

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

## ANNUAL REPORT

Mexico City, February 21, 2018.

To the Board of Directors of  
Industrias Peñoles, S.A.B. de C.V.

Dear Board Members:

In accordance to article 43 of the Securities Market Law, in my capacity as Chairman and on behalf of the Audit and Corporate Governance Committee of Industrias Peñoles, S.A.B. of C.V. (the "Company"), as well as in compliance to our Rules of Operation, I hereby submit the Annual Report of such Committee corresponding to the 2017 fiscal year.

The Committee entered into four face-to-face sessions during the fiscal year of 2017, carrying out the main activities described below:

- It evaluated the Annual Plan of the External Auditor, as well as the performance of the firm of external auditors that provides external audit services, considering that they gather the necessary requirements to carry out the work entrusted to them. The additional services received met the established targets. Also, follow-up was made to the observations on internal control reported in its suggestions letter.
- It approved the Annual Plan of the Internal Auditor and reviewed its quarterly reports on the status of the internal control system, the important issues observed during the execution of its Plan, the corrections made during the year and, as the case may be, those issues that remained outstanding.
- In exercise of their capacities, the members of the Committee visited the facilities of the foundry, the refinery and logistics of the Company in Torreon, Coahuila, as well as the Velardeña mine in the state of Durango. This visit was

very profitable in order to know and deepen on the capture and recording of the information from its source and thus, be able to evaluate the information that every quarter is sent to the public trough the Mexican Stock Exchange.

- Each quarter the financial information of the Company was reviewed. Likewise, the consolidated and individual financial statements prepared by the management as of December 31, 2017, were analyzed, as well as the unqualified opinion expressed by the external auditors on the same.
- The Committee followed the legal, accounting and tax matters presented by the management as well as by the external and internal auditors during the fiscal year.
- The report submitted by the Chief Executive Officer ("CEO") in accordance to Article 42, section II, subparagraph e) of the Securities Market Law was evaluated; the Committee considers that the information contained therein reflects in a reasonable manner the financial position and the results of the Company in view that: (i) the accounting policies and criteria applied by the Company in the preparation of the financial information, included in the notes to the audited financial statements, are adequate and sufficient, taking into consideration the specific circumstances of the Company; and (ii) those accounting policies and criteria have been consistently applied. Due to the above, the Committee recommends the Board of Directors to approve the consolidated and individual financial statements corresponding to the fiscal year 2017, as well as the accounting policies and criteria applied by the Company in the preparation of the financial information.

- A follow-up to different internal control topics regarding technology and information security presented by the management was made.
- We studied the possible effects of the draft of Provisions Applicable to Entities and Listed Companies that Hire External Audit Services for their Financial Statements (draft of External Auditors Regulations), as well as the changes that might derive in the rules of operation of this Committee.
- We had no knowledge of any Shareholder, Director, Relevant Officer, employee or, in general, any third party, making observations regarding the accounting, internal controls and issues related to internal or external audit, or of complaints made during 2017 on irregularities of the management.
- We were informed about the compliance of the Code of Ethics and Conduct and the complaints received through the mechanism of disclosure of undue acts and protection to informants.
- In several minutes of ordinary sessions of the Board of Directors, were included resolutions about activities in which the Committee intervened in accordance to that provided in the Securities Market Law, therefore the Secretary of the Board of Directors certificated the due follow by the Committee of the resolutions of the Shareholders and the Board of Directors, corresponding to the 2017 fiscal year. Likewise, through this Certification it was informed that, during this year, the Board of Directors did not grant any waiver in order for Directors, Relevant Officers or individuals with Power of Command, to take advantage of business opportunities for their own benefit or for that of third parties that correspond to the Company or to entities controlled by it or in which the Company has a significant influence.
- The Nomination, Compensation and Evaluation Committee of the Company submitted a report to this Committee through which it certified that, during 2017, it reviewed the performance of the Relevant Officers without finding any remark, and that it examined the compensation packages of the CEO and the Relevant Officers which, in opinion of the Nomination, Compensation and Evaluation Committee, are in compliance with the policy approved by the Board of Directors.

Finally, it is hereby informed that the most significant transactions reported by the management, entered into with related parties during 2017 correspond, among others, to the sale of metals, treatment fees, purchase of concentrates, royalties, execution of services and revenues for financial instruments with subsidiaries of the Company as well as with other companies belonging to the group of which the Company is part; these transactions, as informed by the management, were made at market prices and most of them have transfer pricing studies prepared by external specialists.

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.