

INDUSTRIAS PEÑOLES, S.A.B. DE C.V.
ANNUAL REPORT OF THE BOARD OF DIRECTORS TO THE SHAREHOLDERS' MEETING,
CORRESPONDING TO FISCAL YEAR 2010

Dear shareholders:

On behalf of the Board of Directors of Industrias Peñoles, S.A.B. de C.V., I am pleased to present this report based on the analysis of the information provided by the Chief Executive Officer in his Annual Report on the Company's operations, the key results and highlights from the 2010 fiscal year, as well as a report on the main activities of the Board of Directors.

In 2010 we achieved solid operating performance and good financial results. The latter was a result of high metal prices that prevailed during the period, combined with the efforts to strengthen the efficiency of the company, as well as continued investments.

Over the course of our 123 year history we have successfully weathered the economic and metal price cycles inherent to the mining industry. We have done so by taking a long-term outlook on growth that includes investment across metal price cycles, diversification of assets and markets, and an unwavering commitment to our people and the communities where we operate.

We are a very Mexican company, not only because the majority of our operations are located in this country, but because the history of Peñoles is embedded in the industrial and economic performance of our beloved nation. In 2010, the bicentennial of Mexico's independence and 100th anniversary of the revolution, we took the opportunity to remember and reflect on our shared history. We join in the celebration of the people of Mexico and are proud to be a world-class Mexican company.

More than just a witness to historical events, Peñoles has been an active partner and contributor to Mexico's growth: we have worked in the gold and silver mining industry and in craftsmanship; built roads, schools, hospitals and community centers; and supported regional and technological development. It is a mutually beneficial relationship – our investments have positioned us as the global leader in refined silver, bismuth and sodium sulfate production, and one of the leading Latin American producers of refined gold, lead and zinc. We are proud of our work and contribution to Mexico: Peñoles and its affiliated companies employ 14,900 people and we rely on more than 4,500 suppliers nationwide.

Our commitment to the long-term growth of the Company requires strategic investment in people, exploration, technology and innovation across price cycles. We are also determined to maintain discipline in terms of costs and operational efficiency.

Our mining operations reported higher volumes of ore milled and mined, where gold production stands out with strong 36.6% growth due principally to the startup of Soledad-

Dipolos, higher ore grades and recoveries at Herradura, and higher volumes at Ciénega. These mines belong to our Fresnillo plc subsidiary.

In the metallurgical operations, higher production volumes of refined gold and silver reflect increases in Peñoles' own mines, as well as more third party purchases of direct materials for the Lead-Silver Refinery, which are made in a selective and profitable way in order to optimize working capital. Refined lead and zinc production remained stable in the year.

While the majority of revenues are generated in these two businesses, the production of value-added chemicals helps integrate our operations and diversify our products and markets. Greater demand for our products, such as sodium sulfate, magnesium sulfate and magnesium oxide derivatives signaled improved conditions across the range of industries that consume them. In the chemical business, continuous innovation through the development of new technologies has enabled us to reach new markets, thus expanding our universe of products and clients.

In terms of financial results, consolidated sales (excluding hedging results) totaled \$64,802.8 million, a significant rise of 40.1% compared to 2009, while Gross Profit of \$21,083.4, EBITDA of \$16,562.5, and operating profit of \$13,810.0 rose 52.1%, 58.7% and 70.7%, respectively. Net Income of \$6,484.3 million was also 24.7% higher than in the previous year. We thus declared \$8,529.8 million in dividend distribution in 2010.

Reflecting the Company's practice of maintaining a conservative financial structure, the balance sheet remains very strong with a total debt to EBITDA ratio of 0.5 times. In September 2010, Peñoles was the first Mexican company to issue dollar-denominated stock exchange certificates in the local market, through the Mexican Stock Exchange, successfully raising US\$530.0 million. Proceeds from this transaction were used to amortize US\$326.2 million and MX\$553.0 million of debt. In addition, these resources will also help finance our investments in growth. Planned investments include exploration at the Rey de Plata, Velardeña and Racaycocha projects; construction of the wind farm project in the Isthmus of Tehuantepec, Oaxaca; capacity expansion at the Tizapa mine; and sustaining capital expenditures for replacement of equipment and construction at our mines, metals and chemicals facilities. We also continue to maintain a sufficient cash position to cover operating and financial needs for the medium term.

Peñoles' competitive position has strengthened as a result of its operating and financial profile. In 2010, "Our Vision 2020: Growth Plan" was ratified by the Board. Its main objective is to consolidate Peñoles' presence in the hemisphere through aggressive growth that maximizes profitability and the efficient use of resources, aiming to internationalize our operations. To achieve this vision, we have established clear and measurable objectives for investing, expanding capacity of our operations and for growth in each of our core businesses.

In 2011 specifically, the capacity expansion will start up at the Tizapa mine, construction will begin on our new Velardeña mining unit in the state of Durango, and a resource estimate will be obtained at Rey de Plata. The wind farm in the Isthmus of Tehuantepec, Oaxaca will also

start up: on a first phase with an installed generating capacity of 50 MW, and towards the end of the year construction will advance for an additional 30 MW capacity. At our Fresnillo plc subsidiary, the milling expansion is scheduled for completion at Ciénega and the new Saucito silver mine, located in the state of Zacatecas will start up operations.

The investing effort has been noteworthy. In 2010 the company and its subsidiaries invested USD\$519.8 million.

With the gradual and sustained recovery of the global economy and the expected stability in the current price cycle of most of our products, we believe our performance in the year ahead will be very solid. Continuous improvement in our operations should also contribute to positive results. But perhaps most importantly, in terms of the Company's growth foundation, we will continue to invest intensely in exploration, sustaining and capital expenditures, with expected growth in the latter category from \$6,561.7 million in 2010 to over \$11,000.0 million in 2011.

As always, we reaffirm our responsibility to safeguard the safety, health and well-being of our employees, to support the communities where we operate, and to adhere to the strictest standards of environmental performance. By committing ourselves to the well-being of future generations, and with our responsibility to a culture of ethics and values, we strengthen the company's foundation for long-term growth.

Over the course of the year, the key items discussed and approved by the Board of Directors included:

- The "Vision 2020" growth plan
- Labor-management relations
- The metals hedging program
- The 2011 budget
- Long-term debt refinancing through the issuance of stock exchange certificates
- The Velardeña pre-feasibility study

The Board of Directors adheres to solid corporate governance practices. To carry out its functions, the Board is supported by the Committees recommended in the Code of Best Corporate Practices.

In compliance with the Securities Market Law, the Audit and Corporate Practices Committee rendered its Annual Report, which was presented to this Shareholders' Meeting.

The financial statements from which the previous comments are taken and the main accounting policies and criteria used in the preparation of the financial information, were audited by the External Auditors and included in the Report of the Chief Executive. New accounting rules were applied that have no financial impact and relate only to reporting issues as detailed in the audited financial statements appended to the Chief Executive's report. On the recommendation of the Audit Committee, the Board of Directors decided on the early

adoption of the new international financial reporting standards established by the National Banking and Securities Commission, and its effects are described in the accompanying financial statements.

In the opinion of the Board of Directors, the Chief Executive's report presented to the Shareholders' Meeting reasonably reflects the Company's financial position and results, as well as the key highlights of the operations in 2010.

I would like to thank the members of the Board of Directors for their dedication, commitment and valuable perspectives.

I would also like to thank and recognize the talented and committed people of Peñoles for their performance and dedication, and to our shareholders for the confidence placed in us.

Alberto Baillères
Chairman of the Board of Directors