

# AUDIT AND CORPORATE GOVERNANCE COMMITTEE

Industrias Peñoles, S.A.B. de C.V.

## ANNUAL REPORT

Mexico City, February 25, 2019.

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. de C.V. (the "Company"), as well as in compliance to our Rules of Operation, I hereby submit the Annual Report of activities of such Committee corresponding to the 2018 fiscal year.

The Committee entered into six sessions regarding the fiscal year of 2018, carrying out the main activities described below:

- It was reviewed that the external auditors firm, as well as the external auditor and his team, fulfilled and maintained during the term of their services, the independence, personal and professional requirements, and that they had the quality control system that establish the new General Regulation applicable to the Public Companies supervised by the National Securities and Bank Commission that hire external audit services (*Disposiciones de Carácter General aplicables a las Emisoras supervisadas por la Comisión Nacional Bancaria y de Valores que contratan servicios de auditoría externa*), hereinafter referred to as the "Regulations".
- We became acquainted of and followed the Annual Plan of the External Auditor, including the scope, nature and opportunity of the audit process, the meaningful procedures they decided to evaluate, the risks and key subjects they defined in their audit. Additionally, we evaluated the performance of the firm. We consider that they fulfilled the necessary qualifications for the execution of the assigned job, in accordance to the Regulations.

The additional services received accomplished the objectives assigned. Throughout the fiscal year, the internal control observations reported in the suggestions letter were followed.

- We 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. We also were informed about the results of the Internal Auditor review, carried out by an independent third party, in which it is concluded that the Internal Auditor accomplished the established norms and the best practices for the profession.
- Each quarter, the financial information of the Company was reviewed. The consolidated and individual financial statements prepared by the management as of December 31, 2018, were also analyzed, as well as the unqualified opinion expressed by the external auditors on the same. The notice of the External Auditor notice, referred to in article 35 of the Regulations, was also reviewed.
- 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. Also, different internal control issues related to information technology safety presented by the Administration were followed.
- Due to the fact that the functional currency of the Company is the US dollar, the Administration informed us that, starting the 2019 fiscal year, the financial statements will be reported in US dollars instead of Mexican pesos. The Committee considers suitable the change in order to be consistent with the functional currency. This will be revealed to the market through the publishing of a relevant event report.
- The Rules of Operations of the Committee were reviewed and updated in order to match the Regulations.

- 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; (ii) the certification of the people responsible for signing the financial statements, referred to in article 32 of the Regulations, was obtained; and (iii) the 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 2018, as well as the accounting policies and criteria applied by the Company in the preparation of the financial information.
- We had no knowledge of any Shareholder, Director, Relevant Officer, employee or, in general, any third party, making observations regarding the accounting, internal controls or issues related to internal or external audit, or of complaints made during 2018 on irregularities of the management.
- We were informed about the compliance of the Code of 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 2018 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 2018, 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, entered into with related parties, subsidiaries and other affiliate companies during 2018 correspond, among others, to the sale of metals, treatment fees, concentrates purchase, energy purchase, royalties, rendering of services and revenues for financial instruments; these transactions, as informed by the management, were made at market prices and most of them have transfer pricing studies prepared by independent 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.