



ECONOMIC, SOCIAL AND ENVIRONMENTAL BALANCE: OUR WAY OF LIVE

2006 SUSTAINABILITY REPORT



PEÑOLES

ABOUT THIS REPORT

With the presentation of our sixth Annual Sustainable Development Report, we reiterate the commitment that drives us, and recount our environmental, economic and social performance in 2006.

For the third consecutive time, our report has been prepared on the basis of the criteria and guidelines established by Global Reporting Initiative (GRI), on this occasion, according to the new G3 version issued in October 2006 in Amsterdam, the capital of the Netherlands, and the Mining and Metals Sector Supplement (version GRI-2002). Additionally, the report takes into consideration the GRI protocols for indicators, the UN Global Compact Principles and the Extractive Industries Transparency Initiative (EITI).

This report offers a summary of the programs and policies, and economic, social and environmental results from our activities in 2006. In order to provide a balanced presentation, we have chosen the most relevant indicators for our business.

The information contained in this document is limited to Peñoles's core business areas—Mining, Metals and Inorganic Chemicals—but it also covers information about our support areas and mentions the profile of the associated companies in which we have less than a 50% stake, foreign affiliates and corporate offices.

In order to confer greater substance and transparency to our information, for the second time our report is being submitted for verification by PricewaterhouseCoopers (PwC), which conducted a review in accordance with the corresponding standards.

This report may be viewed in electronic format on our website at: www.penoles.com.mx

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



Peñoles performed a self-evaluation of this report, obtaining the level of B+, in accordance with the criteria of the Global Reporting Initiative (GRI-G3) presented on page 75.



ECONOMIC, SOCIAL AND ENVIRONMENTAL BALANCE: OUR WAY OF LIFE

At Peñoles, we are aware that in parallel to improving productivity, ethical business practices are needed with a focus on health, safety, the environment and the community. As such, we consider sustainable development a key factor in our business strategy. The challenge and commitment we have taken on as an industry is to maintain the balance between economic growth and social development and environmental care.

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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 (pension funds); Valores Mexicanos-Casa de Bolsa (financial services); Crédito Afianzador (bonding); and agribusinesses.





MESSAGE FROM THE CEO



At Peñoles, we believe the concept of sustainable development is a key factor in our business strategy. We give the same consideration to ongoing improvement of our operations and fulfillment of obligations to our stakeholders. In 2006, we consolidated the changes to the structure implemented the year before in order to prepare our organization for the future, improve the efficiency and effectiveness of our operations and reduce costs.

The extractive industry is the first link in the chain of the transformation industry, and it contributes to improving quality of life.

Nevertheless, there is a distorted perception about the impact of mining activities on the environment and on worker safety and health. For this reason, we have adopted ethical business practices with a strategic approach to health, safety and environmental care, as well as in the application of clean production technologies and the responsible handling of minerals and metals, whereby we demonstrate to society that modern mining has a sustainable development approach that seeks a balance between economic, social and environmental performance.

We maintain a constant pace of exploration of new sites and viable projects given that the future of any non-renewable natural resources company depends on this. Currently, the mining industry faces the challenge of land access, which implies reconciling its needs with those of the communities where such sites are located, and with environmental protection.

We have therefore redesigned the company's community outreach strategy with a clear sense of respect for the culture and customs of the communities, in order to gain their consent, contribute to improving their quality of life, and be the best of neighbors.

Another challenge facing our industry is the decreasing number of earth science professionals, a field with declining enrollment, added to which is the aging of the current work force. In order to address this situation, Peñoles has un-

OUR EFFORTS ARE DIRECTED AT COMPLETELY FULFILLING THE EXPECTATIONS OF OUR SHAREHOLDERS, CLIENTS, SUPPLIERS, EMPLOYEES AND MEMBERS OF THE COMMUNITIES WHERE WE HAVE PRESENCE.

dertaken joint efforts with mid- and high-level educational institutions to promote the enrollment of young people in academic studies related to these professions, and we also actively participate in research and development projects.

As we have previously stated, care for the environment and the safety and health of our employees are priorities for Peñoles, which is why, during 2006, we focused our environmental efforts on the correct handling and disposal of waste, control of atmospheric emissions, optimization of water use, elimination of wastewater runoff, prevention of environmental incidents and preparation for managing any such emergencies that may arise.

We continue to make progress in improving the general health of our employees through prevention programs for obesity, diabetes and other risks.

We continue to work on programs to eliminate unsafe actions and to train our personnel in this field. Despite the efforts to date, we regret eight fatalities caused by unsafe actions in which six of our employees and two contractors lost their lives; we extend our sincerest condolences to their families, colleagues and communities.

We continue to actively participate in a number of national and international discussion and analysis forums in order to exchange best practices and learn first-hand about environmental trends and regulations, as well as to pursue our efforts aimed at protecting biodiversity.

Concerning the efficient use of resources, we continue our efforts to save water and energy in all their forms. We have reduced the proportion of first-use water in our processes and we have rationalized the consumption of electricity. To that end, we are making progress in the search for clean energy sources that do not generate greenhouse gases (GHGs).

In terms of global warming, we participate as voluntary members of the Mexican Greenhouse Gases Program (GEI Mexico), and we have completed the second inventory of GHGs in order

to reduce these gas emissions, and if possible, to take advantage of carbon credits.

Our activities remain aligned with the UN Global Compact, to which we are signatories.

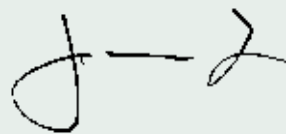
In 2006, operations commenced at the Milpillas copper mine in Sonora. From the beginning, the project complied with the World Bank's Equator Principles.

Peñoles adapted its structure to comply with the provisions established in the new Securities Market Law.

We extend our most sincere appreciation to Don Alberto Baillères, Chairman of the Board of Directors of Industrias Peñoles, and to our Board of Directors and Executive Committee for their continued attention and valuable contribution to environment, safety and occupational health, which have enabled us to completely fulfill the expectations of our shareholders, clients, suppliers, employees and the members of the communities where we have presence.

I would also like to recognize the efforts and commitment that our employees demonstrated in 2006, and I urge them to continue redoubling their efforts in safety, health and environmental care.

Finally, I want to reiterate that we are open to dialogue and to the contribution of ideas that foster the sustainability of our business.



Jaime Lomelín
Chief Executive Officer



SUSTAINABILITY STRATEGIES

THE CHALLENGE AND COMMITMENT WE HAVE AS AN INDUSTRY IS TO MAINTAIN THE BALANCE BETWEEN ECONOMIC GROWTH AND SOCIAL DEVELOPMENT AND ENVIRONMENTAL CARE.

In 2006, we reaffirmed our commitment to the path of sustainability, aligning our corporate strategies to this goal.

The Peñoles mission—to add value to non-renewable natural resources in a sustainable manner—is continually strengthened by comprehensively responsible actions. We firmly believe that in order to be a highly competitive company, we need to implement effective policies and innovative programs that generate positive and tangible results with regard to economic, social, and environmental performance.

Within the framework of our sustainable development commitment, the stakeholders to whom we have an obligation are essential for the design, construction and operation of a comprehensively responsible company.

ECONOMIC PERFORMANCE

The economic aspect of sustainability is fundamental to our competitiveness and permanence. Our activities in this sphere are therefore focused on creating value for our stakeholders through the operation of a profitable business, with growth and adherence to best practices. This has allowed us to offer competitive compensation to our employees, support our service suppliers, satisfy our customers, pay dividends to our shareholders, generate taxes for the development of the country, invest in competitive and environmentally-friendly technologies, support education, safety and occupational health programs and to contribute to the improvement of living standards in the communities where we operate.

ENVIRONMENT

Given the nature of its activities, which could affect the environment if suitable measures are not taken, Peñoles has environmental management systems aimed at preventing, mitigating and remedying their ecological impact, and thereby avoiding damage that our operations may cause to biodiversity, soil, water and air.

With the awareness of the risk implied by greenhouse gas emissions on global warming, we are implementing steps to reduce these emissions.

HEALTH AND SAFETY

The health of its employees is of vital importance for Peñoles. Consequently, as of 2005 we instituted the *Zero New Professional Illnesses Program*, with the collaboration of our medical and occupational health services areas, which has made it possible to reduce the number of root causes of illness among our employees.

It is our major responsibility to ensure the safety and well-being of our employees and to conduct the necessary research into the causes leading to accidents, to institute policies and procedures and to provide safety training. In order to eliminate risks, we are continually implementing best practices through programs such as *Zero Tolerance* that permit any employee to interrupt any operation or activity that endangers his safety or that of others, and *Operational Discipline* for performing work safely with quality and care for the environment.

COMMUNITY

Peñoles invests in programs that promote education, respect for and the preservation of the culture, practices and customs of the communities where we operate.

In order to strengthen community relations, we have developed and implemented a number of programs with the purpose of maintaining the quality of life of the communities where we are present. Furthermore, we are adopting new strategies to identify the interests and needs of our stakeholders.

Peñoles's community development programs are ongoing institutional initiatives that are categorized along the following lines: environmental culture, culture and educational

quality, health and family integration, sports and recreation and the development of self-sustaining economic activities and social infrastructure. All of the programs are carried out with the joint participation of the company, community and authorities.

The challenge and commitment we have as an industry is to maintain the balance between economic growth, social development and environmental care.



OUR MISSION

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



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

- Confidence
- Responsibility
- Integrity
- Loyalty

OUR STAKEHOLDERS

At Peñoles we strive to be:

- The best long-term investment option, with growth and profitability for our **shareholders**.
- The strategic partner that offers comprehensive solutions and inspires confidence to conduct business over the long-term with our **customers**.
- A strategic partner in the value chain that establishes mutually-beneficial and long-term relations with our **suppliers**.
- The career choice that instills pride and dignity because we offer our **personnel** opportunities for development, respect and recognition, in a safe environment and with teamwork.
- A socially responsible company that respects nature and promotes the self-sustainable development of the **communities** where we operate.





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- 2 *Química del Rey, Coahuila*
- 3 *Dawn at La Herradura, Sonora*
- 4 *Nursery at Minera Fresnillo, Zacatecas*



COMPANY PROFILE

AT PEÑOLES, WE CONSIDER THE CONCEPT OF SUSTAINABLE DEVELOPMENT A KEY FACTOR IN OUR BUSINESS STRATEGY.

Since its foundation in 1887, Peñoles has expanded its operations into mining, smelting and refining of non-ferrous metals and the production of inorganic chemicals. We are the world's top producer of refined silver, metallic bismuth and sodium sulfate and among the leading Latin American producers of refined gold, lead and zinc. Peñoles directly employs 7,576 people—excluding associated companies—across 12 states in Mexico.

Peñoles is a corporation that was legally incorporated in accordance with the laws of Mexico and is part of Grupo BAL, a privately held and diversified consortium of independent Mexican companies that includes Grupo Palacio de Hierro in the department store business; Grupo Nacional Provincial, in insurance; Profuturo GNP, in the management of pension funds; Valores Mexicanos, a brokerage house; Crédito Afianzador, in bonding; and agribusinesses. Peñoles's shares have traded on the Mexican Stock Exchange since 1968.

Our associated companies include Bal-Ondeo and its subsidiaries, in the management of municipal drinking water, sewer and wastewater treatment systems, the Coahuila-Durango short rail which serves some of the Peñoles mines; and Termimar, an international sea terminal for handling exports.

Peñoles is structured in three operating divisions:

- Mining and Chemicals
- Metals
- Infrastructure

a growth division:

- Exploration, Engineering and Construction

and four support divisions:

- Finance, Planning & IT
- Internal Audit
- Legal Affairs
- Human Resources

Our corporate offices are located in Mexico City.

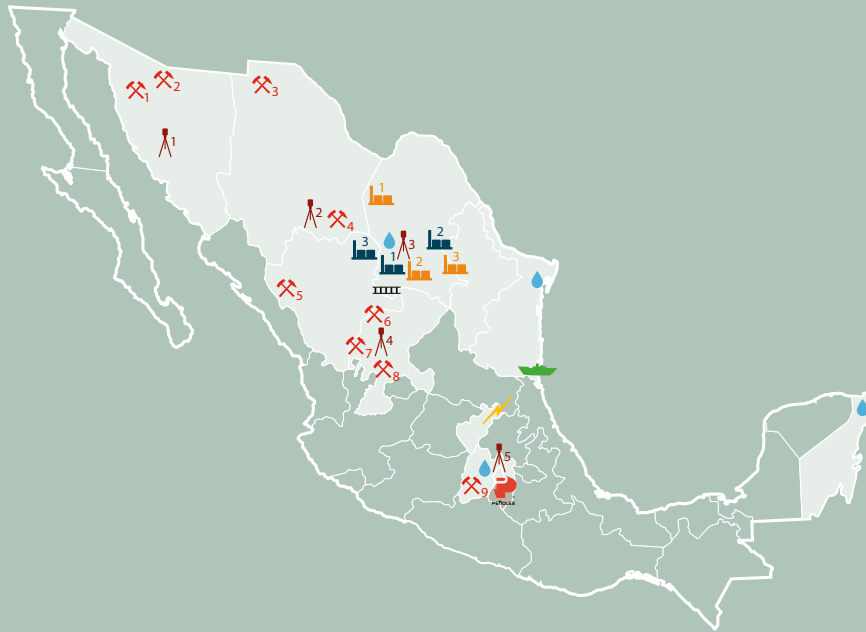
OUR PRIMARY PRODUCTS

Peñoles's metals and inorganic chemicals are used by companies across a wide spectrum of sectors to develop products and services that improve people's health and quality of life. The majority of Peñoles's products are sold to the transformation industry and not directly to the end consumer. However, we take full responsibility for offering the highest quality raw materials.

Our agrochemical products for the agriculture industry comply with Mexican federal regulations and are registered with the Inter-Ministerial Commission for the Control and Use of Pesticides and Toxic Substances (CICOPLAFEST). All our agrochemical products comply with Mexican legal and labeling requirements, as well as with the laws and labeling requirements of the countries to which we export. To date, Peñoles has fifteen registered products and five more in process. In the labeling of its products, Peñoles includes warnings and recommendations for use, first-aid instructions, environmental protection measures, product storage and handling conditions, guarantees, instructions for preparation and use, incompatibility with other products and the expiration date.

Structure as of December, 2006

OUR OPERATIONS



MINING

- 1 La Herradura
- 2 Milpillas
- 3 Bismark
- 4 Naica
- 5 La Ciénega
- 6 Sabinas
- 7 Fresnillo
- 8 Francisco I. Madero
- 9 Tizapa

METALS

- 1 Met-Mex: lead-silver smelter and refinery, zinc refinery
- 2 Aleazin
- 3 Bermejillo

CHEMICALS

- 1 Química del Rey
- 2 Fertirey
- 3 Magnelec

INFRASTRUCTURE

- Coahuila-Durango Railroad
- Water operations
- Termoeléctrica Peñoles (TEP) power plant
- Termimar

EXPLORATION

- 1 Hermosillo
- 2 Chihuahua
- 3 Torreón
- 4 Zacatecas
- 5 Toluca



CORPORATE OFFICES

Mexico City

EXPLORATION AND SALES OFFICES

- **Peru:**
Exploration: Trujillo, Lima and Arequipa.
- **United States:**
Sales: Stamford, CT.
Purchases: Brownsville, TX.
- **Brazil:**
Sales: São Paulo.
- **Chile:**
Exploration: Santiago.

EXPLORATION OFFICES IN MEXICO

- **Chihuahua**
- **Zacatecas:**
Fresnillo-Madero District, exploration of silver-zinc deposits; in Saucito, gold-silver, and in Juanicipio, silver-gold.
- **Torreón**
Ciénega District, explorations of deposits with gold-silver and San Juan with gold-silver
- **Hermosillo and Toluca**
Exploration of copper porphyries, molybdenum, copper-gold porphyries and iron-copper-ore type deposits.

PARTNERSHIPS

- **Minera Tizapa:** Polymetallic mine, Peñoles (51%) and Dow Mining and Sumitomo of Japan (49%)
- **Penmont:** Gold mine, Peñoles (56%) and Newmont Gold-USA (44%)
- **Pecobre:** Copper exploration, Peñoles (51%) and CODELCO Chile (49%)
- **Sulquisa:** Sodium sulfate mine in Spain, Peñoles (49%) and MINERSA Spain (51%)

PRINCIPLE EXPLORATION PROJECTS

MEXICO

- **Pecobre, Sonora:** (51% Peñoles, CODELCO 49%): copper and ongoing exploration.
- **Orisyvo, Chihuahua:** gold-silver, ongoing exploration.
- **Maguarichi, Chihuahua:** Peñoles-Exmin (Peñoles up to 75%).
- **San Juan de los Mogotes, Durango:** gold-silver, ongoing exploration.
- **Velardeña, Durango:** zinc ongoing exploration.
- **El Saucito, Zacatecas:** gold-silver, ongoing exploration.
- **Juanicipio, Zacatecas:** (Peñoles 56%, MAG Silver 44%): silver-gold, ongoing exploration.

INTERNATIONAL

- **Peru:** polymetallic, ongoing exploration.
- **Chile:** copper, ongoing exploration.

PRINCIPLE BUSINESS UNITS

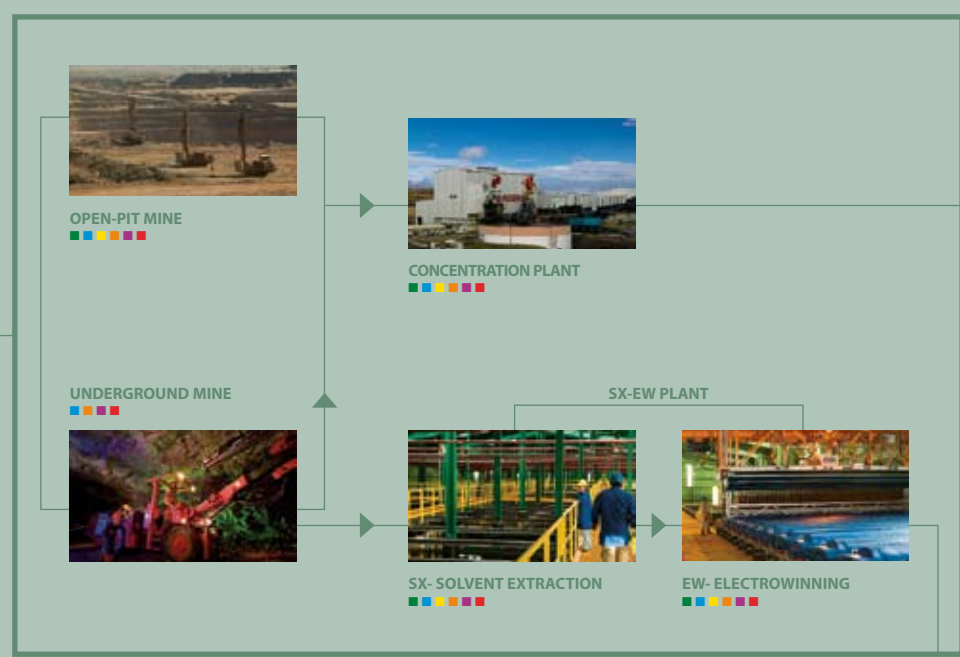
- **Fresnillo:**
The world's richest silver deposit.
- **La Ciénega:**
Mexico's most important gold mine.
- **La Herradura:**
One of Mexico's largest gold mines.
- **Naica:**
Mexico's largest lead mine.
- **Francisco I. Madero:**
Mexico's largest zinc mine.
- **Milpillas:**
Peñoles's most important copper mine.
- **Met-Mex:**
Fourth largest metallurgical complex and largest refined silver and metallic bismuth producer in the world.
- **Química del Rey:**
World's largest sodium sulfate production plant.

PROCESS
DIAGRAM

EXPLORATION

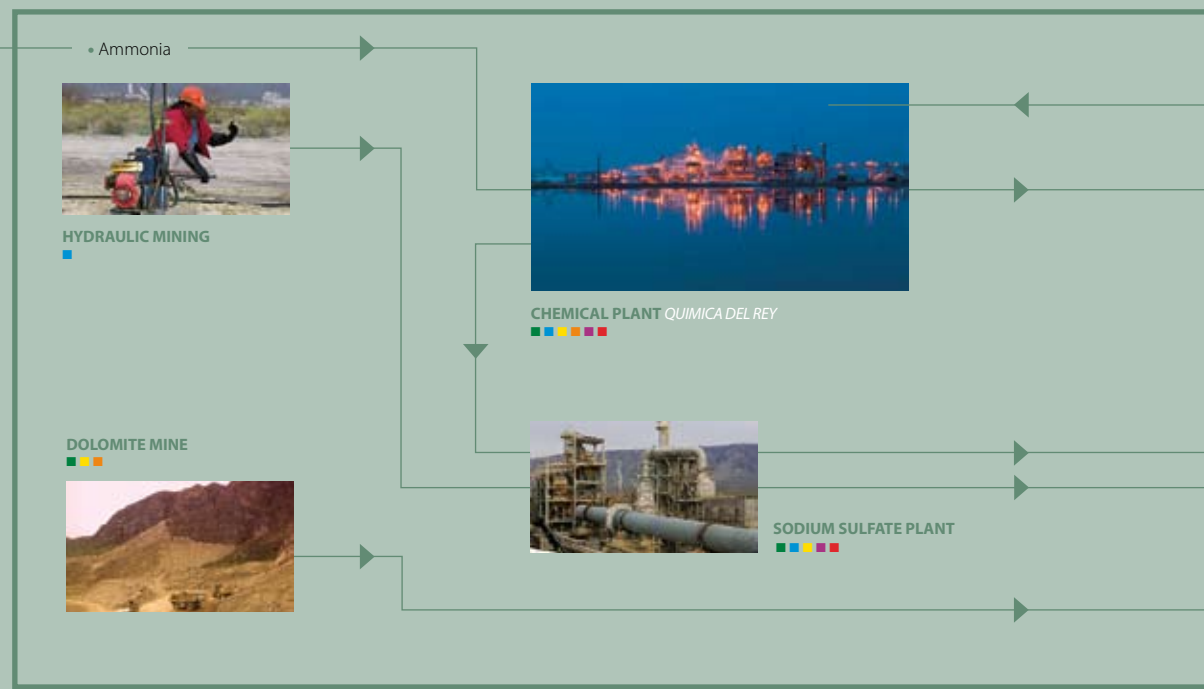


EXTRACTION AND CONCENTRATION

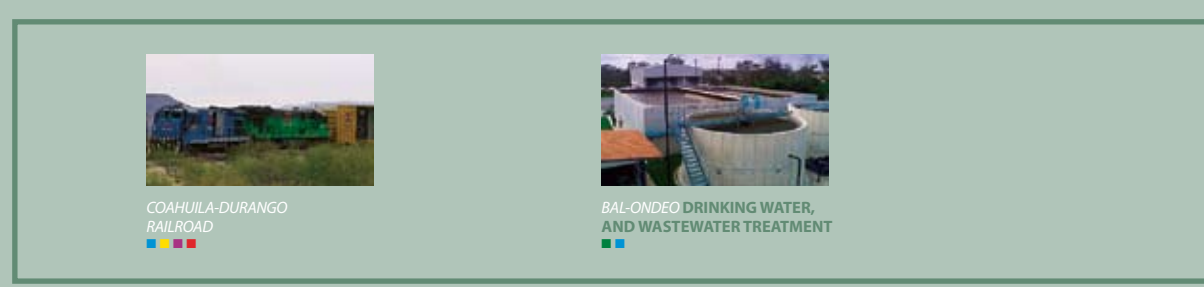


CHEMICAL PROCESSES

EXTERNAL
SUPPLIERS



INFRASTRUCTURE





SMELTING AND REFINING



PRODUCTS



METALLURGICAL COMPLEX MET-MEX



• Sulfuric acid



LEAD SMELTER



• Lead bullion



LEAD-SILVER REFINERY



ELECTROLYTIC ZINC REFINERY



BERMEJILLO



ALEAZIN



Gold
Silver
Lead
Bismuth

Zinc

Antimony trioxide
Copper sulfate
Zinc sulfate

Zinc alloys

Copper

Sulfur dioxide
Sulfuric acid



AMMONIUM SULFATE PLANT



MAGNESIUM SULFATE PLANT



ASTRAKANITE PLANT



• Spent brine



MAGNESIUM OXIDE PLANT



MAGNELEC



Ammonium sulfate

Magnesium sulfate

Sodium sulfate

Magnesium oxide
Chemicals specialties

Magnesium oxide
electric grade



TEP (POWER PLANT)
TERMOELÉCTRICA PEÑOLAS



TERMIMAR
INTERNATIONAL MARINE TERMINAL



- Altered landscape.
- Energy and water use.
- Air emissions: dust and gases.
- Rock waste, tailings, and slag.
- Toxic and/or hazardous waste.
- Safety and health.

PRECIOUS METALS

PRECIOUS METALS

GOLD *Au*



A ductile, malleable metal and an excellent conductor of heat and electricity. It is primarily used in the manufacture of jewelry, as a treasury vehicle and in minting coins. Along with its use in dental applications, gold is also used in welding, electrical switches and in the decoration of porcelain and glass.

SILVER *Ag*



Our primary product. In addition to its well-known uses as a decorative metal and in minting coins, silver is a key component in countless industrial processes; it is used in medical applications such as radiology and dentistry, and in electronics, for the manufacture of batteries, mirrors, coatings and bearings. Silver is also used to disinfect water and to prevent the spread of airborne diseases.

INDUSTRIAL METALS

ZINC *Zn*



It is combined with other metals—including aluminum, lead, copper and magnesium—to form alloys. Peñoles manufactures Zamak®, a branded alloy used in the manufacture of household appliances such as blenders and irons. Zinc is also used to protect steel from corrosion and in the manufacture of paints and batteries. In addition, some zinc-containing compounds are found in sun blocks and other pharmaceutical and food products.

LEAD *Pb*



Lead is an essential element in the batteries needed for the operation of every type of vehicle and for electric power back-up systems.

BISMUTH *Bi*



It plays an important role in the pharmaceutical and cosmetics sector and can be found in medications such as Pepto-Bismol™ and pearlescent makeup. It has many industrial and commercial applications such as pigments, lubricants, flame retardants, optic fiber, electronics, fluorescent lights and alloys for the fuses in fire control sprinklers.

INORGANIC CHEMICALS



Peñoles's inorganic chemicals are used in the manufacture of flame retardants and smoke suppressors, food additives and neutralizing agents (Remag AC®, Remag WT®, Biomag® and Neutromag TE®); electrical resistances and refractories (R Y-99-AD®, Magnelec® and Magnelec 99®); detergents (Sodium Sulfate GD® and Hidromag DT®); mining processes (copper and zinc sulfates); pharmaceuticals (Hidromag DTH®); textiles (sodium sulfate); and in food products (ammonium bisulfate and sulfur dioxide).

AGROCHEMICALS



Peñoles produced ammonium sulfate and has developed a number of products, such as Sulmag®, Nutrizinc®, Nima®, Sulph-Acid® and Calcimag®, which fertilize and provide nutrients to the land in order to enrich crops. These products are also used as nutritional supplements for livestock.



CORPORATE GOVERNANCE AND ETHICS

PEÑOLES OPERATES IN ADHERENCE TO THE HIGHEST STANDARDS OF RESPONSIBILITY, TRANSPARENCY AND COMMITMENT, THROUGH AN OPEN AND CLEAR MANAGEMENT STYLE.

CORPORATE GOVERNANCE AND MANAGEMENT SYSTEMS

Peñoles operates in adherence to the highest standards of responsibility, transparency and commitment. In accordance with best practices, its Board of Directors and Executive Committee offer added value based on their experience and independent recommendations, and through management of the Audit and Corporate Practices, Nomination, Evaluation and Compensation, and Finance and Planning Committees.

For the sixth consecutive year, Peñoles has complied with the Code of Best Corporate Practices issued by the Business Coordination Council of Mexico, which is regulated by the National Banking and Securities Commission.

The Board of Directors of Industrias Peñoles is responsible for the administration of the company and has all the powers required for this purpose. This board is comprised of:

- A Chairman;
- Sixteen Proprietary Members—including the Chairman—and their respective alternates;
- An Inspector—this figure disappeared on December 13, 2006 owing to changes in the Securities Market Law; and
- A Secretary who is not a member of the Board.

Of all the Proprietary and Alternate Directors, 4 are Shareholder Board Members, 10 are Independent and 18 are Staff Members.

The Executive Committee has the same powers as the Board of Directors—with the exception of ownership control, convening Shareholders' Meetings, and presenting information to the Shareholders' Meetings to decide on the voting preference of subsidiaries and to authorize shares repurchases.

The Committee is also obliged to inform the Board of Directors about agreements made. Pursuant to the recommendations of the Code of Best Corporate Practices, the Board of Directors has Audit and Corporate Practices, Nomination, Compensation and Evaluation, and Finance and Planning Committees.

In 2006, we continued operating and consolidating the restructuring that took place in 2005, with the goal of preparing ourselves for future growth and improving the efficiency and effectiveness of our operations, as well as reducing costs.

ETHICS AND TRANSPARENCY

The purpose of our Code of Conduct is to serve as a guide for our daily conduct, and to reinforce adherence to the institutional values of our company: Confidence, Responsibility, Integrity and Loyalty (CRIL). All our employees sign an annual Declaration of Conflict of Interest in which they commit to comply, uphold and respect this code. These commitments include the prohibition of every type of corruption, including bribes, gifts and extortion, and Peñoles extends this to all its stakeholders.

Peñoles offers employees an institutional mechanism to report unethical conduct that goes against our Code of Conduct. This line is available at all times and is managed by an independent third party in order to guarantee confidentiality and anonymity.

In September 2005, Peñoles became a signatory to the United Nations Global Compact. Peñoles also adheres to the internal control principles issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), which includes aspects of control of senior management, risk assessment and information, communication and monitoring activities.

We promote the transparency of financial and operating information through an open and clear management style.

PREVENTION PRINCIPLES

Our prevention systems are directly linked to the environmental and occupational safety policies.

In both the design of new projects and the evaluation of current operations, the company undertakes risk monitoring and assessment studies that simulate adverse conditions that may arise, as well as their impact on the health of the people who live or work in the area of influence and on the environment. Once the risks and their probable consequences have been determined and evaluated, modifications are made to the projects or processes. If the risks and their consequences cannot be eliminated or reduced to acceptable minimums, the project or process is redesigned, or its execution is suspended.

Furthermore, to identify, prevent and respond to emergency situations, we have environmental management systems and the *Emergency Preparation and Response Procedure*. We have formed emergency brigades in plants, units and offices, and have instituted simulation and training programs to ensure the brigades are trained.





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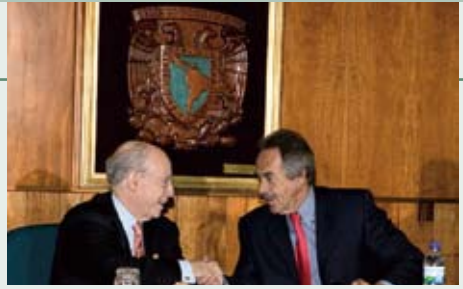
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- 2 *Electrolytic zinc plant, Met-Mex Peñoles, Coahuila*
- 3 *Dusk at La Herradura, Sonora*
- 4 *Mill, Fresnillo, Zacatecas*

5



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- 5 Signing of the Peñoles-UNAM agreement, Mexico City
- 6 Receiving the Energy Savings Award, Mexico City
- 7 Receiving the CEMEFI Award, Mexico City



ENGAGEMENT WITH STAKEHOLDERS

At Peñoles, the best corporate practices reflect the focus on our stakeholders—shareholders, employees, suppliers, customers and communities—and on other groups that could be involved given the nature of our business.

We continue to foster close and sound relationships with our stakeholders through open communication, the right feedback and jointly identifying needs.

Peñoles believes that its membership in a number of Mexican and international organizations related to its business is of vital importance. We actively participate in these organizations and consult them in order to obtain generally accepted standards and best practices, as well as the prevailing trends in the industry:

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
- Asociación Nacional para el Manejo Responsable del Plomo, A.C. (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), as representative of CAMIMEX

- National Chemical Industry Association (ANIQ)
- The Mexican Council for Foreign Trade, Investment and Technology (COMCE)
- National Association of Private Transport (ANTP)
- Commission of Private Sector Research for Sustainable Development (CESPEDES), within the Business Coordination Council (CCE)
- International Association of Impact Assessment (IAIA)
- Water Consulting Council (CCA)

Professional organizations:

- Association of Mining, Metallurgy and Geology Engineers of Mexico (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)
- National Institute of Forestry, Agriculture and Livestock Research (INIFAP)
- Group for the Promotion of Sustainable Development (GRUPEDSAC)

Social organizations:

- Innovation in Science Teaching (INNOVEC)
- RedEAmérica, Inter-American Network of Corporate Foundations and Actions for Basic Development

SUSTAINABILITY ORGANIZATIONAL CHART



8 Inside the Fresnillo mine, Zacatecas

9 Exterior of the La Ciénega mine, Durango

10 Química del Rey, Coahuila

8



CEO

Responsible for adding value to non-renewable natural resources in a sustainable manner

10



**Executive Vice President
Mining & Chemicals**

Responsible for the economic and environmental development of mines and chemicals.



Vice President of Mining Operations

Responsible for sustainable operation and closing of mines.

Vice President of Energy and Technology

Responsible for efficient energy use and search for new sources of energy.



**Assistant Vice President of
Mining Services**

Responsible for the sustainable closing of mines.

Executive Vice President Metals

Responsible for the economic and environmental development of metals.



Vice President of Metals Operations

Responsible for metalurgical operations.

**Assistant Vice President of Environmental,
Safety and Occupational Health**

Responsible for coordinating the systems related to the environment, safety and health.

**Assistant Vice President
of Community Relations**

Responsible for community relations in the Metals Division.



**Assistant Vice President of
Metals Operations**

Responsible for implementing the strategies of the metals operations.

**Executive Vice President Finance,
Planning & IT**

Responsible for the company's financial performance.



Assistant Vice President, Comptroller

Responsible for the Fourth Financial Statement accounting.

Vice President Human Resources

Responsible for the development of personnel and communities.



**Assistant Vice President of Communication
and Social Development**

Responsible for internal and external communications and social development

**Assistant Vice President
of Organizational Development**

Responsible for personnel training and development.

**Corporate Manager of Environmental
Planning and Development**

Responsible for identifying environmental trends and developing and implementing environmental projects.

Vice President Internal Audit

Responsible for regulations, corporate governance and ethics.

Vice President Law

Responsible for complying with Mexican legislation and regulations.

SUSTAINABILITY INITIATIVES

ENVIRONMENTAL CONTROL

COMMITMENTS



Reduce greenhouse gas emissions.

Increase efficiency of water use.

Reduce energy consumption by 5% as a result of productivity at each one of our facilities.

Use innovative technologies to reduce environmental impact.

INITIATIVES



Continue to make an inventory of greenhouse gas emissions using the methodology developed by the World Resources Institute and WBCSD, and coordinated by CESPEDS.

Develop a water use analysis for each wastewater treatment plant and monitor industrial consumption; develop processes to reduce consumption of first-use water and increase our use of treated water.

Reduce energy consumption in our facilities, modifying the processes that consume greater amounts of energy and promoting the use of renewable energy.

Identify opportunities to use clean technologies in all of Peñoles's operations. An example is the installation of SAG mills (wet milling) to reduce dust emissions.

COMMITMENTS 2006



Complete the inventory of greenhouse gases (GHG).

Complete the water use analysis at the Francisco I. Madero, La Ciénega and Química del Rey beneficiation plants.

Continue our energy conservation programs.

Study the possibility of installing SAG mills in all the applicable facilities.

ACHIEVEMENTS 2006



The GHG inventory was completed.

100% of the water used in our processes at Fco. I. Madero and Quirey is treated sewage water. 100% of the water used in our processes at La Ciénega come from the tailings dam.

Química del Rey and Met-Mex received the *National Award for Thermal Energy Conservation*.

The operation of the SAG mill at La Ciénega was started up, with which crushing was entirely replaced and the emission of dust was eliminated in this section of the process.

COMMITMENTS 2007



Continue with the GHG inventories and make use of the carbon credit market for the reduction of GHGs.

We have no new commitments, since there are no water treatment plants in the rest of our operations.

Continue our energy conservation programs. Technical and economic feasibility studies will be conducted at Bismark for the development of a wind energy project.

Engineering and development study at Tizapa and Sabinas. Building and start-up in 2008 and 2009.

HEALTH AND SAFETY

CORPORATE RESPONSIBILITY

▼	▼	▼	▼	▼
Operate our mines and plants with zero tolerance.	Preventive medicine program.	Establish an internal culture of Sustainable Development.	Update our Code of Conduct.	Design a program to systematize performance data concerning sustainability and development, and track the indicators in all of Peñoles's operations.
Strengthen our Occupational Health and Safety Management System by integrating the ISO-14001 norms and OHSAS 18001.	Promote educational campaigns to prevent illnesses and foster the health and well-being of personnel through sports activities, lectures and routine medical exams.	Promote ecoefficiency projects through workshops, training programs and <i>e-learning</i> .	Implement the Code of Conduct; implement the 10 principles of the Global Compact of the United Nations.	Establish an information system that gathers, organizes and develops performance indicators in areas of occupational health, safety, community development, environmental protection and energy
Consolidate our STOP program (Safety Training Observation Program), and research and development of new tools for the prevention of work-related risks. Submit our operations to external safety and occupational health audits.	Strengthen our recurring and chronic illness prevention program. Declare our offices and plants as smoke free areas.	Conduct at least 3 workshops and develop a new ecoefficiency project. Use internal communication media to disseminate information about Peñoles's culture of Sustainable Development.	Integrate our internal control and audit systems with the COSO Principles and the UN Global Compact.	Complete the integration of the information systems in all our divisions, particularly in our smaller plants and mines.
Our Occupational Health and Safety Management System was strengthened by integrating the ISO-14001 norms and OHSAS 18001.	There was significant progress by declaring offices and plants smoke free.	Progress in the dissemination of information about Peñoles's culture of Sustainable Development.	The new Code of Conduct was implemented; all internal audits are performed under the COSO principles. The Anti-corruption hotline was implemented.	Various information systems were analyzed and internal study was conducted to develop an information system for sustainability indicators.
Consolidate MASS program (Environment, Safety and Health) throughout Peñoles.	Continue our recurring and chronic illness prevention program and declare our offices and plants smoke free.	Strengthen internal communications media to disseminate information about Peñoles's culture of sustainable development. Continue the second phase of the La Ciénega Sustainable Forest project.	Integrate the 10 principles of the Global Compact into the Code of Conduct and foster them among the personnel.	Implement an information system for sustainability indicators based on identified needs.



ECONOMIC PERFORMANCE

THE ECONOMIC ASPECT OF SUSTAINABILITY IS FUNDAMENTAL FOR OUR CONTINUED GROWTH AND TO ACHIEVE PERMANENCE IN MARKETS CHARACTERIZED BY GROWING GLOBAL COMPETITION.

FINANCIAL HIGHLIGHTS	2006	2005	% Change
Sales	37,204,197	22,108,289	68.3
Gross profit	9,822,541	5,864,191	67.5
Exploration expenses	699,640	558,594	25.3
EBITDA	7,568,592	3,962,162	91.0
Operation profit	6,222,868	2,730,925	127.9
Net profit	4,113,164	1,761,587	133.5
Cash flow from operations	2,650,594	1,801,671	47.1
Capital expenditures	2,822,671	2,437,109	15.8
Cash and investments ⁽¹⁾	1,886,019	472,660	299.0
Property, plant and equipment, net	16,359,447	15,386,283	6.3
Total assets	32,514,897	25,393,858	28.0
Total long-term debt	6,567,213	5,308,114	23.7
Total liabilities	18,185,333	13,395,200	35.8
Total stockholders' equity	14,329,564	11,998,658	19.4
Shares outstanding at year-end	397,475,747	397,475,747	0.0
Earnings per share	10.35	4.43	133.5
Cash flow per share	6.67	4.53	47.1
Dividends per share	2.00	1.26	58.7
Share price at year-end	99.10	58.99	68.0

Note: Figures as of December 31, 2006 and 2005 in thousands of constant Mexican pesos (excluding share data, which are expressed in Mexican pesos) at December 31, 2006.
(1) Includes short-term and restricted investments.

FOURTH FINANCIAL STATEMENT	2006	%	2005	%
<i>Generated Value</i>				
Sales	37,204,197	100	22,108,289	100
Costs				
Domestic	18,006,523	48.4	9,975,569	45.1
International	6,002,175	16.1	3,325,190	15.0
Subtotal	24,008,698	64.5	13,300,759	60.2
	13,195,499	35.5	8,807,530	39.8
<i>Distributed Value</i>				
Employees	2,665,812	20.2	2,233,130	25.4
Contractors	2,988,300	22.6	2,304,917	26.2
Taxes	2,178,538	16.5	1,035,430	11.8
Shareholders	2,200,000	16.7	889,760	10.1
Community & environment	207,436	1.6	155,857	1.8
Retained by the company	2,771,577	21.0	2,041,408	23.2
Financial institutions	183,836	1.4	147,028	1.5
	13,195,499	100	8,807,530	100

Technical Notes:

- Data reported for costs includes only tangible goods and services involved in production.
- Domestic and international costs are distinguished by whether the good or service was purchased within Mexico or imported from another country.
- Salaries and taxes are included in the Employees, Contractors and Taxes categories.
- Social Security fees such as corporate contributions and employees benefits are included.

- In the Shareholders category, dividends for 2006 correspond to revenues generated in the same year.
- The Retained earnings category refers to profits not distributed to shareholders but reinvested in the company.

Note:

- The Notes to the Fourth Financial Statement may be consulted on page 69.

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The economic aspect of sustainability is fundamental for our continued growth, increased competitiveness and to achieve permanence in markets characterized by growing global competition.

Peñoles's core commitment in the economic arena is to create stakeholder value through the operation of a profitable business, with growth and adherence to the best business practices. Our economic contribution is gauged by the value we generate from operations, as well as the value we distribute to our stakeholders. Some of the factors that may be used to measure our performance in this area are the salaries and benefits provided to our employees; the funds we allocate for education, training, safety and occupational health programs; dividends paid to our shareholders; tax revenues generated for Mexico; investments in the preservation and care of the environment; and funds dedicated to programs that improve the standard of living in the communities where we operate.

The graphs included in this section show the company's contribution to the generation of added value to the Mexican economy and how this value was distributed among our principal stakeholders in 2006. This information is supported by the financial statements as of December 31, 2006 and reflects the scope of our economic activities.

In 2006, we allocated approximately \$207 million—which represents 1.6% of our pre-tax profits—to a number of community programs that promote social development.



BY PRODUCT

Silver	32.2%
Gold	26.9%
Zinc	21.4%
Concentrates	6.6%
Lead	5.5%
Sodium sulfate	1.5%
Copper	1.3%
Magnesium oxide	0.8%
Others	3.8%



GEOGRAPHIC SALES

International	74.8%
Mexico	25.2%



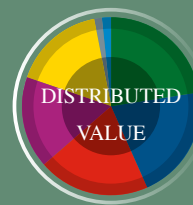
BY COUNTRY 2006

United States	81.6%
Europe	6.5%
Japan	3.6%
South America	1.4%
Others	6.9%



COST STRUCTURE

Energy	24.6%
Labor	19.6%
Operating materials	16.5%
Maintenance and repairs	15.5%
Freights and contractors	13.1%
Raw materials	3.8%
Others	6.9%



2006

Contractors	22.6%
Retained	21.0%
Employees	20.2%
Shareholders	16.7%
Taxes	16.5%
Community & environment	1.6%
Financial institutions	1.4%



ENVIRONMENTAL PERFORMANCE

PEÑOLES EXCEEDS COMPLIANCE WITH CURRENT ENVIRONMENTAL LEGISLATION BY DEVELOPING PLANS, PROGRAMS AND ACTIVITIES OF ITS OWN INITIATIVE THAT CONTRIBUTE TO ENVIRONMENTAL PRESERVATION.

It is a Peñoles policy to contribute to the preservation of the environment through diverse means of support and the allocation of resources to identify and control the environmental effects of its activities. To this end, the company fulfills its obligations through an Environmental Management System (EMS).

All the personnel of our company, of subcontracted companies and of product and service suppliers must be aware of and comply with this policy, within the framework of their commitment to continuous improvement.

Environmental goals:

- Control and reduction of atmospheric emissions.
- Optimization of the use of water and control of wastewater runoff.
- Optimization of the use of energy and the search for clean sources.
- Reduction in the generation of waste, and its proper handling and safe disposal.
- Prevention of environmental accidents and preparation to handle any such emergencies that may arise.

In 2006, we continued to identify and manage environmental risks to ensure compliance with our commitments in the area of sustainability. We continued implementing the ISO-14000 environmental management systems in our business units; we submitted to voluntary audits by domestic environmental authorities; and we have obtained or renewed Clean

Industry Certificates for our operations, issued by the Federal Environmental Protection Office (PROFEPA).

With the support of Peñoles's Shared Service Center for Environment, Safety and Health (MASS), we establish and promote the necessary criteria and actions in all our work places. The purpose of MASS is to integrate environmental, health and safety systems. It is currently in place in the Metals Division and the challenge is to implement and consolidate it in all our operational and support divisions.

Those most responsible for safety are the Vice Presidents of Operations and heads of the operations, who are supported by the MASS Shared Services Center, which is located within the Metals Division.

In October 2006, within the framework of the Mexican Carbon Fund (FOMECAR), Peñoles was recognized for its voluntary participation in the Inventory Program for Greenhouse Gases (GHG).

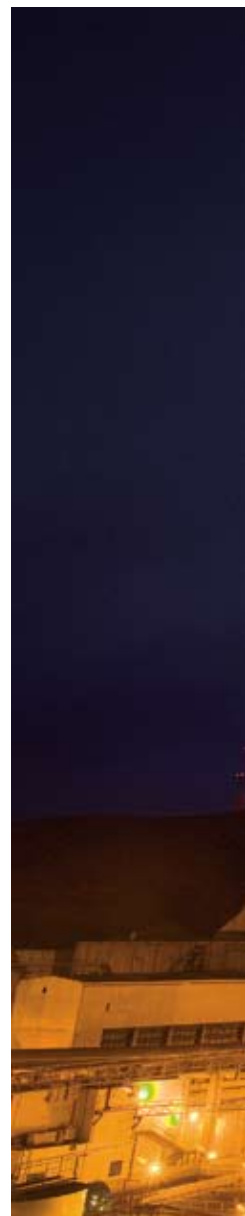
Environmental audits are an ongoing activity within the planning and execution process of the operations. The organization can thus ensure that the environmental measures being incorporated into the company's continuous improvement process are being evaluated and comply with current environmental laws.

In 2006, Peñoles was not fined for environmental violations.

ENVIRONMENTAL MANAGEMENT AND CLEAN INDUSTRY SYSTEMS

Division/Business Unit	1999	2000	2001	2002	2003	2004	2005	2006
Metals								
Aleazin					ISO	CI*	CI*	ISO, CI*
Bermejillo				CI	ISO	CI		ISO, CI*
Electrolytic zinc refinery					ISO	CI*	CI*	ISO (R), CI*
Met-Mex smelter					ISO	CI*	CI*	ISO (R), CI*
Met-Mex refinery				ISO	CI*	CI*		ISO (R), CI*
Mining								
Bismark		CI		CI		CI		CI*
Francisco I. Madero					CI	ISO (R) OHSAS* CI*		ISO* OHSAS* CI*
La Ciénega			ISO	CI		ISO (R), CI		ISO, CI*
La Herradura			ISO	CI		ISO (R), CI		ISO, CI
Naica		ISO, CI		CI		ISO (R), CI	ISO (R)	ISO, CI
Milpillas								ISO *
Fresnillo	ISO, CI	CI	ISO (R), CI			CI	ISO (R)	ISO, CI*
Sabinas				ISO, CI		CI	ISO	ISO, CI
Tizapa	ISO			ISO (R), CI		CI	ISO	ISO, CI*
Chemicals								
Química del Rey			ISO			ISO (R) CI*	CI	ISO, CI
Fertirey	CI		CI		ISO, CI		CI	ISO (R), CI*
Magnelec								ISO*
Other units								
Termimar					ISO			ISO (R)
Aguakán								
Coahuila-Durango Railroad				CI		CI		
TECSA								
Department of Exploration, Mexican Pacific and International						ISO		ISO
Department of Exploration, East							ISO	ISO

ISO: ISO-14001 environmental management standard (recertification every 3 years)
 ISO (R): Recertified ISO-14001
 CI: PROFEPA Clean Industry Certificate (recertification every 2 years)
 OHSAS: Occupational Health and Safety Advisory Services 18001
 *: In process of recertification





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- 2 Tailings dam, La Ciénega, Durango
- 3 Twilight panorama, Met-Mex Peñoles, Coahuila
- 4 Reclaimed plant species, Francisco I. Madero, Zacatecas



CASE STUDY - ASTRAKANITE BRINE ENRICHMENT PROJECT

Objective:

Reprocessing astrakanite, until now considered to be a residual waste, to enrich dilute brine and extend the life of virgin brine.

Methodology:

Dilute brine was extracted and its crystallization enriched with astrakanite, which was formed during the evaporation of the brine that was added for the magnesium oxide process. During precipitation, astrakanite or bloedite ($\text{MgSO}_4 \cdot \text{Na}_2\text{SO}_4 \cdot \text{H}_2\text{O}$) and halite (NaCl) strata formed and, with the natural characteristics of the site, clay was swept along by the wind.

Description:

Locations with the greatest crystallization potential were selected to determine the brine extraction site.

Due to infiltration that occurred at the evaporation dams, it was decided to diminish the extraction rate and, in order not to affect the production of sodium sulfate, to increase the crystallization potential of the brine fed to the plant.

Results:

The process of dissolving astrakanite in the dilute brine and integrating it into the virgin brine that feeds the sodium sulfate process has shown significant advantages in the production of sodium sulfate. The synthetic brine obtained has very similar characters to those of the virgin brine; thus the process of harvesting, milling and dissolving astrakanite has increased production capacity of the plant by around 4% (approximately 24,320 tons per year) and has generated savings of 10% in the extraction of virgin brine in the exploitation area of the evaporative body.



INPUTS AND MATERIALS

At Peñoles we have designed a number of procedures for the responsible handling and reuse of materials; when this is not possible, we recycle or sell these materials to other companies.

In 1994 we initiated a campaign in our corporate offices to reuse paper in printers and photocopiers. In 2006, virgin paper consumption was 11,820 kg, of which 3,340 kg were reused, or 28% of the total. To conduct this campaign, offices have special containers to separate waste.

ENERGY

In September 2006, the Química del Rey and Met-Mex business units were awarded first and third places, respectively, in the *National Award for Thermal Energy Conservation*, which is granted by the Ministry of Energy through the National Commission for Energy Conservation. This award publicly recognizes people, institutions, organizations and companies for their efforts and achievements in the field of conservation and efficient use of energy.

Peñoles's total energy consumption was 16,606,452 Giga Joules (GJ) in 2006, an increase of 684,853 GJ compared with the previous year. The rise in energy consumption reflected the increase in production and the integration of new operations.

Total energy consumed in the year (16,606,452 GJ) was distributed as follows:



PRINCIPLE INPUTS

Division	Principle Inputs	Quantity
<i>Metals</i>		
	Lead concentrates	365,515 tons
	Zinc concentrates	472,674 tons
	Oxygen	41,242 tons
	Zinc ingot for refining	2,025 tons
	Lime for neutralization	70,857 tons
	Calcium carbonate (limestone)	54,221 tons
	Leached ammonia	1,945 tons
	Fertirey ammonia	13,289 tons
	Oils	90,662 lt.
	Greases	94,3 tons
<i>Mining</i>		
	Explosives	10,535 tons
	Cement	18,936 tons
	Boring steel	26,204 pcs.
	Steel ball mills	8,578 tons
	Oils – transmission, hydraulic, motor, etc.	1,844 m ³
	Cyanide	220 ton.
	Copper and zinc sulfates	219 ton.
<i>Chemicals</i>		
	Magnesium oxide	12,000 tons
	Sulfuric acid	5,538 tons
	Transmission and hydraulic oils	23 tons
	Chemical products for water treatment	69.4 tons
	Natural gas	92,258,453 m ³
	Packaging material	631 ton.
	Calcium-magnesium alloy	832.7 ton.
	Dolomite	246,863 ton.
	Brine	4,258,851 m ³

Note: This is the first year of reporting these indicators for the Metals, Mining and Chemicals Divisions. In terms of Exploration, the information will not be reported for this period, but will be taken into account in the following fiscal year.

RECYCLED MATERIALS

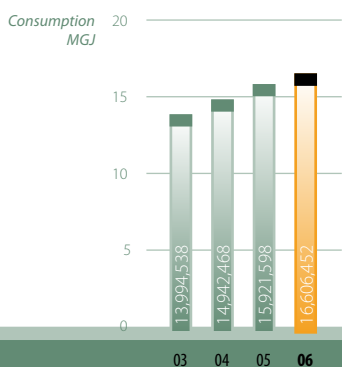
Division	Material Recycled	Quantity
<i>Metals</i>		
	Batteries, scrap, slag and jarosite, water treatment sludge	294 pcs.
<i>Mining</i>		
	Scrap	194.5 tons
	Tires	319 tons
	Batteries, tailings	195 tons
<i>Chemicals</i>		
	Solvents	1.7 m ³
	Tires	100 tons
	Batteries, recycled dust	80 pcs.

USE OF ENERGY BY TYPE OF FUEL

Sources of Energy	Percentage of Energy Use (%)			
	2003	2004	2005	2006
Electricity	44	44	42	43
Natural gas	27	23	23	29
Diesel	6	6	7	9
Metallurgical coke	9	9	9	8
Fuel oil	14	18	17	6
Petroleum coke	0	0	2	5
Gasoline	0.18	0.19	0.21	0.25
LP gas	0	0	0	0

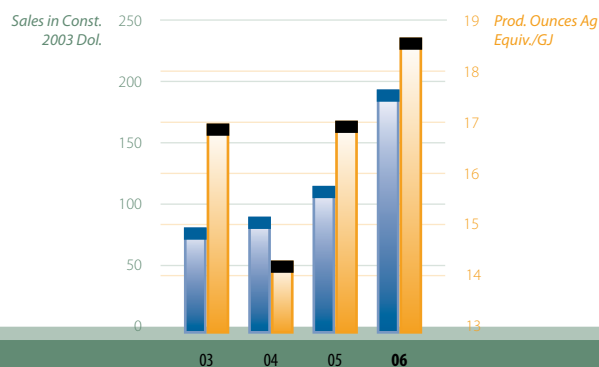
ENERGY ECOEFFICIENCY INDEX

Year	Peñoles's Sales in Constant 2003 US\$000	Total Energy Consumption in GJ	Production in Millions of Equivalent Ounces of Silver	Sales/GJ Ratio	Ounces Silver Eq/GJ Ratio	Average Price of Silver
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



TOTAL ENERGY CONSUMPTION

Giga Joules (GJ)



ECOEFFICIENCY INDEX

— Sales in Const. 2003 Dol./GJ
 — Prod. Oz AgEquiv/GJ



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- 9,525,151 GJ corresponded to the consumption of fuel oil, metallurgical coke, diesel, LP gas, natural gas and gasoline, which were used in boilers, kilns, haulage equipment and transport, and accounted for 57.4%.
- Electricity consumption totaled 7,081,300 GJ (1,967 GWH) and represented 42.6%.

ENERGY SOURCES

The main sources of energy have remained relatively constant since 2003.

Since 2004, we have acquired electricity from the Termoeléctrica Peñoles (TEP) plant, which is fuelled by petroleum coke. Of the total electricity used this year, 95% was obtained from TEP, expressed as 1,907 Giga Watts per hour (GWH), and the remaining 5%, or 106.6 GWH, were obtained from the Federal Electricity Commission (CFE).

ENERGY ECOEFFICIENCY INDEX

For the third consecutive year, we are expressing the Energy Ecoefficiency Index in Total Sales (constant 2003 economic indicators) per Total Giga Joules (GJ) used in the operation.

With the aim of separating the effect of the average price of silver and the peso-dollar exchange rate, total sales in 2006, expressed in constant 2003 values, were US\$3,258,796,000.

With this measurement, the index shows a 68% improvement compared with 2005, rising from US\$116.80 to US\$196.24 in sales for each GJ consumed. In 2006, our operations reported greater productivity, that is, we produced more with less energy.

Likewise, the ecoefficiency value as of 2004 performed better when expressed in equivalent ounces of silver—9% compared to 2005—owing to the fact that the average value of silver went up, from US\$7.3 to US\$11.54, just as the consumption of energy rose from 15.9 to 16.6 million Giga Joules.

Ecoefficiency rates the economic values of our products based on their environmental impact referred to as energy consumption.

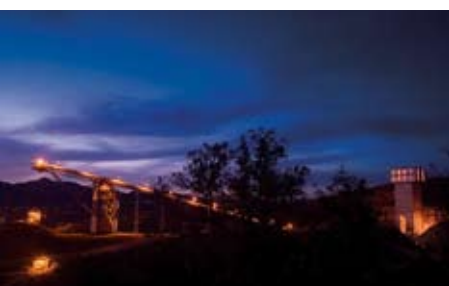
RENEWABLE ENERGY

In the search for renewable sources of energy, Peñoles has been exploring the use of wind turbines to generate electricity.

In 2005, in the Bismark and Sabinas mines, towers equipped with instruments to measure wind conditions (speed and direction) were installed, in order to determine the feasibility of installing wind turbines and generating renewable energy.

The results to date, after nearly 18 months of measurement, have been as follows:

1. At the Sabinas mine it was concluded that wind conditions were not favorable for the development of a wind generation project.
2. At the Bismark mine it was determined that wind conditions were suitable for the development of a wind generation project. Technical and economic feasibility studies will be conducted in 2007.



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7 Twilight view, La Ciénega, Durango

8 Twilight view, Milpillas, Sonora



CASE STUDY - TREATMENT OF WASTEWATER, MET-MEX PEÑÓLES

Objective:

To increase the proportion of treated water that is utilized in the production process in order to make rational use of this resource in a region in which it is scarce.

Methodology:

Operation of a three-process treatment plant for wastewater and a system for silt digestion.

Description:

Met-Mex Peñoles expanded its wastewater treatment plan and decided to assign it to the Municipal Water and Sanitation System of Torreón (SIMAS) along with the rights to four wells that it had held under concession from the National Water Commission—for a period of 50 years—as well as the equipment for extraction, conduction and measurement, and electricity for its operation.

The agreement includes a commitment by SIMAS to supply wastewater from the municipal drainage network to Met-Mex for purification and use in its industrial processes, and the supply of treated water for irrigation of parks and gardens and other uses of the Torreón city council.

Results:

The treated water has contributed to halting the degree of over-exploitation of the aquifers as well as to the release of potable water for human consumption. In addition, it has decreased production costs by reducing dependence on well water.

Treated wastewater is utilized in various production processes in the zinc plants (leaching, cooling and reagent preparation) for the generation of steam in the roasting plant; in the smelting processes for cooling equipment and furnace jackets and to control the humidity of the concentrates. It is also used to irrigate parks, gardens and schoolyard lawns in the community.



WATER

Wastewater treatment plants are part of the environmental infrastructure in our business units, which has enabled us to increase the use of treated water in our processes.

These and other measures demonstrate our vision of contributing to the solution of water scarcity problems on a global scale, and our commitment to the Millennium Goals put forth by the United Nations.

The primary consumers of water in our operations are Met-Mex, Química del Rey, Francisco I. Madero, Fresnillo, Naica and La Ciénega, which consumed 47,867,083 m³/year, or 72.2% of our consumption.

In the Met-Mex metallurgical complex there was a reduction of 2.34% in the consumption of first-use water compared with 2005. The annual volume of treated water was 4,678,383 m³, representing 94.90% of total water consumption.

WATER RUNOFF

All our operations comply with the NOM-001-ECOL-1996 standard that establishes the maximum permissible contaminants in wastewater runoff into national water and property.

WATER ECOEFFICIENCY INDICES IN MINES

The ecoefficiency index continues to be a measuring parameter in mines, which is used to assess



EFFICIENT USE OF ENERGY

Unit	Energy Efficiency Initiative
Bismark	Automation of the pumping system in 2007, for savings of 11,000 kW.
Sabinas	Continued fine-tuning of the monitoring system in order to control demand. High efficiency motors have been acquired and control of energy consumption will be established.
Tizapa	A strategic project to optimize the unit consumption of electric energy per ton milled that will reduce consumption of electricity. In addition, an energy conservation system whose objective is to reduce indirect consumption.
La Ciénega	Coordination of pumping operations inside the mine is being reinforced.
Fresnillo	Implementation of a program to install energy conserving light bulbs and high efficiency motors throughout the unit.
Química del Rey	Replacement of burners in the rotary furnace for more technologically advanced burners, and the installation of two-way valves to leverage the generation of steam.
Met-Mex	Conversion of three gas furnaces to electric energy, for savings of 106,721 GJ. In addition, changes to kettles and pumps, automation of lighting, installation of heat recovery equipment and a bank of capacitors, for savings of 24,884 GJ.

TOTAL WATER CONSUMPTION IN 2006

Division	Unit	Extraction Source	Extraction of First-use Water (m³/year)	Percentage of Total Consumption	Treated Water (m³/year)
<i>Metals</i>	Met-Mex	Well and municipal system	247,655	0.37 %	4,678,383
	Bermejillo	Well	43,955	0.07 %	1,187
<i>Mining</i>	Bismark	Well and mine water	12,979,246	19.59 %	No plant
	La Ciénega	Mine water	3,716,040	5.61 %	1,941,049
	Fresnillo	Well and mine water	5,984,550	9.03 %	7,417
	La Herradura	Well and mine water	1,041,316	1.57 %	10,220
	Francisco I. Madero	Mine water	2,227,600	3.36 %	482,227
	Milpillas	Mine water	3,381,973	5.10 %	No plant
	Naica	Well and mine water	32,951,863	49.73 %	No plant
	Sabinas	Well and mine water	375,200	0.57 %	No plant
	Tizapa	Spring and mine water	575,979	0.87 %	1,479
	Química del Rey	Well	2,739,375	4.13 %	286,128
<i>Chemicals</i>	Magnelec	Rain water	3,357	0.01 %	No plant
Total			66,268,109	100 %	7,408,090

WATER CONSUMPTION INDICES

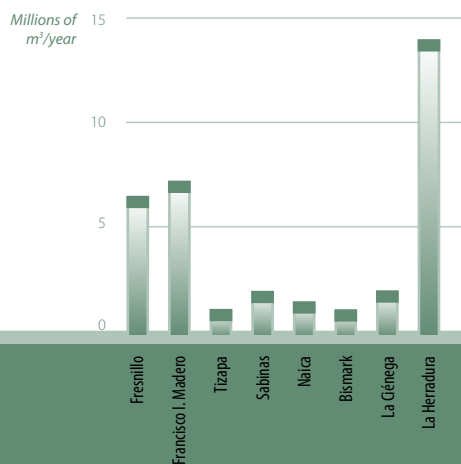
Unit	Recirculated Water %	Fresh Water %	Total Water m ³ / ton. Milled or Deposited
Fresnillo	80	20	3.65
Francisco I. Madero	93.7	6.3	3.32
Tizapa	78.8	21.2	2.98
Sabinas	75.8	24.2	2.48
Naica	70.1	29.9	3.08
Bismark	57.5	42.5	3.48
La Ciénega	98.1	1.9	3.15
La Herradura	89.5	10.5	1.05

ECOEFFICIENCIES IN OPERATIONS THAT USE FIRST USE WATER IN THEIR PROCESSES

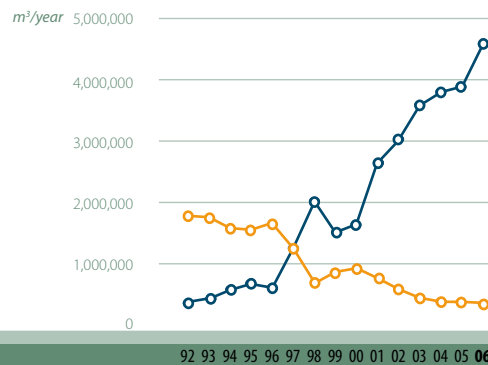
Mine	Tons Milled/m ³ of Water				
	2002	2003	2004	2005	2006
Bismark	0.68	0.51	0.51	1.54	0.68
La Ciénega*	3.7	5.56	6.67	36.18	16.7
Fresnillo	1.49	1.69	1.54	1.47	1.37
La Herradura*	20.0	9.09	8.33	10.0	8.44
Milpillas	-	-	-	-	2.45
Naica**	1.14	1.12	0.93	0.94	1.09
Sabinas	1.54	1.56	1.45	1.67	1.67
Tizapa	2.56	1.79	2.56	1.64	1.46

** Naica uses brackish water

* Water use efficiency in the La Ciénega and La Herradura mines is high because a relatively smaller quantity of water was required for the mineral concentration process in 2006.

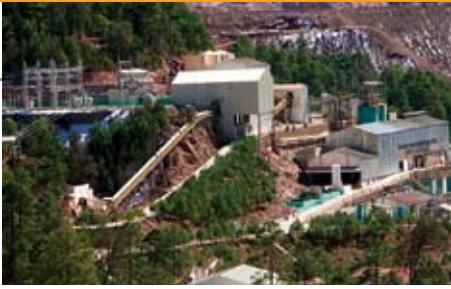


VOLUME OF
RECIRCULATED WATER
m³/year



ANALYSIS OF USE WATER
AT MET-MEX
m³/year

Well water
Treated residual water for processes



11

the continuous improvement process in the use of resources. Thanks to the commitment of those who work at all levels of the organization, alternatives are being found for efficient environmental management without reducing productivity.

With respect to the La Ciénega mine, ecoefficiencies have varied greatly in the last two years because its processes integrate rainwater being captured in the tailing dams.

BIODIVERSITY

The Mining, Chemicals and Metals operations cover a total of 53,284 hectares of land.

The mines are situated in desert and semi-arid areas where the most significant impact includes the loss of vegetation by land removal and water extraction.

We are continuing with the second stage of the Sustainable Forest project in the La Ciénega unit, in collaboration with the National Research Institute of Forestry, Agriculture and Animal Sciences (INIFAP).

The communities adjoining the La Ciénega mine in the State of Durango and the El Porvenir property in the State of Mexico have been analyzed in order to identify and develop forest conservation, restoration and resource management projects, which in turn, contribute to the sound management of the region's forests.



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CASE STUDY - RESCUE AND RELOCATION OF PLANT SPECIES

Objective:

Restitution of degraded areas.

Methodology:

Detection of plant species that may be uprooted and replanted in another similar area.

Description:

Rescue and relocation of plants and cactaceous species with restitution of 5-02-40 hectares.

Results:

7,897 plants from 12 cactaceous species were rescued from the area occupied by the project and were relocated and replanted on five hectares of land previously devoid of vegetation. The average survival rate was 75% for the relocated plants.

Specialists in ecology from UNAM (National Autonomous University of Mexico) and SEMARNAT (Ministry of the Environment and Natural Resources) conducted various studies to detect the species in the region and to identify areas of sparse vegetation for the purpose of recovering areas that had been eroded and degraded, and to preserve the germ plasma in the region, rehabilitate the habitat for wildlife and to convert the site into a natural refuge; promote the conservation of biodiversity of the project area and in the state of Zacatecas; and to fulfill the commitments made in relation to conservation of the environment.

11 Beneficiation plant, La Ciénega, Durango

12 Sustainable forest, La Ciénega, Durango

13



There are currently 14 activities under way in the quantification of forest resources, production diversification, ecosystem protection and restoration, forest management, environmental services and social research. All these activities include training for the regional population.

Furthermore, 70 ejidatarios (communal land owners) were trained in the control of forest fuels in order to prevent fires; establishment of forest and fruit tree plantations; reconstruction and automation of the La Ciénega nursery; and a forest management plan that has been approved by the environmental authorities.

In 2006, a total of \$700,000 was invested in the work taking place on 100 hectares, and a total of \$300,000 for the purchase of seeds and fertilizers.

Through the Wildlife Conservation Management Unit (UMA) in Fresnillo, we maintain a collection of plant and animal species gathered by confiscation and donation, in which we participate jointly with the Zacatecas Delegation of the Federal Environmental Protection Office. UMA has 49 birds, 46 mammals and 22 reptiles.

At Milpillas, a Flora and Fauna Remediation Study is being conducted through a rescue and relocation project for plant species.

Of the 27 mining exploration projects we are working on, only the León project, located in the municipality of the same name in the state of Guanajuato, is situated within a buffer zone of the Sierra de Lobos State Natural Area. The concessions in Guanajuato cover an area of 40,729 hectares. The affected area,

however, with access roads and drill sites, only covers approximately 12,000 hectares.

In the Saucito project in Zacatecas, prior to the commencement of the infrastructure preparation and construction stage, 7,897 plants of 12 different species of cacti that were classified by specialists as ecologically important were rescued and relocated, as were 22,786 cubic meters of ground cover. We have programs for the rescue and relocation of regional plant species and for the recovery of the plant layer.

In 2006, Met-Mex, along with educational institutions, ecological organizations, mass media and state and municipal authorities held conferences and conducted conservation campaigns, and cleaning and reforestation activities that involved the participation of more than 30 institutions. Within its 2006 Reforestation Program, 11,713 trees, 165 cubic meters of compost and 252 garbage bins were donated.

In the Centennial Forest, 8,700 trees and 4,500 cacti were planted—and conserved—and a vigorous effort was made to rescue the noa, an agave species emblematic of the region and in danger of extinction.

EMISSIONS, RUNOFF AND WASTE

Peñoles has been part of the first pilot group of the Mexican Greenhouse Gases Program since 2005,

13 Protected animal species, Minera Fresnillo, Zacatecas

14 Nursery at Minera Fresnillo, Zacatecas

14



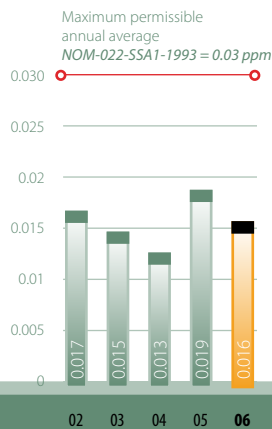
RELATIONSHIP BETWEEN IMPACT AND MITIGATION

Mine or plant	Type of Ecosystem	Major Impact	Mitigation Measures
<i>Metals</i>			
Met-Mex	Semi-arid	Atmospheric emissions and waste accumulation	Acquisition of next generation environmental control and processing equipment. Construction of suitable deposits for high-volume wastes (jarosite and slag).
Aleazin	Semi-arid	Atmospheric emissions	Acquisition of environmental control Equipment.
<i>Mining</i>			
Naica	Semi-arid	Water extraction	Infiltration through harvest crops
Fresnillo	Semi-arid	Waste accumulation	Dust reduction with a change of mill technology reprocessing tailings and development of a theme park built on old tailing dams. Recovery of animal and plant species through a Wildlife Conservation Management Unit (UMA). Placement of ground cover on closed dams.
Francisco I. Madero	Semi-arid	Waste accumulation	Use of sludge/sewage water from the wastewater treatment plants to improve the ground cover and reuse tailings to avoid building new dams.
Tizapa	Low tropical forest	Waste accumulation	Restoration of tailing dams.
La Ciénega	Forest (pine-fir)	Waste accumulation Cyanide leaching	Development of a sustainable forest. Strict measures for cyanide management.
Bismark	Semi-arid	Water extraction and waste accumulation	Infiltration through crop irrigation. Restoration of canals.
Milpillas	Semi-arid	Loss of flora and fauna	Species Rescue and Relocation Program.
Sabinas	Semi-arid	Waste accumulation	Installation of retaining walls for tailings.
La Herradura	Desert	Waste accumulation	Sahuaro cactus transplantation and studies on the dynamics and migratory species such as the Sonoran pronghorn antelope.
<i>Chemicals</i>			
Química del Rey	Desert	Water extraction and loss of ground cover	Injection of water into aquifers and reprocessing of mineral salts.
Magnelec	Semi-arid	Atmospheric emissions	Acquisition of environmental control Equipment.

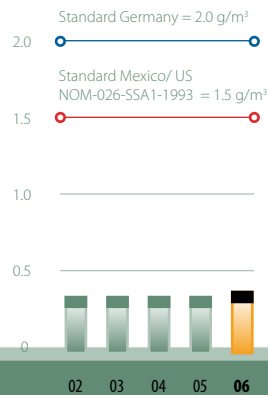
Note: The plants and land that are removed at the beginning of a project are returned at the end of that project, during remediation.

EMISSIONS, RUNOFF AND WASTE

	Metric Tons of CO ₂	
	2005	2006
Heating and steam generation	605,490	579,056
Material, personnel and rail transport	118,851	115,460
Purchase of electricity	1,092,780	1,142,843
Dolomite calcination process	Not quantified	54,625
Total	1,817,121	1,891,984



ANNUAL AVERAGE
CONCENTRATION SO₂
SO₂ ppm



ANNUAL AVERAGE
LEAD CONCENTRATION
Pb µg/m³



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the year in which the first Inventory of Greenhouse Gas Emissions was published.

The 2005 inventory was used as the basis for the 2006 inventory, as the self-supply of electricity started in April of 2004.

Peñoles's total carbon dioxide (CO₂) emissions in 2006 were 1,837,359 metric tons.

In 2006, there was an increase of emissions compared to the previous year due to the start-up of operations in the Milpillas unit and the pumping and ventilation of extended exploitation in most of the mining units, as well as the start of emission quantification in one of our chemical plants.

Our processes do not use Ozone Depleting Substances.

MET-MEX EMISSIONS

Because of the importance of its operations, Met-Mex is constantly strengthening its emissions-monitoring programs. The sulfur dioxide (SO₂) and lead (Pb) report is provided below.

The sulfur dioxide emissions in 2006 had an annual average concentration of 0.016 parts per million (ppm), a decrease compared with 0.019 ppm figure reported in 2005, easily complying with standard NOM-022-SSA1-1993 of the Ministry of Health, which establishes an annual maximum of 0.03 ppm.

In terms of the average lead concentration in the environment surrounding Met-Mex, the levels remained the same as in the two preceding years, with an annual average of 0.53 micrograms per cubic meter (µg/m³), much below the levels established by the Mexican authorities (1.5 µg/m³), in accordance with NOM-026-SSA1-1993 and the U.S. (1.5 µg/m³) and the German (2 µg/m³) standards.

WASTES

Peñoles complies with the provisions of Mexican law and with the international agreements signed by Mexico for the proper management of hazardous wastes, as in the case of the Basel Convention, which prohibits shipping or exporting hazardous materials to developing countries.

In order to fulfill our commitments, we have developed the procedures necessary to manage wastes at each of our operation centers.

The only incident reported in the year was the overturn of a truck loaded with 39.2 tons of zinc concentrate. Part of the concentrate was spilled on open land next to the highway. The area was thoroughly swept to minimize impact and 38.7 tons of concentrate were recovered without affecting the environment.

The environmental and safety control measures at our mines are based on comprehensive systems that guarantee proper operation. Each of our mines has well-monitoring systems to detect the leaching of metallic ions from tailing dams. Additionally, analyses of rock mechanics are conducted to determine the stability of the dams and



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15 Centennial Park, Met-Mex Peñoles, Coahuila

16 Twilight view of Met-Mex Peñoles, Coahuila



CASE STUDY - REHABILITATION OF THE TAILING DAMS AT THE LA REFORMA MINE IN THE STATE OF CHIHUAHUA

Objective:

To stabilize the tailing dams, reforest gullies and slopes and to restore the forest landscape to achieve harmony with the environment.

Methodology:

Physical reconnaissance of the dams was conducted during 2005 and 2006 for the purpose of identifying the most probable sources of risk, among which the following were identified: instability of embankments, steepness of slopes, scouring of streams feeding the tailing dams, accumulation of water on the surface and the interior, the fracture of the vault in Dam 1, the obstruction of the vault at Dam 2, the lack of forestation and the presence of remains of the buildings that housed the flotation plant, housing units and others.

Description:

The necessary works were designed and executed for the stabilization of the slopes and embankments; the tunnel at Dam 1 was reconstructed to avoid the diversion of rainwater; cleaning of the vault at Dam 2: gabion dikes were installed to reinforce the containment of tailings; the drainage system for rainfall was rehabilitated and secured; overflow ditches were constructed above Dam 1; the gullies at the dams were covered with vegetal soil; the slopes and gullies at the dams were reforested with plant species; the irrigation systems were rehabilitated for vegetation conservation; the remains of the buildings and base-ments were demolished; and a program of periodic inspection visits to the facilities was established to verify that the necessary maintenance was being provided.

Results:

A high degree of security in terms of the stability of the dams was successfully achieved. The works were completed in the first quarter of 2007 and the reforestation has a high survival rate.



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there are piezometers installed in the lower part of the operating tailings dams to verify there is no movement.

Since 1999, we have been working to reduce the lead bioavailability in the land surrounding the Met-Mex complex. Lead deposited on paved areas has been removed by vacuum cleaning. In unpaved areas, the direct application of phosphates is a viable, common and relatively economical technique to reduce lead bioavailability.



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17 Baghouse for control of emissions, Met-Mex Peñoles, Coahuila

18 Dawn at the Saucito project, Zacatecas

WASTE GENERATION BY DIVISION

Type	Contents	Annual Generation	Disposal
<i>Metals</i>			
Non-hazardous solid waste.	Slag, jarosite, white mud, industrial garbage, household garbage, wood, scrap, others	603,909 tons	Slag, jarosite and white sludge are stored in mounds within the company and other wastes are stored in landfills
Hazardous solid waste.	Canvas filters, oil-saturated materials, and spent batteries, among others	4,059 tons	Temporary internal storage and controlled confinement
Liquid hazardous waste.	Used oils	34.6 tons	Controlled confinement
<i>Mining</i>			
Non-hazardous solid waste.	Tailings, scrap, cardboard, others	7,662,666 tons 192,851 ton	Tailings are deposited in dams and the rest is returned to the mine; scrap is sold to third parties for recycling
Hazardous solid waste.	Hydrocarbon-saturated materials	235.5 tons	Sent for disposal and used as alternative fuel
Liquid hazardous waste.	Used oils	410,592 tons	Incineration
<i>Chemicals</i>			
Non-hazardous solid waste.	Scrap	229,584 tons	Landfill and sale to third parties
Hazardous solid waste.	Oil-saturated burlap and earth, batteries, empty paint cans, others	38.7 tons	Incineration
Liquid hazardous waste.	Used oils	100,026 tons	Incineration



RENTED MINES

- 1** La Encantada, Coahuila (being sold)
- 2** Las Torres, Cebada and Bolañitos, Guanajuato
- 3** El Monte, Hidalgo

MINES UNDERGOING RESTORATION

- 4** Gochico, Sonora
- 5** Cuale, Jalisco
- 6** Sultepec and La Guitarra, State of Mexico

RESTORED MINES

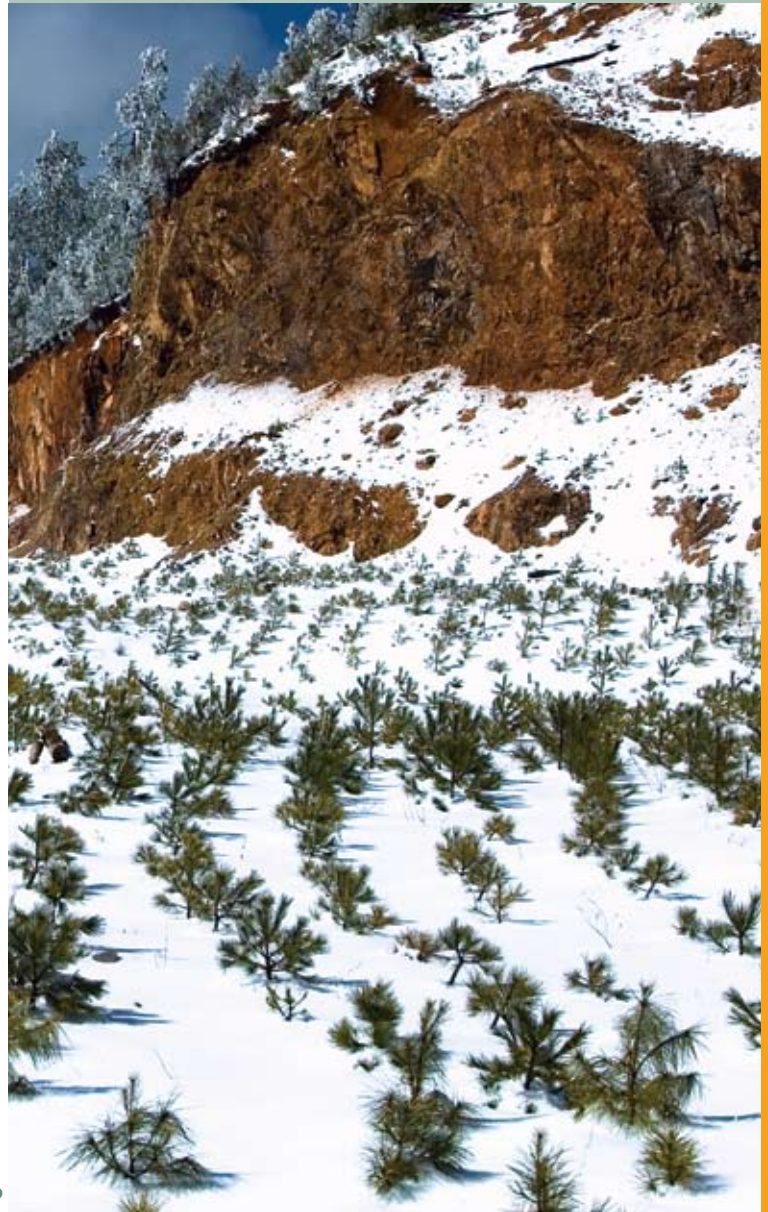
- 7** Reforma, Chihuahua
- 8** La Ojuela, Durango
- 9** Talpa de Allende, Jalisco
- 10** Rey de Plata, Guerrero (being sold)

MINE CLOSURES

No mines were closed during the reporting period. Although Mexican environmental law does not require the restoration of closed mines, this practice is part of Peñoles's environmental policy.

The following activities are carried out for mine closures:

- Physical stabilization:
Control of runoff, reconstruction of rain drainage, installation or strengthening of embankments, buttressing retention and tailings dam walls, construction of rain water channels, construction of primary drainage and repair of tailing dams.
- Chemical stabilization:
The use of clay to cover and thereby reduce acid leaching; securing and handling waste; waste confinement.
- Visual remediation:
Strengthening retention walls by using ground cover, and slag removal.
- Soil improvement:
Moisture line construction and soil anchoring.
- Environmental and eco-technical practices:
Foster a culture of sustainable development through sensitization, awareness and environmental training programs; the establishment of moisture lines and plant cover, and ecological succession in acidic and poor soils.



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SOCIAL PERFORMANCE

AT PEÑOLES, WE PROMOTE THE EDUCATION, RESPECT AND PRESERVATION OF THE CULTURE, CUSTOMS AND TRADITIONS OF THE COMMUNITIES WHERE OUR OPERATIONS ARE LOCATED, WITH A SPECIAL FOCUS ON SELF-SUSTAINABILITY AND CO-RESPONSIBILITY.

Peñoles provides the best conditions for the personal and professional development of those who work with us; we closely follow a strict Code of Corporate Ethics; we foster the self-sustenance of the communities where we operate; and contribute to environmental care through a vision of sustainable business that is expressed in Peñoles's mission.

The Confederation of Industrial Chambers (CONCAMIN), through the Mexican Foundation for Innovation and Technology Transfer in Small and Medium Enterprises (FUNTEC), for the third time recognized Industrias Peñoles with the *Ethics and Values in Industry Award* in the category of Best Practices of Corporate Social Responsibility in the 2006 awards. This acknowledgement distinguishes ethical practices.

For six consecutive years, we have received the distinction of *Socially Responsible Company (ESR)*, which is awarded by the Mexican Center for Philanthropy.

OUR EMPLOYEES

In 2006, Peñoles employed 7,576 people, union and non-union, excluding the associated companies in 12 states of Mexico. Of this total, 68% are union members. Additionally, there were 3,838 contractors. During the year of this report, there was a natural turnover of 5.4% of non-union employees.

We have also strengthened the criteria and processes for personnel recruitment, selection and hiring, which has enabled us to standardize quality and opportunity require-

ments in the search for and integration of new personnel for Peñoles.

In 2006, four persons were hired to fill executive positions: two women and two men.

Peñoles pays its lower-level employees 3.5 to 4 times more than the minimum wage.

The wages and salaries paid in 2006 totaled \$2,665.8 million. In addition to the pension benefits provided by the Mexican Social Security Institute (IMSS), and those set forth in Mexican labor laws, Peñoles offers its employees additional benefits, such as: savings accounts, year-end bonuses, retirement pension plans, disability and death benefits, and additional social security benefits (food assistance, insurance for major medical expenses, life insurance, and 100% of the employer-employee IMSS dues).

COMPANY/EMPLOYEE RELATIONS

We maintain fair and respectful relations with the various unions. Sixty-eight percent of our personnel are unionized and mostly belong to the National Mining and Metallurgical Workers Union of the Republic of Mexico, and the Chemical and Petrochemical Industry Workers Union.

We are promoting confidence through better communication, which strengthens Peñoles Work Teams.

We have reached agreements that make relations more flexible, with the aim of increasing productivity, which



DISTRIBUTION OF EMPLOYEES BY ENTITY

State	Non-union	Union	Total	%
Coahuila	1,289	1,822	3,111	41.1
Zacatecas	286	1,380	1,666	22.0
Chihuahua	134	692	826	10.9
Sonora	170	606	776	10.2
Durango	106	420	526	6.9
State of Mexico	92	242	334	4.4
Federal District	227	-	227	3.0
Nuevo León	69	-	69	0.9
San Luis Potosí	4	17	21	0.3
Tamaulipas	8	-	8	0.1
Guanajuato	8	-	8	0.1
Guerrero	4	-	4	0.1
Total	2,397	5,179	7,576	100.0

UNIONIZED PAYROLL PERSONNEL

	%	Number of Persons
Mining metallurgy	82	3,886
Petrochemicals	7	332
Others	7	332
Confederation of Mexican Workers (CTM)	4	190
Total	100	4740



2

affirms the trust and dialogue between the company and its employees.

Wages for all the unions are reviewed annually, and every two years the collective work contracts, including benefits, are reviewed.

HEALTH AND SAFETY ON THE JOB

At Peñoles, safety is a job condition and we believe that all injuries can be prevented. Therefore the company is focused on providing safe conditions, in addition to providing the safety equipment and necessary training to avoid unsafe actions.

We continuously strive to reach the goal of Zero Accidents in all our operations and offices, as is established in our Environmental Protection, Health and Safety Policy. In order to eliminate accidents, the short-term goal is to cut the accident rate by 50% with respect to the immediately preceding year.

In order to strengthen our commitment to provide our employees a safe and healthy work environment, we created the Shared Services Center for Environment, Safety and Health (MASS), whose purpose is to strengthen and standardize criteria and measures in all our workplaces.

Those most responsible for safety are each of the Operating Managers and the heads of the



3



CASE STUDY - GOLD LEACHING SYSTEM IN THE LA HERRADURA MINE

Objective:

To protect the health and safety of co-workers as well as to minimize the adverse impacts of mining activities on the environment.

Methodology:

Mining operations for the extraction of gold utilize very dilute solutions of sodium cyanide. The leaching process is utilized to assure that this compound does not filter into the surface soils and to facilitate recollection.

Description:

The leaching system at the La Herradura gold mine allows for mineral extraction in harmony with the local ecosystems. For this purpose, Peñoles carried out a number of tasks aimed at perfecting this process and implemented a wide range of measures to ensure environmental balance.

Sodium cyanide is stored in accordance with very strict safety standards, including completely closed, ventilated and posted storage facilities with permanent surveillance.

Even though the mine is located in an arid region, the company also constructed an additional collection system for enriched solutions to avoid overflows from heavy rains. The collection facility is enclosed by a fence and has a floating cover to prevent the entry of wildlife.

Results:

All the water used in the mine is recycled. A portion of this is utilized as a dust inhibitor during the trituration phase or to humidify the access routes, which reduces the mobilization of dust during transport. The residual water not utilized in the mine is treated and utilized to irrigate green areas.

2 *Química del Rey, Coahuila*

3 *Security in mobile equipment, La Herradura, Sonora*



4 Ramp signage, Francisco I. Madero, Zacatecas

5 Geology in the interior of the Fresnillo mine, Zacatecas

6 La Herradura, Sonora



operations. At Peñoles, we are all responsible for safety.

Safety is a job condition

For the fourth consecutive time, the Mexican Mining Chamber awarded the *Silver Helmet Award*, its highest recognition, to Química del Rey in the Plants and Smelters category, and to La Herradura, for the third consecutive time, in the category of Open Pit Mines with fewer than 500 workers, for having the best safety record. This prize was awarded at the XII Biennial Convention of Safety and Occupational Health in the city of Zacatecas.

To facilitate communications between Peñoles and the unions on the issues of safety and health, we have a Joint Commission on Health and Safety at each one of our operations. Representatives of Peñoles and the Union participate in these commissions.

Safety performance is measured by three indicators: accident rate, safety incidents and accident rate leading to lost workdays. Our results for 2006 show an improvement over the previous year.

For the first time, information is included concerning the accident gravity index, according to formulas established by the Mexican Social Security Institute; the figure was 1.078, and for contractors 0.427.



SAFETY STATISTICS AT PEÑOLES

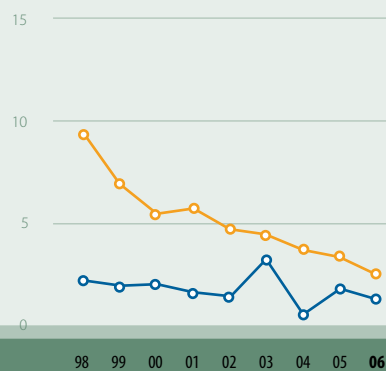
Days

	1998	1999	2000	2001	2002	2003	2004	2005	2006
Accidents	740	504	423	443	353	319	383	384	311
Lost workdays	20,849	17,143	18,266	15,770	13,848	24,686	10,777	23,665	20,275
<i>Index</i>									
Index of accidents	9.6	7.24	5.83	6.12	5.11	4.86	4.2	3.82	3.07
Index of lost workdays	2.71	2.46	2.52	2.18	2.01	3.76	1.18	2.35	2.02

Note: It should be noted that between 1998 and 2003 contractors were not included in these figures, only Peñoles's personnel.

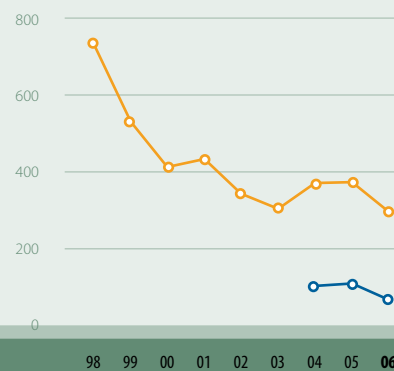
TRAINING AND DEVELOPMENT

	Number of Employees	Number of Participants in Courses	Training Man/hours	Average Man/hours of Training
Non-unionized	2,397	12,544	97,159	40.53
Unionized	5,179	54,713	318,860	61.57
Total	7,576	67,257	416,019	102



ACCIDENT RATE AND LOST WORK DAYS

—●— Accident rate
—●— Lost work days



DISABLING ACCIDENTS

—●— Employees
—●— Contractors

Despite the measures adopted to maintain a safe work environment and practices, this year, due to unsafe actions, we mourn the loss of six of our employees and two of our contractors.

To protect the well-being and safety of our employees, the STOP® Program has been implemented in all levels of the organization.

For the second consecutive year, we have been working with the *Zero New Professional Illnesses Program*. The measure includes three secondary programs: *Hearing Conservation*, *Lung Protection* and *Reduction of Blood Lead Levels* in exposed personnel.

TRAINING AND EMERGENCY RESPONSE

We invest time and money in training and preparing our employees in order to respond to safety problems and emergency situations. Every employee must complete and comply with the best safety practices established by MASS: *Operational Discipline Program*; *Accident Investigation*; *Safety Training Program*; *Electrical Safety*; *Workplace Safety Practices (Zero Tolerance)*; *Process Risk Analysis*; *Hazardous Materials Management*; and *Take Two...for Safety* (a DuPont trademark) that emphasizes the culture of safety in the workplace at all times.

TRAINING AND EDUCATION

Training motivates our employees to reach their maximum potential, and contributes to the development of Peñoles's intellectual capital.

The Human Capital Training policy requires employees to participate at least once per year in a training course, which can be an internal or external course, in Mexico or abroad.

We have professional practice programs for Earth Sciences students, as they are the main recruitment source to fill our vacancies. We also have programs with a number of universities for interns, who represent approximately 10% of non-unionized personnel.

In order to continually strengthen mid-level management, we have an *Engineers in Training* program in our operating areas.

At the Laguna del Rey Technology Research Center (CET-LAR), an educational institution founded by Peñoles in 1993 for the children of our employees, 39 students graduated with Technical Certificates in Mechanics, Electricity and Instrumentation in 2006.

Peñoles promotes and supports the academic training of our personnel, and in the year, 80 of our employees had the satisfaction of completing a new educational level or obtaining an academic degree.

Level of Education	2006
Technical High School	6
High School	1
Bachelor's Degree	20
Associate's Degree	29
Master's Degree	24
General Total	80



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In 2006, Peñoles invested \$31,563,677 in training and development, representing 416,019 hours of training. Unionized personnel received 318,860 hours of training during the period of the report, for an average of 61.57 hours per person. The 2,397 non-unionized employees received 97,159 hours of training, an average of 40.53 hours per person.

Furthermore, we completed the design and implementation of the Skills Management and On-going Training process to identify the company's strategic needs, given that organizational skills are the cornerstone for the development of our personnel. In this regard, we are updating and renewing the criteria for the training and education programs in the three core skills at Peñoles: Effective Communication, Teamwork and Empowerment.

The Performance Evaluation process was revamped in 2006 such that performance measurement is in terms of fulfillment of individual goals aligned with the Strategic Plan and Operating Plans. We will consolidate this process in 2007.

DIVERSITY AND EQUAL OPPORTUNITIES

Peñoles promotes equal-opportunity employment and selects its candidates on the basis of their professional skills and attributes when filling vacancies. We encourage the participation of women in functions and positions where they have traditionally been underrepresented and offer opportunities to women who live in the rural communities where we operate.



8



CASE STUDY - ZACAZONAPAN PRO-DEVELOPMENT COMMITTEE

Objective:

To support and drive the self-sufficiency of Zacazonapan through participatory work and teamwork.

Methodology:

The support of the Zacazonapan Pro-Development Committee is coordinated through meetings of the various work teams that provide information on the needs or important projects for the improvement of the community.

Description:

A system was developed that contributes to raising the quality of life in the community by focusing its social, technical and economic investments on the development of community capabilities, as a shared vision of the future, participation, integration, interrelation, institutional strengthening, alliance forming, development, management and execution of service projects and employment alternatives.

Through the cooperation of Minera Tizapa with the municipal and state authorities as well as with social leaders, an open community meeting was held in which four work teams were formed, focusing on the areas of health, ecology, hygiene and safety; education, art, culture and sports; infrastructure and public services; and employment, the economy, tourism, commerce and business development. A tripartite agreement was established between the government, company and community for the purpose of improving the community and maintaining its development, and a system was also defined for follow-up, progress and measurement.

Results:

More than fifty entities and institutions participated in the program. In the area of education, culture and sports, the Open High School was inaugurated and conferences, meetings and surveys were organized. The Digital Services Module was established: cultural events were organized in coordination with the House of Culture; improvements were made to sporting facilities and tournaments were organized in soccer, basketball, volleyball and track and field.

With respect to health, the environment and safety, the Government of Japan donated an ambulance, ultrasound equipment, an autoclave and medical equipment for the Zacazonapan Health Center. First aid courses were given and health and hygiene campaigns were conducted for the prevention and treatment of scorpion bites, vaccination, prevention and treatment of alcoholism and drug addiction, sexual education, mental health and assistance for senior citizens, as well as the spread of the Clean Municipality program.

With respect to economic activities, project management support has been provided to municipal crafts-women as well as to ranchers and farmers.

Among the activities to support infrastructure, jointly with federal, state and municipal authorities, lighting was installed at the Sports Unit, transport was provided for the Center for Scientific and Technology Studies of the State of Mexico, telephone lines were expanded, a multiple service center began to operate, the TV signal was amplified and joint highway maintenance was implemented.

Of particular note is recognition granted to the Municipality of Zacazonapan by the Mexican Center for Philanthropy for its exemplary work.

7 STOP security program, La Herradura, Sonora

8 Heavy machinery operator at La Herradura, Sonora



CASE STUDY - COMPANY INCUBATOR

Objective:

To stimulate and strengthen an entrepreneurial climate, an innovative environment and the management capacity for the self-sufficiency of communities. To put into practice programs that go beyond the concept of assistance and, over the medium and long term, permit the creation of permanent and sustainable sources of employment and income, developing and channeling creative talent toward formal and self-sufficient economic capabilities.

Methodology:

The community met to present preliminary plans from companies developed as the result of their participation in the company course, whose objective was to provide information to the participants on the basic and fundamental aspects of building a company. Subsequently, a selection was made of the proposals considered to be viable in order to drive their consolidation into companies and to provide a training workshop for the finalists with both theoretical and fieldwork sessions.

Description:

A total of 64 projects were received of which 8 were selected. The persons presenting them received theoretical-practical workshop training over four months in which they were prepared on the subjects of market research, management and organization structuring, among others.

Results:

The eight projects selected came from diverse branches and have generated a total of 25 jobs. They were financed with resources contributed by the federal, state and municipal governments, as well as by Peñoles.

Management of resources from various institutions: Ministry of Economy, Government of the State of Coahuila, Municipality of Torreón and Peñoles.



Most of the heavy-machinery operators at the La Heradura and Francisco I. Madero mines are women.

OUR HUMAN RIGHTS

As a signatory of the United Nations Global Compact, we give fair and equal treatment to all individuals, respect and support international human rights standards, and do not participate in any form of human rights abuses. Our labor policy respects labor unions and prohibits the employment of children, forced labor, discrimination or unfair labor practices.

All of our Collective Work Contracts, mine leasing agreements and labor agreements with third parties are aligned with the principles of the United Nations Global Compact.

OUR COMMUNITY

Our ongoing commitment to the communities where we have presence is based on criteria and guidelines, as well as formal and institutional relationship processes, and social development.

All of Peñoles's operations have a social diagnosis that describes the community, identifies its top needs, detects potential risks and understands perceptions about the company.

Social development projects respect the culture, customs and traditions of the communities, regional vocations, and self-sustainability.



All of our operations have a social development plan that has formal and institutional processes to improve the community's quality of life according to its particular characteristics.

We encourage the establishment in the communities of mechanisms for responsible participation between community members and the authorities.

Among the recognitions we received in 2006 for our efforts in the field of community work, the *State of Mexico's Filiberto Gómez Award* stands out in particular, granted to Minera Tizapa in the field of industrial activities, for their contribution to the economic and social development of the Zacazonapan municipality.

We are aware of the potential impact of our decisions and our performance on the communities where we have operations.

The Metals, Mining and Chemicals Divisions use an impact matrix to track their social and environmental projects and programs, and these are evaluated periodically.

In the social aspect, assessments are conducted through image surveys and media monitoring; mitigation measures are focused on developing social promoters, support for education, execution of programs to promote values, attention to key audiences, development of economic activities, and programs for health and family integration, sports and infrastructure development.

In the environmental aspect, assessments are conducted by means of a complaints system and environmental monitoring, and the mitigation measures are applied through environmental management systems consisting of land restoration, reforestation and strengthening the community's environmental culture, as well as recycling campaigns for paper, plastic and cardboard, water conservation, battery collection and water treatment.

Based on the impact matrix, Peñoles developed a Social Development indicator for the projects, programs and activities being carried out in this field. This indicator was determined according to the percentage of compliance with the actual plans and programs compared with the expected outcomes, and the percentage of influence and participation.

At Peñoles, we are respectful of the laws governing land rights and use. As such, when a parcel of land of interest is identified, we research the name of the owner or holder and identify the person listed in the Public Property Registry or in the National Agrarian Registry. If the parcel of interest belongs to an *ejido* or agrarian community, we negotiate the lease or purchase of the property with the assembly, in accordance with the procedures set forth by the law.

At Peñoles, conflicts with ejidos or agrarian communities over the possession or ownership of land are infrequent, and when they do arise, they are resolved through dialogue in order to reach agreements that are later reviewed and approved by the competent authorities.

As part of our support for small- and medium-sized mining operations, we sell and/or lease equipment and inactive mines to small miners to promote employment in the zones where this is the only possible activity.

The State Government in Zacatecas has been given equipment and training for the installation of a beneficiation plant with a capacity to process 500 tons of mineral per day, which will treat the material from small miners. They will also receive technical support.

In coordination with the Regional Center for Corporate Competitiveness (CRECE), the National Chamber of Commerce of Torreón, and state and municipal authorities, Met-Mex Peñoles launched a business incubation program in 2006 in the community adjoining its operations.

Nine entrepreneurial projects were selected from the neighborhood, which led to the creation of eight family businesses that created 25 direct jobs.

The Welfare Centers built in the neighborhoods where Met-Mex employees live support the local inhabitants with training activities such as hairdressing, garment assembly, and the manufacture of handicrafts and baked goods, which are sold for the benefit of their families.

In 2006, Met-Mex supported the work conducted by Peñoles volunteers, especially in the campaign against substance abuse in three neighboring junior high schools and a technical high school.

In further preparation of the Centennial celebrations of the city of Torreón, in 2006 Met-Mex participated in several initiatives such as having completed the construction of the zinc and glass façade of the Peñoles Plaza of the Arocena Cultural Center.





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- 11 Drug prevention program in the community, Met-Mex Peñoles, Coahuila
- 12 Zinc façade, Arocena Museum, Met-Mex Peñoles, Coahuila
- 13 Prevention program for children, Met-Mex Peñoles, Coahuila

14



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16



14-16 Zinc, Silver and Lead: Peñoles's high purity products



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OUR CUSTOMERS

Customer Satisfaction

To ensure the satisfaction of our customers, we make continuous visits that directly involve executives in all levels of the organization in order to understand the needs and requirements of their processes and to strengthen our business relations.

We have policies and procedures that ensure the best management practices for customer care. Furthermore, we have a Customer Management System (SAC) that comprehensively guarantees the order-tracking process up to the point when our products are received. SAC has an online interface to provide our customers with accurate and timely information about the status of their orders, and they can obtain weight and quality certificates for our products.

In order to help our customers correctly use Peñoles's products, we have Technical Service Support in the Commercial Division of Met-Mex Peñoles.

We conduct telephone surveys of our customers in order to determine their degree of satisfaction with our products and services.

The surveys cover the following subjects:

- Product attributes
- Sales administration
- Personnel performance
- Technical support
- Attention to complaints

The Commercial Managers, together with the other areas involved, define the improvements that should be applied as a result of surveys findings. Additionally, customers are informed about the measures to be taken to improve the rate of satisfaction.

The customer satisfaction index was 90 percent in 2006.

Our customer satisfaction policy includes the obligation to provide safety instructions with each product shipped. In export shipments, we provide a certificate of origin in compliance with applicable standards.

We have also adopted ISO-9000-2000 standards, which include the legal requirements the product must satisfy. Met-Mex was ISO-9000 certified in December of 2006.

Customer confidentiality is part of our policy; consequently, customer databases are only consulted by authorized personnel in order to prevent information leaks.

Of the customer complaints received in 2006, and in the cases where Peñoles was at fault, all were resolved in favor of the complainants.

SOCIO-ENVIRONMENTAL IMPACT MATRIX OF THE METALS DIVISION 2006

Programs/Practices		Description	Scope
Social			
Evaluate	Image Survey	Opinion survey using qualitative techniques to evaluate the company's main target groups with regard to their opinions of the company itself.	City of Torreón and surrounding community.
	Media Monitoring	Monthly analysis of the information disseminated about the company in the media.	10 media outlets in the Laguna Region and Saltillo, and an average of 1,500 articles annually.
Mitigate	Development of Social Promoters	Training of social promoters to elevate the quality of life in the community.	Neighboring community: 12 neighborhoods, 29,000 inhabitants.
	Support For Education	Teacher and parent training, facility improvement, implementation of cutting-edge educational systems, support for institutional educational events and addiction prevention programs.	24 schools (8 Nursery Schools, 10 Elementary Schools, 3 Middle Schools, 1 High School, 2 Universities), 15,000 students, 370 teachers.
	Attention to Key Audiences	Establishment of direct communication channels with various stakeholders.	Locals, Regional and Federal.
	Economic Development	Program for skills development and business incubation.	10 courses, 8,352 man hours of instruction, 8 incubated businesses, creation of 25 direct jobs.
	Institutional Communication Program	Institutional communication program with media outlets, the authorities, and social, cultural and sports institutions.	10 media outlets. Municipal and state authorities for Education, Culture, Sports, Social and Economic Development, and Health, 10 Cultural and Sports Institutions.
	Infrastructure Development Program	Support for the creation of infrastructure for neighboring communities, as well as for social-services institutions such as the Center for Youth Integration, the CANACINTRA Nursery for differently-abled children and the DIF Orphanage, as well the National Association for Self-Improvement.	45,000 m ² of street/sidewalk paving, construction of therapy room, nursery, and girls' dormitory, and electrical remodeling. Restoration of pedestrian bridge and installation of security in nunnery.
Environmental			
Evaluate	Complaint Response System	Electronic complaint-handling system for community complaints, auditable as part of ISO-14000.	22 complaints annually from city of Torreón and neighboring community.
Mitigate	Environmental Management System	Environmental management system certified by ISO-14000.	Operations of the Metals Division.
	Institutional Communication Program	Institutional communication program targeted at offering information about the company's environmental protection and control activities.	10 media outlets. Municipal and state authorities for Ecology, the Environment and Health. 10 Health and Environment Institutions.
	Environmental Remediation Program	External remediation: street sweeping and vacuuming. Internal remediation: cleaning and vacuuming indoors.	16 neighboring communities, 14,800 internal remediation actions annually and 10,800 external remediation actions annually.
	Soil Restoration	Restoration with earth or concrete.	16 neighboring communities, 4,100 m ² with concrete, 25,211 m ² of restored land.
	Nursery	Production of plants, trees, compost and program to save and propagate the <i>noa</i> (cactus) a threatened indigenous species.	Propagation of 50,000 trees annually, 60% for donation to the community and 40% for internal use
	Environmental Health Unit	Medical care unit, orientation and epidemiological monitoring for lead.	36 neighborhoods, 15,329 children under epidemiological monitoring, 562 appointments with specialists during the year.
	Treatment and Usage of Treated Water 100% Processes	Treatment of municipal sewage for plant operations and irrigation of green space.	Two treatment plants, treatment of 10% of the city's sewage, equivalent to 4 million m ³ of sewage treated for use in 100% of the industrial processes, irrigation of 30 hectares of green space, endowment of 182,500 m ³ to the Venustiano Carranza Forest, 80,300 m ³ to the municipality, 3,120 m ³ to the Religious Tourism Center of the Cristo de las Noas.

- Social impacts
- Environmental impacts

SOCIO-ENVIRONMENTAL IMPACT MATRIX OF THE MINING DIVISION 2006

	Programs/Practices	Description	Scope
<i>Social</i>			
Evaluate	Image Survey	Opinion survey using qualitative and quantitative techniques to evaluate the company's main target groups with regard to their opinions of the company itself.	Communities: Ciénega, Naica, Francisco I. Madero, Maguey, Noria de Gringos, Fresnillo, Beleña, Poleo, Valdecañas, Sombrerete, San Martín, La Noria, Zacazonapan, Caborca and 8 neighboring communities, Magdalena de Kino and 5 neighboring communities (28 surrounding communities).
	Media Monitoring	Monthly analysis of the information disseminated about the company in the media.	16 printed and electronic media outlets and an average of 460 articles annually.
Mitigate	Development of Social Promoters	Training of social promoters in community development centers to raise quality of life in the community.	6 Community Development Centers, 82 volunteer promoters and 1,400 beneficiaries.
	Educational Support	Teacher and parent training, facility improvement, implementation of cutting-edge educational systems, and support for institutional educational events. Improvement of educational facilities. Agreement with the ZigZag Interactive Museum in Zacatecas the benefits schools surrounding Francisco I. Madero, Sabinas and Fresnillo	130 schools (Nursery Schools, Elementary Schools, Middle Schools, High Schools and Universities), 41,348 students, 385 teachers.
	Attention to Key Audiences	Timely and direct information to stakeholders: journalists, authorities and community leaders.	Local, regional and federal.
	Development of Productive Activities	Training of social promoters to raise the quality of life in the community.	22 ranchers and 8 craftsmen in Zacazonapan. Silversmith workshop, hair cutting classes, etc. benefiting 500 people in the Naica community. 70 residents trained as stylists and 80 in charcoal production in Ciénega. Promotion of garment assembly in Sombrerete with 13 micro-enterprises
	Family Health and Integration	Alliance with Youth Integration Centers for addiction prevention. Discussions in Milpillas about Women's development. School for Parents in Naica. Preventive health and nutrition campaigns.	10 schools, 624 children and 381 employees benefited. Founding of Youth Integration Center in Fresnillo. 2 prevention committees of 8 employees in Milpillas and 25 employees in Herradura. Dental clinic in Sombrerete.
	United Way	Volunteer program for workers with contributions of money and time to benefit the community's most underprivileged.	8 business units, 1,545 contributors, \$613,461 collected annually and approximately 2,000 beneficiaries. Support in the construction of an orphanage in Caborca and a rest home in Sombrerete. Improvements in the Special Care Unit in Zacazonapan.
	Sports and Recreation	Permanent program of sporting and recreational events.	Support for 12,450 athletes and the population of 28 communities.
	Infrastructure	Improvement of community infrastructure.	Infrastructure improvement in 28 communities: sporting fields, schools, services, etc. Notably: 1 dental clinic in Sombrerete and commencement of construction of the Health Center in San Martín. Participation in the construction of the Zacazonapan drinking water system. Participation in the construction of the drainage-sewer system, improvement of ditches and water purification plant in Naica. Support of the foundation and operation of the Fresnillo Youth Integration Center, operation of the Los Jales Park, UMA and Tourism Mine in Fresnillo. 9,348 people have visited the Los Jales Ecological Park, UMA and Tourism Mine.

Culture	Socio-economic	Infrastructure and Services	Social Org.	Health	Education	Air	Soil	Water	Flora	Fauna
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SOCIO-ENVIRONMENTAL IMPACT MATRIX OF THE MINING DIVISION 2006

	Programs/Practices	Description	Scope
<i>Environmental</i>			
Evaluate	Complaint Response System	Management system for community complaints, auditable as part of ISO-14000.	18 neighboring communities.
Mitigate	Environmental Management System	Environmental management system certified in ISO-14000 and clean industry.	6 mining units certified and Milpillas mine in certification process. 8 mines with clean industry certification.
	Soil Restoration	Tailing dams.	There is a plan for the restoration of tailing dams that have reached the end of their useful life.
	Nursery	Well established for the restoration and reforestation of main tailing dams, ecological parks and community.	Tailing dams, ecological parks and community. 18,600 trees planted and/or donated.
	World Environment Day and Water Day Campaigns	Strengthening of environmental awareness through conferences, competitions and reforestation and cleaning activities.	130 schools (Preschools, Elementary Schools, Middle Schools, High Schools and Universities), 41,348 students, 385 teachers.
	Treatment and Usage of Treated Water 100% Processes	Treatment of city sewage for industrial use.	Francisco I. Madero.
	Treatment of Residential and Office Sewage	Sewage treatment.	Herradura, Milpillas and Ciénega.

SOCIO-ENVIRONMENTAL IMPACT MATRIX OF THE CHEMICAL DIVISION 2006

<i>Social</i>			
Evaluate	Image Survey	Opinion survey using qualitative and quantitative techniques to evaluate the company's main target groups with regard to their opinions of the company itself.	City of Torreón and neighboring community.
	Media Monitoring	Not applicable.	Not applicable.
Mitigate	Development of Community Leaders	Training of community leaders to promote and ensure public participation.	Community of 6,000 residents; there is now a committee of 10 promoting general community participation.
	Educational Support	Educational Board Committee/Involvement of local and state Government.	Computer equipment support, Encyclomedia, renovation of public library and sidewalks program.
	Family Health and Integration	Health brigades, conferences and presentations.	4,016 doctors appointments in various specialties, participation of 92 persons in conference on domestic violence.
	Development of Economic Activities	Support agent and facilitator for rural investment projects/local and state Government participation.	7 projects implemented in 5 neighboring communities.
	Sports and Recreation	Preparation of tournaments in a number of disciplines, reduction of vandalism and drug addiction rates.	In 2006, it is focused on the community in general; daily average attendance is 185 people.
	Program to Promote Values	Community Week, Cultural Thursdays, Book Fair, Museum Exhibits.	General participation of the local community; up to 80% of the population.
	United Way – Laguna Del Rey	Committee to help low-income people.	Ocampo and Sierra Mojada municipalities.
<i>Environmental</i>			
	Complaint Response System	Electronic management system for community complaints, auditable as part of ISO-14000.	Laguna del Rey.
	Environmental Management System	Environmental management system certified by ISO-14000.	Química del Rey.
	Remediation Program	Relocation of non-hazardous wastes outside the company.	Laguna del Rey.
	Nursery	Start-up of propagation of the region's plants.	Focused on the community in general, a total of 5,078 plant species in 2006.
	Treatment and Use of Treated Water	Treatment of the community's sewage for use in processes.	Laguna del Rey.
	Road Paving Agreement with the Municipality	Management with local and state Governments.	Started with 3 main roads in 2 neighboring areas, Laguna del Rey.
	Paper, Cardboard and Plastic Recycling Campaigns in the Community	Development of environmental awareness.	Laguna del Rey.
	Water Conservation Campaign	Development of environmental awareness.	Laguna del Rey.
	Battery Collection Campaigns	Development of environmental awareness.	Laguna del Rey.

Culture	Socio-economic	Infrastructure and Services	Social Org.	Health	Education	Air	Soil	Water	Flora	Fauna
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○ Social impacts
○ Environmental impacts

CHAIRMAN OF THE BOARD**Alberto Baillères****PRESIDENT AND CEO****Jaime Lomelín Guillén****OPERATIONS***Mining and Chemicals***Manuel Luévanos Sánchez***Executive Vice President***Enrique Miguel Cortés Pérez***Mining Operations Vice President**Metals***Fernando Alanís Ortega***Executive Vice President***Alberto Ross Scheede***Operations Vice President***CORPORATE***Exploration, Engineering & Construction***Octavio Alvidrez Cano***Executive Vice President**Finance, Planning & IT***Mario Arreguín Frade***Executive Vice President**Infrastructure***Luis Rodríguez-Bucheli Derat***Vice President**Law***Abdón Hernández Esparza***Vice President**Human Resources***Rafael Rebollar González***Vice President**Energy & Technology***Arturo Vaca Durán***Vice President**Internal Audit***Rodolfo Gómez Maturano***Vice President*

AWARDS AND RECOGNITIONS

- *Socially Responsible Company Award (ESR) 2006.*
- *Química del Rey – National Work Award 2006, in the Large Industrial Company sector.*
- *Industrias Peñoles received the Ethics and Values in Industry Award.*
- *Minera Tizapa received the State of Mexico's 2005 Filiberto Gómez Award, for economic development, in the area of industrial activities.*
- *Peñoles received the National Award for Thermal Energy Conservation.*
- *Peñoles received the Silver Helmet Award for the fourth time.*



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REPORT ON LIMITED AND INDEPENDENT REVIEW

Mexico, D.F., April 3rd, 2007

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 2006 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.

Basis and objectives of our review

Our work was conducted in accordance with the International Standard on Assurance Engagement ISAE 300¹ 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 2006 Sustainable Development Report was consistent with:

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

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 for Industrias Peñoles (Met-Mex, Química del Rey, Proaño and La Ciénega), which were selected according to the significance of their activities, with respect to sustainability aspects.

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

REPORT OF THE INDEPENDENT AUDITORS



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

1. Review of the systems, processes and procedures for data compilation, consolidation and data reporting;
2. Verify, 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.

Conclusions

Based on our work described in this report, nothing has come to our attention that causes us to believe that the 2006 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, notwithstanding the areas of opportunity set out under the following heading.

We thus conclude that this report corresponds to a level B+² according to the application levels established in version G3 of the Global Reporting Initiative (GRI) Guidelines for Sustainability Reporting.

Areas of Opportunity

With respect to the 2005 report, the Company's adoption of version G3 in this 2006 report clearly reflects its efforts to ensure compliance with the principles and indicators established in the GRI's Guidelines for Sustainability Reporting.

It should be mentioned that further progress is required in improving the unification of the Company's information systems, the participation of stakeholders, and changes to the organizational structure, all mentioned as areas of opportunity in 2005, and again in this "Report on Limited and Independent Review".

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. For further information, see the corresponding appendix.

REPORT OF THE INDEPENDENT AUDITORS



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

About the comprehensive compliance with GRI principles.

- a. Further structured involvement of stakeholders in the determination of the contents of the sustainability report.
- b. Continued improvement as to the coverage of the indicators presented and extending the limits of the Report to all significant operations.

About the preparation of the report: Policies and Procedures

- c. With respect to the preparation of the report, in order to improve the maturity of the preparation process, we recommend formalizing a series of operating procedures, and the stable designation of responsibilities, to ensure the continuity and comparability of the information and on-going follow-up work on the evolution of indicators throughout the year.

About the information management systems

- d. As mentioned in the 2005 "Report 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 Environmental, 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.



Alejandro Soto Hidalgo
Partner

NOTES TO THE FOURTH FINANCIAL STATEMENT

The greatest value generated in 2006, with respect to 2005 (50.3% increase, arising from a 68.3 % increase in income, as opposed to an 80% increase in costs) maintains, to a great extent, a distribution balance between the different groups of interest, with an outstanding contribution to the State, which was duplicated this year.

The accompanying four notes are an integral part of this Fourth Financial Statement, which explain our policies and a breakdown of the components of the generation and distribution of added value.

1. SOCIAL RESPONSIBILITY 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 its 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

The most significant aspects of our 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

Peñoles has 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 interest groups 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 groups of interest.

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. Section 8. contains a breakdown of the most important actions in this regard.

NOTES TO THE FOURTH FINANCIAL STATEMENT

2. OUR MAIN CUSTOMERS

a) Income

In this record year for Peñoles (see further financial information in 2006 annual report and Internet page www.penoles.com.mx), we have reached a total \$37,204 million in income from sales, which represents a 68.3% increase from 2005. 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:

	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

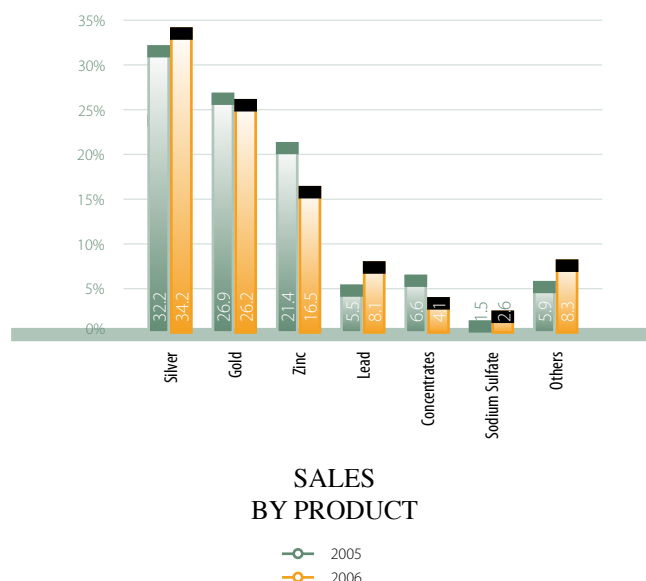
The following table shows how income has been generated in the different markets that we supply:

Market Sales	2005	%	2006	%
(Thousands of pesos)				
Domestic	8,939,547	40	9,376,667	25
U.S.	10,725,933	49	22,719,788	61
Japan	914,922	4	1,002,625	3
Europe	341,970	2	1,821,051	5
South America	377,626	2	389,669	1
Other	808,291	3	1,894,397	5
Total	22,108,289	100	37,204,197	100

As a result of the increase in the price of precious metals, a larger volume of sales was assigned to exportations abroad, with 111.8% of said exportations to the U.S.

The products most commercialized in 2006 were silver, accounting for 32.2% of our income, with gold and zinc accounting for 26.9% and 21.4%, respectively. The remaining sales pertain to concentrates, sodium sulfate, magnesium oxide, water services, and other.

The following graph shows sales distribution percentages:



Note: Not including hedging results

3. ORIGIN OF COST COMPONENTS

a) Costs

2006 operating costs increased by 80%, with respect to the prior year, for a total \$24,008 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 2005 and 2006, as well as the distribution in percentage terms.

Costs	2005	%	2006	%
(Thousands of pesos)				
Cost of Metal	9,014,887	68	18,529,449	77
Fuels	1,881,415	14	1,919,155	8
Operating Materials	1,039,029	8	1,284,705	5
Raw Materials	313,348	2	299,758	2
Other	1,052,080	8	1,975,631	8
Subtotal	13,300,759	100	24,008,698	100

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

NOTES TO THE FOURTH FINANCIAL STATEMENT

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

Make-up of Fuels

(Thousands of pesos)	2005	2006
Electrical Power	1,074,160	1,120,831
Natural Gas	272,935	360,084
Coke	189,729	195,409
Diesel	159,916	159,534
Fuel and lubricants	145,231	48,045
Fuel oil	39,264	35,049
Other	180	203
Total Fuels	1,881,415	1,919,155

As a result of the agreement entered into with Termoeléctrica Peñoles, our fuel costs have remained unchanged with respect to the prior period, thus maintaining a competitive level in the market, despite the increase in the price of oil-derived products. The most outstanding is the electrical power, representing 58.4% of total energy sources.

Make-up of Operating Materials (Thousands of pesos)

	2005	2006
Explosives and detonating materials	95,396	121,880
Mill Balls and Bars	75,280	78,939
Hydrated Lime	64,170	78,186
Other Reactive materials	46,590	67,684
Security equipment	41,577	55,153
Bound calcium and magnesium	37,401	54,574
Packing materials	36,448	43,871
Steel and Drill hole heads	34,977	40,814
Tires and inner tubes	34,898	40,419
Sodium Cyanide	32,616	37,535
Zinc	32,337	37,401
Other Materials	124,564	167,008
Other	382,775	461,242
Operating Materials	1,039,029	1,284,705

Make-up of Raw Materials Taxes (Thousands of Mexican pesos)

	2005	2006
Ammonia	250,997	235,286
Magnesium oxide	31,658	23,506
Cement Copper	13,446	15,725
Zinc earth	8,718	13,603
Other	8,529	11,639
Raw Materials	313,348	299,758

b) Purchases

During the reporting period, Peñoles conducted commercial operations with an overall 11,809 domestic suppliers and 1,688 located abroad, totaling 13,497, with respect to 11,918 in the prior period.

Following are the number of suppliers broken down per type of purchase in 2006:

	N° of Suppliers	
	2005	2006
Consumables	5,449	6,012
Transportation	622	712
Contractors	679	774
Customs Agents	121	155
Services	4,771	5,520
Fixed Assets	30	36
Concentrates	246	288
Total	11,918	13,497

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 11,809 suppliers, distributed throughout Mexico.

Following are the main states where most of our suppliers in 2005 and 2006 are concentrated: Coahuila hosts the largest number of suppliers, for a total 2,936 during 2006 and 2,614 in 2005; followed by Mexico City with 1,759 in 2006 and 1,533 in 2005

Followed by Nuevo León with 1,173 in 2006 and 1,033 in 2005; Zacatecas 944 in 2006 and 838 in 2005; Chihuahua 864 in 2006 and 763 in 2005, Sonora 819 and Durango 803, both for 2006, with respect to 719 and 714 in 2005 respectively. The remaining suppliers are spread throughout Mexico.

As for suppliers abroad, the U.S. accounts for 68% of total importations, followed by Canada with 130 suppliers, and a series of other countries, which account for 24% of foreign suppliers.

NOTES TO THE FOURTH FINANCIAL STATEMENT

	N° of Suppliers	
	2005	2006
U.S.	1,056	1,152
Canada	112	130
Other countries (42)	340	406
Total	1,508	1,688

At Peñoles, depending on the type of purchase, different payment policies are applied to our suppliers. These policies have remained constant in 2005 and 2006.

	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 2006, salaries and wages paid to 7,576 employees and collaborators, including payments to associates and bonuses, totaled \$2,665.8 million, representing a 19.3% increase from 2005.

The most significant increase was 132.6% in the Company's Employees' Statutory Profit Sharing, of \$471.9 million.

The "Employees" caption is

made up as follows	2005	2006
(Thousands of Mexican pesos)		
Compensation		
Salaries	599,819	678,121
Wages	323,534	346,309
Benefits	566,746	597,715
Subtotal Compensation	1,490,099	1,622,145
Overtime	88,501	67,806
Benefits	451,642	503,937
Profit sharing	202,888	471,923
Total Employees	2,233,130	2,665,812

b) Contractors

Services received from third parties in 2006 amounted to \$2,988 million, representing a 29.6% increase from 2005. The most significant variation is shown in payments to contractors and maintenance, increasing 52.6% and 24.9%, respectively.

The following table shows the different services received and the related amounts paid:

The "Contractors" caption is

made up as follows	2005	2006
(Thousands of Mexican pesos)		
Contractors	843,345	1,286,645
Maintenance	567,524	708,861
Major Repairs	452,773	482,941
Fees	391,539	451,936
Other	49,736	57,917
Total	2,304,917	2,988,300

c) Taxes

As a result of the different commercial transactions conducted, income tax in the amount of \$1,978 million was paid to the Mexican Government, representing a 116.6% increase with respect to 2005.

In 2006, a total \$200 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)	2005	2006
Income tax	913,364	1,978,728
Other taxes	122,066	199,810
Total taxes	1,035,430	2,178,538

d) Shareholders

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

Dividend Distribution **2005** **2006**
(Thousands of Mexican pesos)

Majority dividends	818,879	(*) 2,200,000
Minority dividends	70,881	0
Total dividends	889,760	2,200,000

(*) Estimated amount

e) Community and Environment

At Peñoles, environmental issues are key, due to which, we apply strict

NOTES TO THE FOURTH FINANCIAL STATEMENT

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 \$207 million pesos, 33% more than in 2005. This variation is related to both environmental activities (with our contributions showing a 22.9% increase), and community-related actions (73.3% increase).

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)	2005	2006
Community	33,586	58,215
Environment	92,968	114,329
Depreciation of social goods	29,303	34,892
Total Community and Environment	155,857	207,436

The combined actions carried out, covering environmental and social work, health and security issues, and support to communities are described in detail in chapters 7 and 8.

It should also be mentioned that we maintain fixed assets for social use in the amount of \$874.2 million (approximately 5.34% of our total net assets in Property, Plants and Equipment), as shown below:

(Thousands of Mexican pesos)	2005	2006
Common use road	16,284	14,781
Housing	62,402	66,392
Employee housing	0	48,997
Clinics	0	1,863
Tailings	0	52,893
Ecological	409,716	566,872
Ecological park	90,024	74,239
Environmental and ecological control	135,784	48,170
Total	714,210	74,207

f) Retained by company

Part of the monetary value generated by Peñoles during 2006 has not been distributed to any group of interest, 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 depreciation for the period (including the results in fixed asset disposals).

Retained by Company 2005 2006 (Thousands of Mexican pesos)

Depreciation, Amortization and Depletion (*)	1,201,934	1,310,832
Net income	1,988,922	4,333,641
Other	-259,689	-672,895
Subtotal	2,931,168	4,971,577
Less Majority and Minority Dividends	889,760	2,200,000
Retained by company	2,041,408	2,771,577

(*) Note: less assets in the amount of \$29,303 and \$ 34,893, for use by the community, employees and ecological, turned over to the Community and Environment group

g) Financial Institutions

As a result of the obligations contracted with financial institutions and other similar third parties, in 2006, Peñoles incurred a total \$183 million, representing a 25% increase with respect to 2005.

Indicator	Description	Page	Indicator	Description	Page
<i>General Indicators</i>			3.1	Reporting period (e.g., fiscal/calendar year) for information provided	<i>Back cover</i>
1.1	Statement from the most senior decisionmaker of the organization (CEO, chair, or equivalent position) about the relevance of sustainability to the organization and its strategy.	2	3.2	Date of most recent previous report	<i>Back cover</i>
1.2	Description of key impacts, risks, and opportunities	2, 18, 19	3.3	Reporting cycle (annual, biennial, etc.)	<i>Back cover</i>
2.1	Name of the organization	9	3.4	Contact point for questions regarding the report or its contents	<i>Inside back cover</i>
2.2	Key brands, products and/or services	9 and Foldout	3.5	Process for defining report content, including:	
2.3	Operational structure of the organization, including main divisions, operating companies, subsidiaries, and joint ventures	9		• Determining materiality	
2.4	Location of organization's headquarters	9		• Prioritizing topics within the report	
2.5	Number of countries where the organization operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report	Foldout		• Identifying stakeholders the organization expects to use the report	<i>Back cover, 6, Foldout</i>
2.6	Nature of ownership and legal form	9	3.6	Boundary of the report (e.g., countries, divisions, subsidiaries, leased facilities, joint ventures, suppliers)	<i>Back cover</i>
2.7	Markets served (including geographic breakdown, sectors served, and types of customers/beneficiaries)	23	3.7	State any specific limitations on the scope or boundary of the report	<i>Back cover</i>
2.8	Scale of the reporting organization, including:		3.8	Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations, and other entities that can significantly affect comparability from period to period and/or between organizations	<i>Back cover</i>
	• Number of employees		3.9	Data measurement techniques and the bases of calculations, including assumptions and techniques underlying estimations applied to the compilation of the Indicators and other information in the report	67
	• Net sales (for private sector organizations) or net revenues (for public sector organizations)		3.11	Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report	<i>Back cover, 2</i>
	• Total capitalization broken down in terms of debt and equity (for private sector organizations)		3.12	Table identifying the location of the basic content in the report	<i>Index</i>
	• Quantity of products or services provided	23	3.13	Policy and current practice with regard to seeking external assurance for the report. If not included in the assurance report accompanying the sustainability report, explain the scope and basis of any external assurance provided. Also explain the relationship between the reporting organization and the assurance provider(s)	<i>Back cover</i>
2.9	Significant changes during the reporting period regarding size, structure, or ownership including:		4.1	Governance structure of the organization, including committees under the highest governance body responsible for tasks, such as setting strategy or organizational oversight	11
	• The location of, or changes in operations, including facility openings, closings, and expansions				
	• Changes in the share capital structure and other capital formation, maintenance, and alteration operations (for private sector organizations)	2			
2.10	Awards and distinctions received in the reporting period	65			

GRI-G3 INDICATORS

Indicator	Description	Page	Indicator	Description	Page
4.6	Processes in place for the highest governance body to ensure conflicts of interest are avoided	11, 45	EC8	Impact of investment on infrastructure and services	58, 59, 60, 61, 62, 63
4.9	Procedures of the highest governance body for overseeing the organization's identification and management of economic, environmental, and social performance, including relevant risks and opportunities, and adherence or compliance with internationally agreed standards, codes of conduct, and principles	11	<i>Environmental Indicators</i>		
4.10	Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental and social performance	11	EN1	Main inputs used	29
4.11	Explanation of how the precautionary approach or principle is addressed by the organization	12	EN2	Recycled or reusable materials used	29
4.12	Externally developed economic, environmental, and social programs or principles, or other initiatives to which the organization subscribes or endorses	11	EN3	Direct energy consumption	28
4.13	Memberships in associations (such as industry associations) and/or national/international organizations that it supports and: • Participate in their governance • Participate in their projects or committees • Provide significant funding that exceeds member obligations • Has strategic considerations	15	EN4	Indirect energy consumption	28
4.14	List of stakeholder groups engaged by the organization	6	EN5	Energy conservation	28, 31
4.15	Basis for identification and selection of stakeholders with whom to engage	6, 11	EN6	Efficient energy use incentives	33
4.16	Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group	6, 11	EN7	Initiatives to reduce indirect energy consumption	31
<i>Economic Indicators</i>			EN8	Total water extraction	34
EC1	Direct economic value generated and distributed	23, 67	EN9	Water sources affected by extraction	37
EC3	Coverage of the obligations defined by the Organization concerning pension plans	45	EN10	Percentage and total volume of water recycled and reused	33, 34
EC5	Salary range in places in locations where there are operations.	45	EN11	Description of land in protected natural spaces or areas with high biodiversity	36
EC6	Proportion of expenditure corresponding to local suppliers in places where there are significant operations	23	EN12	Description of the most significant impacts on biodiversity	35
EC7	Contracting procedures	54, 57	EN13	Protected or restored habitats	36
			EN14	Strategies and measures for the management of impact on biodiversity	37
			EN15	Number of species itemized in terms of danger of extinction	36
			EN16	Direct and indirect GHG emissions	39
			EN17	Other relevant indirect emissions	39
			EN18	Initiative to reduce GHGs	31
			EN19	SAO emissions	39
			EN20	NOx, SOx and other emissions	39
			EN21	Total runoff of wastewater	33
			EN22	Waste generated by type and final disposal	39
			EN23	Total number and volume of most important spillage accidents	41
			EN24	Hazardous wastes treated	39
			EN25	Identification of biodiversity of water resources and related habitats that have been significantly affected by water runoff	34, 41
			EN27	Recollected, reused or recycled products sold	39
			EN28	Significant fines or non-monetary sanctions for breach of environmental standards	25, 26
			<i>Social Indicators</i>		
			LA1	Total employees by job type, contract and region	45
			LA2	Total number of employees by gender, age and region that left the company	45

Indicator	Description	Page	Indicator	Description	Page
LA3	Employee benefits	45	<i>Product Indicators</i>		
LA4	Percentage of employees under a collective contract	45	PR3	Information on products and services required for procedures and standards	54
LA5	Minimum period of notification of changes in the Organization, even if these notifications are specified in the collective agreements	47	PR5	Customer satisfaction practices	54
LA6	Percentage of total workers in Health and Safety Committees	48	PR8	Basic complaints concerning privacy and leaking of customers' personal information	54
LA7	Accident, professional illness, days lost and absenteeism rates	48	PR9	Significant fines for failure to comply with laws and regulations	54
LA8	Education, training, consultancy, prevention and risk management programs	50	<i>Mining Indicators</i>		
LA9	Formal agreements with associations for health and safety aspects	48	MM1	Identification of mines	23, 69
LA10	Average hours of training per year	50	MM2	Added value itemized	23, 67
LA11	Skills management programs and ongoing education	52	MM3	Number and percentage of mines identified	Foldout, 36
LA12	Percentage of employees who are regularly evaluated for performance and professional development	52	MM4	Percentage of products coming from secondary materials	29, 34
LA13	Composition of governing bodies	52	MM5	Policies to assess the ecoefficiency and sustainability of products	25
SO 1	Nature, scope and effectiveness of programs and practices to assess and mitigate the impact of operations on the communities	53, 58, 59, 60, 61, 62, 63	MM6	Description of the approach adopted to manage overburden, rocks, tailings, sludges/residues	39, 41
SO4	Measures taken in response to incidents of corruption	11, 45	MM7	Description of significant incidents that affect the communities	53
SO6	Total value of contributions in cash and kind to institutions	54	MM8	Description of programs aimed at artisan and small-scale mining	54
<i>Human Rights</i>			MM9	Description of resettlement policies and activities	54
HR1	Significant investment agreements or contracts that include human rights clauses or which have been subject to human rights analysis	53	MM10	Number of mines with closure plans	41
HR4	Total number of incidents of discrimination and measures taken	53	MM11	Description of the processes used to identify land use rights and the constitutional rights of the local communities	54
HR5	Activities concerning the right to free association and collective agreements	45	MM12	Description of the criteria used to identify, prevent and respond to emergency situations	12
HR6	Measures taken to contribute to the elimination of child labor	45, 53	MM13	Number of cases of professional illnesses by type and their programs	50
HR7	Operations identified as having significant risk of leading to forced or non-consensual labor, and measures adopted to contribute to their elimination	53			
HR9	Incidents related to the violation of indigenous rights and measures taken	53			

GLOBAL COMPACT (GC) INDICATORS

Aspect of GC	Principles of GC	GRI-Related Indicators Responded to by Peñoles
--------------	------------------	--

Human Rights

- | | |
|---|---|
| 1. The companies must support and respect the protection of internationally recognized fundamental human rights within their field of influence | HR1, HR4, HR5, HR6, HR9, LA4, LA13, SO1 |
| 2. The companies must ensure that their operations are not accomplices to the infringement of human rights | HR1 |

Labor

- | | |
|---|------------------------------------|
| 3. The companies must support the freedom to affiliate and the effective recognition of the right to collective negotiation | HR5, LA4, LA5 |
| 4. The companies must support the elimination of all kinds of forced or coerced labor | HR7, HR1 |
| 5. The companies must support the eradication of child labor | HR1, HR6 |
| 6. The companies must support the abolition of discriminatory employment and job practices | HR1, HR4, LA2, LA13, EC5, EC7, LA3 |

Environmental

- | | |
|--|---|
| 7. The companies must maintain a preventive approach that favors the environment | 4.11 |
| 8. The companies must promote initiatives that foster greater environmental responsibility | EN1, EN2, EN3, EN4, EN5, EN7, EN8, EN10, EN11, EN12, EN13, EN14, EN15, E16, EN17, EN18, EN19, EN20, EN21, EN22, EN23, EN24, EN27, EN28, EN30, PR3 |
| 9. The companies must favor the development and dissemination of technologies that respect the environment | EN2, EN5, EN7, EN10, EN18, EN27 |

Anti-corruption

- | | |
|--|----------|
| 10. The companies must work against corruption in all its forms, including extortion and bribery | SO4, SO6 |
|--|----------|

SELF EVALUATION ACCORDING TO THE GRI - G3 APPLICATION LEVEL

Report Application Level		C	C+	B	B+	A	A+
Standard Disclosures	G3 Profile Disclosures	Report on: 1.1 2.1 - 2.10 3.1 - 3.8 - 3.10 - 3.12 4.1 - 4.4 - 4.14 - 4.15	Report Externally Assured	Report on all criteria listed for Level C plus: 1.2 3.9, 3.13 4.5 - 4.13, 4.16 - 4.17	Report Externally Assured	Same as requirement for Level B	Report Externally Assured
	G3 Management Approach Disclosures	Not Required		Management Approach Disclosures for each Indicator Category		Management Approach Disclosures for each Indicator Category	
	G3 Performance Indicator & Sector Supplement Performance Indicators	Report on a minimum of 10 Performance Indicators, including at least one from each of Economic, Social and Environmental		Report on a minimum of 20 Performance Indicators, at least one from each of Economic, Environmental, Human Rights, Labor, Society, Product Responsibility		Report on each core G3 and Sector Supplement* Indicator with due regard to the Materiality Principle by either: a) reporting on the Indicator or b) explaining the reason for its omission	

* Sector supplement final version
Source: Sustainability Reporting Guidelines, G3 Version. 2006

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 or 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; F: work-related fatality.

AQUIFER

Porous rock or soil saturated with water.

BIOACCUMULATION

The storage of chemical substances in an organism, with higher concentrations than are normally found in the environment.

BIODIVERSITY

Variety of plant and animal species in their environment.

CALORIE

Unit of heat energy: quantity of energy necessary to raise the temperature of 1 gram of water by 1° C, in the interval of 14.5° to 15.5° C.

DOLOMITE

Sedimentary rock formed by double calcium and magnesium carbonate.

ECOEFFICIENCY

The level of efficiency associated with operating processes expressed as a combination of economic and environmental performance. Ecoefficiency is generally expressed in terms of the monetary value of the product or service divided by its environmental impact.

ECOLOGICAL SUCCESSION

Predictable change made in the species structure of an ecological community over a period of time, in an altered community.

ENVIRONMENTAL AUDIT

An examination of a company's operations with respect to the contamination and risk it generates, as well as the degree of compliance with environmental standards. These audits define the preventive and corrective measures needed to protect the environment.

ENVIRONMENTAL IMPACT

Modification of the environment caused by direct human action or indirect natural causes.

ENVIRONMENTAL IMPACT STUDY

A procedure for evaluating potential environmental effects.

EQUATOR PRINCIPLES OF THE WORLD BANK

A benchmark for financial institutions in the assessment of environmental and social risks associated with project financing; these are evaluated according to the following categories:

- **Category A**

- A.1 Significant impact on people (involuntary relocation, economic displacement, impact on the indigenous population).
- A.2 Loss or degradation of habitat in preserved ecosystems.
- A.3 Negative impact on cultural heritage.
- A.4 Substantial diverse impact, in combination with the above.

- **Category B**

Projects whose activities are carried out in natural habitats, with defined land use. Local impact only, which can be mitigated and does not lead to any of the Category "A" policies.

- **Category C**

Project refinancing; expansions with minimal or no adverse environmental impact.

FOSSIL FUEL

Product of the partial or complete decomposition of prehistoric plants and animals, such as crude oil, coal, natural gas or heavy oils, that originate as a result from their exposure to intense heat and high pressure under the earth's crust for millions of years.

PETROLEUM COKE

A byproduct of the oil refining process that is burned as fuel.

GREENHOUSE GASES (GHGs)

Gases located in the lower part of the earth's atmosphere (troposphere) that cause a warming effect (temperature increase). These gases include carbon dioxide, chlorofluorocarbons, ozone, methane and nitrous oxide. These gases, released into the atmosphere through the burning of fossil fuels and other means, are the principal cause of global climate change.

GRI (GLOBAL REPORTING INITIATIVE)

Initiative to develop reports on the economic, environmental and social performance of companies.

ISO-14001

International standard for environmental management.

JAROSITE

Non-hazardous residue that is a byproduct of zinc processing, with high iron content.

JOULE

A unit of energy equal to 0.239 calories.

LEACHING

Movement of chemical substances through pores, fissures or faults in the surface to the subsoil, carried by liquids in superficial deposits.

LOST WORKDAYS RATE (IDP)

Measure of the seriousness of classifiable accidents by the number of workdays lost.

MASS

(Medio Ambiente, Seguridad y Salud)

Environment, Safety and Health.

OSHA Guidelines

(Occupational Safety and Health Administration)

Guide issued by this organization for the assessment of occupational safety and health.

PHOSPHATES

Ethers, salts and the byproducts of phosphoric acid. These byproducts are frequently used in industrial or domestic detergents and in various biologically important energy-rich substances.

RESTORATION

Re-establishing the original properties to an ecosystem or habitat in terms of community structure and performance of their natural functions.

SAFETY INCIDENTS RATE

Based on the STOP system (*Safety Training Observation Program*) for the detection and correction of acts that could cause accidents or injuries or unsafe conditions before they cause accidents of any kind (non-classifiable and A and B classifiable). A: a minor injury cared for by first aid that does not prevent the individual from returning to work; B: a moderately serious injury that requires more than first aid and prevents the person from resuming normal duties and the person has to perform different duties than those prior to the injury.

SAFETY POLICY

Peñoles has three basic indicators to measure safety performance: Accident Rate, Safety Incidents Rate and Lost Workdays Rate.

SEWAGE

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

SLAG

Residue from the process of smelting and refining metal that is comprised primarily of iron, silica and calcium.

SOCIO-EFFICIENCY

Describes the relationship between the economic added value of a company and its social impact.

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 mineral concentration or beneficiation process, with low mineral content.

UNITED NATIONS GLOBAL COMPACT

An ethical commitment initiative for any entity in any country that wishes to include as an integral part of its strategy and operations, ten Principles of Conduct and Action in terms of Human Rights, Labor, Environment and the Fight against Corruption.

UNITED NATIONS MILLENNIUM DEVELOPMENT GOALS

A set of eight goals to promote sustainable global development. The 151 member states of the United Nations have pledged to meet the goals by 2015. See: www.un.org/millenniumgoals.

WASTEWATER

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

WASTEWATER TREATMENT

The procedure by which water contaminated with organic and mineral materials is purified. It is divided into three phases:

- **Primary treatment**

First stage in the treatment of wastewater in which all the floating and sedimentary solids are removed by means of screens, mechanical extractors and other filters.

- **Secondary treatment**

The organic matter content is eliminated in this phase by microbial action.

- **Tertiary treatment**

In this phase nutrients (phosphates and nitrogen) and a high percentage of suspended and dissolved solids are removed.



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