



# Evolving

toward a sustainable future





We have embarked on a transformation to become more resilient in the face of uncertainty, achieve greater operational and administrative efficiency, and improve performance, results, and accountability.

In a changing world, we seek not only to endure, but also to thrive. This evolutionary process is the foundation for the sustainable future of the company, for the benefit of our stakeholders and our country.

# Evolving to generate value

B

Grupo BAL is a cluster of state-of-the-art companies that incorporates a diversified group of businesses: Profuturo GNP (pension funds), Grupo Nacional Provincial (insurance), Peñoles (mining, metallurgical, and chemical industries), Fresnillo (mining), Grupo Palacio de Hierro (department stores), TANE (jewelry), Valmex Soluciones Financieras (financial services), Valores Mexicanos (brokerage house), Crédito Afianzador (bonds), Compañía Agropecuaria Internacional (agricultural businesses), Médica Móvil (pre-hospital care), Instituto Tecnológico Autónomo de México (education), PetroBal (exploration and hydrocarbons production), and Energía Eléctrica BAL (power generation). In each of these, we strive to reach the higher percentile in our industry as regards profitability, and to create value to all stakeholders, offering our customers exceptional products and services, supporting the personal and professional advancement of our employees and contributing to the progress of Mexico.



# Contents

In our Annual Report 2021, we present our progress in the transformation process toward a sustainable future for Peñoles.

The following abbreviations will be used throughout the report:

oz = ounces  
lb = pounds  
Mm<sup>3</sup> = million cubic meters  
Ml = million liters  
Mlb = million pounds  
Mlbe = million pounds equivalent  
Moz = million ounces  
koz = thousand ounces  
t = metric tons  
Mt = million metric tons  
kt = thousand metric tons  
US\$ M = million dollars  
US\$/t = dollars per metric ton  
US\$/oz = dollars per ounce  
US¢/lb = dollar cents per pound  
US¢/lbe = dollar cents per pound equivalent  
g/t = grams per metric ton  
k = thousands  
GWh = Gigawatt per hour  
MWh = Megawatt per hour  
MW = Megawatt  
KWh = Kilowatts per hour  
tCO<sub>2</sub>eq = metric tons of carbon dioxide equivalent  
CO<sub>2</sub>e = carbon dioxide equivalent



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# Corporate profile

Peñoles, founded in 1887, is a mining group with integrated operations for the smelting and refining of non-ferrous metals and the manufacture of chemical products. Peñoles is one of the two largest global producers of refined silver; Latin America's leading producer of gold and refined lead, and among the world's leading producers of refined zinc and sodium sulfate.

Peñoles' shares have traded on the Mexican Stock Exchange since 1968 under the ticker symbol PE&OLES.

## VISION

To be a company of excellence worldwide with extraordinary results, a leader in its sector with safe and sustainable operations, driven by its agility and capacity for transformation, in harmony with its environment and society.

## MISSION

To generate value from non-renewable natural resources in a sustainable manner.

## VALUES

To act according to our values of Confidence, Responsibility, Integrity and Loyalty.

Our **purpose** is to generate opportunities and wellbeing by providing essential resources in a sustainable manner.

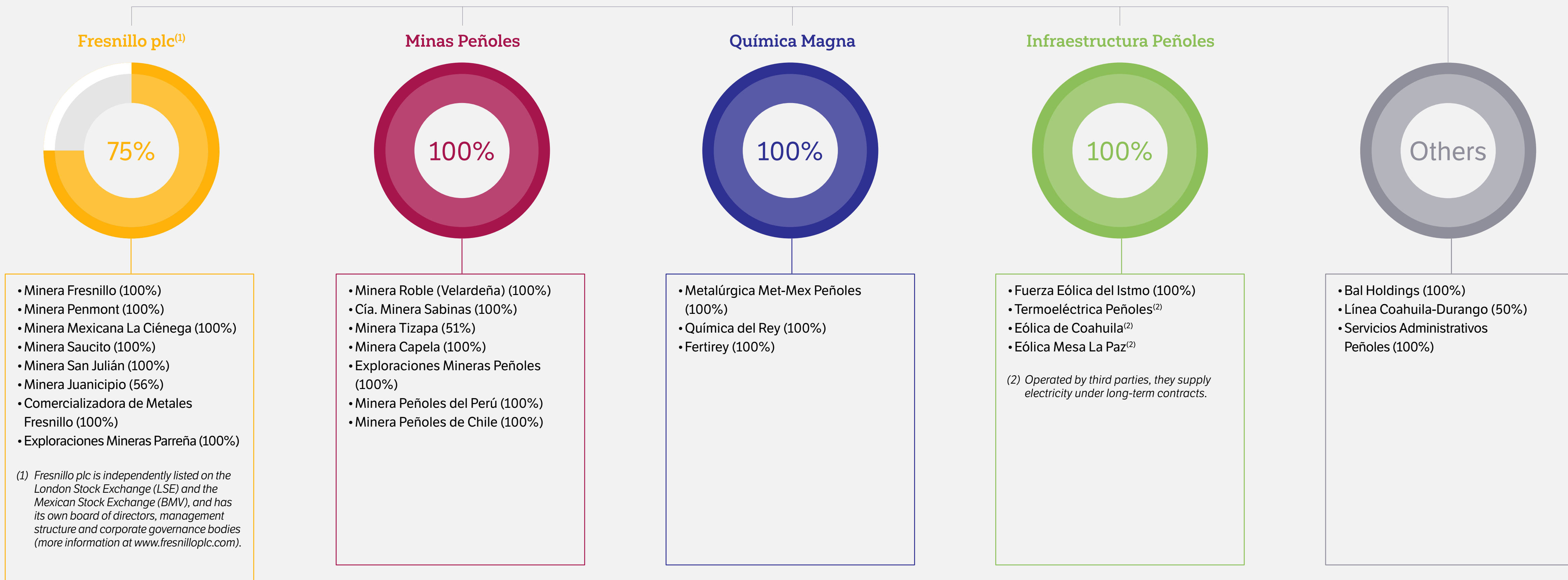
## Stakeholders





# Corporate structure\*

## Industrias Peñoles, S.A.B. de C.V.



<sup>(1)</sup> Fresnillo plc is independently listed on the London Stock Exchange (LSE) and the Mexican Stock Exchange (BMV), and has its own board of directors, management structure and corporate governance bodies (more information at [www.fresnilloplc.com](http://www.fresnilloplc.com)).

\* Main subsidiaries are included.

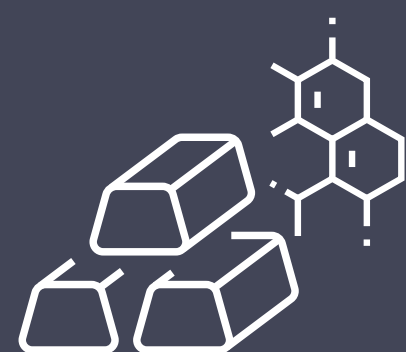


# Peñoles at a glance



**31,552**  
direct jobs

**31,582**  
indirect jobs



A diversified portfolio of metals and chemical products



**11**  
mining operations

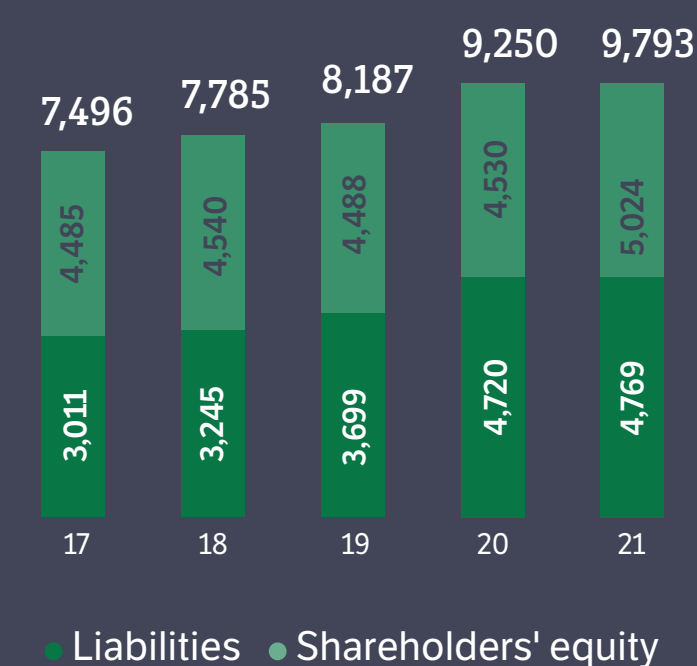
**9**  
plants and facilities

**21**  
administrative offices

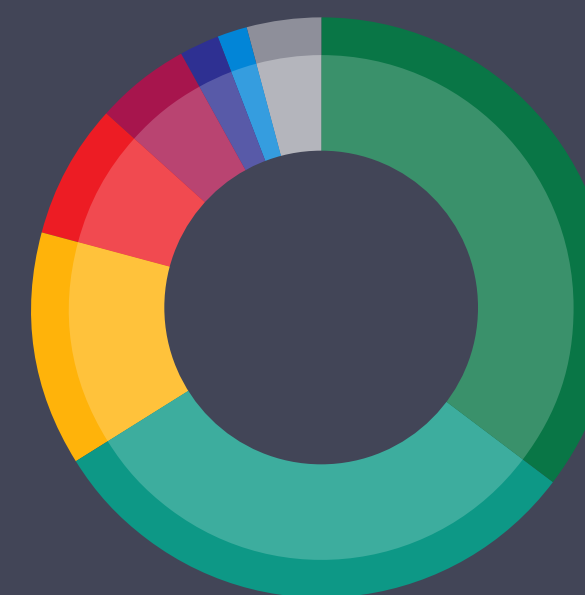


Net debt/EBITDA of 0.7 times

Total assets (US\$ M)



Sales by product



Product	%	US\$ M
Gold	34.2	2,040
Silver	29.9	1,788
Zinc	14.2	849
Concentrates	9.1	546
Lead	5.1	304
Copper matte	2.2	132
Sodium sulfate	1.8	109
Others	3.5	203
<b>Total</b>	<b>100.0</b>	<b>5,972</b>



**US\$ 5,972 M**  
in sales, 84.0%  
in exports to  
33 countries



# Peñoles at a glance



## Value generated and distributed\*



	%
Reinvestment	33.5
Contractors	31.2
Employees	13.2
Government	10.0
Interests	4.7
Shareholders	4.7
Community and environment	2.7
	100.0

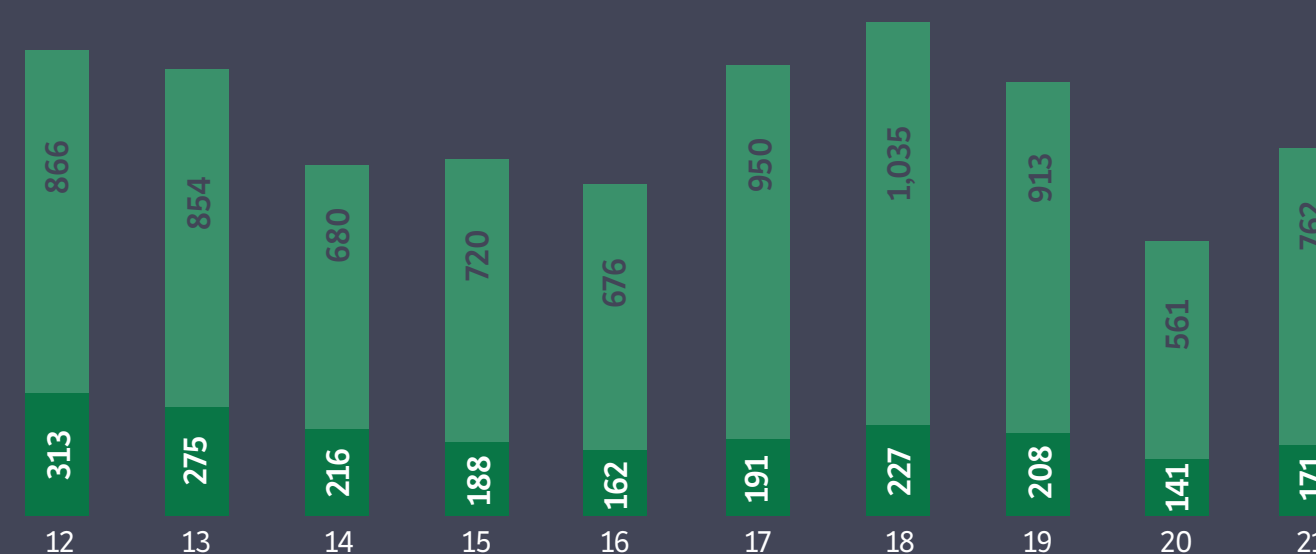
\* Value generated and distributed = net sales – costs and expenses (domestic and foreign). These data include operations of Industrias Peñoles and subsidiaries. Source: Fourth financial statement, 2021 Sustainability Development Report.

**US\$ 3,212 M**  
distributed value,  
+14.8% compared to  
previous year



**US\$ 1,696 M EBITDA**,  
+16.4% compared to  
previous year

## Investments (US\$ M)



● Exploration ● Capital expenditures



**US\$ 10,110 M**  
in investments in the  
past 10 years



Long term value  
for our stakeholders



# Operations

Peñoles is a proudly Mexican company with international presence, that has created development and opportunities in the regions where it has operated for more than thirteen decades.



## Mining operations

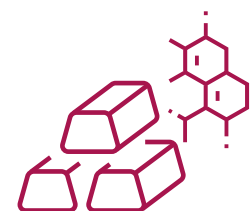
### Base metals

- 1 Velardeña
- 2 Sabinas
- 3 Tizapa
- 4 Capela
- 5 Francisco I. Madero\*
- 6 Bismark\*
- 7 Milpillas\*
- 8 Naica\*

### Precious metals

- 9 Herradura
- 10 Ciénega
- 11 Fresnillo
- 12 Soledad-Dipolos\*
- 13 Saucito
- 14 Noche Buena
- 15 San Julián
- 16 Juanicipio

\*Operations were suspended in these units.



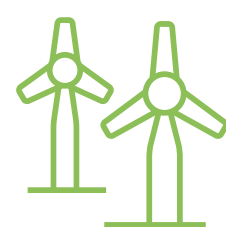
## Metallurgical operations

- 17 Metalúrgica Met-Mex
- 18 Bermejillo
- 19 Aleazín



## Chemical operations

- 20 Química del Rey
- 21 Fertirey
- 22 Industrias Magnelec



## Infrastructure

- 23 Línea Coahuila-Durango
- 24 Termoeléctrica Peñoles
- 25 Termimar
- 26 Fuerza Eólica del Istmo
- 27 Eólica de Coahuila
- 28 Eólica Mesa La Paz



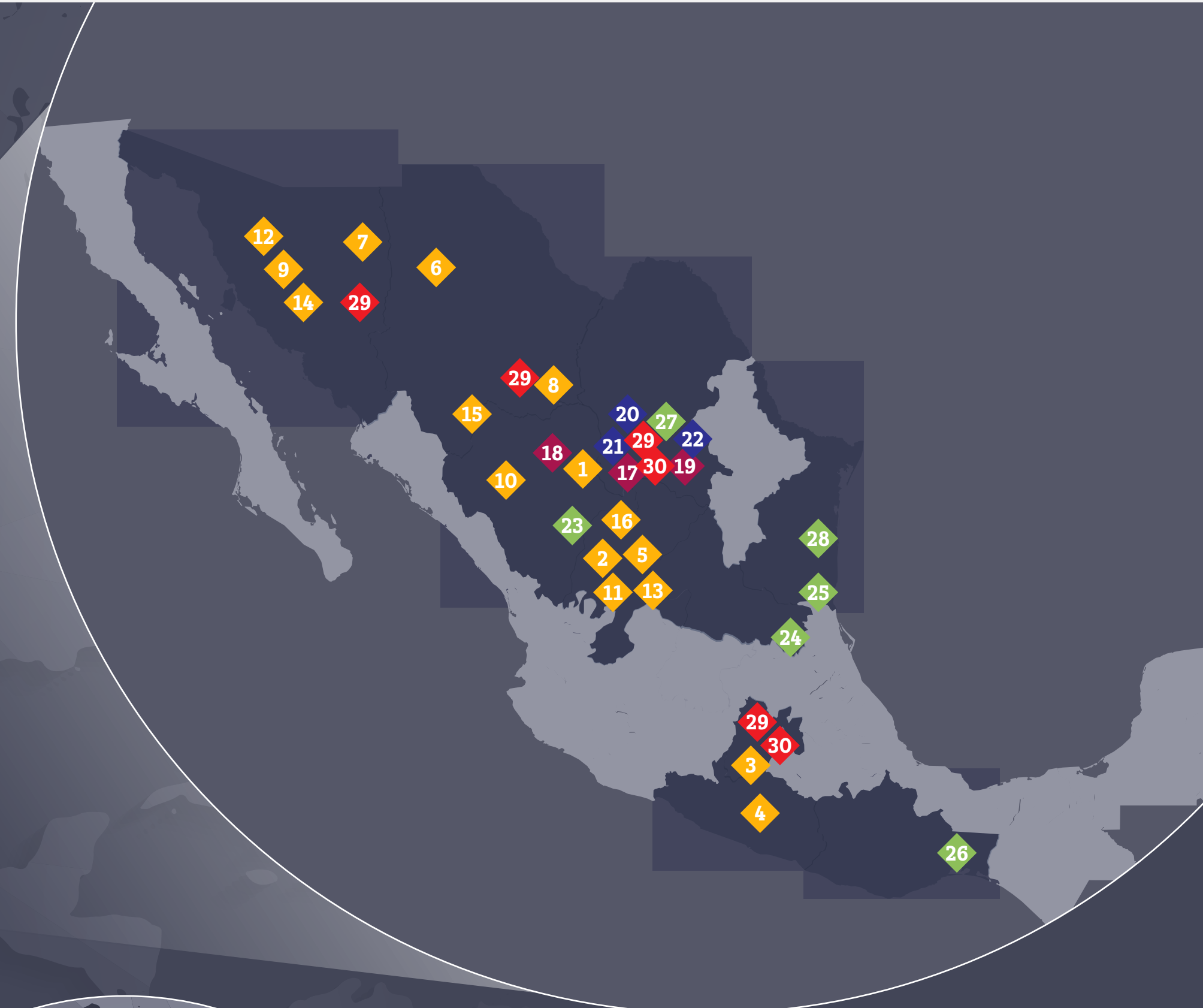
## Offices

- 29 Exploración
- 30 Corporativo



## Commercial offices

- 31 Bal Holdings
- 32 Wideco
- 33 Quirey do Brasil



**134 years**  
generating development and opportunities



# Business model

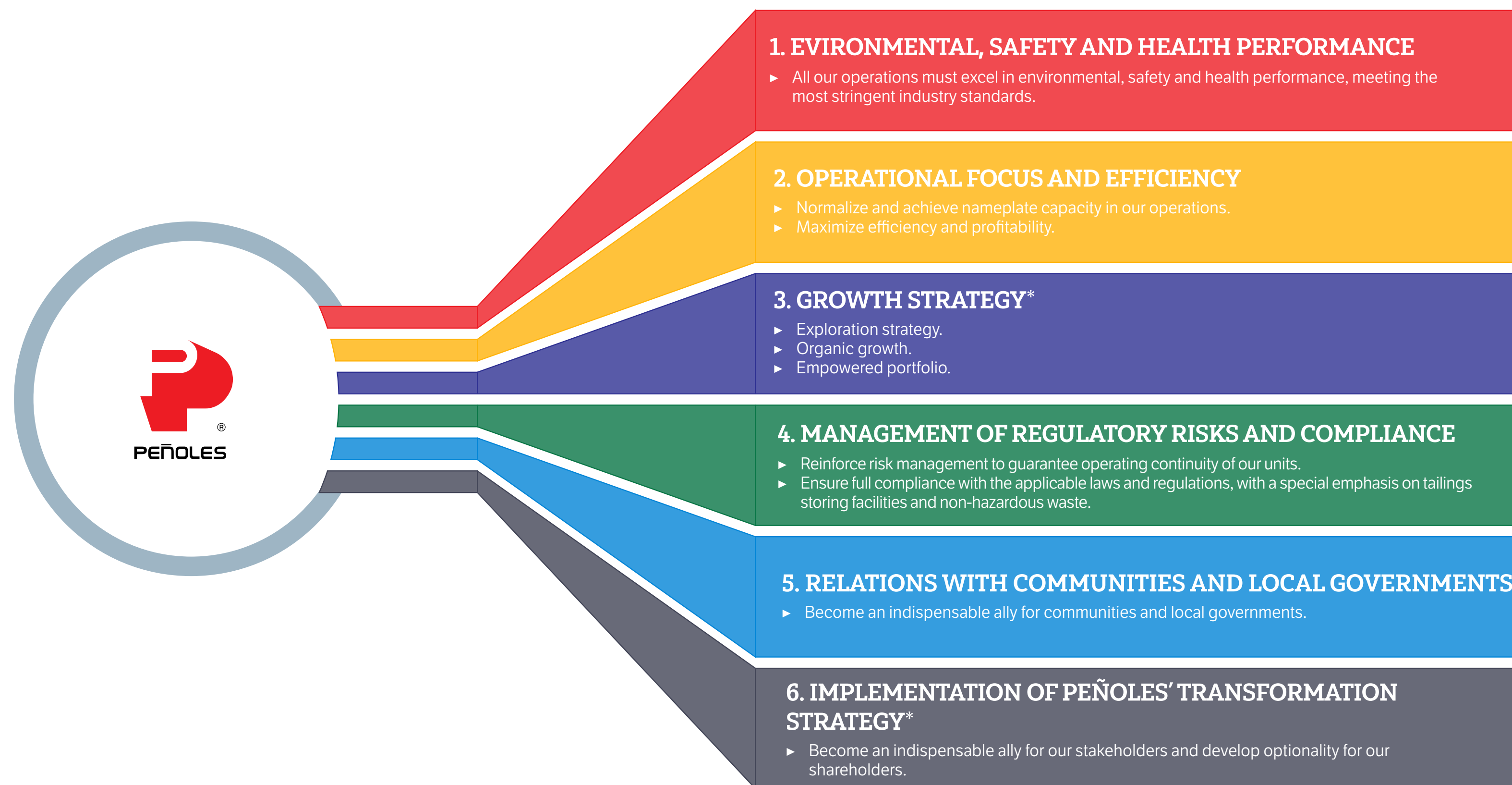
Our vertically integrated operations include a polymetallic portfolio, from exploration to production of refined metals and additional value-added products. We focus on being a low-cost producer and we make ongoing investments in exploration, capacity expansions and operating efficiencies throughout the business cycle. This strategy, combined with our sustainable development initiatives, talented people, a healthy capital structure, and sound corporate governance practices, distinguishes Peñoles and enables us to add long-term value for our shareholders.

For more information on the value chain, please visit [www.penoles.com.mx](http://www.penoles.com.mx)



Our new strategy consists of 6 pillars, each of which contains a set of 5-year projects, targets and metrics.

## Strategic plan



\*To be developed with Baluarte Minero.





*US\$ 762 M*  
investment in fixed assets.

# Highlights

Financial results improved substantially compared to the previous year.



# Financial highlights

US\$ M	2021	2020	% Chge.	2019	2018	2017*
Net sales <sup>(1)</sup>	<b>5,971.8</b>	4,673.3	27.8	4,471.9	4,390.3	4,536.1
Gross profit	<b>1,555.8</b>	1,249.0	24.6	870.8	1,289.1	1,706.3
Exploration expenses	<b>170.9</b>	141.0	21.2	208.1	227.0	191.2
EBITDA <sup>(2) (3)</sup>	<b>1,695.8</b>	1,456.7	16.4	968.7	1,286.2	1,720.0
Operating income <sup>(3)</sup>	<b>971.0</b>	742.6	30.8	275.0	707.1	1,185.5
Financial and exchange result	<b>152.8</b>	283.8	-46.2	108.3	48.6	143.9
Controlling interest in net income (loss)	<b>391.3</b>	-34.4	1,038.2	35.5	323.7	589.0
Capital expenditures	<b>762.1</b>	561.3	35.8	913.3	1,035.3	949.6
Dividends paid to majority shareholders	<b>49.9</b>	-	n.a.	155.2	270.0	232.7
Cash and investments <sup>(4)</sup>	<b>1,817.1</b>	1,592.7	14.1	526.3	785.4	1,040.8
Property, plant and equipment, net	<b>4,707.3</b>	4,671.6	0.8	4,978.4	4,746.8	4,309.3
Total assets	<b>9,793.3</b>	9,250.4	5.9	8,186.7	7,784.7	7,496.2
Financial debt	<b>2,936.8</b>	2,901.6	1.2	2,226.3	1,876.2	1,453.9
Deferred taxes	<b>-196.0</b>	-47.7	310.8	74.2	333.5	450.4
Total liabilities	<b>4,769.4</b>	4,719.9	1.0	3,698.8	3,244.8	3,011.2
Total shareholders' equity	<b>5,023.9</b>	4,530.5	10.9	4,487.9	4,539.8	4,485.0



\* Unaudited figures

Figures prepared in accordance with International Financial Reporting Standards (IFRS).

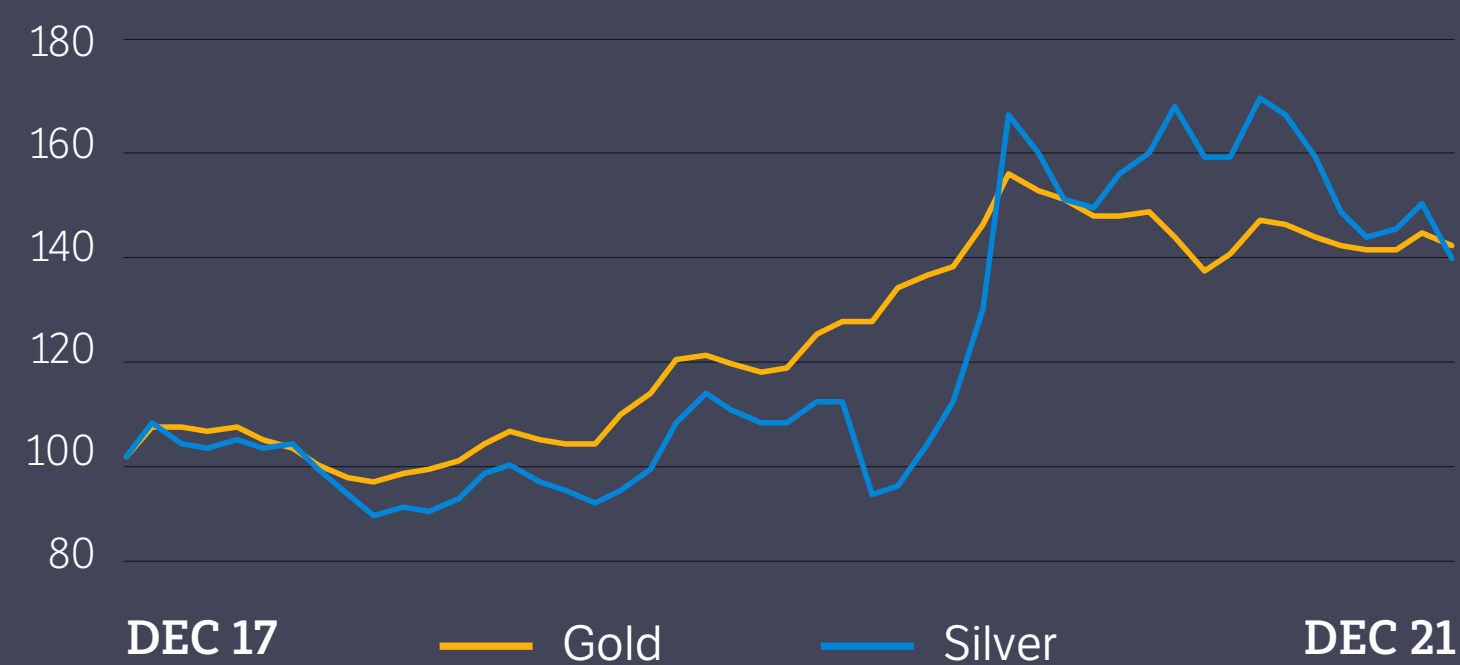
- (1) Includes hedging results.
- (2) Earnings before interests, taxes depreciation and amortization.
- (3) Does not include other income (expense) nor impairment loss.
- (4) Includes cash, cash equivalents and short-term investments.



# Financial indicators

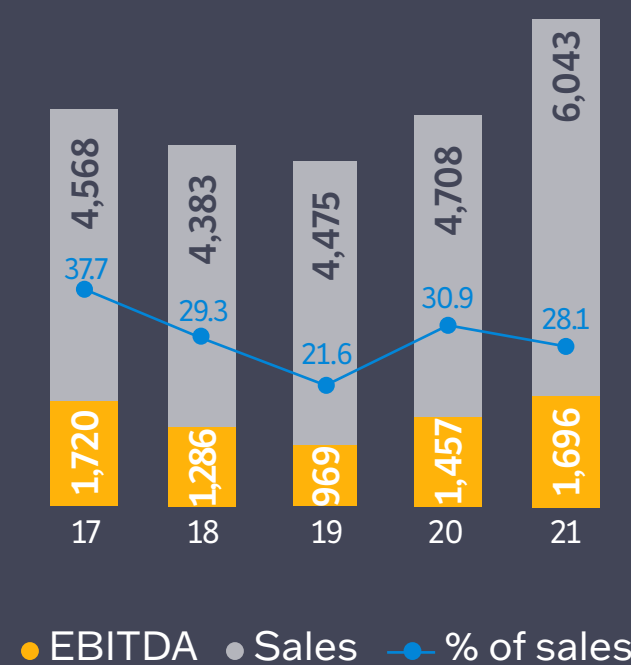
## Precious metals indices

December 2017 = 100



## Sales\* / EBITDA

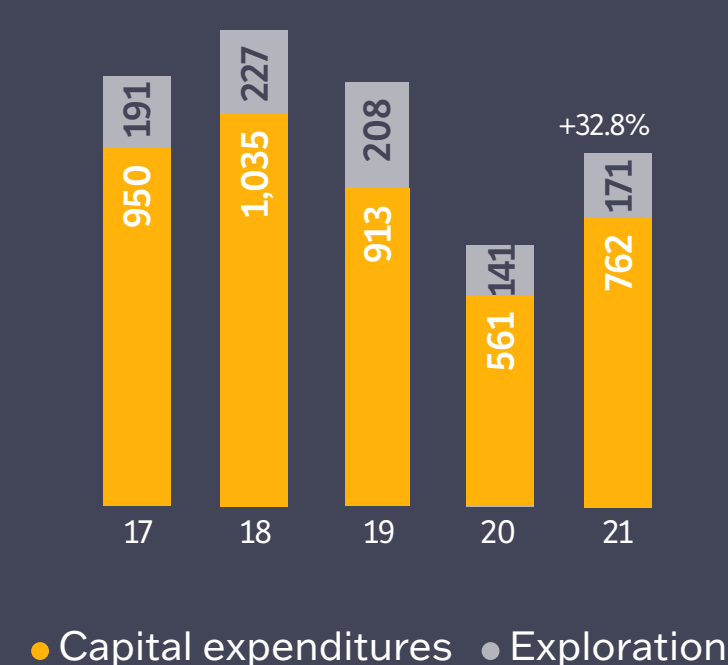
US\$ M



\* Not including hedging results.

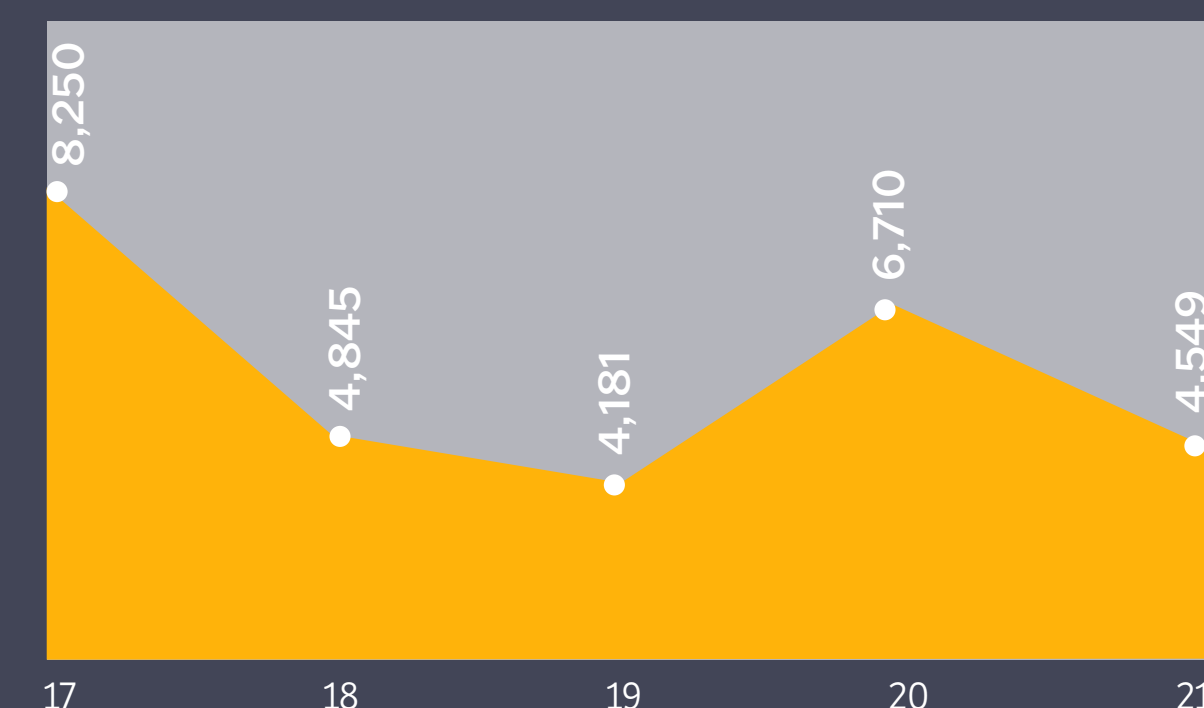
## Investments

US\$ M



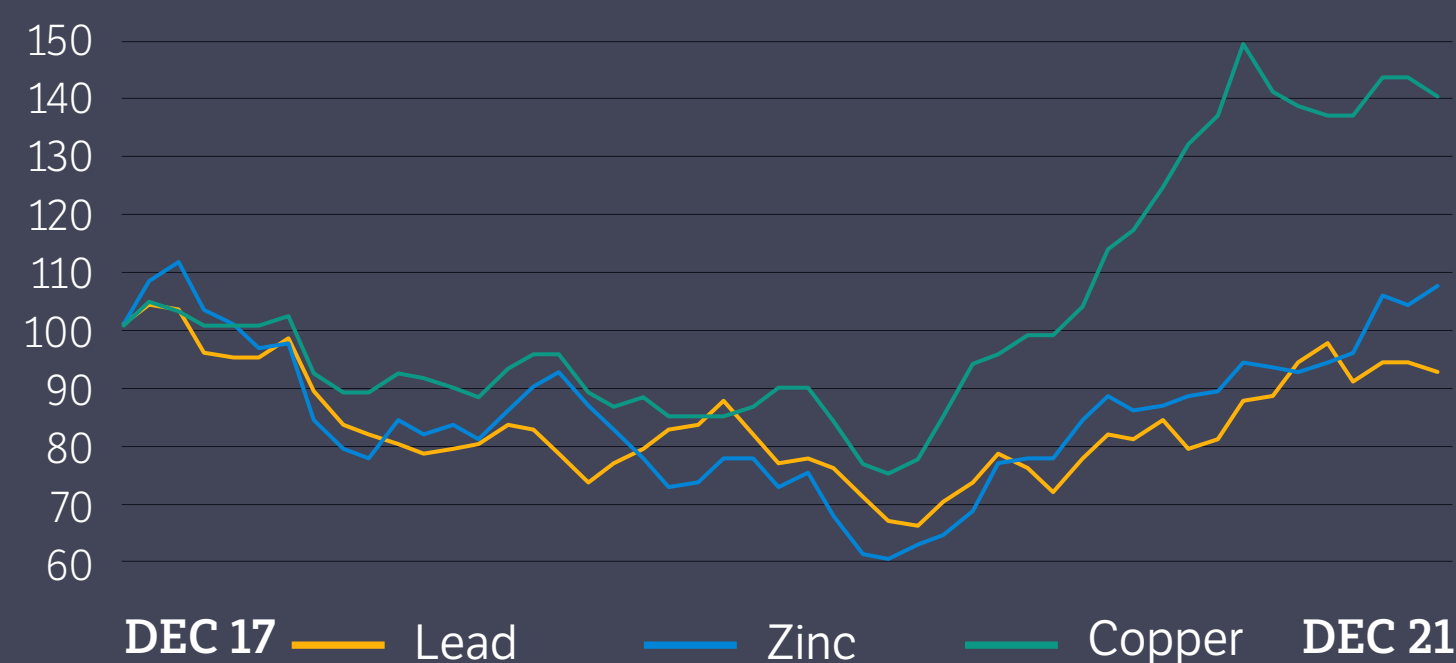
## Market capitalization

US\$ M



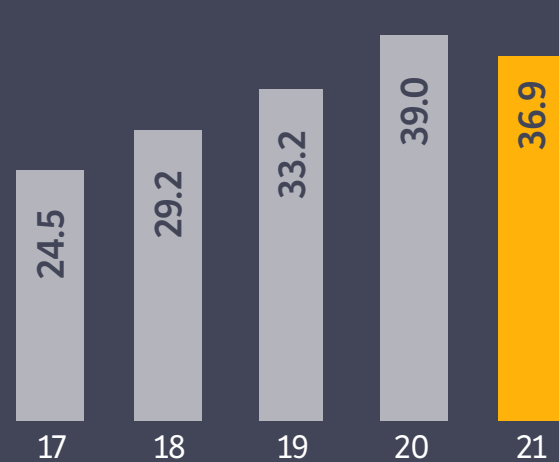
## Base metals indices

December 2017 = 100



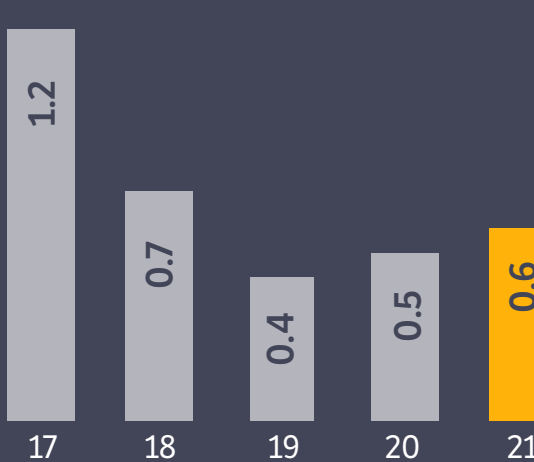
## Debt / Capitalization

(%)



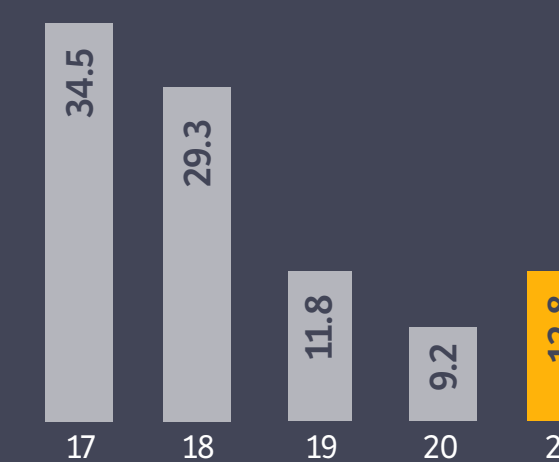
## EBITDA / Total debt

Times



## EBITDA / Interests

Times

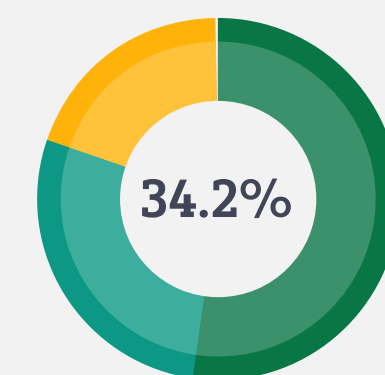
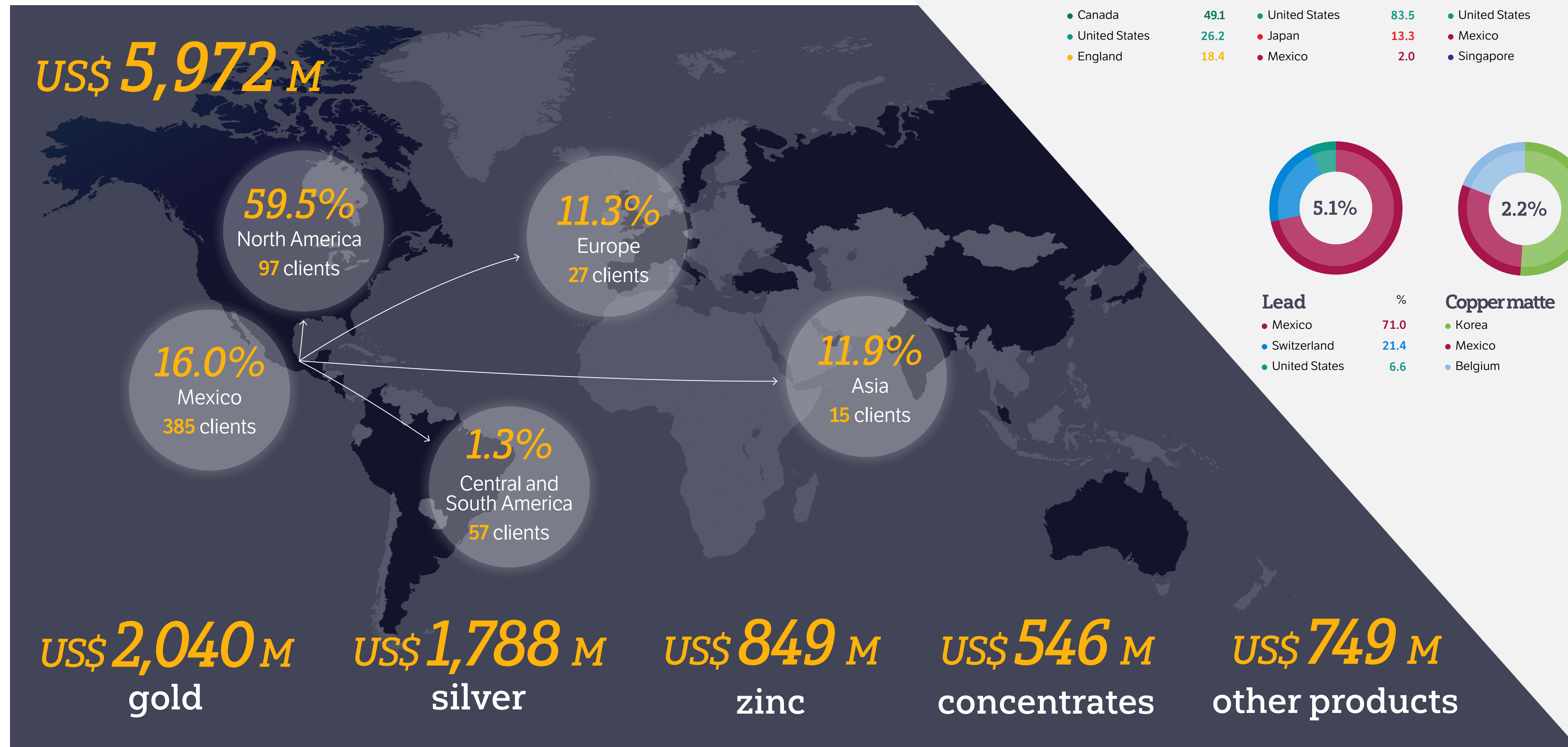




# Total sales

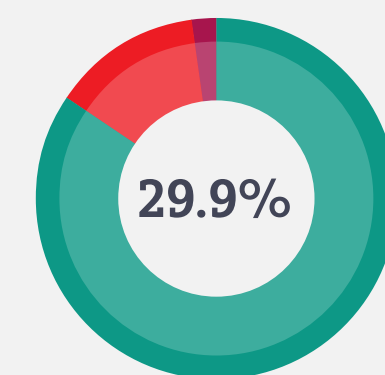
We increased our participation worldwide, with sales to 33 countries besides Mexico, distributed among the Americas, Europe, Asia and Oceania.

## US\$ 5,972 M



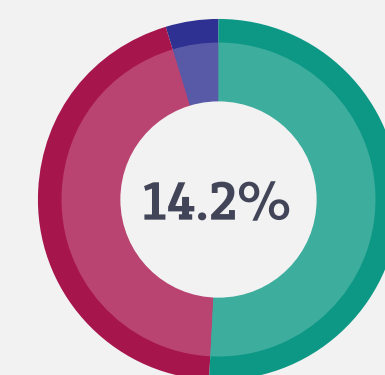
**Gold** %

- Canada 49.1
- United States 26.2
- England 18.4



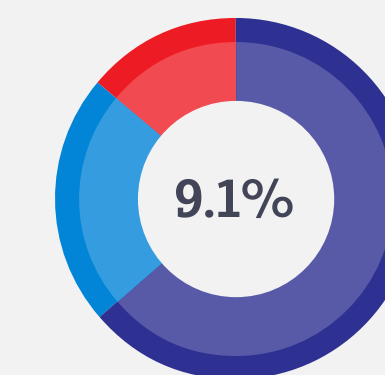
**Silver** %

- United States 83.5
- Japan 13.3
- Mexico 2.0



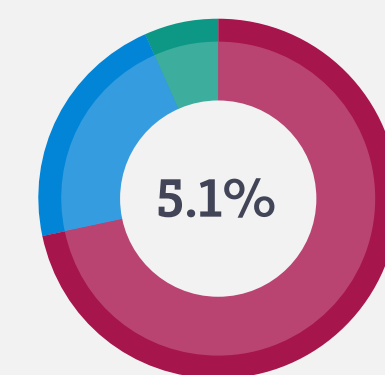
**Zinc** %

- United States 44.0
- Mexico 38.4
- Singapore 3.8



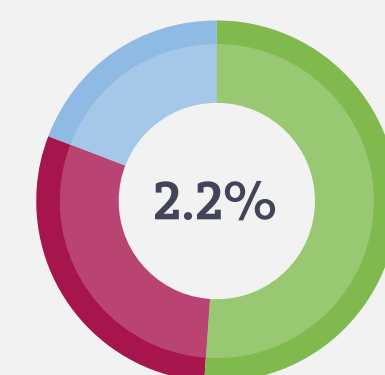
**Concentrates** %

- Singapore 60.3
- Switzerland 21.2
- Japan 13.1



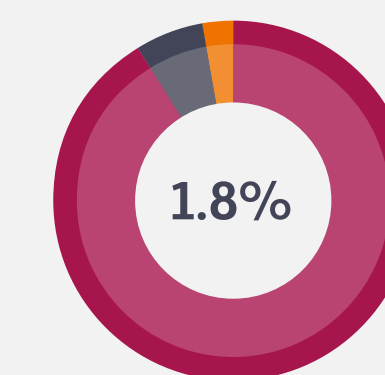
**Lead** %

- Mexico 71.0
- Switzerland 21.4
- United States 6.6



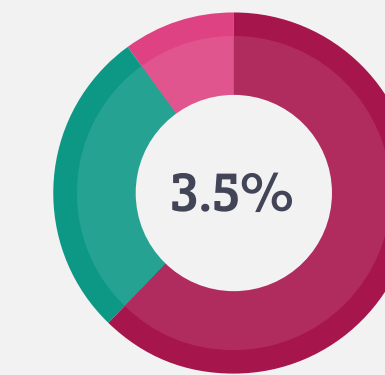
**Copper matte** %

- Korea 51.2
- Mexico 29.7
- Belgium 19.1



**Sodium sulfate** %

- Mexico 89.9
- Colombia 5.8
- Brazil 2.7



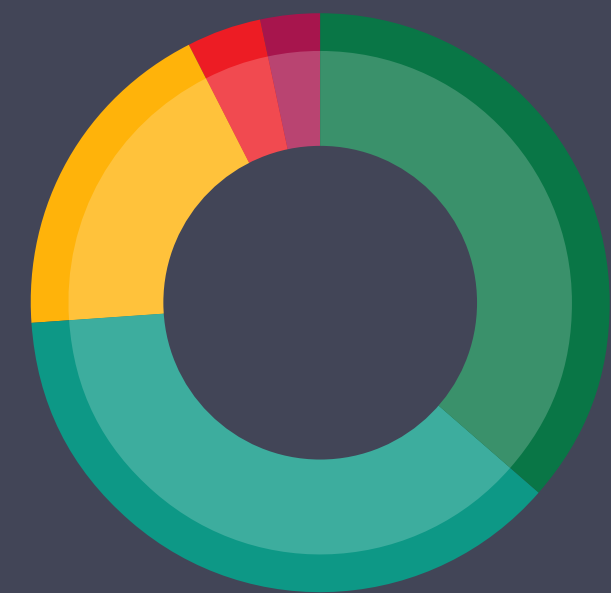
**Other products** %

- Mexico 57.4
- United States 23.4
- Germany 8.1

Note: Top three destination countries by product.



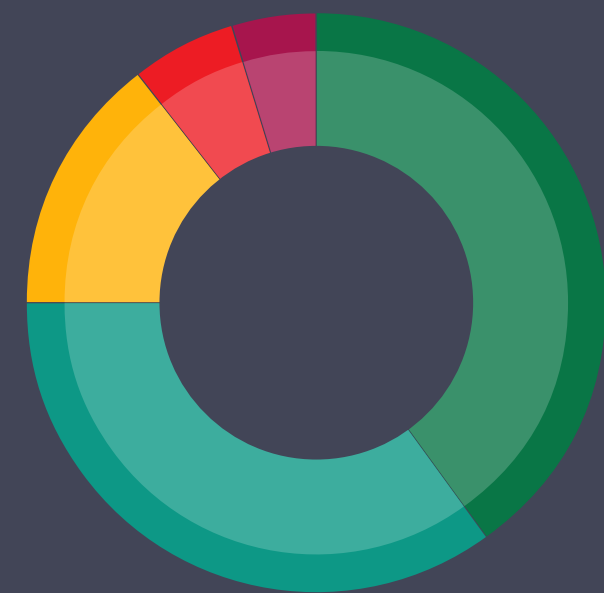
### Mining Division sales\*



	US\$ M	%
Gold	1,400	36.3
Silver	1,450	37.6
Zinc	706	18.3
Lead	162	4.2
Copper	135	3.6
Total	3,853	100.0

\* Does not include hedging results, treatment charges, penalties, nor service income.

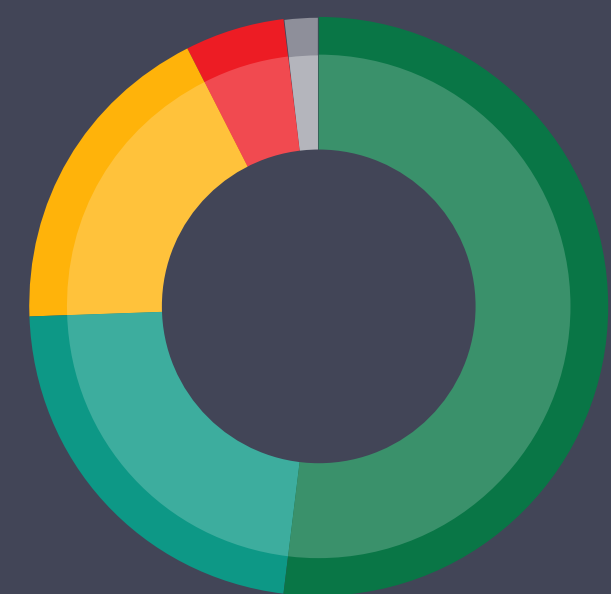
### Metals Division sales\*\*



	US\$ M	%
Gold	2,029	38.9
Silver	1,845	35.4
Zinc	793	15.2
Lead	309	5.9
Others	235	4.6
Total	5,211	100.0

\*\*Does not include Bal Holdings.

### Chemicals Division sales



	US\$ M	%
Sodium sulfate	106	47.1
Magnesium oxide	64	28.5
Ammonium sulfate	37	16.4
Magnesium sulfate	12	5.5
Others	7	2.5
Total	226	100.0

### Production costs



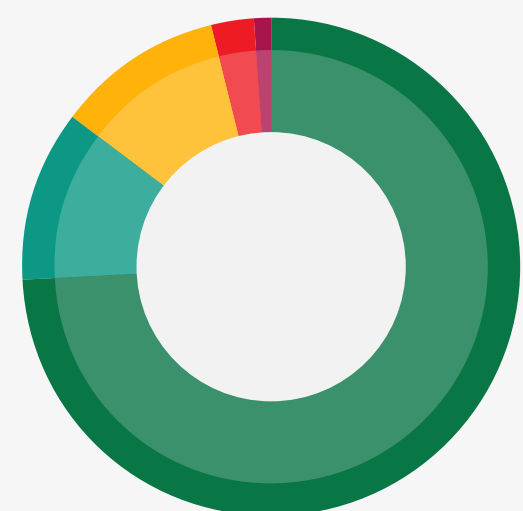
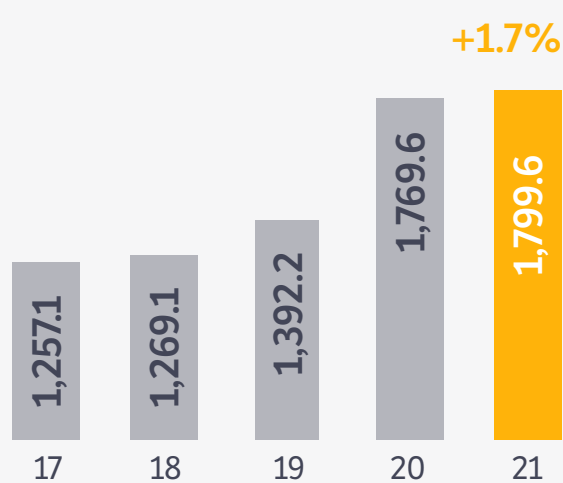
	US\$ M	%
Depreciation and amortization	709	25.8
Contractors	454	16.6
Energy	437	15.9
Operating materials	385	14.0
Maintenance and repairs	344	12.5
Human capital	307	11.2
Others	109	4.0
Total	2,745	100.0





# Prices and use of metals

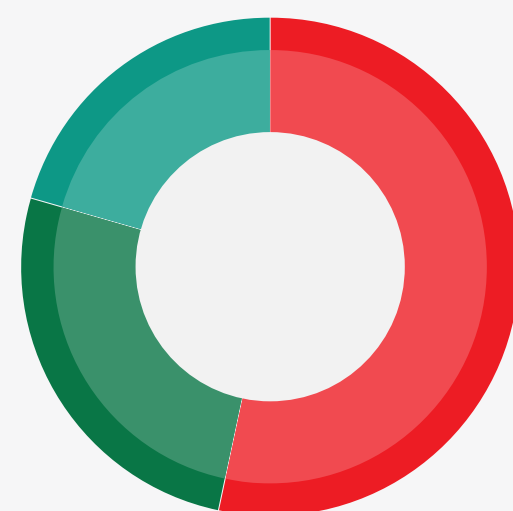
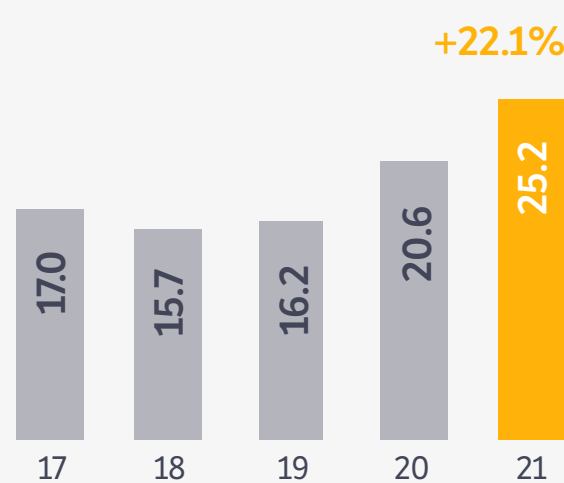
**Gold (London)**  
US\$/oz



Sector	%
Jewelry	66.0
Medals and coins	16.6
Electronics	13.2
Industrial	3.1
Dental and medical work	1.1

Source: GFMS, Refinitiv Gold 2021.

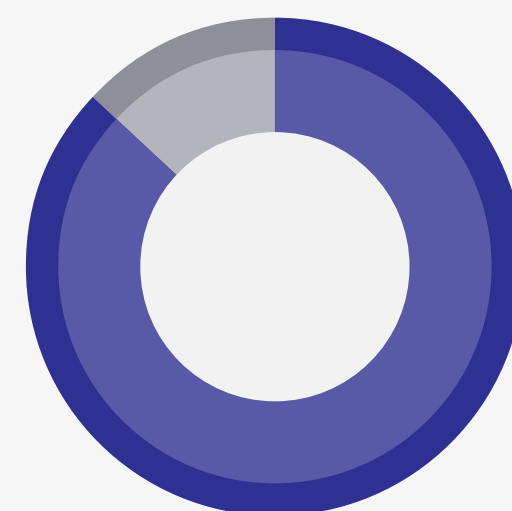
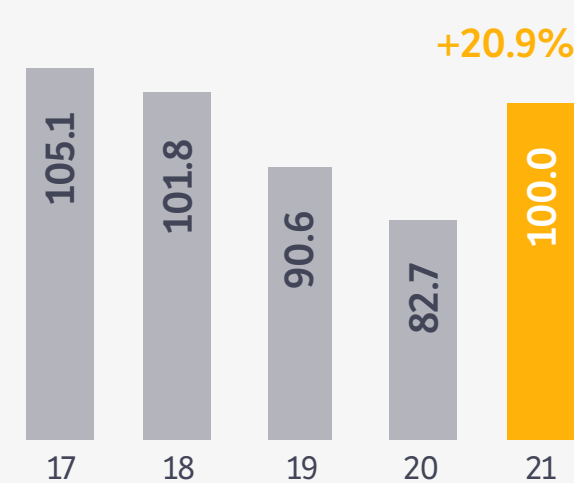
**Silver (Comex)**  
US\$/oz



Sector	%
Industrial	61.1
Jewelry and metalwork	22.7
Coins	16.2

Source: World Silver Survey 2021, The Silver Institute.

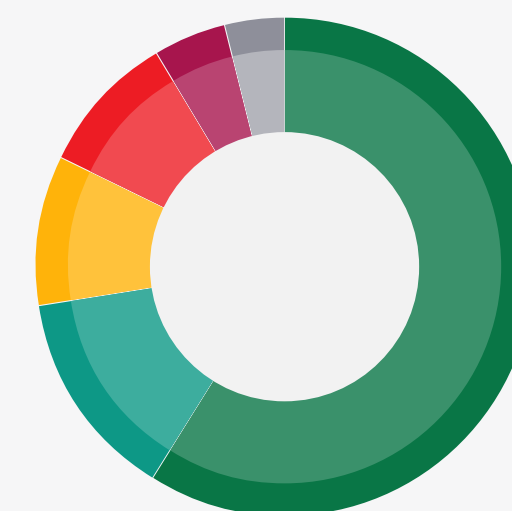
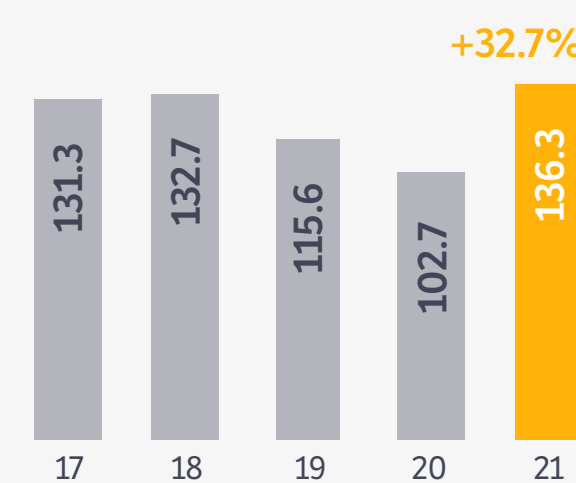
**Lead (LME)**  
US\$/lb



Sector	%
Batteries	87.2
Others	12.8

Source: Wood Mackenzie, Lead outlook Q4 2021.

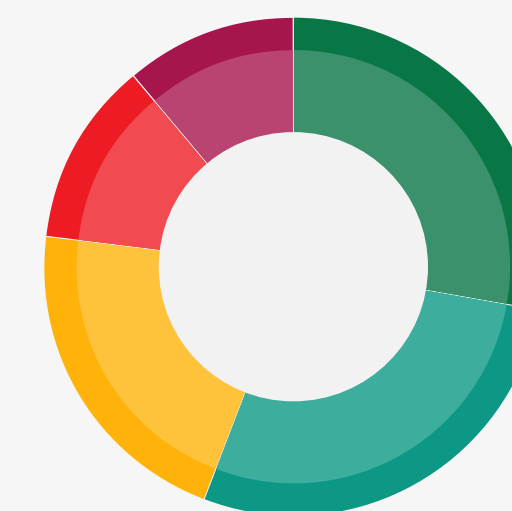
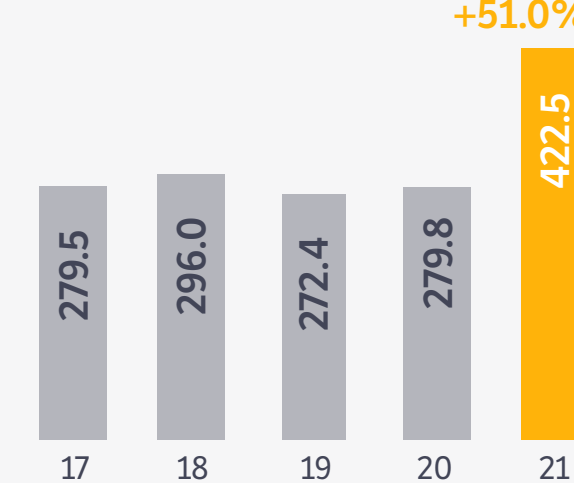
**Zinc (LME SHG)**  
US\$/lb



Sector	%
Galvanizing	58.7
Brass	14.1
Oxides and chemical products	9.5
Pressure smelting	9.1
Rolled and extruded products	4.6
Others	4.0

Source: Wood Mackenzie, Zinc outlook Q4 2021.

**Copper (LME)**  
US\$/lb



Sector	%
Construction	29.0
Electrical network	27.0
Consumer products	22.0
Transportation	11.0
Industrial machinery	11.0

Source: Wood Mackenzie, Copper outlook Q4 2021.

Gold and silver do not include demand for financial investment purposes.



A photograph of an industrial facility, likely a refinery or chemical plant, at night. The scene is illuminated by warm, yellow lights, highlighting the complex network of pipes, scaffolding, and large cylindrical storage tanks. A prominent feature is a tall, silver-colored vertical tank on the left side. In the foreground, there are several large, dark-colored storage tanks. The background shows a clear night sky with a few stars visible.

*US\$ 391 M*  
net profit for the year.

# Management reports

In the first year of a new administration, we received a mandate from the Board of Directors to be more efficient, productive, and results-focused through collaborative work within and outside the organization.



# Annual report of the Board of Directors to the Shareholders' meeting, corresponding to fiscal year 2021



## Dear shareholders:

As Chairman of the Board of Directors of Industrias Peñoles, S.A.B. de C.V., and on its behalf, I present this report based on an analysis of the information provided by the Chief Executive Officer in his Annual Report on the company's performance, the financial and operating results obtained in fiscal year 2021, material aspects relating to the environment, safety and health, relations with the communities where we operate, and corporate governance, as well as a report on the main activities of the Board of Directors.

In 2021, after the economic crisis caused by the COVID-19 pandemic, industrial activity gradually regained growth, particularly during the first half of the year. The recovery was stronger in advanced economies, while lower-income countries were hit harder by the sanitary, economic and social effects of the crisis.

The recovery of industrial production was a strong stimulus for metals demand. Because of its status as a safe haven for investment, the price of gold held steady, while the price of silver—along with those of base metals—grew at average double-digit rates over the previous year.

During the year, Peñoles continued its emergency plan to avoid propagation of COVID-19 and protect the life and health of its employees through the application of sanitary protocols, testing, work from home, support and medical follow-up on detected cases. In collaboration with the authorities, we set up vaccination centers at our facilities, where more than 163,000 vaccine doses were given to people in the communities where we operate and to employees. We also continued our donations of medical supplies, personal protection equipment, staple food supplies and facemasks. Our social investment in the period, in addition to the payment of mining rights to the nation, totaled US\$ 8 million.

Industrias Peñoles reiterates its priority commitment to its employees' health and safety and to protecting the environment. To this end, we reinforced safety and environmental programs, with special attention paid to the tailings storage facilities.

We invested US\$ 171 million in exploration last year (21.2% more than in 2020). We carried out drilling programs at the operating mines and in their areas of influence to generate resources and strengthen reserves. In

addition, we resumed field work in several projects and continued to assess our portfolio of prospects.

The pace of operations in 2021 improved in comparison to 2020. For instance, we were able to complete construction of the processing plant at the Juanicipio gold-silver mining unit in Zacatecas. This was our largest development project during the year, but its final startup depends on its connection to the electrical grid. Since mid-year the ore extracted at this project has been processed at the Fresnillo beneficiation plant to produce gold and silver in concentrates. On the other hand, the tailings flotation plant at Fresnillo was unable to start up operations in the third quarter of 2021 as planned, because of delays in the electrical connection permit. At the Capela mining unit in Guerrero, which began operations in 2020, process stabilization continued to move toward the expected production levels. Investments in fixed assets in fiscal year 2021 totaled US\$ 762 million, 35.8% more than in the previous year.

Gold mining production totaled 812.0 thousand ounces, slightly less than the year before. Silver production was 64.4 million

## Construction of the processing plant at the Juanicipio gold-silver project in Zacatecas was completed.



## We reviewed and validated the Strategic Plan update and risk matrix, and reinforced workplace and environmental safety.

ounces, above 2020, thanks to higher head grades at San Julián and Sabinas, as well as the contributions from Juanicipio and Capela. Copper production in concentrates rose thanks to higher recovery rates at Capela.

In the metallurgical business, gold production volume increased by 16.8% to 1,118,200 ounces. Silver production totaled 75.2 million ounces and lead production 120,355 metric tons, 6.5% and 7.9% higher, respectively, due to higher grades in the concentrates treated and the cements received from the zinc refinery. In the latter, refined zinc production saw a marginal growth of 3,423 metric tons (+1.3%) over the previous year, for various reasons: difficulties in the process of stabilizing the zinc plant and the silver recovery plant, which are taking more time than expected; disruptions in the supply of energy and natural gas due to the freezing weather in Texas in February 2021, and the lack of liquid oxygen, which is attributed to the emergency conditions caused by the pandemic. For these reasons, a plan is in place for this plant to reach its nameplate capacity over the course of 2022.

Financial results for the year were substantially better than the year before. Sales rose above their 2020 level due to the recovery in metal prices and higher sales volume. Costs and expenses also rose, however, due to the acceleration of operations and the impact of inflation on certain inputs. Financial expenses were lower, after an upturn in 2020 due to the extraordinary expense of bond placements and debt restructuring. There were no losses from impairment of long-lived assets as there had been in 2020 caused mainly by the shutdown of three mining units. Net sales totaled US\$ 5.97 billion—a 27.8% increase—

while gross income rose 24.6% to US\$ 1.56 billion; EBITDA increased 16.4% to US\$ 1.70 billion, and operating income grew 30.8% to US\$ 971 million. The bottom line shows net profits of US\$ 391 million for 2021, an improvement compared to the net loss of US\$ 34 million reported in fiscal-year 2020. The company paid dividends totaling US\$ 149 million to shareholders, and the balance sheet remains solid and conservative with a net debt/EBITDA ratio of 0.7 times.

The Board of Directors adheres to solid corporate governance practices. In the discharge of its duties, the Board relies on the support of committees that have been created as recommended in the Code of Best Principles and Practices for Corporate Governance. The Board met six times in 2021. Among the topics discussed and approved during those sessions, the most important were the following:

- ▶ Follow-up on the COVID-19 emergency plan.
- ▶ Reinforcement of workplace and environmental safety programs.
- ▶ Strategic Plan update.
- ▶ Review of the risk matrix.
- ▶ Metal hedging and exchange rate program.
- ▶ Analysis and adjustments to the investment and financing programs.
- ▶ Review of the budget for the 2021 and 2022 fiscal years.
- ▶ Amendments to the company's Code of Conduct.
- ▶ Actions necessary for complying with the new law on outsourcing.

The most relevant activities of the committees, whose members are listed in the Corporate Governance section of the Annual Report, include the following:

- ▶ The Executive Committee reviewed budgets and operating and financial performance for each business, including safety data. It also followed up on actions to prevent COVID-19 contagion and validated the bases of the Strategic Plan.
- ▶ The Audit and Corporate Governance Committee reviewed the operating and financial results, performance, and the internal and external audit plans and the plan of the Compliance Department. It evaluated the external audit services and validated compliance with regulatory requirements. It also reviewed accounting policies, transactions with related parties and legal matters.
- ▶ The Finance and Planning Committee reviewed financial projections, evaluated investment projects and reviewed the company's financial position.
- ▶ The Nomination, Evaluation and Compensation Committee conducted its annual evaluation of senior management performance, in accordance with policy, and authorized increases in salaries and benefits, as well as bonuses and other results-based recognitions. The compensation package for senior management consists of a base salary, benefits as required by law, and other elements common to the industry in Mexico. It also validated the capacity and experience of the members of the Board of Directors and recommended their compensation.



Pursuant to the provisions in the Securities Market Law, the Audit and Corporate Governance Committee submitted its Annual Report, which is presented to this Shareholders' Meeting.

Submitted herein for the consideration of this Shareholders' Meeting is a report on the main accounting policies and criteria that served as the basis for preparing the financial statements, which include, among others, the basis of presentation and consolidation, significant accounting policies, and new accounting pronouncements, which were audited by the external auditors and are an integral part of this report. The company's financial statements were prepared in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board.

In the opinion of the Board of Directors, the report presented to this Shareholders' Meeting by the Chief Executive Officer reasonably reflects the financial position and results of the company, as well as the key developments of the business during 2021.

Through the transformation we have undertaken, we aim to become more resilient in the face of uncertainty, achieve greater operational and administrative efficiency, and improve performance, results and accountability. Whatever happens, we must not only endure, but thrive. This evolutionary process is the foundation for the sustainable future of the Company for the benefit of our stakeholders and our country.

**Dear shareholders:**

The passing of our Honorary Chairman, and Chairman of the Board for 54 years, on February 2, 2022, moves me to express a heartfelt recognition for the formidable legacy he left our company and Mexico. The best way to honor his memory is to preserve and build upon this legacy, a task to which I and all the other Board Members and employees of this company are firmly committed.

I want to convey my gratitude to the members of the Board of Directors for their dedication, commitment and valuable contributions. I would also like to thank our employees for their hard work and dedication. And I extend my appreciation to you, our shareholders, for your continued confidence in us.

The best way to honor  
Don Alberto Baillères memory  
is to preserve and build upon  
his formidable legacy.



**Alejandro Baillères**  
Chairman of the Board of Directors



# Report on the company's performance presented by the Chief Executive Officer to the Board of Directors, for fiscal year 2021



## Mr. Chairman, Ladies and Gentlemen, members of the Board of Directors:

In my capacity as Chief Executive Officer of Industrias Peñoles, S.A.B. de C.V., and in accordance with the provisions of the Securities Market Law, I hereby submit for your consideration the Annual Report corresponding to the company's performance and results in the 2021 fiscal year, as well as the Financial Statements and their accompanying notes, which include the principal policies and criteria for accounting and reporting followed in preparing the financial report presented herein.

In 2021, the global economy showed a remarkable growth after the deepest recession in a decade, caused by the COVID-19 pandemic. The recovery has been uneven, however, stronger in advanced economies, and still lagging in most of the emerging and developing countries.

Supply chain disruptions resulting from the pandemic, combined with imbalances in

the supply-demand ratio and rising energy prices, unleashed inflationary pressures in various regions. In Mexico, headline inflation reached 7.36%, the highest in 21 years, while the growth in Gross Domestic Product was 5.0%, supported largely by the recovery of the U.S. economy.

Industrial activity recovered boosting demand for base metals and driving prices. Copper benefited the most from this trend—due to infrastructure development in China—reaching an average quotation of 422.51 cents per pound—51.0% higher than the year before. Zinc and lead prices also rose, gaining 32.7% and 20.9% on average, respectively. Silver quotations averaged US\$ 25.18/oz (a 22.1% increase over 2020), supported by both its uses in manufacturing and its value as an investment. Gold—considered safe haven for investment—saw ups and downs as some central banks began withdrawing monetary stimulus measures,

and uncertainty returned regarding the course of COVID-19 and the uptick in inflation. Gold prices, however, remained high, averaging US\$ 1,799.58/oz during the year (1.7% above the 2020 average).

For almost the entire year, peso/dollar parity was stable in the range of Ps.20 per dollar. This situation changed toward the end of the year, however, on the growing strength of the greenback and an economic slowdown in Mexico. At year-end, the peso stood at Ps.20.58 per dollar (a 3.2% depreciation) while the average annual exchange rate stood at Ps.20.28 per dollar (an appreciation of 5.6% compared to the average in 2020).

In the first year of the new management of Industrias Peñoles, we received a mandate from the Board of Directors to be more efficient, productive and results-oriented, through collaborative work within and beyond the organization. In coordination with the new

**In a more favorable environment, the recovery of industrial activity boosted the demand and prices of metals.**



With a renewed mission and vision, we restructured our strategy, made up of six pillars that will guide us toward our future aspirations.

structure of Baluarte Minero, we are evolving toward a sustainable future in every aspect, to benefit all our stakeholders. This way, as our Chairman of the Board has instructed us, we can ensure that the company not only endures but prospers in an increasingly uncertain and changing environment. This profound transformation has prompted deep-searching reflection in every sphere of the organization. It will undoubtedly bring a cultural shift and a new way of doing things. Sustained by a renewed mission and vision, we restructured our strategy, which is now made up of six pillars that will guide us as we advance toward our future aspirations.

In the past year, our priority has been following strict sanitary protocols to avoid the propagation of COVID-19 within our facilities. We continued to apply hygiene and protection measures in all of our workplaces and extended the work-from-home scheme for administrative staff, while bolstering prevention measures for all of our operating staff. We provided 122,682 rapid tests and offered permanent medical and psychological assistance. Despite our efforts, we recorded 3,213 positive cases in the Peñoles family, and tragically, 10 lives were lost to the illness.

We also continued our active support for the communities where we operate, donating hospital supplies, personal protection equipment and pantry staples. We made our facilities available for vaccination campaigns, in coordination with the authorities, where more than 163,000 vaccine doses were administered to our personnel and to others.

The pace of our operation improved over the previous year. The following are the highlights of our operating and financial results for 2021. Financial figures are stated in millions

of dollars unless otherwise indicated, and changes were calculated with respect to the close of 2020.

Our Capex investment last year totaled US\$ 762 (this is, US\$ 201 or 35.8% higher than the year before), a large part of which went to development of the Juanicipio mine project of Fresnillo plc, which was in its final phase of construction. In contrast, our pace of investment was markedly slower in 2020 because of measures taken to protect employee health and preserve liquidity amid the pandemic. That year, however, we were able to complete construction and start up some major projects, like the Capela mining unit in Guerrero and the Silver Recovery Plant II at Met-Mex Torreón.

We invested another US\$ 171 in exploration (a 21.2% increase over 2020). We resumed some field work, still partial in some cases, primarily in zones neighboring our existing mines. At the Capela mine we continued the drilling campaign begun in late 2020 to generate resources feasible to turn into reserves. This work enabled us to detect the continuity of mineralized mantles at the western end of the mine, which will be quantified in 2022. At Reina del Cobre, adjacent to Velardeña, in Durango, we began preparing for underground mining work to locate the adequate drilling positions and increase the reliability of the resources detected. In La Industria zone, also close to Velardeña, we drilled into veins to increase resources and reinforce inventory at this mine. At the Fortuna del Cobre project in Sonora we completed the first phase of drilling and found ore bodies with copper in oxides and sulfurs; this information is being analyzed to decide on a continuation of the work. We also prepared a potential portfolio of early opportunities with other mining groups for possible partnerships or acquisitions.

Meanwhile, at Fresnillo plc, intensive drilling programs were conducted at operating mines and emerging prospective zones were evaluated in the Fresnillo, San Julián, Guanajuato and Capricornio districts (the last in Chile). The results enabled us to begin additional drilling programs and advance toward quantification of new mineralized structures.

The Capela polymetallic mine, which began operating in 2020, was in the phase of process stabilization, which increased the pace of ore milling and ore processing and contributed to the production of metallic contents. Work is still ongoing, however, on reaching this mine's nameplate capacity. Among the most important adjustments, we tested different configurations for circuits and chemical schemes at the processing plant to optimize flotation in the lead-copper separation phase. As a result, lead and copper recoveries improved, but there were delays in the mine fill work, which resulted in lower-than-expected levels of ore extraction. There were also some unscheduled interruptions at the plant. Multi-disciplinary teams were assembled and have been able to solve some of the challenges, thus we expect that with the lessons learned and measures taken, the mining unit can reach full capacity in 2022.

In the Mining Division, the volume of ore deposited rose by 7.9% to 29.3 million metric tons, due primarily to increased production at Herradura and Noche Buena. In 2020, the mining division was affected by the extension of sanitary restrictions to open-pit operations. Last year, these mines offset the lack of ore production at Milpillas after extraction was halted because of plunging copper prices and high operating costs. The volume of ore milled and processed at underground mining units, on the contrary, fell by 5.6%, partly due



We worked to stabilize processes at the Capela mining unit to reach its installed capacity. We also made progress in the management of tailings storage facilities based on international standards.

to the suspension of operations at Bismark (due to exhaustion of reserves) and Madero (due to the decline in zinc price, low grades and high costs), as we reported at the time. This was offset by a rise in production at Capela (compared to the start-up months in 2020) and Velardeña (due to optimization of milling and processing). Adding to this was the ore from the Juanicipio project, which was processed at the Fresnillo plant while construction of its own beneficiation plant was under way.

Increased production of higher-grade ore at Herradura and Noche Buena, together with a higher volume processed at Capela and the ore from Juanicipio mitigated a slower recovery of gold content in the ore deposited at the leaching pads, so that gold production reached an annual volume of 811,992 ounces (down 1.5% from the previous year).

Silver mining production totaled 64.4 million ounces, 3.0% year-to-year gain, primarily because of better-than-expected grade at San Julián (disseminated body), a rise in processed volume with better head grades at Juanicipio and Sabinas, and a higher volume of ore processed at Capela with better grades and recoveries. These operations offset the lower production at Saucito, where processed volume decreased with lower head grades (this due to problems with mine instability that limited access to higher-grade bodies); at Fresnillo and Herradura (both because of lower head grades and recoveries) and Ciénega, due to lower-than expected grade.

In mining production of industrial metals, lead content declined by 8.9%, to 78,758 metric tons, primarily because of a reduction in the volume of ore processed by Saucito, Fresnillo and Ciénega, combined with lower head

grades in these latter two units. Zinc volume also fell by 4.9%, to 274,049 metric tons, primarily because of the lack of production of Madero and Bismark. These shortfalls were partly offset by production from Capela, Velardeña and Tizapa, helped by higher ore processing, and a higher content in the processed ore from Juanicipio.

Copper production in concentrates grew 25.8% chiefly due to a higher volume processed with better grade and an increased rate of recovery at the Capela unit. Before work at the Milpillas mine was halted, this unit was turning out cathode copper from the ore deposited at the leaching pads. As we reported in 2020, extraction work at this unit's mine was temporarily suspended due to an abrupt drop in copper prices, high operating costs and low grades.

Furthermore, we continued to implement the governance framework for tailings storage facilities, with the support of a panel of independent experts. We also bolstered our internal structure for managing deposits based on international standards. Foremost in this effort was the work at Sabinas and Velardeña, where intensive construction and tailings management efforts were undertaken to guarantee operating continuity. Because of this we have safe facilities for disposing of this waste, which is not classified as hazardous nor does it constitute a source of pollution. We also obtained the environmental permits needed to adjust the design of various operating tailings facilities.

In line with our "intelligent mine" vision, we are working to automate and optimize operating processes at our mining units. This year's actions include the optimization of explosives consumption at all units, as well

as the automatic dosing of reagents at the Tizapa concentrator plant, which, due to its good results, will be extended to the rest of the operations.

In the last quarter of 2020, construction of the tailings flotation plant was completed at the Fresnillo mine for recovery of silver and gold content (Pyrites phase II) complementing phase I, which is already operating at Saucito. The startup had to be pushed back because of the pandemic and the delay in obtaining the permits due to certain additional technical requirements requested by the Federal Electricity Commission (CFE).

We also completed development of the Juanicipio mining project in Zacatecas (a 56%-44% joint venture between Fresnillo plc and MAG Silver Corp), with a total investment of US\$ 440.0 million. Average production is targeted at 11.7 million ounces of silver and 43,500 ounces of gold. At the close of the year, both load and water testing were carried out, along with tests of key systems. Commissioning will depend on the facility's connection to the electrical grid.

The metallurgical operations processed higher volumes of concentrates and other materials in the lead-silver circuit, which boosted annual production of precious metals and lead. We also acquired concentrates with a high lead content to balance our mixtures and improve silver recovery. Refined gold production reached 1,118,196 ounces, a 16.8% increase, due to higher treatment of dorés at the lead-silver refinery and an improvement of grades in the mixtures that fed the smelter. For the same reasons, besides processing silver cements resulting from the recovery of this metal at the zinc plant, silver production grew 6.5% to 75.2 million ounces, while lead production increased 7.9% to a total of 120,355 metric tons.



We increased production and sales volumes of refined metals and chemical inputs. Our portfolio of power plants generated clean electricity equivalent to 47.8% of our consumption.

In the zinc circuit, our efforts focused on normalizing the interaction between the old roasting plant and the new direct leaching plant, in order to gradually build up production and achieve the full annual production capacity of 350,000 metric tons of refined zinc production in 2023. To improve zinc quality and energy efficiency, this year we began a program to replace anodes and electrodes in poor condition in the electrolytic cells. There were also disruptions in the supply of energy and natural gas due to freezing weather in Texas in February, and a scarcity of oxygen relating to the COVID-19 pandemic, along with some chemical imbalances in the leaching-purification circuit and failures in the roasters that derived in unscheduled shutdowns. All these factors resulted in a slightly lower volume of concentrates treated, which also affected zinc recovery. Nevertheless, annual output of refined zinc reached 264,366 metric tons (1.3% higher than in 2020), along with 4.6 million ounces of silver content in cements. Some of these cements (86.5%) were sent for processing to the smelter, and the remainder were sold. We are currently analyzing various alternatives to improve the quality of cements in order to process them faster in the smelter, without affecting the sintering process.

Among our inorganic chemicals, magnesium oxide stands out with a production of 76,273 metric tons (47.6% more than in 2020), due to a recovery of demand, particularly for refractory, caustic grade and hydroxide, in our core markets in North America and Europe. Sodium sulfate volume was 761,854 metric tons, up 2.1% over 2020 even though production was affected by disruptions in the supply of natural gas due to below-freezing weather in Texas in February of last year. Magnesium sulfate once again reached

a new production record of 64,197 metric tons because of strong performance in the domestic agricultural industry.

In the energy area, uncertainty persisted over the regulatory framework for private participation in the energy sector. This situation does not alter our goals, but it does complicate them, as we remain committed to environmental sustainability, the search for continuous and secure sources of supply at a competitive cost, and the management of energy efficiency. We are also aware of our stakeholders' demand for a decarbonization plan for our operations; therefore, we continue to explore the development of technologies that offer cleaner options, focused on establishing environmental and social goals and programs that will make us an increasingly sustainable company.

In 2021, our electricity demand decreased by 2.7% because of the shutdown of three mining units. Our power plant portfolio generated energy equivalent to 85.0% of our self-supply. With the Eólica Mesa La Paz wind farm operating for a full year, we were able to increase the proportion of renewable sources in our consumption mix from 40.6% to 47.8%. However, only 6.5% of the electricity generated by this plant was delivered to Capela, while the rest was sold to the Wholesale Power Market (WPM) because the Energy Regulatory Commission (CRE) is still in the process of migrating loads to the WPM. Because of this, we had to purchase electricity from the CFE, which accounted for 15.0% of our consumption. The unit cost of this electricity was 14.8% higher than the year before (US¢ 7.87/ kWh), also affected by the increase in transmission rates in legacy contracts from mid-2020, whose constitutionality is currently being discussed.

In our financial results (figures in millions), sales—excluding hedging results—totaled US\$ 6,043, a 28.4% increase due to the recovery in metal prices and higher sales volume. Hedging of metal prices and exchange rates, aimed at reducing the risk of significant fluctuations and the volatility of our EBITDA, generated an opportunity cost of US\$ 71, which unfavorably compares to the cost of US\$ 34 reported in 2020. Thus, net sales came to US\$ 5,972, 27.8% higher than the year before.

The cost of goods sold rose 29.0% to US\$ 4,416, attributable to higher cost of metal resulting from increased prices and volume of metal content in various materials purchased from third parties for processing at our metallurgical plants, and a rise in production costs due to the accelerated pace of operations. This meant more consumption and increased development work at our mines, a full year of operation at Capela, and inflation in certain cost items, particularly energy, labor and operating materials. Adding to this was the adverse effect of the peso's appreciation against the dollar on peso-denominated costs (approximately 50% of our production costs). Finally, we entered a charge for inventory movements, offsetting the credit in 2020, primarily because that year there was a recognition of additional gold inventory at the Herradura leaching pads.

Consequently, gross income totaled US\$ 1,556, 24.6% more than in 2020. General expenses amounted to US\$ 585, a 15.5% growth due to higher activity this past year. With this, EBITDA rose to US\$ 1,696 and operating income to US\$ 971, 16.4% and 30.8% higher, respectively, than in 2020. Net financial expense was down 46.2%, to US\$ 153, primarily due to the extraordinary



expense from the 2020 debt restructuring and a foreign-exchange loss in the same year. We also received other revenues totaling US\$ 11 from the sale of concentrates and from the Zimapán unit, which was formerly leased out, among other items. In contrast, 2020 figures under this line showed other expenses of US\$ 181, due primarily to impairment in the value of long-lived assets, especially at mining units where activities were suspended.

The income tax provision was US\$ 261, a US\$ 76 increase over the year before, corresponding to higher profits. This was offset by a deferred tax credit resulting from higher inflation in the year, while in 2020 the company made a voluntary adjustment to the tax treatment of expenses incurred in mining work for the 2013-2019 period. There was also an increase in the provision for special mining rights, due to a higher tax base. For these reasons, net income in fiscal-year 2021 was a profit of US\$ 391, compared to a loss of US\$ 34 the year before.

At Peñoles we will continue working to improve the efficiency and productivity of our operations, focusing especially on performance at the zinc plant and its silver recovery, and the Capela mine, with the aim of reaching full nameplate capacity at these facilities. We are aligning our efforts with the company's strategic pillars through concrete actions like implementation and reinforcement of critical controls and identification of value drivers to carry out the transformation that our Chairman of the Board demands from us.

Over the year, we began a process of cultural evolution and comprehensive wellbeing led by Baluarte Minero, so that everyone in our

staff can achieve their maximum personal and professional potential, feeling committed and motivated to achieve extraordinary results together. Our actions in 2021 included a diagnosis of current culture and the identification of employees with the potential for transformative leadership.

At Industrias Peñoles, we not only strictly abide by national and international laws and regulations and conduct our business with integrity, but we also act based on the values of Confidence, Responsibility, Integrity and Loyalty. We intend to transmit these values to our entire value chain and all our stakeholders. We have a policy of zero tolerance for crime, fraud and corruption. That is why we are continually strengthening our regulatory system, compliance controls and due diligence in our relationship with third parties. We are also reinforcing our cybersecurity governance to protect our assets and encourage the responsible use of information technology.

We also continue to support labor modernization to improve productivity, life quality and the income of our employees. Our negotiations under collective bargaining agreements with unions were conducted in a cordial, respectful manner and in a climate of cooperation and mutual benefit.

Finally, I wish to express, on behalf of all the people of Industrias Peñoles, S.A.B. de C.V., our deep regret at the passing of Mr. Alberto Baillères, Honorary Chairman and Chief Executive Officer of the company for 54 years. We all recognize that his leadership, vision and direction have been invaluable to the outstanding performance of our organization, and his humanism, example, inspiration and teaching for all of us.

I would like to thank the Chairman and the members of the Board of Directors and Executive Committee for their confidence, their invaluable support and unerring guidance. I am also grateful to our employees for their impressive commitment and dedication. We are all key players in this evolution toward the sustainable future the world needs.



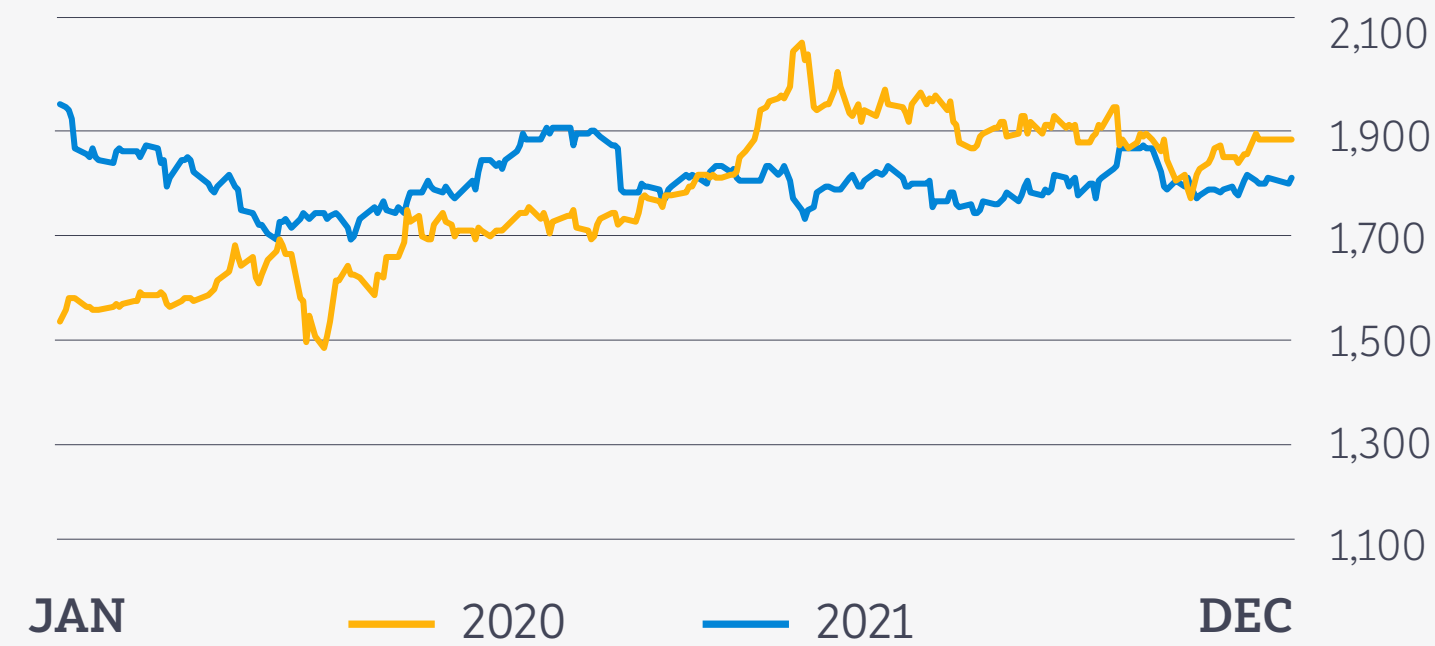
**Rafael Rebollar González**  
Chief Executive Officer



# Prices and exchange rate

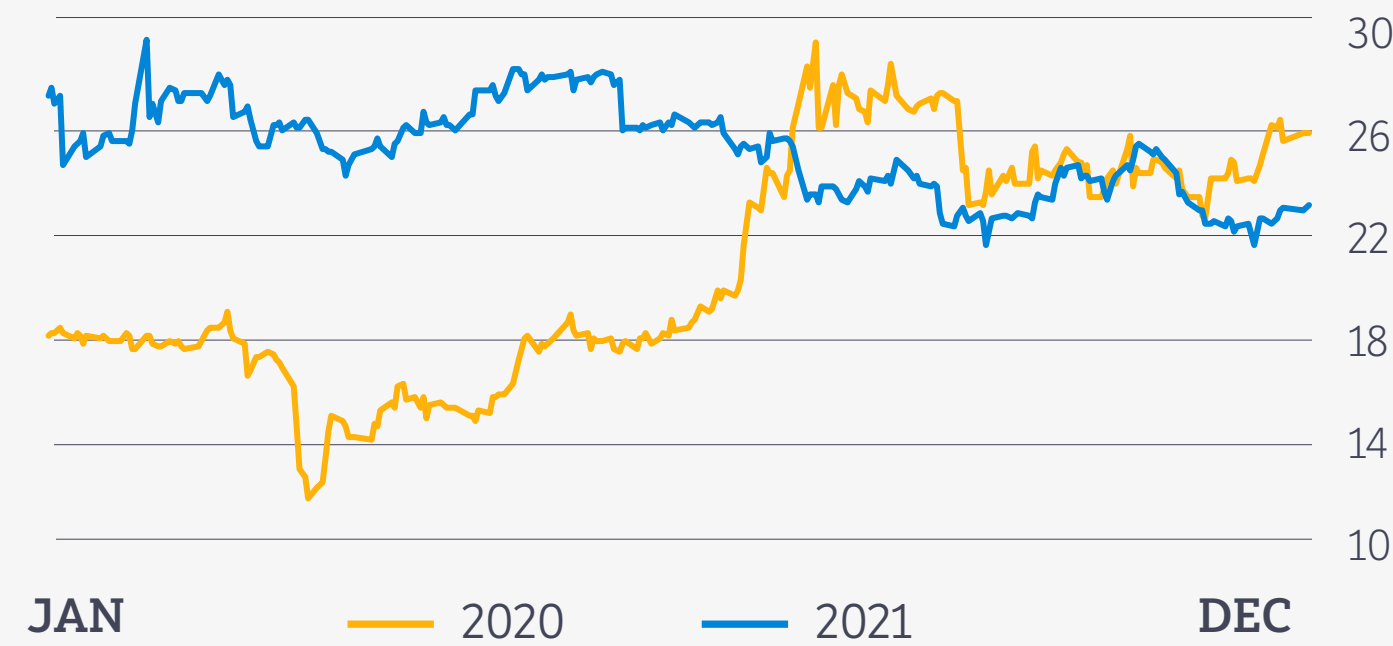
Gold (London)

US\$oz



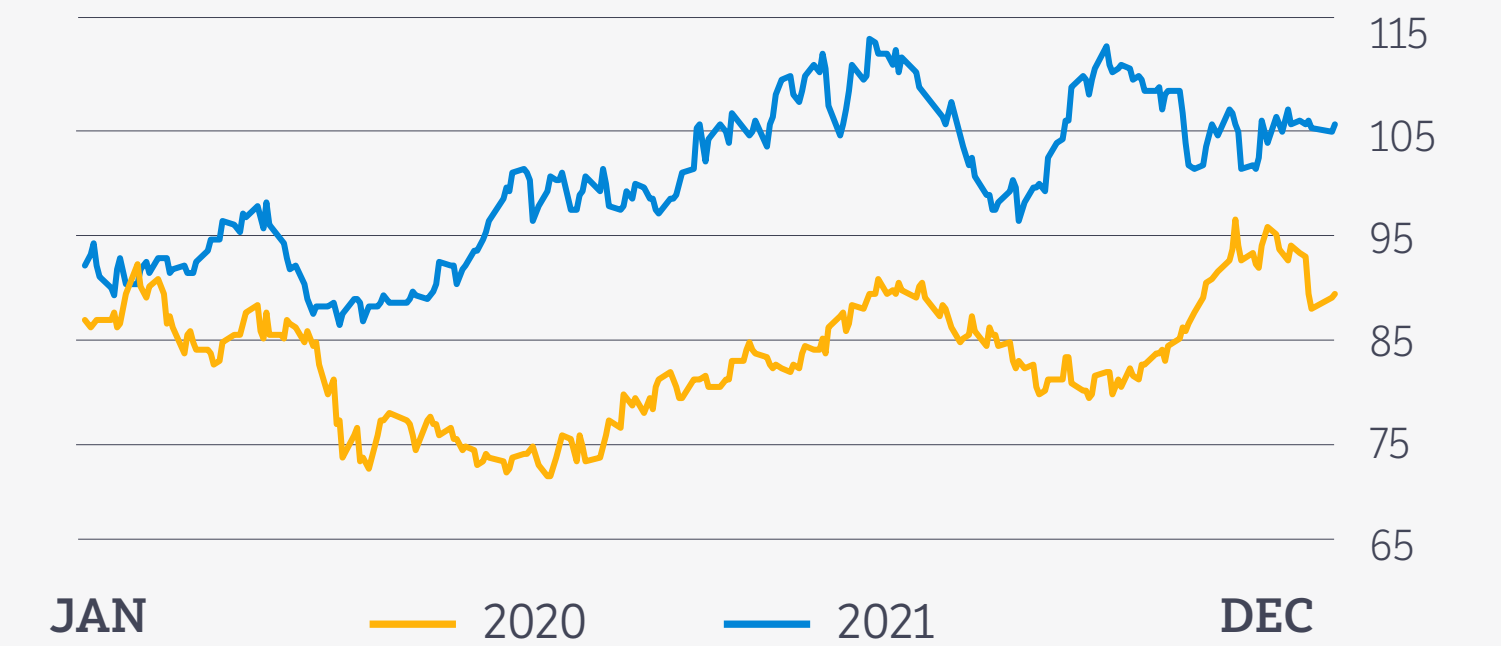
Silver (Comex)

US\$oz



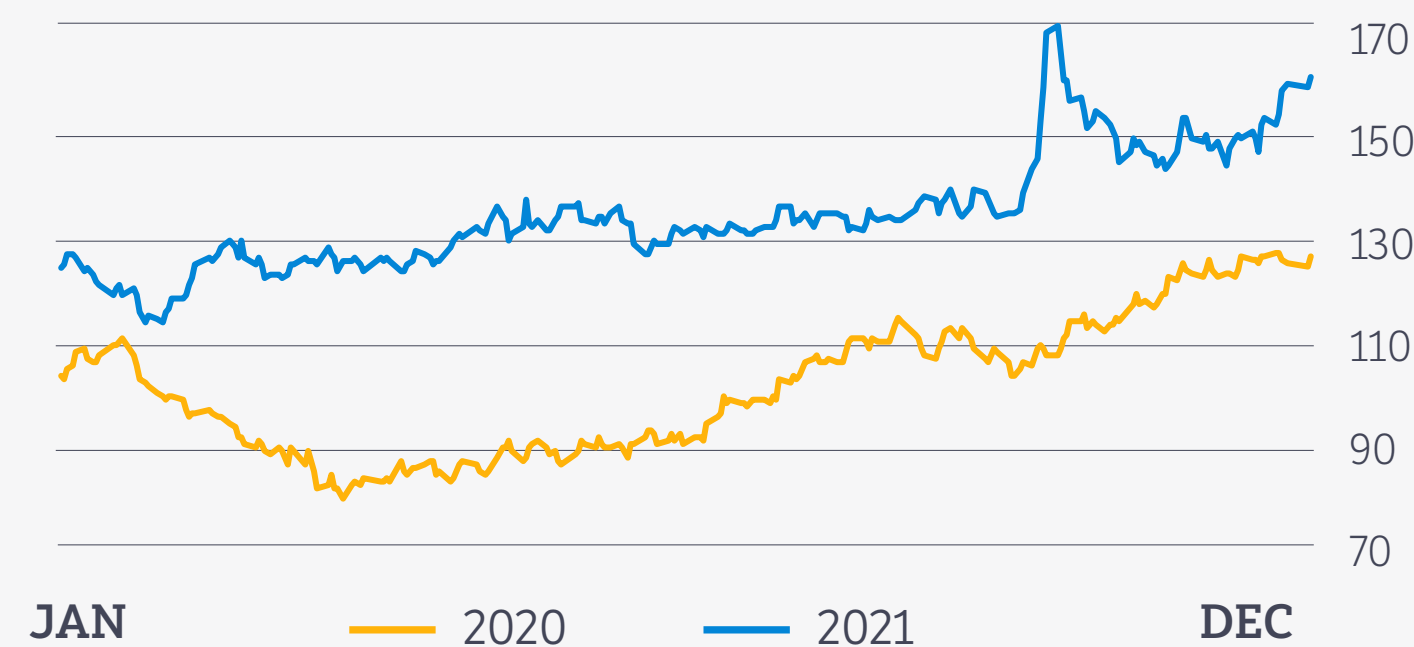
Lead (LME)

US\$/lb



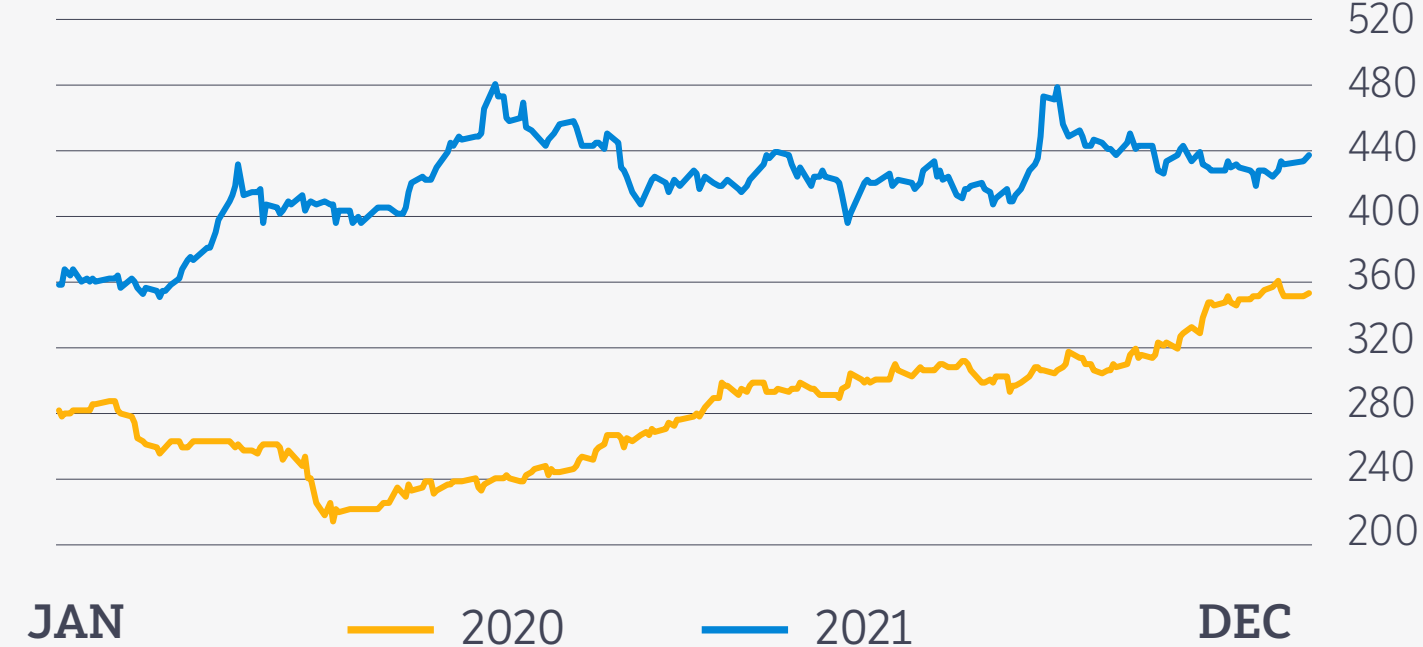
Zinc (LME SHG)

US\$/lb



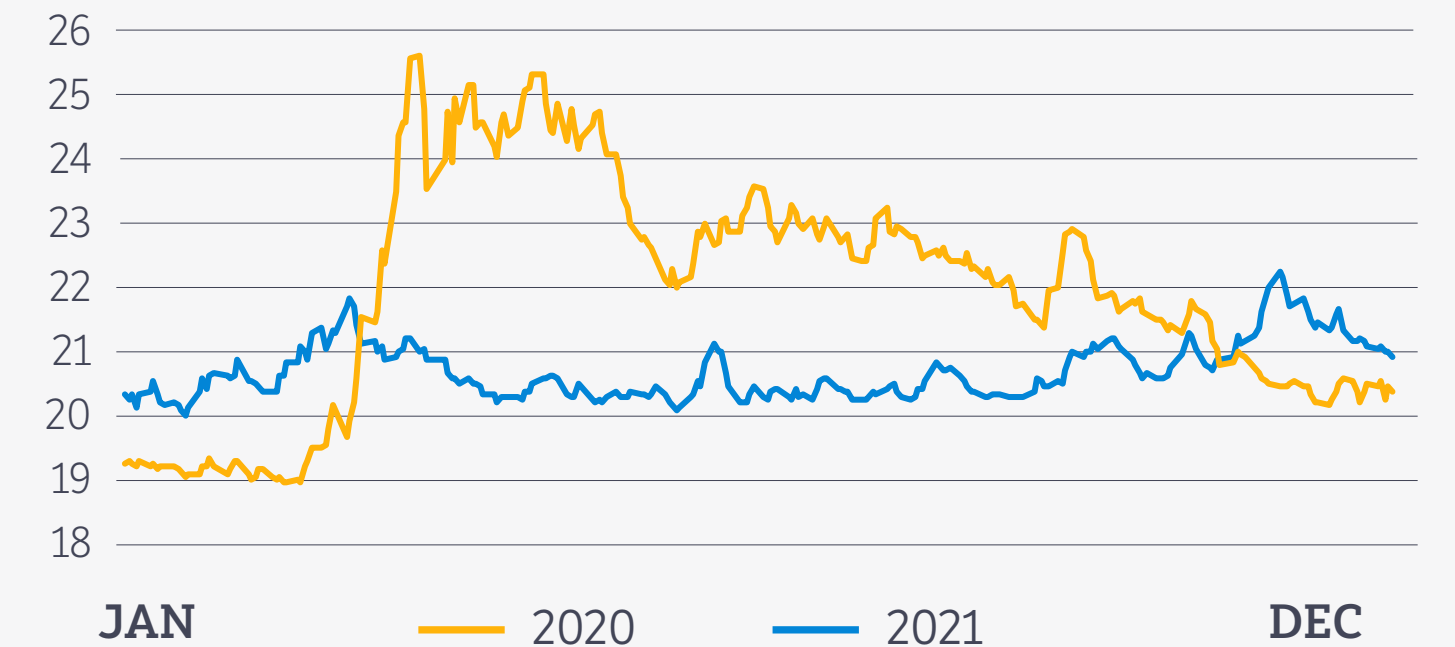
Copper (LME)

US\$/lb



Official exchange rate

(MX/US\$)





# Audit and Corporate Governance Committee

## ANNUAL REPORT

Mexico City, March 1, 2022.

### To the Board of Directors of Industrias Peñoles, S.A.B. de C.V.

Present.

#### Dear Board Members:

In accordance to article 43 of the Securities Market Law (“SML”), 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 and the Code of Principles and Best Practices of Corporate Governance (Código de Principios y Mejores Prácticas de Gobierno Corporativo), I hereby submit the Annual Report of activities of such Committee corresponding to the 2021 fiscal year.

The Committee held four sessions regarding the fiscal year of 2021 to review and follow up the business performance, according to the following:

- ▶ We were informed about the most important projects of the Company and their progress, with particular follow up on the labor and commercial situation resulting from the effects of the Covid-19 pandemic.
- ▶ It was reviewed that the external auditors firm, as well as the external auditor and its team, fulfilled and maintained, during the term of their external audit services, the independence, personal and professional requirements, and that they had the quality control system set in the General Regulations Applicable to the Public Companies Supervised by the National Securities and Bank Commission that hire External Audit Services of Basic Financial Statements (Disposiciones de Carácter General Aplicables a las Emisoras Supervisadas por la Comisión Nacional Bancaria y de Valores que Contratan Servicios de Auditoría Externa de Estados Financieros Básicos) (hereinafter referred to as the “Regulations”).
- ▶ We became acquainted of and followed up the Annual Plan of the External Auditor, including the scope, nature and opportunity of the audit processes, the meaningful procedures that they decided to analyze, as well as the risks and key matters that they determined for this audit. We evaluated the performance of the firm, concluding that it fulfilled the necessary requirements for the execution of the assigned job, in accordance with the Regulations and the additional services received met the assigned objectives. In addition, during the year, the internal control findings reported in the suggestions letter were followed.
- ▶ The Annual Plan of the Internal Auditor was approved, and we reviewed its quarterly reports on the status of the internal control system, the important aspects observed during the execution of the Plan, as well as the corrections made during 2021 and, as the case may be, those aspects that remained outstanding.
- ▶ We reviewed the Statement issued by the external auditors referred to in article 35 of the Regulations, so we were aware of the materiality and the tolerable error considered in their audit, the evaluated meaningful processes, the nature of the audit adjustments and their amount, as well as the conclusion they reached. They reported that all significant audit differences observed and confirmed by the administration were contained in the audited Financial Statements.
- ▶ Each quarter we followed up the financial information of the Company. Also, the consolidated and individual Financial Statements prepared by the management as of December 31, 2021, were analyzed, as well as the unqualified opinion expressed by the external auditors on their opinion about them.
- ▶ We 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, we were informed about different internal control issues presented by the administration. Additionally, we paid special attention to the outsourcing reform and the electric reform initiative.
- ▶ The main risks to which the Company is exposed were disclosed, with special emphasis in the cybersecurity risks, and the way the Company is managing them.



- ▶ We were informed about the corporate restructuring of the Company and the main changes that it had in the business performance.
- ▶ We assessed the report presented by the Chief Executive Officer (“CEO”) in accordance to article 42, section II, subparagraph e) of the SML; we consider that the information contained therein reflects in a reasonable manner the financial position and the results of the Company, due to: (i) the accounting policies and criteria applied 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 for signing the Financial Statements, referred to in article 32 of the Regulations, was obtained and, (iii) the accounting policies and criteria have been consistently applied. Therefore, the Committee recommends to the Board of Directors the approval of the consolidated and individual Financial Statements corresponding to the fiscal year 2021, as well as the accounting policies and criteria applied by the Company in the preparation of the financial information.
- ▶ There was no knowledge that Shareholders, Board Members, Relevant Officers, employees or, in general, any third party, had made observations regarding the accounting, internal controls and issues related to internal or external audit, or of complaints made during 2021 regarding irregularities in the management.
- ▶ The management kept informed to the Committee on the compliance of the Code of Conduct and the complaints received through the mechanism of disclosure of undue acts and protection to informants.
- ▶ In several minutes of ordinary sessions of the Board of Directors, resolutions were included regarding the operations and activities in which the Committee intervened in accordance to the SML, therefore the Secretary of the Board of Directors certified the resolutions of the Shareholders Meetings and the Board of Directors corresponding to the 2021 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 that of third parties that correspond to the Company or to legal 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 the Committee, in which it reported that, during 2021, it reviewed the performance of the Relevant Officers without finding any remark, and that it examined the compensation packages of the CEO and the Relevant Officers which, in opinion of the Nomination, Compensation and Evaluation Committee, are in accordance with the policy approved by the Board of Directors.

Finally, it is hereby informed that the most significant transactions, carried out with related parties, subsidiaries and other affiliate companies of the consortium of which the Company is part, during 2021, correspond, among others, to the sale of metals, treatment fees, concentrates purchase, energy purchase, 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.



We seek to standardize and achieve capacity in our operations, maximize efficiency and profitability.

# Performance

The pace of operations improved compared to the previous year. We remained focused on protecting the health of our people as the pandemic continued, and we strengthened security and control of critical risks.





# Exploration

We conduct exploration activities under strict ethical standards, with respect and support for the communities and environmental protection.

Peñoles' Exploration Division is dedicated to detecting and developing new polymetallic and copper projects in Mexico and South America, where we hold concessions for over 1.3 million hectares. It also supports our mining units through exploration campaigns in their areas of influence, to strengthen their position by generating mineral resources, while building a powerful portfolio of early opportunities with other mining groups for potential partnerships or acquisitions in high-impact projects.

We have qualified and motivated personnel, as well as equipment and work systems that guarantee the quality of our studies. We rely on procedures, codes, protocols and training to ensure that our work is carried out under strict ethical standards, respecting and supporting the communities where we operate and maintaining a culture of environmental protection.

Consolidated investment in exploration—Peñoles and Fresnillo—totaled US\$ 171 million in 2021, 21.0% more than in the previous year. Of this amount, US\$ 18.2 million were allocated to new Peñoles projects, US\$ 22.5 million for exploration of mines to replenish and increase reserves, and the rest to mines and projects at Fresnillo plc.

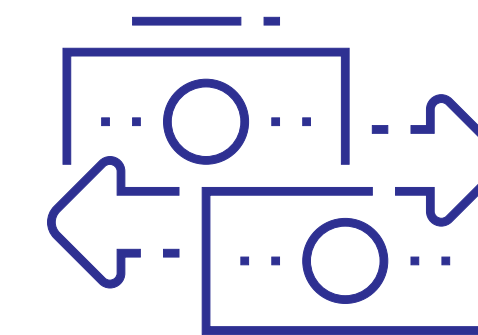
In 2021 we conducted direct exploration on six projects totaling 47,313 meters of drilling, both in the areas of influence of the current mining units and in new projects. Geological, geochemical and geophysical work also took place at 31 prospects for further exploration with drilling and subsequent assessment. Prospecting also intensified, with the analysis of eight external projects in search of opportunities.

The most important results were obtained in the following projects:

## Reina del Cobre (polymetallic)

*Location: Cuencamé, Durango*

The polymetallic skarn project is located 20 km from the Velardeña unit. As of the close of 2021, the detected (inferred) resources totaled 19 million metric tons with 1.9% of equivalent copper. Considering the depth of the ore bodies, we began preparing to conduct 1,400 meters of underground mining work in order to locate appropriate drilling positions for ensuring a higher level of reliability of the resources and increase these to the extent possible. We expect to begin drilling in 2023 and to have a new estimate on the resources by the end of 2024.



**US\$ 171 M**  
investment allocated to increase resources and reserves and resume field work on our project portfolio.







**Fortuna del Cobre (copper)**

Location: Pitiquito, Sonora

In this disseminated copper deposit, we have historic information indicating inferred resources of 10 million metric tons of ore with 1.2% copper, in a secondary enrichment zone. In-house geological studies and drilling over 16,000 meters this past year signaled a significant expanse of copper ore in oxides and sulfurs. The first phase of the drilling campaign was completed, enabling us to quantify the resources, conduct preliminary economic assessments and decide on whether to begin detailed drilling and create a new advanced project.

**La Industria (silver-polymetallic)**

Location: Cuencamé, Durango

At this project, adjacent to the Velardeña unit, explorations in previous years revealed resources totaling 5.2 million metric tons in veins with silver-lead-zinc values that will be processed at this facility. Exploration of this zone in 2021 included 18,600 meters of drilling to search for the extension of these veins. Preliminary quantification indicates 2 million metric tons more in resources, which will strengthen the current inventory. Work is continuing in this zone.

We worked on integrating a potential portfolio of early opportunities for possible high-impact partnerships or acquisitions.

**Capela (polymetallic)**

Location: Teloloapan, Guerrero

We carried out a drilling campaign to determine the possible extent of current ore bodies. So far, we have drilled 7,740 meters there and intercepted the ore continuity in an area measuring 500 x 500 meters at the western end of the mine. We expect to have sufficient information by the first quarter of 2022 to generate resources feasible to convert into new reserves for the mining unit.

**INTERNATIONAL EXPLORATION**

We reviewed and reinforced our international exploration structure to further advance projects in Chile and Peru.

In our portfolio of international projects, the global public health emergency prevented us from making significant progress in talks regarding the acquisition of land for future mining operations for the Racaycocha copper-gold-molybdenum project in Peru, where we maintain excellent relations with surrounding communities. In the fourth quarter we began drilling work at the northern end of the project, where we found evidence of other mineralized

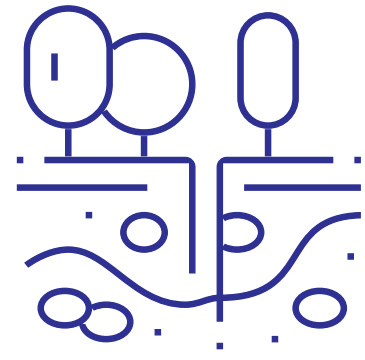
bodies. With 4,000 meters of drilling complete in 2021 the areas of interest detected warrant a continuation of this work.

We also began drilling at the Tambopata polymetallic project in Junín, Peru, where 3,000 meters of drilling was conducted, revealing promising anomalous zones. The work will continue in 2022.

At the Némesis and Pichasca copper-gold projects in Chile, preparations were made to begin drilling campaigns in 2022. In both cases, the work indicates a favorable geological environment for high-potential ore deposits.







With more than  
**800 km**  
of drilling activities,  
work was intensified in  
the mines and precious  
metal projects.

## FRESNILLO PLC

Fresnillo plc, engaged in exploration of potential deposits with gold and silver content, has mining concessions and exploration projects in Mexico, Peru and Chile.

In 2021, drilling campaigns intensified in both the mining units and the Exploration Division. In the mines, 21% more was drilled compared to 2020, boring 609,000 meters, focused on increasing the certainty of grade distribution to support short- and medium term planning, as well as converting inferred to indicated resources and increasing overall resources.

Drilling by the Exploration Division grew by 27% over 2020, completing a total of 225,500 meters. Seventy percent of this was focused on the Fresnillo and San Julián districts; the rest was distributed among advanced projects (22%) and early exploration (8%). Another five early-stage projects were also drilled during the year, including two in Chile.

Fresnillo plc has four advanced projects in Mexico—Rodeo, Orisyvo, Tajitos and Guanajuato—and the Pilarica advanced project in Peru. Drilling activity in the Fresnillo, San Julián and Guanajuato districts yielded interesting results, including the identification of new mineralized structures. Exploration at these sites will continue in 2022 with the aim of generating additional gold and silver resources.

This year we also intensified regional prospecting activities from our six regional exploration offices to define drilling targets in various zones of Mexico, Peru and Chile.

As always, this work is being conducted under strict sanitary protocols because of the pandemic. It is worth noting that we have forged closer relations with communities in all three countries where we operate and closely followed the applicable laws and regulations, while conducting our own safety and environmental care initiatives in all exploration activities.



New mineralized structures with gold and silver content were identified in the districts of Fresnillo, San Julián and Guanajuato.







# Mines

We introduced a new High-Potential Management System on safety, and moved forward on our Intelligent Mine vision to ensure a sustainable future for our mining operations.

Peñoles operates four underground mining units in Mexico that produce zinc, lead and copper concentrates: Velardeña in Durango; Sabinas in Zacatecas; Capela in Guerrero—all of these wholly-owned by the company—and Tizapa in the State of Mexico, in which we own a 51% stake. We also consolidate the production of Fresnillo plc, a subsidiary that produces gold and silver in concentrates, dorés, precipitates and other materials in seven mines: Fresnillo and Saucito, in Zacatecas; San Julián, in Chihuahua; Ciénega and San Ramón—satellite—in Durango, all of them underground mines; and Herradura and Noche Buena, two open-pit mines in Sonora.

Together, these mines position us as Mexico's largest producer of metal zinc and lead content. Furthermore, thanks to Fresnillo plc, we are the leading silver producer in the world and the largest gold producer in Mexico.

## MANAGEMENT OF THE PUBLIC HEALTH EMERGENCY

During 2021, mining operations worked at a faster pace compared to the previous year, when they were affected by the health emergency restrictions resulting from the pandemic, especially open-pit mines. We continued to apply the guidelines established by the Mexican Social Security Institute (IMSS) and the Ministry of Labor and Social Planning, along with internal protocols to prevent the spread of infection among employees and contractors. Our administrative personnel were assigned to work from home, and when they needed to come to the office to provide technical or administrative support, they followed strict sanitary protocols. We also continued to support our communities by sharing information on preventive measures and donating personal protection equipment, basic supplies and materials, for a total of US\$ 0.5 million.

We invested US\$ 692.5 million during the year, mainly in sustaining our operations and construction of the Juanicipio project at Fresnillo plc. In coordination with Baluarte Minero, we applied a new High-Potential Management System to improve monitoring of safety indicators, reinforce critical controls and enhance safety performance.



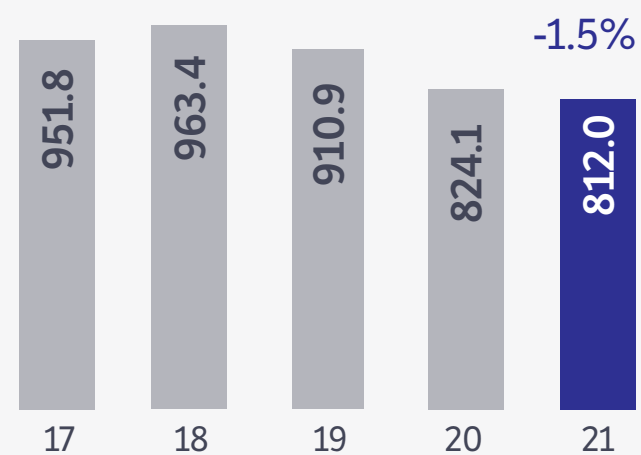
**US\$ 693 M**

invested in sustaining mining units and construction of Juanicipio.



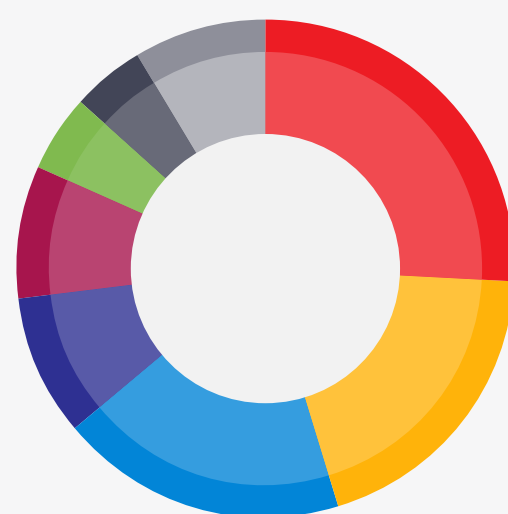
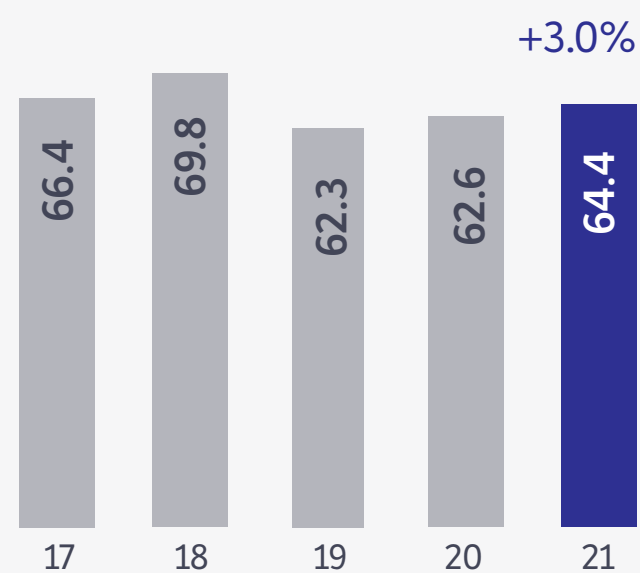
# Mining production

**Gold**  
koz



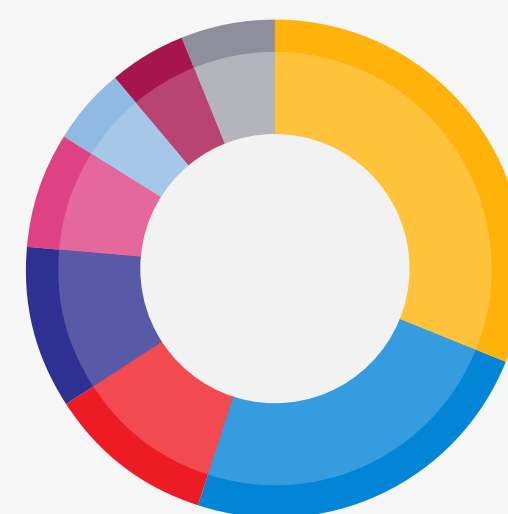
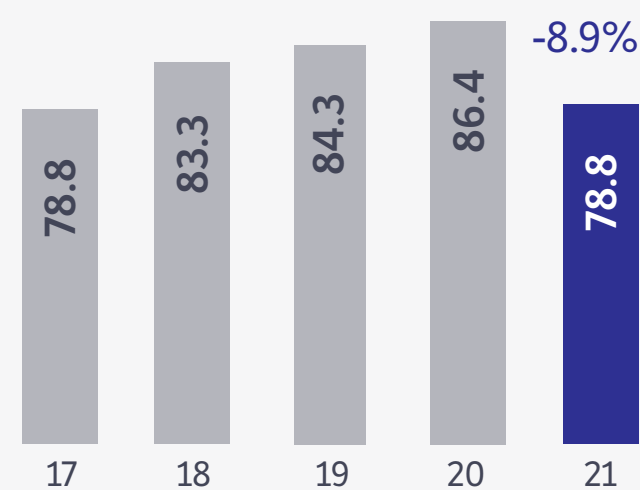
Site	%
Herradura	51.9
Noche Buena	11.9
Saucito	10.5
San Julián	6.7
Ciénega	6.0
Tizapa	4.9
Fresnillo	3.8
Others	4.3

**Silver**  
Moz



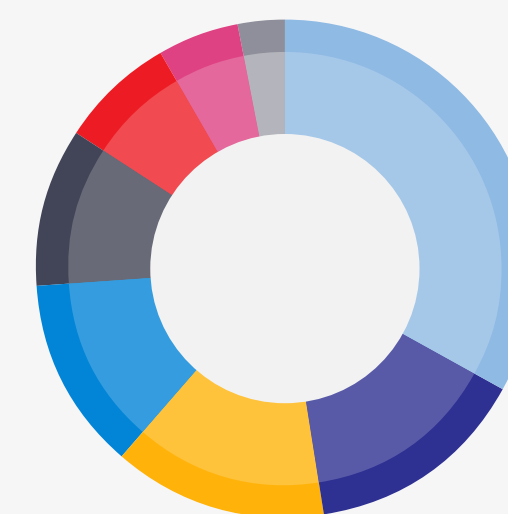
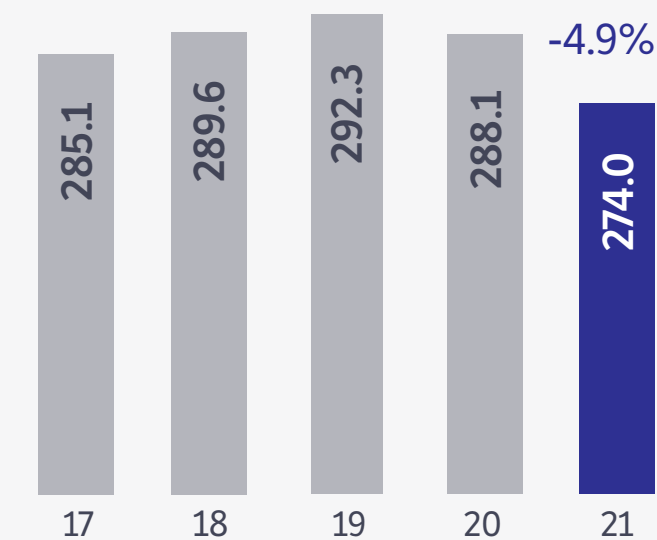
Site	%
San Julián	26.0
Saucito	19.3
Fresnillo	18.6
Tizapa	9.3
Ciénega	8.5
Juanicipio	5.0
Capela	4.9
Others	8.4

**Lead**  
kt



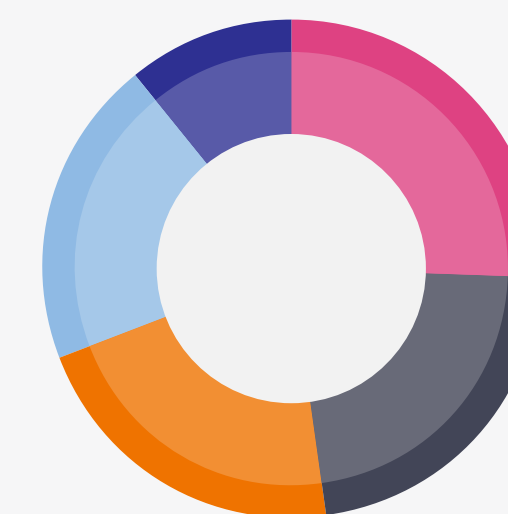
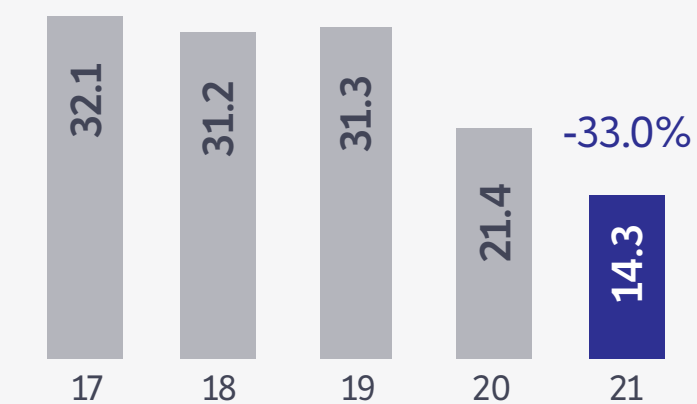
Site	%
Saucito	31.3
Fresnillo	23.9
San Julián	10.8
Tizapa	10.5
Sabinas	7.4
Velardeña	5.2
Ciénega	5.0
Others	5.9

**Zinc**  
kt



Site	%
Velardeña	33.1
Tizapa	14.6
Saucito	13.7
Fresnillo	12.6
Capela	10.4
San Julián	7.3
Sabinas	5.3
Others	3.0

**Copper\***  
kt

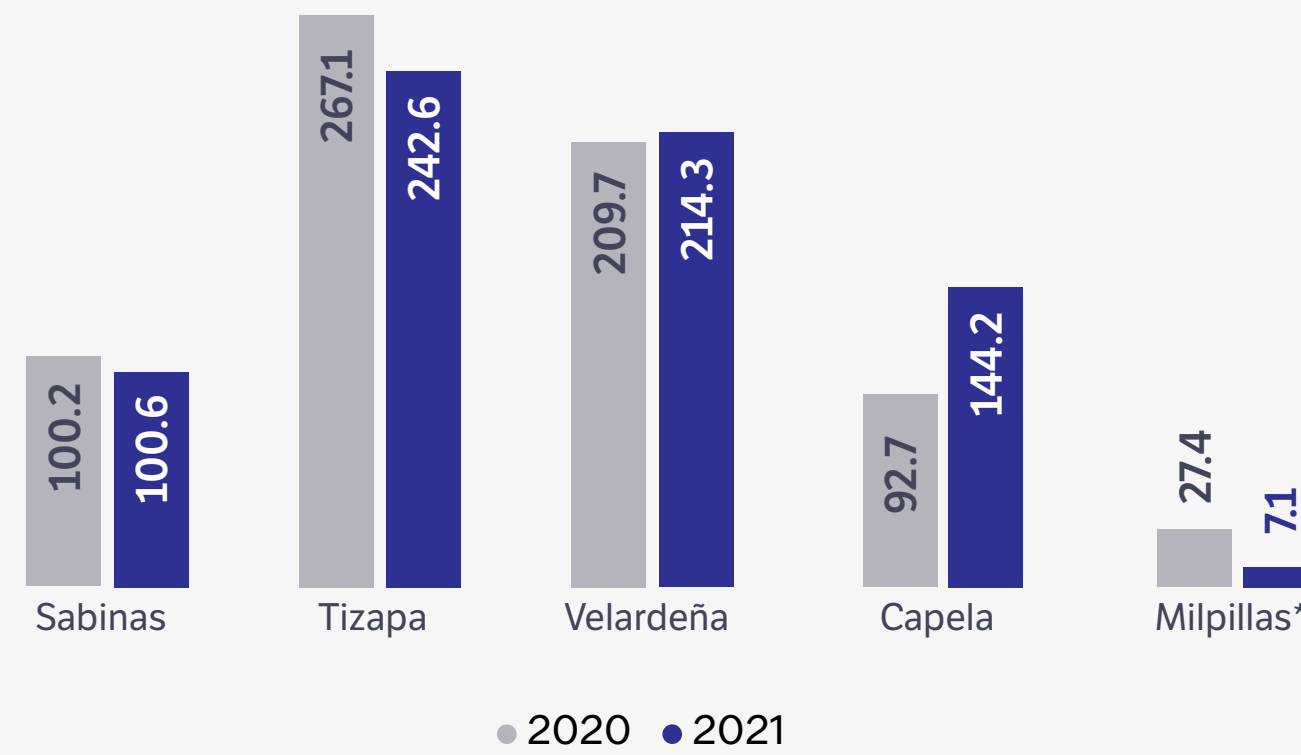


Site	%
Sabinas	25.6
Capela	22.4
Milpillas*	21.4
Velardeña	20.0
Tizapa	10.6

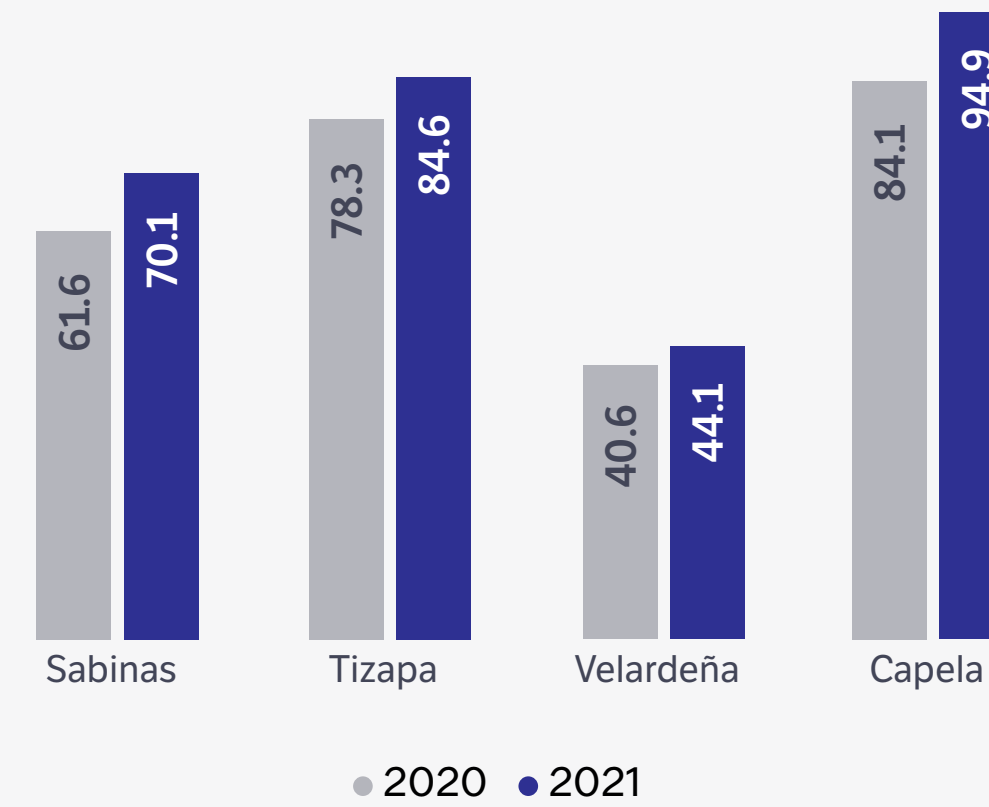
\*Includes cathodic copper.



**Pounds equivalent<sup>(1)(2)</sup>**  
Mlb zinc and copper\*



**Unit costs**  
US\$/t



**C1 Cash cost (zinc)<sup>(3)</sup>**  
US\$/lbe



**C1 Cash cost (copper)<sup>(3)</sup>**  
US\$/lbe



(1) Pounds of zinc equivalent: total gross sales / average zinc price.  
 (2) Pounds of copper equivalent: total gross sales / average copper price.  
 (3) Cash cost = [Cost of goods sold (production cost - depreciation + - change in inventories) + sales expense (treatment charges, shipping and write-downs, extraordinary mining rights)] / pounds of zinc or copper equivalent.



Production at Capela partially mitigated deficits at Bismark and Madero, whose activities were suspended in 2020.

## Production and performance

Consolidated mining production (including 100% of payable production by Fresnillo plc) in 2021, and the change against the previous year, was as follows:

	2021	2020	% Chge.
Ore milled and deposited (Mt)	45.2	44.0	2.7
Gold (oz)	811,992	824,087	-1.5
Silver (koz)	64,441	62,551	3.0
Lead (t)	78,758	86,420	-8.9
Zinc (t)	274,049	288,072	-4.9
Copper (t)	11,281	8,969	25.8
Copper cathodes (t)	3,066	12,444	-75.4

Our operational mining units performed well during the year, as expected. In contrast to the year before, production was affected by a suspension of activities at Bismark (Chihuahua) in April of that year due to exhaustion of its reserves. Activities were also suspended indefinitely at Madero (Zacatecas), and extraction activities were halted at Milpillas (Sonora) due to a steep drop in zinc and copper prices, combined with high operating costs and low grades.

The volume of ore deposited was 29.3 million metric tons, 7.9% higher than in the previous year when pandemic-related operating restrictions were extended to open pit mines (Herradura and Noche Buena); this offset the lack of ore production out of Milpillas.

The volume of ore milled totaled 15.9 million metric tons, a 5.6% decline, due mainly to the suspension of operations at Bismark and Madero, which was mitigated partially by the volume produced in the first full year of activity at Capela.

Gold production—811,992 ounces—was slightly lower than in 2020 (1.5%) because of lower-than-expected head grade at Ciénega and lower grades and slower recovery at Herradura, as well as lower volume, grades and recovery at Fresnillo and San Julián. These effects were offset by production from Noche Buena—where the volume of better-grade ore deposits mitigated a slower recovery—higher volume and recovery at Capela and, to a lesser extent, the ore produced at Juanicipio,

which continued to be processed at Fresnillo while its own beneficiation plant was under construction.

Silver production totaled 64.4 million ounces, a 3.0% increase, driven by higher-than-expected ore grade at San Julián and an increase in ore processing from Juanicipio. Capela and Sabinas also contributed with a higher volume of ore processed; and Sabinas also saw an improvement in ore grade. These operations offset lower production at Saucito and Fresnillo due to a lower volume of ore processed with lower grades, the suspension of operations at Bismark and Madero, and the slow recovery at Velardeña.

The production of lead in concentrates reached a total volume of 78,758 metric tons, 8.9% below the 2020 level, affected by the suspension of work at Madero and Bismark, the reduction in milling and lower grades at Saucito, Fresnillo and Ciénega and, to a lesser extent, lower grades at Tizapa and Velardeña. This was mitigated by production at Capela







## Margins for the Mining Division improved in the year with rising metal prices and lower refining charges.

and Juanicipio, where processing volume was higher and, in the case of Juanicipio, grades were better. San Julián contributed with better grades and recovery, and Sabinas, with higher volume, grades and recovery.

Production of zinc content dropped by 4.9% to a total 274,049 metric tons, due to the shutdowns at Madero and Bismark, in addition to a lower volume processed with lower grades at Saucito and Ciénega, and lower recovery at the latter. These were partly offset by Capela and Velardeña—due to higher of ore milling and processing, better grades and recovery—, Juanicipio, because of higher volume and a better ore grade, and Tizapa and Sabinas, both of which processed more ore and improved recovery.

Copper output grew 25.8% to 11,281 metric tons, attributable largely to Capela, which processed a higher volume, with higher grades and recovery; followed by Tizapa, for the same reasons, and Sabinas, because of an increase

in milled ore with better grades. These units offset the absence of production at Bismark and Madero. On the other hand, copper cathode volume was significantly lower due to the halt to extraction at the Milpillas mine, which continued production in the electrolysis plant from ore deposited in the leaching pads.

Margins for the Mining Division improved in the year with rising metal prices and lower refining charges in the metallurgical business than the year before, even though production costs were pushed higher by the stronger pace of operations and inflation in some inputs—particularly energy. Costs of a full year of operations at Capela, which started up in April 2020, were mitigated by the savings from the suspension of activities at Bismark and Madero, and extraction activities at Milpillas.

Under our new strategic plan we have set five-year goals for all the value drivers of our mining operations: volume of ore processed, ore grade, recovery and development of mining work, among others.





## Mining unit highlights

### VELARDEÑA

zinc

Ownership: 100% Peñoles

Operational: Since 2013

Location: Cuencamé, Durango

Operation type: Underground

Production capacity: Milling 2.3 Mt/yr.

Reserves (proven and probable): 16 years

Investment in 2021: US\$ 23.3 M

Production	2021	2020	% Chge.
Ore milled (kt)	2,758	2,688	2.6
<b>Content</b>			
Gold (oz)	6,088	4,743	28.4
Silver (koz)	776	813	-4.6
Lead (t)	4,119	4,450	-7.5
Zinc (t)	90,679	85,902	5.6
Copper (t)	2,871	3,042	-5.6
<b>Ore grade</b>			
Gold (g/t)	0.23	0.19	23.1
Silver (g/t)	14.71	14.59	0.8
Lead (%)	0.24	0.27	-13.2
Zinc (%)	3.69	3.66	0.9
Copper (%)	0.17	0.18	-6.3
<b>Costs</b>			
Cost per metric ton milled (US\$/t)	44.1	40.6	8.5
Pounds equivalent sold (million)	214.3	209.7	2.2
Cash cost (US\$/lbe zinc)	70.5	77.0	-8.5

Velardeña increased production and processing of ore for the eighth year in a row, due primarily to optimization of the pace of milling (from 8,000 to 8,200 metric tons per day) and of maintenance programs, along with improvements in the expert flotation system. This, combined with higher ore grades and recovery, contributed to higher production of zinc and gold. Metallurgical recovery of zinc grew from 87.4% in 2020 to 89.1% in 2021. For the other elements, the higher volume processed was unable to offset lower grades of lead and copper, and lower recovery affected silver.

Gross sales totaled US\$ 292.1 million, consisting 79% from zinc, 9% from copper, 6% from silver, and 3% from lead and gold.

We invested US\$ 8.6 million in mine development and equipment to reach La Industria body, with probable reserves totaling 1.7 million metric tons and average grades of 235 g/t of silver, 0.90% zinc and 3.15% lead. Currently, exploration activities are under way through direct work on the structures, and a total of US\$ 2.0 million was invested in infrastructure and mine and reserve preparation. With this, there were 2.7 million metric tons ready for extraction by the close of 2021, which represents a full year of operation at the current pace.

At tailings deposit 3, work was done to raise the borders in order to keep them functioning according to operating standards. Cutting-edge instrumentation allows us to continuously monitor the integrity of



the tailings storage facilities, and the recommendations of the panel of experts are now 90.5% in place.

Sales totaled 214.3 million pounds equivalent of zinc, slightly higher than in 2020, mainly due to higher zinc production and prices. This was accompanied by an 11.4% increase in production costs due to a higher volume of ore milled and processed, and because of the work of contractors needed on the tailings deposits to comply with the recommendations of an independent panel of experts. Adding to this were higher unit costs due to the increased distance between production areas, and the acquisition of high-cost components to maintain the facilities. Nevertheless, an increase in sales, together with a reduction in treatment charges for lead and zinc concentrates, offset the effect of higher production costs, so that cash cost at

Velardeña was 8.4% lower than the previous year. The unit cost per metric ton milled and processed increased by 8.5%.

In terms of safety, High-Potential Management indicators improved as follows: The total recordable injury frequency rate (TRIFR) came down from 6.68 to 4.24 and the lost time injury frequency rate (LTIFR) from 1.67 to 1.54. We began applying tools for verifying critical controls at this unit, according to the new methodology.



**Record volume of ore processing for the eighth year in a row.**



## SABINAS

*Polymetallic: zinc-lead-silver-copper*

**Ownership:** 100% Peñoles

**Operational:** Under Peñoles control since 1995

**Location:** Sombrerete, Zacatecas

**Operation type:** Underground

**Production capacity:** Milling 1.3 Mt/yr.

**Reserves (proven and probable):** 14 years

**Investment in 2021:** US\$ 14.7 M

Production	2021	2020	% Chge.
Ore milled (kt)	1,285	1,243	3.4
<b>Content</b>			
Silver (koz)	3,134	2,780	12.7
Lead (t)	5,802	5,187	11.9
Zinc (t)	14,452	14,135	2.2
Copper (t)	3,676	3,415	7.6
<b>Ore grade</b>			
Silver (g/t)	86.29	77.29	11.6
Lead (%)	0.71	0.67	6.5
Zinc (%)	1.53	1.59	-3.5
Copper (%)	0.43	0.40	8.2
<b>Costs</b>			
Cost per metric ton milled (US\$/t)	70.1	61.6	13.8
Pounds equivalent sold (million)	100.6	100.2	0.4
Cash cost (US\$/lbe zinc)	95.7	86.2	11.1

Higher milling, together with better ore grades, boosted production of metallic contents at Sabinas. Grade was slightly lower only for zinc, but this was offset by an increase in recovery from 71.6% to 73.4%. Silver grade rose due to the extraction from richer stopes.

Improvements were made to the lead-copper separation process at Plant 1, and at Plant 2 with sequential flotation. With these efforts, lead recovery improved from 62.4% to 63.4%. Similarly, silver content in lead concentrates increased from 2,041 g/t to 2,295 g/t, zinc content in concentrates rose from 46.8% to 48.6%, and silver content increased from 207 to 218 g/t.

A five-year strategic plan was developed for Sabinas with the aim of improving profitability by enhancing three value drivers: (i) silver grade, (ii) silver and copper recovery, and (iii) extraction and milling volume. These goals will be achieved through investment, continuous improvement and technology projects that will comprise the annual operating plans. To this end, US\$ 13.9 million were invested last year, US\$ 1.1 million of which went to installation of a vertical grind mill to improve recoveries of silver, lead and zinc at Plant 1. Investment in mining work totaled US\$ 2.9 million, to develop infrastructure and deepening work to guarantee preparation of the ore bodies and meet annual production budgets. Also, to maintain productivity in the mining process, US\$ 3.17 million went toward replacing and rebuilding heavy mobile equipment.

Gross sales totaled US\$ 137.1 million, 44% of which came from silver, 26% from zinc, 22% from copper and the remaining 8%, from lead.

In pounds equivalent of zinc, sales were up by a modest 0.4%, to 100.4 million. Production costs rose, chiefly in the area of contractors due to increased infill drilling, mineral haulage and development works, which required more operating materials, as well as work carried out on the tailings storage facilities to comply with new operating standards. As a result, both the cost per metric ton milled and cash cost rose by 13.8% and 11.1%, respectively.

In terms of safety, the facility reported a reduction in High-Potential Management indicators: the TRIFR went from 17.60 to 15.90, and the LTIFR from 5.42 to 3.98 from 2020 to 2021. Five key critical risks were identified at Sabinas, along with their respective controls, according to the new methodology.



**ISO 14001:2015  
certification  
extended for  
three years.**



## TIZAPA

*Polymetallic: zinc-lead-copper-silver-gold*

**Ownership:** 51% Peñoles, 39% Dowa Mining and 10% Sumitomo Corporation

**Operational:** Since 1994

**Location:** Zacazonapan, State of Mexico

**Type of operation:** Underground

**Production capacity:** Milling 950 kt/yr.

**Reserves (proven and probable):** 9 years

**Investment in 2021:** US\$ 14.7 M

This unit milled and processed 4.8% more ore by volume than in 2020, with a higher production of metallic contents, except for lead due to lower grade and recovery. The lower grade of gold was offset by a better copper-lead grade ratio, together with application of an alternative reagent that helped control the presence of lead in the copper circuit and improve recovery. Copper recovery saw an outstanding improvement from 28.6% to 45.4%.

Gross sales in the year totaled US\$ 330.7 million, 41% of which were silver, 32% zinc, 18% gold, 5% lead and the remaining 4%, copper.

The installation and startup of a vertical regrind mill was completed in the second half of the year. This new equipment should improve recovery and quality of zinc concentrates. Operating adjustments were made to optimize the benefits of this US\$ 751,000 investment, with zinc recovery rising from 80.6% to 81.1%. We also invested US\$ 2.8 million in the purchase and reconstruction of heavy mobile equipment to maintain operating productivity.

In mine preparation, the goal was to maintain a minimum of one year of ore ready for extraction. At the close of the year the mine reported 1.75 million metric tons prepared, equivalent to 1.8 years of extraction.

Tizapa sold a total 242.6 pounds of zinc equivalent, 9.1% less than the previous year, due primarily to the higher price of zinc, which meant that the content of other metals



**Recertified for  
ISO 14001:2015  
in January.**

Production	2021	2020	% Chge.
Ore milled (kt)	984	938	4.8
<b>Content</b>			
Gold(oz)	39,751	38,875	2.3
Silver (koz)	5,991	5,973	0.3
Lead (t)	8,299	8,462	-1.9
Zinc (t)	40,129	38,305	4.8
Copper(t)	1,526	808	88.7
<b>Ore grade</b>			
Gold (g/t)	1.47	1.54	-4.3
Silver (g/t)	205.17	215.48	-4.8
Lead (%)	1.17	1.24	-5.9
Zinc (%)	5.03	5.07	-0.8
Copper (%)	0.34	0.30	15.0
<b>Costs</b>			
Cost per metric ton milled (US\$/t)	84.6	78.3	8.0
Pounds equivalent sold (M)	242.6	267.1	-9.1
Cash cost (US\$/lbe zinc)	51.8	44.8	15.6

represented fewer pounds equivalent of zinc. Production costs rose as well, primarily in the areas of contractors, maintenance and repairs. Contractors costs were higher due to the works on tailings storage facilities to comply with the new standards and maintain operating continuity, longer hauling distances and robbins raise development; maintenance costs because we deployed a major repair program to replace critical components for operations, to ensure on-site spare parts and electrical maintenance. Therefore, the cost per ton milled and cash cost were 8.0% and 15.6% higher, respectively, than those recorded in 2020.

Regarding safety performance, during the last quarter of the year we began the deployment of a new methodology to improve high-potential accident indicators and take actions to mitigate critical risks aimed at reducing

accidents. The TRIFR was 24.36 in 2021, compared to 21.35 in 2020, while the LTIFR went from 7.29 to 6.46.



## CAPELA

Polymetallic: zinc-lead-silver-copper

Ownership: 100% Peñoles

Operational: Since 2020

Location: Teloloapan, Guerrero

Operation type: Underground

Production capacity: Milling 1.48 Mt/yr.

Reserves (proven and probable): 17 years

Investment in 2021: US\$ 19.0 M

Production	2021	2020	% Chge.
Ore milled (kt)	1,386	933	48.5
<b>Content</b>			
Gold (oz)	19,441	12,178	59.6
Silver (koz)	3,173	2,127	49.2
Lead (t)	3,438	2,335	47.3
Zinc (t)	28,578	16,412	74.1
Copper (t)	3,208	1,175	173.0
<b>Ore grade</b>			
Gold (g/t)	1.00	1.00	-0.3
Silver (g/t)	99.29	98.87	0.4
Lead (%)	0.61	0.60	2.0
Zinc (%)	2.78	2.59	7.5
Copper (%)	0.54	0.48	13.8
<b>Costs</b>			
Cost per metric ton milled (US\$/t)	94.9	84.1	12.9
Pounds equivalent sold (million)	144.2	92.7	55.6
Cash cost (US\$/lbe zinc)	83.4	63.8	30.8

Following its startup in April 2020, activities at the Capela mining unit focused on stabilizing operating processes at the mine and plant. A number of challenges arose, including delays in the infill work inside the mine and in haulage work—due to lower availability of equipment and personnel, and unscheduled interruptions in the processing plant because of adjustments to the mills and a lack of water in the crushing phase. In the beneficiation process, metallurgical research and industrial testing continued, with the priority of improving the performance of separation in the lead-copper circuit. Multi-disciplinary teams were formed and made progress in solving problems to stabilize operations and achieve the expected production.

Although the stabilization process continues, Capela's overall performance improved in its first full year of operations, with substantial increases in both the volume of ore milled and in the production of contents: this was supported by higher ore grades, except for gold. Recovery rates improved for zinc, from 67.9% to 74.1%; for gold from 40.5% to 43.6%; and most notably for copper, from 26.4% to 42.6%. Silver recovery remained at 71.7%, while lead recovery dropped slightly from 41.6% to 40.5%. The grade of zinc in concentrates also improved from 53.0% to 53.8%.

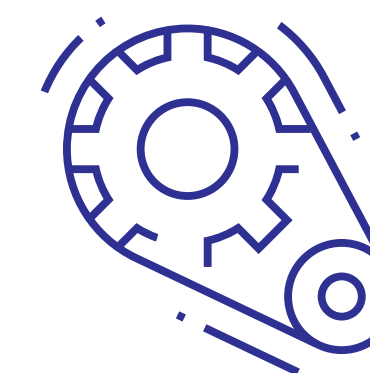
The main investments at Capela were targeted at developing ventilation infrastructure, infill work and electric power to prepare the stopes and diamond drilling stations, which will increase the certainty of the geological models.

The volume of metric tons prepared in 2021 increased by 29% over the previous year, to reach 1.48 million metric tons, equivalent to a full year of production.

Implementation of recommendations to bolster governance of the tailings storage facilities is 72% complete, and the project to develop a new deposit is under way.

Gross sales totaled US\$ 196.6 million, from zinc (37%), silver (33%), copper (15%), gold (11%) and lead (4%). Converted to zinc equivalent pounds, sales increased to 144.2 million (+55.6%). Production costs also rose, because of the more intense pace of operation and stabilization efforts that impacted the cost of operating materials, human capital (a larger workforce), the engagement of various contractors, and maintenance and spare parts for mobile and stationary equipment. This resulted in an increased cost per metric ton of ore milled by 12.9%, while the cash cost increased 30.8% due to higher production cost, partly offset by an increase in pounds equivalent sold.

As in the other mining units, the new High-Potential Management System was introduced at Capela to improve safety performance. At the close of the year, safety indicators showed an improvement over 2020: the TRIFR from 30.17 to 20.51 and the LTIFR from 4.19 to 3.80. Intensive work was carried out on the implementation of critical control verification tools.



**Work was carried out on stabilizing operational processes to reach the installed capacity and achieve expected production.**



## MILPILLAS

Copper cathodes

Ownership: 100% Peñoles

Operational: From 2006 to 2020

Location: Santa Cruz, Sonora

Operation type: Underground

Production capacity: 45 kt cathodic copper/yr.

Reserves (proven and probable): 2 years

Investment in 2021: US\$ 0.2 M

Production	2021	2020	% Chge.
Deposited ore (kt)	-	694	n.a.
Copper cathodes (t)	3,066	12,444	-75.4
<b>Ore grade</b>			
Copper (%)	-	0.79	n.a.
<b>Costs</b>			
Cost per metric ton milled (US\$/t)	-	80.4	n.a.
Pounds equivalent sold (million)	7.1	27.4	-74.2
Cash cost (US\$/lbe zinc)	259.8	282.2	-7.9

As we have previously reported, in April 2020 ore extraction and crushing operations at Milpillas were suspended indefinitely, due to the steep drop in copper prices, high operating costs and low ore grades. Irrigation activity has continued in the leaching pads, however, to recover copper values from ore deposited and at the electrolytic plant to produce copper cathode out of the resulting rich solution, as well as to mitigate the risk of environmental impact. As an optimization strategy, this year we carried out maneuvers to mix the deposited ore to maximize recovery and produce more cathode.

Due to the rebound in copper prices, toward the end of the year we began analyzing the feasibility of resuming extraction work to produce copper cathodes from the prepared reserves.

On the matter of safety, indicators on the High-Potential Management System showed a reduction between the close of 2020 and the end of 2021. The TRIFR went from 7.10 to 3.30 and the LTIFR from 3.80 to 0, bearing in mind that only the electrolytic plant was operating after suspension of mining activities.



The mixing of ore deposited in the leaching pads helped to increase copper recovery from inventory and cathodes production.





## Value creation projects

In line with our philosophy of teamwork and the priority of improving key administrative processes to ensure correct documentation and definition of indicators, 40 value creation projects were incorporated into mines operated by Peñoles in 2021 using the Six Sigma methodology. Particularly important among these because of their economic benefit, with the participation of 100% of non-unionized personnel, were:

### Velardeña (US\$ 4.3 M)

Safety, labor modernity, efficiency and cost, planning efficiency, intelligent mine, rock mechanics, development of La Industria and milling.

### Sabinas (US\$ 4.0 M)

Efficiency and cost, safety culture, development of a silver master plan, long-hole drilling, availability of diesel equipment, meeting content targets, availability of surface equipment, lead-copper separation, tailings storage facilities, lead recovery.

### Tizapa (US\$ 2.4 M)

Health safety and labor coaching, efficiency and cost, environmental excellence, mine infrastructure, intelligent mine, availability of diesel equipment, mine productivity, budget compliance.

### Capela (US\$ 0.5 M)

Safety culture, labor modernity, social engagement, optimization of water resources, rock mechanics, operational maintenance, control of grades, management of indicators, operating excellence and metallurgical recovery.

### Milpillas (US\$ 1.0 M)

Safety culture and cathode production.



**We improved process quality incorporating 40 projects based on the Six Sigma methodology.**



With intelligent mining we promote the automation and optimization of operational processes in mining units.

## Intelligent Mine vision

In 2021, we reiterated our commitment to expanding, optimizing and automating processes, which is the basis for our Intelligent Mine vision. The main actions this past year were:



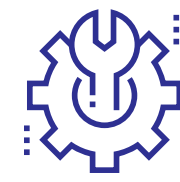
### Automatic dosing of reagents:

We began the process of incorporating a dedicated, autonomous dosing system to control dosing of xanthate and copper sulfate ( $\text{CuSO}_4$ ) reagents at four control points in the flotation plant of Tizapa. As the results were satisfactory, the process will be extended to the rest of the mining units next year.



### Optimization of explosives consumption and safety of blasting personnel:

XControl software was installed in all units with the aim of optimizing performance of the explosive consumption and further ensuring compliance with the guidelines of the Ministry of National Defense. We also began a remote blasting system at the Tizapa, Capela, Velardeña and Sabinas mines.



### Mine information management:

We began the connection and interaction of operational monitoring systems for low-profile, scoop and jumbo trucks (Epiuroc and Sandvik brands) at the Tizapa, Velardeña and Capela units. With this, through the Center for Safe Operations, we were able to observe the performance of key vehicle operation and maintenance variables, increasing their efficiency and availability, and continuing the direct integration of information to the Mine Information Management System and MAXIMO, both to permit operating management of mine processes and for maintenance purposes.



### Vehicle safety:

Sleep and fatigue sensors were installed as well as location sensors on the vehicles for real-time monitoring of personnel transport operators at the Sabinas unit, and low-profile trucks at Velardeña, to improve safety. We also conducted tests of the new system to prevent accidents involving vehicles and persons on foot, taking advantage of the technological base and the same components of the location system.



### Operational Management System:

At Capela and Velardeña the first version of this system was completed, and will continue next year at Tizapa and Sabinas, offering real time view of processes and equipment operation from the web platform, so that they can be measured against goals and budgets.



### Telecommunications and electrical infrastructure:

We continued to expand our electrical and telecommunications infrastructure to cover operations at the Capela mine with fiber optics and Wi-Fi, enabling remote operation capacities for some equipment, soon to include long-hole drill equipment. This project was successfully implemented at Velardeña in the work areas toward La Industria deposit, with full coverage of fiber optics and Wi-Fi.







We continued actions to improve tailings governance. Organizational structure was reinforced to manage deposits and we made progress on implementing the recommendations of the independent panel of experts.

## Tailings storage facilities

To operate in line with best national and international practices, in 2019 we began a new process of managing tailings storage facilities for Peñoles and Fresnillo mines, based on benchmark standards and guidelines from the International Commission on Large Dams (ICOLD), the Canadian Dam Association (CDA), the Mining Association of Canada (MAC) and the International Council on Mining and Metals (ICMM). This past year, along with Baluarte Minero, we raised the organizational governance of tailings deposits by creating the Under Department of Infrastructure, Permits and Controls, which reports to the Deputy Chief Officer for Technical Services at Baluarte Minero. Made up of a corporate tailings manager's office, seven regional tailings managers, seven tailings superintendents, a tailings specialist and a critical control engineer, this new structure seeks to achieve the company's leadership at the local and international level by adopting the best practices in the field.

Also, an independent panel of experts conducted virtual tours to operating sites—in some cases in real time—supported by various technological instruments. We created a work plan for each unit based on their recommendations, in order to address our areas of opportunity.

The work carried out at the tailings storage facilities of our mining units included the following:

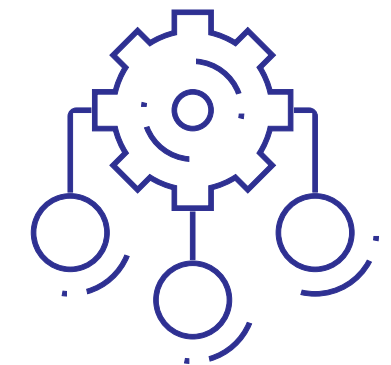
- ▶ Geotechnical research, specialized studies and update of the geotechnical model of each structure.

- ▶ Safety review of each structure through Dam Safety Review (DSR) and Dam Safety Inspection (DSI) tools.
- ▶ Application of the MAC's Guide to the Management of Tailings Facilities, primarily the preparation of an Operating, Maintenance and Inspection Manual and a Plan for Emergency Preparedness and Response, which incorporate current procedures and standards.

Other outstanding actions in this area were intense tailings construction and management work that enabled us to create safe facilities for tailings storage at the Sabinas and Velardeña units.

At the Tailings and Mine Waste 2021 congress in Banff, Canada, a document entitled “Developing an observation approach for a TSF raise (Velardeña, México)” was presented, explaining the good practices used in design and construction of the tailings facilities at Velardeña. It was the first time that the group's tailings deposit work was used as a good example in an international forum.

Finally, we applied for and obtained the environmental permits needed to regularize changes in the design of various tailings storage facilities currently in operation, to ensure the continuity of our business units.



**Safe tailings management is essential in the life cycle of our mining operations and post-closure phase.**





Weighted life of mining units is 12 and 38 years of reserves and resources, respectively.

## Reserves

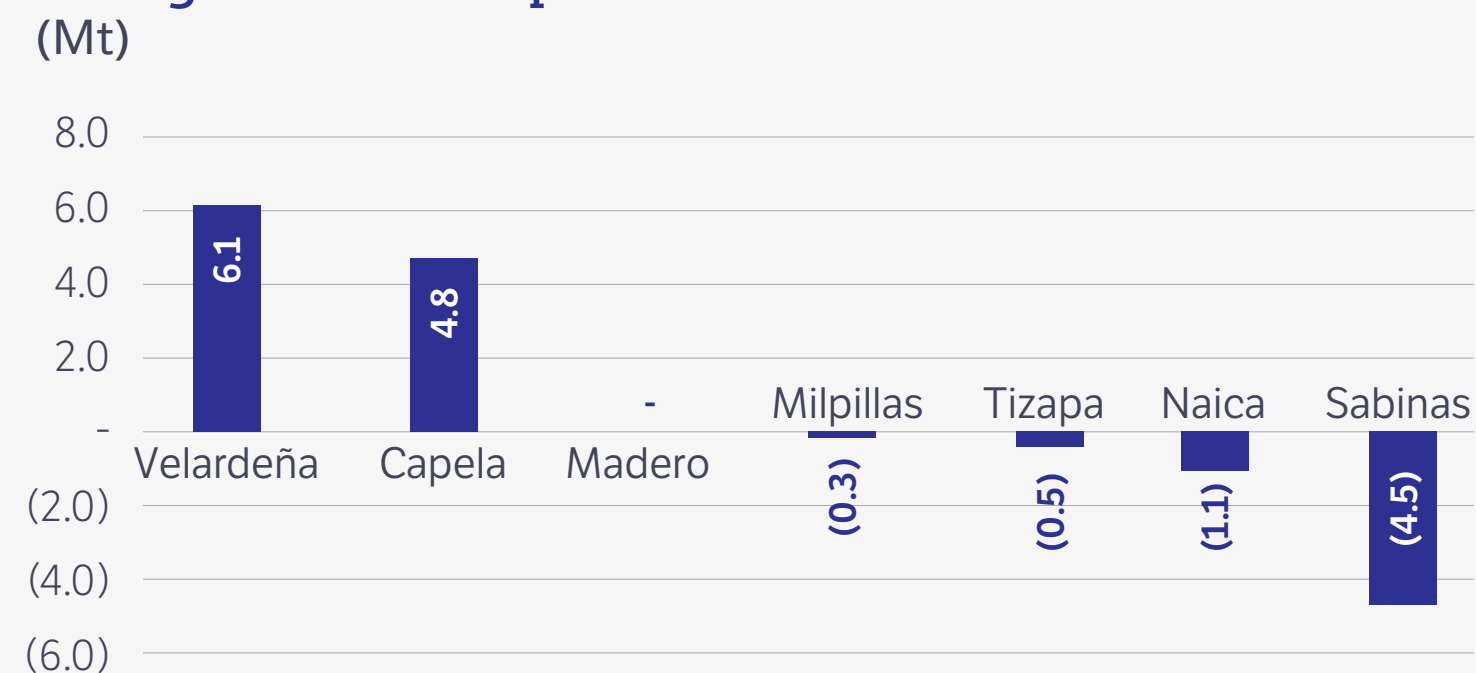
In 2021 we carried out 86,090 meters of diamond drilling at Peñoles-operated mines, with the objective of providing certainty to the proven reserve blocks and generating new mineral resources to ensure operational continuity.

A calculation of reserves of the mining units was conducted in January 2021 to support budget and operating plans for the year. To enhance the certainty of these estimates, mineral reserves and resources were calculated according to the International Code of the Joint Ore Reserves Committee (JORC 2012 version) using MRO software, which optimizes and offers greater precision in locating economic blocks of minable reserves. These calculation processes were audited both by an independent consultant and by the internal audit area. A program was put together to apply recommendations on improvements to our exploration processes, in keeping with International Mineral Resources and Reserves Classification Codes.

The calculation applied Peñoles' long term price projections, which showed the following changes compared to those used for the 2020 projections: gold US\$ 1,475/ounce (+18.0%), silver US\$ 18.50/ounce (+8.8%), lead US\$ 90.00/pound (-5.3%); zinc US\$ 1.10/pound and copper US\$ 3.10/pound, the last two without change. Estimated resources and reserves were equivalent to 33 and 11 years of mine life, respectively, at a projected production rate of five years—compared to 33 and 14 that were calculated in the 2020 assessment. Excluding the Bismark, Madero and Milpillas units, weighted life of mines is 12 years of reserves and 38 years of resources.

Compared to the previous year, there was an increase of 4.4 million metric tons of ore reserves. The following graph shows the change for each of the mining units.

### Change in reserves per mine (Mt)



The main reason for the change in reserves was the increase in precious metal quotations over 2020 and good results from the diamond drilling work, which was affected by higher than projected production costs. At Sabinas and Tizapa, the cut-off grade increased while at Velardeña it was slightly lower.

Metal contents and the change in Peñoles' proven and probable reserves, including Fresnillo plc but excluding Bismark due to the close of its operations, were as follows:

Consolidated reserves*	2021	2020	% Chge.
Gold (koz)	9,277	9,757	-4.9
Silver (koz)	664,099	716,382	-7.3
Lead (kt)	1,614	1,755	-8.1
Zinc (kt)	5,786	5,694	1.6
Copper (kt)	398	366	8.8

\* Includes 56% of attributable reserves of the Juanicipio mine. Does not include reserves at Bismark.

The calculation assumptions, tonnage and ore grade in the reserves are shown on page 48 of this report.





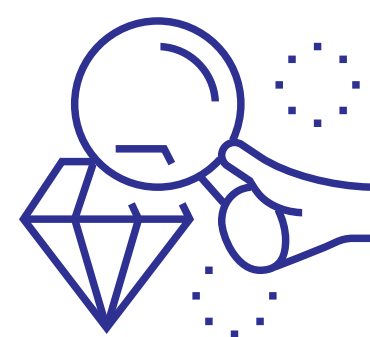
## Fresnillo plc

Production	2021	2020	% Chge.
Ore milled and deposited (kt) <sup>(1)</sup>	38,675	36,559	5.8
<b>Content</b>			
Gold (oz)	751,203	769,618	-2.4
Silver (koz)	49,961	50,270	-0.6
Silver (koz) Silverstream <sup>(2)</sup>	3,134	2,780	12.7
Lead (t)	56,573	63,242	-10.5
Zinc (t)	99,397	106,793	-6.9

(1) Does not include the development ore from Juanicipio.  
 (2) Under the Silverstream contract, Fresnillo plc has the right to receive the revenues (before treatment and refinery charges) less US\$ 5.0 per ounce (plus inflation since 2013) from the payable silver produced by Sabinas.

volume at San Julián veins. This was partially mitigated by higher processed ore volume and higher grade at Noche Buena, while at Herradura gold production was similar due to slower recovery in the leaching pads and lower grade, which was offset by a higher volume of ore processed.

Silver production, excluding the Silverstream contract, saw a marginal change (-0.6%) because the lower volume of ore processed with lower grades at Saucito and Fresnillo were offset by higher-than-expected grade in the San Julián disseminated body, and, to a lesser extent, by the processing of development ore from Juanicipio, which has been processed at Fresnillo’s concentrating plant since the year before.



**Gold production, although slightly lower, was above our expectations. Silver had a marginal variation.**

Fresnillo plc, a subsidiary in which Peñoles maintains a 74.99% equity stake, is listed independently on the London Stock Exchange and the Mexican Stock Exchange. It operates seven mining units in Mexico, which produce primarily precious metals (gold and silver) and is the largest primary producer of silver in the world and the leading producer of gold in Mexico.

The volume of ore deposited by Herradura and Noche Buena increased 10.7% over 2020, a year in which sanitary restrictions due to the pandemic limited work at open pit mines. There was also a non-hazardous land slide on one of the walls of the pit at Noche Buena during that year, which affected the mining sequence.

Ore milled by the underground operations, in contrast, declined by 7.1%, primarily at Saucito, due to stability problems resulting from an intensification of seismic activity in the Jarillas vein, which limited access to higher-grade areas, and at Fresnillo, due to delays in access works to areas in the eastern zone, a temporary failure of ventilation systems and the increased presence of water in the San Alberto area. In addition, there were the temporary effects of power outages, the labor reform and absenteeism due to covid-19 in the last quarter.

Annual gold production was 2.4% lower than in 2020, primarily due to lower ore grade at Ciénega, and lower grade and processed ore





Regarding base metals—which are byproducts for Fresnillo plc—the annual volume of lead was 10.5% lower than in 2020 due to a reduction in processed ore and lower ore grades at Saucito and Fresnillo, along with lower recovery at Fresnillo. Lower grade and recovery at Ciénega were offset in part by production from San Julián (disseminated body) because of better grades and recovery. Zinc production dropped by 6.9%, primarily due to lower volume processed with lower grades at Saucito and Ciénega, along with lower recovery at Ciénega. Juanicipio offset some of these effects, with higher processed volume with better ore grade.

As we reported at the time, in late 2020 we completed construction of the Pyrites II project—a flotation plant at Fresnillo with processing capacity of 14,000 metric tons per day to recover gold and silver from old and new tailings—to complement the Pyrites I plant at Saucito. Together these operations will increase annual production by 3.5 million ounces of silver and 13,000 ounces of gold. By the close of 2021, however, Pyrites II had not yet begun operations, due to certain additional technical requirements by the authorities, which delayed energy permits. We are working to resolve these requirements to complete the connection with the national power grid and startup of the plant, which we estimate to happen in the first half of 2022.

Finally, construction of the Juanicipio project in Zacatecas (a 56-44% joint venture between Fresnillo plc and Mag Silver Corp) was satisfactorily completed within budget in the last quarter of the year. The new mining unit will produce an average of 11.7 million ounces of silver and 43,500 ounces of gold. Plant startup was postponed for about six months, however, because the CFE had not issued its approval for connection to the national power network by the close of 2021. The delay is directly related to the effects of the pandemic on the CFE, particularly a lack of personnel, which limited its ability to perform three activities: reviewing existing facilities, supervising the physical connection to the electrical grid, and approving devices to prevent power interruptions. As project operator, Fresnillo plc will continue working closely with the CFE and the National Energy Control Center to expedite the necessary approvals.



Although there is still uncertainty as to when the Juanicipio project could be connected to the power grid, the current estimate—subject to changes that may occur due to covid-19—is that the plant will be commissioned after the first week of May 2022. In the meantime, mine development activities and stope preparation will continue. To minimize any potential adverse effects, unused installed capacity at the Fresnillo and Saucito beneficiation plants will be used to process the mineralized material mined at Juanicipio to produce gold and silver in concentrate during this period.



**Construction of the gold-silver Juanicipio project was satisfactorily completed within budget.**



# Mining operations: production and reserves

Mine	Participation %	Ore processed (kt)		Total reserves(kt)		Average ore grades in reserves				
		2021	2020	2021	2020	Gold (g/t)	Silver (g/t)	Lead %	Zinc %	Copper %
<b>PRECIOUS METALS</b>										
<b>Underground</b>										
Minera Fresnillo <sup>(1)(2)</sup>	75	2,216	2,337	13,224	15,401	0.72	234.12	1.17	3.41	
Ciénega <sup>(1)(2)</sup>	75	1,282	1,318	5,402	4,523	1.90	199.25	0.83	1.22	
Saucito <sup>(1)(2)</sup>	75	2,434	2,767	17,721	14,323	1.03	219.22	1.12	1.96	
San Julián Veins <sup>(1)(2)</sup>	75	1,203	1,255	5,310	3,489	1.72	243.75			
San Julián Disseminated <sup>(1)(2)</sup>	75	2,071	2,230	6,338	7,953	0.09	161.75	0.47	1.16	
Juancipio <sup>(1)(2)(3)</sup>	42	252	72	9,089	8,869	1.53	295.00	2.36	4.18	
<b>Open pit</b>										
Herradura <sup>(1)(2)</sup>	75	20,312	19,797	240,601	250,578	0.73				
Noche Buena <sup>(1)(2)</sup>	75	8,997	6,683	13,727	20,054	0.49				
<b>BASE METALS</b>										
<b>Underground</b>										
Velardeña <sup>(4)(5)</sup>	100	2,758	2,688	42,777	36,682	0.09	18.26	0.29	3.92	0.19
Sabinas <sup>(4)(5)</sup>	100	1,285	1,243	18,123	22,658		90.18	1.08	1.70	0.30
Tizapa <sup>(4)(5)</sup>	51	984	938	8,320	8,840	1.31	197.42	1.21	4.83	0.25
Capela <sup>(4)(5)</sup>	100	1,386	933	25,284	20,511	1.18	98.56	0.65	2.84	0.78
Madero <sup>(4)(5)(6)</sup>	100		664	14,940	14,981		22.16	0.92	2.41	0.07
Milpillas <sup>(4)(5)(6)</sup>	100		694	4,007	4,299					0.81
Naica <sup>(4)(5)(6)</sup>	100			8,679	9,791	0.01	82.56	2.88	11.54	0.04



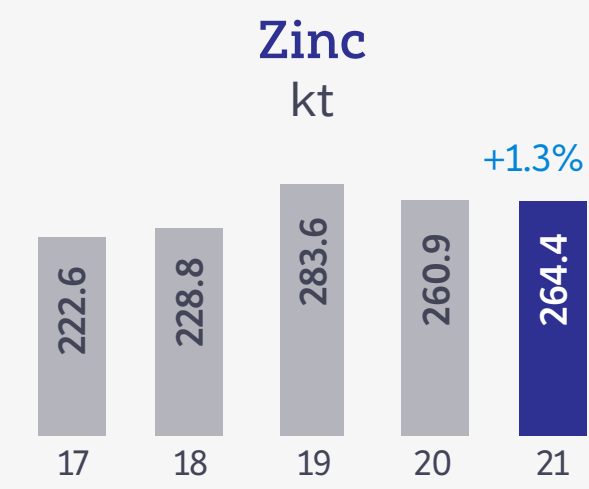
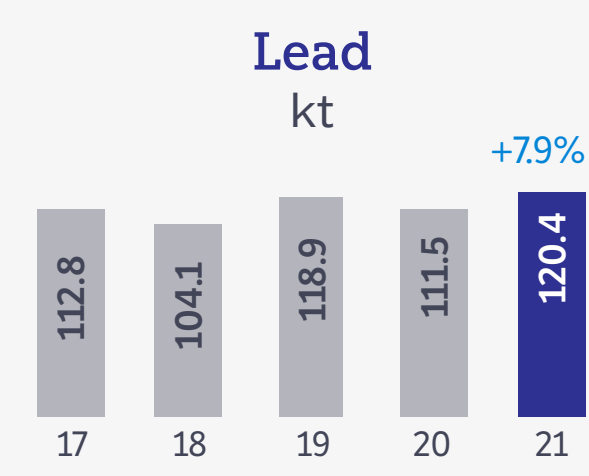
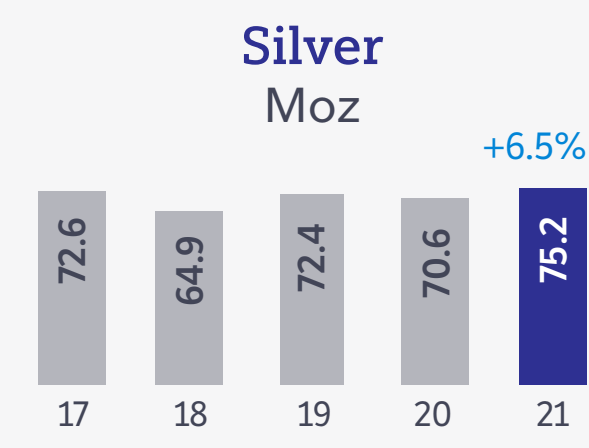
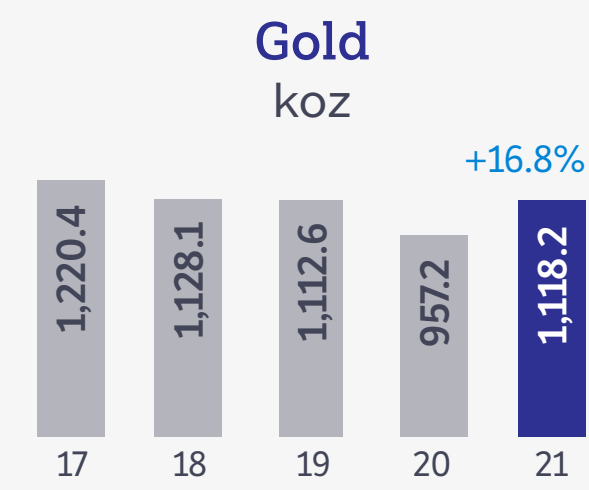
- (1) As of May 31, 2021; proven and probable reserves in thousands of metric tons, on a 100% basis. Audited figures.
- (2) Metal price assumptions considered for the calculation of metal equivalent grades are: gold US\$/oz 1,450.00, silver US\$/oz 18.50, lead US\$/lb 90 and zinc US\$/lb 1.20.
- (3) Mining unit under construction. Total reserves (kt) calculated on a 56% basis.
- (4) As of January 31, 2021; proven and probable reserves in thousands of metric tons, on a 100% basis.
- (5) Determination of 2021 reserves is based on the following metal prices: Gold US\$/oz 1,475.00, Silver US\$/oz 18.50, Lead US\$/lb 90, Zinc US\$/lb 1.10 and Copper US\$/lb 3.10.
- (6) Operations at these mining units are suspended.





# Metals

We focused our efforts on normalizing zinc plant operations with stricter control processes, personnel training and asset management.



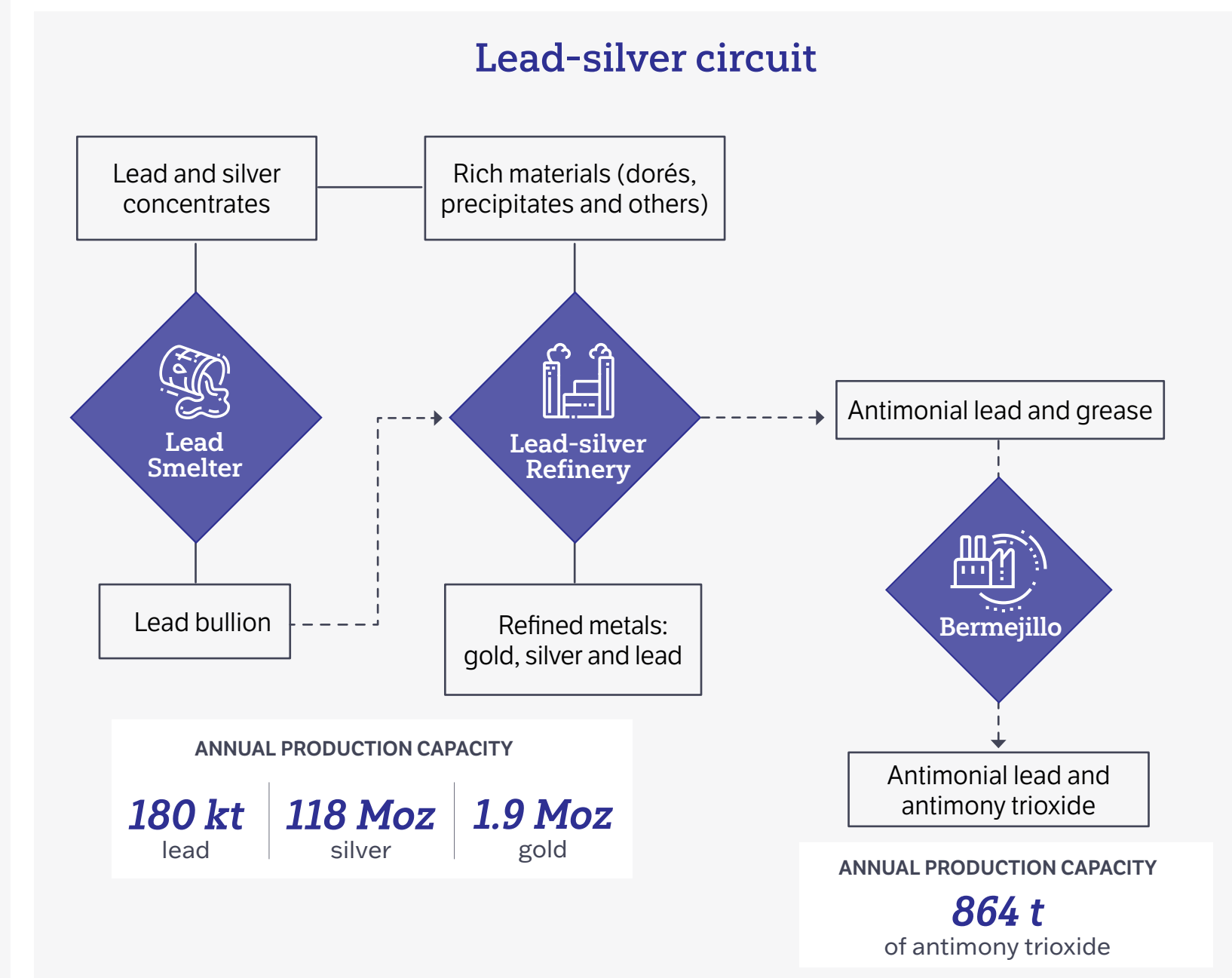
Our metallurgical operations process complex concentrates and other materials from our own mines, from those of our subsidiaries and from outside shippers, to produce refined metals with high quality and purity, special alloys and other products useful for industry and society.

The Metals Division is made up of a metallurgical complex located in Torreón, Coahuila, which produces refined gold, silver, lead and zinc; the Aleazin plant in Ramos Arizpe, Coahuila, which manufactures specialty zinc alloys; and the Bermejillo plant in Durango, where byproducts are processed for producing copper sulfate, zinc sulfate and antimony trioxide. Together, these plants comprise the company Metalúrgica Met-Mex Peñoles (Met-Mex), one of the largest and most important metallurgical complexes in the world.

Met-Mex is one of the world's leading producers of refined silver, the leading producer of primary refined gold and lead in Latin America, as well as the world's twelfth largest producer of refined zinc.

Met-Mex has two primary circuits:

The **lead-silver circuit**, comprising the lead smelter, where lead-silver concentrates are processed to produce lead bullion, and the lead-silver refinery, which receives both the lead bullion and doré bars, precipitates and other materials rich in metal content to produce refined gold, silver and lead.



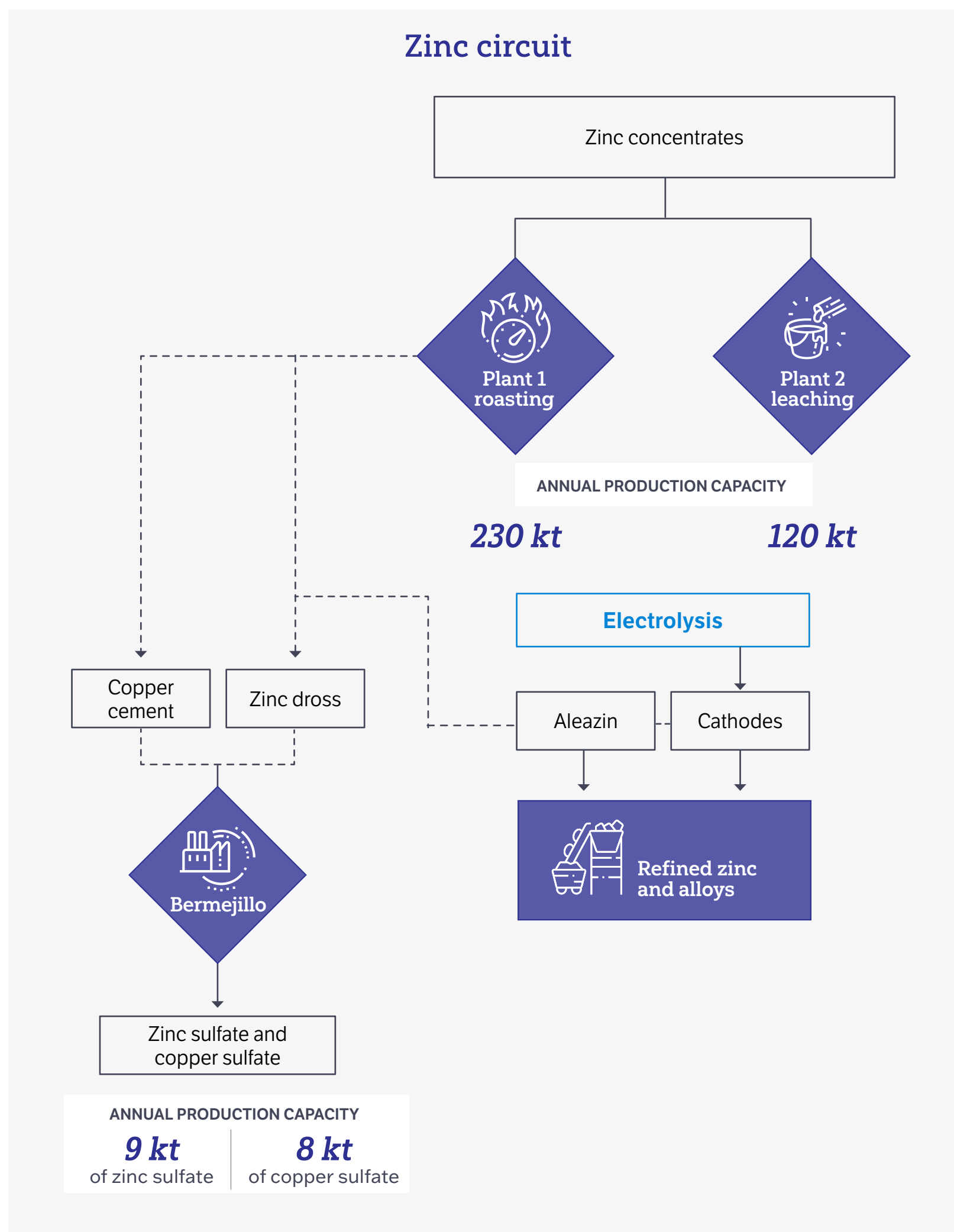




**US\$ 51 M**

invested in maintenance and efficiency of metallurgical operations.

The **zinc circuit** is fed with zinc concentrates, which are treated by an electrolytic process to produce refined zinc in different qualities and presentations. With an annual production capacity of 350,000 metric tons, this circuit comprises two plants: the concentrate acid-roasting plant and the direct leaching plant, which started operations in 2019 and uses some of the residual sulfuric acid from the sulfuric acid plant.



**MANAGEMENT OF THE PUBLIC HEALTH EMERGENCY**

We continued to strictly apply the protocols recommended by the Mexican Social Security Institute (IMSS), the Ministry of Labor and Social Planning (STPS) and internal regulations to prevent the spread of COVID-19 in the plants and premises of the metallurgical business.

We also provided the facilities to set up a vaccination site at the Peñoles community center in Torreón, Coahuila, open to the entire public. Workshops in the community center and the Metals Museum, and sports and job support programs were all offered online, which also provided a channel for communicating public health measures.

The Metals Division leadership team launched a high-potential safety strategy to improve our safety indicators by identifying and addressing six critical risks. The TRIFR was 39.9, compared to 34.4 in 2020, while the LTIFR went to 11.8 from 9.4.





Production of refined metals increased compared to 2020, allowing us to respond to the demand from our clients.

## Production and performance

Production of the leading refined metals and their change from the previous year was as follows:

	2021	2020	% Chge.
Gold (koz)	1,118	957	16.8
Silver(koz)	75,230	70,634	6.5
Lead (t)	120,355	111,538	7.9
Zinc (t)	264,366	260,943	1.3

Metallurgical operations worked at a stronger pace in the year. We had sufficient supply of concentrates and materials in quantity and quality, in contrast to the year before when supply disruptions caused by pandemic restrictions led to shortfalls from some shippers. As a result, we increased our annual production of refined metals compared to 2020, allowing us to respond to the upturn in demand from our clients.

As to economic performance, treatment charges—which are pegged to international benchmarks—declined for both lead and zinc concentrates, although this was offset in the lead-silver business by a higher treatment

volume, higher production and income from free metals. In the zinc business, conversely, the volume of treated concentrates was lower than in 2020. The pace of operations led to higher production costs, particularly in the zinc business, where operating adjustments continued at the new direct leaching plant and its interaction with the roasting plant. This increased maintenance and repair costs. Furthermore, our consumption of materials increased, as did payments for overtime and the cost and consumption of electrical energy. For all these reasons, as a whole, the operating margin for the Metals Division decreased with respect to the previous year.





Lead-silver circuit	2021	2020	% Chge.
<b>Volume received (t)</b>			
Concentrates (Smelter)	288,067	277,262	3.9
Direct materials (Refinery)	1,268	1,211	4.7
Total raw materials	289,335	278,473	3.9
Peñoles*	164,917	199,855	-17.5
% of total	57.0	71.8	
Third parties	124,418	78,618	58.3
% of total	43.0	28.2	

#### Share in raw material content (%)

	Gold	Silver	Lead
Peñoles*	65.5	62.9	47.2
Third parties	34.5	37.1	52.8

\*From Peñoles and Fresnillo plc mines

The lead smelter treated 341,237 metric tons of concentrates during the year, 5.2% more than the year before. Concentrates were acquired from third parties with higher lead grades, resulting in good quality of the mixtures that entered the production process and control over impurities, in addition to better performance in the sintering area. The smelting furnaces were kept in continuous operation and measures were taken to reduce programmed shutdowns with satisfactory results. Efficiency indicators in the consumption of fuels like metallurgical coke, electric power and natural gas all improved. The production of lead bullion grew by 7.6% over the previous year, to 144,765 metric tons.

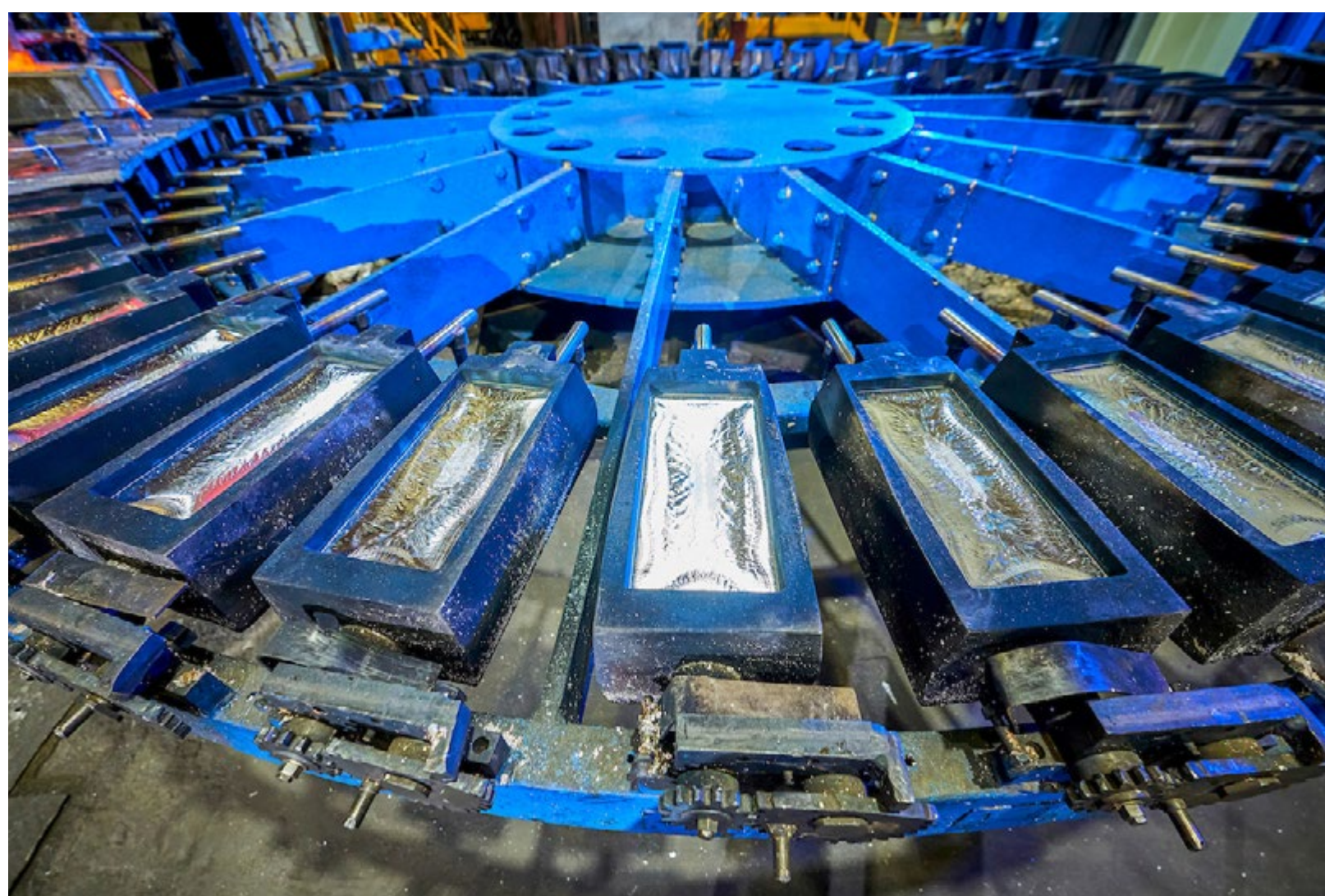
The lead-silver refinery treated a higher amount of dorés and rich materials, both from Herradura and Noche Buena and from third party shippers, which, combined with higher grades of gold and silver bullion, helped

boost production of these metals. For lead, higher grades and bullion volume supported annual production. Efficiency projects continued to reduce consumption of zinc and calcium-magnesium alloy, both of which are used in the lead refinery. This resulted in savings of US\$ 1.8 million.

The circuit also received lead-silver cements from the silver recovery process in the zinc circuit, totaling 4.6 million ounces in silver content. Not all this material could be treated, however, due to effects in the sintering process and recovery of silver from concentrates. Because of this, a portion of these cements was sold to third parties. Revenues per metric ton treated in the lead-silver business grew 17.2% on average compared to the previous year, as lower base treatment charges were offset by higher revenues from free metals, particularly copper. Unit production costs increased by 4.1% on average due to a higher

consumption of operating materials and labor costs, as well as the cost of preventive maintenance; this was offset by lower costs on fuel and contractor work.

Our investments in the lead-silver circuit were focused mainly on replacing critical equipment to maintain operating continuity, implementing technological updates, improving environmental performance, strengthening the electrical network and reducing risks to our employees.



Higher volumes of concentrate and other materials in the lead-silver circuit were processed, favoring annual production of precious metals and lead.





In the zinc circuit, our efforts focused on normalizing the interaction between the old roasting plant and the new direct leaching plant, in order to gradually build up production and achieve the full annual capacity of 350,000 metric tons of refined zinc production in 2023.

This year we began a program to replace anodes and electrodes in poor condition in the electrolysis modules to enhance efficiency of the electrical power and reduce consumption, and to improve the quality of cathodes producing a higher proportion of special high-grade zinc. At the close of the year, this program was 30% complete. Special attention was also given to controlling critical variables in the leaching-purification process to improve metallurgical recoveries of zinc in solution. There were various failures in the roasters that had to

be repaired, causing unplanned shutdowns, in addition to a programmed blackout due to the national emergency and a scarcity of oxygen relating to the COVID-19 pandemic. All of this resulted in a 2.0% reduction in the load volume treated, to 569,743 metric tons. Zinc production was unaffected, however. We also worked to stabilize the Silver II recovery process, which was interconnected in 2020 whose objective is increasing treatment of zinc concentrates with high silver values through a process of using pure jarosite in leaching. With the actions taken so far to normalize zinc circuit operations, although we have not yet reached our goal of 90% silver recovery in concentrates, 4.6 million ounces of this metal in lead-silver cements were recovered and sent to the smelter. We adjusted the process parameters to improve cement recovery and quality.

Average revenues per metric ton treated declined 5.4%, due to lower base charges, which was offset by higher free metal of zinc and lead-silver cements sent to the lead smelter to be refined. This benefit was in turn absorbed by a rise in the unit cost of production—17.8% on average—due to a lower volume treated and rise in the cost of electrical energy, exchange-rate depreciation, higher overtime, maintenance, repairs and operating materials.

We invested US\$ 25.2 million in fixed assets during the year, primarily for support systems and replacing critical equipment, which will allow us to ensure operating continuity and improve the efficiency of the zinc circuit.

Zinc circuit	2021	2020	% Chge.
Concentrates received (t)	678,228	699,306	-3.0
Peñoles*	484,923	510,312	-5.0
% of total	71.5	73.0	
Third parties	193,305	188,994	2.3
% of total	28.5	27.0	

Share of content in concentrates (%)

	Zinc
Peñoles*	71.1
Third parties	28.9

\*From Peñoles and Fresnillo plc mines.



A plan was put in place to ensure that the zinc refinery will reach its design capacity by 2022.



We obtained Good Delivery recertification for the gold and silver we produce, issued by the London Bullion Market Association (LBMA), allowing us to continue selling our products on international markets. This certification is an international guarantee of Peñoles' ethical conduct in the process of selling precious metals.

#### MARKETS AND BUSINESS DEVELOPMENT

With the gradual easing of pandemic restrictions, the international market regained its confidence for acquiring physical gold and silver. We faced a number of logistical and transportation challenges in shipping our products to markets in the United States. In silver exports to Japan, despite delays in shipping and the lack of available "smart containers"—equipped with international tracking systems—we increased sales in the Asian market to supply the photovoltaic cells industry in Japan and China.

In our domestic market, the rollout of vaccination campaigns and elimination of government restrictions allowed jewelers to reopen their factories and stores starting in the second quarter, which drove a recovery in sales of precious metals.

Demand in the lead market was particularly high in the second half of the year, which was reflected in better prices and premiums. We are a strategic supplier of antimonial lead and alloys for the domestic market, where consumption recovered its pace. We also placed product on the South American market, expanding our presence there.

Demand for zinc also came back gradually last year, allowing us to diversify toward strategic markets with very competitive premiums. Additionally, we responded promptly to our clients' growing needs—a situation that posed challenges for both domestic and export markets.

The byproducts we sell to the mining industry also yielded good commercial results. This rebound was due mainly to better metal prices, which have encouraged mining activity. In line with this trend, prices also



improved on inputs for mining. Zinc sulfate, depzinc and copper sulfate all saw record annual sales volume.



For the fourth year in a row, we received Responsible Silver & Gold certification from the LBMA, which recognizes a conflict-free supply chain for our refined products.

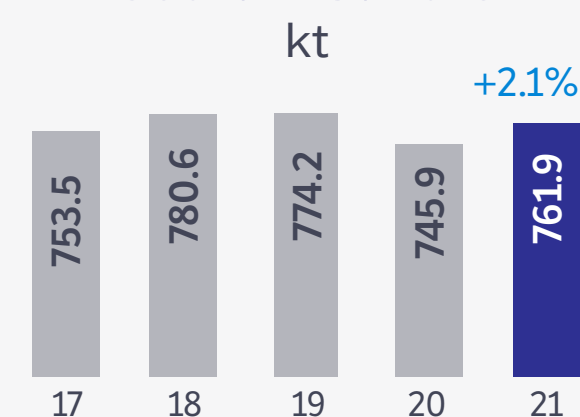




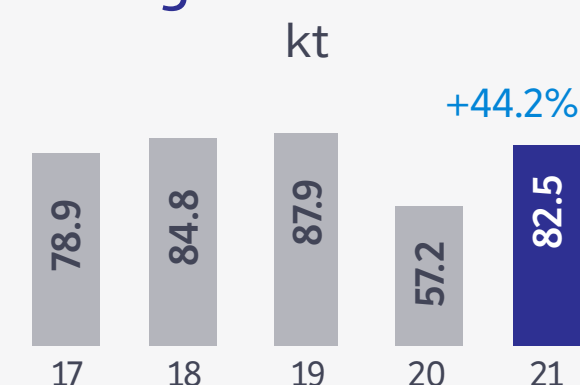
# Chemicals

Inorganic chemicals performed well, especially magnesium oxide, which recovered pre-pandemic volumes.

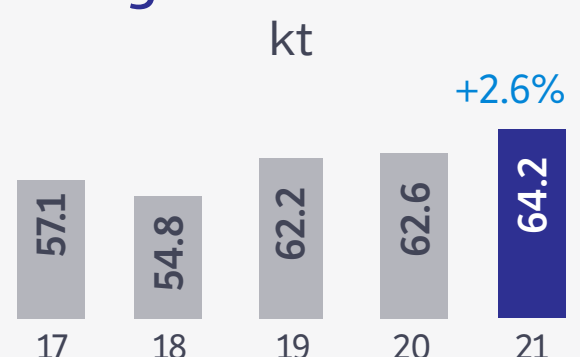
## Sodium sulfate



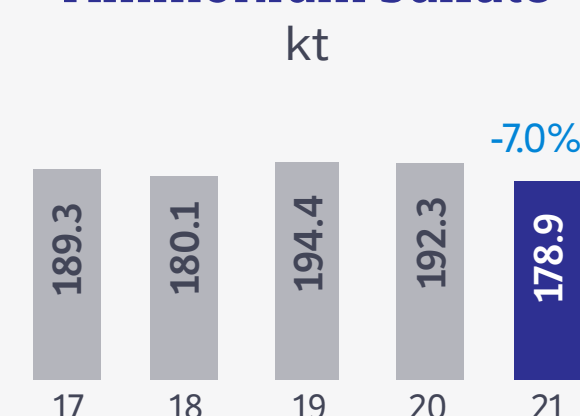
## Magnesium oxide



## Magnesium sulfate



## Ammonium sulfate



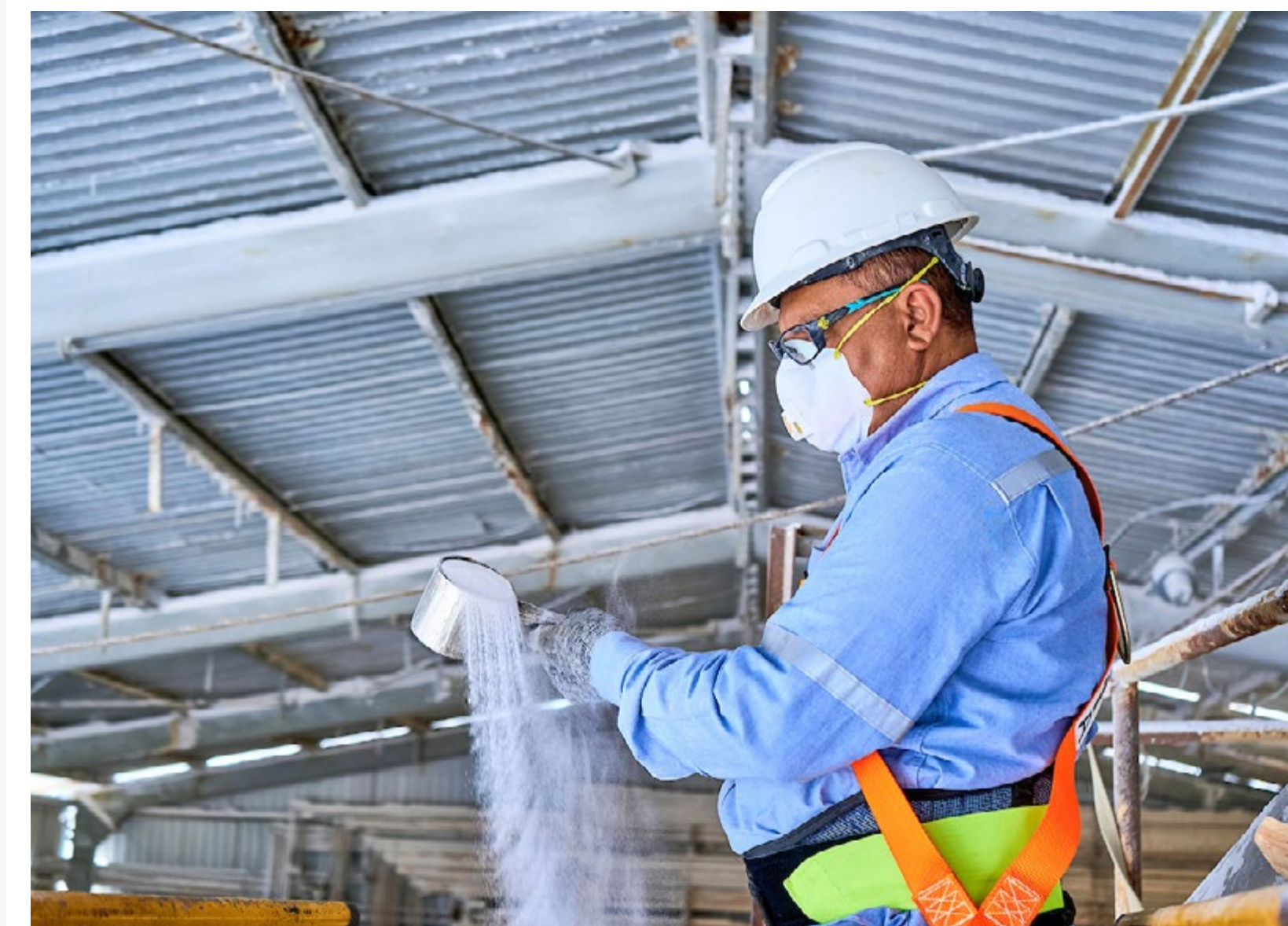
The Chemicals Division manufactures high value-added products from natural brines and salts extracted from the subsoil by hydraulic mining at Química del Rey, located in Laguna del Rey, municipality of Ocampo, Coahuila.

The main product of these operations is sodium sulfate, which represents more than half of its revenues. This input, for which we are the domestic market leader, is used mainly by the detergent, glass, paper and textile industries. Química del Rey is the largest sodium sulfate plant outside China, with the capacity to produce 780,000 tons per year.

The second most important product, magnesium oxide, is made from residual brine resulting from sodium sulfate operations and dolomite ore from La Esmeralda mine in Coahuila. It is produced in various grades: refractory grade, used in making the bricks



**We completed the process of recertifying our Management System according to ISO 9001:2015 standard, with a recommended three-year certification term.**





that line high-temperature kilns in the steel and cement industry; caustic grade, used to produce animal feed and fertilizers; hydroxide grade, used as a flame retardant; and electrical grade, useful as an insulating material and to make electrical resistors. This product accounts for between a third and a quarter of the Chemical Division's revenues.

The third product, magnesium sulfate, also known as Epsom salt, is used as a fertilizer, in the leather tanning industry, in processing chemical products and detergent manufacturing.

Additionally, the sulfuric acid that is a byproduct of the lead smelter operations is used to produce ammonium sulfate, a fertilizer. It is made at Fertirey, which adjoins the Met-Mex metallurgical complex at Torreón.

During the year, the epidemiological contagion monitoring system allowed most of the work force to attend. There were some cases of preventive isolation and persons who contracted COVID-19 were sent home to recover. Based on the established protocols, the application of sanitary filters and detection tests continued, among other preventive measures. At the same time, we renewed the Health Safety Distinctive for the period and continued to support the communities and disseminate preventive measures.

We also began application of a High-Potential Management system of safety, and leading teams received training in the strategy. We identified six critical risks for operations, along with tools and controls needed for mitigation. In our safety indicators, the TRIFR went from 6.37 to 10.22 and the LTIFR from 1.82 to 5.77 in 2020 and 2021, respectively.



The Mexican Mining Chamber (Camimex) recognized Química del Rey with its Silver Helmet distinction for having achieved the highest safety indicators in 2020 in the category of Smelting Plants with more than 500 Employees.





## Production and performance

The main chemical products had a favorable performance, with higher production and sales volumes, thanks to the rebound in demand due to the economic recovery. Magnesium oxide in its various forms did particularly well, fueled by activity in the construction and automotive industry, primarily, which restored production and sales volume to pre-pandemic levels. We were able not only to maintain our traditional clients but also to diversify our portfolio toward Asia and South America. In magnesium hydroxide we reached a record production level of 26,164 metric tons. Acceptance of this product has positioned us in European and North American markets, because the trend in the polymer industry is to use more temperature-resistant plastic, and our hydroxide is a very efficient retardant free of halogens.

The net price of the mix of magnesium-based products was slightly lower, particularly because of a rise in selling expenses, which was offset by lower costs on average due to the higher volume produced; this improved the margin for this product over the previous year.

In sodium sulfate production, maintenance shutdowns were less frequent, so that the availability of Plant 2 improved and production was higher, to meet rising demand in the domestic market. We faced some operating challenges because of the shortage of natural gas and power outages due to the nationwide emergency in February, which temporarily affected production. Nevertheless, production and sales volume grew 2.1% and 4.0%, respectively, over 2020.

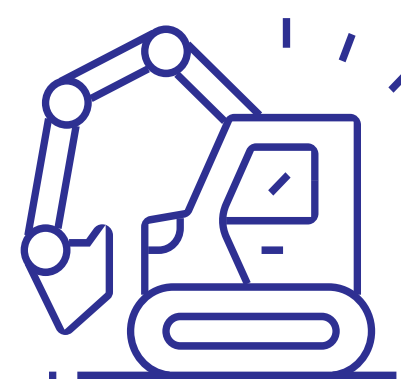
In dollar terms, the average price per metric ton of sodium sulfate was similar to the previous

year's. Higher prices and consumption of natural gas, however, along with the increased cost of electricity, pressured margins for this product. To offset this, we introduced efficiency measures for optimizing energy and natural gas consumption indicators in the dryers at Plant 1.

Production of magnesium sulfate, which is sold primarily to the agricultural industry, was not affected by the pandemic, because agriculture is classified as an essential activity. In fact, supply shortages favored prices and enabled us to diversify our portfolio of export clients. We were able to hold down production costs despite the rise in the price of sulfuric acid, used for production via reaction, because of operating efficiency measures taken in the period. We also received our clients' recognition as a trusted supplier. We reached consecutive production and sales volume records of 64,197 and 64,453 metric tons, respectively.

Production and sales volume of ammonium sulfate were lower due to the reduced availability of sulfuric acid, combined with the fact that the cost of ammonia in 2021 rose sharply.

We invested a total of US\$ 15.2 million last year, primarily in sustaining and replacement of critical equipment to ensure operating continuity. Some of the largest investments were in furnace efficiency, preparation of La Esmeralda dolomite mine, installation of a filtering system to eliminate gypsum in the magnesium oxide plant and a sacking system for magnesium specialties, as well as construction of a polymer lab to test the performance of magnesium oxide and optimize resources for decision-making.



**US\$ 15.2 M**  
investment in replacing critical equipment to maintain operating continuity.



**The National Chemical Industry Association renewed the certification of our Comprehensive Responsibility System for another three years, with annual verifications.**



# Production and sales volume



Production (k)	Unit	2021	2020	% Chge.	2019	2018	2017
<b>Metallic contents (mining operations)</b>							
Gold	oz	812.0	824.1	-1.5	910.9	963.4	951.8
Silver	oz	64,440.8	62,551.0	3.0	62,325.1	69,773.3	66,420.2
Lead	t	78.8	86.4	-8.9	84.3	83.3	78.8
Zinc	t	274.0	288.1	-4.9	292.3	289.6	285.1
Copper	t	11.3	9.0	25.8	8.8	10.1	12.2
Cathodic copper	t	3.1	12.4	-75.4	22.5	21.2	19.9
<b>Refined metals and other materials</b>							
Gold	oz	1,118.2	957.2	16.8	1,112.6	1,128.1	1,220.4
Silver	oz	75,230.4	70,634.4	6.5	72,384.7	64,881.7	72,632.7
Lead	t	120.4	111.5	7.9	118.9	104.1	112.8
Zinc	t	264.4	260.9	1.3	283.6	228.8	222.6
Copper	t	5.2	5.0	5.1	4.6	3.8	4.6
Cadmium	t				0.6	0.7	0.6
Bismuth	t				0.3	0.3	0.5
Lead bullion	t	144.8	134.5	7.6	140.6	123.7	129.7
<b>Chemicals</b>							
Sodium sulfate	t	761.9	745.9	2.1	774.2	780.6	753.5
Magnesium oxide <sup>(1)</sup>	t	82.5	57.2	44.2	87.9	84.8	78.9
Ammonium sulfate <sup>(2)</sup>	t	178.9	192.3	-7.0	194.4	180.1	189.3
Magnesium sulfate	t	64.2	62.6	2.6	62.2	54.8	57.1
<b>Sales (k)</b>							
Gold	oz	1,126.2	939.1	19.9	1,121.7	1,128.5	1,207.3
Silver	oz	73,249.3	69,869.2	4.8	71,718.1	64,207.8	67,330.6
Lead	t	122.2	122.0	0.2	119.7	106.6	111.3
Zinc	t	279.1	256.3	8.9	258.0	229.7	224.9
Sodium sulfate	t	801.3	763.4	5.0	770.4	816.0	775.5
Magnesium oxide <sup>(1)</sup>	t	76.0	49.7	52.8	64.7	68.2	68.2
Ammonium sulfate <sup>(2)</sup>	t	133.5	207.1	-35.5	101.7	142.8	128.6
Magnesium sulfate	t	64.4	63.1	2.1	62.4	53.4	57.6
Lead concentrates <sup>(3)</sup>	t	61.2	37.0	65.7	29.1	42.2	26.7
Zinc concentrates <sup>(3)</sup>	t	82.2	122.0	-32.6	217.0	168.2	290.1
Copper concentrates <sup>(3)</sup>	t	55.7	42.5	31.1	36.8	40.2	48.6

(1) Includes refractory, caustic, electrofused and hydroxide grades.

(2) Not includes maquila.

(3) Volumes sold in 2020 were adjusted.



# Financial highlights for each operating division

	2017	2018	2019	2020	2021
<b>Mining</b>					
Net sales	3,160	3,111	3,026	3,424	4,063
Gross profit	1,360	1,117	628	1,138	1,407
% of sales	43.1	35.9	20.8	33.2	34.6
EBITDA	1,510	1,266	890	1,483	1,706
% of sales	47.8	40.7	29.4	43.3	42.0
Operating profit	1,054	764	289	860	1,077
% of sales	33.3	24.6	9.5	25.1	26.5
<b>Metals</b>					
Net sales	4,023	3,839	3,936	4,179	5,244
Gross profit	292	-4	123	201	89
% of sales	7.3	-0.1	3.1	4.8	1.7
EBITDA	320	17	161	249	139
% of sales	7.9	0.4	4.1	6.0	2.6
Operating profit	267	-36	89	168	49
% of sales	6.6	-0.9	2.3	4.0	0.9
<b>Chemicals</b>					
Net sales	210	231	255	218	232
Gross profit	75	82	105	83	70
% of sales	35.7	35.5	41.4	38.1	30.1
EBITDA	65	69	93	70	64
% of sales	31.1	29.9	36.4	32.3	27.7
Operating profit	51	55	79	56	40
% of sales	24.2	23.8	30.9	25.7	17.3

Unaudited figures expressed in millions of dollars.

Figures represent the sum of the separate financial statements of the operating companies for each division, excluding corporate fees.







# Management discussion and analysis

This management discussion and analysis of the results of Industrias Peñoles, S.A.B. de C.V. and Subsidiaries (“Peñoles” or “the Company”) in fiscal year 2021 is based on the financial statements prepared according to the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). In accordance with IAS 21, the functional currency must be identified for each one of the consolidated entities based on the currency in the principal economic environment in which the entity operates. For all subsidiaries, with exception of certain non-operating companies and certain companies that provide services, the functional currency is the U.S. dollar.

The Company changed its reporting currency to US dollars (functional currency) starting from January 1st, 2019. The present analysis of the consolidated financial results is made accordingly, and financial results obtained in 2021 are compared with those of 2020 in millions of US dollars, unless otherwise indicated. The term “US\$” refers to dollars of the United States of America.

It is recommended to read this section in conjunction with the consolidated financial statements and their accompanying notes.

Peñoles is a publicly trading company whose shares have been listed on the Mexican Stock Exchange (BMV) since 1968 under the ticker symbol: PE&OLES.

Peñoles operates principally in the following sectors:

- ▶ Exploration
- ▶ Mining
- ▶ Metals (smelting and refining)
- ▶ Inorganic chemicals

### PRICES AND MACROECONOMIC VARIABLES:

The main variables that had a bearing on Peñoles’ results were:

**1. Metals prices:** In dollar terms, average prices increased compared to the previous year as follows: gold (+1.7%), silver (+22.1%), zinc (+32.7%), lead (+20.9%) and copper (+51.0%).

**2. Treatment charges:** base treatment fees decreased, on average, 29.6% for lead concentrates and 31.7% for zinc concentrates.

### 3. Exchange rate (peso-dollar):

	2021	2020	% Chg.
Close	20.5835	19.9487	3.2
Average	20.2813	21.4886	-5.6

### 4. Consumer inflation rate (%):

	2021	2020
Annual	7.36	3.15



## CONSOLIDATED RESULTS

In 2021, the world economy resumed its growth path after the recession caused by the covid-19 pandemic the previous year. The disruption in supply chains, the slowness of supply to respond to the upturn in demand for goods and services, coupled with the increase in energy prices, led to inflationary pressures in several regions. Demand from the industrial sector supported base metals, so that average quotations increased by double digits compared to 2020. The price of silver also benefited from the support of its industrial and investment consumption, while as safe haven asset gold maintained its price in comparison with the previous year.

The pace of the Company's operations improved in 2021 after certain restrictions were applied in 2020 as a result of covid-19. Thus, production and sales volumes of refined metals and chemical products were higher, which combined with the recovery in metal prices, increased revenues of the Company compared to the previous year, partially offset by higher opportunity cost in metal price hedges, which are aimed at reducing EBITDA volatility.

Likewise, cost of sales increased due to higher consumptions on production and the inflation in our basket of inputs, which averaged 9.11% annually in dollar terms, while the lower average exchange rate contributed to an increase in the US dollar value of

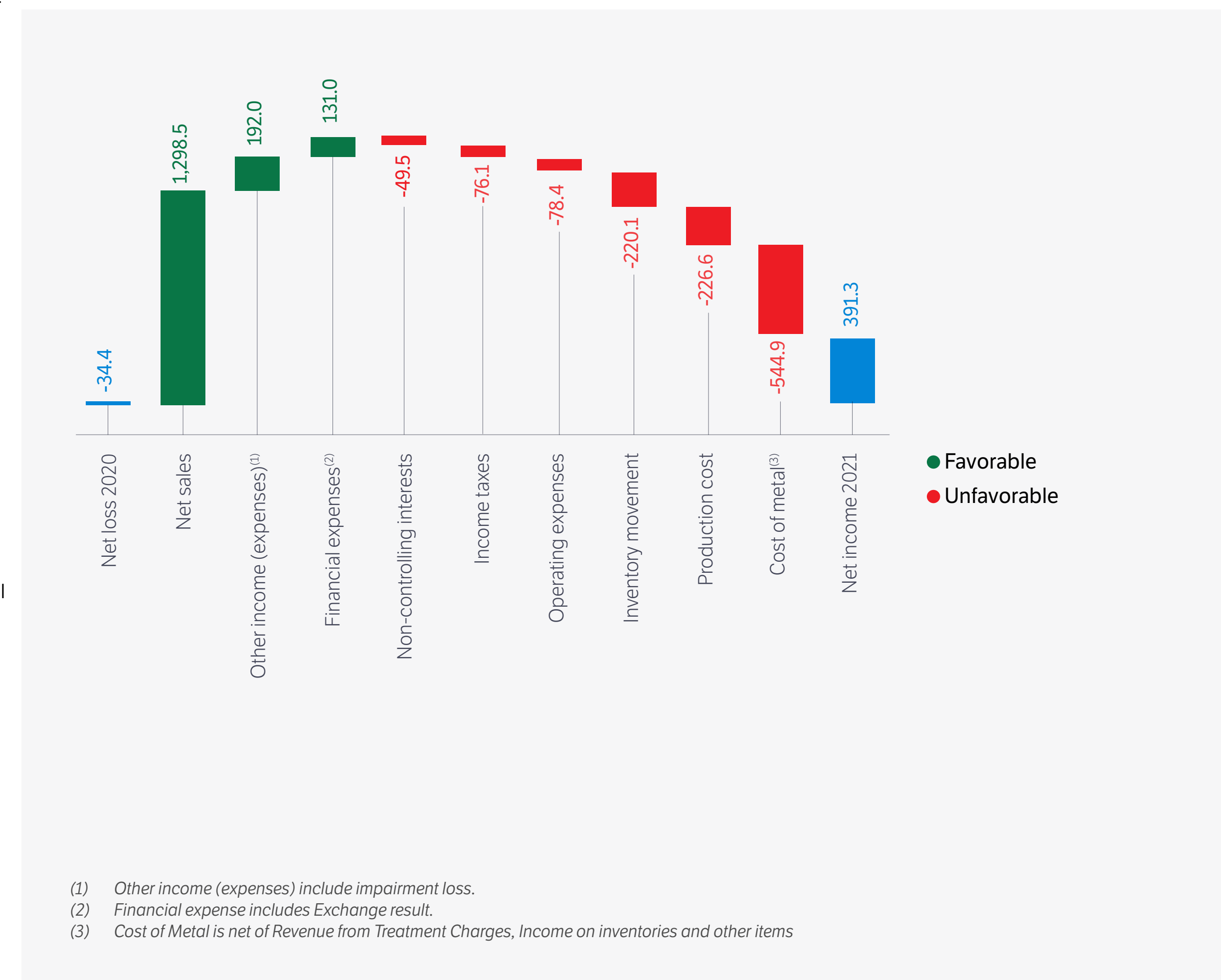
the portion of costs incurred in pesos (approximately 50% of production costs). In addition, there was a higher charge to cost of sales for inventory turnover and for the cost of metal (in volume and price) acquired from third parties to complement the supply of our metallurgical plants.

Operating expenses were also higher, due to more exploration activities, higher sales and administrative expenses, and the effect of the lower exchange rate mentioned above. On the other hand, there were lower financial expenses, mainly because in 2020 the Company and its subsidiary Fresnillo plc restructured long-term debt and issued bonds, which implied extraordinary costs in that year. Additionally, in 2020 there was an impairment charge in the value of long-lived assets, mainly derived from the suspension of operations of Madero and Milpillas, while in 2021 no impairment was recorded. Finally, the provision for income taxes was higher than in the previous year due to higher income before taxes.

Due to the aforementioned factors, the financial results for fiscal year 2021 and their variation with respect to 2020 were as follows: net sales US\$ 5,971.8 (+27.8%), gross profit US\$ 1,555.8 (+24.6%), EBITDA US\$ 1,695.8 (+16.4%), operating income -excluding other income/ expenses and impairment loss- US\$ 971.0 (+30.8%) and net income of the controlling interest US\$ 391.3, favorable compared to the loss of -US\$ 34.4 obtained in 2020.

## INCOME STATEMENT

The following chart shows the variation by item of results and its influence on the change in net income from 2020 to 2021 (in millions of dollars):





The variations are analyzed below:

**Net sales** amounted to US\$ 5,971.8, of which 84.0% went to the export market. The variation of +US\$ 1,298.5 (27.8%) compared to 2020 sales is explained as follows:

- ▶ From higher average metal and realization prices in the sale of concentrates +US\$ 896.8.
- ▶ Higher volumes sold, especially gold, silver, zinc and magnesium oxide +US\$ 419.1.
- ▶ Revenues from other products and services +US\$ 19.1.
- ▶ The above was accompanied by a variation due to metal hedging operations, in -US\$ 36.5.

The **cost of sales** of US\$ 4,416.0, had a variation of +US\$991.7 (29.0%) for the reasons described below:

- ▶ Higher **production cost** +US\$ 226.6 (9.0%), in the following items:
  - Energy (+US\$62.8, 16.8%) due to higher prices and consumption of diesel, fuels and lubricants; higher cost of natural gas and electricity, which were offset by lower consumption.
  - Operating materials (+US\$ 39.2, 11.3%) in explosives and detonators, bars and balls for mills, tires, tubes, hoses, packing materials, lead for alloys, safety equipment and reagents.
  - Contractors (+US\$ 38.6, 9.3%) due to increased work by external contractors in the development of mining and civil works and ore hauling, especially at the Fresnillo plc mines.
  - Maintenance and repairs (+US\$ 32.4, 10.4%) in mechanical and electrical maintenance and repairs, in major repairs and guaranteed maintenance cost, mainly in the Fresnillo plc mining units, in Capela and in Met-Mex due to repair and stabilization work in the new plant that increased the production capacity of refined zinc.
  - Human Capital (+US\$21.9, 7.7%), approximately by 80% due to the effect of lower average exchange rate compared to the previous year, and the rest due to an increase in the workforce, mainly as a result of the Subcontracting Reform, increases in salaries, benefits and overtime payments.
  - Other cost items (+US\$20.5, 23.1%), mainly in raw materials due to the increase in the price of ammonia.
  - Depreciation and amortization (+US\$11.2, +1.6%) derived from investments in fixed assets.

- ▶ Higher charge to cost of sales by +US\$ 220.1 due to **inventory movement** of US\$ 105.8 in the year, mainly due to the consumption of inventories of concentrates from own mines, while in 2020 a credit of -US\$ 114.3 was recognized, mainly due to the recognition of gold inventories in Herradura's leaching pads.
- ▶ Higher **cost of metal** sold (+US\$ 544.9) whose variation is derived from the following items:
  - Higher volumes of concentrates and other materials purchased during the year from remitters in the metallurgical business, as well as higher average metal prices, increasing metal cost in +US\$ 527.1.
  - Higher treatment revenues (+US\$ 88.0), which are recorded as a credit to metal cost, due to higher volumes purchased from third parties in the period, despite the decrease in zinc and lead concentrate treatment fees experienced worldwide.
  - Other items were unfavorable (+US\$ 105.8) due to the charge generated from the lower recovery of high grade lead-silver cements and lower metallurgical recoveries.

As higher revenues offset the higher costs, **gross profit** recorded an increase of +US\$306.8, (+24.6%) compared to that recorded in 2020. The **gross profit margin on net sales** was 26.1%, slightly lower than the 26.7% margin obtained in the previous year.

**Operating expenses** (excluding other income/expense) totaled US\$ 584.8, 15.5% (+US\$ 78.4) higher than in 2020, from:

- ▶ Higher **administrative and general expenses** (+US\$ 33.9, 13.2%) due to the effect of lower average exchange rate and increases in salary and benefits, fees, memberships and associations and to a lesser extent travel expenses, offsetting lower communication and IT expenses.
- ▶ Higher **exploration and geological expenses** (+US\$29.8, 21.2%), derived from higher field work that was reduced last year due to the pandemic, mainly in personnel costs, contractor drilling, duties and taxes.
- ▶ Higher **selling expenses** (+US\$ 14.7, 12.7%) in freight and transportation, royalties and extraordinary mining rights.

Annual **EBITDA** amounted to US\$ 1,695.8, favorable in +US\$ 239.0 (+16.4%); the **EBITDA margin over net sales** of 28.4% was down from 31.2% in 2020. Similarly, **operating income** of US\$ 971.0 increased by +US\$ 228.4 (+30.8%), and the **operating margin on net sales** increased from 15.9% to 16.3%.



In 2021, no **impairment losses on long-lived assets** were recorded, whereas in the previous year losses of -US\$ 166.4 were recognized for this concept, derived from the suspension of operations in the Milpillas and Madero mining units (which was reported last year).

**Other income (expense) net** (excluding impairment losses on long-lived assets) of US\$ 10.9 was favorable compared to -US\$ 14.7 last year, derived from:

- I. **Higher income** by +US\$ 16.8 from the sale of fixed assets and concentrates, which offset the reversal of remediation expenses of the previous year.
- II. **Lower expenses** by -US\$ 8.8, mainly because in 2020 a write-off was recorded on inventories of operating materials in the mining units whose operations were suspended. Also, in 2021 there was a lower loss on the sale of materials and waste, which was partially offset by higher maintenance expenses of the closed mining units, losses from claims and the sale of other products and services.

**Financial income (expense), net** was -US\$ 152.8, US\$ 131.0 lower than -US\$ 283.8 in 2020, and consisted of:

- ▶ **Financial income** of US\$ 20.3, slightly lower than US\$ 25.2, due to lower tax refund restatement and other financial income, partially offset by higher interest from customers and investments.
- ▶ **Financial expenses** of -US\$ 171.5, down from -US\$ 259.8 recorded in 2020, since in that year extraordinary expenses were incurred for the debt restructuring and bond issuances of Peñoles and Fresnillo plc, such as the financial cost of US\$ 25.1 for the closing of an interest rate hedge on a prepaid loan by Peñoles, and the make-whole premium plus accrued interest from the partial repurchase and bond issuance of Fresnillo plc (US\$ 60.8), in addition to the amortization of debt issuance costs (US\$ 6.2). There was also an expense of US\$ 29.4 derived from the restatement and surcharges for the voluntary adjustment to the tax treatment of mining work. This was offset by a higher provision for interest on financial debt in 2021 (+US\$ 28.9) and other financial costs (+US\$ 4.4).
- ▶ **Exchange loss** of -US\$ 1.6, favorable compared to the loss of -US\$ 49.2 in 2020. This item arises from the translation at the balance sheet date exchange rate of monetary assets and liabilities in currencies other than the U.S. dollar, including the Mexican peso. In 2021, the peso depreciated to a lesser extent against the U.S.

**Equity in the results of associated companies** was a loss of -US\$ 5.6, above last year's loss of -US\$ 3.3.

As a result, **income before taxes** amounted to US\$ 823.5, an increase of +US\$ 549.1 compared to US\$ 274.4 of the previous year.

The **provision for income taxes** of US\$260.9, was higher by US\$ 76.1 compared to the provision of US\$ 184.8 in 2020, which is attributed to the following factors:

- ▶ Higher income tax incurred (US\$ 360.6 vs US\$ 255.0), derived from higher profits for the period, which was partially mitigated by the deferred tax credit from the creation and reversal of temporary differences, mainly generated by exchange rate movements and inflation, of -US\$ 128.9, higher compared to -US\$ 113.0 of the previous year.
- ▶ Lower provision for the special mining right (US\$ 31.7 compared to US\$ 44.3 in the previous year) mainly due to the recognition of the deferred effect on this right from remediation and closure reserves in mining companies, which decreased this charge in 2021.
- ▶ Higher credit for the benefit of Special Tax on Production and Services (IEPS) on diesel consumed by operations, of -US\$ 2.4 compared to -US\$ 1.5 in 2020.

Due to the aforementioned factors, **consolidated net income** for fiscal year 2021 amounted to US\$ 562.6, +US\$ 473.0 higher than the income of US\$ 89.6 in 2020, of which US\$ 391.3 corresponds to **net income of the controlling interest** (favorable compared to the loss of -US\$ 34.4) and US\$ 171.2 to **income of non-controlling interests** (above the income of US\$ 124.0 obtained in fiscal year 2020).



## CASHFLOW STATEMENT

As of December 31, 2021, the Company had **cash and cash equivalents** of US\$ 1,817.1, which represented an increase in cash of +US\$ 224.4 with respect to the balance at the end of 2020 of US\$ 1,592.7 (including -US\$ 2.0 from translation effects).

The most relevant concepts for the period were as follows:

- 1. Net cash flows from operating activities** in +US\$ 1,150.9. Consisting of items directly related to operations, excluding items with no impact on cash, such as depreciation and amortization, income tax provisions, impairments on long-lived assets and unrealized interest. Also including changes in working capital investment.
- 2. Net cash flows** from investing activities of -US\$ 722.3 in the following items:
  - a. Acquisition of property, plant and equipment**, for -US\$ 762.1, in support of the operating units and development projects. The main investments are detailed below:

Company/Unit	US\$ M	Application
Fresnillo plc	611.7	<ul style="list-style-type: none"> <li>▶ Juanicipio Project</li> <li>▶ Flotation plant at Fresnillo (Pyrites II)</li> <li>▶ Mine works</li> <li>▶ Capitalizable mining equipment</li> <li>▶ Tailings deposits and leaching patios</li> </ul>
Met-Mex	50.5	<ul style="list-style-type: none"> <li>▶ Silver Recovery II</li> <li>▶ Integral water management</li> <li>▶ Anodes replacement at the zinc plant</li> <li>▶ Replacements and additions of fixed assets</li> </ul>
Velardeña	23.3	<ul style="list-style-type: none"> <li>▶ Mine works</li> <li>▶ Machinery and equipment</li> <li>▶ Reinforcement of tailings deposits</li> </ul>
Capela	19.0	<ul style="list-style-type: none"> <li>▶ Mine works, fixed assets and infrastructure</li> </ul>
Química del Rey	15.2	<ul style="list-style-type: none"> <li>▶ Replacement of critical equipment</li> <li>▶ Bagging system in specialties plant</li> <li>▶ Stripping at Dolomite mine</li> </ul>
Tizapa	14.7	<ul style="list-style-type: none"> <li>▶ Mine works</li> <li>▶ Mine equipment</li> <li>▶ Tailings thickener tank</li> </ul>
Sabinas	14.7	<ul style="list-style-type: none"> <li>▶ Mine works</li> <li>▶ Purchase and reconstruction of mine equipment</li> <li>▶ Reinforcement of tailings deposits</li> </ul>

**b. Capital contribution in associated companies** -US\$32.1.

**c. Acquisition of intangible assets** -US\$ 6.1.

**d. Proceeds from the sale of property, plant and equipment** +US\$ 30.8.

**e. Income from the sale of mining concessions** +US\$ 25.0.

**f. Collection of loans granted, interest received and other items** +US\$ 22.2.

**3. Net cash flows from financing activities** in -US\$ 202.1, derived from:

**a. Borrowing and repayment of financial debt (net of transaction costs)** +US\$ 28.8.

**b. Interest paid on financial debt** -US\$ 132.2.

**c. Dividends paid to non-controlling interest** -US\$ 99.6.

**d. Dividends paid to controlling interest** -US\$ 49.9.

**e. Loans from partners in non-controlling interest** +US\$ 41.7.

**f. Increase in non-controlling interest** +US\$ 31.9.

**g. Lease payments and others** -US\$ 22.8.





# Our people

We launched a process of cultural evolution and holistic wellness to go beyond resilience.

At Peñoles, we support and guarantee:

- ▶ Full respect for human and labor rights.
- ▶ Freedom of thought, association and political affiliation.
- ▶ A safe and healthy workplace.
- ▶ A respectful, equitable working environment, free of discrimination and harassment.
- ▶ A culture of prevention toward accidents and occupational illness.
- ▶ Professional training and continuing education.
- ▶ Competitive, fair compensation based on performance.

Since 2005 we have been signing members of the United Nations Global Compact on human rights, labor rights, the environment and anti-corruption.



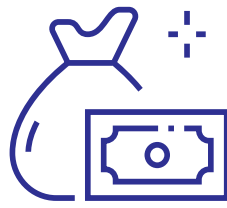


In 2021 there were no reports of situations involving extortion, abuse, discrimination, forced or coerced labor, unfair labor practices, violation of indigenous people's rights nor any violation of human rights. We have a Code of Conduct and the Correct Line program to avoid unethical practices and apply sanctions in appropriate cases.

## OUR HUMAN RESOURCE STRATEGY

In 2009 we introduced a Talent Development System to select, develop and retain top-performing and highest-potential employees. This will ensure we have the right people, presently and in the future. The following are the components of the system and the highlights of its actions during this period.





Process	Goal	Actions	Results
 <p><b>Recruitment and selection</b></p>	Ensure that we hire the right people.	<ul style="list-style-type: none"> <li>Promote outreach agreements with universities.</li> <li>Introduce internship, scholarship, and Engineers-in-Training programs.</li> <li>Post vacancies internally before listing them outside the company to prioritize internal candidates.</li> </ul>	<ul style="list-style-type: none"> <li>65 people were hired for the Engineers-in-training program; the 90th generation graduated, and 2,121 students have participated since its creation in 2003.</li> <li>Of 1,224 personnel movements, 69% were new hires and 31% were internal promotions.</li> </ul>
 <p><b>Performance evaluation</b></p>	Measure completion of established goals and expected behaviors, according to organizational competencies.	<ul style="list-style-type: none"> <li>Evaluate employees according to clear, measurable and challenging goals.</li> <li>Provide feedback through performance notes.</li> <li>Give salary raises and other recognition for their achievements and create training actions that address areas of opportunity detected.</li> </ul>	<ul style="list-style-type: none"> <li>For the thirteenth year in a row, 9.8.8% of personnel were evaluated at Peñoles and Fresnillo plc.</li> </ul>
 <p><b>Compensation</b></p>	Have an objective, competitive compensation system in place.	<ul style="list-style-type: none"> <li>Provide compensation based on salary tabs consistent with the market, the level of professional responsibility and individual performance of each employee.</li> <li>Provide a compensation package above what is required by law (savings fund, major medical expenses, pension plan, vacations and seniority bonus).</li> </ul>	<ul style="list-style-type: none"> <li>Compensation (including salaries and benefits) totaled US\$ 425.5 million, 11% more than the previous year.</li> </ul>
 <p><b>Training</b></p>	Train people according to needs detected in the performance evaluation.	<ul style="list-style-type: none"> <li>Promote training in line with current and future challenges in technical, administrative and human skills, to achieve better productivity, quality and competitiveness indicators for the company.</li> </ul>	<ul style="list-style-type: none"> <li>891,873 hours of training given, equivalent to 57.5 hours per employee</li> <li>53 scholarships awarded to high school, college and postgraduate students.</li> </ul>
 <p><b>Development and retention</b></p>	Develop people with better performance and greater potential.	<ul style="list-style-type: none"> <li>Create ways to develop and recognize people and encourage them to stay in the company ("Gold Program" for people who show outstanding performance and high leadership potential; scholarship program and bonuses for academic achievements; loyalty recognitions, etc.)</li> <li>Identify key positions for the operating continuity of the business, and prepare succession and career plans to guarantee prompt preparation of people in leadership and technical know-how.</li> </ul>	<ul style="list-style-type: none"> <li>1,925 loyalty recognitions awarded for seniority in the company between 5 and 50 years; 67 academic achievement bonuses.</li> <li>A total of 549 key positions were identified, and we are working on updating succession plans with 96% progress on expected retirements over the next five years.</li> </ul>







work in all our operations. Furthermore, our system of incentives for productivity, cost, safety and environmental protection results enables us to reach established goals and targets, which preserves job stability and protects the work source.

During the past year, our labor negotiations with the various unions that have agreements with our business units were conducted in a climate of respect and cooperation. There were no work stoppages or strikes, which meant we were able to operate continuously throughout the year.

We are focusing efforts on strengthening our relations with unions, with trust as the basis for building a better future for our employees.

We also implemented actions to comply with the labor reform on subcontracting, which came into effect in September. This reform includes new rules for the outsourcing of services through third parties, which led us to create a recruitment program for some of these services.

Regarding the introduction of a Ministry of Labor standard entitled NOM-035-STPS-2018, "Psycho-social risk factors at work - identification, analysis and prevention," we launched a computer tool for analyzing the results of the previous year's questionnaire, in order to develop plans to prevent psycho-social risks in the workplace. We created committees and offered training to access and analyze information specific to each workplace. The results of this analysis will allow us to verify the efficacy of our practices to prevent psycho-social risks and make whatever adjustments are necessary to reduce the level of risk in our company.

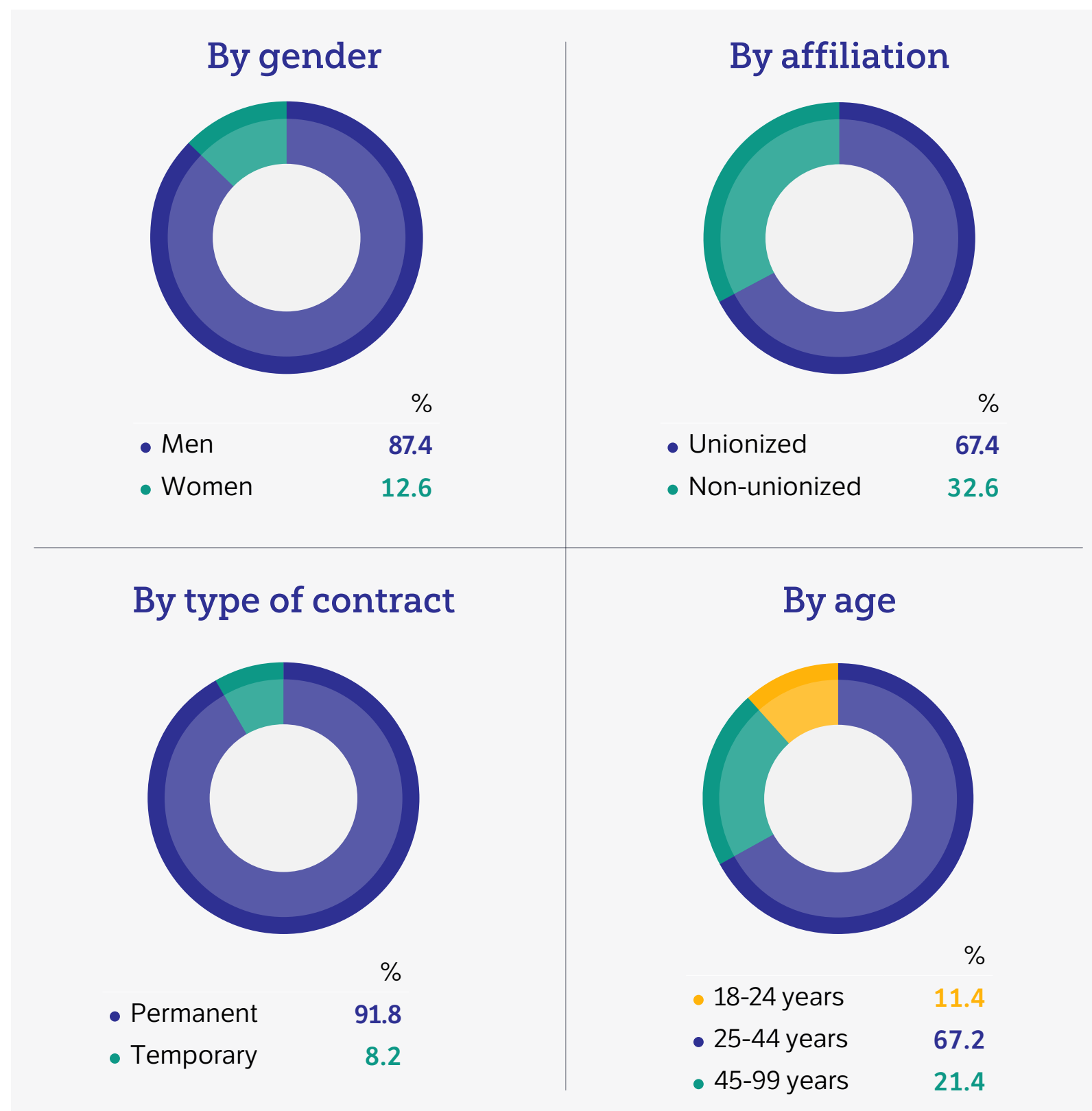
**OUR LABOR STRATEGY**

Peñoles respects the right to free association and collective bargaining, according to domestic laws and international conventions and treaties. Our labor relationships are based on trust and mutual benefit, and we maintain a frank and open relationship with unions, emphasizing our commitment to continuous dialogue.

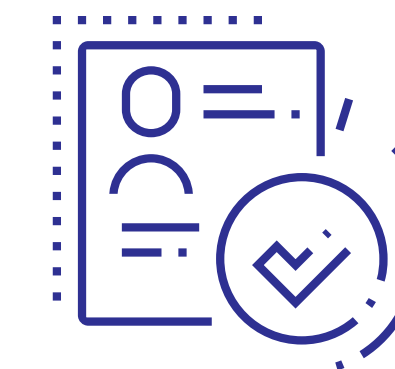
We share the values of workplace safety and competitiveness, and we focus our efforts on being more productive, with an unrelenting focus on labor modernity, which rewards safe, productive and ethical

**COMPOSITION AND GENDER DIVERSITY OF OUR PERSONNEL**

At the close of 2021, the workforce of Peñoles and its subsidiaries was 15,723 employees—excluding associated companies—was as follows:



The total number of women employees increased 23.0% over 2020. With women representing 12.6% of our workforce, we drew closer to the national average for women in the mining-metallurgy industry which, according to figures from the Mexican Mining Chamber, was 15.7% at the close of 2020. Some units have a higher percentage of women on staff than the company's global average—for example, Velardeña (17.3%), Capela (16.7%), and Servicios Administrativos Peñoles (39.0%).



Our focus on labor modernity rewards safe, productive and ethical work.



**Our High-Potential Management System, created in 2021, incorporates a new methodology to identify, classify and measure safety indicators to strengthen control of critical risks.**

**HEALTH AND SAFETY**

Over the course of the year we continued our efforts to protect our employees' health amid the ongoing pandemic. We extended application of our contingency plan to prevent the spread of COVID-19 among our employees and the communities neighboring our operations.

We applied strict sanitary protocols, entrance checkpoints, random rapid testing and awareness-building talks for our staff, both face-to-face and virtual. We also promoted the vaccination of our personnel and supported government vaccination campaigns by providing vaccination centers at our facilities, in coordination with the authorities. A total of 163,851 doses were applied to our personnel and people in the communities where we operate.



We also continued to support our communities by donations of medical and sanitary supplies, personal protection equipment and medical equipment for hospitals, basic pantry and household staples and water for the most vulnerable communities. We also distributed informational material on health care.

In total, COVID-19 contagions recorded were 3,213, including contractors, and we regretfully report the death of 10 people. We will continue to implement preventive actions and measures to avoid the spread of the pandemic and protect the health of all our people, staying close to our communities to overcome the contingency.

Moreover, we remain focused on promoting efficient, safe and clean operations, preventing and controlling occupational diseases and accidents, and eliminating factors and conditions that endanger occupational health and safety. Our health and safety risk management has set a goal of zero fatalities and zero new occupational illnesses. Our five-year goal is to achieve a TRIFR below the average for companies that are members of the International Council of Mining and Metals (ICMM). This year we began implementing High Potential Management, through which we incorporated a new methodology to measure safety indicators and improve our performance by identifying and controlling critical risks to help us achieve our goal of zero fatalities.

We also assembled teams, commissions and committees at all levels of the organization, which are trained in EC0391 skills standard "Verifying workplace health and safety conditions," to encourage improvements in safety and health management processes in all our business units. Our goal is that all personnel members of a Health and Safety Commission are certified, to improve the level and quality of the commissions' review processes.

We conduct ongoing communication, training, and preparation campaigns as well as safety events among our unionized and non-unionized employees and contractors, as well as their families. This year we continued our program of remote onboarding for contractors. We also introduced safety and operating discipline programs and actions, investigated accidents using root cause analysis and conducted corporate safety audits, both internal and independent, to monitor and correct critical risks. All of our mining units have shelters and first-aid brigades, and emergency brigades are staffed with employees certified as firefighters, pre-hospital medical technicians and paramedics, by institutions like the Mexican Red Cross, the National Council for Standardization and Certification of Job Skills (Conocer) and the Emergency Brigade Training School in Celaya, Guanajuato.

During the year, there were more accidents in our operations, with one fatality which we deeply regret. We remain firmly committed to our goal of achieving zero accidents in all our operations, thus we are intensifying our programs and actions to improve safety rates and safety culture.



Safety indicators <sup>(1)</sup>	2021	2020
<b>High-potential accidents</b>	708	521
Fatal accidents (F)	1	7
Accidents with lost time (CTP) (C+D+E)	481	454
Accidents with no lost time (STP) (A)	698	818
<b>Total accidents</b>	1,180	1,279
Lost days (severity)	19,536	23,602
Total recordable injury frequency rate (A+C+D+E+F) = TRIFR (ICMM)	14.64	16.65
Lost time injury frequency rate (C+D+E) = LTIFR (ICMM)	5.97	5.91

<sup>(1)</sup> Includes unionized and non-unionized employees and contractors, both from Peñoles and Fresnillo plc.  
 TRIFR = Total Accidents (STP + CTP + F) \* 1000000 / HHT  
 LTIFR = Total accidents CTP \* 1000000 / HHT  
 HHT = Man Hours Worked





We were pioneers in working with the authorities to create the COVID-19 protocol for the mining industry in Mexico, which we continue to apply at our facilities.

The Occupational Health Program continued its comprehensive, interdisciplinary work through annual plans and programs focused on individualized and epidemiological supervision. All operating units have medical staff to conduct preventive health activities through healthy lifestyle programs. These include vaccination campaigns, medical checkups to detect risk factors and early signs of illness, psychological counseling, and nutritional programs to prevent and control chronic degenerative illnesses.

During the year, our indicators on occupational and chronic-degenerative illnesses improved. Because most of these illnesses are preventable, we will continue to strengthen actions for caring for the health of our employees by applying the strictest protocols, according to the risk factors present in each of the company's business units.

### CULTURAL EVOLUTION AND COMPREHENSIVE WELLNESS

Peñoles is sustained by a century of experience based on the commitment, talent and creative capacity of those who came before us and who, with their vision, built leading companies in their sector.

Today we are renewing this vision with a new paradigm: going beyond resilience. To achieve this, we will be working on two principles:

1. The conviction that we create our own opportunities.
2. A commitment to being indispensable for our stakeholders.

On this basis, we have embarked on a path to cultural evolution, by which we intend to:

- ▶ develop the right ecosystem for each person to free their talents and collaborate without unnecessary limitations or restrictions on achieving sustainability.
- ▶ encourage co-creation so that together we can create our future by adopting design strategies, making the most of our creativity and promoting collective ownership of ideas and processes.
- ▶ hold ourselves responsible, not only for completing our tasks, but also for generating the expected results in our work. To this end, we will empower each person to take full responsibility for his or her performance, encouraging strategic thinking to achieve extraordinary results.

This new paradigm is a call to action, to create our own opportunities and our destiny, and not to be mere spectators.



### Indicators of professional and chronic-degenerative illnesses<sup>(1)</sup>

Type	2021	2020
Silicosis	6	19
Hearing loss	18	20
High blood lead levels	0	0
Accident after-effects	0	0
Muscular-skeletal injuries	5	9

(1) Number of cases, including unionized and non-unionized personnel and contractors at Peñoles and Fresnillo plc.







We undertook the evolution towards a new work culture by developing the leadership capabilities of our people in order to ensure their wellbeing, in a collaborative environment to achieve extraordinary results.

As part of this **cultural evolution**, during the year we worked to define a shared purpose. Considering what the world needs from the mining industry, what we think we do well and what we are passionate about, we concluded that **our purpose is to create opportunities and wellbeing by providing essential resources in a sustainable manner.**

Behind every statement of our purpose there is a reality that is palpably present in everything we do:

**Create opportunities and wellbeing:** Through collaborative, inclusive work that opens new opportunities for development; quality of life in our communities; new business opportunities and higher returns for our shareholders; and alliances in our industry to achieve common goals.



**Provide in a sustainable manner:** This refers to our industrial activity and the care we take in terms of labor, operating safety and stewardship of natural resources.



**Essential resources:** The metals, minerals and chemicals necessary for the development of modern human life, but also resources like health, education, infrastructure, and environmental innovation, to benefit the communities where we live and operate.

Based on this and the cultural diagnostics we conducted this year, we renewed the concept of our values of Confidence, Responsibility, Integrity and Loyalty and defined the expected behaviors that will embody the desired culture.

In 2022 we will undertake projects to manage this cultural evolution, including:

- ▶ A communication program of the desired culture to all our personnel.
- ▶ Training and coaching of leaders and champions to drive changes in cultural evolution.
- ▶ Review of policies, procedures and systems aligned with the desired culture, to serve as a basis for the expected changes in behavior.
- ▶ Improvement with best practices, rituals and routines that will put into practice the desired culture.
- ▶ Mentoring, diversity and inclusion programs.

We will also deploy a strategy of **comprehensive wellness**, with the purpose of having *people who are dynamic, proactive, results-oriented, discerning, collaborative, broadly responsible and duly motivated to apply their skills and contributions to the maximum; with a sense of dignity, proud of belonging to the company, and who can enjoy a better quality of life.*

To this end, we will introduce wellness projects that encourage by visible, genuine leadership, the physical and intellectual wellness of our people through behavioral programs that train and enable self-care, develop their technical and thinking skills, and facilitate the means to promote their safety and health. We will also introduce professional and cultural wellness programs to be the best option for employment, personal and professional development, by freeing their full potential, within a solid culture and with a compassionate leadership that encourages diversity, equality and inclusion.







**US\$437 M**

was the cost of energy during the year, which represented 15.9% of our production cost.

# Energy

We are committed to environmental sustainability, guaranteed supply at competitive costs, and the efficient use of energy.





# Energy

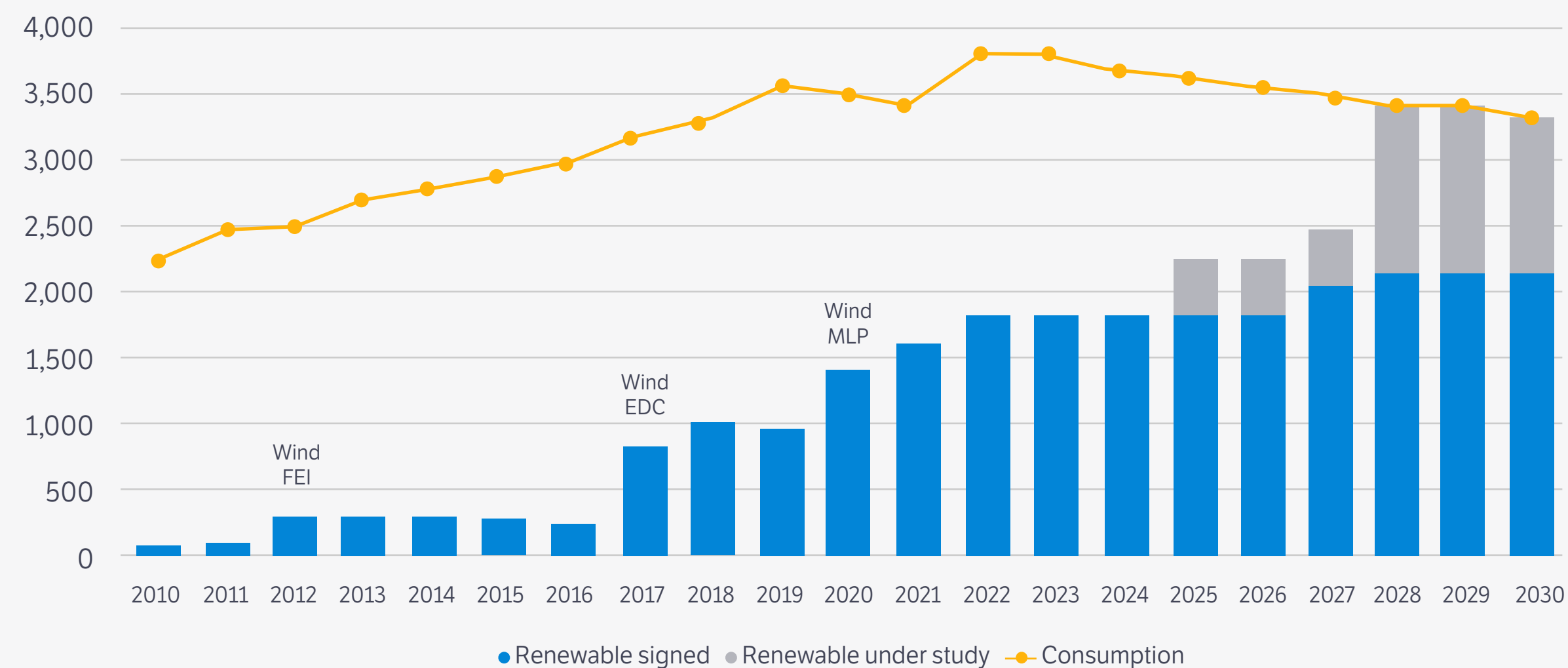
Renewable energy generation increased from 40.6% to 47.8% as a proportion of our annual consumption.

During 2021, the energy strategy was revised due to significant changes in the environment, such as the legal framework for private participation in the electricity sector, stakeholder demand for a plan to decarbonize our operations, and the emergence of new energy technologies that offer cleaner possibilities.

These changes, however, did not alter our core targets regarding energy: environmental sustainability, secure supply to ensure operating continuity, competitive costs, and efficient use.

Compared to the previous year, the share of renewable energy generation increased from 40.6% to 47.8% as a proportion of the company's consumption. Eólica Mesa La Paz (MLP) completed its first full year of operations, and an investment authorized in Fuerza Eólica del Istmo (FEI) will eliminate a technical obstacle to full capacity utilization in 21 out of the 32 wind generators available, an issue that is expected to be fully resolved by March 2022.

**Projected supply of renewable energy and total energy needs (GWh/year)**

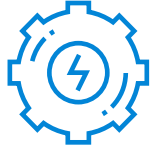










The group's power plants together generated 3,567.8 GWh, which breaks down as follows:

**Electricity generation by source (%)**

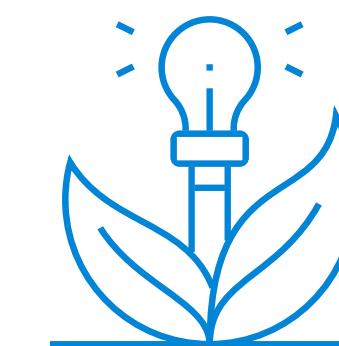
Source	Description	2021	2020
 <b>Termoeléctrica Peñoles (TEP)</b>	Located in Tamuín, San Luis Potosí, with capacity to generate 230 MW. The plant is operated by an independent company, and electricity is supplied under a power purchase agreement expiring in 2027.	54.8	57.8
 <b>Eólica de Coahuila (EDC)</b>	Located in General Cepeda, Coahuila, with installed capacity of 199.5 MW. The electricity is supplied under a power purchase agreement expiring in 2042.	20.0	20.5
 <b>Eólica Mesa La Paz (MLP)</b>	Located in Llera de Canales, Tamaulipas, with a capacity of 306 MW; operated by an independent company. Supply is committed under an energy coverage contract expiring in 2045.	19.4	14.9
 <b>Fuerza Eólica del Istmo (FEI)</b>	Located in El Espinal, Oaxaca, operated by Peñoles. Installed capacity of 80 MW.	5.1	6.1
 <b>Met-Mex Cogeneration</b>	A turbogenerator with 7 MW unit capacity that utilizes excess steam from the roasting area of the electrolytic zinc plant.	0.7	0.7
<b>Generation from proprietary sources (3,567.8 GWh/yr.)</b>		<b>100.0</b>	<b>100.0</b>
<b>Percentage of generation vs. consumption (3,221.4 GWh/yr.)</b>		<b>110.8</b>	<b>104.7</b>

In 2021, the amount of electricity generated in our plants was equivalent to 110.8% of our annual consumption. Unfortunately, not all this energy could be assigned to our operations, because the Mexican Energy Regulatory Commission (CRE) has still not cleared the paperwork procedure on migrating consumers to the wholesale power market (WPM). Of all the power generated by this plant, only 6.5% was delivered to Minera Capela and the rest was sold to the WPM. Because we could not use all the energy generated by MLP, we had to purchase 428.7 GWh from the Federal Electricity Commission (CFE), which accounted for 15.0% of our consumption last year.

We will focus our efforts in 2022 on obtaining the permits necessary for our operations to receive energy from MLP.

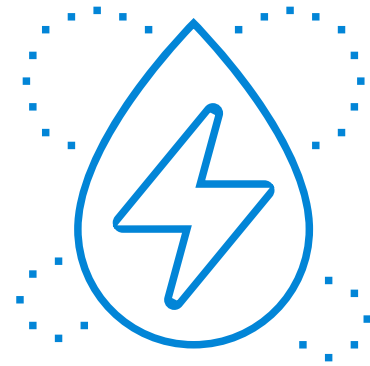


Our generation of clean energy totaled 1,614.1 GWh, avoiding the emission of 797,409 tCO<sub>2</sub>e, 17.4% more than in 2020.



With the energy obtained from clean sources, we avoided the emission of more **797,000 tCO<sub>2</sub>e** to the environment.





The unit cost of the electricity consumed was 14.8% higher, due primarily to transmission fee increases.

## CONSUMPTION

In 2021, the group consumed 3,221.4 GWh of electrical energy—average demand of 367.7 MW—2.7% below the year before, due to the technical stoppage at three mining units.

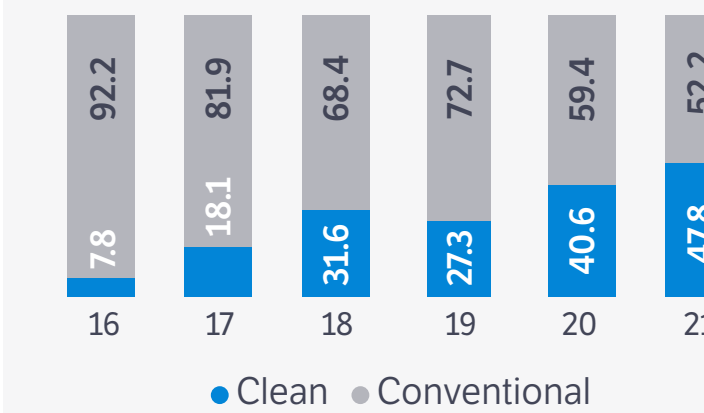
The contribution of each energy source to the group's total consumption is shown in the table below.

### Contribution of each energy source to consumption (%)

Source	2021	2020
Termoeléctrica Peñoles (TEP)	57.3	58.4
Eólica de Coahuila (EDC)	22.5	21.6
Fuerza Eólica del Istmo (FEI)	3.1	2.7
Cogeneration	0.7	0.7
Eólica Mesa La Paz (MLP)	1.4	0.0
Total supplied by proprietary sources	85.0	83.4
Energy purchased from CFE	15.0	16.6
Total consumption Peñoles	100.0	100.0
Energy from MLP delivered to the WPM	20.1	16.6
Availability of proprietary sources for Peñoles	105.1	99.1
<b>Consumption generated from clean sources</b>	<b>47.8%</b>	<b>40.6%</b>

Aware of our stakeholders' demand for a decarbonization plan for our operations, we are exploring clean technologies to become increasingly sustainable.

### Electricity consumption by type of technology\* (%)



\*In 2020 and 2021, the percentage of clean energy in total consumption—15.6% and 20.1%, respectively—corresponded to the energy from MLP, which was sold to the WPM.

Additionally, Peñoles' energy area supplied 106.5 GWh to companies of Grupo BAL, for a total consumption of 3,327.9 GWh.

### COST OF ENERGY

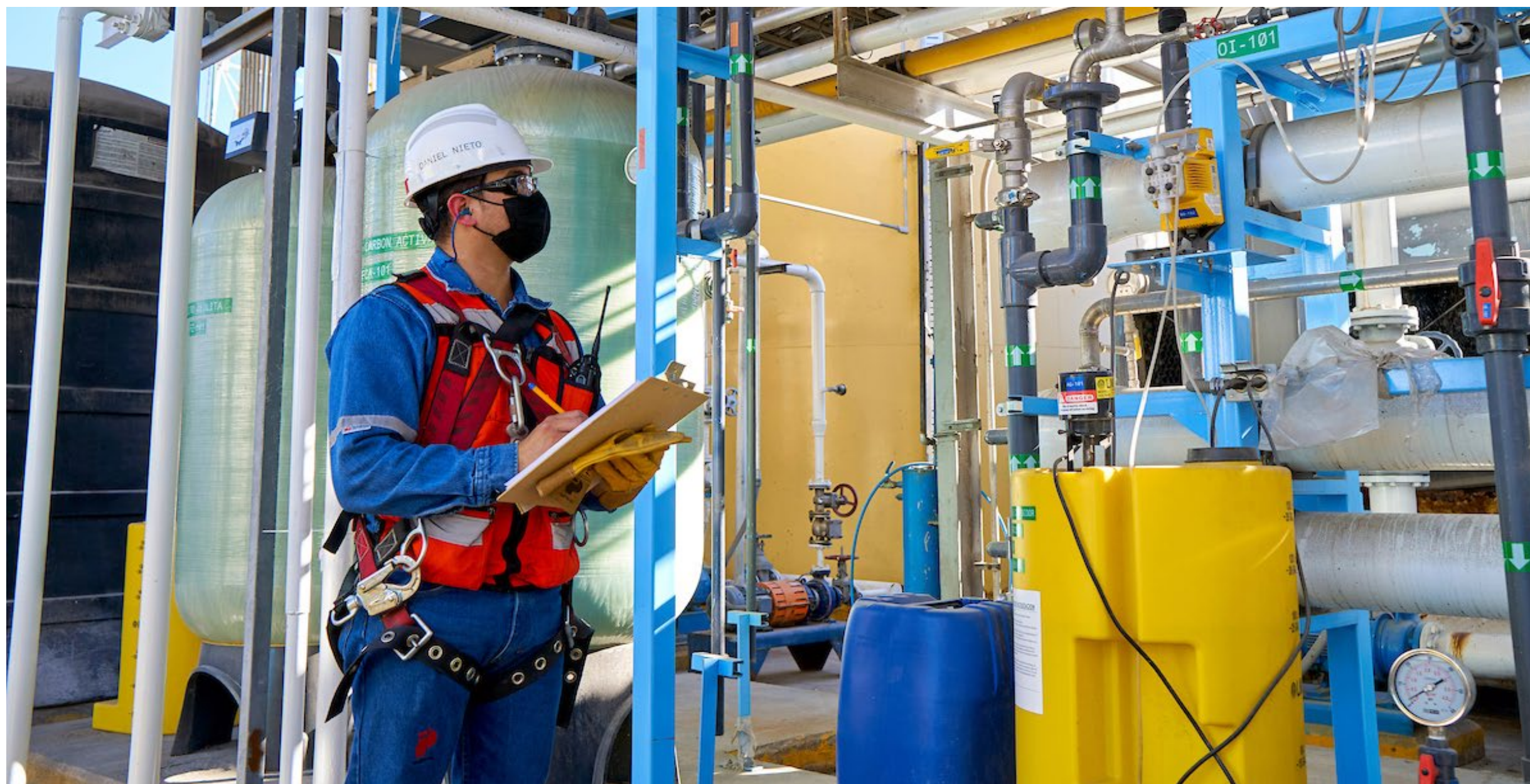
The average unit cost of the electricity consumed was US¢ 7.87 /kWh, 14.8% higher than the previous year. This increase was due primarily to the full-year impact of transmission fee increases by the CFE in mid-2020.

### OTHER MATERIAL ISSUES

Since 2018, energy industry regulations require major users and suppliers of electricity to acquire Clean Energy Certificates (CEL). In keeping with the requirement of a 7.4% CEL for 2020, in May 2021 consumers of Termoeléctrica Peñoles acquired 124,464 CEL, which were supplied by the CEL generated by the MLP wind farm.







Fuel	Unit	2021	2020	% Chge.
Liquefied natural gas	MI	10.4	5.4	92.5
Natural gas	Mm <sup>3</sup>	206.0	183.0	12.6
Diesel	MI	193.3	181.0	6.8

We analyze emerging technologies such as battery storage and production of green hydrogen which could be applied in the medium term.



The qualified user supplier, Fuentes de Energía Peñoles, completed its first full year of operations in the WPM, having traded 691.7 GWh of energy, 49.3 MW of power and 414,565 CEL.

The main challenge we faced in 2021, and which will continue in 2022, is participating in industrial chambers and working together with the federal government to create a new regulatory framework for the electrical industry, and on that basis adjust our strategy for growth and decarbonization.

With regard to other key energy sources, the recovery in industrial activity last year brought a 6.8% rise in our diesel consumption, while our consumption of natural gas increased by 12.6%.

We continued to advance in our effort to replace diesel fuel with liquefied natural gas (LNG) in heavy equipment for hauling ore. We used 92.5% more LNG in 2021, which meant a reduction in GHG emissions and more competitive costs.

In the medium term, besides incorporating an increasing percentage of renewable sources in our energy mix, we foresee the use of certain emerging technologies, such as electrification of mining equipment, battery storage and production of green hydrogen, which could be applied toward our goal of achieving CO<sub>2</sub> emission neutrality by 2050.



We strengthen our regulatory system, compliance controls and third-party due diligence procedures.

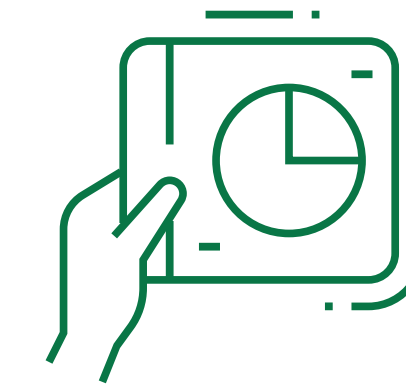
# Corporate governance

We abide by sound corporate governance practices and conduct our business with integrity.



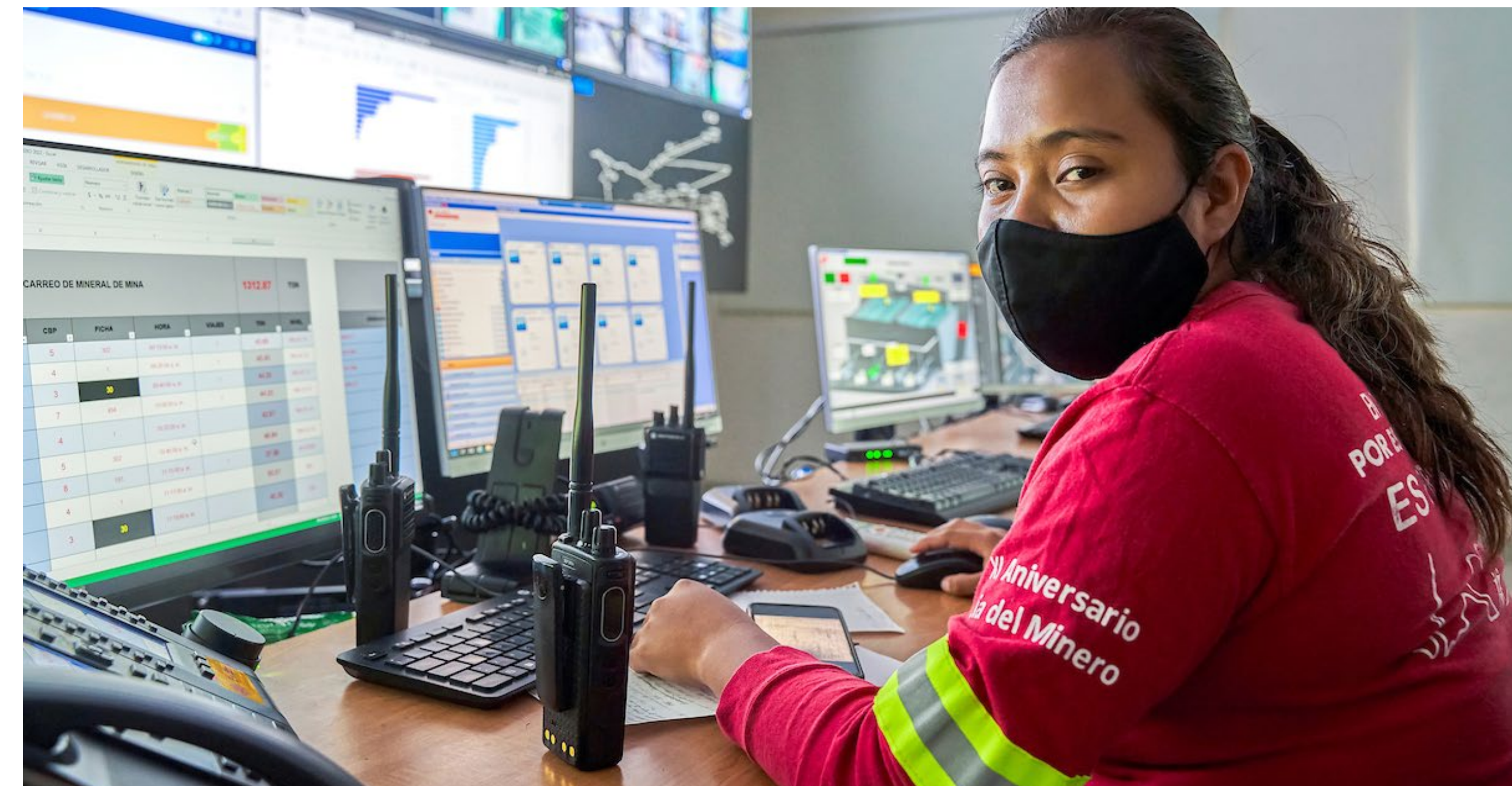


We are committed to exceeding national and international regulatory requirements and doing business with integrity. We are guided by our solid values, and we intend to ensure these principles permeate our entire value chain and extend to all our stakeholders. We have a zero-tolerance stance on crime, fraud and corruption. Accordingly, in 2021 we worked to strengthen our regulatory system, compliance controls and third-party due diligence procedures. We also reinforced our cybersecurity governance to protect our assets and promote responsible technology use.



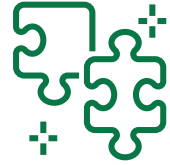




**From a co-creation and collaboration approach, we undertook several initiatives focused on protecting and increasing the value of the organization, in order to strengthen the alignment of our corporate culture to its integrity and compliance components.**

# Integrity and compliance



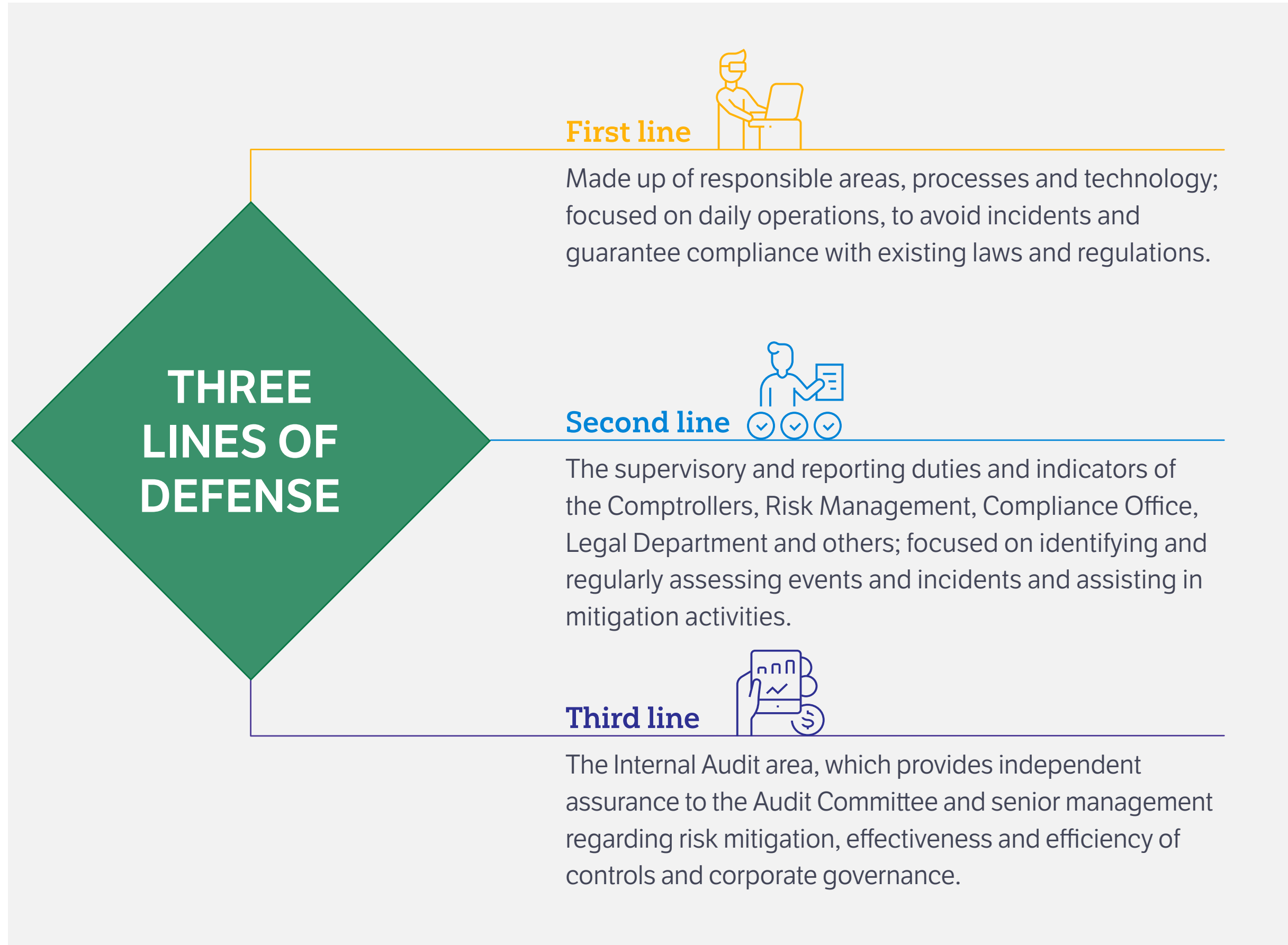


The following are the highlights of our progress this year.

Area	Goal	Key strategies
 <p><b>Corporate integrity</b></p>	Strengthen a solid culture of integrity based on our vision, expected behavior and institutional values throughout the company, which underpins our decision-making tools.	<ul style="list-style-type: none"> <li>▶ Standardize integrity practices in the group, by: i) underscoring our commitment to integrity through digital signature certification and a system for declaring conflicts of interest; and ii) training in regulatory compliance. In 2021, 3,388 of our employees participated in this effort.</li> <li>▶ A Third-Party Code of Conduct aimed at the company's critical commercial partners. In 2021 we trained a total 715 employees in areas of contact with third parties. In 2022 we will begin training critical partners.</li> <li>▶ Obtain recognition for our ethical business practices and our law-abiding culture. In 2022 we will apply for The Most Ethical Companies recognition, sponsored by the Ethisphere Institute.</li> <li>▶ Speak Up Culture: Encourage open communication on matters of integrity and use of the company's whistleblower line, Línea Correcta. In 2021, 138 reports were received through this channel (79% more than in 2020). More details on the reports received can be viewed in the 2021 Sustainable Development Report.</li> </ul>
 <p><b>Control framework</b></p>	Prevent, detect and mitigate compliance risks (corruption, fraud, money-laundering and conflicts of interest) that affect the entire organization.	<ul style="list-style-type: none"> <li>▶ Introduction of the GAN Risk Control tool to automate due diligence from a core risk-based approach, maintaining integrity in the company's relations with third parties on key issues like bribery, corruption, money-laundering, lawsuits and reputation. We expect this system to be fully in place by the first half of 2022 and it will apply to 15,000 third parties.</li> <li>▶ Create the methodological framework for compliance risks and controls, to protect the value of the company based on best international practices using a preventive approach. We drafted a preliminary design for the methodological framework and conducted an initial anti-bribery and anti-fraud diagnosis based on ISO-37001 standards and the UK Bribery Act for companies of the group. We also followed up on and analyzed employee statements of conflicts of interest.</li> </ul>
 <p><b>Regulations</b></p>	Promote and distribute the internal and external regulatory governance framework in conjunction with all areas of the company.	<ul style="list-style-type: none"> <li>▶ Strengthen the Regulatory Compliance System from three lines of defense, through regulatory mapping, analysis of regulatory gaps and risks associated with default on obligations, in coordination with different operating and administrative areas, Legal and Audit, according to their specialty. Together with Legal and Human Resources, we will be applying for NYCE™ certification, sponsored by the National Institute for Transparency, Access to Information and Protection of Personal Data (INAI).</li> <li>▶ Adopt ESG, working environment, human rights, equality, non-discrimination and diversity practices, together with strategic areas of the company. Begin the processes of diagnosis, training and regulatory development to lay the groundwork for company strategies that will make us international trend-setters in our industry starting in 2022.</li> </ul>
 <p><b>Cybersecurity</b></p>	Safeguard technology processes, coordinate efforts to protect the privacy of personnel and company information.	<ul style="list-style-type: none"> <li>▶ Continuously and permanently monitor cybersecurity to improve detection and react promptly to threats in our technological devices. Train all our employees and let them know that cybersecurity is a responsibility we all share, and that protecting our technology ensures that its benefits are accessible to the entire organization. In 2022 we will reinforce cybersecurity culture within our strategy of cultural evolution, to build awareness on this issue.</li> <li>▶ Secure access. We incorporated a secure access initiative for all our technological assets, raising visibility and tightening controls over user identities, permissions and devices. In 2022 we will focus on managing vulnerabilities, investigating and promptly correcting failures in our technological assets.</li> <li>▶ Validate architecture and issue recommendations for secure deployment of new technologies and platforms. We completed the process of making operating technologies more visible for the various disciplines of cybersecurity, for monitoring and analysis purposes.</li> </ul>
 <p><b>Operating intelligence</b></p>	Prevent, detect and mitigate unethical behavior that violates the Code of Conduct, and follow up on the sanctions defined by the Ethics and Corporate Value Committee or Honor Commission.	<ul style="list-style-type: none"> <li>▶ Investigate reports and findings on information received through our whistleblower channels. We will continue optimizing the investigation process in keeping with the number of reports received, the level of complexity and geographic location of the events reported. The results of these investigations are discussed quarterly on the Ethics and Corporate Values Committee and the Honor Commission. Some of our efforts in 2022 will go to following up on areas of opportunity detected during the investigations, identifying red flags for compliance and recommending remedial plans in areas with greater exposure.</li> </ul>







We transform our integrity practices into opportunities for growth and competitiveness, adapted to the new environment.

**RECOGNITIONS**

For the second year in a row, Industrias Peñoles was ranked among **The Most Ethical Companies 2021** (10th place), achieving a particularly high score for Ethical Business Philosophy (4th place).

Peñoles came in at the top of the **IC500 Corporate Integrity Index** of Mexico's 500 most important companies, based on a diagnosis by *Mexicanos contra la Corrupción y la Impunidad*, in coordination with *Transparencia Mexicana* and *Grupo Expansión*.





# Corporate governance structure

## Executive Committee

**7 Directors elected by the Board from among its members**

- Reviews, approves and monitors operational and strategic development
- Recommends changes to the corporate and business strategy

Regularly reviews management on the company's economic, operational, product, social, environmental, human development and safety, including related risks and opportunities.

## Board of Directors

**15 proprietary Board members and 13 alternates**

- Defines vision and strategy
- Establishes policies and guidelines
- Oversees business operations
- Approves the budget and financial results



**Secretary**



**Chief Executive Officer and Management Team**

Business management, leadership and execution

## Audit and Corporate Governance Committee

**3 independent Board members**

- Reviews compliance with internal control policies and accounting guidelines
- Monitors systems of Internal Control and Audit
- Evaluates the performance

## Finance and Planning Committee

**7 Board members, experts in financial matters**

- Reviews financial policies and projections
- Evaluates investment projects and company's financing

## Nomination, Evaluation and Compensations Committee

**3 Board members**

- Reviews the organizational structure
- Validates the skills and experience of the Board and recommends their compensation
- Evaluates the performance of senior executives
- Defines the overall compensation policy and succession plans

The Board met six times in fiscal year 2021. In all the sessions there was a remarkably high quorum: 100% of the members attended two of these sessions, and more than 92% the remaining four.

In 2021, the total compensation to the relevant executives amounted to Ps. 192.3 million.

The Annual Shareholders Meeting held on April 29, 2021 authorized a remuneration of Ps. 130,000 to each director for every session attended, as well as the amount of Ps. 90,500 to each member of the Audit and Corporate Governance Committee per session, and Ps. 110,000 to the President of said Committee.



# Board of directors

## Chairman

Alejandro Baillères G.

## Directors

Alberto Baillères G. (†) <sup>(1) (2) (3) (8)</sup>

Alejandro Baillères G. <sup>(1) (3) (8)</sup>

Juan Bordes A. <sup>(1) (2) (3) (7)</sup>

Fernando Senderos M. <sup>(5)</sup>

Arturo Fernández P. <sup>(1) (2) (3) (7)</sup>

Raúl Baillères G. <sup>(7)</sup>

José A. Fernández C. <sup>(5)</sup>

Andreas Raczynski Von O. (†) <sup>(1) (3) (7)</sup>

Eduardo Cepeda <sup>(1) (3) (7)</sup>

Juan Francisco Beckmann V. <sup>(5)</sup>

Jaime Lomelín G. <sup>(1) (3) (7)</sup>

Tomás Lozano M. <sup>(4) (5)</sup>

Octavio Figueroa G. <sup>(1) (3) (7)</sup>

Ernesto Vega V. <sup>(4) (5)</sup>

## Secretary

Gerardo Carreto Chávez

## Alternate directors

Juan Pablo Baillères G. <sup>(7)</sup>

Leopoldo Alarcón R. <sup>(7)</sup>

Gabriel Kuri L. <sup>(7)</sup>

Dolores Martín C. <sup>(5)</sup>

Alejandro Hernández D. <sup>(7)</sup>

Luis M. Murillo P. <sup>(7)</sup>

Francisco Javier Fernández C. <sup>(5)</sup>

Rafael Rebollar G. <sup>(7)</sup>

Juan Carlos Escribano G. <sup>(7)</sup>

Raúl Obregón Del C. <sup>(4) (5)</sup>

María Ocampo <sup>(7)</sup>

Luis Aguilar y Bell <sup>(5)</sup>

Roberto Palacios P. <sup>(1) (3) (7)</sup>

In accordance with the recommendations of the Corporate Governance Code, the Audit and Corporate Governance Committee reviewed accounting policies and criteria as well as internal control systems, and functioned in coordination with the external auditors. In addition, the board appointed directors to make up the Nomination, Evaluation and Compensations Committee—which reviewed organizational structure and policies on compensations—and the Finance and Planning Committee, whose responsibility was to examine financial policies and projections and evaluate investment projects in order to ensure that they were consistent with the company's strategic plan and with its sources of financing. The Committees met regularly and reported to the board on their activities; their reports and recommendations were attached to the minutes of the board meetings.

The composition of the Board of Directors, as well as the profile of the members are available on our website: [www.penoles.com.mx](http://www.penoles.com.mx)

(1) Executive Committee  
Secretary: Miguel Linares  
Guest: Diego Hernández

(2) Nomination, Evaluation and Compensations Committee

(3) Finance and Planning Committee

(4) Audit and Corporate Governance Committee

(5) Independent Director\*

A Director who performs his duties free from conflicts of interest and without being subject to personal, patrimonial or economic interests, and furthermore, a person who is excluded from restrictions provided by Article 26 of the Securities Market Law.

(6) Shareholder Director\*

A Director who has a 1% (one percent) direct interest or more in the equity capital of the Company.

(7) Related Director\*

A Director not being deemed as "Independent" or "Shareholder Director".

Among others, Related Directors are those whom:

Serve as officers at some level of the Company and its subsidiaries, as well as officers at any level of the companies comprising the Grupo BAL consortium.

Have kinship to the fourth degree with other Directors, as well as the spouses and non-spouses a concubinage relationship

(8) Shareholder and Related Director\*

A Director who besides being "Related", also has a 1% direct interest or more in the equity capital of the Company.

\* Pursuant to the Corporate Policy that defines the qualification or category of Directors.

(†) R.I.P.

Note: Board composition in accordance with the resolutions of the Annual General Shareholders' Meeting held on April 29, 2021.



# Peñoles Senior Executives

## CHIEF OFFICERS



**Rafael Rebollar González**  
Chief Executive Officer  
Vice President  
Metals and Chemicals



**Luis Humberto Vázquez San Miguel**  
Vice President  
Mining



**Jeremy Donald Gillis**  
Vice President  
Metals Operations



**Javier García Fons**  
Vice President  
Exploration



**Manuel Medina Pegram**  
Vice President  
Commercial  
Metals and Chemicals



**Mauricio I. García Torres**  
Vice President  
Finance



**María Nancy Acosta Jáuregui**  
Vice President\*  
Internal Control

**Roberto González Rodríguez**  
Northern Operations

**Francisco Javier Berumen Muro**  
Southern Operations

**Miguel Eduardo Muñoz Pérez**  
Planning

**Luis Ernesto Ibarra Ortiz**  
Chemicals Marketing

**Juan Manuel Martínez González**  
Metals Marketing

**Luis Lauro Rodríguez González**  
Technical

**Óscar Luévano Ovalle**  
Raw Materials

**Juan Francisco Corona Martínez**  
Financial Planning

**Gerardo R. Rojas Favela**  
Operations Comptroller

## ASSISTANT VICE PRESIDENTS

\* Reports directly to the Audit and Corporate Governance Committee.



# Baluarto Minero Senior Executives

## CHIEF OFFICERS



**Fernando Alanís Ortega**  
Chief Executive Officer



**Leopoldo Alarcón Ruiz**  
Deputy CEO  
Vice President  
Administrative Services



**Álvaro Soto González**  
Vice President  
Law



**Martín Arreola Coronel**  
Vice President  
Administrative Services



**Arturo Vaca Durán**  
Vice President  
Energy



**Rodolfo Gómez Maturano**  
Vice President  
Procurement and IT

**Roberto Velasco Cuevas**  
Labor Development

**José Von Bertrab Saracho**  
Strategic Planning

**Daniel Torres Guerrero**  
Special Projects

**María Luisa Aguilera López**  
Human and Organizational Development

**Christopher Ávila Mier**  
Government Relations

**Exequiel Rolón Michel**  
Community Development and Environment

**Gustavo Alarcón Caballero**  
Corporate Law

**Javier Romero Castañeda**  
Labor Litigation and Agrarian Law

**Armando Saucedo Hernández**  
Fiscal Planning

**Gerardo Saucedo Ortega**  
Comptroller

**Jorge Calderón Buendía**  
Treasury and Financing

**Pablo Alvarado Vargas**  
Information Technologies

**Demetrio Juárez Martínez**  
Procurement

## ASSISTANT VICE PRESIDENTS



# Baluarto Minero Senior Executives

## CHIEF OFFICERS



**Cristóbal Mariscal Herrerías**  
Vice President Compliance



**Herman Dittmar Charles**  
Deputy CEO  
Vice President Technical Services



**Ricardo Alanís Ramírez**  
Vice President Projects and Construction



**David Giles Campbell**  
Vice President Exploration



**Marcelo Ramos**  
Vice President Business Development

**Leopoldo Villalobos Romo**  
Project Control

**Alejandro Contreras González**  
Mining and Services

**Sebastián Trejos Saldaña**  
Health and Safety

**Humberto Aldana Martínez**  
Infrastructure

**Benito Noguez Alcántara**  
Exploration

**Leopoldo González Villalvaso**  
Exploration

## ASSISTANT VICE PRESIDENTS





# Information for shareholders

The process of evolution that we have undertaken has involved deep reflection, as it entails a change of culture and new ways of doing things.



**Corporate headquarters**

Corporativo Legaria

Calzada Legaria 549, Torre 2

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11250 Mexico City, Mexico.

Phone: +52 (55) 5279 3000

Investor\_Relations@penoles.com.mx

[www.penoles.com.mx](http://www.penoles.com.mx)

**Stock exchange**

Mexican Stock Exchange (BMV):

Ticker PE&OLES

**Auditor**

Mancera, S.C. (Member of Ernst & Young Global Limited)

**Share and dividend inquiries**

**Jorge Calderón B.**

Assistant Vice President Treasury and Financing

Phone: +52 (55) 5279 3290

Jorge\_Calderon@penoles.com.mx

**Investor and analyst inquiries**

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CFO

Phone: +52 (55) 5279 3000

Mauricio\_Garcia@penoles.com.mx

**Celia Ortega C.**

Investor Relations

Phone: +52 (55) 5279 3294

Celia\_Ortega@penoles.com.mx

**Share information**

Share price (pesos):

Close \$ 235.56

High \$ 390.11

Low \$ 235.56

Market capitalization at the end of the year:

**US\$ 4.5 B**

Shares outstanding as of December 31, 2021:

**397,475,747**

For more information regarding Fresnillo plc, please visit:

[www.fresnilloplc.com](http://www.fresnilloplc.com)

**Financial calendar\***

1Q 2022 results: May 02, 2022

2Q 2022 results: July 28, 2022

3Q 2022 results: October 28, 2022

4Q 2022 results: February 28, 2023

**Versión en español**

Para obtener una versión en español de este informe, favor de visitar: [www.penoles.com.mx](http://www.penoles.com.mx)

Contacto: Investor\_Relations@penoles.com.mx

Tel.: +52 (55) 5279 3294

\* Estimated dates.







### Disclaimer

This Annual Report contains certain forward-looking information relating to Industrias Peñoles, S.A.B. de C.V. and its subsidiaries (Peñoles or the Company) that is based on assumptions made by its management. Such information, as well as the statements with respect to future events and expectations are subject to certain risks, uncertainties and factors that could cause the actual results, performance or achievements of the Company to be materially different at any time. Such factors include changes in general economic, governmental policy and/or business conditions nationally and globally, as well as changes in interest rates, inflation rates, exchange rates, mining performance in general, metal demand and quotations, and raw material and fuel prices, among others. Due to these risks and factors, actual results may vary materially from the estimates described herein, for which reason Peñoles does not assume any obligation with respect to such variations or to information provided by official sources.

