

INDUSTRIAS PEÑOLES, S.A.B. DE C.V.

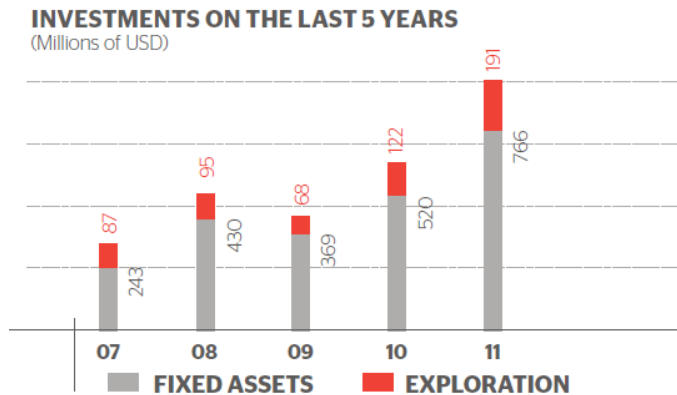
Annual Report of the Board of Directors to the Shareholders' Meeting, corresponding to the fiscal year 2011.

Dear shareholders:

As Chairman of the Board of Directors of Industrias Peñoles, S.A.B. de C.V., and on behalf of the Board, it is my honor to present to you this report based on an analysis of the information provided by the Chief Executive Officer in his Annual Report on the Company's operations, the key results and highlights of the 2011 fiscal year, as well as a report on the main activities of the Board of Directors.

The Company generated outstanding financial results in 2011, primarily reflecting the high metal prices prevalent during the period. In addition, we captured benefits from ongoing efficiency measures and the disciplined execution of growth projects.

As a Mexican company, we are proud to actively contribute to the economic growth of Mexico and to the development efforts in communities adjacent to our operations. Our commitment is reflected in our presence in the 11 Mexican states where our 27 operations are located, as well as in the capital expenditures and investments in exploration we made in 2011. These totaled USD\$957.5 million, 49.3% more than the USD\$641.3 million invested in the previous year. Over the past five years, the total capital expenditure and investment in exploration was more than USD\$2,800.0 million; additionally, USD\$75.2 million was invested in community programs such as new roads, the installation of water lines, electrification, construction of schools in neighboring communities, promotion of small businesses as part of our community self-development initiative, as well as forestry projects and job training programs.



In 2011 the mining operations set new records in milling and for processing an increase in gold contents, whose production was 20.6% higher than in 2010. This was the combination of several factors: greater production from the operations and the startup of new projects (especially at our subsidiary Fresnillo plc); greater production at the Herradura mine, in Sonora; better recoveries at Soledad-Dipolos, in Sonora; expanded milling capacity at Ciénega, in Durango, as well as the commissioning of the new Saucito mine, in Zacatecas. Silver volumes remained relatively stable, with the higher volumes of ore milled and better ore grades at Sabinas and the start up of Saucito, both in Zacatecas, offsetting lower grades at Fresnillo, also in Zacatecas.

In the metallurgical operations, higher production volumes of refined gold and silver reflect the increase in production and treatment of concentrates from our own mines; in addition, there was an increase in the purchase of third party materials to supplement inputs for the lead-silver refinery and to optimize installed capacity. These purchases continue to be made in a selective and profitable way without compromising working capital. Zinc production remained stable in the year, while lead production was slightly lower due to fewer concentrates treated at the lead smelter.

In the chemical operations, there was growth in demand for our value-added products such as sodium sulfate, magnesium hydroxide and various grades of magnesium oxide. This business integrates our operations and diversifies our products and markets.

This year we also made significant progress in the development of self-sufficiency projects in electricity. Of particular note is the successful startup of Phase I of Fuerza Eólica del Istmo project, a renewable electric energy plant located in the Ventosa area of Oaxaca, which has 20 turbines and 50 megawatts (MW) of generating capacity. In addition, construction began on Phase II which will add a further 30 MW of installed capacity and is expected to start up operations during the first quarter of 2012. This renewable energy project demonstrates the seriousness of our commitment to sustainability, the environment and new technology, and also allows us to reduce costs and ensure greater self-sufficiency in electricity.

In the area of mining, the capacity expansion project at the Tizapa mine in the state of Mexico was successfully completed, increasing annual milling capacity for lead, zinc and copper concentrates production from 570,000 to 800,000 tons. Construction also advanced according to plan at the new Velardeña mining unit in the state of Durango, where 46 million tons of zinc mineralization has been defined. The new mine is expected to commence operations in the first quarter of 2013.

Furthermore, during the year the Peñoles exploration group conducted an extensive drilling campaign at 12 projects in Mexico and South America, and prepared an additional 10 domestic prospects for the exploratory drilling phase. The principal exploration projects are Velardeña (Durango), Rey de Plata (Guerrero) and Racaycocha (Peru).

Advances at Fresnillo plc projects included the commissioning of the new Saucito silver

mine, in the state of Zacatecas, the start of construction of the Noche Buena gold mine in Sonora, and significant drilling and exploration activities in the Centauro Deep, San Julián, San Ramón, Orysivo and Juanicipio projects, among others.

The Company achieved outstanding financial results in 2011. Gross sales, which exclude hedging results, rose 47.2% over 2010 to \$96,547.0 million. Gross profit increased 67.6% to \$33,459.9 million, EBITDA totaled \$31,711.6 million (+73.4%), and Operating profit was \$27,538.9 million (+80.7%). Net income of \$12,754.9 million was also 81.2% higher than in the previous year, and \$3,402.4 million in dividends were declared in 2011. The financial position of the Company remains solid and conservative, with a year-end debt to EBITDA ratio of 0.2 times and sufficient liquidity to cover operating and financial needs in the medium term.

Our robust operating performance and exceptional financial results in 2011, while driven by high metal prices to a large extent, were also a reflection of ongoing efforts to strengthen the Company's position, which benefitted us in the current cycle.

That means we were able to reap what we sowed in previous years: ongoing investment in exploration and growth projects, prudent control of costs across metal price cycles, our focus and discipline regarding operational efficiency, the diversification of assets and markets, and the long-term investment in research and technology. Not only did we capitalize on these factors in 2011, but we were able to consolidate our growth with a sustainable vision.

Without doubt, the current environment demands more than ever consistent and prudent management practices. The European debt crisis, the lack of resolution on the evolution of global economies and financial uncertainty are causing many of the external factors that impact our results to be very volatile, particularly metal prices, raw material costs, inflation and exchange rates, among others.

We are focused on strengthening the Company's profile, enhancing operating discipline, improving processes, maintaining control of costs, identifying opportunities for improvement and ensuring that our decisions are based on reliable and accurate information, and rigorous evaluation. We remain committed to this strategy for the long term.

Underlying these efforts we have a talented and dedicated team of people. Their wellbeing is vital to the growth of the organization, and our key priority is to ensure their safety and health. We have taken serious measures in the area of safety through inspections and detailed analysis by our own personnel and external advisors; we have also reinforced mine infrastructure and safety equipment and most importantly, provided advanced safety training and workshops to our employees and contractors.

With this we reaffirm our responsibility to our employees and workers, as well as to the communities where we operate; in addition, we continue to adhere to the highest standards of environmental performance: the culture of ethics and values is a core component of our

sustainable vision.

Aside from the aforementioned achievements, I am pleased to report that Industrias Peñoles, S.A.B. de C.V. was selected as one of 23 companies by the Mexican Stock Exchange for inclusion in the new Sustainability and Social Responsibility Index.

During the course of this year, our Board of Directors has adhered to solid corporate governance practices. To carry out its functions, the Board has the support of the Committees recommended by the Code of Best Corporate Practices. The Board met four times during the 2011 fiscal year. Among the items discussed and approved at these meetings were:

- The reinforcement of safety programs.
- The long term strategic growth plan.
- Labor-management relations.
- The metals hedging program.
- The 2012 budget.

In compliance with the Securities Market law, the Audit and Corporate Governance Committee has rendered its Annual Report, which is presented to this Shareholders' Meeting.

The Financial Statements from which the previous comments are derived, as well as the main accounting policies and criteria used in the preparation of the financial information, were audited by the external auditors and included in the Annual Report. It should be noted that on January 1, 2011 the Company adopted International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), in advance of requirements established by the National Banking and Securities Commission. The financial information for 2010, which is included herein for purposes of comparison, was prepared in accordance with IFRS on a basis consistent with the criteria utilized for the 2011 fiscal year; as such, this information may differ from the figures reported at the time. The effects of IFRS adoption are described with greater detail in the accompanying Financial Statements.

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 highlights and developments of the business in 2011.

In accordance with policy, the performance of senior executives is evaluated annually. Each increase of salary and benefits must be authorized by the Nomination, Evaluation and Compensation Committee. Salary increases are made annually and bonuses are determined based on the results of performance evaluations. The remuneration package of senior executives is comprised of a base salary and legal and other benefits.

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

I would also like to thank and recognize our employees for their talent, commitment and efforts towards achieving sustainable growth for Peñoles. Lastly, thank you to you, our shareholders, for your confidence in us.

Alberto Baillères

Chairman of the Board of Directors