pwc

Acerinox, S.A. and subsidiaries

Report on limited review,
Condensed interim consolidated financial statements and
Interim consolidated directors' Report
at 30 June 2020

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

Report on limited review of condensed interim consolidated financial statements

To the shareholders of Acerinox, S.A. at the request of the Board of Directors:

Introduction

We have performed a limited review of the accompanying condensed interim consolidated financial statements (hereinafter, the interim financial statements) of Acerinox, S.A. (hereinafter, "the parent company") and its subsidiaries (hereinafter, "the Group"), which comprise the statement of financial position as at June 30, 2020, and the income statement, statement of other comprehensive income, statement of changes in equity, cash flow statement and related notes, all condensed and consolidated, for the six months period then ended. The parent company´s directors are responsible for the preparation of these interim financial statements in accordance with the requirements of International Accounting Standard (IAS) 34, "Interim Financial Reporting", as adopted by the European Union, for the preparation of condensed interim financial information, as provided in Article 12 of Royal Decree 1362/2007. Our responsibility is to express a conclusion on these interim financial statements based on our limited review.

Scope of Review

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

Conclusion

Based on our limited review, that cannot be considered as an audit, nothing has come to our attention that causes us to believe that the accompanying interim financial statements for the six months period ended June 30, 2020 have not been prepared, in all material respects, in accordance with the requirements of International Accounting Standard (IAS) 34, "Interim Financial Reporting", as adopted by the European Union, for the preparation of condensed interim financial statements, as provided in Article 12 of Royal Decree 1362/2007.

PricewaterhouseCoopers Auditores, S.L., Torre PwC, Pº de la Castellana 259 B, 28046 Madrid, España
Tel.: +34 915 684 400 / +34 902 021 111, Fax: +34 915 685 400, www.pwc.es

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

Emphasis of Matter

We draw attention to Note 2, in which it is mentioned that these interim financial statements do not include all the information required of complete consolidated financial statements prepared in accordance with International Financial Reporting Standards, as adopted by the European Union, therefore the accompanying interim financial statements should be read together with the consolidated annual accounts of the Group for the year ended December 31, 2019. Our conclusion is not modified in respect of this matter.

Other Matters

Interim consolidated directors´ Report

The accompanying interim consolidated directors' Report for the six months period ended June 30, 2020 contains the explanations which the parent company´s directors consider appropriate regarding the principal events of this period and their impact on the interim financial statements presented, of which it does not form part, as well as the information required under the provisions of Article 15 of Royal Decree 1362/2007. We have verified that the accounting information contained in this directors' Report is in agreement with that of the interim financial statements for the six months period ended June 30, 2020. Our work is limited to checking the interim consolidated directors' Report in accordance with the scope mentioned in this paragraph and does not include a review of information other than that obtained from Acerinox, S.A. and its subsidiaries´ accounting records.

Preparation of this review report

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

PricewaterhouseCoopers Auditores, S.L.

Originally in Spanish signed by
Jon Toledano Irigoyen

28 July 2020

ACERINOX, S.A. AND SUBSIDIARIES

Condensed consolidated interim financial statements for the first half of 2020

30 June 2020

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

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. CONDENSED CONSOLIDATED INTERIM BALANCE SHEETS

(Figures in thousands of euros at 30 June 2020 and 31 December 2019)

	Note	30-Jun-20	31-Dec-19
ASSETS			
Non-current assets			
Goodwill	9	51,064	1,235
Other intangible assets	9	50,209	3,233
Property, plant and equipment	10	1,949,001	1,793,740
Investment property	10	13,469	16,343
Right-of-use assets	11	15,012	6,379
Investments accounted for using the equity method		390	
Financial assets at fair value with changes through other comprehensive income	13	6,579	10,402
Deferred tax assets		139,573	101,033
Other non-current financial assets	13, 15	1,813	968
TOTAL NON-CURRENT ASSETS		**2,227,110**	**1,933,333**
Current assets			
Inventories	12	1,301,723	1,016,263
Trade and other receivables	13, 15	557,798	523,060
Other current financial assets	13, 15	7,930	7,112
Current tax assets		34,732	40,094
Cash and cash equivalents		1,109,630	876,935
TOTAL CURRENT ASSETS		**3,011,813**	**2,463,464**
TOTAL ASSETS		**5,238,923**	**4,396,797**

The condensed notes 1 to 24 are an integral part of these condensed consolidated interim financial statements.

(Figures in thousands of euros at 30 June 2020 and 31 December 2019)

LIABILITIES	Note	30-Jun-20	31-Dec-19
Equity			
Subscribed capital	17	67,637	67,637
Share premium		27,313	27,313
Reserves		1,694,167	1,760,500
Profit/Loss for the year		2,167	-59,545
Translation differences		46,396	76,331
Other equity instruments	23	1,808	1,446
Shares of the Parent	17	-1,062	-1,062
EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT		**1,838,426**	**1,872,620**
Non-controlling interests		41,715	56,369
TOTAL EQUITY		**1,880,141**	**1,928,989**
Non-current liabilities			
Deferred income		14,664	10,310
Issue of bonds and other marketable securities	13, 15	74,600	74,550
Bank borrowings	13, 15	1,360,744	977,187
Non-current provisions		193,645	49,092
Deferred tax liabilities		194,030	126,915
Other non-current financial liabilities	13, 15	26,778	15,629
TOTAL NON-CURRENT LIABILITIES		**1,864,461**	**1,253,683**
Current liabilities			
Bonds and other marketable securities	13, 14	3,503	1,634
Bank borrowings	13, 14	542,412	318,197
Trade and other payables	13	894,955	857,823
Current tax liabilities		45,463	27,582
Other current financial liabilities	13, 15	7,988	8,889
TOTAL CURRENT LIABILITIES		**1,494,321**	**1,214,125**
TOTAL LIABILITIES		**5,238,923**	**4,396,797**

The condensed notes 1 to 24 are an integral part of these condensed consolidated interim financial statements.

2. CONDENSED CONSOLIDATED INTERIM INCOME STATEMENTS

(Figures in thousands of euros at 30 June 2020 and 2019)

	Note	30-Jun-20	30-Jun-19
Revenue	21	2,331,131	2,441,543
Other operating income	21	3,574	7,345
Self-constructed non-current assets	21	1,347	1,428
Changes in inventories of finished goods and work in progress		-47,804	25,819
Supplies		-1,548,503	-1,746,950
Personnel expenses		-248,543	-211,888
Amortisation and depreciation	9, 10, 11	-88,489	-88,675
Other operating expenses		-326,512	-329,067
Impairment of property, plant and equipment	10	-42,548	
PROFIT FROM OPERATING ACTIVITES		33,653	99,555
Finance income		5,899	9,691
Finance costs		-20,533	-17,386
Exchange differences		1,621	-3,032
Fair value measurement of financial instruments		1,793	9,624
PROFIT FROM ORDINARY ACTIVITES		22,433	98,452
Income tax	18	-24,095	-30,109
Other taxes		-730	-2,224
LOSS/PROFIT FOR THE YEAR		-2,392	66,119
Attributable to:			
NON-CONTROLLING INTERESTS		-4,559	-3,223
NET PROFIT ATTRIBUTABLE TO THE GROUP		2,167	69,342
Basic and diluted earnings per share (in Euros)		0.01	0.25

The condensed notes 1 to 24 are an integral part of these condensed consolidated interim financial statements.

3. CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE INCOME

(Figures in thousands of euros at 30 June 2020 and 2019)

	30-Jun-20	30-Jun-19
A) LOSS/PROFIT FOR THE YEAR	**-2,392**	**66,119**
B) OTHER COMPREHENSIVE INCOME - ITEMS NOT RECYCLED TO PROFIT OR LOSS FOR THE PERIOD	**-2,900**	**33**
1. From recognition of equity instruments at fair value through other comprehensive income	-3,866	44
2. Actuarial gains and losses and other adjustments		
3. Tax effect	966	-11
C) OTHER COMPREHENSIVE INCOME - ITEMS THAT MAY BE RECYCLED TO PROFIT OR LOSS FOR THE PERIOD	**-42,583**	**2,680**
1. Cash flow hedges		
- Valuation gains/(losses)	-4,689	-6,616
- Amounts transferred to the income statement	1,318	1,154
2. Translation differences		
- Valuation gains/(losses)	-40,035	6,796
- Amounts transferred to the income statement		
3. Tax effect	823	1,346
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**-47,875**	**68,832**
a) Attributable to the Parent	-33,216	70,837
b) Attributable to non-controlling interests	-14,659	-2,005

The condensed notes 1 to 24 are an integral part of these condensed consolidated interim financial statements.

4. CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY

The movements for the reported period are as follows:

(Figures in thousands of euros)

	Equity attributable to shareholders of the Parent									
	Subscribed capital	Share premium	Reserves (includes profit/loss for the year)	Other equity instruments	Translation differences	Valuation adjustments	Treasury shares	TOTAL	Non-controlling interests	TOTAL EQUITY
Total equity at 31/12/19	67,637	27,313	1,707,282	1,446	76,331	-6,327	-1,062	1,872,620	56,369	1,928,989
Year-to-date result at June 2020			2,167					2,167	-4,559	-2,392
Cash flow hedges (net of tax)						-2,548		-2,548	0	-2,548
Valuation of equity instruments (net of tax)						-2,900		-2,900		-2,900
Translation differences					-29,935			-29,935	-10,100	-40,035
Net profit/loss directly recognised in equity	0	0	0	0	-29,935	-5,448	0	-35,383	-10,100	-45,483
Total comprehensive income	0	0	2,167	0	-29,935	-5,448	0	-33,216	-14,659	-47,875
Distribution of dividend								0		0
Distribution of share premium								0		0
Transactions with shareholders	0	0	0	0	0	0	0	0	0	0
Long-term incentive plan for senior managers				362				362	5	367
Other changes			-1,340					-1,340		-1,340
Total equity at 30/06/20	67,637	27,313	1,708,109	1,808	46,396	-11,775	-1,062	1,838,426	41,715	1,880,141

The condensed notes 1 to 24 are an integral part of these condensed consolidated interim financial statements.

The movements for the same interim period of the previous year is as follows:

(Figures in thousands of euros)

	Equity attributable to shareholders of the Parent									
	Subscribed capital	Share premium	Reserves (includes profit/loss for the year)	Other equity instruments	Translation differences	Valuation adjustments	Treasury shares	TOTAL	Non-controlling interests	TOTAL EQUITY
Total equity at 31/12/18	69,017	81,403	1,809,310	601	113,991	-8,303	-3,417	2,062,602	56,697	2,119,299
Year-to-date result at June 2019			69,342					69,342	-3,223	66,119
Cash flow hedges (net of tax)						-4,116		-4,116		-4,116
Valuation of equity instruments (net of tax)						33		33		33
Translation differences					5,578			5,578	1,218	6,796
Net profit/loss directly recognised in equity					5,578	-4,083		1,495	1,218	2,713
Total comprehensive income	0	0	69,342	0	5,578	-4,083	0	70,837	-2,005	68,832
Distribution of dividend			-81,136					-81,136		-81,136
Distribution of share premium		-54,090						-54,090		-54,090
Transactions with shareholders	0	-54,090	-81,136	0	0	0	0	-135,226	0	-135,226
Acquisition of treasury shares							-48,693	-48,693		-48,693
Redemption of treasury shares	-1,380		-49,668				51,048	0		0
Long-term incentive plan for senior managers				482				482	9	491
Transfers			-5,021			5,021		0		0
Other changes			14,993					14,993		14,993
Total equity at 30/06/19	67,637	27,313	1,757,820	1,083	119,569	-7,365	-1,062	1,964,995	54,701	2,019,696

The condensed notes 1 to 24 are an integral part of these condensed consolidated interim financial statements.

5. CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

(Figures in thousands of euros at 30 June 2020 and 2019)

	30-Jun-20	30-Jun-19
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	**22,433**	**98,452**
Adjustments for:		
Depreciation	88,489	88,675
Impairment losses	30,481	-9,194
Change in provisions	1,761	-560
Grants recognised in the income statement	-1,505	-1,444
Gains/(Losses) on disposals of fixed assets	1,348	1,463
Proceeds from sale of financial instruments	0	0
Change in fair value of financial instruments	-9,130	-14,893
Finance income	-5,899	-9,691
Finance costs	20,533	17,386
Other income and expenses	-627	3,219
Changes in working capital:		
(Increase) / decrease in trade and other receivables	24,156	-79,940
(Increase) / decrease in inventories	88,303	-5,250
Increase / (decrease) in trade and other payables	-146,872	96,645
Other cash flows from operating activities		
Interest paid	-17,582	-14,845
Interest received	5,833	9,691
Income tax paid	-26,651	-76,135
NET CASH FROM OPERATING ACTIVITIES	**75,071**	**103,579**
CASH FLOWS FROM INVESTING ACITIVITIES		
Acquisition of property, plant and equipment	-53,166	-68,405
Acquisition of intangible assets	-313	-759
Dependent acquisition, net of cash proceeds	-273,563	0
Acquisition of other financial assets	-203	-166
Proceeds from the sale of property, plant and equipment	3,016	4,636
Proceeds from the sale of intangible assets	0	0
Proceeds from the sale of other financial assets	2	3
Dividends received	60	1
NET CASH FROM INVESTING ACTIVITIES	**-324,167**	**-64,690**
CASH FLOWS FROM FINANCING ACTIVITIES		
Acquisition of treasury shares	0	-48,693
External financing received	791,825	442,708
Repayment of interest-bearing liabilities	-297,985	-380,671
Dividends paid	0	-81,136
NET CASH FROM FINANCING ACTIVITIES	**493,840**	**-67,792**
NET INCREASE IN CASH AND CASH EQUIVALENTS	**244,744**	**-28,903**
Cash and cash equivalents at the beginning of the period	876,935	850,114
Effect of exchange rate fluctuations	-12,049	5,352
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**1,109,630**	**826,563**

The condensed notes 1 to 24 are an integral part of these condensed consolidated interim financial statements.

CONTENTS: NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

6. NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

NOTE 1 - GENERAL INFORMATION

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

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

On 17 March 2020 the closing memorandum was signed, establishing the sale and purchase agreement with Lindsay Goldberg Vogel GmbH and Falcon Metals BV, through which Acerinox, S.A. acquired all the ownership interest in VDM Metals Holding GmbH ("VDM"), a company with its headquarters in Germany and a world leader in the production of special alloys. VDM Metals Holding GmbH holds shares in various entities. **Note 6** includes detailed information on this transaction.

VDM is a leader in the manufacture of special alloys and pioneer in R&D, Acerinox is recognised as one of the most efficient stainless steel producers in the world. The new industrial group now has complementary strengths that will enable it to continue being a pioneer and reference in the sector. With this transaction, the Acerinox Group is diversifying towards sectors with greater value added. VDM represents a major opportunity for Acerinox to expand in new markets and growing sectors, such as the aerospace, chemical, medical, hydrocarbon, renewable energies, water treatment and emissions control industries.

The latest approved annual financial statements, which were for 2019, are publicly available at the Company's headquarters, on the Group's website (www.acerinox.es) and on the website of the Spanish National Securities Market Commission (CNMV).

These condensed consolidated interim financial statements were authorised for issue by the Board of Directors on 27 July 2020.

NOTE 2 - STATEMENT OF COMPLIANCE

The condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 — Interim Financial Reporting. These financial statements do not include all the information required of complete financial statements and should be read and interpreted in conjunction with the Group's published annual financial statements for the year ended 31 December 2019.

NOTE 3 - ACCOUNTING POLICIES

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

The condensed consolidated interim financial statements for the first half of 2020 have been prepared using the same accounting principles (IFRS-EU) as for 2019, except for the standards and amendments adopted by the European Union, which are obligatory as of 1 January 2020, and are as follows.

- Amendment to IFRS 3 - Definition of a business: This amendment helps to determine whether an acquisition made is of a business or a group of assets. The amended definition emphasises that the output of a business is to provide goods and services to customers, whereas the previous definition focused on returns in the form of dividends, lower costs or other economic benefits to investors and others. This amendment is effective for business combinations for which the acquisition date is on or after 1 January 2020. The Group has taken this amendment into account when recognising the business combination that took place with the acquisition of all the ownership interest in VDM Metals Holding GmbH.

- IAS 1 (Amendment) and IAS 8 (Amendment) - Definition of material: with no impact on the Group.
- IFRS 9 (Amendment), IFRS 7 (Amendment) and IAS 39 (Amendment) - Interest rate benchmark reform: These amendments provide certain relief in connection with the interest rate benchmark reform (IBOR), relating mainly to hedge accounting. The IBOR reform should not generally cause hedge accounting to terminate. However, any hedge ineffectiveness should continue to be recognised in the income statement. Application of this amendment has not had an impact on the Group.

The standards, interpretations and amendments, which cannot be adopted in advance or which have not been adopted by the European Union and which may have an impact on the Group are as follows:

- IFRS 16 (Amendment). COVID-19-related rent concessions: The IASB issued an amendment to IFRS 16 - Leases, which provides an optional practical expedient for lessees when assessing whether a COVID-19 related rent concession is a lease modification. Lessees may choose to account for these rent concessions as if the change was not a lease modification. In many cases, this will result in accounting for the concession as variable lease payments in the period in which the event that triggers the reduced payment occurs. The amendment does not provide the same ease for lessors, who must apply the current requirements of IFRS 16 and consider whether or not there has been a modification to the corresponding lease contract. This amendment is applicable for reporting periods beginning on or after 1 June 2020; however earlier application is permitted, including for interim financial statements or financial statements not yet authorised for issue at 28 May 2020, pending approval by the European Union. There is no impact on the Group as no significant leases have been affected by COVID-19.
- IFRS 10 (Amendment) and IAS 28 (Amendment) - Sales or contributions of assets between an investor and its associate or joint venture: These amendments clarify the accounting treatment of sales and contributions of assets between an investor and its associate and joint venture. The amendments shall only apply when an investor sells or contributes assets to its associate or joint venture. The Group does not expect the application of this standard to have any impact since its investments in associates are not significant.
- IAS 1 (Amendment) - Classification of Liabilities as Current or Non-current: These amendments clarify that a liability is classified as current or non-current, based on the rights that are in existence at the end of the reporting period. The classification is unaffected by the expectations of the entity or the events after the reporting date. These amendments are effective on or after 1 January 2022, although earlier application is permitted. The Group does not expect any impact on its financial statements from applying this standard.
- IAS 16 (Amendment) Property, plant and equipment - proceeds before intended use: This amendment prohibits deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while the entity is preparing the asset for its intended use. The proceeds from selling such items, and the cost of producing those items, are now recognised in profit or loss. The amendment also clarifies that an entity is testing whether the asset is functioning properly when assessing the technical and physical performance of the asset. Therefore, an asset may be capable of operating in the manner intended by management and be subject to depreciation before it has reached the level of operating performance expected by management. These amendments are effective on or after 1 January 2022. To date, the Group has always recognised in profit or loss the proceeds earned from selling items produced while making the asset available for use. With regard to the date on which the asset becomes available for use, the Group's policies establish that an asset shall be considered capable of operating and, therefore, shall start to be depreciated, when it is in the location and in the condition necessary for it to be capable of operating in the manner intended by management.
- IAS 37 (Amendment) Onerous contracts—Cost of fulfilling a contract: The amendment explains that the direct cost of fulfilling a contract comprises the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling these contracts. This amendment also clarifies that before a separate provision for an onerous contract is recognised, the entity shall recognise any impairment loss that has occurred on the assets used to fulfil the contract, rather than on the assets dedicated to that contract. These amendments are effective on or after 1 January 2022.
- IFRS 3 (Amendment) - Reference to the Conceptual Framework: IFRS 3 has been updated so that it refers to the 2018 Conceptual Framework to determine what constitutes an asset or liability recognised in a business combination. Also, a new exception has been added to IFRS 3 for liabilities and contingent liabilities. These amendments are effective on or after 1 January 2022.

- Annual Improvements to IFRSs. 2018-2020 Cycle: The amendments affect IFRS 1, IFRS 9, IFRS 16 and IAS 41 and are effective for annual periods beginning on or after 1 January 2022. No impact on the Group is expected.

As a result of the purchase of VDM, the Group assessed the accounting policies applied by all companies belonging to the Group, and ensured that they are applied consistently with the policies established by the Acerinox Group, which are detailed in the financial statements for 2019.

The Group applied the following standard to recognise the new business combination effected in this interim period:

IFRS 3 - Business combinations

The Group applies IFRS 3 -Business combinations, revised in 2008, to the business combinations carried out on or after 1 January 2010.

The Group applies the acquisition method for business combinations.

The acquisition date is that on which the Group obtains control of the acquired business. The Group considers that control is obtained when the investor, through its involvement in the acquiree, is exposed or is entitled to variable returns and has the ability to influence those returns through the power it exercises over the investee. In an acquisition, the Group is generally considered to obtain control when the consideration is legally transferred and the acquiree's assets are acquired and liabilities are assumed. However, control may be obtained on a date that is earlier if a written agreement provides that control is obtained on an earlier date. The Group considers all pertinent facts and circumstances in identifying the acquisition date.

The consideration transferred for the business combination is determined at acquisition date by the sum of the fair values of the assets transferred, the liabilities incurred or assumed, the equity instruments issued and any contingent consideration that depends on future events or the fulfilment of certain conditions in exchange for control of the acquired business.

The consideration transferred excludes any disbursement that does not form part of the exchange for the acquired business. Acquisition-related costs are recognised as an expense when they are incurred.

At the acquisition date, the Group recognises the assets acquired and the liabilities assumed (and any non-controlling interest) at their fair value. The liabilities assumed include the contingent liabilities insofar as they represent current obligations resulting from past events and their fair value can be measured reliably. Also, the Group recognises indemnification assets granted by the seller at the same time and following the same valuation criteria as the indemnified item of the acquired business, taking into account any insolvency risk and any contractual limitations over the indemnified amount.

This criterion does not apply to non-current assets or disposal groups classified as held for sale, long-term defined benefit obligations, transactions with payments based on equity instruments, deferred tax assets and liabilities and intangible assets arising from the acquisition of previously granted rights.

The assets acquired and the liabilities assumed are classified and designated on the basis of the contractual terms, economic conditions, operating and accounting policies and other pertinent conditions existing at the acquisition date, with the exception of the lease contracts in which the acquired business is the lessor and insurance contracts.

The excess of the consideration transferred, plus the value assigned to the non-controlling interests, if any, and the net amount of the assets acquired and liabilities assumed, is recognised as goodwill.

If the business combination can be determined only provisionally, the identifiable net assets are recognised initially at their provisional amounts, recognising the adjustments made during the measurement period as if they had been known at the acquisition date and, where appropriate, restating the comparative figures for the previous year. In any event, adjustments to provisional values only incorporate information relating to facts and circumstances that were in existence at the acquisition date and that, if known, would have affected the amounts recognised at that date.

After this period, only adjustments to the initial valuation are made to correct an error.

Contingent liabilities are recognised until they are settled, cancelled or expired at the higher of the amount initially recognised, less the amounts to be allocated to consolidated profit or loss under the revenue from contracts with customers measurement rule and the amount resulting from the provision measurement rule.

NOTE 4 - ACCOUNTING ESTIMATES AND JUDGEMENTS

The accounting estimates and judgements used by the Group during this interim period were applied consistently with those used for the latest approved annual financial statements, which were for 2019.

With regard to the VDM Group, the estimates and judgements used in its financial statements are similar to those applied by Acerinox and make reference to estimations of possible impairment losses on non-financial assets, estimations of provisions, the recoverability of available tax loss carryforwards and the determination of employee benefit obligations. With regard the employee benefit obligations, which is the only item not described in the Group's financial statements, pension and similar obligations are determined on the basis of actuarial valuations, which take into account statistical ratios published by official bodies and refer to future valuations such as expected salary increases, growth rates, mortality rates, discount rates, etc. These rates may vary significantly depending on the economic and market conditions, which would change the valuation of the obligations recognised in the financial statements. The Group carried out an actuarial valuation of the employee benefit obligations at the acquisition date. At 30 June 2020, this obligation amounted to 165,057 thousand euros, recognised under "Non-Current Provisions" in the balance sheet.

NOTA 5 - FINANCIAL RISK MANAGEMENT

Note 4 of the Group's published annual financial statements for the year ended 31 December 2019 includes a detailed description of the risks to which the Group's activities are exposed, and the management carried out to minimise the impact thereof.

Although there have been exceptional circumstances caused by the global COVID-19 pandemic in the first half of 2020, the Group continues to consider the following to be the main financial risks mentioned in the financial statements for year-end 2019: currency risk, interest rate risk, price risk, credit risk and liquidity risk.

Despite the exceptional circumstances that have arisen, effective management of these risks has ensured that the Group has not been impacted significantly in terms of credit risk or liquidity risk.

With regard to credit risk, neither the default rate nor the delays in payment were greater compared to any other year prior to COVID-19.

With regard to liquidity risk, the Group maintains bank facilities totalling 2,607 million euros, 24% of which are available. At 30 June 2020 net debt increased to 872 million euros. Cash balances amounted to 1,110 million euros.

Note 14 indicates the most significant financing operations that took place in the first half of 2020.

Net financial debt[1] increased by only 377 million euros at 30 June compared to 31 December 2019, despite 313 million euros relating to the purchase of VDM and the incorporation of net debt totalling 85 million euros.

The maturities of the Group's term loans totals 1,575 million euros and are fully covered by the current liquidity.

Even though the effects of COVID-19 are still difficult to quantify in the world economy and, consequently, in our Company, the financial strength of the Group guarantees that its financing will not be affected in any way, since almost all gross debt, which totals 1,981 million euros, is free of covenants on results. Only the debt incorporated from VDM, 7% of the total, is conditional on the fulfilment of financial ratios on results, as detailed in **Note 14**.

---

[1]Net financial debt = Issue of bonds and other marketable securities (current and non current) + Current and non current bank borrowings – Cash and cash equivalents.

The Acerinox Group's liquidity situation is optimal for facing the current scenario, thanks to the strategy undertaken in recent years.

VDM is an international group and, like Acerinox, is exposed to the same risks: credit risk, liquidity risk, currency risk, interest rate risk and price risk, which may have a material impact on the financial statements and results. The aim is to limit these risks by taking out financial instruments and insurance policies. VDM uses the following derivative financial instruments: currency insurance and futures on the prices of metals traded on the LME ("London Metal Exchange") in order to cover the volatility of the purchase prices of raw materials, with the main metal being nickel, although they also provide cover for other metals.

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

NOTE 6 - BUSINESS COMBINATIONS

As explained in **Note 1** to these interim financial statements, on 17 March 2020 Acerinox, S.A. signed the closing memorandum, establishing the acquisition agreement for 100% of the ownership interest in VDM Metals Holding GmbH ("VDM"), which represents 100% of the voting rights, following authorisation by the competition authorities of the US, the European Union and Taiwan on 13 December 2019, 25 February 2020 and 9 March 2020, respectively, for the purchase of the shares. These approvals were the closing condition set out in the agreement for the transaction to take place.

VDM Metals Holding Gmbh, a company with its headquarters in Germany, is the Parent of the Group of companies that make up the VDM Group, world leader in the production of special alloys and high-performance stainless steels. The VDM Group has 5 factories in Germany, 2 in the US and 5 service centres. Additionally, VDM Metals has a portfolio of 1,700 customers and more than 2 thousand employees. Within its production chain, VDM Metals has a product portfolio that includes both flat products (sheets and strips) and long products (bars and wire) and also piping material and forging parts with a high nickel content. VDM also operates a commercial distribution business for semi-finished products and metal components. The main markets are the aerospace, chemical, medical, electrical engineering, hydrocarbon, renewable energies, water treatment and emissions control industries. All products are made of high performance metal alloys with a high nickel content, which requires the use of state-of-the-art technologies with high temperature corrosion treatments. VDM is a pioneer in R&D&i activities.

VDM will be integrated into the ACERINOX Group as a new division at the same level as the other large production subsidiaries: North American Stainless (the US), Columbus (South Africa), Acerinox Europa and Roldán (Spain) and Bahru Stainless (Malaysia). With this transaction, the Acerinox Group is diversifying towards sectors with greater value added. VDM represents a major opportunity for Acerinox to expand in new markets and growing sectors.

The acquired business has generated for the Group revenue and consolidated profit after tax amounting to 278,607 thousand euros and 13,114 thousand euros, respectively, in the period from the acquisition date to 30 June 2020. If the acquisition had taken place on 1 January 2020, the Group's revenue and consolidated profit would have amounted to 413,452 thousand euros and 15,215 thousand euros, respectively, for the period ended 30 June 2020.

The detail of the consideration transferred, the fair value of the net assets acquired and of the goodwill is as follows:

	Thousands of euros
Cash paid	313,315
Total consideration transferred	**313,315**
Fair value of the net assets acquired	263,486
GOODWILL	**49,829**

There is no contingent consideration that depends on future events or the fulfilment of certain conditions in exchange for control of the acquired business.

The Group recognised costs of 16,219 thousand euros relating to the transaction, of which 14,575 thousand euros were recognised as expenses in the first half of 2020 and 1,644 thousand were recognised in 2019.

Goodwill represents the excess of the cost to acquire the ownership interest in the VDM Group over the fair value of the identifiable assets of the acquired company at the acquisition date (assets, liabilities and contingent liabilities).

The most significant factors that led to the recognition of goodwill were the diversification of the Group, access to new markets with improved margins, possible future synergies and the technical experience of VDM's employees. Goodwill is not deductible for tax purposes. This goodwill was allocated to the new high performance alloys operating segment, which includes all the VDM Group's entities, since no lower-level cash-generating unit was identified following the analysis performed.

IFRS 3 establishes that the measurement period of the business combination shall not exceed one year from the acquisition date. At the closing date of these interim financial statements, although the measurement process is well advanced and management considers that no significant adjustments will arise with respect to those reported in these interim financial statements, the initial accounting for the business combination is provisional for the valuation of fixed assets and, consequently, also for the valuation of customer relationships. Any adjustment made to these provisional values shall be recognised at the acquisition date, pursuant to the standard.

The detail of the assets and liabilities recognised at fair value as a result of the acquisition is as follows:

	Fair value (thousand of euros)	
Non-current assets		
Other intangible assets	48,940	
Property, plant and equipment	254,722	
Right-of-use assets	10,411	
Investments accounted for using the equity method	390	
Deferred tax assets	24,631	
Other non-current financial assets	756	
TOTAL NON-CURRENT ASSETS	**339,850**	
Current assets		
Inventories	390,504	
Trade and other receivables	78,312	(*)
Other current financial assets	2,437	
Current tax assets	3,793	
TOTAL CURRENT ASSETS (excluding cash)	**475,046**	
Non-current liabilities		
Bank borrowings	-120,386	
Non-current provisions	-172,066	
Deferred tax liabilities	-78,758	
Other non-current financial liabilities	-7,579	
TOTAL NON-CURRENT LIABILITIES	-378,789	
Current liabilities		
Bank borrowings	-4,519	
Trade and other payables	-192,488	
Current tax liabilities	-5,887	
Other current financial liabilities	-9,479	
TOTAL CURRENT LIABILITIES	-212,373	
TOTAL NET ASSETS ACQUIRED (excluding cash)	223,734	
Amount paid in cash	313,315	
Cash and cash equivalents of the acquired company	-39,752	
Flow of cash paid for the acquisition	**273,563**	

(*) "Trade and other receivables" includes a provision for doubtful debts amounting to 855 thousand euros.

The Acerinox Group allocated the acquisition price to the fair values of the assets, liabilities and contingent liabilities through an independent expert, who valued them according to different accepted valuation methods.

Following the valuation carried out, the Group considered that the net carrying amount of the assets and liabilities at the acquisition date corresponded to their fair value, except for the following:

- Plant machinery and equipment
- Patents
- Investments in associates
- Emission allowances and their associated provision

Also, intangible assets associated with the customer portfolio and a contingent liability that the Group had not recognised in its consolidated financial statements at the acquisition date were identified. The contingent liability arose from the tax inspection initiated on 19 March 2019 in one of the VDM Group's subsidiaries, VDM Metals Italia SRL, covering the years 2013 to 2018. **Note 20** includes detailed information on this contingent liability.

Deferred tax of 45,474 thousand euros was recognised in relation to these fair value adjustments.

With regard the acquisition, Acerinox received a guarantee from the previous owner, amounting to 15,000 thousand euros, valid for a period of twelve months from the acquisition date, to cover possible partial refunds of the price paid in advance and possible refunds for transactions defined as not permitted in the sale and purchase agreement.

NOTE 7 - CHANGES IN THE CONSOLIDATED GROUP

On 17 March 2020 Acerinox, S.A. acquired 100% of the ownership interest in VDM Metals Holding GmbH. The entity holds shares in various entities, as shown in the table below, which hereinafter will be integrated into the Acerinox Group's financial statements:

Company	Country	% Ownership interest
VDM Metals GmbH	Germany	100%
VDM Metals International GmbH	Germany	100%
VDM-Unterstützungskasse GmbH	Germany	100%
VDM Metals UK Ltd	The UK	100%
VDM Metals Benelux B.V.	The Netherlands	100%
VDM Metals France S.A.S.	France	100%
VDM Metals Austria G.m.b.H.	Austria	100%
VDM Metals Italia S.r.l.	Italy	100%
VDM Metals Canada Ltd.	Canada	100%
VDM Metals Australia Pty. Ltd.	Australia	100%
VDM Metals Japan K.K.	Japan	100%
VDM (Shanghai) High Performance Metals Trad. Co. Ltd.	China	100%
VDM Metals de Mexico S.A. de C.V.	Mexico	100%
VDM Metals USA LLC.	USA	100%
VDM Metals Korea Co. Ltd.	South Korea	100%
VDM High Performance Metals Nantong Co. Ltd.	China	100%
MOL Katalysator-technik GmbH	Germany	20.45%
Evidal Schmöle Verwaltungsgesell-schaft GmbH	Germany	50%

NOTE 8 - SIGNIFICANT EVENTS TAKING PLACE IN THE FIRST HALF OF 2020

Market environment

The most influential factor of the first half of 2020 was the pandemic arising from COVID-19, which affected the levels of industrial activity and the consumption of stainless steels, and whose economic consequences at world level will determine the coming quarters.

Manufacturing activity was affected differently from country to country: Acerinox's factories in Spain had to halt production for 4 days in March, in the US activity did not cease throughout this period, although it decreased compared to the same period in 2019. In South Africa the factory was shut down for almost all of April and in Malaysia activity stopped from the middle of March to the end of April.

In Europe, apparent consumption of flat products decreased by 15% to May. The safeguarding measures, which are not designed for a declining market, have not served to stop imports, which have maintained a penetration of approximately 25% in the case of flat products and have continued to exert enormous pressure on prices. Active efforts continued to be made to prevent unfair competition in Europe, and as a result of these efforts provisional anti-dumping tariffs were implemented at the beginning of April for hot-rolled products from China (up to 19%), Indonesia (up to 17%) and Taiwan (up to 7.5%), with an anti-subsidy investigation also underway for the same materials from China and Indonesia.

Apparent consumption in the American market until April, the latest data available, fell by 2%. Imports remained at low levels, with a market share of approximately 14%. The American authorities maintained the tariff on slabs from Indonesia, which is positive for the American industry. Inventories in the US remained below the average of recent years.

In the Asian markets the situation continued to worsen as a result of production surpluses in China and Indonesia, which led to a continued fall in prices. The impact of Covid-19 in China led to a reduction in consumption and prices, but not so much in production. Stocks at the Wuxi and Foshan warehouses declined during the second quarter of 2020, although they remained at a high level.

The Group intensified its efforts in this period to reduce costs in all the business units. Also, planned investments were reviewed, postponing those that were not strictly necessary, and optimising working capital requirements.

At Acerinox Europa, an agreement was reached with the Work Council of the Campo de Gibraltar factory (Cádiz), which approved a temporary labour force adjustment plan (ERTE) for the aforementioned factory due to the circumstances arising in production. This plan was supported by the four unions present in the Council. The agreement provides for a duration of up to one year from 5 May, includes the entire workforce, and makes it possible to adapt personnel to the production needs existing at any given time and, therefore, providing greater flexibility to management. This agreement creates an environment of security and certainty beneficial to all parties, helps to maintain employment and will enable the workforce to adapt to the order books.

Acquisition of VDM

As described in **Note 6**, on 17 March Acerinox made effective the purchase of VDM Metals after receiving the relevant approvals from the European, US and Taiwanese competition authorities.

With this operation, the Acerinox Group expects to diversify towards sectors with greater value added and it represents an opportunity to grow in new markets and industries, such as the aerospace, chemical, medical, hydrocarbon, renewable energies, water treatment and emissions control industries.

Results

Revenue during the first half of 2020 totalled 2,331 million euros, a decrease of 5% compared to the same period in 2019, due to reduced activity as a result of COVID-19 and lower prices.

The Group's swift response to the coronavirus crisis enabled it to reduce significantly both fixed and variable costs. For this reason, the operational results obtained by the Group have been commendable. Adjusted EBITDA[2] for the first half of 2020, less the expenses arising from the purchase of VDM totalling 14 million euros, amounted to 179 million euros after a negative net realisable adjustment to inventory of 20 million euros was made.

Following the regulator's recommendations, impairment tests were carried out in the first half of 2020 in view of the global economic impact generated by COVID. Only an impairment loss in Bahru Stainless had to be recognised. As a result of the valuations, an impairment of the company's assets amounting to 43 million euros was recognised, affecting the level of operating profit.

In the first half of 2020, profit after tax and minority interests totalled 2 million euros.

---

[2]EBITDA = Results from operating activities - Amortisation and depreciation - Impairment of property, plant and equipment - Changes in trade provisions for an amount of -166 thousand euros included under "Other Operating Expenses" in the income statement (+1,747 thousand euros at 30 June 2019)

NOTE 9 - INTANGIBLE ASSETS

The table below details the movements in intangible assets:

(Figures in thousands of euros)

COST	Development expenses	Industrial property	Computer software and other	Customer portfolio (*)	SUBTOTAL	Goodwill (*)
Balance at 1 January 2019	**0**	**24,312**	**26,045**	**0**	**50,357**	**69,124**
Acquisitions	0	0	953		953	
Transfers	0	0	748		748	
Disposals	0	0	-47		-47	
Translation differences	0	0	100		100	
Balance at 31 December 2019	**0**	**24,312**	**27,799**	**0**	**52,111**	**69,124**
Business combinations	16,620	7,964	22,430	29,200	76,214	49,829
Additions	364	0	503		867	
Transfers	0	0	37		37	
Disposals	-926	0	-10		-936	
Translation differences	0	0	-489		-489	
Balance at 30 June 2020	**16,058**	**32,276**	**50,270**	**29,200**	**127,804**	**118,953**

ACCUMULATED AMORTISATION AND IMPAIRMENT	Development expenses	Industrial property	Computer software and other	Customer portfolio (*)	SUBTOTAL	Goodwill
Balance at 1 January 2019	**0**	**24,312**	**23,796**	**0**	**48,108**	**0**
Charges	0	0	743		743	
Impairment charges						-67,889
Transfers						
Disposals	0	0	-47		-47	
Translation differences	0	0	74		74	
Balance at 31 December 2019	**0**	**24,312**	**24,566**	**0**	**48,878**	**-67,889**
Business combinations	7,048	710	19,516		27,274	
Charges	372	139	764	649	1,924	
Transfers	0	0	1		1	
Disposals	-226	0	-10		-236	
Translation differences	0	0	-246		-246	
Balance at 30 June 2020	**7,194**	**25,161**	**44,591**	**649**	**77,595**	**-67,889**

CARRYING AMOUNT	Development expenses	Industrial property	Computer software and other	Customer portfolio (*)	SUBTOTAL	Goodwill
Cost at 1 January 2019	0	24,312	26,045	0	50,357	69,124
Accumulated amortisation and impairment	0	-24,312	-23,796	0	-48,108	
Carrying amount at 1 January 2019	**0**	**0**	**2,249**	**0**	**2,249**	**69,124**
Cost at 31 December 2019	0	24,312	27,799	0	52,111	69,124
Accumulated amortisation and impairment	0	-24,312	-24,566	0	-48,878	-67,889
Carrying amount at 31 December 2019	**0**	**0**	**3,233**	**0**	**3,233**	**1,235**
Cost at 30 June 2020	16,058	32,276	50,270	29,200	127,804	118,953
Accumulated amortisation and impairment	-7,194	-25,162	-44,590	-649	-77,595	-67,889
Carrying amount at 30 June 2020	**8,864**	**7,114**	**5,680**	**28,551**	**50,209**	**51,064**

(*) Both the amount of goodwill arising from the business combination and the valuation of the customer portfolio are provisional (see **Note 6**).

As a result of the allocation of the acquisition price of the purchase of the VDM Group to the identified net assets and liabilities, new intangible assets arose from the valuation of the customer portfolio which had not been recognised for accounting purposes to date in the VDM Group's separate financial statements. For the valuation of this intangible asset, the multi-period excess earnings method has been used.

Impairments

With respect to goodwill, the Group estimates the recoverable amount of goodwill on an annual basis, or more frequently when there are indications of possible impairment. As explained in the 2019 financial statements, goodwill totals 69 million euros and mainly relates to the acquisition of a controlling interest in Columbus Stainless, Ltd. in 2002. This goodwill, amounting to 67.9 million euros, related to the Columbus cash-generating unit (CGU), which only manufactures and sells flat products, and was completely impaired in 2019.

As described in **Note 6**, in 2020 new goodwill arose as a result of the acquisition of the VDM Metals Group. The goodwill was attributed to the VDM cash-generating unit (CGU), which wholly belongs to the high performance alloys segment. The amount of goodwill is provisional, since the measurement period has not yet ended. This goodwill may vary if new events occur that cause the current valuations to change; however, the process is well advanced and, therefore, no significant changes are expected.

At 30 June 2020 there were no indications of impairment of the goodwill. Also, and irrespective of the existence of any indication of impairment, at 31 December 2020 the Group will test this goodwill for any possible impairment.

NOTE 10 - PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY

The movements in property, plant and equipment and investment property is as follows:

(Figures in thousands of euros)

COST	Land and buildings	Technical installations and machinery	Other property, plant and equipment	Property, plant and equipment under construction	TOTAL property, plant and equipment	Investment property
Balance at 1 January 2019	**816,162**	**3,818,777**	**88,950**	**192,621**	**4,916,510**	**20,611**
Adjustment for hyperinflation	179	35	56		270	
Additions	2,426	58,127	3,862	86,319	150,734	
Transfers	40,673	188,351	2,113	-232,809	-1,672	
Disposals	-4,872	-20,877	-1,605	0	-27,354	
Translation differences	9,927	57,674	762	370	68,733	160
Balance at 31 December 2019	**864,495**	**4,102,087**	**94,138**	**46,501**	**5,107,221**	**20,771**
Business combinations	120,034	407,321	63,938	9,060	600,353	
Additions	425	11,973	2,116	36,656	51,170	0
Transfers	1,265	9,553	799	-11,654	-37	0
Disposals	-496	-5,231	-654	0	-6,381	-3,051
Translation differences	-3,493	-60,411	-1,511	-348	-65,763	-222
Balance at 30 June 2020	**982,229**	**4,465,292**	**158,826**	**80,215**	**5,686,562**	**17,499**

ACCUMULATED DEPRECIATION AND IMPAIRMENT	Land and buildings	Technical installations and machinery	Other property, plant and equipment	Property, plant and equipment under construction	TOTAL	Investment property
Balance at 1 January 2019	**350,538**	**2,591,117**	**83,948**	**0**	**3,025,603**	**4,076**
Charges	17,816	147,688	5,179		170,683	327
Impairment of property, plant and equipment	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	25
Balance at 31 December 2019	**369,818**	**2,855,376**	**88,287**	**0**	**3,313,481**	**4,428**
Business combinations	39,247	261,076	45,308		345,631	
Charges	9,658	71,437	3,378		84,473	156
Impairment charges	0	42,108	0		42,108	
Transfers	1	40	-42		-1	
Disposals	-393	-3,638	-640		-4,671	-517
Translation differences	-1,701	-40,477	-1,282		-43,460	-37
Balance at 30 June 2020	**416,630**	**3,185,922**	**135,009**	**0**	**3,737,561**	**4,030**

CARRYING AMOUNT	Land and buildings	Technical installations and machinery	Other property, plant and equipment	Property, plant and equipment under construction	TOTAL property, plant and equipment	Investment property
Cost at 1 January 2019	816,162	3,818,777	88,950	192,621	4,916,510	20,611
Accumulated depreciation and impairment	-350,538	-2,591,117	-83,948		-3,025,603	-4,076
Carrying amount at 1 January 2019	**465,624**	**1,227,660**	**5,002**	**192,621**	**1,890,907**	**16,535**
Cost at 31 December 2019	864,495	4,102,087	94,138	46,501	5,107,221	20,771
Accumulated depreciation and impairment	-369,818	-2,855,376	-88,287		-3,313,481	-4,428
Carrying amount at 31 December 2019	**494,677**	**1,246,711**	**5,851**	**46,501**	**1,793,740**	**16,343**
Cost at 30 June 2020	982,229	4,465,292	158,826	80,215	5,686,562	17,499
Accumulated depreciation and impairment	-416,630	-3,185,922	-135,009		-3,737,561	-4,030
Carrying amount at 30 June 2020	**565,599**	**1,279,370**	**23,817**	**80,215**	**1,949,001**	**13,469**

Investments made in the reporting period in property, plant and equipment, intangible assets and right-of-use assets under lease agreements amounted to 52,868 thousand euros, of which 23,197 thousand euros related to those made by Acerinox Europa, 16,949 by NAS, 4,030 by Columbus and 5,260 miles thousand euros by VDM. Due to the circumstances arising from the pandemic, the Group limited, to the maximum extent possible, the investments in fixed assets to be made in 2020. Investments in the first half of 2019 amounted to 78,970 thousand euros (of which 35,181 thousand euros were invested by Acerinox Europa in the new rolling mill and the fifth annealing and pickling line and 23,266 thousand euros were invested by NAS and 15,607 thousand euros were invested by Columbus).

In January 2019, the Acerinox Europa Group company reclassified the investments made in the new rolling mill and in the fifth annealing and pickling line from property, plant and equipment under construction to finished property, plant and equipment, after having reached the optimum production volumes and quality determined by management. The reclassified amount totalled 150,748 thousand euros and gave rise to an increase in depreciation of 627 thousand euros /month. Also, the improvements made to the AP3 annealing and pickling line, which totalled 19,471 thousand euros were reclassified from property, plant and equipment under construction to finished property, plant and equipment.

Disposals of fixed assets

The gain on the sale of property, plant and equipment or the removal of assets from service totalled 750 thousand euros and was recognised under "Other Operating Income" in the income statement at June 2020 (247 thousand euros at June 2019). This gain related mainly to the sale of a warehouse classified by the Group as investment property.

Losses on the sale of property, plant and equipment or the removal of assets from service totalled 2,098 thousand euros at June 2020 (1,709 thousand euros at June 2019) and were recognised under "Other Operating Expenses" in the income statement. Most of these losses related to the derecognition of spare parts for property, plant and equipment.

Commitments

At 30 June 2020, the Group had entered into contracts to acquire new equipment and installations amounting to 44,024 thousand euros, of which 16,284 thousand euros related to investments by Acerinox Europa, 16,988 thousand euros by NAS and 5,672 by VDM Metals. These investments will be made in the second half of 2020 and in 2021. At 31 December 2019 the Group had signed contracts to purchase new equipment and facilities amounting to 78,297 thousand euros, of which 37,231 thousand euros and 22,266 thousand euros were for new investments made by Acerinox Europa and NAS, respectively.

Impairment losses

The global pandemic experienced in the first half of 2020 and its impact on the levels of activity and sales have given rise to indications of impairment, and the Group has therefore revalued the estimates made at the end of the year.

The estimates for 2020 have been updated in view of the evolution of COVID-19 and the measures taken by the various governments to curb the spread of the virus and the fatality rate for society as a whole. Measures, such as the confinement of people and the complete shutdown of all activity defined as non-essential, affected especially the Bahru Stainless and Columbus Stainless factories, which were halted by government orders during all of April and a few days in March.

The COVID-19 pandemic gives rise to great uncertainty regarding the final impact and subsequent expected recovery. As a consequence of this situation, different international organisations are reviewing their estimates with an extraordinarily high frequency. The latest reviews point to a progressive recovery, from the moments of greatest impact between the first and second quarters of 2020, spread over the following years.

The Group has subjected the estimates for 2021-2024 to different likelihood of occurrence scenarios, reflecting the high uncertainty generated by COVID-19. The publications and latest updates from external sources enable a progressive recovery to be justified. Thus, the Group has proposed various scenarios that envisage a major impact in 2020 and subsequent gradual recovery from 2021, with greater or lesser speed, or even no recovery at all. In no case is it considered that COVID-19 will affect the terminal values calculated at the end of 2019.

Following this analysis, the different scenarios have been weighted according to the greater or lesser likelihood of occurrence.

With regard to Columbus Stainless PTY Ltd, following the analyses and stress tests performed using the aforementioned guidelines, the average budgeted EBIT margin on sales for 2020-2024 decreased by 2.7% compared to the average EBIT estimated in the impairment analysis performed at year-end. The remaining assumptions have remained unchanged. Following analysis, it was concluded that it was not necessary to carry out any impairments at 30 June in addition to those already carried out at the end of 2019 (67,889 thousand euros, corresponding to all the goodwill).

Similarly, with regard to Acerinox Europa, S.A.U., following the analyses and stress tests carried out, the budgeted EBIT margin on sales for 2020-2024 fell by 2.6%. All other assumptions remained unchanged and, therefore, it was concluded that no impairments had to be made at 30 June.

Furthermore, it was not necessary to recognise any impairment on the assets of Inoxfil, S.A., or Acerinox S.C. Malaysia Sdn. after the performance of the corresponding analyses following the aforementioned guidelines.

In the case of Bahru Stainless Sdn. Bhd, the Group resolved to seek the support of an independent valuation firm engaged at the end of 2019, which assisted in estimating the recoverable value. The independent expert re-estimated the fair value, in view of the new circumstances caused by COVID-19, maintaining the impairment test analysis from a market participant's perspective. In this context, the estimates for 2020, as well as for 2021-22 were updated, taking into account the impacts expected by independent external analysts, and considering a recovery in the long term to reach the margins estimated in the analysis carried out at 2019 year-end. Furthermore, the WACC discount rate was updated to 10.50% (9.75% in 2019).

As a result of the valuations carried out, the Group recognised an impairment loss of 42,108 thousand euros (47,152 thousand dollars) on the company's property, plant and equipment.

NOTE 11 - RIGHT-OF-USE ASSETS (LEASES)

The detail and movement in the exercise right-of use assets measured in accordance with the present value of future lease payments is as follows:

(Figures in thousands of euros)

COST	Land and buildings	Technical installations and machinery	Other property, plant and equipment	TOTAL Right-of-use assets
Balance at 1 January 2019	**2,311**	**4,590**	**974**	**7,875**
Revaluations	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**
Business combinations	9,629	1,980	1,525	13,134
Additions	149	0	682	831
Transfers	0	0	0	0
Disposals	0	0	-196	-196
Translation differences	-47	-5	-7	-59
Balance at 30 June 2020	**12,110**	**6,197**	**5,461**	**23,768**

ACCUMULATED DEPRECIATION 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				0
Translation differences	2	1	-1	2
Balance at 31 December 2019	**435**	**2,208**	**1,036**	**3,679**
Business combinations	2,050	417	256	2,723
Charges	737	697	773	2,207
Transfers	0	0	0	0
Disposals	0	0	180	180
Translation differences	-20	-3	-10	-33
Balance at 30 June 2020	**3,202**	**3,319**	**2,235**	**8,756**

CARRYING AMOUNT	Land and buildings	Technical installations and machinery	Other property, plant equipment	TOTAL property, plant and equipment
Cost at 1 January 2019	2,311	4,590	974	7,875
Accumulated depreciation and impairment	0	0	0	0
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 depreciation and impairment	-435	-2,208	-1,036	-3,679
Carrying amount at 31 December 2019	**1,944**	**2,014**	**2,421**	**6,379**
Cost at 30 June 2020	12,110	6,197	5,461	23,768
Accumulated depreciation and impairment	-3,202	-3,319	-2,235	-8,756
Carrying amount at 30 June 2020	**8,908**	**2,878**	**3,226**	**15,012**

In the initial application of the standard, the Group recognised right-of-use assets measured for an amount equivalent to the amount of the lease liability.

The balance of lease liabilities at 30 June 2020 amounted to 15,077 thousand euros, most of which is recognised under "Other Non-Current Financial Liabilities" (5,623 thousand euros at 31 December 2019).

Interest expense on lease liabilities recognised by the Group at 30 June 2020 amounted to 151 thousand euros. (106 thousand euros at 30 June 2019).

The amount of lease expenses relating to low-value assets or short-term leases recognised under "Operating Expenses" in the income statement amounted to 4,114 thousand euros. (4,579 thousand euros at 30 June 2019)

NOTE 12 - INVENTORIES

The detail of "Inventories" in the balance sheet is as follows:

(Figures in thousands of euros)

	At 30 June 2020	At 31 December 2019
Raw materials and other supplies	417,539	351,873
Work in progress	372,812	158,038
Finished goods	463,324	434,663
By-products, waste and recoverable materials	47,527	69,977
Advances	521	1,712
TOTAL	**1,301,723**	**1,016,263**

Raw materials and other supplies includes 17,246 thousand euros relating to the valuation of the emission allowance held by the Group at period end (12,249 thousand euros at 31 December 2019).

The adjustment recognised at 30 June 2020 to measure inventories at their net realisable value amounted to 19,932 thousand euros (20,182 thousand euros at 31 December 2019).

NOTE 13 - FINANCIAL INSTRUMENTS

The detail of the Group's financial assets, except for investments in associates, at 30 June 2020 and year-end 2019 is as follows:

(Figures in thousands of euros)

	Non-current financial instruments						Current financial instruments					
	Equity instruments		Debt securities		Loans, derivatives and other		Equity instruments		Debt securities		Loans, derivatives and other	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Loans and payables					1,762	920					559,591	524,000
Equity instruments												
- At fair value through other comprehensive income	6,249	10,115										
- At cost	330	287										
Assets at fair value through profit or loss					51						6,136	6,038
Hedging derivatives						48					1	134
TOTAL	**6,579**	**10,402**	**0**	**0**	**1,813**	**968**	**0**	**0**	**0**	**0**	**565,728**	**530,172**

At 30 June 2020 and year-end 2019 the Group had the following financial liabilities:

(Figures in thousands of euros)

	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	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Loans and payables	1,360,744	977,187	74,600	74,550	17,579	9,681	542,412	318,197	3,503	1,634	894,955	857,823
Liabilities at fair value through profit or loss					83						5,472	6,299
Hedging derivatives					9,116	5,948					2,516	2,590
TOTAL	**1,360,744**	**977,187**	**74,600**	**74,550**	**26,778**	**15,629**	**542,412**	**318,197**	**3,503**	**1,634**	**902,943**	**866,712**

13.1 Measurement of fair value

The Group measures financial assets at fair value through other comprehensive income and derivative financial instruments at fair value.

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

At 30 June 2020 and 31 December 2019, the situation in the Group of financial instruments measured at fair value was as follows:

(Figures in thousands of euros)

	30-Jun-20			31-Dec-19		
	LEVEL 1	LEVEL 2	LEVEL 3	LEVEL 1	LEVEL 2	LEVEL 3
Financial assets at fair value with changes through other comprehensive income	6,249			10,115		
Financial derivatives (assets)		6,188			6,220	
TOTAL	**6,249**	**6,188**	**0**	**10,115**	**6,220**	**0**
	LEVEL 1	**LEVEL 2**	**LEVEL 3**	**LEVEL 1**	**LEVEL 2**	**LEVEL 3**
Financial derivatives (liabilities)		17,187			14,837	
TOTAL	**0**	**17,187**	**0**	**0**	**14,837**	**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.

In the first half of 2020, and as a result of the acquisition of the VDM Metals Group, "Derivatives" included the arranged currency and interest rate derivatives, and also futures on the prices of metals traded on the LME ("London Metal Exchange"). The fair values of these futures contracts are estimated by the difference between the futures prices quoted on the LME for the referred raw material at the maturity of the contract and the futures price established in each contract.

13.2 Financial assets at fair value through other comprehensive income

As explained in the consolidated financial statements for 2019, Acerinox classifies in this category the shares that the Group does not intend to sell and that it has designated in this category at the initial moment. Specifically, the Group has classified in this category the shares it holds in Nippon Steel & Sumitomo Metal Corporation (Nippon).

The value of financial assets at fair value with changes in other comprehensive income totalled 6,579 thousand euros at period end, of which 6,249 thousand euros related to Acerinox, S.A.'s ownership interest 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. (10,402 thousand euros is the total of the financial assets at fair value at 31 December 2019 and 10,115 thousand euros is the value of the shares in Nippon).

The market value at 30 June 2020 of Nippon's shares was 1,014 JPY per share. Acerinox, S.A. holds 747,346 shares in this company, which represented a negligible percentage ownership in the Japanese group. At 30 June 2020, the Group recognised the change in fair value for the year in the amount of -3,866 thousand euros in other comprehensive income.

NOTE 14 – LOANS AND BORROWINGS

At 30 June 2020, the Acerinox Group's bank financing facilities and private placements amounted to 2,607 million euros (1,965 million euros at 31 December 2019), while approved non-recourse factoring facilities totalled 520 million euros (420 million euros at 31 December 2019). A total of 1,981 million euros had been drawn down under the bank facilities at 30 June 2020 (1,372 million euros drawn down at 31 December 2019), while 229.4 million euros had been utilised under the factoring facilities, of which 74.6 million euros related to the VDM Metals Group (155 million euros of the factoring facilities had been utilised at 31 December 2019).

The financial debt incorporated into the Group as a result of the acquisition of VDM totalled 124,905 thousand euros at the acquisition date, as detailed in **Note 6**. This financing is composed of a long-term loan entered into with IKB with an outstanding balance of 44.1 million euros at 30 June 2020 and which matures at the end of September 2022, and a Syndicated Revolving Credit Facility (RCF) of up to 150 million euros maturing in 2 years, which was entered into with Deutsche Bank, HSBC, Unicredit and Landesbank Hessen-Thüringen Girozentrale (Helaba), of which 94.9 million euros had been drawn down at 30 June 2020. One of the banks (LBBW) in the pool of the aforementioned RCF exercised its right under the change-of-control clause to exit the facility and, therefore, this amount was covered by the remaining four banks, maintaining the transaction for an amount of 150 million euros.

The most significant financing operations during the first half of 2020 were the following:

Operations carried out before the State of Alarm:

- The refinancing of a loan with Banco Sabadell in January 2020 amounting to 125 million euros, in which the financing conditions have been improved and the maturity has been extended to 2025.
- In February 2020, Acerinox Europa entered into a credit facility amounting to 20 million euros with Caixabank.
- Four long-term loans totalling 320 million euros were entered into to finance the purchase of the VDM Metals Group in March. These loans were entered into with four banks (Banco Sabadell, BBVA, Caixabank and ICO) for an amount of 80 million euros with each bank. The loans with Banco Santander, Banco Sabadell and BBVA mature in 5 years and the loan with ICO matures in 8 years.
- Also in March, a long-term loan was entered into with Liberbank for 30 million euros and with a maturity in 7 years.

Operations carried out after the State of Alarm:

- In June a long-term loan was entered into with Banco Cooperativo Español for 20 million euros and with a maturity of 5 years.
- Also, three financing operations were renewed under the guarantee of the ICO in order to provide the Acerinox Group with sufficient liquidity to alleviate the economic effects of Covid-19. In this regard, two credit facilities were renewed, one with Banco Sabadell for 80 million euros and the other with BBVA for 50 million euros. Additionally, in June 2020 a three-year loan of 100 million euros was also entered into with Banco Santander, which was drawn down on 1 July 2020.
- Lastly, three short-term credit facilities were renewed, one with Banco Santander for 70 million euros and the other two with BBVA for 120 million euros and 20 million US dollars.

In the case of debt renegotiations, the Group has assessed the significance of the modifications made to determine whether they are materially different and, therefore, it has recognised the effects of the new agreement as if it were a cancellation and, simultaneously, a new loan. During this period, the amount of the fees recognised as income for the renegotiated loan, which were derecognised from liability, amounted to 176 thousand euros.

The Acerinox Group satisfactorily met the amounts of its financial debts upon their maturity.

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

None of the loans entered into in the first half of 2020 are conditional on the fulfilment of annual financial ratios subject to results. However, there are three loans that were entered into in the first half of 2020 which are conditional on the fulfilment of financial ratios concerning the maintenance of minimum equity levels at consolidated level, and which relate to the loans signed with BBVA, Caixabank and ICO for 80 million euros each to finance the purchase of the VDM Metals Group. Also, the loans detailed in the Group's consolidated financial statements at 31 December 2019 and the aforementioned debt of the VDM Metals Group are conditional on compliance with covenants. In this regard, VDM is committed to maintaining, over the life of the RCF and the long-term loan, the quarterly financial ratios that link the consolidated net financial debt to the adjusted EBITDA for the last twelve months, an interest coverage ratio and a minimum amount of equity.

At period end, all the companies of the Acerinox Group together with the VDM Metals Group had fulfilled all the required ratios.

NOTE 15 - DERIVATIVE FINANCIAL INSTRUMENTS

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

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

The breakdown of the derivative financial instruments classified by category is as follows:

(Figures in thousands of euros)

	30-Jun-20		31-Dec-19	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Hedging derivatives	1	11,632	182	8,538
Derivatives at fair value through profit or loss	6,187	5,555	6,038	6,299
TOTAL	**6,188**	**17,187**	**6,220**	**14,837**

The increase in derivative financial instruments is due to the incorporation of VDM Metals into the Group. As described in these interim financial statements, VDM takes out derivatives to cover the purchase of metals and it contracts futures to cover the price risk for raw materials. Also, VDM arranges derivatives to hedge currency risk. Until 30 June 2020, no hedge accounting had been applied to any of the VDM Group's economic hedges and any derivatives used were measured at fair value, with changes in value recognised in the income statement. However, the Group is currently evaluating the possible application of hedge accounting for these derivatives. The application of hedge accounting is voluntary, and the decision to apply this type of accounting is taken individually for each transaction.

A breakdown of the Group's financial derivatives at 30 June 2020 and 31 December 2019 by type of hedged risk is as follows:

(Figures in thousands of euros)

	30-Jun-20		31-Dec-19	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Forward exchange contracts	3,451	4,421	6,038	6,299
Interest rate swaps	0	11,632	182	8,538
Commodity futures contracts	2,737	1,134		
TOTAL	**6,188**	**17,187**	**6,220**	**14,837**

During the first half of 2020, two swap transactions with Caixabank and BBVA were closed in order to hedge the interest rate risk of debts contracted at a variable interest rate with Caixabank and ICO in terms and amounts equivalent to the flows derived from the loans associated with each instrument. The notional amount of the loans hedged is 160 million euros. At 30 June 2020, both interest rate derivatives met the conditions to be classified as cash flow hedging instruments.

NOTE 16 - DISTRIBUTION OF PROFIT AND DIVIDENDS

Following approval by the Spanish Council of Ministers of the Royal Decree 463/2020, of 14 March, which declared the state of alarm, and the subsequent approval of the Royal Decree-Law 11/2020, of 31 March, the Board of Directors of ACERINOX, S.A. at its meeting held on 13 April 2020, resolved to postpone the Ordinary General Shareholders´ Meeting, which was scheduled to be held at the registered office (Santiago de Compostela street, no. 100, 28035 Madrid), on 22 April, 2020, at 12:00 hours, in a single call. Under the above-mentioned regulations, the Board of Directors resolved to postpone the General Shareholders' Meeting as an exercise of responsibility towards the Company, its shareholders, employees, customers and suppliers and towards the Spanish society as a whole. Within the prescribed period, the Board of Directors shall reconvene the Ordinary General Shareholders´ Meeting, when the circumstances of stability, certainty and visibility of the markets required by the important decisions are met. As soon as the Board of Directors of the Company agrees to reconvene the Ordinary General Shareholders´ Meeting, this circumstance shall be communicated to the shareholders by the means required by law.

As detailed in the Group's financial statements for 2019, the distribution of the 2019 profit of the Parent, Acerinox, S.A., as proposed by the Board of Directors for approval at the General Shareholders' Meeting was as follows:

	2019
Basis of distribution:	
Profit for the year	438,827,598.35
Distribution to:	
Legal reserve	128,597.21
Dividends	108,218,477.20
Offset prior years' losses	186,367,543.13
Voluntary reserves	144,112,980.81

The amount allocated for the distribution of dividends relates to a remuneration of 0.40 euros per share, which is increased by an additional distribution of a share premium of 0.10 euros per share.

In relation to the same period in 2019, the Acerinox General Shareholders' Meeting held on 11 April 2019 resolved to distribute a cash dividend of 0.30 euros gross for each share in circulation, with a charge to unrestricted reserves. 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 will be paid out on 5 July and will total 54,090 thousand euros.

NOTE 17 - SHARE CAPITAL AND TREASURY SHARES

In the first half of 2020 there were no changes in the share capital or in treasury shares.

The share capital at the closing date consisted of 270,546,193 ordinary shares with a nominal value of 0.25 euros each, yielding capital of 67,637 thousand euros.

With regard to the same period in 2019, the General Shareholders' Meeting held on 11 April 2019 approved a reduction of the capital of Acerinox, S.A. totalling 1,380,337.50 euros through the redemption of 5,521,350 treasury shares. On 9 May 2019 the Board of Directors resolved to execute this resolution. On 13 June 2019, the redeemed shares were removed from trading on the Madrid and Barcelona Stock Exchanges.

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 pursuant to article 17 of Regulation (EU) no. 596/2014 on Market Abuse, approved a First Share Repurchase Programme with the aim of reducing the share capital of Acerinox, S.A. through the redemption of treasury shares in order to improve earnings per share. 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 capital. At 31 March 2019, the maximum number of shares authorised had already been acquired for 51 million euros.

Following the capital reduction approved by the General Shareholders' Meeting, which was carried out last year through the redemption of 5,521,350 treasury shares, the treasury shares at the close of the year amounted to 93,320 shares with a value of 1,062 thousand euros.

NOTE 18 - TAXATION

During this period, the approved legislative changes related mainly to the extraordinary measures taken due to the pandemic. The majority of these measures are temporary and endeavour to alleviate the impact of COVID through the possibility of delaying the payment of taxes, reducing the limit on applying tax loss carryforwards and other support, such as a reduction in VAT in Germany.

The tax expense in this period was higher than pre-tax profits due to the impairment of assets recognised in the consolidated income statement which amounted to 42,475 thousand euros (see **Note 10**), and the Group's policy of not using deferred tax assets in certain companies. The Group recognises the deferred tax assets in the balance sheet, provided that they are recoverable within a reasonable period of time, and also taking into account the limitations established by law for their application. The Group determines a period of approximately 10 years as reasonable, provided it is permitted by the corresponding tax legislation.

As explained in the financial statements for 2019, on the basis of the 5 year budgets prepared by Management and extrapolated at 10 years, the Group recognised an impairment of 61 million euros, resulting in the balance of unused capitalised tax credits arising from tax losses amounting to 84,494 thousand euros at 31 December 2019.

The pandemic is giving rise to great uncertainty regarding the final impact and subsequent expected recovery. The latest reviews issued by international organisations point to a progressive recovery from the moments of greatest impact between the first and second quarters of 2020. The Group has subjected the estimates for 2021-2024 to different likelihood of occurrence scenarios, reflecting the high uncertainty generated by COVID-19. Following this analysis, it has been concluded that the most likely scenario, as indicated by many international organisations, is to consider a progressive recovery between 2021 and 2024, following the "V-shaped recovery" approximate graphical form. Moreover, the various measures adopted by the Group and aimed at reducing costs, make it possible to consider that the recovery of all capitalised tax credits is likely with future taxable income for all companies within a reasonable period of less than 10 years, and within the periods permitted by the corresponding local legislation in each country. At year-end the Group will reassess the estimates made.

With regard to the acquisition of the VDM Metals Group, and following allocation of the purchase price to the fair values of the assets, liabilities and contingent liabilities, a deferred tax liability amounting to 45,474 thousand euros arose. This is a temporary difference that will decrease as the excess of fair value over the carrying value of these assets and liabilities is depreciated. As indicated in **Note 6**, this amount is provisional.

The amounts of the deferred assets and liabilities arising from the incorporation of VDM into the Group related mainly to temporary differences as a result of the different accounting and tax treatment of certain balance sheet items.

With respect to the tax audits and lawsuits in progress, as discussed in the Acerinox Group's annual financial statements for 2019, the following changes have since occurred in the first half of 2020:

Italy

As described in the 2019 financial statements, and with regard to the mutual agreements reached between the Spanish and Italian authorities, the Group is currently in negotiations with the Italian authorities to transfer the treatment finally accepted in the mutual agreement to adjustments with other non-Spanish countries. As a result of the pandemic and the halting of activities in Italy, these negotiations have experienced delays. It is expected that the assessments in Italy will be delayed in the meantime.

In an attempt to extend the Agreements reached between Spain and Italy to transactions with other non-Spanish countries, on 8 April 2020 the Group submitted to the Provincial Authorities of Milan requests for the resumption of the appeals submitted, which had been suspended pending the finalisation of the Mutual Agreements.

Also, the Group has a request for a mutual agreement in both Spain and South Africa for the elimination of double taxation between the two countries.

With regard to tax refunds recognised in Spain, the Group lodged pleadings against the enforcement of the agreements, since the Authorities had not recognised the late-payment interest corresponding to the 5.9 million euros refunded.

On 25 June the Group filed pleadings with the Provincial Authorities of Milan against the new assessments received in Italy for 2014 and also requested the suspension of payments. The Group is also preparing the Mutual Agreement Procedure, which it hopes to present to both the Spanish and Italian authorities in the second half of the year.

Germany

In this period, the Group received 2,283 thousand euros from the German authorities, the majority of which was recognised as an account receivable and which will finalise the settlements arising from the audit for 2007 to 2014. An additional income of 129 thousand euros in tax and 72 thousand euros in interest were recognised in the first half of 2020 for the excess of the amount collected over the provision.

Malaysia

With respect to the tax audit initiated in the Group company Acerinox SC Malaysia relating to transfer pricing for 2010 to 2013, on 22 January 2020, notification was received from the tax authorities of the completion of the tax audit for aforementioned years with no adjustment.

With respect to the audit of Bahru Stainless, Sdn. Bhd., since February 2017, when notification was received of the resumption of the tax audits for the years 2010-2014, there has been no request for further information from the authorities.

Spain

On 17 October 2018 Acerinox, S.A., Acerinox Europa, S.A.U, Inoxcenter, S.L.U. and Roldan, S.A. received notification of the commencement of tax audits for the following taxes and years:

Corporation Tax	2013 to 2016
Valued 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

On 12 February 2020 the assessments were signed by Acerinox Europa, S.A.U., Inoxcenter, S.L.U. and Roldan, S.A. on an uncontested basis regarding all taxes. On 25 June 2020 Acerinox S.A. signed on an uncontested basis the tax assessments for individual tax as well as those relating to corporation tax under the tax consolidation regime. The outcome of the assessments was a corporation tax payment for the years 2013 to 2016 amounting to 110 thousand euros and interest amounting to 9 thousand euros. No sanction was imposed. With regard to VAT, the assessments included adjustments amounting to 220 thousand euros in VAT payable as a result of applying the pro rata rule, plus 53 thousand euros in interest for the entire period inspected.

On 3 February 2020, the group company Acerinox Europa, S.A.U. was notified of the commencement of tax audits relating to import duties and VAT for 2018. At the date of preparation of these financial statements, the audits had concluded with no adjustment arising. On 15 July the assessments were signed on an uncontested basis, bringing the audit to an end.

NOTE 19 - LITIGATION

There were no significant cases of litigation during the period.

NOTE 20 - CONTINGENT ASSETS AND LIABILITIES

At the end of the first half of 2020, the Acerinox Group had no contingent assets or liabilities since, as described in the 2019 financial statements, the claim made by Gas Natural Comercializadora, S.A. had been concluded.

With regard to VDM, on 19 March 2019 a tax audit for 2013 to 2018 commenced in one of the Group's subsidiaires (VDM Metals Italia, S.R.L). As a result, the tax authorities have provisionally considered the existence of a permanent establishment of VDM Metals Gmbh in Italy. The assessments are yet to be issued, but possible adjustments to the tax base could be derived from the preliminary report issued. There are uncertainties regarding the amount to be disbursed and the expected timing of the outflow of economic benefits that will be charged to the provision and, therefore, it is a contingent liability. VDM Metals is in negotiations with the Italian tax authority to try to reduce the adjustments, since there are strong arguments that have not been taken into account in determining these adjustments, not only to contest the existence of a permanent establishment but also to reduce the initial amount resulting from the report.

In accordance with the business combination standard (IFRS 3), the Group recognised the contingent liability amounting to 5,807 thousand euros at the acquisition date. To determine the amount of the provision, the Group used the expected valuation method. To this end, the Group considered the average of the range of possible scenarios valued. Furthermore, given that the audit refers to years prior to the Group belonging to Lindsay Goldberg, in accordance with the sale and purchase agreement established in the previous transaction, in the event that tax liabilities arise as a result of the litigation from those years, the former owner will assume the debts arising from such tax proceedings. Therefore, the Group also recognised an account receivable arising from this agreement amounting to 2,638 thousand euros.

NOTE 21 - SEGMENT REPORTING

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. With the acquisition of the VDM Group, a new segment called "high performance alloys" arose, which includes the products manufactured by the VDM Group. Due to the technical specifications of its products and markets, Group management decided to manage this segment separately.

The operating segments presented by the Group, associated with the types of products sold, 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.
- High performance alloys: special alloys with a high nickel content. This segment includes all the entities that make up the VDM Metals subgroup.
- Other: other stainless steel products not included in the previous segments.

The "unallocated" segment reflects the activities of the Group's parent and activities that cannot be allocated to specific operating segments. As described in **Note 1**, the main activity of the holding company, the parent of the Acerinox Group, is the provision of legal, accounting and advisory services to all Group companies, as well as the performance of financing activities within the Group, as 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 "unallocated" segment, which relates mainly to the holding company's own activities, the result reflects only the expenses corresponding to its activities, since revenues, which are always with Group companies, have been eliminated on consolidation. The expenses are mainly financial since the holding company centralises most of the Group's financing.

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.

There have been no significant changes in the assets and liabilities attributed to each of the segments with respect to those presented in the Group's financial statements at 31 December 2019, except for the integration of VDM Metals into the Group. At 30 June, VDM contributed assets totalling 854 million euros and liabilities totalling 579 million euros to the high-performance alloy segment.

The majority of the investments made during this period were allocated to the flat products segment, except for those made by VDM, and which are detailed in **Note 10**.

21.1 Operating segments

The detail of revenue by operating segment is as follows:

(Figures in thousands of euros)

	30-Jun-20			30-Jun-19		
	Revenue from external customers	**Revenue between segments**	**Total revenue**	**Revenue from external customers**	**Revenue between segments**	**Total revenue**
Flat products	1,756,014	74,793	1,830,807	2,094,096	149,643	2,243,739
Long products	294,617	4,116	298,733	346,283	11,022	357,305
High performance alloys	278,033		278,033			
Other	5,948		5,948	8,331		8,331
Unallocated	1,440		1,440	1,606		1,606
(-) Inter-segment adjustments and eliminations of income		-78,909	-78,909		-160,665	-160,665
TOTAL	**2,336,052**	**0**	**2,336,052**	**2,450,316**	**0**	**2,450,316**

No single transaction with an external customer exceeded 10% of the Group's consolidated revenues at June 2020 or 2019.

The detail of consolidated profit by operating segment is as follows:

(Figures in thousands of euros)

	At 30 June 2020	At 30 June 2019
Flat products	42	61,247
Long products	41,249	51,778
High performance alloys	15,903	
Other stainless steel products	-39	1,313
Total profit of reported segments	**57,155**	**114,338**
(+/-) Unallocated loss	-34,722	-15,886
(+/-) Elimination of internal profit/loss (between segments)		
(+/-) Other profit/loss		
PROFIT BEFORE TAX	**22,433**	**98,452**

The impairment of property, plant and equipment detailed in Note 10 was allocated in full to the flat products segment.

21.2 Geographical segments

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

The detail of revenue by geographical area at 30 June 2020 and 2019 is as follows:

(Figures in thousands of euros)

	At 30 June 2020	At 30 June 2019
Spain	174,044	225,978
Rest of Europe	724,911	663,130
The Americas	1,105,508	1,142,622
Africa	66,300	107,522
Asia	246,715	292,384
Other	13,653	9,906
TOTAL	**2,331,131**	**2,441,543**

NOTE 22 - AVERAGE HEADCOUNT

The average headcount at the Group in the first half of 2020, following the incorporation of VDM into the Group was 8,545 employees (7,466 men and 1,079 women). The average headcount at 30 June 2019 was 6,937 (6,082 men and 855 women).

The headcount at 30 June 2020 was 8,504 (6,985 at 30 June 2019). This amount includes 119 employees that have taken partial retirement (149 at 30 June 2019).

NOTE 23 – RELATED PARTY TRANSACTIONS

- **Identity of related parties**

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

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

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

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

- **Balances and transactions with associates**

The Group did not conduct any transactions with associates during this interim period or during the same period in 2019.

- **Balances and transactions with significant shareholders**

As explained in the financial statements for 2019, in 2019 Corporación Financiera Alba, shareholder of Acerinox, S.A., ceased to belong to the March Group and, therefore, Banca March is no longer a related party of the Group.

The Acerinox Group performed the following transactions with its shareholder Nippon Steel & Sumitomo Metal Corporation (Nippon) or any of the companies in its Group:

(Figures in thousands of euros)

	At 30 June 2020	At 30 June 2019
Services received		45
Sale of goods	857	877

In addition, at period end receivables from its shareholder Nippon, or any of the companies in its Group, amounted to 488 thousand euros (399 thousand euros at year-end 2019).

As described in **Note 13**, the Group in turn has an ownership interest in Nippon Steel & Sumitomo Metal Corporation valued at 6,249 thousand euros at 30 June 2020 (10,115 thousand euros at 31 December 2019, which represented a negligible percentage ownership in the Japanese group.

- **Directors and key management personnel**

Remuneration received by the 9 members of the Group's senior management who do not hold positions on the Board of Directors of Acerinox S.A. amounted to 2,545 thousand euros at 30 June 2020 (1,281 at 30 june 2019 for the 4 members of Acerinox, S.A. senior management as the senior executives of the Group's main subsidiaries were not included in the interim financial statements for the previous period). Of this amount, 1,054 thousand euros corresponded to wages (482 thousand euros in 2019), 68 thousand euros to per diems (44 thousand euros in 2019), 1,352 thousand euros of variable remuneration corresponding to the results of the previous year and 71 thousand euros of remuneration in kind (729 thousand euros of variable remuneration and 26 thousand euros of remuneration in kind in 2019).

At 30 June 2020, the members of the Board of Directors of Acerinox, S.A., including those that hold key management positions and sit on the boards of other Group companies, received 1,390 thousand euros in fixed remuneration, for attending board meetings and in fixed and variable salaries (1,566 thousand euros in the same period of 2019), of which 582 thousand euros related to salaries and fixed board member remuneration (627 thousand euros in 2019), 337 thousand euros comprised per diems (307 thousand euros in 2019) and 463 thousand euros related to variable remuneration for the results of the previous year and 8 thousand euros for remuneration in kind (624 thousand euros in variable remuneration and 8 thousand euros in remuneration in kind in 2019).

Obligations under certain retirement covenants agreed with senior management, which amounted to 13.1 million euros at 31 December 2019 and, of which 4.5 million are due to the Chief Executive Officer, are properly insured, with their estimated amount covered by flows from the policies arranged. As a result, no liability is recognised for this item. At 30 June there were no significant variations in obligations, as there were no changes to the contracts. Equally, all obligations are duly insured.

At 30 June 2020 and 2019 no advances or loans had been granted to the members of the Board of Directors or senior management personnel and the Company had 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 financial statements for 2019, on 1 January 2020 the third and final cycle of the multi-year compensation plan came into force, which has a duration of 3 years. The expense accrued up to 30 June 2020 by the Chief Executive Officer and Senior Management, the balancing entry of which is recognised under "Other Equity Instruments", amounted to 368 thousand euros, of which 103 thousand euros related to the Chief Executive Officer (320 thousand euros up to June 2019, of which 138 thousand related to the Chief Executive Officer).

All transactions carried out between members of the Board of Directors and the Company or Group companies in the first half of 2020 have been ordinary transactions on an arm's length basis.

The directors of the Company and their related parties have had no conflicts of interest requiring disclosure in accordance with article 229 of the Revised Spanish Companies Act.

The Group has a civil liability insurance policy in effect, with coverage extending to board members and members of the senior management, as well as Group employees. The premium will be renewed in October 2020. The premium paid in 2019 amounted to 157 thousand euros.

NOTE 24 - EVENTS AFTER THE REPORTING PERIOD

No significant events after the reporting period have occurred after the preparation of these interim financial statements that could have an impact on the Group's financial statements.

INTERIM MANAGEMENT REPORT

FIRST HALF 2020

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

Telephone conference and live broadcast of the presentation of the results for the First Half of 2020

Acerinox will hold the presentation for the results of the first half of 2020, in English, today, 29 July, at 10.00 AM (CET) directed by Bernardo Velazquez, Group CEO, Miguel Ferrandis, Group CFO, and accompanied by the Investor Relations team.

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

- From Spain: 919 01 16 44 PIN: 983622
- From the UK: 020 3936 2999 PIN: 983622
- From the USA: 1 646 664 1960 PIN: 983622
- Rest of countries: +44 20 3936 2999 PIN: 983622

To follow the presentation online, it can be accessed at the following link, in the Shareholders and Investors section of the Acerinox website (Video webcast).

Both the presentation and all the audiovisual material will be available on the Acerinox website.

Highlights

In very adverse conditions, Acerinox has managed to generate cash flow, increase liquidity and achieve a positive result in spite of the asset impairment carried out in Bahru Stainless amounting to EUR 43 million.

The effort to reduce operating costs and the incorporation of VDM allowed the Acerinox Group to neutralise the effect of COVID-19 and achieve half-yearly adjusted EBITDA of EUR 179 million, just 4% down on the first half of 2019.

First Half of 2020

- Melting shop production, 1,041,032 tonnes, decreased by 13% compared to the first six months of 2019.
- Group turnover of EUR 2,331 million was 5% down on that of 2019 and adjusted EBITDA (EUR 179 million) was only 4% down, owing to the incorporation of VDM and the reduction of costs.
- An impairment of the assets of Bahru Stainless was made, which amounted to EUR 43 million. As a result of the adjustment, profit after tax and minority interests amounted to EUR 2 million, 97% less than in the same period of the previous year.
- Operating cash flow (pre-investment) amounted to EUR 75 million.
- At 30 June Acerinox had immediate liquidity amounting to EUR 1,734 million.
- The Group's net financial debt of EUR 872 million increased by just EUR 377 million, in spite of the EUR 398 million resulting from the purchase and the incorporation of VDM's debt.
- Provisional anti-dumping measures for hot-rolled products were approved by the European Union against China, Taiwan and Indonesia.
- The Board of Directors of Acerinox, S.A. resolved to call the General Meeting of Shareholders on 22 October 2020. It had been scheduled for April and was postponed due to the the spread of COVID-19.

Second Quarter of 2020

- The COVID-19 pandemic affected market development significantly in the second quarter.
- Melting shop production, 442,189 tonnes, decreased by 26% compared to the first quarter of 2020 and 22% compared to the second quarter of the previous year.
- Group turnover of EUR 1,172 million was 1% higher than in the first quarter of 2020.
- The adjusted EBITDA of EUR 94 million, stripping out EUR 14 million for the expenses of the purchase of VDM, was 11% higher than in the preceding quarter and 2% lower than in the same period of the previous year.
- A negative net realisable adjustment to inventory was made, totalling EUR 20 million
- An impairment of the assets of Bahru Stainless was made, which amounted to EUR 43 million. Following the adjustment, loss after tax and non-controlling interests was EUR -26 million.
- Operating cash flow (pre-investment) amounted to EUR 111 million.
- The Group's net financial debt of EUR 872 million only increased by EUR 17 million on 30 March, in spite of the incorporation of EUR 85 million of VDM's debt.

Outlook

Like the rest of the economy, the global stainless steel market is being severely affected by the situation created by the COVID-19 pandemic. The impact is not uniform across continents or even neighbouring countries, which tremendously limits visibility in a global market like ours.

For this reason, and also owing to the complexity and duration of the process of reactivating economic activity, we can offer no more than a short-term outlook.

The significant cost reductions we are carrying out, combined with the improved relative performance of our main market, the US, and the signs of recovery of the European market, allow us to expect a third quarter in line with the second in terms of both activity and EBITDA, provided no setbacks occur in the economic recovery process.

Key economic and financial figures

CONSOLIDATED GROUP	QUARTER		ACCUMULATED		
	Q1 2020	Q2 2020 (*)	H1 2019	H1 2020	Variation 2020/2019
Melting shop (thousand Mt)	599	442	1,198	1,041	-13%
Net sales (million EUR)	1,159	1,172	2,442	2,331	-5%
Adjusted EBITDA (**) (million EUR)	**85**	**94**	**186**	**179**	**-4%**
% over sales	*7%*	*8%*	*8%*	*8%*	
EBITDA (million EUR)	85	80	186	165	-12%
% over sales	*7%*	*7%*	*8%*	*7%*	
Adjusted EBIT (***) (million EUR)	**44**	**46**	**100**	**90**	**-9%**
% over sales	*4%*	*4%*	*4%*	*4%*	
EBIT (million EUR)	44	-11	100	34	-66%
% over sales	*4%*	*-1%*	*4%*	*1%*	
Result before taxes and minorities (million EUR)	41	-19	98	22	-77%
Result after taxes and minorities (million EUR)	**28**	**-26**	**69**	**2**	**-97%**
Depreciation (million EUR)	41	48	89	88	0%
Net cash flow (million EUR)	69	22	158	91	-43%
Number of empoyees	6,507	8,385	6,836	8,385	23%
Net financial debt (million EUR)	854	872	642	872	36%
Debt to equity (%)	43.7%	46.4%	31.8%	46.4%	46%
Number of shares (million)	271	271	271	271	0%
Return to shareholders (per share)	0.00	0.00	0.48 (****)	0.00	---
Daily average shares traded (nº of shares, million)	1.11	0.94	1.04	1.03	-1%
Result after taxes and minorities per share	0.10	-0.10	0.26	0.01	-97%
Net cash flow per share	0.25	0.08	0.58	0.34	-43%

Million euros	Second Quarter (*)			First Half		
	Stainless Group	High Performance Alloys	Consolidated Group	Stainless Group	High Performance Alloys	Consolidated Group
Melting production (thousand Mt)	417	25	442	1,016	25	1,041
Net sales	894	279	1,172	2,053	279	2,331
Adjusted EBITDA (**)	71	23	94	156	23	179
Adjusted EBITDA margin	8%	8%	8%	8%	8%	8%
EBITDA	57	23	80	142	23	165
EBITDA margin	6%	8%	7%	7%	8%	7%
Amortization and Depreciation	40	7	48	80	7	88
Adjusted EBIT (***)	31	15	47	76	15	90
Adjusted EBIT margin	3%	6%	4%	4%	6%	4%
EBIT	-26	15	-10	19	15	34
EBIT margin	-3%	6%	-1%	1%	6%	1%

(*) The purchase of VDM took place on 17 March. The second quarter includes the results of VDM for the March-June period

(**) EBITDA stripping out EUR 14 million for the expenses of the purchase of VDM in the second quarter of 2020

(***) EBIT stripping out EUR 14 million for the expenses of the purchase of VDM and EUR 43 million for the impairment of Bahru Stainless in the second quarter of 2020

(****) €0.18/share correspond to indirect remuneration through a share buyback programme

Stainless Steel Division

Results

Million euros	Stainless Group			Stainless Group		
	Q1 2020	Q2 2020	% Var Q2/Q1	H1 2019	H1 2020	% Var H2/H1
Melting production (thousand Mt)	599	417	-30%	1,198	1,016	-15%
Net sales	1,159	894	-23%	2,442	2,053	-16%
Adjusted EBITDA (*)	85	71	-16%	186	156	-16%
Adjusted EBITDA margin	7%	8%		8%	8%	
EBITDA	85	57	-33%	186	142	-24%
EBITDA margin	7%	6%		8%	7%	
Amortization and Depreciation	41	40	-2%	89	80	-9%
Adjusted EBIT (**)	44	31	-30%	100	76	-24%
Adjusted EBIT margin	4%	3%		4%	4%	
EBIT	44	-26	---	100	19	-81%
EBIT margin	4%	-3%		4%	1%	

(*) EBITDA stripping out EUR 14 million for the expenses of the purchase of VDM in the second quarter of 2020
(**) EBIT stripping out EUR 14 million for the expenses of the purchase of VDM and EUR 43 million for the impairment of Bahru Stainless in the second quarter of 2020

In spite of the low level of activity, the swift adaptation to the new situation resulting from COVID-19, with a reduction of both fixed and variable costs (-19% compared to the first quarter) and the sound performance in the United States, has enabled the stainless steel Group to achieve commendable results.

EBITDA was negatively affected by a net realisable adjustment to inventory amounting to EUR 11 million.

Good management of the working capital and the solid results have generated a positive operating cash flow (pre-investment) both in the quarter and in the half year in the stainless steel division.

Stainless steel market

2020 began with a recovery in activity in all our markets, in accordance with the usual cycle in the stainless steel market, but this was cut short by the impact of COVID-19 on the economy as a whole, which has also affected the consumption of stainless steel.

• Europe

In Europe, the apparent consumption of flat products fell by 19% up to the end of June.

Safeguard measures, which were not designed for a declining market, have not served to stop imports, which have maintained a market penetration of approximately 25% in the case of flat products, and have continued to exert enormous pressure on prices.

The third period of safeguard measures began on 1 July. EUROFER asked the European Union to reduce quotas, which are excessive in the current situation due to COVID-19, but it received a negative response. The main changes on the preceding period are:

- Country quotas are now quarterly.
- Limitation on access to the residual quota of countries that exhaust their quota.
- For hot-rolled products, the quota is now global for all sources.

Efforts are continuing to prevent unfair competition in Europe, and as a result in early April, provisional anti-dumping tariffs were implemented for hot-rolled products from China (up to 19%), Indonesia (up to 17%), and Taiwan (up to 7.5%), with an anti-subsidy investigation also underway for same materials from China and Indonesia.

• The United States

Apparent consumption in the American market to May, the latest figure available, was down 5%.

Imports are still low, with a market share of approximately 14%. The American authorities are maintaining the tariff on slabs from Indonesia, which is positive for the American industry. Similarly, on 22 June the Supreme Court decided to dismiss the claim filed by US steel importers against the duties imposed by Section 232 on steel imports from 2018.

Inventories in the United States remain below the average of recent years.

• Asia

In the Asian markets, the situation continued to worsen, as a result of surplus production in China and Indonesia, which have caused a continued drop in prices.

The impact of COVID-19 in China caused a reduction in consumption, but not so much in production, which contributed further to the decline in prices.

Inventories in the Wuxi and Foshan warehouses decreased in the second quarter, although they remain above normal.

• Prices

Quarterly price averages for stainless steel plate, AISI 304 cold-rolled 2.0mm (source: CRU)

USD / Mt	2019				2020	
	Q1	Q2	Q3	Q4	Q1	Q2
United States	2,643	2,786	2,716	2,964	2,683	2,571
Europe	2,361	2,483	2,504	2,458	2,248	2,169
Taiwan	1,850	1,861	1,930	2,029	1,852	1,698

High Performance Alloys Division

Results

Million euros	High Performance Alloys Q2 2020 (*)
Melting production (thousand Mt)	25
Net sales	279
EBITDA	23
EBITDA margin	8%
Amortization and Depreciation	7
EBIT	15
EBIT margin	6%

(*) The purchase of VDM took place on 17 March. The second quarter includes the results of VDM for the March-June period

The integration of VDM into the Acerinox Group continues at a good pace. A larger order backlog than in the stainless steel sector means that activity in high performance alloys in this half year was less affected than in stainless steels.

The EBITDA was negatively affected by a net realisable adjustment to inventory amounting to EUR 9 million.

High performance alloys market

The COVID-19 crisis barely impacted the high performance alloys market in the first quarter. However, the effects of the pandemic began to make their mark on the sector in the second quarter due to the stoppage of industry activities and the postponing of projects.

By market, in the oil & gas sector, many projects are being slowed down and decisions will be deferred to 2021. The significant fall in oil prices and the coronavirus crisis will have a negative impact on demand in the second half of 2020.

Chemical process industry: performed well in the first half of the year, although investments are expected to decrease going into the second half of the year.

Electronics: although the sector endured a negative impact from Covid-19, the sector is recovering better than other markets, driven by OLED technology.

Automotive: the market underwent a substantial fall in the first half of 2020, but signs of recovery are now visible.

Aerospace: saw a very weak performance in the first half of 2020, but it is expected to recover from 2021, driven by Chinese industry.

Production of the Acerinox Consolidated Group

Stainless Steel Division

Thousand Mt	2019					2020			Variation Q1 2020 over 2019	
	Q1	Q2	Q3	T4	12 Months	Q1	Q2	6 Months	Q2	9M
Melting shop	628	570	542	491	2,231	599	417	1,016	-27%	-15%
Hot rolling shop	531	514	471	434	1,951	517	353	870	-31%	-17%
Cold rolling shop	422	441	394	350	1,607	393	291	683	-34%	-21%
Long product (Hot rolling)	66	58	50	45	220	57	49	106	-16%	-15%

Decreases in all workshops compared to the 2nd quarter and 1st half of 2019

Factory stoppages at the order of different governments owing to Covid-19:

Spain: 29 March - 2 April
South Africa: 26 March – 30 April
Malaysia: 18 March – 15 April

High Performance Alloys Division

Thousand Mt	2020	
	Q2	6 Months
Melting Shop	25	25
Finish Shop	14	14

(*) The purchase of VDM took place on 17 March. The second quarter includes the results of VDM for the March-June period

Results of the Acerinox Consolidated Group

Turnover of the half year, EUR 2,331 million euros, decreased by 5% compared to the same period of the previous year due to the lower level of activity caused by COVID-19 and lower prices.

Million euros	QUARTER			HALF		
	Q1 2020	Q2 2020 (*)	Variation Q2/Q1	6M 2019	6M 2020	Variation 2020/2019
Net sales	1,159	1,172	1%	2,442	2,331	-5%
Adjusted EBITDA (**)	**85**	**94**	**11%**	**186**	**179**	**-4%**
Ajusted EBITDA margin	7%	8%		8%	8%	
EBITDA	85	80	-6%	186	165	-12%
EBITDA margin	7%	7%		8%	7%	
Amortization and Depreciation	(41)	(48)	18%	(89)	(88)	0%
Adjusted EBIT (***)	**44**	**46**	**3%**	**100**	**90**	**-9%**
Adjusted EBIT margin	4%	4%		4%	4%	
EBIT	44	(11)	—	100	34	-66%
EBIT margin	4%	-1%		4%	1%	
Net Financial Result	(3)	(8)	—	(1)	(11)	917%
Result before taxes	41	(19)	—	98	22	-77%
Result after taxes and minorities	**28**	**(26)**	**—**	**69**	**2**	**-97%**

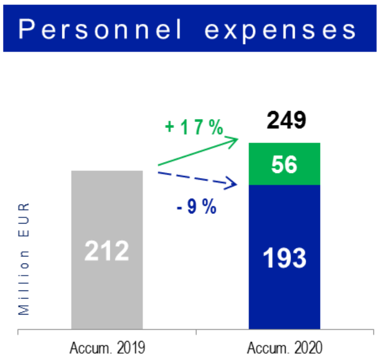
(*) The purchase of VDM took place on 17 March. The second quarter includes the results of VDM for the March-June period

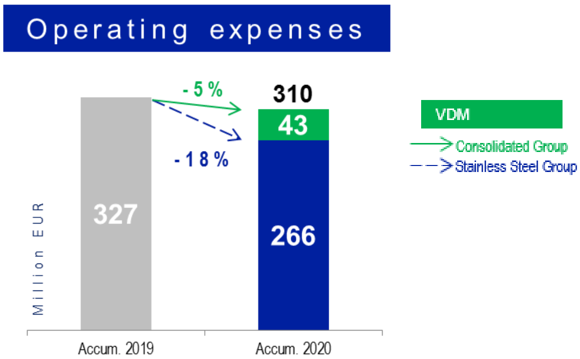
(**) EBITDA stripping out EUR 14 million for the expenses of the purchase of VDM in the second quarter of 2020

(***) EBIT stripping out EUR 14 million for the expenses of the purchase of VDM and EUR 43 million for the impairment of Bahru Stainless in the second quarter of 2020

The Group's swift reaction to the coronavirus crisis enabled it to reduce significantly both fixed and variable costs. A comparison of the Consolidated Group's figures with those of last year does not reflect this decrease as a result of the incorporation of VDM. This is why it is useful to break down the expenses into those of the Stainless Steel Group and those of the Consolidated Group.

The total personnel and operating expenses of the Consolidated Group increased by 4%, but if we consider only the Stainless Steel division, the Group saw a reduction of 15%. This shows the swift adaptation to the current situation due to the significant flexibility achieved. The breakdown can be seen in the following charts:





In these circumstances, we consider these results, which were obtained in such an adverse environment, as very positive, thanks to working on reducing costs. Adjusted half-year EBITDA, stripping out the EUR 14 million for the expenses of the purchase of VDM, amounted to EUR 179 million after a negative net realisable adjustment to inventory was made amounting to EUR 20 million.

Adjusted EBITDA of the second quarter was up 11% on the first three months of the year, thanks to the improvements in costs and contribution of VDM.

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

Reported EBIT in the half year amounted to EUR 34 million, and the adjusted EBIT, after stripping out EUR 14 million for the expenses of the purchase of VDM and EUR 43 million for the asset impairment, was EUR 90 million, 9% lower than in the first half of 2019.

Profit after tax and minority interests in the half year amounted to EUR 2 million.

As the purchase of VDM by Acerinox was formalised on 17 March, its results have been consolidated into those of the Acerinox Group from March. Accordingly, the VDM figures for March that Acerinox has integrated into those of the second quarter are: EUR 71 million euros of turnover, EUR 10 million of EBITDA, pre-tax profit of EUR 4 million and post-tax profit of EUR 2 million.

Cash generation

In such a complicated half year, the Group achieved operating cash flow (pre-investment) of EUR 75 million, in spite of increasing working capital by EUR 16 million and making payments for the layoff plan in Acerinox Europa of EUR 26 million.

In the second quarter, the commendable EBITDA of EUR 80 million and the reduction in working capital generated an operating cash flow (pre-investment) of EUR 111 million, which offset the cash flow drop of EUR 36 million of the first quarter. The reduction in inventories and good management of the customer portfolio neutralised the decrease in suppliers as a result of the decrease in activity.

Payments for the addition of fixed assets in the half year amounted to EUR 51 million, while the payment for the purchase of VDM amounted to EUR 313 million. Total investment payments were EUR 364 million.

	Jan - Mar 2020	Ap - Jun 2020	Jan - Jun 2020	Jan - Dec 2019	Jan - Jun 2019
EBITDA	85	80	165	364	186
Changes in working capital	-97	63	-34	96	11
Changes in operating working capital (*)	-65	50	-16	44	-39
- Inventories (*)	9	95	104	2	-24
- Trade debtors (*)	-47	93	46	41	-93
- Trade creditors (*)	-27	-139	-166	0	78
Other adjustments to working capital	-32	13	-19	52	50
- Acerinox Europa lay-offs	-26	0	-26	---	---
- Others	-6	13	7	52	50
Income tax	-23	-3	-27	-116	-76
Financial expenses	-3	-9	-12	-15	-5
Other adjustments to the result	3	-20	-17	29	-13
OPERATING CASH FLOW	**-36**	**111**	**75**	**359**	**104**
Payments for VDM acquisition	-313	0	-313	---	---
Payments for investments on fixed assets	-23	-27	-51	-128	-65
FREE CASH FLOW	**-373**	**84**	**-289**	**231**	**39**
Dividends and treasury shares	0	0	0	-184	-130
CASH FLOW AFTER DIVIDENDS	**-373**	**84**	**-289**	**47**	**-91**
Conversion differences	13	-16	-3	10	1
Net financial debt acquired from VDM	0	-85	-85	---	---
Variation in net financial debt	**-360 ↑**	**-17 ↑**	**-377 ↑**	**57 ↓**	**-90 ↑**

(*) These figures do not coincide with the balance sheet items due to the purchase of VDM

Balance sheet and liquidity

Net financial debt at 30 June 2020 was EUR 872 million (EUR 642 million at 30 June 2019) and the total financing facilities amounted to EUR 2,607 million.

Debt increased by just EUR 377 million compared to 31 December 2019, in spite of the EUR 313 million for the purchase of VDM and the incorporation of EUR 85 million of the company's debt, that is, it decreased by EUR 21 million in normal activities.

ASSETS

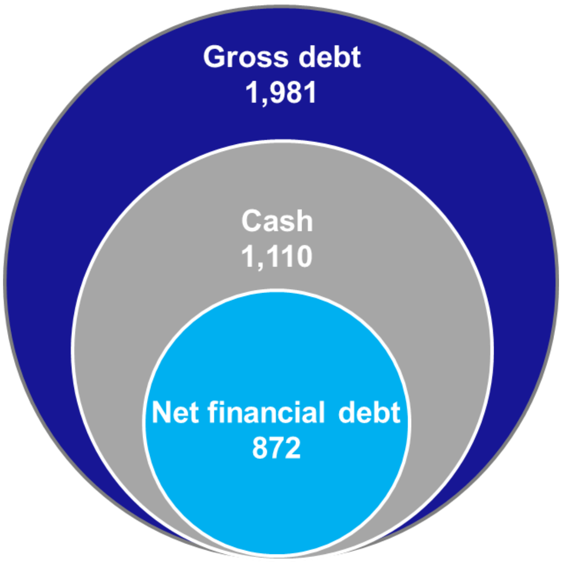
Million €	Jun 20	2019	Jun 19	Variation
Non-current assets	**2,227.11**	**1,933.33**	**2,144.25**	**15.2%**
Current assets	**3,011.81**	**2,463.46**	**2,572.42**	**22.3%**
- Inventories	1,301.72	1,016.26	1,042.64	28.1%
- Debtors	577.25	554.52	678.27	4.1%
Trade debtors	*500.23*	*483.66*	*617.68*	*3.4%*
Other debtors	*77.03*	*70.86*	*60.59*	*8.7%*
- Cash	1,109.63	876.94	826.56	26.5%
- Other current assets	23.21	15.74	24.96	47.4%
TOTAL ASSETS	**5,238.92**	**4,396.80**	**4,716.68**	**19.2%**

LIABILITIES

Million €	Jun 20	2019	Jun 19	Variation
Equity	**1,880.14**	**1,928.99**	**2,019.70**	**-2.5%**
Non-current liabilities	**1,864.46**	**1,253.68**	**1,320.08**	**48.7%**
- Interest-bearing loans and borrowings	1,435.34	1,051.74	1,122.74	36.5%
- Other non-current liabilities	429.12	201.95	197.34	112.5%
Current liabilities	**1,494.32**	**1,214.13**	*1,376.91*	**23.1%**
- Interest-bearing loans and borrowings	545.92	319.83	345.62	70.7%
- Trade creditors	783.39	783.86	861.92	-0.1%
- Other current liabilities	165.02	110.44	169.36	49.4%
TOTAL EQUITY AND LIABILITIES	**5,238.92**	**4,396.80**	**4,716.68**	**19.2%**

Even though the effects of COVID-19 are still difficult to quantify in the world economy and, consequently, in our company, the Group's financial strength guarantees that financing will not be affected under any circumstances, since almost all gross debt, EUR 1,981 million, is free from covenants on results. Only the debt incorporated from VDM, which is 7% of the total, is conditioned upon compliance with covenants.

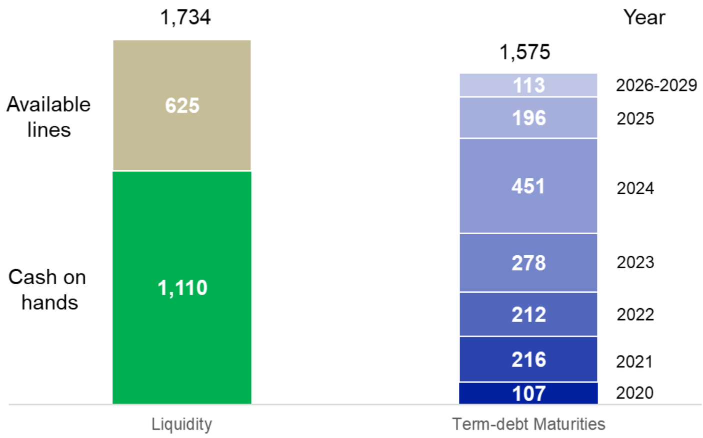
The weighted average cost of term debt is 1.5%.



Thanks to the financial strategy undertaken in recent years, the Acerinox Group's liquidity situation is optimal to face the current scenario.

At 30 June Acerinox had **immediate liquidity amounting to EUR 1,734 million**, of which EUR 1,110 million corresponded to cash and EUR 625 million were available credit facilities.

The Group's total term debt maturities amounted to EUR 1,575 million and are fully covered by current liquidity.



VDM Metals

On 17 March, Acerinox formalised the purchase of VDM following receipt of the necessary authorisations from the European, US and Taiwanese competition authorities.

The company is valued at EUR 532 million, of which Acerinox paid EUR 313 million, while taking on EUR 85 million in debt.

This transaction will give the Acerinox Group access to sectors with higher value added and it represents a growth opportunity owing to VDM's diversification in sectors such as oil & gas, the chemical processes industry, electronics, automotive and aerospace.

VDM is a leader in the manufacture of high performance alloys and a leader in R&D, and Acerinox is recognised as one of the most efficient stainless steel producers in the world. The new industrial group now has complementary strengths that will allow it to continue to be a pioneer and benchmark in the sector.

Based in Werdohl, Germany, VDM develops and manufactures special nickel and cobalt alloys as well as high-alloy stainless steels with special properties. It has 7 production sites in Germany and the United States and nearly 2,000 employees. In 2018/19 the company made sales of EUR 852 million and recognised EBITDA of EUR 97 million.

A transition process was launched to ensure business continuity, facilitate integration and develop identified synergies.

Based on detailed analysis, the three-year synergies target has risen from EUR 14 to 22 million, with new areas of improvement not being ruled out.

In spite of difficulties related to travel restrictions, objectives are being met in a timely manner owing to the teams' work and commitment.

A team comprised of personnel from the two companies has been created dedicated exclusively to the integration. This team is led by Daniel Azpitarte, a member of the Group's senior management and previously the Commercial Director.

Sustainability

Some of the main lines of action being pursued by the Acerinox Group in the realm of sustainability are the following:

2020-2025 Sustainability Master Plan: Acerinox is putting the final touches on its 2020-2025 Sustainability Master Plan, which will strengthen its commitment in this area. This plan is linked transversally to the 360 Excellence Plan and will bring about very substantial efficiencies and savings.

Borrowings: The Group signed an initial loan with BBVA for EUR 80 million for the partial financing of the purchase of VDM Metals, which is linked to sustainability ratios. This financing is sustainable as the operating margin is linked to the performance of two established indicators that will be reviewed on an annual basis: the relative intensity of direct and indirect emissions per tonne of steel produced and the frequency of workplace accidents. The external consultant Sustainalytics issued an opinion that confirms that the operation is aligned with the 2019 Sustainability Linked Loan Principles, the principles that serve as the basis for this type of transaction.

Renewable energies: Agreements were concluded in the first quarter for the supply of 15% of electricity consumption from renewable energies in the coming years, with the aim of reducing our carbon footprint.

SDGs: We have integrated the sustainable development goals (SDGs) into our business strategy.

Circular economy: Acerinox is part of the Circular Economy Pact signed in 2017 by companies committed to the transition to a sustainable model. Stainless steel as a material is a model of circular economy since it meets the four Rs: reduce, reuse, re-manufacture and recycle. In this regard, the Acerinox plant in Spain is one of the largest scrap recycling centres in Europe.

Accident rate: Our accident rate is continuing its downward trend, having fallen by 77% since 2013 (and 58% since 2016) in the last five years, with the aim of achieving zero accidents. The prevention and training campaigns among both employees and subcontractors being carried out in all Group companies are key in achieving this objective.

Emission reduction targets: We are setting emission reduction targets linked to reductions in the energy and water consumption of plants, thus strengthening our commitments.

We are currently collaborating in projects for the use of hydrogen as an alternative fuel source. For each tonne produced, Acerinox emits 35% less CO2 than the sector average according to the International Stainless Steel Forum (ISFF) Thus, in its production of stainless steel, the company is reducing atmospheric emissions equivalent to those generated by 46,000 standard passenger cars being driven throughout the year (using the volume of our 2019 production as a benchmark).

Water consumption: Similarly, we are successfully reducing consumption of water (both in total and per tonne produced) and returning it to nature in the same or a better state than it was obtained. In this item, and taking into account annual 2019 production, we used the equivalent of 6,200 Olympic swimming pools less in our processes than the sector average.

International sustainability awards: North American Stainless received the ISSF's first prize in Sustainability for a project in which it uses slag (following processes to recycle the minerals it contains) as a building material, transforming it into tiles and paving stones for exteriors. NAS developed the idea along with the company Trade Global, to which it has now supplied 12,000 tonnes of this material as an alternative to Portland cement, and it is even more resilient than the latter.

In the same category, Acerinox Europa was awarded third prize for the implementation of the LED Buildings programme, through which it has carried out the installation of a smart LED lighting system, thus enabling energy savings due to both the decrease in consumption and to its adaptation to needs of use.

Excellence 360º Plan

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

Excellence 360º 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 this is thanks to the use of new technologies and putting the customer at the centre of the business.

In 2020, Excellence 360º began the year continuing the progress achieved in 2019, but the situation created by Covid-19 starting in March, with closures of production plants at the order of different governments, and the reduction of production volumes due to the fall in demand, negatively affected factories' operations and the development of Excellence 360º.

However, in spite of the impact on factories' operations, we have successfully improved our performance and continue to optimise our specific consumption levels in all areas of production. The constant application of new technologies and data analysis are providing important support for improving efficiency even in situations such as the present.

Thus, we have achieved estimated savings of more than EUR 17 million annualized, which is a 29% degree of achievement of the target set for 2020.

Management of financial risk

Although extraordinary circumstances have arisen in this period as a result of the worldwide COVID-19 pandemic, Acerinox continues to view the risks mentioned in its approved Financial Statements for 2019 as its main financial risks: currency risk, interest rate risk, price risk, credit risk and liquidity risk.

Effective management of these risks has ensured that the Group has not been impacted, mainly with regard to credit risk and liquidity risk, in spite of the exceptional circumstances.

With respect to credit risk, neither losses nor payment delays were higher than in years prior to COVID-19.

With regard to liquidity risk, Acerinox currently has two loan facilities amounting to EUR 2,607 million, of which 24% is available. Net debt at 30 June amounted to EUR 872 million. Cash balances amounted to EUR 1,110 million.

The most significant financing operations in the first half of 2020 were as follows:

Transactions carried out prior to the state of alarm:

- Refinancing of a loan with Banco Sabadell in January 2020 of EUR 125 million, in which the financing conditions were improved and the maturity extended to 2025.
- Signing of a loan between Acerinox Europa and Caixabank in February 2020 for EUR 20 million.
- Signing of four long-term loans for a total amount of EUR 320 million to finance the purchase of the VDM Metals Group in March. These loans were entered into with four banks (Banco Santander, Banco Sabadell, BBVA and ICO), and amounted to EUR 80 million with each bank, with maturity at five years with the first three banks and eight years with ICO.
- Signing in March of a long-term loan with Liberbank for EUR 30 million and with a maturity of seven years.

Transactions carried out following the state of alarm:

- In June, a long-term loan was signed with Banco Cooperativo Español for EUR 20 million, with a maturity of five years.
- Also, three financing transactions were renewed under the guarantee of the ICO in order to provide the Acerinox Group with sufficient liquidity to alleviate the economic effects of Covid-19. Two loan facilities were renewed: one with Banco Sabadell for EUR 80 million and another with BBVA for EUR 50 million. In addition, in June 2020 a three-year loan was signed with Banco Santander for EUR 100 million, which was drawn down on 1 July 2020.
- Lastly, three short-term loan facilities were renewed. One with Banco Santander for EUR 70 million, and another two with BBVA for EUR 120 million and USD 20 million.

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

None of the new loan agreements signed in the first half of 2020 are conditional on the fulfilment of annual financial ratios linked to results.

In March 2020, with the purchase of the VDM Metals Group, Acerinox also acquired its financing, consisting of a syndicated revolving credit facility of up to EUR 150 million with maturity at two years signed with Deutsche Bank, HSBC, Unicredit and Landesbank Hessen-Thüringen Girozentrale (Helaba), of which EUR 95 million were drawn down on 30 June 2020, and a long-term loan signed with IKB, which had an outstanding balance at 30 June 2020 of EUR 44 million and final maturity in September 2022. Both debts are conditional upon the fulfilment of covenants.

VDM, which is also an international group and, as is the case with the rest of the Group, is exposed to the same risks: currency risk, interest rate risk, price risk, credit risk and liquidity risk, which may have a material impact on the Financial Statements and results. The aim is to limit these risks by contracting financial instruments and insurance policies. The following derivative financial instruments are used: exchange rate insurance and futures on the prices of metals listed on the London Metal Exchange (LME) to hedge volatility in the prices of commodities, mainly nickel, although hedges are also taken out for other metals.

Appointments

Acerinox is reinforcing its Senior Management team with the incorporation of Hans Helmrich as Chief Operating Officer on 1 September 2020. Mr. Helmrich will report to the Chief Executive Officer of the Company, Bernardo Velázquez, and will be responsible for the profit and loss of the Group's traditional business and its operations, including customer acquisition, product development, manufacturing and distribution.

Hans has 26 years of extensive experience in the industrial sector (auxiliary automotive, paper and packaging), holding various management positions at national and international level.

Of late, he has held various positions in Cooper Standard in Germany and the US. His most recent role was that of Chief Global Manufacturing Officer.

Hans has a Bachelor's degree from ICADE and a Master's degree from IE Business School in Business Administration and Management.

General Meeting of Shareholders

The Board of Directors of Acerinox, S.A., at its meeting held on 13 April 2020, resolved to postpone the Ordinary General Shareholders' Meeting scheduled to be held on 22 April 2020 due to the exceptional circumstances arising from the spread of COVID-19 and the uncertainty of the duration and difficulty of the process to reactivate the international economy.

On 27 July 2020, the Board of Directors resolved to call the General Shareholders’ Meeting on 22 October with the same items on the agenda, and in similar terms to those established in the previous call.

Alternative Performance Measures (definitions of terms used)

Excellence 360º Plan: estimated efficiency savings for the 2019-2023 period

Operating Working Capital: Inventories + Trade receivables – Trade payables

Net Cash Flow: Results after taxes and minority interests + depreciation and amortisation

Net Financial Debt: Bank borrowings + bond issuance - cash

Net Financial Debt / EBITDA: Net Financial Debt / annualised EBITDA

EBIT: Operating income

Adjusted EBIT: EBIT, stripping out material extraordinary items

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

Adjusted EBITDA: EBITDA, stripping out material extraordinary items

Debt Ratio: Net Financial Debt / Equity

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

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

ROE: Results after taxes and minority interests / Equity

ICR (interest coverage ratio): EBIT / Financial expenses

DISCLAIMER

This document has been drawn up in good faith upon the basis of the data and facts available on the day of its publication and should be read together with all the public information provided and/or published by ACERINOX, S.A.

This document may contain statements with regard to the future intentions, forecasts and estimates of ACERINOX, S.A. and its business. These types of statements and/or contents may include declarations or expectations with regard to the current plans, objectives and forecasts of the company and its group, including declarations concerning trends or circumstances which might affect its current financial situation and its ratios, results, strategies, production levels, expenditure, costs, exchange rates, investments and/or dividend policy. It may also contain references to the situation and trends of the market of raw materials, especially nickel and chrome.

These statements and contents have been issued in good faith, upon the basis of the knowledge and information available on the date of this announcement and, despite being reasonable, do not constitute a guarantee of future compliance. These statements and contents are subject to risks, uncertainties, changes and situations beyond the control of ACERINOX, S.A., meaning that they may not comply, in full or in part, with what is expected and/or declared.

Except to the extent required by the applicable law, ACERINOX, S.A. does not assume any obligation to publicly update its future declarations and statements, even when new data are published or further unforeseen events which might affect them arise.

ACERINOX, S.A. provides information on the above and other factors which may affect its future statements concerning its business, expectations and/or financial results in the documents it submits to the Spanish National Securities Market Commission. All interested parties are invited to view these documents.

Neither this document nor the information contained herein constitute an offer to sell, purchase or exchange or an invitation to make an offer to buy, purchase or exchange, or a recommendation or advice regarding any asset or financial instrument issued by the Acerinox Group. Any person who acquires assets should do so upon the basis of his or her own judgement after receiving the professional advice deemed appropriate. No kind of investment activity should be performed upon the basis of the information or forecasts contained in this documentation.

Neither ACERINOX, S.A. nor its subsidiaries assume liability of any kind for the damages which may arise from any use of this document or its contents.