



REPORT ON THE ACTIVITIES OF THE AUDIT COMMITTEE IN 2018

Madrid, 26 February 2019

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This report on the activities of the Audit Committee in 2018 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 Unified Document of Corporate Governance Recommendations of 22 May 2006.

1. REGULATION

The Audit Committee of Acerinox S.A., is regulated, in addition to the legal precepts that are applicable to it, and in particular the Account Auditing Law and the Capital Companies Act (hereinafter LSC), by the Regulations 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 2108 in particular in Annex 1 by Articles 1 to 6 which are transcribed hereunder:

Article 1. Composition.

1. The Audit Committee shall be made up of no fewer than three and no more than six members appointed by the Board of Directors. They shall have the capacity, experience and commitment required to perform their duties.
2. The Audit Committee shall be made up of non-executive Directors only, at least the majority of whom must be independent.
3. At least one Independent Director on the Audit Committee shall be appointed on the basis of his/her knowledge and experience of either or both accounting or audit. Notwithstanding the above, all members of the Audit Committee, especially its Chairman, should where reasonably practicable be appointed on the basis of their knowledge and experience of accounting, audit, internal controls, information technology or risk management.
4. The Committee as a whole should have the relevant technical knowledge of the industry, and in any event its members will follow an induction programme to familiarize them with the world of stainless steel.
5. The Chairman of the Audit Committee shall be appointed from among the Independent Directors who sit on the Committee.

Article 2. Powers and duties in relation to financial information.

The Audit Committee shall have the following powers in relation to financial information:

1. To inform the Board of Directors of any issues which arise in relation to matters within the Committee's competence, particularly the outcome of audit, explaining how audit has contributed to the integrity of financial information and the role played by the Committee in the process.
2. To inform the Board of Directors in advance of publication of the financial information to be published by the Company on a regular basis.
3. To supervise the process for the preparation and presentation of mandatory financial information by the Company and to ensure that it is reliable, and to review compliance with regulatory requirements, establishing an appropriate perimeter of consolidation and the proper application of accounting policies and, in particular, to identify, understand and supervise the effectiveness of the Internal Control over Financial Reporting (ICFR) system. The Committee may make recommendations and proposals to the Board of Directors intended to safeguard the integrity of financial information.
4. To ensure that the Board of Directors submits the accounts to the General Shareholders' Meeting without reservations or qualifications in the audit report and, in the event that there are any, that both the Committee Chairman and the auditors clearly explain the content and scope of any reservations or qualifications to the shareholders.

Article 3. Powers and duties in relation to internal control and internal auditing.

The Audit Committee shall have the following powers in relation to internal control and internal auditing:

1. To supervise the effectiveness of the Company's internal controls and financial risk (including tax risk) management systems, and to discuss with the auditors any significant weaknesses in the internal monitoring system detected in audit without undermining the independence of the auditors, and to draw conclusions regarding levels of confidence in, and reliability of, the system. The Committee may submit recommendations and proposals in that regard to the Board of Directors together with follow-up period in each case.
2. To assess the Company's non-financial risks, including operational, technological, legal, corporate, environmental, political, and reputational risks, so that all business risks are covered.
3. To supervise the unit which undertakes internal audit and, in particular:
 - a) to ensure the independence of the unit.

- b) to propose to the Managing Director the appointment and dismissal of the head of the internal audit service and to set his/her remuneration.
- c) to assess the performance of the unit.
- d) to propose the budget for the service.
- e) to approve its focus and work plans annually, ensuring that its activity is focused on relevant risks to the Company and changes in those risks.
- f) to receive regular information on its activities.
- g) to verify that Senior Management takes into account the conclusions and recommendations of its reports and to check that the Managing Director addresses any issues identified.
- h) to appraise the functioning of the internal audit unit, and the performance of the head of the unit of his/her duties, on an annual basis.

The head of the internal audit unit shall report any incidents which are identified in the course of its activity and any issues, indicating which have been resolved, any outstanding and issues taken in charge by management, and shall submit a report on the unit's activities with relevant conclusions at the end of each accounting period.

- 4. To establish and supervise a mechanism enabling employees, in a confidential and, where appropriate, anonymous manner, to report irregularities, particularly financial or accounting irregularities, of which they may become aware within the Company, and to receive regular information on the operation of the mechanism and to propose remedial actions and risk reduction measures.
- 5. To inform the Board of Directors regularly on all such matters.

Article 4. Powers and duties in relation to risk control.

The Audit Committee shall have the following powers in relation to risk control:

- 1. To supervise the effectiveness of the financial and non-financial risk (including tax) management systems, in order to have an overview of the risks affecting the Company's businesses, and to discuss any significant weaknesses detected in the internal control system with the auditor. The Committee may submit recommendations and proposals in that regard to the Board of Directors together with follow-up period in each case.
- 2. To supervise the internal risk control and management function.
- 3. To assess the Company's non-financial risks, including operational, technological, legal, corporate, environmental, political and reputational risks, and to review at least every six months the list of the most significant financial and non-financial risks and to assess their possible impacts, proposing risk management measures to the Board as

appropriate. For these purposes, the Committee shall hold meetings with the heads of the business units, during which the latter shall explain business trends and associated risks.

Article 5. Powers and duties in relation to the auditor.

The Audit Committee shall have the following powers in relation to the auditor:

1. To submit to the Board of Directors proposals for the selection, appointment, re-appointment and dismissal of the external auditor, assuming responsibility for the selection process, and the conditions of their recruitment, and, to that end, it shall:
 - a) determine the procedure for the selection of the auditor; and
 - b) make a reasoned recommendation with at least two alternatives for the selection of the auditor, except in the case of re-appointment.
 - c) to regularly receive from the external auditor information on the audit plan and its execution and any other issues relating to the audit process, particularly any points of difference which may arise between the auditor and the management of the Company and shall ensure that the independence of the auditor in the performance of their duties is preserved.
 - d) To seek explanations and a description of the quality systems used by their firm.
2. To ensure that the Company and the external auditor observe applicable legal requirements for the provision of non-audit services, limits to the market share of the auditor's business and any other requirements designed to ensure the independence of auditors.
3. To establish appropriate relations with the external auditor in order to receive information on any issues that may put on risk the auditor's independence, so that those issues can be considered by the Committee, and any other issues relating to the audit process and, where relevant, consent to the provision of services other than prohibited services as required by law and as well as any other communications contemplated by audit legislation and auditing standards.
4. In any event, the external auditors must annually issue a declaration of their independence as to the entity or entities related directly or indirectly to them and, in accordance with the provisions of the legislation on account auditing, detailed and individualized information on the additional services of any kind provided and the corresponding fees perceived from these entities by the external auditor or by the persons or entities related to it.

5. The Committee shall also ensure that the remuneration of the external auditor for their work does not compromise their quality or independence and shall establish an indicative limit on the fees the auditor may receive each year for services other than auditing.
6. Annually in advance of the issue of the audit report, to issue a report expressing an opinion on whether the independence of the auditor has been compromised. That report should, in any event, contain a reasoned assessment of the provision of each additional services referred to in the previous paragraph, considered individually and as a whole, different from those in legal audit and in relation to requirements for auditor independence or audit regulatory standards. This report shall be published on the Company website sufficiently in advance of the Ordinary General Meeting.
7. To consider the reasons for the resignation of the external auditor.
8. To ensure that the Company announces the change in auditor to the Spanish Securities Commission (CNMV) as a “relevant event”, accompanied by a statement on any disagreements with the outgoing auditor and their content.
9. To ensure that the external auditor holds at least one meeting a year with the entire Board of Directors to provide information on the work done and on developments in the Company’s accounting situation and risks.
10. At least on an annual basis, to request from the auditor a report on the quality systems they have established, any changes to those systems and their outcome.
11. To make a final assessment of the auditor’s performance and how it has contributed to audit quality and the integrity of financial information.
12. To inform the Board of Directors in relation to the above.

Article 6. Other powers and duties

1. To notify the Board of Directors regarding in advance of all matters required by Law, in the Articles of Association and these Regulations, specifically:
 - a) Financial and non-financial information that the Company is required to publish periodically,
 - b) The financial conditions and accounting impact and where relevant the foreign exchange effects of, any steps in connection with any structural or corporate changes the Company plans to make,

- c) The creation or acquisition of shares in special purpose companies or companies domiciled in countries or territories regarded as tax havens, and
 - d) Transactions with related parties, issuing of a report on related party transactions every year, to be published on the website of the Company sufficiently in advance of the Ordinary General Meeting.
- 2. To ensure that the perimeter of consolidation reflects reality, to have oversight of the need and use of alternative performance measures (APM) and the valuations used by the Company in its documents and to supervise the procedure for the publication of financial and non-financial information on the Company website, as well as its content.
- 3. To assess the quality of information distributed via the IT systems with the Audit Committee.
- 4. To assess the quality of financial and non-financial information the published on the Company's website.
- 5. To assess the effectiveness of the crime prevention and compliance system.
- 6. Any other duty conferred on it by the Board of Directors.

The Committee shall act in a supervisory and advisory role and shall not intervene in the performance or management of the Company's executive bodies.

2. COMPOSITION AND QUALIFICATIONS OF ITS MEMBERS

In accordance with the provisions of the LSC and following the reform introduced in 2016, the majority of the members of the Audit Committee are independent directors. At present its members are:

- **Mr. Donald Johnston**, of United States and British nationality, has been an Independent Director since 2014 and a member of the Board of Directors of ACX since 2014. He holds a Bachelor's degree in Political Science from Middlebury College and a Master's degree in International Economics and Latin-American Studies, from Johns Hopkins University. Johnston is currently Independent Director of Merlin Properties Socimi S.A. and Independent Director of Banco Sabadell and, throughout his career, has held positions such as the European Chairman of the M&A group of Deutsche Bank S.A., Director of Bankers Trust International PLC and member of its World Executive Committee. He has also worked as a Managing Director at the New York and London offices of Salomon

Brothers PLC. Mr Johnston has more than 35 years' experience in investment banking in the United States, Europe and Latin America.

- **Mr. Pedro Ballesteros Quintana**, of Spanish nationality, is a proprietary director representing the Alba Financial Corporation, and has been a member of the Board of Directors since 2011. He was the non-executive Chairman of March JLT, Correduría de Seguros y Reaseguros S.A. of the March Group, a company in which he previously served as Chief Executive Officer until May 2011. Ballesteros has held different positions of responsibility during his professional career, being Chairman of ASERPLAN S.A (Consultant in the Social Security Area) and CEO of Urquijo Correduría de Seguros S.A., as well as a Director of the Insurance Brokerages: Carrefour S.A. and GDS S.L. (Caixa Group). He was also Executive Chairman of March Unipsa Correduría de Seguros JLT. He has also been a Director in the financial companies Proleasing S.A. and Media Planning (currently Grupo Havas S.A.), respectively.

- **Ms. Laura González Molero**, of Spanish nationality, has been an independent director since 2017 and a member of the Board of Directors of ACX since 2017 when she replaced Ms Rosa García García, due to the latter's resignation as an Acerinox director. 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 Chairman 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).

- **Ms. Marta Martínez Alonso**, of Spanish nationality, has been an independent director since 2017 and member of the ACX AC from mid-2018. Ms. Marta Martínez Alonso holds a Bachelor's degree in mathematical sciences from the Complutense University of Madrid and a PADE (program of senior management of companies) at IESE. Ms. Martínez Alonso has been Chairwoman of IBM Spain, Portugal, Greece and Israel since 2013. In this same company she previously served as Managing Director of IBM Global Technology Services and as Executive Communications Director for Spain and Portugal after her incorporation in 2003.

All members have solid training on accounting and internal control and management experience. Ms. Martínez is also Chairwoman of IT leading Company.

3. CHANGES AND REFERENCE TO THE REGULATION THAT GOVERNS IT.

3.1 In June 2018 Ms. Laura Abasolo García de Baquedano, independent director, who had exercised the chairmanship of the Committee since 2016, vacated her position. Mr. Donald Johnston, independent director has held the chairmanship, since her resignation, who was to exercise it by the independent senior and has expertise in accounting and internal control. Ms. Laura output produced that the Committee would be reduced to the statutory minimum of 3 members, for a short period.

3.2 New Member of the Committee was appointed in October 2018 Ms. Marta Martínez Alonso, independent director, bringing to four the number of members of the total of six possible pointing the regulation.

The duties performed during 2018 are identified with the scope of their duties, according to the different sections of the Board Regulations transcribed above, which in turn, arises from Article 529-M of the LSC.

3.3 The Ordinary Shareholders' Meeting held in Madrid in 2016 appointed auditors external for the years 2017 and following to PWC. The appointment was carried out a year in advance to facilitate the transition. Since then they have carried out review of the accounts for the years 2017 and 2018 which ended without reservations.

4. MEETINGS HELD IN THE YEAR, NUMBER OF ATTENDEES AND OTHER PERSONS WHO WERE PRESENT

During 2018 the following meetings were held, with a formal call, on the following dates: 29 January, 23 February, 22 March, 23 April, 26 June, 25 July, 25 September, 23 October, 27 November and 18 December. And there was also a meeting held without a formal call, or an *in camera* meeting. Following the recommendations of the Technical Guide, in order to discuss and prepare future sessions.

The Secretary of the Committee, who is also the Secretary of the Board of Directors, and the Financial Director of the company were present at all the meetings formally called. Once the latter has been invited to absent himself temporarily in order to promote the dialogue in some areas requiring so.

In addition to this, the following people also appeared:

- External auditors: PWC Ms. Mar Gallardo and Mr. Jon Toledano, 3 times..
- Internal Auditor of the Company: Ms. Lucía Alonso de Noriega, 10 times.

- Head of Consolidation and Financial Reporting of the Company, Ms. Esther Camós, in all nine sessions.
- Director of Prevention and Compliance, Mr. Rodrigo García Vega 4 times.
- Director of Risks Mr. Juan García. 2 times (for the time being).
- Chief Legal Adviser, Mr. Carlos Castillo, 2 times.

The relationship between the Committee and the Management of the Company has been constant and fluent and have not had problems when it comes to how much information or support has been needed.

5. NUMBER OF MEETINGS HELD WITH THE INTERNAL AUDITOR AND WITH THE EXTERNAL AUDITOR.

A meeting was held in February with the outgoing external auditor, PwC, prior to year-end 2018 and the formulation of its accounts by the Board of Directors. The representatives of the outgoing auditor did not make any observations that had not already appeared in their previous reports, with none of these justifying any reservations and with all of them being of irrelevant materiality.

The second meeting, held in December, the auditors expressed their opinion on the situation on 31 October in view of the annual review and notwithstanding that it should appear again in February 2019 for the same purpose.

Nine meetings have been held with the external auditor, one less than the Audit Committee. In the first one, the responsible exposed the State of implementation of the Internal Audit Plan approved for the exercise as well as the estimated deadlines for completion of corrections put of manifest in the implementation of the above Plan although they were not fully implemented.

The meeting held in December, summarised the status of progress and completion of the Plan for 2018, proposed the scope of the work to be carried out in 2019 and also analysed the operation of the whistleblower reporting systems during the past year.

6. OTHER SIGNIFICANT ACTIVITIES.

6.1 Financial and non-financial information

The Audit Committee reported favourably to the Board of Directors on the accounts to be formulated by the latter, after hearing the explanations of the external auditor. This occurred with respect to the accounts for the 2017 financial year, the half-yearly accounts for the first half of 2018. In addition to the activities outlined, a preliminary session was dedicated in January to analyse the upcoming close of 2018.

These explanations were joined by those of the Financial Director of the Group, accompanied, when necessary, by the Head of Consolidation and Financial Reporting.

An opinion has also been issued on other documents attached to the Group's accounts, such as the Corporate Governance Report, the Directors' Remuneration Report, as well as the Activity Report for 2018, the conclusions of the self-assessment of the operation of the body and the report on the independence of the external auditor.

6.2 Transactions with related parties

The Audit Committee has pronounced on the following related transactions and transactions that need to be included in item D) of the Annual Corporate Governance Report:

The following transactions have been approved or validated:

- Issuance of two statements of sufficiency of guarantees and *covenants* by PwC derived from the so-called *Borrowing Base Facility* granted by a pool of banks to the Columbus PTY subsidiary from South Africa. Intangible amount.
- Authorization for the acquisition by Acerinox, S.A. of shares representing 30% of the capital from Bahru Stainless Sdn.Bhd. property of the shareholder of Acerinox S.A., Nisshin Steel. Nisshin Steel has two domanical directors in the Board of Acerinox S.A. The fee is USD 11.908.461. Nisshin Steel had a put option that guaranteed the sale of their shares from Bahru Stainless by the book value if it wanted to get out of the capital of this subsidiary.
- Approval of the awarding to PwC of the report on the suitability of the SCIIF.
- Adjudication to KPMG of the audit of the sustainability report for the year 2017. Even though KPMG is no longer the group auditor, the fact that this contract is awarded after the contest which was authorized to

attend PwC, current external auditor, prompted will be awarded by the Audit Committee.

6.3 Risk management and control and Prevention and Compliance Model

During 2018, the Committee received the group's risk officer on two occasions. In the January meeting, his work plan for 2018 was approved, in May he presented the scope and characteristics of a risk map review and in September his presence was sought in order to briefly outline the possible changes in the map prior to the appearance scheduled for the manager of this branch on the following day before the Board of Directors of the company.

The Company finally proposed the separation of both functions. The Committee has been in favour of splitting the functions of Prevention and Compliance, on one hand, and Risks, on the other, having been favourably informed of the appointment of the new Director of Prevention and Compliance.

6.4 Internal audit service

The Committee approved the Work Plan of the Internal Audit Service for 2018 at the first meeting held in January. The monitoring of the work by the Service was analysed in all meetings. The Audit Service worked perfectly throughout the year and this made it possible to fulfil the plan entirety.

6.5 External auditor

The year 2018 has been the second financial year audited by PwC since its appointment in the 2016 Ordinary Shareholders' Meeting.

It has been sought and received report of the independence of the external auditor as well as satisfactory explanations about its independence. Provided that the Company played by the work of external audit that has been awarded for any service or participated in a competition that could arise that condition there has been a censorship and authorisation activity of the Committee. Awarded services have been in any case negligible amount.

6.6 Monitoring of the action plans of the committee

Apart from the above, and from what has already been mentioned in the previous sections, and as an execution of the previously approved Work Plan, the following works have been carried out which are worthy of note:

- Analysis of deterioration tests and projections, with assistance requested from Juan García de la Fuente, Assistant Financial Director. There was an analysis of the impairment tests performed in order to analyse the recoverability of the investments in those cases where this was necessary. Mr. García explained the calculations made, the foreseeable evolution of the incumbent market, the evolution of the companies' performance and the probable future profit or loss. As a result of all this, it was recommended (search for reference) in the following companies, and to make some provisions for the value of the following properties (search for reference).
- As in other years, the General Secretary has been requested to *update* the regulatory and jurisprudential changes that could have an effect on the activity or situation of the Group and its companies. The description has been divided into: new regulatory developments at European level and their possible transposition into domestic law, jurisprudence of interest and national regulations, with special mention of the CNMV Guide N°. 3/2017 on Audit Committees.
- The group's tax strategy has been analysed, as well as the situation of risk and fiscal optimisation, within the principles laid down in the Group's Fiscal Policy or Policy General N°. 6.
- The Financial Director has explained to the satisfaction of the Committee the debt policy followed by the company, highlighting the acceptable levels of indebtedness and above all the relatively low cost of the debt.
- In terms of insurance, the Committee has been satisfied overall with the policies that have been signed, as well as with the choice and operation of the different layers of insurance established to provide coverage to the different companies. The use of a Luxembourg subsidiary that covers part of the risks in a satisfactory and competitive manner is worth highlighting in this item.

6.7 Nature and scope of communication with regulators

During this exercise, no communication and/or demand was received from the regulators in matters that directly affect the Group's financial performance. The company did not receive the request for information receiving various companies listed in the course of the second half of the year. December 14 is received communication from the CNMV which makes recommendations on the impairment test with a view to the preparation of future reports.

6.8 Planning of the year 2019

As in previous years, the Commission set its calendar for next year just concluded the first half of the previous year. For 2019 has already set a timetable for a minimum of nine (9) sessions, which may increase if deemed necessary. At the meeting of the Commission held in November 2018 it has already set the order of provisional agenda of all and each one of those meetings.

6.9 Performance Evaluation

Acerinox, S.A. evaluates the performance of its Board of Directors, including its committees each year and once every three this assessment is carried out by an independent expert. This time, the work was carried out by KPMG. The conclusions of the evaluation were satisfactory and in 2018 has been carried out timely follow-up of the suggested improvement courses.

Madrid, 23 January 2019

Mr. Donald Johnston
Chairman of the Audit Committee
Acerinox, S.A.