

REPORT ON THE FUNCTIONING OF THE AUDIT COMMITTEE CORRESPONDING TO THE ACTIVITIES CARRIED OUT IN 2016, IN COMPLIANCE WITH RECOMMENDATION 6 LETTER b) OF THE GOOD GOVERNANCE CODE

In 2016 there have been several changes in said Committee.

The first was the change in Presidency. José Ramón Guerediaga, who was a director for over 20 years, first was a proprietary director and then an independent director, he was not able to be re-elected at the end of his term due to having turned 72, meaning that he had to step down from his position.

To replace him the board proposed and appointed Laura Abasolo, recently appointed independent director and who took up the position of Chairwoman in the meeting held in July.

The modification of the Capital Companies Act forced the Board of Directors to make an adjustment in the regulation of the Committee, as the majority of its members, for legal reasons, should be independent directors. The Chairman of the Board gave an explanation to the General Shareholders' Meeting on said statutory modification. In order to implement this majority the Board of Directors appointed Rosa García, a new independent director to the Audit Committee.

Diego Prado, External Proprietary Director of Acerinox S.A., representing Feynman Capital S.L since 2005, resigned from his position in the Acerinox S.A. Board of Directors meeting held on 27 July 2016 and as a consequence also determined he was no longer a member of the Audit Committee.

Therefore the final composition of the Committee at 31 December was as follows:

- Laura Abasolo (Chairwoman and independent director)
- Rosa García (independent director)
- Donald Johnston (independent director)
- Pedro Ballesteros (proprietary director)

Another change that took place in the Committee was the replacement of the Secretary. Álvaro Muñoz, Secretary of the Board of Directors, was replaced in June by Luis Gimeno, who also took on the position of Secretary of the Committee.

The Audit Committee has held a total of eight meetings in 2016 and the attached table summarises the main points of the agenda of the meetings held. The triple attendance of the external auditors is emphasised and the role of the Committee in the evaluation of offers and proposals of new auditors to substitute the current ones having reached the temporary limit established in the new Auditing Law.

Madrid, 26 April 2017

ANNEX

MAIN ISSUES STUDIED BY THE COMMITTEE IN 2016

Meeting 27 January 2016 (Minutes no. 110)

- Summary of activities of the Committee in 2015.
- Internal Auditing Department Work Plan for 2016.
- Annual Corporate Governance Report.
- Preliminary analysis of year-end 2015.

Meeting 29 February 2016 (Minutes no. 111)

- Analysis of the closing of accounts 2015.
- Attendance by the External Auditor, to talk about the annual audit of the closing of 2015 accounts.
- Report on Management, Financial Risks and Related Transactions

Meeting 30 March 2016 (Minutes no. 112)

- External Auditor study of offers. Auditor no. 1.
- External Auditor study of offers. Auditor no. 2.
- External Auditor study of offers. Auditor no. 3.

Meeting 27 April 2016 (Minutes no. 113)

- Monitoring of quarterly results (first quarter 2016).
- Auto evaluation of the Audit Committee.
- Proposal to renew the External Auditor for 2016.
- Proposal to appoint External Auditor for 2017 and subsequent years.
- Internal Auditing Report.

Meeting 8 June 2016 (Minutes no. 114)

- Revision of the Risks Map.
- Monitoring of the work of the Internal Auditing Department.

Meeting 26 July 2016 (Minutes no. 115)

- Analysis of the half-year results and Interim Management Report.
- Attendance by the External Auditors (half-year audit).
- Miscellaneous: Report on the developments of the new Market Abuse Regime.

Meeting 25 October 2016 (Minutes no. 116)

- Monitoring of the quarterly results (third quarter 2016).
- Monitoring of the policy on Transfer Prices (with attendance by KPMG).
- Monitoring of the implementation of the Crime Prevention and Compliance Plan.

Meeting 21 December 2016 (Minutes no. 117)

- Attendance by the internal Auditor.
- Attendance by the external Auditor: interim closing at 31 October.
- Monitoring of the Risks Map.
- Decision on the calendar of meetings for 2017.