



REPORT ON THE ACTIVITIES OF THE APPOINTMENTS, REMUNERATION AND CORPORATE GOVERNANCE COMMITTEE IN 2018

Madrid, 26 February 2019

(Free translation from the original in Spanish. In the event of
discrepancy, the Spanish-language version prevails.)

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This report on the activities of the Appointments, Remuneration and Corporate Governance Committee in the 2018 financial year has been prepared following the recommendations contained in the Code of Good Governance of Listed Companies approved by the National Securities Market Commission on 18 February 2015, which follows the Consolidated Document of Corporate Governance Recommendations of 22 May 2006.

1. REGULATION

The Appointments, Remuneration and Corporate Governance Committee of Acerinox S,A is regulated, in addition to the legal precepts that are applicable to it, and in particular the Audit Act and the Capital Companies Act (hereinafter LSC), by the Regulation of the Board of Directors of Acerinox S,A, approved by the Board of Directors in June 2016, which was modified at the Boards of Directors Meeting held 20 December in particular in Annex III by Articles 1,2 and 3, which is hereby transcribed:

Article 1 Composition and functioning:

- 1. The Appointments, Remunerations, and Corporate Governance Committee is to be formed by the individuals appointed by the Company's Board of Directors in each case. The number of members must be no fewer than three and no more than six.*
- 2. The Appointments, Remunerations, and Corporate Governance Committee shall be exclusively made up by non-executive Board Members appointed by the Board of Directors, at least two of whom should be Independent Board Members. It will be ensured that most of its members are Independent Board Members.*
- 3. The Chairman of the Committee shall be appointed by the Board from among the Independent Board Members that are part of it. In the case of absence, vacancy, or illness the Chairman shall be replaced by another of the Independent Board Members of the Committee.*

Article 2. Competencies in matters of appointments and remunerations:

- 1. To evaluate the competencies, knowledge, and experience required to sit on the Board of Directors, as well as to establish representation objectives for the least represented gender. To these effects, it shall define the duties and aptitudes necessary in the candidates to fill each vacancy, and evaluate the time and dedication necessary for them to efficiently perform their duties.*
- 2. To submit to the Board of Directors the proposals regarding the appointment of independent Members for their designation by co-*

optation or for their submission to the decision of the General Shareholders' Meeting, as well as the proposal for their re-election or removal from the position.

- 3. To inform the Board of Directors of the proposals regarding the appointment of the remaining Members for their designation by co-optation or for their submission to the decision of the General Shareholders' Meeting, as well as the proposal for their re-election or removal from the position.*
- 4. To inform the appointment and removal proposals of Senior Management, Secretary and Vice-Secretary of the Board, and the basic conditions of their contracts, as well as the appointment and remuneration of the CEO.*
- 5. To examine and organize the succession of the Chairman of the Board of Directors and the first executive of the Company, and to promote the adequate succession plan in company Senior Management and, if necessary, to formulate proposals to the Board of Directors so that said succession occurs in an orderly and planned manner.*
- 6. To propose to the Board of Directors the remunerations policy for Board Members and, per proposal of the CEO, of those that carry out their senior management duties under direct supervision of the Board, its Committees, or the CEO, as well as the individual remuneration and other contractual conditions of the Board Members and senior management, ensuring their compliance.*
- 7. To submit to the Board of Directors the draft of the Annual Remunerations Report, and in general to ensure compliance with the remunerations policy established by the Company.*
- 8. To periodically review the remunerations policy applied to Board Members and Senior Management, including remunerations systems with stock options and their application, and to guarantee that their individual remunerations are in line with what Board Members and senior management are paid in comparable or equivalent companies.*
- 9. To ensure that any conflicts of interest that arise do not damage the independence of the external counselling provided to the Committee.*

To verify the information regarding the remunerations of Board Members and senior management contained in the different corporate documents, including the annual report regarding Board Member remunerations.

Article 3. Competencies in matters of corporate governance and corporate social responsibility:

- 1. To periodically evaluate the adequacy of the corporate governance system of the Company with the purpose of it complying with its mission of promoting social interest and that it considers, as the case should be, the legitimate interests of the remaining stakeholders.*
- 2. To review the corporate responsibility policy of the Company and to ensure that it is aimed at the creation of value.*
- 3. To monitor the corporate social responsibility strategy and practices, and evaluate the degree of its compliance.*
- 4. Coordinate the process of reporting non-financial information and information regarding diversity, in accordance to the applicable norm and the international reference standards.*

2. COMPOSITION AND QUALIFICATIONS OF ITS MEMBERS

The Appointments, Remuneration and Corporate Governance Committee at 31 December 2018 comprises the following members:

Ms. Laura González Molero, Chairwoman of the Committee, of Spanish nationality, has been an independent director since 2017 and member of the Board of Directors of CA-ACX since 2107 and Chairwoman of CNR and GC since the second half of 2018. She holds a Bachelor's degree in Pharmacy from the Complutense University of Madrid, and an Executive MBA by IE Business School. She has conducted her professional career at international chemical-pharmaceutical companies, having been Chairwoman and CEO of Merck Spain and Chairwoman of Bayer Latin America. She has been an Independent Director of Viscofan S.A. and Calidad Pascual, S.L. She is currently an Independent Director of Grupo Ezentis, S.A. and the Adecco Foundation (NGO).

- **Mr. Santos Martínez-Conde Gutiérrez-Barquín**, of Spanish nationality, Member of the Board of Directors since 2002, re-elected in 2006, 2010 and 2014. External proprietary Director, on behalf of Corporación Financiera Alba, S.A. He has a degree in Civil Engineering, a Master's degree in Business Management by ICADE and a Diploma in Nuclear Technology by ICAI. Martínez-Conde is CEO of Corporación Financiera Alba, S.A. and a Director of Banca March, S.A., Indra Sistemas, S.A., Bolsas y Mercados Españoles, S.A., Artá Capital SGEGR, S.A., Deyá Capital SCR, S.A. and Artá Partners, S.A. He has spent the rest of his professional career at Sener

Técnica Naval e Industrial, S.A., Técnicas Reunidas, S.A., Bestinver, S.A., Corporación Borealis, S.A. and Banco Urquijo, S.A.

- **Mr. Braulio Médel Cámara** Member of the Board of Directors since 2008, independent external director. He has a degree and a doctorate in Economic and Business Sciences by the Complutense University of Madrid, and is a Professor in Public Finance at the University of Malaga. Medel, Chairman of Unicaja Banco S.A. between 1991 and 2016, currently chairs the Unicaja Banking Foundation and the Andalusian Federation of Savings Banks, as well as being Vice Chairman of the Spanish Confederation of Savings Banks, which headed until 1998. He has also been Vice-Minister of Economy and Finance of the Regional Government of Andalusia and Chairman of the Andalusian Board of Economists' Associations.

- **Mr. Rafael Miranda Robredo**, of Spanish nationality, member of the Board of Directors and Chairman since April 2014. Industrial Engineer by ICAI, Chairman of the Association for the Advancement of Management, Chairman of Hispania Activos Inmobiliarios S.A., Honorary Chairman of Eurelectric, member of various Boards of Directors and advisor to numerous foundations and institutions. He is a Director of Brookfield Asset Management, Nicolás Correa and SAICA. During his professional career, Rafael Miranda has held multiple prestigious positions such as CEO of Endesa S.A. and Vice Chairman of the Industrial Division of Campofrío S.A. His career has made him an exemplary model in the business world both for his role in the modernisation of the electrical system and for his management of large companies. He has been decorated with the Grand Cross of Civil Merit and the Grand Cross of Isabel La Católica, as well as being named Commander of the Order of Bernardo O'Higgins (Chile).

3. FUNCTIONS AND TASKS PERFORMED, CHANGES AND REFERENCE TO THE REGULATION THAT GOVERNS IT

The functions performed during 2018 are identified with the scope of their functions, according to the different sections of Article 11, III of the Board Regulations transcribed above. Two groups of tasks that have occupied a good part of the agenda during 2018 are worth nothing.

In the first place, the process of replacement of the directors. The Board of Directors decided to follow Recommendation 14 of the Code of Good Governance and to ensure that by 2020 30% of directors shall be women. This objective was practically accomplished in January 2018. The subsequent resignation of Mrs. Laura Abasolo reduced the number of women to three. Instead of Mrs. Laura Abasolo is named Mr. Ignacio Martín

San Vicente that will require attention in the upcoming renovations to achieve the percentage required by 2020 and the Commission is aware of this. The Appointments, Remuneration and Corporate Governance Committee endeavoured to achieve this objective and, in fact, 80% of the renewals or re-elections within the Board and 100% of the independent directors appointed since the commitment was adopted to Mr. Ignacio Martín election, have been women.

The Committee also sought to ensure that the new appointments of independent directors not only helped achieve that objective, but also that they would fall on persons whose professional trajectory and knowledge complemented the existing knowledge and experience. Therefore, in the careful selection processes, different profiles were sought: knowledge of new technologies and information technologies, experience in marketing, multinational companies, sustainability and knowledge of the world of metals and raw materials.

Secondly, the Committee focused a substantial part of the remaining activities on studying the current remuneration system for the Group's managers and bringing it closer to the paradigms proposed not only by the Good Governance Code but also the *guidelines* of the two main *proxy advisors* that operate in the market. Although Acerinox has not had any major opposition to its remuneration system for the Board of Directors - the votes against the Boards have rarely reached double-digit percentages - the part concerning the remuneration of executive directors was found to be far removed from the standards that are espoused both within the world of analysts and by the regulatory authorities. The Board of Directors approved at its session in the month of February, a new system of remuneration for the senior management, and by extension for the Executive Directors, which responds to the requirements of the Good Governance Code. This remuneration system has been incorporated into the Report on Remuneration policy of the Board of Directors in the part which refers to the Executive Directors. The remuneration system development was assigned to the professional services of Willis Towers Watson consultant.

4. MEETINGS HELD IN THE YEAR

During 2018, up to a total of 9 meetings were held, with a formal call, on the following dates: 10 January, 12 February, 27 February, 22 March, 24 April, 10 May, 22 June, 16 October and 11 December.

Meeting of 10 January 2018 (Minutes nº. 91)

The first meeting continued with the study on the remuneration system of senior executives and was approved the list of topics to be treated by the Commission during the first half of 2018.

Meeting of 12 February 2018 (Minutes nº. 92)

Approved to submit to the Board of Directors the Annual Corporate Governance Report corresponding to the year 2017, the memory of activities of the Commission in 2017, the status of non-financial information and the Annual Report on Remuneration of Directors.

Approved to raise to the Board of Directors the new Annual Report on Remuneration of Directors and submit to the Board of Directors its ratification, pending review the remuneration system and the operation of long term incentive.

Proposal for the distribution among senior managers of the variable remuneration for 2107.

Meeting of 27 February 2018 (Minutes nº. 93)

Proposal and approval to submit to the next session of the Board of Directors the above mentioned regulations.

Meeting of 20 March 2018 (Minutes nº. 94)

Report on Mr. Manuel Conthe's Director has submitted his resignation as Chairman of this Committee, so it holds the chairmanship of the same. Mr. Braulio Medel in his capacity as Senior Independent Director.

Proposal to the Board regarding the re-election of the following directors:

Mr. Rafael Miranda Robredo.

Mr. Bernardo Velázquez Herreros.

Mr. Santos Martínez Conde, as a Director at the request of Corporación Financiera Alba.

Mr. Geoffrey Qhena as a Proprety Director at the request of IDC.

Proposed to the Board the appointment of Mr. Katsuhisa Miyakusu.

Proposed to the Board the appointment of Mrs. Laura González Molero as Vocal and Chairwoman of this Committee and the incorporation of Mrs. Rosa García Piñeiro to the Executive Committee.

Proposal and approval of the 25 article of association modification for the Board of Directors in order to include the new Remuneration System of the Executive Directors.

Meeting of 24 April 2018 (Minutes nº 95)

Proposal and approval to the Board the appointment of Mr. Bernardo Velázquez as a Managing Director as well as the services contract between him and Acerinox, S.A.

It was decided to start the process of searching for an Independent Director to cover any vacancies that may occur in the future.

Meeting of 10 may 2018 (Minutes nº 96)

Report on the signing of contracts for senior management. The contract of the CEO will be commercial character and Mr. Miguel Ferrandis, Mr. Luis Gimeno, Mr. Daniel Azpitarte and Mr. Oswald Wolfe are senior management. Mr. Mathews and Mr. Fuentes contracts are contracts subject to the right of South African and American, respectively.

Proposed distribution of the Annual Report to be carried out by the Commission and which serves as the annual basis for inclusion in the agenda of this Committee in the future.

Proposed of having a Succession Plan for the main posts of the Organization.

Continued with the process of searching for a new Independent Director and discusses various curricula.

Meeting of 22 June 2018 (Minutes nº 97)

Proposal to the Chairman of the Board regarding the resignation of Mrs Abasolo, independent director, as an independent director and as a Chairwoman for the Audit Committee. Notwithstanding that the Board had not yet taken reason for this resignation, it was decided to continue the process of search and selection of a new independent Director.

Proposal of the calendar of board meetings for the second quarter of 2018 and the year 2019.

Meeting of 16 October 2018 (Minutes nº 98)

It was reported that to the difficulties of finding a female candidate and given that in 2019 had to be renewed at least three directors, it was decided to raise the Board of Directors the appointment of Mr. Ignacio Martín San Vicente as independent Director highlighting his great experience in the

field of industry, and his appointment as a member of the Executive Committee will be proposed.

Proposal for the distribution of a draft for the Evaluation of the Board of Directors during this year 2018 with the proposal carried out internally. In order to improve the less valued aspects of the previous year, it was distributed a document that could serve as a basis to improve the functioning of the organ and its committees.

After the study by the Audit Committee of the technical guide 3/2017 of the CNMV, on the operation of the Audit Committees recommending an own regulatory text and remembering not to separate its regulation of the Boards', the Audit Committee referred the study to the Appointments Committee for once approved the text, it was referred to the Board of Directors. After the appropriate amendments, the text was approved for its subsequent elevation to the Board of Directors.

Approval of the distribution of the annual calendar of board meetings adjusting subjects for 2019.

Meeting of 11 December 2018 (Minutes nº 98)

Approval of the Catalogue of Educational and Informative Activities for the members of the Board of Directors in 2019, as well as the plan of activities of the Committee for the coming year. For the first time the Corporate Social Responsibility Master Plan was approved by the Committee, picking up the guidelines defined in the Strategic Plan previously approved by the Board of Directors.

Commencement on the study on the Remuneration System for the members of the Board in order to achieve an approach to those of other similar companies by capitalization.

Proposal and commencement of the Remuneration Policy of the senior management of the group whose first year of operation has been 2018 as well as the study of objective parameters that should be proposed to the Board in order to establish the bonuses corresponding to 2018 and the criteria that govern in 2019.

A critical analysis of the progress that the Committee had made for 2018 was finally made. This requires the points in that evaluation of 2017 which had identified the scope for improving.

Shown that in all these points, without exception, there have been advances: increased the presence of independent members with knowledge of international companies, has strengthened the Work Plan of the Committee and of this role in the adaptation of the Remuneration Policy for Senior Management and the Executive Directors, significantly reducing

the negative votes to the Remuneration Policy. Their competencies in the area of Corporate Governance have been better delimited and a Succession Plan have been developed for key Executives.

Laura González Molero
Chairwoman
Appointments, Remuneration and Corporate Governance Committee