REPORT

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CHIEF EXECUTIVE OFFICER

GENERAL SHAREHOLDERS MEETING

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GENERAL MEETING OF SHAREHOLDERS 2015
REPORT BY THE CHIEF EXECUTIVE OFFICER

Dear Shareholders,

It is an honour for me to have the opportunity to speak to you again to inform you of the results obtained by Acerinox in 2015 and explain the progress of our activity, how it is evolving in 2016 and what we feel are the prospects for our company and our industry.

Without doubt, our attention has been focused mainly on two things over the last few years: the global economic crisis and the excess of installed capacity in the stainless steel industry, as is also the case in the steel industry in general and in many other raw materials and primary industries.

In recent years, great complexity has been added to industrial activity while the economy has undergone a slow, fragile process of recovery, with many uncertainties, and which, furthermore, is subject to a new order that will require companies to make greater efforts to be competitive.

In 2015, we suffered low expectations of growth in the United States at the beginning of the year; threats to the survival of the European Union, with the Greek crisis, in spring; doubts about Chinese growth during the summer, and the crisis of raw materials the rest of the year, with political tensions, the refugee drama and one or two other crises thrown in to add to the landscape of uncertainty and volatility. We should perhaps mention the tremendous strength of the world economy, which resists despite all these simultaneous events.

Of course, of all these factors, the one that affected the results of Acerinox most in the 2015 tax year was the crisis of raw materials and of nickel in particular, which caused a continuous fall in prices from the second quarter of 2014 until February 2016.

Despite all this, we are leaving the worst behind and are moving slowly, and with ups and downs, down the road to recovery. In 2016, we hope that Europe will reach a level of stainless steel consumption similar to that of the years prior to the crisis, as the United States did in 2014, thus demonstrating once again the greater dynamism of its economy.

During this period we have worked and continue to work hard to adapt to the new market conditions, which are not the same as those prior to 2008. We have increased our competitiveness, but it is not sufficient because every manufacturer has done the same, and there has been a deflation that makes it difficult to improve profit margins.

The other great challenge for our industry is overcapacity, which is the excess of installed capacity worldwide, due to the proliferation of factories in China after having declared stainless steel as a material of strategic importance for the development of the country, together with carbon steel, cement, glass, chemicals and raw materials.

Since 2012, year after year, we have continually denounced this situation which is seriously affecting the whole of the world steel industry, with factory closures and job losses, as we see continuously in the media, not only in Europe but also in the United States, Japan and other countries.

Never before had the world production capacity grown so much in so little time. Remember that in the 15 years from 2001 to 2015, China went from having 3 to 52% participation in the global production of stainless steel. It went from producing 730,000 tonnes a year to producing 21.6 million, i.e. 30 times more, which makes it the largest exporting country in the world with 2.9 million tonnes in 2015.

This situation has altered traditional trade flows, has caused tension in every market and has greatly contributed to the decline of our margins.

It has also led to a tendency towards protectionism in every country. At the moment there are anti-dumping measures against imports of stainless steel from China in place in Europe, India, Indonesia, Taiwan, Thailand, Vietnam and Brazil, and they are being considered in the United States. In addition, there are tariffs on imports in practically every country, with the exception of the developed economies: Europe, the US, Japan and Korea.

The introduction once again of these instruments should only be a temporary solution to prevent unfair competition, because we are heading towards a global economy in which a single set of game rules should be established.

China must continue to evolve into a true market economy and compete on equal terms and not thanks to the benefits of its planned economy. Meanwhile, it would be a mistake for the European Union to give China market economy status (MES), which would have serious consequences for the European industry, despite its leadership in efficiency, in innovation and in reducing emissions.

The European steel industry aims to be sustainable; however, in order to achieve this, it must obtain sufficient profit margins to remunerate shareholders and continue to invest in the latest technology, which is difficult to achieve when competing at a disadvantage compared with producers in other countries where industrial activity is subsidised, results accounts are opaque and high pollution levels are not seen as a problem.

We are not asking for protection, but we do ask for all manufacturers to be obliged to play according to the same rules of the game, and that competition should be clean and healthy, in order to boost the progress of our industry.

The industry should be supported because the crisis showed that it generates more stable, safer, better paid employment, which is ultimately of better quality. However, if we want a fair world and a clean world, we need to support European industry.

It seems that, at last, this viewpoint is being adopted. Europe has decided to support its steel industry and is showing this in numerous ways: the 20/20 reindustrialisation plan, the European Parliament vote against the granting of market economy status to China, and in our case, the imposition of a tariff of 25% on imports of cold-rolling flat product from this country.

The United States is also studying anti-dumping measures, and its result will probably be announced this September.

Both Europe and the United States have decided to support their steel companies in the face of unfair competition, thereby giving China food for thought regarding the problem of overcapacity, as can be seen from the monographic meeting of the OECD held in Brussels in April 2016 focusing on the steel problem, including stainless steel. It is worth underlining the importance of the steel industry, which is always fundamental to any strategy of industrial development.

Let us hope that this example is also followed in Spain, where successive governments have not only not favoured us, but, in addition, they have added taxes and duties to electricity and gas bills to fund other areas of activity.

China, for its part, seems determined to face the challenge of reducing excess of capacity, according to the statements of their rulers on the new five-year development plan which is being prepared and which will see the light this October. It is expected to include realistic measures for closing inefficient and polluting facilities, and to promote a shift towards other activities of the economy, through specific aid and budgetary assignment programmes.

That is why we believe that the situation has begun to change, and therefore, we are optimistic because we see that they are not approving new projects for the manufacture of stainless steel in China, because production in this country has stabilized in 2015 after 15 years of continuous growth and because, for the first time, we see that they have lowered their exports of stainless steel by 13%, compared to 2014. That is to say, greater domestic consumption and lower exports are expected. Moreover, the change of economic model announced in that country has begun, at least in the stainless steel industry, which will benefit, or cease to prejudice, other manufacturers worldwide.

At the traditional consumption growth rate of the past 65 years of 6% per annum, which is equivalent to 2.5 million tonnes of stainless steel a year, in a short time we will return to ratios of capacity utilization which are more desirable for improving the profitability of our facilities.

We also have to talk about globalisation. Acerinox competes in a global market, and globalisation is one of the factors which is not new but which has intensified over the past few years, in part, motivated by the changes mentioned above, which have resulted in a shift of the commercial axis towards Asia.

Thanks to reduced prices and ready availability of transport, and to the ease and speed of access to information, markets have been unified and competition takes place on all continents simultaneously and on very similar terms.

World markets have drawn closer and know each other better, and news spreads at the speed of the internet; therefore, the particularities of each region have become homogenised. Prices, deadlines, the terms of orders and technical conditions are increasingly similar in free markets and trade flows become rapidly modified, looking for the best opportunities in view of the circumstances that may arise, either changes in demand owing to regional economic factors, or declines in supply due to breakdowns, strikes, regulation or any other circumstance.

Therefore we must be flexible and react quickly, because in order to make the most of opportunities we need to be quick to adapt. Digital transformation should help us to handle the information overload and use it to our advantage.
We have always considered our presence in all five continents, our light structure and the speed of our decision making to be Acerinox's strong points. Now we need to go even deeper with these aspects, applying the benefits which new technologies provide.

Going into more detail about our business, there was an upward trend in the actual consumption of stainless steel in 2015, which behaved according to our forecasts, with moderate but sustainable and more homogeneous growth, with no great regional differences. To mention one important consumer sector, in 2015 vehicle production grew by 6.7% in Europe, 3.4% in the United States, and 3.3% in China.

However, the many uncertainties and the continued decline in the price of nickel led to the return of defensive positions: a reduction in inventories, purchasing being delayed, and low prices. As a result, the apparent consumption of stainless steel fell by 1.7% in Europe and 7% in the USA. In China it rose slightly by only 1.5%, according to our information.

World-wide production remained steady at 41.5 million tonnes. The production of our steel mills also remained steady at 2.3 million tonnes with only a very slight drop of 0.2%. The production of our steel mills accounts for 5.8% of world-wide production.

The ten largest stainless steel makers, of which we are one, produce 58% of the world-wide total, which shows the level of consolidation in the sector. For carbon steel, the ten largest producers only account for 25% of the world-wide total and the largest producer, which has a production of almost double the second largest, has a very similar share to Acerinox, 5.7% in 2015, according to the World Steel association.

Our cold-rolling production, 1.6 million tonnes, was our largest ever and grew by 3.4% over that of 2014. Despite increased activity in our factories, however, we were not able to increase our profits due to low prices, which reflects the strength of the competition, and above all the fall in price of raw materials.

A unique characteristic of the stainless steel sector is the transparency in price building. Whether this is by means of alloy extras, through which buyers can tell by using a formula how the price will change according to variations in the price of the main raw materials, as happens in Europe and the United States, or because, with no formula, changes in the price of raw materials have an immediate effect on quotes, as happens in most countries in Asia, the fact is that our prices are completely tied to the prices of the raw materials we use, which basically means to the price of nickel.

The price of nickel in 2015, as with most raw materials, changed in parallel with oil prices, in other words, it was in constant decline. The price of nickel does not affect us at Acerinox, we are not a mining company. Moreover, with cheap nickel, stainless steel is more competitive and new applications can be developed, replacing other materials with stainless steel and increasing consumption.

However, the downward trend is very damaging to us. It affects us in two ways: one the one hand, customers, aware of the trend, delay purchases and reduce stock while they wait for more favourable prices, which erodes prices even further; on the other hand, as manufacturers we accumulate stocks of both material in process and finished product, and we have to face the devaluation of these stocks, since we sell raw materials at a lower price than we had paid for them months earlier. Ultimately, we decrease our margins despite all our efforts to control the other factors which affect our income statement.

In 2015 the price of nickel had a continual downward trend from 14,880 dollars per tonne at the beginning of the tax year to 8,665 at the end, accumulating a fall of 41.8% which was more pronounced in the second half of the year. We would have to go back as far as February 2003 to find similar prices.

Fortunately, during the first five months of 2016, the price of nickel has stabilised between 8,000 and 9,000 dollars. Investment funds are no longer taking bear positions, and it is hoped that this price will be maintained or even rise, which will favour better development of our business.

The 2015 tax year began with very optimistic expectations, especially in Europe due to the anti-dumping measures taken against China and Taiwan, following strong growth in apparent consumption in 2014 due to the process of stock replacement.

The fall in nickel and doubts surrounding economic growth quickly reversed this sentiment, even in Europe. Even though imports from China and Taiwan were noticeably reduced in our market, they were quickly replaced by products from other countries, basically from Korea and India, which prevented market conditions from improving. Nevertheless, overall imports of cold-rolling products dropped 23% and this was reflected in greater price stability.

The slowing of Chinese imports into Europe had negative consequences for our Group since they immediately shifted towards the United States, which had the advantage of the strong dollar, which added even more pressure to the internal competition in this country. Therefore, we had to make efforts on pricing until we reached the levels of the Asian market in order to keep our market share.

As I mentioned earlier, already in 2016 anti-dumping proceedings against China have begun in the United States, which will be decided towards the end of the third quarter.

In turn, the slowing of Chinese imports into Europe and the United States caused and continues to cause strong tensions in the Asian market, forcing producers from other countries in the continent to export to Europe and the United States, which means that, in the end, the total quota of imports remains the same. Ultimately, as I said earlier, we are competing in a global market.

At any rate, our income statement for 2015 was affected by the fall in prices in the United States and by the difficult market conditions in Asia which our new Bahru Stainless factory had to face.

Fortunately, we enjoyed greater stability in Europe, even with historically low prices, and we have benefited from the greater level of competitiveness achieved by Columbus Stainless in order to increase exports from South Africa, which were also helped by the devaluation of the local currency in the country.

Revenue for the tax year 4,221 million euros was reduced by 3.6% affected by lower prices. As a result of the deterioration in market conditions, the EBITDA margin on sales went from 9% in the first half of the year to 4% in the second, compared with an average of 10% in 2014. For the year as a whole the EBITDA was 286 million, 37% lower.

Profit after tax and minority interests was 43 million, 68% less than 2014. Compared with profits of 64 million euros in the first half of the year, the second half produced losses of 21 million.

The negative trend continued in the first quarter of 2016, although profits have now begun to recover, once the price of nickel has stabilised and once stocks have returned to normal in all the markets. We have been making a profit since March.

The net debt of the Group at the end of 2015 amounted to 711 million euros, with a ratio to shareholder equity of 35% and to EBITDA of 2.5 times. This healthy financial position has allowed us to invest 94 million euros in equipment and maintain our traditional shareholder remuneration of 0.45 euros per share.

The general shareholders' meeting held a year ago approved the payment of a dividend of 0.45 euros per share using the flexible dividend or scrip dividend formula. The percentage of shares which prefer remuneration by means of new shares has grown year by year, reaching 59.3% in 2015, which demonstrates how well this formula has been received. Therefore, we have opted to propose it again this year to the general meeting, maintaining a remuneration of 0.45 euros per share.

During the 2015 tax year, we invested 94 million euros: 23 million was invested in the new Bahru Stainless factory in Malaysia, but it is also worth highlighting the 32 million euros invested in North American Stainless and the 30 million in Acerinox Europa, which correspond to the first payments of the new investments approved by the Board of Administration in 2015 and within the framework of the 2016-2020 Strategic Plan approved on 29 October 2015.

This Plan constitutes a revision of the 2008-2020 long-term Plan, in order to adapt it to the new situation. Therefore, it was decided that the third phase of investment in Bahru Stainless would be postponed until a more favourable time and with the aim of making the most of the production capacity available across the Group, at the same time as clearly focusing on the more developed markets of the United States and Europe.

The new plan is based on operational excellence, the optimal use of the capacity of the Group’s factories, the development of rapid return investments and, as always, staying true to our principles of financial strength.

The two big investment projects which we envisage in this plan are on the one hand a bright annealing finishing line and a cold-rolling mill for North American Stainless and on the other hand a latest generation annealing and pickling line and a cold-rolling mill for the Acerinox Europe factory.

The first of these will complement our range of products in the United States, adding bright finishing which at the moment is mainly imported, and will allow for a greater use of the capacity already in place in North American Stainless. These machines will come into operation in mid-2017 and their cost will be 116 million euros, to be spread across a number of tax years.

The second is aimed at improving the competitiveness of the facilities which began the Acerinox Group. It will improve the quality of our products and allow us to make considerable savings on maintenance, energy consumption and acids, at the same time as substantially reducing the volume of emissions. Production is due to begin at the end of 2017 and will contribute to focusing this factory on greater added value products. The total amount of the investment will be 140 million euros, also to be spread across a number of tax years.

We remain optimistic about the future and the confidence in our product, stainless steel. Following strong growth in world-wide production, 7.2% in 2013 and 8.3% in 2014, the sector paused for breath in 2015 but we are sure that it will soon return to growth rates of 6%, which has been the average over the past 65 years.

We are convinced that this rate of growth will be sustained, since new applications continue to be found for stainless steel and current nickel prices will only promote more consumption. Moreover, access to the middle class of a great population mass in such densely populated countries as China, India and Indonesia will contribute in large measure to developing the market for our products.

Adding to this the success which Chinese government measures may have in reducing overcapacity or, if they at least stop financing new developments, in just a few years the balance between supply and demand will be restored. As we have always said, our product, stainless steel, is an extraordinary material which still has many applications which have yet to be discovered.

In the short term, we think that the price of nickel will go through a more stable period, with less speculation and a certain upwards trend, since 60% of producers of this raw material are making losses and for the first time in five years there is a production deficit and stocks have begun to decrease.

We are also leading the globalisation process in our sector. Acerinox is today the most global stainless steel producing company, with 4 factories on 4 continents and a commercial network with establishments in 40 countries and sales in over eighty countries. In 2016 we are adding new countries from Sub-Saharan Africa, where we have begun sales in Kenya, to Iran, where we were the first Spanish company to renew commercial relations following the end of the embargo.

Globalisation reduces risks but it doesn’t always work in our favour. Strong competition in Asia, where we are developing the Bahru Stainless project, our factory in Malaysia, and the deterioration of market conditions in NAFTA, account for our fall in profits in 2015 despite greater stability in Europe. We are very proud of our international position and even more of the fact that almost 50% of stainless steel which is melted, produced in the United States of America, comes from our factory in Kentucky, North American Stainless, which is 100% Acerinox-owned. We are leading this market and we are improving our competitiveness and our margins, which is already being reflected in our income statement.

To mention our main markets, we have maintained a market share of over 35% in the United States and Canada, over 60% in mainland Spain, around 85% in South Africa and we have passed 40% in Malaysia. Our market shares of around 15% in Russia and around 10% in Turkey, Australia and Brazil are also significant, as well as the 5.8% of world-wide production which I mentioned earlier.

We must continue to improve in order to be more competitive and flexible in order to adapt quickly to changes in the market and to opportunities which arise. To this end we have made progress thanks to our excellence plans, to our reduction in fixed costs, to the experience we have built up in our personnel and to the firm commitment of the whole team.

We believe in our vocation of continuous improvement, which manifests itself through the benchmarking model between the Group's factories and our excellence plans, in order to continue improving the efficiency and competitiveness of all areas of our activity. Excellence plan IV is aimed at achieving annually recurring savings of 67 million euros and during the first year of execution it has achieved 55% progress which motivates us to keep on working in 2016 to reach these goals and in preparing a new biennial excellence plan, which will be the fifth one, which will set out our objectives for the coming years, 2017 and 2018.

Although it is not part of the excellence plans, it is worth highlighting the progressive reduction in financial costs, making the most of the opportunities offered by the markets but, above all, thanks to the confidence which our balance sheet inspires and our recognised credit quality.

Already in 2016 we have reached agreements with twelve banks for refinancing a total of 717 million euros, reducing the cost of our debt and extending terms until 2021, without covenants, which will contribute even more to our confidence. Remember that in 2015 the Group's financial spending was reduced by 11 million euros.

We also continue to trust in investment in R&D&I which reached 16.5 million euros in 2015. We believe in research and we promote innovation, both in products and in processes, not only in our laboratories and our factories, but also via agreements with universities and collaboration with our suppliers because, let's not forget, we are a large technology consumer.

In turn, during the 2015-2016 school year Cedinox, the Centre for Development of Stainless Steel, a dependent of Acerinox, ran 17 courses in order to spread knowledge about stainless steel in various schools of engineering and architecture. This has borne fruit in the call for the first Acerinox prize, competed for by the more than 1,300 attendees, final-year students of the schools, who will base their work on studies or new applications for our material. We hope that this effort to make links between the company and the university will serve to attract talent and imagination to our industry.

We continue to work on the continuous modernisation of our information systems in order to adapt them to the available technology and which will serve as a platform for making a bigger leap towards exploiting information and the digital transformation. We are defining the scope we wish to give to the digitalisation process in our company, in order to adopt the improvements which respond to the realities of our business, placing special emphasis on progress in predictive maintenance and anticipation in programming our factories across the supply chain. In order to incorporate this process deep into our strategy, the Information Systems Department will start to report directly to the CEO this year.

In order to carry out all our plans and to make all of the interest groups participate in our hopes and faith in the project, we have made great progress in corporate governance so that Acerinox is viewed as a leading company in this field and one which aspires not only to be more profitable and competitive, but also to be more transparent, to be a model of good practices and to collaborate even more in the development of our environment. I won't spend too long on this field, following the explanations given by our chairman, but we have already complied with 95% of the recommendations of the Unified Good Governance Code.

We are continuing to work on our objective of being more sustainable and we have just received the G-4 certification from the Global Reporting Initiative, which gives awards for transparency in communication regarding corporate social responsibility. We participated in the programme to reduce CO2 emissions promoted by the World Steel organisation for iron and steel companies and we have lived up to the commitment to a sustainable iron and steel industry, which is also through this association in which we actively participate.

We have a large workforce and during 2015 we have taken important steps to bring ourselves in line with the targets for increased productivity and profitability which are envisaged in the social contracts signed by Acerinox Europa, for a period of 4 years, and by Columbus Stainless, for a period of 3 years. This represents an important step as it is the first time that agreements have been made for over one tax year and it will provide a stable framework in which to continue developing our activities.

During 2015 we have made great progress in health and safety at work, having reduced our rate of accidents by 34%. It is important to highlight the good management of NAS in this field, which has improved by 80%, having been awarded for this with the Safety Award 2016 from the International Stainless Steel Forum or ISSF, the organisation which covers the main world-wide stainless steel makers. We have had over a million working hours without an accident in that factory.

I would like to take this opportunity to show my deep gratitude to the members of the board, who are leaving today due to their age, and who have been very important in the history of Acerinox.

José Ramón Guerediaga, who graduated in Economic Science and Law from the University of Deusto and joined this Board in 1992 as a Domanial Director representing Banco Bilbao Vizcaya, which at that time was Acerinox's reference shareholder, and he remained in his post as an Independent Director from

2004, bringing his wealth of experience in the banking sector and the world of business both as a director and on the Auditing Commission, which he was chairman of until today. He will be replaced by Laura Abasolo, a widely-respected woman, who will no doubt contribute to improving our Company.

Álvaro Muñoz, State Lawyer, is part of the family here. He has always been linked to Acerinox, even before it was founded, since he was involved in buying the land and in drawing up the first contracts and articles of association in 1969, along with our honorary chairman, Victoriano Muñoz, who is also with us today. Since then he has carried out different roles in the Company, almost always the Secretary to the Board and of the various commissions and always the personal advisor and friend of those of us who have made our way through the Acerinox management. The Board has appointed Luis Gimeno as secretary, also a State Lawyer and member of the top management team, he is acting in his capacity as general secretary for the first time today at this meeting. Good luck Luis and I repeat my deepest thanks to José Ramón and Álvaro.

I am sad to have to announce the retirement of our beloved Managing Director, Antonio Fernández Pacheco, since he has reached the retirement age established in our contracts of 65. I first met Antonio in 1990, when I joined Acerinox, and he was my boss in his position as manager of the national market. Previously he had been the manager of Acerinox's New York office, which was the seed which has now grown into North American Stainless, the undisputed leader of the American market. From the start of NAS in 1992, Antonio was in charge of developing the commercial network in North America as the Commercial Director, until his appointment to CEO of NAS in 2007. In 2010 he returned to Madrid as General Manager of the Group, working with me for these intense past 6 years in Acerinox's management. Thank you very much Antonio.

The Board has decided not to appoint a new general manager and yes, a Group Production Manager, which has fallen to Antonio Moreno, who will carry out this role along with his duties as Manager of the "Campo de Gibraltar" Factory. In this latter role, he will have the support of Juan Vaquero, who has been appointed deputy manager of the factory, keeping his role as Head of the Maintenance and New Facilities Department. Both are engineers with a wealth of experience and knowledge, acquired over many years in the profession in almost all of the departments of the factory. The best of luck to both of them in this new stage.

The remainder of the functions that were carried out by the General Manager will be shared among the members of top management and I myself will take on responsibility for three strategic departments in our business: buying raw materials, strategic planning and the digital transformation process.

I would like to thank our shareholders, the financial community, our customers and suppliers for their loyalty and the trust which they place in us each year. We will continue to strive to be worthy of it. I trust that Acerinox will be seen as one of the good Spanish industrial companies and I also trust that our experience will contribute to the development of the industrial activity in our country.

In conclusion I would like to congratulate the entire Acerinox workforce in the 40 countries in which we are present, for the excellent work carried out. I encourage them to keep the same spirit, dedication and commitment which they have shown up to now. I am deeply grateful to all of you, especially the management team and those I work most directly with for the efforts you have made. This motivates me every day and makes me feel so proud to be part of Acerinox.

Many thanks.

Bernardo Velázquez
Chief Executive Officer