

ECONOMIC OVERVIEW

# CORPORATE GOVERNANCE

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**C**orporate Governance is a mechanism that regulates the links and relationships between shareholders, directors, and the company's top management, through the definition of strategic, operational, supervisory, and management roles.

At GIS, corporate governance is managed through the board of directors and four committees: Audit, Corporate Practices, Finance & Planning, and Steering. All four committees are made up of well-known executives, who contribute their knowledge and experience to help define and monitor the strategy of GIS and its companies.

These management bodies adhere to the provisions of Articles 24, 25, 28, 41, 42, and 43 of Mexico's Securities Market Law for their incorporation and function.

## BOARD OF DIRECTORS

The board of directors are responsible for defining key aspects of the company, such as our corporate strategic vision, our philosophy, and our values. The board also oversees the implementation of our strategic vision and monitors operations with related parties.

The board promotes the use of information quality assurance mechanisms, as well as systems for the identification, analysis, administration, control, and proper disclosure of risks and the establishment of internal control methods.

Annually, the CEO of GIS presents the draft investment budget to the board of directors. This budget includes the acquisitions and improvements of production equipment to help fulfill the strategic plan, the development of operating and commercial activities that promote and maintain the competitiveness of businesses, always seeking to prioritize the quality of life of our employees in the workplace, as well as preservation and environmental improvement.

The company's board of directors are elected at the General Shareholders' Meeting. Each shareholder or group of shareholders holding 10% of the shares has the right to appoint a director, and all the shares have voting rights, without distinction, and participate in the election of directors. No director has a deciding vote, since all votes have the same bearing.



**In GIS, corporate governance is managed through Board of Directors and four Committees.**

Our board of directors is composed of 13 directors: five directors with an ownership stake and eight independent directors. The independent directors are people selected for their ability, experience and professional prestige, who can perform their duties free of conflicts of interest and without being subordinated to personal, property, or economic interests.

The board of directors seeks to appoint independent directors who meet the criteria of formal independence established by law, in addition to those directors that may be nominated by the shareholders.

Our independent directors are professionals with knowledge of and experience in the businesses and markets in which we operate, presenting a healthy diversity of criteria and points of view.

At the General Shareholders' Meeting, all independent directors and their alternates are nominated and approved by the highest governing body, who assess the independence of the candidates, in accordance with Article 26 of the Mexican Stock Market Law and based on the information that those individuals, being appointed or approved, have provided and recorded in the company's registers.

To evaluate the financial results and compliance with the company's strategic, social, and environmental goals and other activities, the board of directors meets at least six times a year, according to the pre-established schedule, and listens to the opinions of the pertinent committees.

In advance of the meeting, all the directors receive the draft minutes of the previous meeting, along with the information that will be discussed during the meeting. If additional information is required, they can request it from the CEO of GIS and contact the appropriate executives to express their opinion and cast their vote.

The members of the board of directors can participate in meetings through remote communication, whereby they can express their views and vote. This option is valid for all legal purposes.

At least 15 days before the date of the board meeting, directors representing a quarter of the board of directors may request to include topics they would like to discuss, in accordance with the regulations of the board of directors and Article 29 of the bylaws. The board of directors is responsible for preparing the agenda for the annual meeting.

Based on GIS's Integrity Process and the Code of Ethics, which governs the behavior and performance of all the company's employees and stakeholders, including the board of directors, the Audit Committee, the Corporate Practices Committee, and the Finance & Planning Committee monitor adherence to corporate governance practices and policies.

	COMMITTEE	TYPE
<b>PEDRO ALONSO AGÜERA</b>		Independent
<b>LUIS ARIZPE JIMÉNEZ</b>	Audit	Independent
<b>LORENA CÁRDENAS COSTAS</b>	Audit	Independent
<b>FERNANDO CHICO PARDO</b>	Planning and Finance	Independent
<b>EUGENIO CLARIOND REYES-RETANA</b>	Audit	Independent
<b>ALEJANDRO DÁVILA LÓPEZ</b>	Planning and Finance	Patrimonial
<b>GUILLERMO ELIZONDO LÓPEZ</b>	Planning and Finance	Patrimonial
<b>FRANCISCO GARZA EGLOFF</b>	Corporate Practices	Independent
<b>CLAUDIO X. GONZÁLEZ LAPORTE</b>	Corporate Practices	Independent
<b>FERNANDO LÓPEZ ALANÍS</b>	Planning and Finance	Patrimonial
<b>ERNESTO LÓPEZ DE NIGRIS</b>	Planning and Finance	Patrimonial
<b>JUAN CARLOS LÓPEZ VILLARREAL</b>	Planning and Finance	Patrimonial
<b>MANUEL RIVERA GARZA<sup>(1)</sup></b>	Corporate Practices Planning and Finance	Independent

<sup>(1)</sup> Manuel Rivera Garza became the CEO of GIS on April 1, 2019.

## AUDIT COMMITTEE

The Audit Committee is a body composed of three independent directors, whose chairman is appointed at the General Shareholders' Meeting. The remaining members are appointed by the board of directors.

This committee is responsible for evaluating internal control systems and the management of Internal Audit, identifying and responding to any major deficiencies, and following up on corrective or preventive measures adopted in the event of non-compliance with operational and accounting guidelines and policies. It is also responsible for evaluating the performance of external auditors and for describing and evaluating their services not related to the audit of financial statements.

The Audit Committee reviews and proposes the company's financial statements to the board of directors for approval. The committee also evaluates the effects of any modifications to the accounting policies approved during the fiscal year, monitors compliance with the resolutions of the General Shareholders' Meeting and the board of directors, and ensures compliance with the provisions of the Code of Ethics and the operation of the Whistleblower System.

## CORPORATE PRACTICES COMMITTEE

This committee supports the board of directors in preparing the annual report presented to the shareholders and performs the activities stipulated in Mexico's Securities Market Law.

It is in charge of evaluating the performance of the key executives, as well as reviewing their compensation and the policies and guidelines on the use or enjoyment of the assets belonging to the company and the entities it controls by related individuals.

The Corporate Practices Committee is composed of three independent members of the board of directors, one of whom serves as the chair of the committee and is appointed at the shareholders' meeting. The remaining members are appointed annually by the board of directors at the proposal of the committee's chair.

The members of this committee interact with the board of directors through its meetings, which are held by invitation at least twice a year.



## FINANCE & PLANNING COMMITTEE

This committee makes recommendations to the board of directors regarding projects presented by the CEO of GIS. To this end, the committee analyzes the strategic plans of the businesses, investments, and proposals for acquisitions and divestments.

Comprised of seven members of the board of directors, the Finance and Planning Committee evaluates and considers proposed investment and loan instruments to finance the group's expansions.

## STEERING COMMITTEE

Comprised of the corporate CEO and the heads of the businesses, the leadership team of the Steering Committee meets once a month with GIS's CEO to present the monthly and cumulative results, as well as the strategies and tactics to be followed during the year to achieve the goals set by the board of directors.

Each year, this committee carries out long-term strategic planning and establishes its annual budget based on the metrics to be met, which are approved by the board of directors.

Its members are responsible for approving the policies for business management and submits changes or adjustments to the practices and policies it is authorized to approve to the board of directors, through the CEO.

The same system applies to all GIS businesses where there is a CEO and an executive team.

The Audit, Corporate Practices, Finance, and Steering Committees meet several times a year according to an agenda. The CEO submits the suggestions and recommendations of these committees to the board of directors for approval and consideration.

**MANUEL RIVERA GARZA**

CEO

**JORGE ALBERTO RADA GARZA**

COO & Draxton

**JORGE MERCADO PÉREZ**

CFO

**LUIS FERNANDO SALDAMANDO ARVIZU**

HRO

**RICARDO SANDOVAL GARZA**

Corporate Communications

**CÉSAR CÁRDENAS RODRÍGUEZ**

Vitromex

**MARCELO RODRÍGUEZ SEGOVIA**

Cinsa



## THE PRACTICE OF OWNERSHIP RIGHTS OF INSTITUTIONAL INVESTORS

Under law and in accordance with the bylaws, shareholders have the right to participate in—and be duly informed of—decisions that involve fundamental changes in the company. In addition, they have the opportunity to participate effectively, as well as to vote, in shareholders' meetings through the forms, information, and agenda that the company makes available to them at least 15 days in advance.

All shares have voting rights, without distinction.

Shareholders representing at least 10% of the share capital may request that a General Shareholders' Meeting be convened, in accordance with the terms set forth in Article 50 of Mexico's Securities Market Law. The results of the voting must be disclosed in accordance with the applicable legal provisions. Details of the process are available on the GIS website, in the Bylaws section under the Corporate Governance heading on the Investor Relations page.

The vast majority of the company's shares is held in the portfolios of local investors and through intermediaries in the Mexican stock market. However, in order to facilitate preparation and voting at the meetings, the company publishes its call in advance of the minimum required by law.

The agenda for the shareholders' meeting outlines the specific proposal for the payment of dividends. Likewise, in the case of corporate restructuring, the company publishes a prospectus to explain the necessary details in a timely manner, to facilitate decision-making and the corresponding vote by shareholders.

# **■ AUDIT COMMITTEE REPORT**

## **To the Board of Directors of Grupo Industrial Saltillo, S.A.B. de C.V.**

In compliance with the provisions of Articles 42 and 43 of Mexico's Securities Market Law and the Regulations of the Audit Committee, I inform you about the activities carried out during the year ended December 31, 2019. In conducting our work, we took into account the recommendations established in the Code of Principles and Best Practices of Corporate Governance. We met at least quarterly and, based on a work schedule, carry out the activities described below.

### **RISK ASSESSMENT**

We made sure that management, in compliance with its responsibilities, has carried out the process for identifying and assessing the main risks facing businesses and implementing activities and controls that may mitigate those risks.

### **INFORMATION TECHNOLOGIES: CYBERSECURITY AND DISASTER RECOVERY PLAN**

Considering that, in 2019, cybersecurity risk continued to be a significant risk to the organization, the committee paid special attention to monitoring the progress of the main vulnerabilities identified during ongoing cybersecurity assessments and overseeing the proper implementation of information security initiatives that guarantee the continuity of operations within information processes.

We followed up on proposals to strengthen the Disaster Recovery Plan, implemented to restore system functionality after the August 13 incident. Preventive measures for the proper functionality and continuity of operations, in place since Q4 of 2019, were monitored.

### **INTERNAL CONTROL**

We followed up on the progress made in the process of implementing and improving the internal control system presented by the management through quarterly reports prepared by the respective departments and, as a result, made suggestions and observations which have been taken into consideration for its improvement.

### **EXTERNAL AUDIT**

We recommended that the board of directors hire external auditors and subsidiaries for fiscal year 2019. To this end, we ensured their independence and compliance with the requirements established by law and by the general provisions applicable to entities and issuers by the Mexican National Banking and Securities Commission that contract external audit services for basic financial statements, effective August 1, 2018. Together, we analyzed their approach and work schedule, as well as their coordination with the internal audit area.

We modified and submitted our regulations to the board of directors for approval in order to comply with the new provisions. We implemented the actions established in the aforementioned order, related to the responsibilities of the committee and to the requirements applicable to external auditors.

We reviewed the work schedule for the external audit and its coordination with the Internal Audit department.

We maintained constant and direct communication with them to know the progress of their work and their observations and to take note of their comments on the financial statements. We were informed of their findings and reports on the annual financial statements on a timely basis, and we followed up on the implementation of the observations and recommendations developed in the course of their work.

We approved the fees paid to external auditors for their audit services and other authorized services, ensuring that they do not interfere with their independence from the company.

Taking into account the views of management, we started the process of evaluating the performance of the external auditors for the 2019 financial year, which we will report at the appropriate time.

### **AUDIT INTERNA**

In order to maintain its independence and objectivity in accordance with current applicable regulations and in agreement with general management, we decided that the Internal Audit department will report to the Audit Committee.

We reviewed and approved the annual audit program, ensuring that it has been prepared taking into account the operational and business risks in the different units of the group. As a result, we also approved the annual budget and the proposed organizational structure.

We received periodic reports regarding the progress of the approved work program, the variations that it may have undergone, and the motivations behind those variations.

We followed up on their observations, subsequent suggestions, and their timely implementation.

We ensured that annual training program was implemented for the department's staff.

During the year, Internal Audit services were evaluated by the heads of the business units and by the committee itself.

### **FINANCIAL INFORMATION, ACCOUNTING POLICIES, AND REPORTS TO THIRD PARTIES**

We reviewed the company's quarterly and annual financial statements alongside those who prepared them and advised the board of directors to approve and authorize their release.

As part of this process, we took into account the opinions and observations of the external auditors and ensured that the criteria, accounting, and information policies used by management to prepare the financial information are adequate and sufficient and that they were applied consistently with the previous year. Consequently, the information presented by management properly reflects the company's financial situation, income, and cash flow for the year ended December 31, 2019.

We also reviewed the quarterly reports prepared by management to be presented to the Mexican Stock Exchange, shareholders, and the general public, verifying that they were prepared in accordance with the International Financial Reporting Standards using the same accounting criteria used to prepare the annual information. Our review included ensuring that there is a comprehensive process that provides reasonable assurance about its content. We ultimately recommended that the board approve its release each quarter.

We approved the incorporation into the company's accounting policies of the new accounting procedures that took effect in 2019, resulting from the adoption of the International Financial Reporting Standards.

We reviewed, analyzed, and gave our opinion on the following relevant operations:

- Restructuring of Vitromex, including the closure of the Saltillo plant
- Analysis of the recoverability of Vitromex assets
- Divestiture of Calorex
- Refinancing of \$245 million in debt through a long-term syndicated loan with HSBC
- Opening of a line of credit with Santander for factoring in Mexico for \$48.2 million
- Ordering of cross currency swaps to balance currency between EBITDA and debt, including an interest rate swap (IRS) to set the variable rate at a fixed rate
- Analysis of the recoverability of assets with an indefinite useful life – goodwill.
- Analysis of the recoverability of the group’s deferred tax assets
- Staged business acquisition (PPA – Evercast).
- Changes in the corporate structure through the simplification of corporate entities

#### COMPLIANCE WITH REGULATIONS, LEGAL ASPECTS, AND CONTINGENCIES

We confirmed the existence and reliability of the controls implemented by the group to ensure compliance with the different legal provisions to which it is subject, ensuring that they are adequately disclosed in the financial information.

We periodically reviewed various fiscal, legal, and labor contingencies within the group, monitoring the effectiveness of the procedure for its identification and monitoring, as well as its proper disclosure and registration.

#### CODE OF CONDUCT

We ensured the existence of appropriate processes for compliance with the Code of Ethics, including its dissemination to staff, updates, and the application of penalties for violations.

We reviewed the complaints received through the system, the company implemented for this purpose, and ensured that they were addressed and corrected in a timely manner.

#### MANAGEMENT ISSUES

We held regular meetings between the committee and management to stay informed about the company’s developments, activities, and relevant and unusual events. We also met with the external and internal auditors to discuss the progress of their work and any limitations they may have faced, and we sought to facilitate any private communication they might wish to have with the Committee.

We held executive meetings with exclusive members of the Committee to establish agreements and recommendations for management.

The chairman of the Audit Committee reported to the board of directors on a quarterly basis about ongoing activities.

The work that we carried out was duly documented in minutes for each of the meetings we carried out, which we later reviewed and approved.

Sincerely,



**ING. LUIS ARIZPE JIMÉNEZ**  
Chairman of the Audit Committee

February 20, 2020

# ■ CORPORATE PRACTICES REPORT

For the year ended December 31, 2019

February 19, 2020

To the Board of Directors of  
Grupo Industrial Saltillo, S.A.B. de C.V. (the "Company")

On behalf of the Corporate Practices Committee, I present you the report of the activities carried out by the committee during the fiscal year ended December 31, 2019, in compliance with the provisions of Article 43 of Mexico's Securities Market Law and Article 40 of the company's bylaws.

During the fiscal year, in the performance of its functions, the committee provided its recommendations in the areas for which it is responsible, namely

1. The performance of key executives during the 2019 period was evaluated, as well as the payment of their fixed and variable compensation. Their goals for 2019 were revised accordingly.
2. The compensation for the CEO of GIS was approved.
3. The final package for the previous CEO was approved.
4. The guidelines for GIS wage and salary increases were reviewed, as well as the compensation of relevant executives. Their salary competitiveness was revised with respect to the relevant market.
5. Due to the complexity of the Vitromex situation, an extraordinary COVA CP bond design was approved for one-time use by eligible executives to ensure business continuity.
6. Updates to the directors' fees were reviewed and proposed.
7. The status and plan of succession for the CEO and relevant executives were reviewed through possible first-level scenarios.
8. The proposal for 2020 salary increases for GIS employees was reviewed.
9. To date, this committee has no knowledge of the board of directors or any individual director, relevant executive, or individual with power of command taking advantage of business opportunities for themselves or in favor of third parties related to the company or its subsidiaries or of any significant transactions being undertaken with related parties.



**FRANCISCO GARZA EGLOFF**  
Chairman of the Corporate Practices Committee