



**REPORT**  
**Mr RAFAEL MIRANDA ROBREDO**

**CHAIRMAN**

**GENERAL SHAREHOLDERS' MEETING**

**Madrid, 1st June 2017**

# **GENERAL SHAREHOLDERS' MEETING 2017 REPORT FROM THE CHAIRMAN**

Dear Shareholders,

For another year, I have the honour and satisfaction of addressing you as Chairman of Acerinox at the General Shareholders' Meeting of our company.

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

We are here today to inform all our shareholders of the events which occurred in our company during 2016, a year characterized by a tremendously complex international environment, plagued by uncertainties and surprises, the product of political events that developed throughout the year across the globe, some of them with special importance to our business, given the significant presence we have in these areas.

In effect, the American electoral process and the first policies implemented by the Trump Administration, Brexit and the consequences that the departure of the United Kingdom from the European Union may have on the future of the Union, doubts about the strength of the Chinese economy, political instability in the Middle East and its effects on global security, tensions between Russia and the European Union, and others still, led one to forecast negative effects on the growth of the world economy at the beginning of the year, with their logical consequence on the growth of our industry.

Fortunately the most pessimistic forecasts made by different International Organizations were not fulfilled, as the world economy grew below previous years, but with very similar figures, yet the most important news for Acerinox is that the activity of our industry was able to reverse the fall it experienced in 2015, and has rebounded to powerful growth, as we will see throughout these presentations.

I would like to tell you, right from the start of my presentation, that despite this uncertain environment, the activity and results achieved by Acerinox during the financial year presented here must undoubtedly be qualified as positive.

## **Evolution of the World Economy**

As usual, I shall make a brief review of the evolution of the world economy as well as those economies where our presence is most significant, given the dependence of our sector's activity on the economic development of these markets.

The world economy grew in 2016 by 3.1%, below the 3.4% of 2015, mainly due to the decline experienced by the more advanced economies, which grew by 1.7% as compared to 2.1% in the previous year, while emerging markets and the economies of developing countries turned out growth of 4.1%, very similar to the 4.2% of 2015. This evolution of the world economy went from less to more, supported fundamentally, by the acceleration of the emerging economies in the second half of the year.

With regard to the economies mattering most to us, given the important presence we have in their markets, we can state the following:

- The United States economy grew by 1.6%, compared to 2.6% in the previous year, thus making for a difficult economic period, full of uncertainties, and had two distinct phases: a first half with disappointing growth, and a second half with clear economic expansion.
- The economy of the European Union, despite ending up with 1.7% growth as compared to 1.9% the year before, resisted episodes of financial instability and the political events of the year fairly well, with the economic recovery extending to a greater number of countries and Spain being the leader of European growth, as is well known.
- The Chinese economy ended the year with 6.7% growth, therefore slowing slightly, but doubts remain whether the process of economic slowdown piloted by the Chinese leadership will develop in an orderly or abrupt fashion, thus not clearing up, for the moment, the doubts surrounding the set of financial, real estate and currency exchange risks that the economy has.
- Among the emerging economies, ASEAN-5 economies performed positively with 4.9% growth, above the 4.8% of 2015, with growth in the economies of Indonesia, Thailand and the Philippines and with slight decline from the previous year in Malaysia and Vietnam, but with strong growth in both cases with 4.2% and 6.2%, respectively.

The South African economy kept up the pace of its slowdown of the last three years, reaching the disappointing growth rate of 0.3%.

## **Perspectives**

The outlook for 2017 is a positive one, with a clear belief that the global growth acceleration scenario, based on the results of the fourth quarter of last year and the positive data at the onset of the year. This has led analysts from many different institutions to forecast world GDP growth of around 3.4 to 3.5%, with the acceleration of growth in all the economic areas with the greatest impact on our company.

All this is without having cleared up any of the uncertainties and doubts about the world economy, as a result of the increase in inflation and the climate of political uncertainty in which some advanced countries are immersed, ones which are of particular importance for us; the degree of implementation of Trump Administration policies, the development of the Brexit negotiations and their potential impact on Europe, and the evolution of doubts surrounding the Chinese economy and in particular, how its slowdown and industrial policy develop over time.

## **The Spanish Economy**

A very brief reflection is required on the Spanish economy, which as we all know has been developing very favourably since 2014, having achieved 3.2% growth in 2016, for yet another year leading European growth, and more importantly, with expectations for strong growth over the next few years, in the vicinity of 3% in 2017 and above 2% in the following, which could allow us, if this were so, to reverse the grave consequences that the economic crisis had on our company by the year 2020.

In order to achieve this objective, which should be indispensable, government policy must continue to further what is considered the key to our recovery: the reforms that have allowed us to improve our competitive edge, a position that is now admired in international markets; the improvement of our institutions of all kinds, some unfortunately discredited at present; the consensus of the major issues of state, some of which are fundamental for the future, such as education reform or the development of a policy that defends our industry, something particularly important and dear to us.

All this and much more requires a climate of political and institutional stability in order to be achieved and that is why once again from the business world we must ask the Spanish political class to have the sense of responsibility and take a broad view in order to conduct themselves, politically speaking, in way that fosters this stability and thus gives us opportunity for long-term economic bonanza that seems to exist on the horizon, which can be so beneficial for both Spain and Europe as a whole.

## **Fiscal Year Results**

As I said at the beginning of the presentation, in this complex environment where our industry has had to operate, the year began with forecasts for the stainless steel market indicating a global growth for 2016 in the vicinity of 2%. Together with the decline from 2015, this would have placed a significant drag upon the historical growth of our product, around 6%. Fortunately, the year ended with 10.2% growth, going from less to more, much like the economy as a whole, with a similar upswing in prices in all markets and therefore recovering from the early setbacks.

As I have already said, the fiscal year results can be described positively, as you will see from the data that I present and especially the developments the CEO will describe in his presentation.

With a turnover of 6% less than the previous year, and despite a 9% increase in the number of tonnes sold, we still generated an EBITDA of 329 million euros, which is 15% higher than in 2015, a gross result of 127.9 million euros, 66% higher than the previous year and a net result of 80.3 million euros, which is 87.3% better in comparison with the previous year.

The most significant developments that explain these results are:

- The positive behaviour of our most important markets, in particular the apparent consumption of flat products in the European Union, which increased by 7.8%, leading to strong consumer growth in the main markets, with the exception of the UK, allowing us to increase our share in the Spanish market and bolster our presence in Russia and Turkey.
- The 7% market growth of flat products in the United States, although the total apparent consumption was only 4.1%, affected by the lack of investment in the hydrocarbon sector.
- The good performance of Columbus which, despite an 8.5% fall in the apparent consumption of flat products in South Africa, benefited from exports due to the depreciation of the Rand and succeeded in increasing its market share nationwide.
- The increase in share quota of Bahru Stainless in primary ASEAN markets, despite growing Chinese competition and the complex regulations existing in some countries in the region.
- As a consequence of all of the above, our company's strong production levels throughout 2016 made it the best year in cold rolling production since its foundation, and the second best in steel and hot rolling mills.
- The positive evolution of prices which, after the successive drops experienced in 2015, gradually increased in all markets, thanks to their healthy dynamics and raw materials trends.

- Among the developments in raw materials, nickel prices hit a low at the beginning of the year at USD 7,700/Mt, but recovered, surpassing USD 11,700/Mt at the beginning of November, stabilizing at year's end at about USD 10,000/Mt.
- The ongoing concern for improving efficiency through the implementation of our Excellence Plans, which translated during the year into a containment of operating expenses in spite of higher production and sales volumes, resulting in a rising trend in the EBITDA margin, from 4% in the first quarter to 10% in the second half.

To finish with this outline of our results, I would like highlight three additional facts that seem to me particularly relevant.

First of all, special mention should be made of the cash flow from operating activities, which totalled 269 million euros, enabling us to invest 156 million euros, pay the dividends of the shareholders who opted for cash in the year's "scrip dividend" and reduce the debt by 91 million euros to 620 million euros.

Secondly, I would like to remind you that in May 2016, debt amounting to 717 million euros was refinanced by 12 different banks, which extended its maturity until 2021, thus reducing the interest rates and moderating payments over the next three years. I think it is important to highlight the significant reduction in financial expenses for the year, which totals 33%.

And lastly, the behaviour of the American market during the year was marked heavily by the restrictions on Chinese steel imports that had been announced in July and September and were recently ratified, adding to that which had previously been imposed by Europe.

### **First quarter of 2017**

As you all know, at the end of April we released the results of our company for the first quarter of this year.

These results are extremely positive, with a turnover 31.4% higher than the same period of the previous year, generating an EBITDA of 191.24 million euros, 367% higher than the first quarter of 2016, making for a 15.3% EBITDA margin and a net result of 98 million euros, higher by 18 million for all of 2016 and well above the 8.30 million euros in losses for the first quarter of 2016.

These results are due to improved market conditions, increased production and the appreciation of raw material price increases at the end of 2016, as well as the ongoing management effort and its ability to adapt to the changing conditions of all the variables in our industry.

The results achieved, although difficult to replicate in the short term, mark a clear, positive trend for the current year.

## **Responsibility and Sustainability**

I believe it is important, one more year, to make mention of this twin reality that any modern company, one committed to its shareholders and the society in which it finds itself, must embrace. This is an economic reality and the reality of the activity of the economy, and also the social reality of the company itself.

This twin reality is perfectly described in the integrated annual report we have provided. Allow me to summarize some of the policies, actions or concrete facts that seem most relevant to me.

- During the year 2016, Acerinox paid 284.9 million euros in salaries to its 6,573 employees worldwide, contributing 77.2 million euros to various Social Security schemes.

143.5 million euros worth of taxes were paid on the five continents in which we operate.

- Last year, the Board of Directors approved the General Tax Policy, which provides the guidelines for the Group's tax practices, which are quite logically aligned with the best globally accepted practices.
- Acerinox continues its policy of striving towards excellence in environmental performance, conceived under the philosophy of the "Zero Emissions Target", which aims to reduce emissions in both absolute and specific terms. The Group studies the most efficient way to manage energy and creates relevant optimization programmes. All our factories apply eco-efficiency measures designed to reduce water consumption, promote and encourage its reuse, and return it to the natural environment, as if it had never been used in an industrial plant.

We work under the guiding principle of acting to safeguard air quality, minimizing atmospheric emissions and constantly monitoring the chief sources of emission and, more specifically, reducing the CO<sub>2</sub> emissions, resulting from our work as much as possible. According to ISSF data, our direct emission intensity is 20% lower than the average figure for other stainless steel manufacturers and 30% lower than the average for the steelmaking industry worldwide.

- As indicated in the section on waste management, our company has developed its own casting technology using a very high percentage of recycled materials (about 70%), exceeding the world average for steel manufacturers, according to ISSF data.
- Occupational Health and Safety is an absolute priority within our company, and we are pleased to announce that last year's accident rate was one of the lowest in our history. The ISSF presented North American Stainless with the Institution's "2016 Safety Award" for its endeavours in the field. On 18 May Acerinox Europa was awarded the ISSF's 2017 gold medal for safety, while Columbus finished in second place.

- Acerinox provides stable and high-quality employment and its Code of Conduct and additional standards contain policies related to respect for diversity and equality, effective mechanisms for the prevention, monitoring and punishment of corruption, the protection of basic human rights (for which, last year, we once again signed up to the United Nations Global Compact) and the prevention of harassment in the workplace.
- It is important to point out that, last year, a total of approximately 48 million euros were assigned to Environmental Expenses and Investments.
- The Group once again devoted a significant amount of its resources to the numerous social action programmes it performs in the regions in which it has a significant presence.
- And finally it took part in a number of sustainability-related projects, particularly the Carbon Disclosure Project, for which it received a B grade (A being the highest grade, F the lowest), and the Global Reporting Initiative, obtaining the G4 version of the GRI certificate.

## **Research and Development**

In our sector, Research and Development is closely related to our industrial activity, and therefore the improvements in our products and production processes and the implementation of new technologies stem directly from our production centres, either in their laboratories or on their production lines.

Last year 16 million euros were assigned just to our factories' research and innovation laboratories.

In addition to the above we should mention the efforts made by CEDINOX for the promotion, development and application of stainless steel.

It is very important to emphasize that Acerinox is not unaffected by the new Technological Revolution and, in particular, the technological transformation of industry - the so-called Digital Transformation. Apart from the highly significant level of technology within our industry, Acerinox and its management team are well aware of and very attentive to technological breakthroughs and their potential application and, for this purpose, together with updating and enhancing the areas of digitization, sensorization and connectivity by means of new technologies related to industry, information and communications, specific projects are being conducted at our factories. In an effort to work together with universities in this area, we have signed up to the Chair of Connected Industry of the Comillas Pontifical University.

## **Corporate Governance**

With regard to the Company's Corporate Governance, the Board of Directors has continued to work on its optimization, completing the task begun in 2015.

In relation to the improvement of the internal standards, three additional policies have been approved and added to the five general policies adopted prior to the General Meeting held in June 2016.

These new policies include the General Tax Policy, the General Corporate Governance Policy and the Discretionary Treasury Stock Management Policy.

The Internal Code of Conduct in Matters Related to the Stock Markets has also been approved, replacing the Code which dated back to 2004 and thereby complying with the legal obligation under the provisions of Article 80.2 of the consolidated text of the Stock Market Law.

Similarly, a new Code of Conduct has been approved to replace the one adopted by the Board in 2010. The prevention and compliance system will be launched and based upon this new code, which will also adapt its form of operation to the provisions of Spanish criminal legislation, enabling it to conform to the changing realities of compliance in the different countries in which Acerinox operates.

As for personnel-related issues, we can state that, in accordance with the commitment acquired by the Board to increase its gender diversity, we have appointed women as independent directors as vacancies have emerged, in such a way that, following the ratification of the two directors appointed by co-optation, together with the appointments proposed at this Meeting, we will have increased the number of female directors to four, thereby practically fulfilling the recommended figure of 30% several years in advance.

By incorporating independent directors we are able to ensure that the independent directors on the Board constitute the largest group (8 out of 15), followed by the proprietary directors (a total of 5), as a result of which the Board's structure will better reflect the Company's current capital.

Furthermore, the Audit Committee has made the corresponding adjustments to ensure that the majority of the members are independent.

Improvements have also been made to the functioning of the Executive Committee, the number of meetings of the Board and its Committees has been increased and another set of improvements has been applied, including the implementation of an electronic platform for the functioning of the Board and its Committees.

Finally, in relation to the sustainability report, following the Board's instructions, not only the two traditional companies, Acerinox SA and Acerinox Europa, but also NAS, Columbus and Bahru have been submitted to GRI reporting and validation.

The sustainability report has also been submitted to an external audit for the first time.

In this section I should refer to the changes which have taken place on the Board since the 2015 meeting, held in June 2016.

27 July 2016 witnessed the resignations of Mr Óscar Fanjul and Mr Diego Prado, who had been Proprietary Directors on behalf of Feynman Capital S.L., Mr Fanjul since May 2000 and Mr Prado since June 2005.

21 December 2016 witnessed the resignation of Mr Javier Fernández, who had been a Proprietary Director on behalf of Corporación Financiera Alba since June 2014.

4 April 2017 witnessed the resignation of Ms Rosa María García, who had been an Independent Director of the Company since October 2013.

I would like to thank all of them, on behalf of the Board of Directors and on a personal basis, for their work and devotion and the services rendered to our Company during their respective terms of office.

On 21 December 2016, at the proposal of Corporación Financiera Alba, following a report drawn up by the Appointments, Remuneration and Corporate Governance Committee, the Board of Directors appointed Mr Tomás Hevia as a Proprietary Director and also appointed him as a member of the Executive Committee.

On 26 April 2017, once the selection process performed by the Appointments, Remuneration and Corporate Governance Committee had been completed, at the proposal of the above committee, the Board of Directors appointed Ms Rosa García Piñeiro and Ms Laura González Molero by co-option as Independent Directors to cover two of the vacancies, while it also appointed the latter as a member of the Audit Committee.

On the same date, the Board, at the proposal of the Committee, agreed to propose the appointment of Ms Marta Martínez as an Independent Director to the General Shareholders' Meeting.

## **Stock activity**

In 2016 Acerinox shares constituted one of the eleven IBEX 35 securities which ended the year with an appreciation above 10%. In particular, they had one of the best performances in the Spanish index, with a revaluation of 33.85% throughout the year, compared with the fall of 2.01% in the IBEX 35 itself.

So far this year, despite the analysts' positive forecasts and the good first-quarter results, due to a number of exogenous factors, the value of our shares on 30 May was 2.58% down from the start of the year, set against the 16.3% revaluation of the IBEX 35. The performance of our shares is in keeping with the prices of our main competitors.

However, a high percentage of analysts recommend purchasing or maintaining an average target price of 14.14 euros/share.

We are convinced that the sector, and Acerinox in particular, have the potential for growth throughout the year, given the positive expectations we have for our business.

## **Agreements brought before the General Meeting**

I would like to highlight the following matters brought before the Meeting:

### **Approval of the dividend**

As can be observed, we propose distributing a dividend of 0.45 euros per share, in a single cash payment to be made in July. After four years in which the remuneration has been performed by means of a scrip dividend, the Company has decided to return to a system of cash remuneration.

This decision has been based on the improvement in the results and the cash generation in 2016, the satisfactory progress in 2017 and the greater stability we foresee in the coming years. All the above conveys to us the confidence in the future necessary for proposing this agreement.

This dividend represents a dividend yield of 3.66% on 29 May.

### **Re-election, ratification and appointment of board members, as applicable**

Following a report drawn up by the Appointments Committee, we propose re-electing Mr Ryo Hattori, appointed in his status as External Proprietary Director on behalf of Nisshin Steel, for a further four years.

Similarly, following a report drawn up by the Appointments Committee, we propose ratifying the appointment of Mr Tomás Hevia Armengol as External Proprietary Director on behalf of Corporación Financiera Alba.

Similarly, at the proposal of the Appointments Committee, we propose ratifying the appointments of Ms Rosa María García Piñeiro and Ms Laura González Molero by co-option, both as External Proprietary Directors, and appointing Ms Marta Martínez as an Independent Director to the General Shareholders' Meeting.

In all the above cases, their professional careers have been taken into account, as well as their personal qualities and values, their renowned professional prestige and their proven experience.

### **The future of Acerinox**

I would like to end my speech by talking about the future and, more specifically, the future of Acerinox.

I begin with the premise that making predictions about the future has become one of the riskiest tasks in existence, given that time in the world appears to have accelerated, everything seems to be happening at the same time and nothing lasts long enough to be analysed and understood in depth.

But the great and profound changes we will have to address and which are sure to come about will be exciting and full of opportunities.

Many of us are convinced that, in order to capitalize on the opportunities which arise, we must have companies and organizations ready for the change, streamlined and capable of quickly adapting to the new circumstances.

It is true that our Company operates in a traditional sector which is cyclical, volatile and, some might say, rather inflexible, but it is also true that those who have the attributes to distinguish themselves from the rest are sure to be the winners.

We have a mature but, at the same time, a young product, given that no one has come up with something to replace it more efficiently. We will have to continue searching for new applications and niche and new markets.

Fortunately, Acerinox is able to do this, having found a niche in the American market with the new BA line, seeking markets along many different paths for the product made in Bahru and making the most of our presence in South Africa to boost exports.

Our geographical diversification is unique, giving us flexibility which others do not have, and we have a strong presence in the best markets - the USA, Europe and Asia. It is true that we are now undergoing the onslaught of Chinese competition but, once it becomes more rationalized, we will be in an advantageous position.

In order to enhance our standing, we have not relied on the restrictions on world trade, quite the contrary; we have fought in this environment and, although these restrictions are appearing in some markets - such as the protective measures applied to American industry - we trust that we will not be the ones to suffer.

We have a more streamlined, efficient and competitive structure than that of our competitors, because we have overcome the crisis and we have become stronger, with a winning culture. We are non-conformist and innovative people; if others believe in the digital transformation, we do too, and we have our plan because we believe that it will lead to improvements in future competitiveness.

We have a strategic plan which we have successfully implemented and, above all, we know what we have to do to adapt it to the new changing reality we are faced with.

Finally, we have a healthy financial structure, with a great capacity for cash generation enabling us to finance the future.

We are therefore optimistic about the future, as we have stated so often, as long as the economic cycle helps us, raw materials stabilize and the Chinese economy become more rationalized, as appears to be happening at the moment. We have the characteristics to be flexible and to be the winners, and, of course, we have the ambition and the expectations to overcome the challenges which we face and to be able to achieve ever-improving results.

Together we have built a great company which has been able to overcome difficult and challenging times, which has developed with the sole support of its shareholders and workers, and we owe all of them our deepest gratitude.

Today we have a committed, effective management team with ideas worthy of praise, and we should show our appreciation for the efforts they have made, together with those of each and every one of our workers on the five continents.

And, of course, you, dear shareholders, our shareholders, without whom none of the above would be possible, you also deserve our gratitude for your constant and resolute support.

Many thanks to all of you.

Rafael Miranda  
Chairman