



SPEECH
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CHIEF EXECUTIVE OFFICER

GENERAL SHAREHOLDERS MEETING

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REPORT FROM THE CHIEF EXECUTIVE OFFICER

Dear shareholders,

Once again, I have the honour of addressing you here at the General Shareholders' Meeting to inform you of Acerinox's results for the financial year 2012 and explain how we conducted our activity, striving to provide a clear and transparent reflection of the key determining factors.

Five years have passed since the economic crisis began and we are all starting to get impatient to see indicators of recovery which, as yet, we are unable to report. In 2012, our Company had a negative result for which I do not seek to make excuses, but this is set against an extremely complicated international backdrop.

Firstly, we are still immersed in an international economic and financial crisis with the epicentre firmly at the heart of the European Union, with devastating repercussions on the countries surrounding the Union.

Unfortunately, European industry has suffered in relation to other countries due to the political measures taken during the years of plenty and it has been relegated to a secondary role as a result. Therefore, industry within the Union has been weakened in terms of leading the recovery process and only now its importance to the economy is being recognized.

In addition, we are also undergoing a period of change in the economic model and a shift in the centre of gravity towards the Asian economy, where all global growth is currently focused. This phenomenon is having a decisive effect on the transformation of the stainless steel sector with respect to both manufacturers and users, and the traditional export flows have been altered, leading to situations of overcapacity. I will give more in-depth explanations of all of these factors during the course of my presentation.

However, I also hope to convey a positive vision and sustained confidence within our Group, outlining the continuous improvements that we are carrying out in order to increase our competitiveness and adapt to the new world order. I also hope to convey a vision of our sector, stainless steels, in which consumption continues to grow even in times as challenging as these.

We have changed the venue for this event, returning to the auditorium of La Mutua Madrileña, which many of you may remember is where we held our Meetings between 1987 and 1993, when it belonged to the insurance company La Unión y el Fénix.

Those of you who have accompanied us since then will also remember how much Acerinox has evolved over this period, becoming one of the world leaders in the stainless steel sector and one of the most internationalized Spanish companies, with 92% of turnover generated outside of Spain and 63% outside of Europe. The Group now had four factories on four continents and companies in 36 countries, with 54% of employees performing their duties abroad.

This development has been achieved by remaining faithful to our principles of continuous organic growth, responding to the needs of the market and without losing sight of our objective to be the most competitive manufacturer in the sector. These ideals remain the backbone of our strategy.

Starting with the economic situation, there is little that I can add from my position and there are plenty of people more qualified, perhaps too much so, who can shed light on this issue. I shall therefore focus on the field of industry. I will just comment that, over these five years, the difficulties that we face have evolved and what began as an economic and financial crisis has now become more of a political problem and a question of confidence which is firmly focused on Europe but which has repercussion in all other markets.

As I mentioned last year, European industry is suffering due to the slowdown in consumption but also due to the relocation of industrial production, the increase in imports and the reduction in exports. In short, there has been a steep decline in competitiveness.

In the period from 2008 to 2012, the rate of industrial production in the European Union fell by 8.9%, a figure which is very similar to the apparent decline in consumption of stainless steel flat products, which has gone down by 8.2%. In contrast, family spending on consumer goods increased by 6.5% during the same period, which would suggest that we are really witnessing a phenomenon of substitution of local production for imports.

This loss of competitiveness is not due to the processes or products, as a great number of projects originating in Europe have been very successful in other markets, above all in Asia. Neither do I believe that it can be blamed wholly on the cost of labour.

The other causes for the declining weight within Europe of industry, and the stainless steel industry in particular, come down to other reasons: the lack of reciprocity in international trade, excessive European regulation and the lack of transparency in other countries which, in short, means that we are competing

with a disadvantage in terms of conditions compared to other economies, above all in what have become known as emerging markets.

We can talk about a lack of reciprocity in international trade because the European market is open to the entire world while we Europeans are subject to tariffs and protectionist measures which, in the case of stainless steel, amount to 10% in China, 24% in India and 25% in Brazil. It is estimated today that 65% of world trade in steel is subject to protectionist measures.

The excessive regulation that we face comes directly from Brussels, mainly in relation to environmental issues and climate change. While we support these measures, we believe that they should be applied to all products that are consumed within the Union, whether they are manufactured inside or outside of its borders. If regulations are not applied in such a way, it promotes the importation of less environmentally-friendly products that have not had to bear the costs of sustainability.

Let me illustrate this issue with an example related to Acerinox. To manufacture a tonne of stainless steel, Acerinox emits 30% less CO₂ than the global average for the sector, which is logical bearing in mind that companies that are above the average are based in countries that have no such regulations in force. In the shipping process to transport a tonne of steel from Asia to Europe by sea, the amount of CO₂ emitted is equivalent to around 20% of the emissions originating from Acerinox's manufacturing process. In other words, steel manufactured in Asia that is consumed in Europe is responsible for 50% more CO₂ being released than the steel produced by Acerinox, without any extra tariffs being applied as a result, in stark contrast to European products exported to Asia. While such measures may help to keep Europe clean, taking care of the planet is a global problem and gasses and discharges do not respect borders.

With respect to the lack of transparency, one only has to consider the scarce information we have about our competitors in emerging countries, while they have access to a bountiful source of inspiration from our management reports, where they can find all manner of data regarding energy consumption, raw materials and productivity, all of which they can use to improve.

Under this heading, we could also include the lack of information in terms of the purchasing process and the processing of raw materials, which we believe to be subsidized for local consumption but prohibited for export.

In short, we are not competing on an even playing field and the example set by the European Union is not being followed by other countries, which are taking advantage of our generosity.

In 2012, we were extremely pleased to welcome and actively participate in a project initiated by the European Commissioner for Industry, Mr. Antonio Tajani, which has established a round table with the aim of analysing the future of the European iron and steel industry, with the participation of the industry, unions, and representatives of the member states and the European Parliament, which finally demonstrates a true interest in revitalizing the industry in Europe and defending industrial employment.

We hope that this type of initiative is successful and that it is replicated in other sectors and in each of the member states. We also hope that the Spanish authorities decide to give solid support to industry, in view of the weight that it has lost in terms of gross domestic product. If we achieve the objective of 20% of GDP coming from industry as is currently being discussed in Europe, a simple extrapolation leads us to estimate that 1,200,000 quality jobs would be created, helping to reduce our worrying unemployment figures.

Using another example related to Acerinox, in the area of Los Barrios, where our Campo de Gibraltar factory is located, unemployment currently stands at 17% in contrast to 33% in the province of Cádiz or 30% across Andalusia. These jobs are of high quality as our workforce is highly qualified, with great efforts being made in terms of training, forming one of the key pillars underpinning our success. This explains why the average length of service of our workforce is fifteen years, with 400 first generation employees having retired from the Company.

In Spain, one cannot avoid talking about the cost of energy as well. While debate continues about energy reform, the tariff deficit and the rights of traditional electricity generators in relation to subsidized alternative energy sources, the cost of electricity has risen by 75% for Acerinox Europa, while the cost of natural gas has rocketed by 163%, which amounts to an extra cost of 34 million euros per year, in comparison to rates from ten years ago. This obviously has a direct impact on our results. In contrast, the cost of these factors in our North American Stainless factory in the USA is 47% lower in terms of electricity and 75% cheaper with respect to gas. This explains why the reindustrialization process is already a reality in the USA but not here.

Fortunately, Acerinox is a global company with four factories on four continents and an extensive commercial network that gives us an active presence in 80 countries. It may be difficult to shift one's perspective from the situation in Spain and Europe in order to gain a comprehensive analytical overview, but our activity is conducted at a global level.

The situation in the United States is radically different thanks to the aforementioned reindustrialization process and the dynamism of their economy.

Our largest market continues to grow, as do the economies in South Africa and Malaysia. The development phase in terms of the economy is well underway in these two countries. In the period from 2008 to 2012, with the recession in full swing, their industrial production grew by 41% and 45%, respectively.

Returning to the stainless steel sector, it would not be possible to explain the difficulties we face without mentioning the process that has developed in China which has altered the trade flows in our business.

Over the last few years, stainless steel has increasingly been seen as a strategic material and vital for the industrial expansion of the Chinese giant, experiencing extremely fast growth. In 2001, China barely contributed 3.8% to global stainless steel production. In 2012, this figure reached 46%. The annual growth rate in global production grew by 5.7% in this period, which is only slightly less than the average of 5.9% over the last 62 years. However, this statistic is extremely deceiving, bearing in mind that the average rate of the huge growth in China is 32.5%, compared to stagnation in the rest of the world, with rates of just 0.4%.

Since the recession began, China has gained even more ground, with growth in stainless steel production of 123.2% since 2007, compared to a drop of 6.6% in the rest of the world, taking an even larger slice of the global increase of 27.0%.

China has also begun the manufacture of nickel and chrome with fervor, achieving a share of the market of over 30%, despite having to import practically all of the minerals and their electrical energy being no more competitive.

Logically, these statistics do not only reflect the rapid growth of the Chinese economy but also the relocation of industry and the disappearance of a large proportion of the traditional manufacturing industries in Europe and the Americas. The decline in these industries is due either to the shift towards production in the Asian giant or the rise in imports and distribution of products that were formerly manufactured in the West such as white goods, furnishings and refrigerators, among others.

According to sector analysts, 1.3 million tonnes of stainless steel arrived in Europe in 2012, incorporated in finished products. This is equivalent to 30% of real European consumption, a figure far higher than the 300,000 tonnes imported in 2001. In the same way, the United States import around 1 million tonnes of stainless steel incorporated in finished products.

In terms of the balance of trade with respect to stainless steel in its industrial consumption form, China shifted from a deficit of around 1 million tonnes in 2001 to a surplus of 1 million tonnes in 2012.

As is logical, this rapid change underpinned by protectionist policies has altered the traditional trade flows and has led to the overcapacity that is the subject of so much discussion in the industry, as well as strong international competition that is reflected in low prices and in our results.

Despite constant growth in the market, the excess in supply means that the needs of consumers are quickly satisfied, negating our efforts to reach more reasonable price levels.

As well as the international economic situation and the sudden emergence of competition from China, another factor must be taken into consideration for a complete overview of the situation in 2012 which has made the situation even harder. The long-awaited consolidation process of European industry is taking far too long. We are confident that, in the medium and long term, this process will be extremely beneficial for both producers and consumers of stainless steel. However, there has been an unexpected effect on the European market: prices have dropped to the lowest levels in history due to the battle waged between the factories involved in the consolidation process in order to gain positions in the new organization. This had a strong impact, especially in the second half of 2012.

On 7th November 2012, the European Commission gave the green light to Outokumpu's takeover of Inoxum, subject to the sale of the latter's Italian factory (AST) and certain commercial distribution assets in Europe. The period for compliance with these conditions was May 2013 but this deadline appears to have been extended to the end of June.

On 20th February, the signing of an agreement was announced between the third biggest European manufacturer, Aperam, and a consortium of Italian industrialists, including the pipe manufacturers Marcegaglia and Arvedi in order to make a joint offer for the acquisition of AST. The European Commission has still not ruled on this or any other option.

Acerinox has not participated in these operations as the Company has a single integrated plant in Europe with production in terms of all of its workshops being very balanced. Therefore, synergies with any other factory would be practically non-existent.

We hope that the appropriate decisions are taken to ensure that this process of reorganization of the European stainless steel market is completed as soon as possible. The European competition authorities need to accelerate their rulings on such cases in order to avoid the destabilization of the markets while they debate the proceedings.

It will also be a positive step when the new Outokumpu begins operation with improved organization, which already seems to be taking place. It does not benefit

companies if the management bodies are solely dedicated to corporate tasks and they abandon traditional business management.

Fortunately, we have a fantastic product, an extraordinary material, which has sustained the abovementioned growth rate of almost 6% per year, and which enables the imbalance between supply and demand to be resolved in a short period of time. Acerinox conducts its activity in a cyclical sector and this is not the first time that we are confronted by economic cycles and overcapacity. We have always overcome these situations and have come out stronger. With this in mind, we continue striving for excellence in all aspects of our business in order to remain undisputed leaders in terms of efficiency and competitiveness. In addition, our geographical diversification enables us to take full advantage of opportunities wherever they may arise.

According to the information available to us, no new construction projects for stainless steel production plants have been announced, at least until 2015. This means that the increase in consumption will enable improvements in the usage rates in the sector as well as in terms of results.

Global production of stainless steel grew by 5.2% in 2012 to reach a new record of 35.4 million tonnes. In Europe, production fell by 1.0% while in the Americas the drop was 4.7%. Production only rose in Asia, where China saw a growth rate of 14.2%, while all other countries recorded little change (-0.6%).

It is worth highlighting that, even in light of this imbalance, global production has risen for the last seven quarters in a row, a significant fact when estimating the evolution of consumption, bearing in mind that stocks remain low.

The stainless steel markets have performed differently in different regions. At Acerinox we perceived the beginning of clear economic recovery in the United States at the end of 2011. We believed it would reach Europe, but, in the end, this did not occur.

The strong growth of apparent consumption by 8.8% in the United States contrasts with the decrease in Europe by 3.1%. Only Poland (+8.8%), France (+7.1%) and the United Kingdom (+2.7%) experienced positive growth while Portugal (-11.2%), Spain (-8.4%) and Italy (-7.3%) experienced the most striking decreases. Even Germany experienced a decrease in its apparent consumption of stainless steel by 2.8%.

According to our data, Asia as a whole increased its consumption by 2.4%, and we should highlight growth in India (+6.4%) and China (+4.2%).

In the context described, with extremely low visibility and our clients' difficulty in obtaining financing, our market has been unstable, and at Acerinox we have had to adapt to living on a day-to-day basis, without the capacity to plan and responding quickly to the scarce opportunities that arise, as a result of the reduced number of final clients and warehouse owners.

Nickel did not contribute either to improving the process due to the continual decreases in alloy surcharges since March 2012, which still continue.

This metal that affects our activity so significantly has suffered a downtrend for the second consecutive year, with the subsequent depreciation of our stock and the slowing down of our clients' activity as they wait for cheaper prices. Although the slight confidence in economic recovery at the beginning of 2012 led the price of nickel to the annual maximum of 21,830 \$/ton on 8 February, from this moment it lost ground and completed the year at 17,085 \$/ton. It is currently trading at around 15,000 \$/ton.

As we have mentioned on many occasions, the evolution of the price of nickel does not follow an isolated pattern, but responds to financial market expectations, as do other metals traded on the London Metal Exchange such as copper, aluminium, zinc, and also Acerinox shares.

Acerinox production has adapted to market performance and our strict policy of stock reduction, despite which, steelmaking production increased 8.3%, hot lamination increased 7.6% and cold lamination increased 11.6%.

Our turnover was 4,555 million Euros, 2.5% lower than in 2011, due to both the low price of nickel, and consequent decrease in alloy surcharges, and the lower base prices, given that delivery in physical units grew by 9.7%.

In 2012, our EBITDA was positive in each quarter, with 197.6 million at the end of the year, 42% lower than in 2011. The net result was positive in the first half of the year although the market slowed down and the strong competition and low prices, especially in Europe due to the aforementioned industry restructuring, led to an unexpected turnaround in the second half of the year.

At the close of the financial year, we had a net loss of 18.3 million Euros after making a prudent inventory adjustment to a net realizable value of 17.0 million Euros.

The book value of Acerinox shares on 31 December was 6.87 Euros per share.

Acerinox shares started off performing better than the IBEX-35 from the beginning of 2012, before losing ground after September and ending the year at -15.8% compared to -4.7% for the Spanish Exchange Index.

The reduction in the production cycle and stock is one of the main chapters in our excellence plans and has been an 'obsession' for Acerinox since 2008. The objective is to become more flexible and respond quickly to market variation and the volatility of raw materials.

In the 2012 financial year, the reduction of stock and working capital in general, combined with the decisive support of our suppliers to our business project, has enabled us to reduce the level of debt to minimum levels of 582 million Euros, a 34.4% decrease compared to the end of 2011.

We maintain a very solid financial situation, reinforced by a syndicated loan to the amount of 482 million dollars negotiated at the beginning of 2012 with American banks, and the continuous confidence shown by Spanish banks, to which we must add good working capital management conducted internally over recent years. On 31 December, we had credit facilities of 2070 million Euros, having drawn on only 56% of them.

All covenants included in the main long term loans were achieved or negotiated at no additional cost. Our debt / EBITDA ratio was 2.9 at the close of the financial year.

Furthermore, in April 2013, we signed a syndicated factoring contract for the amount of 370 million Euros, emphasising the strategy of working capital reduction.

It is evident that this situation is enabling us to manage our business with enviable tranquillity for a Spanish company. Both the availability of our lines and the price at which they were negotiated have made it unadvisable to turn to the bond market, despite the opportunities that have arisen in this sector.

Despite the good financial situation, prudence led us to postpone the decision regarding the distribution of dividends until the Shareholders General Meeting. The confidence in our future has encouraged us to propose shareholder remuneration at approximately 0.45 Euros per share, in line with the traditional company policy of maintaining remuneration in bad years and increasing it in good years.

In this case, we request approval for this distribution despite the losses made in the 2012 financial year, and approval for the format of dividend option or scrip dividend, meaning through a capital increase against reserves. This would enable each shareholder to choose between cash or new shares, in accordance with their preference from a financial and tax perspective.

In 2012, we have continued to make progress in accordance with the Strategic Plan 2008-2020, focused mainly on the Excellence Plans, global expansion with the new factory in Malaysia, and development of the sales network.

Investment in the 2012 financial year was 209 million Euros and focused on Bahru Stainless, our factory in Malaysia. Regarding the development of the sales network, in 2012 Acerinox Turkey (Istanbul) began to operate, and Acerinox Russia (Saint Petersburg) was created. Progress was also made in the study of other markets.

New offices exist today in Bangkok (Thailand), Manila (the Philippines), Taipei (Taiwan) and Hanoi (Vietnam), and the second office in Indonesia will soon be in the city of Surabaya. This substantially expands our presence in Asia, which is now the largest market in the world. In addition, at its meeting this morning, the Board of Directors authorized the opening of a new company in the United Arab Emirates with headquarters in Dubai to boost our sales in the Middle East.

With these new additions, Acerinox has companies in 36 countries on five continents, to manage sales in 85 countries.

Our project in Malaysia, Bahru Stainless, continues to make progress, and its implementation has been exemplary. In its first year of operation, it has laminated 56,482 tons of stainless steel, supplied mainly by Columbus and Acerinox Europe, but also by our long term shareholder and partner, Nisshin Steel, and several Asian manufacturers, which guarantees the availability of black coil.

The teams for the first phase are performing exceptionally, which shows the successful design and selection of suppliers. The Malaysian staff continue their training and the members of the first generation of local technicians trained in South Africa and Spain are in charge of training those who have joined since, in accordance with production needs, and with the additional help of Spanish, American and South African experts. Out of 433 members of staff, 97% are local.

Continuing our strategy to maximize the diversification of our client base in the area, more than 190 clients in 15 different countries have had the opportunity to verify the quality of our products manufactured in Malaysia, in addition to more than 300 who are supplied by our local distributor, Acerinox Malaysia. 72.8% of turnover for Bahru Stainless in 2012 was through exportation.

At this point, I would like to highlight the partnership with our long term shareholder and partner, Nisshin Steel, a Japanese steel manufacturer who holds 30% of the capital in Bahru Stainless and 15% in Acerinox, and with whom we are reaching Japanese stainless steel consumers with production plants in the region.

The Phase II teams are joining production, having started the second laminator machine in December 2012 and the second production line for annealing and pickling at the end of April this year. This new equipment gives our installations greater versatility and a variety of dimensions and product finishes of greater added value. Furthermore, the need for black coil will increase, which will improve the use and costs of the steelworks and hot laminator installations for the Group's other factories.

We are proud of our pioneering work in South East Asia and our contribution to promoting technology and the quality of Spanish industry in the area, but also our role as a 'driver' industry that has brought another 10 Spanish companies to Malaysia to collaborate in the construction and building of the factory.

On 31 December 2012, we completed Excellence Plan II with an average of 59% of the objectives achieved over the two years of the plan. Although fine-tuning is increasingly difficult and we only achieved 35% of the objectives in 2011, the commitment and dedication of our staff enabled us to achieve 81% in the second year (equivalent to 73 million Euros of annual recurring savings), which will be standard for operations in the future and enable us to qualify this second plan as another success.

We firmly believe in this model of management and control, based on the participation and collaboration of the technicians in all the Acerinox factories, which are now part of our company culture. We have, therefore, decided to extend the field of application to seek excellence throughout the entire supply chain.

This forms the basis of the Excellence Plan II (2013 – 2014), which was created in order to obtain annual recurring savings of 60 million Euros, in addition to other objectives that are difficult to quantify, but which will result in greater cohesion between the different business areas at Acerinox, and the optimization of internal synergies, to drive the Group and generate value for the shareholder.

At the same time, we continue to make progress in reducing our fixed costs, both in factories and commercial companies, and we continue to adapt our structure to the new market reality, by growing in Asia and adapting in Europe, to respond effectively to production and sales requirements in the different geographical areas in which we are present.

We are all contributing to this, as we have been applying the salary freeze decided three years ago, where permitted by legislation. It is only through great effort from all of us at Acerinox that we will achieve our goal of obtaining profits even in adverse situations. We must not be content with having increased our competitiveness by comparing ourselves with our most direct competitors. We must reaffirm ourselves as the most effective company worldwide and a clear benchmark in the sector, because our real competition is coming from Asia.

We believe that we are on the right track, and, at the close of the first quarter in 2013, we had accumulated positive results of 15 million Euros, by means of great effort in very difficult market with conditions that have scarcely improved since the end of 2012.

We are beginning to reap the benefits of our work over recent years, and are especially satisfied with the effort made by NAS, which is the major contributor to our bottom line, and to the progress of Acerinox Europe, which maintained slightly positive results in 2013 based on the work conducted and the dedication to cost improvement.

We are also proud of the staff at the Campo de Gibraltar factory, who agreed to sign the exemplary Collective Agreement on 5 July 2012, with a modern remuneration system based solely on effectiveness, productivity and profitability.

Likewise, the high level of commitment of our workers has made the first edition of the internal awards for operational excellency successful. 18 projects of great value were presented and are now being implemented.

At the end of 2012, the implementation of an ambitious Training Plan was agreed at the Los Barrios factory, delivered by staff from the factory with 40 years' experience, which will guarantee the transfer of knowledge and improve operational practice in all areas. Since 2007, the retirement of more than 20% of staff has taken place with total normality without affecting the functioning of the factory. We feel very close to this group that has done so much for Acerinox and we consider the staff renewal process complete; one of the greatest risks detected 6 years ago.

The success of the Training Plan is such that it is being extended to a greater number of people and other areas of the factory, so that we all share the same objectives.

We are a sustainable company, concerned about the environment and the future, as demonstrated by our progress since the creation of Acerinox in 1970 and our lasting relations with shareholders, workers, clients and suppliers.

Recently, this situation was recognized satisfactorily by the prestigious international organizations GRI (Global Reporting Initiative) and CDP (Carbon Disclosure Project).

Furthermore, in May 2013, the International Stainless Steel Forum (ISSF) awarded us the sustainability prize at the 2013 edition, for the important project developed at Acerinox Europe to use waste generated during the process as raw materials, following adequate treatment.

Despite the effort we are making in the area of safety, and improvement in all accident rates and absenteeism, as demonstrated in the Annual Report, we lament a fatal accident that occurred in 2012 in the Columbus factory. We must insist on the importance of compliance with safety policies and we must demand that all our workers and directors pay the greatest attention and help us achieve the goal of zero accidents.

At this time in which we are committed to the internationalization of the Spanish company, I would like to remind you that we received recognition from the Círculo de Empresarios (Circle of Entrepreneurs) for our progress in internationalization. The award was presented to our Chairman, Rafael Naranjo, by HRH Prince Felipe of Spain. In addition, the American Chamber of Commerce in Spain (AMCHAM) gave us the award for expansion in the United States, which was presented to our Chairman by the American Ambassador in Spain, Mr Solomont.

Finally, I would like to thank all our shareholders, clients, suppliers and friends for the trust they place in the global Acerinox project year after year, without the support of whom we could not maintain our strength.

Above all, I would like to thank the team at Acerinox and, particularly the management team, for the enormous effort they are making to overcome problems in such a difficult period as now, from which we will certainly emerge significantly stronger. We owe our success to all members of the team and I would like to ask everyone to continue in this endeavour that enables us to look to the future with optimism, pride and the knowledge that we will maintain our position as leader and continue to be the worldwide benchmark for the global steel industry.

Thank you for your attention

Bernardo Velázquez
Chief Executive Officer