Annual report of the **Board of Directors to the Shareholders' Meeting**

Regarding fiscal year 2023

To our shareholders:

In my capacity as Chairman of the Board of Directors of Industrias Peñoles, S.A.B. de C.V., and on their behalf, I present to you this report based on an analysis of the information supplied by the Chief Executive Officer in his Annual Report on the company's activities, detailing the financial and operating results for fiscal year 2023, the key aspects of environment, health and safety, community relations, and our corporate governance, and a report on the Board's main activities.

Global geopolitical tensions and interest rates remained high in 2023, dampening the pace of global growth. The impact of inflation that had accumulated during the pandemic years was significantly exacerbated by the Mexican peso's brisk appreciation against the US dollar, which raised our peso-denominated costs and operating expenses. Mexico's gross domestic product (GDP) grew by 3.2%, primarily due to increased investment, consumption, and exports.

Propelled by the prevailing uncertainty and expectations of coming monetary policy relaxation, precious metal prices rose over their 2022 averages. Conversely, the slowdown in industrial activity inhibited the prices of base metals; most notably, there was a significant decline in zinc quotations.

In this complex macroeconomic environment, we tightened our financial and operational discipline. Because low prices on industrial metals and high costs–expressed in dollars–have impacted the profitability of our mining and metallurgical business, we embarked on a transformation plan to regain profitability through efficiency programs, cost and expense reductions, investment rationalization, and working capital optimization.

Over the course of the past year and in pursuit of our long-term strategy, we invested US$ 233 million in exploration activities, 7.2% more than in 2022. The results of drilling programs in mines and their areas of influence were encouraging, with progress in the project and prospect portfolio, domestically and internationally, improving the outlook for growth going forward.

Investment in fixed assets totaled US$ 596 million, down 20.3% from 2022, and was used mostly to sustain current operations. The new Juanicipio gold-silver mine in Zacatecas, whose beneficiation plant started up operations at the end of 2022, is operating at nameplate capacity, boosting metallic content production. Likewise, the tailings flotation plant at Fresnillo is now operating, and should help increase gold and silver content recovery.

We implemented a transformation plan aimed at recovering profitability through efficiency programs, cost reduction, investment rationalization, and working capital optimization.

Gold mining production reached 676,000 ounces, 4.0% lower than the previous year. Silver production increased by 8.1% to 72 million ounces. Lead and zinc productions also grew, rising 9.2% and 4.8%, respectively.

In metallurgical operations, annual refined gold production fell by 3.9% to 974,000 ounces; silver production increased by 5.4% to 78 million ounces; and lead production grew by 9.8% to 120,000 metric tons. Refined zinc production was 252,000 metric tons, 6.2% higher than the previous year.

The performance of inorganic chemicals was affected by a downturn in demand resulting from the economic slowdown.

The combination of adverse macroeconomic factors–such as reduced prices on industrial metals, inflationary pressures, and most notably, the peso's appreciation against the US dollar–with internal operational issues, affected our financial results for the 2023 fiscal year. In millions of dollars, net sales reached US$ 5,929–an increase of 7.3%–helped by higher gold and silver production, as well as higher prices for these metals; EBITDA was US$ 768, down 28.3% due to increased costs and expenses; and net earnings were US$ 147, 19.8% lower than in 2022. Peñoles maintained its financial strength, with a net debt/EBITDA ratio of 2.2 times. We are confident that the measures taken to increase operational efficiency and improve profitability and cash flow generation will lead to stronger performance and financial metrics.

Industrias Peñoles remains committed to operating sustainably and caring for the environment. In this spirit, we bolstered governance of our tailings storage facilities, as part of our responsible waste management, applying international standards and best practices. At the same time, to support the UN Sustainable Development Goals, we are working on initiatives to decarbonize our operations and take on the challenges posed by climate change.

We also continue to improve our relationship with communities by actively supporting their development, well-being, and prosperity. Social investment totaled US$ 15 million over the past year.

The Board of Directors adheres to solid corporate governance practices. To carry out its functions, 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 four times in 2023. Among the topics covered and approved during those sessions, the most important were the following:

1. Reinforcement of workplace and environmental safety programs
2. Measures to enhance efficiency and financial discipline
3. Status of the strategic plan
4. Evaluation and follow-up on the risk matrix
5. Metal and exchange rate hedging program
6. Analysis of the investment and financing programs
7. Review of the budget for fiscal years 2023 and 2024
8. Approval of the company's tailings policy
9. Regulatory changes affecting Mexico's mining industry

The members of the various Committees that support the Board are listed in the Corporate Governance section of this report. The following briefly summarizes their most important activities during the year:

- The Executive Committee reviewed budgets and operating and financial performance for each business, including safety and environmental data. It examined the status and adjustments to the strategic plan and implementation of the environmental, social and corporate governance strategy.
- The Audit and Corporate Governance Committee reviewed the company's internal control performance, its operating and financial results, the performance and plans for the internal and external audit, and the audit by the Compliance Department. It evaluated the external audit services and saw that they fulfilled regulatory requirements. It also reviewed the risk matrix, accounting policies, transactions with related parties, and legal matters brought to its attention by management.
- The Finance and Planning Committee reviewed financial projections and the deployment of cost reduction measures, along with the company's financial position.
- The Nomination, Evaluation and Compensation Committee conducted its annual evaluation of senior management performance, in accordance with company policy, and authorized increases in salaries and benefits. 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.

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

Submitted herein for the consideration of the Shareholders' Meeting is the Board's report on the main accounting policies and criteria that serve as the basis of preparation for 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 the 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 2023.

Amid the complexities of the macroeconomic environment, global conflicts, and other emerging challenges for our industry, we have redoubled the transformation efforts that we began a couple of years ago, and we are confident that, through collaborative work, innovation, and commitment, we can substantially improve our operations' efficiency and financial performance to sustainably provide essential metals that benefit society. Additionally, we will continue to build productive and harmonious relationships with our stakeholders.

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.

Alejandro Baillères
Chairman of the Board of Directors

By working together—with innovation and commitment—we are confident that we will substantially improve our performance to sustainably supply essential metals that benefit society.