SPEECH

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GENERAL MEETING OF SHAREHOLDERS 2014
REPORT BY THE CHIEF EXECUTIVE OFFICER

Dear shareholders,

Again I have the honour of addressing you to give an account of the results of Acerinox for 2013, I will discuss how this first period of 2014 has passed and what future prospects we see for our Company.

The year 2013 was one of the hardest to remember and one of the most difficult to manage, with two very distinct halves, both with very low prices on all international markets and an environment marked by uncertainty and lack of confidence, in which we had to live by day and with very little visibility, applying maximum flexibility and the efficiency we have achieved.

The best we can say is that 2013, for us, is the year in which we reached the bottom, the year we started to climb and the year of the beginning of the recovery of the European economy, since other regions were already enjoying a better situation.

Since 2008 we have suffered the effects of the severe recession, common to many other sectors. But in the field of stainless steel, this has also coincided with the sudden emergence of China in the international arena, from manufacturing 3.8% of world production in 2001 to 26.8% in 2008 and 50% in 2013, having multiplied its production by 26 in the last 12 years. Clearly a change so violent has generated excess capacity and altered all the traditional trade flows of our products.

In the last six years, thanks to the support and trust that you, our shareholders, have shown us, we have taken time to revise our business model and adapt to the new market realities. We have reduced our costs and we have equipped our production facilities and our distribution network with more flexibility, seeking excellence in all our processes, with the aim of achieving a level of competitiveness that allows us to make profit even in the worst moments of the cycles. This was the case in 2013, in which, with great effort, we obtained a profit after tax and minority interests of 22 million EUR, being one of the few companies in the steel industry in the world that ended with positive results.

To explain the course of our business we have to talk about the price of nickel on the London Metal Exchange. As all of you know, the market for stainless steel and nickel price development are closely linked, since this metal is about 40% of the cost of our product, while 80% of nickel consumption is intended for the production of stainless steel.

The price of stainless steel, in a lot of markets, is constructed by the combination of two factors of similar weight, the base price, which is agreed in direct negotiations with customers, and the alloy surcharge, which is calculated by a formula that takes into account the price of nickel, chromium, iron and other elements, trying to transfer to the buyer the price changes in raw materials.

So, with the alloy surcharge in continuous decline triggered by the falling price of nickel, customers slow down their purchases, hoping to get cheaper prices, causing lower activity in the factories, which results in increased pressure on prices based on an attempt by manufacturers to anticipate the situation and grab the largest possible volume of orders. This has been happening for the last 3 years, dragging the base prices to record lows in the fourth quarter of 2012.

Similarly, the continuous rise of nickel in a sufficiently long period, causes base price increases by the eagerness of customers to stock up on a greater amount of material before the rise of alloy surcharges.

2013 began with a nickel price of 17,425 USD / tonne and remained at that level until the end of the month, beginning a climb to 18,600 USD / tonne, yearly high reached on February 4. From that time onwards we returned to the down trend of the past two years, reaching the minimum for the year of 13,160 USD / tonne on July 9, stabilising after about 14,000 USD / tonne until the end of the year.

In this context, we begin 2013 with a very low base price, 1,085 EUR / tonne according to the publication Metal Bulletin, the same as in the last quarter of 2012, in which we lost 27 million euros. In view of the behaviour of the Metal Exchange London and distrust in the improvement of the economy in the first quarter of 2013, there was no more than a very slight increase in the usual process of restocking and small increases in base prices in February and March were rapidly neutralized, making useless all of our efforts to raise base prices, so the rest of the year we went down to the lowest price level in recent years, at least lower than I remember.

During the first semester all the data we were getting, both from the production in our factories and economic performance, were lower in comparison with the same period in 2012. Raw steel production only declined in the period from January to June by 0.9%, but the net income of 16.1 million EUR was 59.9% lower than in the first half of 2012 and EBITDA at 119.1 million EUR was 28.2% lower.

However, this EBITDA exceeded 3.8 times that of the second half of 2012, despite being achieved in a situation of similar prices. I can assure you that these results, positive though not brilliant, were achieved through the efforts of all Acerinox staff, totally focused on the progress of the Plan for Excellence and all programmes of cost reduction.

At the end of the first half of 2013 we were still waiting for a recovery of the economy which was beginning to be felt in the U.S. but not in Europe, where the stainless steel apparent consumption fell by 2.4% compared to the same period of the year before. Also we live in the uncertain future of the consolidation of the European stainless steel industry, with the missed sale of the Italian factory AST in Terni, an operation which the European Commission obliged Outokumpu as a condition for accepting a merger with the German group Inoxum.

With all these factors, and with results of Acerinox that did not fully emerge, it is no wonder that markets lost interest in our shares, reducing liquidity to cause the exit from the IBEX-35, which finally occurred in December. I am convinced that we will be able to restore hope for our activity and to return to the Spanish index, if not in the meeting today, then in another very soon, because right now we occupy 35th place in terms of liquidity criteria, besides being one of the few industrial index values and being around the 26th position in terms of market capitalisation.

The situation of Acerinox began to change in the second semester, especially after the summer. Whilst again there was a correction in the third quarter, which lost us 9 million EUR, it was not as strong as in 2012. From September, with very low stainless steel stock worldwide, nickel prices finally stabilised after three years of continued declines and the first positive news regarding European consumption, we were slowly improving our productions and our results, finally overcoming all the variables of 2012 at the end of year.

Comparing the second half of 2013 with the previous year, production increased by 4.7%, EBITDA was 3.4 times better and results remained positive, 6 million EUR, compared to heavy losses of 58 million in the second half of the previous year.

Particularly noteworthy was the fourth quarter, which with sales similar to the rest of the year and the lowest turnover of the year due to low base prices, we obtained an EBITDA of 109 million due to savings in the cost of exploitation.

European consumption bottomed in August to start growing from September to coincide with good macroeconomic news and with the best expectations. Finally the European apparent consumption increased by 1.7% in 2013 according to our calculations, thanks to the countries of northern Europe, but also with the very notable contribution of the South. Spain grew 2.7% and Italy 1.9%. We attribute this shift to the good performance of the sector of capital goods for export but also for investments in the export of products performed with this equipment.

The U.S. market was more solid throughout the year, with a growth rate of 4% driven by consumer goods, especially automotive and domestic appliances, and energy investments, which we miss so much in Europe, allowing even a slight price increase in the third quarter.

Asia remained the fastest growing region, especially China with a 16% increase in consumption accounted for the whole increase across the continent.

Returning to Acerinox data, the total production in 2013 was 2,225,018 tonnes, 1.6% above 2012. The hot rolling production was 1,941,063 tonnes, 1.4% higher, and cold rolling was 1,499,429 tonnes, exceeding by 5.7% that of 2012.

The turnover during the year was 3,966 million EUR, 13% lower than in 2012, with sales in physical units only 1.4% lower. This is explained, as I mentioned, by the decline in nickel prices and the low base prices from which we suffered all year.

The EBITDA achieved, 228 million EUR, was 15% higher than 2012 and profit after tax and minority interests was 22 million EUR, compared to a loss of 18.3 million EUR in 2012, after performing end of year inventory adjustments to tailor our inventories to net realisable value, amounting to 11 million EUR.

The management of working capital and reduction of inventories executed allowed us to close with a net debt of 529 million EUR and a debt / EBITDA ratio of 2.3 times, complying fully with the main conditions prescribed for our funding.

During 2013 we invested 126 million euros, 47% in the new plant we are building in Malaysia, Bahru Stainless. And 31% of our investments were aimed at Acerinox Europe.

I would emphasize that, since 2008, when we include the modernisation and improvement of the competitiveness of the Gibraltar factory as one of the main sections of our Strategic Plan, we have invested in it about 213 million EUR to give it state-of-the-art equipment and place it back into the forefront of the global steel industry. Very few companies have invested so much in this period of crisis for the Spanish industry and the Andalusian industry in particular. Today we can say that through these investments and the experience and great attitude of our employees, we have achieved the objectives despite increases in energy and social costs.

Over 2013, important maintenance work and new equipment installations were carried out in the steelworks and hot-roller lines, completely overhauling the electronic control system of skin-pass line number 1, which started operations in 1973, and renovating the CS-2 cross-cut line by giving it faster cutting speeds and a new sheet metal stacking system to improve productivity.

We are staying on the investment schedule that we set up in the 2008-2020 Strategic Plan, fundamentally centered on the construction of Bahru Stainless. Equipment of Phase I is working satisfactorily and Phase II continues the process of commissioning already under way, demonstrating the quality of design and the right choice of suppliers. During 2013 the production of the new plant increased by 63% and two-thirds of sales were destined for export, mainly to countries which together with Malaysia make up the ASEAN region.

According to the plan, once the activity started with the first two phases of Bahru Stainless we have focused on improving the productivity and efficiency of the installed equipment, in market development and appropriate staff training, as we continue studying the engineering of future phases.

For this reason we will not have major investments in Malaysia for 2014, so the Group CAPEX limit is about 70 million EUR, which on the other hand will improve cash.

I also want to emphasize that we have invested 12 million EUR in R & D and Innovation in the Group, particularly in innovation, being very focused on improving production processes and in the design of new types of steels or modifications of existing types to better suit the needs of our customers. The number of projects undertaken in 2013 was 49 in Acerinox Europe, 23 in NAS and 10 in Columbus. For their importance, we highlight the prizes awarded in the Factory of Gibraltar for the quality of product and process and improvements in security and environment which, in their edition of 2013, counted 25 projects demonstrating commitment and staff involvement. Practically all of them are in operation.

We continue also paying special attention to environmental issues, without having had any noteworthy incidents. Nor have we had in 2013 any severe accidents among our workers.

We are a sustainable company and therefore we wish to reward our shareholders and remain faithful to our policy of maintaining the payment of 0.45 EUR per share. Given the good reception it had in 2013, we propose to repeat the formula of "scrip dividend" or dividend option. In 2013 56.6% of the shares chose to add to the capital with very satisfactory results, because from issue these shares have risen by more than 50%.

The shares of Acerinox also had two very different behaviours during the year. We start from 8.3 EUR per share and we lost 21% to reach a minimum of 6.9 on June 24, then gaining 34% to close on December 31 at 9.2 EUR per share, with an increase over the full year of 11%, lower than the 21% of the IBEX-35. The maximum of the year came at the close of November 6, when it reached 9.9 per share.

The behaviour of our shares in 2014 is very positive, closing in May at 12.6 EUR per share with an increase of 36%, well above the 9% of the IBEX-35, encouraged by our best results and increasing confidence in the recovery.

The business is developing positively in 2014, continuing the trend as it began. Demand is improving in Europe, not so much for restocking in our sector but for the best performance in stainless steel consumption. We estimate the apparent consumption of the European market is growing in the first 4 months of the year by 14%, which is not explained but because they are replenishing inventories along the supply chains of goods made of stainless steel, such as automobiles, appliances or utensils.

In the first quarter of 2014, as published on April 23, our production increased by 5% compared to the first quarter of 2013 and our sales in units by 10%.

Thanks to improved demand, the positive trend in the price of nickel and low stock levels in stores, we have been able to slightly raise prices and improve our results. EBITDA for the first quarter, 89 million EUR, improved 30% on the same period than previous year and a profit after tax and minority interests of 25 million, up 64%.

Our order book and price increases that we have accumulated, especially in the U.S., make us optimistic for the second quarter and the remainder of the year, though with caution due to the European recovery which is still fragile and the strong competitive pressure, especially from Asia. We understand that during 2013 we have reached the tipping point that leads to a new cycle and we must invest in the future. The recovery process may be slow but we have objective reasons for optimism.

First of all, we have a great product. Stainless steel is an extraordinary material and world production continues to grow at a rate of 6% per annum, which has even been surpassed in 2013 reaching 7.8%. But in recent years it has retained growth thanks to China, in 2014 we expect the change towards a more homogeneous growth in all world regions. ISSF (International Stainless Steel Forum) estimates global consumption will grow by about 6% in 2014 but spread more evenly: 4% in Europe, 5% in the U.S. and in Asia, excluding China, and 7% in China.

Also the European Steel Association, EUROFER, is more positive and has increased its forecast for growth in steel consumption in Europe generally to 4%, driven by the capital goods, automotive and appliances sectors, but with all sectors behaving positively, even construction. In these circumstances we consider that the consumption of stainless steel in Europe will exceed the expectations of the ISSF and grow above 5%. The process of economic recovery in developed countries will increase the use of stainless steel, which will contribute to a better balance between supply and demand.

The second reason for confidence in the future is the progressive reduction of overcapacity affecting our industry. And this refers to China, in particular. During the last decade we have seen new stainless steel factories appear in China, without any steel tradition, encouraged by the favourable conditions and protectionist measures of the Asian giant, promoted after declaring stainless steel and other materials a strategic product for economic growth. In just over a decade, China has gone from 3.8% of world production of stainless steel in 2001 to produce 50% in 2013.

This tsunami ended up causing a world glut, altering traditional trade currents. From being a net importer of 2 million tonnes in 2001 it progressed to having an export balance of 1.8 million in 2013.

But we begin to perceive symptoms which cause us to believe that this step of unbridled construction of stainless steel factories is coming to an end. On the one hand, the Chinese government has shown that the current growth model based on export, is not sustainable and there needs to be a shift to another model based on domestic consumption and the production of goods with greater value. Furthermore, the Central Bank of China has expressed concern about the credit bubble of difficult collection, emphasizing the desire to curb lending for projects in areas already experiencing excess capacity, specifically citing the case of steel and stainless steel.

Well, these circumstances are already reflected in our sector. We continue to receive reports of starting new factories in China, but are those announced in at least 3 years, which is the period of construction of the equipment used to make stainless steel. And in recent years we have no news of new projects and expansions take place only in a few existing factories. This means that we have reached the turning point of overcapacity and we have begun to reduce the difference between installed capacity and actual consumption.

To give a time frame to reach equilibrium is risky, since it will depend largely on the evolution of the learning curve of new manufacturers, but we can at least be assured that the situation has started to improve. Considering an annual growth of 6% over the 38.1 million tonnes produced in 2013, global production will grow in absolute terms by least 2.3 million tonnes per year. That is to say, at this rate equal to the excess production of 2 full size factories and the maturity of North American Stainless capacity will be absorbed each year, our factory in Kentucky is considered a model in the sector.

On the other hand, the process of reducing capacity in Europe by Outokumpu continues, which has stopped the activity at 600,000 tonnes in Krefeld (Germany) and has announced the advancement of closing Bochum (Germany) in early 2015, affecting 800,000 tonnes. Unfortunately the European Competition Commission prevented the go ahead with the initial plan, forcing the Finnish company to dispose of the Italian Terni plant, which finally took place by selling it to its previous owner, the company ThyssenKrupp. Although this decision was disappointing at the time to the market it is not a bad alternative since the much needed capacity reduction is actually produced and has accelerated the situation.

Thirdly I would like to make some comments on the raw material that affects our business, nickel. Coinciding with the economic crisis and overcapacity in our industry, a new product of nickel appeared in China, the "nickel pig iron" which, according to some analysts, provided a competitive advantage of 300 dollars per tonne of stainless steel produced by Chinese manufacturers. Technically it is a ferro-nickel with low nickel content, obtained from iron ore with low nickel content from Indonesia and the Philippines, which began being processed in China in ancient obsolete cupolas, being restricted for export.

The Indonesian government, sensing the little added value of mining activity, declared a legislated ban on the export of minerals, including nickel, if they had not undergone initial processing in the country for which massive investments were needed. This measure came into force on 1 January this year and now is in strict compliance despite the pressures. Moreover, all candidates for the presidential elections have declared themselves supporters of the measure, which suggests that it will not alter at least in the short term.

How does this affect our business? First, it is driving up the price of nickel. It is also affecting the price of Philippine mineral, which is losing its advantages for NPI production in China, and is putting more pressure on other forms of alternative nickel such as scrap or conventional ferro-nickel. In any case it is great news for the industry because it eliminates the advantage of Chinese manufacturers. Playing by the same rules, we are able to compete in any of the markets using the technology and experience we have accumulated at Acerinox.

The fourth factor that we consider to be positive for Acerinox is the interest being shown by European governments and the European Union in the industry in general, and the steel industry in particular, as a strategic activity for development, employment, and the goal of having 20% of the gross national product come from industrial sources. Last year we were working with enthusiasm with the work group "Steel Action Plan", created in Brussels on the initiative of Commissioner Tajani and this seed has been germinating in other groups such as the Club of Friends of Industry, consisting of ministers for industry in several European countries and the Spanish Action Plan for Steel, presiding minister Don José Manuel Soria, in which we are also actively participating, as well as new measures for re-industrialisation.

The concern for the industry is evident and it has been shown by the President of the Junta de Andalucía, Doña Susana Diaz, whom we have to thank for being the first Andalusian president to visit our facilities in Gibraltar. Industry is absolutely essential to Europe and Spain, yet for years it has languished in oblivion. We hope that this current of sympathy towards industry and the steel industry in particular, leads us to get more competitive energy costs, simplify the European, national and regional regulatory apparatus, to reduce the impact of environmental costs that are only incurred by Europeans and defend our interests in international trade by removing barriers, monitoring the implementation of agreements and imposing the principle of reciprocity in relations between countries.

Finally I want to emphasize the most important reason for my optimism and confidence in the future of Acerinox: the team. I can assure that over recent years we have made great efforts to improve the competitiveness of our Group, beating inflation, increases in energy costs, by overcoming the lower utilisation of production capacity and all adverse factors, to reach a new threshold of profitability. But we have also created the right mechanisms and the business culture to make these achievements sustainable.

The Plan for Excellence is one of them. In the third edition of this biannual plan, with only one year under way, 68% of the objectives have already been attained. Today we have reached 82%. But we must not forget there are many other plans. We have implemented new models of maintenance and management of auxiliary services in the factories, without losing effectiveness, they have given us 12 million EUR and have developed process changes in the supply chain, the composition of steel and in many other areas, thanks to the effort, commitment, technical training and experience of our staff.

Regarding the staff this year we saved 20 million EUR. Since the beginning of the crisis we have resized our business to adapt to new market realities, adjusting personnel in Europe and South Africa, not increasing it in the United States despite increases in production and increasing in Asia, the market of the future where we are building Bahru Stainless and are expanding our sales network.

Today I would like to announce that we can terminate this process and that companies that today form Acerinox have adequate structure for the new situation. Along the way we have reduced 1,523 jobs, 20% of the 7,516 employees who were in the Acerinox Group in existing centres in 2008, which were partly offset by the creation of other companies, particularly in Asia. From now on we can concentrate on what we do best, managing growth, without forgetting what we have learned.

If in the difficult circumstances of 2013 we have achieved a positive result it is because Acerinox is now more competitive than ever and the improved economy and increased activity will show our true potential. These years have been tough but we have allowed our firm to address modernisation.

Since 2008 we have streamlined our business model gaining flexibility and responsiveness. We have created a strategic plan that we follow faithfully. We have developed 3 Plans for Excellence and we are preparing the fourth. We have lightened the structure and redistributed our staff. We are building a factory in Malaysia and we have opened commercial companies in this country and also in China, Vietnam, Korea, Thailand, Philippines, Indonesia, United Arab Emirates and Turkey. And we have undertaken with order and efficiency a generational shift of 400 retirements, including virtually the entire senior management.

While reviewing all these achievements we cannot help but remember our honorary president, recently deceased, Rafael Naranjo. His experience, his judgement, his serenity, his humanity and his constant support at all times have catalyzed our work and have given us the necessary confidence. Now I do not want praise the figure of Rafael Naranjo as I would not be objective in judging someone who has been my teacher, my mentor, my boss and my friend, but I want to thank him on behalf of Acerinox for everything he has done for this company. Thanks Rafael.

A new era for us opens and we are privileged to have within it a new President, Rafael Miranda, a person of recognised prestige, who will help us to be better each day and continue to create value.

Thanks to our shareholders, customers, suppliers and all those in relationships with us who give us their loyalty and trust in our projects year after year, and the support that we have achieved means that we are now a point of reference for the global steel industry, one of the most internationalised Spanish companies and one of the Spanish industrial companies which contribute most to the good name and image of our country.

Thanks to all our employees and the management team for the enormous effort of this past year and thanks for the commitment you have shown, which makes me so proud to be a part of Acerinox.

Bernardo Velázquez
Chief Executive Officer