



**REPORT**  
**Mr. RAFAEL MIRANDA**

**CHAIRMAN**

**SHAREHOLDERS' GENERAL MEETING**

**Madrid, 11 April 2019**

# **SHAREHOLDERS' GENERAL MEETING**

## **11 APRIL 2019**

Dear Mr. and Mrs. shareholders,  
Distinguished guests,

For another year I have the satisfaction to address to you as Chairman of the Board of Directors of our company, Acerinox.

In the name of the Board of Directors and myself I reiterate the acknowledgement for joining us today.

As always, it is for me specially pleasant to head this Shareholders' Meeting in which we will expose the events occurred to our company during the business year 2018 because, as you all well know, Acerinox has obtained for the second consecutive business year its best results in the last 10 years with profits of 237 million euros (a 1.3% higher than in 2017) increasing its sales in an 8.3% and reducing its debt in a 9.4%. Without a doubt, very good results that our Chief Executive Officer will analyze in deep and that are of special relevance considering the unstable context of the market, the economy, shares and politics in which they has been obtained.

### **Global Perspective**

And it is this context in which Acerinox has undertaken its activity that I would like to expose to you as a brief global perspective in order to situate the circumstances in which it has developed and to clearly establish a correlation between markets evolution and the company's results.

As you already know, Acerinox is present in 57 countries from which it distributes stainless steel to a total of 86 countries in the 5 continents, having factories in four of them. This global character is a fundamental value of our company and it also enables us to have a wider perspective of global trade flows and the evolution of the several markets, and from it we have been able to detect how in the year 2018 unbalanced behaviors in the economies of the United States, Europe, Africa and Asia have taken place, and specially as well in the stainless steel sector.

It is well known by everyone that global economy kept growing during 2018, even though at a slightly lower pace as the previous year 3.7%, due to the greater weakness of Europe and Asia, all this in the context of a quite generalized political instability.

It is worth mentioning how the third and, more relevantly, the fourth quarter of the year have been disappointing in most economies. During the last quarter, industrial production has decelerated except for the United States, world trade has been reduced below 2017 average levels and metal prices have been

decreasing since the month of August, partially due to the weakness of Chinese demand.

All these circumstances in addition to the reduction of optimism about business results, trade wars and the expectations of a future shrink of global growth, corrected companies' shares of the most advanced economies at a downward trend in almost every stock market during the last quarter.

The stainless steel sector wasn't exempt from the characteristics of global economy during the year. Therefore, global production increased a 10% during the first nine months of the year but was later strongly corrected in the last part of the year finishing it according to our estimates at a 5.5%. China, as usual, was the main manufacturer holding a 52% of global production, while a new player appeared this year, Indonesia, with a strong increase in its production due to the new plant that the Chinese company Tsingshan has in the country, provoking a supply surplus in the Asian market with a very negative effect on prices that has ended up affecting all markets.

The American market and, in particular, that of the United States, the most relevant market for us, had a good performance both in consumption and generation of wealth at the national level and, more specifically, in the stainless steel sector.

The first power's GDP grew from a 2.2% (with which it finished 2017) to a very positive 2.8% by the end of 2018, bringing full employment rates and a positive growth of its industrial production index during the last months of the year.

To the good shape of its economy there must be added some decisions which favored Acerinox activity. The current administration approved efficient tariff measures adopted under Section 232 of the Trade Expansion Act of 1962 which reduced imports of flat product around 16% in parallel to the good performance of stainless steel consumption, standing out mainly in the construction and household appliances sectors.

The correlation between the stainless Steel sector's evolution and economy in general was clearly reflected in Europe. The Eurozone reduced its growth in 6 decimal points (from 2.4% in 2017 to 1.8% in 2018) and in the continent's main economy, Germany, the fall of GDP growth reached 1 point. In Spain there was a more moderate retrieve in its evolution descending from 3% to 2.5%. I will later mention the specific case of our country and the most important challenges that our economy still faces.

As I was mentioning, the shrinking of European growth took place mainly in the second quarter and, once more, it had been anticipated by the evolution of our sector. In the Old Continent there has been a supply surplus during the year, more relevantly in the second half, due to the increase of imports that reached a 30% of flat product, provoking a downward trend in prices. This relevant increase of imports has demonstrated the inefficiency of the safeguard measures adopted by the European Union in the year, what our sector already alerted to the communitarian authorities, unfortunately with no success. For all

the previous, the fall in apparent consumption at the European market during the year has been around 2% due to the strong correction produced in the fourth quarter of the year.

The South African case (and in general that of all BRICS) is different due to its structural and political peculiarities and with a GDP correction from 1.3% to 0.8% had a recovery of apparent consumption in line with that of last years, thanks to the good performance of demand in sectors such as the automotive or the holding tanks industry, allowing Columbus to improve its sales at the domestic market, even though this positive aspect was later neutralized by an increase of imports, therefore tensioning prices.

South Africa is the main developed market in the South African continent but it is not the only one, and I would like to highlight how Acerinox, moved by its firm intention to capture organic growth in the markets where it operates, opened an office during 2018 in a country such as Egypt, where there is a significant consumption potential making us believe in potential growth expectations considering the great projects that could be launched.

Let me now detain myself in the performance of the region in which the greatest growths in economy take place, Asia, and therefore where we find the greatest potential consumptions of our product, stainless steel, but being also the region from which we receive the main challenges that our industry has to face, more specifically from China and its great manufacturers.

According to the World Bank the Asia-Pacific region represents a 42.6% of global GDP. Keeping in mind this figure we must take into account as well that China kept growing at a 6.6% in 2018 –even if in 2017 it grew a 6.9%- and the ASEAN region, where we are present, kept growing at a 5.2%, only one decimal point less than last year.

These growths would represent without a doubt a great opportunity for the development of our industry if it wasn't for the tremendous competitive intensity that takes place in these markets, resulting of the activity and behavior of Asian stainless steel manufacturers, more specifically of Chinese ones, provoking in many cases an important destruction of the value of those manufacturers operating in that area.

In fact, demand in this market has had a good behavior with a good apparent consumption in China around 7% pushed by the majority of sectors except for the automotive one and despite of the perceived slowdown of its economy. The ASEAN region has also had a good demand, where our plant Bahru Stainless has increased its volume of sales.

This positive aspect of this Asian market has been totally countered by the supply surplus, at a great stand motivated as I already mentioned by the irruption of the Chinese manufacturer Tsingshan from Indonesia, very negatively affecting prices in the region and in other parts of the world as well.

## **Spanish Economy**

Taking into account that we are a Spanish company, I think it is my obligation to make some comments and considerations concerning the situation and challenges confronted by our country.

Our economy's growth has slowed down from a GDP increase of a 3% in 2017 to a 2.5% in 2018 with a clear deceleration from the 2.8% in the third quarter to the 2.4% in the last one. Notwithstanding the previous, there must be pointed out how our economy has worked out quite better than the European average – increasing a 1.8%-, specially better than the great European economies such as Germany, France, Italy and Great Britain (still part of the European Union).

There is no doubt that the deceleration of our economy has many causes, some of them being exogenous and affecting all economies such as trade wars, Brexit, the slowdown in the main world guiding economies and the effect that it has had in the fall of external demand among many others already well known. But there have also been some internal reasons that shouldn't be underestimated because if we are able to correct them, we will help strengthening the necessary path towards a vigorous growth of our economy.

I'm referring to reasons such as the political instability that we had to face, the juridical uncertainty that provokes constant legislative and regulatory changes, certain economic policies or fiscal measures that hamper the improvement of the competitive positioning of our companies and therefore, of our economy.

It is clear that our economy has substantially improved since the past crisis but we still can't reduce the gap with our countries of reference, we need to be aware of how there is only one way forward which is the one of constant improvement in competitiveness which will also entail the improvement in competitiveness of our industry.

We still face very important challenges, public deficit, the high debt of the public sector which was unable to reduce it as the private sector did, the moral obligation to keep generating jobs as we have been able to do since the end of the crisis. There are other global challenges such as digitalization, green economy and/or domestic challenges such as population ageing, business size or the necessary optimization of production factors that so much affect our industry like having access to cheap energy that would enable us to compete with the rest of the world or the needed labor flexibility, among many others.

As you can see a wide task requires of everyone's effort, stability, political and social consensus like the one granted by the 1978 Constitution which has given us 40 years of effective democracy and the greatest economic welfare of Spain in the modern era. In other words, it means achieving the ambitious goal of keep generating the greatest wealth possible enabling us to better distribute it and to leverage a sustainable welfare state like the one I'm sure we are all willing for.

## **Economic results**

After this global analysis I would like to expose to you some of the most important economic variables of the business year, the Company's financial situation as well as some of the decisions adopted during the year.

Despite of the decrease in production during 2018 business year in melt shop (-3.1%) and hot rolling (-4.9%) relatively compensated by the increase in cold rolled production (+0.8%) and the important increase in long product (+8.9%), we have been able to increase our net sales' volume an 8% over the previous year, amounting 5,011 million euros; we have generated an EBITDA of 480 million, only a 1.8% lower than that of 2017 after carrying out an inventory adjustment to the net realizable value for 22 million euros and considering the impact of dollar depreciation for 14 million, all this despite of the tensions and bad results in the last quarter. EBITDA margin has been of 9.6%, one percentage point lower than the 10.6% reached last year. Earnings after taxes and minority interests reached 237 million euros, clearly the best result in the last ten years.

These good results have been obtained thanks to a 2% increase in sales of physical units, higher selling prices, costs contention, mainly those of personnel and operating costs, but essentially thanks to the results obtained by our business in the United States.

The Group's operating cash flow raised to 326 million euros, enabling us to maintain the pace of investments, 155 million, and the payment of dividends and the purchase of Treasury Stock for 128 million euros.

Cash generation after investments and dividends has amounted 43 million euros, having reduced net debt by the end of the year to 552 million euros in comparison with the 609 of 2017. Once more we have been able to focus our financing strategy in optimizing its cost, taking advantage of the existing liquidity in the markets, extending maturity dates and increasing fixed-term debt in case of potential increases of interest rates.

Thanks to the healthy financial situation that we have and the excellent ratios that we present, we are able to confront future both in the path towards growth as well as in the case that we'll face potential future deceleration scenarios in the markets as I will later comment.

In this situation and pretending to inject financial flexibility to our subsidiaries and with the aim of giving the most faithful image possible of our investments, the Board of Administration took two decisions in respect to our participation in Bahru Stainless:

The first one has been to carry out a value impairment of Acerinox S.A. investment in Bahru for 155 million euros, a decision thoroughly explained in the economic report and which has no impact on the consolidated results of the year.

The second one has been to undertake a capital increase in Bahru, with no allocation in cash, capitalizing 335.5 million dollars of the loan granted by Acerinox S.A. to its subsidiary. This decision was made once Acerinox S.A. had acquired the 30% of Bahru's shares held by Nisshin Steel, having as a positive effect to give financial flexibility to our subsidiary reestablishing its balance in equity.

### **Evolution of shares**

I'll now describe the evolution of stock markets and, in particular, of our shares during the past year. As it is well known, world stock exchanges had an important downward correction in the second half of the business year, taking place the rare event that almost every asset finished the year with negative returns, what did not happen since 1931.

Neither Ibex 35 nor our shares could escape from the trend experienced by all markets and Acerinox shares evolved in line with Ibex 35 during the first half while having a worse behavior than the index in the fourth quarter as consequence of the difficulties faced by our product at the European market, the fall in petroleum prices, the news of a possible slowdown of the Asian market and the threat of a possible recession in the medium-term. Our shares fell a 27.3% during the year in comparison with a 15% fall of Ibex 35; nevertheless we had a much better performance than our most direct competitors Aperam and Outokumpu.

Fortunately and despite of the still existing doubts about the evolution of economies like the not yet solved Brexit issue; the monetary policies announced by the ECB and FED, the news of a possible positive resolution of the conflict between China and the United States as well as the positive news of Chinese economy after the Chinese New Year have been able to revitalize world stock exchanges, reason why our shares had yesterday a revalorization of X% and Ibex 35 of a X%.

Due to the healthy financial situation that I have already described, our privileged multinational position and, in particular, the leadership that we exert in the United States market, we believe that we deserve a better and higher value at the markets as we are convinced that there is a relevant potential of revalorization of our shares and we trust that their volatility will soon be reduced and our value will be recognized.

Being convinced of the previous and firmly compromised with our shareholders' remuneration policy, the Board of Directors decided the past December to propose to the Shareholders' General Meeting an 11% increase of the dividend from 0.45 to 0.50 euros per share. In parallel, a long-term program has been designed to reduce the number of shares and thus compensate the shares issued during the four years in which the dividend was paid through flexible dividend and therefore we propose to this Shareholders' General Meeting the amortization of up to 5,521,350 own shares belonging to the treasury stock and

which had been acquired for 51 million euros, under the first action of the Buy-Back Program.

### **Corporate Governance**

The Board of Directors has kept working on improving and optimizing our Corporate Governance with the goal of making it recognized and valued for its excellence by markets and the investors that operate in them. I would like now to recall the most relevant developments that have taken place during this year.

The Executive Committee of the Board has consolidated itself as the organ to analyze and deepen the complex topics and everything related to the strategy of the Company, being its analysis of great use to facilitate the decision-making process of the Board of Directors; this new perspective has obliged it to hold a higher number of sessions.

Once more, the Audit Committee has had a very intense activity in rigorous compliance with the technical guide 3/2017 of the CNMV (Spanish Stock Market Commission), enacting its own regulation in which it systematizes the relationship of this Committee with external and internal auditors, personnel in charge of compliance as well as with all the other organs of the Company.

The Appointments, Remuneration and Corporate Governance Committee has considerably increased the number of meetings held during the year, having devoted them to the wide range of activities it covers, from which are worth noting the approval of the new remuneration system for the company's senior management, the boosting of the elaboration of a new succession planning for the key posts in the Group, the design of the action plans deduced from the self-evaluation undertaken by the group or the researches carried out regarding composition, structure and remuneration of the Corporate Governance and Corporate Social Responsibility, which are included in the Non-Financial Information Record as part of the Annual Report, being in compliance with law 11/2018 on non-financial information and diversity.

### **Events occurred after the closing of the business year**

I would like now to highlight the relevant events occurred after the closing of the business year and which I consider, for several reasons, important for the future of our Company.

The first one is related to the shareholder that has accompanied us since the very beginning of our Company, the company Nisshin Steel Co. Ltd. This company was acquired at the end of the year by the also Japanese company Nippon Steel & Sumitomo Metal Corporation who, from that moment on will hold the shares that Nisshin owned in our Company. I believe it corresponds to these lines the duty to thank Nisshin for the permanent support it has given to our Company all along our history and, at the same time, to welcome the new Company which will finally become our shareholder, as well as express our



conviction that its philosophy and contribution to our development will be at the same level as the one we have had until now.

The second event has to do with the future development of our business in a market as important for us as it is the European. On 1 February 2019 the European Commission announced the definite safeguard measures with important changes in respect to the provisional measures of July 2018 and that, as we have been remarking, weren't very effective in reaching the intended goals. We believe that with the new design of these measures they will be much more effective and will help to reach the goals set, thus improving the future conditions of this market.

### **Board of Directors**

Let me now comment the changes concerning the composition of the Board of Directors which are submitted to this Meeting:

- To ratify the appointment through co-option of Mr. Ignacio Martín San Vicente as External Independent Director.
- The reelection of Mr. George Donald Johnston as Independent Director for a four-year period.
- The appointment of Mr. Pablo Gómez Garzón for the same period as Proprietary Director representing Corporación Financiera Alba, covering the post left by Mr. Pedro Ballesteros Quintana.
- The appointment of Mr. Mitsuo Ikeda for the same period as Proprietary Director representing Nippon Steel & Sumitomo Metal Corporation, covering the post left by Mr. Katsuhisa Miyakusu.
- It is also proposed the reduction in number of members of the Board of Directors from fifteen to fourteen, in the framework of a policy to reduce the number of Directors that we want to start gradually applying in order to approximate ourselves to an average number of Directors more in accordance with international practice.

As consequence of all the previous, the already mentioned Mr. Miyakusu and Mr. Ballesteros as well as Mr. Manuel Conthe, whose post is the one we pretend to amortize, leave today the Board.

Our most sincere acknowledgement for their work and permanent dedication to our Company.

### **Corporate Social Responsibility**

I would like to finish my intervention by talking about the future and the perspectives and challenges that we will confront.

But before that I feel obliged to make a special mention to one of the Company's priorities until now and that we would like to maintain in the future. And it is no other than the REAL COMPROMISE with sustainability in its widest sense including, of course, the protection of environment as the social responsible company that we are and we would like to remain.

It is a priority because going beyond the strict compliance with norms and particularly, the effort to take care of our environment combined with economic profit is what makes us an organization with the aim to remain and endure, with a healthy ambition to foster excellence in this field in order to differentiate ourselves and exert the leadership that we claim to have in our industry.

And it is this formal compromise that in the case of Acerinox includes environment and our surroundings, the reduction of environmental impact during the production process, the collaboration with the communities in which we operate, of course, the compromise with our employees through our policy to reduce accidents to ZERO, our policy to manage talent through continuous training and our diversity policies among others, together with the compromise with all the groups of interests that affect us and which take part somehow as well of our own company.

For another year we have made the reporting and transparency effort of elaborating the Non-Financial Information Record, audited by the firm KPMG but also the consecution of the Global Reporting Initiative (GRI) which you all have at your disposal and in which you could also observe the recognition of very different institutions that demonstrate to apply solid environmental and corporate social responsibility measuring methods and which include Acerinox in their global indexes of responsible companies.

### **Future challenges**

Every time we speak about future we have no other option but to talk about the uncertain and volatile times that we have to face and also how difficult and risky it is to predict it.

In this moment, on one hand there are international economic organisms making weaker projections of global economy growth for the year 2019 and the next year 2020 than the ones reached in 2018 (from the 2.9% of the World Bank to the 3.5% of the IMF) and with unbalanced growths by regions, what will probably be reflected on the different conditions and characteristics of the markets in which we operate. On the other, there are many analysts worried about the current economic reality, what makes them estimate that we could be approaching the end of a business cycle and that in the upcoming years a new recession difficult to measure could overcome. And also, many others –and growing in number since the last news on a possible positive resolution of the conflict between the United States and China, the recent moderately good news of Chinese economy and Brexit's uncertainty- are confident and optimistic about the great difficulties that we now confront and that will be resolved and sustain that, as consequence, a positive effect will powerfully rebound growth.

Regardless of which reality we'll finally face Acerinox, as the global company it is, must have a strategy to confront every scenario, from the most optimistic to the most pessimistic one.

In order to confront such an important challenge, the first thing that we need to do is reinforcing the attributes that we believe to have already, what makes us consider that we are prepared for such an uncertain future and which are key for success, like the following:

- Having the best and most efficient geographical diversification of the sector, reinforcing the markets in which we are clearly able to generate value and looking for solutions for those ones in which it is demonstrated how in the middle-term we won't reach that generation of value.
- Developing our product mix optimizing our R+D activity in this field, considering the evolution that some traditional applications of our product will have as consequence of the new environmental strategy promoted worldwide; and evaluating the possible penetration into new market niches in which we aren't present yet and are perceived to have chances of future.
- Keep permanently improving our competitive position, the only guarantee of survival when facing the strong competitive intensity of a global business like ours, taking advantage of the recently undertaken financial effort. Taking advantage of the opportunity that technology brings, developing at its full-performance the "360° Excellence Plan" recently launched which pretends to become a new step forward in efficiency through the digital transformation of our company.
- Maintaining a healthy financial structure, a prudent financial management focused in cash generation in order to guarantee the adequate remuneration of our shareholders.
- Of course, keeping our strong compromise with sustainability and environment in the framework of the already described Corporate Social Responsibility policy.

To all this we need to add the defense of our business culture based on austerity, self-commitment, pride of belonging and the development of talent inside the company that enables the promotion of the best employees, all this trying that this culture is not contrary to the necessary introduction of new ideas into Acerinox.

The stainless steel market still presents a globally interesting growth for the future; we need to focus our strategy in achieving an efficient capture of organic growth, a not easy task due to the tremendous competitive intensity in some markets, but we also need to be able to discover and develop initiatives that would enable us to undertake an intelligent incursion into those opportunities of inorganic growth that might surge.

In conclusion, it is the moment now that we are about to make 50 years of existence as a company, what will take place the next year 2020, to redouble our compromise with the permanent goals of generating value for our shareholders and fulfilling the social responsibility that as a company corresponds to us.

I finish, as always, by acknowledging the 6,709 people who take part of our human capital all over the world for their work and dedication, encouraging them to face the promising future of our company with a responsible attitude.

A special mention deserves the Management team, headed by the Chief Executive Officer, for its extraordinary dedication to this Company which is the guarantee that we can obtain our future objectives.

One year more, I also acknowledge the Board of Directors which, complying with its statutory mission and under the new Corporate Governance vision that is common in the world, governs, controls and directs the Company's strategy defending the best social interest of our institution.

And, of course, I would like to thank you all Mr. and Mrs. Shareholders for your trust and support during the year that we would like to maintain in the future.

Thank you very much,  
Rafael Miranda  
Chairman