



SPEECH
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GENERAL SHAREHOLDERS MEETING

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GENERAL MEETING OF SHAREHOLDERS 2014 REPORT BY THE CHIEF EXECUTIVE OFFICER

Dear Shareholders,

Once again I have the honor to address you to account for the results obtained by ACERINOX in the year 2014, to explain how the first part of 2015 is passing and how we see the future of our Company and our sector.

We have overcome hard years and in 2014 it has not been easy, but it has filled us with illusion since we have seen how the economic activity improved in the majority of sectors and European countries and especially because we have demonstrated that we can adapt to a new very competitive environment and we have achieved praiseworthy results despite the highly adverse conditions.

Despite low market prices we have used the growth opportunities and with a 4.5% increase in our melting output we have multiplied our results by six thanks to the effort and the excellence obtained in our operations.

For this reason we describe 2014 as a year of transition, because we have made the right strategy and we are prepared for, when market's conditions improve – and must improve – being able to offer better results as well. The process is not going to be fast or easy; therefore we should keep on guard and continue on the way we have undertaken.

There are two key factors to explain the development of our activity during last year: on the one hand the clear recovery process and, on the other hand the stainless steel production overcapacity installed worldwide. Besides, the price nickel trend always serves as catalyst increasing the effects, as I will explain later on.

During 2014, it was confirmed the recovery of the economic activity in Europe that we had noticed in September of the previous year in our sector which had already started in other regions. The stainless steel consumption increased again in all markets and did it more homogeneously. The sectors linked to consumption grew and also improved those linked to investment, although we still miss large projects or those linked to public expenditure.

Stainless Steel consumption usually anticipates the economic cycles and it is a reality for all that European economy has entered into a growing phase which will be moderate but sustainable.

A higher confidence in economy made possible the starting of restocking, not only in stainless steel but also goods made of this material, which encouraged our activity during the first half of the year and allowed increasing productions and slightly improving prices.

During this period, the upward trend of nickel's prices augmented the demand increase since distributors anticipated their purchases to avoid price increases due to raw material, which we call alloy surcharge.

Nevertheless, the excess of capacity installed worldwide for the stainless steel production has prevented that the improving in demand will result in a recovery of market conditions, which we call "base prices", due to the strong competition and the amazing evolution speed of current trading flows in a global market like ours.

This circumstance made that in a short period of time, all consumption needs were met, the material was stored and had to suffer a new inventories correction during the second half of the year, worsened by the Nickel's price fall, which happened as of September, following the lowering of oil prices and raw materials in general.

Nickel's Price, which on January started at 13,905 usd/ton kept a continuous increase up to 21,200 usd/ton in May, 52% revaluation which encouraged the stainless Steel purchases. Without a doubt, the fear of raw materials shortages affected this process, due to the export prohibition of this mineral from Indonesia and the conflict between Ukraine and Russia, being this country one of the main producers.

In the period from May to September, it was stabilized around 19,000 usd/ton, lowering in the last quarter, the same as the other raw materials, up to 14,935 usd/ton, with which the year closed.

During 2015, the downward trend has remained, currently being quoted around 13,000 usd/ton against all forecasts, because there is enough nickel's supply in its different forms and maybe due to fact that the quantity of nickel and nickel ore which was in China was underestimated.

When speaking of overcapacity in our sector, once again, we have to insist on what the irruption of the new Chinese producers has meant, which have gone from producing the 3% of world production in the year 2000 to over the 52% in 2014. China has changed from being a receiver of imports to being a net export of more than 3 million tons of stainless steel.

Logically, this situation has completely altered the traditional business trading flows and all remaining producers were forced to relocate in this new market model, reducing productions and, overall improving our competitiveness.

We are proud of the competitiveness level achieved, which will allow us to obtain positive results even in the most adverse conditions, standing out from the most of our competitors to continue providing value, to keep growing and disputing the leadership in the stainless steel sector worldwide.

We also continue to develop our global strategic which has turned us into one of the most internationalized Spanish Companies, with over the 90% of our sales outside Spain and more than 60% out of Europe. In 2014 we have produced the 6% of the stainless steel world production.

To that end, we have four flat products factories in four continents, three of long products factories and our sale network with branches in 36 countries, through which we have distributed our products in 83 countries from the 5 continents.

Our geographic diversification has allowed us to reduce the great risks from the crisis and thanks to our continuous improving plans and the pooling of the practices improvements, which are monitored through our excellence plans, we have reached a new competitiveness threshold.

We are convinced that we have made good use of time and we are prepared to face this new cycle of the economy in which requirements will be high, wherein it will not be enough being good, but we should pursue the excellence and where to be sustainable will be an essential condition to succeed.

It is necessary to highlight and express our gratitude for the effort that the whole team of Acerinox has been carrying out, we should also thank our shareholders for the confidence they give us and which allow us to go forward with our strategy.

Focusing to the information for the year, the European market evolved very positively and apparent consumption rose by 13.6% thanks to actual consumption and due to the previously mentioned restocking. Regrettably, imports from China grew over the 50%, exerting strong pressure on prices and diminishing effectiveness to the efforts made by the European producers to rationalize production and eliminate overcapacity.

The imports share in the European market changed from 21% in 2013 to 27% in 2014, highlighting China and Taiwan which, as a whole, changed from 9% to 16%.

The American market, where we make more than 50% of our sales, also maintained a solid growth, which we estimate around 5% and there imports from Asia also increased over 50%. In this case China increased its presence in United States by 115%.

As I was saying, in 2014, China has exported more than 3 million tons and has forced the producers from the other Asian countries to seek new markets worldwide. One of the most affected areas is South East Asia, where Bahru Stainless and, to a large extent, Columbus Stainless, two of our flat products companies, carry out their activity, which have been working with a low level of occupation. Apparent consumption in the area, according to our estimates, grew around 7%, highlighting Malaysia, the country where our new factory is located, with a growth of around 10%.

Only South Africa, among the countries where we produce, had a negative behavior, with a falling of the apparent consumption of nearly 5% as a result of labor disputes which devastated the country in 2014 and that prevented the economy to join the recovery. We wish all players in this country collaborate to work in pursuing prosperity, so necessary not only for South Africa but for the rest of the African countries that follow this model.

Stainless Steel production worldwide, according to data from the Stainless Steel Forum (ISSF) reached a new record of 41.7 million tons in 2014, 8.3% more than in 2013, but very unevenly, nearly 14% in China and America and imperceptibly in the whole Europe and the rest of Asia. Asia, as a whole, already represents the 75% of the world production.

Acerinox melting output increased by 4.5% in 2014 up to 2.3 million tons, a figure equal to that of 2004 which was the second best year in our history. Hot rolling output increased by 5.6% to 2.0 million tons and cold rolling output 3.7% up to 1.6 million tons, being only 40,000 tons below 2006 production which was our historical record.

It is noteworthy that all the Acerinox factories have contributed positively to EBITDA of the Group, although in the case of Bahru Stainless the contribution is owed, to a large extent, to the black coil we produce in our factories of Acerinox Europe and South Africa to be re-rolled in Malaysia.

In the whole year, Acerinox net sales were 4,380 million euros, 10,4% more than 2013. The EBITA, 454 million euros, increased by 99.1% and the net result of 136 million euros was 6 times higher than that of the previous year, after making an adjustment of 23 million euros as a result of the tax reform in Spain.

Being very positive the lowering of corporate tax for the companies, it had the effect of changing the possibility to recover the tax credits we had capitalized in the years with losses in the Spanish companies, forcing us to make this accounting entry for an amount of 23 million euros at the end of the year, which did not involve any cash payment, without which our profit after tax and minorities would have amounted to 159 million euros.

These results have been achieved with the lowest prices level in the history and without making use of our total production capacity, they allow us to be optimistic for the future.

Group's net debt on December 31st, 2014 was 616 million euros, 33.2% on equity which is the equivalent to 1.36 times the EBITDA generated in the year. Even though funding is no longer a problem, at least for Acerinox, during last year we made two issuance of bonds for amounts of 75 and 50 million euros respectively, with the goal to diversify sources of financing at a competitive cost.

In the first quarter of 2015 our revenue has continued to increase. Our net sales amounts 1,144 million euros, 11.8% higher than those of 2014 same period, the EBITDA achieved has been 102.6 million euros, 15.6% increase and the result after taxes and minorities has been 31.0 million euros, which improves by 23.7% that obtained during the 1st. quarter of previous year.

As discussed in the publication of the first quarter results, market conditions have not improved, prices remain low and we have had to reduce our production by 2,7% to avoid the increase of inventories, however we expect this situation improves with Nickel's price stabilization and normalization of inventories in the markets, since macroeconomic figures, as commented on by our Chairman, are positive.

During the year we 2014 invested 74 million euros, 41.6% less than in 2013, according to the forecast of 70 million euros reported in the General Shareholders' Meeting 2014. This fall was planned in our strategic plan since we need some time to start and mature the second phase investment on Bahru Stainless in Malaysia, while we have improved our treasury cautiously.

Second phase equipment are evolved very positively and we are getting to supply materials with very good quality, despite the incidents of the learning period itself. During 2014 we have increased production by 30% over that of 2013 and we have started up the second slitting line. In the year we have invested 39 million euros at Bahru Stainless.

We are considering the following phases to be undertaken from the technical point of view, while waiting market conditions make its realization advisable.

We have to highlight and thank the collaboration of our partners Nisshin Steel, since with their help they are facilitating our homologation processes with Japanese customers in Southeast Asia, leading companies in white goods and components for automobiles and motorcycles.

The remaining investments were intended to keep our factories updated with the best technologies, highlighting Columbus with 6 million euros, North American Stainless with 10 million euros and Acerinox Europe with 16 million euros.

From the starting of the crisis, we have invested more than 300 million euros in Spain. Few companies have trusted and bet so much on our country. Without a doubt the effort is being rewarded with the improvements we are getting for the new equipment and good harmony prevailing in the factory.

The estimated CAPEX for 2015 in our facilities amounts to 120 million euros, considering investments which allow a rapid recovery and give our factories a higher flexibility so that we may adapt to market changing situations, which provides higher added value products or which allow improving quality and productivity or a better use of the resources.

In this sense, let me remind the recent approval, in 2015, of an investment in NAS amounting to 116 million euros for the purchasing of a Bright Annealing line, which will be the first one in this factory, and a cold rolling equipment, which will be the number six and will allow increasing melting and hot rolling outputs while expanding the range of products in United States.

We remain loyal to our traditional policy of remuneration to shareholders and, given the good acceptance they had in the two previous years, we will recommend, for the third consecutive time, to this General Shareholders Meeting the distribution of 0.45 euros per share by the formula of “scrip dividend” or dividend option. In 2104 the 51% of Acerinox share capital opted for the payment by new shares, as it did the 57% in 2013.

With the better situation of the economy and in view of the results but, most of all the outlook for our company, the behavior of the Acerinox share on the Continuous Market has been very positive, in the full year it has increased by 35.2% far above the 3.7% of IBEX-35 index.

This revaluation has continued during the past period of 2015, increasing the price of Acerinox 13.2% compared to 10.7% of the IBEX-35 (data to May 28th). It has also significantly increased the liquidity of our value, which makes us a strong candidate to rejoin the Spanish selective index in the review which will take place next week. At least, according to our internal information, so we think it should be, for merit and for the low representation that the industry has in the IBEX-35.

At December 31st 2014, stock market capitalization Acerinox reached 3.273 million euros and to the date it exceeds 3,600 million euros.

We keep the optimism and confidence in our sector and in our business model. Last year I made a short reflection I would like to review, to give specific and objective reasons why we think we have a great potential.

Let's start by the product. Stainless steel is an extraordinary material that is still in growing phase, more and more applications can be found in our daily lives. Few materials can boast of a growth rate by 6% in the last 65 years, which increased to 7.2% in 2013 and 8.3% in 2014.

Stainless steel consumption worldwide, again according to ISSF data, in 2014 grew by 9.2 % up to 32.6 million tons, this is, it increased in 2.8 million tons. To meet this growth it was necessary to produce more than 3 million additional tons.

To put it in scale, we can say that to meet the increase in demand of a year equivalent, it was necessary a production increase of 3 factories as North American Stainless, of which we are so proud.

At this rate, the production overcapacity installed worldwide will be eliminated and we will return to the equilibrium between supply and demand.

For this purpose, the role of China will be essential. China should not base its economy on producing goods for which needs natural resources which has not available, or can allow this practice is promoted thanks to subsidies, grants or permissive environmental issues.

Insofar as it evolves toward international models and practices, the investment in the stainless sector will be rationalized, the local industry will be consolidated and the inefficient, polluting and unprofitable facilities will be closed, which will benefit the leading producers, both from China and the rest of the world.

We think that there already are reasons to believe that these considerations are being taken into account by Asian giant and we hope they cease to provide financial support for investing in a sector with a clear capacity excess such as that of the stainless steel's producing in China.

In this regard it is noteworthy the document that the Ministry of Industry and Information Technology of China (MIIT) published on March 20th, for restructuring the steel industry. The aim of the study clearly mentioned, is to slow overcapacity in the sector, to restructure the industry and help Chinese steel mills to be more efficient in the use of resources, to preserve the environment, to innovate and be internationally competitive, setting a deadline of 2025. That is, it is part of the new Chinese economic development plan 2015-2025.

Among the specific measures proposed are quoted the sector consolidation, emissions reduction and energy consumption and something really important, from 2017 any investment project on steel producing plants which increase capacity, must be accompanied by the other equivalent capacity closure project of inefficient plants, to avoid overcapacity and improve the using rate of the factories and therefore their competitiveness, while reducing environmental impact.

We hope this initiative succeeds and is implemented in all Chinese provinces, because it would bring steel and stainless industries back to a scenario only based on parameters of quality, service, profitability, efficiency and fair competition. The speed with which these measures are imposed largely depends, to a large extend, the sustainability of our industry.

The consolidation of the European industry is ongoing and it is expected the closing of the German steelmaker Bochum during 2015, thus completing the restructuring of Outokumpu, bringing the installed capacity would be balanced with consumption, as we think it is the case in America and the rest of Asia.

In the field of raw materials, our forecast has been fulfilled, since following the prohibition to export raw materials from Indonesia, the nickel pig iron has become another form to supply nickel, which may be more or less competitive depending on the circumstances and market's laws, but it is not in itself an advantage for a specific country. It has also contributed to modernize the nickel industry and to soften prices fluctuations in the London Metal Exchange.

Another issue we discussed a year ago is the growing interest of the European governments on industry recognizing its importance to alleviate the effects of the crisis. Today, we all accept that countries with a strong industry have suffered much less the crisis effects y we all also see the industry as the sector which provides more stable posts and jobs with higher quality, it is the sector which has a higher multiplier factor per each direct employ generated and the sector with higher investment in R & D, either directly or through the acquisition of new technologies.

Hopefully this entire trend generated in favor of industry will result in more favorable conditions to develop our business in Europe, where there is an offshoring risk of facilities and investment flight. But above all, we hope that this improvement starts in Spain, where the price of energy has become a very clear disadvantage to compete with neighboring countries. None of them tax the electro-intensive industry with so many taxes for subsidizing other sectors as it is done in Spain.

We are participating actively in the “Steel Action Plan” which the Commissioner Tajani drove in Brussels and the “Spanish Steel Plan” launched by our minister of industry, José Manuel Soria, and we rely on the development of one of its points, the observatory of energy prices to avoid major imbalances between countries of the European Union and between countries of the European Union and the rest of the world.

The interest of a large part of the European countries in defending the industry is real and so has been stated in the antidumping proceeding against imports of cold-rolled from China and Taiwan in which have been imposed provisional measures with duties of around 12% for Taiwan and 25% for China.

All these matters show an outlook that is going clearing step by step for the stainless steel sector both in Europe and in the rest of the world. We see how the scenario is improving but above all we see that the best is to come.

But if there is something we are fully confident to face the new challenges, if there is a factor which makes us being optimistic it is the new threshold of competitiveness we have achieved in Acerinox. On December 31st, 2014 the third Excellence Plan concluded having achieved the 88% of the goals, or what is the same, having achieved annual recurrent savings of 53 million euros, in addition to those already achieved in the previous plans.

In addition, the Board of Directors’ meeting, held on December 16th approved the Excellence Plan IV, 2015-2016 with the aim to achieve additional savings for an amount of 70 million euros per year, including all companies and areas of activity of the Group, that is, having achieved the goal of creating a new corporate culture based on the excellence.

Although excellence plans are focused on savings of variable costs by the processes optimization that is, technology, we have not forgotten the task of adjusting our fixed costs and during the last years we have made an intensive work which means savings for an amount of 110 million euros per year.

It should be stressed the personnel item, where have been achieved 54 million euros of recurrent savings, having reduced the staff by 20% from the starting of the crisis to readjust our company to the actual market in the different geographical areas. On December, 31st, the template was made of 6,701 people, 282 less than the preceding year.

We have also dealt with changes in plants maintenance, which has given savings for an amount of 45 million euros per year.

We have also promoted the field of R & D but above all the innovation, having confirmed activities for an amount of 16.1 million euros in 2014, 33% higher than the previous year, with collaborations at all levels in the factories, from the departments responsible for this matter, to operators in the plants, that contribute directly providing expertise and through the awards are held annually to improve quality, processes, environment and security.

Steel industry has an important role in R & D, not only by the direct activity but as consumers of technology since our equipment are provided with the best technical solutions and the most advanced equipment for control, measurement and analysis.

We have also increased tremendously the effort in training and safety. In 2015 we have adhered to the celebration of World Day for Safety in the Steel Industry, established to make aware all those who work in the industry that there is nothing more important than safety and accidents are preventable if you have the necessary procedures and the compliance is monitored. Fortunately, in our Group there has not been any serious accident in 2014 or so far 2015.

We are making important progress in recycling. Acerinox is one of the largest recyclers in the world by the volume of scrap that we melt and return as a new product. We are also developing our own techniques for the use of our slags such as that earned us the ISSF sustainability award, for reusing the dust collected by dust extractions systems in melting shop and mugs from the pickling baths. All is reused and we have reduced the waste to the minimum.

We also investing on of best available techniques to continue reducing CO2 emissions and energy consumption. In conclusion, we continue to reducing the volume of resources needed to produce stainless steel, reaching a high level of efficiency which results in a lower cost of the product.

We are a sustainable Company as evidenced by the awards received from the Global Reporting Initiative (GRI) y Carbon Disclosure Project (CDP). We still have a pending issue, which is to raise awareness consumers, all European sectors and the general public that the best defense of the environment that we can make is the defense of the European industry which is by far the most efficient and respectful with environment and of which Acerinox is a clear example.

As I said at the beginning, we are confident that we have made good use of time. Since the starting of the crisis, we have streamlined our business model gaining in flexibility and responsiveness. We have designed a strategic plan which we follow faithfully. We have developed four Excellence plans. We have lightened the structure and redistributed our staff. We are building a factory in Malaysia and we have opened trading companies in this country and as well as in China, Vietnam, Korea, Thailand, Philippines, Indonesia, United Arab Emirates and Turkey. And we have undertaken with order and efficiency a generational shift with more than 400 retirements, including virtually the entire senior management.

But above all, we are ready to compete in the stainless Steel world because we have the most of the advantages of a company, a human team of quality, with a great accumulated experience and with a very high commitment to the project in Acerinox. We come out stronger from the crisis and the results of 2014 are only a foretaste of what we can offer in the future.

Finally, I want to remember with great fondness to that great Chairman of Acerinox, who was Rafael Naranjo and who left us in May 2014, setting an example up to last day of how to face difficulties of life. Not every year the Chairman is changed and now we are fortunate to count with the support and experience of Rafael Miranda to continue improving.

I thank our shareholders, customers and suppliers for the loyalty and confidence in our project showed year after year and the support with which we have become a benchmark for the steel industry worldwide and one of the most internationalized Spanish companies and one of the Spanish industrial companies which contributes most to the good name and good image of our country.

Thanks to all the team of Acerinox and my closest coworkers for the tremendous effort made in the year and thanks for the commitment shown that makes me feel so proud to be part of Acerinox.

Bernardo Velázquez
Chief Executive Officer