



REPORT

MR. BERNARDO VELÁZQUEZ

CHIEF EXECUTIVE OFFICER

GENERAL SHAREHOLDERS' MEETING

Madrid, 11th April 2019

SHAREHOLDERS' GENERAL MEETING

11 APRIL 2019

Dear shareholders:

It is for me an honor to have once more the opportunity to address to you to report Acerinox' results in the business year 2018 and explain the framework in which we have developed our activity, as well as to inform you about other relevant aspects for our Company.

One year ago, when we held this General Meeting, we talked about how, despite of the numerous political or economic uncertainties, the improvement of the economic situation had been consolidated, growing the GDP in most of the most relevant economies, including those of emerging countries like South Africa or Brazil.

It had been long since we had seen such a homogeneous and moderated growth in every region on the planet, reason why this synchronized global growth gave us hope that the economic cycle would endure.

Nevertheless, only one a month after the idea of a new global slowdown, even of a recession, started to spread. We began to suffer the fear of a global synchronized deceleration and the end of a cycle, what affected variable income markets and Acerinox quotation, but also stainless steel markets pending on the expectations that drive economic activity in general.

Maybe the situation was neither as good at the beginning of the year nor as bad as it was portrayed in the second half, but these sensations amplify cycles' reality and add a greater volatility as can be observed in the quarterly results' evolution of our Company.

In the business year 2018 we have obtained very similar results than the previous year. Net sales, 5,011 million euros were an 8.3% higher and were the highest in the last 10 years. EBITDA, of 480 million euros, was only 1.8% lower and it is the second highest in the last decade; and the result after taxes and minority interests of 237 million euros surpassed in 1.3% that of the previous business year, being as well the best one in the period being considered.

We have reduced our debt in a 9.4% down to 552 million euros and debt/EBITDA ratio stood at 1.15 times, what we consider to be very positive in a market as volatile and dependent to economic cycles as it is that of stainless steel. Financial expenses have been substantially reduced and stood only at 2 million euros, an amount 89% lower than the previous year. Furthermore, taking

advantage of the context, we have transformed a 70.7% of our debt into fixed interest rate.

In order to obtain these results we have melted 2.44 million tons in our melt shops and we have processed 1.75 million tons in our cold rollers, which is the best register in our history. Our sales of physical units increased a 2.2%.

We consider these results to be positive, being obtained at an environment of great volatility in which we had to quickly react to changes in the market and encompass our business, trying to alleviate the classical tendency of our sector in order to take advantage of the opportunities that surged in the first part of the year and to assure cash generation and debt control.

Stainless steel is a basic material that is used as raw material for numerous industries, both for those dedicated to produce consumption goods like automobiles, housewares or appliances as well as for producing equipment for the food, chemical or pharmaceutical industries, what makes of it a good indicator of economy's performance.

There are three fundamental regions for Acerinox: Europe and the United States, because together they represent an 82% of our sales, and China, because it is the greatest producer and consumer of stainless steel in the world and because on its situation and need to export surplus depend prices in the rest of international markets.

In Europe, during the last business year, we observed how economy gradually slowed down and growth decreased quarter by quarter. If during the first three months Gross Domestic Product grew a 2.4%, its later evolution was of 2.2%, 1.8%, and 1.4% in the last quarter. The Industrial Production Index started the year with a 3.1% in the first quarter, 2.5% in the second, 1.1% in the third and finished the year in negative with a -1.1% in the last three months of the business year.

A similar performance, even if at a different scale, had also China, whose Gross Domestic Product went through a growth rate from a 6.8% in the first quarter, a 6.7% in the second, a 6.5% in the third and a 6.4% in the fourth. Its Industrial Production Index had also a downward evolution, 6.8%, 6.6%, 6.0%, 5.7%.

On the contrary, the United States had a positive evolution: 2.6% in the first quarter, 2.9% in the second, 3.0% in the third and 3.1% in the fourth. The country's economy surprised once more for its strength, supported by protectionist measures, trade negotiations and fiscal policies.

Not surprisingly, its Industrial Production Index had also a solid performance by quarters: 3.4%, 3.4%, 5.1%, and 4.3%. Even here did uncertainties rise by the end of the business year. The company's geographical diversification allowed

us to take advantage of the good shape of the American market to which we supply from our factory in Kentucky.

In addition to economic situation and strongly related to it, prices of raw materials and more relevantly that of nickel are always a catalyzer for our activity. Nickel consists of almost an 8% of the content of the most common stainless steel, austenitic, but this amount represents almost the 50% of its manufacturing cost. This is the reason why its price is so relevant for stainless steel and why the variation of its quotation in the London Metal Exchange directly affects our prices and our activity as sales accelerate when prices increase or decelerate when they decrease in order to anticipate increases. The past business year, the price of this metal evolved in line with economic expectations. Departing from a price of 12,710 \$/ton on 2 January, it fell down to 12,443 \$/ton the 17 January, moment since when the price kept increasing month by month until it reached its annual maximum on 7 June with 15,755 \$/ton. From that moment on, the price did only decrease, reaching its minimum the last day of the year, 31 December with 10,660 \$/ton, price with which it closed the year. Two clearly differentiated parts of the year, a first one lasting 158 days in which prices increased 3,045 \$/ton, and a second one lasting 207 days in which it decreased 5,095\$/ton. From this point of view, 2018 was more negative than positive as it had a longer and sharper period in which sales shrank, provoking strong inventories' adjustments what affected our activity, more relevantly, in the last quarter. Like many other listed assets, Nickel started the year 2019 positively, reporting a 23.5% increase as of 9 April.

Influenced by the parallel action of these two very important factors, the stainless steel market and Acerinox performance had two clearly differentiated parts. We were favored by a first positive part, with an upward trend in prices and stocks replenishment and we suffered in the third quarter, especially in the fourth quarter when a drastic reduction of inventories took place in all markets motivated by the fear of a new recession –more than of a deceleration-, what might have been an exaggerated reaction. Such is the bad remembrance we have from the last crisis.

Together with the economic situation that conditions real consumption of our products and raw materials that set the trend in prices and short-term activity, the other key factors to understand our activity are trade flows in a globalized market and the excess of installed capacity in the world, especially in China.

During the last decade we have insisted year after year on the flood of new factories of stainless steel and steel in general which had been built in China and how they had altered traditional trade flows, steering this country to hold more than a 52% of global production nowadays.

Having to confront the pressure of important forums like the World Trade Organization or G-20, which have working groups exclusively dedicated to dealing with the issue of the proliferation of steel factories in China, and with the support of financial and political institutions, Chinese manufacturers have begun to invest in other countries as part of the Asian country strategy known as the “Silk Road” or “One belt one road initiative” with the aim of increasing Chinese influence in the world, especially in those countries owners of raw materials and located in maritime trade routes. Such is the case of Indonesia that has entered the stainless steel market by the “front door”, manufacturing approximately a 5% of global production in only two years thanks to the Chinese investments carried out in a country with no big consumption of stainless steel but with great reserves of nickel ore. Chinese and Indonesian productions of stainless steel aggregated represent a 57% of world production.

Logically, at a globalized market traditional trade flows have been altered by the pressure exerted by production excess over the most developed consuming markets like Europe, United States or Japan, provoking that prices in these markets stand at historical minimum levels. This fact can't be considered a reason to worry about on its own, competence is positive because it helps us to improve and the efficiency achieved allows us to maintain margins; but it can be worrying when accompanied by disloyal competence practices, subsidies or restrictions to free trade. This is the reason why protectionist measures have proliferated in the last years, like the ones taken in Europe against China and Taiwan in 2015, in the United States against China in 2017, and in almost every country against the others at a complex globalization process in which trade barriers have turned to be a crucial factor in our sales strategy, bearing in mind that we sell in more than 80 countries in the 5 continents. Currently, from the 22 stainless steel manufacturing countries, 21 have implemented protectionist measures. Only Japan has kept its market open thanks to the complexity of its provisioning system that works as a technological barrier. Even China has recently initiated an anti-dumping procedure against Indonesia.

In this respect, two determining factors for our activity have occurred during 2018. On one hand, the implementation of 25% tariffs in the United States to steel imports, and on the other, the decision to establish safeguard measures in Europe in order to protect the market from the consequences of the American decision. Because of their relevance, I believe it is worth detaining ourselves to explain these facts.

The American administration decided on 8 March 2018 to implement the mechanisms contained in “Section 232 of the Trade Expansion Act of 1962” based on the negative effect that it considered aluminum and steel imports could have against its national security, considering both materials of a strategic relevance for the country's defense and deciding to clearly and firmly defend local industry. As a result, 25% tariffs were established for almost every country,

except for those who agreed to reduce their exports a 30% such as South Korea, Australia, Argentina and Brazil. Even traditional trade partners like Europe and Japan were included in the sanctions.

The immediate effect of these measures was the reduction of stainless steel imports, what we estimate did in a 16% for the total of the year. Facing this situation and thanks to the good shape of the American economy, we were able to increase production in this country while stainless steel recovered more reasonable price levels.

Tackled by the measures imposed in the United States, European manufacturers requested the Commission to establish safeguard measures in order to avoid the deviation to the European Union of those materials which could no longer be exported to the American country and that would damage an already saturated market by Asian imports in the previous years. Even if our request was replied and provisional safeguard measures were established on 18 July, the months in between the publication of American tariffs and that date in addition to the way in which the provisional measures were applied, hindered the well-functioning of this mechanism that didn't have the desired effect. Imports to Europe grew an even 7% more, reaching a market quota of 30%, and they did so massively and disorderly, provoking a quick increase of inventories in the market and a sharp fall in prices.

Fortunately, the definitive measures adopted on 1 February 2019 have corrected most of the previous mistakes and it seems, even if they were implemented only three months ago, that now they will be able to stabilize the European market. In summary, the measures established annual quotas to the countries representing more than a 5% of European imports and whenever that this amount is surpassed, 25% tariffs are applied. It is also worth noting the clearly expressed compromise of revising the status of developing countries which represent less than a 3% once they surpass it, what we believe would limit Indonesian manufacturers' greed.

The supply to European consumers is guaranteed like the Commission verified and, according to our estimates, under these measures material deviation to Europe could be contained reducing imports to a more reasonable market share, around 25%. By now and according to our figures for the two first months of the year, imports in Europe have been reduced in a 24% and its market share stands at a 21.5%, even if it is soon yet to make conclusions. The well-functioning of the system will favor the activity of our factories in Spain and South Africa, country which won't be affected by these quotas by virtue of a preferential agreement in force between the European Union and a group of countries from southern Africa.

The negative consequence for our Group of the trade barriers imposed in the United States and the European protection is that Asian markets are suffering the concentration of Chinese and Indonesian production surpluses, making stainless steel prices fall to unsustainable levels for those who, like us, follow the criteria of profitability, transparency and free market. Under such circumstances finds itself our bet for the Southeastern Asian market, Bahru Stainless, located in Malaysia.

To conclude, these have been the key factors that have determined the rhythm of our activity along 2018. On one hand, the two sides of the year, one positive and the other negative, amplified by the synchrony of nickel prices; and on the other the regional differences prompted by trade measures.

North American Stainless could take advantage of the good performance of the American market and the decrease of imports to the country, even if it wasn't exempt either from the excessive precaution that characterized markets by the end of the business year due to a decrease in prices of raw materials and the negative economic atmosphere. Apparent consumption of stainless steel flat products decreased a 2.2% due to the inventories adjustment that took place in the second half of the year. Nevertheless, NAS improved its EBITDA in a 35.3% compared with that of the previous year, clearly standing as the engine of the Group.

The other factories had to adapt themselves to the situation provoked by the fierce competence, especially, by the great damage suffered by the European market in the last quarter of the year, both in volume and prices. Apparent consumption of stainless steel flat products in Europe decreased a 0.2% in the year. With high stock levels and prices in continuous decrease, we decided to reduce production and to make the necessary adjustments for us to guarantee cash generation and debt reduction at the same time that we avoided transferring the bad situation to the 2019 business year.

Acerinox Europa reduced its EBITDA in a 50.1%, Columbus a 54.8% and Bahru lost its positive sign by the end of the business year with negative figures. This was the reason why it was necessary to adequate the weight of our participation in that company, as our Chairman has already well explained. It is worth noting the good performance of long product in general and specially in Roldán, our factory in Ponferrada whose EBITDA improved a 62.7% thanks to a better situation in the market as well as to the efficient work undertaken and the allocated investments in the last years.

Regarding the Consolidated Group, we began the year earning 118 million euros of EBITDA in the first quarter; a 39% below the same period in 2017, which we should bear in mind was exceptionally good because of the increase in raw materials. During the business year we came closer to previous year's figures, being able to improve them with 151 million in the second half and 154

in the third one. Unfortunately, at the same time as we published the good results of the third quarter, we felt obliged to anticipate the sharp change in the market for the last part of the year. In the last quarter EBITDA decreased to only 58 million after an inventory adjustment of 22 million euros thanks to which the year as a whole totaled 480 million euros, only a 1.8% below that of 2017.

Because of these decisions our melt shop production was reduced a 13% in the second half compared with the first one, impeding us to obtain the new historical record that we had set as our goal and finishing a 3.1% below that of the previous year. Acerinox production, 2.44 million tons, represents a 4.8% of world production, occupying the fifth position among the greatest manufacturers by volume. According to available data, world stainless steel production increased in a 5.5% reaching 50.74 million tons. Almost all the growth came from China and Indonesia.

Nevertheless, the measures adopted allowed free cash flow to reach 171 million euros after making investments for the amount of 155 million. After 124 million euros in dividends, the rest of cash was allocated to reduce debt to 552 million euros, 1.15 times EBITDA as I had previously mentioned.

The confidence we have in our capacity to generate cash even in a very volatile framework and our competitiveness have moved us to recommend an 11% increase in the payment to shareholders up to 0.50 euros per share, in addition to a shares buy-back program and its first phase of a 2% that are submitted today for the consideration of this Shareholders' General Meeting.

We won't publish the first quarter results until 13 May but, by now, our estimates are being confirmed and we are clearly improving the results of the previous quarter, feeling optimistic regardless of the lack of visibility.

I would like to highlight the great opportunity that the recent investments in the United States represent, a ZM-6 cold roller and a bright and annealing (BA) line for 116 million euros that will manufacture a superficial finish that was deficient in this country. Even if the Group had experience with these lines as it already owned three of them, its launching by the time of the implementation of tariffs has facilitated, without a doubt, their penetration in the market.

The same relevance have the new investments carried out in the factory of Acerinox Europa, the new ZM-7 cold roller, the new AP-5 annealing and pickling line and the complete remodeling of one of its old lines, the AP-3 line, which were launched during 2018 and are working as it was expected. These investments enjoy of the most advanced technology in the sector and will contribute to improve the quality of our products while reducing manufacturing costs and emissions. To this purpose we have allocated 153 million euros during the last 3 years.

In 2018 total investment in fixed assets increased to 144 million euros, from which a 61% was allocated to the Spanish installations, a 23% to the American Factory and a 10% to the South African one.

Stainless steel is a good product that keeps growing, what it did around a 5.5% in 2018. It is an extraordinary material that keeps contributing to the economic development and of which new areas of application are still being discovered thanks to its resistance to corrosion, its mechanical properties, its appearance, how easy it is to clean, the durability of the products manufactured with it and its capacity to be recycled over and over again, what makes it ideal for sustainable development and circular economy.

The growth of stainless steel consumption has been boosted in the last years by the developing countries in which the impressive access of great part of its population to the middle class has required of household appliances, housewares, a hygienic food industry and many others applications to grant the living standards of quality recently acquired, a phenomenon that is still on its way.

On the other hand, developed countries need materials to complement our progress, and stainless steel is one of them for its properties and because we need of durable and recyclable materials that limit the use of natural resources. That is why we keep intensifying the use of scrap as the main raw material in our productive process, having reached a new record in 2018. We have also improved our position regarding carbon emissions per manufactured ton, standing a 35% below the sector's average according to our international association, the International Stainless Steel Forum. We are confident that society will give value to these merits and new opportunities to make use of stainless steel in the so-called circular economy will surge.

During the past year we have seen how the prices of some of our consumables increased, mainly graphite electrodes and refractory material that we use in our furnaces, as well as electricity. All together, these increases in prices entailed an overrun of 65 million euros if we compare them with 2017.

On one hand, the prices of electrodes -of which a 45% are manufactured in China-, have been affected by speculation due to the increase of steel production in electric furnaces instead of blast furnaces, also placed in this country. In addition, needle coke, the main raw material for the manufacturing of electrodes, increased its demand due to its use in the manufacturing of graphite anodes for electric car batteries. These circumstances multiplied by 5 the price of these materials. Something similar happened to refractory materials whose main raw material, magnesia, is obtained in a 49% in that same Asian country. Fortunately, in 2019 we are witnessing how these markets recover their equilibrium and prices return to more reasonable levels.

The other factor that I feel obliged to mention for another year is the high price of electricity in Spain, what puts in risk the viability of Spanish industry. In the industries that compete at the international market, most raw materials and consumables that we use are purchased at the global markets at also international prices. In the same line, our selling prices aren't different than those of our competitor countries. Only two items of our costs have an exclusively national component, electricity and labor, and Spain is no longer, neither should it become, a country that compensates the high costs of its electricity with cheap labor.

We believe that the operative models of other countries in our surroundings like France or Germany should be followed, models fully accepted by Brussels and that allow electro-intensive industries have access to energy supply with competitive costs. According to a recent research carried out by Deloitte for the Spanish Association of Companies with High Energy Consumption (AEGE for its acronym in Spanish), the price paid by its members in Spain is around 25 euros/MWh higher than the one paid in average by industries in France and Germany, which means an almost 40% overrun. In order for us to properly understand the meaning of these figures, if our mill Acerinox Europa was located in one of those countries, our Group would earn nearly 30 million euros more annually.

It is evident how we all support energy transition but not if it is at expense of our industry that creates quality jobs, R+D and is the engine of exports; an industry that, if substituted, would be relocated in countries polluting more than Spain. Concerning this issue, we positively value the statute of the electro-intensive industry recently approved by the government and we trust that it will soon allocate an adequate share of the budget to this end in order to reduce this competitive disadvantage, because without it, it would be nothing more than a declaration of good intentions.

In addition to the cost of energy and labor, the other main local factor key to compete in our sector is the efficiency in processes. We are still obsessed with improving our productivity and reducing to the minimum extent the resources needed for stainless steel manufacturing and in this field we have made relevant progress, at a great extent thanks to excellence plans. The V Excellence Plan finished last year, a plan with which we put an end to a 10-year period of improvements. The inconsistency with which we have worked in 2018 hasn't been the best context to optimize efficiency in our processes but, nevertheless, we have fulfilled a 55% of the goals, in other words, we have obtained an annual recurrent saving of 27 million euros that aggregate to those obtained in the previous plans.

In the last years we have focused in understanding the so-called digital transformation and the possibilities it offers to improve the business of steel.

Last year we already reviewed some of the projects that we were launching based on sensorization, data analysis and artificial intelligence and that were fundamentally applied to our lines of production which are our main data suppliers.

During the last business year we have given shape to the basis of what will be our digital strategy that we have integrated in our new improvements' plan, what we have titled "360° Excellence", a plan that will become the pillar to sustain our progress and the guarantee of our competitiveness in the future. This is a 5-year plan with which we pretend to obtain 125 million euros in annual recurrent savings by the end of it. In it we have intended to integrate the improvements that we had been achieving with traditional techniques with those that we now have at our hand thanks to digital transformation, because the goal is still the same one: be more flexible in order to adapt to a changing environment, be more productive, make use of the minimum resources and always remain one of the most competitive companies in the sector internationally.

The capacity to install sensors in our equipment, connectivity, the speed of information processing, the advanced analysis of data and many other technologies will bring us very relevant improvements in the control of processes and the optimization of our productive and selling capacity. We are moving towards a new productivity and efficiency standard, anticipating problems, improving quality and putting customer service in the center of our business. That is the reason why we refer to it as 360° Excellence, because it contemplates a complete vision of our Company. We are very excited with this project that we announced this past February 2019, because it is going to allow us simplifying the digital transformation process, granting it a clear economic and practical sense from the beginning.

In the Annual Report 2018 we have pretended to explain in detail all the most relevant aspects of our activity, the situation in the main markets, our sales and productions, the financial situation and our income statement that faithfully illustrates the situation of Acerinox. You will also find the non-financial information record that we already audited last year anticipating ourselves to the new legislation.

It is worth noting the great advance that we are achieving in the reduction of accidents, having achieved the last business year the lowest accidents rate of our history. The goal in this field can be no other than zero. Security is the most important part of operative excellence.

We are increasing, year after year, the training opportunities of our personnel, convinced of the need to enhance talent in the Company in order to confront a context of rapid changes; and the collaboration among the different centers of the Group, taking advantage of the benefits that our diversity can bring. We also keep fostering our collaborations with universities, technological hubs and

training schools, not only as a social duty but because of the great knowledge that they offer us and the need to attract well-trained youth to our industry. We are boosting research, broadening it in four main areas of activity: improving products, improving processes, developing new applications and giving value to our waste.

I would like to finish by acknowledging the confidence given year after year to our Company by all of you, shareholders, suppliers, customers and friends.

This year I would like to make a special acknowledgement to Nisshin Steel, our historical shareholder, for all with which it has contributed during our 49 years of common history. They were the ones that gave us the technology and they took part of the first generations of technicians of Acerinox. We still use in all the Group factories worldwide Japanese words that we learnt back then to define equipment, processes or quality flaws. There are many Japanese and Spanish technicians that have travelled from one side of the globe to the other and many friendships still remain. We trust that its integration in Nippon Steel, one of the greatest steel manufacturers in the world, will bring us more opportunities to collaborate and that it will contribute to improve a very special and unique relationship between a Japanese and a Spanish company and also among their people.

At last I would like to sincerely thank all the human team of Acerinox and, more relevantly, its Senior Management, for the effort, dedication and compromise that they demonstrate year after year and that will help us to successfully confront the important challenges that lay ahead in order for Acerinox to remain an international role model in the stainless steel sector.

Thank you very much,

Bernardo Velázquez

Chief Executive Officer