

## 2 – Impact of metals prices and global macroeconomic developments

### RISK DESCRIPTION

With the Covid-19 pandemic, economies across the world, including in Mexico, were negatively impacted by the confinement and disruptions to supply chains. Globally, economies almost stopped completely for more than five months.

This situation could create an adverse impact on our operations, costs, sales and profits, and potentially on the economic viability of projects, including as a result of:

- A possible decrease in precious metals prices, which is the main driver of risk. The average price of gold increased year-on-year (+26.4% compared to 2019), while the average price of silver increased by 31.6%.
- Revaluation of the Mexican peso. In March 2020, the US dollar exchange rate exceeded 25 pesos, due to the socioeconomic impact of the Covid-19 pandemic and the US presidential election. At the end of the year the US dollar exchange rate was 19 pesos.
- General inflation in Mexico. This was 3.15% in terms of Mexican peso for 2020. The specific inflation for the Company was 5.49% in US dollars.
- A decrease in the price of our by-products. In 2020, the average prices for lead and zinc decreased by 7.9% and 7.8%, respectively, compared to the previous year.

### FACTORS CONTRIBUTING TO RISK

- Severe economic crisis in Mexico in 2020: reduction in economic growth of -18.7%, 833,100 jobs lost and 3.15% inflation.
- Of the G20 nations, Mexico has the second lowest investment in fiscal programmes to mitigate the impact of the pandemic.
- In terms of inflation, we experienced an increase in two of our main energy inputs compared to the previous year, with diesel (US percentage per litre) increasing by 18% and kWh (US percentage per kWh) by 4.7%.
- A severe international economic slowdown, including negative economic growth forecasts for Mexico.
- Reappearance of Covid-19 cases in Europe and the Americas. Some countries have reintroduced lockdown measures and there is a possibility that Mexico will follow suit.
- Disruptions in the value chain of critical inputs for our operations such as cement, spare parts, fuels and cyanide.
- Uncertainty about the impact of the elections of governors in the states of Zacatecas, Chihuahua and Sonora in 2021.

### CONTROLS, MITIGATING ACTIONS AND OUTLOOK

We monitor price movements and market dynamics using primarily third-party analysis and forecasts in order to support our financial projections and cash management strategies. Prices will continue to influence budget considerations in areas such as exploration and the timing of certain capital expenditures.

→ For more details see Market Review on pages 18-19

We have hedging policies for exchange rate risk, including those associated with project-related capex and a hedging policy for precious metals.

We focus on cost, efficiencies and capital discipline to deliver competitive all-in sustaining cost.

→ For more details see Note 29 to the consolidated financial statements on page 238

Maintain long-term optionality by ensuring our pipeline of opportunities is continuously replenished.

Improve debt profile and reduce annual interest bill.

→ For more details see Financial Review on pages 66-77

Execute operational excellence initiatives to counter inflation and improve margins. Enhance cost competitiveness by improving the quality of the portfolio.

In order to maximise the extension of the average life of our debt profile, on 29 September 2020 Fresnillo plc successfully priced a US\$850 million 30-year bond (Coupon 4.25%) in the international market, coupled with an 'Any and All tender offer' for Fresnillo's 5.50% Senior Unsecured US\$ Notes due 2023, which was tendered by US\$481.7 million (~60%), significantly reducing the short-term refinancing risks and improving the liquidity and solvency capabilities of the Company.

→ For more details see Financial Review on pages 66-77

### COVID-19 PANDEMIC IMPACT

The price of gold and silver rose rapidly as investors took refuge in these metals.

Unfortunately, the supply chains of our mining operations suffered disruptions and delays in supplying critical inputs such as cement, cyanide and spare parts.

### RISK APPETITE

High for metal prices

Medium for all macroeconomic developments

### KEY RISK INDICATORS

- Profit sensitivity to percentage change in precious metals prices and the Mexican peso/US dollar exchange rate.
- EBITDA sensitivity to percentage change in metal prices and the Mexican peso/US dollar exchange rate.

### CHANGE IN HEAT MAP

↓ Decreasing

### LINK TO STRATEGY



### RISK RATING (RELATIVE POSITION)

2020: Very high (2)

2019: Very high (1)