OUR STAKEHOLDERS:
THE CORE OF OUR SUSTAINABLE DEVELOPMENT STRATEGY

2007 SUSTAINABILITY REPORT

PEÑOLES®

OUR STAKEHOLDERS: THE CORE OF OUR SUSTAINABLE DEVELOPMENT STRATEGY

Peñoles celebrated its 120th year in 2007. Sustainable development has been and continues to be a key factor in our business strategy. From economic, social and environmental equilibrium, to the assimilation of best practices from the modern mining industry, we believe that our stakeholders should be the core of our sustainability strategy. Lastly, there are those who day after day, generation after generation, have enabled us to become what we are today: a 120 year-old sustainable company. For these reasons, our enduring goal and commitment is to promote the welfare of our *shareholders*, our *clients*, our *employees*, our *suppliers* and the *communities* where we operate.

CONTENTS *(3.12)*

ABOUT THIS REPORT

(3.1, 3.2, 3.3, 3.5, 3.6, 3.7, 3.8, 3.9, 3.13)

With the presentation of our seventh **Annual Report on Sustainable Development**, we reiterate our commitment to transparency and accountability to our stakeholders in communicating Peñoles's social, environmental and economic performance during 2007. This report discusses the policies, programs and economic, social and environmental results of our activities in 2007, and gives an account of our performance via key indicators.

For the fourth consecutive year, our report has been prepared on the basis of the Global Reporting Initiative (GRI) guidelines, and for the second time, in accordance with Version G3 and its Protocols and Indicators, including those related to the Supplement for the Mining and Metallurgical Sector of the International Council for Mining and Minerals (ICMM), version GRI 2002. This report is also based on the principles of the United Nations Global Compact and the Extractive Industry Transparency Initiatives (EITI).

The contents were determined on the basis of three criteria: the expectations of our stakeholders, through an extensive feedback process; adhering to best practices based on international standards such as Global Reporting Initiative (GRI), International Council on Mining and Metals (ICMM) and the United Nations Global Compact principles; and monitoring the economic, social and environmental performance of Peñoles. It should be noted that the information contained in this report is limited to the core businesses and operations of Peñoles in Mexico—Exploration, Mining and Chemicals, and Metals—although in some sections reference is made to other support areas, particularly the corporate offices and associated companies.

To give more substance and transparency to our information, for the third consecutive year we submitted our report for verification by PricewaterhouseCoopers (PwC), which conducted a review in accordance with applicable standards. This report may be found in electronic format on our website at: **www.penoles.com.mx.**

Note: *All figures are expressed in Mexican pesos unless otherwise indicated.*

GRI REPORT SELF DECLARED

Peñoles conducted a self-assessment of this report and obtained an **A+** *level according to the criteria defined in the Global Reporting Initiative (GRI-G3).*

Peñoles is part of Grupo BAL, a privately held diversified group of independent Mexican companies that includes: **Grupo Palacio de Hierro** *(department stores)*; **Grupo Nacional Provincial** *(insurance)*; **Profuturo GNP** *(individual retirement funds)*; **Valores Mexicanos – Casa de Bolsa** *(financial services)*; **Crédito Afianzador** *(bonding)*; and agribusinesses.

Our sustainability is 120 years old. Original bond dated October 24, 1887 with a value of 100 pesos

MESSAGE FROM THE CEO

(1.1, 1.2)

SUSTAINABLE DEVELOPMENT AS A KEY FACTOR OF OUR BUSINESS STRATEGY IS STRENGTHENED BY MEETING OUR OBLIGATIONS WITH STAKEHOLDERS AND THE CONTINUOUS IMPROVEMENT OF OUR OPERATIONS.

In 2007, we strengthened communications with our stakeholders, who in good measure commit us to be who we are today: a company that has proved its sustainability and watches over the interests of its shareholders, clients, employees, suppliers and communities where it operates.

For us, to add value is to contribute to a healthy and safe environment—through more efficient processes—and to identify and support the priorities of the communities where we have presence.

We believe that Sustainable Development enables us to think and act in terms of present and future generations, to generate value by better responding to their needs, and to contribute to environmental balance through care and respect for the environment. As such, our experience and actions are aimed at finding and assimilating an approach based on the best practices and trends in the global mining and metallurgical sector.

Through this report, we reiterate our commitment to sustainable development, as well as to the United Nations Global Compact, in keeping with its policy on Communication on Progress. To refine this approach and act on priority areas, conscious of the perception that our stakeholders have of us and to be able to choose the best path towards sustainability—in this report we want to engage in an exercise of re-

flection, self-criticism and feedback on our activities that, in turn, will determine the new actions and work plans that will strengthen sustainable development as a key factor in our strategy.

In 2007, we continued to work to provide evidence that would advocate a change in the erroneous and distorted image that exists about the actual effect of mining activities on the environment, and the safety and health of the people who work in it. To that end, we maintained the emphasis on caring for health, safety and the environment through programs and campaigns, the application of clean production technologies and the responsible handling of minerals and metals, with the objective of balancing economic, social and environmental performance.

We continue to center our environmental efforts on handling, reducing and appropriately disposing of wastes; controlling atmospheric emissions; optimizing the use of all our inputs in general, and of water in particular; industrial hygiene; accident prevention; and emergency preparedness.

Non-renewable resources companies depend on finding new ore bodies, as well as developing and executing projects that leverage them appropriately. For that reason, for both the design of new projects and the evaluation of current operations, we conduct monitoring and risk studies that simulate adverse conditions—social or environmental—that might occur and seek to implant the best technologies to mitigate the effects.

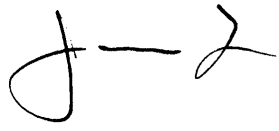
Another challenge facing our industry is the shortage of professionals in the various branches of earth sciences, along with the aging of the current work force. To improve this situation, Peñoles has joined efforts with a number of educational institutions and promotes research and development projects. In this context, the notable events in 2007 were the inauguration of the Peñoles Module—donated to the Autonomous University of Fresnillo, Zacatecas—support for the restoration of the Earth Sciences Academic Unit at the Autonomous University of Zacatecas, and the new Museum of Metals in Torreón, Coahuila, to promote the importance of metals in the development of civilization.

We further worked on programs to eliminate unsafe conditions and in training our employees to prevent unsafe practices. Notwithstanding the efforts made, we mourned six fatalities due to unsafe practices, in which four of our employees and two contractors lost their lives; we extend our most sincere condolences to their families, colleagues and communities in which they lived.

We continued to participate actively in a number of national and international discussion and analytical forums, with the aim of exchanging best practices and learning first-hand about environmental trends and regulations.

In terms of the efficient use of resources, we extended our efforts to conserve water and energy in all their forms. We reduced the proportion of first-use water in our processes and rationalized the consumption of energy in all its forms; we continuously seek sources of clean energy that do not generate greenhouse gases, and we continue to voluntarily participate in the *Mexico Greenhouse Gases Program (GEI Mexico).*

We extend our deepest appreciation to Alberto Baillères, Chairman of the Board of Directors of Industrias Peñoles, and to our Board of Directors, Executive Committee and our employees for their valuable contributions to sustainable development, which is bringing us closer to the expectations of our shareholders, clients, employees, suppliers and communities where we are present, reiterating our openness to dialogue and the sharing of ideas that will contribute to the improved performance of our business.



Jaime Lomelín
Chief Executive Officer

PEÑOLES AND SUSTAINABLE DEVELOPMENT

THE CORE OF OUR ACTIONS IS FOCUSED ON THE INTEGRATION OF OUR STAKEHOLDERS TO MODERN AND SUSTAINABLE MINING.

1 *Milpillas mine, Sonora*

2

3

"The case of Peñoles in Mexico presents the past and present of an important Mexican industrial company that confronted the cumulative effects of its economic activities with decisiveness, and the manner in which it assumed the task of placing its activities into a framework of sustainable development." *(E. Chaparro, et. al., "Best Practices in the Mining Industry: The Case of Peñoles in Mexico"; Natural Resources and Infrastructure Series, Economic Commission for Latin America and the Caribbean (ECLAC), Division of Natural Resources and Infrastructure, United Nations Organization, Santiago, Chile, April 2007, p. 5).*

SUSTAINABLE DEVELOPMENT IN THE MINING INDUSTRY

Although indispensable to the global economy, the mining industry has had to respond to numerous questions over the years. Irrefutably, widespread opposition has been generated by legitimate concern over the social and environmental impact that has traditionally accompanied extractive activities, such as the alternation to the landscape, risk of exposure to physical or chemical agents, and the effect on demographic dynamics and local ecosystems.

At Peñoles, we believe that a modern and dynamic mining industry can generate highly positive effects on economic and social development by creating employment, utilizing clean and safe technologies and processes, fostering community participation and respecting the environment. The great challenge for Peñoles is to achieve these goals.

We share the vision of sustainable development advanced by the World Commission on Environment and Development: *ensuring that current needs are satisfied without compromising the ability of future generations to satisfy their own needs.* Therefore we seek to position ourselves as a socially committed company—generating trends that represent modern mining concepts through specific, measurable and verifiable actions— and to be an engine of both local and national development. We are firmly convinced that this can be achieved by creating and integrating best practices in our processes and activities, augmented by the efforts and the opportunity to share the lessons of 120 years of experience, and that our company will become a model that proves that the mining industry is compatible with sustainable development. We continued to meet this great challenge successfully in 2007 and will continue to do so in the years to come.

2 *Reserve of vegetal species at the La Herradura Mine, Sonora*
3 *Panoramic view of Velardeña, Durango*
4 *Nursery at the Naica Mine, Chihuahua*

4

OUR STAKEHOLDERS

(4.14, 4.15, 4.16, 4.17)

At Industrias Peñoles, we identify our shareholders, clients, suppliers, employees and communities as our principal stakeholders. These key audiences are considered *the core of our sustainable development strategy.* To reaffirm our commitment to them, we advocate transparency, communication, and openness through consultative and participatory exercises, as well as with concrete actions that involve them in our daily activities. According to an internal feedback exercise, we have tried to identify the achievements and expectations as relating to our stakeholders.

The sections of this report are related to our Stakeholders' pentagon and address the goals that guided the relationship with each of our stakeholders in 2007; we also cover the main activities that were undertaken in this regard. Likewise, we put into context the most important topics on the mining industry's sustainable growth agenda, which include, among others, corporate social commitment, respect for human rights, remediation, technological innovation, the guarantee of safety and health to our personnel and communities with whom we have relationships, as well as the promotion of self-development. As shown by the results achieved in 2007, these criteria are entirely compatible with our Values, our Mission and our Vision.

OUR MISSION

(4.8)

To add value to non-renewable natural resources in a sustainable manner.

OUR VISION

To be the most recognized Mexican company in its sector worldwide, for its global focus, the quality of its processes and the excellence of its people.

OUR VALUES (CRIL)

(4.8)

- **Confidence**

  The firm belief that all members of the organization consistently act for the benefit of all.

- **Responsibility**

  The ability to respond appropriately to the promises and commitments made, and to personal and professional challenges.

- **Integrity**

  To act truthfully and with rectitude and honesty for yourself and with others.

- **Loyalty**

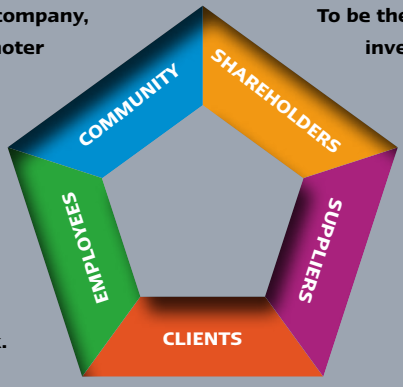
  To be faithful to your own principles and those of the organization.

STAKEHOLDERS

(4.14, 4.15)

To be a socially responsible company, respectful of nature and a promoter of self-development.

To be the best long-term investment option, with growth and profitability.



To be the employment option of pride and dignity, for offering opportunities for development, respect and recognition in a secure environment of teamwork.

To be a strategic partner in the value chain that establishes mutually beneficial relations for the long term.

To be the strategic partner that offers comprehensive solutions and inspires confidence to do business with over the long term.

Principal expectations. Information about the organization. Business. Sustainable development. Transparency. Development strategies. Annual economic, social and environmental results.
Communication. Monthly and quarterly meetings. Presentation of Annual Reports. Report on the benefits of investments made. Executive boards. Reports on Sustainable Development.
Achievements. Profitability of the shares. Good corporate governance.

Principal expectations. Quality service. Transparency. Local responsibility. Development in negotiations. Long-term alliances.
Communication. Information on the evaluation of contaminant control. Advising on the organization's standards. Periodic visits to the company. Communication via telephone and e-mail. Scheduled meetings. *MASS* Program (Environment, Safety and Health System) for Contractors. Surveys on detecting opportunities for improvement.
Achievements. Programs to implement accountability measures with small and medium companies. Development of long-term relationships. Social responsibility. Eco-efficiency programs.

Principal expectations. Information about the market. Quality products at low prices. Services the Company offers. Transparency. Advisory services. Reliability. Audience.
Communication. Service surveys via e-mail and telephone. Annual presentations on performance. Scheduled meetings.
Achievements. Client Management System *(SAC)*. Requirements through the ISO-9000 management system.

Principal expectations. Training. Better accident statistics. Priority on safety and hygiene, environment and human rights. Information on contract employees.
Communication. Weekly and bi-monthly meetings with project managers. Feedback surveys. Suggestion box. Annual performance evaluations. Internal communication by e-mail. Workshops. Bulletins. Electronic bulletin boards. Electronic portal with information exclusively for employees.
Achievements. Professional development programs through training policies like *Engineers in Training*. Continuing studies for workers' children at the Laguna del Rey Center for Technology Studies for technical training. Ongoing management training. Creation of an internal knowledge network to strengthen skills and abilities.

Principal expectations. Open dialogue. Transparency. Respect for group values. Principled ethics. Local development. Socioeconomic benefit.
Communication. Scheduled meetings with community developers. Support programs. Feedback surveys. Strategic development agreements. Educational workshops. Cooperative landowner meetings. Sponsorship for cultural and sporting events.
Achievements. Apoyo a la educación. Support for education. Programs to promote values. Company incubator for the self-development of communities through the Regional Center for the Competitive Company *(CRECE)*. Sale of inactive mines to small miners to promote employment.

5

OUR STRATEGY:
WE BENEFIT MORE BY SERVING BETTER

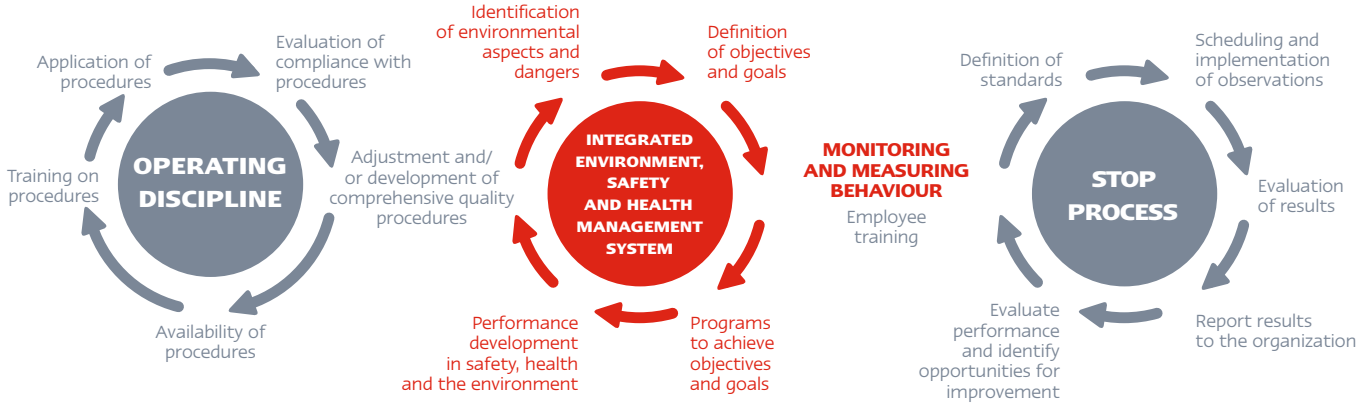
Peñoles has systematically worked toward sustainable development, knowing that its economic growth is supported by environmentally responsible operations and social progress, and ensuring that the latter is not dependent. Several years ago we were confronted with questioning about the environmental problems associated with our metallurgical operation in Torreón, Coahuila. Our commitment was first, to publicly accept this reality; second, to take remedial action and work decisively to find solutions; and, lastly, to communicate. This experience has been acquired gradually and with a long-term view of working to improve our operations and strategic plans in assimilating best practices in sustainable mining.

There are many examples of concrete actions we have taken to respond to this great challenge. We have adopted codes of conduct and initiatives that are aligned with the strictest international standards; we respect and even exceed compliance with environmental regulations and actively participate in fine-tuning them; we periodically certify our quality systems to guarantee the reliability of our processes, the safety of our personnel and respect for the environment; we participate in national and international organizations; we foster local and regional development programs in collaboration with authorities and civic organizations; we invest in research and development of new processes; and we take specific actions on key areas for the development of our country, such as education and health. We continue to incorporate—from the analysis stage of all our new projects—environmental and social impact studies; we voluntarily submit to audits; and we work on remediation and environmental conservation programs.

In 2003, we established a Shared Service Center that provides advisory services to all our plants and units through the Environment, Safety and Health System *(MASS)*, which seeks to strengthen and unify the criteria and actions of our work centers in terms of operating discipline, accident investigation and contingency action plans. It also incorporates the areas of risk analysis, environmental management and protection, and occupational health and safety.

5 *View of the Proaño Hill at Fresnillo, Zacatecas*

ENVIRONMENTAL SAFETY AND HEALTH SYSTEM



PRINCIPLES OF THE SAFETY PHILOSOPHY

1. Zero accidents is possible and the only thing acceptable.
2. Each one of us accepts responsibility for safety.
3. We are prepared to control all conditions of exposure.
4. Each one of us accepts making safety a way of life.
5. Each one of us agrees to be responsible for ensuring the training and instruction in safety for all our colleagues.
6. We audit the performance of workplace safety and hygiene.
7. A job well done is a safe job.
8. Each one of us is responsible for preventing deficiencies in our areas of responsibility.
9. We guarantee the families of our employees that our operating processes are designed and operate to ensure health and physical well-being.
10. Safety is a good business.

6

7

The sustainable development strategy that we are undertaking—with a focus on our stakeholders—is illustrated in some of the following ways:

1. We continue to be a growing, profitable company for our shareholders, with low costs thanks to technology, operating efficiency and secure investments in value-added projects.

2. We operate in a teamwork environment that is pleasant, safe, participatory and innovative, offering all our employees continuous and planned development, competitive compensation and recognition based on results, which translates into a sense of belonging.

3. We establish strategic alliances with our clients based on an understanding of their needs and an obligation to supply them with products and services in a timely, competitive manner and at a fair price.

4. We establish long-term alliances with our key suppliers, who know our needs and provide us with reliable products and services in a timely, competitive manner and at a fair price.

5. We have credibility and acceptance by the community and regulatory authorities because:

   a. We are improving our environmental performance through the committed actions of all our personnel; we are developing a true culture of respect for the environment; and we are adapting our processes in a timely manner to comply with the strictest international standards.

   b. We contribute to the economic and social development of the communities with which we interact and strengthen the image and reputation of our company.

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CORPORATE PROFILE

(2.1, 2.4, 2.6)

Peñoles is a company legally incorporated under the laws of Mexico and part of Grupo BAL, a privately held and diversified consortium of independent Mexican companies. Peñoles's shares have traded on the Mexican Stock Exchange since 1968.

Since its founding in 1887, Peñoles has diversified its operations. Aside from mining, these currently include the smelting and refining of non-ferrous metals and the production of inorganic chemicals. Today, Peñoles is present in more than twelve states in Mexico. It also has associated companies, including Bal-Ondeo and its affiliates in the management of municipal drinking water, sewer and wastewater treatment systems; the Coahuila-Durango short rail that serves some of Peñoles's mines; and Termimar, an international maritime terminal for handling exports. The corporate offices of the company are located in Mexico City.

COMPANY STRUCTURE

(2.3)

Peñoles is structured into three operating divisions:

- Mining and Chemicals
- Metals
- Infrastructure;

two divisions to promote growth processes:

- Exploration
- Engineering and Construction;

and four support divisions:

- Finance, Planning and Information Technology
- Internal Audit
- Legal Affairs
- Human Resources

6 *Química del Rey Unit, Coahuila*
7 *Control Engine Room at the Electrolytic Zinc Plant, Met-Mex Peñoles, Coahuila*
8 *Trolley at the Fresnillo Mine, Zacatecas*

MAP OF OUR OPERATIONS

PRINCIPAL OPERATING UNITS IN MEXICO

EXPLORATION

1 **Pecobre, Sonora:** *copper*
(Peñoles 51%, CODELCO 49%)
2 **Maguarichi, Chihuahua:** *gold-silver*
(Peñoles up to 75%, Exmin 25%)
3 **Orisyvo, Chihuahua:** *gold-silver*
4 **San Julián, Chihuahua:** *gold-silver*
5 **Velardeña, Durango:** *zinc*
6 **San Juan, Durango:** *gold-silver*
7 **Juanicipio, Zacatecas:** *silver-gold*
(Fresnillo district, Peñoles 51%, MAG Silver 49%)
8 **El Saucito, Zacatecas:** *gold-silver*
(Fresnillo district)

MINING

1 **La Herradura, Sonora:**
One of the largest open pit gold mines in Mexico.
2 **Milpillas, Sonora:**
Peñoles's first important copper project.
3 **Bismark, Chihuahua:**
Zinc mine.
4 **Naica, Chihuahua:**
Mexico's largest lead mine.
5 **La Ciénega, Durango:**
One of the most important underground gold mines in Mexico.
6 **Sabinas, Zacatecas:**
Lead, zinc and copper mine.
7 **Fresnillo, Zacatecas:**
Largest silver deposit in the world.
8 **Francisco I. Madero, Zacatecas:**
Mexico's largest zinc mine.
9 **Tizapa, State of Mexico:**
Poly-metallic mine, chiefly zinc.

METALS

1 **Met-Mex, Coahuila:**
Fourth largest metallurgical complex and largest producer of refined silver and metallic bismuth in the world; refined gold, zinc and lead, sulfuric acid and sulfur dioxide.
2 **Aleazin, Coahuila:**
Zinc alloys.
3 **Bermejillo, Durango:**
Copper and zinc sulfate, antimonium trioxide.

CHEMICALS

1 **Química del Rey, Coahuila:**
Largest sodium sulfate plant in the world; magnesium sulfate; magnesium oxide, and magnesium hydroxide.
2 **Fertirey, Coahuila:**
Ammonium sulfate and ammonium bisulfate.
3 **Industrias Magnelec, Coahuila:**
Electric grade, electrofused and milled specialties of magnesium oxide.

EXPLORATION OFFICES

- **Chihuahua, Chihuahua**
- **Zacatecas, Zacatecas**
- **Torreón, Coahuila**
- **Hermosillo, Sonora**
- **Toluca, State of Mexico**

INFRASTRUCTURE

Coahuila-Durango Railroad

Water operations

Termoeléctrica Peñoles (TEP)

Termimar

CORPORATE OFFICES (2.4)

Mexico City

INTERNATIONAL

COMPANIES

- **Minera Tizapa:** *Poly-metallic mine,* Peñoles (51%) and Dowa Mining and Sumitomo, Japan (49%)
- **Penmont:** *Gold mine,* Peñoles (56%) and Newmont Gold-USA (44%)
- **Pecobre:** *Copper exploration company,* Peñoles (51%) and CODELCO, Chile (49%)
- **Sulquisa:** *Sodium sulfate mine in Spain,* Peñoles (49%) and Minersa, Spain (51%)

PRINCIPAL EXPLORATION PROJECTS

- **Peru**
- **Chile**

FOREIGN OFFICES (2.5)

- **Peru:**
  - Trujillo and Lima (Exploration)
- **Chile:**
  - Santiago (Exploration)
- **Brazil:**
  - Sao Paulo (Sales)
- **United States:**
  - Stamford, CT (Sales) and
  - Brownsville, TX (Purchasing)

SUSTAINABILITY MAP *(MM10)*

PRINCIPAL SUSTAINABLE DEVELOPMENT EFFORTS

LEASED MINES
1. La Ojuela, Durango
2. Las Torres, Guanajuato
3. El Monte-Carrizal, Hidalgo

CLOSED MINES IN REHABILITATION
1. Cuale, Jalisco
2. La Minita, Michoacán
3. Sultepec, State of Mexico
4. Rey de Plata, Guerrero

RESTORED MINES
1. Gochico, Sonora
2. Reforma, Chihuahua, Sinaloa
3. Talpa de Allende, Jalisco

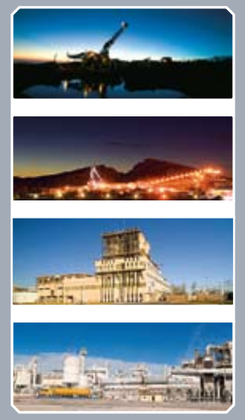
- Sewage water treatment plant
- Solar collectors
- Tailings dam restoration plan
- Nursery
- Mine closure plan
- Sustainable Forest Program
- Study of biological traits
- Forestation actions
- Environmental Management Unit
- *CIDT* (Center for Research and Technological Development)

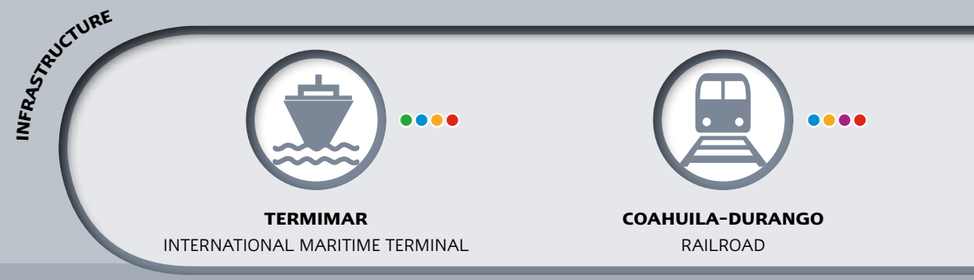
1. Met-Mex:
2. Química del Rey:
3. Magnelec:
4. Fertirey:
5. Bermejillo:
6. Aleazin:
7. Bismark:
8. La Ciénega:
9. Fresnillo:
10. La Herradura:
11. Fco. I. Madero: (under construction)
12. Milpillas: (inaugurated in September 2006) (under construction)
13. Naica:
14. Sabinas:
15. Tizapa:

THE CRITICAL ROLE OF PEÑOLES
IN THE VALUE CHAIN

Although by their nature our products rarely appear under the Peñoles name for the final consumer, we are the first link in the industrial supply and production chain. As such, we believe that our company plays a critical role in the value chain. Normally, our involvement is almost always at the beginning of the production chain because we principally supply basic raw materials without which there would simply be no progress or development.

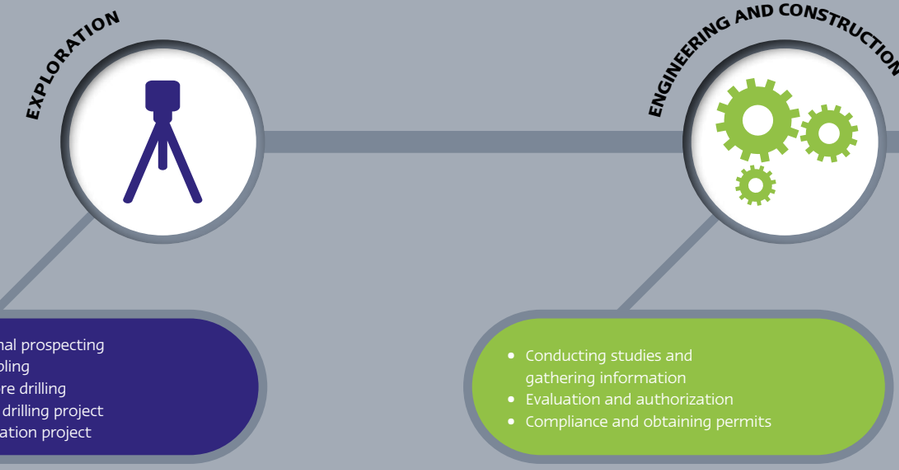
We supply products and services to more than forty diverse industries in the world including construction, transportation, communications, pharmaceuticals, food and agricultural, among others, that in turn are the pillars of development and sustainability of a vast range of human activities and needs.





MAIN IMPACTS

- Altered landscape.
- Use of resources: energy and water.
- Air emissions: dust and gases.
- Rock waste, tailings, and slag.
- Toxic and/or hazardous waste.
- Safety and health.

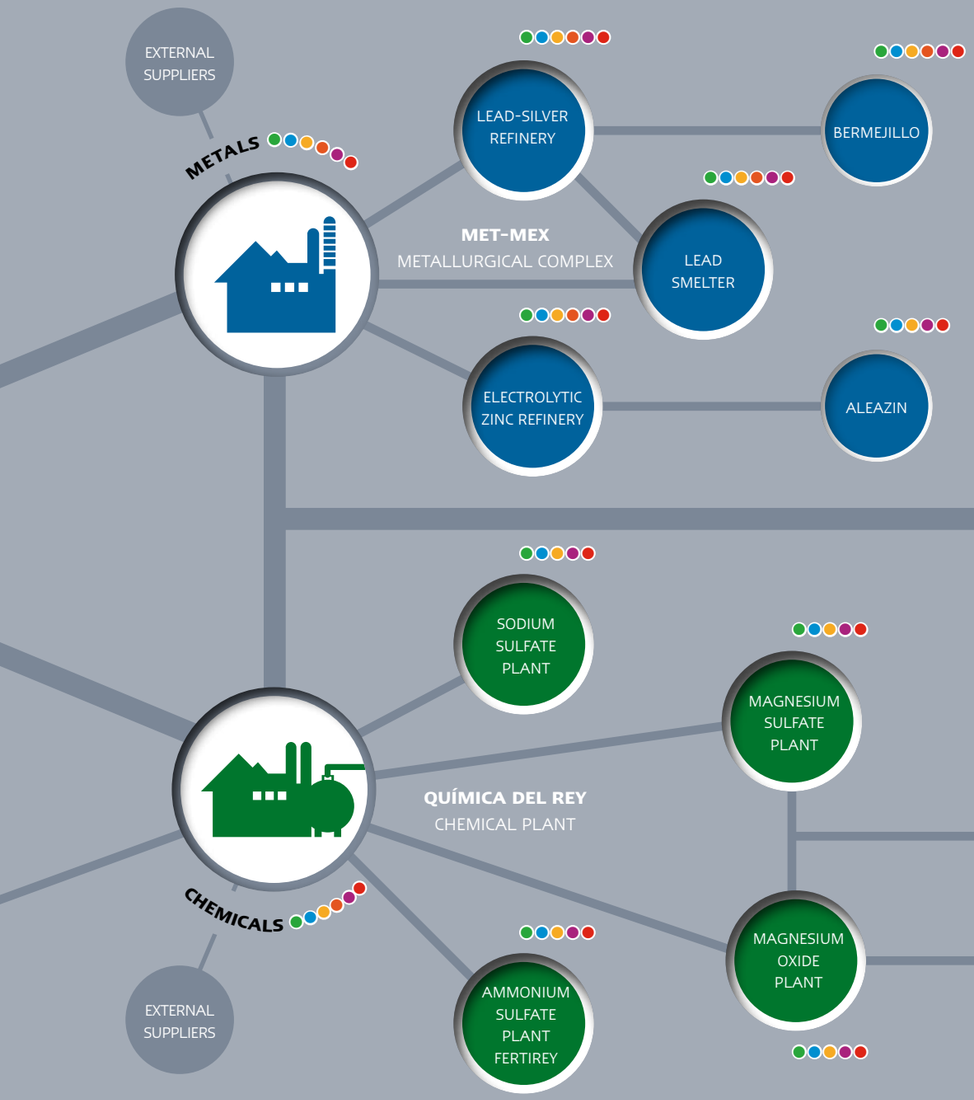


OUR
STAKEHOLDERS

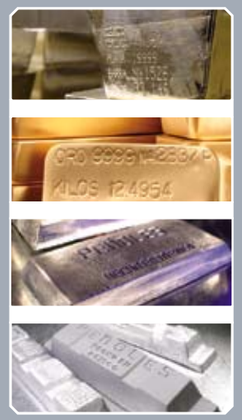
OUR MAIN PRODUCTS (2.2)

TEP
TERMOELÉCTRICA PEÑOLES

BAL-ONDEO
WATER DISTRIBUTION AND TREATMENT



MARKETING



EMPLOYEES

COMMUNITY

PEÑOLES´S PRODUCT USES

Industry	Main Applications	Peñoles´s Products
Household Products	Detergents	Sodium sulfate
	Jewelry	Gold, silver
	Soaps	Oleum, Epsom salt
	House appliances	Zinc, bismuth
	Mirrors	Silver
	Rubber gloves	Remag
Automotive Industry	Automotive batteries	Lead, sulfuric acid, Neutromag
	Chassis	Zinc
	Window glass	Sodium sulfate, bismuth, magnesium oxide
	Tires	Remag, zinc
	Seats	Sodium sulfate, Zamak
Construction Industry	Sheet roof	Zinc
	Conductor tubes	Zinc
	Wires	Zinc
Protecting Coating and Paints	Pigments	Zinc, bismuth, cadmium, sulfuric acid
	Paints	Zinc, bismuth, antimony trioxide
	Anticorrosion covering	Zinc, lead
Chemical Industries	Chemical products	Lead, sulfuric acid, bismuth, sodium sulfate, silver, Remag
	Industrial chemical processing	Oleum, Remag, Epsom salt
	Catalysts	Silver, antimony trioxide, bismuth, zinc
Electric and Electronic Industry	Light bulbs	Bismuth, antimony trioxide, sodium sulfate
	Computer keyboards	Zamak, gold
	Television and computer screens	Sodium sulfate, bismuth, antimony trioxide, magnesium oxide
	Compact discs and telephone switches	Gold
	Fluorescent lamps	Bismuth
	Stereos	Gold, silver, Zamak
	Fuses	Cadmium, bismuth
	Welding	Bismuth, lead, antimony trioxide
Infrastructure	Brass and bronzes	Zinc
	Bearings	Silver
	Harbors	Zinc
	Waste water treatment	Sulfuric acid, Remag, Epsom salt, Neutromag, magnesium hydroxide
	Steel in structures and machinable steels	Zinc, bismuth
Agroindustry	Fertilizers	Sulmag, Supermag
	Direct soil application, foliage and cattle	Ammonium sulfate, Nima
Pharmaceutical and Food Industries	Cosmetics	Zinc, bismuth
	Medicines	Zinc, bismuth
	Food products	Ammonium bisulfate, sulfur dioxide

9

10

ORGANIZATIONAL CHANGES

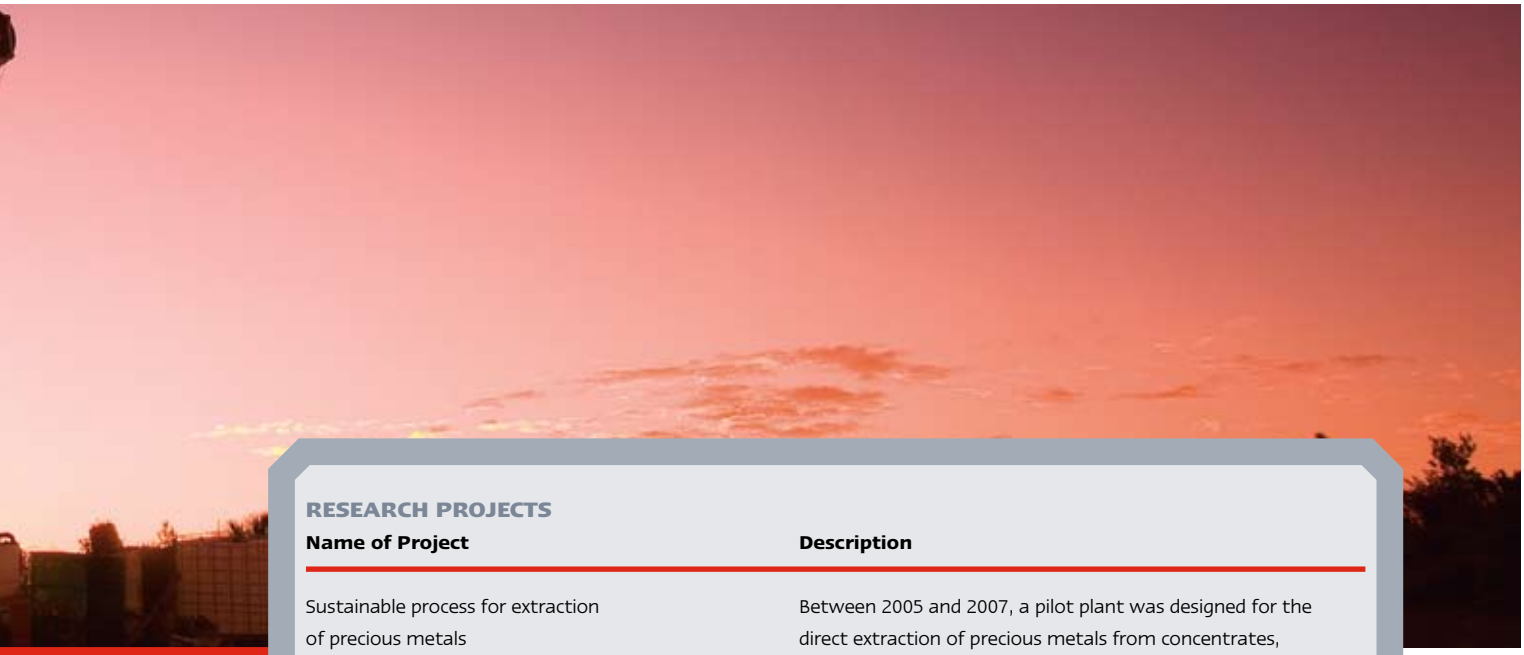
(2.9)

In December 2007, Minera Juanicipio was formed in Zacatecas as a joint investment between Peñoles (56%) and the Canadian firm MAG Silver Corporation (44%), through its Mexican subsidiary, Minera Los Lagartos, to develop the silver deposit in the Fresnillo district.

In our search for new processes with lower costs and environmental impact, and criteria that are more compatible with sustainable development in all areas of the company, we resort to our Center for Research and Technological Development *(CIDT)*. Although this facility has been operating since 1922 in the city of Monterrey, it was relocated to Torreón, Coahuila in 2007 as part of our strategy of concentrating shared service centers closer to our operations. The center has three areas linked to the nature of our operations: mineral processes (focused on the Exploration and Mining Divisions); metallurgical processes (for the Metals Division); and chemical processes (for the Chemicals Division). Its relocation will enable researchers and technicians to participate more efficiently in growth projects and to improve our operating processes. In the context of this change, the *CIDT* chemical analysis laboratory was merged with that of the Met-Mex Peñoles laboratory to leverage synergies.

As of April 2007, the Vice President of Energy and Technology's Office was integrated into the Metals Division, with the relocation of its personnel to Torreón, Coahuila in August.

9–10 *Exploration at Juanicipio, Zacatecas*



RESEARCH PROJECTS

Name of Project	Description
Sustainable process for extraction of precious metals	Between 2005 and 2007, a pilot plant was designed for the direct extraction of precious metals from concentrates, without the use of cyanide, through an electrolytic process developed in association with the Autonomous Metropolitan University (*UAM*) of Iztapalapa that does not require the energy-intensive steps of smelting and refining.
Production of silver and magnesium hydroxide nano-particulates	Pilot plants were in operation from January to May 2007 for the production of silver and magnesium hydroxide nano-particulates for use as a flame retardant and biocide.
New sources of energy for the future	Technical and economic viability studies were initiated in 2007 for wind and hydroelectric power generation projects, as well as the use of solar energy to produce steam at Química del Rey.
Search for greater efficiency in the use of electricity	The mines were equipped in 2007 with the instrumentation needed to monitor and control energy demand so that the startup of motors and process equipment could be optimized to reduce maximum demand peaks and thereby lower electricity costs.
Experimentation and production of zinc concentrates from mineral extracted from a new third-party mine	A pilot plant was set up for process definition and production research to support the development of new sources of supply of zinc concentrates.
Potential recovery of gold from tailings at Tizapa	Support will be provided during 2008 for the development of conceptual and basic engineering for the development of this project, given the good results obtained in laboratory research conducted in 2007.
Supplemental processes for the treatment of copper particles	Technology was developed to process matte and speiss, recover copper values in greases, and to stabilize copper bearing residues.
Participation in the process selection team for the zinc expansion	Support was provided to evaluate the processes for increasing metallic zinc production capacity, most notably the analysis of direct atmospheric leaching and development of techniques to recover zinc contained in the “grease” from the lead furnaces.

NATIONAL AND INTERNATIONAL ASSOCIATIONS IN WHICH WE PARTICIPATE

(4.13)

Peñoles actively participates in numerous Mexican and international organizations related to its business.

Organizations related to our products:

- International Lead and Zinc Research Organization (ILZRO)
- International Lead Management Center (ILMC)
- International Zinc Association (IZA)
- Latin-American Zinc Association (LATIZA)
- The Silver Institute
- National Association for the Responsible Handling of Lead

Organizations related to our business and operations:

- Mexican Mining Chamber *(CAMIMEX)*
- International Council on Mining and Metals (ICMM), representing *CAMIMEX*
- National Chemical Industry Association *(ANIQ)*
- Mexican Council on Foreign Trade, Investment and Technology *(COMCE)*
- National Private Transport Association *(ANTP)*
- Commission on Private Sector Research for Sustainable Development *(CESPEDES)*, within the Business Coordination Council *(CCE)*
- *International Association for Impact Assessment (IAIA)*
- Water Consulting Council *(CCA)*
- Mexican Wind Energy Association *(AMDEE)*

We participate in the activities of the Confederation of Industrial Chambers *(CONCAMIN)* and of the Confederation of Mexican Employers (*COPARMEX*).

Professional organizations:

- Mexican Association of Mining, Metallurgy and Geology Engineers *(AIMMGM)*
- National Association of Corporate Lawyers *(ANADE)*
- Mexican Institute of Internal Auditors *(IMAI)*
- Mexican Institute of Chemical Engineers *(IMIQ)*
- Institute of Public Accountants of Mexico *(CCPM)*
- National Association of Tax Specialists *(ANEFAC)*
- International Association of Business Communicators (IABC)
- Mexican Association of Communicators *(AMCO)*
- Group for the Promotion of Education and Sustainable Development *(GRUPEDSAC)*

Social organizations:

- Innovations in Science Teaching *(INNOVEC)*
- RedEAmérica, Inter-American Network of Corporate Foundations and Actions for Basic Development
- The United Way

We participate in the activities of the Foundation of Chihuahua Businessmen *(FECHAC)* and the Mexican Center for Philanthropy *(CEMEFI)*.

PEÑOLES AND ITS SUSTAINABLE DEVELOPMENT HISTORY

1961

Mexicanization of Peñoles.

SUSTAINABILITY ORGANIZATION CHART

(2.3, 4.1)

ENVIRONMENTAL PERFORMANCE FOR OUR STAKEHOLDERS

WE WANT TO BE RECOGNIZED FOR OUR LEADERSHIP IN ENVIRONMENTAL PROTECTION.

1 *Centennial Park, Torreón, Coahuila*

2

3

ENVIRONMENTAL MANAGEMENT SYSTEMS

(MM05)

Our environmental objectives are as follows:

- Water resource: Optimize consumption and control wastewater discharge.
- Energy: Optimize consumption and seek clean and renewable sources.
- Waste: Reduce and manage/dispose of safely and appropriately.
- Atmospheric emissions: Control and reduce.
- Ecosystem preservation: Protect flora and fauna of mines in operation and remediate closed mines.

The guidelines for meeting these objectives are the creation of a culture of environmental protection; the establishment of principles and standards; compliance with the strictest environmental criteria and limits that exceed regulatory requirements; the adoption of effective procedures to prevent potential problems; the establishment of performance indicators; and the continuous improvement of our environmental management systems through certification in accordance with international standards.

Peñoles's environmental management systems are comprised of facilities and operating controls for the prevention of environmental contamination, similar to those for workplace health and safety. At least once per year, a complete review is made of compliance with regulatory standards in order to identify deviations and ensure their correction.

Peñoles has ISO-14001:2004 certificates granted to all our business units. In addition, we continue to adhere to the voluntary program of environmental audits promoted by the Federal Government through the General Law on Ecological Balance and Environmental Protection. All our operations have a Clean Industry Certificate.

2 *Protected species at the La Herradura Mine, Sonora*

3 *Our open pit mine, La Herradura, Sonora*

ISO-14001 AND CLEAN INDUSTRY CERTIFICATIONS

DIVISION Unit	Expiration of Clean Industry Certificate	Expiration of ISO-14001 Certificate
METALS		
Aleazin	2009	2009
Bermejillo	Process to be reinitiated in 2008	2009
Electrolytic Zinc	2009	2008
Fertirey	Action plans in progress	2009
Met-Mex Smelter	2009	2009
Met-Mex Refinery	2009	2009
CHEMICALS		
Química del Rey	2008	2010
Magnelec	---	2010
MINES		
Bismark	Action plans in progress	In process of re-certification
Tizapa	2008	2008
Sabinas	2008	2008
Fco. I. Madero	Recommended for endorsement	2010
Fresnillo	2008	2008
La Ciénega	Delivery of certificate in process	2010
La Herradura	2008	2010
Naica	2008	In process of re-certification
Milpillas	---	In process of implementation
Termimar	---	2009
EXPLORATION		
Exploration	---	2008

1962

Installation at Met-Mex Peñoles, Coahuila, of the first sulfuric acid plant in the country to capture sulfur dioxide emissions from roasting lead minerals. Creation of the first Social Welfare Centers and founding of the "Damas Peñoleras", a volunteer group of employees' wives engaged in social work.

4

CONSUMPTION OF WATER RESOURCES

(EN08, EN10)

Between 2005 and 2007, 33.2% of the water we consumed in exploitation and mineral beneficiation processes came from inside our mines; 32.7% from wells or springs; and 33.9% from municipal drainage after treatment by us. The rest was sewage water purchased from third parties or the municipal water system.

TOTAL WATER CONSUMPTION

Business Unit	First-use Water (m^3)		
	2005	**2006**	**2007**
Aleazin	0	571	**108**
Bermejillo	40,735	43,955	**33,108**
Fertirey	18,398	32,119	**22,654**
Met-Mex	253,624	248,646	**238,351**
Química del Rey (brine)	2,558,699	2,739,375	**2,322,016**
Dolomita	306	246	**264**
Aquismón	0	700	**800**
Magnelec	0	0	**2,955**
Salinas	360	328	**370**
Termimar	1,063	1,693	**596**
Bismark	1,003,263	907,822	**971,931**
Fresnillo	1,977,319	1,915,719	**1,154,175**
La Ciénega	58,800	40,407	**36,655**
La Herradura	834,881	1,041,316	**1,510,352**
Fco. I. Madero	0	0	**0**
Milpillas	0	0	**71,597**
Naica	831,477	752,228	**935,738**
Sabinas	718,787	689,942	**813,979**
Tizapa	332,256	351,386	**495,010**
Total	8,629,968	8,766,452	**8,610,660**

* **MW:** *Mine water;* **WS:** *Well or spring;* **MS:** *Municipal drinking water supply;*

1973

Installation at Met-Mex Peñoles, Coahuila of the first wastewater treatment plant in the country to provide process water.

Total Volume Reused or Re-circulated (m^3)			Total (m^3) 2005-2007	Sources (%) 2005-2007*
2005	**2006**	**2007**	**Average**	**Average**
0	2,535	**8,137**	3,784	6% PM, 94% TPS
1,039	1,187	**2,875**	39,266	100% WS
26,864	28,920	**20,117**	49,709	40% WS, 9% MS, 51% TS in Met-Mex
3,977,853	4,094,130	**4,318,639**	4,167,359	6% WS, 94% MD
304,591	286,128	**315,922**	2,540,030	100% WS
0	0	**0**	272	100% WS
0	0	**0**	500	100% WS
0	0	**0**	985	100% WS
0	0	**0**	353	100%MS
0	0	**0**	1,117	100%MS
1,761,248	1,814,780	**2,509,027**	961,005	100%MW
7,118,886	5,202,949	**4,934,136**	1,682,404	100% MW
1,512,232	1,539,934	**1,682,414**	45,287	100% MW
7,092,456	7,600,647	**8,055,268**	1,128,850	8% MW, 92% WS
6,480,400	6,286,920	**6,573,501**	531,350	100% MD
0	0	**5,241,720**	23,866	100% MW
938,556	1,050,805	**462,394**	839,814	93% MW, 7% MS
703,181	700,211	**709,726**	740,903	54% MW, 46% WS
936,665	937,826	**1,036,354**	392,884	97% MW, 3% WS
30,853,971	29,546,972	**35,870,274**	13,149,738	

MD: *Municipal drainage;* **TS:** *Treated sewage;* **TPS:** *Third-party sewage.*

4 *Municipal sewage treatment plant at the Francisco I. Madero Mine, Zacatecas*

EFFICIENT WATER USAGE

(EN09)

Our operations do not impact water supply sources as the company has concessions granted by the corresponding authority, which bases volume allocation on the availability of water resources in each watershed and sub-drainage area. Nonetheless, we have made efforts to reduce the consumption of this important resource through technical innovations such as closed circuit operations for water utilization, and the construction of treatment plants. The latter have gradually become a fundamental part of our environmental infrastructure in replacing the consumption of first-use with treated water.

WATER DISCHARGES

(EN21, EN25)

None of our business units discharge residual process water. All water discharged from our sanitary services is within the maximum limits established by applicable legal standards in effect. In some units, a portion of the residual water is purified in septic tanks and filtered in absorption wells in accordance with applicable regulatory standards.

INITIATIVES OF WATER USE EFFICIENCY

MINES

In units that utilize flotation systems, water used to transport tailings to the dams is constantly re-circulated. The Madero Unit is supplied with sewage water from the municipality of Zacatecas, and delivers all the mine water to agricultural activities. Fresnillo, La Ciénega, Tizapa, Naica, Bismark and Milpillas have an excess of mine water that they supply for consumption by the inhabitants of the neighboring communities and agricultural activities. La Herradura and Milpillas, which employ leaching systems, have completely impermeable patios and emergency holding facilities that ensure no solutions are discharged to bodies of water.

METALS

Met-Mex, our principal metallurgical complex, stopped using well water in 1994 in order to utilize sewage water provided by the city of Torreón, Coahuila that is purified through a system of biological treatment plants, reverse osmosis and ion exchange processes. The biological treatment plant also receives water from the sanitation facilities in the complex. As of this year, a sewage treatment plant has been operating that started with a capacity of 50 liters per second that was expanded to 140 l/s. During the year, 95% of the requirements of Met-Mex were satisfied by treated sewage water, particularly in the industrial processes, spraying for dust suppression, and irrigation of green areas of the complex and some municipal parks in Torreón. Met-Mex gave to the Municipal Water and Sanitation System *(SIMAS)* the equipment and exploitation rights to four wells that it had under concessions from the National Water Commission even though the concessions had 50 years of life remaining.

CHEMICALS

Química del Rey is supplied with brackish water in which the salts are removed by reverse osmosis. The reject water from this treatment is injected into the brackish mantle to assist in the extraction of sodium sulfate, one of the raw materials required for its processing activities. Química del Rey, Bermejillo and Aleazin purify sewage and use the water as process water or in irrigation of green areas.

5 *Specialties plant at the Química del Rey Unit, Coahuila*

1975

Creation of the Corporate Office of Labor and Social Development. Social impact studies conducted for the closure of the mine in Topia, Durango.

6

7

ENERGY CONSUMPTION

(EN03, EN04)

Since 2004 we have acquired electricity from the Termoeléctrica Peñoles (TEP) power plant, which utilizes petroleum coke as fuel. Of the total energy consumed during the year, 96% was obtained from TEP. The remainder was acquired from the Comisión Federal de Electricidad *(CFE)*.

USE OF ENERGY BY TYPE OF FUEL

Percentage of Energy Use (%)

Energy Sources	2005	2006	2007
Electricity	42.76	44.54	**39.65**
Natural gas	18.03	26.43	**30.48**
Diesel	9.64	11.61	**12.66**
Metallurgical coke	9.19	8.38	**7.64**
Petroleum coke	1.90	4.42	**7.18**
Fuel oil	18.01	3.99	**1.67**
Gasoline	0.38	0.56	**0.64**
LP gas	0.10	0.08	**0.08**
Total	100	100	**100**

Total consumption of electricity and other fuels by Peñoles in 2007 was 18.1 million Giga Joules (GJ), a figure that increased by 9.8% with respect to 2006. This was basically due to increased production and the integration of new facilities, particularly in the Milpillas Unit. Consumption of electricity was 7.2 million GJ (39.7% of the total), and 10.9 million GJ (60.3%) of other fuels (natural gas, LP gas, gasoline, diesel fuel, fuel oil, metallurgical coke and petroleum coke).

ENERGY EFFICIENCY

(2.10, EN05, EN06, EN07)

We developed several initiatives in 2007 to improve the efficiency of our energy consumption.

During the year, the National Commission on Energy Conservation *(CONAE)* of the Secretary of Energy *(SENER)* recognized Fertirey with the first place ranking on a national level for its 28% increase in energy consumption efficiency, equivalent to 156,141 BOEs (barrels of oil equivalent).

1976

First forestation of tailings dams, Fresnillo, Zacatecas. First social diagnostic studies conducted at Química del Rey, Coahuila.

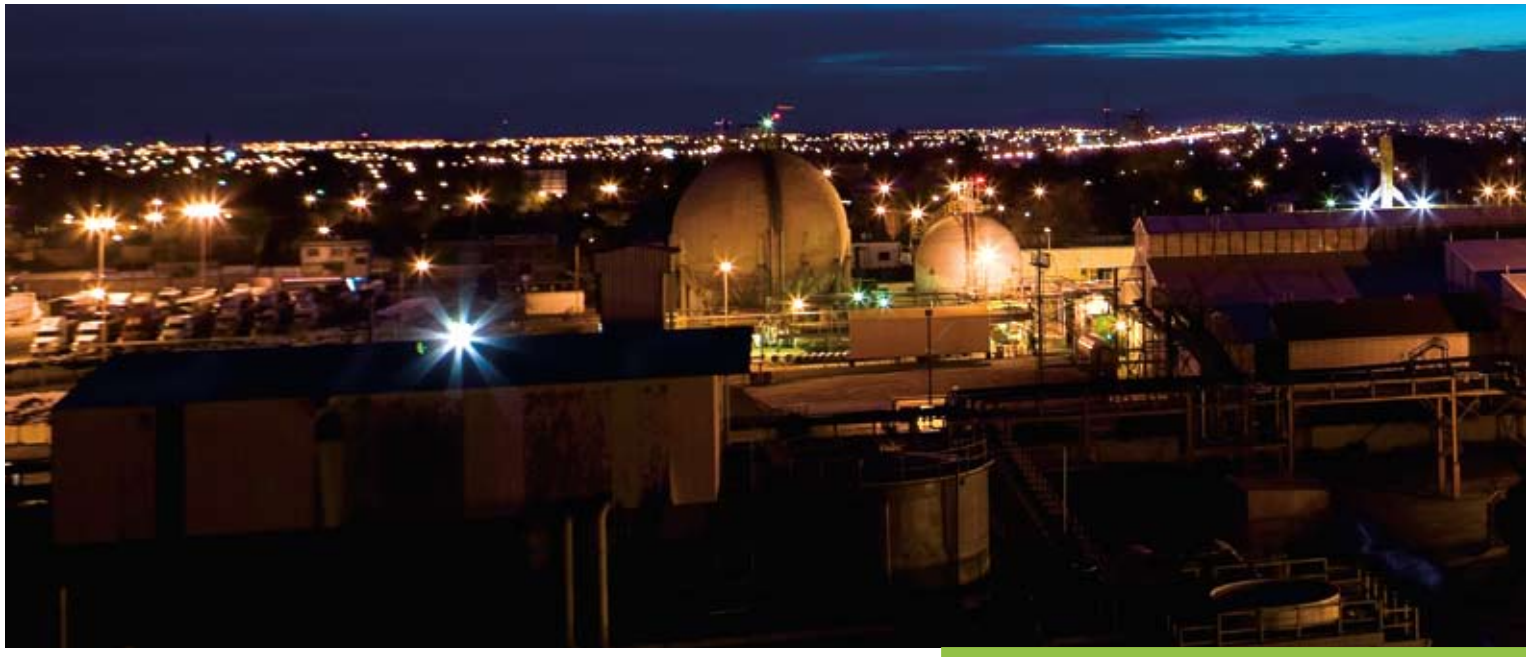
CONSERVATION INITIATIVES FOR ELECTRICITY AND FUELS

DIVISION Unit	Quantity Saved	Description
MINING / INFRASTRUCTURE		
Termimar	144.03 GJ/year	Project to conserve electricity in offices, via communications with personnel. In addition, a decrease in operations at the terminal is reflected in the figures on energy savings.
CHEMICALS		
Química del Rey	3,600 GJ/year	Thanks to a cooling unit, production increased, accompanied by a savings of electricity.
	84,124.75 GJ/year	Installation of an economizer to utilize combustion gas from the boiler to heat feed water.
Magnelec	9,200 GJ/year	Optimization of the operations of the rotary and melting furnaces by installing control systems. Change in attitude among employees. Instrumentation of the rotary furnace for better utilization of natural gas.
Salinas del Rey	7,009 lts. g.l.p.	Reduction of saline humidity by solar exposure, in order to reduce the consumption of drying gases.
METALS		
Aleazin	8,134.9 GJ/year	Electronic control of power supplied to melting furnaces through demand set points.
	8,861.27 GJ/year	Replacement of two natural gas evaporators with an electric oven.
Fertirey	33,008.7 GJ/year	Recovery of heat generated by the exothermic reaction between sulfuric acid and ammonium.
MINES		
Bismark	---	Implementation of program to automate three pumping stations in order to reduce electricity demand. The results will be seen as of February 2008.
La Ciénega	---	Coordination of pumping stations inside the mine. Shut down of compressors on Sundays and holidays. Replacement of the 200 hp motor for the north blower with a 100 hp motor. Installation of a demand control instrumentation and monitoring system.
La Herradura	3,185.75 GJ/year	Shutdown of the washing pump during breaks; better use of air conditioning equipment; efficiencies in operating practices in the beneficiation plant. Installation of photoelectric light cells.
Sabinas	---	The demand control monitoring system will be completed. Acquisition of high-efficiency motors. Installation forthcoming of energy consumption controls by time (base, intermediate and peak).
Tizapa	4.16 GJ/year	Equipment stoppages during the peak period of the year. Pending change of higher efficiency motors in the processing areas. Installation of a capacitor bank that increases the power factor in the unit. Strategic CAT 2007 project to optimize unit consumption of electric energy per ton milled. Detection of areas of opportunity through a program of electric energy reduction.

- *Electricity*
- *Fuel*

6 *Electrical substation at Met-Mex Peñoles, Coahuila*

7 *Electrolysis at the Milpillas Mine, Sonora*



PEÑOLES IN THE FACE OF CLIMATE CHANGE AND THE SEARCH FOR RENEWABLE ENERGY SOURCES

(EC02, EN16, EN17, EN18)

With concern for the economic, social and environmental consequences that could result from climate change, we continue to voluntarily participate in the *Mexico Greenhouse Gases Program (GEI Mexico)*, with the objective of accounting for both direct and indirect emissions, and using the resulting figures to weight initiatives for their reduction.

Since 2005, we have explored the use of renewable energy sources, identifying projects that could eventually qualify as Clean Development Mechanisms (CDM). In 2007, feasibility studies were completed for two wind parks and a hydroelectric station. In addition, we studied the technologies under development for solar collectors to produce process

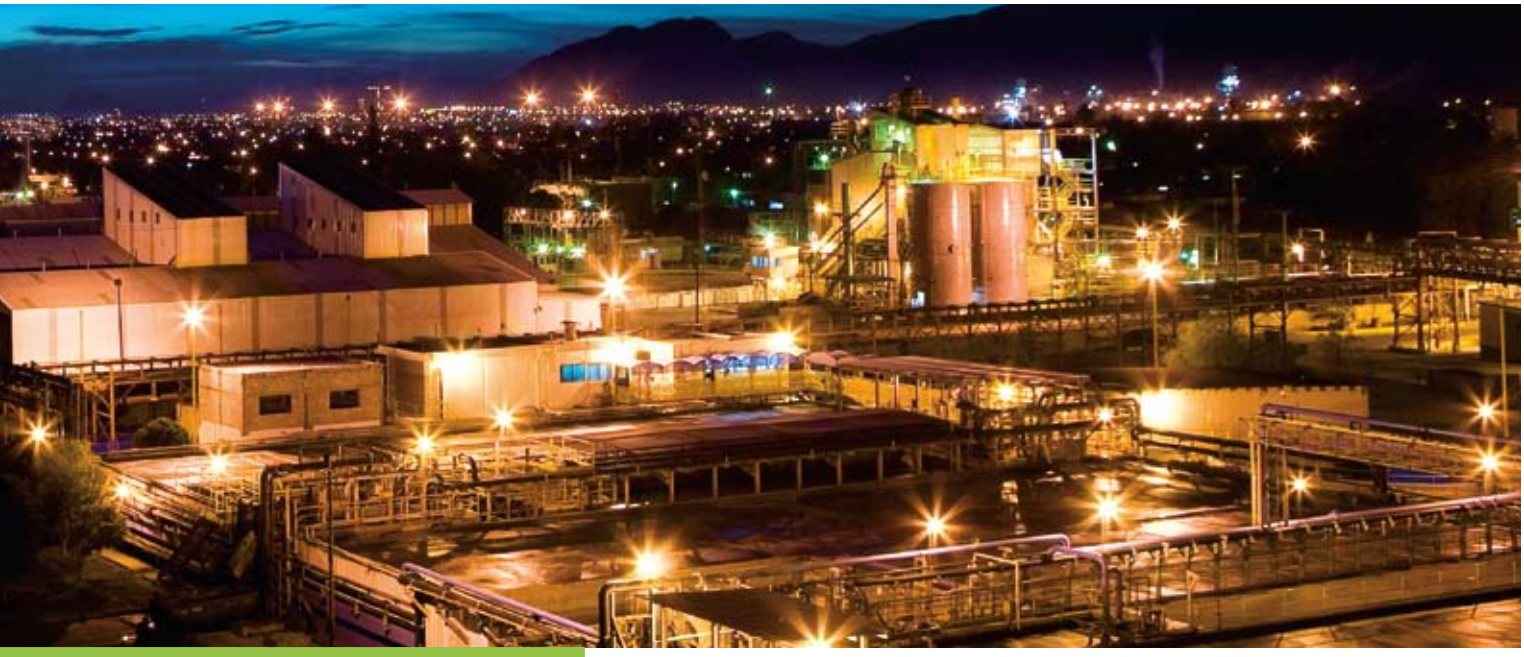
GREENHOUSE GAS EMISSIONS

GHGs (tons of CO_2e)

Source	2005	2006	2007
Direct Emissions			
Stationary sources:			
Steam heating and generation			
for production processes	589,494.16	542,354.83	**652,399.43**
Dolomite calcinations	111,799.19	108,002.56	**100,643.16**
Mobile sources: Transport			
of materials and personnel			
(includes railway)	118,772.24	147,709.05	**196,662.18**
Subtotal	820,065.58	798,066.45	**949,704.77**
Indirect Emissions			
Purchase of electric energy	995,913.15	1,064,803.63	**1,050,340.41**
Subtotal	995,913.15	1,064,803.63	**1,050,340.41**
Total	1,815,978.73	1,862,870.07	**2,000,045.18**

Note: *Differences in the data provided for 2005 and 2006 this year compared with last year is mainly due to the fact that some corrections were made and now other GHGs other than carbon dioxide are included, i.e. nitrous oxides and methane.*

8 *Panoramic view of Fertirey and Met-Mex Peñoles, Coahuila*



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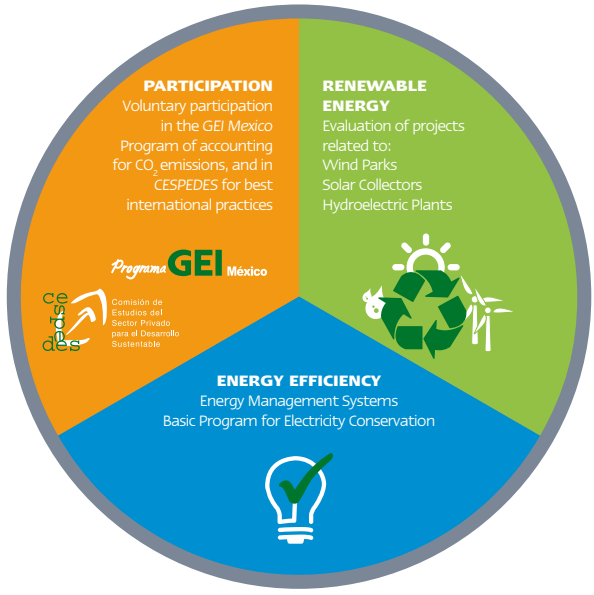
steam, and the construction of a pilot facility at the Química del Rey plant in 2008. The search for CDM projects continues, with the goal of providing 20% of the electricity and steam that Peñoles consumes from renewable energy sources by the year 2014. As proof of our commitment, a USD$123-million investment was approved for a 50 MW power wind park that will start up operations in 2010 pending on the securing of Emissions Reduction Certificates for a 120,000-ton reduction of carbon dioxide emissions annually.

PEÑOLES AND CLIMATE CHANGE

Project	Capacity	Energy Generated/Yr.	GHG Reduction
Peñoles Wind	50 MW	214 million kWh	120,000 t CO_2 eq.
Bismark	30 MW	75 million kWh	40,000 t CO_2 eq.
Hydroelectric	35 MW	160 million kWh	72,000 t CO_2 eq.
Pilot Solar Collector	5 MW (thermal)	13 million kWh (thermal)	4,400 t CO_2 eq.*

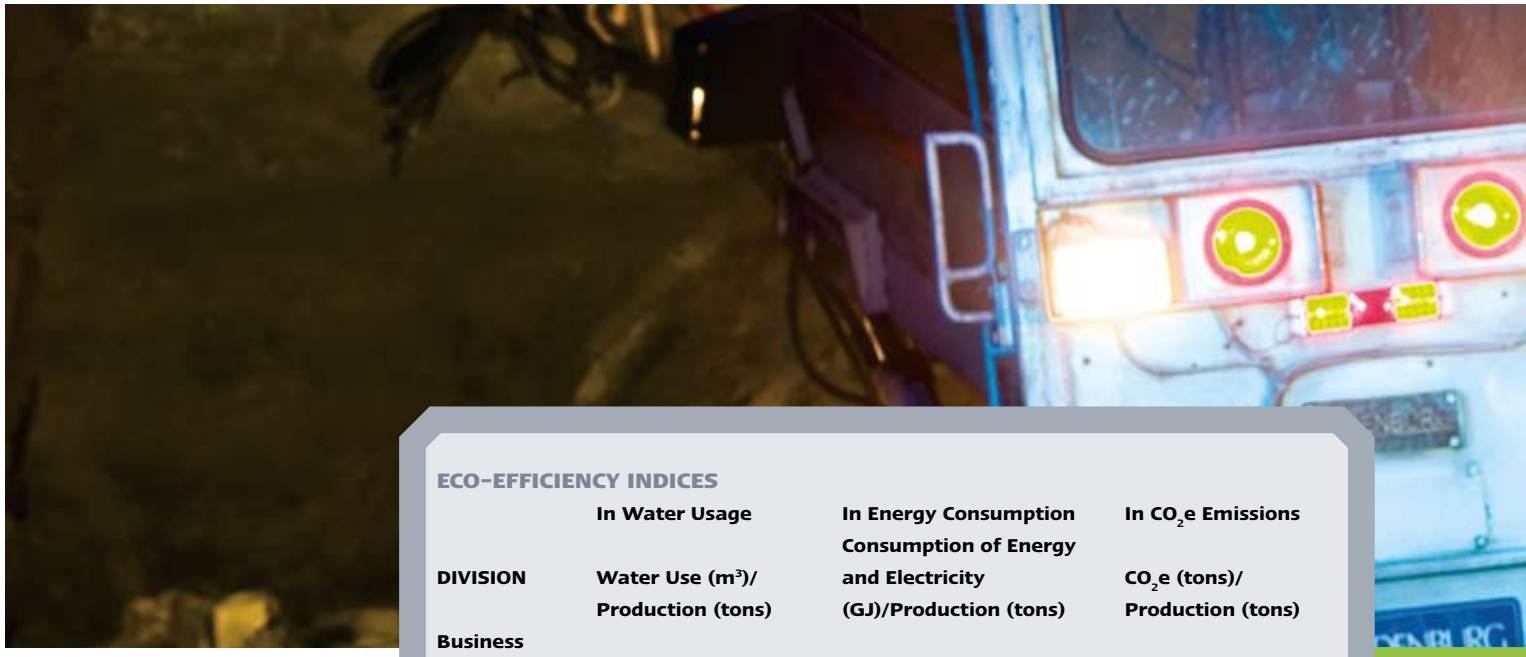
* *If the solar collector is successful, it could be expanded to 70 MW, avoiding 62,100 t. of CO_2 equivalent in emissions.*



GOAL: BY 2014, TO OBTAIN 20% OF THE ELECTRICITY AND STEAM THAT PEÑOLES CONSUMES FROM RENEWABLE RESOURCES.

1980

Installation at Met-Mex Peñoles, Coahuila of a network to measure total suspended particulates.



ECO-EFFICIENCY INDICATORS

With a concern for the optimization of our processes, we have designed parameters of measurement that are calculated periodically in three areas: first-use water consumption, energy consumption and GHG emissions; each of these is divided into the tons of key products produced in each business unit (for Metals and Chemicals) or among the tons of minerals processed (for Mining). While concrete results of this exercise can only be corroborated over the course of several years, we believe that our efforts reflect trends toward greater efficiency.

ECO-EFFICIENCY INDICES

DIVISION / Business Unit	In Water Usage: Water Use (m^3)/ Production (tons)			In Energy Consumption: Consumption of Energy and Electricity (GJ)/Production (tons)			In CO_2e Emissions: CO_2e (tons)/ Production (tons)		
	2005	2006	2007	2005	2006	2007	2005	2006	2007
METALS									
Aleazin	0	0.00	**0.00**	1.25	1.17	**1.31**	0.14	0.13	**0.16**
Bermejillo	2.81	2.86	**2.13**	13.53	14.53	**12.41**	1.13	1.19	**1.01**
Fertirey	0.09	0.16	**0.11**	0.32	0.32	**0.26**	0.03	0.03	**0.02**
Met-Mex	0.25	0.25	**0.24**	6.72	6.71	**6.70**	0.83	0.83	**0.83**
CHEMICALS									
Química del Rey	3.52	3.71	**3.18**	7.04	6.45	**8.26**	0.58	0.52	**0.63**
Dolomita	0.00	0.00	**0.00**	0.04	0.04	**0.04**	0.00	0.00	**0.00**
Aquismón	0.00	0.00	**0.00**	0.05	0.05	**0.04**	0.00	0.00	**0.00**
Salinas	0.02	0.02	**0.02**	0.19	0.26	**0.31**	0.02	0.02	**0.03**
MINES									
Bismark	1.86	1.48	**1.40**	0.56	0.52	**0.50**	0.08	0.07	**0.07**
Fresnillo	0.90	0.87	**0.50**	0.25	0.31	**0.31**	0.03	0.04	**0.04**
La Ciénega	0.10	0.06	**0.05**	0.37	0.34	**0.33**	0.05	0.04	**0.04**
La Herradura	0.11	0.12	**0.14**	0.09	0.10	**0.11**	0.01	0.01	**0.01**
Fco. I. Madero	*	*	*	0.19	0.20	**0.20**	0.03	0.03	**0.03**
Milpillas	**	**	**0.08**	**	**	**0.39**	**	**	**0.04**
Naica	1.14	0.99	**1.35**	0.68	0.72	**0.82**	0.10	0.10	**0.12**
Sabinas	0.61	0.60	**0.70**	0.17	0.18	**0.21**	0.02	0.02	**0.03**
Tizapa	0.63	0.64	**0.88**	0.29	0.30	**0.30**	0.04	0.04	**0.04**

* *All water is reused.*

** *Started operations in September 2006.*

1989

Installation at Met-Mex Peñoles, Coahuila, of the first ammonium sulfate plant in Mexico to capture diluted sulfur dioxide streams.

9

ENERGY ECO-EFFICIENCY INDEX

Year	Peñoles Sales in Constant 2003 000 USD*	Total Energy Consumption in GJ	Millions of Ounces of Silver Equivalent Produced**	Sales/GJ Index	Oz Ag Eq/GJ Index	Average Price of Ag
2003	1,166,021	13,994,538	238	83.32	17.00	4.9
2004	1,385,979	14,942,468	214	92.75	14.30	6.7
2005	1,859,638	15,921,598	272	116.80	17.08	7.3
2006	3,236,665	16,605,643	309	194.91	18.61	11.54
2007	**3,868,511**	**18,059,500**	**327**	**214.21**	**18.13**	**13.39**

* *Expressed in constant dollars to eliminate the effect of annual inflation.*

** *The value of eco-efficiency expressed in ounces of silver equivalent remained constant because the average value of silver in 2007 increased 16% compared to the 58% corresponding to the 2005-2006 period.*

Also, and for the fourth consecutive year, we expressed the eco-efficiency index in constant 2003 dollars by Giga Joules (GJ), to link the economic value of our products to their environmental impact in terms of energy consumption. The index shows an improvement of 10% in sales per GJ consumed compared to 2006. In short, in little time we managed to produce more and consume less.

9 *The Sabinas Mine, Zacatecas*

10

INITIATIVES TO OPTIMIZE CONSUMPTION OF INPUTS AND RAW MATERIALS

(EN01, EN02, EN22, EN27, MM04, MM06)

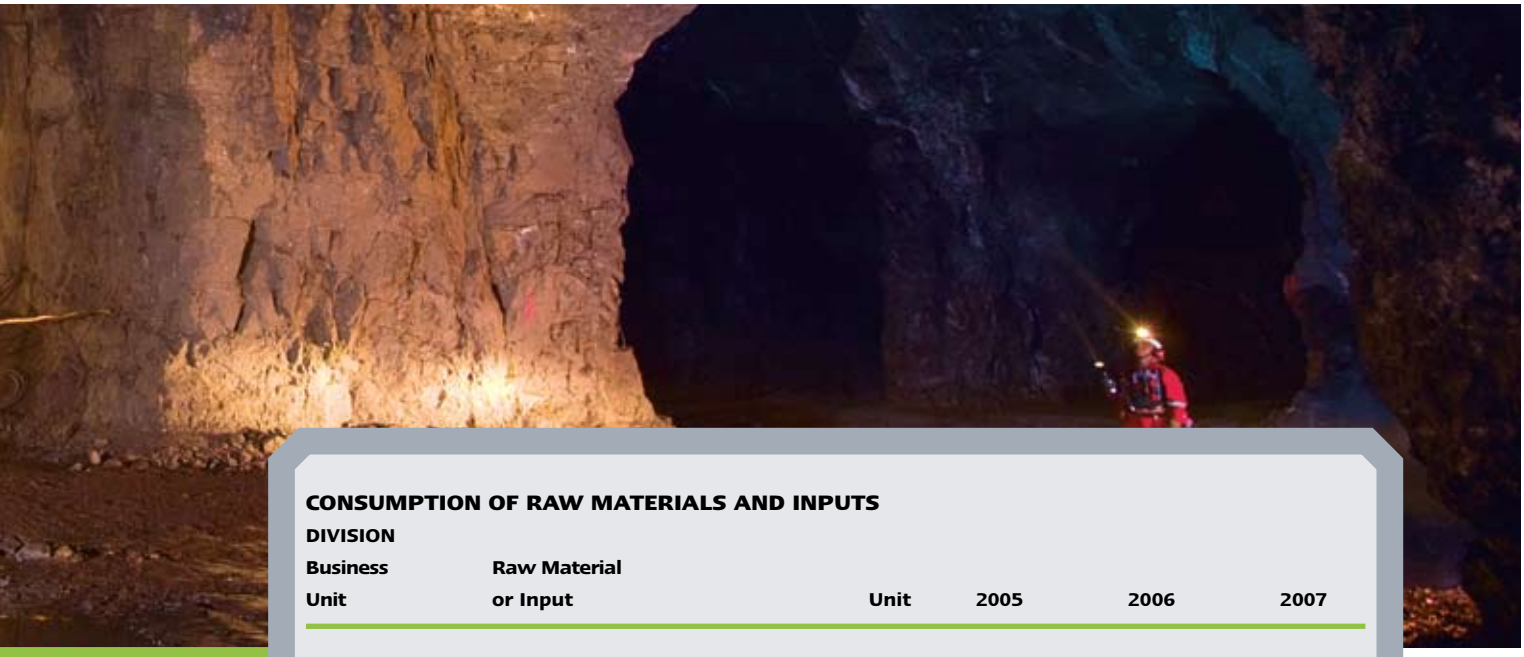
Due to the magnitude of our operations, our processes require significant quantities of raw materials and inputs. As such, we continuously seek better alternatives for their optimum usage.

This includes the search for alternatives, such as using the residues generated by other companies as raw materials and reducing the equivalent volumes of minerals extracted from the subsurface. For example, we find value in the anodic slimes derived from the electrolytic copper process, slag from the fusion of precipitates in the gold production process, and even clean copper scrap from the production of zinc alloys. The accompanying table details the quantities of residues used and the resulting gold produced. The quantity of gold produced in this manner is equivalent to the mineral volume reported, which does not need to be extracted from the subsurface assuming a concentration grade of 0.745 grams per ton.

RAW MATERIALS SUBSTITUTES

	2005	2006	2007
Processed anodic slimes (tons)	1,350	1,562	**1,594**
Processed slag (remitted) (tons)	0.0	164	**298**
Copper (tons)	Not reported	10,070	**27,173**
Production from these residues			
Gold (tons)	7.37	10.25	**9.80**
Mineral equivalent (tons)	5,493	7,638	**7,302**

10 *The Francisco I. Madero Mine, Zacatecas*



CONSUMPTION OF RAW MATERIALS AND INPUTS

DIVISION Business Unit	Raw Material or Input		Unit	2005	2006	2007
CHEMICALS						
Química del Rey	Brine (sodium sulfate)	M	m^3	4,297,000	4,258,851	4,179,518
Esmeralda	Dolomite	M	tons	276,750	262,467	269,715
Aquismón	Limestone	M	tons	296,000	305,000	462,000
Salinas del Rey	Common salt	M	tons	17,027	15,509	17,524
	Brine (sodium chlorite)	M	m^3	187,290	182,030	138,630
METALS						
Met-Mex	Lead (concentrates)	M	tons	236,950	217,105	217,817
	Zinc (concentrates)	M	tons	186,475	213,556	189,103
	Oxygen	I	tons	35,685	37,505	43,249
	Caustic lime for neutralization	I	tons	70,538	73,000	67,832
	Limestone	I	tons	55,732	49,268	53,712
	Ammonia	I	tons	18,107	16,076	15,339
Fertirey	Ammonia	M	tons	38,235	39,359.13	37,552
MINES						
All units	Non-ferrous metallic minerals	M	tons	15,944,061	17,275,899	20,332,972
	Explosives	I	tons	9,499	10,913	13,285
	Blasting caps	I	units	2,097,598	1,949,879	1,886,576
	Cement	I	tons	43,043	20,366	45,671
	Cyanide	I	tons	2,165	2,320	2,493
	Grinding balls	I	tons	7,962	8,102	7,404
	Hydraulic fluid	I	m^3	1,691	1,721	1,898
	Drill steel	I	units	18,412	23,768	15,393

M: *Raw material*

I: *Input*

1991

Active participation of Peñoles in the Ecological Commission of the Mining Chamber of Mexico to develop Official Mexican Standards in the environmental area. Creation of the Office of Environmental Protection. The mine in Bismark, Chihuahua became the first mine in Mexico with environmental impact approval. Met-Mex Peñoles, Coahuila developed a nursery, and as of this year all new mining units have their own landfills.

INDUSTRIAL AND HAZARDOUS WASTES GENERATED (tons)

DIVISION	Residues	2005	2006	2007
MINING				
	Tailings	7,526,318	7,681,321	**7,897,070**
	Waste rock	21,644,182	Not reported	**38,211,943**
	Hazardous wastes		606	**600**
METALS				
	Jarosite	319,897	321,301	**315,677**
	Slag	224,004	218,317	**217,776**
	White sludge from water treatment	9,348	12,724	**18,264**
	Debris confined in south depository	17,018	16,469	**67,626**
	Hazardous wastes		484	**448**
CHEMICALS				
	Burnt limestone	35,033	31,182	**33,785**
	Residues of dolomitic hydrates	21,672	18,944	**24,077**
	Dolomite dust	143,273	132,452	**136,402**
	Gypsum	112,627	117,368	**128,971**
	Hazardous wastes		121	**150**
OTHER DIVISIONS				
	Others	582.77	899.91	**605**

RECYCLED RESIDUES SHIPPED TO THIRD PARTIES (tons)

Material	2005	2006	2007	Application
Spent oils	10,040	44,059	**24,632**	Used as alternate fuel
Batteries	9,973.81	44,008	**24,595**	Recycled
Scrap	374	2,260	**688**	Recycled
Lead chloride	3,466	6,382	**2,283**	Co-processed
Creosol	---	29.95	**43.53**	Co-processed
Antimonial grease	6,340	6,748	**5,656**	Co-processed
Furnace slag	---	30,431	**14,310**	Sold
Filter press canvas	33	33	**12**	Used as alternate fuel
Wood	---	848	**248**	Used as alternate fuel
Materials impregnated with oil	20,465	19,902	**21,431**	Used as alternate fuel
Baghouse dust	17	200	**126**	Sold
Assay melting pots	---	15	**25**	Co-processed
Contaminated soil	45	36	**27**	Used as alternate fuel

1992

Peñoles is a pioneer on a national level of the systematic application of closed mine restoration, at Cuale, Jalisco, and Sultepec, State of Mexico.

11

12

INDUSTRIAL AND HAZARDOUS WASTE, AND INITIATIVES FOR RECYCLING OR RESPONSIBLE DISPOSAL

Each of our centers of operation complies with the provisions of Mexican legislation in terms of management industrial residues. We also respect the international agreements that Mexico has signed for the management of hazardous waste, such as the Basel Convention that prohibits the transport or export of these materials to developing countries.

The principal hazardous wastes from our operations are spent oils, materials impregnated with hydrocarbons, used hoses and filters, infectious biological materials, empty paint cans, filter bags and sludge from gas cleaning, among others. All residues of this nature that we generate are packaged, labeled, stored, transported and received for final disposal by companies so authorized according to national requirements.

ACCIDENTAL SPILLS

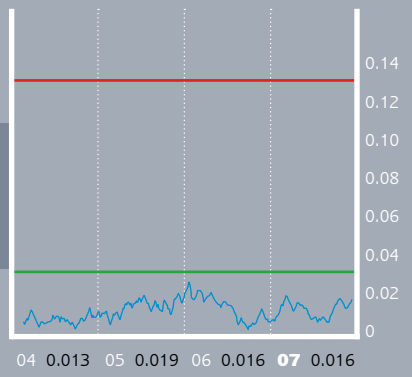
(EN23, EN29)

With concern for accidental spills of substances that could occur in our operations, we maintain an inventory of the impact created and restorative actions. We registered two incidents in 2007, but neither had any significant impact. In the San Juan, Durango exploration project, 0.02 cubic meters of diesel fuel was spilled, which was treated as a hazardous residue once the contaminated soil was removed. In Tizapa, State of Mexico, 32 tons of tailings were spilled within the unit. Restoration studies and remediation activities were conducted for each of the affected areas.

Peñoles contracts authorized transport services for its products and residues, thus any accidental spills that occur during transport are not under our direct responsibility. Nonetheless, we take care to verify that our vendors follow the most appropriate criteria for the responsible transport of materials and residues.

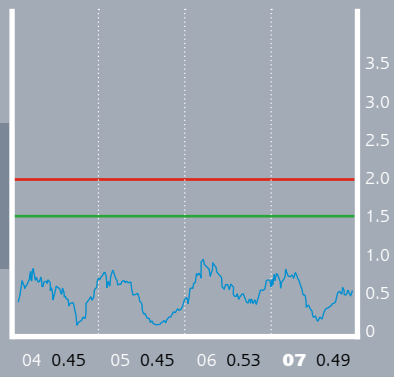
11-12 *Leaching pads at the Milpillas Mine, Sonora*

ANNUAL AVERAGE CONCENTRATION OF SO_2 MET-MEX
ppm



— Daily standard. Average daily maximum permissible limit (NOM-022-SSA1-1993) = 0.13 ppm
— Annual standard. Annual average maximum permissible limit (NOM-022-SSA1-1993) = 0.03 ppm
— Daily average

ANNUAL AVERAGE CONCENTRATION OF LEAD MET-MEX
µg/m³



— German Standard = 2.0 µg/m³
— Mexico/US Standard = 1.5 µg/m³
— 90-day moving average

13 ▶

▲ 14

ATMOSPHERIC EMISSIONS
(EN20)

All emissions generated by Peñoles comply with the limits established in the applicable standards. The principal emissions from the mining units are combustion gases and fugitive dust attributable fundamentally to the use of heavy mobile equipment to extract and transport minerals. In terms of the metallurgical plants, the most important emissions are sulfur dioxide and particulates.

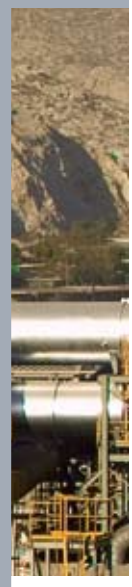
Emissions of sulfur dioxide at Met-Mex, Peñoles, our main complex, reached an annual average concentration of 0.015 parts per million (ppm) in 2007, which is below the Secretary of Health NOM-022-SSA1-1993 standard that establishes an annual maximum of 0.03 ppm.

In terms of the average concentration of lead in the vicinity of the metallurgical complex, this has remained constant in the last few years at an annual average of 0.49 micrograms per cubic meter (µg/m³), which is also well below the levels established by the Mexican standard NOM-026-SSA1-1993 (1.5 µg/m³), and the standards of the United States (1.5 µg/m³) and Germany (2 µg/m³).

Other emissions from Peñoles's units and plants are shown in the table on Atmospheric Emissions.

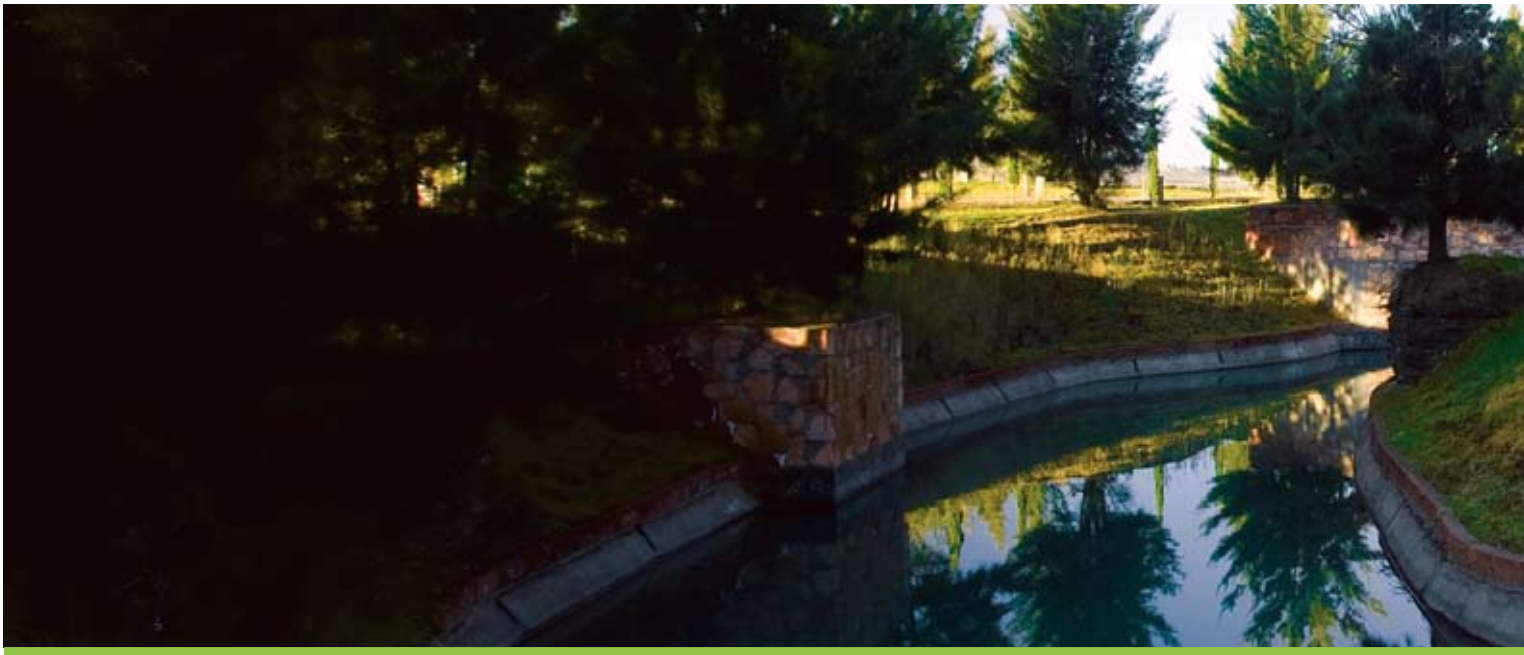
13 *Laboratory at Met-Mex Peñoles, Coahuila*

14 *Sinter confinement at Met-Mex Peñoles, Coahuila*



ATMOSPHERIC EMISSIONS BY BUSINESS UNIT (tons)

DIVISION / Unit	Indirect Emission Source	Emissions NOx	VOC	HCBN	CO	Particulates
2005						
CHEMICALS						
Química del Rey	Combustion process	103.00	---	---	1,236.00	623.00
Salinas del Rey	Rotating dryer for common salt, Ceballos Unit	0.82	---	---	---	8.99
METALS						
Met-Mex	Smelter, Zinc, Refinery, Bermejillo, Aleazin, Fertirey	566.53	3.84	24.71	8,120.71	244.00
Total		670.36	3.84	24.71	9,356.71	875.99
2006						
CHEMICALS						
Química del Rey	Combustion process	264.00	---	---	1,598.00	628.00
Salinas del Rey	Rotating dryer for drying common salt, Ceballos Unit	0.73	---	---	---	8.13
METALS						
Met-Mex	Smelter, Zinc, Refinery, Bermejillo, Aleazin, Fertirey	556.04	3.85	24.66	7,614.35	250.00
Total		820.77	3.85	24.66	9,212.35	886.13
2007						
CHEMICALS						
Química del Rey	Combustion process	**198.00**	**---**	**---**	**466.00**	**212.00**
Magnelec	Melting furnace dust collector	**---**	**---**	**---**	**---**	**0.36**
	Electrofused mill dust collector	**---**	**---**	**---**	**---**	**0.13**
	Rotating furnace dust collector	**---**	**---**	**---**	**---**	**0.06**
	Dust collector for industrial grade grinds	**---**	**---**	**---**	**---**	**0.04**
Salinas del Rey	Rotating dryer for common salt, Ceballos Unit	**0.80**	**---**	**---**	**---**	**9.17**
METALS						
Met-Mex	Smelter, Zinc, Refinery, Bermejillo, Aleazin, Fertirey	**549.35**	**3.62**	**24.45**	**7,690.94**	**274.02**
Total		**748.15**	**3.62**	**24.45**	**8,156.94**	**495.78**



15

INITIATIVES TO REDUCE EMISSIONS

MINING

We periodically subject all our equipment to preventive and corrective maintenance and assure that their carburetion is adequate. With respect to dust control during transport, the critical sections of roads are sprayed with treated sewage water.
The tailings dams that have completed their useful life are reforested with native species in order to reduce the possibility of the wind carrying away the dusts deposited in the dams.
In Milpillas, for example, we have gas cleaning equipment that prevents the emission of acid mists from the electrolytic copper production process.

METALS AND CHEMICALS

We continuously improve our essential infrastructure such as closed vessels to prevent fugitive emissions, process ventilation, equipment with bag houses and electrostatic precipitators, road paving, transport and discharge procedures and the installation of equipment to reduce emissions. This includes our mineral analysis laboratories that have equipment to mitigate contaminations such as bag houses and gas cleaning equipment.
The sulfuric acid plants capture the sulfur dioxide (SO2) and convert it into a product that is utilized in the production of ammonium sulfate in the Fertirey Unit.

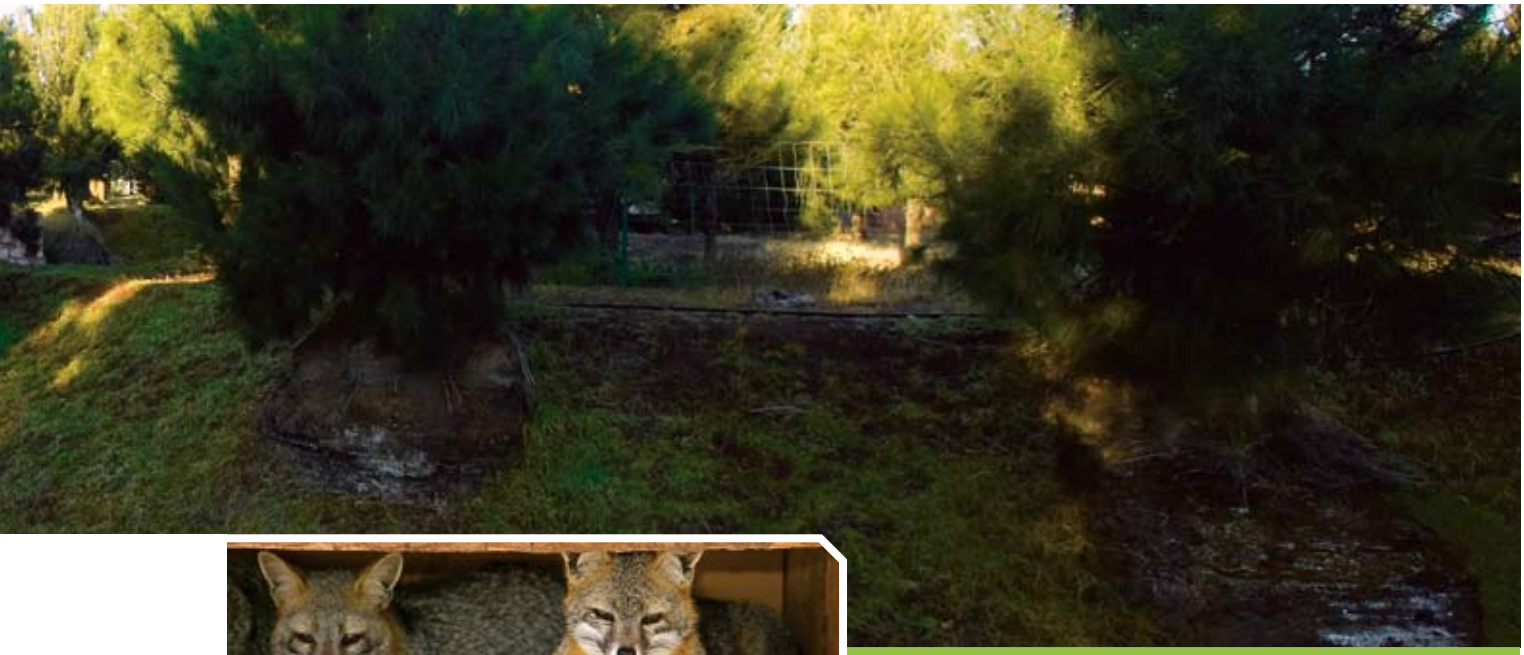
REDUCTION OF ATMOSPHERIC EMISSIONS

The potential sources for emitting contaminants into the atmosphere are our metallurgical and chemical processes, and in order to prevent this, we have solid infrastructure as well as the necessary operating controls. Despite the fact that emissions from our mining operations are insignificant in terms of their relationship to the prevailing standards, especially given their magnitude, type and distance from human population centers, we still undertake a series of measures to control them.

The fine dust generated by our metallurgical operations are captured by equipment installed for this purpose and are often reprocessed and converted into metallic products. We also have continuous monitoring systems and contingency

15 *Los Jales Park, Fresnillo Mine, Zacatecas*

16 *Rescued species at the Environmental Management Unit, Fresnillo Mine, Zacatecas*



plans for emergency situations. In the case of the Metals Division, the main quantities of dust captured in the baghouse are shown in the accompanying table.

DUST RETAINED IN THE METALS DIVISION (tons)

DIVISION Business Unit	2005	2006	2007
METALS			
Met-Mex Smelter	64,490	61,873	**70,932**
Met-Mex Refinery	1,233	1,243	**1,170**

ENVIRONMENTAL CONSERVATION ACTIVITIES

(EN11, EN12, EN13, EN14, EN15, MM03)

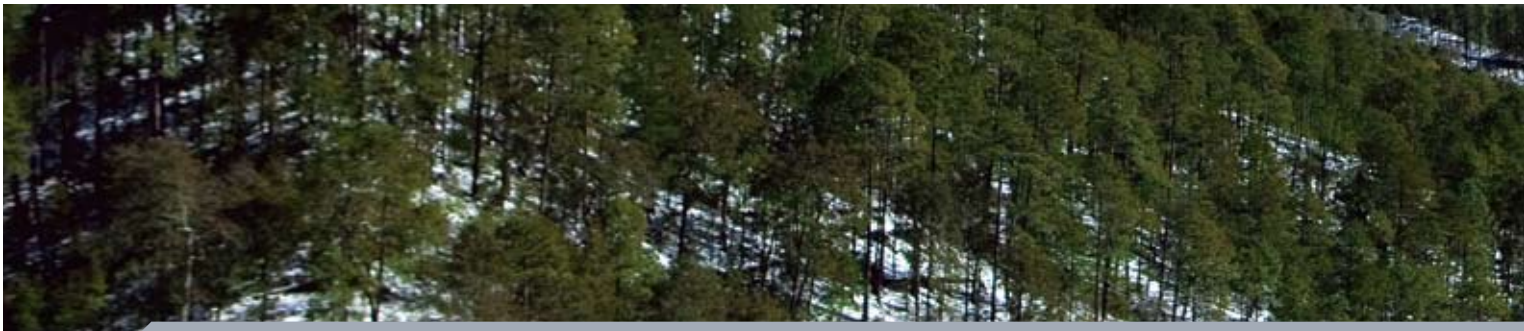
Peñoles is committed to environmental conservation. Although no business unit is located in or near any natural protected area or in a high biodiversity area, all our operations take action to protect flora and fauna.

Among other initiatives, Met-Mex Peñoles operates its own nursery in which it propagates vegetative species. It produced 52,435 tree specimens in 2007, of which 29,827 were donated to beautify the city of Torreón. At La Ciénega, Phase II of the Sustainable Forest Program was completed, which encompassed a total of 173 hectares and included pruning, reforestation, fencing and cleanup activities.

Listed in the table on the Protection of Flora and Flora are the species included on both the Red List of the International Union for the Conservation of Nature and Natural Resources (IUCN) and on the national listings. Their status is likewise noted and a summary is provided of the actions we have taken for their protection. In the case of the Fresnillo Unit, we show the species that are protected in the Environmental Management Unit *(UMA)* where we pay particular attention to species rescued in distinct regions of the country, as well as several specimens protected by the Federal Office of Environment Protection *(PROFEPA)*.

1993

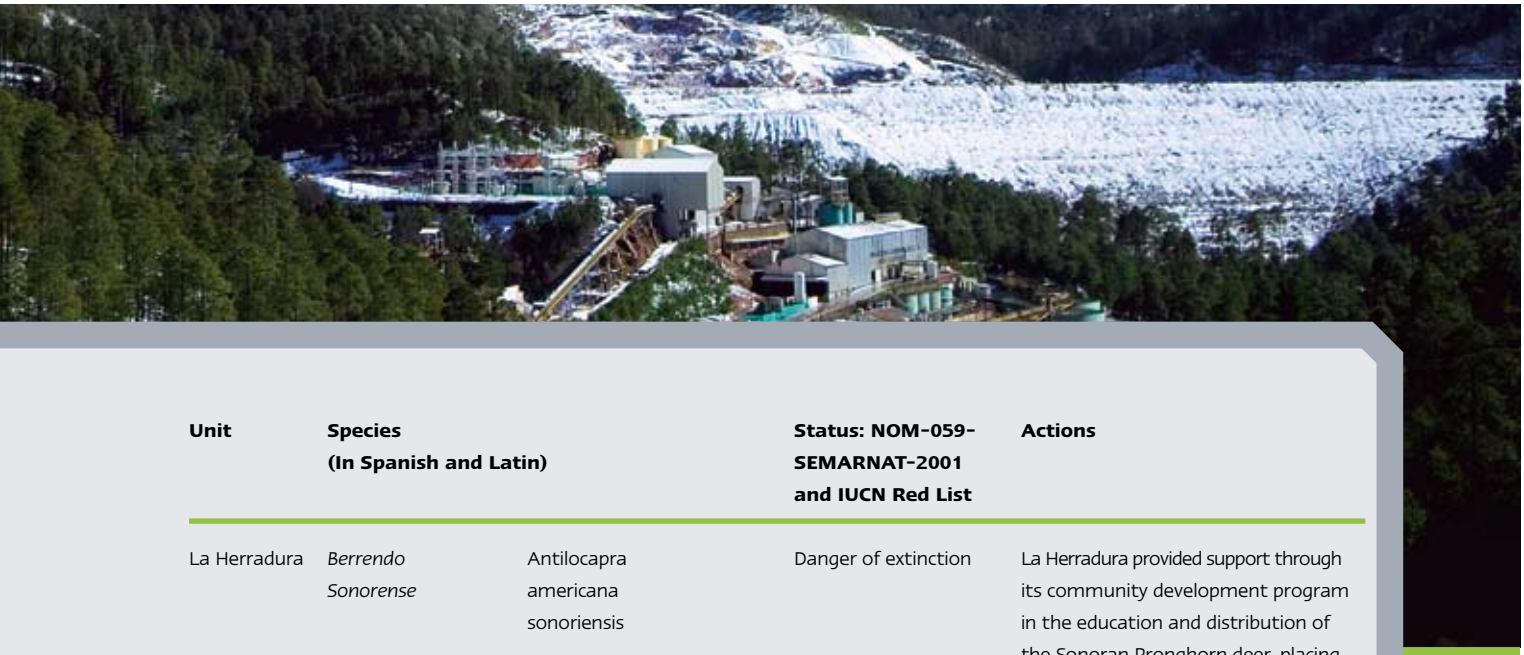
Peñoles participated in the development of Official Mexican Standards. Establishment of a Corporate Policy of Environmental Protection, including a role for communities. Creation of ten nurseries by the Mining Division.



PROTECTION OF FLORA AND FAUNA

Unit	Species (In Spanish and Latin)		Status: NOM-059-SEMARNAT-2001 and IUCN Red List	Actions
Química del Rey	*Venado Bura, Cola Blanca y Alesnillo*		No status	In the last two years we have worked with the Mapimí Biosphere Reserve for their preservation, with courses on responsible hunting, participatory vigilance committees and roadside inspections. Participation by inhabitants of Laguna del Rey, Esmeralda, Sierra Mojada and neighboring villages.
Aquismón	*Soyate*	Beaucarnea inermes	No status	Recovery of species from the area of operation and transplantation to another area for conservation.
	Chamal	Dioon edule	Threatened	
Met-Mex	*Biznaga*	Coryphanta durangensis	Special protection	Rescue and propagation of the species.
	Biznaga	Glandulicactus uncinatus	Threatened	
	Yuca	Yucca thompsoniana	No status	
	Noa	Victoria reginae	Danger of extinction	
La Ciénega	*Hongo Tecomate*	Amanita muscaria	Threatened	Phase II of the Sustainable Forest Program was completed in coordination with the community (reforestation, thinning, fencing flammable areas, pruning trees, controlled burning and damming streams
	Biznaga	Mammillaria senilis	Threatened	
	Halcón Peregrino	Falco peregrinus	Special protection	
	Guajolote Norteño	Meleagris gallopavo	Special protection	
	Pino	Pseudotsuga	Threatened	
	Cotorra Serrana	Rhynchopsitta pachyrhyncha	Danger of extinction	
	Juniperus Duranguensis	Juniperus duranguensis	Special protection	
	Serpiente	Crotalus pricei	Special protection	

1995 The mining industry led the industrial sector of the country in the analysis and discussion of amendments to the General Law on Ecological Balance. Formulation of Peñoles's Environmental Principles. The first diagnostics and social development plans were conducted with the Mexican Institute of Social Studies in Tizapa, State of Mexico; Bismark, Chihuahua; and Las Torres, Guanajuato. Creation of the first community participation councils in Naica, Chihuahua, and El Monte, Hidalgo.

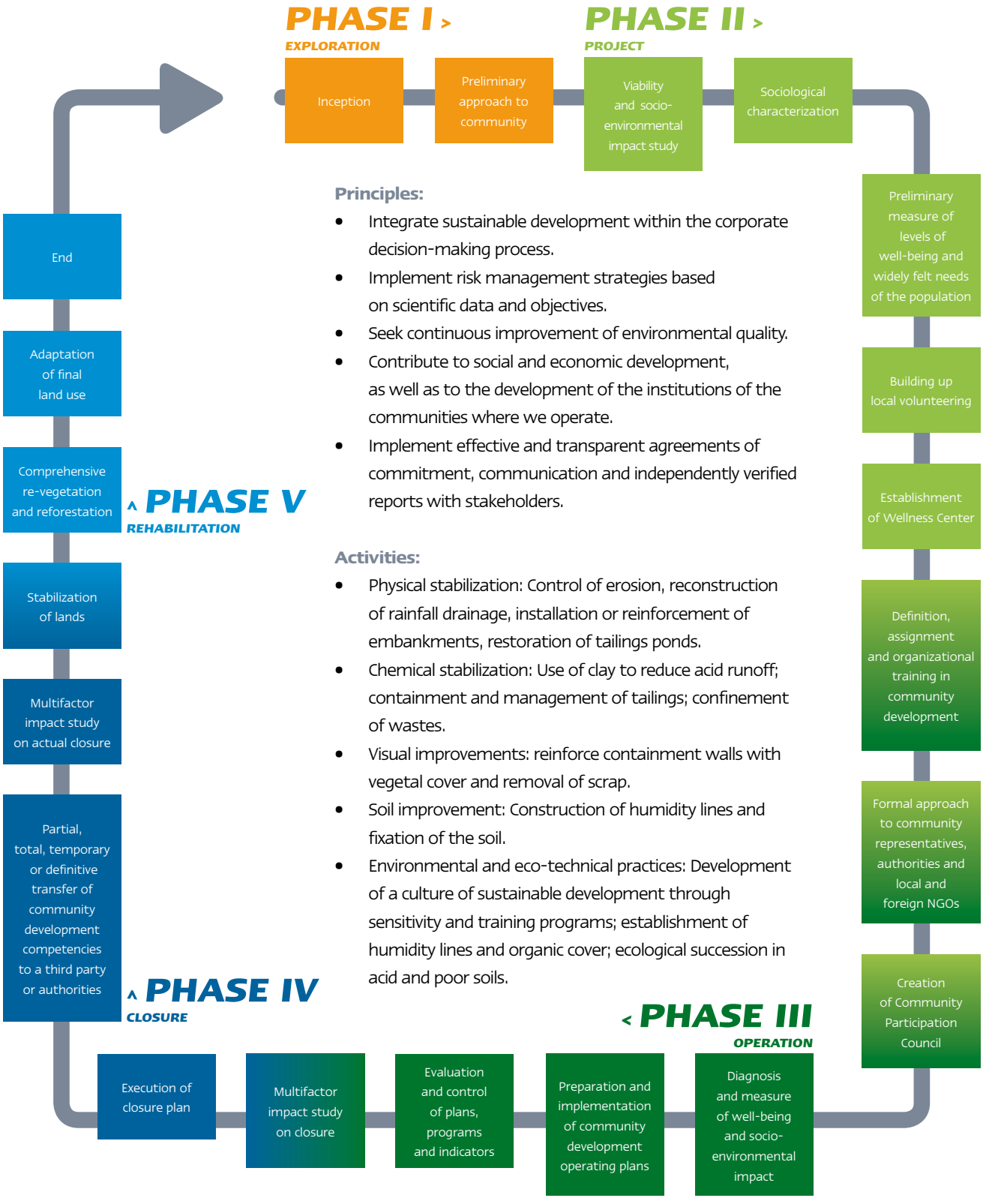


Unit	Species (In Spanish and Latin)		Status: NOM-059-SEMARNAT-2001 and IUCN Red List	Actions
La Herradura	*Berrendo Sonorense*	Antilocapra americana sonoriensis	Danger of extinction	La Herradura provided support through its community development program in the education and distribution of the Sonoran Pronghorn deer, placing emphasis on their protection. It also took the necessary measures not to impede the migration of specimens across its property, with no risk of damage.
Tizapa	*Gavilán de Cooper*	Accipiter cooperi	Special protection	The program continues to rescue flora and fauna to avoid any damage that might occur.
Fresnillo	*Búho Cornudo*	Bubo virginianus (11)	Danger of extinction	Management Unit safeguards rescued specimens from various regions of the country, in many instances, by *PROFEPA*.
	Águila Cola Roja de Tres Marías	Buteo jamaicensis (8)	Danger of extinction	
	Aguililla Rojinegra	Parabuteo unicinctus (4)	Danger of extinction	
	Águila Quebrantahuesos	Polyborus mancus (4)	Danger of extinction	
	Tejón o Tlacoyote	Taxidea taxus (2)	Danger of extinction	
	Borrego Cimarrón	Ovis canadensis (3)	Danger of extinction	
	Tortuga Adornada	Terrapene ornata (5)	Danger of extinction	
	Tortuga Galápago	Gopherus agassizi (6)	Danger of extinction	
	Loro Corona Lila	Amazona finschi (3)	Danger of extinction	
	Iguana Verde	Iguana iguana (3)	Danger of extinction	
	Perico Mexicano	Aratinga holochlora (1)	Danger of extinction	
	Mono Araña	Ateles geoffroyi (3)	Danger of extinction	
	Jaguar	Panthera onca (2)	Danger of extinction	
	Oso Negro	Ursus americanus (3)	Danger of extinction	
	Águila Real	Anquila chrysaetos (2)	Danger of extinction	

17 *Panoramic view of the La Ciénega Mine, Durango*

SOCIAL COMMITMENT IN THE LIFE CYCLE OF PEÑOLES´S MINING UNITS

(PR01, MM10)

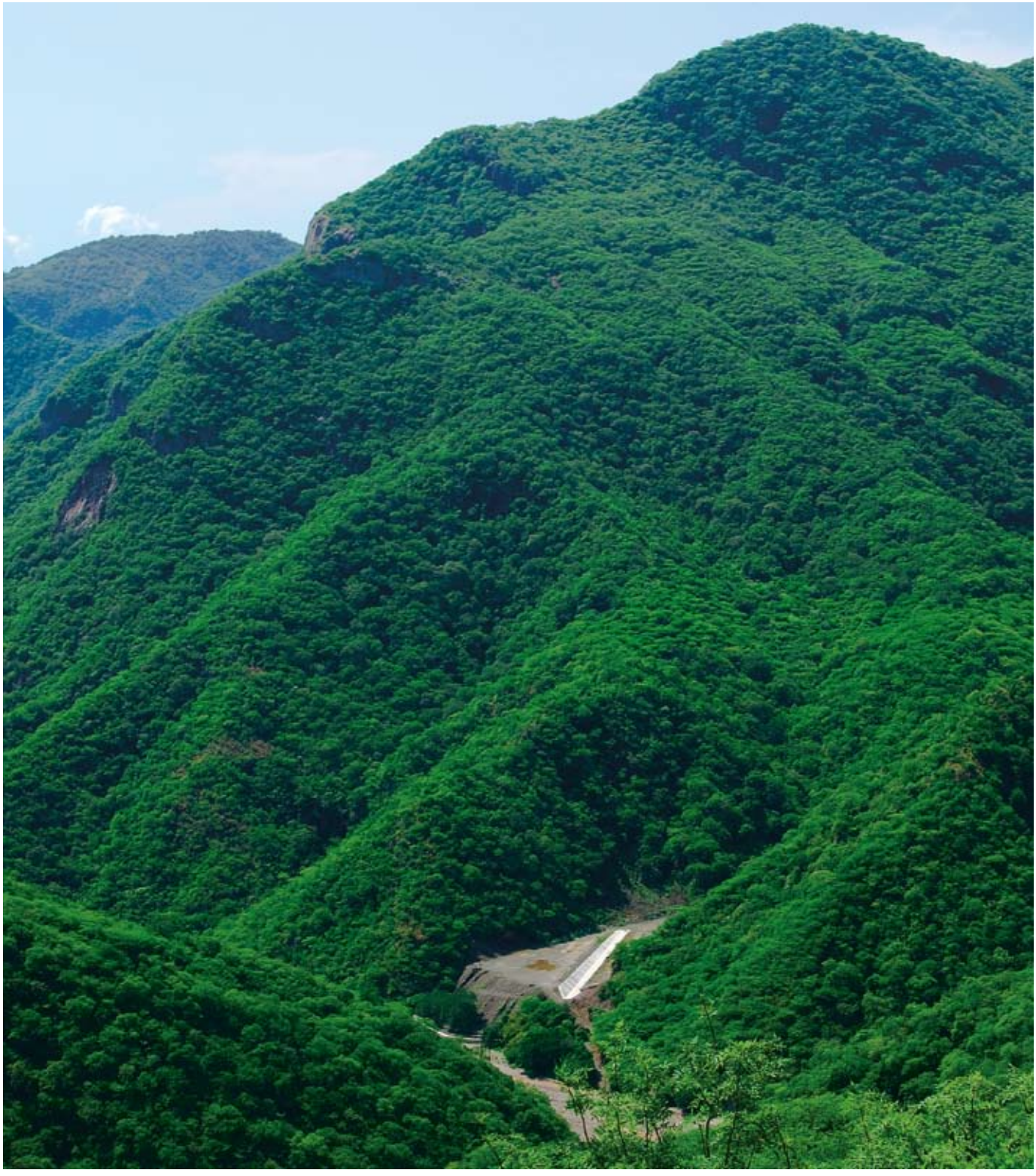


Principles:

- Integrate sustainable development within the corporate decision-making process.
- Implement risk management strategies based on scientific data and objectives.
- Seek continuous improvement of environmental quality.
- Contribute to social and economic development, as well as to the development of the institutions of the communities where we operate.
- Implement effective and transparent agreements of commitment, communication and independently verified reports with stakeholders.

Activities:

- Physical stabilization: Control of erosion, reconstruction of rainfall drainage, installation or reinforcement of embankments, restoration of tailings ponds.
- Chemical stabilization: Use of clay to reduce acid runoff; containment and management of tailings; confinement of wastes.
- Visual improvements: reinforce containment walls with vegetal cover and removal of scrap.
- Soil improvement: Construction of humidity lines and fixation of the soil.
- Environmental and eco-technical practices: Development of a culture of sustainable development through sensitivity and training programs; establishment of humidity lines and organic cover; ecological succession in acid and poor soils.



18 *Restored tailings dam at the Reforma Mine, Chihuahua-Sinaloa*

19

OUR STRATEGY ON ENVIRONMENTAL LIABILITIES: MINE CLOSURE AND RESTORATION

The accumulation of residues and tailings, as well as industrial wastes from the mining and metallurgical operations, particularly on mining properties, can result in ecosystem degradation. This makes it imperative to implement corrective measures. Although the restoration and regeneration of ecosystems in affected areas is still an important scientific challenge, at Peñoles we confront it by channeling our economic, technical and human resources.

At our closed mines we implement measures such as stabilizing the slopes of the tailings dams, diverting rainfall, site restitution, reforestation and monitoring programs, even though this is not required by Mexican law. We are currently preparing a plan for mine closures whose focus is that from the start of exploration activities, a series of environmental and social measures are undertaken among the different stages of the life cycle of a mining unit.

PREVENTION OF ENVIRONMENTAL ACCIDENTS

(4.11, EN26)

Peñoles has adopted a corporate culture of risk prevention linked to the structure of the *MASS* Administration System (*Medio Ambiente, Seguridad y Salud*, or Environment, Safety and Health). In the evaluation of the current operations and the design of new projects, each one of our divisions has the duty to carry our risk monitoring and analysis that evaluate the adverse conditions—social or environmental—that could occur, as well as the probable consequences for the health of the people who live or work in the area of influence of the unit, in order to take the necessary steps to eliminate or reduce these risks to acceptable levels.

Due to the latent risks of forest fires in the immediate area of certain of our business units, we have designed and implemented—particularly at La Ciénega and Milpillas—a prevention and control program with specialized instructors, forming highly qualified brigades that intervene in fighting fires.

19 *Forested tailings dam at the Cuale Mine, Jalisco*

CASE STUDY: ENVIRONMENTAL MONITORING SYSTEM IN TORREÓN, COAHUILA

"The monitoring network provides us with a clear example of the actions and technologies in the area of environmental care and protection that are being developed today in the country"

(Iván Toledo Limones, Engineer, Chief of Environmental Monitoring at Met-Mex Peñoles, August 2007)

ADVANCED TECHNOLOGY TO CARE FOR AIR QUALITY

Peñoles has diverse programs and systems aimed at reducing and controlling its emissions in order to maintain the air quality in the regions where it operates. In the Met-Mex Peñoles plants in Torreón, 35% of the investment in equipment and infrastructure is dedicated to environmental care and control, and nearly one million dollars has been invested in the development of technologies to evaluate air quality.

Compared to the monitoring networks of the Mexico City and Monterrey governments, the environmental monitoring system at Met-Mex Peñoles is similar in terms of measuring total suspended particulates and sulfur dioxide, and superior in terms of measuring the concentration of airborne metals. There are fourteen stations for manual sampling of particulates, eight automated continuous stations to monitor sulfur dioxide concentrations, and one mobile station. The latter station is capable of performing the most complete evaluation of air quality. The system operates with equipment and procedures that comply with both the Official Mexican Standards and the standards of the U.S. Environmental Protection Agency (USEPA). The system is supplemented by three meteorological stations.

About the project:

- The Environmental Monitoring System went into operation in 2001 to provide continuous evaluation of air quality and to provide a baseline reference for the status and incidence of meteorological variables. The monitoring system is linked to an automatic response from our processes, which maintain safe environmental performance and avoid contingencies. This was one of the first systems of this kind developed in Latin America and has become a reference standard around the world. It is capable of measuring emissions of sulfur dioxide, PM10 and other particulates. It provides sufficient, reliable and timely information on air quality and enables appropriate actions to be taken to maintain emissions below the limits established by the NOM-SSA-022-1993 standard.
- The data that is automatically obtained is sent to a central station that receives and manages it by means of an advanced computer and control system. This makes the information available in real time.
- Peñoles contributed its experience in this project to the development of the Monitoring System of the Mexican Center of Environmental Quality.

Results and follow-up actions:

The environmental monitoring system is open to anyone who wants to learn about it, in order to demonstrate how we meet our commitment to caring for the environment. We are currently working on the development of technology that will reduce emissions of sulfur dioxide.

"We are always searching for clean sources of energy and to reduce the emission of greenhouse gases."
(Jaime Lomelín, Chief Executive Officer of Peñoles, February 2008)

RATIONAL AND EFFICIENT USE OF RESOURCES

Peñoles continues to meet its commitment to systematically foster energy efficiency programs, through such actions as the creation of Energy Management Systems and the integration of work teams for energy conservation at each operating unit.

About the project:

The objective is to establish systems to utilize energy in a rational manner, locate new supply sources and conserve energy in all processes. To this end, Termoeléctrica Peñoles supplied our operations with 1,916 million kWh of electricity during 2007, 96% of our total consumption.

Results and follow-up actions:

The implementation of the Energy Management System in the Metals Division resulted in the following achievements:

- Projects aimed at the efficient use of thermal energy produced savings equal to 4,340,000 cubic meters of natural gas per year.
- Electricity efficiency projects saved 5,760,000 kWh in 2007.
- Construction began on a 7,000 kWh electricity co-generation plant that will take advantage of the steam generated by roasting zinc concentrates, and will start up operations in June 2008, allowing for a savings of 84,607 Gcal per year.
- To take advantage of the solar potential in the Torreón region, 270 solar collectors with a surface area of 540 square meters were installed to heat 68,000 liters of water per day for the showers of 1,200 employees at the Lead Smelter. This equipment will avoid the emission of 273 tons of carbon dioxide (CO_2) every year and is expected to be installed in the company's other plants.

The Mining and Chemicals Division completed the second stage of the *Basic Program for Electricity Conservation*. The Electricity Demand Control System was installed in six mines and we began to disseminate the philosophy of the control system. Some of the advances achieved by this program during 2007 were as follows:

- Improvement in the energy consumption index per ton milled.
- Bismark initiated construction of a new pumping station that will be completed by mid-2008 and will limit maximum demand to a more efficient level.
- The new Demand Control System will enable Naica to reduce its maximum demand from 20,500 kWh to 19,500 kWh.

"In 2007, the Velardeña project complied with all the environmental legislation in force, as well as making restitution of environmental impact."
(Humberto Aldana, Peñoles Project Engineer, February 2008)

REMEDIATING ENVIRONMENTAL IMPACT

At Peñoles we are aware of the fact that the ecological footprint left by the mining industry throughout its history has a social and environmental impact, and we believe that the acquisition of new projects creates new responsibilities in terms of the environmental impact that must be remedied.

We recently acquired the Velardeña project, upon commencing our exploration and mine engineering activities, through flora, fauna and soil studies, we encountered landscape impact. We proposed to remedy this impact from the start of our operations, taking special care to foster the conservation of the region's germ plasma. Among the activities we carried out, the most important have been the remediation of tailings dam 1 with cactaceous plants rescued from the location where we had extracted fill material for rebuilding roads and constructing waste storage patios. With the intention of becoming a good neighbor to the community of Velardeña, we relocated and constructed a baseball field that represented a widely-felt need in the community, which will encourage athletics, group interaction and community development.

About the project:

- We have worked very closely with environmental authorities and obtained the respective environmental impact and land use authorizations from the Durango Office of the Secretary of the Environment and Natural Resources *(SEMARNAT)*.
- We carried out a program developed by company employees with extensive experience in rescuing and relocating vegetative species.
- Although we had extracted fill material from an area of 4-00-00 hectares, we saved 5,568 cactaceous plants from seven species endemic to the semi-desert region of Durango and replanted them on 5-00-00 hectares on the beach of tailings dam 1.
- The baseball field covers 1-12-00 hectares.

Results and follow-up actions:

With the project to restore environmental impact, one can see a different visual panorama from what existed at the time Velardeña was acquired. In the areas where remediation took place, there is an unquestionable visual improvement and also the prevention of further erosion. The environmental restoration effort was somewhat unusual in our company because the project was only in the exploration phase. The survival of the relocated plants was determined to be in a range above 80% and it is expected that this figure will increase in the next few months thanks to the maintenance and control activities underway.


El Palacio de Hierro

SHAREHOLDERS

WE INSPIRE CONFIDENCE BASED ON CERTAINTY AND CORPORATE RESPONSIBILITY.

1 *Our corporate offices in Mexico City*

SHAREHOLDERS

(2.8, EC01, EN30, MM02)

With the goal of ensuring the competitiveness and permanence of our company, Peñoles promotes the continuous creation of value for our shareholders. We are cognizant that the only way to do so is through the operation of a profitable, growing company and adherence to best practices, which enables us to distribute dividends.

Peñoles's financial and risk management strategies guarantee that its management practices remain aligned with the operations of the company and its growth over the long term.

Exploration activities are of special importance to us, as a substantial investment in the search for new deposits is fundamental to the competitiveness and permanence of our organization. This year, we allocated $971.6 million for investments in our new exploration projects, 39.2% higher than last year, a record figure for the company.

Our Strategic Plan is aimed at creating value from the start of our production chain. In the Financial Highlights table, the economic performance of the company is shown with its contribution to the creation of value in the Mexican economy. This information is based on the Financial Statements as of December 31, 2007.

FINANCIAL HIGHLIGHTS

	2007	2006	% Change
Sales	**44,730,483**	38,577,032	16.0
Gross profit	**11,076,667**	10,184,993	8.8
Exploration expenses	**971,633**	725,457	33.9
EBITDA	**8,376,645**	7,847,873	6.7
Operating profit	**6,125,154**	5,963,155	2.7
Net profit	**3,869,379**	4,264,940	-9.3
Cash flow from operations	**4,810,096**	2,748,403	75.0
Capital expenditures	**2,696,036**	2,926,828	-7.9
Cash and investments[1]	**1,004,467**	1,955,613	-48.6
Property, plant and equipment, net	**17,666,778**	16,963,111	4.1
Total assets	**35,891,223**	33,714,697	6.5
Total long-term debt	**6,207,643**	6,809,543	-8.8
Total liabilities	**17,324,187**	18,856,371	-8.1
Total stockholder's equity	**18,567,036**	14,858,326	25.0
Shares oustanding at year-end	**397,475,747**	397,475,747	0.0
Earnings per share	**9.73**	10.73	-9.3
Cash flow per share	**12.10**	6.91	75.0
Dividends per share	**5.50**	2.00	175.0
Share price at year-end	**229.97**	99.10	132.1

Note:

Figures as of December 31, 2007 and 2006 in thousands of constant Mexican pesos (excluding share data, which are expressed in Mexican pesos) at December 31,2007.

[1] Includes short-term and restricted investments.

VALUE DISTRIBUTED 2007

Retained in the company	25.6 %
Contractors	25.4 %
Employees	19.3 %
Shareholders	13.9 %
Taxes	13.0 %
Community & environment	1.9 %
Interests	1.0 %

VALUE DISTRIBUTED 2006

Contractors	22.5 %
Employees	20.2 %
Retained in the company	19.8 %
Shareholders	17.9 %
Taxes	16.5 %
Community & environment	1.7 %
Interests	1.4 %

FOURTH FINANCIAL STATEMENT

Generated Value	**2007**	**%**	**2006**	**%**
Sales	**44,730,483**	**100.0**	38,577,032	100.0
Costs				
Domestic	**22,898,952**	**51.2**	18,670,964	48.4
International	**6,839,947**	**15.3**	6,223,655	16.1
Subtotal	**29,738,898**	**66.5**	24,894,619	64.5
	14,991,583	**33.5**	13,682,413	35.5
Distributed Value				
Employees	**2,887,995**	**19.3**	2,764,180	20.2
Contractors	**3,803,960**	**25.4**	3,075,473	22.5
Taxes	**1,946,931**	**13**	2,258,926	16.5
Shareholders	**2,085,000**	**13.9**	2,442,979	17.9
Community and environment	**279,663**	**1.9**	238,185	1.7
Retained in the company	**3,833,202**	**25.6**	2,712,049	19.8
Interest	**154,831**	**1**	190,621	1.4
	14,991,583	**100.0**	13,682,413	100.0

Technical Notes:

- *The data reported for costs includes only tangible goods and services used in production.*
- *A distinction is made between domestic and international costs, depending if the goods or services were purchased in Mexico or imported from another country.*
- *Salaries and taxes are included in the Employees, Contractors and Taxes line items.*
- *Social Security contributions are included as are employer contributions and employee benefits.*
- *In the Shareholder line, the dividends for 2007 correspond to revenues generated in the same year.*
- *The Retained Profit line refers to profits not distributed to shareholders or reinvested in the company.*
- *Consult page 109 for Notes to the Fourth Financial Statement.*

We know that our shareholders are interested in investing in a company that is not only profitable, but also socially responsible: those who invest in our company want to see Peñoles as an institution that creates value, but also redistributes it. The Fourth Financial Statement is a methodology that reflects the social reach of our economic activities by showing the distribution of value created during the year among our stakeholders.

The distribution of the higher value generated in 2007 compared to 2006 (an increase of 9.6%, resulting from a 16% rise in revenues compared to a cost increase of 19.5%) in general remained even among Peñoles's interest groups.

1996 Peñoles was one of the first companies to agree to conduct a process of voluntary environmental audits, which it did to become the first mining company to obtain a Clean Industry Certificate. Creation of the Department of Ecology, Safety and Occupational Health. Met-Mex Peñoles, Coahuila initiated the production of clean, top-quality water to generate steam from sewage water from Torreón. Creation of the Sustainable Community Self-development System (SACS).

2

3

CORPORATE GOVERNANCE AND ETHICS

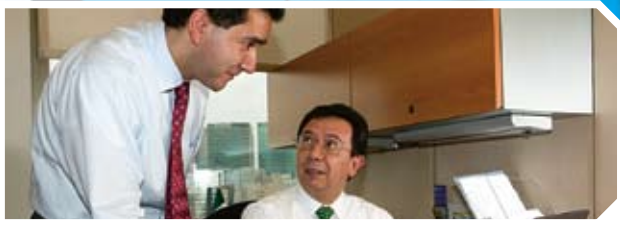
(2.10, 4.9, 4.10)

The Corporate Governance policies adhere to best practices, ensuring transparency and responsibility at all levels of the organization. Peñoles's management practices adhere to Mexican regulations and to the company's own bylaws. The provisions of the new Securities Market Law issued in 2005 were adopted by the Shareholders' Meeting in December 2006. This implied, among other measures, the adoption by the Board of Directors in March 2007 of internal control and audit policies.

Peñoles operates with the highest standards of responsibility, transparency and commitment. Our senior executives promote transparency as a way of life through an open and clear managerial style. For the seventh consecutive year, the company received the *Socially Responsible Company Award* granted by the Mexican Center for Philanthropy *(CEMEFI)*. Peñoles also complies with the Code of Best Corporate Practices of the Business Coordination Council, abides on a daily basis by the ten principles of the United Nations Global Compact, to which it signed on in September 2005, and aligns itself to the internal control principles issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in such aspects as Senior Management control, risk evaluation, information activities, communications and monitoring. Thanks to these practices, Peñoles received the *Ethics and Values Prize* from the Confederation of Industrial Chambers *(CONCAMIN)* for the fourth consecutive year.

1998

Dolorey, Nuevo León became the first company in Peñoles and in the refractory industry to obtain ISO-14001 certification. La Herradura, Sonora was the first mine in Mexico with a program to rescue native species of flora. Fresnillo, Zacatecas constructed a plant to treat old tailings and recover zinc and silver values.



4

OUR CODE OF CONDUCT

(4.8, SO2, SO3, SO4)

Peñoles is a business group founded on human principles and values. Our Strategic Plan is guided by our Code of Conduct, which serves as a guide for employees' daily behavior. The document also sets forth the Mission and Vision of Peñoles, as well as adherence to its values (CRIL) and its corporate responsibility policies. We extend its guidelines to other stakeholders groups when relevant situations arise. We have an Honor Commission that is responsible for safeguarding these principles, as well as a complete system of regulatory standards online that include policies and procedures grouped under six broad headings: Corporate Governance, Human Resources, Economic Resources, Technology, Operations and Material Resources.

In order to make our Code of Conduct viable and to enhance compliance therewith, our employees commit to respect it by signing a letter of commitment annually. Peñoles provides an institutional mechanism for employees to report conduct that is contrary to the provisions of our Code. This channel of communication is available at all times and is managed by an independent third party to guarantee confidentiality and anonymity.

5

THE BOARD OF DIRECTORS

(4.4, 4.5, 4.6, 4.7)

The governance of the company is based on a Board of Directors, an Executive Committee and a Chief Executive Officer who reports to the Board and directs a group of executives responsible for managing the operations and executing the key functions of the company.

The Board of Directors is comprised of the Chairman, 16 Proprietary Directors and their respective Alternates, of whom 4 function as Shareholder Directors. In addition, following best practices in corporate governance, there are 10 Independent Directors and 18 Related Directors. There is a Secretary who is not a member of the Board.

In accordance with the recommendations of the Code of Best Corporate Practices and following the basic principles of the new Securities Market Law, the Board has the following committees: Audit and Corporate Governance, comprised exclusively of Independent Members; and Nomination, Evaluation and Compensation.

The Executive Committee has the same powers as the Board of Directors with the exception of ownership control, convening Shareholders' Meetings, presenting information to Shareholders' Meetings, voting preferences for subsidiaries and approving share buybacks. Also, the Executive Committee must inform the Board of agreements made.

The Audit and Corporate Governance Committee has the role of resolving any conflicts of interest that may arise, along with the other responsibilities conferred by the Securities Market Law. The Nomination, Evaluation and Compensation Committee verifies the capacity and experience of persons proposed as members of the Board, including the Independent Directors. The Ordinary Shareholders' Meeting validates the above. In March 2007, the Board of Directors also approved the Compensation Policy for key executives.

5 *The Board of Directors of Industrias Peñoles*

CASE STUDY: *PEÑOLES FAIR PLAY (SO2, SO3, SO4)*

TRANSPARENCY AND ANTI-CORRUPTION PRACTICES

The integrity of all company employees is vital to maintaining and strengthening our image and protecting our stakeholders. In February 2007, we implemented a program to promote transparent practices through a hotline called *Peñoles Fair Play*, with the following objectives:

- Provide employees with an institutional path for reporting illegal activities and unethical conduct.
- Mitigate and prevent this type of conduct.
- Enable the Honor Commission of Peñoles to take action in appropriate cases.
- Dissuade possible attempts at fraud.
- Serve as a tool for compliance with our Code of Conduct.

The reporting mechanism fulfills the commitment that Peñoles made with the United Nations Global Compact to maintain anti-corruption practices, as well as with best practices in corporate governance and the regulations of the Mexican securities market. At the same time this provides a healthy and respectful work environment in which our values can live.

About the project:

- Planning commenced in November 2006 and the hotline was made available to employees on February 16, 2007.
- Approval of the Management Team was obtained.
- A team was formed from Human Resources, Legal Affairs and Internal Audit, with whom the legal and personnel aspects were cleared.
- It was decided that an independent third party would receive and record reports to guarantee confidentiality and reporting objectivity, as well as the anonymity of the person making the report if he/she so desired.
- A campaign to communicate and disseminate the concept was undertaken with distribution of informative brochures and personalized cards to approximately 2,500 workers, informative posters placed in each of our business units, and messages on the Intranet, our internal communication portal.
- There are five ways to make a report:
  by telephone number: **01 800 002 8477**;
  by fax number: **01 (55) 52 55 13 22**;
  by e-mail to **reporte@penolesjuegalimpio.com**;
  online: **https://www.penolesjuegalimpio.com**;
  by mail: post office box : **CON-080**.
  The line is available 24 hours per day, 365 days per year.
- Reports are sent to the Honor Commission. The Internal Audit area conducts the investigation of the case and issues a report, so that the Commission can follow up and resolve the reported incident.
- The progress of the report can be monitored through an access code and password assigned to each case.
- The scope of the concept was expanded to customers and suppliers in November 2007.

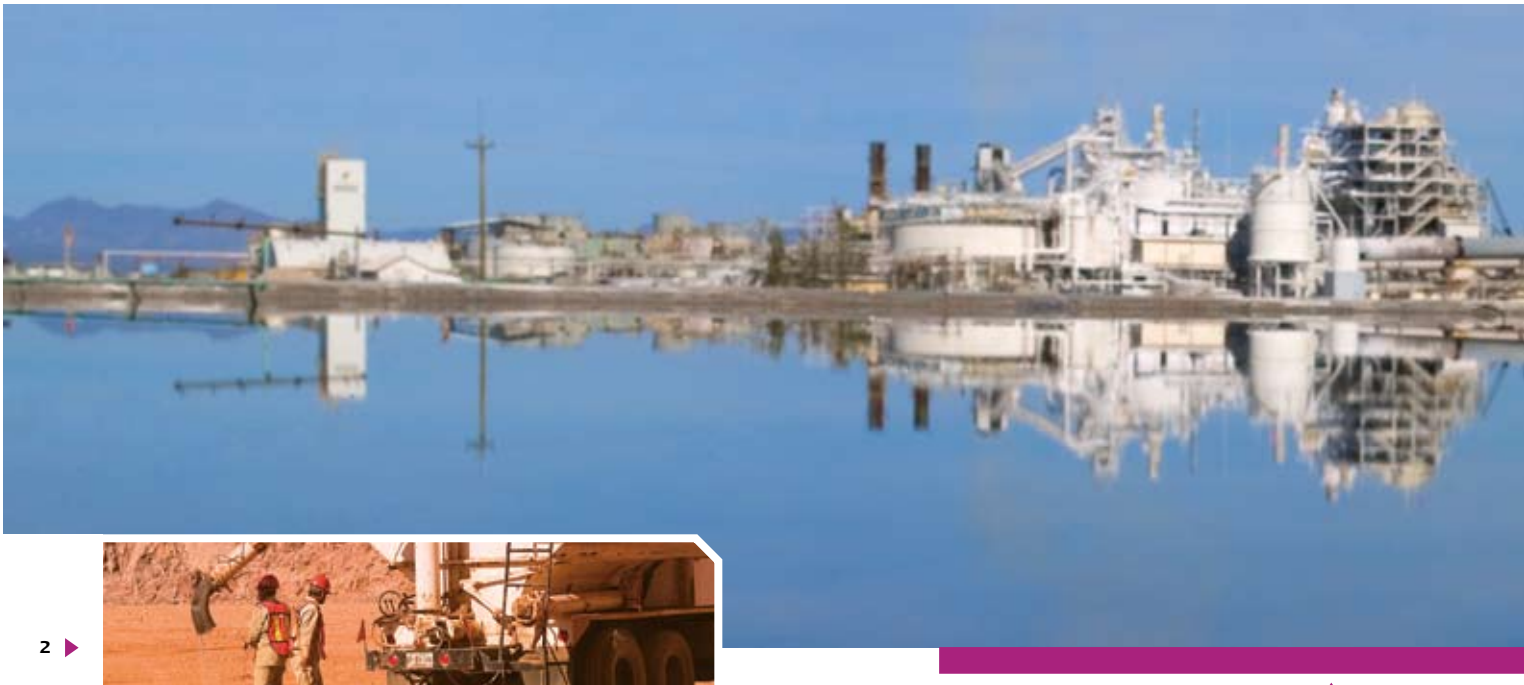
Results and follow-up actions:

During the almost eleven months the *Peñoles Fair Play* hotline has been in operation, there have been twenty-three cases reported, like unethical benefits and/or treatment involving customers or suppliers; improper use of assets, deviations from policies and sexual harassment, among others. Of these, 44% resulted in corrective measures deriving from violations of our Code of Conduct; 30% involved minor matters that have been noted for preventive action; and 20% have been discarded because the reports were not carried forward. As of December, 6% of the cases were still being investigated. A new communication campaign will be strengthened in 2008 and include feedback to employees about the benefits and results of the line.

SUPPLIERS

WE FULFILL A CRITICAL ROLE IN THE CREATION OF SUSTAINABLE VALUE CHAINS.

1 *The Fresnillo Mine, Zacatecas*



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SUPPLIERS

(HR02, EC06)

Our suppliers and contractors are also part of Peñoles's sustainable development strategy. They satisfy our needs and supply us with products and services at competitive prices, in a reliable and timely manner. As such, we consider them to be key players in the creation of our sustainable value chains. For their benefit, we strive to create quality processes and long-term alliances that meet their needs and expectations, provide them with equal opportunities, and through which they can identify with our social responsibility criteria, especially in the areas of safety, environmental performance and competitiveness.

We have also worked to promote the creation and institutionalization of new businesses through a support program that places emphasis on small and medium-sized companies.

We paid a total of $3,804 million for third-party services during 2007. The table on Contractor Information shows the various services received and amounts paid.

CONTRACTOR INFORMATION

($ thousands)

	2005	2006	2007
Contractors	843,345	1,334,122	**1,780,729**
Maintenance	567,524	735,018	**889,500**
Fees	391,539	468,612	**543,860**
Major repairs	452,773	477,667	**451,821**
Other	49,736	60,054	**138,050**
Total	**2,304,917**	**3,075,473**	**3,803,960**

DISTRIBUTION OF SUPPLIERS/CONTRACTORS

	N° of Suppliers		
Type	**2005**	**2006**	**2007**
Consumables	5,449	6,012	**6,483**
Services	4,771	5,520	**6,167**
Contractors	679	774	**851**
Transportation	622	712	**779**
Concentrates	246	288	**345**
Customs agents	121	155	**174**
Fixed assets	30	36	**37**
Total	**11,918**	**13,497**	**14,836**

2 *The La Herradura Mine, Sonora*
3 *The Química del Rey Unit, Coahuila*
4 *Fire drill at Met-Mex Peñoles, Coahuila*

4

PROFILE OF OUR SUPPLIERS

(EC06, MM01)

Peñoles supports and advances the development of the country through the creation of jobs and business opportunities for a variety of domestic industries. This was reflected in 2007 by a roster of 14,836 suppliers, of which 13,024 were domestic and 1,812 international. The Distribution of Suppliers/Contractors table provides a breakdown by type of purchase.

With respect to our international suppliers, United States ranked first with 67% of total imports, followed by Canada, with 8 percent. In terms of domestic suppliers, Coahuila ranked first with 3,230, followed by Mexico City with 1,956, Nuevo León with 1,299, Zacatecas with 1,043, Chihuahua with 934, Sonora with 923 and Durango with 885, among others.

DEVELOPMENT OPPORTUNITIES

We have institutional training workshops to contribute to the development of our suppliers, with courses on quality, process improvement and evaluation procedures. Likewise, we disseminate purchasing and contracting systems and mechanisms to facilitate the supply of materials and services.

In the development courses for suppliers we share best practices with them that we have gained from our experiences, and recommend quality management systems to them such as ISO-9000 and ISO-14000. The Metals Division initiated a supplier development program that provides training in the areas of production improvements, quality, management and best practices. During the year, 92 representatives from different companies participated in these innovative courses.

1999

Through the Business Coordination Council *(CCE)*, Peñoles participated in proposing the New Environmental Impact Regulations. Compañía Fresnillo obtained the first ISO-14001 certification in the mining sector.

SEEKING TO SATISFY OUR SUPPLIERS

Our Control Policy obliges us to make prompt payment for the products, equipment and services that we acquire from our suppliers—whether they are large, medium or small companies. This has gained us prestige for being a reliable and secure customer. Peñoles applies the following payment terms depending on the type of purchase:

- Consumables: 30 days
- Transportation: 14 days
- Contractors: 10 days
- Customs agents: 8 days
- Services: 15 days
- Fixed assets: 10 days
- Concentrates and minerals: in cash

Through scheduled visits, interviews and meetings and the use of satisfaction surveys, we seek ongoing communication and recognition.

SAFETY AND QUALITY MANAGEMENT SYSTEMS

Out of concern for the safety of our contractors and service providers, we have sought to integrate them into the *MASS* System (*Medio Ambiente, Seguridad y Salud* or Environment, Safety and Health). This includes not only training programs for them, but also training in operating discipline and the requirements of their personnel. This effort has focused on two principal areas:

- Service providers: Those who provide services within the production areas of our facilities. They are principally contract suppliers of engineering and maintenance services, as well as those responsible for the operations at mines and beneficiation plants.

- Suppliers of goods: We believe the ISO-9000 quality certificates are critical to our processes. Specific cases are Met-Mex Peñoles and Química del Rey where we have a specific monitoring procedure for their ISO-9000 quality certificates and renewal. When we are unable to have suppliers obtain their certification, we monitor the quality of their products and compliance with delivery dates.

One of the best examples of our concern for the safety of our suppliers is illustrated by the efforts of the Exploration Division, which prepared a manual for contractors that includes recommendations on highway driving, emergency care and accident prevention.

2000

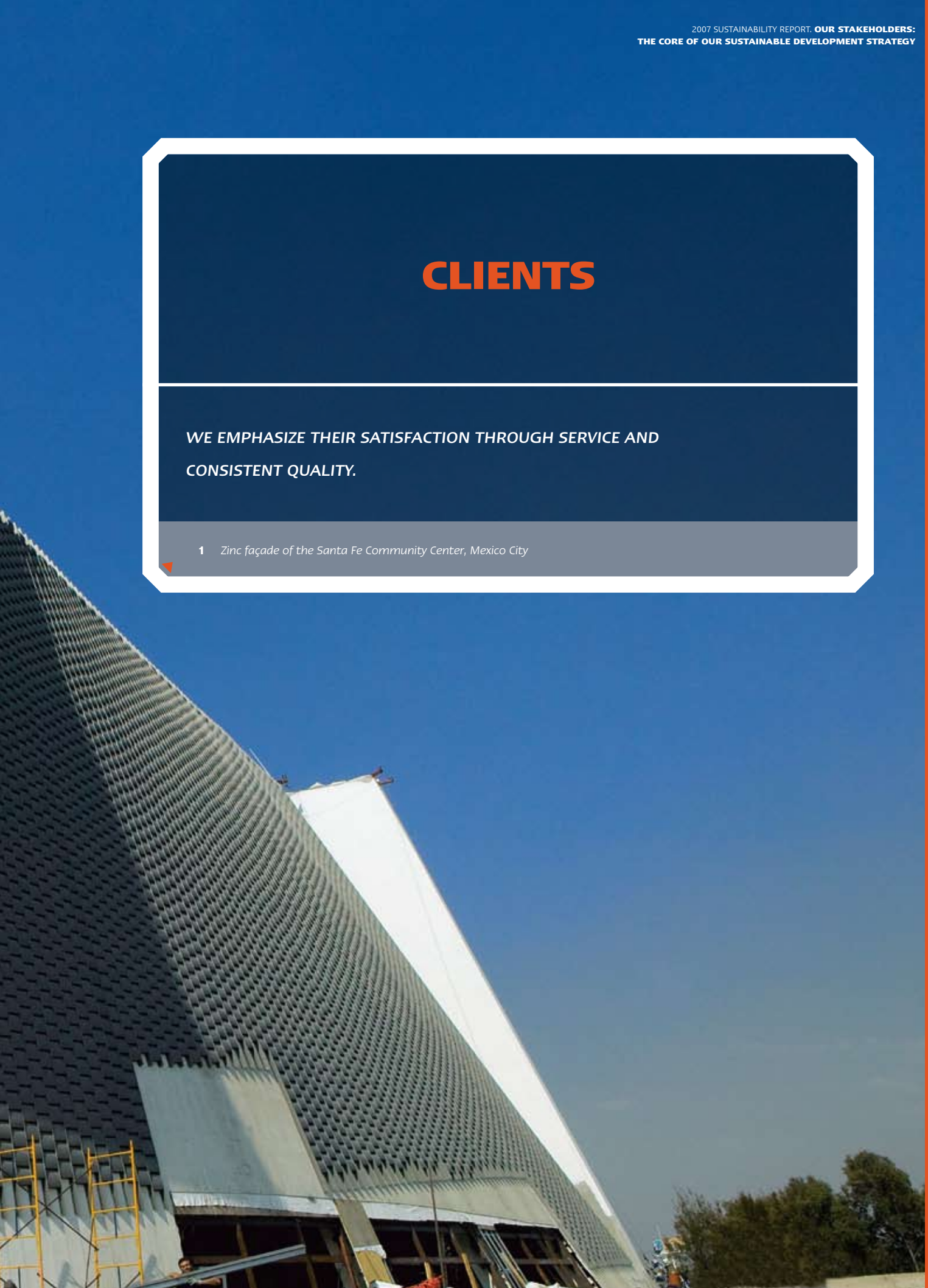
Naica, Chihuahua, and El Monte, Hidalgo, received ISO-14001 certification. Met-Mex Peñoles, Coahuila doubled its gas filtration capacity from 2 to 4 million cubic meters per hour. Eighty percent of the water used in processing and irrigation at Met-Mex Peñoles, Coahuila comes from treating sewage water from Torreón.

5 *Safety for our employees at Met-Mex Peñoles, Coahuila*

CLIENTS

WE EMPHASIZE THEIR SATISFACTION THROUGH SERVICE AND CONSISTENT QUALITY.

1 *Zinc façade of the Santa Fe Community Center, Mexico City*



2

3

CLIENTS

Our clients compete in the global marketplace and are located throughout the world. Also, as our activities are related to commodity products, consumers and producers are trading in products that are essentially equal in quality with the same reference prices for everyone. This is taking place in an environment that is increasingly demanding in environmental, social and safety matters.

The foregoing poses a great challenge that we surmount in the commercial area through our efforts to provide consistent service and quality. We differentiate ourselves from our competitors by on-time delivery, quality and appropriate packaging for each application, technical assistance to take better advantage of our products and flexible procedures that are adapted to the needs of customers and enable us to respond immediately.

SERVICES FOR OUR CUSTOMERS

Taking on the great responsibility of providing critical inputs, we are attentive to all of the details that have a bearing on the quality of our products, the continuity of our operations and the consistency of reliability and safety for our customers. In the commercial area we have a stable and experienced team of experts for this purpose, dedicated to attending and serving customers. We participate in trade shows and meet with customers on a continual basis to understand their needs.

Peñoles strives to be the best option for its clients, an objective that translates into our high product quality, specialized technical service and competitive commercial terms. To this end, we define our area of influence on the basis of our location, size and abilities in such a way that we thoroughly know the areas, segments and niches of the market on which to focus our efforts accordingly.

2 *Zinc molding at Met-Mex Peñoles, Coahuila*
3 *Copper cathodes at the Milpillas Mine, Sonora*
4 *Peñoles silver in jewelry*

4

Thanks to our geographic location, vertical integration and efficiencies, we can offer very competitive conditions to our clients, which enables them in turn to have competitive raw materials costs.

By concentrating our operations within our regional area of influence to the maximum extent, we help minimize costs, expenses, manual labor and the use of transport compared to our products at the global level. We are very careful to establish agreements with each of our clients in the different markets and regions to ensure there is a balance that enables us to comply fully with the agreed terms and conditions with each customer and thereby maintain our competitiveness.

Among the advantages that we offer our clients are: *Just-in-Time Delivery Programs* that enable them to minimize inventory levels, particularly for customers in our area of influence; technical advisory visits to optimize the use of our products; presentation, form and packaging according to their needs; production of specialty alloys for customers as required; and identification of lots according to the specific client needs.

RESULTS OF OUR CLIENT RELATIONS

Our vocation of serving clients is manifested in the more than 39,000 shipments made in 2007 to assure that our customers have the products they need in a prompt and secure manner, avoiding the need to maintain excessive inventories. While North America continues to be our principal market, Europe and Latin America have gained importance. In addition, we are entering China with some of our industrial chemical products.

In Japan, a market known for requiring perfection and high technology, we have completed over 30 years as one of the principal suppliers of refined silver for diverse uses, primarily in the photographic, industrial and electronic sectors where requirements call for the highest product quality and reliability of supply.

2001

A real-time environmental monitoring system was installed in Met-Mex Peñoles, Coahuila. Creation of the Proaño Park and Tourist Mine in Fresnillo, Zacatecas, making Peñoles a pioneer by creating an Environmental Management Unit for protected fauna. Creation of a treatment plant to operate the beneficiation plant at the Francisco I. Madero Mine in Zacatecas. Establishment of the Corporate Office of Human Resources and Ecology.

5

In 2007, we made a significant entry into one of the most developed, competitive and demanding markets in the world: Europe. We sold 29,800 tons of zinc in this region (13% of total sales of this metal), amply satisfying the expectations of our customers.

Our range of more than 50 zinc products is another convincing example of our vocation and orientation to clients, because it enables them to avoid reprocessing materials, performing risky operations generating residues, etc. We also made more than 250 visits of a technical nature for purposes of service and follow-up.

We have also established strategic commercial alliances to develop specific products and services for certain customers that require it.

Peñoles was recognized in 2007 for its commitment and performance in the export area with the *"Rodolfo Gonzalez Garza" Award for Excellence in Exporting* granted by the Mexican Council of Foreign Trade in the Northeast *(COMCE).*

COMMUNICATION AND EVALUATION ACTIVITIES

(PR05, PR06)

Through opinion surveys, electronic mail, periodic visits and meetings, we monitor the perception of our clients. We focus on disseminating our business image in the Institutional Catalogue of Products, available electronically online at:
http://penoles.com.mx/penoles/productos/productos.php

To identify both the achievements and the areas of opportunity in our relationships with our clients, we measure our performance biannually through a Satisfaction Evaluation. We conduct telephone surveys that address product attributes, sales administration, employee performance, technical support and claims service. In the evaluations for 2006 and 2007 we received a rating of 8.8, a period in which no significant claims were recorded.

2001

Recognition by the Mexican Center for Philanthropy of the *SACS* System as having one of the best social responsibility practices. Design of a Strategic Plan at Peñoles in the social area, and implementation of the *STOP™ (Safety Training Observation Program)* workplace safety program. Creation of the Corporate Office of Community Development.

CLIENT MANAGEMENT SYSTEM *(SAC)*

(PR08)

SAC is a fundamental pillar of support for our commercial activities, which during 2007 continued to offer secure service and was updated in a timely manner in the following areas:

- Automatic Price Management *(GAP)*: Allows the system to calculate and obtain product prices automatically, once introduced and authorized by the sales force.
- Security: A module was developed that is in the implementation phase; it permits and requires users to manage access codes in a unique and confidential manner.
- Electronic Invoicing: A study of the software requirements was initiated for the implementation of electronic invoicing, which will assist us in offering clients a more secure and efficient document delivery service, in addition to meeting the requirements of the Tax Management System *(SAT)*.

SAC has a web-based interface that provides accurate and up-to-date information available to our customers about the status of their purchase orders and they can obtain weight and quality certificates for our products. The confidentiality of our clients' data is a fundamental part of our policy, therefore the databases can only be accessed by authorized personnel.

5 *Shipment of lead at Met-Mex Peñoles, Coahuila*

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7

SAFETY AND QUALITY CONTROL OF OUR PRODUCTS AND CERTIFICATION SYSTEMS

(PR03)

Given the importance of our products arriving on time in proper condition, we have automated an important part of the processes in order to eliminate variations due to the human factor. We also provide secure transportation and appropriate packaging. We issue applicable certificates of origin for export shipments in order to comply with regulatory standards. Our Client Satisfaction Policy contains the obligation to provide insurance documents with each product shipped.

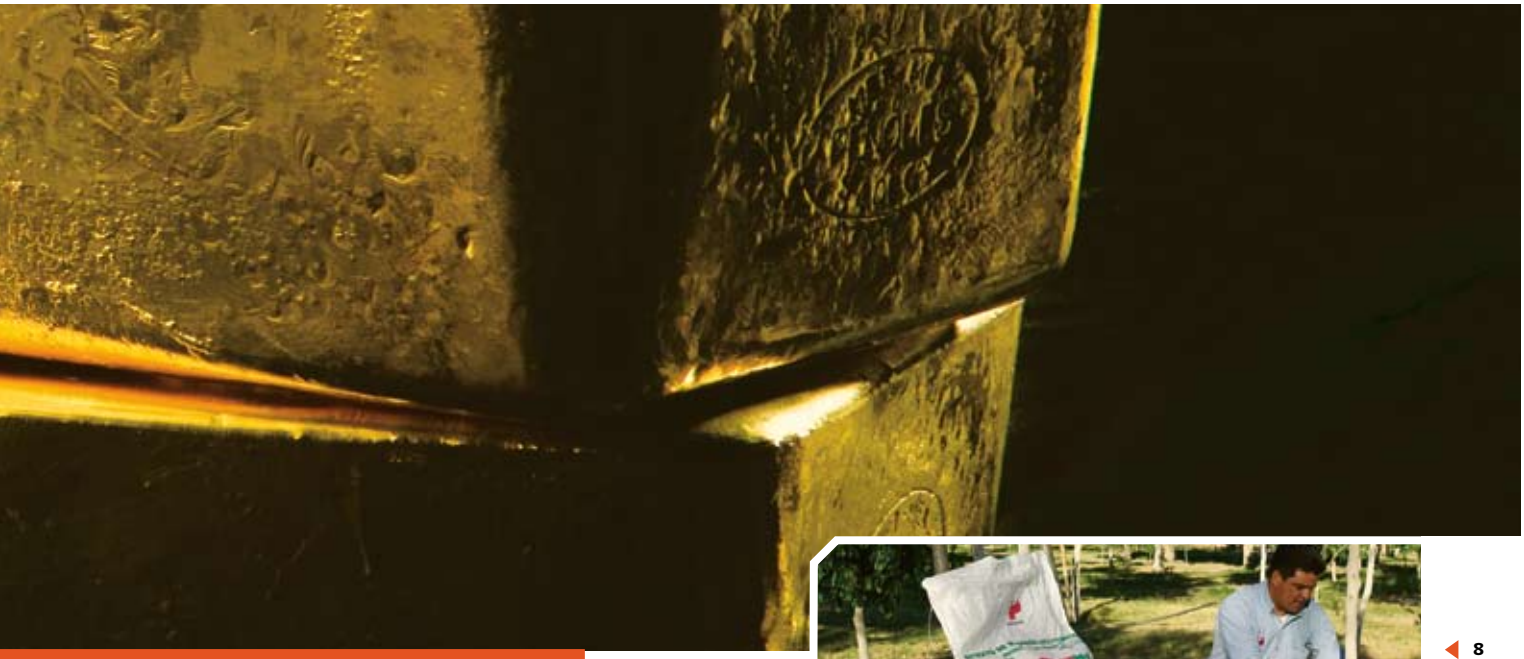
In addition, with the goal of assisting our clients in using Peñoles's products correctly and to prevent risks, we have a Technical Assistance Service. The Chemicals Division has been working under the *High Performance Teams* and *Six Sigma* schemes, aside from making important investments in the construction of advanced technology plants (magnesium specialties, milled, electric grade) and for the renovation of existing facilities (magnesium oxide refractories).

We know that the quality processes we follow will be the best sign of distinction for the company. Accordingly, we have policies and procedures that ensure best practices in managing client service. We have adopted the requirements of ISO-9000-2000, which includes the legal requisites that the product must meet. Met-Mex Peñoles was re-certified under ISO-9000 in December 2006 for a period of two years.

Through risk prevention and management programs, planning and crisis management systems, we have made progress in meeting our commitments to FM Global, a risk monitoring company.

SYSTEM CERTIFICATION
ISO 9000:2000 SGS

6 *Commitment to our clients*
7 *Gold, 99.9999% pure*
8 *Peñoles and its presence in agribusiness*



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AGRIBUSINESSES: *IN PEÑOLES, AGRICULTURE IS ALSO OUR FIELD*
(PR06)

Our agriculture industry products have characteristics inherent to contributing to the regional development of agribusiness, as the quality of the materials that we offer enhances the sustainable productivity of the land.

We comply with Mexican federal regulations and both domestic and foreign packaging standards. For marketing purposes, our fertilizers are registered with the Inter-secretarial Commission for Process Control and Use of Pesticides and Toxic Substances *(CICOPLAFEST)*.

In the agriculture industry area, we seek to add value to various materials through the integration of the products and technical and administrative services offered by Peñoles. We have succeeded in conducting environmentally friendly operations at production sites, as well as in the places where our products are used in the field of vegetal and animal nutrition.

INDUSTRIAL CHEMICALS: CONTRIBUTING TO THE DIVERSIFICATION OF PEÑOLES'S BUSINESSES

While we maintain important presence in the commodities area, for the past decade we have been integrating specialties to the market. Thus, we develop specific products and services, such as the ones used in the manufacturing of automotive batteries; work in the steel sector, in continuous galvanizing lines; support jewelry sector clients through advice on trends and images; and provide technical, financial and marketing support to the galvanizing sector in general. We also have alliances with manufacturers of detergents, glass and refractories, and we work with manufacturers of specialty plastics for the use of magnesium hydroxide as a flame retardant, additive and smoke suppressant.

2002

Peñoles received the *National Ethics and Values Award* and the *Socially Responsible Company Award*. Public campaign on the subject of forestation and environmental protection in which more than 40 ecological training events, fairs, parades and workshops were held and more than 100,000 plants and trees of various species were planted. Publication and distribution in all our communities of the book "The 4 Rs" for environmental care.


STOP
PEOLES

EMPLOYEES

WE OFFER THE BEST OPPORTUNITIES FOR DEVELOPMENT IN A SAFE WORKING ENVIRONMENT.

1 *Mine shelter at the Fresnillo Mine, Zacatecas*

EMPLOYEES

The most important thing for Peñoles is its people. As part of our business strategy, we continue to strengthen their capabilities in order to have the human resources required, and to develop the talents of our employees and achieve their excellence.

DIVERSITY, EQUAL OPPORTUNITY AND RESPECT FOR HUMAN RIGHTS

(HR01, HR06, HR07)

Respect for human rights is a priority for us. We have adhered to the principles of the United Nations Global Compact and the Decalogue of the Socially Responsible Company. In harmony with this, policies exist within the company that ensure respect for differences in race, gender, political affiliation and personnel beliefs on any manner.

Peñoles selects its employees on the basis of their abilities and professional attributes, promotes the participation of women in functions and positions in which they previously were not present and offers opportunities to the inhabitants of rural communities where it operates. Currently, more than 12% of mine operators are women.

All our labor contracts and mine leases as well as our agreements with third parties are aligned with our Labor Policy that prohibits hiring children, slavery, discrimination or unfair labor practices.

FOSTERING TEAMWORK

We encourage teamwork among our personnel and workers. The High Performance Organization process continues to operate in all our plants and operating units, beginning with the Peñoles Work Team system *(ETP)*.

In Química del Rey, Coahuila, the program has been operating since 1997 with excellent results, and was later applied in the Mining Division, four plants in the Metals Division and Magnelec. In 2008, we anticipate consolidating the program in the rest of Peñoles's operations.

DIAGNOSTICS AND SATISFACTION

We have our own mechanisms for Satisfaction and Leadership Diagnosis that promote the continuous improvements of our working conditions and work environment. The opinions of our personnel are periodically sought and the organizational climate is measured through confidential surveys.

2002

Creation of the Coordination of Health Promotion. Bismark, Chihuahua won first place in the *National Electricity Conservation Award*. Collaboration with the Secretary of the Environment and Natural Resources in a project to develop social indicators and training that the Mining Chamber of Mexico offered to personnel from the Federal Office of Environmental Protection.

2 *Gender equity at the La Herradura Mine, Sonora*

3

4

OUR EMPLOYEES

(2.8, EC07, LA01, LA02, LA04, LA13)

As of December 2007, we had a workforce of 7,818 people (full-time and temporary), of which 68% were unionized. The Workforce Distribution table provides a breakdown by region.

Of our total workforce, 4.1% are at the executive level—directors, supervisors and unit managers. Sixty percent of these employees work in their cities of origin. The Executive table shows the distribution of staff by gender and age.

Our turnover rate was 7.1% for non-unionized personnel and 12.5% for unionized workers. By gender, 80% of those leaving were men and 20% were women; and among unionized workers 92% were men and 8% were women. With respect to age ranges, 5% of those leaving were employees younger than 25, 80% of workers were between 25 and 45 years, and 15% were over 45. The causes for leaving included: termination of temporary work contracts, dismissal, disability, elimination of positions, voluntary departures and retirement.

BREAKDOWN OF EXECUTIVES BY GENDER AND AGE *(LA13)*

Division	Average Age	Men	Women	Grand Total
Senior Management	59	10	0	10
Legal	44	3	3	6
Finance	45	42	5	47
Infrastructure	42	4	0	4
Metals	52	60	2	62
Mining	50	118	1	119
Human Resources	46	11	3	14
Internal Audit	39	4	2	6
Engineering & Construction	50	19	0	19
Exploration	53	16	0	16
Total Executives	**48**	**287**	**16**	**303**

3-5 *Personnel committed to the company in the Peñoles... Somos Uno Campaign*

5

PEÑOLES... *SOMOS UNO*

During 2007, the *Peñoles... Somos Uno* (We Are One) campaign was implemented in order to achieve more integration among our employees; create a feeling of belongingness; value the diversity that exists among them; and aim their efforts, commitment and passion towards a same goal.

The steps that were taken within the spirit of this campaign include the standardization of: the criteria with which we operate our processes, institutional image, recognition of years of service among our personnel and safety standards.

DISTRIBUTION OF THE WORKFORCE

Region	Plant	Temporary	Total
Coahuila	2,937	374	3,311
Zacatecas	1,740	4	1,744
Chihuahua	756	81	837
Sonora	809	2	811
Durango	474	33	507
State of Mexico	340	1	341
Federal District	220	5	225
San Luis Potosí	12	10	22
Nuevo León	11	0	11
Tamaulipas	6	1	7
Guerrero	2	0	2
Total	**7,307**	**511**	**7,818**

Somos Uno.

2003

Start-up of the Shared Service Center for Environment, Safety and Health (*MASS*). Adoption in the Mining Division of the Semi-Autogenous Grinding System (SAG) to eliminate atmospheric dust emissions. Fresnillo, Zacatecas acquired the Alpine continuous mining system to eliminate the use of explosives. The Sustainable Forest project was initiated at La Ciénega, Durango with the signing of an agreement with the National Institute of Forestry, Agriculture and Livestock Research.

6

7

LABOR UNION-COMPANY RELATIONS

(HR05, LA04, LA05, LA09)

Maintaining harmonious, mutually beneficial relations with our unions is a priority for Peñoles. In the mining and metallurgy area, we have nineteen Collective Work Agreements with the National Union of Mining, Metallurgy and Allied Workers of Mexico. In the industrial area we have a number of collective work agreements with the National Union of Chemical, Petrochemical, Carbochemical, Allied and Associated Industry Workers of Mexico, with the Industrial Union of Workers from the State of Coahuila, and with the "July 16" National Union of Construction Industry Workers, among others. Our collective agreements establish the reciprocal rights and obligations that exist on the matters of safety and hygiene.

We maintain close relationships with local unions. We signed eleven contracts with different unions in 2007 with no major incidents. All our collective agreements contain benefits and wage scales that are higher than the industry's average. There are mixed commissions comprised of unionized and non-unionized workers to ensure the best working conditions.

We have specific notification provisions that enable us to increase the flexibility of the contracts and productivity systems, based on the confidence and dialogue with various union rep-

WORKERS COVERED BY COLLECTIVE AGREEMENTS

Union Affiliation	%
National Union of Mining, Metallurgy and Allied Workers of Mexico	87.69
National Union of Chemical, Petrochemical, Carbochemical Allied and Associated Industry Workers of Mexico	7.01
Industrial Union of Workers from the State of Coahuila	3.54
"July 16" National Union of Construction Industry Workers	1.76
Total	**100**

2003

Construction began on a second section of the Environmental Management Unit at Fresnillo, Zacatecas. Química del Rey, Coahuila received the *Silver Helmet Award*. The Institutional Code of Ethics was raised to the level of an Executive Policy.

8

resentatives. All significant changes are molded within the framework of the Collective Work Agreements.

COMPENSATION AND RETIREMENT PLANS

(EC03, EC05, LA03, LA14)

Wages and salaries paid in 2007 totaled $2,888 million, including payments to associates and bonuses, which represents an 4.5% increase over 2006. The workers' participation in profits totaled $529.3 million, an 8.2% rise over the previous year.

The Compensation and Benefit Policy, as well as the related Collective Agreements, have a competitive wage scale in relation to other companies in the sector. Peñoles provides economic compensation based on tables for the level of responsibility of the position, irrespective of gender and in accordance with the relevant legislation. On average, the lowest wage for non-unionized personnel in 2007 was 4.4 times the minimum wage and 5.8 times the minimum wage for unionized personnel.

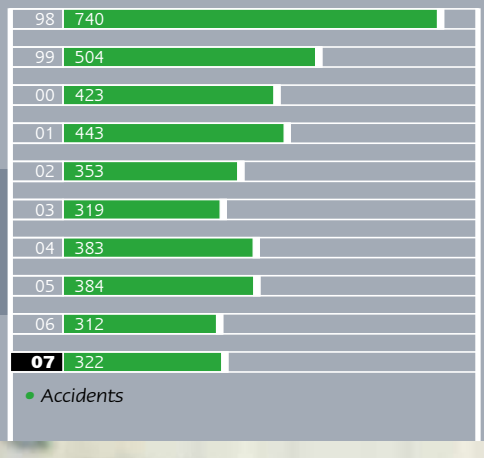
In addition, there are incentives for years of service, creation of value via work teams, academic training and outstanding contributions to community development.

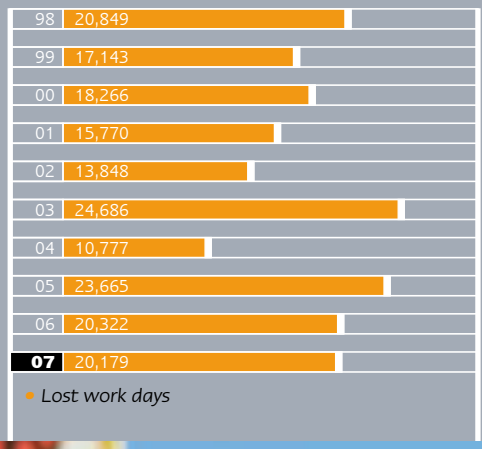
Our employees receive an attractive package of benefits of a social nature in addition to those provided for by law. Among these are the medical expense plan, multiple family assistance plan (for the purchase of high necessity family items), pension and retirement plan, life insurance, and savings, year-end bonus and vacation plans. In the case of outsourced employees, they are offered the basic benefits such as safe working conditions, training workshops and safety equipment.

Peñoles has established supplementary retirement benefit programs for its non-unionized personnel that include pension plans based on their compensation and years of service rendered, seniority bonuses for voluntary retirement and death and disability benefits. The latter are covered by insurance policies.

6-8 *Efficient and committed employees at Aleazin, Coahuila*

DISABLING ACCIDENTS AND LOST WORK DAYS
(Employees and contractors)





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EMPLOYEE HEALTH
(MM13)

The health of its workers is of vital importance to Peñoles. The principal cases of occupational illness recorded over the years are silicosis, partial hearing loss and levels of lead in the blood. To prevent these, we implemented a program in 2005, the *Zero New Occupational Illnesses Program*, in collaboration with the medical service and occupational health areas, which has enabled us to reduce the root causes of occupational illnesses.

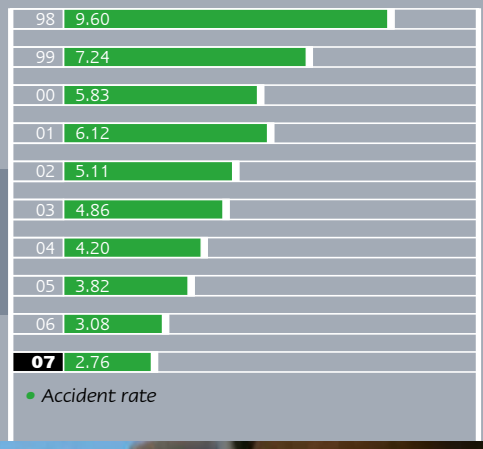
The Lead Levels table shows the evolution in the level of lead in the blood of exposed personnel over the past three years, indicating a declining trend.

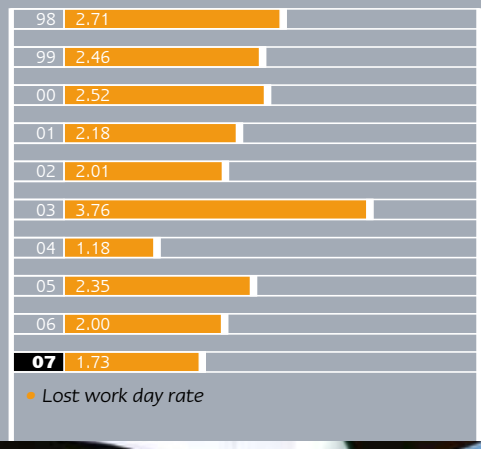
BLOOD LEAD LEVELS (BLL) OF EXPOSED PERSONNEL

Data	2005	2006	2007
Exposed workers	956	956	**956**
Disability cases of BLL>50 µg/dl.	60	24	**22**
Days lost	4,048	1,451	**1,303**
Average lead level in blood of exposed persons	31.2	27.5	**24.7**

9 *View from the tailings dam at the Francisco I. Madero Mine, Zacatecas*

ACCIDENT AND LOST WORK DAYS RATES
(Employees and contractors)





SAFETY AS A CONDITION OF EMPLOYMENT

(LA06, LA07)

As our *MASS* (*Medio Ambiente, Seguridad y Salud*, or Environment, Safety and Health) system indicates, we have the responsibility to guarantee the safety and well-being of our personnel, to conduct the necessary investigations to determine the cause of accidents, to adopt policies and procedures to avoid their occurrence and to provide safety training.

To eradicate risks, we continuously seek to implant the best practices through such programs as *Zero Tolerance for Accidents* that permits any worker to interrupt any operation or activity that places his/her integrity or that of others at risk.

The commitments and obligations of our workers in the areas of safety and hygiene are established in the Collective Work Agreements and legislation on the matter. We have seventeen Safety and Hygiene Commissions comprised of unionized and non-unionized personnel.

We continue to implement programs to eliminate unsafe practices and train our personnel. Despite our ongoing work in promoting an environment of workplace safety practices, we unfortunately suffered the fatalities of four workers and two contractors in 2007.

2004

Operations commenced at the power generation plant Termoeléctrica Peñoles, San Luis Potosí in order to operate with greater energy efficiency. Start-up of the pilot application of the OHSAS 18001 standard at Francisco I. Madero, Zacatecas. Inauguration of the Los Jales Ecological Park in the Fresnillo Mine, Zacatecas, on the site of former tailings ponds, with which fugitive dusts were eliminated.

SAFETY ACHIEVEMENTS

We can cite the following accomplishments on the matter of safety:

1. Corporate: OHSAS 18001 re-certification of the *MASS* System.
2. Fertirey: Industrial Safety Certificate Level 1 granted by the Secretary of Labor and Social Security.
3. Magnelec: Certification of the *MASS* Administration System (ISO-14001 and OHSAS 18000), the first unit in Peñoles to receive such certification.
4. Fertirey, Bermejillo and the Met-Mex Peñoles water treatment plants: Met the goal of one year without a disabling accident.
5. Magnelec, Fertirey and Aquismón are at the vanguard, having no lost-time accidents.

For the fifth time, Peñoles received the *Silver Helmet Award* from the Mexican Mining Chamber *(CAMIMEX)*, for better safety indices at Química del Rey—for plants and smelters with less than 500 employees—and, for the first time, at the Lead-Silver Smelter in the Metals Division—for plants and smelters with over 500 employees.

EMERGENCY RESPONSE SYSTEM

(MM12)

Taking into account the policies of the *MASS* System, we are working on various programs to improve infrastructure, equipment, facilities, working conditions and technology. All our employees and contractors must comply with programs such as *Operational Discipline*, *Accident Investigation*, *Safety Training*, *Electrical Safety*, *Safety Practices in the Workplace*, *Process Risk Analysis*, *and Hazardous Materials Management.*

Also, through teamwork programs and weekly audits, we are implementing the *STOP™* and *TAKE TWO... For Safety™* programs (registered trademarks of DuPont) in each one of our plants and units.

For the prevention of large-scale accidents, this year we incorporated 34 refuge sites for miners that can hold approximately 20 to 30 persons each. There are also 29 Prevention and Rescue Brigades in our work centers. These teams are staffed in accordance with prevailing standards.

2005

As a member of the voluntary *Mexico Greenhouse Gases Program (GEI Mexico)*, preparation of the first inventory of greenhouse gases. Signing of the United Nations Global Compact and adhesion to the principles of internal control issued by the *Committee of Sponsoring Organizations of the Treadway Commission*. Wind energy evaluation project at Bismark, Chihuahua and Sabinas, Zacatecas.

PROFESSIONAL DEVELOPMENT

(LA10)

Peñoles seeks to assure that its personnel have a global vision, reach a level of excellence and develop their professional competencies. Our Training Policy for Human Capital and the Talent Development System promote ongoing training, the formulation of work incentives and teamwork.

Job descriptions were revised and updated in the Metals Division and a Conformance Index was developed that measures compliance with the requirements for the position in order to generate better training plans as well as to establish fair compensation based on results.

Our personnel received, on average, 62.89 hours of training per person in 2007.

At Peñoles, we promote and support academic training for our employees. Since 1998, a total of 852 workers obtained higher academic degrees.

TRAINING AND DEVELOPMENT IN PEÑOLES

Employee Type:	Non-union	Unionized	Total
N° of employees	2,318	4,985	**7,303**
N° participating in courses	17,403	58,066	**75,469**
Training hours/person	154,553	294,667	**449,220**
Average training hours/person	66.68	59.11	**62.89**

RECOGNITION GRANTED BY PEÑOLES FOR ACADEMIC STUDIES

Degree	2007	Cumulative Total to 2007
Middle School	1	13
Technical High School	2	9
High School	0	47
Bachelor's Degree	23	193
Associate's Degree	31	388
Master's Degree	15	158
Doctorate	0	3
TOEFL	2	41
Total	**74**	**852**

10 *Workplace safety at Met-Mex Peñoles, Coahuila*

11

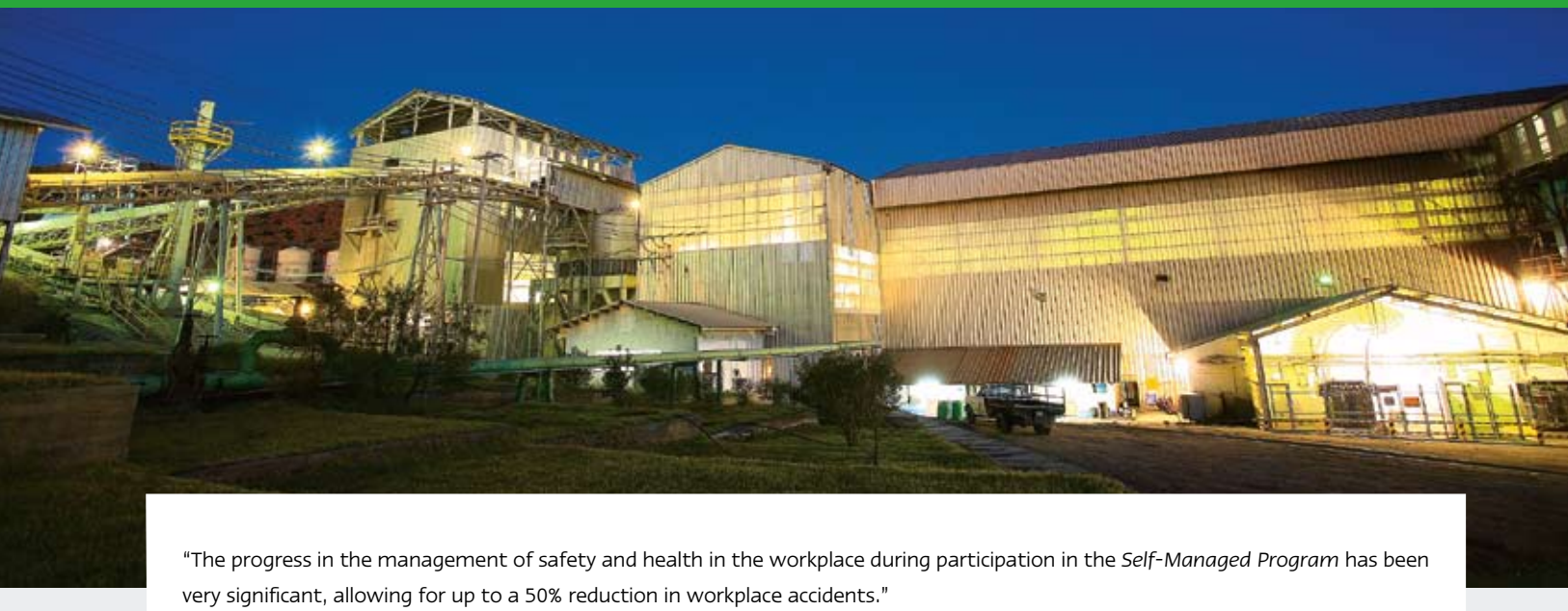
SKILL MANAGEMENT AND PERFORMANCE EVALUATION PROGRAMS

(LA11, LA12)

Our Skills Management Program is aimed at identifying the strategic needs of the company. In 2007, Peñoles personnel was trained in strategic subjects for Our Skills: Effective Communication, and Teamwork and Service. In total, for these two areas, 2,313 persons received 14,609 hours of training during the year.

For the purpose of achieving greater clarity in terms of the contribution of each person to the strategic objectives of Peñoles, a Performance Evaluation process was submitted for review during 2007 and implemented in a pilot phase at the level of middle management. In future years we will increase the percentage of the evaluations conducted in other levels of the organization and provide the results.

11 *Training in the milling area at the Fresnillo Mine, Zacatecas*



"The progress in the management of safety and health in the workplace during participation in the *Self-Managed Program* has been very significant, allowing for up to a 50% reduction in workplace accidents."
(In *STPS*, Success Cases, Safety and Health Management Systems in the Workplace, Volume 3, 2006, p. 48)

THE SAFETY AND HEALTH OF EMPLOYEES, OUR PRIORITY

Minera Bismark, S.A. de C.V., with 587 workers and employees, is located in Chihuahua and is engaged in mining and milling zinc, copper and lead minerals. When it recorded ten accidents in 2000, in one of which a worker died, the need became evident to establish stricter systems to control workplace risks. To accomplish this, it was decided to establish a *Self-Managed Program* in this unit to be developed by the Secretary of Labor and Social Security (*STPS*).

In this context, a Workplace Safety and Health Management System was developed that has made Bismark a model in Mexico for the prevention of workplace risks. The system, based on continuous improvement, has driven a culture of accident prevention characterized by the identification of risks in the workplace, the adoption of training programs, updating the applicable regulatory standards and a follow-up program by line management.

About the project:

- The system is based on the *STOP™*, *TAKE TWO... for Safety™* (registered trademarks of DuPont) programs, as well as *Electrical Safety, Analysis of Root Causes, Zero Tolerance for Accidents* and *Operational Discipline* programs focused on accident prevention and improving working conditions.
- In the initial diagnoses, Bismark achieved 85% compliance with the applicable standards and detected opportunities for improvement on which we are working.

Results and follow-up actions:

The progress made under this system has fostered a culture of prevention, translating into a reduction in the accident indices to 3.29 in 2005, 1.25 in 2006 and 0.87 in 2007, along with a higher degree of participation and commitment on the part of unionized and non-unionized workers, an the members of the Commission on Safety and Hygiene. The progress achieved since the implementation of the program has led to the recognition of Bismark by the labor authorities as the only successful operation in the area of safety and hygiene in the underground mining industry functioning in Mexico. The *Self-Managed Program* remains in the mining unit and will be evaluated by the *STPS* in April 2008.

COMMUNITY

WE OPERATE EFFICIENTLY, SENSIBLY AND WITH SOCIAL COMMITMENT.

1 *El Saucito, Zacatecas*

2

COMMUNITY

Our experience throughout twelve decades has taught us that the company must keep its capacity to be sensitive to its environment, up to date, and to engage in constant communication with the communities where it operates, as this translates into society's endorsement of Peñoles. We have formal and institutionalized processes for outreach and communication, as well as criteria and guidelines for social development that have become priority areas for the organization.

We have gradually put in place a System of Social Development that enables us to become an engine of positive influence on the societies where we are present. All our operations have a social diagnostic tool that characterizes the community, identifies its priority needs, detects potential risks and evaluates the general perception of Peñoles.

SUSTAINABLE COMMUNITIES

The development effort by Peñoles to support the consolidation of sustainable communities is based on a long-term systematic approach that integrates a balance of economic, environmental and social aspects.

Our community development programs are ongoing institutional initiatives that start with the formation of relationships and strategic alliances with diverse areas of government and civic organizations grouped along the following action areas: cultural environment, educational culture and quality, health and family well-being, sports and recreation, autonomous development of productive activities and social infrastructure.

All these programs are conducted with the joint participation of the company, the community and the authorities, from the establishment of agreements and supervision by committees or councils. Our social programs promote education, respect and preservation of the culture, and practices and customs

2 *Community activities at the Milpillas Mine, Sonora*

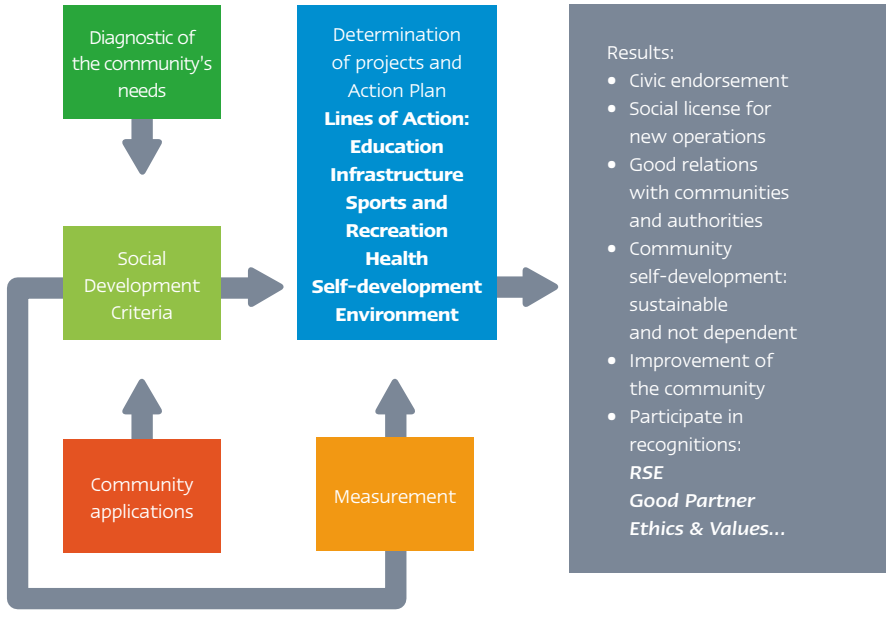
3 *Activities in the Velardeña community, Durango*

3

of the communities where we operate in order to improve their quality of life and promote self-development.

Our model of social development has had an outstanding reception. Among the recognitions we received in 2007, one that stands out is the award granted by the Mexican Center for Philanthropy *(CEMEFI)* to the Fresnillo Mine in the category of best corporate practices, for its practice called the Sustainable Fresnillo Complex. This includes, in addition to the Fresnillo Mine's own activities, efforts in conservation, environmental education, recreation, tourism and the development of self-sustainable businesses. We also received, for the seventh consecutive year, the *Socially Responsible Company Award* from *CEMEF*I.

CRITERIA AND GUIDELINES OF SOCIAL DEVELOPMENT



2005 First publication of the Fourth Financial Statement in the Report on Sustainable Development, in order to make explicit the value distributed among our stakeholders. Start-up of the second phase of the Sustainable Forest project at La Ciénega, Durango. Start-up of the *Zero Professional Illnesses Program*. Founding of Community Participation Councils. Creation of an Employee and Community Suggestion System, Department of Outreach, Communication and Social Development of the Metals Division, and Corporate Department of Communication and Social Development.

HEALTH AND QUALITY OF LIFE

We understand the importance of contributing to raising the quality of life and health of our neighbors. To this end, we have institutionalized procedures and corporate guidelines that foster community well-being, including our exploration activities, because we believe that our social commitment is essential from the start of our value chain. Through diagnostics and social impact studies, we design social development plans with the participation of community sponsors and representatives, as well as social benefit and educational programs like teacher workshops, addiction prevention, temporary work opportunities, etc. We also promote general participation in community activities through our sponsorship of social, cultural and sporting activities.

COMMUNICATION WITH COMMUNITIES BORDERING OUR OPERATIONS

(MM09, MM11)

In Peñoles, we periodically disseminate publicly available reports about the social and environmental impact of our operations, particularly to assemblies of landowner collectives (*ejidos*). In our exploration activities and mining operation, we are committed to fair negotiations over the use of the land and to investing in the development of infrastructure through agreements. When we identify a property that is of interest, we research the name of the owner or person in possession that appears as the title holder in the Public Registry of Property or in the National Agrarian Registry. If the property of interest belongs to an *ejido* or agrarian community, we negotiate the lease or acquisition of the property with the assembly in accordance with the procedures established by law. Because of this concern for entering into fair negotiations, conflicts with *ejidos* or agrarian cooperatives for the possession or ownership of the land are very infrequent, and when they do arise, they are resolved through dialogue and agreements that are reviewed and approved by competent authorities.

MUTUALLY BENEFICIAL ALLIANCES

(S05)

We have entered into agreements and strategic alliances with key actors related to our stakeholders such as municipal and state authorities; and educational, business, cultural, sporting and service institutions.

As a part of the outreach to society, we are a source of advice for the authorities from the three branches of government and for the legislative bodies. Based on our experience, we promote policies and strategies of social and economic benefit, and our managers participate in numerous business and social forums.

2006

Implementation of a new Code of Conduct. *National Labor Prize* granted by the Secretary of Labor and Social Security to Química del Rey, Coahuila. Smoke-free offices and plants.

4 *Supporting education at the Vicente Guerrero School in Torreón, Coahuila*

5

AGREEMENTS WITH ACADEMIC, GOVERNMENT AND SOCIAL INSTITUTIONS

- We have been working on the Sustainable Forest project with the National Institute of Forestry, Agriculture and Livestock Research *(INIFAP)* since 2003. Thanks to the corrective actions taken in 2006 and at the beginning of 2007, the project had been able to advance and the second stage culminated in 2007. There will be follow-up of the project through remediation activities in the forest and surrounding areas following such events as fires, deforestation and erosion. This year, 70,000 trees will be planted by local contractors and technical supporting personnel from *INIFAP* and production has risen at the nursery such that there will be 50,000 trees available for reforestation in 2008.

- Numerous academic institutions such as the University of Texas, the Autonomous University of Coahuila, the Autonomous University of San Luis Potosí, the Institute of Metallurgy, the Autonomous University of Mexico (with which we have a trademark agreement) and the Autonomous Metropolitan-Iztapalapa University.

- Agreement (June 9, 2007) between Peñoles and the Governor of the State of Zacatecas, Amalia García Medina. The State Government, the Secretary of Public Education and Peñoles created a trust to promote learning and knowledge of the sciences through the Evidence and Experience-Based System of Teaching Science that will benefit 3,615 children in the academic year 2006-2007.

- Support agreement between the Municipal Government of Zacatecas and the company for its support and advisory services in order to obtain the Clean Municipality Certificate from *PROFEPA*.

- In conformity with the agreement signed in September 2006 between the company and the Autonomous University of Zacatecas, with the presence of the Governor, Amalia García Medina, the Chairman of the Board of Directors of Industrias Peñoles, Alberto Baillères, turned over to Dean Alfredo Femat and the Director of the Earth Sciences Academic Unit, Rubén del Pozo, the building of this Academic Unit that had been completely remodeled.

- Governor Amalia García Medina, accompanied by the Chairman of the Board of Directors of Industrias Peñoles, Alberto Baillères, inaugurated the first module of sixteen classrooms at the Autonomous University of Fresnillo *(UAF)*. This educational complex will benefit more than 500 university students and more than $5 million was invested in this project. The funds contributed by Industrias Peñoles totaled $4.5 million and, in turn, demonstrated the company's interest in advancing development where its mining operations are located.

- Agreements with the Secretary of Health and the Secretary of the Environment of Coahuila as well as with the federal office of *PROFEPA* in the state.
- Agreement between Minera Sabinas and the Museum of Sciences and Technology of the state of Zacatecas.
- Street paving agreement with the Government of Coahuila.
- Upon the initiative of Minera Maple, Naica, the *GAMED* (Delicias Business Mutual Assistance Group) team was formed that is intended to become a model for risk management at the corporate, municipal, regional, state and national levels, both in the area of civil protection and disaster management as well as in the environmental area in the Municipality of Delicias. The companies comprising this group are: Mead Johnson, Wrangler, Cipro, CFE Distribución, CFE Francisco Villa Plant, Rancho Zaragoza, Goodyear, Alpura and Protección Civil.
- Agreement with the Municipal President of Saucillo, Chihuahua to provide support for the sanitary impoundment facilities and payment for a garbage collection truck.
- Work with the United Way, a private charitable institution, to provide support to needy persons in the community of the Municipality of Delicias that require medical and social assistance, etc.
- Agreement between the Naica Unit and the Center for Advanced Materials Research *(CIMAV)*, a non-governmental institution, related to eco-efficiency projects.
- The Naica Unit provided the facilities for the library and the Health and Social Security facilities for the Municipality of Delicias in collaboration with local and federal authorities.
- The Milpillas Unit, with the *PROFEPA* office in Sonora, designed the project, Construction and Development of a Forestry Nursery.
- The Milpillas Unit, with the Municipal President of Magdalena de Kino, Sonora carried out the Clean Municipal Certificate project.

2001 to date, the publication of annual reports on sustainable development are open to the public. As of 2005, the value created and distributed to stakeholders has been disclosed.

OUR CONTRIBUTIONS TO THE COMMUNITY AND ENVIRONMENT

(4.12, S01, MM07)

In 2007, our contributions to the community and the environment represented $280 million, or 17% more than contributed last year and 1.9% of the total value distributed. The contributions made during the last three consecutive periods are broken down in the accompanying table.

COMMUNITY AND ENVIRONMENTAL CONTRIBUTIONS

Community and Environment

($ thousands)	**2005**	**2006**	**2007**
Communities	33,586	60,363	**44,327**
Environment	92,968	118,547	**145,291**
Depreciation of social assets	29,303	36,180	**54,414**
Provision of ecological expenses	---	23,095	**35,631**
Total	**155,857**	**238,185**	**279,663**

We periodically evaluate our social and environmental projects and programs. For the social aspect, we use image surveys and media monitoring. Measures of participation are focused on the development of social promoters, support for education, the execution of programs to promote values, attention to key audiences, the development of productive activities and programs in health and family well-being, sports and infrastructure development.

In the environmental area, evaluations are conducted by means of systems that address complaints and environmental monitoring, and mitigation measures are applied through environmental management systems that consist of soil restoration, reforestation and strengthening the community's environmental culture.

Through social diagnostics we conduct in the communities that border each of our business units, we carry out a series of work programs according to the social needs that we identify and to our guidelines for social development. The projects we formulate are followed up with the Social Development Indicator, according to their percentage completion, and take into consideration the number of beneficiaries and participants in these plans.

INDICATORS OF SOCIAL DEVELOPMENT

Unit	**% Compliance**
Tizapa	91
Fresnillo	100
Sabinas	98
Fco. I. Madero	100
La Ciénega	100
Bismark	67
Naica	97
La Herradura	100
Milpillas	90
Química del Rey	99
Met-Mex	99
Average	**95**

6 *Micro-enterprise program in Torreón, Coahuila*

CONTROL MATRIX FOR SOCIAL AND ENVIRONMENTAL IMPACTS (SO1)

Programs/Practices	Description	Scope
MINING-CHEMICALS		
Image Studies	- Study of image perception and public reputation.	Communities: Ciénega, Naica, Francisco I. Madero, Maguey, Noria de Gringos, Fresnillo, Beleña, Poleo, Valdecañas, Sombrerete, San Martín, La Noria, Zacazonapan, Caborca and 8 neighboring ; Magdalena de Kino and 5 neighboring communities; Laguna del Rey and Chula Vista; Ramos Arizpe and 31 bordering communities.
Media Monitoring	- Review and classification of public image and reputation.	25 printed and electronic media. 349 notes on average annually.
Complaint Resolution System	- System for resolution of community complaints, auditable as part of ISO-14000.	28 adjoining communities.
Environmental Culture	- Environmental weeks and theme contests.	World Environment Day: 10 campaigns. World Water Day: 10 campaigns. 119,400 trees donated and planted in communities of influence. 19,810 participants in competitions, reforestation programs and conferences.
Culture and Educational Quality	- Training of teachers and parents. - Improvements to facilities. - Implementation of advanced educational systems. - Support for institutional educational events. - Alliance with Youth Wellness Centers.	114 schools benefited including 508 teachers and 17,154 students. Pact for Program on Practices for students of Earth Sciences with the Autonomous University of Guanajuato, *IPN*, *UNAM*, Autonomous University of San Luis Potosí and Autonomous University of Chihuahua, among others. Maintenance of the Laguna del Rey Center for Technical Studies (*CETLAR*) with special programs in Electricity-Instrumentation and Mechanical-Electrical Techniques. In 2007, 43 students graduated and there were 70 students enrolled at the end of the year.
Health and Family Wellness	- Campaigns: promotion of wellness, vaccination, addiction prevention and nutrition.	The healthy program *For a Healthy Heart* stood out. 5,719 beneficiaries in the vaccination campaign. Over 35,000 consultations per year.
Sports and Recreation	- Sporting tournaments and athletic races. - Third-party sponsors, regional fairs and civic-social activities.	22,147 participants in tournaments, in fields and courts at community and company locations, races, support for sports teams, fairs and civic acts.
Autonomous Development of Productive Activities	- Courses: painting on canvas and ceramics, silver working, beauty, embossing, pastry and incubating companies.	559 persons from adjacent communities trained in developing productive activities.
Water Treatment-Use 100% of Processes	- Treatment of sewage from the city for industrial use.	Francisco I. Madero.

- *Evaluation*
- *Mitigation*

CONTROL MATRIX FOR SOCIAL AND ENVIRONMENTAL IMPACTS (SO1)

Programs/Practices	Description	Scope
Treatment of Sewage from Houses and Offices	- Sewage treatment.	Fresnillo, La Herradura, Milpillas and La Ciénega.
METALS		
Image Studies	- Study of image perception and public reputation.	City of Torreón and adjoining communities.
Media Monitoring	- Review and classification of public image and reputation.	10 local media. 354 letters per year on average.
Complaint Resolution System	- System for resolution of community complaints, auditable as part of ISO-14000.	Neighboring community and city of Torreón. 4 complaints during the year.
Autonomous Development of Productive Activities	- Skills development program. - Company incubation program. - Program for suppliers and strengthening production chains. - Training program for social promoters to raise the quality of life in communities.	120 courses with 5,600 participants. 10 incubated companies including the creation of 25 direct jobs and 85 suppliers developed. 11th Annual Industrial Trade Conference and Employee Fair with 250 participating companies and over 1,800 candidates Immediate community benefited: 12 neighborhoods and 29,000 persons through the development of 22 social promoters.
Social Infrastructure	-Paving. - Construction of beneficiation centers.	33,700 square meters of paving streets and avenues for the benefit of inhabitants of neighboring communities. Support for the construction of a *DIF* Children's Home group home for children between 7 and 18 years of age that are at risk or subect to physical and/or emotional mistreatment. Improvements to Youth Wellness Center facilities of the San Francisco de Asís Dispensary and 2 religious temples.
Institutional Communication	- Institutional communication program with communications media, authorities and social, cultural and sporting institutions.	10 communications media. Municipal and state authorities in Ecology, the Environment and Health. 10 health and environmental institutions.
Street Remediation Program	- External remediation: street cleaning and sweeping. - Internal remediation: cleaning and vacuuming houses.	16 bordering villages. 9,760 internal remediation actions. 11,538 external remediation actions.
Restoration of Common Use Lands	- Restoration with dirt or concrete.	16 adjacent neighborhoods. 3,773 square meters of land restored with concrete. 12,361 square meters of land restored with gravel.

- *Evaluation*
- *Mitigation*

CONTROL MATRIX FOR SOCIAL AND ENVIRONMENTAL IMPACTS (SO1)

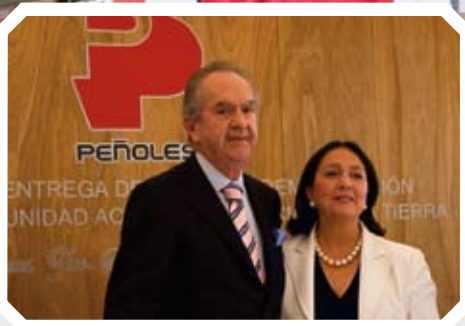
Programs/Practices	Description	Scope
Nursery and Centennial Forest	- Production of plants, trees and compost. - Rescue program for Noa and threatened endemic species. - Maintenance of the Centennial Forest.	62,435 trees planted annually: 40% for donation to the community and 60% for internal use. 5,500 cactaceous plants and 10,167 trees in the Centennial Forest.
Environmental Health Unit	- Medical service unit, orientation and epidemiology monitoring of lead levels in blood.	36 villages benefited. 47,974 users, mainly children and pregnant and nursing women.
Water Treatment and Use of Treated Water	- Treatment of sewage from the city of Torreón for use in plant operations and irrigation of green areas.	2 treatment plants that utilize 10% of the city's sewage, equivalent to 4 million cubic meters of treated sewage water. Treated water used in 100% of industrial processes. Irrigation of 30 hectares of green space; 182,500 cubic meters for the Venustiano Carranza Forest; 80,300 cubic meters for the municipality; 3,120 cubic meters for the Cristo de las Noas Religious Tourism Center; and 51,500 cubic meters for educational institutions.
EXPLORATION		
Environmental Culture	- Sustainable Exploration Conferences. - Donation of 300 trees.	173 persons benefited.
Educational Culture and Quality	- Equipment loan.	40 persons benefited.
Health and Family Wellness	- Transport of the local population to receive dental care in Cahuisori as well as transportation of sick people to nearby health centers.	25 persons benefited.
Sports and Recreation	- Help with sporting materials: projects in Maguarichi, Rey de Plata, Ximotla, Orizyvo and Uruachi. - Support for educational festivals in San Julián, Milpillas, Pitiquito, and Bacanora.	840 persons benefited.
Social Infrastructure	- Help with construction materials in Maguarichi, Nicilás-Ximotia and Nacozari. - Hydraulic construction in San Julián and Bajío, Orisyvo. - Construction of septic tanks in Orisyvo.	1,699 persons benefited.

- *Evaluation*
- *Mitigation*

CONTROL MATRIX FOR SOCIAL AND ENVIRONMENTAL IMPACTS (SO1)

Programs/Practices	Description	Scope
ENGINEERING AND CONSTRUCTION		
Socio-economic Studies	Sample field interview.	Community of Velardeña: 512 persons interviewed.
Image Studies	- Study of image perception and public reputation.	Community of Valdecañas and Saucito del Poleo.
Institutional Communication	- *What is a Mine* campaign in Velardeña.	Attendance of 357 people.
Environmental Culture	- 2 garbage collection campaigns with support of key messages in flyers. - Reforestation campaign in Saucito with the donation of 350 trees, and 200 in Velardeña. - Donation of boats to Saucito.	- 2,260 persons benefited and 760 persons that collaborated in Velardeña and Saucito. - Community of Saucito de Poleo with 260 inhabitants, and Velardeña with 2,243 inhabitants.
Educational Culture and Quality	- Donation of a home for the Velardeña Community Museum. - *Values* campaign in Velardeña. - Addiction prevention campaign. - Visit to the Zig-Zag Museum. - Computer classes in Saucito.	- Community of Velardeña (2,240 inhabitants). - 200 beneficiaries in Velardeña. - 166 persons in both communities. - 33 children in Saucito. - 36 students.
Health and Family Wellness	- Delivery of treatment materials to the Saucito Health Center. - Conferences on comprehensive health.	- 260 beneficiaries in Saucito. - 66 people.
Sports and Recreation	- Support for sporting and wellness activities. - 5K race in Saucito.	- 104 children and 80 adults in Saucito and Velardeña. - 60 persons in Saucito.
Social Infrastructure	- Support for schools: Agua Velardeña and construction of a flagpole in Saucito. - Construction of two public restrooms in Velardeña. - Relocation of the former mining house in Velardeña. - Remodeling of the church.	- 2,863 persons benefited.

- *Evaluation*
- *Mitigation*



"With these actions I reiterate my commitment to foster education through Peñoles." **(Mr. Alberto Baillères, in the restoration project of the Academic Unit of Earth Sciences of the Autonomous University of Zacatecas *[UAZ]*, September 2007)**

DEVELOPMENT OF SELF-LEARNING CAPABILITIES

According to the results of the Programme for International Student Assessment (PISA), conducted by the Organization for Economic Co-operation and Development in 2006, our country ranked among the lowest in terms of educational competency in reading, mathematics and sciences. In light of this troubling reality, the culture and quality of education constitutes one of the key ingredients of Peñoles's social commitment, which seeks to develop among the inhabitants of the communities where it operates skills that contribute to elevating their well-being. One of the most successful examples of our work in the educational area involves the actions we took in the state of Zacatecas.

Principal activities during 2007:

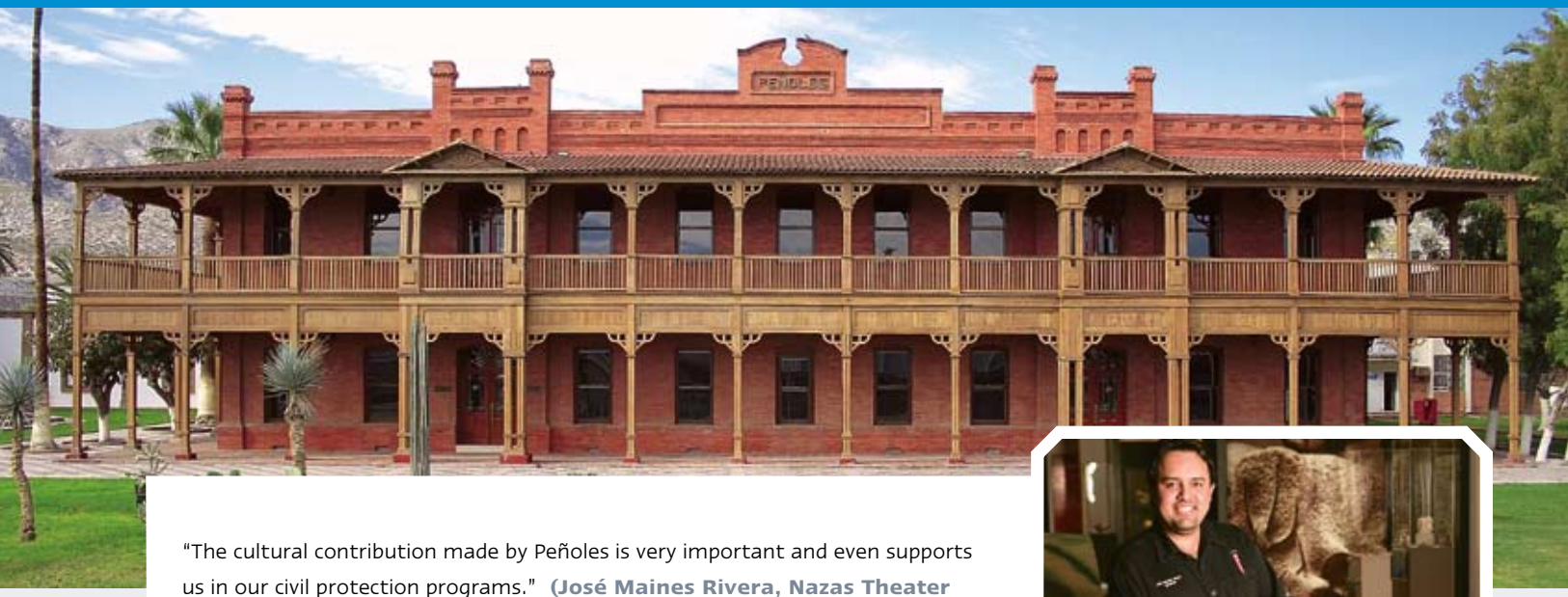
- Donation of 16 classrooms for the Peñoles Module at the Autonomous University of Fresnillo, inaugurated on September 25 by the Chairman of the Board of Directors of Peñoles, Mr. Alberto Baillères.
- Participation in the restoration project of the Academic Unit of Earth Sciences of the Autonomous University of Zacatecas.
- Implementation of the *Evidence and Experience-based System for Teaching Science* sponsored by *INNOVEC* in Zacatecas, for the benefit of 10 schools, 200 teachers and 3,615 students. The program is based on a constructivist focus; it was created in 2004 and is also in place in Coahuila, where it serves 388 teachers and 3,200 children.
- In coordination with the Technological Institute of Sombrerete, a proposal was put forth to create the career of Senior University Technician in Mining. In August 2008, the mining specialization will be implemented within the Industrial Engineering program. Peñoles will provide support by supplying materials and facilitating opportunities for practical experience in its facilities.

Follow-up actions:

We continue to invest talent and resources, together with the community and authorities, to contribute to elevating the level of education of teachers and students in Zacatecas and other states in Mexico. We established a model of teaching networks in 2003 comprised of students, parents and educational institutions to update teaching techniques. This network covers twelve states today.

During 2007, we continued to strengthen professional practice programs for earth sciences students, as those who embark on this career represent one of the principal recruiting sources for the company. The Laguna del Rey Center for Technical Studies *(CETLAR)*, located in Coahuila and founded in 1993, currently has 70 students enrolled and has graduated 267 mechanical technicians—electrical and electrician-instrumentalist—of which 52% work for Peñoles. There are currently two career programs, Mechanical-Electrical and Electrician-Instrumentalist, with 70 participating students.

CASE STUDY: MUSEUM OF METALS IN TORREÓN, COAHUILA



"The cultural contribution made by Peñoles is very important and even supports us in our civil protection programs." **(José Maines Rivera, Nazas Theater Cultural Affairs in Torreón, Coahuila, January 2008)**

COMMITMENT TO CULTURAL DEVELOPMENT

To commemorate the centennial of the founding of Torreón and the 120 years of Peñoles, the Metals Museum was inaugurated in the location where the offices of Met-Mex Peñoles were built in 1901. This was a favorable forum to disseminate and promote the earth sciences, as well as the value and presence of metals in all aspects of human life and the historical importance of the mining industry.

The museum is a private cultural space, free and unique, both for its geographic location as well as for the value it represents in the recovery of our historical patrimony, architecture and the museographics involved. It will be donated to the city of Torreón, the state of Coahuila and the country as a new cultural and tourist destination with a dynamic and life of its own that will support artistic activities and cultural activities in the region, drive new scientific vocations in earth sciences, position our country as a global center for refined silver, and contribute to regional economic and educational development.

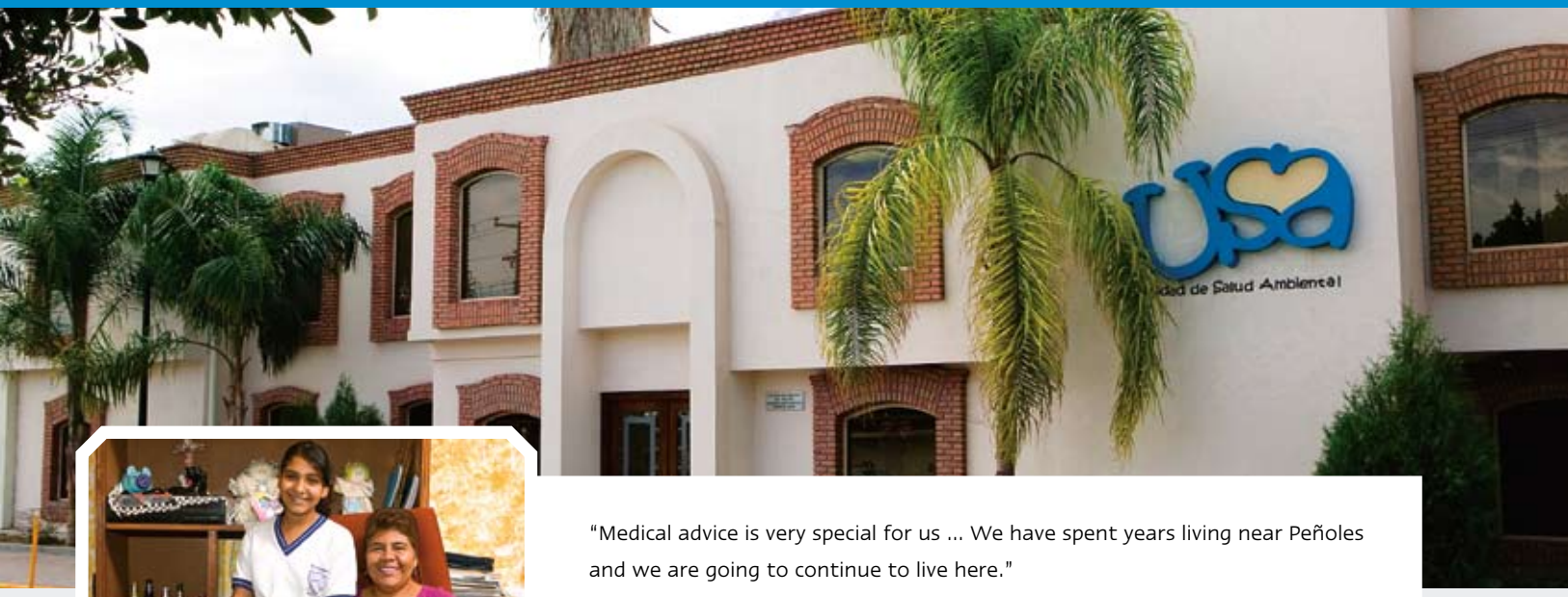
About the project:

- Work commenced in May 2005 and the museum was inaugurated in September 2007.
- A total of 160 workers and specialists participated in the architectural restoration of one of the oldest buildings in Torreón.
- More than 90 well-known experts in international museography participated in the design.
- The museum has five large permanent exhibition rooms and a temporary room. It occupies a surface area of 1,750 square meters.
- The museum is recognized by educational, tourism, cultural and social development authorities and is part of the National and State Museum System.

Results and follow-up actions:

The museum has welcomed more than 4,000 visitors since its inauguration, including students and national figures from more than eight countries. Expositions, competitions, contests, conferences, displays, fairs and concerts are regularly held on the premises, connected with each other by the theme of metals and earth sciences. It has been the site of numerous cultural events. On December 18, it inaugurated the first temporary exhibition entitled *Metals in the Color and Light of the Mountain* which recognized Mexican stained glass art and its principal exponents. It tells the history of the rescue of the palace stained glass windows of Chapultepec Castle and shows the coloration processes for coloring and assembling stained glass windows, for which metals are essential.

CASE STUDY: REDUCED RISK FROM LEAD EXPOSURE *(LA08)*



"Medical advice is very special for us ... We have spent years living near Peñoles and we are going to continue to live here."
(María de la Luz Palacios, mother and visitor to the Environmental Health Unit, February 2008)

COMMITMENT TO HEALTH

It is a priority for Peñoles that its neighbors enjoy good health and quality of life. One of the principal manifestations of this commitment is the *Program for the Prevention, Protection and Treatment of the Population Exposed to Lead* in the city of Torreón, Coahuila, a systematic process of observation and measurement of levels of lead in the blood and air and soil quality, to identify areas or persons that have been affected and could face health risks. On the basis of the results of the measurements and the participation of the community, the authorities and the company, strategies are generated to handle any eventuality and avoid risks.

In the Environmental Health Unit, programs are developed that contribute to the prevention of risks from lead exposure, particularly among children and pregnant or nursing women. There are six work areas: preventive medicine, psychopedagogy, risk communication, social work, brigades and data management. Medical and psychopedagogical evaluations are also conducted and sessions given on sanitary education and family meetings with parents.

About the project:

- The objective of this program is having the entire population that lives in the immediate surroundings of Met-Mex Peñoles maintain levels of lead below 10 micrograms per deciliter of blood.
- The project is aimed at 37 neighborhoods and encompasses a radius of approximately 2 kilometers.
- The program includes taking blood, air, soil and carpet samples. On the basis of the results, correlations are established and health and restoration programs are designed.
- In accordance with the levels of lead encountered, strategies are employed such as distributing food supplements, providing medical recommendations, removing lead found in houses or streets and the temporary relocation of people who are affected. If the lead content of soil is greater than 400 parts per million (ppm), a portion of the soil is removed or it is chemically treated to reduce bio-availability.

Results:

- Between 1988 and 2007, the average amount of lead in the blood fell from 24.1 µg/dl to 6.8 µg/dl.
- Between 1999 and 2007, the number of children that had more than 25 µg/dl of lead in their blood declined from 2,765 to 28.
- Between 1999 and 2007, the percentage of children with less than 10 µg/dl of lead in their blood rose from 16.2% to 80%.

Note: *This data relates to the population of the neighborhoods bordering the facilities of Met-Mex Peñoles.*

CASE STUDY: COMMITTEES TO PROMOTE SOCIAL DEVELOPMENT

"The social service performed by this group of women is something formidable, grand. I have seen throughout the year the great work that they have done in all the schools of Caborca and even in the rural areas."
(Araceli González, Handcrafts Center, February 2008)

THE COMMITMENT OF OUR *DAMAS PEÑOLERAS*

The Peñoles family tradition has always been inclined to adding value to our activities, not only through the participation of our employees in community programs, but also of their families. For approximately four decades, the *Damas Peñoleras*, the spouses of our personnel, have striven firmly and voluntarily to implement projects to support their communities, which have undoubtedly enriched and improved the social environment and societies in which we operate. In collaboration with such entities as Community Committees or Youth Wellness Centers, their efforts have been oriented to education and the capacity development of their communities. They have held an innumerable number of workshops on such diverse subjects as culture, art, hygiene, cooking, crafts and sports. In addition, they participate on a daily basis directly or through donations and grants to cultural and religious events as well as in campaigns for vaccination and health, nourishment, family wellness, literacy, etc. Their work has focused on children, the elderly and women, convinced that when one educates a person one creates a citizen, but that if one educates a woman, one strengthens a family and a people.

We extend our most sincere recognition to the *Damas Peñoleras* for their unequalled work as key agents in our strategy of sustainable development.

About the principal activities of the *Damas Peñoleras* in 2007:

- In La Herradura, Sonora, the *Damas Peñoleras* Committee held educational workshops in six schools with the participation of 702 children, as well as the parents of the families. In coordination with the Youth Wellness Center in the Municipality of Caborca, the *Addiction Prevention Program* was created. It also focused on the detection and treatment of vision problems among children.
- In Naica, Chihuahua, the *Damas Peñoleras* formed part of the organizing committee of the mining fairs and a workshop for silversmiths, as well as providing constant support for church activities and nourishment programs.
- In Fresnillo, Zacatecas, 53 sponsors participated through the Center for Community Development in numerous workshops in such subjects as ceramics, sewing, cooking and beauty with the attendance of 250 students in self-development activities.
- In La Ciénega, Durango, through the Wellness Center, they participated in campaigns in the areas of the cultural environment, nutrition and family wellness, as well as in the formation of microenterprises. For example, they provided support to the organization of the Second *Cienegatón* in which they collected 2,500 winter garments.
- In Milpillas, Sonora, they collaborated on preventive programs for 536 children and adolescents—as well as 80 parents and teachers—and on programs for school equipment and the replanting of 200 trees.
- In Torreón, Coahuila, through four Wellness Centers, they served 300 families and supported a program of scholarships for which they organized a march and auction of silver pieces of art donated by recognized artists. In coordination with the Youth Wellness Centers, they have participated for three years in an addiction prevention program in three secondary schools attended by 3,200 young people.
- In Sabinas, Zacatecas, the Community Development Center was inaugurated by the *Damas Peñoleras* Committee to conduct a program of productive activities. It is currently holding four crafts workshops with 113 attendees and 14 instructors.
- They also participated in the *United Way Program*, a philanthropic campaign held by the Mexican United Way for the past four years dedicated to collecting donations of money and/or volunteer time from our employees for the benefit of the neediest sectors. Currently participating in this effort are Fresnillo, Met-Mex Peñoles, Francisco I. Madero, Sabinas, Tizapa, Química del Rey, Bismark, Naica, La Herradura, Central Workshop, Milpillas and *SIPSA* Torreón. Thanks to our employees, they have raised approximately $1,200,000 annually.
- They collected funds for scholarships in Mexico City.

SUMMARY OF PEÑOLES SUSTAINABILITY 2007

Category	Initiatives	Achievements 2007
Environment	Water Resources	In keeping with the provisions of Mexico on the matter, none of our business units discharge wastewater process.
	Energy	Feasibility studies concluded for two eolic parks and a hydroelectric power station. Solar power technology was developed to produce process steam and build a pilot plant at Quimica del Rey in 2008. An investment of USD$123 million was approved for a 50 MW wind park which will begin operations in 2010 and signifiy a reduction of 120,000 tons of CO_2 emitted to the atmosphere. The National Commission on Energy Conservation recognized Fertirey with the *National Award for Energy Conservation* for having achieved a 28% increase in the efficiency of its energy consumption, equivalent to 156,141 BOEs.
	Residues	Each of our operating centers complies with the provisions of the Mexican law and international agreements that Mexico has signed for the management of industrial and hazardous waste. All hazardous waste that we generate is packaged, labeled, stored, transported and appropriately received for disposal. With concern for accidental spills of substances that may occur, we maintain an inventory of the impact generated and the restorative actions. In 2007, we recorded two incidents but neither had significant impact.
	Atmospheric Emissions	Complying with Mexican standards, at the Met-Mex Peñoles complex in Torreón, Coahuila, emissions of sulfur dioxide reached an annual average concentration of 0.015 parts per million (ppm), well below the norm NOM-022-SSA1-1993, which establishes an annual maximum of 0.03 ppm. The concentration of lead maintained an annual average of 0.49 micrograms per cubic meter ($\mu g/m^3$), also below the levels set by the norm NOM-026-SSA1-1993, which establishes a maximum of 1.5 $\mu g/m^3$.
	Ecosystem Conservation	There is a program to protect the flora and fauna in all the locations where we operate. The two most representative units are Fresnillo, Zacatecas, and La Ciénega, Durango. In Fresnillo, the Environmental Management Unit, which cares for species rescued in different regions of the country, is operated. In La Ciénega, in collaboration with *INIFAP*, Phase II of the Sustainable Forest project was successfully completed. Restoration work was also carried out in the Gochico, Reforma, Sultepec, Cuale and Zimapán mines, with an investment of USD$2.7 million.
Safety and Occupational Health	Strengthening of Criteria, Actions and Training	ISO-14001 certifications and OHSAS 18000 recertification for Peñoles. Química del Rey and the Met-Mex Peñoles Lead Smelter were awarded the *Silver Helmet Award* by *CAMIMEX*. 34 mine shelters were installed. 190,841 hours of training were conducted on Environment, Safety and Health. Training for firefighting brigade in La Ciénega and Milpillas.
Social Commitment	Social Infrastructure	The remodeling of the Earth Sciences Academic Unit of the Autonomous University of Zacatecas was concluded, as was construction of the Peñoles Module at the Autonomous University of Fresnillo. The Metals Museum in Torreón was inaugurated. In Naica and Velardeña, space was allocated for the establishment of community museums. Various materials were donated for the construction of infrastructure.
	Environmental Culture	There were several campaigns during the World Environment Day and World Water Day. More than 180 thousand trees were donated and planted in the communities of influence of our operations, and various programs for reforestation were carried out. In Torreón, support was provided for paving of streets and avenues over a surface of more than 33,000 square meters. Support was provided for the construction of the *DIF* Children's Home, the restoration of the Youth Wellness Center of the St. Francis of Assisi Clinic, and for two temples.
	Culture and Educational Quality	The Evidence and Research-Based System for Teaching Science *(SEVIC)* was implemented in Zacatecas in partnership with the state government and *INNOVEC*, with Peñoles and the state providing $750,000, respectively, and $1.5 million from the Federation, for a total of $3 million. It benefited twelve schools in Fresnillo, Sabinas and Francisco I. Madero. Support for training teachers on instructional skills was provided in: Naica, Sabinas, La Herradura, Met-Mex, Bermejillo, Tizapa, Química del Rey and Bismark. The restoration and museography project was undertaken for the Napoleón Gómez Sada Museum of Mining in Fresnillo.
	Family Health and Well-being	Health campaigns in La Ciénega, Velardeña, Saucito and Tizapa. Continuation of addiction prevention programs in: Química del Rey, Tizapa, La Herradura, Milpillas and Torreón.
	Sports and Recreation	Promotion of various sports activities and athletic careers.
	Autonomous Development of Productive Activities	Support provided to suppliers and for the incubation of microenterprises in Torreón, and follow up given to the silversmithing workshop in Naica and Fresnillo. Courses were offered in fabric painting, ceramics and embossing in the social development centers of our mining units.
Corporate Governance	Code of Conduct	The Code of Conduct was updated, including the United Nations Global Compact principles and, as takes place every year, it was signed by all our employees.
	Ethics Hotline	With the aim of promoting anti-corruption practices, the *Peñoles Fair Play* program was implemented during the year, and 23 reports were received through an anonymous ethics hotline.

SENIOR EXECUTIVES

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Alberto Baillères

CEO

Jaime Lomelín Guillén

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Executive Vice President
Armando Sánchez Díaz
Mining Operations Vice President

Metals
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Rodolfo Gómez Maturano
Vice President

Para obtener una versión en español de este informe, favor de contactar a: *(3.4)*
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We invite you to send us your comments on this report. You can reach us by e-mail at:
Sustainability_Report@penoles.com.mx

For additional information regarding our processes, products and financial performance, as well as our prior sustainability reports, please consult our webpage:

www.penoles.com.mx

Design & Photography: 33 Visual • **Printing:** Earthcolor, Houston

AWARDS AND RECOGNITIONS *(2.10)*

- *Socially Responsible Company Award* for seven consecutive years, granted by the Mexican Center for Philanthropy *(CEMEFI)*.
- *Ethics and Values Award* in Industry from the Confederation of Industrial Chambers *(CONCAMIN)* on four occasions.
- *Silver Helmet Award* from the Mexican Mining Chamber *(CAMIMEX)* for improved safety indices at Química del Rey, for the fifth time, and for the Lead-Silver Smelter in the Metals Division, for the first time.
- First place in the *National Award for Thermal Energy Conservation* at Fertirey.
- First Place in the Northern Zone, Large Corporation category, in the *National Award for Excellence in Exporting*, 2007 version, from the Mexican Council on Foreign Trade, Investment and Technology *(COMCE)*, for Met-Mex Peñoles (June 2007).
- For the third time, the *El Centinela National Communication Award* to Met-Mex Peñoles from the Mexican Association of Organizational Communicators, for the *Combat Addictions without Time Limits* campaign, within the *Institutional Program to Prevent Addiction* that was conducted this year at certified Smoke-free Schools at the three main schools in Coahuila (two middle schools and a technical high school).
- Trophy of recognition to Met-Mex Peñoles from the Committee for the 100 Year Celebration of Torreón.
- Plaque to Met-Mex Peñoles for participation in the construction of the Children's Home of the Family Wellness Development Organization *(DIF)* of Torreón.
- Recognition of Bismark as a *Success Case*, by the Secretary of Labor and Social Security for its *Safety Self-management Program*.
- Third place for La Ciénega in Mine Rescue in the VII National Competition of Mine Rescue Teams, Ciudad Delicias, Chihuahua (April 25–27, 2007) from *CAMIMEX*.
- Recognition of Sabinas by the Secretary of Labor and Social Security for its *Safety Self-management Program* for continuous improvement in safety and health.
- *Recognition of Best Practices* from *CEMEFI* for the Sustainable Fresnillo Complex.
- In addition, we have received numerous honorable mentions and recognitions for social, educational, cultural and sporting efforts from the authorities and community opinion leaders, in printed and electronic media throughout the year.

PRICEWATERHOUSECOOPERS

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REPORT ON LIMITED AND INDEPENDENT REVIEW

To the Board of Directors of Industrias Peñoles

As per your request, we have conducted a limited and independent review of the contents of the 2007 Sustainable Development Report, prepared by Industrias Peñoles, which is responsible for the compilation and presentation of the information contained therein.

Our responsibility is to issue conclusions on the consistency and reasonability of the quantitative data, financial and non-financial information included in said report, based on the review work and the scope described in the following paragraphs. Our responsibility is also to indicate the opportunity areas identified during the course of the review process.

It should be kept in mind that the purpose of this auditor's report is not to evaluate the performance of Industrias Peñoles in terms of Safety, Health, Environment, Energy or Social Performance.

Bases and objectives of our review

Our work was conducted in accordance with the International Standard on Assurance Engagement ISAE 3000[1] established by the International Federation of Accountants, with the objective to provide limited assurance.

The purpose of our work was to verify whether or not the information contained in the 2007 Sustainable Development Report was consistent with:

- The supporting evidence presented by management, and
- The A+[2] self-declared application level according to the version G3 of the Sustainability Reporting Guidelines of the Global Reporting Initiative (GRI).

[1] *ISAE3000: International Standard on Assurance Engagements, other than audits or reviews of historical financial information.*

[2] *Classification of the level at which GRI G3 guidelines were applied in the report: There are three levels of application in decreasing order: A, B and C, with the (+) option, if in any of those levels, external verification work was conducted.*

REPORT OF THE

INDEPENDENT AUDITORS

PRICEWATERHOUSECOOPERS

Scope

A limited assurance work is restricted to making inquiries to company management and to apply certain limited analytical procedures and test on a sample basis on the source of the information included in the report, as well as to an analysis of the systems, processes and procedures used for gathering the information.

We conducted our review work at the Company's Corporate Office and four Business Units of Industrias Peñoles (Met Mex, Tizapa, Madero and la Ciénega), which were selected according to the significance of their activities, with respect to sustainability aspects.

For the data of the Environment, Energy, Safety, Occupational Health and Social Performance sections, our review was limited to the following:

1. Review of the systems, processes and procedures for data compilation, consolidation and data reporting;
2. Verifying, on a sample basis, the consolidation of data and information; and
3. Verifying, on a sample basis, the existence of external and internal evidence that support the information presented.

Field visits included interviews with the head of the facility and the personnel in charge of Environment, Energy, Safety, Occupational Health and Social Performance activities.

In addition to our review of said activities, our work comprised the analysis at site level of procedures and internal controls for obtaining, capturing, processing and reporting data, as well as the selective review of supporting documentation.

We reviewed the data in the economic section to verify that it was consistent with, or derived from, the financial statements audited by other independent auditors.

Moreover, we carried out a general assessment of the 2007 Sustainable Development Report to confirm a level A+ in the fulfillment of the frameworks established in version G3 of the Global Reporting Initiative (GRI) Guidelines for Sustainability Reporting.

Conclusions

Based on our work described in this report, nothing has come to our attention that causes us to believe that the 2007 Sustainable Development Report has insufficient documentation to support the data reported, or that it was not prepared in accordance with the Global Reporting Initiative G3 Guidelines and supplement thereto for the mining industry, reaching a level A+ of application, notwithstanding the areas of opportunity set out under the following heading.

PRICEWATERHOUSECOOPERS

Areas of Opportunity

With respect to the 2007 report, the Company's efforts to advance in its adoption of the principles and indicators established in the GRI's Guidelines for Sustainability Reporting can be noted, as well as significant progress with respect to some of the areas for improvement identified in 2006.

It is our understanding that the following areas show opportunities for improvement:

About the comprehensive compliance with GRI principles.

a. Further structured formal involvement of stakeholders in the determination of the contents of the sustainability report, through surveys and workshops.

About the preparation of the report: Policies and Procedures

b. With respect to the preparation of the report, in order to improve the maturity of the preparation process, we recommend formalizing the protocol currently used.

About the information management systems

c. As mentioned in the 2005 and 2006 "Reports on Limited and Independent Review", no solution has yet been incorporated in order to reduce the likelihood of error, standardize the criteria for reporting indicators and ensure the consistency of information flows between Business Units and Corporate offices. This implies making strategic decisions to unify the different systems used for information management or, the development or acquisition of an application that integrates all such needs.

About the organizational structure

e. There still exists an area of opportunity to align the sustainability strategy and the organizational structure corresponding to the responsibilities pertaining to Sustainable Development, which includes strengthening communication between the operating areas and the Environment, Energy, Safety, Occupational Health and Social Performance areas. In addition, independence should be ensured between the operating areas and those responsible for control of environment, safety, health and social performance aspects.

Enrique Alejandro Bertran Sánchez
Partner
PricewaterhouseCoopers S.C.
Mexico, March 14th 2008

NOTES TO THE

FOURTH FINANCIAL STATEMENT

Generation and Distribution of added value[1]

At Peñoles, our key goal is to contribute in the long term in a sustainable way with the development of our different collaborators in the company and in Mexico. Our commitment towards them is reflected with the distribution of the value generated during this year. The beneficiaries are our internal collaborators, communities where we carried out our operations, clients to whom we provide our products, our own inputs providers, government and environment through our oriented actions to mitigate the environmental impact that the mining industry can cause.

The next chart shows the company's contribution to the generation of added value to the Mexican economy and how this value was distributed among our principal stakeholders. This information is harmonized and supported by the financial statements as of December 31, 2006 and 2007.

1. SOCIAL RESPONSIBILITIES POLICES

a) Corporate Governance
The Corporate Governance system of Peñoles adheres to and is in compliance with the Better Corporate Practices Code of the Entrepreneurial Coordinating Board and is based on a Board of Directors, which includes independent advisors and specific committees such as Audit and Corporate Practices, Evaluation and Compensations, Finance and Planning, an Executive Committee and Four Executive Directors' Offices, all reporting to the General Director.

b) Code of Ethics
Peñoles adheres to the United Nations' Global Pact and maintains an Institutional Code of Ethics supported by an annual commitment statement by the collaborators.

c) Security, health and labor
Peñoles has implemented a Policy on Environmental Protection, Health and Security, which is the framework of the Center for Shared Environmental, Health and Security Services (MASS from its initials in Spanish) and establishes its active participation through the mixed Health and Security commissions in all operations. The Peñoles commitment to the security programs becomes tangible as concerns to goal to reduce the index of accidents by 50%, with 2003 as the base year, and with specific indicators for measurement of progress in this regard.

d) Environment
The Company's consistent compliance with it environmental obligations is reflected in its Environmental Management System (SAA from its initial in Spanish) and the four permanent objectives thereof: proper handling and disposal of resources, control and reduction of pollutant emissions into the environment, optimization of the use of water and control of residual water discharges, the prevention of environmental accidents and preparation against emergencies.

e) Community development
In the Community Section shows the most significant aspects in relation with our operations. These actions are based on our social diagnosis policy implemented in all Peñoles operations, to characterize each community, identify our real needs and risks, and identifying the community's perception of our company. Each operation must have a Social Development Plan in place, with actions in response to formal and institutional processes.

f) Responsible market and consumer protection practices
The actions are settled in our customer satisfaction policies, product security sheets and the ISO-9000-2000 quality system of our operations.

g) Social Dialogue
As a formal commitment, our policies have engaged in dialogue and interaction with the different stakeholders identified. This translates into assessment matrixes and different communication methods to address each of the interest groups.

h) Social investment
The social and environmental impact of our operations is addressed and measured through different indicators, described in detail in the Impact Matrixes. Peñoles is currently engaged in negotiating the company's social participation, with due attention and consideration given to stakeholders.

i) Donations, volunteers and philanthropy
Application of Peñoles policies in this regard has given rise to actions that assign budgeted amounts to a number of philanthropic actions, although the Company's main emphasis is placed on developing skills (not limited to the philanthropic role) on a selective basis.

j) Education
The education policies at Peñoles include our collaborators and the community in which we conduct our operations, through continuous plans and annual programming, measuring the efficiency and effectiveness of our programs.

1 According to the principles: "Social Report: A Fourth Basic Financial Statement: On the Social Dimension of Enterprises" by Luis Perera Aldama, PricewaterhouseCoopers, PricewaterhouseCoopers Chile. October 2003"

2. OUR MAIN CUSTOMERS

a) Income

In this record year for Peñoles (see further financial information in 2007 annual report and Internet page www.penoles.com.mx), we have reached a total $44,730 million in income from sales, which represents a 16% increase from 2006. This increase is due to the increases in the price of steel, along with important increases in the volumes of our products, as shown below:

2007	Gold	Silver	Lead	Zinc
	%	%	%	%
Price increase	15.3	16.0	100.1	-1.0
Increase in volume	8.3	8.0	-0.8	-3.5

2006	Gold	Silver	Lead	Zinc
	%	%	%	%
Price increase	35.8	57.7	32.1	137.0
Increase in volume	39.9	10.8	-3.1	2.8

The following table shows how income has been generated in the different markets that we supply:

Market sales (Thousand of Mexican pesos)	2006	%	2007	%
Domestic	9,722,666	25	12,317,220	27
U.S.	23,558,148	61	21,699,117	48
Japan	1,039,622	3	271,854	1
Europe	1,888,248	5	8,726,166	20
South America	404,048	1	546,423	1
Others	1,964,300	5	1,169,701	3
Total	**38,577,032**	**100**	**44,730,481**	**100**

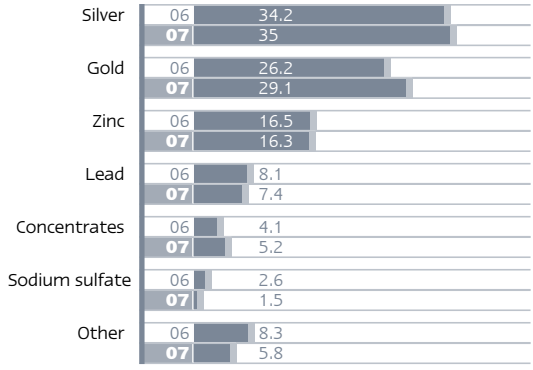
Our sales´ policy contemplates giving preference to the national market (product of the prizes associate), and later covering the international market.

Within the international context, a change between the years 2006 and 2007, the Japanese market (low) and the European is appraised (increase), product of the best obtained prices of accomplishment in this one last market.

The products most commercialized in 2007 were silver, accounting for 35% of our income, with gold and zinc accounting for 29 % and 16%, respectively. The remaining sales pertain to lead, concentrates, sodium sulfate, ammonia sulfate, bismuth, and other.

The following graph shows sales distribution percentages:

SALES BY PRODUCT 2006 AND 2007



Note: *Not including hedging results.*

3. ORIGIN OF COST COMPONENTS

a) Costs

2007 operating costs increased by 19.5%, with respect to the prior year, for a total $29,739 million. This is due mainly to the 105.5% increase in the cost of metal with respect to the prior year.

The following table shows the cost variation for 2006 and 2007, as well as the distribution in percentage terms.

Costs (Thousands of Mexican pesos)	2006	%	2007	%
Cost of Metal	19,213,185	77	23,132,052	78
Fuels	1,989,972	8	2,092,897	7
Operating Materials	1,332,111	5	1,576,728	5
Raw Material	310,819	2	287,403	1
Other	2,048,532	8	2,649,819	9
Subtotal	**24,894,619**	**100**	**29,738,899**	**100**

The main component of costs is the metal purchased from third parties for treatment at the metallurgical compound.

The following tables show the make-up of the aforementioned items:

NOTES TO THE

FOURTH FINANCIAL STATEMENT

Make-up of Fuels

(Thousands of Mexican pesos)	2006	2007
Electrical Power	1,162,190	1,215,030
Natural gas	373,371	377,317
Coke	202,620	185,879
Diesel	165,421	213,642
Fuel and lubricants	49,818	74,235
Fuel oil	36,342	25,414
Other	210	1,380
Total Fuels	**1,989,972**	**2,092,897**

Make-up of Operating Materials (Thousands of Mexican pesos)	2006	2007
Explosives and detonating material	126,377	150,875
Mill balls and bars	81,852	85,484
Hydrated Lime	81,071	85,718
Other reactive material	70,182	77,279
Security equipment	57,188	68,315
Baum calcium and magnesium	56,588	38,907
Building materials	45,490	147,453
Steel and drill	42,320	53,062
Tires and inner tubes	41,910	61,286
Sodium cyanide	38,920	42,807
Zinc	38,781	64,997
Other materials	173,171	150,432
Other	478,261	550,113
Operating Materials	**1,332,111**	**1,576,728**

Make-up of Raw Materials (Thousands of Mexican pesos)	2006	2007
Ammonia	243,968	221,233
Magnesium oxide	24,373	22,981
Cement copper	16,305	16,476
Zinc earth	14,105	13,909
Other	12,068	12,804
Raw Materials	**310,819**	**287,403**

b) Purchases

(MM1)

During the reporting period, Peñoles conducted commercial operations with an overall 13,024 domestic suppliers and 1,812 located abroad, totaling 14,837, with respect to 13,497 in the prior period.

Following are the number of suppliers broken down per type of purchase in 2007:

	N° of Suppliers	
	2006	2007
Consumables	6,012	6,483
Transportation	712	779
Contractors	774	851
Customs Agents	155	174
Services	5,520	6,167
Fixed Assets	36	37
Concentrates	288	345
Total	**13,497**	**14,836**

Peñoles supports and promotes the country's development, generating jobs and business opportunities for different domestic industries. This is as a result of the location of our 13,024 suppliers, distributed throughout Mexico.

Following are the main states where most of our suppliers in 2006 and 2007 are concentrated: Coahuila hosts the largest number of suppliers, for a total 3,230 during 2007 and 2,936 in 2006; followed by Mexico City with 1,956 in 2007 and 1,759 in 2006.
Followed by Nuevo León with 1,299 in 2007 and 1,173 in 2006; Zacatecas 1,043 in 2007 and 944 in 2006; Chihuahua

934 in 2007 and 864 in 2006, Sonora 923 and Durango 885, both for 2007, with respect to 819 and 803 in 2006 respectively. The remaining suppliers are spread throughout Mexico.

As for suppliers abroad, the U.S. accounts for 67% of total importations, followed by Canada with 140 suppliers, and a series of other countries, which account for 25% of foreign suppliers.

	N° of Suppliers	
	2006	**2007**
U.S.	1,152	1,215
Canada	130	140
Other countries (42)	406	457
Total	**1,688**	**1,812**

At Peñoles, depending on the type of purchase, different payment policies are applied to our suppliers. These policies have remained constant in 2006 and 2007.

	Days
Consumables	30
Transportation	14
Contractors	10
Customs agents	8
Services	15
Fixed assets	10
Concentrates and minerals	Cash

4. INDICATORS OF DISTRIBUTION OF ADDED VALUE

a) Employees

At Peñoles, we are aware that our work force plays a key role in the organization, and that as a result of its contributions in a context of respect and trust that we have reached the Company's objectives, as well as those of the employees themselves.

During 2007, salaries and wages paid to 7,818 employees and collaborators, including payments to associates and bonuses, totaled $2,888 million, representing a 4.5% increase from 2006.

The most significant increase was 8.2% in the Company's Employees' Statutory Profit Sharing, of $ 529.3 million.

Employee Makeup	**2006**	**2007**
(Thousands of Mexican pesos)		
Compensations		
Salaries	703,144	758,221
Wages	359,088	378,526
Benefits	619,771	644,283
Subtotal Compensations	**1,682,003**	**1,781,030**
Overtime	**70,308**	**51,064**
Benefits	**522,531**	**526,567**
Profit Sharing	**489,338**	**529,334**
Total Employees	**2,764,180**	**2,887,995**

b) Contractors

Services received from third parties in 2007 amounted to $3,804 million, representing a 24% increase from 2006. The following table shows the different services received and the related amounts paid:

Contractor Makeup	**2006**	**2007**
(Thousands of Mexican pesos)		
Contractors	1,334,122	1,780,729
Maintenance	735,018	889,500
Major Repairs	477,667	451,821
Fees	468,612	543,860
Other	60,054	138,050
Total	**3,075,473**	**3,803,960**

c) Taxes

As a result of the different commercial transactions conducted, income tax in the amount of $1,674 million was paid to the Mexican Government.

In 2007, a total $273 million was paid corresponding to water taxes, property taxes, mining concessions and other, as shown under Other in the following table:

Taxes		
(Thousands of Mexican pesos)	**2006**	**2007**
Income tax	2,051,743	1,674,425
Other taxes	207,183	272,506
Total taxes	**2,258,926**	**1,946,931**

NOTES TO THE

FOURTH FINANCIAL STATEMENT

d) Shareholders

Peñoles is a public company, whose stock has been traded in the Mexican Stock Market since 1968.

Dividend Distribution

(Thousands of Mexican pesos)	2006	2007
Majority dividends	2,245,362	2,085,000
Minority dividends	197,617	0
Total dividends	**2.442.979**	**2,085,000**

e) Community and Environment

At Peñoles, environmental issues are key, due to which, we apply strict protection policies and avoid the actions that damage the environment. One of the Company's main goals is to contribute to the country's sustainability through the reduction of impact, which could affect the natural environment as a result of our operations.

In light of the above, Peñoles also makes contributions to the communities with which we interact.

For both items, we have contributed a total $280 million pesos, 17% more than in 2006. This variation is related to both environmental activities (with our contributions showing a 22.6% increase), and community- related actions.

The following table shows the different contributions made by Peñoles in terms of the environment and the communities in which we conduct our operations, as evidence of our responsible and sustainable commitment:

Community and Environment

(Thousands of Mexican pesos)	2006	2007
Community	60,363	44,327
Environment	118,547	145,291
Depreciation of social goods	36,180	54,414
Provision of ecological expenses[2]	23,095	35,631
Community and Environment	**238,185**	**279,663**

It should also be mentioned that we maintain fixed assets for social use in the amount of $995 million (approximately 5.63% of our total net assets in Property, Plants and Equipment), as shown:

Thousands of Mexican Pesos	2006	2007
Common used road	15,326	14,435
Housing	11,647	119,273
Clinics	1,932	5,239
Tailings	54,845	141,877
Ecological	664,768	648,101
Environmental and ecological control	49,947	571
Social benefits	-	65,530
Total	**906,465**	**995,026**

f) Retained by the company

Part of the monetary value generated by Peñoles during 2007 has not been distributed to any stakeholder, but rather retained, so as to ensure the continuation of our operations in the future.

The retained at company item includes items intended for the regeneration or subsistence of the company's production capacity, capital, or social value: essentially, income for the period net of the distribution of dividends and deprecation for the period (including the results in fixed asset disposals).

Retained by company (Thousands of Mexican Pesos)	2006	2007
Depreciation, Amortization and Depletion(*)	1,359,201	1,667,744
Consolidate net income	4,493,552	4,246,595
Other	(697,725)	3,863
Subtotal	**5,155,028**	**5,918,202**
(less) Majority and minority dividends	2,442,979	2,085,000
Retained by the company	**2,712,049**	**3,833,202**

(*) Note: *less assets in the amount of 34,893 thousand Mexican Pesos in 2006 and 54,414 thousands Mexican pesos, for use by the community, employees and ecological, turned over to the Community and Environmental.*

g) Financial Institutions

As a result of the obligations contracted with financial institutions and other similar third parties, in 2007, Peñoles incurred a total $155 million.

2 *Peñoles maintains a provision of ecological expenses to do in front of the closings of task by an amount of $ 190.956.305 for 2007 ($155.325.869 for 2006)*

GLOSSARY

ACCIDENT RATE

The number of classifiable accidents (C, D, E and F). C: temporary disability for one or more days; D: partial permanent disability that results in the complete loss of use of any limb or part of the body; E: permanent total disability from a non-fatal injury that causes the individual to lose abilities for the rest of his or her life; and F: work-related fatality.

ANODIC SLIMES

Impurities containing metals in an electrolytic cell in which anodes (impure metals) and cathodes (pure metal) are alternated.

BASEL AGREEMENT

Global environmental treaty that strictly regulates the cross-border movement of hazardous wastes and stipulates obligations for the member parties to assure the environmentally rational management of such wastes, and particularly of their disposal.

BIODIVERSITY

Variety of species, animals and plants in their environment.

BRACKISH WATER

Mixture of seawater and fresh water that may contain more dissolved salt than fresh water but less than seawater. Technically, water is considered to be brackish if it has between 0.5 and 30 grams of salt per liter.

CALORIE

A unit of thermal energy equivalent to the quantity of energy required to raise the temperature of 1 gram of water 1º C, in the interval from 14.5° to 15.5° C.

CLEAN DEVELOPMENT MECHANISM (CDM)

Clean Development Mechanism derived from the Kyoto Protocol for the reduction of greenhouse gases.

CLEAN INDUSTRY CERTIFICATE

Certificate issued by the Federal Environmental Protection Agency (*PROFEPA*) to private or public industries that have complied with all the observations made in environmental audits.

CLIMATE CHANGE

Change in climate attributed directly or indirectly to human activity that alters the composition of the world's atmosphere and adds to the natural climatic variations observed during comparable time periods.

CODE OF CONDUCT

Statement of ethical standards that a company establishes and is governed by.

COMMODITIES

Products intended for commercial use, availability and world demand that have a range of international prices and do not require extensive technology for manufacture and processing.

CORPORATE GOVERNANCE

A set of principles that govern the design, integration and functioning of the governing bodies of the company such as the Board of Directors and its support committees.

COSO PRINCIPLES
(Committee of Sponsoring Organizations of the Treadway Commission)

Internal control guidelines for companies with five criteria: environmental control, risk evaluation, control activities (policies and procedures), information and communication and monitoring or supervision.

DIRECT EMISSIONS

Venting of substances into the atmosphere derived from burning fuels and generating electricity, as well as heating water or utilizing boilers.

DOLOMITE

Sedimentary rock formed from 57.6% calcium carbonate and 38.4% magnesium carbonate.

ECO-EFFICIENCY INDICATOR

A ratio that measures the level of efficiency associated with operating processes expressed as a combination of economic and environmental performance. Because generally eco-efficiency is expressed in terms of monetary value of the product or service divided by its environmental impact, in the case of Peñoles this indicator was calculated by dividing the consumption of first use water or total energy consumption among the sum of the most representative products of each business unit.

ELECTROLYSIS

Decomposition of a body produced by electricity.

ENVIRONMENTAL LIABILITY

An environmental situation generated by man in the past with progressive effects over time that represents risks to the environment and the quality of life. It can cause deterioration in the quality of water, soil, air and to ecosystems in general.

FOURTH FINANCIAL STATEMENT

Methodology developed by PricewaterhouseCoopers, which sets forth a model of reporting that reconciles the financial statement and the social responsibility activities of companies.

GEI MEXICO PROGRAM

A voluntary national program to account for and report Greenhouse Gases (GEI) and to develop projects to reduce emissions created by private initiative as a response of the industrial sector to combat climate change.

GIGACALORIES

A unit of energy that represents one billion calories.

GREENHOUSE GASES (GHG or *GEI*)

Gases—carbon dioxide, chlorofluorocarbons, ozone, methane and nitrous oxides—that are located in the lower portion of the earth's atmosphere that have been identified as the principal cause of global climate change.

GRI (Global Reporting Initiative)

Initiative to develop reports on the economic, environmental and social performance of companies through a series of indicators.

HAZARDOUS WASTE

Elements, substances, compounds, residues or mixtures that, independent of their physical status, represent a risk for the environment, health or natural resources because of their corrosive, reactive, explosive, toxic, flammable or biological-infectious characteristics.

INDIRECT EMISSIONS

Venting of substances into the atmosphere derived from electricity consumption or transport emissions.

ISO-14001

International standard for environmental management.

ISO-9000

International standard for quality management and product or service assurance.

JAROSITE
Non-hazardous waste from processing zinc minerals with high iron content.

JOULE
Energy unit equivalent to 0.239 calories.

LEACHING
Process by which soluble constituents are dissolved and filtered through the soil by percolation of fluids.

LEAD LEVEL IN BLOOD
According to the standard, NOM EM 004 SSA1-1999, the values used as criteria to establish the limits for the concentration of lead in blood are as follows: a) for children (under 15 years) and pregnant women, 10 µg/dl of blood; and b) for adults (over 15 years) 25 µg/dl of blood.

MILLING SYSTEM
Technology used to grind the ore extracted from the mining units. The ball mill, containing steel balls, is rotated to pulverize the mineralized material mixed with water. The SAG mill (Semi-Autogenous Grinding) has greater capacity and efficiency than the former.

MINE WATER
Water pumped from the interior of a mine that may have a high level of acidity or some type of toxic mineral.

NANO PARTICULATES
Particulates with a measurement of one-millionth of a meter.

NON-HAZARDOUS WASTE
Any material considered to be a waste that needs to be eliminated.

OHSAS
(Occupational Health and Safety Management Systems)
Series of internationally accepted standards for health and safety in the workplace.

PARTIAL HEARING LOSS
A disorder characterized by hearing loss or reduction.

PETROLEUM COKE
Final residue from the process of petroleum refining that is used as a fuel.

PM10
Particulates less than 10 micrometers - PM10 (<= 10 µm) and materials that can be noxious to the health of people.

RENEWABLE ENERGY SOURCES
Those energy sources that can supplant current energy or energy sources either by lesser contaminating effects or fundamentally for their potential for renewal. The principal renewable energy sources are wind energy, hydroelectric power, ocean power, solar and geothermal power as well as energy created from biomass.

RESTORATION
Re-establishment of the original properties of an ecosystem or habitat in terms of its community structure and fulfillment of its natural functions.

REVERSE OSMOSIS
Physical-chemical phenomenon whereby one component is separated from another in a solution through the forces exerted on a semi-permeable membrane.

SEWAGE
Residential wastewater that has not been used for industrial, commercial, agricultural or livestock purposes.

SILICOSIS
Nodular fibrosis of the lungs and difficulty breathing caused by prolonged inhalation of chemical compounds containing crystalline silicon.

SLAG
Residue from the processes of smelting and refining metals composed principally of iron, silicon and calcium.

STAKEHOLDERS
Group of key actors for Industrias Peñoles composed of shareholders, clients, suppliers, employees and communities.

SUSTAINABLE COMMUNITY
A long-term and integrated systematic approach to developing healthy communities, in which economic, environmental and social aspects are collectively addressed.

SUSTAINABLE DEVELOPMENT
A process that meets the needs and aspirations of the current generation without compromising the ability of future generations to meet theirs (WBCSD, World Business Council for Sustainable Development).

TAILINGS
Waste from the process of mineral concentration or beneficiation.

UNITED NATIONS GLOBAL COMPACT
An initiative for an ethical commitment intended for entities in any country to include as an integral part of their strategy and operations the ten Principles of Conduct and Action on the subject of Human Rights, Labour Standards, the Environment and the Fight against Anti-Corruption.

VALUE CHAIN
Set of processes that are structured to provide a value proposition to customers and generate economic value for shareholders.

WASTE WATER TREATMENT
Procedure whereby water contaminated with organic and mineral materials is purified. It is divided into three phases:

- Primary treatment: First stage in which all solids that float are eliminated and sedimentary solids are extracted by screens, mechanical extractors or other means.
- Secondary treatment: The phase in which the organic matter content is eliminated by microbial action.
- Tertiary treatment: The stage in the processing in which nutrients (phosphates and nitrogen) are removed along with a high percentage of suspended and dissolved solids.

WASTEWATER
Liquid of varying composition originating from municipal, industrial, commercial, agricultural, livestock or other public or private use, whose original quality has deteriorated.

Note: All Spanish acronyms in this Sustainability Report are in italics.

GRI-G3

Indicator	GRI Indicators	Page
General Indicators		
1.1	Statement of the Director.	2
1.2	Description of principal impacts, risks and opportunities.	2
2.1	Name of the company.	13
2.2	Principal brands, products and/or services.	Foldout
2.3	Operating structure of the organization.	13, 19
2.4	Location of the headquarters of the organization.	13, 14
2.5	Number of countries in which the organization operates.	14
2.6	Legal form and nature of ownership.	13
2.7	Markets served.	110, see Note 2 to the Fourth Financial Statement.
2.8	Dimensions of the organization: number of employees, net sales, number of products, etc.	52, 76
2.9	Significant changes in size, structure and ownership of the company during the period covered by the report.	16
2.10	Awards and distinctions received during the reporting period.	28, 54,105
3.1	Period covered by the information contained in the report.	Foldout
3.2	Date of the most recent previous report.	Foldout
3.3	Reporting cycle.	Foldout
3.4	Contact point for questions regarding the report or its contents.	Inside back cover
3.5	Process of determining the content of the report.	Foldout
3.6	Coverage of the report.	Foldout
3.7	Limitations on the scope or coverage of the report.	Foldout
3.8	Basis for inclusion of information that may significantly affect comparability between periods and/or organizations.	Foldout
3.9	Data measurement techniques and basis of calculation in the compilation of indicators and other information in the report.	Foldout
3.10	Description of the effects of restated information appearing in previous reports.	There are no restatements during the reporting year.
3.11	Significant changes from prior periods in the scope, coverage or valuation methods employed in the report.	There were no significant changes.
3.12	Location of the basic contents of the report.	Foldout
3.13	Current policies and practices in relation to the request for external verification of the report.	Foldout
4.1	Governance structure of the organization including the highest level governance committees responsible for such tasks as strategy formulation or supervision of the organization.	19
4.2	Indication of whether the chairman of the highest governance body also occupies an executive position.	The Chairman of the Board of Directors does not occupy an executive position.
4.3	For those organizations that have a unitary management structure, indicate the number of members of the highest governance body that are independent or non-executive.	Peñoles does not have a unitary management structure.
4.4	Mechanisms for shareholders and employees to communicate recommendations or suggestions to the highest governance body.	56
4.5	Linkage between the compensation of the members of the highest governance body, senior officers and executives and the performance of the organization.	56
4.6	Procedures in effect to avoid conflicts of interest in the highest governance body.	56
4.7	Procedure to determine the required training and experience for the members of the highest governance body.	56
4.8	Statement of mission and values developed internally, codes of conduct and other documents for sustainability and the statement of implementation.	7, 8, 55
4.9	Procedures of the highest governance body for supervising the identification and management of economic, environmental and social performance of the organization.	54
4.10	Procedures to evaluate the performance of the highest governance body itself.	54

INDICATORS

GRI-G3

Indicator	GRI Indicators	Page
4.11	Description of the manner in which the organization has adopted a plan or principles of precaution.	46
4.12	Social, environmental and economic principles or programs developed externally.	94
4.13	Principal associations to which the company belongs, such as industry and/or national and international entities.	18
4.14	Relationship to stakeholders included by the organization.	7, 8
4.15	Basis for the identification and selection of stakeholders to which the organization is committed.	7, 8
4.16	Focus adopted for the inclusion of stakeholders, including the frequency of their participation by type and category of stakeholder.	7, 8
4.17	Principal concerns and items of interest that have emerged through the participation of the stakeholders.	7, 8
	Economic Performance Indicators	
EC01	Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, benefits not distributed, and payments to suppliers of capital and to governments.	52
EC02	Financial consequences, other risks and opportunities for the company's activities due to climate change.	30
EC03	Coverage of obligations defined by the organization with respect to pension plans.	52, 79
EC04	Significant governmental financial assistance.	During the reporting period no type of governmental support was obtained.
EC05	Interval of the relationship between the standard starting wage and the local minimum wage in locations in which significant operations are conducted.	79
EC06	Policies, practices and proportion of expenses corresponding to local suppliers in locations in which significant operations are conducted.	60, 61
EC07	Procedures for local hiring and the proportion of senior managers from the local communities in which significant operations are conducted.	76
EC08	Development and impact of investments in infrastructure and services rendered principally for the benefit of the community, through commercial commitments, pro bono or in kind.	See Notes to the Fourth Financial Statement.
EC09	Understanding and description of indirect significant economic impacts, including the scope of such impacts.	See Notes to the Fourth Financial Statement.
	Environmental Performance Indicators	
EN01	Principal supplies utilized by weight or volume.	34
EN02	Percentage of materials utilized that are recycled or reused.	34
EN03	Direct energy consumption disclosed by source.	28
EN04	Indirect energy consumption disclosed by source.	28
EN05	Energy savings due to conservation and efficiency improvements.	28
EN06	Initiatives for efficient energy use or employing renewable energy in the products and/or services that the company supplies.	28
EN07	Initiatives to reduce the indirect consumption of energy and the reductions achieved in these initiatives.	28
EN08	Total extraction of water by business unit broken down by sources.	24
EN09	Sources of water that have been significantly affected by the extraction of water.	26
EN10	Percentage and total volume of water recycled and reused.	24
EN11	Description of adjacent lands or lands located within natural protected areas or unprotected areas with high biodiversity.	41
EN12	Description of the most significant impacts on biodiversity in natural protected areas or in unprotected areas of high biodiversity.	41
EN13	Protected or restored habitats.	41
EN14	Strategies and actions implemented and planned for the management of impact on biodiversity.	41

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Indicator	GRI Indicators	Page
EN15	Number of species disclosed in terms of danger of extinction, included in the Red List of the International Union for the Conservation of Nature *(UICN)* and on national lists.	41
EN16	Total direct and indirect emissions of Greenhouse Gases (GHG), by weight.	30
EN17	Other indirect important emissions of Greenhouse Gases (GHG) by weight.	30
EN18	Initiatives to reduce emissions of Greenhouse Gases (GHGs) and the reductions achieved.	30
EN19	Emissions of substances that deplete the ozone layer, by weight.	Peñoles does not utilize in its processes substances that deplete the ozone layer.
EN20	NOx, SOx and other significant atmospheric emissions by type and weight.	38
EN21	Total discharge of residual water by quality and destination.	26
EN22	Total weight of residues generated by type (hazardous and non-hazardous) and final disposition (treatment method).	34
EN23	Total number and volume of most significant accidental spills.	37
EN24	Weight of residues transported, imported, exported or treated that are considered hazardous according to the classification of the Basel Agreement.	Peñoles neither imports nor exports residues.
EN25	Identification, size, protection status and biodiversity value of water resources and related habitats that have been significantly affected by the company's water discharges.	Peñoles does not affect the biodiversity of water resources.
EN26	Initiatives to mitigate environmental impact of the company's products and services.	46
EN27	Percentage of products sold (includes packaging materials) that are recollected, reused or recycled at the end of their useful life, by product category.	34
EN28	Amount of significant fines and number of non-monetary sanctions for failure to comply with environmental standards.	There were no significant fines or sanctions during the reporting period.
EN29	Significant environmental impacts from the transport of products and other goods and materials utilized for the activities of the organization as well as the transport of personnel or contractors.	37
EN30	Environmental expenses and investments by type.	52
	Social Performance Indicators	
LA01	Total workers by type of employment, contract and region.	76
LA02	Total number of workers by gender, age and region that voluntarily left the company or due to firing, retirement or death.	76
LA03	Social benefits for full-time employees.	79
LA04	Percentage of employees covered by collective agreements.	76, 78
LA05	Minimum notification periods prior to changes in the organization.	78
LA06	Percentage of total workers represented on health and safety committees for the supervision of these programs.	81
LA07	Rates for accidents, occupational illnesses, lost days and absenteeism, as well as total number of fatalities.	81
LA08	Education, training, assessment, prevention and risk control programs provided to workers, their families or members of the communities in relation to serious illnesses.	102
LA09	Formal union agreements related to health and safety aspects.	78
LA10	Average hours of training per year by employee, disclosed by employee category.	83
LA11	Skills management and continuous training programs to identify the strategic needs of the company.	84
LA12	Percentage of employees that receive regular performance evaluations and professional development.	84
LA13	Composition of corporate governance bodies and staff, disclosed by sex, age, minority groups and other indicators of diversity.	76
LA14	Comparison of base wages for men versus women.	79
HR01	Percentage and total number of significant investment agreements or contracts that include human rights clauses.	74
HR02	Percentage of principal suppliers that have been evaluated on the subject of human rights.	60

INDICATORS

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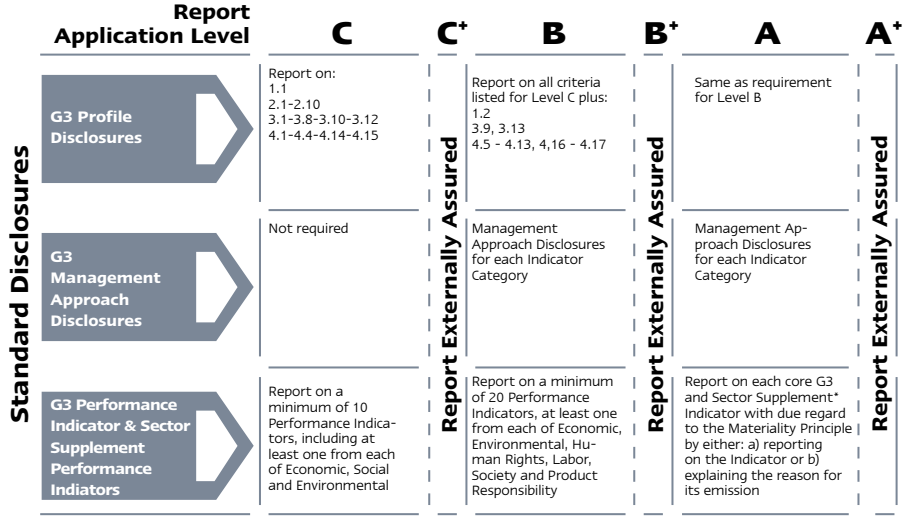
Indicator	GRI Indicators	Page
HR03	Total hours of employee training on policies and procedures related to human rights.	There were no specific courses given on human rights; only campaigns for the *Peñoles Play Fair* program, in which denunciation is promoted for cases of human rights violations.
HR04	Total number of incidents of discrimination and measures adopted.	There were no types of discrimination incidents during the period reported.
HR05	Company activities in which the right to freedom of association and coverage by collective agreements can bring substantial risk.	78
HR06	Measures adopted to avoid exploitation of children.	74
HR07	Measures adopted to avoid forced labor.	74
HR08	Percentage of persons that have had humans rights courses.	There were no specific courses given on human rights; only campaigns for the *Peñoles Play Fair* program, in which denunciation is promoted or cases of human rights violations.
HR09	Number of incidents of violations of indigenous people.	There were no cases of violations to indigenous communities.
SO1	Nature, scope and effectiveness of programs and practices to evaluate and mitigate the impacts of operations on communities.	94
SO2	Percentage and total number of business units analyzed with respect to risks related to corruption.	55
SO3	Percentage of employees trained in the anti-corruption policies and procedures of the company.	55
SO4	Measures taken in response to corruption incidents.	55
SO5	Participation in development of public policies and lobbying activities.	90
SO6	Total value of financial and kind contributions to political parties or to institutions related with the locality.	No contributions of any type were made to political parties or to local institutions.
SO7	Total number of pronouncements related to monopolistic practices.	There were no monopolistic practices.
SO8	Significant fines and non-monetary sanctions for regulatory compliance failures.	There were no significant fines or sanctions.
PR01	Life cycle analysis.	44
PR02	Number of incidents of legal incompliance for the impact of products on health and safety during the life cycle.	There were no incidents during the reporting period.
PR03	Types of information required for products and services, established in procedures, regulatory standards or under voluntary codes.	70
PR04	Total number of compliance failures with regulations or the voluntary codes related to information and labeling of products and services.	There were no incidents during the reporting period.
PR05	Practices related to customer satisfaction, including the results of satisfaction studies.	68
PR06	Programs to comply with laws or adherence to standards and voluntary codes with respect to marketing communications.	68, 71
PR07	Total number of incidents attributable to failure to comply with regulations and codes with respect to marketing communications.	There were no incidents during the reporting period.
PR08	Total number of claims duly based on the right to privacy and misuse of personal data of customers.	69

Indicator	GRI Indicators	Page
PR09	Number of significant fines for failure to comply with laws and regulations with respect to the supply and use of products and/or services of the organization.	There were no significant fines or sanctions during the reporting period.
	Mining Indicators	
MM01	Identification of operations in which the contribution to the local economy and the impact of development and interested parties may be significant.	61
MM02	Value added, disclosed by country.	52
MM03	Number and percentage of operations identified with and without plans to manage biodiversity and criteria for determining the need.	41
MM04	Percentage of products made from secondary materials.	34
MM05	Description of policies to evaluate eco-efficiency and product sustainability.	22
MM06	Description of focus adopted for managing overloads, waste rock, tailings/residues, sludge and quantities of residues or hazardous residues generated.	34
MM07	Description of significant incidents that affected communities during the period covered by the report and resources dedicated to the resolution of these incidents.	94
MM08	Description of programs directed to independent and small scale mining.	This year there was no documented support for independent mining. However, support will continue next year.
MM09	Description of relocation policies and activities.	90
MM10	Number or percentage of operations with closure plans that include social (including the labor transition), environmental and economic aspects.	15, 44
MM11	Description of processes utilized to identify rights to the land and constitutive rights of local communities, including those of indigenous peoples.	90
MM12	Description of criteria utilized to identify, prevent and respond to emergency situations that affect workers, local communities or the environment.	82
MM13	Number of cases of occupational illnesses by type and programs to prevent occupational illnesses.	80

SELF EVALUATION ACCORDING TO THE GRI-G3 APPLICATION LEVEL



Source: Sustainability Reporting Guidelines, G 3 Version. 2006

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