

# Annual report of the Board of Directors to the shareholders' meeting, corresponding to fiscal year 2022

## 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 during fiscal year 2022, the key aspects concerning the environment, health and safety, relations with the communities where we operate, and our corporate governance, as well as a report on the main activities of the Board of Directors.

In 2022, the economic aftermath of the COVID-19 pandemic was compounded by a geopolitical conflict in Ukraine, spreading uncertainty and slowing global economic growth. In Mexico, gross domestic product grew by 3.1%, fueled by exports, resilient consumption and the country's financial solidity, all of which strengthened the peso against the US dollar.

During this period, the average price of gold was very similar to 2021, rising at the start of the year and declining afterwards. The slowdown in the industrial economy weakened silver, lead and copper prices. The only metal whose price increased last year was zinc.

Industrias Peñoles invested US\$ 217 million in exploration activities in 2022, 27.1% more than the year before. Drilling programs in operating mines and their areas of influence yielded encouraging results. Field work also continued on projects in the early and advanced stages, as did evaluations in our portfolio of prospects.

Investments in fixed assets in 2022 totaled US\$ 748 million, which is 1.9% less than in 2021. In late December, the new Juanicipio gold-silver mine in Zacatecas finally completed the connection to the national power grid, so that it could formally start operations. This mining unit will contribute significantly to the

company's gold and silver production starting in 2023. Meanwhile, the tailings flotation plant at Fresnillo is still awaiting its electrical connection to start up operations in the second quarter of 2023.

Mining production continues to feel the disruptive impact of the federal ban on outsourcing. Last year, some 704,000 ounces of gold were produced, which is less than in 2021, due to the expected reduction in ore grade and a lower rate of metallurgical recovery at the Herradura mine. Silver production rose to 67 million ounces thanks to the contribution of Juanicipio and a higher volume of processed ore at Fresnillo. Lead and zinc production were similar to last year, while copper in concentrates declined. Operation of the Capela mine encountered some metallurgical problems and shutdowns for various reasons, which hurt production.

In the metallurgical business, annual gold production was 1.013 million ounces, 9.4% less than in 2021; silver output totaled 73.8 million ounces and lead production 109,000 metric tons, dropping 1.9% and 9.4%, respectively. Zinc production in 2022 totaled 237,000 metric tons, down 10.3% from 2021, due to various operating problems within the refinery caused by the complexity of coupling the original plant with its expansion. These difficulties were resolved by the end of the year, however. Refined zinc production is expected to rise gradually in 2023 to reach the plant's nameplate capacity of 350,000 metric tons in 2024.

The inorganic chemicals division performed well, particularly in magnesium byproducts, which reached new record annual production levels of magnesium hydroxide and magnesium sulfate.



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For the reasons mentioned above—that is, an unusual confluence of various adverse factors, like lower prices and volume, the operating problems at the zinc plant and Capela mine, the delay in connecting the Juanicipio mine to the power grid, the impact of the ban on subcontracting, and the rise in exploration costs and expenses—the financial results for 2022 were much lower than in 2021. Expressed in millions of dollars, net sales came to US\$ 5,523—a 7.5% decline; EBITDA dropped 36.9% to US\$ 1,071; and net income for fiscal year 2022 came to US\$ 183. Despite all this, the company maintains a solid and conservative balance sheet structure, with a net debt/EBITDA ratio of 1.3 times.

Over the course of the year, we continued to apply protocols to prevent COVID-19 contagion and protect our employees' health, and we continued to support vaccination campaigns in coordination with the authorities, both for our employees and their families, and people in the communities where we operate.

The safety and health of our people are a priority, which is why we continued to strengthen programs and actions through a strategy of High-Potential Management and training campaigns.

We also bolstered our environmental protection, management and governance programs, raising the level of safety at our tailings storage facilities to the highest standards in the world, like those established by the Canadian Mining Association and the International Council on Mining and Metals.

Our social investment in 2022 totaled US\$ 22 million and fostered our engagement to communities through active support for their local development, healthcare and recreation, with the aim of building their prosperity.

The Board of Directors adheres to solid corporate governance practices. To carry out its functions, the Board relies on the support of committees as recommended in the Code of Best Principles and Practices for Corporate Governance. The Board met four times in fiscal year 2022. Among the topics covered and approved during these sessions, the most important were the following:

1. Follow-up on the COVID-19 emergency plan.
2. Reinforcement of workplace and environmental safety programs.
3. Report on the company's stock structure update.
4. Progress on the strategic plan.
5. Review of the risk matrix.
6. Metal and exchange rate hedging program.
7. Analysis of the investment and financing program.
8. Review of the budget for the 2022 and 2023 fiscal years.
9. Progress in the actions relative to the labor subcontracting reform.
10. Approval of the external auditor and external audit services.

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

- The Executive Committee reviewed the budgets and the operating and financial performance of the business, including safety and environment; approved the new Mission and Vision of the Company; validated the progress of the strategic plan and the implementation of the environmental, social and corporate governance strategy.
- The Audit and Corporate Governance Committee reviewed the performance of the Company's internal control; reviewed the operating and financial results, as well as the performance and plans for the internal audit, external audit and Compliance Department; evaluated the external audit services and validated their compliance with regulatory requirements; and reviewed the risk matrix, accounting policies, related party transactions and legal matters.
- The Finance and Planning Committee followed up on the financial projections, the evaluation of investment projects and the financial situation of the Company.
- The Nomination, Evaluation and Compensation Committee conducted, in accordance with the policies, the annual performance evaluation of senior officers and authorized salary and benefit increases, as well as bonuses and recognitions based on the results obtained, including safety and social and environmental commitment. The remuneration package for senior officers consists of a base salary, statutory benefits and other elements common to the domestic industry.

In accordance with the provisions of the Mexican 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 the Board's report on the main accounting policies and criteria that serve as the basis for preparation of the Financial Statements, and 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 2022.

Although we cannot say we are satisfied by the year's results, we are committed to continuing the transformation process we began in 2021, which will raise our productivity and efficiency, and ultimately improve our results. Throughout the economic cycles we have overcome daunting challenges and we will continue to take the necessary steps to substantially improve our performance.

I would like to thank our Board members for their dedication, commitment and valuable contributions. I am also indebted to our employees for their efforts and perseverance. I would also like to thank you, our shareholders, for your continued trust and confidence in us.

**Alejandro Baillères**

Chairman of the Board of Directors

The Juanicipio gold-silver mine in Zacatecas was finally connected to the national power grid, so that it could formally start operations.