

AUDIT AND CORPORATE GOVERNANCE COMMITTEE OF INDUSTRIAS PEÑOLES, S.A.B. DE C.V.

ANNUAL REPORT

Mexico City, February 23, 2017

Board of Directors

Industrias Peñoles, S.A.B. de C.V.

Presente.

Dear Board Members:

On behalf of the Audit and Corporate Governance Committee of Industrias Peñoles, S.A.B. de C.V. (the “Company”) as Chairman of the same, and in compliance with our rules of Operation, I have the pleasure to submit the annual report corresponding to the 2016 fiscal year, in accordance with article 43 of the Securities Market Law.

The Committee analyzed the Company’s consolidated and separate financial statements prepared by management, as well as the unqualified opinion express by the External Auditors in their opinion about the financial statements corresponding to 2016; Also followed the legal and tax matters. Based on that information and in accordance with Article 42, section II, subsection e) of the Securities Market Law, the Committee’s opinion about the content of the Report from the Chief Executive Officer (“CEO”) is that: (i) all accounting policies and criteria applied by the Company in the preparation of the financial information, as included in the corresponding report and reflected in the accompanying notes to the audited financial statements, are adequate and sufficient, taking in consideration the Company’s specific circumstances; (ii) these accounting policies and criteria have been consistently applied within the information submitted by the Company’s CEO, and (iii) as a result of sections “i” and “ii” above, the information submitted by the CEO reasonably reflects the financial position and results of the Company. As such, the Committee recommends the Board of Directors approve the consolidated and separate financial statements, as well as the accounting policies and criteria applied by the Company in the preparation of financial information.

On the other hand, the Committee evaluated the Internal Auditor’s Audit Plan, as well as the performance of the firm of external auditors that provides the external audit services, considering that they are qualified to carry out the work entrusted to them and the additional services received, met the established targets.

In accordance with the Internal Audit Statutes, the Committee approved the Annual Plan of the Internal Auditor and reviewed its reports on the important issues of the Internal Control System, observed during the execution of his plan as well as those that were corrected during the year and those that remained outstanding, considering their performance adequate. Likewise, the Committee analyzed the mitigation procedures of the Internal Control issues reported by the External Auditor of the Company.

The Committee had no knowledge of any Shareholder, Director, Executive Officer, employee and, in general, any third party, making observations regarding accounting, internal controls and issues related to internal or external audit, or complaints made during 2016 on irregularities on the management. We were informed at the appropriate time about the compliance with the Code of Ethics and Conduct and the complaints received through the mechanism of disclosure of undue acts and protection to informants.

In accordance with the Certification issued by the Secretary of the Board of Directors, the Committee was informed that the resolutions from the Shareholders and from the Board of Directors corresponding to the 2016 fiscal year were duly executed and, moreover, that several proceedings of the Board of Directors' ordinary meetings included resolutions regarding the transactions and activities in which the Board participated pursuant to the provisions of the Securities Market Law. Additionally, this Certification ascertains that during said fiscal year, the Board of Directors did not grant waivers to Directors, Executive Officers or individuals with Power of Command, to take advantage of business opportunities for their own benefit or for that of third parties, related to the Company or to those entities controlled by it or in which the Company has a significant influence.

The Nomination, Compensation and Evaluation Committee of the Company ("NCEC") submitted a report to this Committee, by which the NCEC reported that during the 2016 fiscal year it analyzed the performance of the Executive Officers without any remarks, and that it examined the compensation and remuneration packages for the CEO and for the Executive Officers and that, upon the NCEC's opinion, those packages are in compliance with the policy approved by the Board of Directors.

According to information provided by management, the most significant transactions executed with related parties during the 2016 fiscal year correspond to, among others, the provision of services, sale of goods, lease of estates, revenues from financing and travels, all executed with the Company's subsidiaries, as well as with other companies in the holding group to which the Company belongs, thereby informing that such transactions were executed at market prices and that the Company obtained transfer pricing studies from external specialists for the majority of those transactions.

On behalf of the Audit and Corporate Governance Committee,



Mr. Ernesto Vega Velasco

Chairman of the Audit and Corporate Governance Committee
Industrias Peñoles, S.A.B. de C.V.