

# Audit and Corporate Governance Committee

## Industrias Peñoles, S.A.B. de C.V. ANNUAL REPORT

Mexico City, March 2nd, 2020.

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 2019 fiscal year.

The Committee held seven sessions regarding the 2019 fiscal year. The main activities performed are described below:

- › We were informed about the most important projects of the Company and their progress.
  - › We analyzed the bonds offer in the international debt market in a total amount of US\$ 1,100 million, divided in two tranches of US\$ 550 million each, at a term of 10 and 30 years under the 144A Reg/S format and with a BBB (stable) rating.
  - › It was reviewed that the external auditors firm, as well as the External Auditor and his team, fulfill and maintain, during the term of their services, the independence, personal and professional requirements, and that they had the quality control system required by, the 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 "Regulation".
  - › The Annual Plan of the External Auditor was known and followed-up, including the scope, nature and opportunity of the audit process, the significant procedures they decided to analyze, as well as the risks and key matters that were determined in the audit. We evaluated the firm performance concluding that it fulfilled the necessary requirements for the execution of the assigned work in according to the Regulation, and that the additional services received fulfilled the targets that were established.
- Additionally, during the fiscal year, the internal control observations reported in the suggestion's letters were followed.
- › The Annual Plan of the Internal Auditor was approved and we reviewed the quarterly reports on the status of the internal control system, the important issues observed during its execution, as well as the ones that were corrected during 2019 and, as the case may be, those that remained outstanding.
  - › We reviewed the report issued by the External Auditors, referred to in article 35 of the Regulation, so we knew the materiality and the tolerable error contemplated in their audit; the significant procedures evaluated; the nature of the audit adjustments, as well as its amount and the conclusion they reached. They informed that all the important audit differences observed were included in the audited financial statements.
  - › Each quarter, the financial information of the Company was followed-up. Likewise, the consolidated and individual financial statements prepared by the management as of December 31<sup>st</sup>, 2019, were analyzed, as well as the unqualified opinion expressed by the external auditors.
  - › The Committee followed-up the legal, accounting and tax matters presented by the management, as well as by the external and internal auditors during the fiscal year, and followed-up different internal control issues related to technology and security of the information presented by the management.
  - › The Rules of Operation of the Committee were reviewed and updated in order to match them with the recommendations of the Code of Principles and Better Practices of Corporate Governance (*Código de Principios y Mejores Prácticas de Gobierno Corporativo*).
  - › The report submitted by the Chief Executive Officer ("CEO") in accordance with 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 of signing the financial statements, referred to in article 32 of the Regulation, was obtained; and (iii) the

accounting policies and criteria have been consistently applied. Due to the above, and in the understanding that the financial information was presented in US dollars, the Committee recommends the Board of Directors the approval of the consolidated and individual financial statements corresponding to the fiscal year 2019, as well as the accounting policies and criteria applied by the Company in the preparation of the financial information.

- › We had no knowledge that any Shareholder, Director, Relevant Officer, employee or, in general, any third party, have made observations regarding the accounting, internal controls or issues related to the internal or external audit, or complaints made during 2019 on irregularities of the management.
- › The administration kept informed the Committee about compliance of the Code of Conduct and the complaints received through the mechanism of disclosure of undue acts and whistleblower protection.
- › In several minutes of ordinary sessions of the Board of Directors, resolutions on activities in which the Committee intervened in accordance with the Securities Market Law were included, therefore the Secretary of the Board of Directors certified the due following by the Committee of the Shareholders and the Board of Directors resolutions corresponding to the 2019 fiscal year. Likewise, through this Certification, it was informed that, during this year, the Board of Directors did not grant any waiver to Directors, Relevant Officers or individuals with Power of Command, to take advantage of business opportunities for their own benefit or for third parties that would correspond to the Company or to the 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 whereby it certified that, during 2019, the performance of the Relevant Officers was reviewed without finding any remark reviewing also 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 2019 correspond, among others, to the sale of metals, treatment fees, purchase of concentrates and energy, 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.