



**REPORT
MR. RAFAEL MIRANDA**

CHAIRMAN

GENERAL SHAREHOLDERS MEETING

9th June 2016

ANNUAL GENERAL MEETING 2016 CHAIRMAN'S REPORT

Dearest Shareholders:

I am pleased to address you once again, at our General Shareholders' Meeting.

On behalf of the Board of Directors and myself I wish to reiterate our thanks to you for joining us today.

As usual, we are at this General Meeting to give account of what happened in our company in 2015, which, as we all know, was extremely difficult for the global economy for a number of factors in particular from the second half of the year. It was a very difficult year for Acerinox too due to the special circumstances which, as a result of all these factors, have impacted the stainless steel markets in which we operate. The complex environment in which we had to develop our business during the past year has strongly affected our results as you will see throughout this presentation, as well as in the following presentation by the CEO.

Global Economy

The tensions in the Chinese economy and its slowing growth in the past year, the plummeting prices of raw materials, monetary policies deployed by the different central banks, geopolitical conflicts in various parts of the world including the refugee crisis in Europe, falls in the economies of emerging countries... This set of circumstances has produced a slowdown in growth of the global economy, bringing global GDP growth to 3.1% in 2015, 0.3% lower than the growth in 2014, and it can therefore be said that the recovery of the global economy is continuing, but at a pace slower and more fragile than the previous years' growth.

This slowdown in the global economy has mainly been caused by the sharp decline in the growth of the economies of emerging and developing markets, which was 4% in 2015 versus 4.6% growth in 2014, while, in contrast to this behaviour, advanced economies grew by 1.8%, whereas in 2014 they did so at 1.6%.

For the analysis of the consequences that all of this has for our business, it is worth digging a little deeper into the economies that affect it, as - let me remind you - we sell our product in more than eighty countries and that in some of them we have a market share that make us the most relevant operator thereof.

The economy of the United States, our largest market, grew 2.4%, very slightly below the previous year. The Eurozone, the second market in terms of importance, consolidated the growth trend already started in 2014, reaching a

figure of 1.6% which is a substantial improvement over the 0.9% of the previous year, although economies very important to us such as the UK and Germany slowed slightly while France and Italy improved growth figures still below the Eurozone average. Fortunately, the Spanish economy had an extraordinary performance growing, as is known, to 3.2% from 1.4% in 2014, being one of Europe's best performing economies.

You all know that the evolution of emerging markets and developing countries are not indifferent to us, because those markets accumulate a large growth potential of our products and at the same time the concentration of producers in China strongly affects those markets and the global development of our business. The sharp slowdown of growth that occurred in 2015 in the same was due mainly to the continued slowdown of the Chinese economy which went from 7.4% in 2014 to 6.9% growth in 2015. In contrast to China's development, ASEAN countries, where we have our factory in Bahru, Malaysia, maintained a healthy growth of 4.7%, and India recorded 7.3%. Finally, the South African economy, which as you know is where we have our Columbus factory, had a steady slowdown in growth that began in 2013, reaching growth of 1.3%, representing a fall of 0.3 points from 2014.

During the first quarter of this year the factors that have shaped the world economy in 2015 seem to still be around, determining therefore its evolution although some analysts dare to make more positive predictions about the future behaviour of some variables such as the evolution of the prices of raw materials.

Predictions that the International Monetary Fund is making for the global economy for 2016 do not differ excessively from the results of 2015. It predicts a global production growth of 3.2%, slightly higher than the previous year giving growth of 1.9% for advanced economies similar to the previous year and a slight improvement in the economies of emerging and developing markets to 4.1%, in other words 0.1% better than 2015 with China slowing to 6.5% and the ASEAN countries improving to 4.8%.

The Spanish Economy

We have always been a global company since our business is global and wherever we are based also feels like we are from there, but we are also a Spanish company, due to our origins, because we have an important Spanish shareholder base and because our decision making centres are in Spain and therefore nothing that happens in our country is alien to us.

Together we have been able to overcome a deep crisis, as evidenced by the results achieved by our economy in 2015 and the prospects given by international institutions for the coming years. We must also recognize that part of our society has been adversely impacted by the effects of the deep and long crisis in which we live and this, coupled with the phenomenon of corruption, has produced a strong demoralizing effect on a part of our society leading to increasingly evident divorce between politics and business.

We are living in a tremendously complex time for our social and political reality and I would like, from a purely business perspective, to add our voice to those calling for political and economic stability for our country, since the solution of the serious problems that still drag our economy can only be achieved if we maintain a strong growth path that enables solving them.

It's time to look ahead as we are used to doing in the business world and certainly in our company Acerinox. Spain has to maintain the global economic leadership that it has reached and if possible improve it and all this for the well-being that comes from a more just and balanced society.

Fiscal Year Results

I will now refer you to the results achieved during the year 2015 in a concise manner, as the CEO will later do so more in depth.

With sales 3.6% lower than in 2014 we generated an EBITDA of 286 million euros, which is 37% lower than the previous year, a profit before tax of 77 million euros and a profit after tax and minority interests of 43 million euros, once an adjustment of inventory to net realizable value of 14 million euros was made. Both results are 68.5% lower than 2014.

As I said, these results are the consequence of the very difficult situation experienced in the stainless steel market in 2015.

To the macroeconomic uncertainties generated by the evolution of the global economy that I have described, specific factors of our markets were added, such as the high volume of inventory in the supply chain which began in 2015, the fall in raw materials and in particular in nickel which affects us so much, strong competition deployed in all markets by incumbent producers and imports... As a result from all this, the prices of stainless steel in the markets in which we operate reached historic lows.

I believe the following data is very illustrative in order to understand the impact that all of those events have had on the evolution of the trade of stainless steels in the world:

- The price of nickel fell by 41.8% over the year, falling from 14,880 USD/mt at the beginning of the year to 8,665 USD/mt at the end of the year.
- The prices of our products during the year were in continuous decline, as I said, reaching record lows as shown in AISI 304 coil (Platts data) which fell from January to December by 12% in Europe, 37.3% in the United States and 27% in Asia.

- Our markets each behaved in a different way; although in all of them there were apparent falls in consumption, although actual consumption behaviour was positive.

In the US market, the most important for Acerinox, with a significant drop in apparent consumption, there was a significant reduction in margins due to all the above circumstances.

The Asian market has undergone a special competitive intensity as a result of tensions in the Chinese economy and the traditional penetration of the Chinese producers in that market.

However, and in contrast to the above, the European and South African market performed better. The apparent consumption of flat products in Europe fell by only 1.7% with growth in Spain and Italy and significant declines in Germany and France. The South African market ended the year with an increase in apparent consumption of 1.9% and our product greatly benefited from the devaluation of the Rand, which favoured exports.

- Finally, it should be noted as a very significant event of 2015 the fact that for the first time in many years global stainless steel production stagnated at 41.5 million tonnes, it grew by only 0.3% from 2014, while, as is well known, the compound annual growth rate since 1950 has been 5.1%.

First quarter of 2015

You have had the chance recently to have a look at the results of our company in the first quarter of 2016 and to check that during that quarter the same conditions have remained that hindered the development of our activity in the second half of 2015.

With sales 16.7% lower than the same period last year, we generated an EBITDA of 41 million euros, after an inventory adjustment of 9 million and profit after tax and minority interests of minus 8 million euros, when in the first quarter of 2015 a profit of 31 million euros was achieved.

Despite these results it should be noted that the March results were already positive, that real demand was firm in all markets and that the levels of inventories were already adjusted, and we hope this will begin to be reflected on the apparent demand, which already seems to be, as evidenced by our improved order book.

Significant events worth highlighting

To end this part of my presentation I would like to highlight some of the most relevant events in 2015 and so far in 2016.

- Achieving positive results in the difficult circumstances that occurred throughout 2015 was not easy and it should be noted that it was only possible thanks to the levels of competitiveness that we have, thanks to our excellence plans and reduction programs in fixed costs, and all this despite the negative effect on our costs that the appreciation of the dollar had.

But having said that, I also want to make clear that our "permanent non-conformism" does not allow us to fall into the trap of "complacency" and that if the conditions of our environment become more difficult, we will have to be able to draw strength from weakness and optimize our operation so that we maintain the leadership of our company in all circumstances.

- We continue to place great emphasis on maintaining a sound financial structure and prudent financial management.

Therefore, at the end of 2015 net debt was 711 million euros, with a ratio of net financial debt / EBITDA of 2.48 times and in the first quarter of 2016 financial debt was 693 million euros.

Taking advantage of conditions in financial markets, we have recently refinanced a total of 717 million euros, extending payment terms until 2021, obtaining more favourable financing conditions and lowering the cost of debt without covenants.

Also during the year, in April, Columbus signed a syndicated loan amounting to 3,500 million Rand - 275 million euros - for 3 years to finance its working capital.

- As usual, Acerinox has been extremely active in our industry associations and with the competent authorities of both the European Union and the United States to ensure that relevant tariff measures in these markets are established to avoid dumping which was being carried out by some Asian producers. We have also made our voice heard in the institutions, warning of the serious mistake that it would be granting China the status of market economy in the current circumstances of the economy of that country.

I want to make clear that Acerinox, as a global company, is a supporter of free world trade, provided that we all operate and play with the same rules, which unfortunately today is not the case in some economies in the world and particularly in the Asian giant, China.

- In 2015, the Chinese economic authorities seem to have decided to reorientate its economic policy through a more realistic and efficient economic model. If this new orientation is confirmed, the serious problem of overcapacity in our industry worldwide could start to see the beginning of its solution, which would be very good news for everyone.
- Finally, I would like to highlight that in October last year the Board of Directors approved the new 2016-2020 Strategic Plan focused on organic growth and based on operational excellence, the capabilities of the company, development of rapid return investments and traditional financial strength.

As a result thereof, new investments in NAS and Acerinox Europe have been initiated and it has been decided to postpone the third phase of Bahru until the conditions in the Asian market improve substantially.

Responsibility and Sustainability

Once again this year, our company has continued to roll out our exemplary corporate social responsibility policy across all the geographical areas where we operate.

This is achieved by implementing a wide range of policies and specific actions.

I will briefly describe some of them here, but you can find full information in the annual report.

- Our philosophy when it comes to fiscal policy and contributing to the welfare and affluence of the areas where we operate is to comply with the law without seeking any benefits or unfair or abusive advantages. Our basic principles are to create value and distribute the wealth generated among our shareholders, clients, employees, suppliers and society at large.

At year-end for 2015, the Acerinox staff included 6,506 individuals in stable and mostly indefinite job positions. We paid them salaries amounting to 281.3 million euros and contributed 67.2 million euros to different social security plans.

The total amount of taxes paid worldwide on 2014 profits was 241 million euros, including direct Corporate taxes of 2014, indirect taxes and VAT and 65.4 million euros were collected on behalf of different Tax Agencies.

- As we have said many times, respecting and protecting the environment is one of our company's direct commitments, and our strategy in this area is to continually improve environmental indicators.

We are continuing our eco-efficiency Zero Emissions Target programmes for all matters concerning water management, safeguarding air quality, minimising all kinds of atmospheric emissions, and continuously monitoring the main sources of emissions in our factories. We have also perfected our in-house technology to manage and reuse waste, making us a groundbreaker in the steel industry and giving us a great advantage over other companies in terms of the European Union's circular economy regulations.

Acerinox has 337.5 million euros in assets aimed at minimising our environmental footprint, 13 million more than in 2014, and our total environmental spending for 2015 was 109.6 million euros.

- In the area of occupational safety and health, we know that the steel business is not without risks, so we apply a "zero accidents" philosophy with our workers and contractors, which has had a very positive impact on accident rates; once again in 2015 we are pleased to not have to report any fatal casualties.
- We continue to optimise our policies concerning human rights, prevention of harassment at work, and managing diversity, as well as all our efforts in the social sphere, which include everything from contributions to different charitable causes in the countries where we operate, to support for individuals with reduced mobility, to broad-based black economic empowerment in South Africa which has reached the important milestone of 50 points, to programmes in the fight against AIDS in that country, as well as different programmes launched in conjunction with the Malaysian Government.

For many years our work in the different areas of Corporate Social Responsibility has received a slew of recognitions and prizes, but I think it is important to highlight the three top awards received this year:

- The "CiCi" (Corporate Investment & Community Impact) prize that was awarded to NAS, Ford and General Motors by the Trade & Industry Development Journal on a nationwide basis in the United States.
- The International Stainless Steel Forum association has awarded its "2016 Safety Award" to NAS for its accident reduction program and for having surpassed one million work hours without accidents.
- The United Nations Global Compact, which promotes the implementation of principles of corporate social responsibility, labour standards, the environment, and the fight against corruption, has qualified Acerinox at the "Advanced" level.

Research and Development

Our products and our productive processes require constant improvement and optimisation across the board, including new advancements in the quality of our stainless steels and the modernisation and introduction of new technologies in manufacturing processes to make them more efficient.

We continue to innovate and develop our work centres and to partner with universities, suppliers and clients, spending 16 million euros in this area in 2015.

Corporate Governance

Our company's Board of Directors is aware of the importance of corporate governance of companies in the investment community and has set a goal for Acerinox to align itself with the companies that have the best corporate governance practices.

In 2015, Acerinox underwent a major process of adapting its corporate governance to the provisions of the recent Spanish Capital Companies Act, as well as to the recommendations made in the new Corporate Governance Report for Spanish Listed Companies.

Our most important actions in this area have been:

- Strengthening the role of the Board of Directors committees, better defining their powers, and increasing the proportion of independent directors who sit on them.
- Adapting the Company Articles of Association, the Rules of the General Shareholders' Meeting and the Board of Directors, and approving a regulation on dealings between the Board of Directors and the CEO.
- Approving a new model for crime prevention and creating a Prevention and Compliance Committee in the company.
- We also designed the procedures and defined the policies for compliance with the recommendations made in the new Corporate Governance Report for Spanish Listed Companies. As a result of this work I am pleased to announce that, once this General Meeting is in compliance with a few more of the set recommendations, as will soon be done, Acerinox will be in compliance with practically all of the recommendations of the good governance code approved by the Spanish National Securities Commission.

Finally, I would like to end this section of my presentation by mentioning changes that will take place on the Company's management team and Board of Directors.

After the report of the Appointment, Remuneration and Corporate Governance Committee, the CEO proposed to the Board of Directors a set of changes to the company's management team as a consequence of the retirement this July of hitherto General Manager Antonio Fernández-Pacheco.

I would like to thank Antonio Fernández-Pacheco for his 36 years of dedication, loyalty and hard work at Acerinox, and I can personally attest to his outstanding work over the course of my still-brief term as Chairman. The Board and I both recognise his constant support for the CEO in his six years as Director General, his efforts to promote the business in the United States, and particularly at NAS where he became CEO.

Many thanks Antonio.

I would also like to make special mention of some changes to the Board of Directors.

First, Secretary to the Board Álvaro Muñoz López, a State Lawyer with a well-known successful career in business, who has been linked to Acerinox since its beginnings in 1969 and 1970, and is living memory of our history and continually at the service of our company.

Thank you Álvaro for your long-standing loyalty and dedication to the institution and to the Board.

Finally, as will be seen in the agreements brought before the General Meeting, we must announce the departure for statutory reasons of José Ramón Guerediaga Mendiola. He has been a Board member of the company since 1994 representing BBVA and an independent board member since June of 2004, and he has served as Chairman of the Audit Committee since 2012. He has been linked to Acerinox for many years, vigorously defending its company interests, and the Board has greatly benefited from his wisdom, his consideration and his work.

Many thanks José Ramón.

Stock activity

2015 was a very difficult year for global and Spanish equities alike: the IBEX 35 closed the year down 7%, and our shares were among the hardest-hit, ending the year down 24.7% in line with shares tied to raw materials and commodities worldwide.

At last year's General Shareholders' Meeting we demanded to join the selective IBEX 35 index, which came to pass in June of last year, just ahead of the second-semester fallout caused by the factors we have been describing at length.

So far this year, our shares are fortunately performing better, growing by xxx % by xxx June, compared to a xxx % decline in the IBEX 35 index, and with the additional good news that Acerinox is one of the shares most recommended by analysts, reflecting what we all believe to be true: that we are bottoming out and that there are still positive outlooks for our business.

Agreements brought before the General Meeting

I would like to highlight the following matters being brought before the General Meeting.

→ Appointment of auditors

We submit for your consideration the appointment of the firm KPMG to be account auditors for 2016; they have been auditing our company since 2004.

In 2017 we are legally required to change auditors, as are many other companies; after making the relevant inquiries we have considered it to be most efficient and advantageous for the company to appoint an auditor for the years 2017, 2018 and 2019 at this General Shareholders' Meeting. As can be seen in agreement 4 – 2, we nominate the firm Price Waterhouse Coopers.

→ Flexible Dividend

Once again this year we propose to maintain the same remuneration policy for our shareholders and carry it out through a dividend or flexible dividend system, an option that has been very well-received in prior years. The amount to be disbursed will be similar to last year: 0.45 euros per share.

→ Re-election of Directors

We submit for your consideration the re-election of Domanial Director Óscar Fanjul Martín, as well as Independent Director Braulio Medel Cámara.

→ **Appointment of a new Director**

As a consequence of the departure for statutory reasons of José Ramón Guerediaga Mendiola, we nominate as Independent Director Laura Abasolo García de Baquedano.

The path forward

We are faced with the challenge of turbulent times, characterised not only by risk, but also by uncertainty, in which volatility is a daily concern and changes are occurring at cosmic speed.

Companies and employers were used to managing risk, but now we are required to go further: to manage uncertainty, volatility and ultimately a process of constant change.

We know that Acerinox has been able to adapt to complex and difficult circumstances in the past and has responded by taking the necessary measures to reposition ourselves in a constant spirit of commendable leadership. I have no doubt - and I trust that you, as shareholders, would agree - that we are learning and will learn how to adapt to the new circumstances of today's world and that we will learn how to tackle the difficult challenges facing us in order to remain the undisputed leader of our industry.

I fully believe that we all have what it takes to maintain and strengthen the success of our company. We have a leading product, with growing demand, for which there is currently no substitute, and which is therefore irreplaceable.

We have in-house and third-party technology that allows us to have excellent operations, a degree of flexibility in line with current demand, lightweight structures, and enough creativity to be always producing quality products at the lowest cost possible.

Unlike our competitors, we have a global presence. We are in the two largest markets in the world: North America and Europe, with strong positions in each. We are also in one difficult market that is hard, but that undoubtedly has a great future: the Asian market. The day that market matures and stabilises, our presence there will take on a great value. We also have a unique position in Africa with our operations in South Africa.

This geographical diversification reinforces our company's flexibility, a vital asset for tackling processes of change.

We also have a healthy economic-financial structure, which, as we have said many times before, is an essential factor for facing any future scenarios we are presented with.

But most importantly, we have a team that is well-managed, self-motivating, with a culture of success, who goes beyond complacency, who is self-critical, and who is willing to make every necessary effort to be the best in our industry.

Finally, we have a competitive company that is facing the future with a well-defined strategy as laid out in our Strategic Plan.

For all these reasons, we know that although we are a traditional company we are going to take advantage of every opportunity in our reach, and especially those emerging from the digital revolution that is under way, in order to become more flexible and efficient.

I am sure that as soon as market conditions stabilise, we will achieve the challenging goals we have set for the future, so that we are in position to have strong and steady paths to growing our results and being able to generate value that is attractive to our shareholders.

I will end by thanking the entire Acerinox team for their excellent and committed leadership, their ongoing effort and their work; the Board of Directors for their dedication and effective contribution towards our company interests; and all of you, our shareholders, for your confidence and support.

Thank you very much

Rafael Miranda
Chairman