



**REPORT
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CHIEF EXECUTIVE OFFICER

GENERAL SHAREHOLDERS' MEETING

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REPORT FROM THE CEO

Dear shareholders,

It is my privilege and honour to be able to inform you of our company's progress during 2016, the results obtained and the context in which our work has been carried out, both within the general framework of the global economy and the specific context of the stainless steel sector.

In order to analyse the situation, please allow me to go back to what has been called “the raw materials crisis”, the first symptoms of which were noted in 2014, but which did not turn serious until September 2015, with the sharp fall in the price of petrol and all traded raw materials.

The roots of the crisis lay in the doubts that emerged about the solidity of the economic growth of emerging countries, especially China, the country which has acquired enormous importance in recent years because of its size and its influence on the rest of the world. Questions were also asked about the credibility of its plans to change its growth model and the accuracy of the financial information it released. Logically, lower growth would also entail reduced consumption of raw materials, pushing their prices lower. These factors clearly had a negative effect on forecasts but also, in my opinion, undermined confidence in the recovery of the global economy in the wake of the harsh correction suffered during the crisis and the different economic, financial and political relapses that occurred.

In any case, whatever the reason, the effect of this last phase in the crisis resulted in a continuous decrease in the price of raw materials, and of nickel in particular, which affects our business given the significance it has for the cost of our products and in setting the sale prices for stainless steel.

The price of nickel decreased to levels not seen since 2003, and this long period of decrease caused the gradual deterioration in prices of stainless steel and the reduction of our margins, despite our efforts to reduce costs and shorten the production and sale cycle of our products to minimise the impact of market volatility.

For this reason, we suffered losses in three consecutive quarters, the last two of 2015 and the first of 2016. This situation came to an end in early February 2016, when nickel reached its lowest price of 7,700 dollars per tonne, a price below the production cost of the majority of manufacturers of this metal. Its price then stabilised at 10,000 dollars per tonne, and this situation allowed us to re-balance our costs and begin gradually improving our margins from March onwards.

As we have previously explained, our business is not affected by the price of nickel but by its movement, since this dictates the pace of market activity and therefore prices. The setting of stainless steel prices is characterised by transparency, since customers can anticipate their evolution at any time, by monitoring the prices of the main alloy elements involved in the calculation of the so-called alloy surcharge, namely nickel, chromium and iron, which at present represent nearly 60% of the total price. With the price of nickel falling, customers try to clear their stocks in expectation of a lower purchase price and, by reducing purchases, further increase the pressure on prices.

Recent years have been characterised by price volatility and this uncertainty has a negative effect on consumption. Therefore, the greater stability which has gradually imposed itself will be positive for our market and even more so if nickel prices remain at their current low levels since this makes stainless steel more competitive compared with other metals and will contribute towards the development of consumption through the introduction of new applications.

Therefore, the 2016 financial year went from less to more. We started with losses of eight million euros in the first quarter, but with the price of nickel stable and excess inventory in the markets corrected, we were able to focus our attention on accomplishing our strategic plan, increasing our global sales of units by 9% over the year, and handling a large volume of orders efficiently and productively. Our EBITDA went from 41 million euros in the first quarter to 79 in the second and 103 in the third, to end with 106 million in the last quarter of the year.

Fortunately, this situation has continued and, in my opinion, despite the many uncertainties we face in the political and geostrategic arena, and the obstacle course of increasingly pessimistic scenarios arising from each electoral process in different countries, we are clearly looking at the start of a phase of economic growth. The worst-case scenarios from the start of 2016 have all come true: the UK leaving the European Union, the advance of populist platforms and increased political tension on different fronts, but even so, we continue to grow. Nearly all the economies of the world are growing, a situation that we have not seen for many years. We trust that the lessons learned will ensure that this new growth cycle will be moderate, sustainable and therefore, long-lasting.

Another factor which had a significant influence in 2016 was April's announcement of 75.6% anti-dumping and 63.9% anti-subsidy duties in the USA against cold-rolled stainless steel from China, which were ratified in March 2017. A year earlier it was the European Union who used anti-dumping tariffs to penalize unfair competition by Chinese products, which meant that the exports from this country switched massively to the United States in 2015, seriously affecting conditions in this market which, we should recall, is the main market for Acerinox.

The creation of stainless steel plants in China in recent years means that this country now accounts for 54.5% of world production. China produced 24.9 million tonnes in 2016, compared with 730,000 in 2001, which was barely 3% of the total. This phenomenon upset the normal growth of the sector and altered all established trade relations, devastating the markets where this excess capacity is directed.

We hope that the Government of the People's Republic of China forges ahead with its plans to reduce overcapacity in the country by closing inefficient and polluting plants, and we hope it eliminates subsidies for the building of new factories. This would quickly allow supply and demand to even out, with the forecast growth of world stainless steel consumption in the coming years.

China can in no way be considered a market economy at the moment. By granting it this status, the European Union will trigger serious consequences for European industry, which will be unprotected against products manufactured in regulated markets under conditions that do not have any criteria like our regulations on sustainability, transparency, social justice or environmental protection.

I would like to illustrate this with a specific example from our sector, as part of what is called "environmental dumping" and which has been used in the past: According to studies carried out by the International Stainless Steel Forum, the international association of stainless steel manufacturers, the CO₂ emissions from the production of one tonne of Acerinox steel are 20% lower than world averages. If European manufacturers lead on emission reduction, it is easy to grasp that other manufacturers, including those in Asia, produce more than 20% more emissions than Acerinox. On the other hand, a ship running on diesel emits around 30% of the CO₂ emitted by Acerinox per tonne of manufactured steel on its voyage from Asia to Europe, which means that European consumption of Asian stainless steel entails an increase of at least 50% in greenhouse gas emissions.

We in Europe should be aware that if we do not support European products in all areas of industry, we will encourage a result at odds with what we want:

instead of leading the world in defending the environment, we will be contributing to its destruction while we kill off our industry and eliminate thousands of jobs.

We trust that Spain and Europe will join us in the fight to reduce emissions and that the European moral leadership to achieve our commitment to a sustainable economy, despite the higher cost that this entails, will not allow European industry to succumb to producers from other countries with greater permissiveness. It must curb imports of products which do not comply with our idea of sustainability and must give strong support to efficient and clean industry.

Returning to our company, the announcement of the introduction of anti-dumping and anti-subsidy measures in the US market in April 2016 drastically reduced imports of cold-rolled materials from China. Thanks to this, prices gradually increased, and this improved our Group's results, particularly in the latter part of the year.

At present, both Europe and the United States have a percentage of import penetration of between 20% and 25%, which is similar to the levels before the anti-dumping measures against China. The change in the exporting countries, however, means there is less distortion and more healthy competition.

The other remarkable news in our sector in 2016 was the sharp increase in the global production of stainless steel of 10.2% to 45.8 million tonnes, which is higher than the historic average rate of 6.0% we have maintained since 1950. If we look only at the period between 2008 and 2016, we can see that this rate has accelerated to 7.4%, the equivalent of 3.4 millions of tonnes annual growth. There is no doubt that the growth is concentrated in mainly Asian emerging countries, but for years Acerinox has been expecting this growth model with the conviction that the development of countries that have a large population, such as China, India, Indonesia and other South-East Asian countries, and whose consumption per capita is relatively low, will make it possible to maintain these rates which make stainless steel an exceptional material that is extending to new areas of application in industry and construction year after year and is evolving much more quickly than other industrial metals and alloys, and one which still has a very long way to go.

According to data from the ISSF, consumption of stainless steel exceeded all forecasts and grew by 9.9% worldwide. Naturally, China was the main driver, with growth of 13.8%. The rest of Asia was also remarkable, with 8.0% more than the previous year. In the other grouped markets, Europe plus Africa grew

by 6.9% and the whole of America by 2.2%, held back by the poor performance of South America.

According to our internal data from our main markets, the apparent consumption of flat products grew by 7.8% in Europe, which is still 4.2% below the peak reached in 2006. Remember that the consumption of stainless steel fell by 34.9% between 2006-2009. The correction in the United States was even sharper, when consumption fell by 48.0%. This is always regarded as a more dynamic market, and our sector was proof of that because by 2014 consumption was above its pre-crisis level. Even so, there was a 7.0% improvement in 2016. Spain also grew by a creditable 8.9% last year, although we are still 19.1% below the highest levels reached in 2006. This figure shows how hard the crisis was, during which we lost 45.1% of consumption and a large number of processing companies, and it shows how badly our industry needs support if we are to become protagonists once again, and if we want industry to provide 20% of GDP in 2020.

Looking at Acerinox's results for 2016, we can happily say that we are benefiting from the greater stability of the main parameters influencing our business and from the increase in demand for stainless steel, so we can dedicate our efforts to pursuing our strategy, and demonstrating our flexibility to adapt to the cycles and achieve the best results possible at all times.

Our sales of all physical units rose by 9% in 2016 in comparison with the previous year, and enables us to increase production in the factories of the Group. Cold-rolled production grew by 6.6% to 1.72 million tonnes, which is the highest figure in our history, and milled production grew by 6.7% to 2.48 million tonnes, the second best result in our history. All our steel mills increased production in 2016, Acerinox Europa by 1.1%, North American Stainless 8.0% and Columbus Stainless by 13.1%. These increases also took place while we were reducing our stock of units by 6.6%, which meant 24,600 tonnes less.

Even more notable is the fact that these increases were achieved with exhaustive control of manufacturing costs, since staffing costs only increased by 1.8% while operating costs fell by 0.1%. Our Excellence Plan is undoubtedly related to this achievement, but the greatest merit is due to the huge effort made by everyone that is part of the Acerinox team. Thanks to them, during the second half of the year, we achieved EBITDA sales margins of over 10%, a very commendable figure given the very competitive prices in the market, and one which allows us to have an optimistic view of the future as market conditions continue to improve.

All our units ended the year making a positive contribution to the Group EBITDA, including our Malaysian project, Bahru Stainless. By consolidating the

results of Bahru with those obtained by the other plants from the supply of hot-rolled coil for rolling in Malaysia, Bahru's contribution to the Group EBITDA was 19 million euros, which is important considering that this was achieved with prices at over 400 dollars per tonne below those of Europe. Cold rolled production grew by 18.9% in this new plant, which will gradually find its place in the market and which is positioning itself as a reference for product quality and service in South East Asia.

Excellence Plan IV 2015-2016 concluded with 74% of the target achieved, resulting in a recurrent annual saving of 50 million euros, but with the singularity that during the second year of application we worked on almost 100% of the targets, which demonstrates that these targets have already become a standard in our processes.

After eight years implementing these plans, in December 2016 we dared to launch Excellence Plan V 2017-2018 with the aim of achieving a recurring annual saving of 50 million euros and consolidating the improvements made during the eight years in which we have worked hard to improve our competitiveness. Now that we are once again in a growth cycle, promoting sales and activity in our factories, completion of the plan will enable us to keep on improving and not lose the ground we have won.

Although our turnover of 3,968 million euros was down 6.0% due to the low prices of stainless steel, the EBITDA of 329 million was 15.0% higher than in the previous year, and the result after taxes and payments to minority interests of 80 million euros grew by 87.3%. Only 10.4% of our sales are in Spain, and only 36.8% are in Europe, as a result of our international vocation.

Cash flow from our activities rose to 269 million euros, which enabled us to reduce our net financial debt by 91 million to 620 million euros, after making payment for investments in equipment worth 156 million and paying out 27 million in cash to the 23% of shareholders who chose this option for the flexible dividend at 0.45 euros per share approved by the General Meeting of 2016.

In May 2016, Acerinox concluded agreements with 12 banking entities for a total amount of 717 million euros, extending the maturity dates for its debt and moderating the financial cost. This operation, coupled with the reduction in debt and the generation of more cash, allow us to face the coming years with confidence. The financial costs for the whole year fell by 32.8% compared with 2015.

The gradual improvement in our results increased our share value in 2016 which was re-evaluated by 33.9% during the year due to a 2.0% INEX-35 loss, which is the second best value for this index. We are 25 in this list under

liquidity criteria, which ensures our permanence in this select group of traded companies.

The total investment in fixed assets was 173 million euros, compared with 94 million in 2015. In 2016 we have carried out construction and equipment installation work at North American Stainless (NAS) in Kentucky, which finished on time. NAS has had a new BA bright annealing line and a new cold-rolling mill since the end of March 2017, which have increased the range of annealed finish products and the total production of this plant by 10%, which is still the most competitive in the world, according to most analysts. The first reels processed on these lines proved that the equipment selection was correct, confirming the capacity of our technicians to tackle projects of this size. We shall soon be seeing the sheen of this new NAS material on domestic appliances in American homes and on the trucks coasting along the enormous highways of the United States, which restores our pride as Spaniards.

In addition, work was started on the new AP annealing and pickling line and the new cold-rolling mill for the Acerinox factory in Campo de Gibraltar, which will replace the first equipment commissioned in 1972 and which has already more than fulfilled the objectives for which it was acquired. This investment will result in major improvements in quality and costs, a range of products with great added value, with finer gauge and special ferritic materials, most of which are destined for end users. The first tests are scheduled for the end of 2017 and will give this facility the most advanced technology for making stainless steel, showing how far technological advances can take us when handled by experts such as the workers in this factory. Once again, we think we have anticipated the market investing at the most difficult times to capitalise on new equipment, rapidly achieving an improvement in the economic cycle.

These investments deserve to be included in the research, development and innovation section, since they include the contributions and experience of our engineers and operators, and involve significant technological improvements for our facilities. We are a major consumer of R&D+i and we buy a lot of R&D+i, and we have invested 16 million euros in this area, focussing mainly on improving production processes, improving the quality of our products, the safety of our workers and reducing our environmental impact.

Until now our research was centred on our labs, but now we have extended the spectrum of this activity. The analysis of the data will give us an advantage in many areas of our business, taking advantage of the so-called digital transformation. The processing of large quantities of data from our manufacturing departments and our supply chain, as well as the application of new available technologies, will allow us to improve our manufacturing technique and our productivity and grow our results in the coming years. For this reason, we are eagerly tackling new projects to improve the maintenance

and reliability of our lines and to optimise the efficiency and costs of our production chain.

In this and other projects we are actively collaborating with Universities, and we are convinced that there has never been a better time than now for the business community and academia to work together, to train the best prepared generation in history for the specific needs of companies while providing us with ground breaking knowledge of digital technology. This is why we have expanded our traditional Acerinox Chair at the Polytechnic University of Cadiz with a new collaboration with the Chair of Industry 4.0 recently set up by the prestigious Engineering School ICAI.

We have also pursued our own path in training future engineers and architects in the use and techniques of stainless steel through courses given by CEDINOX, the Centre for the Development of Stainless Steel. In the academic year 2016-2017, we gave 22 seminars in 19 Spanish universities, which were attended by 1,350 students, 200 more than the previous year. These universities had the opportunity to take part in the First Acerinox Prize, with an award of 3,000 euros for the winner with the best work related with stainless steel presented as an end of course thesis. The winner of the first edition was Carlos Sanz San Miguel, an engineering student at the University of Zaragoza for his work titled "Comparative study of the behaviour of stainless steel affected by corrosion by chloride ions" and who I had the honour of giving the award to personally.

These external collaborations have not made us overlook our search for talent within the group. There were a total of 30 projects presented for the Rafael Naranjo Award, founded in honour of our late president, with prizes totalling 40,000 euros in total, set up to distinguish the best contributions from our employees to improve the quality of our processes and products, our environmental impact and the safety of our facilities. Many of the projects submitted have already been implemented in our factory.

We are committed to making our facilities safe places to work and to eradicating accidents in our industry, and I am pleased to inform you that last year saw the lowest accident rate in our history, with no serious accidents occurring. We will continue to work to achieve our target of zero accidents, which is the only result that can satisfy us.

I am proud to be able to announce that the Annual Assembly of the International Stainless Steel Forum (ISSF), the association I mentioned earlier that brings together the main global manufacturers in our sector, awarded us the first and second prize in the category of safety at work. Gold went to Acerinox Europa for the design of a resort to prevent accidents during the continuous casting of the steel mill, while silver went to Columbus Stainless for its research work and training to prevent accidents in the transportation of our products. I would like to

take advantage now to congratulate those behind these projects, which position Acerinox as one of the best companies in the sector, a title we should add to our traditional prestige as one of the most competitive groups.

I would also like to mention our company's progress in 2016 in corporate governance, in line with the Board's decision to incorporate the greatest number of recommendations from the Code of Good Governance and to become an example of transparency and good practices. We have developed policies which define the Company's general guidelines, we have developed the Prevention and Regulatory Compliance Model and we have modified our internal regulations, along with a great many other actions. Above all, in these documents we have tried to embody the principles of integrity and the culture of effort which has formed part of Acerinox's character since its creation, which we were taught and which we still hold true.

For the first time we are presenting the audited sustainability report, and also for the first time we are including our four main factories in the GRI "Global Reporting Initiative" project, which rates the transparency of information in relation with our corporate social responsibility. As in previous years, we have continued to take part in the "Carbon Disclosure Project", which gathers company data on climate change and makes it available to the market.

I should not pass up an opportunity of finding myself before such a distinguished audience to raise once again our plea to the Spanish Government, of whatever colour, to offer industry some firm support and not to allow the growing artificial breach between the price of energy in our country in comparison, not only with Asia and America, but with the other industrialised European countries. If we add the effect of taxes and tariffs which are applied to our electricity bills and subtract the much lower support for the cost of compensating CO₂ emissions, it means that the price we pay for electricity in Spain is already between 30% and 50% higher than that of our most direct competitors.

This gap, for a company such as Acerinox which has strong demand for electricity to smelt the steel using clean methods, represents a handicap of more than 20 million euros per year. While they clean up the budget and decide whether to offer real support in the re-industrialization of the country, we here in Acerinox have been working hard to save energy to compensate this handicap, and this has given us a spectacular capacity for improvement should the energy markets of the European Union achieve equal conditions.

In any case, we are optimistic because we have a good product which continues to grow at a higher rate than other industrial metals and alloys. Stainless steel is an extraordinary material, a young material which is still in its growth stage, as the latest studies by the ISSF show. While its growth rate has historically been around 2.5 times the growth rate of the world economy, this distance has increased in recent years to almost double, which can only mean that it is not being replaced by other materials while its use is extending into other fields, or to put it another way, the use of stainless steel continues to expand, enabling it to absorb the excess of installed production capacity.

I am convinced that the advance of a sustainable and circular economy, and the calculation of the cost, not only of acquiring products but the full cost of the whole life cycle, will contribute to further develop the consumption of a material which is corrosion resistant, hygienic, easy to clean, with high mechanical characteristics, aesthetically pleasing, requires no maintenance, is hard-wearing and 100% recyclable.

Our geographical diversification, which is unique in the sector, will allow us to be local in the world's largest markets, while our extensive commercial network will allow us to distribute our products with the perspective of a global company that is able to enjoy opportunities anywhere on the planet. No other stainless steel production company in the world enjoys such a positive position for dealing with the difficult process of the globalisation of the economy in its new version, "globalisation with barriers", in view of all the protection mechanisms that are being implemented in many markets.

Finally, I would like to restate my optimism because we are convinced that the growth of the economy and greater stability will enable us to increase our sales and, thanks to the competitiveness achieved, exceed the best margins in our history, despite market requirements being much more severe these days.

In the first quarter of 2017, taking advantage of the favourable market conditions, we have already had the opportunity to show our capacity of reaction and competitiveness by achieving EBITDA margins over sales of 15.3%, which is bordering on the margins achieved in the historic year for raw materials, 2006. It has been achieved with similar production, but with base sales prices 25% lower than that year, which gives you an idea of the work we have carried out in pursuit of excellence and efficiency. Our turnover for the first quarter of 2017 was 1,252 million euros, which is 31.4% higher than the same period of last year. The EBITDA generated was 191 million euros, which is 336.6% higher than the first quarter of 2016, and the result after tax and minority interests was 98 million euros, which is more than the whole year 2016,

compared with the loss of 8 million euros registered in the first three months of 2016. Although market conditions will prevent us from projecting these figures for the remaining quarters, I can assure you that we shall continue to pursue our strategy and we shall take full advantage of the opportunities that arise to improve our results.

We recommend the reading of our 2016 Annual Report, which shows results achieved in the year in greater detail. What cannot be fully reflected in the Report is the impact on these results of the huge efforts made by everyone at Acerinox, in each of the departments, with 6,573 people in forty countries on the five continents. Thank you to everyone for the efforts made. I hope we can continue working with loyalty, commitment and dedication while eagerly and confidently taking great opportunities to continue growing and achieving excellent results which will allow us to maintain our leadership in the sector and increase our contribution to society. I would like to express my sincere thanks to my direct colleagues and the management team, who deserve a special mention. On behalf of all of us I would like to express the pride and satisfaction we feel at forming part of this great company that is Acerinox.

I trust that through our work and efforts we can continue to be deserving of the trust and support always shown to us by our customers, our suppliers, the financial community and above all you, our shareholders.

Thank you for your attention