from grants and subsidies	5,595	3,235
Income from emission allowances	2,742	1,944
Other income	7,927	6,206
TOTAL	4,785,778	5,041,678

The item self-constructed assets basically includes the capitalisation of expenses of the investments carried out in Acerinox Europa, S.A.U.

Income from the disposal of fixed assets mainly relates to the capital gain obtained from the sale of an industrial warehouse in the state of California, the US, by the Group company North American Stainless.

17.2 Personnel expenses

Details of personnel expenses in 2019 and 2018 are as follows:

(Figures in thousands of euros)	2019	2018
Salaries and wages	313,298	301,928
Social Security	76,374	72,522
Contributions to employee benefit plans	9,171	6,149
Contributions to defined benefit plans	1,795	1,950
Indemnification	3,226	770
Change in the provision for employee benefits	36,365	1,022
Other personnel expenses	12,018	11,587
TOTAL	452,247	395,928

Indemnification include those payments made to the 32 employees who were dismissed as part of the workforce restructuring plan approved by Acerinox Europa, S.A.U.

The “change in the provision for employee benefits” include the effects recognized this year as a result of the approved workforce restructuring plan of the Company Acerinox Europa, S.A.U, which are mentioned in **note 16.1**

The average headcount in 2019 and 2018, distributed by category, is as follows:

	2019	2018
University graduates	903	877
Administrative staff	923	902
Manual workers	5,082	5,159
TOTAL	6,908	6,938

At 31 December a breakdown of personnel by gender and category, including directors, is as follows:

		2019	2018
Board members	Male	10	12
	Female	3	3
Senior management personnel	Male	9	7
	Female		
University graduates	Male	637	630
	Female	262	247
Administrative staff	Male	482	485
	Female	436	417
Manual workers	Male	4,754	4,935
	Female	162	167
TOTAL		6,755	6,903

This figure includes 138 employees that have taken partial retirement (180 in 2018).

At 31 December 2019 the number of employees in Spain with a disability of at least 33% is 54 (51 male and 3 female) (61 in 2018; 57 male and 4 female).

The decrease in the number of Group employees is mainly due to the decrease in Acerinox Europe's workforce caused by the non-renewal of temporary contracts, the non-replacement through replacement contracts of workers in partial retirement, and the approved workforce restructuring plan, which led to the departure of 32 employees in December. The other workers assigned to the plan will leave the company as they reach the early retirement age set out in the plan.

All the Spanish companies are compliant with the provisions of the General Law on the Rights of Persons with Disabilities and their Social Inclusion, with the exception of Acerinox Europa, S.A.U. whose rates have been affected at the end of the financial year due to the death of one worker and the retirement of another. Work is underway to achieve compliance with the Law.

On November 22, Acerinox Europe's management and the legal representatives of the plant's workers signed the new collective bargaining agreement for a period of four years, which includes a salary increase of 2% per year. The new agreement also establishes, among other measures, social policies for employees aimed at fostering a balance between work and family life, as well as new advantages to proote the training of employees' children.

17.3 Other operating expenses

Details are as follows:

(Figures in thousands of euros)

	2019	2018
Rentals	8,934	11,237
Trading costs	177,146	186,722
Utilities	222,159	225,695
Maintenance	66,198	66,566
External services	88,647	81,645
Insurance	15,520	15,403
Bank services	4,203	4,492
Other operating expenses	23,504	23,445
Taxes other than income tax	18,956	18,753
Change in current provisions	329	1,573
Losses on disposal of fixed assets	3,501	2,250
Other extraordinary expenses	4,059	1,156
TOTAL	633,156	638,937

NOTE 18 NET FINANCE COST

Details of the net finance costs are as follows:

(Figures in thousands of euros)

	2019	2018
Interest and other finance income	18,808	18,141
Income from dividends	237	118
Reversal of impairment of investments		
Gains on disposal of investments in consolidated companies		
TOTAL FINANCE INCOME	19,045	18,259
Interest expense and other finance costs	-34,331	-33,677
Loss on hedging instruments		
Loss on liquidation of investments in consolidated companies		
TOTAL FINANCE COSTS	-34,331	-33,677
Negative exchange losses	16,978	455
Profit/loss on remeasurement of financial instruments to fair value (exchange risk insurance)	-1,256	12,878
FINANCIAL NEGATIVE EXCHANGE LOSSES	15,722	13,333
NET FINANCE COST	436	-2,085

Interest income mainly derives from term deposits by the Group (note 12). Also, 2,205 thousand euros were recorded in 2018 for tax refunds obtained in both Spain and Germany as a result of the mutual agreements reached between the two countries, which are explained in note 19.5.

Finance costs mainly reflect interest accrued on loans and borrowings and bonds issued, which are explained in note 12.2.3.

Lastly, income from translation differences arise in the Group's trade, financial operations and investments. The Group hedges with derivative financial instruments a majority of the transactions carried out in a currency other than the functional currency of a country. Using these instruments ensures that any fluctuation in exchange rates would be offset by a contrary change of the same amount in the derivative contracted. The differences between the two amounts are mainly due to the interest rate differentials between the currencies involved in the exchange rate insurance contracted.

NOTE 19 TAXATION

19.1Legislative amendments

The most significant tax changes affecting the Group during the year are as follows:

- On 27 November of this year, the Protocol Amending the Convention between the Kingdom of Spain and the United States of America for the Avoidance of Double Taxation of 1990 entered into force. The protocol amends several articles of the existing Convention, including the one referring to withholding taxes on dividends and interest, so that dividends will not be subject to taxation at source when the parent company holds at least 80% of the voting shares during the previous twelve months, and a series of requirements are also established for the application of this exemption, which the Group meets. As mentioned in **note 3**, this enabled the Group to reverse the deferred tax liability of 25 million euros that the Group had recognised at 31 December 2018. In December, Acerinox, S.A. received a tax-free dividend of USD 770 million from North American Stainless Inc (EUR 701 million).

- In this year, an amendment to the corporate income tax, applicable from 2020, has been approved in Malaysia, which establishes a limitation on the deductibility of interest from Group companies of 20% of taxable EBITDA. Any interest not deducted in a year may be used in future years, with no limit on the number of years. This is therefore a temporary difference that will generate a deferred tax asset, thus reducing taxable losses. This measure, therefore, has no impact on the consolidated financial statements.

As far as 2018 is concerned:

- United States: a modification in the state tax of Kentucky, the state in which one of the Group's main subsidiaries, North American Stainless, is located. The main change was a lower tax rate of 5% (down from 6%) and the change made to the factor used to determine the tax base attributable to the State. This measure led to an additional reduction in deferred tax liabilities and deferred tax assets, which has resulted in income of 3,769 thousand euros in 2018 tax, but at the same time, it brought about a reduction in the tax credits capitalised by North American Stainless derived from the tax credits established in this state and explained in note 19.3.2. The impact of this credit reduction amounted to 8,683 thousand euros.

- Spain: A number of changes were approved in 2018 in relation to local corporate income tax law for the regions of Álava, Biscay and Guipúzcoa. The main changes affecting the Group are a reduction in the tax rate from 28% to 26% applicable in 2018 and then 24% starting 2019. The Group recognised in 2018 the impact the rate reduction would have on its deferred tax assets and liabilities. Since the Group companies based on those regions have capitalised tax credits, the change had a negative impact on their earnings. The Group recognised an associated expense of 497 thousand euros. The changes included restrictions on the recovery of prior years' tax losses, which are now limited to 50% of the positive tax base generated in the year, while extending the recovery period to 30 years. Despite this limitation, the Group, as explained in **note 19.3.3** is confident that it will continue to recover prior years' tax losses within a period of 10 years.

- Malaysia: for tax years beginning on or after 1 January 2019, the main amendment adopted is the time limit on the application of tax loss carryforwards. This limitation is established for a period of 7 years from 1 January 2019. The limitation does not apply to investment tax deductions or to unused temporary differences arising from different accounting and tax depreciation criteria. However, the Group has 296 million euros of unrecovered tax losses in that country, the associated tax credits are not capitalised and, therefore, the Group has not had to recognise any impairment arising from this limitation. Furthermore, Bahru Stainless has tax credits for investments made in the country between 2009 and 2014 amounting to 1,806 million Malaysian Ringgits (393 million euros) which can continue to be applied without limit, as well as unused temporary differences, as a result of the different accounting and tax depreciation criteria (capital allowances) amounting to 390 million euros.

- France: A progressive reduction of taxes has been approved for fiscal years beginning on or after 1 January 2018. The general rate applicable until that year was 33.33%. The reform establishes that for tax benefits not exceeding 500,000 euros (after deduction of tax losses) the applicable rate would be 28% in 2018 (33.33% for the excess), 31% for the excess in 2019, 28% in 2020 for all results generated, 26.5% in 2021 and 25% from 2022. The Group has tax credits in this country and updated them in accordance with the new rates. The negative impact recognised in the income statement for last year amounted to 1,207 thousand euros.

- Sweden: A reduction in the applicable tax rate from the current 22% to 21.4% by 2019 and 20.6% from 2020 has been approved. The Group has tax credits in this country and updated them in accordance with the new rates. The negative impact recognised in the income statement for last year amounted to 255 thousand euros.

19.2 Income tax expense

Details of the income tax expense are as follows:

(Figures in thousands of euros)

	2019	2018
Current tax	80,351	71,959
Deferred tax	-42,217	17,750
Tax credits impairment	60,987	
Total income tax	99,121	89,709

Note 19.3.3 explains the recoverability analyses conducted by the Group during this year, and that have determined an impairment recognition, in the amount of EUR 60.987.

The amount recognised under "other taxes" in the Profit and Loss account contains the taxes paid abroad as a result of the withholdings made in the payment of interest and dividends, with the detail shown as follows:

(Expressed in thousands of euros)

	2019	2018
Withholding for dividends	-13,496	-1,192
Withholding for interests	-3,675	-3,867
Deferred liabilities derecognision for subsidiaries investments	25,000	
Otros impuestos	7,829	-5,059

As of 27 November, following the approval of the protocol modifying the double taxation convention between Spain and the United States, the Group no longer supports withholdings on the dividends repatriated by its United States subsidiary North American Stainless, leading the Group to reverse the deferred tax liability recognised in prior years in the amount of EUR 25 million, corresponding to investments in subsidiaries. **Note 19.3.1** explains the reasons for the reversal in detail.

The parent company has received dividends from its subsidiaries in the amount of EUR 835 million (17.2 million in 2018), 701 million of which have been exempt of taxation.

Regarding withholdings for the payment of interest, these are deductible on the income tax as a result of the application of the double taxation conventions and reduce the income tax expense.

A reconciliation of the income tax expense recognised in the income statement and accounting profit is presented below:

(Figures in thousands of euros)

	2019		2018	
Net profit for the year		-59,545		237,086
Non-controlling interests		-8,664		-21,844
Income tax		99,121		89,709
Other taxes		-7,829		5,059
Profit/(loss) before tax		23,083		310,010
Income tax at the local tax rate	25%	5,771	25%	77,503
Effects on tax payable:				
Effect of tax rates of foreign operations		-5,639		-2,865
Non-deductible expenses		27,063		3,603
Tax incentives not recognised in the income statement		-6,552		-8,330
Non-taxable income		-822		-159
Prior year adjustments		775		-1,099
Adjustment of tax rates, deferred taxes		-6		6,862
Provision of litigation, assessments and tax agreements		-46		-1,334
Unrecognised tax credits and impairment		17,372		16,894
Tax credits impairment		60,987		
Recognition of deferred taxes for investments in subsidiaries				-963
Other		218		-403
Total income tax		99,121		89,709

Several factors have negatively affected tax expense this year:

- Firstly, the impairment of tax credits recognised by the Group amounting to 60,987 thousand euros, which is explained in note 19.3.3. Although most of the tax credits capitalised can be applied for tax purposes without any time limitation, the accounting standard only allows for the capitalisation of those that are expected to be recovered within a reasonable period. The Group deems a period of 10 years to be reasonable.

- Non-deductible expenses include impairment of goodwill and fixed assets, which are not deductible for tax purposes until the related assets are liquidated or realised. Although this is a temporary difference, the Group does not recognise any deferred tax assets in this connection, since it is not known when the difference will reverse, which is why it has had a negative effect on tax expense for the year.

- The Group has not recognised tax credits in subsidiaries with losses where it does not expect to recover them within a reasonable period. This resulted in an expense in the year of 17,372 thousand euros

The tax incentives not recognised in the income statement mainly relate to tax credits for R&D&I activities and tax credits for the elimination of double taxation.

The impacts of the mutual agreements reached between the Spanish and Italian authorities as a result of the open tax inspections, which had a neutral impact on the Group in the year, were recognised in the year. The details of these agreements are explained in **note 19.5**.

In 2018, deferred tax assets and liabilities were adjusted to bring them into line with the new applicable tax rates, as explained in **note 18.1**. The combined impact of these adjustments led to higher expenditure of 6.8 million euros. At the same time, the impact of the agreements reached as a result of the tax inspections completed during the year were recognised, which together amounted to 1.3 million euros in income tax. The details of these settings are explained in **note 18.5**.

19.3 Deferred tax

Movement in deferred tax assets and liabilities is as follows:

(Figures in thousands of euros)

	2019		2018	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Balance at 1 January	141,946	164,877	170,602	174,401
Expense/income for the period	27,216	-40,001	-32,897	-15,147
Taxes recognised directly in equity	697	-315	1,025	-866
Exchange rate fluctuations	-76	2,736	-71	3,150
Transfers	-7,762	53	3,287	3,287
Other changes	-60,988	-435		52
Balance at 31 December	101,033	126,915	141,946	164,877

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

(Figures in thousands of euros)

	Assets		Liabilities		Net	
	2019	2018	2019	2018	2019	2018
Goodwill	5,875		-346	-10,388	5,529	-10,388
Property, plant and equipment	2,079	3,872	-134,923	-141,532	-132,844	-137,660
Financial assets	3,502	2,822	-2,773	-7,130	729	-4,308
Investments in subsidiaries				-25,572		-25,572
Inventories	1,443	2,672	-935	-763	508	1,909
Other assets	392	548			392	548
Provisions	4,762	7,195	-24	-652	4,738	6,543
Employee benefit plans	16,149	5,227	-1		16,148	5,227
Financial liabilities	3	134	-220	-224	-217	-90
Other liabilities	17		-11,101	-11,094	-11,084	-11,094
Non-deductible finance costs	177	15,114			177	15,114
Other tax deductions	16,737	13,304			16,737	13,304
Unused tax losses	84,494	123,536			84,494	123,536
Tax litigation provisions			-11,189		-11,189	0
Deferred tax assets/liabilities	135,630	174,424	-161,512	-197,355	-25,882	-22,931
Offsetting of deferred tax assets and liabilities	-34,597	-32,478	34,597	32,478		
Deferred tax assets/liabilities	101,033	141,946	-126,915	-164,877	-25,882	-22,931

Most of the deferred taxes have a reversal period of more than one year.

As laid down in the income tax measurement criteria (**note 2.20**), the Group only offsets deferred tax assets and liabilities if it has a legally enforceable right to do so, the assets and liabilities correspond to the same taxation authority and it plans to realise current tax assets or settle current tax liabilities on a net basis.

Notable this year is the increase in deferred tax assets arising from employee benefit plans. This increase is due to the non-deductibility in this year of the provision for obligations arising from the Acerinox Europe workforce restructuring plan. This expense is not tax deductible until the obligations are settled, which will occur as the employees assigned to the Plan reach the retirement age established in the Plan.

This year the Group was able to deduct for tax purposes the financial expenses not deducted in previous years as a result of the limitations established in certain legislation, which prevent the deduction of financial charges when they exceed a certain percentage of the adjusted operating income. This year, the operating income of the Spanish tax group allowed for the deductibility of these expenses owing to the repatriation of dividends by the parent company.

Lastly, deferred tax assets arising from unused tax loss carryforwards decreased due to the impairment of 60,987 thousand euros recorded in the year. However, the Group has recognised deferred tax assets in certain countries where there were sufficient liabilities to offset them or their recoverability was justifiable. Note 19.3.3 details the analysis of recoverability made by the Group.

19.3.1 Deferred tax liabilities

Deferred tax liabilities recognised in property, plant and equipment are mainly due to the different tax and accounting depreciation criteria permitted by legislation in force in certain countries. These liabilities essentially relate to North American Stainless, Inc. and Columbus Stainless, Ltd.

As regards deferred tax liabilities arising from investments in subsidiaries, as explained in the section on regulatory changes, on 27 November this year the Protocol amending the 1990 Agreement between the Kingdom of Spain and the United States of America to avoid double taxation came into force. The protocol amends several articles of the existing Convention, including the one referring to withholding taxes on dividends and interest, so that dividends will not be subject to taxation at source when the parent company holds at least 80% of the voting shares during the previous twelve months, and a series of requirements are also established for the application of this exemption, which the Group meets. This has allowed the Group to reverse the deferred tax liability of 25 million euros which the Group had recognised at 31 December 2018 for the possible repatriation of reserves from the Group company in the United States, North American Stainless.

Following the approval of the protocol amending the agreement between Spain and the United States, there are hardly any companies in the consolidated group that have significant distributable reserves that will be subject to taxation in the event of their distribution. The Group recognises the tax effect in this connection only when it considers that the distribution of these reserves in the form of dividends will be necessary in the foreseeable future, which will mean the reversal of the temporary difference.

Although the Group does not have a general policy of distributing dividends from subsidiaries to the parent company, every year the Group analyses the net worth of all its subsidiaries, also taking into account existing taxes, in order to determine the advisability of repatriation of reserves through the distribution of dividends.

In April of this year, the parent company received dividends from the Group company North American Stainless amounting to 134 million euros. 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 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 2019 and 2018, the Group has unused tax credits from tax losses available as follows:

(Figures in thousands of euros)

	2019	2018
1 to 5 years		252
6 to 10 years	78,209	70,507
11 to 20 years		
21 to 30 years	2,749	2,962
No prescription date	146,827	124,579
TOTAL	227,785	198,300

Not all the tax credits shown in the table have been capitalised by the Group, Capitalised tax credits amounted to 84,494 thousand euros in 2019 (123,536 thousand euros in 2018).

The distribution by country of these capitalised tax credits is detailed below:

(Figures in thousands of euros)

	2019	2018
Spain	66,806	106,363
South África	9,750	
France	3,189	3,443
Italy		8,293
Sweden	3,432	3,751
Chile	984	1,043
UK	333	391
Switzerland		252
TOTAL	84,494	123,536

For this fiscal year, the caitalised tax assets have decreased mainly due to the accounting impairment recorded by the Group, which is explained in the following note.

The reduction in tax credits in Italy also arises from the mutual agreements reached between Spain and Italy.

Comparing the two tables above, there exist non-capitalised tax credits in the Group in the amount of 143,291 thousand euros, equivalent to tax losses of 595 million euros, which have not been recognised as they did not meet the necessary criteria (74,764 of non-activated tax credits in 2018 equivalent to losses of 319 million euros). From these amounts, 78,209 thousand euros has a recovery period of 7 years, and the rest have an unlimited recovery period.

The Group also has assets for temporary differences not recognised for accounting purposes amounting to 133.8 million euros (48.3 million euros in the previous year), arising from the impairment charges for Acerinox, S.A.'s investments in some of its investees, and the impairment of assets in the current year, which are not deductible until the assets generating the corresponding temporary difference are realised or liquidated.

On 22 June 2015, the Group company Bahru Stainless received confirmation from the Malaysian Ministry of Economy of approval of fiscal aid in respect of investments made in the country from 2009 to 2014. This aid consists of income tax deductions for an amount equal to the investments made in certain items of property, plant and equipment, which amount to 1,806 million Malaysian ringgits (393 million euros). As with tax credits for accumulated losses, the Group has not recorded a deferred tax asset as it cannot yet estimate its recoverability. At the same time, the Company also has temporary unused differences, as a result of the different criteria for accounting and tax amortisation ("capital allowances") for 390 million euros. These temporary differences have an unlimited utilisation period. Both aids will allow Bahru, not to pay taxes, once it generates tax profits, even considering the limitation introduced to compensate tax losses.

The Group company North American Stainless also has tax credits for investments in assets that contribute to recycling. These credits are deducted from the calculation of the Kentucky state tax and amounted to 520 million euros at the year end. Of all the tax credits, 13 million euros expire in 2020, 21.5 million euros expire in 2028 and the rest are unlimited. Application of these credits is limited to 50% of the tax payable in the state of Kentucky, or an amount of USD 2.5 million/year. The Group only recognises a deferred tax asset for investment tax credits that expire and relate to a specific credit programme approved in 2005 by the state of Kentucky (Major Credits Program). With the 10-year projections made at the close of 2018, the Group estimated that it could use an amount of 5 million euros, which the Group had recognised as deferred tax assets. At the end of this year, the amount recognised as a deferred tax asset amounts to 3.9 million euros.

Deferred tax assets deriving from deductions pending utilisation and that come to 16,737 thousand euros (13,304 thousand euros in 2018) correspond mainly to the Spanish tax group, except for the 3.9 million euros mentioned above for North American Stainless and 460 thousand euros for Columbus, generated this year. The Group has also taken these deductions into consideration when making 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 balance sheet, if and when these are recoverable within a reasonable period, also considering legally established limitations on their use. The Group considers a period of approximately 10 years as reasonable if allowed by tax legislation.

To assess the recoverability of tax credits pending compensation, the Group prepares a budget of 5-10 years for each of the companies with capitalised tax credits, and makes the tax adjustments necessary to determine tax bases. The Group also takes into account the limitations on compensation of tax bases established in the respective jurisdictions. The Group also assesses the existence of deferred tax liabilities against which tax losses may be offset in the future.

In the preparation of budgets, the Group takes into account the financial and macroeconomic circumstances and those of the stainless steel market itself, adapted to the operating environment of each entity. Parameters such as expected growth, use of installed production capacity, prices, etc. are therefore projected on the basis of the forecasts and reports of independent experts, as well as historical figures and the targets set by management. Key assumptions such as exchange rates and raw material prices are extrapolated using highly conservative criteria, referring at all times to the most recent market values at the time of the analysis.

As explained above, at the year end, Acerinox Group entities recording capitalised tax credits on its financial statements are the Spanish entities as well as the South African company Columbus Stainless.

- In the case of the Spanish entities, tax credits refers mainly to the tax consolidated Group in Spain, which comprises all Spanish Group companies with the exception of those established in the regions of Alava, Vizcaya or Guipuzcoa. Tax credits derived from tax losses amount to 125 million euros. The tax credits capitalised were the result of the crisis years and the Group has been reducing these credits since 2013. However due to negative market evolution, especially in Europe and the unprecedented drop in prices resulting from the rise in imports, during this year some of the Spanish companies showed negative results for the Group. In addition dividends of 835 million euros repatriated by the head company during the year allowed the deduction of carry-over financing costs from previous years, representing a decrease in the tax bases for the year. As a result tax credits in this year increased by 15 million euros. On the other hand, the mutual agreement procedures reached between the Spanish and Italian Tax Authorities, which completely eliminate double taxation reducing the initial proposed adjustments, imposed in Italy, have also increased net operating losses in Spain, and consequently deferred tax assets in 6 million. These also rose in fiscal 2018 by 3.8 million euros as a result of the Mutual Agreement procedures reached between the Spanish and German Tax Authorities.

  It is important to note that the use of negative tax bases is significantly limited in Spain. In the case of the Spanish tax Group, only 25% of positive tax bases generated in one year can be used to set off losses from previous years. In the case of companies subject to provincial systems, the limitation is 50%.

  Market uncertainties due to inefficient protection measures and the delay in their recovery has caused a decrease in estimated growth for future years. The Group has taken into account all these circumstances, and all the corrections of the macroeconomic forecasts, in preparing the 5-year budgets.

  The key assumptions of the budgets prepared during this year provide for a slight increase in demand in Europe in 2020 and a larger growth starting in 2021, as determined by the estimates of the ISSF (International Stainless Steel Forum) and SMR (Steel Metals and Market Research) in their last review of November. As for prices, sources such as CRU project these will decrease in 2020 to once again rise beginning in 2021. Efficiency plans set in operation by the Group and the reduction of fixed costs as a result of the staff regularisation carried out this year were other factors considered in the budget preparation. With all of these considerations, projections for future years hold for positive operating margins, although well below 2018 estimates.

  In view of all of the above, the 5 year budgets prepared by the Management and extrapolated at 10 years considering the estimated yields and historic margins justify only the recovery of 64 million euros over the next 10 years and all deductions pending use. Consequently the Group has proceeded to reduce 61 million this year, recognising an expense under “income taxes” of the consolidated income statement.

  Since the recoverability of those tax credits is fiscally unlimited in time, if circumstances were to revert in a future year and if budgets allow justifying the recovery of assets in a reasonable period, then the Group could once again proceed to recognise those deferred tax assets.

  A sensitivity analysis was performed on those estimates to determine the risk that a change in the assumptions may determine an impairment of an additional amount of those deferred tax assets. Evidently in this year, with tax credit impaired to the limit of estimates, any breach of lowered budgets would cause an additional reduction in tax credits. Within the scenarios of the possible 10 year projections the Group has determined the one considered the most reasonable based on historic factors. If projected income for next 10 years decreases by 10%, then the capitalised tax credits would be recovered at 11 years, instead of 10.

- In the case of Columbus, capitalised tax credits are generated in this year. The company has deferred tax liabilities sufficient to compensate the above assets. These liabilities derive from the different accounting and tax management of amortizations, and therefore revert on a yearly basis. In addition, there are no quantitative or time limitations on the use of tax losses in South Africa. As explained in Note 7.1, Columbus’s results for this year were also adversely affected by exceptional circumstances such as the lack of gas supply and problems in starting up certain improvements made to some of the machines. The Group does not expect these events to be carried forward to future years. Estimated results for a 5 year period amply justify the capitalisation of tax credits generated this year.

- With respect to the remaining European companies, capitalised tax credits were the result of the crisis years and since 2013 the amount has been reduced through their use. Transfer price policies adopted by the Group to remunerate and characterise transactions with distributor companies make any losses from those companies difficult. The Group has analysed the recoverability of those tax credits and concluded that based on the estimated results (in line with those obtained during the last 6 years) and given the absence of any limitations, either quantitative or temporal, in those countries, the Group foresees these will be recoverable within a reasonable period never more than 10 years. The existence of a Bilateral Price Agreement with similar companies and different friendly agreements reached in different countries make any significant differences in these companies results from forecasts, therefore no change is predicted in the conclusions reached

19.4 Current tax

At 31 December 2019 the Group has a current tax asset of Euros 40,094 thousand (Euros 19,093 thousand in 2018) and a current tax liability of Euros 27,582 thousand (Euros 23,576 thousand in 2018).

The asset balance contains the interim payment of income tax in Spain 29,360 thousand euros as a result of the minimum payment of 23% of the income generated in the period, which included a dividend of 134 million euros received by the parent company. The Group will recover this amount when it submits from July 2020 its corporate income tax return for the year.

19.5 Tax inspections and years open to inspection

19.5.1 Tax inspection

Developments in 2019

- The most significant advance this year was the completion of the mutual agreement procedures between Spain and Italy for the years 2007 to 2009 and 2011 to 2013, which allowed the complete elimination of double taxation between those countries. Initial adjustments for transfer pricing proposed by the Italian authorities, referring to transactions with Spanish companies, were reduced by 51% and were completely accepted by Spain. This represented a return of 5.8 million euros in Spain for taxes paid and the recognition of tax credits in the amount of 5.9 million euros which the Spanish companies affected proceeded to recognise as income this year. The Group is in negotiations with the Italian authorities to extend the agreements to transactions with other related non Spanish companies. Currently there other other Mutual Agreement Procedures presented both in Italy and South Africa to eliminate double taxation. Italian law prevents the execution of the agreement with Spain while others are open, which is the current case. The Group has written off capitalised tax credits in Italy in the amount of 8.3 million euros and increased the provision funded at the en of 2018 by an additional 3.4 million euros; consequently at the year end the provision came to 11.2 million euros

- At the same time and after the signature of the Mutual Agreement Procedure new assessments corresponding to fiscal year 2014 were received in Italy which resulted in taxable income adjustments of 2.3 million, relating to transfer prices and an additional taxable income adjustment of 512 thousand Euros for a provision that the authorities consider as non-deductible in this year creating a temporary difference that is deductible in subsequent years. Payable tax amounts to 954 thousand euros.

  The Group is currently in negotiations with the Italian Authorities to extend the Agreements reached via Mutual Agreements Proceedures to the adjustments proposed in the above-mentioned assessment, which should eliminate them in their entirety. If no agreement is reached, the same process would be initiated: the lodging of appeals in Italy, a petition for suspension of the debt and the requests for the elimination of double taxation in both Spain and Italy.

  Since all transfer price adjustments initially imposed with Spain have been eliminated for the years 2011 to 2013, the Group does not consider it necessary to form a reserve in any amount.

- In Malaysia, on 22 January, notification was received from the tax authorities of the completion of the inspection for the years 2010 to 2013, with no adjustments. This inspection began in January 2015.

- In Spain, at the reporting date, the verification and investigation inspection activities in the companies Acerinox, S.A, Acerinox Europa, S.A.U, Inoxcenter, S.L.U and Roldan, S.A. initiated in 2018 have been completed, with no significant adjustments.

  The situation with regard to each of the tax inspections that are underway or which have concluded but are being disputed and appealed against at the end of 2019 is detailed below:

Spain

On 17 October 2018, notification was received of the commencement of verification and investigation inspections in the companies Acerinox, S.A. Acerinox Europa, Inoxcenter and Roldan of the following taxes and periods:

Income tax	2013 to 2016
Value added tax	10/2014 to 12/2016
Personal income tax	10/2014 to 12/2016
Withholdings on account taxation for non-residents	10/2014 to 12/2016

At the end of the year, the procedures were virtually complete and resulted in no significant adjustments.

On 12 February 2020, Acerinox Europe, Inoxcenter and Roldan signed in acceptance of all the taxes. Signatures on the assessments of the parent company are pending, but will also be signed in acceptance.

On 22 March 2019, notification was received from the tax agency of the commencement of inspection proceedings relating to import duties, import VAT and antidumping for fiscal year 2017 in Acerinox Europa, S.A.U. (Acerinox Europa, S.A.U.). The certificates were signed on 18 July, bringing the procedure to an end.

On 7 January 2016, the Central Economic-Administrative Tribunal issued a ruling upholding in full the submissions filed by Acerinox, S.A. against the assessment decisions arising from the inspection of rights, anti-dumping and VAT for 2009, 2010 and 2011. On 27 April of the same year, agreements to enforce the rulings were received for the amounts of 925 thousand euros in respect of anti-dumping, which had previously been guaranteed, 649 thousand euros for VAT on imports (which had been deducted by Acerinox at the time) and 41 thousand euros in respect of payable external tariffs. The Company filed an appeal against the assessment decisions, contesting the interest calculation. Also, 61 thousand euros relating to guarantee expenses were recovered. On 26 September 2018, notice was received of the payment of 10 thousand euros of additional interest, which end the procedure.

Italy

In 2011 the subsidiary Acerinox Italia S.r.l. underwent an inspection of taxes for 2007, 2008 and 2009.

Between 2012 and 2014 the assessment notices for the three years were received, primarily indicating transfer pricing adjustments in relation to sale and purchase transactions between the Company and the Group's factories. The resulting payable tax amounted to 16 million euros, plus 3.5 million euros in interest. No penalties were imposed.

Subsequently, in 2016, 2017 and 2018, and with no prior notice of the commencement of audit work, the Company received transfer price certificates for 2011, 2012 and 2013, with automatic application of criteria similar to those used in the previous audits. These resulted in taxable income adjustments of 4.3 million euros in 2011, 4.9 million euros in 2012 and 3 million euros in 2013 and amounts payable of 1.5 million, 1.6 million and 1 million euros respectively. No penalties were imposed. For all these, the Group lodged appeals with the Milan Provincial Tax Commission within the respective time limits, requesting at the same time the suspension of the debts until the end of the procedures and, in addition, the request was lodged for the elimination of double taxation on the basis of Convention EEC/90/436 of 23 July 1990 with the Spanish and Italian authorities. The Group has presented guarantees of 1.3 million euros to cover stays on the debts in Italy. In addition, in December 2018, the request for the elimination of double taxation with South Africa was presented in Italy for the procedures opened for the years 2011 to 2013.

At the end of 2018, and in view of the agreements that had been reached concerning Germany, and which are explained in the following section, the Group, also based on the opinion of the independent experts that advise it in these proceedings, considered that it was likely that after the negotiation of the agreements, some amount to be settled with the Italian tax authorities would result. Therefore, mainly as a result of the differences in tax rates between the two countries and the transfer pricing adjustments for transactions with third countries, the Group considered it necessary to make a provision of EUR 7.8 million, corresponding to the maximum risk that would result from the proposed adjustments and relating to the years 2007 to 2013.

As explained in note 3.1 and in note 16.2 to these financial statements, the Group reclassified this amount from non-current provisions in the balance sheet to deferred tax liabilities, in accordance with the new IFRIC 23 standard, which will be mandatory from 1 January 2019.

As noted in the advances of 2019, this year saw the completion of the mutual agreements between Spain and Italy for the years 2007 to 2009 and 2011 to 2013, which have allowed for the complete elimination of double taxation between the two countries. The initial transfer pricing adjustments proposed by the Italian authorities, which amounted to 84 million euros in taxable income, have been reduced following the agreements to 41 million euros and have been fully accepted by Spain. This entails the refund in Spain of 5.8 million euros of tax paid and the recognition of tax credits amounting to 5.9 million euros, which the Group has recognised as income in this year. In Italy, all negative tax bases were eliminated after the agreements. The Group has consequently written off activated tax credits in the amount of 8.3 million euros.

Although the agreement reaches only transactions between the Italian company and the respective mills in Spain, the same Agreement should technical transfer to cover transactions with third countries. The Group is currently in conversations with the Italian authorities to transfer the finally accepted treatment in the mutual agreement to the adjustments with third countries. Likewise, the Group maintains a mutual Agreement both in Italy and South Africa for the elimination of double taxation between both countries. It is expected that the execution of the agreements in Italy will be delayed.

In view of the uncertainty regarding the outcome of these agreements, the Group, based on the opinion of the experts advising it in this area, recognised a provision in this year equivalent 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 amounts to 11.2 million euros, and includes payable tax and late-payment interest, which means an increase in the provision, and consequently and expense recognition of 3.4 million euros in 2019.

The Group has also submitted arguments against the execution of the agreements, since it has not recognised late payment interest for the repayable amount of 5.9 million euros.

At the same time and after the signature of the Mutual Agreement Procedure new assessments corresponding to fiscal year 2014 were received in Italy which resulted in taxable income adjustments of 2.3 million, relating to transfer prices and an additional taxable income adjustment of 512 thousand Euros for a provision that the authorities consider as non-deductible in this year creating a temporary difference that is deductible in subsequent years. Payable tax amounts to 954 thousand euros.

The Group is currently in negotiations with the Italian Authorities to extend the Agreements reached via Mutual Agreements Proceedures to the adjustments proposed in the above-mentioned assessment, which should eliminate them in their entirety. If no agreement is reached, the same process would be initiated: the lodging of appeals in Italy, a petition for suspension of the debt and the requests for the elimination of double taxation in both Spain and Italy.

Since all transfer price adjustments initially imposed with Spain have been eliminated for the years 2011 to 2013, the Group does not consider it necessary to form a reserve in any amount.

Malaysia

On 20 January 2015 notification was received of the commencement of an inspection of the company Acerinox SC Malaysia, Sdn. Bhd. related to transfer pricing for the years 2010 to 2013. On 22 January of this year, notification was received from the tax authorities of the completion of the inspection for the years 2010 to 2013, with no adjustments. This inspection began in January 2015.

In the case of Bahru Stainless, on 24 and 28 December 2014, notifications were received of the commencement of inspection proceedings for 2010 and 2011. Subsequently, on 4 March 2015, an extension of the inspection procedure to the years 2012 and 2013 was notified. To date, all the requested information has been submitted. On 23 February 2017, notification was received of the resumption of the tax inspections for the years 2010-2014, without there having been any request for additional information since then.

Germany

As regards the tax inspections for 2007, 2008, 2009 and 2010 that were initiated in 2011 at the Group subsidiary Acerinox Deutschland, Gmbh, the assessments of the income tax, solidarity surcharge and VAT were received on 8 July 2014. The assessments primarily indicated transfer pricing adjustments to the tax base totalling 58.8 million euros for sale and purchase transactions between the subsidiary and the Group's manufacturing companies. No penalties were imposed. The company filed the pertinent submissions on 8 August 2014.

The amount payable in Germany, as a result of the assessments, was 2,804 thousand euros for income tax plus the solidarity surcharge and 489 thousand euros in interest. All negative tax loss carryforwards yet to be offset were also eliminated. These amounts were paid in 2014. Subsequently, since the adjustments arising from the assessments eliminated all existing tax loss carryforwards, the authorities have claimed taxes on the results generated in all subsequent years. The total amounts paid amount to 8.8 million euros which were recognised in Germany as accounts receivable as they were considered likely to be recovered following the request for elimination of double taxation.

In November 2015 requests were submitted for the elimination of double taxation in both Spain and Germany. Any adjustment relating to transfer prices for transactions completed with companies resident in Spain is protected by Convention 90/436/EEC on the elimination of double taxation.

On 5 October 2017, we were informed of the finalisation of the mutual agreement procedure and the agreements reached for the years 2007-2010. These agreements entailed a 40% reduction in adjustments relating to transactions between Spain and the German subsidiary. The tax recovered in Spain in 2018, as a consequence of the agreements, amounted to 3.8 million euros, plus 1.4 million euros in interest, all of which was recognised as income. The Group also recognised a total of 3.7 million euros in tax credits recoverable in Spain. As regards Germany, notices of execution of the agreements reached with Spain were received, but without applying the same criteria to transactions with third countries, resulting in a recovery in Germany of 6.4 million euros, which had previously been recognised as an account receivable.

In a meeting with the German tax authorities on 10 December 2018, it was agreed to transfer the agreements reached with Spain in the MAP to transactions with third countries, leading to an additional reduction in adjustments of 1.6 million euros in Germany. The Group estimated that it would recover an additional 2 million euros after these agreements. Receipt of the execution of these agreements is pending. The Group has recognized the account receivable in its financial statements.

On the other hand, on 29 November 2016, notification was given of the commencement of tax inspections for the years 2011-2014. The authorities decided to postpone their proceedings on transfer prices until the proposed mutual agreement has been settled. Following the meeting held in December, it was agreed to close these years without making any additional adjustments.

A bilateral pricing agreement was signed in 2018 between Spain and Germany, covering the period running from 2013 to 2021. If offers the Group complete certainty in relation to the transfer price policy it is to apply to purchase and sale transactions between the Spanish factories and the German subsidiary, thus eliminating transfer price risks with Germany. Under this agreement, the Grupo had to present additional tax returns in Spain for 2013 to 2016, in which it has increased its tax bases by 1.2 million euros. These adjustments generated an additional 124 thousand euros payable in taxes. Meanwhile, the German authorities made the same adjustment, but this time to lower the tax bases declared in the country. As a result, a total of 498 thousand euros in taxes was repaid in Germany.

Portugal

In the year 2011, tax inspections were conducted in the Group company Acerol Ltda., in Portugal, on taxes for the years 2007 and 2008. They resulted in a transfer pricing adjustment for sale and purchase transactions between the company Acerol, Ltda and Group companies, primarily Acerinox, S.A. and Roldán, S.A in Spain. The adjustment to taxable income amounted to 10 million euros. However, as the subsidiary had tax losses of 6.7 million euros pending offset, the amount paid totalled 708 thousand euros. On 31 July 2012 an application was submitted to the Directorate-General for Taxation through the European Arbitration Convention based on Convention 90/436/EEC of 23 July 1990. This Convention guarantees the elimination of double taxation due to transfer pricing adjustments within the European Union.

On 28 December 2016, the affected Spanish companies received the notifications relating to the agreement reached between the Spanish and Portuguese authorities that finalised the mutual agreement procedure. On 17 January 2017 the same agreement was received by the Portuguese company. Under this agreement, the Spanish and Portuguese authorities accepted the complete elimination of the double taxation.

Under these agreements, the adjustment made by the competent Portuguese authority to Acerol was reduced to a total of 10 million euros, according to the assessment, to 4 million euros for 2007 and 720 thousand euros for 2008. At the same time, the competent Spanish authorities made a correlative adjustment of the same amount to the various Spanish Group companies affected. In 2016, the Group recognised the refundable amounts in Spain, which amounted to 1.3 million euros, in addition to an increase in tax credits amounting to 179 thousand euros. At the same time, the Portuguese entity recognised a refundable amount of 0.6 million euros.

On June 2017, the Spanish Tax Agency executed the Mutual Agreement Procedure (MAP) reached by which the Group recovered in Spain the amounts provided for, plus 254 thousand euros of interest, which were recognised as income in the year.

In 2018, a payment of 678 thousand euros was received from the Portuguese tax authorities, which included the outstanding principal plus interest. Since the Group had already recognised the amounts to be recovered, the payment had no significant impact on the accounts.

Poland

On 2 December 2016, notification was received of the commencement of inspections of 2015 income tax at the Group company Acerinox Polska S.P. to a close in this period. The corporate income tax inspection was completed in 2018 without any significant adjustments for the Group. The company was required to pay additional tax of 90 thousand euros that year, plus 16 thousand euros in interest.

19.5.2. Years open to inspection

In accordance with current legislation, taxes cannot be considered definitive until the submitted tax returns have been inspected by the tax authorities or until the inspection period has elapsed.

Spain

Pursuant to the Corporate Income Tax Law, tax loss carryforwards declared in the tax returns for years open to inspection become statute-barred ten years from the day following the deadline for filing the tax return or self-assessment for the tax period in which the right to offset arises. Once this period has elapsed, taxpayers must submit the assessment or self-assessment and the accounting records, as well as evidence that they have been filed at the Mercantile Registry during the aforementioned period, in order to demonstrate that these tax loss carryforwards and the amount thereof are appropriate.

At 31 December 2019 and 2018, Acerinox, S.A. and the companies in the consolidated tax group have all the main applicable taxes open to inspection by the tax authorities for the following years:

Tax rate	2019	2018
Income tax	2017 to 2019	2008 to 2017
Value added tax	2017 to 2019	2015 to 2018
Customs duties	2018 to 2019	2016 to 2018
Personal income tax	2017 to 2019	2015 to 2018

Other countries

The other Group companies have the taxes for the years stipulated by their respective local legislation open to inspection. The directors of the Company and subsidiaries do not expect that any significant additional liabilities would arise in the event of an inspection.

NOTE 20 RELATED PARTY BALANCES AND TRANSACTIONS

20.1 Identity of related parties

The Consolidated Financial Statements include transactions with the following related parties:

- Equity-accounted associates;

- Key management personnel of the Group and members of the boards of directors of Group companies;

- Significant shareholders of the Parent.

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

20.2 Related party balances and transactions

All transactions between related parties are carried out at arm's length, and are listed below. It has not been necessary to make value judgements or estimates in relation to related party transactions.

a) Associates

No transactions were carried out with associates in 2019 or 2018.

b) Directors and key management personnel

The remuneration received in the year by the nine members of Senior Management (seven in the previous year) who do not hold positions on the Board of Directors of Acerinox, S.A. amounts to 4,185 thousand euros. Of this amount, 2,342 thousand euros consisted of salaries, 144 thousand euros are allowances, 1,542 thousand euros variable remuneration relating to profit of the previous year and 157 thousand euros for remuneration in kind. In 2018, the seven senior management personnel received 3,748 thousand euros, of which 1,971 thousand euros were for salaries, 131 thousand euros were for allowances, 1,588 thousand euros were for variable remuneration relating to profit for the previous year and 58 thousand euros for remuneration in kind.

In 2019, members of the board of directors of Acerinox, S.A., including those that hold key management positions and sit on the boards of other Group companies, received 2,596 thousand euros in fixed remuneration for attending board meetings and fixed and variable salaries (the latter based on the results from the prior year), of which 1,391 thousand euros were for salaries and fixed board member remuneration, 565 thousand euros were for allowances, 625 thousand euros were for variable remuneration relating to results from the prior year and 15 thousand euros for remuneration in kind. In 2018, the compensation received amounted to 2,731 thousand euros, of which 1,448 thousand euros were for salaries and fixed remuneration of Directors, 504 thousand euros were for allowances, 773 thousand euros were for variable remuneration relating to profit for the previous year and 6 thousand euros for remuneration in kind.

In addition, there are obligations under from certain retirement contractual covenants agreed with senior management in the amount of 13.1 million euros (11.5 million euros in 2018), of which 4,5 million euros are due to the Chief Executive Officer (4 million in 2018). These obligations are covered by insurance contracts in both 2019 and 2018, with a contribution in 2019 of 1,749 thousand euros (1,418 thousand euros in 2018). No commitments have been contracted with directors representing shareholders or independent directors of Acerinox, S.A. At 31 December 2019 no advances or loans have been granted to the members of the board of directors or senior management and the Company has no balances receivable from or payable to these executives.

In relation to the Multi-Year Compensation Plan or Long-Term Incentive Plan (ILP), the terms and conditions of which are detailed in the **note 15.1.3**, the expense accrued in the year corresponding to the Chief Executive Officer and Senior Management, the balancing entry of which is recorded as other equity instruments, amounts to 834 thousand euros, of which 241 thousand euros correspond to the Chief Executive Officer (613 thousand euros in 2018, of which 172 thousand euros correspond to the Chief Executive Officer).

On 1 January 2019, the second cycle of the multi-year remuneration plan came into force, with a duration of 3 years.

The directors of the Company and their related parties have had no conflicts of interest requiring disclosure in accordance with article 229 of the Revised Spanish Companies Act.

The Group has a civil liability insurance policy in effect, with coverage extending to board members and members of the senior management, as well as Group employees. The premium paid this year amounts to 157 thousand euros (149 thousand euros in 2018).

In both 2019 and 2018, all transactions carried out between members of the Board of Directors and the Company or Group companies were ordinary transactions on an arm's length basis.

c) Significant shareholders

This year, Corporación Financiera Alba, a shareholder of Acerinox, S.A., no longer belongs to the March Group, therefore Banca March is no longer a related party for the Group.

The Acerinox Group has also carried out the following commercial transactions with its shareholder Nippon Steel & Sumitomo Metal Corporation or other companies belonging to its Group:

(Figures in thousands of euros)

	2019	2018
Dividends	236	118
Sales of goods	2,092	2,531
Services rendered	144	462
Purchases of goods		22
Trade and other receivables	399	832

NOTE 21 AUDIT FEES

The appointment of PricewaterhouseCoopers Auditores, S.L. as auditors for the years 2017-2019 was approved by the shareholders at their annual general meeting held on 1 June 2017.

Details of fees and expenses accrued for services rendered by the auditing firms that audited the Acerinox Group's accounts in the years 2019 and 2018, and their associate firms, are as follows:

(Figures in thousands of euros)

	2019			2018		
	PWC Auditores, S.L.	PWC Internacional	TOTAL	PWC Auditores, S.L.	PWC Internacional	TOTAL
Audit services	285	591	876	256	569	825
For audit-related services	65	9	74	61	6	67
Other services		1	1		7	7
TOTAL	350	601	951	317	582	899

Other audit-related services include the limited review of the condensed consolidated interim financial statements as of 30 June 2019 and 2018, the report on agreed procedures of the system of Internal Control over Financial Reporting (ICFR) and the report of agreed procedures on compliance of the financial ratios required by the "Borrowing Base Facility" of Columbus Stainless.

The amounts detailed in the above table include the total fees for services rendered in 2019 and 2018, irrespective of the date of invoice.

Other audit firms invoiced the Group fees and expenses for audit services amounting to 89 thousand euros in 2019 (100 thousand euros in 2018).

NOTE 22 EVENTS AFTER THE REPORTING PERIOD

Purchase of VDM

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

With this operation, the Acerinox Group is diversifying into sectors with greater added value. VDM Metals represents a great opportunity for Acerinox to grow in new markets and growth sectors such as aerospace, the chemical industry, the medical industry, hydrocarbons and renewable energies, water treatment and emissions control.

The purchase agreement has been concluded in a transaction worth 532 million euros. Acerinox will pay 310 million euros and assume debt of 57 million euros and pension plans and other obligations of amounting to 165 million euros. Acerinox will use its available financing facilities for this acquisition.

The closing of the transaction and therefore the takeover of VDM Metals is subject to the approval of the European competition authorities among others, and is expected to be completed during the end of the first quarter of 2020. The American authorities have already given their approval to the operation.

Commencement of inspection activities at Acerinox Europe

On February 3, 2020, the group company Acerinox Europa, S.A.U. was given notice of the start of verification activities on import duties and VAT for the 2018 financial year. The procedures will begin in March, although the company does not expect, as in previous years, that any liabilities will arise for the Group as a result of this inspection.

Acerinox Europa, S.A.U. employee regulation file

In January 2020 the Group proceeded to externalize through an insurance company the agreements derived from the pre-retirement plan approved by Acerinox Europa, which includes 183 workers. The amount of the compromise recognised in these statements, based on the actuarial calculation, comes to 26,016 thousand euros, equivalent to the amount of the payment made to the insurance company.

At the date of these annual statements, 20 of the 32 workers object of the collective firing in the employment regulation file approved by Acerinox Europa, S.A. U. have individually challenged their dismissal. The fact that the collective dismissal file was closed with warning and that, even it concluded with a dismissal, this would only require the company to pay the difference between the amount received and the legal maximum amount, so that any result, regardless of amount, would not materially impair the numbers and conclusions reflected in these annual statements.

Sustainability Report

ACERINOX

Sustainability Report 2019

1. Report from the CEO

We have experienced many challenges in 2019. Political and economic uncertainty and trade tensions among major powers have slowed down the global economy and consumption, affecting the stainless steel industry and impacting the Group's production. Nevertheless, in 2019 Acerinox recognised EBITDA of 364 million euros and a significant reduction in debt.

Our solid international presence has contributed to the obtainment of recurring yields year on year despite the fall in prices of stainless steel in certain markets. In 2019 we took a step further in reaching an agreement for the acquisition of all the ownership interest in the German company VDM Metals, global leader in the production of special alloys, which poses a great opportunity for Acerinox to grow in new higher added-value markets.

Acerinox is known globally as one of the most competitive companies in the world in the manufacture of stainless steel. We are a sound company that is turning 50; this would not be possible without the active involvement of our Stakeholders. Our shareholders, our employees, society and our other stakeholders value our company not only based on economic and financial parameters, but also increasingly on non-financial matters, to which we have always paid attention.

From the very beginning we have been aware that to become sustainable in the long term through the creation of shared and sustained value, it is essential that we bear in mind the social and environmental impacts of our business activities. Sustainability marks the difference of a true organisation with a desire to continue functioning and withstand the test of time. That is how we want to be and how we want to be seen.

Our commitment to sustainability responds to external demands, but it stems from the internal understanding in Acerinox that we must act responsibly and sustainably, adapt to the environment, foresee the future, invest wisely, avoid errors, create a working environment that attracts talent and be mindful of efficiency in the production process. A good example of this is our progress in this connection in 2019, which we present in this report.

We have strengthened the area of sustainability as a strategic element with presence in the senior management committee. In 2018 we began to modify our Corporate Governance model and in 2019 we continued to strengthen the role of the Committees of the Board of Directors and we opted for a Board of Directors in which diversity is one of its attributes, with a majority of independent directors and a greater presence of women.

Furthermore, it is the Board of Directors and senior management of Acerinox who promoted the Risk Management Model to identify, classify and assess potential incidents that may affect the Group and, based on this, manage the risks and provide reasonable assurance on the achievement of the objectives defined. Non-financial risks have been included in this model and this analysis will continue to be strengthened in future years.

In 2019 innovation continued to be one of our pillars which, year on year, increases the value of our activities and products. The launch of the Excellence 360º programme was a milestone for our Group. This programme, which is based on the combination of digital transformation and improvements in internal benchmarking, will not only result in significant economic returns, estimated to total EBITDA of 125 million euros annually from 2023 onwards, but it will also enhance the service offered to customers by strengthening their position as the focal point of the business.

The programme will also contribute to more efficient consumption of natural resources, to a reduction in waste and the associated emissions, and to redefining the way in which the Group manages demand and the supply chain.

These innovative efforts, which are reflected annually in our R&D&I investment figures, contribute to the Group's solid reputation. We are known by our customers for the quality of our products, which meet the highest standards, and also for the excellence of our processes, which are focused on efficiency through knowledge and substantial investment efforts that have consolidated us as an example of a high-technology company in the manufacture and sale of stainless steel. Adapting to the needs of our customers by providing a value proposition places us in an excellent position to maintain long-term relationships.

Similarly, developing our business activities responsibly involves acting in a context of fair competition and on a level playing field, demonstrating zero tolerance to behaviour, internally or externally, that goes against the commitments we have made through our Code of Conduct and Good Practices and the corresponding policies.

The actions taken by each of the bodies and the people that form Acerinox are regulated by a series of regulations and policies that define our activities. Our Code of Conduct and Good Practices establishes the ethical principles and the general operating standards.

The challenges experienced in recent years and the digital transformation of the business model give rise to the need for constant adjustments, such as adaptation of the personnel structure to ensure stability. Dignified treatment and respect is a fundamental pillar in Acerinox's relationships with its employees. We have a team of more than 6,000 people who demonstrate their professionalism, commitment and diversity and to whom Acerinox provides stable and quality employment. The collective bargaining agreements are a key element in this relationship. In 2019 the collective bargaining agreements of Acerinox Europa and Bahru were renewed with significant social improvements such as reconciling work and family life.

Health and safety has been, is, and will be an indisputable priority for Acerinox. Industrial activities involve a series of risks and the Group, from the highest levels, encourages the control and management thereof to establish conditions that prevent any type of accident. Acerinox Europa's "ACero" campaign and NAS' Job Safety Observation programme reflect this importance.

2019 has also been a year of significant progress with regard to the environment.

The United Nations Climate Change Conference (COP 25) took place in Madrid in December 2019. The main aim was to review the outstanding matters regarding the the full operationalisation of the Paris Agreement and, thus, continue to advance in helping to limit climate change and in the subsequent and necessary steps to achieve this. In COP 25 we ratified our commitment to achieving climate neutrality before 2050, aligned with the Spanish steel production companies association (UNESID), as one of the key principles in the carrying on of our business activities. We are convinced that this commitment to producing stainless steel with zero net emissions by 2050 is achievable. To meet this commitment the Group will continue to opt for cutting-edge production processes; however it will also be necessary to use electricity that is 100% carbon-neutral and from competitive sources, considering its technical and economic feasibility. Collaboration with the various social players will be key to overcoming possible difficulties in achieving this aim, such as the cost of CO2 that Acerinox assumes and the price of renewable electrictricity. We will do everything we can so that we achieve this. The agreement entered into in December 2019 by Acerinox Europa to purchase 6 MW of renewable energy for a period of 10 years is a good illustration of this.

Another fundamental aspect with regard to the environment is the circular economy, which refers to the progression towards a production and consumption model that involves sharing, reusing, repairing, renewing and recycling materials and existing products as many times as possible to create value added. In doing so, the life cycle of the products is extended. We are experts in this field; the material we manufacture, stainless steel, is 100% recyclable and reusable, in addition to having a prolonged life cycle.

We seek to maintain and incorporate suppliers into our supply chain who work with the Group in our creation of value. We are constantly striving to improve operations in the procurement of raw materials and goods and to evolve towards more efficient model-based procurement systems. Planning 360º, which forms part of Excellence 360º, is an excellent example of this. This initiative will enable demand-based planning, adding a competitive advantage when it comes to making the relevant decisions throughout the supply chain that are aligned with market behaviour, and applying artificial intelligence and data analysis to organise the processes.

The actions of our suppliers must be consistent with our ethical, environmental and social principles included in the Code of Conduct and Good Practices and in the Group's Corporate Social Responsibility Policy.

All these measures and the results achieved in 2019 were recognised both in Spain and abroad.

We continue to be listed on the FTSE4Good global index, which recognises the companies that act responsibly and sustainably, and we also participate in the Carbon Disclosure Project (CDP). The International Stainless Steel Forum has recognised us as one of the most efficient and committed companies to reducing emissions: -35% less CO2 emissions per tonne manufactured compared to the global average of stainless steel manufacturers and 30% less vapours than the global steel industry average. We are also members of the Worldsteel Climate Action Programme, a programme led by the Worldsteel Association that recognises steel manufacturers who have collaborated in the collection of CO2 emission data in the industry.

Lastly, it should be noted that this Sustainability Report complies with the Global Reporting Initiative standards and also considers the 10 Principles of the Global Compact and the Sustainable Development Goals defined by the United Nations.

2020 will be another year of challenges. At Acerinox, we will continue, just as we did 5 decades ago, to contribute to a sustainable and responsible business that integrates all of our Stakeholders.

We are 50 years old, which in itself is evidence of our sustainability, and we are now laying the foundations for the next 50 years.

Bernardo Velázquez Herreros

Chief Executive Officer

2. Acerinox in 2019

History and global presence

In 2020 the Acerinox Group is celebrating 50 years of offering the highest quality stainless steel. In 1970 we began our journey with the first factory of the Algeciras Group, and only 5 years later we opened our first foreign subsidiary. 50 years later, we are present all over the world.

6 factories
4 for flat products
2 for long products

Operations
in 81 countries

Acquisition of VDM Metals

5,977 employees
Reduction in the number of accidents, lost days and absenteeism, compared to 2018
100% informed about the ethics and anti-corruption guidelines
Acerinox Europe and Bahru collective agreements renewed
485,903 hours of training

Financial strengthening

Acerinox achieved a significant debt reduction of 495 million euros in 2019 and a cash generation of 231 million euros

12,000 customers
around the world

Revenue:
€4.754 billion

EBITDA: € 364 million

Return to shareholder:
€184 million

Competitiveness, our key

We are one of the most competitive companies worldwide in manufacturing stainless steel. We maintain high levels of investment that allow us to reinforce our production structure with the latest technologies at the forefront, continuing to be operationally excellent and constantly increasing our efficiency.

2.2 thousands of Mt
melting shop production

€152 million in investments

Integrating Digital Transformation throughout the business
Excellence 360° Programme

€3.725 billion spent on suppliers
94 new suppliers evaluated on environmental criteria and 159 on social criteria

Sustainability, an integral part of Acerinox

It's part of our DNA. We understand that sustainability must be integrated into our business in a responsible manner in all its aspects: financial, environmental and social.

Considering sustainability and our stakeholders in our decisions is the only way to last.

Commitment:
climate neutral by 2050
-35% CO2 emissions per tonne manufactured than the global industry average (ISSF)

Steel, a material:
aligned with the circular economy
100% recyclable

€750,000 in social action and €115 million in payment of taxes

We are part of the FTSE4Good

The scope of this report reaches Acerinox, S.A., Acerinox Europa S.A.U, Roldan, S.A., Inoxfil, S.A., North American Stainless, INC., Columbus Stainless (PTY) LTD., Bahru Stainless SDN BHD

3. WE ARE ACERINOX

3.1 Business Model

What is Acerinox?

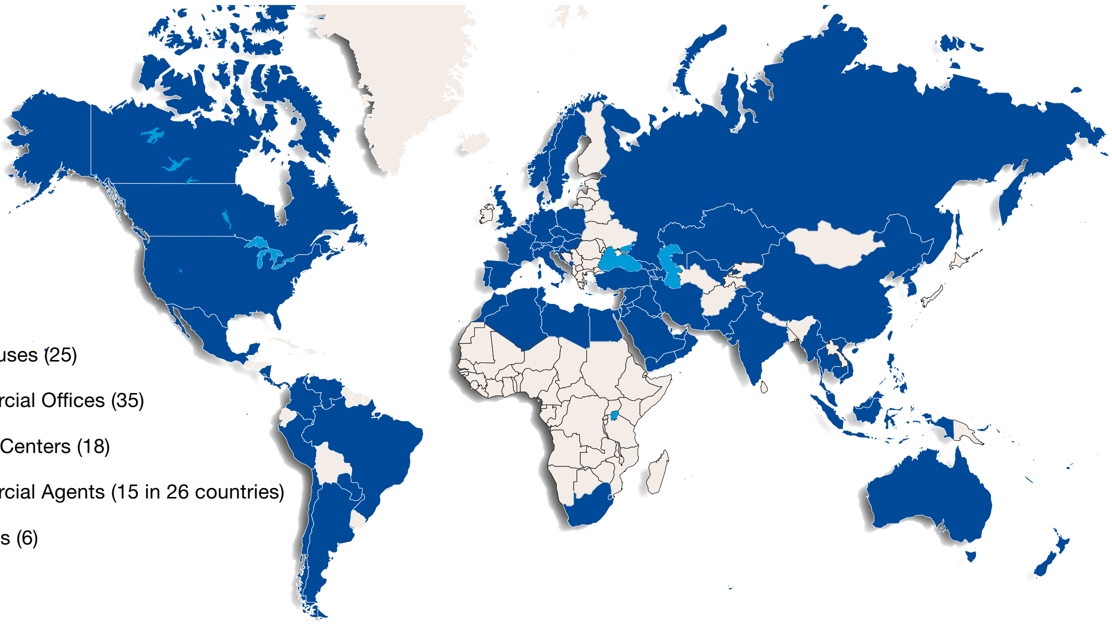
Since its establishment in 1970, Acerinox has become one of the world's most competitive companies in terms of manufacturing and selling stainless steel. This sustainable and responsible growth has resulted in the Group having 6 factories on 4 different continents by year-end 2019. Acerinox has operations in 81 countries and a commercial network with presence in 57 countries, and for this purpose, it has a steelmaking capacity close to 2.5 million tonnes.

Countries with presence of Acerinox in the world

Present in 57 countries

6 production plants

5,977 employees globally



▲ Warehouses (25)

● Commercial Offices (35)

■ Service Centers (18)

🧍 Commercial Agents (15 in 26 countries)

🏭 Factories (6)

ÁFRICA	
Argelia	🧍
Egypt	🧍 ●
Morocco	🧍 ●
South Africa	🏭 ▲ ●
Tunisia	🧍
Libya	🧍
Nigeria	🧍

AMERICA	
Argentina	▲
Brazil	●
Canada	■
Chile	▲ ■
Colombia	●
Guatemala	🧍
Mexico	■
Panama	🧍
Peru	●
United States	🏭 ▲ ● ■
Venezuela	● 🧍

ASIA	
Azerbaijan	🧍
China	▲
Hong Kong	●
India	● 🧍
Indonesia	●
Kazakhstan	🧍
Malaysia	🏭 ▲ ● ■
Pakistan	🧍
Philippines	●
Singapore	●
South Korea	●
Taiwáan	● 🧍
Thailand	●
Vietnam	●

EUROPE	
Belgium	●
Czech Republic	●
France	▲ ● ■
Germany	■
Italy	● ■ 🧍
Norway	●
Poland	■
Portugal	▲ ■
Russia	●
Spain	🏭 ▲ ● ■
Sweden	● ■
Switzerland	▲ ●
United Kingdom	■

THE MIDDLE EAST	
Bahrain	🧍
Iraq	🧍
Israel	🧍
Jordan	🧍
Kuwait	🧍
Lebano	🧍
Oman	🧍
Qatar	🧍
Saudi Arabia	🧍
Turkey	🧍 ●
United Arab Emirates	🧍 ●

OCEANIA	
Australia	●

The Group's factories are as follows: Acerinox Europe (Campo de Gibraltar, Spain), North American Stainless (Kentucky, USA) and Columbus Stainless (Middelburg, South Africa) are integral factories, which means that they have meltshops, hot rolling and cold rolling; and Bahru Stainless (Johor Bahru, Malaysia) that only has cold rolling. For the manufacture of long products, the Group has the plants of Roldan (Ponferrada, Spain) and Inoxfil (Igualada, Spain), as well as production workshops in NAS.

The Group's sales network, made up of 18 service centres, 25 warehouses and 35 sales offices, allows it to distribute stainless steel to a total of 81 countries on the 5 continents. In those countries where Acerinox makes sales and does not have sales offices, it has commercial agents.

How do we manufacture our products?

Flat products
https://www.acerinox.com/es/grupo-acerinox/fabricas/acerinox-europa/esquemas-de-produccion/
Long products
https://www.acerinox.com/es/grupo-acerinox/fabricas/roldan/esquemas-de-produccion/

Sustainability strategy

Acerinox's vision is to be a sustainable company in the long term, producing stainless and special steels that respond to the challenges of a changing world increasingly concerned about its impact on the environment and with a commitment to maintaining the highest levels of safety, operational excellence and innovation, creating value for society and for customers, investors and employees.

What we do makes us different from the market, but we also want to stand out because of the way we do things.

And we do so in a sustainable and responsible way, in the belief that this means adapting to the environment, anticipating the future, investing wisely, avoiding mistakes, creating a working environment full of health and safety, which attracts talent, and taking care of efficiency in the production process. Collaborating with our stakeholders (shareholders, employees, customers, suppliers, analysts and investors, media and society in general) in the creation of shared and sustained value.

At Acerinox we understand that a business with a vision of lasting over time is not possible without integrating a sustainable vision into the business itself. Economic sustainability, but also social and environmental sustainability.

Sustainability understood in its three aspects

The Group's commitment to sustainability is reflected in its CSR policy, which aims to foster a culture of social responsibility within the Group, on a global scale, that contributes to improving people's well-being, promoting the economic and social development of the communities in which it is present and creating sustainable value for shareholders and investors, employees, customers, suppliers, creditors, for the territories in which the Group conducts its business, for the environment, for regulatory bodies and for the media.

In fact, sustainability itself is integrated in the activities that Acerinox develops, starting with the main material, stainless steel, a 100% recyclable metal with a wide range of applications, fundamental for multiple industries, such as construction or automotive, with the demand for stainless steel, therefore, being crucial for continuing growth.

The materialisation of these commitments defined in the CSR policy occurs through the Acerinox Group's 2019-2020 Corporate Social Responsibility Master Plan. Through this plan, socially responsible actions are promoted in order to respond to the expectations of its stakeholders.

The Acerinox Group's 2019-2020 CSR Master Plan has as its main objectives:

- *Establish the strategic lines in Corporate Social Responsibility of Acerinox and its areas for 2019.*
- *To coordinate the actions of the whole Group in the field of Corporate Social Responsibility.*
- *Reinforce Acerinox's reputation through internal and external communication.*

The 2019 information regarding the economic performance, products and services, legal form and organisational structure of the Acerinox Group, is available in the company's Annual Report: https://www.acerinox.com/es/accionistas-inversores/informacion-economico-financiera/informe-de-auditoria-cuentas-anuales-informe-de-gestion-y-memoria-anual/

Machinery in Stainless Steel for the Food Process industry.

3.2 Materiality analysis

Through materiality analysis, Acerinox identifies and prioritises environmental, social and good governance issues relevant to Acerinox and its Stakeholders, so this Sustainability Report informs on and is structured to that end with respect to these issues. This analysis also allows Acerinox to align its strategy and form of action with the demands of its stakeholders.

All those persons or groups that maintain a relationship with the Group, exercising their influence on the activities, decisions and management systems, are considered to be stakeholders by Acerinox. Thus, the Group has defined its main stakeholders as its shareholders and investors, customers, employees, suppliers and the media.

Shareholders and investors
The Group maintains a direct and close relationship with its shareholders. The aim of Acerinox is to offer them an attractive and sustainable return.

Customers
Acerinox obtains the opinion of the customers and their degree of satisfaction with the products and services of the Group through diverse channels.

Employees
The people who work in the Group are Acerinox's main asset, so it is essential to promote and guarantee communication with them.

Suppliers
Acerinox makes available to its suppliers the Supplier Portal, with information such as general contracting terms and conditions or tenders.

Communications media
Acerinox maintains continuous contact with the media, informing them about the latest news of the Group and its products.

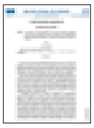
“The materiality of information is the core of sustainability reporting.”

Global Reporting Initiative - GRI.

For years, Acerinox has reinforced this analysis by incorporating new perspectives. The 2019 materiality analysis is based on that performed in the 2018 financial year, updating and reinforcing it with certain additional external analyses.

2018

External aspect



Internal aspect

Assessment by different professional profiles and Group managers from different departments and geographies with respect to the issues previously identified in the external aspect. In this way, the perception was obtained both at corporate and local level and from different areas that are related to Acerinox stakeholders, such as shareholder and investor relations, finance, commercial or human resources.

2019

Study of Acerinox’s main competitors
Aspects related to sustainability in Acerinox found in the media
Data reporting standards and analyst requirements
Legal requirements for sustainability

The update of the materiality analysis in 2019 has enabled the detection of new material issues and the renaming of previously used terminology. In total, 33 issues were identified of which 19 were chosen due to their greater relevance, both for Acerinox and its Stakeholders, 8 of these 19 issues being especially key for the Group. In addition, 4 are new (Competitiveness, Corporate Governance, Economic Contribution and Human Rights), incorporated in 2019.

Category	Material issue 2019	Description	SDG	Reference
Corporate Governance	Economic performance ★	The capability of Acerinox to grow as an organisation and create wealth through economic value generated and distributed throughout society.	9	2019 Annual Report.
	Business Ethics, transparency and compliance ★	Implementation and development of policies and initiatives of ethical behaviour and transparency. Mechanisms for preventing and/or minimising cases of corruption.	16	2019 Sustainability Report: Chapter on Ethics and Compliance.
	Risk Management	The Group's ability to detect, manage, minimise or eliminate the main risks of the business, whether they be financial or non-financial.	12	2019 Sustainability Report: Chapter on Risks.
	Good Corporate Governance	Application of the best corporate governance practices to provide economic and legal security, promoting sustainable growth.	16	2019 Sustainability Report: Chapter on Corporate Governance Model.
Social	Health and safety ★	Policies, systems, mechanisms and action plans in terms of safety and health for employees.	3	2019 Sustainability Report: Chapter on Health and Safety.
	Relationship with employees ★	Freedom of association and relationship with trade unions, social benefits for employees, training and adherence to statutes, international charters and labour standards, among others.	8	2019 Sustainability Report: Chapter on Human Capital.
	Human Rights	Respect, without distinction, for the Human Rights defined at both international and national level, applied both internally at Acerinox and in the relationship with its stakeholders.	16	2019 Sustainability Report: Chapter on Corporate Governance Model.
	Diversity and Equality	Establishment of diversity and equality policies. Diversity is considered not only gender diversity, but also diversity in terms of ethnicity, culture, religion and language.	5, 10	2019 Sustainability Report: Chapter on Human Capital.
	Economic contribution	Commitment to comply responsibly with legally established fiscal guidelines.	9	2019 Sustainability Report: Chapter on Fiscal Contribution.
	Socio-economic and cultural development of local communities	Company contribution to the development of the communities in which it operates.	10, 11	2019 Sustainability Report: Chapter on Social Contribution.
	Talent development	Ability to attract, retain and develop talent. Pride of belonging among workers. Training programmes to improve employability.	4	2019 Sustainability Report: Chapter on Human Capital.
	Responsible management of the supply chain	Mechanisms for control and management of the supply chain to ensure traceability and Acerinox's responsibility with its suppliers.	12	2019 Sustainability Report: Chapter on Supply Chain.

★ Relevant issues

Category	Material issue 2019	Description	SDG	Reference
Environmental	Circular Economy ★	Management, measurement and control of the consumption of materials and waste generated by the company's activity. Analysis of the complete life-cycle of products and services and their environmental impact at every stage.	12	2019 Sustainability Report: Chapter on Circular Economy.
	Energy and climate ★	Actions aimed at reducing greenhouse gas emissions. Energy efficiency in operations and measures to reduce energy consumption in processes.	7, 13	2019 Sustainability Report: Chapter on Energy and Climate.
	Management of water consumption and discharge	Measures for water footprint reduction. Water pollution events and associated impacts, as well as the management of discharges.	6, 14	2019 Sustainability Report: Chapter on Management of Water Consumption and Discharge
Products and Services	Excellence and quality ★	Continuous improvement in both production and management processes, applying recognised quality standards.	9, 12	2019 Sustainability Report: Chapter on Customers. 2019 Annual Report.
	R&D&I ★	Collaboration programmes in research, development and innovation to improve Acerinox operations, processes and products.	9	2019 Sustainability Report: Chapter on R&D&I. 2019 Annual Report.
	Customer satisfaction	Monitoring, both continuously and with specific measurement and action initiatives, of customer satisfaction.	12	2019 Sustainability Report: Chapter on Customers.
	Competitiveness	Key objective to increase competitiveness, minimise costs and optimise the efficiency of the Group in each of its activities.	9, 12	2019 Sustainability Report: Chapter on R&D&I. 2019 Annual Report.

★ Relevant issues

Regarding the reporting of information required by Law 11/2018, the contents included in Biodiversity (measures taken to preserve or restore biodiversity and impacts caused by activities or operations in protected areas) and actions to combat food waste are not considered material.

Barbacue made out of Stainless Steel.

4. CORPORATE GOVERNANCE

4.1 Corporate Governance Model

CSR Governance

The Group has implemented a governance organisation that is structured around the Board of Directors, the Senior Management Committee and a number of committees.

Specifically, the Appointments, Remuneration and Corporate Governance Committee is responsible for issues of Corporate Social Responsibility.

- *Review the CSR policy of the Company and ensure that it is aimed at the creation of value.*
- *Monitor the corporate social responsibility strategy and practices, and evaluate the degree of its compliance.*
- *Coordinate the process of reporting non-financial information and information regarding diversity, in accordance to the applicable law or regulation and the reference standards.*

The Appointments, Remuneration and Corporate Governance Committee considerably increased its meetings during 2019, having devoted them to the broad field of activity it is responsible for covering. In the area of Corporate Governance and Corporate Social Responsibility, it performed monitoring of the CSR Plan, specifically in relation to the areas of communication, human rights, health and safety, commitment to society, social action and environmental achievements.

Creation of the Institutional Relations, Sustainability and Communication Department.
In 2019, with the creation of the new Institutional Relations, Sustainability and Communication Department, functions and tasks in such important fields as sustainable growth, energy saving and circular economy will be unified at Group level.

For more information on Corporate Governance, please consult Acerinox's annual Corporate Governance reports:
https://www.acerinox.com/es/gobierno-corporativo/informe-anual-de-gobierno-corporativo/
More information on the committees can be found at:
https://www.acerinox.com/es/gobierno-corporativo/organos-de-gobierno-de-la-sociedad/consejo-de-administracion/

Bolt made out of Stainless Steel Wire.

4.2 Ethics and Compliance

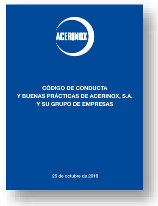
Acting in a responsible and ethical way is a fundamental and transversal pillar in the set of actions developed by Acerinox.
The Group has developed a framework of policies, standards and management systems that contribute to the adequate definition and implementation of processes to comply with regulatory 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, 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. To establish the ethical principles and general rules that should guide the actions of the Group, of the employees and of the directors among themselves and in their relations with their stakeholders, with whom the Group, directly or indirectly, is related.



Code of Conduct and Best Practices

What interests does it protect?

Employees
Health and Safety in our products
Customers
Suppliers
Competitors
Shareholders

What commitments are made?

Conflicts of interest
Presents, gifts and favours
Prevention of corruption
Use and protection of the Group’s assets
Contribution to the welfare state
Private or confidential information
Inside information

Acerinox will communicate and disseminate the Code among all its employees, who must accept the principles and norms established in it as obligatory compliance. The Code of Conduct is given to each employee upon joining the company and is available on the website as mentioned below, being the worker obliged to deliver a receipt

The hierarchical superiors who have been informed of breaches or violations of the Code must, in turn, give immediate notification, prior to any further action, to the Internal Audit Service, which shall inform the Monitoring Committee for the Code of Conduct. On the other hand, Acerinox makes different whistleblower channels available to its employees and stakeholders.

In order to ensure the exercise of the rights and duties established in this Code, all managers and workers of the Group can send any doubts they may have arising from its interpretation and scope by e-mail to the General

Secretariat of Acerinox S.A. which, after consultation, where appropriate, with the units, companies or bodies concerned, shall provide the appropriate reply.

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 Reporting 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 website:
http://www.acerinox.com/es/contenido-en-detalle/Cdigo-de-conducta-y-buenas-practicas

Complaint Channels

Through the Code of Conduct and Best Practices, Acerinox prohibits any manifestation, expression or purpose that directly or indirectly produces the effect of personally or professionally denigrating or discriminating against any person employed in the Group at the service of employees and collaborators in order to demonstrate possible non-compliance in this area.

Acerinox makes different whistleblower channels available to the employees and any person outside the organisation

These whistleblower channels are a communication tool accessible to all Acerinox employees and stakeholders in order to report behaviours that do not or may not comply with the guidelines established in this Code.

Any person who has knowledge or well-founded suspicion of a breach of the Code of Conduct and Best Practices of the Group has the obligation to inform a superior, or the Internal Audit Service, or to report it through the mechanisms that Acerinox makes available for the formulation of complaints.

Reporting channels available

- **The Reporting channel on the corporate website.**
- **The following 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 data of the complainant, and the information and background, unless the disclosure of information is required by law or judicial order.

The absence of reprisals against employees who report suspected breaches in good faith.

Respect for the rights of persons suspected of involvement in a possible breach.

The comprehensive analysis of the information on which the promotion of its action is based.

The actions and investigations which are carried out as a consequence of a complaint shall be carried out independently, speedily and confidentially, guaranteeing the rights of the whistleblower and the persons under investigation and in accordance with the Protocol on Complaints and Internal Investigations. The complaints are managed by the Monitoring Committee of the Code of Conduct and it is done in accordance with the fourth section of said code and the Internal Complaints and Investigations Protocol.

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

Ethics and compliance training

Acerinox considers communication and training within the ethical and compliance framework established by the Group as a key aspect to achieve behaviours aligned with Acerinox and its Stakeholders' expectations.

For this reason, Acerinox has made an important effort for 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	2019	2018
Board of Directors		
Members of the Board of Directors and Senior Management	39	24
Members of the Board of Directors and Senior Management informed about anti-corruption policies and procedures	34	22
Members of the Board of Directors and Senior Management trained in anti-corruption matters	22	0
Employees		
Employees informed about the policies and procedures	100%	95%
Employees trained on the subject of anti-corruption	40%	84%
Suppliers		
Number of Suppliers	7,838	6,168
Suppliers informed about the policies and procedures of the Group on the subject of anti-corruption	4,854	4,123

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. It is also the editor and approving body of the Rules of Conduct in the stock markets and the Conflict of Interest Prevention Policy.

For their supervisory work in these matters and to verify the implementation of prevention and compliance measures, the Board and the Audit Committee have the Group's internal audit services and the work of a Prevention and Compliance Director. Both bodies appear regularly before the Board and more frequently before the Audit Committee.

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

Specifically, in 2019 a training action for all the employees of the Group's Spanish companies on the Code of Conduct, criminal compliance and data protection was carried out.

Likewise, another of the most relevant advances in this area during 2019 has been the creation of a training tool and standards repository:" Acerinorm."

> *Three key features of Acerinorm, the new training tool and standards repository*
> *1. Storage of relevant internal corporate instructions, such as the Code of Conduct.*
> *2. Provide training to new employees, including a record of training statements and knowledge tests.*
> *3. Management of the sending of half-yearly declarations by the employees concerned required by the internal instruction on competence.*

Protection of Human Rights

As a Group with a presence in more than 50 countries and a workforce of 5,977 employees with diverse socio-cultural contexts, the defence of Human Rights in all the locations where Acerinox operates is fundamental.

Therefore, Acerinox is committed to act in a way that is compatible with the international declarations of Human Rights in all its locations, having developed different policies and plans for this purpose.

The Acerinox Code of Conduct and Best Practices

Acerinox expresses its commitment to and involvement with human rights and public freedoms recognised in national and international law, and to the principles upon which the United Nations Global Compact is based, as well as compliance with the provisions of the fundamental conventions of the International Labor Organization.

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

General Policy on Corporate Social Responsibility of Acerinox

The General Policy on Corporate Social Responsibility (CSR) includes, as one of its general principles of action, support for the integration of the principles of the United Nations Global Compact, as well as other international instruments, especially in the areas of human rights, labour practices, the environment and the fight against corruption, through its adaptation and dissemination.

With regard to their employees, Acerinox Group companies must respect the human rights recognised by national and international legislation and, in particular, those whose violation degrades workers (with explicit rejection of child labour and forced or compulsory labour), as well as the rights of ethnic minorities in the places where they carry out their activity.

Adherence to the UN Global Compact initiative

The Group is committed to 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 within their area of influence."
- Principle 2: "Businesses must ensure that their companies are not complicit in Human Rights abuses."

As regards respect for labour rights, Acerinox's operations in this area are detailed in the chapter on Human Capital and in the chapter on Health and Safety.

During 2019, there were three complaints of harassment in the Acerinox Group. Two are closed, one without action and the other without action and the third is open.

Fight against Corruption & Bribery

Acerinox in all its actions takes into consideration its commitment to zero tolerance of corruption, bribery, fraud or other similar illegal activities. The Council ensures compliance with the policies through the Director of Compliance with the crime prevention model, approved by the Council itself, and the complaint channels as means of detection. In case of detecting any breach, the Crime Prevention Model contemplates the application of the sanctions established in the labor regulations

Information and measures to combat corruption and bribery within the Acerinox Group are fundamentally based on the provisions of the Acerinox Code of Conduct and Best Practices as well as the Crime Prevention Model, which are the main tools for compliance and crime prevention used by the Group and establishes money laundering prevention measures. During 2019, no corruption cases have been collected.

Additionally, in the framework of crime prevention, the Acerinox Group has adopted a number of policies and internal standards designed to prevent criminal and illegal practices from being committed in general and more specifically, crimes by the legal person.

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The Group has a series of policies related to this area, specifically the Acerinox Code of Conduct and Best Practices, the Acerinox Group Crime Prevention Model in Spain, the Acerinox, S.A. General Conflict of Interest Policy, the Internal Code of Conduct in the Stock Markets and other instructions related to authorisations, gifts and invitations, relationship with credit institutions, relationship with public entities and contracts with third parties, among others.

More information is available on the website:
http://www.acerinox.com/es/contenido-en-detalle/Cdigo-de-conducta-y-buenas-practicas
https://www.acerinox.com/es/gobierno-corporativo/Politicas-Generales/

4.3 Risk Management

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

This policy is available on the website:
http://www.acerinox.com/es/contenido-en-detalle/Cdigo-de-conducta-y-buenas-practicas

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

The heads of the different areas of the production units are responsible for identifying potential events that entail risks, creating a risk inventory and a taxonomy. An assessment of these risks, in terms of probability and impact, is carried out at least every six months, using qualitative techniques based mainly on the knowledge, judgment and experience of the people involved.

The risks are represented graphically on a heat map, according to their probability of occurrence and impact, and are classified into four categories according to their criticality. The risk map enables the risks of the different production units to be compared, their evolution over time to be seen and analyses and controls to be carried out by category in order to manage them properly. The Executive Committee of Acerinox, S.A. performs a supervision of these evaluations.

Within the section on Regulatory Risks, special attention should be paid to the risk of Undue management of waste, dumping and emissions that would represent a breach of environmental legislation. In this regard, Acerinox policies provide for scrupulous compliance with all applicable regulations.

We should also mention Product Liability Risk. Acerinox's commitment to the quality of its products is total, and Acerinox's policy in this respect is to pursue customer satisfaction, The Group has established a public and transparent procedure for the approval of suppliers to ensure compliance with quality standards. The acceptance of general contracting conditions implies compliance with the initiative UN Global Compact (www.unglobalcompact.org) https://proveedores.acerinox.com/HOMOLOGA/index.html

In the Business risks and strategy section we highlight the risks of Lack of adequate personnel and Loss of key personnel, which could have an impact on production and management of the company. This risk is minimised through a policy of hiring specialised staff and succession and rotation plans for positions of responsibility, which guarantee that employees are properly trained. Another potentially relevant risk is that of Labour conflict and Subcontracting. The Acerinox Group is committed to social dialogue.

Among the reputational risks, the Risk of ethical misconduct and/or the commission of crimes by employees has been identified. The Compliance Department ensures adequate training and information for employees in this area

With regard to Human Rights, the Acerinox Group's Code of Conduct and Best Practices, which is published on the website, establishes the following: "*Acerinox expresses its commitment to and involvement with human rights and public freedoms recognised in national and international law, and to the principles upon which the United Nations Global Compact is based. It also expresses its total rejection of child labour and forced labour*."

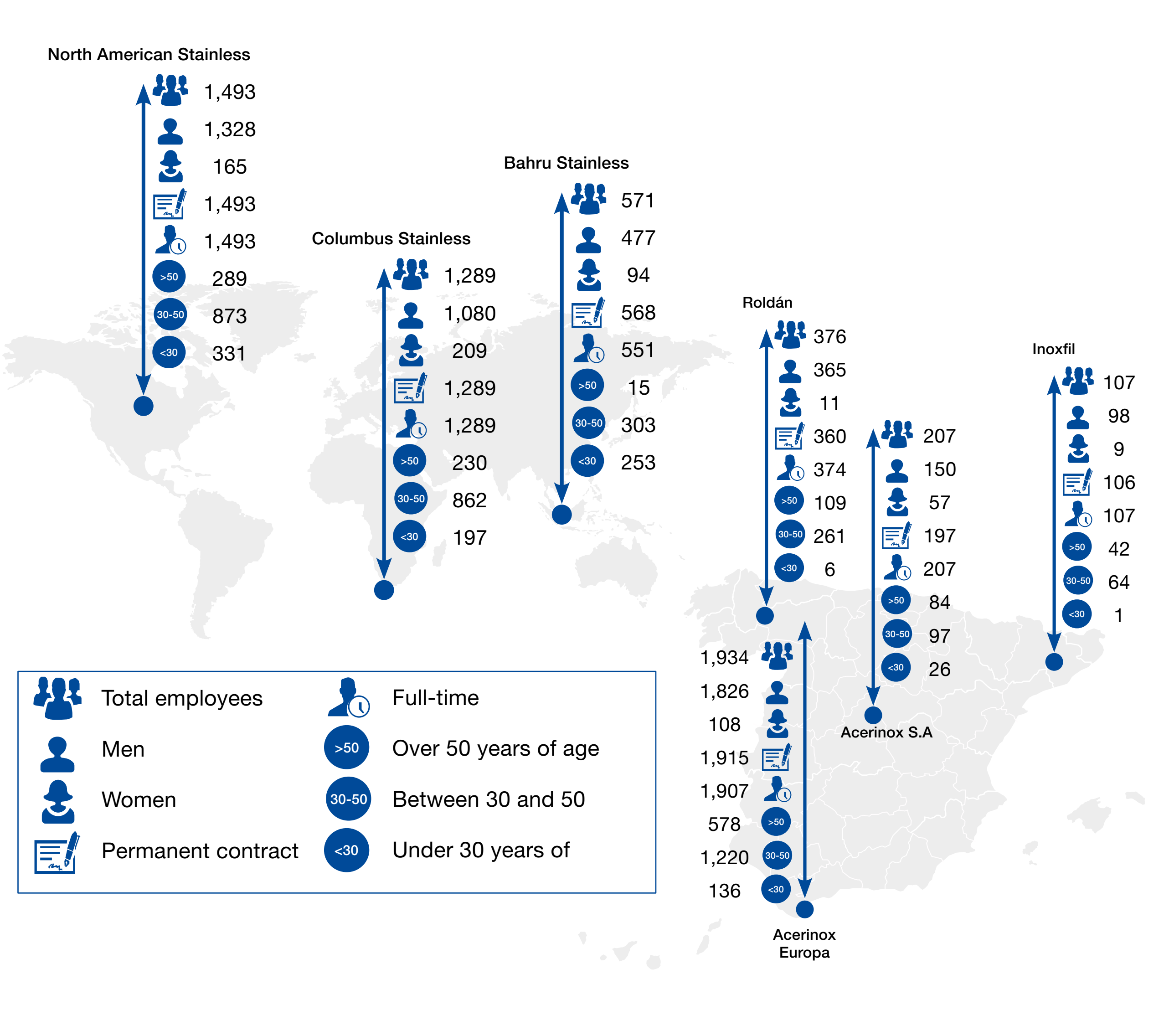
More information on risk management is available in the company's Annual Report: https://www.acerinox.com/es/accionistas-inversores/informacion-economico-financiera/informe-de-auditoria-cuentas-anuales-informe-de-gestion-y-memoria-anual/

Stainless Steel instalation for the Food Industry.

5. SOCIAL SUSTAINABILITY

5.1 Human Capital

Employee data as at year-end 2019



Acerinox has a strong global presence, extending across the 5 continents and more than 80 countries. The continuous growth of the Group has been accompanied by an increase in the number of its employees, who are Acerinox's main asset. During this growth, the Group has been committed to the professionalism, commitment and diversity of its employees, generating quality and stable employment. In fact, almost all Acerinox's people are linked to the Group through a full-time, permanent contract, which has meant continuous adaptation to challenges and needs over the years.

Total number of employees as at year-end 2019

5,977

Acerinox Europe	Acerinox S,A,	Bahru	Columbus	Inoxfil	NAS	Roldan
1,934	207	571	1,289	107	1,493	376

Number of Acerinox Group employees by type of contract and gender:

	2019			2018		
	Men	Women	Total employees	Men	Women	Total employees
Permanent contract	5,292	636	5,928	5,261	599	5,860
Temporary contract	32	17	49	181	26	207
Total	**5,324**	**653**	**5,977**	**5,442**	**625**	**6,067**

Number of Acerinox Group employees by working day type and gender:

	2019			2018		
	Men	Women	Total employees	Men	Women	Total employees
Full-time	5,291	637	5,927	5,404	611	6,015
Part-time	33	16	49	38	14	52
Total	**5,324**	**653**	**5,977**	**5,442**	**625**	**6,067**

Number of Acerinox Group employees by age group and gender:

	2019			2018		
	Men	Women	Total employees	Men	Women	Total employees
< 30 years old (up to but not including 30)	817	133	950	907	135	1,042
30 - 50 years old (inclusive)	3,276	404	3,680	3,346	380	3,726
> 50 years	1,231	116	1,347	1,189	110	1,299
Total employees	**5,323**	**653**	**5,977**	**5,442**	**625**	**6,067**

Number of Acerinox Group employees by professional category and gender:

	2019		
	Men	Women	Total employees
Directors	57	16	73
Area managers	391	79	470
Technicians	508	156	664
Administrative staff	256	234	490
Operators	4,112	168	4,280
Total employees	5,323	653	5,977

Average number of employees in 2019

Acerinox Europe	Acerinox S.A.	Bahru	Columbus	Inoxfil	NAS	Roldan
2,374	208	570	1,305	112	1,468	427

The average number of employees evidences Acerinox's commitment to stable and indefinite employment given the non-temporality existing in the company.

New hires, rate of new hires, voluntary departures and staff turnover rate:

	2019			2018		
	Men	Women	Total	Men	Women	Total
New hires						
< 30	282	39	321	415	37	452
30 - 50	209	39	248	234	33	267
> 50	7	2	9	17	5	22
Rate of new hires						
< 30	34.52%	29.32%	30.79%	45.76%	27.41%	43.38%
30 - 50	6.38%	9.65%	6.74%	6.99%	8.68%	7.17%
> 50	0.57%	1.72%	0.67%	1.43%	4.55%	1.69%

Voluntary departures	2019			2018		
	Men	Women	Total	Men	Women	Total
< 30	111	14	125	164	10	174
30 - 50	111	9	120	200	27	227
> 50	18	3	21	76	9	85
Staff turnover rates						
< 30	13.59%	10.53%	13.16%	18.08%	7.41%	16.70%
30 - 50	3.39%	2.23%	3.26%	5.98%	7.11%	6.09%
> 50	1.46%	2.59%	1.56%	6.39%	8.18%	6.54%

Number of employees by contract type and age range:

	2019			
	< 30 years old (up to but not including 30)	30 - 50 years old (inclusive)	> 50 years	Total employees
Permanent contract	868	3610	1346	5824
Temporary contract	82	70	1	153
Total	950	3680	1347	5977
Full-time	931	3662	1343	5936
Part-time	19	18	4	41
Total	950	3680	1347	5977

Number of employees by contract type and professional category:

	2019					
	Directors	Area managers	Technicians	Administrative staff	Operators	Total employees
Permanent contract	73	469	638	489	4155	5824
Temporary contract	0	1	26	1	125	153
Total	73	470	664	490	4280	5977
Full-time	73	470	659	473	4261	5936
Part-time	0	0	5	17	19	41
Total	73	470	664	490	4280	5977

97% of the employees of the companies to which this report reaches are linked to the company through a permanent contract, leaving a temporary data of less than 3%. 99% also complete their full-time workday.

Layoffs from the Acerinox Group by age group and gender:

	2019			2018		
	Men	Women	Total employees	Men	Women	Total employees
< 30 years old (up to but not including 30)	71	11	82	33	3	36
30 - 50 years old (inclusive)	93	3	96	44	4	48
> 50 years	25	1	26	31	3	34
Total employees	**189**	**15**	**204**	**108**	**10**	**118**

Layoffs of Acerinox Group employees by professional category and gender:

	2019		
	Men	Women	Total employees
Directors	3	1	4
Area managers	7	0	7
Technicians	5	1	6
Administrative staff	6	6	12
Operators	168	7	175
Total employees	**189**	**15**	**204**

Relationship with employees

AAcerinox promotes the creation of working conditions that contribute to a good working environment for its employees. The Code of Conduct and Best Practices and the CSR Policy are two key elements to this.

The Code establishes the rules and criteria of action that represent the minimum standards of conduct in professional matters, which must be complied with by all employees and directors of the Group and in all activities. For this, Acerinox has established Reporting channels that allow the reporting of any breach or violation of the conduct collected therein.

The CSR policy establishes as one of its principles of action to promote communication and dialogue with its employees, and to encourage relations with them. It also adds a series of commitments that Acerinox assumes with respect to its employees.

CSR Policy

What are the principles in Acerinox's relationship with its employees?

– *Respect for human rights, especially those whose violation degrades workers (with explicit rejection of child labour and forced or compulsory labour) as well as the rights of ethnic minorities.*

– *Recruit, select and retain talent with a favourable framework of labour relations based on equal opportunities, non-discrimination and consideration of diversity in all its variables, facilitating measures for the integration of disadvantaged groups and promoting an optimal work-life balance.*

- *A fair remuneration policy will encourage the recruitment of the best professionals and strengthen the Group's human capital.*
- *The training and qualification of workers fosters professional advancement and adapts human resources to function in a diverse and multicultural work environment.*
- *Above all, the Group will maintain and promote a safe and healthy working environment in the workplace and in its areas of influence.*

Agreements with our employees

The working conditions agreed between the Group and its employees are established, fundamentally, in the collective labour agreements or, where appropriate, in the specific agreements that are carried out individually with the rest of the employees, in both cases providing the basis for the relationship between both parties.

In 2019 the collective agreements of Acerinox Europe and Bahru were renewed, with significant improvements in areas such as remuneration or work-life balance.

The Group considers it essential to respect the right to freedom of association and collective bargaining, as well as the exercise of trade union activity by all its employees in each of the geographical areas where it is located, guaranteeing that the activities carried out are always based on respect for professionals and appropriate to their jobs.

To do so, it is essential to maintain a direct and constant relationship, both with the employees themselves and with their representatives at all locations. The use of two-way channels is therefore essential.

Workers in Columbus Mill in Middelburg (South-Africa).

	2019		2018	
	Total number of employees	Employees covered by collective agreement (%)	Total number of employees	Employees covered by collective agreement (%)
Acerinox Europe	1934	92	1848	92
Acerinox, S.A.	207	100	217	100
Bahru Stainless	571	60	342	61
Columbus Stainless	1289	54	701	54
Inoxfil	107	100	113	100
North American Stainless	NA	NA	NA	NA
Roldán	375	99	395	99

**In the case of the NAS plant, this indicator does not apply because it has no union representation.*
Among the different collective agreements available to the Group, the safety and health of workers has been specified (with the exception of NAS that lacks union representation).

Beyond the obligations established at a legislative level, Acerinox provides its employees with social benefits that entail an improvement of such conditions, such as canteen subsidies, aid for workers with spouses or disabled children, school aid for children or facilities in transport to the Group's locations.

	2019	2018
	Employees with access to employee benefits (%)	Employees with access to employee benefits (%)
Life insurance	81	98
Medical insurance	100	83
Disability coverage	100	98
Pension fund	58	69
Maternity/paternity leave	80	100
Transport costs	61	67
Study scholarships for workers	55	75
Study scholarships for children of workers	67	75
Disability allowances	67	75

The access to social benefits for employees are found in the different agreements of the plants.

Acerinox also expresses its commitment to and involvement with human rights and public freedoms recognised in national and international law, and to the principles upon which the United Nations Global Compact is based.

Work organisation

Acerinox is aware of the benefits for the worker and for the Group of having a balance between the professional and personal responsibilities of its employees. Acerinox therefore endeavours to promote measures to reconcile the personal, family and working lives of all the Group's employees subject, in all cases, to the legal rules and respecting the general provisions in force at any given time.

In view of the Industry's context and the very nature of the activity, the organisation of working time at Acerinox is directly related to manufacturing needs and is therefore complex. Most commonly, shifts, schedules, breaks and other provisions related to work organisation are set out in labour agreements or, where applicable, in agreements established directly with employees.

Acerinox arranges agreements with employees and their respective representatives, in order to comply with both the demands imposed by the production process and the commitments established with employees, facilitating the proper functioning of processes, without neglecting the worker's welfare.

Within large production centres, 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. In this way, the activity of the plants (with few exceptions) never completely comes to a standstill, and such activity is always under the supervision of safety officers and those responsible for ensuring that processes run smoothly.

The Group continues its work to encourage the personal and professional reconciliation of the Group's employees, to incorporate the measures required to enable them to disconnect from work (which are currently not available), provide gestational periods, allow maternity and paternity leave and nursing leave, inter alia.

	2019			2018		
	M	F	Total	M	F	Total
Number of employees who have had the right to parental leave	4,856	625	5,481	4,990	606	5,596
Number of employees who have used their right to parental leave	222	37	259	187	41	228
Number of employees who have returned to work after parental leave	222	37	259	187	41	228
Number of employees who have returned to work after parental leave and who were still remained as employees after returning to work 12 months later	221	37	258	181	39	220
Return-to-work rate *	1.00	1.00	1.00	1.00	1.00	1.00
Employee retention rate **	1.00	1.00	1.00	0.97	0.95	0.96

** NB: the return-to-work rate is understood as the total number of employees who have returned to work following parental leave / total number of employees who must return to work after parental leave.*

*** NB: The employee retention rate is understood as the total number of employees retained 12 months after returning to work following a period of parental leave / total number of employees returning from parental leave in previous reporting periods.*

Remuneration system

Acerinox strives to maintain a fair and transparent remuneration policy among its employees, without any gender-based distinction, thus committed to an effective remuneration balance between women and men.

The characteristics of the remuneration system are developed within the collective bargaining agreements corresponding to each plant. These agreements set and establish the jobs with their corresponding salary levels (including compensation for responsibility and control) as well as the job conditions. The levels encompass all items of remuneration that workers receive, including the characteristics of the work itself. The remuneration system set out in the agreements is across-the-board for all staff with the same professional classification, having taken into account the levels at which each job can be performed and the conditions of the post, as well as the compensation for responsibility and control.

For the remaining cases not included in the collective bargaining agreements, individual agreements are defined, which in any case are framed within the local context and in compliance with corresponding legislation.

Employees 2019 Basic salary (euros)	By gender	
	Men	Women
Directors	101,175.23	82,291.88
Area managers	56,643.86	45,698.70
Technicians	37,375.59	32,858.54
Administrative staff	25,724.68	24,461.24
Operators	20,611.50	19,200.77

The salary gap of the Acerinox Group, considering fixed and variable salary, is 3.75%

The incorporation of female workers to Acerinox has occurred mostly in recent years, which implies differences in the total remuneration received related to the seniority supplement . Another factor to take into account is the perception of other salary concepts related to turnicity, carried out mostly by men.
Likewise, it should be noted that the salary gap data of the Acerinox Group does not take into account the comparison of 100% equivalent professional segments, given that within each labor category there are different levels of responsibility.

Senior Management 2019	By gender	
	Men	Women
Average remuneration (euros)	455,778	N/A

Acerinox has a General Policy for the Remuneration of Group's Directors. This policy sets out the conditions and considerations regarding directors' remuneration. The average remuneration of Directors in 2019 can be consulted in the Acerinox Group's Consolidated Annual Accounts in Note 4.

The total remuneration received by the members of the Board of Administration during 2019 was 2,596 thousand euros, of which the three female Directors received 306 thousand euros.

Average salary remuneration according to age range:

	2019	2018
	Average remuneration (€)	
< 30 years old (up to but not including 30)	35,142.04	15,203.89
30 - 50 years old (inclusive)	40,925.33	29,393.28
> 50 years	48,672.54	38,981.97

**In 2019, the calculation for the group's average remuneration has been made using the weighted average of salaries with the number of workers in each plant in that age group. In 2018 the arithmetic average was made with the plants.*

Talent development

Europe's steel Industry is constantly evolving, both in terms of the development of new products and the use of new manufacturing technologies, in order to respond to new requirements in the broadest sense (price, quality, environmental, social, etc.). Accordingly, to achieve an adequate evolution, we need to rely on quality qualification and training that allows employees to adapt to current needs and to be at the forefront of this technological development.

The Group's employees represent a competitive difference for Acerinox. Years of experience and training are essential, both for the employee to evolve professionally and for Acerinox to achieve a product of the highest quality, optimise production and reduce costs. This is why Acerinox is committed to raising and perfecting the level of employee training, in a constant process targeted at excellence, assimilation of the Group's values and a competitive nature.

Production in the steel Industry largely depends on the qualifications of its employees. Knowledge and learning about new technologies and digitalisation must be one of the cornerstones of training.
Steel, the Backbone of Sustainability in Europe. EUROFER.

Training Course held in Bahru Mill in Johor (Malaysia).

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

Persons holding managerial or administrative positions will facilitate attendance on such courses, whenever they do not significantly hinder or hamper operations or the productivity of the corresponding unit.

Some training courses are compulsory, necessary and regular, such as safety and risk prevention courses. Others are strongly encouraged by the company, including those through systems arising from collective bargaining.

2019	Men	Women	Total
Total training hours			
Directors	637	257	894
Area managers	10,741	2,411	13,151
Technicians	7,591	2,668	10,259
Administrative staff	10,107	9,056	19,163
Operators	465,035	20,868	485,903
Average hours of training / employee	**Men**	**Women**	**Total**
Directors	11	16	27
Area managers	27	30	57
Technicians	14	17	32
Administrative staff	39	38	78
Operators	113	124	237

The performance of the Group's employees is regularly assessed. Below is the number of Acerinox Group employees whose performance has been assessed (by professional category and gender):

	2019		
	Men	Women	Total employees
Directors	28	10	38
Area managers	246	59	305
Technicians	428	118	546
Administrative staff	155	171	326
Operators	963	63	1.026
Total employees	1,820	421	2,241

Percentage of Acerinox Group workforce whose performance has been assessed compared to the total (by professional category and gender):

	2019		
	Men	Women	Total employees
Directors	51%	63%	54%
Area managers	63%	75%	65%
Technicians	84%	76%	82%
Administrative staff	61%	73%	67%
Operators	23%	38%	24%
Total employees	34%	64%	38%

Acerinox offers stable, high quality employment with promotion opportunities. It is employment with an international outlook and excellent conditions, in which dedication and effort are rewarded and where performance assessments are analysed in detail.

Diversity and Equality

The Group operates on five continents. This serves to enrich the Group's workforce, comprising people from a wide range of cultures, religions, orientations and traditions.

Acerinox goes beyond the legal requirements in promoting diversity in all its operations, to this end implementing the undertakings it has assumed in this area, mainly arising from the collective agreements. To this end, various measures are introduced to contribute towards a fair working environment, decent treatment and equal opportunities.

Inclusion and diversity is part of the Acerinox Code of Conduct and Best Practices.

The Group promotes non-discrimination on grounds of age, disability, sex, origin, including racial or ethnic origin, marital status, social status, religion or beliefs, political ideas, sexual orientation or status, union affiliation, kinship, language or any other personal, physical or social status of its professionals, as well as equal opportunities among them. The Group recognises its diversity and collaborates with enthusiasm in the agreement and elaboration of any rule which may encapsulate or protect it, or which may protect particularly sensitive groups, according to current legislation.

This top-down diversity starts with the Acerinox Board of Directors, and is a true reflection of the Group's international nature and the success of the Appointments and Remuneration Committee in implementing the diversity guidelines supported by the Director Selection Policy.

Specifically, in terms of gender diversity, the presence of women is generally very low in Acerinox's Industry. Women represent 11% of the workforce.

In the prevention of sexual harassment, the Group has introduced a series of protocols and measures, such as the Reporting channel. This enables those employees who consider themselves affected to report their situation and the Group will carry out the appropriate investigation and make the right decisions. This channel received last year two complaints of this nature that have been reported in the Human Rights section. Any worker may request precautionary measures to be adopted and these will be implemented automatically while the investigation takes place.

Actually, we are working on the development of equality plans for Acerinox SA, Acerinox SAU, Roldán SA, Inoxfil and Inoxcenter.

In addition, different specific measures are being developed at each plant. We are actually working in the elaboration of Diversity and Inclusion Plans in Acerinox SA, Acerinox SAU, Roldan SA, Inoxfil SA and Inoxcenter. Furthermore, within the employment sphere, Acerinox fosters the care, respect and inclusion of people with different capabilities, thus complying with Royal Legislative Decree 1/2013, of 29 of November, which approves the Redrafted Text of the General Law on Rights of Disabled Persons and their Social Inclusion.

In fact, the collective agreements set out that, in order to keep in work those personnel who, due to insufficient or reduced physical conditions, are unable to achieve normal performance for their classification or category, such persons will be transferred to another job within the Group, with the salary level that he or she had in their previous position.

All the Acerinox facilities and workplaces are enabled to facilitate and improve access for employees, customers, suppliers and whoever might need to access them. In addition to the mandatory compliance with the applicable regulations for that purpose, Acerinox facilitates the carrying out of any necessary reforms, studying improvements to its buildings and workplaces.

In the spanish plants of Acerinox, 54 employees with some recognized degree of disability work.

The Columbus factory in Mpumalanga, Africa, has been independently verified for its contribution to the economic empowerment of the black population.

The Broad-Based Black Economic Empowerment (B-BBEE) is a set of positive discrimination policies, laws and actions that are intended to benefit and advance the black community in South Africa both economically and socially.

At Columbus Stainless, the economic and social contribution that the Mpumalanga factory produces in the surrounding area is key for the population, so Columbus considers it essential to integrate black workers into the economic activity, in line with the Group's CSR Policy. The contribution that Acerinox makes in this regard is reflected in a certification obtained from an outside agency with respect to compliance with B-BBEE.

Over the last 5 years, a great many projects have been developed in this regard, including the purchase of equipment from local communities, the improvement of schools in the area, the provision of free office and workshop space, as well as measures aimed at economic strengthening of people in the community. This has meant a social investment of 610,000 euros per year.

Specifically, in 2019 the projects developed have focused on 4 areas:

- *Training. Together with the local Chamber of Commerce, training in business management has been provided to micro-, small- and medium-sized enterprises.*

– Donation of material. One small company has been supported by donating 20 containers for use in the distribution process of its products.

– Free space. Areas have been set up so that small businesses can develop their business completely free of charge (rent, water, electricity, etc.).

– Acerinox expertise. The engineers of the Acerinox factory in Mpumalanga have supported a local enterprise in the development of its business, investing a large number of hours in this partnership.

The impact of these initiatives has led to the creation of new jobs and the consolidation of others in local businesses, totalling 100 jobs outside of Columbus either created or consolidated, all in small enterprises and businesses owned by the black community.

Acerinox thus actively contributes to the integration of potential suppliers in the business, to strengthening their capacity and competitiveness in quality and price, and to the development of local and sustainable labour relations of mutual benefit.

Biomass Central Heating System made of stainless Steel.

5.2 Health & Safety

Due to their characteristics, the activities performed by the Group entail potential health and safety risks. Although such risks are inherent to the activity, Acerinox considers this area key when introducing measures that allow a greater control and mitigation of these risks.

The Group structures its management in this area around four fundamental pillars:

> *1. Reduction of the accident rate.*
> *2. Reduction of absenteeism.*
> *3. Investigation and rapid resolution of issues established in the Health and Safety committees of the Group's different workplaces.*
> *4. Incorporation of the accident rate into the KPIs that define the benefits of certain positions.*

Variable remuneration linked to health and safety performance.

The variable remuneration corresponding to Acerinox management and plant managers includes compliance with health & safety targets in activities. These targets are monitored by means of key indicators, thus allowing an adequate follow-up and evaluation of their compliance.

Accordingly, Acerinox's commitment to occupational risk prevention extends from the Board of Directors and Senior Management to the management of each plant, employees and Health and Safety Committees, combining efforts to establish those actions required to reduce and mitigate potential risks, as well as their consequences. It also applies to external workers at the Group's facilities, who must integrate Acerinox's own requirements in this area into their activities.

The Group has health and safety management procedures and systems that contribute to more effective control and prevention of occupational hazards and risks.

For example, Acerinox Europa has implemented and certified an Occupational Health and Safety Management System pursuant to the OHSAS 18001:2007 standard and has the corresponding occupational risk prevention regulatory audit certificates.

Acerinox constantly monitors the health and safety conditions in the locations where the Group is present. In the event of an incident, the Group applies the various procedures established in order, firstly, to remedy the case and, secondly, to investigate the different factors that led to it and to establish the necessary measures to prevent it from re-occurring. Acerinox's priority is, in any case, to introduce health and safety conditions that help prevent these incidents. The group relies on tools such as SCAT to perform this monitoring of accidents that occur, thus permitting an in-depth investigation.

Through the Health and Safety Committees at the different centres (representing all staff), the needs in this area are supervised and managed at centre level, in addition to being available to employees to provide advice on everything related to the prevention of occupational risks.

One of the key aspects of health and safety -which is in fact dealt with by these Committees- is employee training. The aim is to provide employees with the necessary training and resources to enable them to carry out their duties safely and in a healthy environment, as is the case at the Columbus plant, where all new recruits

attend a 10-hour health and safety course before starting their jobs. Meanwhile, employees have a duty to know and strictly meet the standards of occupational health and safety, and to ensure their own safety and that of those people affected by their activities. Acerinox facilities differ greatly depending on whether they are production centres or offices, so training is provided according to the conditions and profiles in each case.
During 2019, Acerinox employees received a total of 419,911 hours of training, with Health and Safety issues playing a vital part of this.

In addition, 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 will be guaranteed regular monitoring of their state of health according to the work-inherent risks.

Defining accident rate targets.

The Group constantly seeks to improve its health and safety performance, and to this end the plants define targets that promote excellence in this area.

In 2019 Acerinox Europe set targets of an accident rate below 2.25, an OSHA frequency rate of 3.0 and a severity rate below 1.0. All 3 targets were met, and even more ambitious targets have been set for 2020, namely less than 2 for the OSHA incident rate and frequency rate and less than 0.9 for the severity rate.

Another example is Bahru. By way of a target, in 2019 it set a goal to reduce the frequency rate of accidents with time lost to below 1, and to reduce the total recordable accident rate to 2 or below. To this end, an action plan was developed focusing on 5 areas (evaluation of health and safety performance, promotion by area managers, awareness, improvement of non-conformities detected in audits, and discipline in the workplace) with their corresponding measures, resources, responsibility, dates and indicators. This has resulted in 50,000 hours of injury-free work with lost time.

Industrial Kitchen made of Stainless Steel.

As for Roldán, the targets defined were: fewer than 39 accidents with sick leave, a lost time accident frequency rate of less than 12, fewer than 6,000 hours lost due to accidents and an absenteeism rate of less than 3.16% (illness and accident). To achieve this, several measures were introduced, such as improving the floor surface in the workshops and the outside areas, signalling the direction of traffic, holding 'back' workshops for workers who have suffered accidents affecting this part of the body, providing training in ORP for all office staff, improving the order and cleanliness of the workshops and workstations in general, and re-signalling the traffic routes inside the buildings.

Best Practices

In Bahru, there is a Health and Safety Committee that inspects and assesses potential risks through the General Safety Induction programme to prevent or treat accidents.

As regards Columbus, in addition to developing its own Safety Management System, a programme called "Your Right To Say No" has been implemented, aimed at enabling any employee to refuse to work in a hazardous situation.

Case Study: "AZero" (literally 'ACero' = STeel in Spanish)

From 2016 to 2020, Acerinox Europe is developing the 'ACero' campaign whose objective is to implement a safety culture, and thus raise awareness of the importance and observance of health and safety rules.
This project was developed through various measures focused on:

- Project leadership from the management and integration of safety at all hierarchical and organisational levels.
- Awareness: safety is an essential factor in being a professional at work and allows you to foster pride in belonging.
- Visibility: signs, messages, videos, campaigns, etc.
- Order: eliminate waste and carry out work in an orderly and tidy way, including the segregation and recycling of waste.
- Assessment: an assessment of the employees' health is conducted continuously and regularly.

Case Study: "Job Safety Observation"

During 2019, NAS has developed an initiative called the Job Safety Observation (JSO) process.
This has involved carrying out a job safety analysis by observing the performance of the tasks by employees. Once the observation is completed, the person responsible for it together with the employee reviews the findings and enters them into the JSO system.

In the event of detecting potential deficiencies or improvements, a report is opened to generate an action plan to improve on the findings.

In addition, NAS has developed an initiative to review non-routine tasks by means of a questionnaire to identify actions that help perform these tasks more safely and to raise awareness among employees on a number of issues prior to performing these tasks to address potential risks and thus prevent potential injuries.

	2019			2018		
	H	M	Total	H	M	Total
Accident rates						
Number of fatal accidents (fatalities)	0	0	0	1	0	1
Total number of accidents (with absence from work, without absence from work and fatal accidents)	205	6	211	234	14	248
Number of accidents with absence from work	114	2	116	143	2	145
Days lost due to accidents with absence	4,962	185	5,147	4,638	150	4,788
Days lost due to non-work-related illness	24,305	1,978	26,363	27,455	2,506	29,961
Frequency rate (No. of accidents with absence from work / No. of hours worked) *1,000,000	10.33	1.41	9.32	7.04	1.52	6.41
Severity rate (No. of days lost / No. of hours worked) * 1,000	0.45	0.13	0.41	0.45	0.11	0.41
Absenteeism						
Hours of absenteeism (understood as absences corresponding to paid leave, unexcused absences, strikes, sabbaticals and accidents on the way to/from work)	141,280	7,632	148,912	69,462	11,572	81,034
Work-related illnesses						
No. of work-related illnesses	1	0	1	0	0	0
No. of fatalities from work-related illnesses	0	0	0	0	0	0

Water fountain made of Stainless Steel.

5.3 Social Action

Bringing value to local communities

Acerinox is aware that a sustainable business must combine economic results with the development of the communities where it is present. Accordingly, the Group promotes different initiatives with social organisations and groups where it performs its activity.

The Group's General CSR Policy is the starting point in this regard, with the aim of fostering an overarching culture of social responsibility, contributing to the improvement of people's well-being, promoting the economic and social development of the communities where it is present, creating sustainable value for its shareholders, customers, suppliers and workers and their families, in short, for its Stakeholders. In fact, territories and communities are identified as one of Acerinox's main Stakeholders, establishing in this respect some action principles to contribute to the Welfare State.

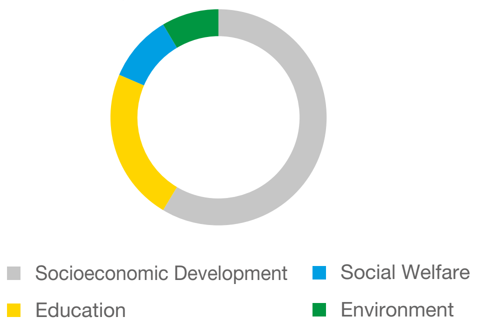
> 1. *To harmonise the Group's activities in the different countries where it operates with the different social and cultural realities.*
> 2. *To strengthen relationships of trust with the various communities with which they interact, by supporting the different public administrations and benchmark social organisations.*
> 3. *To encourage respect for the rights of ethnic minorities and disadvantaged groups in all communities where the Group is present.*

Return to shareholder	Tax paid	Personal expenses	Purchasing	Social Action
€184 million	€115,843 thousand	€414 million	€3,725 million	€750 thousand

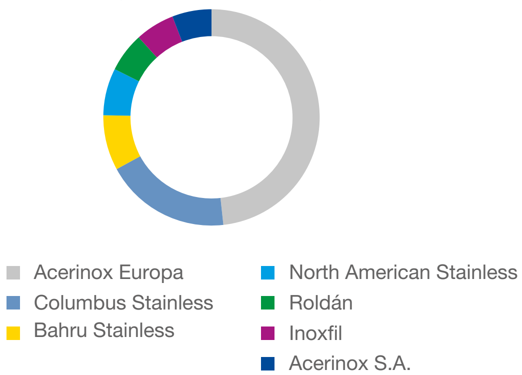
Contribution to society in Social Action 2019

750 thousand

By area of operation



By Group company



5,977 employees, 576 new hires

In 2019, Acerinox allocated more than 750 thousand euros to collaborating with various non-profit institutions and other organisations through initiatives, among others, educational collaboration or actions to promote stainless steel.

The impact of the Group's activity on employment and local development in the areas in which it operates is highly significant, and is key to generating local, stable and quality jobs.

Economic value generated	Economic value distributed
€4,828 million	€4,895 million

Main initiatives in 2019

En función de las necesidades de las comunidades locales, los centros de Acerinox colaboran con distintas organizaciones o colectivos locales.

Goal 1: Ending poverty in all its forms worldwide

ACERINOX: Collaboration with NGOs such as Cáritas

NAS: Supporting the Carroll County Ministerial Association by providing funds and Christmas gifts for children, as well as contributing to the needs of the association.

Goal 3: Guaranteeing a healthy lifestyle and promoting wellness for everyone, at all times of life

ACERINOX: Collaboration with NGOs such as ALzeimer, the Federation of the Disabled or the Association to help children with cancer. Collaboration with local sports schools and sponsorships.

NAS: Support to medical and social organisations that contribute to programmes such as suicide prevention or fibrosis.

Goal 4: Ensuring inclusive and equitable quality education and promoting lifelong learning opportunities for all

Donation of uniforms to 116 students in Pasir Gudang.

Support for various associations promoting education at all levels. For example, providing financial assistance to high school students and assistance in developing a leadership programme to improve work skills through internships, including funding for materials and activities.

Goal 8: Promoting sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all

Economic contribution as a sponsor for the organisation of the Kite Festival Sponsor.

Support for the Employee Tender Loving Care Group Foundation which helps unemployed people find jobs.

Goal 10: Reducing inequality within and between countries

Broad-Based Black Economic Empowerment (B-BBEE) programme for the integration of 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.

Goal 11: Making cities and human settlements inclusive, safe, resilient and sustainable

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

Collaboration with local authorities for the repair of the water supply line and reconstruction of the power plant.

Goal 12: Ensuring sustainable consumption and production patterns

Cleaning the beach near the factory.

Collaborating with educational institutions

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

Overall, Acerinox has partnership agreements with more than 20 university and vocational training centres, thus contributing to identify and develop the talent of the new generations of future professionals, key to the Industry.

Acerinox Europe
University of Cádiz (UCA)
University of Seville (US)
Pablo de Olavide University
University of Málaga
Complutense University of Madrid
International University of La Rioja
Pontifical de Comillas University

Acerinox S.A.
Carlos III University
Alcalá de Henares University
Complutense University of Madrid
Polytechnic University of Madrid
Pontifical de Comillas University
Rey Juan Carlos University
University of the Andes (Bogotá)

Bahru Stainless
SEGI University Kuala Lumpur

Columbus Stainless
University of Pretoria
University of Cape Town

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

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

Tanks for the Wine Industry made of Stainless Steel.

Presence in industry associations

Acerinox considers it essential to be present in different organisations of the Industry, in order to obtain information about new trends and to participate actively in decision making, defending the Group's interests. 1,746,430 euros were allocated to this concept in 2019. A total of 1,746,430 euros in 2019 were allocated to this concept in 2019, from Acerinox SA, Acerinox Europe, NAS, Bahry and Columbus.

Acerinox's CEO, elected Chairman of World association of stainless steel manufacturers

At its 2019 AGM, The International Stainless Steel Forum (ISSF) appointed Bernardo Velázquez, CEO of Acerinox, as Chairman of the International Stainless Steel Forum (ISSF) for a two-year period (2019-2021).
He will combine this new international role with the positions he currently holds as Chairman of the UNESID (Association of Steel making Producers and Primary Steel Processors in Spain) and Board Member of World Steel (World Association of Steel Manufacturers).

Acerinox Europa/Acerinox S.A.

International Stainless Steel Forum (ISSF)
European Steel Association (EUROFER)
The Spain-US Advisory Foundation
National Union of Iron and Steel making Companies (UNESID)
The Association of Large Industries of Campo de Gibraltar
The Association for Research and Development in Stainless Steel (CEDINOX)
Real Instituto Elcano Association of Large Energy Consumption Companies (AEGE)
Institute of Internal Auditors Association
Spanish Institute of Engineering
Spanish Network of the United Nations Global Compact
CDP Worldwide (Europe) Gmbh
Risk Management Initiatives (IGREA)
Management Progress Association (APD)
Círculo de Empresarios Asociación de Emisores Españoles (Association of Spanish Issuers Business Circle)
Hispanic-Malaysian Business Association
Association of Large Energy Consumption Companies (AEGE)
Círculo Empresarios (Business Circle)
SERES, Responsible Enterprise and Society Foundation
Comillas University
Asociación Española de Codificación Comercio (Spanish Trade Encryption Association)
Instituto de Oficiales de Cumplimiento (Institute of Compliance Officers)

Bahru Stainless

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

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)
Mpumalanga Stainless Initiative (NPO)
Steve Tshwete Local Municipality Local Economic Development Forum

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)

5.4 Fiscal Contribution

Transparency and fiscal commitment

The aggregate result of the benefits obtained by countries, before taxes, is 592 million euros. Once the adjustments of consolidation, the consolidated result before taxes of the Acerinox Group amounts to 23 million euros during the year 2019 (310 million in 2018).

Results before taxes and taxes paid by country

	2019	2019
Thousands / €	**Income before taxes by country**	**Tax on benefits paid country by country**
Spain	442,024	32,551
US	328,661	78,064
South Africa	-32,097	-175
Malaysia	-169,256	74
Canada	7,365	2,059
Mexico	4,143	628
Portugal	643	168
France	1,028	22
Germany	1,931	728
Italy	1,374	717
United Kingdom	514	67
Sweden	1,187	0
Switzerland	96	6
Poland	391	191
Chile	130	0
Argentina	167	28
China	1,435	333
Belgium	833	0
Russia	-7	11
Turkey	705	162
Brazil	19	32
Colombia	219	79
Peru	-66	0
Australia	32	0
Hong Kong	77	-5
Singapore	492	87
India	-60	-3
UAE	219	0
Luxembourg	1	0
TOTAL	**592,194**	**115,843**

Taxes on benefits paid by the Group in fiscal year 2019 amount to 115,843 million euros.

Public subsidies received

	2019				
Thousand €	Columbus	Roldán	Acx Europa	Shangai	TOTAL
R&D			455		455
Environment			4,891		4,891
Assignment of CO2 rights		599	5,552		6,151
Training	260		12		272
Others				2	2
Total	**260**	**599**	**10,910**	**2**	**11,771**

Stainless Steel Machinery for Fish processing, inside a Fishing Boat.

6. VALUE CHAIN

6.1 Supply chain

Purchasing management model

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

With a presence in more than 80 countries and on the 5 continents, in its procurement model Acerinox establishes some general guidelines common to all Group subsidiaries. This is so that, based on these, the subsidiaries are able to develop their own procedures considering the local context.

Given this complexity, it is essential to introduce procedures that assess the performance of suppliers and thus control and ensure a supply chain that meets the requirements demanded by the Group and the legal and regulatory standards, both locally and internationally.

To this end, the selection processes for suppliers is 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 risk of product liability. The Group has a public and transparent procedure for the approval of suppliers to ensure compliance with quality standards.

Total number of suppliers in 2019	Total expenditure on suppliers in 2019
5,374	€3,725 billion

Procesos de homologación

Registration in the database	Accreditation	Periodic rating
Registration by the supplier in the database, which provides updated information on the companies that serve the main entities in the Industry.	*Verification of the different applicable accreditation processes and the signing and acceptance of the Acerinox General Procurement Conditions by the supplier.*	*Periodic assessment of suppliers with whom commercial transactions have been carried out to confirm or reassess the level of confidence granted by means of accreditation and, where appropriate, declassification.*

Key figures in 2019

	Total number of suppliers		No. of accredited suppliers		No. of local suppliers	
	2019	2018	2019	2018	2019	2018
Total	5,374	5,731	1,782	1,834	3,239	3,651

	Expenditure on suppliers (million euros)		Expenditure on local suppliers (million euros)		Ratio of expenditure on local suppliers	
	2019	2018	2019	2018	2019	2018
Total	3,725	3,094	1,453	739	39%	24%

Sustainability and responsibility in the supply chain

Acerinox Group is aware of the importance of its suppliers in its business and in the communities where it performs its activities, so it expects them to act in line with Acerinox's sustainability strategy.

To contribute to a stable and sustainable supply chain, although a purchasing policy is not available, Acerinox relies on its ethical, environmental and social principles, reflected in the approval processes and General Contracting conditions, as well as in the Code of Conduct, which establishes the management style and performance that the Acerinox Group expects from its suppliers.

The principles of this Code govern the professional and sales activity of all persons who work or interact with the Group in all the countries where it operates. In addition, they ensure objectivity and impartiality in supplier selection processes and promote fair competition and transparency in selection processes. In addition, Acerinox has a Reporting Channel that allows suppliers to report any aspect regarding the Code of Conduct.

> *In its Code of Conduct and Best Practices, Acerinox undertakes:*
>
> – *To adapt the selection process for suppliers of goods or services to standards of objectivity and impartiality, and it will avoid any conflict of interest or favouritism in their selection.*
>
> – *Internal regulations will promote and require competition in the selection of suppliers and the necessary controls will be introduced so that no person with relevant economic or emotional interests in a current or potential supplier is involved, directly or indirectly, in a decision associated with that supplier.*
>
> – *The information and prices submitted by suppliers in a selection process will be treated confidentially and will not be disclosed to third parties without the prior written consent of the suppliers themselves, unless there is a legal, administrative or judicial authorisation or obligation, or when the openness and transparency of the competitive procedure so requires.*

– The individual contracts concluded by the Group companies will endeavour to include conditions that exclude business relations with suppliers that do not habitually respect the personal and labour rights of their employees, pursuant to universally accepted standards.

New suppliers in 2019 evaluated in accordance with SOCIAL criteria	New suppliers in 2019 evaluated in accordance with ENVIRONMENTAL criteria
159	94

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

In the accreditation

Any supplier wishing to be accredited by the Group must comply with a series of requirements defined by each plant, including environmental, health and safety and labour practices, and prove that the actions they take in their activity are compatible with international human rights declarations. In addition, they must be aligned with the 10 Global Compact Principles, which are based on the protection of human rights, minimum working conditions and environmental responsibility.

In addition, as part of the accreditation processes, the express acceptance of the General Procurement Conditions is required.

In the General Procurement Conditions (services and goods)

These define the essential requirements to be met by all the Group's suppliers, and include labour contracts and compliance with labour regulations (suppliers must substantiate and guarantee that they comply with all social security and tax obligations in relation to their workers), respect for the environment, contribution to sustainable development and innovation in products and processes, always in compliance with applicable legal regulations.

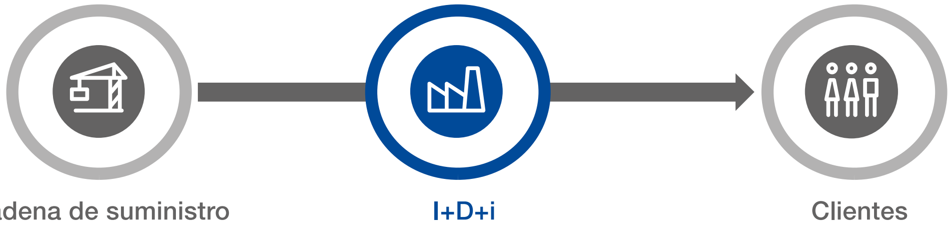
In periodic assessments

The regular checks that Acerinox conducts with accredited suppliers allow us to check whether, inter alia, the quality, environmental and health and safety requirements are maintained. Such a rating will make it possible to confirm or reassess the level of confidence granted by the accreditation. During 2019, 120 audits were performed on suppliers at the Inoxfil and NAS plants. In the rest of companies this type of audit is not carried out.

On the suppliers' own facilities

Inspections are carried out at suppliers' premises throughout the year to confirm compliance with good practices linked to the corporate responsibility strategy.

6.2 R&D&I



Acerinox considers research, development and innovation as one of the pillars to increase the value of its activities, the quality of the products and optimise the processes and the efficiency of these. The Group has committed itself to digitalisation as a fundamental axis within the company's Strategic Plan, as the Digital Transformation responds to a need for ongoing adaptation to the new challenges posed by the context of the stainless steel Industry, especially in the area of productivity and competitiveness.

To deploy the various initiatives, in addition to those developed at the corporate level, Acerinox has R&D&I laboratories at each plant.

Among the different initiatives, those aimed at developing new alloys, widths and thicknesses are of particular note, enabling the Acerinox Group to supply nearly 11,000 types of stainless steels combining the different characteristics of each one. From the R&D departments, the Group is working on the search for product and efficiency improvements through new tools such as lasers, high-precision cameras, infrared cameras and the most sophisticated technological advances to be applied to the production processes in each of the workshops.

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

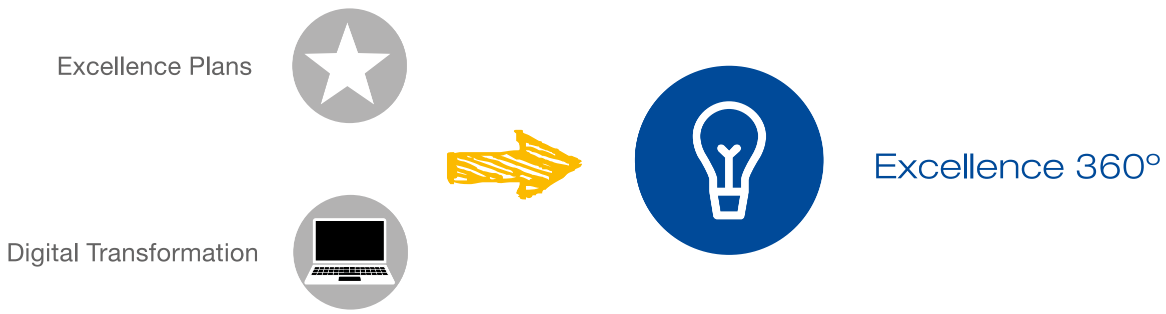
In 2019 the Group made investments valued at 12.304 million euros in research, development and innovation projects, mainly in the Acerinox Europa, NAS, Columbus and Bahru plants. Among all Group companies, and for the development of projects in this area, grants worth 454,795 euros were received.

In addition, Acerinox is currently participating in several innovative programmes, both national and international, that serve to encourage progress and sustainability, improving the efficiency of production processes to achieve the reduction of energy consumption and emissions.

Project	Company	Programme	Financing
AUSIONOX: Obtaining austenitic stainless steels with minimum inclusionary content from the development of new advanced simulation models in the steelmaking processes.	Acerinox Europa, S.A.U.	Operational Programme for Smart Growth 2014-2020.	Co-financed by the European Regional Development Fund (ERDF).
DUPLEXFIN: Optimisation of hot deformability of Duplex stainless steels for the production of thin cold rolled products.	Acerinox Europa, S.A.U.	Operational Programme for Smart Growth 2014-2020.	Co-financed by the European Regional Development Fund (ERDF).
FERRINOP: Experimental development of new technologically advanced solutions for the manufacture of optimised ferritic stainless steels.	Acerinox Europa, S.A.U.	Operational Programme for Smart Growth 2014-2020.	Co-financed by the European Regional Development Fund (ERDF).
Actions to increase energy efficiency in production lighting systems.	Acerinox Europa, S.A.U.	Project included in the line of aid for energy saving and efficiency in SMEs and large-scale companies in the industrial sector.	Co-financed by the European Regional Development Fund (ERDF) and managed by IDEA under the national energy efficiency fund.
Upgrading of exterior lighting at the plant using LED technology	Roldán, S.A.	Project included in the line of aid for energy saving and efficiency in SMEs and large-scale companies in the industrial sector.	Co-financed by the European Regional Development Fund (ERDF) and managed by IDEA under the national energy efficiency fund.

Excellence 360°

In 2019, the Acerinox Board of Directors approved the Excellence 360° project, a concept designed to manage the Digital Transformation returns through a global vision of the business initially to be implemented between 2019 and 2023, although it will have a long-term development and continuous evolution. This strategy will integrate the improvements of the traditional Excellence Plans with the application of new technologies.



The Excellence 360° plan, which constitutes a pillar of the company's Digital Transformation strategy, envisages the implementation and development of technologies such as sensorisation, data analytics, simulation, collaboration platforms and artificial vision, as well as the adoption of agile work methodologies. This implies a change in the working method, to supply the best stainless steel and remain the most competitive company in its industry.

It is estimated that this Plan could lead to returns in EBITDA of €125 million each year from 2023.

To strengthen the integral business through 4 axes of the Excellence 360° programme

One of the projects that make up the Excellence 360º Plan is 360º Planning.

360º Planning is based on a planning model that covers the entire value chain. The aim is to strengthen service to customers, increasing the accuracy of deliveries, whilst optimising the mix of raw material purchases and increasing reliability of production processes. This means that the project will redefine the way Acerinox manages its supply chain and will enable it to respond to market demands in the coming years.

The implementation has started in the Acerinox Europa plant (Palmones; Campo de Gibraltar), with advanced solutions focused on demand and the supply chain, and will be gradually deployed in the plants of the United States, Malaysia and South Africa.

"We want to carry out a sweeping overhaul that will place the customer at the forefront of the business. Excellence 360º is a change of model that are we are committed to in order to take advantage of the enormous knowledge of our human capital, as well as the best available technologies. This plan will result in a general improvement in terms of productivity and efficiency, contributing visibility to the business and flexibility to the decision-making".

Bernardo Velázquez, CEO of Acerinox.

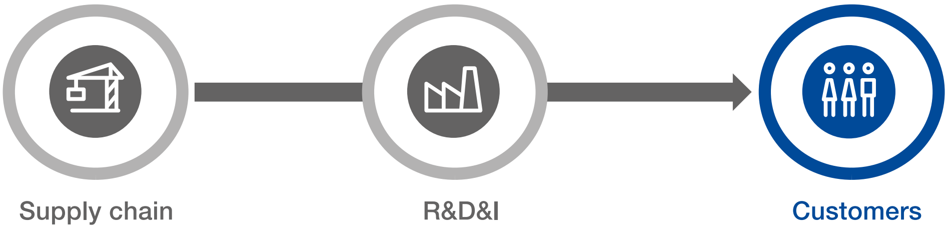
Rafael Naranjo Awards

Each year, the four main factories of the Group,Acerinox Europa, NAS, Columbus and Bahru presents the "Rafael Naranjo Awards", coupled with a total prize of 45,000 euros, in three categories: Quality in progress, Safety and the Environment.

The winner in Quality in Progress, winning €15,000, was for a project called "Cold Rolling Grinding Machines: Improvements to the finishing process". The second prize in this category, with €10,000, went to the project "Protection of the BA furnace and time saving in case of outlet breakage", while the third prize, accompanied by 5,000 euros, was awarded to the project "Modification of the descaling valve drive", aimed at reducing downtime and improving quality.

In the Safety category, worth €10,000, the winner was the project called 'New platform for work in the steam chamber of continuous casting of slabs'. Lastly, the prize for the best project was awarded to the project 'Improvements in the combustion of natural gas boilers', with a financial allocation of €5,000.

6.3 Customers



Acerinox considers it a priority to maintain long-lasting and mutually valuable relationships with its customers. Accordingly, it is committed to offering high quality products through the continuous improvement of its processes and services.

Satisfaction, complaints and claims

To achieve this type of relationship, one of the keys is to listen to the customer. Acerinox relies on several communication and data capture channels.

One of the main sources of information is through Acerinox's own commercial network. To find out the opinion of customers, the Group carries out satisfaction surveys that are sent from the commercial subsidiaries on a regular basis, where information is gathered about the service received, range, quality, product presentation, delivery times, etc.

	2019	2018
Number of customers surveyed	747	466
Satisfaction index *	3.7	3.7

* De 1 a 5, siendo 5 la nota más alta.

Customer complaints are handled through the Sales Department, either directly from the parent company 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 consulted in the following link: https://www.acerinox.com/es/contacto/

The Sales 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.

In those cases where the complaint concerns billing or product transport and delivery issues, it is the responsibility of the Sales Department to handle the complaint by following the established procedures.

However, if the complaint concerns technical issues, it is referred to the service centre or plant involved, where a technician is appointed to assess the case and issue a technical report.

The complaint status is updated on the IT application and, once again, it is the Sales Department that is responsible for informing the customer of this decision, and where appropriate, for proposing or negotiating a solution.

Process and product certifications and controls

All Acerinox Group plants and workplaces comply with the quality and environmental controls required under the legislation of each country, in addition to having Environmental Management Systems according to ISO 14001:2015. 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 level of the parent company and of all subsidiaries. These audits are conducted both by external agencies that verify the status of these systems, and by customers, and they review aspects such as cyber security or IT controls.

Acerinox Europe

Certification of the Quality Management System according to ISO 9001: 2015.

Pressure Equipment Directive 97/23/EC (PED) and AD 2000-Merkblatt W0/TRD 100.

CE marking in accordance with EN 10088-4, according to the Construction Products Regulation.

Lloyd's Register Certificate for marine uses.

BIS Certification from the Indian Government.

NORSOK M-650 QTR.

Management of radioactive equipment.

Certification of the Environmental Management System according to ISO 14001:2015.

Chemical Laboratory Accreditation in accordance with the ISO 17025:2005, for testing liquid samples in the environmental sector.

Energy Management System ISO 50001:2011.

Occupational Health and Safety Management OHSAS 18001:2007.

Bahru Stainless

Certification of the Quality Management System according to ISO 9001: 2015.

Environmental Management System according to ISO 14001:2015.

ISO 45001:2018 Occupational health and safety certificate.

Pressure Equipment Directive 2014/68/EU, Annex I, Section 4.3 and AD2000-Merkblatt W0.

CE marking in accordance with the standard EN 10088-5, according to the Construction Products Regulation (CPR) (EU) 305/2011. CPR (Construction Products Regulation).

DQS GmBH.

Columbus Stainless

Certification of the Quality Management System according to ISO 9001: 2015.
Certificate of chemical analysis and mechanical testing ISO/IEC 17025:2005.
Pressure Equipment Directive 2014/68/EU, Annex I, Section 4.3 and AD2000-Merkblatt W0.
CE marking in accordance with the standard EN 10088-5, according to the Construction Products Regulation (CPR) (EU) 305/2011. CPR (Construction Products Regulation).
Certification of the Environmental Management System according to ISO 14001:2015.

Inoxfil

ISO 9001:2015 Quality Management System.
Certification of the Environmental Management System according to ISO 14001:2015.
CE marking in accordance with the standard EN 10088-5, according to the Construction Products Regulation (CPR) (EU) 305/2011. CPR (Construction Products Regulation).
Ü marking in accordance with the general building inspection approval under the Z-30.3-6 standard: of the DIBt (Deutsches Institut für Bautechnik) “Products, structural components and fasteners made of stainless steel.”
Certificate in accordance with the VdTÜV 1153 standard for welding consumables, the accreditation of filler metals according to this standard.
DB Certification for using filler metals and welding consumables for connection joints and filling, in accordance with the DB (Deutsche Bahn) VA 918 490.
CE marking for welding consumables and filler materials according to EN ISO 14343-A, according to Building Products Regulation 305/2011EU System 2+. CPR (Construction Products Regulation).

North American Stainless

Quality Management System ISO 9001:2015.
Pressure Equipment Directive 2014/68/EU, Annex I, Section 4.3 and AD2000-Merkblatt W0.
The CARES mark in accordance with the BS 6744 for reinforcement bars for reinforced concrete.
Certificate of chemical analysis and mechanical testing ISO/IEC 17025:2005.
CE marking in accordance with the standard EN 10088-5, according to the Construction Products Regulation (CPR) (EU) 305/2011. CPR (Construction Products Regulation).
Pressure Equipment Directive 97/23/EC (PED) and AD 2000-Merkblatt W0/TRD 100.
UK CARES ISO 9001:2008 QMS Certificate (Ghent).
UK CARES_NAS Grade 910 for Duplex Rebar EN 1.4362.
Kentucky Excel (Excellence in Environmental Leadership) - Master Level.
NAS obtained ISSF’s Gold 2019 Sustainability Award for AOD Dust Reuse.

Roldán

Certification of the Quality Management System according to ISO 9001: 2015.
Pressure Equipment Directive 2014/68/EU, Annex I, Section 4.3 and AD2000-Merkblatt W0.
CE marking in accordance with the EN 10088-5, according to the Construction Products Regulation.
Ü marking in accordance with the general building inspection approval.
Z-30.3-6: “Stainless steel products, components and fasteners”.
The CARES mark in accordance with the BS 6744 for reinforcement bars for reinforced concrete.

7. ENVIRONMENTAL MANAGEMENT

The Group regards it as essential to expand by contributing to the transition towards a low carbon economy, towards the reuse and recovery of materials and towards the protection of the environment in its broadest sense.

For comparative purposes, the 2018 environmental data did not include information on the Inoxfil and Roldán factories

Specifically, Acerinox's environmental commitment focuses on efficient production in terms of energy consumption and promoting a business model that integrates the circular economy, continuously improving performance and converging with the Group's productivity, competitiveness and environmental goals.

Acerinox's CSR Policy establishes that the conducting of the Group's activities should foster the achievement of its strategic objectives in order to offer high-quality and environmental-friendly products. In fact, one of the principles of action defined in this policy is respect for the environment:

a) To preserve the biodiversity of the ecosystems and landscapes in which the Group operates and their species.

b) To prevent pollution by progressively introducing the most efficient and least carbon emission intensive technologies into its facilities.

c) To optimise the management of hazardous and non-hazardous waste by means of systems implemented to set objectives and goals related to, among other purposes, waste reduction, the promotion of good practices and the use of recycled materials.

Furthermore, the Code of Conduct and Responsible Practices establishes the protection of the environment as one of its commitments related to conduct and responsible practices. The Group is committed to maintaining the utmost respect for the environment in the development of its activities, minimising the negative effects that, despite everything, could be caused, and will provide the necessary means and information to minimise or eliminate any impact on the natural environment within the framework of the existing legislation and applying the best available techniques.

The employees play a significant role in this commitment, as they are responsible for contributing to minimising the environmental impact of Acerinox's activities and the consumption of resources such as water, energy, raw materials and consumables, and they must comply with the rules, processes and controls of Acerinox in this regard. In particular, and according to their responsibilities, they must ensure that environmental information reported inside and outside the company is correct.

The identification and management of environmental risks is essential for Acerinox.

Beyond the legislative obligations, particularly taken into account in the environmental risks included as operational risks in the Control and Risk Management Policy of Acerinox, S.A., the plants themselves have established environmental risk control procedures that include an assessment of their probability and seriousness.

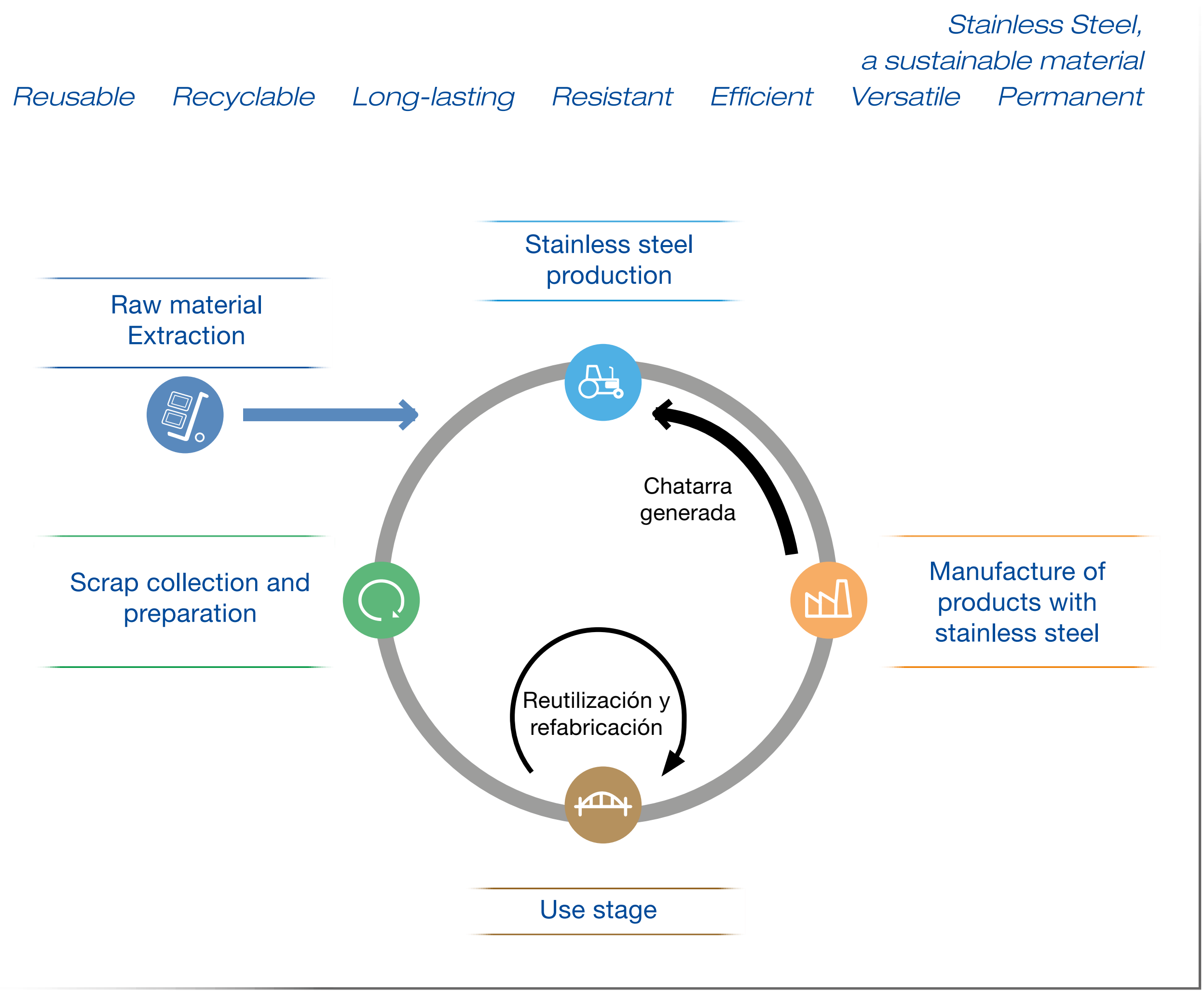
All the Acerinox Group's factories and workplaces comply with the quality and environmental controls required by the legislation in each country, while each of them also implements Environmental Management Systems in accordance with ISO standard 14001:2015. In addition, each of the subsidiaries has assumed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

ISSF President presents the 2019 Gold Sustainability Award to the CEO of North American Stainless (NAS).

7.1 Circular Economy

Efficient use of resources and the promotion of initiatives that contribute to a circular economy constitute a key aspect enabling the Group to continue growing in a sustainable and responsible manner.

The concept of the circular economy in itself is implicit in the properties of stainless steel: it can be recycled without any reduction in quality as many times as necessary after having fulfilled its function in any application, with an unlimited useful life under optimal conditions. Due to its properties, this material is an excellent example of recyclability and recoverability, key to contributing to sustainable development. Its life cycle therefore offers multiple opportunities to contribute, in each of them, to the protection and improvement of the environment.



The circular economy, in the Core Business of Acerinox.

Acerinox's activity, by its very nature, contributes to sustainable development and society, and it is doubly respectful towards the environment by generating a product whose life cycle responds to the four Rs of the circular economy (reduce, reuse, re-manufacture and recycle) and by virtue of being used to make recycled material.

The Group firmly believes in the circular economy and its associated advantages. Acerinox signed the Spanish Circular Economy Pact in 2017. This commitment means maintaining the value of products, materials and resources for as long as possible, minimising the generation of waste and promoting the proper treatment and recycling of this waste.

> *One of the principles of action established in Acerinox's CSR Policy is to optimise the management of hazardous and non-hazardous waste by means of systems implemented to set objectives and goals related to, among other purposes, waste reduction, the promotion of good practices and the use of recycled materials.*
>
> *The Code of Conduct and Responsible Practices establishes a responsibility to contribute to minimising the environmental impact of Acerinox's activities, including the consumption of resources such as water, energy, raw materials and consumables.*

"The ultimate goal of steel production management is to ensure that the circular economy is applied to the entire production cycle, promoting synergies with other industries".

Steel, the Backbone of Sustainability in Europe. EUROFER.

Acerinox incorporates scrap metal into its manufacturing processes and the Group thus obtains great value by reintroducing it into the material's life cycle, contributing in turn to reducing the environmental impact of its activities. Foundry and maintenance processes, among others, are involved to achieve the above, allowing its use to continue for centuries.

Acerinox is, therefore, one of the largest scrap recyclers in the areas in which it operates. For example, the Acerinox Europa plant is the largest recycling centre for this material in Spain and, given that Spain is a leader in this aspect in Europe according to the Association of European Producers of Steel for Packaging, this plant has therefore become a benchmark.

The stainless steel coils, strips and bars, among other products, manufactured at Acerinox's factories and transformed into cars, buildings, cutlery, planes, bridges and household appliances ultimately return to the Group's plants in the form of scrap metal to be recast and reused in a circular cycle that could be infinite, due to the qualities of the material.

Sustainable Use of Resources

Materials and waste

The manufacture of stainless steel entails significant consumption of materials, inevitably leading to a proportional generation of waste.

Weight of materials used and recycled in 2019 (Mt), both renewable and non-renewable

Ferroalloys:	Acids:	Gases
635,877	43,432	327,533

Recycled material*: 2,034,949

Recycled acid**: 17,372

**Note: Recycled material includes purchased scrap, scrap resulting from internal processes and metal recovered from slag and recycled waste.*
***Note: Recycled acid: total amount of nitric acid and hydrofluoric acid recovered.*

The waste is managed in keeping with its nature and potential and the Group always promote its recovery. An exercise in homogenisation and sorting by type and method of disposal common to all the plants has been conducted in accordance with Spanish legislation, so as to perform better analysis and information reporting.

Stainless Steel Scrap for recycling.

Best practices

At the Bahru factory there is an acid regeneration system that allows the recovery of more than 97% of HF and 60% of HNO_3.

A project on acid optimisation in the coil pickling has been carried out at the factory in Ponferrada.

Case Study: "Packaging Project"

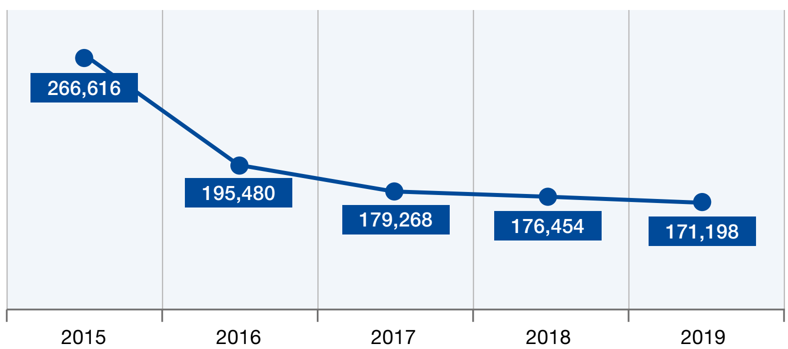
A project for the elimination of single-use plastic products was implemented at Acerinox Europa in 2019 and, to do so, a campaign for the elimination of these kinds of products was conducted.

This focused on different measures, such as eliminating workers' plastic bottles by giving them 100% recyclable and unlimited-use stainless steel bottles.

At the same time, Acerinox Europa undertook to guarantee selective collection of plastic and other waste. To do so, it provided the factory with sufficient means for proper segregation, specifically establishing clean points throughout the factory's operational area for plastic waste, organic waste, PPE, paper, cardboard, etc.

In addition, an environmental awareness and sensitisation campaign was carried out by means of sustainability posters, in order to involve the employees in the initiative and thus promote their commitment and participation. Training was also provided on the proper separation of waste and good environmental practices during the initial training courses for all the new workers, together with a risk assessment and training on energy efficiency.

Evolution of the number of plastic bottles purchased by ACERINOX 2015 - 2019



At Acerinox Europa 76% of the iron used in production processes is incorporated into them by means of scrap, thus contributing to the circular economy of the stainless steel industry.

	Main waste managed	
	2019	2018
Total waste generated (Mt)	992,320	1,030,822
Total waste recycled (Mt)	44,731	55,347
Percentage of recycled waste (%)	5%	5%
Total waste to landfill (Mt)	947,589	962,263
Percentage of waste to landfill (%)	92%	93%
Total non-hazardous waste (Mt)	916,415	954,206
Percentage of recycled non-hazardous waste (%)	4%	3%
Percentage of non-hazardous waste to landfill (%)	95%	96%
Total hazardous waste (Mt)	75,905	76,616
Percentage of recycled hazardous waste (%)	46%	39%
Percentage of hazardous waste to landfill (%)	54%	61%

"ComFuturo" Programme

The Acerinox Group cooperates with the FGCSIC (CSIC General Foundation) to enhance the talent of new researchers in key areas such as the circular economy. By means of this programme it contributes to promoting high-level young and Spanish research aimed at achieving advances and improvements in areas of exponential concern, including efficiency in the use of raw materials in the production processes and the recovery and reuse of stainless steel.

More specifically, they jointly carry out a project for the recovery of steel slags. The aim of the project is to reuse waste from the metal industry as additives of photocatalytic building materials, in other words, new technology materials that contribute to reducing the pollution of the urban atmosphere and maintaining the aesthetics and functionality of the architecture.

To achieve the above, the pre-treatments required for the conditioning and optimisation of Acerinox's waste, such as steel slag and powder, are evaluated, construction materials with photocatalytic properties with waste additives are designed and manufactured and, finally, the environmental, technical and economic viability of the proposal is validated in each of the potential applications.

The benefits are twofold: the programme contributes to the circular economy by means of the reuse of slags resulting from the manufacturing process and it reduces the levels of pollutant gases.

LCI analysis

Within the aim to promote a circular economy and in relation to the use and waste management, it is essential to assess the impact of the entire product life cycle, from the manufacturing process to the end of its useful life. To do this, the Company participates in the Life Cycle Inventory (LCI) promoted by the European Steel Association. This is an internationally recognised and structured method to quantify the emissions and the resources consumed, as well as the impact on the environment and health, related to the products placed on the market. The scope of the method encompasses the extraction of the raw materials right through to the useful life of the product.

7.2 Energy and Climate

The stainless steel manufacturing industry has traditionally been linked to high levels of emissions in its production processes that are directly related to its productive capacity. Monitoring and acting in accordance with the intensity of consumption and emissions is therefore essential for contributing to sustainable development.

At all the plants this report covers, Acerinox implements environmental and energy policies that are adapted to the circumstances of each subsidiary. At all of them Acerinox is committed to promoting economically viable best practices in order to control and reduce both energy consumption and atmospheric emissions.

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

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

> *Acerinox is renowned as a benchmark in the fight against climate change due to its implementation of measures to reduce emissions and minimise risks in relation to it.*
>
> – *FTSE4Good. The Group is included in this index, which acknowledges companies responsible for the environment and sustainability.*
>
> – *Carbon Disclosure Project (CDP). In its latest participation in this initiative it obtained a C rating.*
>
> – *As for NOX emissions, the factories have catalytic towers where these gases are converted into molecular nitrogen, reducing emissions of this pollutant.*
>
> – *International Stainless Steel Forum (ISSF). Recognition as one of the most efficient and committed companies in terms of reducing emissions: -35% fewer CO2 emissions per manufactured tonne than the global average of stainless steel manufacturers and 30% fewer vapours than the global steel making average.*
>
> – *Acerinox is a member of the WorldSteel Climate Action Programme, a programme run by the WorldSteel Association that acknowledges metal manufacturers who have fulfilled their commitment to participate in the industry's emission data collection programme.*
>
> – *SDGs. One of the Sustainable Development Goals that is most prominent and borne in mind in the Group's activities is Objective 13 on Climate Action.*

Acerinox has ratified its commitment to achieving climate neutrality by 2050, in keeping with the announcement by the UNESID.

The Acerinox Group has ratified the commitment expressed by the UNESID (Union of Steel Making Companies) to achieve climate neutrality by 2050, in keeping with the decision of the Board of the steelmakers' association, announced to coincide with the start of the Climate Summit (COP25) in Madrid.

Energy

Opting for a perspective of sustainability at all levels is one of Acerinox's principles. At an environmental level, this is clearly reflected in the investments made at the different facilities and we should highlight the efforts made by the Group to increase energy efficiency.

In addition, Acerinox commits to new production systems with the most advanced technologies and systems for efficient energy consumption and the reduction of emissions. This is a criterion taken into consideration in the acquisitions and investments it undertakes.

In December 2019 Acerinox Europa reached an agreement to purchase 6 MW of renewable energy for a period of 10 years.

The measures designed to achieve more efficient energy consumption and, therefore, lower emission levels, cover different areas.

– *Machinery*
  Several programmes are implemented for it to reduce energy consumption, such as replacing conventional burners with more efficient ones, using recovery boilers or replacing engines with more efficient ones.

– *Processes*
  Energy efficiency in the production processes is a key area for the Group. Several measures are implemented to achieve the above, such as increasing the continuous load in the hot rolling or increasing the direct annealing in the plate furnace.

– *Awareness*
  Acerinox employees are made aware of the relevance of performing their work in accordance with the environmental commitments assumed by the Group. At Acerinox this task is facilitated by implementing other measures to reduce pollution, such as replacing conventional lighting with another kind with less impact, such as LED screens and projectors in the offices and laboratories.

Investment in initiatives designed to improve production efficiency and reduce emissions	Environmental expenditure
€9.65 millions	€100 millions

Best practices

Bahru's *Excellent* Plan conducts different initiatives designed to reduce consumption of natural gas. For example, the optimisation of the natural gas boiler has prevented the emission of 3,197 Mt of CO2 equivalent and an energy reduction and LED use project has led to the prevention of 11,466 Mt of CO2 equivalent.

Columbus has a Pollution Prevention Plan. This Plan seeks to reduce emissions by 158,475 tonnes of CO2 equivalent during the 2016-2020 period. The measures chiefly focus on reducing electricity consumption, opting for the VSD (variable speed drive) methodology in ventilation, cold rolling and the facilities themselves.

Acerinox Europa has an energy and emissions savings panel on which the different actions to be carried out in this area regarding the consumption of natural gas and electricity are planned, establishing an objective, the investment it entails and the corresponding savings for each of the initiatives.

The initiatives defined in the 2019 plan entailed an investment of €11.5 million, with annual savings of €1.5 million and a 0 million kWh objective for electricity and natural gas consumption.

These initiatives include the regulating of the fans in the cooling towers, the blasting blowers and the pumping of oil in the rolling mills, as well as the recovery of heat from the steel fumes, the replacement of the drive motors, the improvement of the compressed air facilities, a feasibility and sizing project for energy generation by means of renewables and the optimisation of boiler gas consumption (Rafael Naranjo Awards).

Case Study: "Economiser in boiler"

The economiser is a heat exchanger that uses the boiler's exhaust gases to preheat the water entering it. Raising the temperature of the incoming water leads to direct natural gas savings by reducing the temperature gradient.

With the installation of these economisers in two boilers, savings totalling 6,453,294 kWh have been achieved in 2019, which means that emissions totalling an estimated 1,231 tonnes of CO_2 equivalent has been prevented, thus contributing to reducing the Group's carbon footprint.

In addition, it is intended to optimise the consumption of the two boilers by replacing the regulator of the combustion air inlet, which is currently manual and adjusted twice a year, by an electronic regulator with O_2 probes. It will thus be possible to optimise the mixture of air and fuel on a constant basis, with estimated savings close to 2.5%.

Pressing systems for natural gasand LPG installations made of Stainless Steel.

Based on the set of initiatives conducted by the Group, a reduction in energy consumption totalling 9,655,275 GJ has been obtained in 2019. With regard to energy consumption, it should be borne in mind that it varies according to the products and manufacturing techniques used at each plant, as well as the type of fuel used. The energy consumed in 2019 came from natural gas, diesel and electricity.

Type of consumption (GJ)	2019	2018
Natural Gas	11,626,381	12,332,770
Diesel	167,122	124,620
Electricity (non-renewable)	10,416,846	10,423,542
Electricity (renewable)	0	0
Total	**22,210,349**	**22,880,932**

Indicator	2019	2018
Total energy consumption (GJ)	22,210,349	22,880,932
Manufactured products (Mt)	2,644,002	2,755,850
Energy intensity (GJ/Mt)	**8.40**	**8.30**
Reduction of energy consumption (GJ)	9,655,275	10,227,888

Buildings with excellent energy efficiency.

Acerinox's Marbella building in Madrid is energetically audited by an external audit. Energy audits enable us to analyse the energy costs borne by the different blocs of consumption and, as a result, analyse potentially improvable areas and determine room for improvement in the energy efficiency of our systems and their the operating and behavioural patterns.

Emissions

The Group measures its emissions by taking into account the guidelines established by the GHG Protocol, distinguishing between:

- Range 1. Direct emissions. These are GHG emissions resulting from direct energy consumption from sources controlled by Acerinox (natural gas and diesel).
- Range 2. Indirect emissions. These are the emissions resulting from the consumption of electricity acquired by the Group.

Objective: Acerinox's Carbon footprint in 2021.

In order to monitor the nature, volume and possibilities for action with regard to Acerinox's activities that generate greenhouse gas emissions in detail, Acerinox is committed to publishing the Group's carbon footprint in 2021.

Acerinox Europa forms part of the EU Emissions Trading System (EU RCDE). In order to control and manage the emissions, they are monitored at each of the facilities and their evolution with respect to the defined objectives is assessed. All the equipment at the steel mills has control, measurement and gas filtration systems. Thus, in addition to contributing to the reduction of emissions, it is possible to monitor these levels. In fact, the emissions data are verified by accredited bodies in accordance with ISO 14064.

In addition, Acerinox implements the Best Available Techniques (BAT) Reference Document on iron and steel and ferrous metals at its factories.

Emissions of CO2 eq	2019	2018
Range 1: direct emissions		
(Mt of CO2 eq) *	730,610	828,624
Range 2: indirect emissions		
(Mt of CO2 eq) **	731,085	1,726,552
Total	**1,461,695**	**2,555,176**

For the calculation of scope 1 emissions in 2019, the DEFRA 2019 emission factors (Greenhouse gas reporting: conversion factors 2019) have been used for diesel fuels, diesel (bioblend), diesel (100% mineral), natural gas and natural gas (100% mineral), in accordance with the cases of each location. In 2018 and 2017, the DEFRA 2017 emission factors (Greenhouse gas reporting: conversion factors 2017) for natural gas and diesel (bioblend) were used.

***For the calculation of scope 2 emissions in 2019, the DEFRA 2019 emission factor (Greenhouse gas reporting: conversion factors 2019) has been used for electricity. Emissions resulting from consumption of energy from renewable sources have been regarded as zero. In the cases of the 2018 and 2017 emissions, IEA "CO2 emissions from fuel combustion 2017" was used for electricity.*

Best practices

In the case of the Columbus factory, energy consumption savings totalling about 14,000 GJ have been achieved by means of the installation of a particle filter in cases such as exhaust pipes on the AP2 annealing and pickling line and the pumps of ZM3 laminated oil, which, in turn, has led to a lower equivalent emissions of CO2.

Case Study: "Protocols during production stoppages"

A new protocol on ZM-4 production stoppages has prevented the emission of 127 tonnes of CO2 equivalent at the Acerinox Europa factory in Cádiz.

The protocols establish procedures in order to ensure that the lines lacking a programme consume as little as possible. Forms are thus established that stipulate the equipment to be stopped in these circumstances.

These protocols evolve in accordance with experience and the best detected practices and they are progressively extended in accordance with their effectiveness on the different production lines. Thus, estimated electricity savings totalling 309,250 kWh were achieved in 2019.

As for NOX emissions, the factories have catalytic towers where these gases are converted into molecular nitrogen, thus reducing emissions of this pollutant.

Other emissions	2019	2018
NOx (Mt)	1,254	887

7.3 Water Consumption and Spillage Management

Water and discharges

Water is an essential resource for our activity. Specifically, it is key in our production processes, such as the cooling of machinery and equipment, either directly in the rolling and annealing process or indirectly in closed circuits by means of coils, plates and chambers. In addition, to a lesser extent, it is used in the mixing of baths of chemical treatments and emulsions, the air conditioning at the plants and as sanitary water.

Acerinox therefore assigns significant resources and makes great efforts to reduce the consumption of this resource (and, in turn, the associated costs) and to return as much water as possible to the natural environment, ensuring that it retains similar conditions (purity, quality and temperature) to those in which it is collected as far as possible.

	2019	2018
	Volume (m3)	Volume (m3)
Volume of water catchment in areas with no shortages	**5,439,159**	**5,996,658**
Surface water	5,162,616	5,702,066
Third-party companies' water	211,203	294,592
Others (produced water)	65,340	0
Volume of water catchment in areas with shortages	**4,021,112**	**3,651,170**
Surface water	3,716,666	3,417,818
Third-party companies' water	304,446	233,352
Others	0	0

Surface water refers to collection and water from third parties to consumption

Reservoir for collecting rainwater at the Columbus Stainless Mill (South-Africa).

The Acerinox Group plants have strict measures in place to prevent, avoid and resolve spillages from tipping or storing substances should they occur. All the factories have neutralisation plants for treating acidic and basic waters, as well as emergency dams to prevent spillages into the environment and other security mechanisms to eliminate any potential spillages. Similarly, the tanks are also equipped with a rigid inner tank, with an emergency stop function and an emergency cleaning service.

In particular, these measures are reinforced in areas with water shortages in which the Group operates, especially at the Acerinox Europa, Columbus, Roldán and Inoxfil plants.

Acerinox Europe

Some of the water used in the process is maintained in constant recirculation. The water that doesn't recirculate and discharged is previously treated (flocculation, decantation and neutralisation) and complies with the conditions on discharges of the IEA (Integrated Environmental Authorisation). This used water is discharged into the sea in the Bay of Algeciras and its properties are constantly monitored.

The discharges totalled 1,434,018 m^3 in 2019.

Bahru Stainless

All the water collected in Bahru comes from the artificial reservoirs in the area that feed on rainwater, in such a way that the water passes through a treatment plant prior to its use.

With regard to discharges, different treatments such as neutralisation processes are applied at the factory's wastewater treatment plant, in such a way that the final effluent complies with Standard A required by the National Environmental Legislation Requirements.

The discharges totalled 260,824 m^3 in 2019.

Columbus Stainless

Columbus has made a great effort at the factory in South Africa to adapt to the situation of the local environment, characterised by the scarcity of water in the region, opting for different sources in accordance with the needs and context of the area. To do so it has established a priority-based order of use.

Firstly, the maximum possible amount of water is obtained by means of the reuse of the treated water at the factory's effluent treatment plant, previously applying the appropriate treatment processes, including reverse osmosis and evaporation. In addition, in order to capitalise on the concentrated brine, it is sold as a calcium nitrate product.

Secondly, to promote sustainable use of water in the area, reservoirs have been constructed to allow the collection of a significant volume of rainwater during the wet season and thus supply the factory.

Thirdly, as appropriate, water is obtained from the municipal network.

It should be highlighted that Columbus is a member of the "Upper Olifants Catchment Management Forum", an association that promotes the application of measures for the sustainable and adequate use of water resources, and that the factory applies a Zero Effluents principle.

The discharges totalled 51,938 m3 in 2019.

Inoxfil

All the water consumed comes from the public network that supplies water to the companies on the industrial estate where Inoxfil is located.

The discharges go into the municipal sewerage network having previously being treated by means of coagulation and flocculation processes through a connection point at which the process, sanitary and storm waters converge. In addition, the water entering the factory is subjected to a descaling process. There is also a physical-chemical treatment plant to treat the water from the surface treatment processes.

The discharges totalled 35,500 m3 in 2019.

North American Stainless

The water is collected from the river Ohio by means of the corresponding permits obtained by the factory. Prior to its use the water is treated by means of polymers and it passes through sand filters that retain the solid particles. Rainwater is also collected.

Different treatments are applied throughout the production process so as to reuse the water as many times as possible, until its characteristics are no longer suitable for the production process. For example, the water used on the pickling lines is subsequently used in the production of caustic or acid products.

This is when it is returned to the river Ohio with parameters that contribute to preventing any possible environmental impact, in compliance with the current environmental regulations. For this purpose, neutralisation tanks and chromium reduction and nickel precipitate equipment are used, as well as metal extraction, neutralisation processes, etc.

At this factory, as at Acerinox Europa, the quality of water poured into the river is monitored in real time.

The discharges totalled 3,567,580 m3 in 2019.

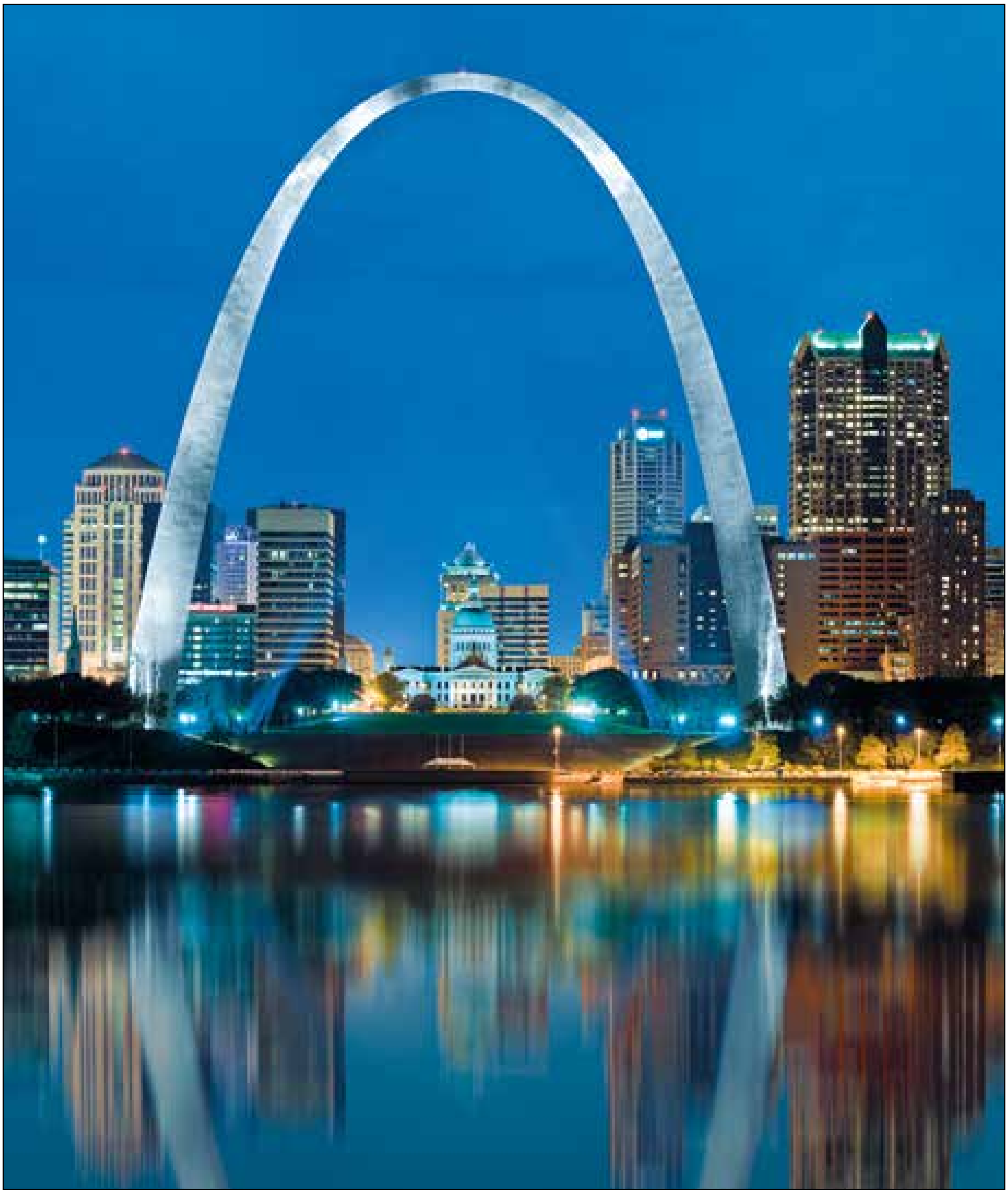
Roldán

The water supply for human consumption comes from the municipal network of Ponferrada and the water used in the industrial process comes from a catchment of the river Sil, authorised by the Miño-Sil Hydrographic Confederation. In addition, by means of the rainwater purification plant, these waters are collected through pipelines and are directed to the rainwater treatment facilities and then discharged into the river Sil.

The different measures to foster efficient water use include the use of closed circuits in such a way that the water, after its use in the production processes, passes through a purification plant to eliminate the suspended solids, fats and oils it contains by means of neutralisation and filtering processes.

The discharges go into both the Ponferrada sanitation network and the river Sil. In all cases their qualities are previously measured and the water undergoes neutralisation and flocculation processes.

The discharges totalled 388,171 m3 in 2019.



Gateway Arch in Missouri, lined with Stainless Steel.

Stainless Steel Coil in BA finish.

KPMG Asesores, S.L.
Pº de la Castellana, 259 C
28046 Madrid

Independent Assurance Report on Sustainability Report of Acerinox, S.A. and subsidiaries for the year 2019

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

To the shareholders of Acerinox, S.A.:

We have been engaged by Acerinox, S.A. management to perform a limited assurance review of the accompanying Sustainability Report for the year ended 31 December 2019 of Acerinox, S.A. (hereinafter, the Parent Company) and subsidiaries (hereinafter, the Group), prepared in accordance with the Sustainability Reporting Standards of the Global Reporting Initiative (GRI Standards), in its core option (hereinafter, the Report).

In addition, pursuant to article 49 of the Spanish Code of Commerce, we have performed a limited assurance review to verify that the Consolidated Non-Financial Information Statement (hereinafter NFIS) for the year ended 31 December 2019, of the Group, included in the Report which forms part of the Group's 2019 consolidated Directors' Report, has been prepared in accordance with the contents required by prevailing mercantile legislation.

The Report includes additional information to that required by GRI standards in its core option and prevailing mercantile legislation governing non-financial information that has not been the subject of our assurance engagement. In this regard, our work was limited only to providing assurance on the information contained in the "Table of GRI indicators" and the "Table of Contents in accordance with the 11/2018 Law on Non-Financial Information and Diversity" of the accompanying Report.

Directors' responsibilities

Management of the Parent Company is responsible for the preparation and presentation of the Report in accordance with the GRI Standards in its core option, in accordance with each subject area in the "Table of GRI indicators" of the aforementioned Report.

The Board of Directors of the Parent Company is responsible for the contents and the authorization for issue of the NFIS which has been prepared in accordance with the contents required by prevailing mercantile legislation and selected GRI Standards, in accordance with each subject area in the "Table of Contents in accordance with the 11/2018 Law on Non-Financial Information and Diversity" of the aforementioned Report.

This responsibility also encompasses the design, implementation and maintenance of internal control deemed necessary to ensure that the Report is free from material misstatement, whether due to fraud or error.

The directors of the Parent Company are also responsible for defining, implementing, adapting and maintaining the management systems from which the information necessary for preparing the Report was obtained.

Our Independence and quality control

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

Our firm applies International Standard on Quality Control 1 (ISQC1) and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

The engagement team was comprised of professionals specialised in reviews of non-financial information and, specifically, in information on economic, social and environmental performance.

Our responsibility

Our responsibility is to express our conclusions in an independent limited assurance report based on the work performed.

We conducted our review engagement in accordance with International Standard on Assurance Engagements, "Assurance Engagements other than Audits or Reviews of Historical Financial Information" (ISAE 3000 (Revised), issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC), and with the Performance Guide on assurance engagements on the Non-Financial Information Statement issued by the Spanish Institute of Registered Auditors (ICJCE).

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

Our work consisted of making inquiries of management, as well as of the different units of the Group that participated in the preparation of the Report, in the review of the processes for compiling and validating the information presented in the Report and in the application of certain analytical procedures and sample review testing described below:

- Meetings with the Group personnel to gain an understanding of the business model, policies and management approaches applied, the principal risks related to these questions and to obtain the information necessary for the external review.
- Analysis of the scope, relevance and completeness of the content of the Report based on the materiality analysis performed by the Parent Company and described in the section "Materiality analysis" considering the content required by prevailing mercantile legislation.
- Analysis of the processes for compiling and validating the data presented in the Report for 2019.
- Review of the information relating to the risks, policies and management approaches applied in relation to the material aspects presented in the Report for 2019.
- Corroboration, through sample testing, of the information relative to the content of the Report for 2019 and whether it has been adequately compiled based on data provided by information sources.
- Procurement of a representation letter from the Directors and management.

Conclusion

Based on the assurance procedures performed and the evidence obtained, nothing has come to our attention that causes us to believe that:

a.) The Sustainability Report of Acerinox, S.A and subsidiaries for the year ended 31 December 2019 has not been prepared, in all material respects, in accordance with the GRI Standards, in its core option, as described in point 102-54 of Table of GRI indicators.

b.) The NFIS of Acerinox, S.A. and subsidiaries for the year ended 31 December 2019 has not been prepared, in all material respects, in accordance with the contents included in prevailing mercantile legislation and with the GRI Standards selected, in accordance with each subject area in the Table of Contents in accordance with the 11/2018 Law on Non-Financial Information and Diversity of the Report.

Use and distribution

In accordance with the terms of our engagement, this Independent Assurance Report has been prepared for Acerinox, S.A. in relation to its 2019 Sustainability Report and for no other purpose or in any other context.

In relation to the Consolidated NFIS, this report has been prepared in response to the requirement established in prevailing mercantile legislation in Spain, and thus may not be suitable for other purposes and jurisdictions.

KPMG Asesores, S.L.

(Signed on original in Spanish)

Patricia Reverter Guillot

27 February 2019

8. ANNEXES

8.1 Table of GRI indicators

Indicator GRI	Disclosure	Page/Reference	External assurance
GRI 102: Contenidos Generales			
Organisational profile	102-1 Name of the organisation	Acerinox S.A.	•
	102-2 Activities, brands, products and services	199-200	•
	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	199-200	•
	102-5 Ownership and legal form	Acerinox Management Report 2019: 1. Business Model.	•
	102-6 Markets served	199-200	•
	102-7 Scale of the organisation	199-200	•
	102-8 Information on employees and other workers	222-223	•
	102-9 Supply chain	240-242	•
	102-10 Significant changes in the organisation and its supply chain	195-197	•
	102-11 Precautionary principle or approach	248-249	•
	102-12 External initiatives	195-197	•
	102-13 Membership of associations	235-237	•
Strategy	102-14 Statement from senior decision-makers	195-197	•
	102-15 Main impacts, risks and opportunities	195-197, 237 and 22	•
Ethics and Integrity	102-16 Values, principles, standards and norms of behaviour	207-211	•
Governance	102-18 Governance structure	206 and Acerinox Management Report 2019: 10. 2 The Board of Directors and its Committees.	•
Stakeholder Engagement	102-40 List of stakeholder groups	202-205	•
	102-41 Collective bargaining agreements	218-220	•
Stakeholder Engagement	102-42 Identifying and selecting stakeholders	202-205	•
	102-43 Approach to stakeholder engagement	202-205	•
	102-44 Key topics and concerns raised	202-205	•
Defining Report Content and Topic Boundaries	102-45 Entities included in the consolidated financial statements	Acerinox Management Report 2019: 1. About us.	•
	102-46 Defining report content and topic Boundaries	202-205	•

Indicator GRI	Disclosure	Page/Reference	External assurance
Defining Report Content and Topic Boundaries	102-47 List of material topics	202-205	•
	102-48 Restatements of information	No re-statement of information with respect to previous reports has been made.	•
	102-49 Changes in reporting	In 2019 Acerinox has integrated the information that it reported in 2018 on the 2018 Statement of Non-Financial Information and the 2018 Sustainability Report into a single Report.	•
	102-50 Reporting period	Calendar year 2019 (1 January to 31 December 2019).	•
	102-51 Date of most recent report	Calendar year 2018 (1 January to 31 December 2018).	•
	102-52 Reporting cycle	The reporting period for the information 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 drawn up in accordance with the Essential option of the GRI Standards.	•
	102-55 GRI Content Index	Table of GRI Indicators.	•
	102-56 External Assurance	The Acerinox Group has obtained a verification of the report, in accordance with the international standard ISAE 3000, through an independent third party: the firm KPMG Asesores, S.L. The report has been drawn up in accordance with the Essential option of the GRI Standards.	•
Economic performance			
GRI 103: Management approach	103-1 Explanation of the material topic and its Boundary	202-205	•
	103-2 The management approach and its components	202-205	•
	103-3 Evaluation of the management approach	202-205	•
GRI 201: Economic performance	201-1 Direct economic value generated and distributed	232	•
	201-4 Financial assistance received from government	Note 15 corresponding to the Annual Accounts	•
Indirect Economic Impacts			
GRI 103: Management approach	103-1 Explanation of the material topic and its Boundary	202-205	•
	103-2 The management approach and its components	202-205	•
	103-3 Evaluation of the management approach	202-205	•
GRI 203: Indirect Economic Impacts	203-1 Infrastructure investments and services supported	232-237	•
	203-2 Significant indirect economic impacts	232-237	•
Procurement Practices			
GRI 103: Management approach	103-1 Explanation of the material topic and its Boundary	202-205	•
	103-2 The management approach and its components	202-205	•
	103-3 Evaluation of the management approach	202-205	•

Indicator GRI	Disclosure	Page/Reference	External assurance
GRI 204: Procurement Practices	204-1 Proportion of spending on local suppliers	240	•
Anti-corruption			
GRI 103: Management approach	103-1 Explanation of the material topic and its Boundary	202-205	•
	103-2 The management approach and its components	202-205	•
	103-3 Evaluation of the management approach	202-205	•
GRI 205: Anti-corruption	205-1 Operations assessed for risks related to corruption	Fight against corruption and bribery. In 2019, no operation assessments were made in the context of corruption or for risks related to corruption, and no confirmed case of corruption was recorded.	•
	205-2 Communication and training about anti-corruption policies and procedures	208-210	•
	205-3 Confirmed incidents of corruption and actions taken	No confirmed cases of corruption have been recorded.	•
Anti-competitive Behaviour			
GRI 103: Management approach	103-1 Explanation of the material topic and its Boundary	202-205	•
	103-2 The management approach and its components	202-205	•
	103-3 Evaluation of the management approach	202-205	•
GRI 206: Anti-competitive Behaviour	206-1 Legal actions for anti-competitive behaviour, anti-trust and monopoly practices	There is no record of any legal actions having taken place concerning unfair competition, monopolistic practices or those against free competition.	•
Materials			
GRI 103: Management approach	103-1 Explanation of the material topic and its Boundary	202-205	•
	103-2 The management approach and its components	202-205	•
	103-3 Evaluation of the management approach	202-205	•
GRI 301: Materials	301-1 Materials used by weight or volume	252-256	•
	301-2 Recycled input materials used	252-256	•
Energy			
GRI 103: Management approach	103-1 Explanation of the material topic and its Boundary	202-205	•
	103-2 The management approach and its components	202-205	•
	103-3 Evaluation of the management approach	202-205	•
GRI 302: Energy	302-1 Energy consumption within the organisation	259-260	•
	302-2 Energy consumption outside of the organisation	259-260	•
	302-4 Reduction of energy consumption	258-260	•
Water			
GRI 103: Management approach	103-1 Explanation of the material topic and its Boundary	202-205	•
	103-2 The management approach and its components	202-205	•
	103-3 Evaluation of the management approach	202-205	•
GRI 303: Water	303-1 Interactions with water as a shared resource	262-265	•
	303-2 Management of water discharge-related impacts	262-265	•

Indicator GRI	Disclosure	Page/Reference	External assurance
GRI 303: Water	303-3 Water withdrawal	262-265	•
Emissions and Climate Change			
GRI 103: Management approach	103-1 Explanation of the material topic and its Boundary	202-205	•
	103-2 The management approach and its components	202-205	•
	103-3 Evaluation of the management approach	202-205	•
GRI 305: Issues	305-1 Direct (Scope 1) GHG Emissions	260	2
	305-2 Energy indirect (Scope 2) GHG Emissions	260	•
	305-4 Intensity of GHG emissions	260-261	•
	305-5 Reduction of GHG Emissions	260-261	•
	305-7 Nitrogen oxides (NOX), Sulfur oxides (SOX) and other significant air emissions	261	•
Effluent and waste			
GRI 103: Management approach	103-1 Explanation of the material topic and its Boundary	202-205	•
	103-2 The management approach and its components	202-205	•
	103-3 Evaluation of the management approach	202-205	•
GRI 306: Effluent and waste	306-1 Water discharge by quality and destination	262-265	•
	306-2 Waste by type and disposal method	255-256	•
	306-3 Significant spills	No significant spillages were recorded at the factories of the Group in 2019.	•
Environmental Compliance			
GRI 103: Management approach	103-1 Explanation of the material topic and its Boundary	202-205	•
	103-2 The management approach and its components	202-205	•
	103-3 Evaluation of the management approach	202-205	•
GRI 307: Environmental Compliance	307-1 Non-compliance with environmental laws and regulations	In 2019, no significant sanctions or non-monetary sanctions were received for failure to comply with environmental laws or regulations during the reporting period at any of the factories.	•
Environmental Assessment of Suppliers			
GRI 103: Management approach	103-1 Explanation of the material topic and its Boundary	202-205	•
	103-2 The management approach and its components	202-205	•
	103-3 Evaluation of the management approach	202-205	•
GRI 308: Environmental Assessment of Suppliers	308-1 New suppliers that were screened using environmental criteria	240-242	•
Employment			
GRI 103: Management approach	103-1 Explanation of the material topic and its Boundary	202-205	•
	103-2 The management approach and its components	202-205	•
	103-3 Evaluation of the management approach	202-205	•

Indicator GRI	Disclosure	Page/Reference	External assurance
GRI 401: Employment	401-1 New employee hires and employee turnover	216-217	•
	401-3 Parental Leave	221	•
Worker-Management Relations			
GRI 103: Management approach	103-1 Explanation of the material topic and its Boundary	202-205	•
	103-2 The management approach and its components	202-205	•
	103-3 Evaluation of the management approach	202-205	•
GRI 402: Worker-company relations	402-1 Minimum notice periods regarding operational changes		•
Salud y seguridad en el trabajo			
GRI 103: Management approach	103-1 Explanation of the material topic and its Boundary	202-205	•
	103-2 The management approach and its components	202-205	•
	103-3 Evaluation of the management approach	202-205	•
GRI 403: Health and Safety at Work	403-1 Representation of workers in formal, health and safety worker-company committees	228-231	•
	403-2 Types of accidents and frequency rates of accidents, occupational illnesses, lost days, absenteeism and number of deaths due to work-related accidents or occupational illnesses	231	•
	403-3 Workers with high incidence or at high risk of certain illnesses related to their activity	228-231	•
Training and Education			
GRI 103: Management approach	103-1 Explanation of the material topic and its Boundary	202-205	•
	103-2 The management approach and its components	202-205	•
	103-3 Evaluation of the management approach	202-205	•
GRI 404: Training and education	404-1 Average training hours per year per employee	223-224	•
	404-3 Percentage of employees receiving regular performance and career development reviews	223-224	•
Diversity and Equal Opportunities			
GRI 103: Management approach	103-1 Explanation of the material topic and its Boundary	202-205	•
	103-2 The management approach and its components	202-205	•
	103-3 Evaluation of the management approach	202-205	•
GRI 405: Diversity and Equal Opportunities	405-1 Diversity of governance bodies and employees	206, 216 and Acerinox Management Report 2019: 10. 2 The Board of Directors and its Committees.	•
	405-2 Ratio of basic salary and remuneration of women to men	222-225	•
Non-discrimination			
GRI 103: Management approach	103-1 Explanation of the material topic and its Boundary	202-205	•
	103-2 The management approach and its components	202-205	•
	103-3 Evaluation of the management approach	202-205	•

Indicator GRI	Disclosure	Page/Reference	External assurance
GRI 406: Non-discrimination	406-1 Incidents of discrimination and corrective actions taken	In 2019, the Company was not aware of incidents of discrimination.	•
Freedom of Association and Collective Bargaining			
GRI 103: Management approach	103-1 Explanation of the material topic and its Boundary	202-205	•
	103-2 The management approach and its components	202-205	•
	103-3 Evaluation of the management approach	202-205	•
GRI 407: Freedom of Association and Collective Bargaining	407-1 Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk	In 2019, the Acerinox Group did not record any operations or suppliers whose right to freedom of association and collective bargaining is at risk.	•
Child Labour			
GRI 103: Management approach	103-1 Explanation of the material topic and its Boundary	202-205	•
	103-2 The management approach and its components	202-205	•
	103-3 Evaluation of the management approach	202-205	•
GRI 408: Child Labour	408-1 Operations and suppliers at significant risk of incidents of child labour	All Acerinox Group companies support the abolition of child labour.	•
Forced or Compulsory Labour			
GRI 103: Management approach	103-1 Explanation of the material topic and its Boundary	202-205	•
	103-2 The management approach and its components	202-205	•
	103-3 Evaluation of the management approach	202-205	•
GRI 409: Forced or Compulsory Labour	409-1 Operations and suppliers at significant risk of incidents of forced or compulsory labour	In 2019, 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.	•
Local Communities			
GRI 103: Management approach	103-1 Explanation of the material topic and its Boundary	202-205	•
	103-2 The management approach and its components	202-205	•
	103-3 Evaluation of the management approach	202-205	•
GRI 413: Local Communities	413-1 Operations with local community engagement, impact assessments and development programmes	232	•
Social Assessment of Suppliers			
GRI 103: Management approach	103-1 Explanation of the material topic and its Boundary	202-205	•
	103-2 The management approach and its components	202-205	•
	103-3 Evaluation of the management approach	202-205	•
GRI 414: Social Assessment of Suppliers	414-1 New suppliers that were screened using social criteria	240-242	•
	414-2 Negative social impacts in the supply chain and actions taken	No negative social impact was recorded in the supply chain, and therefore, it was not necessary to take any action in that regard.	•

Indicator GRI	Disclosure	Page/Reference	External assurance
Customer Health and Safety			
GRI 103: Management approach	103-1 Explanation of the material topic and its Boundary	202-205	•
	103-2 The management approach and its components	202-205	•
	103-3 Evaluation of the management approach	202-205	•
GRI 416: Customer Health and Safety	416-1 Assessment of the health and safety impacts of product and service categories	247-249	•
	416-2 Incidents of non-compliance concerning the health and safety impacts of products and services	No material	•
Customer Privacy			
GRI 103: Management approach	103-1 Explanation of the material topic and its Boundary	202-205	•
	103-2 The management approach and its components	202-205	•
	103-3 Evaluation of the management approach	202-205	•
GRI 418: Client privacy	418-1 Substantiated complaints concerning breaches of customer privacy and losses of customer data	In 2019, there were no records of any significant complaints regarding breaches of customer privacy and losses of customer data being made through the established complaints channels.	•
Socio-economic Compliance			
GRI 103: Management approach	103-1 Explanation of the material topic and its Boundary	202-205	•
	103-2 The management approach and its components	202-205	•
	103-3 Evaluation of the management approach	202-205	•

8.2 Table of Contents in accordance with the 11/2018 Law on Non-Financial Information and Diversity

Information required by the Law on Non-financial Information	Standard used	Page/Reference
Business Model		
Brief description of the business model of the group (business environment and organisation).	102-2 Activities, brands, products and services 102-7 Size of the organisation	199-200
Geographical presence	102-3 Location of headquarters 102-4 Location of operations 102-6 Markets served	199-200
Objectives and strategies of the organisation	102-14 Statement from senior decision-makers	195-197
Main factors and trends that may affect its future development	102-15 Main impacts, risks and opportunities	Acerinox Management Report 2019: 2. Acerinox's industry in 2019
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 sections	102-54 Declaración de elaboración del informe de conformidad con los Estándares GRI	195-197 and 202-205
Materiality	102-46 Defining report content and topic Boundaries 102-47 List of material topics	202-205

Information required by the Law on Non-financial Information	Standard used	Page/Reference
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	212-213
The results of these policies, which must include relevant non-financial key performance indicators which allow the monitoring and evaluation of the progress made and which promote the comparability between companies and industries, in accordance with the national, European or international reference frameworks used for each matter.	103-2 The management approach and its components 103-3 Evaluation of the management approach	195-197
The main risks related to these issues related to the activities of the group, including, among others, when relevant and proportionate, their business relationships, products or services that may have negative effects in those areas, and how the group manages those risks, explaining the procedures used to detect and evaluate them according to national, European or international reference frameworks for each matter. Information on the impacts that have been detected must be included, offering a breakdown of the said impacts, in particular on the main short, medium and long-term risks.	102-15 Main impacts, risks and opportunities	202-205 and 212-213
Current and foreseeable effects of the company's activities on the environment and, where applicable, on health and safety	102-15 Main impacts, risks and opportunities	247-249
On the environmental evaluation and certification procedures	103-2 The management approach and its components	248-249
On the resources dedicated to the prevention of environmental risks	103-2 The management approach and its components	Note 8 of the Annual Accounts
On the application of the precautionary principle	102-11 Precautionary principle or approach	250
On the provisions and guarantees for environmental risks	103-2 The management approach and its components	Note 8 of the Annual Accounts
Pollution		
Measures to prevent, reduce or repair carbon emissions that seriously affect the environment, taking into account any form of air pollution specific to an activity, including noise and light pollution.	103-2 The management approach and its components 305-5 Reduction of GHG emissions	257-261
Circular Economy and Waste Prevention and Management		
Prevention measures, recycling, reuse, other forms of recovery and waste disposal; actions to combat food waste.	1103-2 The management approach and its components 306-1 Water discharge by quality and destination 306-2 Waste by type and disposal method	252-256
Sustainable use of resources		
Water consumption and water supply in accordance with the local restrictions.	303-1 Water interactions as a shared resource. 303-2 Water management and impacts resulting from the discharges. 303-3 Water catchment. 303-4 Water discharges. 303-5 Water consumption.	262-265
Consumption of raw materials and the measures adopted to improve the efficiency of their use.	301-1 Materials used by weight or volume	252-256

Information required by the Law on Non-financial Information	Standard used	Page/Reference
Direct and indirect energy consumption	103-2 The management approach and its components 302-1 Energy consumption within the organisation	259-260
Measures implemented to increase energy efficiency.	103-2 The management approach and its components 302-4 Reduction of energy consumption	257-259
Use of renewable energies.	302-1 Energy consumption within the organisation	257-259
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 GHG emissions (scope 1) 305-2 Indirect GHG emissions to generate energy (scope 2)	260-261
Measures adopted to adapt to the consequences of climate change.	103-2 The management approach and its components	260-261
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.	260-261
Protecting Biodiversity		
Measures implemented to preserve or restore biodiversity.	304-3 Habitats protected or restored	The activities and operations carried out by Acerinox do not have a direct influence on biodiversity and protected areas.
Impacts caused by activities or operations in protected areas.	304-2 Significant impacts of activities, products and services on diversity.	The activities and operations carried out by Acerinox do not have a direct influence on biodiversity and protected areas.
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	202-205
The results of these policies, which must include relevant non-financial key performance indicators which allow the monitoring and evaluation of the progress made and which promote the comparability between companies and industries, in accordance with the national, European or international reference frameworks used for each matter.	103-2 The management approach and its components 103-3 Evaluation of the management approach	202-205
The main risks related to these issues related to the activities of the group, including, among others, when relevant and proportionate, their business relationships, products or services that may have negative effects in those areas, and how the group manages those risks, explaining the procedures used to detect and evaluate them according to national, European or international reference frameworks for each matter. Information on the impacts that have been detected must be included, offering a breakdown of the said impacts, in particular on the main short, medium and long-term risks.	102-15 Main impacts, risks and opportunities	202-205

Information required by the Law on Non-financial Information	Standard used	Page/Reference
Employment		
Total number and distribution of employees based on criteria representing diversity (gender, age, country, etc.)	102-8 Information about employees and other workers 405-1 Diversity in governance bodies and employees	214-217
Total number and distribution of work contract types, annual average of contracts, temporary and part-time contracts according to gender, age and professional classification.	102-8 Information on employees and other workers	214-217
Number of dismissals by gender, age and professional classification	103-2 The management approach and its components	218
Average remunerations and their disaggregated development according to gender, age and professional classification and equal value.	405-2 Ratio of basic salary and remuneration of women to men 103-2 The management approach and its components	222-223
Salary gap, the remuneration of the same job positions and the company's average	405-2 Ratio of basic salary and remuneration of women to men	222-223
The average remuneration of directors and managers, including variable remuneration, attendance fees, compensation, payment to long-term savings forecast systems and any other benefits, disaggregated by gender.	102-35 Policies of retribution	222-223
Implementation of policies on the disconnection from work during non-work hours	103-2 The management approach and its components	Acerinox does not have specific measures related to work disconnection beyond those established in collective agreements and agreements reached with employees.
Disabled employees	405-1 Diversity in governance bodies and employees	225-226
Work organisation		
Organisation of the Working Schedule	103-2 The management approach and its components	221
Number of hours of absenteeism	403-2 Types of accidents and frequency rates of accidents, occupational illnesses, lost days, absenteeism and number of deaths due to work-related accidents or occupational illnesses	231
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	221
Health and Safety		
Health and Safety at Work Conditions	403-9 Workers with high incidence or high risk of diseases related to their activity	228-230
Accidents at work, in particular their frequency and severity, as well as occupational illnesses; disaggregated by gender.	403-10 Types of accidents and frequency of accidents, occupational diseases, lost days, absenteeism and number of deaths due to occupational accident or illness	221
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	218-220

Information required by the Law on Non-financial Information	Standard used	Page/Reference
Percentage of employees covered by collective agreements	102-41 Collective bargaining agreements	218-220
The balance of collective agreements, particularly in the field of health and safety at work	403-4 Health and Safety topics covered in formal agreements with trade unions	228-230
Training		
Policies implemented in the field of training	103-2 The management approach and its components 404-2 Programmes to improve employees' skills and transition assistance programmes	223-224
Total number of hours of training by professional categories	404-1 Average training hours per year per employee	223-224
Universal accessibility for people with disabilities		
Universal accessibility for people with disabilities	103-2 The management approach and its components	225-226
Equality		
Measures adopted to promote equal treatment and opportunities between men and women.	103-2 The management approach and its components	225-226
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	225-226
The policy against all types of discrimination and, where appropriate, management of diversity	103-2 The management approach and its components	225-226
Respect for Human Rights		
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	202-205
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Detailed information		
Application of due diligence procedures on the subject of human rights; prevention of the risks of violation of human rights and, where appropriate, measures to mitigate, manage and repair any abuse which may have been committed.	102-16 Values, principles, standards and codes of conduct 102-17 Advisory mechanisms and ethical concerns 410-1 Security personnel trained in human right policies and procedures 412-1 Operations subject to reviews or evaluations of the impact on human rights	210-211

Information required by the Law on Non-financial Information	Standard used	Page/Reference
Reports on cases of human rights violations	103-2 The management approach and its components 419-1 Failure to comply with laws and regulations in social and economic fields	Throughout 2019 there have been no complaints or claims of an infringement of human rights in the Group.
Promotion 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.	103-2 The management approach and its components 408-1 Operations and suppliers with significant risk of cases of child labour 409-1 Operations and suppliers with significant risk of cases of forced or compulsory labour	The Group supports the Principles of the United Nations Global Compact and promotes that explicitly stated: that businesses must support the elimination of all forms of forced labour, child or compulsory labour and during 2018 the Group has not identified any operations or activities of this type.
Fight against Corruption & 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	202-205
The results of these policies, which must include relevant non-financial key performance indicators which allow the monitoring and evaluation of the progress made and which promote the comparability between companies and industries, in accordance with the national, European or international reference frameworks used for each matter.	103-2 The management approach and its components 103-3 Evaluation of the management approach	202-205
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Detailed information		
Measures Adopted to Prevent Corruption and Bribery	102-16 Values, principles, standards and codes of conduct 102-17 Advisory mechanisms and ethical concerns 103-2 The management approach and its components 205-1 Operations evaluated for risks related to corruption 205-2 Communication and training on anti-corruption policies and procedures	211
Measures to combat money laundering	103-2 The management approach and its components 102-16 Values, principles, standards and codes of conduct 102-17 Advisory mechanisms and ethical concerns	211

Information required by the Law on Non-financial Information	Standard used	Page/Reference
Contributions to Foundations and Non-Profit Entities	102-13 Membership of associations 201-1 Direct economic value generated and distributed	232-234
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	202-205
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The Company's Commitments to Sustainable Development		
The impact of the activity of the company on employment and local development	103-2 The management approach and its components 204-1 Proportion of expenditure through local suppliers	240-242
The impact of the company's activity on local population and in the territory	204-1 Proportion of expenditure through local suppliers 413-1 Operations with the participation of the local community, impact assessments and development programmes 413.2 Operations with significant negative impacts - real or potential - in local communities	240-242
Relationships maintained with local community actors and the modalities of dialogue with these	102-43 Approach to stakeholder engagement 413-1 Operations with the participation of the local community, impact assessments and development programmes	240-242
Association or sponsorship actions	103-2 The management approach and its components	232-237
Subcontracting and Suppliers		
The inclusion of social issues, gender equality and environmental issues in the purchasing policy	414-1 New suppliers that have passed evaluation and selection filters in accordance with the social criteria 103-2 The management approach and its components	240-242
In relationships with suppliers and subcontractors consideration is taken regarding their social and environmental responsibility	102-9 Supply chain 308-1 New suppliers that have passed through evaluation and selection filters in accordance with the environmental criteria 414-1 New suppliers that have passed evaluation and selection filters in accordance with the social criteria	240-242

Information required by the Law on Non-financial Information	Standard used	Page/Reference
Supervision and audits systems and their results	102-9 Supply chain 308-2 Negative environmental impacts in the supply chain and the measures taken 414-2 Negative social impacts in the supply chain and the measures taken	240-242
Consumers		
Measures taken for the health and safety of consumers	103-2 The management approach and its components 416-1 Assessment of the health and safety impacts of product and service categories	Not material. The business does not deal directly with end consumers
Supervision and audits systems and their results	103-2 The management approach and its components 418-1 Substantiated complaints concerning violations the customers' privacy and loss of the customers' data	Not material. The business does not deal directly with end consumers
Tax Information		
Benefits obtained by country	201-1 Direct economic value generated and distributed	238-239
Income tax paid	201-1 Direct economic value generated and distributed	238-239
Public subsidies received	201-4 Financial assistance received from government.	238-239


BAHRU STAINLESS

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MIGUEL FERRANDIS TORRES
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OSWALD WOLFE GÓMEZ
Director of Institutional Relations, Sustainability and Communication

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