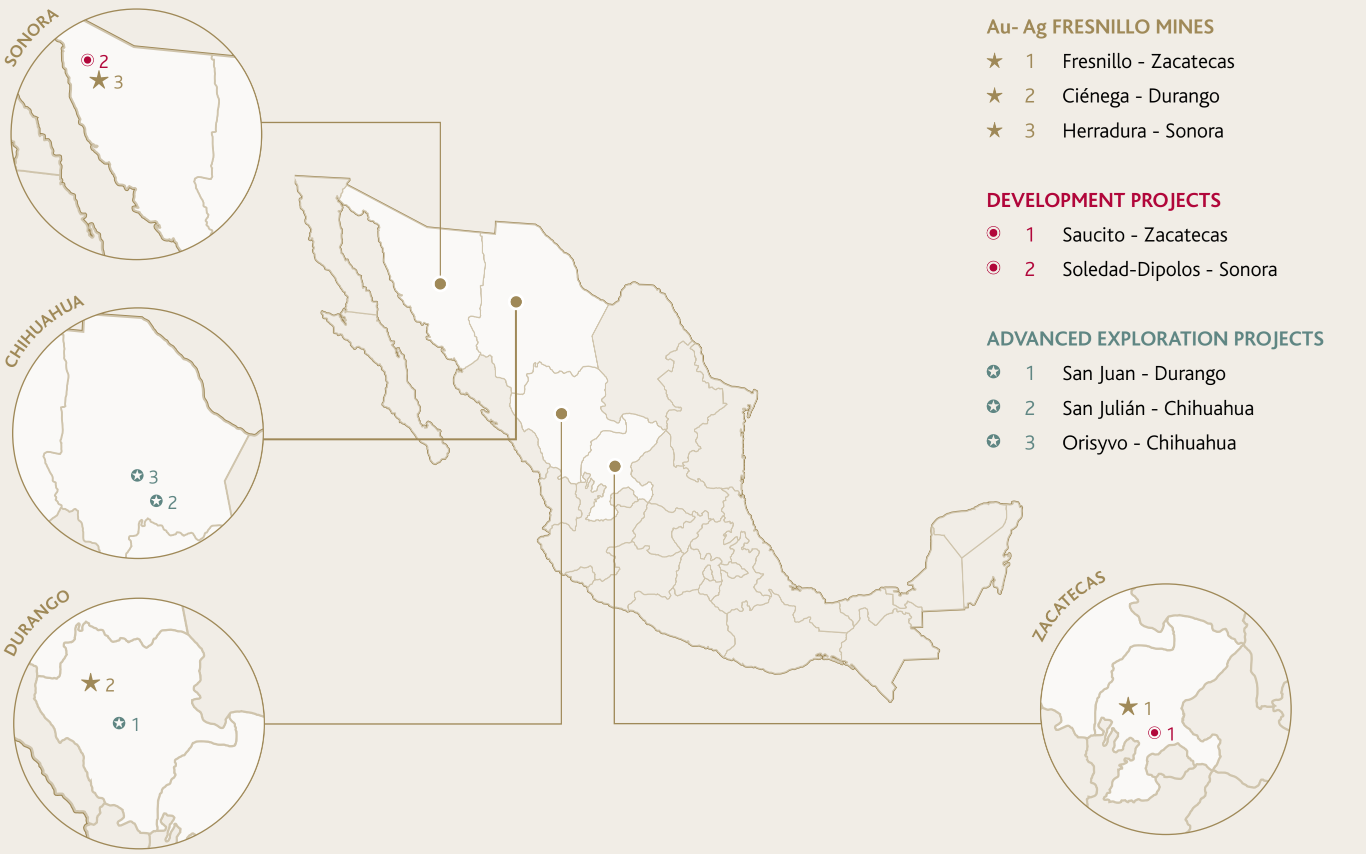
POSITIONED FOR CONTINUED GROWTH

2008 ANNUAL REPORT
Fresnillo plc

THE FRESNILLO GROUP AT A GLANCE

GEOGRAPHIC LOCATION



Profile:

The Fresnillo Group is the world's largest primary silver producer and Mexico's second largest gold producer.

Mission:

The Fresnillo Group seeks to create value across precious metals cycles through operational excellence, ore reserve replacement and exploration, and a strong commitment to disciplined and sustainable growth.

Goal:

Our goal is to maintain the Group's position as the world's largest primary silver producer, with the aim of approximately doubling silver and gold production by 2018.

TIMELINE

1554
Captain Diego Fernández de Proaño begins mining at a mountain named after him (Fresnillo mine)

1961
Peñoles acquires an equity interest in the Fresnillo mining district with a 60% acquisition of Compañía Fresnillo

1987
Peñoles forms Penmont Joint Venture with Newmont Mining Corporation

1992
Construction of Ciénega commences

1995
First full year of production at Ciénega, with 300,000 tpy capacity

1996
Peñoles acquires remaining 40% of Compañía Fresnillo

FRESNILLO GROUP:

- 2008 production: 34.8 million ounces of silver, 264,000 ounces of gold, 22,500 tonnes of zinc and 17,800 tonnes of lead
- Adjusted revenue of US$839.6 million
- Operating profit of US$283.6 million
- EBITDA of US$337.4 million

OPERATING MINES

- Fresnillo: World's largest primary silver mine
- 2008 metals production: 33.8 million ounces of silver, 24,000 ounces of gold, 11,300 tonnes of zinc and 8,700 tonnes of lead
- 12.5 years of mine life based on Proven and Probable reserves
- Ciénega: Underground gold mine
- 2008 metals production: 950,000 ounces of silver, 117,000 ounces of gold, 11,200 tonnes of zinc and 9,100 tonnes of lead
- 13.2 years of mine life based on Proven and Probable reserves
- Herradura: Open pit mine
- 2008 attributable metals production: 124,000 ounces of silver, 123,000 ounces of gold
- 12.0 years of mine life based on Proven and Probable reserves

DEVELOPMENT PROJECTS

- Soledad-Dipolos: Gold open pit mine project to commence production in Q1/2010
- Total capex for the project of US$67.8 million
- Expected to reach total peak production of 100,000 gold ounces per year by end 2010
- Saucito: Silver and gold underground mine project to commence production in 2011
- Pre-feasibility study to be delivered H1/2009
- Continued mining development and exploration
- Resources of 233 million ounces of silver and 1.1 million ounces of gold

ADVANCED EXPLORATION PROSPECTS

- San Julián: Silver and gold prospect
- Metal contained in resources of: 97.3 million ounces of silver and 0.4 million ounces of gold
- Continued exploration
- Orisyvo: Gold prospect
- Metal contained in resources of: 2.8 million ounces of gold
- Continued exploration
- San Juan: Silver and gold prospect
- Metal contained in resources of: 9.8 million ounces of silver and 0.3 million ounces of gold
- Evaluation of potential areas for future exploration

1997
Construction of Herradura commences

1998
Operations at Herradura commence; Ciénega's capacity expands to 514,000 tpy

2004
Fresnillo production capacity expands from 1,500,000 to 2,300,000 tpy

2005
Second expansion of Ciénega's capacity, to 673,000 tpy

2007
Herradura increases production from 8,300,000 tpy to 10,900,000 tpy; Fresnillo enters into Silverstream Arrangements with Peñoles

2008
Corporate and administrative restructuring of Peñoles separates the precious metals business into the Fresnillo Group. IPO and listing of Fresnillo plc on the London Stock Exchange.

CONTENT

POSITIONED FOR CONTINUED GROWTH

Fresnillo plc made its debut on the London Stock Exchange in 2008 following a successful, profitable and decades-long track record as a mining company with proven expertise in the mining value chain, from exploration through to mine development and operation.

Our world-class precious metal assets include the largest primary silver mine in the world and two gold mines that, combined, make us the second largest gold producer in Mexico. In addition, we have an exceptional portfolio of development projects and exploration prospects.

Today, as the industry faces cyclical challenges, we are confident that our extensive management experience, attractive country environment, low-cost production, commitment to exploration investment throughout the metals cycle, and a financially sound balance sheet have positioned us to thrive over the long term.

Cover
Los Jales *Ecological Park and Fresnillo mine illustrate our commitment to sustainability and operational excellence.*

WHO WE ARE

The Fresnillo Group is the world's largest primary silver producer and Mexico's second largest gold producer. Our mission is to create value across precious metals cycles through operational excellence, ore reserve replacement and exploration, and a strong commitment to disciplined and sustainable growth.

2008 HIGHLIGHTS

Record attributable silver production of 34.8 million ounces

Gold production of 264,000 ounces

Adjusted revenue up 6.9% to US$839.6 million

Effective controls to maintain industry leading cost performance

Operating profit up 26.3% to US$283.6 million

EBITDA significantly increased by 21.7% to US$337.4 million

Final dividend of 7.7 US cents per Ordinary Share

Strong balance sheet; sound cash position, no debt, no hedging on precious metals

Total resources base substantially increased

- 33.3% silver ounces to 1.1 billion ounces
- 26.3% gold ounces to 12.0 million ounces

Soledad-Dipolos and Saucito projects on track to commence development in 2010 and 2011 respectively

Mineralisation extended at all advanced exploration prospects and consolidation of mining districts enhanced by new joint venture and acquisition

Mr Alberto Baillères
Chairman of the Board

Dear Shareholders,

I am honoured to present the first annual report of Fresnillo plc as a public company.

Our May 2008 debut on the London Stock Exchange marks the beginning of a new chapter in the Group's history. After decades of profitable growth, this milestone represents an opportunity to share our experience and expertise in value-creation with a new group of stakeholders, and to benefit from the enhanced international profile and oversight that such a listing brings.

SURPASSING OUR COMMITMENTS

We made a number of commitments at the time of the IPO in regard to 2008 performance, and I am pleased to report that production volumes, expansion of ore resources, progress at development sites and initiatives to control costs were all on target for the year. Indeed, growth in reserves and resources and attributable silver production reached record levels in 2008. We also expanded the Group's growth platform and consolidated our mining districts with a joint venture exploration agreement and the acquisition of a further gold project, bolstering our exceptional asset base.

We were successful in meeting these objectives despite the rapidly changing economic environment in the latter half of the year. At the time of the IPO in May 2008, precious metal prices were still on the rise and few foresaw that the collapse of the U.S. credit market would spread so widely and rapidly, stoking recessionary fears around the world. Fresnillo plc, like many companies in our industry and the equity markets as a whole, faced declining valuations due to the negative economic outlook and the overwhelming need for investors to raise cash.

LOOKING BEYOND CURRENT MARKET CONDITIONS

Market conditions have disappointed since the IPO. I believe the global economy is ultimately cyclical and should rebound with properly structured government support, an improved regulatory environment, and the return of confidence. The long-term outlook for our industry remains positive due to the underlying trends that have driven its growth: global industrial development and expanding demand from emerging economies, combined with perennial interest in precious metals as a hedge against macroeconomic instability and currency fluctuation.

LETTER FROM THE CHAIRMAN

The fundamentals of the Company are strong. The exceptional quality of our assets, located in an attractive country environment; low-cost production capabilities and cash generating capacity; and a highly experienced management team that has been through numerous economic cycles and understands how to deliver optimal results.

CREATING VALUE

The Fresnillo Group seeks to create value across precious metals cycles through operational excellence, ore reserve replacement and exploration, and a strong commitment to disciplined and sustainable growth. Within that context, our goal is to maintain the Group's position as the world's largest primary silver producer, with the aim of approximately doubling gold and silver production by 2018. To do so, we will:

- Maximise the potential of our existing operations
- Deliver growth through the Saucito and Soledad-Dipolos developments and further exploration of our prospects.
- Seek additional opportunities to expand our resource base principally via ventures (controlled by Group companies), continued exploration, and selective acquisitions in Mexico and potentially elsewhere in Latin America.
- Ensure the sustainability of our operations by acting responsibly towards employees, the environment and local communities where we operate.

The Board closely monitors the implementation of this strategy to ensure that performance is on track. The Group's financial results depend on metal prices but we look at other factors to measure the effectiveness of our strategy, such as growth in reserves and resources and efficiency in consumption of key inputs, along with traditional measures of performance. We also use a number of sustainability indicators to monitor and enhance our performance in that area. Full details of our Key Performance Indicators are set out in the Business Review on pages 10-11.

DIVIDEND

Based on the Group's 2008 performance, the Directors have recommended a final dividend of 7.7 US cents per Ordinary Share, which will be paid on 29 May 2009 to shareholders on the register on 8 May 2009. The dividend will be paid in UK pounds sterling unless shareholders elect to be paid in US dollars. The Company´s dividend policy takes into account the profitability of the business and underlying growth in earnings of the Company, as well as its capital requirements and cashflows, whilst maintaining an appropriate level of dividend cover.

BOARD

After the end of the year we were informed that Héctor Rangel, an independent non-executive director, had resigned from the Board in order to take up a new appointment as General Director of Nacional Financiera and of the Banco Nacional de Comercio Exterior, a state-owned development bank and a national import-export bank, a position that precludes him from holding board positions in public companies. I am grateful to Mr Rangel for the valuable support and outstanding contributions he has given to the Board during these early stages of our Company's listing on the London Stock Exchange.

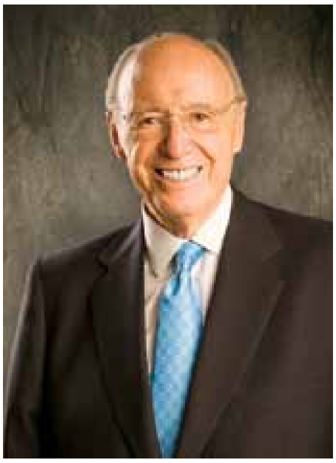
I am pleased to announce that the Board has appointed Mr Fernando Solana, who has had a distinguished career in government, diplomacy and banking, as a new independent non-executive director to replace Mr Rangel.

OUTLOOK 2009

Looking ahead at 2009, we recognise that Fresnillo plc will be impacted by the same factors as the industry as a whole. In light of economic conditions, our focus will be on critical capex and intermediate and advanced exploration projects, ensuring that the Group's short- to medium-term targets are met. Nonetheless, our strong financial position will allow us to pursue acquisition opportunities, should they arise, of high quality assets that will continue to expand our growth platform.

We are confident that despite the cyclical challenges facing our industry, the Fresnillo Group can optimise short-term results and deliver on long-term commitments. We will continue to benefit from low-cost production, a robust resource base, a strong balance sheet and a highly experienced management team for whose leadership and commitment to excellence we are grateful. I also want to thank my fellow Board members for the judgement, insight and broad perspectives they bring. Together, we are working to ensure that this new chapter of our Group's history has only just begun.

Alberto Baillères
Non-executive Chairman



Mr Jaime Lomelín
Chief Executive Officer

Dear Shareholders,

In this milestone year in its development, the Fresnillo Group delivered on its commitments to stakeholders by generating strong and stable production, successfully growing the reserve and resource base, advancing its development projects and expanding the platform for future growth. We also benefited from higher average metal prices compared to 2007 whilst containing costs and expenses, leading to year-on-year growth in revenue and EBITDA.

Market conditions were notably less stable. The first half of 2008 was characterised by strong demand and high metal prices, as well as significant cost pressures. In the latter months of the year however, global economic uncertainty led to unusual volatility in exchange rates and a reduction in metal prices as well as the cost of certain raw materials and services.

Gold averaged US$871.71 per ounce in the year, compared to US$696.70 in 2007, whilst the average silver price was US$14.99, compared to US$13.41. For the first nine months of the year, the exchange rate of the Mexican peso against the US dollar remained relatively stable at MXN10.52 per US dollar, whereas in the last quarter the average was MXN13.00 per US dollar, closing at MXN13.54 per US dollar. Mexican inflation reached its highest point since 2000, and was 276 basis points higher than 2007, at 6.53%. A full analysis of market conditions is set out on pages 12-17 of the Business Review.

These external uncertainties are standard in our industry [see Risks and Uncertainties on pages 44-49; however, our responsibility as stewards of your investment is to create value across precious metal cycles in order to deliver long-term profitable growth.

STRONG FOUNDATION

The fundamentals of our business have never been stronger. At the core are our world-class assets: the largest primary silver mine in the world and two established gold mines, where we have consistently and substantially replaced and expanded ore reserves, even whilst increasing our production levels. As at 31 December 2008, we had double-digit reserve life at our mines and attributable reserves of 410.0 million ounces of silver and 4.1 million ounces of gold. These are significant increases over the previous year, reflecting the success of our exploration strategy.

Second, we have talented and experienced employees who embody the Group's values of trust, responsibility, integrity and loyalty. Of our 2,966-strong workforce, 1,030 are contractors, and 54% are unionised. We enjoy transparent and respectful relationships with the national labour unions, and particularly close and strong relations with the local branches. Our human resources and labour policies are fully described in the Sustainable Development Report on pages 28-35 and risks associated with employee relationships are described in Risks and Uncertainties on pages 44-49.

Third, our disciplined growth strategy, predicated both upon consolidating prime mining districts in order to leverage our existing infrastructure, and identifying greenfield opportunities utilising strict financial and operational return criteria, has provided us with a broad-based growth pipeline. As at 31 December 2008, our total attributable resources included 1,115.9 million ounces of silver (2007: 837 million ounces) and 12.0 million ounces of gold (2007: 9.5 million ounces).

Last, we have a strong balance sheet that currently carries no debt, and a sound cash position that allows us to invest the necessary resources in the development programmes and exploration projects that represent the Group's future. We continue to monitor our cash outflows on capex, exploration and other expenses to avoid over-extending our balance sheet. In an economic environment such as today's, this financial position also strengthens our purchasing power and opens up additional value-creation opportunities to grow by accretive acquisition whilst maintaining appropriate controls over the use of cash.

2008 PERFORMANCE SUMMARY

Total silver production rose 1.0% to 34.8 million ounces in 2008, a new record for the Fresnillo Group. At Fresnillo and Ciénega, ore throughput was slightly higher than in 2007, in line with our programmes. Mine development in 2008 was 32.3km in Fresnillo, which was 22.3% above 2007 and 14.8km in Ciénega which was 78.3% above 2007. This allowed us to gradually increase the number of production stopes, improve ore feed into the concentrators and convert resources into reserves. At Herradura there was a substantial 25.2% increase in ore deposited at the leaching pads to 13.6 million tonnes.

The combination of stable production and higher average metal prices drove adjusted revenues 6.9% higher in the year. Total revenues increased to US$720.5m, 11.2% higher than at 31 December 2007, EBITDA rose 21.7% in the year and net profit was 5.1% lower.

We received proceeds of the 3.0 million ounces of silver produced at the Sabinas polymetallic mine, from the Silverstream Arrangements [see "Significant Relationships" in the Directors' Report on page 68]. The US$31.7m cash received in 2008 is not reflected as revenue in the income statement, but rather credited against the carrying value of the asset.

Full details of our operating and financial performance are set out in the Business Review sections on pages 18-27 and 36-43, respectively.

ONGOING COST REDUCTION AND EFFICIENCY INITIATIVES

Our performance is measured by more than production figures or financial statements. Operational excellence requires that we constantly pursue opportunities to improve efficiency and contain structural costs. This includes investment in the training of our personnel, efficient procurement of supplies and services, preventive maintenance, greater automation and advanced technology, as well as the implementation of control systems, processes and mining methods that enhance productivity.

These are ongoing efforts, and they are particularly important in an environment of increasing cost pressures. To this end, we took several measures in 2008 that will yield results in the near future:

- At Fresnillo, a sewage water treatment plant is being built that will lower the cost of process water and bring environmental benefits to the community when operations start up by year-end 2009, and engineering was completed on the new San Carlos shaft that is expected to reduce haulage costs once completed in 2012.
- At Ciénega, work began on sinking the shaft an additional 300 metres to provide access to deeper ore reserves; we are expanding and optimising the leaching circuit in order to increase metal recoveries; and we acquired a Knelson gravimetric concentrator to further boost gold recovery.
- At Herradura, a new pumping system was installed to increase leaching efficiency to recover additional gold values in the ore deposited; expansions were approved to the treatment plant to ensure continuous treatment of ore; and engineering for the seventh leaching pad was completed.

To evaluate the overall effectiveness of our efficiency measures, we control consumption of key inputs per unit of production. In 2008, for every tonne of ore milled, we reduced consumption of energy, water and explosives.

We have traditionally been able to keep production costs low by controlling labour, maintenance, repair, energy and operating material costs. Our cost reduction initiatives include better procurement, mechanisation, workforce training on efficient mining methods, and selective outsourcing to contractors. In 2008, particularly in the latter months of the year, we started to benefit from declining unit costs for steel, explosives and mining equipment, a trend that continues into 2009.

With respect to electricity, until 1 July 2008 we had a contract with Termoeléctrica Peñoles for committed power allocation on beneficial terms. As anticipated, once the contract expired our electricity costs increased – substantially – to the prevailing market price. Thus, whilst in line with our expectations, the Group's electricity costs were higher in the current period than in 2007. The Mexican government announced an initiative in 2009 to reduce electricity costs between 6% and 20%.

We also benefit from efficient procurement of supplies and services through our transitional services agreement with Servicios Peñoles (the SIPSA Agreement) [see "Significant Relationships" in the Directors' Report on page 68].

INVESTING IN GROWTH

Whilst production from our three operating mines will continue to position the Fresnillo Group as a top precious metals producer, we are also moving forward aggressively on developing two new mines, Soledad-Dipolos and Saucito, which will advance our growth objectives in the near term.

The Board approved the capex investment for the development of the Soledad-Dipolos project in September. It will be an open pit gold mine with similar average ore grade to Herradura, at 0.7 g/t. Operations are due to begin in 2010. It is expected to produce at a peak rate of approximately 100,000 ounces of gold per year. Advances made this year included engineering, permits, infrastructure construction, initial stripping, equipment orders and personnel training.

Based on our preliminary development plan, Saucito is expected to be a world-class silver mine, with operations scheduled to begin by 2011 in the Saucito area at an initial rate of 500 tpd and ramping up to 2,500 tpd by integrating the Saucito, Mezquite, Madroño and Jarillas veins during the initial development stage of the project. Exploration of the Valdecañas East and Santa Natalia veins will continue and later be integrated into Saucito.

Significant progress at Saucito was achieved in 2008, including construction work on two shafts and ramps and initial engineering of the 2,500 tpd mill capacity, tailings dam and other mine infrastructure. A prefeasibility study for the first stage of the Saucito project will be delivered during the first half of 2009.

Also in the Fresnillo District, in 2009 Minera Juanicipio (56% owned by Fresnillo plc and 44% by MAG Silver Corporation) will continue to explore the Valdecañas, Juanicipio and other veins which are all within the Minera Juanicipio claim. The Minera Juanicipio board approved a budget for a scoping study for a stand-alone mine; this study will be completed by May 2009.

Our investment in longer term growth was backed by US$53.5 million in brownfield and greenfield exploration in 2008, a 15% increase over the original budget following Board approval in September to proceed more rapidly in light of encouraging results at our pipeline of advanced prospects. San Julián in particular yielded more resources than expected, whilst mineralisation at San Juan and Orisyvo was in line with our programme.

In addition to our organic growth strategy, we are pursuing the expansion of our resource base through joint ventures and acquisitions, with a particular focus on consolidating claims within our mining districts. Transactions this year included:

- In May, a joint venture agreement signed with International Northair Mines Ltd to explore a group of gold-silver bearing veins in Durango State, a project in which Fresnillo plc can gain up to an 80% interest through incrementally funding exploration and other costs, expected to be no more than US$2.3 million, over a four year option period.
- In December, through our Minera Penmont venture with Newmont, the acquisition of the Noche Buena gold project in Sonora, Mexico for US$25 million in cash, with a further US$5 million to be paid once commercial production commences, and a 1.5% net smelter return payable on all production sold whenever the monthly average gold price is US$800 per ounce or higher.
- In December, an expression of intent to make a formal offer was issued to MAG Silver shareholders for all outstanding common shares of MAG Silver, our minority (44%) partner

in Minera Juanicipio within the Fresnillo District. Fresnillo plc and its affiliates already hold a 19.83% equity stake in MAG Silver. The valuation process required by the Ontario Securities Commission (OSC) was initiated in mid-January 2009, however in February 2009 Fresnillo was notified by MAG Silver that the valuation process had been suspended. Fresnillo has asked the staff of OSC to review the MAG Silver decision and it is our intention to take the necessary steps to enable MAG Silver shareholders to receive the offer in compliance with all laws. The Board will decide whether to proceed with a formal offer once this matter is resolved.

CORPORATE RESPONSIBILITY - FUNDAMENTAL TO SUCCESS

Responsibility to the community is an integral part of the Fresnillo Group's activities. Our commitment includes ensuring the health and safety of our employees, meeting international standards in environmental management practices, and protecting the interests of future generations through a well structured corporate social responsibility programme in every community where we operate. In 2008, we invested a combined US$0.8 million in our sustainability programmes.

Details of the Group's sustainability programmes may be found in the Sustainable Development Report on pages 28-35.

THE YEAR AHEAD

Whilst we remain positive on the long-term evolution of precious metals prices, we expect the global slowdown to reduce overall demand for precious metals in 2009.

We anticipate 2009 production as follows:

- Fresnillo: in line with 2008 production
- Ciénega: in line with 2008 production
- Herradura: small increase over 2008 production

Whilst production levels in 2009 could marginally improve, our focus will be on improving our cost efficiency.
We anticipate 2009 development as follows:

- Soledad-Dipolos: construction completed at year-end
- Saucito: prefeasibility study; assessment of material that can be mined within the next three to five years; continued exploration, resources upgrade and expansion.

Our financial strength will enable us to continue investing in exploration activities; US$42.5 million has been budgeted for 2009, a 21% decrease from the 2008 allocation, but our focus will be on mining districts with the best potential and most immediate results. We will also actively consider accretive acquisition opportunities in both early-stage and more advanced projects whilst strictly maintaining our strategic and financial return criteria. Although capex and early-stage exploration programmes will remain under constant review, we will continue to invest in operating efficiencies that, combined with our cost control initiatives, should help protect margins.

As a management team, we are mindful of the balance we must maintain between short-term tactical adjustments to be made in the face of current conditions, and the longer-term requirements of implementing the Group's strategic growth objectives. In that regard, I am confident that the Group is well positioned to become the world's leading silver producer and consolidate its position as Mexico's second largest gold producer, whilst delivering value for shareholders both in the short- and long-term.

In closing, I would like to extend my appreciation to the Chairman and members of the Board for their continued support and strategic direction, and to our people for their hard work and dedication throughout the year.

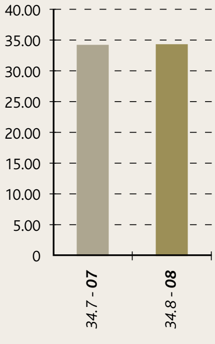
Jaime Lomelín
Chief Executive Officer

BUSINESS REVIEW

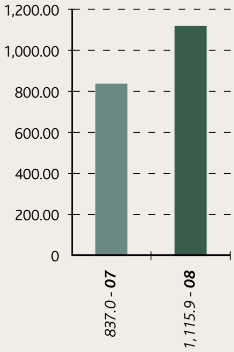
Centauro Pit at Herradura mine, Sonora

Our mission is to create value across precious metals cycles through operational excellence, ore reserve replacement and exploration, and a strong commitment to disciplined and sustainable growth.

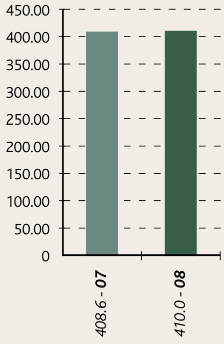
SILVER ATTRIBUTABLE PRODUCTION
(millions of ounces)



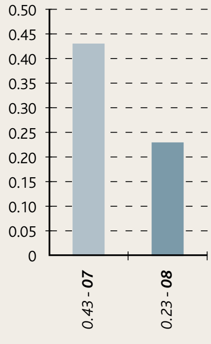
ATTRIBUTABLE RESOURCES
(millions of silver ounces)



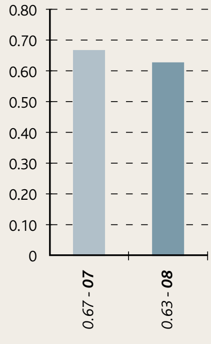
ATTRIBUTABLE RESERVES
(millions of silver ounces)



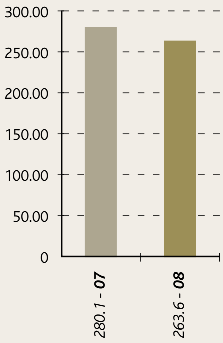
STEEL BALLS
(kgs/tonne)



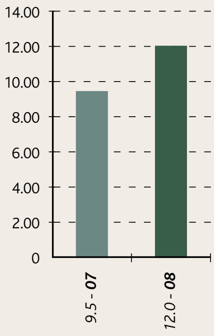
DIESEL
(lts/tonne)



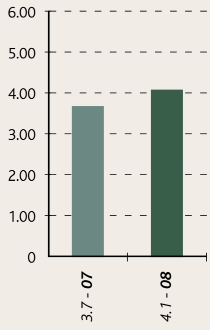
GOLD ATTRIBUTABLE PRODUCTION
(thousands of ounces)



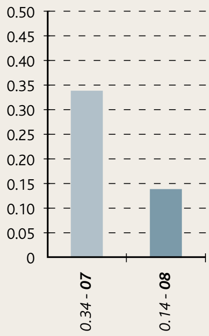
ATTRIBUTABLE RESOURCES
(millions of gold ounces)



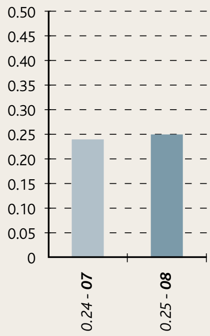
ATTRIBUTABLE RESERVES
(millions of gold ounces)



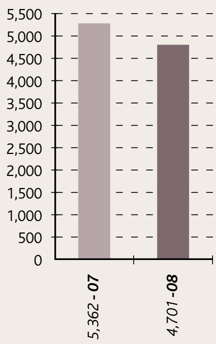
FRESH WATER
(m^3/tonne)



HIGH AND LOW DENSITY EXPLOSIVES
(kgs/tonne)



GROUP TOTAL INJURY LOST DAYS
(lost days/year)



OPERATIONAL

Attributable production

Sum of ounces produced multiplied by ownership interest at each mine. Demonstrates progress towards achieving our target of doubling production, on a silver equivalent basis, by 2018.

Reserves and Resources

A measure of our ability to discover and develop new ore bodies, and to replace and extend the life of operating mines.

Consumption efficiency

Quantity of each key input consumed per tonne of ore milled or deposited, including energy, explosives, steel balls and reagents. Measures the efficiency of our operations independently of input costs.

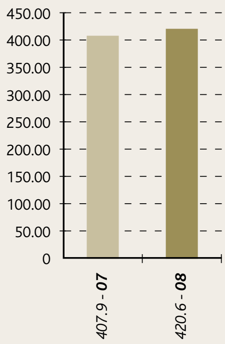
Injury lost days

The number of lost days caused by incidents which result in one or more days away from work, for employees and contractors.

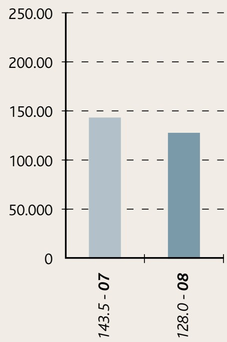
Our sustainability efforts in the areas of health and safety, environmental performance and community are monitored and measured using a number of key performance indicators. These are set out in the Sustainable Development Report on pages 28-35.

I. KEY PERFORMANCE INDICATORS

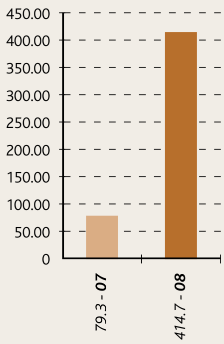
GROSS PROFIT
(in millions of US$)



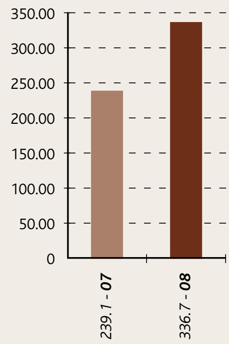
ATTRIBUTABLE PROFIT
(in millions of US$)



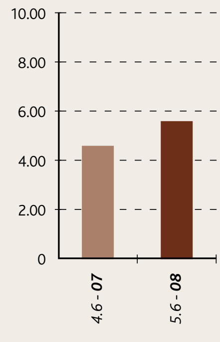
CASH FLOW FROM OPERATING ACTIVITIES
(in millions of US$)



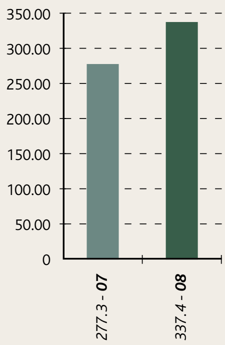
CASH COST PER EQUIVALENT GOLD OUNCE
(US$/ounce)



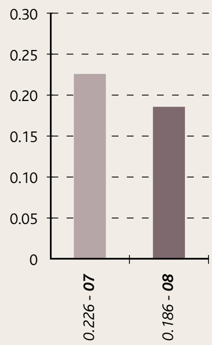
CASH COST PER EQUIVALENT SILVER OUNCE
(US$/ounce)



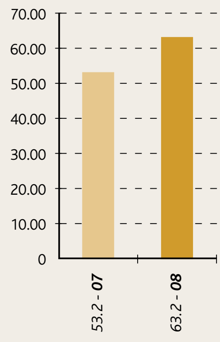
EBITDA
(in millions of US$)



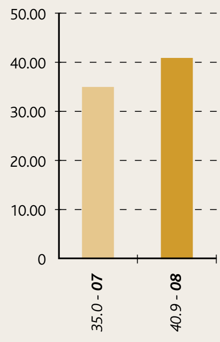
EARNINGS PER SHARE
(US$)



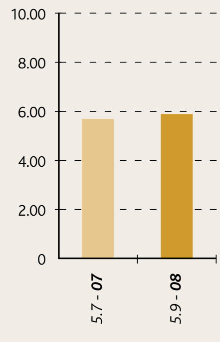
CIENEGA MINE - COST PER TONNE
(US$/tonne)



FRESNILLO MINE - COST PER TONNE
(US$/tonne)



HERRADURA MINE - COST PER TONNE
(US$/tonne)



FINANCIAL

Gross profit

Total revenue of a business minus the cost of goods sold. Gross profit is used to measure the performance of each business unit and the Company as a whole.

EBITDA

Gross profit plus depreciation included within cost of sales, less administrative expenses and exploration expenses. Measures cash generating ability and operating performance.

Attributable profit

Net profit multiplied by the ownership interest of equity shareholders, which measures our ability to create value for shareholders over time.

Earnings per share (EPS)

The amount of attributable profit available to equity shareholders, as calculated by dividing attributable profit for the period by the weighted average number of ordinary shares in issue during the period. The share capital for the Company in the periods prior to the Pre-IPO Reorganisation on 18 April 2008 is presented as if this reorganisation was completed as at 1 January 2007. The number of shares used for the EPS calculation is on this basis.

Cash flow from operating activities

A measure of the company's ability to generate cash from its core business.

Total cash costs – by product (silver and gold)

Cost of sales plus treatment and refining charges included in revenue, less depreciation included in cost of sales. A standard industry measure that allows us to compare operational performance against that of peers. Also used to compare performance period-to-period from a cash flow perspective, to monitor costs and evaluate operating efficiency.

Cost per tonne

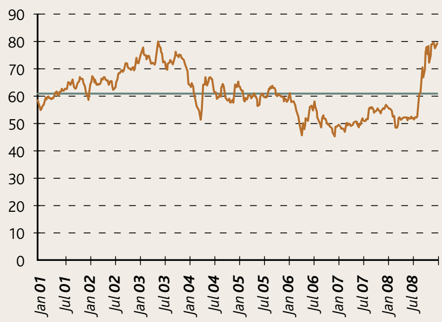
Cost per tonne is calculated as total production costs less depreciation, profit sharing and pension plan.

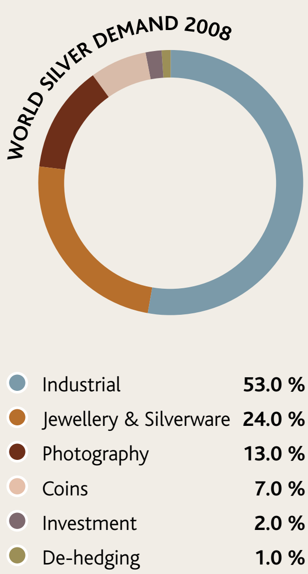
THE SILVER PRICE

(US$/oz)

GOLD / SILVER RATIO 2001 -2008 TO DATE

(basis weekly average prices)





THE SILVER MARKET

The average price of silver during 2008 was 12% higher than in 2007, although performance was unusually volatile over the year, and particularly during the fourth quarter. The rapid deterioration of the global economic environment in the fourth quarter pushed silver prices to a low of just under US$8.50/oz in October, about 60% lower than March's high of US$21.25. As the US Federal Reserve announced a rate cut in December and governmental stimulus packages were announced, silver rallied, supported primarily by speculative and investment oriented buying.

o **Silver Price from 2000 to 2008**

The silver price remains highly correlated with both gold and base metals such as copper. The correlation against copper strengthened in the first half of 2008, before weakening in the second half, while the correlation against gold significantly strengthened as the global economic crisis worsened. Unsurprisingly, gold reasserted its position as a risk hedge, and in September, the gold:silver ratio reached its widest spread in almost five years. Later in the year, silver rallied and the spread narrowed.

o **Gold:Silver ratio 2001 to 2008**

SILVER DEMAND

Demand for silver is divided into fabrication demand, which includes industrial applications, photography, jewellery/silverware and coins, and investment demand, which includes Exchange Traded Funds (ETF's).

o **World Silver Demand 2008 end use**
[Source: GFMS Ltd.]

Total fabrication demand in 2008 was up just 1% from 2007 levels to 875 million ounces, as demand in the second half was affected by slowing growth and fears that there was worse to come. While there has been an upward trend in industrial applications for silver over the decade and indeed over the year, the slowdown negatively impacted demand in the fourth quarter of 2008. Photographic demand continues its secular decline as digital technology grows. Jewellery and silverware demand also suffered due to the economic environment. However, there was a resurgence in silver demand for

II. MARKET AND GEOGRAPHIC OVERVIEW

jewellery from the Middle East and particularly India in the fourth quarter of the year as the gold:silver ratio widened. As recession fears increased over the second half of the year, silver and gold coin demand increased substantially.

- **World Silver Fabrication – % changes in 2008 vs 2007 [Source: GFMS Ltd.]**

- **Industrial Fabrication (million ounces) – from 1997 to 2008 showing rising trend [Source: GFMS Ltd.]**

SILVER INVESTMENT

Since silver Exchange Traded Funds (ETFs) were launched in 2006, demand for these investment products has increased steadily. 2008 investment demand was positive in the first half of 2008, with a rise of over 35 million ounces in ETF holdings and over 44 million ounces in speculative positions on Comex. The second half of the year saw a massive sell-off on Comex and the OTC market, but the build up in ETF holdings continued throughout the difficult financial and economic conditions in the second half of the year. Silver is sometimes regarded, in part, as a leveraged play on gold and therefore similar factors drive investment: lower US dollar, inflation fears, credit crisis, and growth in commodities as an asset class.

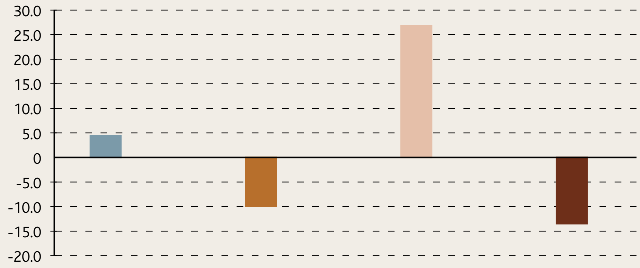
- **ETF Silver Holdings (million ounces) [Source: GFMS Ltd.]**

SILVER SUPPLY

There are very few primary silver producers in the world, as over 70% of mine production is as a by-product or co-product credit to copper, lead and zinc metal or gold mining. The Fresnillo Group is the world's largest primary silver producer. World silver mine production was up less than 1% in 2008 compared to 2007 levels, to 674 million ounces.

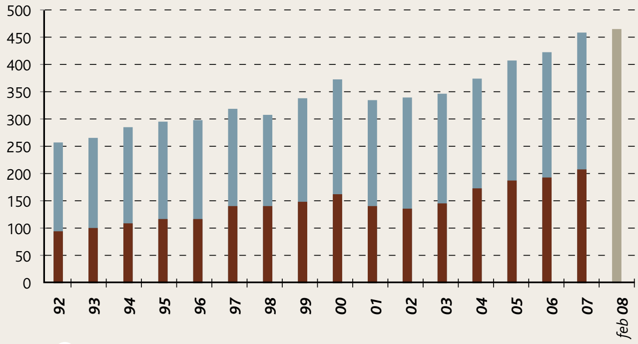
WORLD SILVER FABRICATION

Forecast Annual Changes: 2008 less 2007



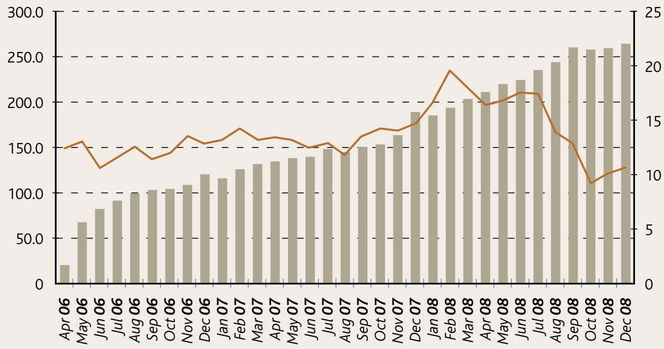
INDUSTRIAL FABRICATION

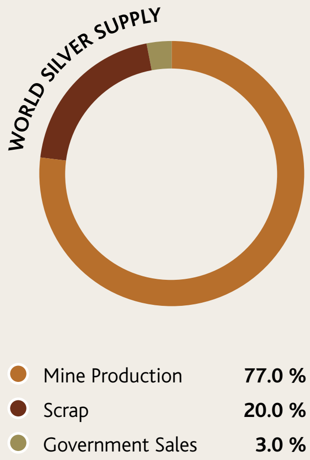
(millions of ounces)



ETF SILVER HOLDINGS

(millions of ounces) *(US$/oz)*





- **World Silver Supply by source 2008**
  [Source: GFMS Ltd.]

Supply from scrap material contributes about 20% to global silver supply and this has remained relatively stable at 178 million ounces. Most scrap is generated from the recycling of photographic material, which has been in secular decline as outlined above. Scrap from jewellery and silverware is price sensitive and only contributes about 20% to overall scrap supply, which is about 4% of total silver supply. Scrap supply declined by just 6% in 2008 compared to 2007 levels due to declining volumes from photographic sources.

Government sales of silver contribute to the supply of silver, albeit a mere 2.5% of total supply. Sales during 2008 were in the order of 22 million ounces, a decline of 44% on last year.

SILVER PRODUCERS

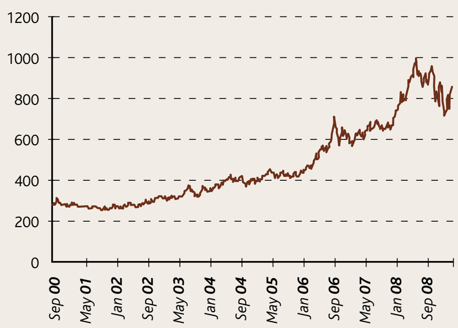
	2007 Production (moz)	2008 Production (moz)
BHP Billiton	48	42
KGHM Polska Miedz	39	38
Fresnillo	**34**	**35**
Volcan	21	23
Pan American Silver	17	19
Polymetal	16	17
Hochschild Mining	14	17
Kazakhmys	19	17
Buenaventura	16	16
Grupo Mexico	15	12
Coeur d'Alene	12	12
Goldcorp	17	10
Rio Tinto	7	6

Source: Data taken from published company reports

THE GOLD MARKET

The gold price hit an historic high in 2008 with the average US dollar price being 25% higher than 2007. However, like silver, it was a particularly volatile year with prices being driven primarily by investment activity. As the collapse of Bear Stearns, rising oil price and a falling US dollar combined to unsettled the market in March, the gold price hit an all time high of US$1,000 per ounce. The price fluctuated during the rest of the year in line with investor confidence – falling in May in tandem with the other base and precious metals and spiking in July before collapsing again a month later. The price fell to around US$700 per ounce, primarily as a result of forced selling by funds as they raised cash from their liquid assets. Despite these wild swings in the second half of the year, ETF holdings continued to grow strongly, particularly in the fourth quarter. At the year end physical purchases of gold returned with force pushing the price up by over 20%.

THE GOLD PRICE
(US$/oz)

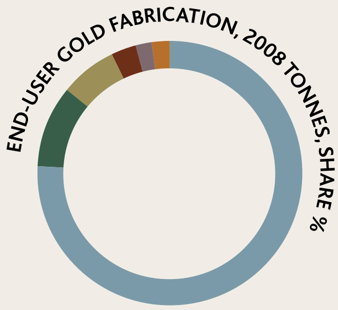


- **US Dollar gold price – weekly averages**
  [Source: GFMS Ltd.]

GOLD DEMAND

Demand for gold is mostly driven by jewellery fabrication and to a lesser extent applications in dentistry, electronics and coinage. Gold also remains a key component for reserves of Central Banks, which currently hold almost 30,000 tonnes of gold worth around US$800 billion. Investment demand is driven by ETF's, and retail investment in coins and gold bars.

- **2008 Global gold fabrication by end user [Source: GFMS Ltd.]**



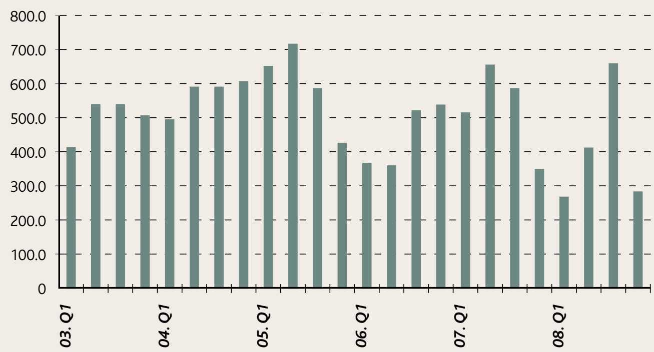
Jewellery	76.0 %
Electronics	10.0 %
Official Coins	7.0 %
Other Industrial	3.0 %
Dentistry	2.0 %
Medals & Imitation Coins	2.0 %

High gold prices in 2008 increased price volatility and in the second half of the year the slowdown in GDP growth. All these factors contributed to a decline in jewellery demand of 11% in 2008, reaching its lowest point since 1989. However, there was a resurgence in demand in the third quarter from India as prices fell significantly. Demand for gold in other applications declined during the year due to high gold prices and the global economic downturn; the notable exception being coin demand which rose over 40% as gold reclaimed its safe haven status in the fourth quarter of the year.

- **Fabrication demand excluding scrap [Source: GFMS Ltd.]**

GLOBAL FABRICATION EXCLUDING SCRAP SUPPLY, 2003 - 2008

(tonnes)

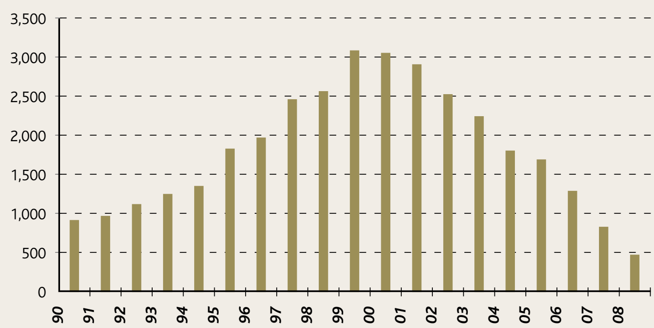


The secular decline in producer hedging seen since 2000 continued over 2008. De-hedging by gold producers fell about 23% in 2008, to just less than 350 tonnes, bringing the total global hedge book under 500 tonnes.

- **Producer Hedge Positions 1990 – 2008 [Source: GFMS Ltd.]**

GLOBAL GOLD HEDGE BOOK

(tonnes, end-year)

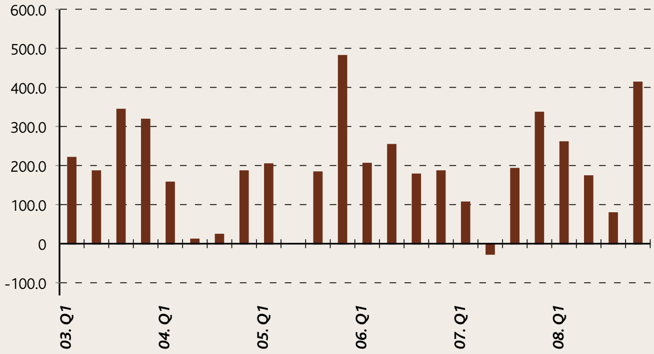


GOLD INVESTMENT

Although net investment in gold grew around 20% to slighter more than 200 tonnes in 2008, most of that occurred in the first half of the year as investors reacted to a weak dollar and rising oil prices. As the global credit crisis worsened over the third quarter, the US dollar rebounded, funds were forced to raise cash resulting in net sales of gold.

WORLD INVESTMENT

(sum of implied investment, bar hoarding, official coins, medals & imitation coins) (tonnes)



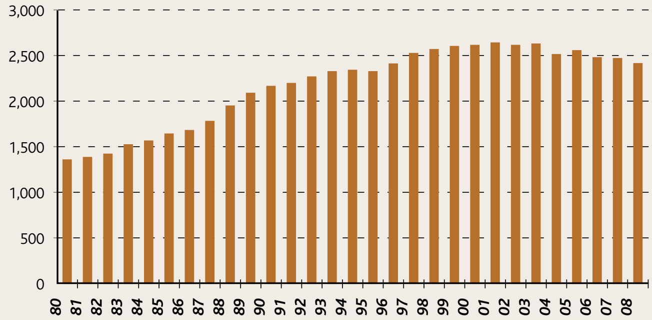
By the year end, investors' demand for physical gold and ETF's returned driven by risk aversion and wealth preservation. Gold held in ETF's rose by 37% to 318 tonnes in 2008, driving total holdings in ETFs to a record level by the end of September. The total value of gold in ETF'S increased by US$9.7 billion to a record US$33 billion.

Hoarding of gold bars also increased in 2008, driven by increasing economic uncertainty in the second half of the year.

- **World investment:**
  Bar Hoarding, Coins, Implied Net (Dis) Investment
  [Source: GFMS Ltd.]

WORLD GOLD MINE PRODUCTION

(tonnes)



GOLD SUPPLY

The supply of gold comes from mine production, Central Bank sales and scrap. Although gold mine production has been in decline since 2002, it dropped modestly in 2008 by about 88 tonnes. Mines in South Africa, Indonesia and Australia saw declining output, while China and Russia stepped up their production.

- **World Gold Mine Production, 1980 - 2008**
  [Source: GFMS Ltd.]

SELECT MID-CAP GOLD PEER GROUP

	2007 Production (koz)	2008 Production (koz)
Randgold	445	428
Peter Hambro	297	394
Agnico Tagle	231	300
Polymetal	242	285
Teck Cominco	285	279
Fresnillo	**249**	**264**
Oceana	183	264
BHP Billiton	182	163
Aurizon	159	159
Hochschild Mining	201	153
Kazakhmys	113	124

Source: Data taken from published company reports

Current economic uncertainty is also seen limiting Central Banks' appetite for gold sales. Sales in 2008 by Central Banks were 40% lower, falling to 280 tonnes due to lower sales by signatories to the Central Bank Gold Agreement ("CBGA") and Spain's decision to halt sales. Central Banks outside the CBGA continued to be net buyers albeit on a small scale. The supply of gold from scrap increased by 13% in 2008 as gold prices and distress selling increased over the year.

COUNTRY OVERVIEW

Mexico provides a favourable environment for mining: flexible and well-structured mining and environmental legislation; political support; strong mining tradition and expertise; and a skilled workforce.

Mexico is a federal democratic republic with a stable political environment. The mining industry is an important contributor to the country's economy, and benefits from a well-structured and supportive regulatory framework. Local mining expertise is significant, and the geological potential for silver and gold remains strong. There is ample access to infrastructure such as energy, water and roads throughout the country.

Mexico was the second largest silver producer in the world in 2008. The country's silver is produced by a combination of its primary silver mines, as well as secondary silver mines, where silver is a by-product of base metal and gold operations.

The Concession System

The Mexican Constitution establishes that all mineral rights belong to the State, which in turn provides concessions to private companies. In order to maintain these concessions in good standing, companies are required to pay yearly taxes. Concessions are required in order to be able to explore for and exploit mineral potential, and they may specify required levels of capital expenditure and minimum environmental, health and safety standards. No royalty payments are required in Mexico for extracting metals.

Mining concessions grant rights to mine; concession holders are required to negotiate access to the land under which the concession is located with the surface land owner. Companies holding concessions must be incorporated under the laws of Mexico, although they may be wholly owned by foreign investors.

Environmental Laws

The development of mining activities is subject to obtaining several environmental permits from different offices within the Federal Ministry of Environment and Natural Resources (*Secretaría de Medio Ambiente y Recursos Naturales* or "SEMARNAT"), including water withdrawal, wastewater discharge and tailings reprocessing. There are official standards for building and controlling tailings dams. Mexican environmental regulations have become increasingly stringent over the last decade as a result of international agreements that Mexico has ratified, including: (i) the North American Agreement on Environmental Cooperation (parallel to the North American Free Trade Agreement), (ii) the United Nations Framework Convention on Climate Change and (iii) the Convention on Biological Diversity, among others.

Workforce

Mexico's long history of mining and an extensive natural resources sector provide a skilled workforce, although the growth of the mining industry in recent years has led to some scarcity of trained workers. There have been a number of instances in recent years of mining companies facing industrial action and work stoppages; under Mexican law, it is permissible for employees to engage in industrial action in sympathy with unionised employees of other companies who are engaged in a dispute, despite the absence of any dispute with their own employer. During the year, the Fresnillo and Ciénega mines briefly experienced such activity.

III. OPERATIONS

Concentrator plant (front) and the new tailings dam (back) at Ciénega, Durango

PRODUCTION

	2008	2007	% change
Silver (kOz)*	34,848.9	34,683.1	0.5
Gold (kOz)*	263.6	280.1	-5.9
Lead (kt)	17.8	17.2	3.6
Zinc (kt)	22.5	21.9	2.7

* Fresnillo attributable production

2008 HIGHLIGHTS

- Silver production reached a record level at 34.8 million ounces, whilst gold production was 5.9% below the previous year's level due to lower gold ore grades and dilution at Ciénega, with 263,640 ounces produced overall.
  Although the Group's core revenues are generated from the sale of silver and gold, the mineral concentrates sold by the Fresnillo Group also contain lead and zinc by-products. In 2008, production of these metals increased by 3.6% and 2.7%, respectively, due primarily to higher lead and zinc ore grades and recoveries at Ciénega.
- Total exploration expenses, including at projects and prospects, increased 2.8% year on year, whilst in-mine exploration, which is recorded as part of the cost of production, decreased 3.7%.
- Total measured, indicated and inferred ore resources were successfully increased at all mines in operation. In terms of the metal content of these resources, silver ounces at Fresnillo increased 29.6%, whilst at Herradura and Ciénega increases of 36.0% and 15.7% of gold ounces, respectively, were achieved during the year.
- The development of the first stage of Saucito area, and Soledad-Dipolos, including infrastructure design and construction, advanced on schedule and within budget.
- Increased mineralisation at the San Julián and Orisyvo exploration projects.
- Whilst cost pressures in the mining industry have had an impact on the Fresnillo Group, this was partially offset by the downward trend in unit costs of some inputs, such as steel, energy and explosives, in the latter months of 2008. The Group remains in the lowest quartile of the cost curve. Costs per tonne increased by 18.8% in Ciénega, 16.9% in Fresnillo and 2.8% in Herradura, respectively, in 2008, lower than the average of the mining industry. We have a number of initiatives to mitigate the impact of cost pressures for the factors under our control.
- Total silver ounces increased from 837 million ounces to 1,115.9 million ounces, whilst gold resources increased from 9.5 million ounces to 12.0 million ounces.

OPERATING MINES

The Fresnillo Group has three producing mines, all located in Mexico: Fresnillo in the State of Zacatecas, Ciénega in Durango, and Herradura in Sonora. The primary products are silver produced by Fresnillo and gold produced by Ciénega and Herradura. These precious metals are contained in the lead and zinc concentrates produced by Fresnillo and Ciénega and doré by Herradura. The products from these mines are sold to Met-Mex, Peñoles's refining and smelting facility in Torreón, Mexico, under a series of supply agreements [see "Significant Relationships" in the Directors' Report on page 69].

Fresnillo

The Fresnillo mine, which is 100% owned by the Fresnillo Group, is the world's largest primary silver mine. It is located approximately 60 kilometres northwest of Zacatecas City, the capital of the State of Zacatecas, in one of the oldest mining districts in Mexico. The unit consists of an underground mining operation and a concentrator plant. During 2008, an average of 1,561 persons were employed at Fresnillo, consisting of 889 Fresnillo Group employees and 672 contracted personnel.

Silver production in 2008 increased to an historical record, reflecting the 1.0% increase in total ore milled. This was due to a change in the mining method at the San Alberto and San Carlos areas of the mine from cut and fill to the more productive longhole drilling method. Recoveries and ore grades were consistent year-on-year.

The Group conducts in-mine and surface exploration on an ongoing basis in order to replace mine reserves, maintain the life of the mine and to ensure adequate mine planning and continuous operation of the mine. During 2008, 59,099 metres of diamond drilling was conducted, resulting in an 4.3% increase of the mine's resources, from 32.6 million tonnes at 486.5 g/t of silver, to 34.0 million tonnes at 538 g/t of silver. Based on proven and probable reserves, the expected life of the mine is 12.5 years, compared to 11.5 years in 2007.

In order to maintain production and efficiency levels, we invested US$10.1 million in sustaining capex in 2008, including the purchase of Load-Haul-Dump machines (LHDs), Jumbos and locomotives. With these funds the Group also acquired surface rights to allow for future construction of ventilation raises and to expand or construct tailings dams.

The development of a new shaft to extract mineral from the western zone of the San Carlos vein was approved in 2008. This is expected to be one of the most important and productive future areas of the mine. Engineering of the San Carlos shaft was completed during the year, as was the design of the concrete head frame, and its construction will begin in March 2009. The mine cross cuts for access to the shaft were completed at the first three levels in line with the Company's shaft development programme and the raise boring machine is already onsite. This project, which will reduce haulage costs, is expected to take three years to complete.

In 2008 the project to build a waste water treatment plant was approved, and construction commenced immediately. This plant will take sewage water from Fresnillo municipality at no cost and the treated

FRESNILLO SOCIAL RESPONSIBILITY HIGHLIGHTS:

- Reduced depletion of aquifers and benefits accrued to the community through the treatment of sewage water.
- Reduced lost injury days from 4,783 to 3,242 and lost injury days index from 3.06 to 2.08, through investments in training and equipment, and strong oversight of safety procedures.
- Support for the Fresnillo community included sponsorship of the local football team and remodelling of the town's primary school.
- The mine's environmental efforts were recognised with ISO 14001 recertification until February 2011, as well as a new Clean Industry Certificate from PROFEPA.
- No dust emissions in the beneficiation process.
- Repaving of Proaño Avenue.

SAG mills at Fresnillo mine, Zacatecas water will be used in the milling process instead of fresh water. This will preserve the aquifers and reduce fresh water costs. An investment of US$4.3 million was approved, with a completion date scheduled for the third quarter of 2009.

Ciénega

The Ciénega gold mine, which is 100% owned by the Fresnillo Group, is located in the northwest corner of the State of Durango, approximately 325 kilometres from Durango, the Capital of the State. The unit consists of an underground mining operation and a concentrator plant. During 2008, an average of 647 persons were employed at Ciénega, consisting of 402 Fresnillo Group employees and 245 contracted personnel.

Gold production was 18.7% below 2007 levels mainly due to lower ore grade and dilution, and to a certain extent because of delays in the preparation of new mining stopes. Annual silver production was also affected by the decrease in the ore grade. Lead and zinc production, however, increased in the year by 14.5% and 17.4% respectively as a result of higher recoveries and ore grades. We expect the end of year ore grades of 4.7 g/t gold to remain steady over 2009. In order to stabilise the declining grade steps are being taken to prepare new stopes, control dilution, and take other mitigating actions such as increasing the ore milled and recovery rates.

Surface and in-mine diamond drilling, totalling 38,151 metres in 2008, has confirmed the continuity of ore at seven veins and increased the mine's resources from 11.8 million tonnes at 5.48 g/t of gold, to 24.8 million tonnes at 2.3 g/t. Based on proven and probable reserves, the expected life of the mine is 13.2 years, compared to 10.0 years in 2007.

Key projects during the year included approval for sinking the shaft an additional 300 metres in order to recover deeper ore resources. An investment of US$13.3 million was approved and the contractor was selected to start the project in 2009, which will take three years to complete. In addition, construction began on expansion and optimisation of the leaching circuit to increase gold and silver recoveries by an estimated 2.2% and 0.8% respectively, with a budgeted investment of US$6.2 million. Work in 2008 included the installation of an automatic control system for the leaching circuit.

Other initiatives to increase recoveries, enhance efficiency and ensure the continuity of mine operations included the acquisition of a Knelson gravimetric concentrator to in-

Development at Ciénega mine, Durango

CIÉNEGA SOCIAL RESPONSIBILITY HIGHLIGHTS:

- To improve the injury rate indicator we are strengthening the STOP™ programme and providing training for TAKE TWO...for Safety™ and other safety programmes. More than 57 new contractors were hired to expand the mine works in 2008. The expanded workforce resulted in fewer cumulative hours of safety training which may as a consequence have led to an increase in the lost injury days, from 409 to 656 and the lost injury days index from 0.75 to 1.01.
- Investment in upgrading the living and social conditions at Ciénega, including paving a large section of the camp, constructing a swimming pool and gymnasium, remodelling sport fields and the communal church, and donating equipment to the schools.

crease gold recoveries by 0.3%, automation of the diesel dispatch system, construction of a new pumping station and installation of a new flotation expert system.

The second tailings dam was completed and started operation in April 2008, following an investment of US$13.0 million. At current operating levels, it will have a life of 9 years.

Herradura

Herradura is an open pit gold mine located in the State of Sonora and held through Minera Penmont, a joint venture with Newmont Mining Corporation in which the Fresnillo Group has a 56% interest and is the operator of the mine. During 2008, an average of 706 persons were employed at Herradura, consisting of 593 Fresnillo Group employees and 113 contracted personnel.

Gold production achieved record levels in 2008 as a result of higher extraction from the main pit, with an 11.4% increase in ore deposited on the leaching pads. Silver production declined in the year, signalling a return to historically lower ore grades found in the areas mined following a period of high mineralisation.

Ongoing drilling of 146,360 metres in the year changed the mine's resources (including Soledad-Dipolos) from 231.7 million tonnes at 0.74 g/t of gold, to 223.2 million tonnes at 0.55 g/t of gold. Based on proven and probable reserves, the expected life of the mine is 12 years, compared to 11 years in 2007.

To accelerate stripping and haulage activities and facilitate preparation of the Centauro pit, a contractor was hired and mobile equipment was utilised that had been purchased for Soledad-Dipolos. Stripping and preparation activities at Centauro and an adjacent area progressed with 9.4 million tonnes moved in the year. Areas of high ore grade mineralisation were identified more than 600 metres below the surface, with potential of 1-2 million gold ounces. These areas will be further defined in 2009.

150 tonnes capacity trucks at Herradura, Sonora

At the leaching pads, a new pumping system was installed in the fourth and fifth pads to recover additional gold values in the ore deposited, whilst the sixth pad was completed during the year and work on the seventh pad began in December. To ensure continuous treatment of ore, improvements were made to the treatment plant to increase flow of 1,200 m^3 per hour, slightly higher than the previous rate. In 2009 the plant will be expanded to allow a flow of 1,600 m^3 per hour.

The use of diesel and lubricants at Herradura is a major component of the cost structure, and management continuously seeks to reduce unit consumption of these inputs.

HERRADURA SOCIAL RESPONSIBILITY HIGHLIGHTS:

- For the fifth time, Herradura received the annual Silver Helmet Award granted by the Mexican Mining Chamber (CAMIMEX) for its improved safety indices in the category of open pit mines with more than 500 employees.
- Community efforts included addiction prevention programmes and sponsorship of athletic activities, along with ongoing environmental and social outreach efforts.

In 2008, high quality lubricants extended engine life from 13,500 to 17,500 hours. Similarly, a clean diesel system was implemented that reduced engine failures by 90%.

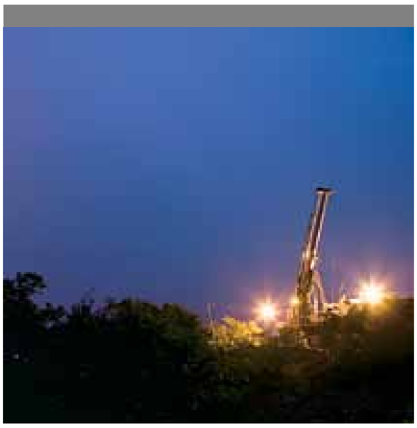
To ensure optimal measurement of metal contents in the solution, an automated sampler system is in the process of being installed and will be fully operational in mid-2009.

Unfortunately, the lost work days and lost work days index increased at Herradura, from 170 to 803 and 0.24 to 1.14, respectively following the hire of new personnel prior to work on Soledad-Dipolos commencing.

EXPLORATION

One of the main drivers of the Group's growth is the investment in exploration and the development of projects and prospects with the potential to become low-cost operating mines. Therefore our disciplined approach to investment includes the evaluation of economic ore grades, maximum extraction costs and an established reserve base.

The Fresnillo Group has four development projects adjacent to its producing mines which offer significant growth potential: Saucito and Juanicipio silver projects in the Fresnillo District, and two gold projects in the Herradura Corridor, Soledad-Dipolos, and the recently acquired Noche Buena. The Group also has three advanced exploration prospects in Mexico: San Julián, in Chihuahua, a gold-silver prospect; San Juan, in Durango, a silver-gold prospect and Orisyvo, in Chihuahua, a gold prospect, as well as a number of other long-term exploration prospects. In total, the Fresnillo Group has mining concessions covering approximately 1.75 million hectares in Mexico.



Parametric drilling at San Julián, Chihuahua. Several veins were identified with high ore grade

Saucito shaft and diamond drilling at Saucito project, Zacatecas

Saucito

The Saucito project is aiming to develop another world-class mine, located approximately eight kilometres southwest of the Fresnillo mine. There is a preliminary mining plan that considers six separate vein structures, each at different stages of exploration and resource definition. These are the Saucito, Mezquite, Madroño and Jarillas veins at the initial development stage of the project. Exploration of the Valdecañas East and Santa Natalia veins will continue and later be integrated into Saucito.

Development work currently includes land acquisition, environmental studies, obtaining permits, engineering studies and underground access to explore and define ground conditions. Since mid-2005, 1,800 hectares of land have been acquired to build the first stage of the new Saucito mine infrastructure. Detailed engineering plans to build the surface facilities for Saucito, with 2,500 tpd mill capacity, began in 2008.

Total investment in the Saucito project spent as at 31 December 2008 was US$29.4 million. A pre-feasibility study with the total estimated investment for the first stage of the Saucito project in the Saucito area will be delivered during the first half of 2009.

In 2008, diamond drilling at 12 sites along six mineralised structures at the Saucito and Juanicipio projects totalled 61,415 metres of drilling, in line with the 2008 plan.

At the Jarillas vein, 31 drill holes were completed, confirming continuity of mineralisation. Construction of the concrete head frame of a new shaft was concluded during December 2008. This shaft will have approximately 750 metres, the first stage of 550 metres will be in operation in early 2013. In the northern area of the same zone, ramp construction began which will be used as access to the veins, and to confirm resources and ground conditions for mine planning and development in the Saucito and Jarillas area. Engineering of the plant, tailings dam, access roads, electric lines and required infrastructure for a future mine has already begun, whilst mine engineering and total investment required for mine development and equipment are currently under review. A prefeasibility study is expected to be completed in the second quarter of 2009.

Construction of a separate ramp connecting the Saucito and Jarillas veins reached 1,550 metres in length, and will be used to identify potential additional resources and ground conditions that will permit better mine design and planning.

The Saucito shaft advanced to its full length of 587 metres during the year. The length of the service ramp increased to 2,610 metres. Activities in early 2009 will be focused on completing the above-ground shaft structure and assembling the hoist, which will have a 2,500 tonnes per day capacity.

At the Madroño and the Mezquite veins, discovered in early 2008, early stage parametric drilling indicates high potential along the west part of the Jarillas vein, which will be further defined in 2009. The Saucito-Jarillas decline intersected the Mezquite vein, confirming the potential and quality of the vein in that area, which will be further defined in 2009.

Juanicipio

Also in the Fresnillo District, in 2009 Minera Juanicipio (56% owned by Fresnillo plc and 44% by MAG Silver) will continue to explore the Valdecañas, Juanicipio and other veins which are all within the Minera Juanicipio claim. The Minera Juanicipio board approved a budget for a scoping study for a stand-alone mine; this study will be completed by May 2009.

At the Valdecañas vein, 46 holes were completed and economic silver-gold values between 1.5 and 6.5 metres vein width were identified. Within the Juanicipio claim (in which Fresnillo has a 56 % interest), 35 holes were completed on the central section of the same vein, extending over 2,280 metres of the vein length. Several of these holes intersected attractive silver-gold grades over 6.5 metres average width and drilling continues to define the resource.

Soledad-Dipolos

Soledad-Dipolos is a significant development project, the capex for which was approved by the Board in September 2008. It is located approximately nine kilometres northwest of the Herradura mine. Mineralisation is along the same strike of the Mojave-Sonora Mega shear zone as Herradura. As with Herradura, the Fresnillo Group's interest in Soledad-Dipolos is held through the Minera Penmont joint venture (56% Fresnillo Group and 44% Newmont Mining Corporation).

The mine is planned to be an open pit heap leach operation similar to the existing Herradura mine.

Anticipated annual production is expected to be in the range of 3.5 million tonnes to 5 million tonnes of ore, producing a peak rate of approximately 100,000 total ounces.

The pre-production investment will be US$67.8 million, with US$14.1 million incurred as at 31 December 2008.

In 2008, inverse circulation drilling of a total 83,200 metres was completed, as were the acquisition of land and permits, mine design, development of a production plan and basic engineering of the plant and facilities. Detailed engineering of those facilities is currently underway. Pre-stripping of the pits also began at year-end 2008, with ore production expected to begin in early 2010.

Noche Buena

In December 2008 the Fresnillo Group, through its Penmont joint venture with Newmont, acquired the Noche Buena gold project in Sonora, Mexico, from Seabridge Gold Inc. for US$25 million in cash at closing, a further US$5 million payable upon commencement of commercial production, and a 1.5% net smelter royalty payable on all production sold for US$800 per ounce of gold or greater.

Noche Buena is a disseminated gold deposit amenable to open pit mining and is located 23 kilometres southeast of the Herradura mine. The present drill indicated resource is 600,000 ounces of gold and additional exploration is planned in the area. This acquisition is in line with our strategy to consolidate mining districts.

San Julián advanced gold-silver prospect

The San Julián prospect is located southwest of the town of Hidalgo del Parral on the boundary between the States of Chihuahua and Durango, in a region with good infrastructure. The prospect covers an area of approximately 109,300 hectares. Parametric drilling to date has identified eight structures. Although the gold-silver mineralisation in veins is irregular, information gathered so far indicates that near-surface, high-grade ore shoots could be developed along several veins.

The 2008 exploration programme, which included 35,019 metres drilled in 112 holes, focused on the Todos Santos, San Julián, La Dura, San Atanasio, Maria Antonieta and the recently discovered Ramal del Oro veins, and reconnaissance drilling of the JM disseminated silver deposit. An initial mineral resource estimate at a cut-off grade of 3g/t gold equivalent was completed using geometric methods. Results show that an inferred resource of 12.8Mt exist in the prospect, at a grade of 0.99g/t gold and 235g/t silver, totalling 408,000 oz of gold and 97.3Moz of silver. The details of this estimation are shown in the following table:

MINERAL RESOURCE STATEMENT*, SAN JULIAN PROSPECT,
SRK Consulting (Canada) Inc, December 31, 2008.

			QUANTITY		GRADE				CONTAINED METAL		
Classification	Average veindip (degree)	Average thick. (metre)	Tonnes (000s)	Gold (gpt)	Silver (gpt)	Au-Eq* (gpt)	Ag-Eq* (gpt)	Gold Ounces (000s)	Silver Ounces (000s)	Au-Eq* Ounces (000s)	Ag-Eq* Ounces (000s)
Inferred Mineral Resource											
Todos Santos	65	5.26	1,258	2.40	215	6.34	345	97	8,695	257	13,930
Todos Santos R-1	vertical	4.88	517	2.48	237	6.86	371	41	3,931	114	6,161
Todos Santos R-2	vertical	3.67	189	3.98	254	8.69	469	24	1,543	53	2,851
San Julián	50	9.25	989	2.43	349	8.89	480	77	11,106	283	15,275
Refugio	65	1.99	310	1.22	208	5.07	274	12	2,068	50	2,725
La Dura	variable	1.60	374	2.03	220	6.10	329	24	2,643	73	3,964
Ramal del Oro	50	5.75	628	2.35	139	4.93	266	47	2,815	100	5,379
San Atanasio W	vertical	1.13	246	4.20	132	6.63	358	33	1,039	52	2,829
Maria Antonieta	75	2.44	289	2.63	158	5.57	301	24	1,470	52	2,789
Sub-total Veins			**4,799**	**2.47**	**229**	**6.70**	**362**	**381**	**35,310**	**1,034**	**55,902**
JM Disseminated		89.99	8,057	0.10	239	4.53	245	26	61,997	1,178	63,410
Total Inferred			**12,856**	**0.99**	**235**	**5.34**	**289**	**408**	**97,307**	**2,211**	**119,312**

* Mineral resources are not mineral reserves and do not have demostrated economic viability. All figures rounded to reflect the relative accuracy of the estimates. Gold and silver assays capped where appropriate. Vein mineral resources reported at a cut-off of 3.0 grams gold-equivalent (AU-Eq) per tonne. JM disseminated zone mineral resources reported at a cut-off of 150 grams of silver-equivalent (Ag-Eq) per tonne. Equivalent metal grades based on US$698.5 per ounce of gold, US$13.14 per ounce of silver, and assume 100 per cent metal recovery. Zinc and lead metal not considered.

Exploration potential remains open in both the quartz veins and the JM body, and along 13km of veins that remain untested at depth. 116 hectares of surface land were purchased in the project area.

Orisyvo advanced gold prospect

The Orisyvo prospect is located in the Sierra Madre Occidental in the southwest part of the State of Chihuahua, approximately 50 kilometres west of the village of Creel. The project covers 56,800 hectares.

In 2008 we ascertained the distribution of gold mineralization via 25 drills equivalent to 17,564 metres, allowing us to expand the central mineralized zone. Two new ore bodies were identified, the north oxides zone with minimal dimensions of 150 x 400 metres and 50 to 100 metres thickness, and the northwest oxides over a surface of 250 x 100 metres with a thickness of 30 to 100 metres. Exploration potential remains open in the three known ore bodies.

A preliminary inferred resource estimation was prepared using datamine, MRO and NPV software envisioning an open-pit operation followed by underground mining. Results show that Orisyvo contains an open pit resource of 2.8Moz of gold classified as inferred. The distribution of these resources can be seen in the following table:

AUDITED MINERAL RESOURCE STATEMENT*, ORISYVO PROSPECT,

SRK Consulting (Canada) Inc, December 31, 2008.

		QUANTITY	GRADE				CONTAINED METAL			
Classification	**Cut-off Grade (gpt)**	**Tonnes (000s)**	**Gold (gpt)**	**Silver (gpt)**	**Au-Eq* (gpt)**	**Ag-Eq* (gpt)**	**Gold Ounces (000s)**	**Silver Ounces (000s)**	**Au-Eq* Ounces (000s)**	**Ag-Eq* Ounces (000s)**
Inferred Mineral Resource										
Open Pit Oxide	0.36	35,592	1.13	—	1.13	61	1,293	—	1,293	69,826
Open Pit Sulphide	0.49	33,814	1.39	—	1.39	75	1.511	—	1,511	81,601
Total Open Pit		**69,406**	**1.26**	**—**	**1.26**	**68**	**2,804**	**—**	**2,804**	**151,828**

* Mineral resources are not mineral reserves and do not have demostrated economic viability. All figures rounded to reflect the relative accuracy of the estimates. Gold assays were capped where appropriate. Mineral resources reported at variable cut-off considering the likely extraction scernario, a gold price of US$725 per ounce and gold recovery for oxide and sulphide material of 70 and 52 per cent, respectively.

San Juan advanced silver-gold prospect

The San Juan exploration prospect is located in the Sierra de Gamón in the State of Durango, 115 kilometres southwest of the town of Torreón. The prospect covers approximately 147,000 hectares and the main area under exploration is known as the Lorena vein, which is part of an 18 kilometre structure.

During 2008 13 diamond drill holes totalling 8,002 metres were completed focused in defining and successfully expanding the Lorena vein with the discovery of the Lorena Norte ore shoot. The Fresnillo Group is evaluating potential areas for future exploration and is in the process of acquiring broader land rights.

By the end of 2008 resources were updated, showing a total of 8.7Moz of silver equivalent classified as indicated; and 17.7Moz of silver equivalent as inferred. Details on the distribution of these resources are shown in the following table:

MINERAL RESOURCE STATEMENT*, SAN JUAN PROJECT,

SRK Consulting (Canada) Inc, December 31, 2008.

			QUANTITY		GRADE			CONTAINED METAL			
Classification	Average veindip (degree)	Average thick. (metre)	Tonnes (000s)	Gold (gpt)	Silver (gpt)	Au-Eq* (gpt)	Ag-Eq* (gpt)	Gold Ounces (000s)	Silver Ounces (000s)	Au-Eq* Ounces (000s)	Ag-Eq* Ounces (000s)
Inferred Mineral Resource											
Lorena SE Zone	60-65	5 to 10	763	3.92	144	6.58	356	96	3,532	161	8,725
Lorena NW Zone											
Total Indicated			**763**	**3.92**	**144**	**6.58**	**356**	**96**	**3,532**	**161**	**8,725**
Inferred Mineral Resource											
Lorena SE Zone	60-65	5 to 10	796	2.95	158	5.88	317	75	4,044	150	8,120
Lorena NW Zone	60-65	5 to 10	897	4.69	78	6.14	331	135	2,249	177	9,553
Total Inferred			**1,693**	**3.89**	**116**	**6.02**	**326**	**211**	**6,293**	**328**	**17,674**

* Mineral resources are not mineral reserves and do not have demostrated economic viability. All figures rounded to reflect the relative accuracy of the estimates. Gold and silver assyas capped where appropriate. Reported at a cut-off of 4.0 grams gold-equivalent (Au-Eq) per tonne. Equivalent metal grades based on US$582 per ounce of gold, US$10.77 per ounce of silver, and assume 100 per cent metal recovery. Zinc and lead metal not considered.

Other Exploration Activities

The Fresnillo Group has a number of early stage prospects in the central Mexican States of Guanajuato, Guerrero and Morelos. The Group targets prospects that are likely to yield a minimum of 2 million ounces of gold or 100 million ounces of silver.

In 2008, exploration activities at early stage prospects included parametric drilling at La Sauceda in Guanajuato and Ximotla in Guerrero, with sufficient results to warrant a second phase of drilling in 2009. General exploration advanced in the Guanajuato-Pachuca silver belt, Guerrero-Morelos gold belt, and Jalisco-Michoacán silver-gold belt. Combined, these activities identified five areas for additional drilling in 2009.

In May 2008, a joint venture agreement was signed with International Northair Mines Ltd to explore the India property at Durango State where a group of gold-silver bearing veins show potential. The Group could gain up to an 80% interest in the project through property payments and by funding exploration over a four-year option period.

IV. SUSTAINABLE DEVELOPMENT REPORT

Sustainable forest at Ciénega, Durango

SUSTAINABLE DEVELOPMENT POLICY

The policy of Fresnillo plc is to guarantee health and safety in the workplace, protect the environment and maintain good relations with the communities in which we operate, basing our processes on regulatory compliance within a culture of sustainable development, teamwork and continuous improvement.

The health and safety of Fresnillo Group employees, harmony with the environment and active engagement with local communities are fundamental to the success and sustainability of our business.

We are committed to ensuring compliance with applicable regulations and continually examine ways of implementing best practices through new programmes. As a result, our sustainability performance has shown continuous improvement over a number of key indicators, and our efforts have been recognized and awarded by third parties.

HEALTH, SAFETY, ENVIRONMENT AND COMMUNITY RELATIONS COMMITTEE

The Fresnillo Group's sustainability practices and programmes are overseen by the Health, Safety, Environment and Community Relations ("HSECR") Committee, which comprises three Directors including the Chief Executive.

The responsibilities of the Committee are to:

- Formulate and recommend to the Board the Fresnillo Group's policy for HSECR issues as they affect the Fresnillo Group's operations
- Ensure compliance with national and international standards
- Review management's investigation of incidents or accidents that occur in order to assess whether policy improvements are required
- Evaluate the results of the Group's independent performance audits and any resulting action plans

At the operating level, sustainability efforts are managed through the Health, Safety, Environment and Community Relations System (*Sistema de Salud, Seguridad, Medio Ambiente y Relaciones con la Comunidad*, "SSSMARC"). SSSMARC certifies and integrates HSECR activities into daily work processes, using policies that are established by management and executed by the operating areas. SSSMARC utilises international principles and standards, primarily the Sustainable Development Framework of the International Council on Minerals and Metals (ICMM), the guidelines of the International Finance Corporation (IFC) and the Global Reporting Initiative (GRI).

HEALTH AND SAFETY

The Fresnillo Group places significant emphasis on the health and safety of its workforce. We are required to comply with a range of health and safety laws and regulations, and have a health, safety and risk management system for our underground and surface mining operations that integrates ISO 14001 norms.

Beyond compliance, however, we have a culture of safety that is embedded in our processes, with a zero tolerance approach as part of our operational discipline. This permits any employee or contractor to interrupt any operation or activity that endangers his or others' safety.

In 2008 specifically, the following safety programmes and activities took place:

- Safety programmes: STOP (DuPont™), Zero Tolerance, Operating Discipline, Accident Investigation, Management of Hazardous Materials and Take Two for Safety (DuPont™)
- Process of Behavioural Change in Safety Programme: this was initiated at Ciénega and will be expanded to cover all other mines personnel in 2009.
- Self-Managed Industrial Safety Program: Herradura presented its request for accreditation to the Mexican Secretary of Labour. Fresnillo and Cienega will be in the programme in 2010.
- Comprehensive analyses of rock mechanics in the mining processes
- Emergency Preparedness and Response Procedures: there are 10 brigades and 17 mine refuges stations with capacity of 20 to 30 persons each in Fresnillo and Ciénega.

In the area of health, where our objective is zero occupational illnesses, we undertook the following in 2008:

- A programme to enforce smoke-free offices and plants; the objective has already been achieved in office areas
- A programme to control obesity in order to prevent diabetes and hypertension
- Promotion of sporting activities
- Vaccination campaigns

In total, the Fresnillo Group imparted 59,300 man-hours of health and safety training during the year. As a result of classroom and jobsite efforts, the Group's loss time injury rate and fatality rate have declined over the past four years.

	2005	2006	2007	2008
Group total lost injury days	8,114	5,863	5,362	4,701
No. of fatal accidents	5	3	1	0

ENVIRONMENT

In common with other natural resources and mineral processing companies, mine operations generate hazardous and non-hazardous waste, effluent and emissions into the atmosphere, water and soil. Mexico has developed a variety of laws to address such matters as protection of the natural environment, air and water quality and emissions standards and disposal of waste.

The Fresnillo Group's current environmental standards not only comply with local regulations in Mexico but also meet the requirements laid down by the World Bank in its Environmental, Health and Safety Guidelines for the Mining Industry. We also seek to exceed the standards set by Mexico's environment legislation by developing plans, programmes and activities of our own initiation which contribute to preservation of the environment.

The Fresnillo Group has established an environmental management system in respect of its three operating sites which is certified to ISO 14001:2004 standards. This system monitors all environmental aspects of our operations and specifies the standards to which we should operate. We have also obtained and/or validated Clean Industry Certificates that are granted by the Mexican Federal Environmental Protection Agency (*Procuraduria Federal de Protección al Ambiente*, or "PROFEPA"). We also align our activities with the United Nations Global Compact, which is a global corporate citizenship initiative concerned with building the social

2008 HEALTH AND SAFETY AWARDS AND RECOGNITIONS

- For the fifth time, Herradura received first place in the National Silver Helmet Award for excellent safety results. This award was granted by the Mining Chamber of Mexico in the category of Open Pit Mines with more than 500 workers.
- In the IX National Meeting of Mine Safety Rescue Teams in the city of Parral, Chihuahua, Ciénega obtained the following awards: first place in Mine Rescue and second place in Treatment of Fractures. Herradura won first place in Cardiopulmonary Resuscitation and first place in Best Practices. Lastly, Fresnillo took first place in Individual BG4 Tests – self-contained breathing equipment.
- Ciénega received fifth place recognition among 13 teams that participated in the 6th International Mine Rescue Competition in Reno, Nevada, in which Mexico competed along with Australia, Poland, the United States, Canada, Peru, Ukraine, India, South Africa and Mongolia.

Conservation activities at Soledad-Dipolos, Sonora

legitimacy of business and markets, and adhere to the Code of the International Cyanide Management Institute.

In 2008, the Fresnillo Group allocated approximately MXN8.7 million toward direct investment in funding programmes that specifically focus on the reduction of water and energy consumption, waste management and disposal, atmospheric emissions, reduction of greenhouse gasses, promotion of biodiversity, and fire prevention and control and the safe use of cyanide. The key performance indicators for these programmes are water usage, energy consumption and greenhouse gas emissions.

ECO-EFFICIENCY INDICES

	2005	2006	2007	2008
Water Usage (m^3) / Production (tonnes)	0.272	0.257	0.194	0.137
Energy Consumption (GJ) / Production (tonnes)	0.138	0.155	0.152	0.157
In Emissions of CO_2(tonne) / Production (tonnes)	0.015	0.016	0.016	0.015

Water consumption:

Total water consumed per tonne of production in 2008 was 0.137m^3, which compares favourably to rate of consumption of 0.194m^3 per tonne during the previous year. Our commitment to optimize water usage extends to reducing reliance on fresh water and control and reclaiming wastewater. Over the past four years we have increased the volume of recovered water from 15.7 million m^3 in 2005, to 18.6 million m^3 in 2008.

In 2008 construction commenced on a wastewater treatment plant at Fresnillo, which will take sewage water from Fresnillo municipality at no cost and the treated water will be used in the milling process instead of fresh water. This will preserve the aquifers and reduce costs. An investment of US$4.3 million was approved, with a completion date scheduled for the third quarter of 2009. At Ciénega, a project was implemented to recover treated water from the encampment.

Energy consumption:

Total consumption of electricity and other energy at the Fresnillo Group in 2008 was 2.6 million Gigajoules (GJ). Although this represents a 24% increase with respect to the prior year, it reflects greater production at the mining units. Energy consumption per tonne of production increased from 0.152 GJ per tonne to 0.157 GJ per tonne. To optimize energy consumption, we implemented demand control systems that shut off non-critical equipment during peak hours.

ENERGY USE BY TYPE (%)

Sources of Energy	2005	2006	2007	2008
Electricity	41.78	42.34	39.13	33.25
Diesel	57.14	56.54	59.80	65.68
Gasoline and Others	1.08	1.12	1.07	1.07

Waste management and disposal:

The Fresnillo Group strives to reduce its generation of waste material by appropriate management and the promotion of their reuse. For example, at Herradura, rather than utilise diesel in the preparation of explosives, we recycle 90% of the lubricants from heavy equipment. Waste that cannot be reused internally is sold for recycling. Campaigns to promote recycling of materials such as plastic (PET) containers and cardboard take place within the Group's operations.

Fresnillo and Ciénega have tailing dam management systems that ensure their physical stability and restoration plans. At Ciénega, Tailings Dam 2 was put into operation in 2008, which will have a useful life of 9 years and was recognized by environmental authorities as an exemplary model of construction and management. Fresnillo Group tailings dams comply with the Mexican Official Norm to build, operate and close of tailings dams.

Atmospheric Emissions:

Atmospheric emissions are caused by combustion from the Group's equipment and dust. In order to reduce carbon dioxide emissions from combustion, all operating and transport equipment is periodically inspected for preventive and corrective maintenance.

At Ciénega and Fresnillo, minerals are wet milled in SAG mills and at Herradura the critical sections of compacted dirt roads are watered with effluents from the treatment plant. Care is taken to ensure that the substances used or emitted in the Fresnillo Group's processes and not those that will deplete the ozone layer.

Greenhouse gasses:

Following is the inventory of Greenhouse gasses emitted by primary and secondary sources within the Fresnillo Group.

GREENHOUSE GAS EMISSIONS (tonnes CO_2)				
Source	2005	2006	2007	2008
DIRECT EMISSIONS				
Stationary sources	n.a.	n.a.	n.a.	n.a.
Mobile sources:				
Transport of materials and personnel (including railway)	63,770.70	78,695.51	97,090.69	131,885.91
INDIRECT EMISSIONS				
Purchase of electric energy	93,811.03	112,594.95	119,911.65	126,166.75
Total	**157,581.72**	**191,290.46**	**217,002.34**	**258,052.66**

The increase in greenhouse gas emissions was primarily due to the increase in production. CO_2 emissions per tonne of production reduced from 0.016 tonnes to 0.015 tonnes.

Biodiversity:

The Fresnillo Group facilities are located on 923 hectares of land, of which 383 are forested. Plant nurseries have been established at Ciénega and Fresnillo with capacity for 110,000 plants. In 2008 a total of 76,637 trees were planted in the various units.

Herradura signed an agreement with the Secretary of the Environment and Natural Resources (*Secretaría de Medio Ambiente y Recursos Naturales*, or "SEMARNAT") and the State of Sonora Commission on Ecology and Sustainable Development (*Comisión de Ecología y Desarrollo Sustentable del Estado de Sonora*, or "CEDES") for the preservation of the Sonoran pronghorn antelope to research and facilitate their reproduction and safe migration.

Fresnillo made progress with the planting of two hectares of mesquite and four hectares of wild prickly pear (nopal) under an agreement with the National Research Institute of Forestry, Agriculture and Livestock (*Instituto Nacional de Investigaciones Forestales, Agrícolas y Pecuarias*, or "INIFAP").

Ciénega concluded Phase II of its Sustainable Forest project.

Fire prevention and control:

The Fire Prevention and Control Programme in Ciénega uses specialised instructors. During the year, 35 people were trained. The result of this training is reflected in the reduction from 30 fires that occurred in the two-year period 2005-2006 to only seven in 2007-2008.

Use of Cyanide:

The Fresnillo Group adheres to the Code of the International Cyanide Management Institute. Both Herradura and Ciénega are seeking certification in accordance with that Code. Herradura will obtain certification during 2009 and the certification process has now commenced at Ciénega. The principles impacts arising from the Group's use of cyanide and the mitigating actions being implemented in response are as follows:

Preservation of the pronghorn antelope at Herradura, Sonora

Mine	Type of Ecosystem	Principal Impacts	Mitigation Measures
Fresnillo	Semi-desert	Management of residues	Reprocessing of tailings. Installation of vegetal cover on closed tailing dams and development of a theme park constructed on former tailing dams. Recovery of animal species in the Environmental Management Unit.
Ciénega	Forest (pine and oak)	Use of cyanide Management of residues	Strict measures for cyanide management. Development of the Sustainable Forest project with 273 hectares for reforestation. Construction of Tailings Dam 2.
Herradura	Desert	Use of cyanide Management of residues	Strict measures for cyanide management. Transplanting of sahuaro and choya cactus. Studies of population and reproduction dynamics of migratory species, principally the Sonoran pronghorn antelope. Reuse of lubricants.
Exploration Projects	Desert, semi-desert and forested	Management of residues Lubricants Removal of vegetation	Control of residues. Rescue and restitution of vegetation.

COMMUNITY RELATIONS

We believe that active long-term engagement with local communities and other stakeholders is fundamental to the success of our business, and we devote considerable time and resources to such engagement. The Fresnillo Group therefore engages in a number of different projects with the local communities around our three operating mines. Each of the operations has an established development plan that is designed to improve the quality of life of its local communities' whilst respecting ideology and culture.

The ongoing community initiatives undertaken by the Fresnillo Group can broadly be split into two categories: education and health and wellbeing. Direct investments in these programmes totalled US$688,000 in 2008, while Fresnillo Group employees voluntarily contributed a further MXN299,000 through a United Way campaign for projects of interest and benefit to these communities.

Education:

Investment in education includes both infrastructure and programmes. The key investment in educational infrastructure and equipment during the year was made in Fresnillo where support was provided for the remodelling of the Ortega González Elementary School in the city of Fresnillo.

Furniture, heaters, lighting and maintenance was also provided for schools in Cienéga.

The Fresnillo Group works in partnership with government education departments to ensure that satisfactory education is provided in the communities among whom it operates. In 2008, its activities benefited 33 schools (with an aggregate of about 12,500 students and 127 teachers). We continued our collaboration with the Secretary of Public Education (*Secretaría de Educación Pública*, or "SEP") and with Innovation in Teaching Science, A.C. (con *Innovación en la Enseñanza de la Ciencia*, A.C., or "INNOVEC") in the implementation of the Inquiry and Hands on Science System (*Sistema de Enseñanza Vivencial e Indagatoria de la Ciencia*, or "SEVIC"). The Herradura mine joined the Adopt a School programme of the Secretary of Education and Culture of the State of Sonora.

We have promoted events on environmental education and awareness. Throughout 2008, events were organised during Environment Week, National Conservation Week and World Water Day, among others, to promote awareness about the clean-up, recycling and forestation and care of forests, including related festivities and visits. These activities were attended by about 224,000 people from our operations and the neighbouring communities.

Health and Wellbeing:

During 2008, 17,600 employees and people from neighbouring communities participated in the Fresnillo Group's preventive health programmes. These programmes include a range of preventative initiatives, including vaccination campaigns, an addiction prevention programme, nutritional advice, prevention of violence against women, first aid courses and Youth Wellness Centres.

The Fresnillo Group regards its involvement in activities designed to promote wellbeing as an investment in health maintenance. Such activities include the promotion of sport and social pastimes.

The Group has sought to encourage participation in sporting activities through the sponsorship of a variety of events including athletics meetings, football, baseball, basketball, speed football and golf tournaments and the National Triathlon. In addition funding has been provided for the maintenance of sports facilities. Approximately 11,200 employees and members of the community have benefited from the Group's investment in sport during the year.

The Fresnillo Group supports Wellness Centres offering courses in art and ceramics, silversmithery, beauty therapy, catering, and entrepreneurship. At Ciénega the Wellness Centre has been expanded with the building of another two meeting rooms.

HUMAN RESOURCES AND EMPLOYEE RELATIONS

The Fresnillo Group seeks to offer its employees safe working conditions and fosters health, quality of life and professional and participatory development options as well as competitive wages and benefits.

During 2008, the Group employed an average of 1,606 unionised workers, 330 non-unionised workers and 1,030 contractors. Of its total workers, 17% are women and the average age of all personnel is 35 years. Wages and salaries (excluding employees' profit-sharing) paid to employees totalled US$16.8 million and the employee turnover rate was 8.9 per cent.

The relations of the Company with local unions are characterised as being of mutual respect and extensive collaboration.

As a signatory to the Global Compact of the United Nations, the Fresnillo Group promotes gender equality and opportunity, freedom of thought and association, respect for human rights, the prohibition of slavery and the exploitation child labour, and combats actions that violate respect for customs and traditions.

In 2008, 1,873 persons received 183,777 hours of training, or an average 92 hours per person/year. In addition, employees offered 572 hours of time to voluntary activities. Seventeen employees were recognised for obtaining new academic degrees and 676 were recognised for their loyalty and years of service. There were a total of 29 work teams that participated in the Award for the Creation of Value and Innovation through Teamwork. Three employees were supported so that they could complete postgraduate studies abroad in the Earth Sciences: two for Masters Degrees and one for a Doctorate Degree. In addition, one employee received support for a Masters programme over the Internet.

V. FINANCIAL REVIEW

San Julián advanced gold-silver prospect, Chihuahua

The purpose of this review is to provide a detailed analysis of the Fresnillo Group's consolidated 2008 financial results and the main factors affecting performance. Management recommends reading this section in conjunction with the Financial Statements and their accompanying Notes on pages 74-113, which have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The Group achieved robust financial results as a consequence of strong operational performance and favourable external factors, the most significant being the precious metals prices, which are beyond the Group's control. The year was characterised by extremely volatile market conditions, which affected a number of variables that directly impacted the Group's financial results. Specifically, precious metals prices reached record highs during the first three quarters of the year but came under strong pressure in the final months of 2008 and the mining industry was impacted by higher costs of key inputs and equipment, as well as by the wage demands of unionised workers.

Total Revenues, EBITDA and the profit before income tax increased by 11.2%, 21.7% and 13.4% respectively year-on-year. A set of key performance indicators, including costs per tonne, gross profit at each mine, EBITDA and attributable profit, are continuously monitored by the management team. These measures will be described in more detail in this Financial Review.

The key line items of the Income Statement are shown below:

INCOME STATEMENT KEY LINE ITEMS
Year ended 31 December (US$ millions)

	2008	2007	% change
Adjusted Revenue*	839.60	785.69	6.9
Treatment & refining charges	(73.52)	(74.34)	(1.1)
Hedging	(45.60)	(63.41)	(28.1)
Total Revenues	720.48	647.94	11.2
Cost of Sales	(299.87)	(240.05)	24.9
Gross Profit	420.61	407.89	3.1
Profit from continuing operations	283.58	224.61	26.2
EBITDA	337.36	277.29	21.7
Profit before income tax	267.36	235.70	13.4
Income tax expense	114.58	74.68	53.4
Profit for the period	152.78	161.02	(5.1)
Attributable profit	127.95	143.50	(10.8)
Basic and diluted Earnings per share (US$/share)	0.186	0.226 **	(17.7)

* Adjusted Revenue is revenue as disclosed in the income statement adjusted to exclude hedging effects and treatment and refining charges.

** The weighed average number of Ordinary Shares for 2008 was 687,688,000. For 2007, the EPS calculation has assumed that the Ordinary Shares in issue pursuant to the Pre-IPO Reorganisation on 18 April 2008 have been in issue throughout the periods.

PRICES, INFLATION AND EXCHANGE RATES

Silver and gold prices are considered amongst the Group's most important variables impacting the financial statements as approximately 93% of our revenues come from these metals. Average realised silver and gold prices for 2008 increased by 8.4% and 23.8% respectively when compared to 2007.

Companies across the mining industry share a number of common cost pressures and the Group faced higher than expected annual inflation of mining-related goods that limited profit margin growth. The exchange rate of the Mexican peso against the US dollar was also volatile during 2008. Although the peso strengthened during the first half of the year, the year end exchange rate was MXN13.54 per US dollar, representing a 24.6% devaluation during the year. This decline primarily occurred in the final quarter of the year, thus costs denominated in Mexican pesos did not enjoy the benefit of lower rates, as the average exchange rate for the year reflected a devaluation of only 1.9% compared to the previous year [see Market and Geographical Overview on pages 12-17 for a more detailed explanation of the drivers behind gold and silver price movements during the year].

REVENUES

Adjusted Revenue increased by 6.9% to US$839.6 million in 2008 compared to 2007 primarily as a result of the aforementioned higher average realised precious metals prices. Sales volumes, reflecting the metal content of products sold, for the year ended 31 December 2008 remained stable compared to 2007, as shown in the following table.

VOLUMES OF METAL IN PRODUCTS SOLD

Year ended 31 December

	2008	2007	% change
Fresnillo (Oz)	31,486,734	31,228,799	0.8
Ciénega (Oz)	857,528	890,804	(3.7)
Herradura (Oz)	217,730	247,684	(12.1)
Silver (Oz)	**32,561,992**	**32,367,287**	**0.6**
Fresnillo (Oz)	20,938	22,913	(8.6)
Ciénega (Oz)	107,879	132,134	(18.4)
Herradura (Oz)	216,356	194,824	11.1
Gold (Oz)	**345,173**	**349,871**	**(1.3)**
Fresnillo	7,452	7,792	(4.4)
Ciénega	7,976	7,442	7.2
Lead (MT)	**15,428**	**15,234**	**1.3**
Fresnillo	9,248	9,990	(7.4)
Ciénega	9,353	8,391	11.5
Zinc (MT)	**18,601**	**18,381**	**1.2**

ADJUSTED REVENUES* BY METAL

Year ended 31 December (US$ millions)

	2008		2007		% change
Silver	479.05	57%	438.98	56%	9.1
Gold	303.54	36%	248.48	32%	22.2
Lead	30.00	4%	39.77	5%	(24.6)
Zinc	27.01	3%	58.46	7%	(53.8)
Total Revenues	**839.60**	**100%**	**785.69**	**100%**	**6.9**

* Adjusted Revenue is revenue as disclosed in the income statement adjusted to exclude hedging effects and treatment and refining charges.

Treatment charges, which are deducted from Adjusted Revenues in the revenues disclosed in the income statement and that are determined using international benchmarks, remained steady year-on-year.

The Fresnillo Group has in the past used derivatives to reduce commodity price risks arising from changes in silver and gold prices. These precious metals derivative financial instruments were terminated in 2007 and the Group has not entered into any new silver or gold hedging contracts, and does not intend to do so. However, in accordance with International Accounting Standard 39 (IAS 39), the Group has deferred in equity hedging losses that arose on these hedging instruments prior to termination, and reclassifies them to the income statement in line with the occurrence of the transactions to which they related. In 2008, a non-cash charge of US$45.6 million was taken against revenues, in comparison to the effects of hedging of US$63.4 million in 2007. A final US$25.0 million charge is expected to be reflected in the 2009 financial statements relating to deferred hedging losses as at 31 December 2008.

Notwithstanding, during 2008 the Group has entered derivative contracts to reduce certain risks associated with the sale of lead and zinc by-products. During the year, the Group sold forward 5% and 10% of the expected zinc and lead production for 2009, respectively. Average base metals prices reflected in these contracts are US$1,845 per tonne of zinc and US$ 2,047 per tonne of lead.

In addition, the Group sold forward US$60.0 million at an average exchange rate of MXN11.17 per US dollar, with maturity dates throughout 2009, as part of a programme to meet its commitments contracted in Mexican pesos, such as the payment of wages and taxes. Furthermore, the Group purchased a dollar put option, which will give Fresnillo the right but not the obligation to sell US$80.0 million at an exchange rate of MXN11.00 per US dollar. Although we expect the Mexican peso to continue to weaken against the US dollar, we purchased this option in order to guarantee a minimum exchange rate should the US dollar weaken. The mark-to-market value at year-end 2008 of the lead, zinc and exchange rate hedging positions was a pre-tax loss of US$11.7 million which has been taken to equity.

COSTS

Production cost per tonne represents a key measure in evaluating the performance of the Group. Although some cost components are beyond the Group's control, such as steel, tyres, energy and fuel prices, among others, consumption of critical inputs is monitored by management in order to contain costs and remain a low-cost producer, in line with our strategy.

Cost per tonne milled, calculated as total production costs less depreciation, profit sharing and the pension plan, increased by 18.8% and 16.9% at Ciénega and Fresnillo respectively, while cost per tonne deposited at Herradura rose by 2.8%. Management believes that monitoring cost per tonne milled is a more accurate method to analyse changes in cost as it only includes operating items and increases or decreases in production, and excludes any other factors that might distort the analysis such as changes in relative prices and ore grades.

COST PER TONNE*

Year ended 31 December

		2008	2007	% change
Fresnillo	US$/tonne milled	40.93	35.01	16.9
Ciénega	US$/tonne milled	63.24	53.23	18.8
Herradura	US$/tonne deposited	5.87	5.71	2.8

* Cost per tonne is calculated as total production costs less depreciation, profit sharing and pension plan.

The increases in cost per tonne across the Fresnillo Group were mainly related to cost pressures that have been experienced across the mining industry, including higher input costs and energy prices, enhanced wages for unionised workers and an increase of both the cost of, and the activities in mine works and development.

The following table outlines the significant rise in prices of key inputs that affected the Group's cost per tonne.

	Year-on-year increases
Steel balls for milling	40.3%
Steel for drilling	11.5%
Explosives	17.4 %
Tyres	19.8%
Reagents	12.2%
Lubricants and fuels	19.6%

The unit cost of electricity increased significantly due to the Group ceasing to be party to beneficial power supply arrangements with Termoeléctrica Peñoles (TEP), under which the Ciénega and Fresnillo mines were able to purchase an agreed upon amount of electricity at lower than market rates. As a result, there was a 57.0% rise in the unit cost of electricity reflecting prevailing market prices.

Another aspect affecting the cost per tonne was the price of diesel in Mexico, which the Mexican Oil Company (PEMEX) increased steadily over the course of the year to gradually adjust prices to international levels. In 2008, the price of diesel was 11.6% higher than in 2007.

In 2008, negotiations with the mining union led to wage increases, one time premiums paid to workers and certain concessions to the union, all of which resulted in an approximate 10% increase in labour cost.

In absolute terms, total production costs for the year ended 31 December 2008 increased by 22.4% to US$296.4 million when compared to 2007 as a result of: i) the abovementioned factors, ii) higher consumption of inputs required to increase both production of concentrates and development works activities at our three operating mines, and iii) record high employee profit sharing in 2008 and contributions to the new defined contribution pension plan in comparison to the one-off benefit obtained in 2007 as a result of the amendment to the Group's defined benefit pension plan.

TOTAL PRODUCTION COST

Year ended 31 December

(US$ millions)			**change**		
	2008	**2007**	**Amount**	**%**	
Fresnillo	127.78	112.41	15.37	28.3	13.7
Ciénega	63.47	51.45	12.02	22.1	23.4
Herradura	100.84	75.43	25.41	46.8	33.7
Other subsidiaries	4.32	2.79	1.53	2.8	54.8
Total Fresnillo plc	**296.41**	**242.08**	**54.33**	**100.0**	**22.4**

Higher production costs at Herradura accounted for 46.8% of the total increase in the Group's consolidated production costs. This was driven principally by the 25% increase in ore deposited as well as the movement of higher volumes of inert materials related to stripping activities, which required the purchase of new equipment, additional labour hired to operate said equipment, and the corresponding increase in the consumption of explosives, reagents, tyres and spare parts. The longer haulage distances from the pit to the leaching pads, as well as more equipment, further increased consumption of diesel and intensified the use of tyres. In 2008, the number of unionised workers at Herradura increased by 24.6%, which represents 105 additional workers compared to 2007. The Herradura's infrastructure and workforce will be utilised for the Soledad-Dipolos project when it is fully integrated into Herradura, generating important synergies.

The increase in production costs at Fresnillo accounted for 28.3% of the total increase in the Group's consolidated production costs. As this mine is the largest contributor to the Group's production, electricity and labour costs at Fresnillo have a significant impact on consolidated production costs. To highlight the magnitude of these factors, consumption of electricity at Fresnillo represents 69.0% of total electricity consumed by the Fresnillo Group, while personnel, including contractors, unionised and administrative employees, account for 50% of the Group's total personnel. Lastly, the 22% increase in metres of development activity, and the associated cost, was another important aspect impacting this mine's 2008 production costs, however the increase of stopes is helping to control the grades to the mill.

Cost at Ciénega, which accounted for 22.1% of the total increase in the Group's consolidated production costs, was affected mainly by an increase in contractors and higher consumption of operating materials, both of which are mainly related to development activities at the mine and to rock bolting and shotcreting to ensure the stability of the stopes for safety reasons. In 2008, total metres developed increased by 34.0% from 8,334 metres in 2007 to 11,169 metres in 2008. In addition, personnel costs were affected by higher premiums paid for medical insurance claims. The 4.5% increase in ore milled also impacted production costs.

GROSS PROFIT

Gross profit, before hedging losses for each mine, is a key indicator continuously monitored by management to measure the performance of each business unit and the Group as a whole. Consolidated gross profit for 2008 remained stable when compared to the previous year thanks to solid results obtained at Fresnillo and the record profit achieved at Herradura (up 30.2%), which reflected an increase in ore deposited and greater production; these gains fully offset the decline in Ciénega's gross profit (down 33.4%), which was mainly due to lower ore grades extracted. In 2008, Fresnillo continued to be the largest contributor to consolidated gross profit, representing 69.4%, followed by Herradura and Ciénega.

CONTRIBUTION BY MINE TO THE CONSOLIDATED GROSS PROFIT
(NOT INCLUDING HEDGING LOSSES)

(US$ millions)					change	
	2008		2007		Amount	%
Fresnillo	323.44	69.4%	319.03	67.7%	4.41	1.4
Ciénega	54.55	11.7%	81.96	17.4%	(27.41)	(33.4)
Herradura	88.31	18.9%	67.84	14.4%	20.47	30.2
Other subsidiaries	(0.09)	-	2.47	0.5%	(2.56)	N/A
Total Fresnillo plc	**466.21**	**100.0%**	**471.30**	**100.0%**	**(5.09)**	**(1.1)**

EBITDA

Management considers EBITDA another key indicator of the Company's financial performance. In 2008, EBITDA, which is calculated as gross profit plus depreciation less administrative and exploration expenses, achieved record levels, rising 21.7% year-on-year to US$337.4 million as a result of the slight increase in gross profit and lower administrative expenses. This increased the EBITDA margin from 42.8% in 2007 to 46.8% in 2008.

EBITDA & EBITDA MARGIN
Year ended 31 December
(US$ millions)

	2008	2007	% change
Gross Profit	420.61	407.88	3.1
+ Depreciation	51.91	49.87	4.1
- Administrative Expenses	(81.68)	(128.44)	(36.4)
- Exploration Expenses	(53.48)	(52.02)	2.8
EBITDA	337.36	277.29	21.7
EBITDA MARGIN	46.8%	42.8%	

ADMINISTRATIVE EXPENSES

Administrative expenses for the year ended 31 December 2008 decreased by US$46.8 million (down 36.4%) to US$81.7 million when compared to 2007. This is principally explained by a reduction in fees paid by the Fresnillo Group to Servicios Industriales Peñoles in the period since 8 May 2008 when the SIPSA Agreement came into effect. Under this contract, which replaces all previous arrangements, an annual fee of US$34.0 million is payable for the first year of services. In 2007 and for the period until 30 April 2008, administrative expenses included a trademark royalty, determined as a percentage of revenues, which was charged by the Peñoles Group to the Fresnillo Group [see "Significant Relationships" in the Directors' Report on page 68.]

EXPLORATION EXPENSES

In 2008, exploration expenses of US$53.5 million remained stable when compared to 2007. Exploration activities, whose main objective is to replace reserves and resources at operating mines and to identify new projects to support our growth strategy, were mainly focused on the Soledad-Dipolos project and the San Julián, San Juan and Orysivo prospects, as well as on the three operating mines. Of total exploration expenses,13.6% related to early-stage projects in Guanajuato and other central areas of Mexico. An additional US$9.0 million was capitalised related to the Saucito and Juanicipio projects.

Business Unit/Project (US$ millions)	Exploration Expenses	Capitalised Expenses
Herradura (Soledad-Dipolos)	16.71	0.00
Fresnillo	5.38	0.00
Ciénega	8.52	0.00
Saucito	0.00	4.70
Juanicipio	0.00	4.30
San Julián	6.00	0.00
Orisyvo	4.57	0.00
San Juan	2.69	0.00
Maguarichi	2.32	0.00
Guanajuato	1.14	0.00
Toluca	2.00	0.00
Others	4.15	0.00
Total	**53.48**	**9.00**

OTHER INCOME AND EXPENSES

In 2008, the Group reflected net other expenses of US$1.9 million compared to a US$2.8 million net expense in 2007. In 2008, the expense was attributable mainly to the impairment of shares of junior mining companies owned by the Fresnillo Group. However the gain on the sale of mining assets from Minera Las Torres and to a lesser extent to proceeds from the sale of mining equipment in the operating mines mitigated this loss. In the previous year, losses on the sale of property, plant and equipment in Exploraciones Mineras Parreña and higher donations more than offset the gain obtained from the sale of two small mines.

FOREIGN EXCHANGE

Foreign exchange gain or loss is caused by the translation of monetary assets and liabilities denominated in foreign currencies. In 2008, a loss of US$14.6 million was recognised mainly as a result of exchange rate fluctuations between the UK pound sterling and the US dollar, which affected the Group's cash position in UK pounds sterling. This loss represents an increase of 217.4% against the US$4.6 million loss charged in 2007.

TAXATION

The Group pays taxes under Mexican laws. In 2008, although taxable earnings increased by 13.4%, income taxes totalled US$114.6 million, up 53.4% compared to the previous year due mainly to the exchange gain recognised in the income statement under Mexican GAAP. This gain was caused by the strengthening of the US dollar against the Mexican peso, which affected the Group's cash and other monetary assets and liabilities denominated in US dollars. While the IFRS financial statements do not reflect the benefit of the exchange gain as they are presented in dollars, taxes paid under Mexican legislation are based on Mexican GAAP and results in Mexican pesos. At the same time, certain foreign exchange losses that were incurred at the subsidiary level are expected to lower the cash tax payments by approximately US$20 million in the future.

Losses derived from unwinding the hedging position were realised in 2007 and reduced the tax liability in that year. In 2008 the Company did not have the benefit of that deduction.

PROFIT

As a result of the above factors, profit for the year totalled US$152.8 million, a decrease of 5.1%. However, profit attributable to equity shareholders of the Group decreased in the year by 10.8%, reflecting in part the relative increase in profits attributable to minority interest holders following higher profits achieved at Herradura.

CASH FLOW

A summary of the key line items in the cash flow is set out below:

CASH FLOW KEY LINE ITEMS
Year ended 31 December
(US$ millions)

	2008	2007
Net cash from operating activities	414.7	79.3
Shares issued and paid	901.1	-
Silverstream contract	31.7	-
Purchase of Property, Plant & Equipment	(185.0)	(103.4)
Distribution to shareholders	(406.7)	(197.5)
Dividends	(42.2)	-
Net increase in cash during the period	226.9	(34.5)
Cash at year end	212.0	4.8

A key indicator measuring the Group's ability to generate sufficient cash to meet its operational and investing requirements is cash flow from operating activities. In 2008, net cash generated from operating activities increased from US$79.3 million to US$414.7 million, up 422.9%.

Proceeds of US$901.1 million from the IPO were another important source of cash, as was the US$31.7 million received in proceeds under the Silverstream Arrangements and US$32.4 million received through the repayment of loans granted to related parties prior to the IPO. These funds were allocated to pay transaction costs related to the IPO (US$46.6 million); to repay loans (US$455.4 million) granted by related parties to Fresnillo mainly to finance the purchase of the Silverstream asset; and to fund the distribution to shareholders (US$406.7 million). Other important uses of the Company's funds during the period were the payment of the interim dividend (US$42.2 million) and the investment in property, plant and equipment (US$185.0 million), which included the acquisition of the Noche Buena gold project. A summary of the investment in these items by mine and project is shown below.

PURCHASE OF PROPERTY, PLANT AND EQUIPMENT
(US$ millions)

	2008	
La Ciénega mine	27.2	Mining works, purchase of equipment, optimization of the leaching circuit and tailings dam
Fresnillo mine	28.8	Mining works, tailings dam, purchase of land and equipment
Herradura mine	89.7	Purchase of Noche Buena gold project, purchase of land and equipment, sixth leaching pad
Saucito project	29.3	Mining works
La Parreña Exploration	5.4	Mining works and purchase of equipment
Juanicipio project	4.5	Acquisition of surface land
Servicios Administrativos Fresnillo	0.1	
Total purchase of property, plant and equipment	**185.0**	

Additionally, US$39.8 million was used to purchase shares in MAG Silver Corporation and International Northair Mines.

The net increase in cash and cash equivalents for the year was US$226.9 million, which when combined with the cash at the beginning of the year of US$4.8 million and the adverse effect of the exchange rate of US$19.7 million, totalled US$212.0 million as at 31 December 2008. This cash will be used in accordance with the Fresnillo Group's strategy of generating value for stakeholders.

DIVIDEND

In September 2008, an interim dividend of 5.9 US cents per share was declared and paid for a total of US$42.2 million. The Directors will recommend that a final dividend of 7.7 US cents per Ordinary Share be approved at the Annual General Meeting in May. The Company's dividend policy takes into account the profitability of the business and underlying growth in earnings of the Group, as well as its capital requirements and cashflows, whilst maintaining an appropriate level of dividend cover.

BALANCE SHEET

One of the main strengths of the Company continues to be its solid balance sheet with no bank debt.

Total shareholders' equity increased from US$423.0 million in 2007 to US$993.4 million in 2008, reflecting the new share capital pursuant to the reorganisation of Fresnillo plc and its IPO. The US$570.4 million increase was mainly due to the share premium which resulted from the IPO process and retained earnings in the year, offset by distributions to shareholders.

Property, plant and equipment increased by 39.2% to US$497.8 million compared to 2007. The acquisition of the Noche Buena gold project assets, mining and development works, the purchase of surface land and new equipment, and the construction of the tailings dams at Fresnillo and Ciénega and of the sixth leaching pad at Herradura drove the increase of US$140.2 million during the year.

In accordance with the Silverstream Arrangements between Fresnillo and Peñoles, the Group is entitled to receive all of the proceeds in respect of the payable silver produced at the Sabinas mine. This contract was accounted for as a derivative financial instrument and all cash received as payment is credited against the carrying value of the asset. At the beginning of the year, the asset value was US$350.0 million, from which US$31.7 million was realised in cash, resulting in a year end Silverstream asset of US$318.3 million. In 2008, silver production at Sabinas was in line with expectations at 3.0 million ounces. The payable silver totalled 2.6 million ounces, and an additional 100,000 silver ounces remain pending for payment.

CUSTOMERS

The Group sells all production, being lead and zinc concentrates, doré produced at the Herradura mine and precipitates produced at Ciénega, exclusively to Met-Mex, a smelter-refinery 100% owned by the Peñoles Group. The accounts receivables related to the sale of products to Met-Mex are accounted for as a receivable with affiliated companies, which is described in Note 17 "Trade and other receivables" as well as in Note 28 "Related party transactions" in Notes to the Accounts.

RISKS

For more information regarding risks faced by the Group refer to Risks and Uncertainties on pages 44-49.

RELATED PARTY TRANSACTIONS

The main operations with related parties are described in note 28 "Related party transactions" in Notes to the Accounts.

OFF BALANCE SHEET ARRANGEMENTS AND CONTRACTUAL COMMITMENTS

The Group currently has no off balance sheet arrangements.

The Fresnillo Group has capital expenditure commitments for the three operating mines and some projects. For further information regarding these commitments, please refer to Note 25 in Notes to the Accounts.

VI. RISKS AND UNCERTAINTIES

Stripping activities at Soledad-Dipolos development project, Sonora

The Fresnillo Group has a system of internal control that is designed to identify, evaluate and manage significant risks associated with the achievement of the Group's objectives. The day-to-day responsibility for managing risk, and the maintenance of the Group's system of internal control, is collectively assumed by the Executive Committee, which is supported in this task by the Internal Audit Department. Further information on the Fresnillo Group's risk management processes and internal controls are found in the Corporate Governance Report on pages 58-63.

The key business risks affecting the Group are set out below, as well as some of the steps the Group has taken to mitigate these risks when they are within its control.

STRATEGIC RISKS

- ***Political, legal and regulatory risks in Mexico***

The Fresnillo Group's business could be materially adversely affected by changes in economic or other policies of the Mexican government or other political, regulatory or economic developments in Mexico. Past governments in Mexico have, at times, intervened in the nation's economy and social structure. The courts and legal systems in Mexico or other jurisdictions in which the Fresnillo Group might operate in the future may offer less certainty as to judicial outcome than is the case in the US or western Europe. Accordingly, the Fresnillo Group could face risks from, among other things, the relative inexperience of the judiciary and courts resulting in the inconsistent application of applicable laws, rules and regulations; and more protracted judicial processes. Similarly, there may be less certainty that government officials and agencies will abide by legal requirements, licences, permits and negotiated agreements. Management seek to mitigate the political risks through regular dialogue with Federal and State government.

- ***Dominant shareholder***

The Peñoles Group beneficially owns approximately 77.1 per cent. of the issued Ordinary Shares in the Company. As a result, the Peñoles Group, whose interests may differ from those of other shareholders, will be able to exercise significant influence over all matters requiring shareholder approval, including the election of Directors, significant corporate transactions, the issuance of Ordinary Shares and the payment of any dividends. The Company has entered into the Relationship Agreement and other agreements with the Peñoles Group to ensure that the Fresnillo Group is capable of carrying on its business independently, and to ensure that transactions and relationships between the Fresnillo Group and the Peñoles Group are at arm's length and on normal commercial terms including the agreements relating to (i) the supply of products by the Fresnillo Group to the Peñoles Group; and (ii) the supply of services by the Peñoles Group to the Fresnillo Group. These are described more fully in the Directors Report on pages 68-71.

- ***One customer***

The primary products produced by Fresnillo and Ciénega are silver- and gold-rich lead and zinc concentrates and Herradura's primary product is gold/silver doré bars. Since 2006, all of the products from each of these three mines have been sold by Fresnillo to the Peñoles Group's refining and smelting facility at Torreón in Mexico which is operated by Met-Mex Peñoles, S.A. de C.V. ("Met-Mex") under a series of contracts (the "Met-Mex Arrangements"). The refining and smelting facilities operated by Met-Mex produce gold, silver as well as lead and zinc as by-products from the lead and zinc concentrates supplied by Fresnillo.

The Fresnillo Group benefits from the relatively low transport costs arising from the proximity of its operations to Met-Mex's refining and smelting facilities. If the Met-Mex refining and smelting operations ceased to operate or were otherwise no longer available to the Fresnillo Group, this could restrict the Fresnillo Group's ability to sell its products, affect the terms or costs of sale and/or increase the Fresnillo Group's costs incurred in transporting its products to an alternative facility.

- ***Constraints on Supply***

In early 2008 the resources industry experienced worldwide shortages in certain equipment, spare parts (for example giant tyres, used principally at Herradura) and labour. The occurrence of such shortages may increase the costs of the Fresnillo

Group's operations, as a result of equipment, spare parts or labour becoming more expensive due to increased demand. Such shortages may also cause delays to, and quality issues in respect of, the Fresnillo Group's operations.

The Fresnillo Group's mining, processing, development and exploration activities depend on adequate infrastructure. The Fresnillo Group requires reliable roads, power sources and water supplies to access and conduct its operations and the availability and cost of this infrastructure affects capital and operating costs and the Fresnillo Group's ability to maintain expected levels of production and sales. Unusual weather or other natural phenomena, sabotage or other interference in the maintenance or provision of such infrastructure could impact the Fresnillo Group's activities. Similarly, any failure or unavailability of the Fresnillo Group's operational infrastructure (for example, through equipment failure at its concentrator or leaching facilities or disruption to its transportation arrangements) could adversely affect the production output from its mines or impact its exploration activities and development of a mine or project.

MACROECONOMIC AND FINANCIAL RISKS

- ***Fluctuation in metal prices***

The products sold by the Fresnillo Group are primarily silver- and gold-rich lead and zinc concentrates, precipitates containing gold and silver and gold/silver doré bars. The price the Fresnillo Group's customer(s) pay(s) for these products varies according to the market prices of silver and gold and, to a lesser extent, the market prices of lead and zinc. Accordingly, the Fresnillo Group's financial performance is highly dependent on the market prices of silver and gold and, to a lesser extent, the market prices of lead and zinc. These prices have historically been subject to wide and, at times, rapid fluctuations and are affected by numerous factors beyond the Fresnillo Group's control, including international economic and political conditions, levels of supply and demand, the availability and costs of substitutes, inventory levels maintained by producers and others, actions of participants in the commodities markets and, to a lesser extent, the effects of inventory carrying costs and currency exchange rates. Furthermore, the Fresnillo Group does not currently engage in any hedging activities in relation to the prices of silver and gold, accordingly, is fully exposed to market price movements in respect of these metals.

- ***Fluctuation in exchange rates***

The Fresnillo Group's revenues are almost entirely in US dollars, while a substantial proportion of the Fresnillo Group's costs are incurred in Mexican pesos. The Fresnillo Group does not undertake any speculative hedging activities in relation to currency fluctuation risk but may hedge selectively according to the needs of the business.

- ***Inflation and input costs***

The Fresnillo Group currently has relatively low production costs compared to the industry average and inflation has been largely stable in recent years in Mexico. If it were to increase without a corresponding devaluation of the Mexican peso relative to the US dollar, the Fresnillo Group's results of operations and financial condition could be materially and adversely affected. The Fresnillo Group's main production expenses are personnel expenses, maintenance and repairs, materials, energy and contractors. Increased costs could result from a number of factors beyond the Fresnillo Group's control including increased charges for diesel fuel, electricity, transport or site contractors or increased treatment or refining charges for the Fresnillo Group's concentrates, precipitates and doré.

- ***Silverstream Arrangements***

Pursuant to the terms of the Silverstream Arrangements, the Fresnillo Group is entitled to receive all of the proceeds (before deduction of any treatment and refining charges) in respect of the Payable Silver produced from the zinc and lead concentrates produced at the Peñoles Group's Sabinas mine. The Fresnillo Group made an up-front payment of US$350 million to Peñoles in consideration for entering into the Silverstream Arrangements.

The Fresnillo Group has no contractual rights relating to the operation of the Sabinas mine nor does it have any ownership interest in the Sabinas mine. Under the terms of the Silverstream Arrangements, the Peñoles Group has an obligation to deliver at least 60 million ounces of Payable Silver by 31 December 2032. If the Peñoles Group fails to deliver such amount by such date it is required to pay Fresnillo US$1 per ounce of shortfall on 31 December 2032. However, due to the limited amount and the timing of this payment, Fresnillo effectively bears the production risk in respect of the Sabinas mine's silver production. For example, the Fresnillo Group will not be entitled to compensation if the Sabinas mine does not meet its planned silver production targets in any year. In addition, under the terms of the Silverstream Arrangements, the Peñoles Group has reserved the right to shut down the Sabinas mine if it becomes uneconomic for the Peñoles Group to continue production or for any other reason. If the Peñoles Group shuts down or discontinues its mining operations at the Sabinas mine on a temporary or permanent basis, the Fresnillo Group is only entitled to the compensation payable for the aggregate shortfall on 31 December 2032. As a result, any loss of the up-front payment, any failure by Peñoles to meet its production targets at the Sabinas mine or any reduction of operations at or closure of the Sabinas mine could have a material adverse effect on the Fresnillo Group's results of operations and financial condition.

For more detail on these and other financial risks please refer to the Financial Review on pages 36-43 and note 32 of the Notes to the Accounts, on pages 110-113 respectively.

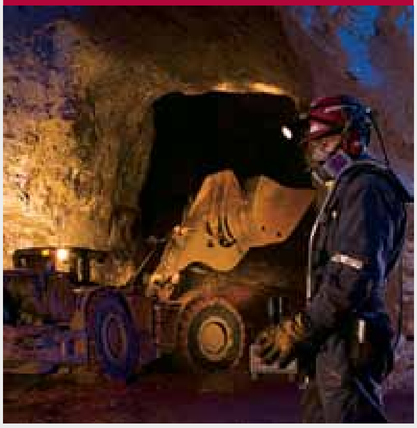
OPERATIONAL RISKS

- ***Business interruption***

The mining business is subject to risks and hazards, many of which are outside the Fresnillo Group's control. Such factors include, among others, environmental hazards, industrial accidents, the encountering of unusual or unexpected geological formations or seismic activity, cave-ins, flooding, earthquakes, periodic interruptions due to inclement or hazardous weather conditions, interruptions to power supplies, industrial action or disputes, technical failures, fires, explosions and other accidents at a mine, processing plant or related facilities. These risks and hazards could result in damage to, or destruction of, mineral properties or production facilities, personal injury or death, environmental damage, business interruption and delays in mining, asset write-downs, monetary losses, possible legal liability and may result in actual production differing, potentially materially, from estimates of production, including those contained in this document, whether expressly or by implication.

Although the Fresnillo Group maintains liability and business continuity insurance, its insurance does not cover every potential risk associated with its operations and meaningful coverage at reasonable rates is not obtainable for certain types of environmental hazards.

In all of our operating units we implement best practice safety methods



Remote control equipment at our operating mines reduces rock fall exposure

- ***Project delivery (permits, equipment, funding, access to energy/water, etc.)***

Successful implementation of the Fresnillo Group's expansion and development projects is subject to various factors, many of which are not within its control. In addition to the risks and hazards outlined above, these factors include the granting of consents and permits from the relevant government departments, the availability, terms, conditions and timing of the delivery of plant, equipment and other materials necessary for the construction and/or operation of the relevant facility, the availability of acceptable arrangements for transportation and construction, the performance of engineering and construction contractors, mining contractors, suppliers and consultants and adverse weather conditions affecting access to the development site or the development process. Implementation of the Fresnillo Group's development projects and prospects may also be compromised (or cease to be economic) in the event of a prolonged decline in the market price of silver or gold.

- ***Reserve and resource replacement***

As at 31 December 2008, the average life of mine of each of the Fresnillo Group's operating mines was at least 10 years calculated on the basis of proven and probable reserves. To realise its growth strategy, extend the lives of its mines and ensure the continued operation of the business, it is essential that the Fresnillo Group continues to realise its existing identified reserves, convert resources into reserves, develop its resource base through the realisation of identified mineralised potential and/or undertake successful exploration or acquire new resources.

While discovery of additional mineral potential is key to the Fresnillo Group's strategy, minerals exploration is highly speculative in nature, involves many risks and is frequently unsuccessful. Once mineralisation is discovered, it may take a number of years to complete the geological surveys to assess whether production is possible and, even if production is possible, the economic feasibility of production may change during that time.

Substantial capital expenditure is required to identify and delineate ore reserves through geological surveying and trenching and drilling, to determine metallurgical processes to extract the metals from the ore and, in the case of new properties, to construct mining and processing facilities. There can be no assurance that the Fresnillo Group will be able to identify future reserves or continue to extend the mine life of its existing operations.

CORPORATE SOCIAL RESPONSIBILITY RISKS

- ***Employee Relations***

The Fresnillo Group's business depends in significant part upon the contributions of a number of the Fresnillo Group's key senior management and personnel, in particular its senior management team and its highly skilled team of engineers and geologists. There can be no certainty that the services of its key personnel will continue to be available to the Fresnillo Group. In Mexico, where the Fresnillo Group's operations and development projects and exploration prospects are located, it may be difficult for the Fresnillo Group to hire sufficiently skilled and qualified people or to obtain all of the necessary expertise locally or at reasonable rates due to the shortage of appropriately qualified individuals. The retention of senior management, geologists and engineers is being monitored by the Remuneration Committee on the advice of the Chief Executive Officer.

Although management believes its labour relations, with both employees and contractors, are good, there can be no assurance that a work slowdown, a work stoppage or strike will not occur at any of the Fresnillo Group's operating units or development projects or exploration prospects. There have been a number of instances in recent years of mining companies facing industrial action and work stoppages at their Latin American operations which, in certain instances, have led to the operations being shut down. Furthermore, under Mexican law, it is permissible for employees to engage in industrial action (i.e. work stoppages) in sympathy with unionised employees of other companies who are engaged in a dispute, despite the absence of any dispute with their own employer. Work slowdowns, stoppages, disputes with employee unions or other labour-related developments or disputes could result in a decrease in the Fresnillo Group's production levels and adverse publicity.

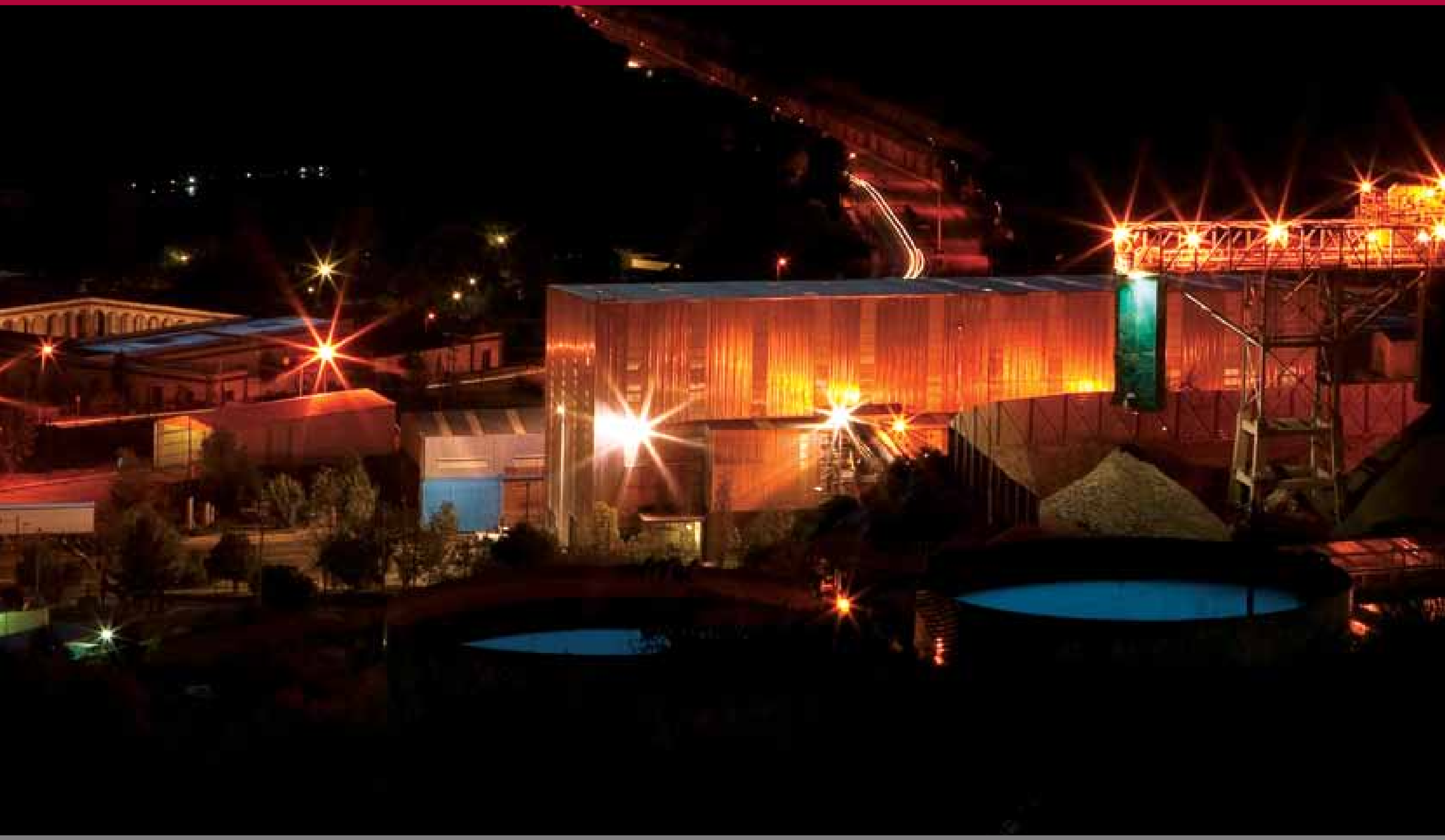
- ***Environmental***

Mining activities are generally subject to environmental hazards as a result of the processes and chemicals used in the extraction and production methods. In particular, the Fresnillo Group employs cyanide at Herradura and Ciénega and the transportation of lead and zinc concentrates gives rise to the risk of spillage in areas where there could be damage or harm caused to the environment or to the public. While the Directors consider that the Fresnillo Group is in substantial compliance with applicable Mexican law and regulation and has met current international standards with regard to its environmental policies and procedures, environmental hazards may exist on the Fresnillo Group's properties, or may be encountered while its products are in transit, which are currently unknown to it or may arise irrespective of such compliance. In addition, the storage of tailings may present a risk to the environment, property and persons. While the design of the Fresnillo Group's tailings dams is again in accordance with current regulation and guidance and good engineering standards, there remains a risk of leakage from or failure of the Fresnillo Group's tailings dams.

The Fresnillo Group may be liable for losses associated with such hazards, or may be forced to undertake extensive remedial clean-up action or to pay for governmental remedial clean-up actions, even in cases where such hazards have been caused by any previous or subsequent owners or operators of the property, or by any past or present owners of adjacent properties.

- ***Community***

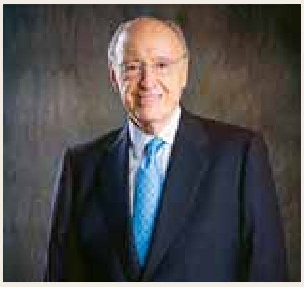
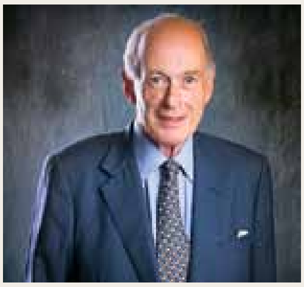
While the Fresnillo Group believes it maintains good relations with local communities, the Fresnillo Group cannot rule out the possibility of local opposition arising in the future in respect of its existing operations, development projects or prospects (such opposition has arisen in the past) or in relation to obtaining concessions for current or future projects. If the Fresnillo Group were to experience opposition in connection with its existing operations or current or future projects, it could interfere with the Fresnillo Group's ability to operate its mines or develop its projects or prospects.



CORPORATE GOVERNANCE

Concentrator plant at Fresnillo mine, Zacatecas

I. BOARD OF DIRECTORS

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1. Alberto Baillères,
Non-executive Chairman, 77
Chairman, Nominations Committee

Mr Baillères has been on the board of Peñoles since 1962 and has served as chairman since 1967. The Baillères family first acquired an interest in Peñoles in 1962 and Mr Baillères is currently the controlling shareholder. In addition to Peñoles, as part of the BAL group of companies, Mr Baillères has interests in Grupo Palacio de Hierro, a chain of department stores mainly located in Mexico City, Grupo Nacional Provincial, a leading Mexican insurance company, Grupo Profuturo, a pensions and annuities business, and other businesses relating to financial services and agriculture. Mr Baillères became non-independent Non-Executive Chairman on 15 April 2008. Mr Baillères holds numerous other board appointments, being the chairman of the board of directors of Grupo Nacional Provincial, Grupo Profuturo, Grupo Palacio de Hierro, Crédito Afianzador, and a member of the board of Fomento Económico Mexicano ("FEMSA"), a leading international beverage producer and distributor, Grupo Televisa, Grupo Kuo, BBVA Bancomer, and Dine. Mr Baillères is also currently president of Grupo BAL and president of the board of trustees of Asociación Mexicana de Cultura, A.C. and Instituto Tecnológico Autónomo de Mexico ("ITAM"). In addition, Mr Baillères is a member of the Consejo Mexicano de Hombres de Negocios and of the Fundación para las Letras Mexicanas, A.C.

2. Jaime Lomelín,
Chief Executive Officer, 74
HSECR Committee

Mr Lomelín spent 36 years at Peñoles and held the position of chief executive officer for 21 years. He previously served as group vice chairman of the metals and chemicals division for four years. Mr Lomelín holds a bachelor of science degree in chemical engineering from the Universidad Nacional Autónoma de Mexico ("UNAM") and postgraduate studies in Business Administration in the University of Wisconsin and Stanford Executive program at Stanford University.

3. Lord Cairns,
Senior Independent Non-executive Director, 69
Chairman, Remuneration Committee

Lord Cairns was appointed to the Board on 15 April 2008. He is chairman of Zain Africa B.V. (formerly Celtel International BV) and the Charities Aid Foundation and is a board member of the Mo Ibrahim Foundation. He has previously served as chairman of Actis LLP, CDC Group, Allied Zurich and BAT Industries after a career with SG Warburg where he had become deputy chairman and CEO. He graduated from Trinity College, Cambridge.

4. Fernando Ruiz,
Non-executive Director, 65
Audit, Remuneration and Nominations Committees

Mr Ruiz was appointed to the Board on 15 April 2008. He is a former managing partner of Chevez, Ruiz, Zamarripa y Cia., S.C., tax advisers and consultants. He is a member of the Asociación Mexicana de Contadores Públicos. He is currently president of the Finance Committee of the Consejo Cordinador Empresarial, as well as an adviser to the organisation. Mr Ruiz holds numerous board appointments, including Kimberly Clark de Mexico, Mexichem, Grupo Cementos de Chihuahua, Grupo Mexico, Empresas ICA and the Mexican Stock Exchange. Mr Ruiz graduated from the Universidad Nacional Autónoma de Mexico ("UNAM") with a degree in public accounting.

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5. Javier Fernández,
Non-executive Director, 53
Nominations and HSECR Committees

Mr Fernández Carbajal was appointed to the Board on 15 April 2008. He is Chairman of the Board of Primero Fianzas, a private surety company, since March 2007. He has been engaged as a consultant for public and private investment transactions and is an active wealth management advisor since 2002. For the past 27 years, Mr Fernández Carbajal has held senior executive positions at leading Mexican companies, including 14 years of experience in financial services. He joined Grupo BBVA Bancomer, Mexico's largest financial services company in 1991 as Executive Vice President Strategic Planning and successively served as Deputy President for Systems and Operations and Chief Information Officer, Deputy President and Chief Financial Officer, and in 1999 was named President. Mr Fernández Carbajal is a member of the board of directors of FEMSA, a leading Latin American beverage company; of Grupo Aeroportuario del Pacífico, Mexico's largest airport operator and of VISA, Inc. the world's largest electronic payment network. Mr Fernández Carbajal has a degree in Mechanical and Electrical engineering from the Instituto Tecnológico y de Estudios Superiores de Monterrey ("ITESM") and an MBA from Harvard Business School.

6. Rafael MacGregor,
Non-executive Director, 48
Chairman, HSECR Committee

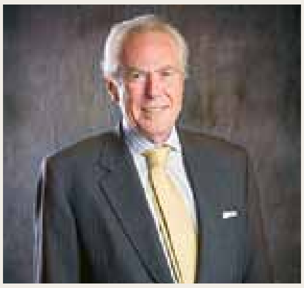
Mr MacGregor was appointed to the Board on 11 January 2008. He has been a corporate director in Técnica Administrativa of BAL since 1999. He is a member of the board of directors and a member of the executive committee of Peñoles, Grupo Nacional Provincial, Grupo Palacio de Hierro, Grupo Profuturo, Valores Mexicanos Casa de Bolsa, Crédito Afianzador, Compañía Mexicana de Garantías, Profuturo GNP, Afore, Profuturo GNP Pensiones, Médica Integral, Bal-Ondeo and ITAM. Previous positions held by Mr MacGregor have included CEO of Valores Mexicanos Casa de Bolsa (from 1994 to 1999), various positions, including corporate director, managing director and manager and vice president of mutual funds at Grupo Financiero Inverlat (between 1985 and 1994), manager of investment strategies of Operadora de Bolsa, and investment assistant of Casa de Bolsa Banamex (from 1982 to 1983). Since 1999, Mr MacGregor has been a member of the board of Mexican Stock Exchange and, since 2005, he has been vice chairman of Mercado Mexicano de Derivados (MexDer). Mr MacGregor holds a bachelor of science degree in business administration from ITAM and attended the Stanford Executive Program at Stanford University.

7. Juan Bordes,
Non-executive Director, 61

Mr Bordes was appointed to the Board on 11 January 2008. Mr Bordes has been Director Corporativo in Técnica Administrativa of BAL since 1979. He was the CEO of Artes Gráficas Unidas from 1984 until 1986 and CEO of Fábricas de Papel Lorteto y Peña Pobre from 1986 until 1989. Since 1989, Mr Bordes has been a member of the board of directors and a member of the executive committee of each of Industrias Peñoles, Grupo Nacional Provincial, Grupo Palacio de Hierro, Grupo Profuturo, Valores Mexicanos Casa de Bolsa, Crédito Afianzador, Compañía Mexicana de Garantías, Afore Profuturo GNP, Profuturo GNP Pensiones, Médica Integral, Bal-Ondeo, Albacor and a member of the Board of Trustees of ITAM. Mr Bordes holds a bachelor of science degree in chemical engineering from Universidad Nacional Autónoma de Mexico ("UNAM") and attended the Stanford Executive Program at the University of Stanford. He also attended the Business Management Course at the Instituto Panamericano de Alta Dirección de Empresas ("IPADE").

8. Arturo Fernández,
Non-executive Director, 55

Mr Fernández was appointed to the Board on 15 April 2008. He is a member of the board of directors and a member of the executive committee of each of Industrias Peñoles, Grupo Nacional Provincial, Grupo Profuturo, El Palacio de Hierro, Valores Mexi-



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canos Casa de Bolsa and Crédito Afianzador. Mr Fernández is also a member of the board of directors of Grupo Bimbo, Minera Penmont, Química del Rey and Tecnología del Agua ("TECSA") and an alternate director of FEMSA. Mr Fernández has been the rector of ITAM, an independent not-for-profit higher education institution, for 16 years. He has also previously served as the head of the tax policy office at the Mexican Ministry of Finance and as head of the economic deregulation office at the Mexican Ministry of Trade. Mr Fernández holds a bachelor of economics degree from ITAM as well as a PhD in economics from the University of Chicago.

9. Guy Wilson,
Non-executive Director, 60
Chairman, Audit Committee

Guy Wilson joined the Board on 1 July 2008 following his retirement from Ernst & Young LLP. He joined Ernst & Young in 1967 and became a partner in 1979. Since 1972, he has specialised in corporate transactions covering IPOs, public fund raisings, acquisitions, disposals and defences against hostile bids. From 1989 to 1991, he was seconded to HM Treasury to assist with the privatisations of the UK water and electricity industries and Scottish electricity. From 2000, he primarily, but not exclusively, concentrated on transactions in the financial services sector.

Former Director

10. Héctor Rangel,
Non-executive Director, 61
Member of the Audit and Remuneration Committees until 30 January 2009

Mr Rangel was appointed to the Board on 15 April 2008 and resigned on 30 January 2009. Mr Rangel is currently General Director of Nacional Financiera S.N.C., and retired as chairman of the board of BBVA Bancomer in September 2008. He had been with the institution since 1991 and occupied various managerial positions in the international, corporate, government, business, Internet banking and investment banking divisions. Mr Rangel was CFO of Petróleos Mexicanos ("PEMEX") from 1982 to 87 and ran his own consulting boutique before joining BBVA Bancomer. Mr Rangel's earlier career years were spent at Banco Mexicano Somex and Citibank Mexico, where he was vice president in corporate banking. He has served as the president of the Consejo Cordinador Empresarial ("CCE") (a leading private sector lobbying group) and the Asociación Mexicana de Banqueros. Mr Rangel has held numerous board positions including Grupo Industrial Maseca, Gruma, BBVA Bancomer, Cintra, Grupo Frisa and Bancomext. He obtained his MBA from Stanford University in 1972 and his undergraduate degree in industrial engineering from Purdue University in Indiana.

Director appointed since the year-end

11. Fernando Solana,
Non-executive Director, 78
Member of the Audit Committee from 18 February 2009

Mr Solana was appointed to the Board on 18 February 2009. He is currently President of Solana Consultores, Chairman of the Mexican Council on Foreign Relations and Chairman of the Mexican Fund for Education and Development. He is also an Associate Consultant of Analítica Consultores Asociados as well as being a member of the boards of the Euroamerica Foundation in Madrid and the Institute of the Americas linked to the University of California in San Diego. He is a member of the Advisory Board of the Latin American Parliament. Mr Solana served in Mexican Government as Minister of Trade (1976-1977), Minister of Education (1977-1982 and 1993-1994) and Minister of Foreign Affairs (1988-1993). Mr Solana became President and CEO of Banco Nacional de Mexico from 1982-1988 during which time he served as Chairman of the Mexican Banking Association (1986-1987). He was a Senator in the Mexican Parliament from 1994 to 2000. He was a member of the boards of the Mexican American Foundation for Science and the Canning House in London. Mr Solana studied Civil Engineering, Public Policy and Business Administration at the National University of Mexico.

II. EXECUTIVE MANAGEMENT

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1. Jaime Lomelín,
Chief Executive Officer, 74

2. Mario Arreguín,
Chief Financial Officer, 52

Mr Arreguín was previously employed by Peñoles where he worked for 17 years. He was chief financial officer for 11 years and was previously group treasurer for six years. Prior to joining Peñoles, Mr Arreguín worked in banking and chemical engineering. Mr Arreguín is a bachelor of chemical engineering, holds an MBA from the University of Chicago and attended the Stanford Executive Program at Stanford University.

3. Manuel Luévanos,
Vice President, Operations, 64

Mr Luévanos spent over 30 years at Peñoles, including vice president of mining for three years and a variety of senior management positions over the last 25 years. Mr Luévanos is a bachelor of chemical engineering and has a post-graduate degree in international business from ITAM and Stanford Executive program at Stanford University.

4. David Giles,
Vice President, Exploration, 58

Mr Giles was previously employed by Peñoles where he worked for 30 years and had undertaken a number of senior management positions including Vice President of Exploration. Before joining Peñoles, he worked for AMAX, Corona Gold and Tormex. Mr Giles has a bachelor of science degree in Geology from the University of Toronto and holds an MBA from the ITESM University. He is an officer of the Society of Economic Geologists, and the Mexican Association of Mining, Metallurgical and Geological Engineers.

COMPLIANCE STATEMENT

Fresnillo shares were admitted to listing on the London Stock Exchange on 14 May 2008. The Combined Code on Corporate Governance ("the Combined Code") has therefore applied to the Company since May 2008. In the period leading up to the Listing, the Board implemented a number of changes to the corporate governance of the Company to ensure compliance with the Combined Code. In establishing the Company's primary listing on the London Stock Exchange, the Fresnillo board has committed to comply with the Code on exactly the same "comply or explain" basis as all other companies listed on the Main Board of the London Stock Exchange.

Since the Company was listed for only part of the year this report includes a description of how the Company has applied the principles and provisions of the Code since May 2008 and how it intends to apply the principles throughout 2009.

The Combined Code establishes 17 main principles of good governance in four areas: Directors, Directors' Remuneration, Accountability and Audit, and Relations with Shareholders. The following sections explain how these principles were applied (a detailed report on Directors' remuneration can be found on pages 64-67.

Between May and December 2008, the Company has complied with Section 1 of the Combined Code, save in the following respects:

- *Code Provision A.1.3:* It is anticipated that the Chairman's performance would be appraised for the first time as part of the Board evaluation process during 2009;
- *Code Provision A.2.2:* The Chairman was not independent at the time of his appointment. Alberto Baillères has been a board member of Industrias Peñoles, S.A.B. de C.V. (Peñoles) since 1962 and its chairman since 1967. Peñoles retains a 77.1% holding the Company. Mr Baillères has been responsible for overseeing the successful development of Fresnillo over many years and, therefore, the Board considers that Mr Baillères' continued involvement as its non-executive chairman is very important to the Company at the present stage of its development;
- *Code Provision A.6.1:* Board evaluation has not yet been undertaken. Most of the directors were only appointed between April and July 2008 and, in view of this, the Board believes that a meaningful evaluation can only take place once the new Board has had a reasonable amount of time to work together. A board evaluation process will be developed and implemented during the second half of 2009.

The Company's auditor has reviewed those parts of this statement which they are required to review under the Listing Rules of the London Stock Exchange.

THE BOARD STRUCTURE

The structure and business of the Board is designed to ensure that the Board focuses on strategy, management, governance and control issues.

Certain aspects of the Board's responsibilities have been delegated to appropriate committees to ensure compliance with the UK Companies Act, London Stock Exchange Listing Rules and the Code. It is the responsibility of the Chief Executive and the Executive Committee to manage the day-to-day running of the Group.

The Board has delegated authority to the following committees to facilitate the routine business of the Company:

The Audit Committee: which has responsibility for, among other things, monitoring the integrity of the Fresnillo Group's financial statements. It oversees the Group's relationship with the external auditors and reviews the effectiveness of the external audit process. It also reviews the effectiveness of the Group's system of internal controls and risk management systems.

The Remuneration Committee: which has responsibility for making recommendations to the Board on the Fresnillo Group's policy on the remuneration of senior management (being the Executive Directors and the other members of the Executive Committee) and for the determination, within agreed terms of reference, of the remuneration of the Chairman and of specific remuneration packages for each of the executive directors and the members of

III. CORPORATE GOVERNANCE REPORT

the senior management, including pension rights and any compensation packages.

Full details of the composition and role of this Committee and the Company's compliance with the Code Provisions relating to remuneration are set out in the Directors' Remuneration Report on pages 64-67.

The Nominations Committee: which has responsibility for making recommendations to the Board on the composition of the Board and its committees and on the appointments of new Directors.

Health, Safety, Environment and Community Relations Committee: which is responsible for formulating and recommending to the Board the Fresnillo Group's policy on health and safety as well as environmental and local community issues. Full details of the role of this Committee are set out in the Sustainable Development Report on pages 28-35.

The Executive Committee: The Executive Committee works with the Chief Executive and senior management to supervise and effect the day-to-day operational management of the Company's businesses including the implementation of decisions agreed in principle by the Board and all executive management of the operations of the Group within the strategy approved and budget approved by the Board.

The terms of reference for each of the Audit, Remuneration and Nominations Committee are available on the Company's website.

THE BOARD

The Board intends to meet at least four times a year and has established a programme of meetings. At these Board meetings the Board takes responsibility for the overall management of the Group and approval of the Group's long-term objectives and commercial strategy. There is a formal schedule of matters reserved for the Board's decision at each meeting which includes approvals of major expenditure and investments and key policies. The Board met on several occasions prior to the IPO in connection with the IPO itself and related activity. Between the IPO in May 2008 and 31 December 2008 the Board has met three times and the Committees of the Board have also met as required.

A table of attendance of members of the board and board committees at meetings between 14 May and 31 December 2008 is set out below:

	Board (3 meetings)	Audit Committee (3 meetings)	Remuneration Committee (1 meeting)	Nominations Committee (1 meeting)
Alberto Baillères	3	-	-	1
Jaime Lomelín	3	-	-	-
Lord Cairns	2	-	1	-
Héctor Rangel**	3	3	1	-
Fernando Ruiz	3	3	1	1
Javier Fernández	3	-	-	1
Rafael MacGregor	3	-	-	-
Juan Bordes	3	-	-	-
Arturo Fernández	3	-	-	-
Guy Wilson*	2	3	-	-

* Appointed on 1 July 2008.

** Resigned on 30 January 2009.

All meetings of the Board are held in Mexico. One meeting of the Board was held to consider and approve the convening of the Shareholders Meeting on 12 December 2008. Lord Cairns and Guy Wilson did not attend this meeting but communicated their views on the business of that meeting to the Chairman beforehand.

The Chairman and the Non-executive Directors did not formally meet during the period between the Listing and 31 December 2008. The Chairman intends to meet with the Non-executive Directors without the executives present at least once a year. The Chairman was appointed to the Company on 15 April 2008 therefore, given the Chairman's short tenure the Board does not consider that meaningful evaluation can take place until 2009.

BOARD MEMBERSHIP (BOARD BALANCE & INDEPENDENCE)

At the year end the Board consisted of the Chairman, Alberto Baillères, one Executive Director, Jaime Lomelín, Chief Executive Officer and eight Non-executive Directors. Biographical details of each of the Directors can be found on page 53 of this Annual Report. The separate roles of Chairman and of the Chief Executive Officer are recognised and the requirements for these roles have been specified in writing and were agreed by the Board on 15 April 2008.

Lord Cairns has been appointed as Senior Independent Director. As Senior Independent Director, Lord Cairns is available to shareholders if they have concerns that have not been resolved through the normal channels of Chairman, Chief Executive Officer, Chief Financial Officer or Head of Investor Relations.

The composition of the Board and the roles of the Chairman, Chief Executive Director and the Senior Independent Director have been structured to ensure that no one individual can dominate the decision-making processes of the Board.

At the time of the Listing, the Board considered the independence of all of the Directors. Their assessment of the independence of the non-executive directors is set out below:

	Independent	Not independent
Alberto Baillères (Chairman)		✓
Rafael MacGregor		✓
Juan Bordes		✓
Arturo Fernández		✓
Lord Cairns (Senior Independent Director)	✓	
Héctor Rangel	✓	
Fernando Ruiz	✓	
Javier Fernández	✓	
Guy Wilson	✓	

Alberto Baillères, Rafael MacGregor, Juan Bordes and Arturo Fernández are each directors of Peñoles and have been appointed to the Board by Peñoles pursuant to the Relationship Agreement. Further information concerning the Relationship Agreement is set out in the Directors' Report on page 69.

As indicated above, the Chairman was not independent at the time of his appointment. However, Mr Baillères has been responsible for overseeing the successful development of Fresnillo over many years and, therefore, the Board considers that his continued involvement as its non-executive chairman is vitally important to the Company.

Héctor Rangel was, until 31 December 2008, the Chairman of BBVA Bancomer which provides banking services to the Company. BBVA Bancomer is one of a panel of banks used by the Group whose services are assessed by management on strictly arms length terms. Mr Rangel has confirmed that he is prohibited from being involved in any aspect of the banking relationship with the Company by BBVA Bancomer's own internal procedures.

Fernando Ruiz is a retired partner and consultant in the firm Chevez, Ruiz, Zamarripa y Cia., S.C., a firm providing professional services to the Company. Mr Ruiz is not involved in providing any services to the Company on behalf of Chevez, Ruiz, Zamarripa y Cia., S.C. (the value of those services is not material to either party).

Guy Wilson was appointed to the Board on 1 July 2008 having retired as a partner of Ernst & Young LLP, the Company's auditors and reporting accountants on 30 June 2008. Mr Wilson was not involved in the provision of audit or any other services to the Company by Ernst & Young LLP prior to his retirement. As required by the Combined Code the Board has considered the independence of these three Directors and has concluded that they are independent in character and judgement.

The Non-executive Directors have letters of appointment for periods until (at least) the Company's first annual general meeting. The appointments may be terminated by three month's notice in writing. The time commitment required from each Non-executive Director is set out in their letter of appointment. The fees payable to each Non-executive Director are set by the Board in accordance with its Schedule of Reserved Matters. None of the Directors holds any appointments to the board of any FTSE100 quoted company.

The Executive Director has a service contract of no fixed term. Further details concerning the Executive Director's service agreement are set out in the Directors Remuneration Report on page 65. Copies of the Directors' letters of appointment and service agreement are available for inspection at the Company's registered office.

In accordance with the Articles of Association, Directors are subject to retirement and re-election by shareholders, at the first annual general meeting following their appointment and every three years thereafter. At the forthcoming annual general meeting all of the directors will offer themselves for election having been appointed to the Board during the year.

None of the Non-executive Directors is appointed for a term of longer than three years.

CONFLICTS OF INTERESTS

The duty to avoid potential conflicts and to disclose such situations for authorisation by the Board are the personal responsibility of each Director. Each Director ensures that they keep these duties under review and inform the Company Secretary on an ongoing basis of any change in their respective positions, such as new directorships taken on.

Prior to 30 September 2008, each Director completed a Directors List which set out details of situations where each director's interests may conflict with those of the Company ("situational conflicts"). A working group of the Board reviewed each of these and put forward a proposal for the Board to consider the interests that would require authorisation. Although the Board cannot delegate or defer its duty to review these situational conflicts, the Board may consider a proposal put forward by the working group and decide whether they agree with the proposal. On 30 September 2008, the Board considered the situational conflicts of each director in turn and authorised them subject to certain procedural conditions in the event that there was a likelihood that certain situational conflicts would become actual conflicts. No Director voted in respect of the authorisation of his own situational conflicts.

The Directors Lists are updated on a regular basis to provide regular updates to the Board on Directors Conflicts of Interests. Any changes to the schedule of potential or actual conflicts lists are noted and minuted at the beginning of each Board meeting.

BOARD PROCESS

Board papers are circulated in a timely manner to the Board and it is the Chairman's responsibility to provide timely information to the Board. All proposals presented to the Board for its consideration under the Schedule of Reserved Matters are first considered and approved by the Executive Committee. In so doing, the Executive Committee aims to ensure that any such proposals take into consideration those factors set out in Section 172, Companies Act 2006.

All Directors have received briefings from the Company's advisers, including presentations to familiarise them with their duties and responsibilities as directors of a UK listed company. The Chairman will ensure that the induction and training processes for new Directors continue to be developed.

Board procedures have been established by which Directors can raise concerns at meetings of the Board and, if necessary, ask for such concerns to be recorded in the Board minutes.

Directors also have access to the advice and services of the Company Secretary (whose appointment and removal is a matter reserved to the whole Board). A procedure has been established to enable Directors to obtain independent professional advice at the Company's expense in appropriate circumstances.

The majority of the Directors were appointed in April 2008 immediately prior to the Listing. In view of this the Board believes that a meaningful evaluation of performance can only take place once the new Board has had a reasonable amount of time to work together. An evaluation process will therefore be implemented in the second half of 2009 for all of the Board members including the Chairman.

Directors and Officers Liability Insurance cover has been put in place.

NOMINATIONS COMMITTEE

The members of the Nominations Committee are Alberto Baillères (Chairman of the Committee), Javier Fernández and Fernando Ruiz. Consequently the majority of the members of the Committee are independent Non-executive Directors.

The role of the Nominations Committee is to identify and nominate for approval of the Board, candidates to fill Board vacancies as and when they arise. When making an appointment, the Committee is required by its terms of reference to evaluate the balance of skills, knowledge and experience on the Board.

The Nominations Committee is also responsible for reviewing the structure, size and composition, including skills knowledge and experience of the Board and make recommendations to the Board with regards to any changes. The Committee must also give full consideration to succession planning for Directors and other senior executives.

The Committee has met once in the year between the Listing and 31 December 2008.

The Nominations Committee has not retained any external consultants to assist it in its work. In considering future appointments to the Board, the Nominations Committee will consider the balance and structure of the Board and the commitments made by the Board under the Relationship Agreement.

AUDIT COMMITTEE

The members of the Audit Committee, at 31 December 2008, were Guy Wilson (Chairman of the Committee), Héctor Rangel and Fernando Ruiz. Guy Wilson was a partner at Ernst & Young prior to his retirement on 30 June 2008. He is therefore considered to have recent and relevant financial experience. Héctor Rangel resigned as a Director and therefore as a member of the Audit Committee on 30 January 2009. The role of the Audit Committee, among other things, is to monitor the integrity of the financial statements of the Company, including its annual and interim reports, preliminary results announcements and any other formal announcement relating to its financial performance. The Audit Committee met three times between May 2008 and 31 December 2008 to carry out its responsibilities as described in its terms of reference.

Accordingly the Audit Committee has reviewed the 2008 Annual Report and Accounts including the preliminary results announcement before recommending their approval by the Board. As part of this review, the Audit Committee reviewed the accounting policies, the clarity of disclosure, compliance with the rules of the London Stock Exchange, the Listing Rules and other legal and regulatory requirements and all material information presented in the Financial Statements.

The Audit Committee considered the re-appointment of the Company's auditors before making a recommendation to the Board to be put to shareholders. The Audit Committee oversees the relationship with the external auditors. As part of this responsibility, the Audit Committee has reviewed the findings of the external auditor, reviewed management representation letters, approved audit plans and timescales and reviewed policies on the independence of the external auditor including the policy concerning the provision of non-audit services. Prior to recommending the appointment of Ernst & Young LLP at the forthcoming AGM to the Board, the Audit Committee conducted a review of the independence of Ernst & Young LLP.

The Audit Committee has received a presentation from the Group Internal Audit Department concerning their workplan for the period from July 2008 to June 2009 and has requested regular update reports on the internal audit reviews conducted by the Internal Audit Department. Where necessary the Audit Committee will seek assurance that any serious weaknesses have been addressed. During the period since IPO the Audit Committee has been briefed on internal audits conducted during that period but none have required any further action on the part of the Audit Committee.

The Audit Committee reviewed the arrangements by which employees may raise concerns about improprieties concerning financial or other matters at its meeting in August 2008 and it is satisfied with the adequacy of those arrangements.

INTERNAL CONTROLS

The Board has overall responsibility for the Group's system of internal control which includes risk management and reviewing its effectiveness. The system of internal control is designed to identify, evaluate and manage significant risks associated with the achievement of the Group's objectives. Because of the limitations inherent in any system of internal control, this system is designed to meet the Company's particular needs and the risks to which it is exposed. It is designed to manage risk rather than eliminate risk altogether. Consequently it can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board has delegated its responsibility for reviewing the effectiveness of these controls to the Audit Committee. The Audit Committee will review these systems on an annual basis. The day-to-day responsibility for managing risk and the maintenance of the Group's system of internal control is collectively assumed by the Executive Committee. The Executive Committee is supported in this task by the Internal Audit Department.

On behalf of the Board and the Executive Committee, the Internal Audit Department has established a process for identifying, evaluating and managing the significant risks faced by the Group in accordance with the Turnbull Guidance. The Group has also adopted a risk-based approach in establishing the Group's system of internal control and in reviewing its effectiveness. Risks have been categorised into a number of categories of risk for management purposes. Based on these risk categories the Audit Committee has sought assurance from the Executive Committee and the Internal Audit Department on the Group's system of internal control.

The basis upon which assurance has been sought includes:

- Internal Audit Reviews, including information technology reviews, undertaken by the Internal Audit Department.

- Reviews undertaken by the External Auditor
- Controls and procedures implemented under the Financial Reporting Plan adopted at the time of the Company's listing on the London Stock Exchange
- Representations obtained from operational management

The Audit Committee is responsible for reviewing the effectiveness of the Group's risk management, internal control systems and the half year and annual financial statements before their submission to the Board. It also reviews the scope and results of the audit with the external auditors and the schedule of work for the Internal Audit Department for the internal audit year (which runs from July to June). The Audit Committee is also responsible for reviewing the arrangements whereby staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters.

There are a number of components to the system of internal controls within the Company and these are detailed as follows:

- A risk matrix will continue to be monitored and reviewed by the Executive Committee and Internal Audit Department.
- A framework of transaction and entity level controls to prevent and detect material error and loss.
- A budgetary and periodic reporting review process performed by the Executive Committee.
- A documented structure of delegated authorities and approvals for transaction and investment decisions, including any with related parties.
- Progress in implementing the controls and procedures under the Financial Reporting Plan prepared at the time of the Company's listing is being monitored.
- A programme of internal audit reviews has been developed and conducted by the Group's Internal Audit Department.

The Board have, through the Executive Committee and the Audit Committee, reviewed the effectiveness of the Group's system of internal controls taking account of the matters summarised above. On the basis of this review, the Board considers that the measures that have already been implemented both before and after the IPO to initiate a risk management framework are appropriate to the Group's circumstances. The Board is committed to making further progress in the implementation of its internal control regime, particularly in relation to execution of the planned internal audit programme, with a view to achieving best practice levels of risk management and internal control for international mining companies listed on the London Stock Exchange.

RELATIONS WITH SHAREHOLDERS

As part of the IPO process the Board met with a large number of investors in the UK, mainland Europe and the USA. The Company has established an office in London and appointed a Head of Investor Relations who is based in London. The Group has implemented a strong investor relations programme and aims to meet major shareholders and analysts at least twice a year to discuss the results of the Group and to respond to any queries the shareholders may have. The Head of Investor Relations in London is the first point of contact with investors maintaining ongoing relations with analysts and major shareholders through telephone calls and meetings. The Company also uses a full programme of mining conferences to meet with current and prospective investors. Contact with investors in Mexico is maintained through the Investor Relations Office in Mexico City. The Chief Executive Officer, Chief Financial Officer, the Director of Exploration and the Director of Operations all participate in the major roadshows to meet with analysts and shareholders. The Head of Investor Relations, supported by the Chief Executive Officer, gives a report at each Board meeting on communications and shareholder activity.

The Company's first annual general meeting as a listed company will be held on 27 May 2009. The business of the annual general meeting will be conducted in accordance with the provisions D.2.1 and D.2.2 of the Code). The Chairman and the chairmen of each of the board committees will be available to answer questions put forward to them by shareholders of the Company. The Annual Report and Accounts and Notice of the Annual General Meeting will be sent to shareholders at least 20 working days prior to the date of the meeting.

Lord Cairns
Senior Independent Director on behalf of the Board
20 February 2009

Part I – Unaudited Information

INTRODUCTION

The board of directors of Fresnillo plc are pleased to present their first Directors' Remuneration Report.

This Report has been prepared in accordance with Schedule 7A of the Companies Act 1985 (the "Regulations") and sets out information about the remuneration of the Directors and senior management of the Company for the year ended 31 December 2008. This report has been audited by Ernst & Young LLP to the extent required by the Regulations.

As required by the Regulations, this report will be subject to an advisory shareholder vote at the Company's forthcoming Annual General Meeting.

REMUNERATION COMMITTEE

The Board established the Remuneration Committee on 15 April 2008 and it met once during the year. Lord Cairns is the chairman of the Remuneration Committee and its other members were Héctor Rangel and Fernando Ruiz. Since the year-end, Héctor Rangel has resigned as a Director and member of the Remuneration Committee. During the year, all the members of the Remuneration Committee were independent Non-executive Directors. Attendance at meetings of the Remuneration Committee by individual members is detailed in the Directors' Report on pages 68-71.

Terms of reference for the Remuneration Committee have been approved by the Board and its duties include the determination of the framework policy for the remuneration of the Chairman, Chief Executive Officer, other Executive Directors and the members of the Executive Committee (together the senior management), as well as their specific remuneration packages, including pension rights and, where applicable, any compensation payments. In determining such policy, the Remuneration Committee is expected to take into account all factors which it deems necessary to ensure that members of the senior executive management of the Group are provided with appropriate incentives to encourage strong performance and are, in a fair and responsible manner, rewarded for their individual contributions to the success of the Company. It will approve the design of, and determine targets for, any performance related pay schemes (and if appropriate share incentive plans) operated by the Company and approve the total annual payments made under such schemes.

The composition of the Remuneration Committee and its terms of reference comply with the provisions of the Combined Code and are available for inspection on the Company's website at www.fresnilloplc.com.

The Chief Executive Officer and Head of Human Resources will usually attend meetings of the Remuneration Committee at the invitation of the chairman of the Remuneration Committee and the Company Secretary acts as secretary to this committee. No Director is present when his own remuneration is being discussed.

The Non-executive Directors' fees are set by the Board under the Schedule of Matters reserved for its approval.

ADVISERS

In setting executive salaries, benchmarking information is supplied annually by William M. Mercer and Data Compensation and biennially by Watson Wyatt to enable the Chief Executive Officer to make recommendations to the Remuneration Committee concerning the salaries for the other members of the Executive Committee. The Remuneration Committee have not appointed any adviser.

REMUNERATION POLICY

The Remuneration Committee has developed a remuneration policy to ensure that the Company is able to attract, retain, and motivate its executives and senior management. The retention of key management and the alignment of management incentives with the creation of shareholder value are key objectives of this policy.

In setting the basic levels of pay for the executive directors, the Committee seeks to ensure that salaries are market competitive within the Mexican context and total compensation is set around the median level. Salaries are benchmarked annually using two

IV. DIRECTORS REMUNERATION REPORT

separate agencies and a survey using a comparator group of 18 companies and total remuneration is benchmarked biennially.

The variable component of remuneration is embodied within the short term incentive plan ("STIP") which is available to the Chief Executive Officer, the Chief Financial Officer and the Vice Presidents of Operations and Exploration as well as other corporate managers. The achievement of annual performance targets is, therefore, rewarded through an annual performance related bonus. The performance targets upon which bonuses are based include the following mix of financial and operational performance measures:

- The Group's financial performance
- The relevant executive's performance on budget compliance in terms of production, input/output ratios and the maintenance of mine reserves.
- The relative executive's performance on health, safety and environmental standards; and
- Completion of projects on time and to budget.

It is the Company's policy not to use its equity to incentivise long-term performance.

CHAIRMAN AND NON-EXECUTIVE DIRECTORS

The remuneration of the Chairman of the Company and the Non-executive Directors consists of fees that are paid quarterly in arrears. The Chairman and Non-executive Directors do not participate in any long-term incentive or annual bonus schemes, nor do they accrue any pension entitlement. Neither the Chairman nor any of the Non-executive Directors has a service contract with the Company; however each has entered into a letter of appointment with the Company.

LONG-TERM INCENTIVES

Fresnillo does not offer any share- or cash-based long-term incentives to management. Historically membership of the Group Pension Scheme has been regarded as a means for retaining management. The Remuneration Committee will keep the need for further long-term incentives under review.

SHORT-TERM INCENTIVE PLAN (STIP)

At the beginning of the year a STIP was put in place for the members of the Executive Committee, including the Executive Directors. A number of Key Performance Indicators ("KPI's") were agreed for each member of the Executive Committee and KPI targets were set at which payments equivalent to 0% to 33% of annual salary could be earned with 33% of annual salary being earned for 100% achievement of their KPI targets. For each member of the Executive Committee, the KPI's were weighted to reflect the contribution of each executive to the achievement of that KPI. The STIP covers performance during the period from January to December.

In 2008, the following KPI's and measures were used in determining the bonuses of the members of the Executive Committee:

KPI	Measures
Production	Achievement of budget
Costs	Achievement of budget
Projects	Delivery to budget and plan
Safety	Fatalities, LTIFR, Lost Days
Environment	Conformity with environmental standards
Community	Project delivery

SERVICE AGREEMENTS

Jaime Lomelín is employed under a contract of employment with Servicios Administrativos Fresnillo S.A. de C.V., a subsidiary of Fresnillo plc, a Group company. Mr Lomelín's contract is governed by Mexican Federal Labor Law and does not have a fixed term. It may be terminated in writing by either party on notice. There is no minimum notice period. There are no benefits payable under the service agreement upon termination of employment.

The salary payable under Mr Lomelín's service agreement is MXN 930,000 per month. In addition, he receives other payments for holidays, company-paid savings contributions and other benefits. In 2008 he received salary of MXN 15,099,982 (US$ 1,343,890)

BENEFITS-IN-KIND

Under his service agreement, Mr Lomelín is entitled to 26 working days' paid holiday per year. He is also entitled to life insurance, the payment of medical expenses, medical benefits and bonuses as otherwise set out in the Company's policies from time to time. He is not entitled to profit-sharing.

PENSIONS

The Group operates two pension schemes: (i) a defined benefit scheme which was closed to new members on 1 July 2007 in respect of existing members; and (ii) a defined contribution scheme which was introduced on 1 July 2007. Membership of this scheme is voluntary, contributions of between 5% and 8% are made to this plan by its members and contributions are matched by the Group.

Mr Lomelin is entitled to membership of the defined benefit pension plan in respect of service before 30 June 2007. He has elected not to join the defined contribution pension scheme.

NON-EXECUTIVE DIRECTORS' LETTERS OF APPOINTMENT

Each of the Non-executive Directors has signed a letter of appointment with the Company. The Non-executive Directors signed their letters of appointment on 15 April 2008, with the exception of Guy Wilson who signed on 1 July 2008.

The Non-executive Directors have each been appointed for an initial period of three years subject to them being re-elected at the forthcoming annual general meeting and their appointments are renewed on a three-yearly basis, subject to re-election, when appropriate, by the Company in general meeting. Unless otherwise determined neither the Board nor the Director concerned may give less than three months' notice of termination of the appointment.

The Non-executive Directors' fees have been set at a level to reflect the time commitment and level of involvement that they are required to make in the activities of the Board and its committees.

There are no special provisions that have been agreed with the Non-executive Directors or the Executive Director with regard to compensation for loss of office.

The key terms of the Non-executive Directors' letters of appointment are as follows:

Director	Date of Appointment	Notice Period	Duration of term	Fees p.a.
Alberto Baillères	15 April 2008	3 months	3 years	£30,000
Lord Cairns	15 April 2008	3 months	3 years	£90,000
Juan Bordes	15 April 2008	3 months	3 years	£30,000
Javier Fernandez	15 April 2008	3 months	3 years	£30,000
Arturo Fernandez	15 April 2008	3 months	3 years	£30,000
Rafael MacGregor	15 April 2008	3 months	3 years	£30,000
Héctor Rangel	15 April 2008	3 months	3 years	£30,000
Fernando Ruiz	15 April 2008	3 months	3 years	£30,000
Guy Wilson	1 July 2008	3 months	3 years	£90,000

All of the Directors are required by the articles of association of the Company to retire at the forthcoming annual general meeting and offer themselves for election to the Board. The current unexpired term of their letters of appointment is the period from the date of this report until 27 May 2009 when the annual general meeting of the Company will be held. Subject to their being elected at the annual general meeting, their appointments will be for a period of three years from the date of appointment.

EXTERNAL APPOINTMENTS

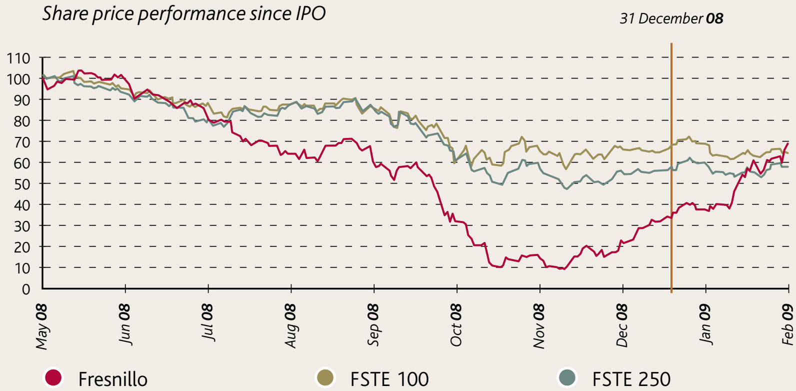
It is the Board's policy to allow the Executive Directors to accept directorships of other quoted companies provided that they have obtained the consent of the Chairman of the Company. Any such directorships must be formally notified to the Board.

PERFORMANCE REVIEW

As required by the Directors Remuneration Report Regulations, the following graph sets out the performance of the Company's share price since its Listing compared to the FTSE 100 Index and the FTSE 250 Index being the two indices in which the Company's shares have been included. These are deemed to be the most appropriate indices for comparative purposes.

FRESNILLO VS FTSE 100 AND FTSE 250

Share price performance since IPO



Part II – Audited Information

DIRECTORS' REMUNERATION DURING THE YEAR

SALARY, ANNUAL BONUS AND OTHER BENEFITS

$'000	Salary / Fees	Pension	Benefits -in-Kind	Bonus	Total 2008	Total 2007
Chairman						
Alberto Baillères	37	0	0	0	37	0
Executive Directors						
Jaime Lomelín (Note 2)	1,344	0	53	334	1,731	0
Non-executive Directors						
Lord Cairns	111	0	0	0	111	0
Juan Bordes	37	0	0	0	37	0
Javier Fernandez	37	0	0	0	37	0
Arturo Fernandez	37	0	0	0	37	0
Rafael MacGregor	37	0	0	0	37	0
Héctor Rangel	37	0	0	0	37	0
Fernando Ruiz	37	0	0	0	37	0
Guy Wilson	73	0	0	0	73	0
Total	**1,787**	**0**	**53**	**334**	**2,174**	**0**

Notes:

1. No compensation for loss of office was paid during the years ended 31 December 2008 and 31 December 2007.
2. Prior to 15 April 2008, Jamie Lomelín's salary was paid by Peñoles.
3. The Chairman and Non-executive Directors' fees relate to the period from their respective appointments to the Board and 31 December 2008

PENSION ENTITLEMENT

The pension entitlement of the Chief Executive Officer, being the only executive director was as follows:

US$'000	Accumulated accrued benefits 31 Dec 2008	Increase in accrued benefits during the year	Increase, before inflation, in accrued benefits during the year	Transfer value of increase before inflation, less directors contributions
Jaime Lomelín	7,377	49	(501)	49

DIRECTORS INTERESTS IN ORDINARY SHARES

The interests of Directors are set out in the Directors' Report on pages 68-71.

ANNUAL GENERAL MEETING

Shareholders will be asked to vote, on an advisory basis, on this Directors' Remuneration Report at the Company's forthcoming Annual General Meeting.

This Report has been approved by the Board of Directors of Fresnillo plc. Signed on behalf of the Board.

Lord Cairns

Chairman of the Remuneration Committee

20 February 2009

INTRODUCTION

The Directors have the pleasure in presenting their Annual Report and the audited Financial Statements for the year ending 31 December 2008.

PRINCIPAL ACTIVITIES

The Fresnillo Group is a leading precious metals group with significant experience and expertise in all aspects of mining, from exploration through to mine construction and operation. It is the world's largest primary silver producer and Mexico's second largest gold producer.

RESULTS AND DIVIDENDS

Results for the year are set out in the Consolidated Income Statement on page 74.

An interim dividend of 5.9 US cents per share was paid on 19 September 2008 to shareholders on the register on 29 August 2008. The Directors have recommended a final ordinary dividend of 7.7 US cents per Ordinary Share which will be paid on 29 May 2009 to shareholders on the register on the 8 May 2009. The dividend will be paid in UK pounds sterling unless shareholders elect to be paid in US dollars.

BUSINESS REVIEW

A detailed Business Review for the Group as required by Section 417, Companies Act 2006 can be found in the sections of this Annual Report noted below. These comment on the operation and development of the business and its future prospects along with details of key performance indicators and the description of the principal risks and uncertainties facing the Group.

- The Chairman's Letter set out on pages 2-3.
- The Chief Executive Officers Statement set out on pages 4-7.
- The Business Review set out on pages 8-49 summarising the Key Performance Indicators, the Market and Geographic Overview, the Review of Operations, the Sustainable Development Report, the Finance Review and the Risks and Uncertainties; and
- This Directors Report.

This Business Review and other sections of this Annual Report contain forward looking statements. The extent to which the Company's shareholders or anyone may rely on these forward looking statements is set out inside the back cover of this Annual Report.

CORPORATE GOVERNANCE

A report on corporate governance and compliance with the provisions of the Combined Code is set out on pages 58-63.

REMUNERATION OF DIRECTORS

Details of Directors' remuneration can be found in the Directors' Remuneration Report on pages 64-67.

SIGNIFICANT RELATIONSHIPS

The following are considered by the Board to be significant relationships which are likely, directly or indirectly to influence the performance of the business and its value.

Relationships with Partners: Under an agreement with Newmont Exploration Limited, the Company holds 56% of Minera Penmont with the aim of exploiting and developing of gold. The Company's Herradura mine and the Soledad-Dipolos developments are held within Minera Penmont.

In October 2005, MAG Silver Corporation (MAG Silver), Peñoles, Minas Peñoles S.A. de C.V. and Minera Los Lagartos S.A. de C.V. entered into an agreement for the establishment of the Juanicipio project. At the time of the IPO, Peñoles transferred its 56% share in the project to the Group.

Supply Relationships: On 31 December 2007, the Fresnillo Group entered into long-term arrangements with the Peñoles Group (the Silverstream Arrangements) in relation to the bi-product silver output from the Peñoles-owned polymetallic mine at Sabinas in Zacatecas, Mexico. Under the Silverstream Arrangements, Fresnillo is entitled to all of the proceeds (before deduction of any treatment and refining charges) in respect of Payable Silver produced from the zinc and lead concentrates produced by the Peñoles Group's Sabinas mine during its life. Further information concerning the Silverstream Arrangements can be found in the note 15 of the Financial Statements on page 98.

On 8 May 2008, the Company entered into a Transitional Services Agreement with Servicios Peñoles for the provision of administrative services in return for arms length fees for an initial period of 12 months (the SIPSA Agreement). The SIPSA Agreement has subsequently been extended for a further four months to 31 August 2009. Further information concerning the SIPSA Agreement can be found in the Finance Review on page 41 and note 6 of the Financial Statements on page 91.

V. DIRECTORS' REPORT

Customer Relationships: Since 2006 the primary products from the Group's mines, silver- and gold-rich lead and zinc concentrates and doré have been sold to the Peñoles Group's refining and smelting facility at Torréon, operated by Met-Mex Penõles S.A. de C.V. (Met-Mex) under a series of supply agreements (the Met-Mex Arrangements). This arrangement enables the Group to benefit from relatively low transport costs. The terms of the supply agreements with Met-Mex are set on an "arms length" basis with revenue being determined by the amount of metal contained in the produce and the average market prices over a certain period net of certain deductions. Further information concerning the Met-Mex Arrangements can be found in Risks and Uncertainties on pages 44-49.

Government Relationships: Under Mexican law, government concessions are required to explore for and exploit mineral potential. The Fresnillo Group holds concessions in respect of its operations, development projects and exploration projects in return for which it pays fees to the government and has made commitments to maintain certain levels of capital expenditure as well as minimum environmental and health & safety standards.

Employee Relationships: Approximately two thirds of the Group's workforce is employed and one third are contractors. Approximately 80% of the employed workforce is unionised, with substantially all being members of the National Mining and Metallurgical Union of the Republic of Mexico. The Fresnillo Group, on the whole, maintains good relationships with the Union. Further details can be found in the Business Review on page 48. The Group has contracts with a large number of different providers of contract labour. Details of the service agreement with the Chief Executive Officer are found in the Directors Remuneration Report on page 65.

RELATIONSHIP AGREEMENT

On 8 May 2008, Peñoles and the Company entered into a relationship agreement to regulate the ongoing relationship between the Company and Peñoles. The principal purpose of the relationship agreement is to ensure that the Company and its subsidiaries are capable of carrying on their business independently of the Peñoles Group, and that transactions and relationships with the Peñoles Group (including any transactions and relationships with any member of the Fresnillo Group) are at arm's length and on normal commercial terms. Under this relationship agreement, Peñoles has undertaken not to exercise its voting rights to amend the memorandum and articles of association in a way which would be inconsistent with the provisions of the agreement. It has also agreed to abstain from voting on any resolution to approve a "related party transaction" (as defined in paragraph 11.1.5 R of the Listing Rules) involving any member of the Peñoles Group.

DIRECTORS

The names and biographies of the current Directors of the Company are set out on pages 52-55. Directors may be appointed by the Company by ordinary resolution or by the Board. If appointed by the Board, a Director holds office until the next annual general meeting. All of the current Directors will retire and offer themselves for election at the forthcoming Annual General Meeting.

Directors may be appointed by the Company by ordinary resolution or by the Board. A Director appointed by the Board holds office only until the next following AGM and is then eligible for election by the shareholders. Each Director shall retire at the annual general meeting held in the third year following the year in which he was elected or last re-elected by the Company.

DIRECTORS' INDEMNITIES AND INSURANCE

The Company has entered into deeds of indemnity with each Director in respect of proceedings bought by third party and pension scheme liabilities subject to the conditions set out in the Companies Act 1985. The Company has purchased Directors & Officers Liability insurance. All of these arrangements remain in place at the date of this report.

DIRECTORS' INTERESTS

The number of Ordinary Shares of the Company in which the Directors were beneficially interested at the date of their appointment and at 31 December 2008 were:

	Date of Appointment	31 December 2008
Alberto Baillères	-	See below *
Lord Cairns	-	15,000
Héctor Rangel	-	-
Fernando Ruiz	-	-
Javier Fernandez	-	-
Guy Wilson	-	15,000
Juan Bordes	-	15,000
Arturo Fernandez	-	-
Rafael MacGregor	-	-
Jaime Lomelín	-	-

*Alberto Baillères holds an indirect interest in the Company. Mr Baillères and companies controlled by Mr Baillères hold, in aggregate 61.3 per cent of the issued share capital (and voting rights) of Peñoles. Peñoles holds 552,595,191 ordinary shares (77.1%) in the Company.

No Director had any dealings in the shares of the Company between 31 December 2008 and 20 February 2009, being a date less than one month prior to the date of convening the Annual General Meeting.

MAJOR INTERESTS IN SHARES

As at 20 February 2009, the Company had been advised, in accordance with the Disclosure and Transparency Rules of the Financial Services Authority, of the following notifiable interests (whether directly or indirectly held) in its voting rights:

Notification received from:	Number of voting rights	%
Peñoles	552,595,191	77.05
BlackRock, Inc	48,792,000	6.80
BlackRock Global Funds	28,832,500	4.02
Threadneedle Asset Management	26,000,000	3.60

CHANGE OF CONTROL

The Company does not have any agreements with any Non-executive Director, Executive Director or employee that would provide compensation for loss of office or employment resulting from a takeover.

ARTICLES OF ASSOCIATION

Any amendments to the Articles of Association of the Company may be made by Special Resolution of the shareholders.

SIGNIFICANT AGREEMENTS – CHANGE OF CONTROL

The Penmont (Herradura) and MAG Silver (Juanicipio) agreements each contain provisions ensuring that the respective interests of the shareholders in these respective companies may be transferred in accordance with their respective bi-laws subject to preferential rights of existing shareholders.

There are no formal "change of control" provisions within the Silverstream Arrangements, Met-Mex Arrangements or SIPSA Agreement.

The Group's mining concessions are held by various of its Mexican subsidiary companies. Whilst the companies holding the mining concessions remain Mexican resident companies, there are no provisions within the concession agreements which would be triggered by a change of control of the Company.

SHARE CAPITAL

Details of the Company's share capital are set out in note 20 to the Financial Statements. The Company has two classes of share capital 1,000,000,000 ordinary shares of US $0.50 ("Ordinary Shares") and 50,000 deferred shares of £1.00 each ("Sterling Deferred Shares").

The rights and obligations attaching to these shares are governed by UK law and the Company's Articles of Association. Ordinary shareholders are entitled to receive notice and to attend and speak at any general meeting of the Company. There are no restrictions on the transfer of the Ordinary Shares.

Subject to any rights or restrictions attached to any shares, on a show of hands every shareholder present in person or by proxy (or being a corporation present by a duly authorised representative) shall have one vote, and on a poll every shareholder who is present in person or by proxy shall have one vote for every share of which he is the holder. The Notice of AGM specifies deadlines for exercising voting rights and appointing a proxy or proxies to vote in relation to resolutions to be passed at the AGM. All proxy votes are counted and the numbers for, against or withheld in relation to each resolution are announced at the AGM and published on the Company's website after the meeting.

There are no restrictions on the transfer of the Ordinary Shares other than as set out in the Articles of Association and:

- certain restrictions may from time to time be imposed by laws and regulations (for example, insider trading laws); and
- pursuant to the Listing Rules of the Financial Services Authority whereby certain Directors, officers and employees of the Company require the approval of the Company to deal in the Ordinary Shares.

No shareholder holds securities carrying special rights as to the control of the Company. There are no limitations on the holding of securities. There are no restrictions on voting rights or any arrangements by which, with the Company's co-operation, financial rights carried by securities are held by a person other than the holder of the securities. There are no agreements between holders of securities that are known to the Company which may result in restrictions on the transfer or on voting rights. The Company may repurchase or enter into a contract under it will or may purchase, any of its own shares.

The Sterling Deferred Shares only entitle the shareholder on winding up or on a return of capital to payment of the amount paid up after repayment to Ordinary Shareholders. The Sterling Deferred Shares do not entitle the holder to payment of any dividend, or to receive notice or to attend and speak at any general meeting of the Company. The Company may also at its option redeem the Sterling Deferred Shares at a price of £1.00 or, as custodian, purchase or cancel the Sterling Deferred Shares or require the holder to transfer the Sterling Deferred Shares. Accept at the option of the Company the Sterling Deferred Shares are not transferrable.

AUTHORITY TO PURCHASE OWN SHARES

The Company was authorised by a shareholders resolution passed on 12 December 2008 to purchase up to 10% of its issued Ordinary Share capital. Any shares which have been bought back may be held as treasury shares or, if not so held, must be cancelled immediately upon completion of the purchase, thereby reducing the amount of the Company's issued and authorised share capital. This authority will expire at the forthcoming Annual General Meeting and a resolution to renew the authority for a further year will be proposed.

No shares were purchased by the Company during the year.

EMPLOYEES

Information relating to employees is given in note 8 to the Financial Statements on page 92 and in the Sustainable Development Report on page 35.

CREDITOR PAYMENT POLICY

At 31 December 2008 the Company had no trade creditors (2007: nil).

It is the Company's policy to agree terms of trading, including payments terms, with all suppliers. Provided suppliers perform in accordance with the agreed terms payment will be made in accordance with the terms.

MARKET VALUE OF LAND AND BUILDINGS

Land is carried in the balance sheet at deemed cost resulting from a revaluation, which was undertaken as at 1 January 2005 as part of the Group's transition to reporting under IFRS. Land and buildings acquired since 1 January 2005 are recorded at cost. It is not practical to estimate the market value of land and buildings at each balance sheet date.

POLITICAL AND CHARITABLE DONATIONS

No donations were made to political organisations during the year (including in Mexico). The Group made charitable donations of US$0.9 million during the year. Further information concerning the community initiatives within the Fresnillo Group are set out in the Sustainability Report set out on pages 28-35.

FINANCIAL RISK MANAGEMENT

The Company's objectives and policies on financial risk can be found in note 32 to the Financial Statements. Information on the Company's exposures to foreign currency, credit, commodity, price, liquidity and interest rate risks can also be found in this note.

DIRECTORS RESPONSIBILITIES

Information about the Directors' responsibilities in respect of the preparation of Financial Statements is provided on page 72.

GOING CONCERN

After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. In making this assessment they have considered the Company and Group budget, the cashflow forecasts and reviewed the availability of banking facilities to the Group. For this reason they continue to adopt the going concern basis in preparing the Financial Statements.

AUDIT INFORMATION

Each of the Directors at the date of the approval of this report confirms that:

1) so far as he is aware, there is no relevant audit information of which the Company's auditors are unaware; and
2) he has taken all the reasonable steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of the information.

The confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985.

AUDITORS

The auditors, Ernst & Young LLP have indicated their willingness to continue in office and a resolution seeking to reappoint them will be proposed at the forthcoming Annual General Meeting.

DIVIDENDS

An interim dividend of 5.9 US cents per share was paid on 19 September 2008 to shareholders on the register on 29 August 2008. The Directors have recommended a final ordinary dividend of 7.7 US cents per share which will be paid on 29 May 2009 to shareholders on the register on 8 May 2009. The dividend will be paid in UK pounds sterling unless shareholders elect to be paid in US dollars.

ANNUAL GENERAL MEETING

The Company's Annual General Meeting will be held at Linklaters, One Silk Street, London, EC2Y 8HQ on Wednesday 27 May 2009 at 11.30am. Details of the meeting venue and the resolutions to be proposed are set out in a separate Notice of Meeting which accompanies the Annual Report.

For and on behalf of the Board
Prism Cosec Limited
Company Secretary
20 February 2009

VI. STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report and the Group and parent Company's Financial Statements ("Financial Statements") in accordance with applicable United Kingdom law and those International Financial Reporting Standards (IFRS) adopted by the European Union.

The Directors are required to prepare financial statements for each financial year which present a true and fair view of the financial position of the Company and of the Group and the financial performance and cash flows of the Company and of the Group for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies in accordance with IAS 8: "Accounting Policies, Changes in Accounting Estimates and Errors" and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company and of the Group's financial position and financial performance; and
- state that the Company and the Group has complied with IFRS, subject to any material departures disclosed and explained in the financial statements.
- prepare the accounts on a going concern basis unless, having assessed the ability of the Company and the Group to continue as a going concern, management either intends to liquidate the entity or to cease trading, or have no realistic alternative but to do so.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and of the Group and enable them to ensure that the financial statements comply with the Companies Acts 1985 and 2006 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Under applicable UK law and regulations the directors are responsible for the preparation of a Directors' Report, Directors' Remuneration Report and Corporate Governance Report that comply with that law and regulations. In addition the directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF Fresnillo plc

We have audited the Group financial statements of Fresnillo plc for the year ended 31 December 2008 which comprise the Group Income Statement, the Group Balance Sheet, the Group Cash Flow Statement, the Group Statement of Change in Equity and the related notes 1 to 32. These Group financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the parent company financial statements of Fresnillo plc for the year ended 31 December 2008 and on the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Directors' responsibilities for preparing the Annual Report and the Group financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the Group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Group financial statements give a true and fair view and whether the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the Financial Statements. The information given in the Directors' Report includes that specific information presented in the Business Review that is cross referred from the Business Review section of the Directors' Report.

In addition we report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding director's remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Report reflects the Company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited Group financial statements. The other information comprises only the Directors' Report, the Chairman's Letter, the Chief Executive's Statement, the Business Review and the Corporate Governance Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group financial statements. Our responsibilities do not extend to any other information.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Group financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the Group financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Group financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Group financial statements.

OPINION

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 December 2008 and of its profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the information given in the directors' report is consistent with the Group financial statements.

Ernst & Young LLP
Registered auditor
London
20 February 2009

Fresnillo plc

CONSOLIDATED INCOME STATEMENT

	Notes	Year ended 31December 2008	2007
		(in thousands of US dollars)	
Continuing operations:			
Revenues	4	720,483	647,940
Cost of sales	5	(299,872)	(240,055)
Gross profit		**420,611**	**407,885**
Administrative expenses	6	(81,679)	(128,445)
Exploration expenses	7	(53,483)	(52,019)
Other income	9	5,901	6,985
Other expenses	9	(7,769)	(9,797)
Profit from continuing operations before net finance costs and income tax		**283,581**	**224,609**
Finance income	10	8,861	18,128
Finance costs	10	(10,515)	(2,429)
Foreign exchange loss		(14,570)	(4,610)
Profit from continuing operations before income tax		**267,357**	**235,698**
Income tax expense	11	(114,577)	(74,683)
Profit for the year from continuing operations		**152,780**	**161,015**
Attributable to:			
Shareholders of the Company		127,949	143,497
Minority interest		24,831	17,518
		152,780	**161,015**
Earnings per share: (US$)			
Basic and diluted earnings per ordinary share from continuing operations	12	0.186	0.226

Fresnillo plc
CONSOLIDATED BALANCE SHEET

	Notes	2008	2007
		Year ended 31 December	
		(in thousands of US dollars)	
ASSETS			
Non-current assets			
Property, plant and equipment	13	497,844	357,686
Available-for-sale financial assets	14	45,530	31,311
Silverstream contract	15	286,968	310,200
Deferred tax asset	11	3,161	–
Other assets		185	1,168
		833,688	**700,365**
Current assets			
Inventories	16	38,639	36,481
Trade and other receivables	17	81,495	231,484
Derivative financial instruments	31	2,409	–
Prepayments	18	1,894	10,782
Silverstream contract	15	31,300	39,800
Income tax refunds due		–	23,166
Cash and cash equivalents	19	211,985	4,802
		367,722	346,515
Total assets		**1,201,410**	**1,046,880**
EQUITY AND LIABILITIES			
Capital and reserves attributable to shareholders of the Company			
Share capital	20	358,680	634,270
Share premium	20	818,597	–
Capital reserve	20	(526,910)	(526,910)
Net unrealised losses on cash flow hedges	20	(26,408)	(50,847)
Unrealised (losses)/gains on available-for-sale financial assets	20	(4,207)	10,623
Foreign currency translation reserve	20	(1,387)	(111)
Retained earnings	20	285,195	293,133
		903,560	360,158
Minority interest		89,832	62,883
Total equity		**993,392**	**423,041**
Non-current liabilities			
Provision for mine closure cost	22	18,951	14,295
Provision for pensions and other post-employment benefit plans	23	3,499	2,570
Other liabilities		4,552	–
Deferred tax liability	11	91,395	99,623
		118,397	**116,488**
Current liabilities			
Trade and other payables	24	42,665	27,843
Interest bearing loans and borrowings	28	–	455,921
Derivative financial instruments	31	14,068	–
Income tax		15,259	–
Employee profit sharing		17,629	23,587
		89,621	**507,351**
Total liabilities		**208,018**	**623,839**
Total equity and liabilities		**1,201,410**	**1,046,880**

These financial statements were approved by the Board of Directors on 20 February 2009 and signed on its behalf by:

Jaime Lomelín
Chief Executive Officer
20 February 2009

Fresnillo plc

CONSOLIDATED CASH FLOW STATEMENT

	Notes	Year ended 31 December 2008	2007
		(in thousands of US dollars)	
Net cash from operating activities	**30**	**414,666**	**79,266**
Cash flows from investing activities			
Purchase of property, plant and equipment		(185,024)	(103,446)
Purchase of available for sale instruments		(39,752)	(7,440)
Proceeds from the sale of property, plant and equipment and other assets		16,057	11,268
Loans granted to related parties		(321,538)	(999,350)
Proceeds from repayment of loans granted to related parties		353,980	1,107,266
Silverstream contract		31,732	(350,000)
Interest received		8,861	18,198
Other proceeds/(expenses)		5,030	(2,284)
Net cash used in investing activities		**(130,654)**	**(325,788)**
Cash flows from financing activities			
Loans granted by related parties		782,652	511,380
Repayment of loans granted by related parties		(1,238,102)	(155,686)
Capital contribution		2,118	58,774
Dividends paid		(42,203)	–
Shares issued and paid pursuant to the Global Offer		901,081	–
Transaction costs associated with issue of shares		(46,597)	–
Distribution to equity shareholders of the Group		(406,718)	(197,460)
Interest paid		(9,319)	(4,961)
Net cash used in financing activities		**(57,088)**	**212,047**
Net increase / (decrease) in cash and cash equivalents during the year		226,924	(34,475)
Effect of exchange rate on cash and cash equivalents		(19,741)	–
Cash and cash equivalents at 1 January	19	4,802	39,277
Cash and cash equivalents at 31 December	**19**	**211,985**	**4,802**

Fresnillo plc

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		Attributable to equity holders of the Group									
	Notes	Share capital	Share premium	Capital reserve	Net unrealised gains/ (losses) on revaluation of cash flow hedges	Unrealised gains/ (losses) on available for sale financial assets	Foreign currency translation reserve	Retained earnings	Total	Minority interest	Total equity
					(in thousands of US dollars)						
Balance at 1 January 2007		634,270	–	(526,910)	(79,235)	5,476	–	278,848	312,449	50,676	363,125
Net unrealised loss on cash flow hedges	31	–	–	–	(23,983)	–	–	–	(23,983)	–	(23,983)
Tax effect of unrealised loss on cash flow hedges		–	–	–	6,715	–	–	–	6,715	–	6,715
Net loss on cash flow hedges recycled to income statement	31	–	–	–	63,411	–	–	–	63,411	–	63,411
Tax effect of loss on cash flow hedges recycled to income statement		–	–	–	(17,755)	–	–	–	(17,755)	–	(17,755)
Fair value gains on available for sale financial assets		–	–	–	–	7,148	–	–	7,148	–	7,148
Tax effect of fair value gains on available for sale financial assets		–	–	–	–	(2,001)	–	–	(2,001)	–	(2,001)
Foreign currency translation		–	–	–	–	–	(111)	–	(111)	–	(111)
Net income recognised directly in equity		–	–	–	28,388	5,147	(111)	–	33,424	–	33,424
Profit for the period		–	–	–	–	–	–	143,497	143,497	17,518	161,015
Total income and expense for the year		–	–	–	28,388	5,147	(111)	143,497	176,921	17,518	194,439
Capital contribution		–	–	–	–	–	–	–	–	5,811	5,811
Distribution to equity shareholders of the Company		–	–	–	–	–	–	(129,212)	(129,212)	–	(129,212)
Dividends paid		–	–	–	–	–	–	–	–	(11,122)	(11,122)
Balance at 31 December 2007		**634,270**	**–**	**(526,910)**	**(50,847)**	**10,623**	**(111)**	**293,133**	**360,158**	**62,883**	**423,041**
Balance at 1 January 2008		634,270	–	(526,910)	(50,847)	10,623	(111)	293,133	360,158	62,883	423,041
Net unrealised loss on cash flow hedges		–	–	–	(11,659)	–	–	–	(11,659)	–	(11,659)
Tax effect of unrealised loss on cash flow hedges		–	–	–	3,264	–	–	–	3,264	–	3,264
Net loss on cash flow hedges recycled to income statement	31	–	–	–	45,602	–	–	–	45,602	–	45,602
Tax effect of loss on cash flow hedges recycled to income statement		–	–	–	(12,768)	–	–	–	(12,768)	–	(12,768)
Fair value losses on available-for-sale financial assets		–	–	–	–	(25,533)	–	–	(25,533)	–	(25,533)
Tax effect of fair value losses on available-for-sale financial assets		–	–	–	–	7,149	–	–	7,149	–	7,149
Impairment of available-for-sale financial assets taken to income		–	–	–	–	4,936	–	–	4,936	–	4,936
Tax effect of impairment of available-for-sale financial assets taken to income		–	–	–	–	(1,382)	–	–	(1,382)	–	(1,382)
Foreign currency translation		–	–	–	–	–	(1,276)		(1,276)	–	(1,276)
Net income recognised directly in equity		–	–	–	24,439	(14,830)	(1,276)		8,333	–	8,333
Profit for the period		–	–	–	–	–	–	127,949	127,949	24,831	152,780
Total income and expense for the year		–	–	–	24,439	(14,830)	(1,276)	127,949	136,282	24,831	161,113
Capital contribution		–	–	–	–	–	–	–	–	2,118	2,118
Issue of share capital		100	–	–	–	–	–	(100)	–	–	–
Capital reduction	20	(317,135)	–	–	–	–	–	317,135	–	–	–
Distribution to equity shareholders of the Company		–	–	–	–	–	–	(410,719)	(410,719)	–	(410,719)
Dividends paid		–	–	–	–	–	–	(42,203)	(42,203)	–	(42,203)
Shares issued as part of Global Offer, net of transaction costs	20	41,445	818,597	–	–	–	–	–	860,042	–	860,042
Balance at 31 December 2008		**358,680**	**818,597**	**(526,910)**	**(26,408)**	**(4,207)**	**(1,387)**	**285,195**	**903,560**	**89,832**	**993,392**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 CORPORATE INFORMATION

Fresnillo plc ("the Company") is a public limited company that was incorporated on 15 August 2007 under the Companies Act 1985 and registered in England and Wales and is the holding company for the Fresnillo subsidiaries detailed below ("the Group").

On 14 May 2008 the Company's shares were admitted to the Official List of the United Kingdom Listing Authority ("UKLA") and to trading on the main market of the London Stock Exchange (this process being referred to as "the Global Offer" or the "Initial Public Offering", ("IPO")).

Peñoles S.A.B. de C.V. ("Peñoles") currently owns 77 percent of the shares of the Company and the ultimate controlling party of the Company is the Baillères family, whose beneficial interest is held through Peñoles. The country of incorporation of Peñoles is Mexico. Copies of Peñoles' accounts can be obtained from www.penoles.com.mx.

In preparation for the Global Offer, Peñoles conducted a reorganisation, which completed on 18 April 2008, whereby the companies comprising the precious metals mining business of Peñoles were reorganised under the Company (the "Pre-IPO Reorganisation").

The consolidated financial statements of the Group for the year ended 31 December 2008, were authorised for issue by the Board of Directors of Fresnillo plc on 20 February 2009.

The Group's principal business is the mining and beneficiation of non-ferrous minerals, and the sale of related production. The primary contents of this production are silver, gold, lead and zinc. The Group has three fully developed operating mines: Fresnillo, Herradura and Ciénega.

The principal activities of the entities included in the consolidated financial statements are as follows:

COMPANY	PRINCIPAL ACTIVITY	COUNTRY OF INCORPORATION	EQUITY INTEREST % Year ended 31 December 2008	2007
Minera Fresnillo, S.A. de C.V.	Production of lead/silver and zinc concentrates	Mexico	100	100
Minera Penmont, S. de R.L. de C.V.	Production of doré bars (gold/silver)	Mexico	56	56
Minera Mexicana La Ciénega, S.A. de C.V.	Production of lead and zinc concentrates and silver precipitates	Mexico	100	100
Minera Saucito, S.A. de C.V.	Mining project	Mexico	100	100
Minera Juanicipio, S.A. de C.V.	Mining project	Mexico	56	56
Comercializadora de Metales Fresnillo, S.A. de C.V.	Holds rights over silver production from Peñoles' polymetallic Sabinas mine	Mexico	100	100
Exploraciones Mineras Parreña, S.A. de C.V.	Exploration services	Mexico	100	100
Minera El Bermejal, S. de R.L. de C.V.	Mining equipment leasing	Mexico	56	56
Compañía Minera Las Torres, S.A. de C.V.	Closed Mines(*)	Mexico	100	100
Servicios Administrativos Fresnillo, S. A de C.V.	Administrative services	Mexico	100	–
Fresnillo Management Services	Administrative services	London	100	–
Fresbal Investments, LTD	Holding company for mining investments	Canada	100	–

(*) Certain of the mines of Compañia Minera las Torres S.A de C.V. are currently operated on a small scale by a third party under a leasing agreement.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation and statement of compliance

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union as they apply to the financial statements of the Group for the year ended 31 December 2008, and in accordance with the provisions of the Companies Acts 1985 and 2006, where relevant. The Group's financial statements are also consistent with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Company became the holding company for the Group pursuant to the Pre-IPO Reorganisation completed 18 April 2008, as detailed in Note 1. As this was a reorganisation of businesses under common control, the pooling of interests method of accounting has been applied in the presentation of the consolidated financial statements for the years ended 31 December 2008 and 2007 which presents the results of the Group's businesses as if the Company had always been the holding company. For periods prior to the Pre-IPO Reorganisation, consolidated financial statements were not prepared for the Group. The accompanying consolidated financial statements present the results and changes in equity of the Company and its subsidiaries as if the Group had been in existence throughout the periods presented and as if the Pre-IPO Reorganisation had occurred as at 1 January 2007.

The basis of preparation and accounting policies used in preparing the consolidated financial statements for the year ended 31 December 2008 and 2007 are set out below. These accounting policies have been consistently applied to all the periods presented unless otherwise stated.

The consolidated financial statements have been prepared on a historical cost basis, except for certain classes of property, plant and equipment that have been stated at deemed cost under IFRS 1, derivative financial instruments, available-for-sale financial instruments and defined benefit pension scheme assets which have been measured at fair value.

The Group's transition date to IFRS was 1 January 2007. The rules for first-time adoption of IFRS are set out in IFRS 1 *First-time Adoption of International Financial Reporting Standards*.

IFRS 1 allows certain exemptions in the application of particular Standards to prior periods in order to assist companies with the transition process. The Group has applied the following exemptions: i) Certain classes of property, plant and equipment had been revalued at 1 January 2005. Deemed cost at the date of transition is determined by reference to the revaluation as of 1 January 2005 that was performed at the time of the initial public offering of the Group, adjusted for depreciation for the period until the date of transition and ii) The cumulative translation differences for foreign operations have been deemed to be zero at the date of transition: any gains or losses or subsequent disposals of foreign operations will not therefore include translation differences arising prior to the transition date.

Reconciliations to the previous GAAP for equity as at the date of transition and the profit and loss account for previous periods are not presented as the Group has not previously reported consolidated financial statements.

The consolidated financial information is presented in US dollars ($) and all values are rounded to the nearest thousand ($000) except when otherwise indicated.

(b) Standards, interpretations and amendments to existing standards that are not yet effective and have not been adopted early by the Group

Certain new standards, amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2009 or later periods but which the Group has not adopted early. Those that are applicable to the Group are as follows:

- *IFRS 8 'Operating Segments'* is applicable for annual periods beginning on or after 1 January 2009. This standard introduces the "management approach" to segment reporting. IFRS 8, which becomes mandatory for the Group's 2009 financial information, will require the disclosure of segment information based on the internal reports regularly reviewed by the Group's Chief Operating Decision Maker in order to assess each segment's performance and to allocate resources to them. The adoption of this standard will not have any effect on the financial performance or position of the Group but is expected to give rise to additional disclosures.
- *IAS 23 Amendment, 'Borrowing Costs (revised in March 2007)'*, applicable for annual periods beginning on or after 1 January 2009. IAS 23 (Revised) have removed the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalise borrowing costs as part of the cost of such assets. The revised standard applies to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009. Management does not expect this amendment to impact the Group, as the Group's current policy is to capitalise borrowing costs on qualifying assets.
- *IFRS 3 (Revised) 'Business Combinations' and IAS 27 (Revised) 'Consolidated and Separate Financial Statements'*, issued in January 2008 and becomes effective for financial years beginning on or after 1 July 2009. IFRS 3R introduces a number of changes in the accounting for business combinations occurring after this date and will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. IAS 27R requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as an equity transaction. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by partially-owned subsidiaries as well as the loss of control of a subsidiary. Other consequential amendments were made to IAS 7 *'Statement of Cash Flows'*, IAS 12 *'Income Taxes'*, IAS 21 *'The Effects of Changes in Foreign Exchange Rates'*, IAS 28 *'Investment in Associates'* and IAS 31 *'Interests in Joint Ventures'*. The changes to IFRS 3R and IAS 27R will affect future acquisitions or loss of control and transactions with minority interests. The standards may be early applied. However, the Company does not intend to take advantage of this possibility.
- *IAS 1 (Revised) 'Presentation of Financial Statements'*, issued in September 2007 and becomes effective for financial years beginning on or after 1 January 2009. The Standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Company is still evaluating whether it will have one or two statements.

The Group anticipates adopting each of these standards, interpretations and amendments from their respective effective dates.

Those new standards, amendments and interpretations not yet effective and not applicable to the Group are as follows:

- *IFRS 2 (Amendment) 'Share-based Payment'*, effective for annual periods beginning on or after January 1, 2009, clarifies that only service conditions and performance conditions are vesting conditions, and other features of a share-based payment are not vesting conditions. In addition, it specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. Management does not expect this amendment to impact the Group.
- *IAS 32 (Amendment) 'Financial Instruments: Presentation' and IAS 1 (Amendment) 'Presentation of Financial Statements' – 'Puttable Financial Instruments and Obligations Arising on Liquidation'*, both effective for annual periods beginning on or after January 1, 2009, require entities to classify as equity certain financial instruments provided certain criteria are met. The instruments to be classified as equity are puttable financial instruments and those instruments that impose an obligation on the entity to deliver to another party a pro rata share of the net assets of the entity only on liquidation. Management does not expect this amendment to impact the Group.
- *IFRIC 13 'Customer Loyalty Programmes'*, effective for annual periods beginning on or after July 1, 2008. IFRIC 13 addresses accounting by entities that operate or otherwise participate in customer loyalty programmes for their customers. IFRIC 13 applies to sales transactions in which the entities grant their customers award credits that, subject to meeting any further qualifying conditions, the customers can redeem in the future for free or discounted goods or services. The interpretation requires that an entity recognises credits that it awards to customers as a separately identifiable component of revenue, which would be deferred at the date of the initial sale. IFRIC 13 will become mandatory for the Group's consolidated financial statements beginning April 1, 2009 with earlier application permitted. Management does not expect this amendment to impact the Group.
- *IAS 39 'Financial instruments: Recognition and measurement – Eligible Hedged Items'*, issued in August 2008 and become effective for financial years beginning on or after 1 July 2009. The amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. The Group has concluded that the amendment will have no impact on the financial position or performance of the Group.

- *IFRIC 15 'Agreement for the Construction of Real Estate'*, IFRIC 15 was issued in July 2008 and becomes effective for financial years beginning on or after 1 January 2009. The interpretation is to be applied retrospectively. It clarifies when and how revenue and related expenses from the sale of a real state unit should be recognised if an agreement between a developer and buyer is reached before the construction of the real estate is completed. Furthermore, the interpretation provides guidance on how to determine whether an agreement is within the scope of IAS 11 or IAS 18. IFRIC 15 will not have an impact on the consolidated financial statement because the Group does not conduct such activity.
- *IFRIC 16 'Hedges of a Net Investment in a Foreign Operation'*, issued in July 2008 and becomes effective for financial years beginning on or after 1 October 2008. The interpretation is to be applied prospectively. IFRIC 16 provides guidance on the accounting for a hedge of a net investment. As such it provides guidance on identifying the foreign currency risks that qualify for hedge accounting in the hedge of a net investment, where within the group the hedging instruments can be held in the hedge of a net investment and how an entity should determine the amount of foreign currency gain or loss, relating to both the net investment and the hedging instrument, to be recycled on the disposal of the net investment. The Group has concluded that the amendment will have no impact on the financial position or performance of the Group.
- *IFRIC 17 'Distribution of Non-cash Assets to Owners'*, issued in November 2008 and becomes effective for financial years beginning on or after 1 July 2009. IFRIC 17 clarifies that a dividend payable should be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity. It also clarifies that an entity should measure the dividend payable at the fair value of the net assets to be distributed and that an entity should recognise the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss. The Group has concluded that the amendment will have no impact on the financial position or performance of the Group.
- *IFRS 1 'First-time Adoption of International Financial Reporting Standards' and IAS 27 'Consolidated and Separate Financial Statements'*, The amendments to IFRS 1 allows an entity to determine the cost´ of investment in subsidiaries, jointly controlled entities or associates in its opening IFRS financial statements in accordance with IAS 27 or using a deemed cost. The amendment to IAS requires all dividends from subsidiary, jointly controlled entity or associate to be recognised in the income statement. Both revisions will be effective for financial years beginning on or after 1 January 2009. The revision to IAS 27 will have to be applied prospectively. The new requirements affect only the parent´s separate financial statement and do not have an impact on the consolidated financial statements.

(c) Significant accounting judgements, estimates and assumptions

Many of the amounts included in the consolidated financial information involve the use of judgement and/or estimation. These judgements and estimates are based on management's best knowledge of the relevant facts and circumstances, with regard to prior experience, but actual results may differ from the amounts included in the consolidated financial information. Information about such judgements and estimates is contained in the accounting policies and/or the notes to the consolidated financial information.

Judgements

Areas of judgement, apart from those involving estimations, that have the most significant effect on the amounts recognised in the consolidated financial information are:

- Determination of functional currencies – note 2(e)
  The determination of functional currency requires management judgment, particularly where there may be several currencies in which transactions are undertaken and which impact the economic environment in which the entity operates.

Estimates and assumptions

Significant areas of estimation uncertainty considered by management in preparing the consolidated financial information include:

- Determination of useful lives of assets for depreciation and amortisation purposes – note 2(f) and note 13.
  Estimates are required to be made by management as to the useful lives of assets. For depreciation calculated under the unit-of –production method, estimated recoverable reserves are used in determining the depreciation and/or amortisation of mine specific assets. This results in a depreciation / amortisation charge proportional to the depletion of the anticipated remaining life of mine production. Each item's life, which is assessed annually, has regard to both its physical life limitations and to present assessments of economically recoverable reserves of the mine property at which the asset is located. These calculations require the use of estimates and assumptions, including the amount of recoverable reserves. Changes are accounted for prospectively.

- Determination of ore reserves – note 2(g):
  Ore reserves are estimates of the amount of ore that can be economically and legally extracted from the Group's mining properties. The Group estimates its ore reserves and mineral resources based on information compiled by appropriately qualified persons relating to the geological data on the size, depth and shape of the ore body, and requires complex geological judgements to interpret the data. The estimation of recoverable reserves is based upon factors such as estimates of foreign exchange rates, commodity prices, future capital requirements, and production costs along with geological assumptions and judgements made in estimating the size and grade of the ore body. Changes in the reserve or resource estimates may impact upon the carrying value of exploration and evaluation assets, mine properties, property, plant & equipment, goodwill, provision for rehabilitation, recognition of deferred tax assets, and depreciation and amortisation charges.

- Impairment of assets – note 2(h);
  The Group assesses each cash generating unit annually to determine whether any indication of impairment exists. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs to sell and value in use. These assessments require the use of estimates and assumptions such as long-term commodity prices, discount rates, future capital requirements, exploration potential and operating performance. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. Fair value for mineral assets is generally determined as the present value of estimated future cash flows arising from the continued use of the asset, which includes estimates such as the cost of future expansion plans and eventual disposal, using assumptions that an independent market participant may take into account. Cash flows are discounted by an appropriate discount rate to determine the net present value. Management has assessed its cash generating units as being an individual mine site, which is the lowest level for which cash flows are largely independent of other assets.

- Impairment of available-for-sale assets – note 2(j) and 14:
  The Company classifies certain financial assets as available-for-sale and recognises movements in their fair value in equity. When the fair value declines, management makes assumptions about the decline in value to determine whether it is an impairment that should be recognised in profit or loss. At 31 December 2008 impairment losses of $4.9m have been recognised relating to the available-for-sale assets (2007: US$nil);

- Estimation of the amount and timing of mine closure costs – notes 2(m) and 22
  The consolidated entity assesses its mine rehabilitation provision annually. Significant estimates and assumptions are made in determining the provision for mine rehabilitation as there are numerous factors that will affect the ultimate liability payable. These factors include estimates of the extent and costs of rehabilitation activities, technological changes, regulatory changes, cost increases, and changes in discount rates. Those uncertainties may result in future actual expenditure differing from the amounts currently provided. The provision at balance date represents management's best estimate of the present value of the future rehabilitation costs required. Changes to estimated future costs are recognised in the balance sheet by adjusting the rehabilitation asset and liability. If, for mature mines, the revised mine assets net of rehabilitation provisions exceeds the carrying value, that portion of the increase is charged directly to expense. For closed sites, changes to estimated costs are recognised immediately in the income statement.

- Pension and post-employment benefit valuation assumptions – notes 2(o) and 23:
  For defined benefit schemes, management is required to make assumptions regarding the future returns on plan assets, future remuneration structures, employee turnover, inflation rates and exchange rates. Changes to these assumptions may change the accounting treatment and the amounts charged to the income statement.

- Income tax – notes 2(v) and 11;
  Judgement is required in determining whether deferred tax assets are recognised on the balance sheet. Deferred tax assets, including those arising from un-utilised tax losses require management to assess the likelihood that the Group will generate taxable earnings in future periods, in order to utilise recognised deferred tax assets. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Group to realise the net deferred tax assets recorded at the balance sheet date could be impacted.

- Silverstream
  The valuation of the Silverstream contract as a derivative financial instrument requires significant estimation by management. The derivative has a term of over 20 years and the value of this derivative is determined using a number of estimates, including the reserves and resources and future production profile of the Sabinas mine, the estimated recoveries of silver from ore mined, estimates of the future price of silver and the discount rate used to discount future cash flows. The fair value of this contract is $318.0 million as at 31 December 2008 and changes in these assumptions may change this value. For further detail of this arrangement, see note 15. The impact of changes in silver price assumptions and the discount rate is included in note 32.

- Valuation of derivative financial instruments – notes 2(x) and 31:
  Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are valued using valuation approaches and methodologies applicable to the specific type of derivative instrument; and

- Contingent liabilities regarding claims from tax authorities – note 27(b)
  By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.

(d) Basis of consolidation

The consolidated financial statements set out the Group's financial position as of 31 December 2008, and operations and cash flows for the year then ended.

Entities that constitute the Group are those enterprises controlled by the Group regardless of the amount of shares owned by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Entities are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group.

The consolidated financial information of the entities that constitute the Group has been prepared for the years ended 31 December 2008 and 2007 using consistent accounting policies. All intra-group balances, transactions, income and expenses and profits and losses, including unrealised profits arising from intra-group transactions, have been eliminated on consolidation. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

Minority interests represent the portion of profit and loss and net assets not held by the Group and are presented in the income statement and within equity in the consolidated balance sheet, separately from amounts attributable to the equity shareholders of the Group. These interests primarily represent the interests in Minera Penmont, S. de R.L. de C.V., Minera El Bermejal, S. de R.L. de C.V. and Minera Juanicipio, S.A. de C.V. not held by the Group. In the event of a purchase of minority shareholders' interest when the Group holds the majority of shares of a subsidiary, any excess over the Group's share of net assets is recorded in retained earnings in equity.

(e) Foreign currency translation

The Group's consolidated financial statements are presented in US dollars, which is the parent company's functional currency. The functional currency for each entity in the Group is determined by the currency of the primary economic environment in which it operates. For all operating entities, this is US dollars. During the year the functional currency of the parent company changed to US dollars as a result of changes in the transactions undertaken by the parent company following the IPO.

Transactions denominated in currencies other than the functional currency of the entity are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rate of exchange ruling at the balance sheet date. All differences that arise are recorded in the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated into dollars using the exchange rate at the date when the fair value is determined.

For entities with functional currencies other than US dollars, as at the reporting date, assets and liabilities are translated into the reporting currency of the Group by applying the exchange rate at the balance sheet date and the income statement is translated at the average exchange rate for the year. The resulting difference on exchange is included as a cumulative translation adjustment in equity. On disposal of an entity, the deferred cumulative amount recognised in equity relating to that operation is recognised in the income statement.

(f) Property, plant and equipment

Property, plant and equipment is stated at cost or deemed cost less accumulated depreciation and impairment in value. Cost comprises its purchase price and any costs directly attributable to bringing it into working condition for its intended use. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads. For certain assets, the cost or deemed cost of property, plant and equipment (hereafter referred to as "cost") at 1 January 2007, the date of the Group's transition to IFRS, was determined by reference to the revalued amounts as at 1 January 2005, as prepared for the purposes of the initial public offering of the Group, then depreciated for the period until the date of the transition. Economical and physical conditions of these assets had not changed substantially over this period.

The cost less its residual value of each item of property, plant and equipment is depreciated over its useful life. Each item's estimated useful life has been assessed with regard to both its own physical life limitations and the present assessment of economically recoverable reserves of the mine property at which the item is located. Estimates of remaining useful lives are made on a regular basis for all mine buildings, machinery and equipment, with annual reassessments for major items. Depreciation is charged to cost of sales on a unit of production (UOP) basis for mine buildings and installations, plant and equipment used in the mining production process or on a straight line basis over the estimated useful life of the individual asset when not related to the mining production process. Changes in estimates, which mainly affect unit of production calculations, are accounted for prospectively. Depreciation commences when assets are available for use. Land is not depreciated.

The expected useful lives are as follows:

	Years
Buildings	5-12
Plant and equipment	4-11
Mining concessions and mine development costs	3-9
Other assets	2-7

An item of property, plant and equipment is de-recognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising at de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year that the asset is de-recognised.

Non-current assets or disposal groups are classified as held for sale when it is expected that the carrying amount of the asset will be recovered principally through sale rather than through continuing use. Assets are not depreciated when classified as held for sale.

Disposal of assets

Gains or losses from the disposal of assets are recognised in the income statement when all significant risks and rewards of ownership are transferred to the customer, usually when title has been passed.

Mineral properties and mine development costs

Payments for mining concessions are expensed during the exploration phase of a prospect and capitalised during the development of the project when incurred.

Purchased mineral reserves and mineral resources are recognised as assets at their cost of acquisition or at fair value if purchased as part of a business combination.

Mining concessions, when capitalised, are amortised on a straight line basis over the period of time in which benefits are expected to be obtained from that specific concession.

Expenditure on mine development is capitalised as part of property, plant and equipment. Mine development activities commence once commercial reserves are identified and the relevant project is sanctioned. Upon commencement of production, capitalised expenditure is depreciated using the unit of production method based on the estimated economically proven and probable reserves to which they relate.

Construction in progress

Assets in the course of construction are capitalised as a separate component of property, plant and equipment. On completion, the cost of construction is transferred to the appropriate category of property, plant and equipment. Construction in progress is not depreciated.

Subsequent expenditures

All subsequent expenditure on property, plant and equipment is capitalised if it meets the recognition criteria, and the carrying amount of those parts that are replaced is derecognised. All other expenditure including repairs and maintenance expenditures are recognised in the income statement as incurred.

Stripping costs

In open pit mining operations, it is necessary to remove overburden and other waste in order to access the ore body. During development and pre-production phases, these costs are capitalised as part of the initial mine investment and they are depreciated based on the mine's production once commercial operations begin.

Removal of waste material normally continues throughout the life of a mine. This activity is referred to as production stripping and commences at the time that saleable material begins to be extracted from the mine. The costs of production stripping are charged to the income statement as operating costs.

Further development of a mine may occur following initial extraction of saleable material and during the production phase. Stripping costs associated with such development activities are capitalised and depreciated based on the related production.

(g) Determination of ore reserves

The Group estimates its ore reserves and mineral resources based on information compiled by internal competent persons in conformity with the Joint Ore Reserves Committee (JORC) code. Reports to support these estimates are prepared each year. An independent competent person has verified the reasonableness of these reports as at 31 December 2008.

Reserves are used in the unit of production calculation for depreciation, the determination of the timing of mine closure and for determining value in use for any impairment analysis.

There are numerous uncertainties inherent in estimating ore reserves. Assumptions that are valid at the time of estimation may change significantly when new information becomes available. Changes in the forecast prices of commodities, exchange rates, production costs or recovery rates may change the economic status of reserves and may, ultimately, result in the reserves being restated.

(h) Impairment of non-financial assets

The carrying amounts of assets are reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable. At each reporting date, an assessment is made to determine whether there are any indications of impairment. If there are indicators of impairment, an exercise is undertaken to determine whether the carrying values are in excess of their recoverable amount. Such reviews are undertaken on an asset by asset basis, except where such assets do not generate cash flows independent of those from other assets or groups of assets, and then the review is undertaken at the cash generating unit level.

If the carrying amount of an asset or its cash generating unit exceeds the recoverable amount, a provision is recorded to reflect the asset at the recoverable amount in the balance sheet. Impairment losses are recognised in the income statement.

Calculation of recoverable amount

The recoverable amount of assets is the greater of their value in use and fair value less costs to sell. Fair value is based on an estimate of the amount that the Group may obtain in a sale transaction on an arm's length basis. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independently of those from other assets, or groups of assets, the recoverable amount is determined for the cash generating unit to which the asset belongs. The Group's cash generating units are the smallest identifiable groups of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Reversal of impairment

An assessment is made each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the Group makes an estimate of the recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in estimates used to determine the asset's recoverable amount since the impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to the recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised in previous years. Such impairment loss reversal is recognised in the income statement.

(i) Financial assets

Financial assets are recognised when the Group becomes party to the contracts that give rise to them and are classified as financial assets at fair value through profit or loss; loans and receivables; held-to maturity investments; or as available-for-sale financial assets, as appropriate. The Group determines the classification of its financial assets at initial recognition and re-evaluates this designation at each financial year-end. When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Financial assets at fair value through profit or loss

Financial assets classified as held for trading and other assets designated as such on inception are included in this category. Financial assets are classified as held for trading if they are acquired for sale in the short term. Derivatives are also classified as held for trading unless they are designated as hedging instruments. Financial assets at fair value through profit or loss are carried in the balance sheet at fair value with gains or losses recognised in the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, do not qualify as trading assets and have not been designated as either fair value through profit and loss or available-for-sale.

After initial measurement such assets are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Gains and losses are recognised in income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Current trade receivables are carried at the original invoice amount less provision made for impairment of these receivables. Long-term receivables are stated at amortised cost.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as such or are not classified in any of the preceding categories and are not held-to-maturity investments.

Available-for-sale financial assets represent investments that have a quoted market price in an active market, therefore a fair value can be reliably measured. After initial measurement, available for sale assets are measured at fair value with unrealised gains or losses being recognised as a separate component of equity.

Fair value

In determining estimated fair value, investments in shares or portfolios of listed securities are valued at quoted bid prices. When quoted prices on an active market are not available (and for listed non-actively traded securities), fair value is determined using a valuation technique. Valuation techniques include using a recent arm's length transaction, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If the range of reasonable fair value is significant and the probabilities of the various estimates cannot be reliably assessed, the investment is not re-measured at fair value.

(j) Impairment of financial assets

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss is recognised in profit or loss.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Available-for-sale financial investments

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. In assessing whether there is an impairment, the Group considers whether a decline in fair value is either significant or prolonged, by considering the size of the decline in this value and the historic volatility in changes in fair value. Reversals in respect of equity instruments classified as available-for-sale are not recognised in the income statement. Reversals of impairment losses on debt instruments are reversed through the income statement if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in the income statement.

(k) Inventories

Inventories are measured at the lower of cost and net realisable value. Cost is determined using the weighted average cost method. The cost of work in progress and finished goods (ore inventories) is based on cost of production and excludes borrowing costs.

For this purpose, the costs of production include:

- personnel expenses, which include employee profit sharing, materials and contractor expenses which are directly attributable to the extraction and processing of ore;

- the depreciation of property, plant and equipment used in the extraction and processing of ore; and

- related production overheads (based on normal operating capacity).

Net realisable value is the estimated selling price in the ordinary course of business less any further costs expected to be incurred to completion and disposal.

(l) Cash and cash equivalents

For the purposes of the balance sheet, cash and cash equivalents comprise cash at bank, cash on hand and short-term deposits held with banks that are readily convertible into known amounts of cash and which are subject to insignificant risk of changes in value. Short-term deposits earn interest at the respective short-term deposit rates between one day and three months.

For the purposes of the cash flow statement, cash and cash equivalents as defined above are shown net of outstanding bank overdrafts.

(m) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Mine closure cost

A provision for mine closure cost is made in respect of the estimated future costs of closure and restoration and for environmental rehabilitation costs (which include the dismantling and demolition of infrastructure, removal of residual materials and remediation of disturbed areas) based on a mine closure plan, in the accounting period when the related environmental disturbance occurs. The provision is discounted and the unwinding of the discount is included in finance costs. At the time of establishing the provision, a corresponding asset is capitalised where it gives rise to a future economic benefit and depreciated over future production from the mine to which it relates. The provision is reviewed on an annual basis by the Group for changes in cost estimates, discount rates or life of operations.

Other

Other provisions are accounted for when the Group has a legal or constructive obligation for which it is probable there will be an outflow of resources for which the amount can be reliably estimated.

(n) Financial liabilities

The Group recognises financial liabilities on its balance sheet when, and only when, it becomes a party to the contractual provisions of the instrument. Financial liabilities are initially recognised at the fair value of the consideration received, including any transaction costs incurred.

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Interest bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

(o) Employee benefits

The Group operates the following plans:

Defined benefit pension plan

This funded plan is based on each employee's earnings and years of service. This plan was open to all employees in Mexico and it is denominated in Mexican Pesos. This plan was closed to new entrants on 1 July 2007. For members as at 30 June 2007, benefits were frozen at that date subject to indexation with reference to the Mexican National Consumer Price Index (NCPI).

The cost of providing benefits under the defined benefit plan is determined using the projected unit credit actuarial valuation method and prepared by an independent actuarial firm as at each year end balance sheet date. The discount rate is the yield on mxAAA (Standard & Poors) and AAA-mex (Fitch Ibca) credit-rated bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid. Actuarial gains and losses are recognised as income or expense in the period in which they occur.

Past service costs are recognised as an expense on a straight line basis over the average period until the benefits become vested. If the benefits have already vested following the introduction of, or changes to, a pension plan, the past service cost is recognised immediately.

The defined benefit asset or liability comprises the present value of the defined benefit obligation less the fair value of plan assets out of which the obligations are to be settled directly. The value of any asset is restricted to the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

Defined contribution pension plan

A defined contribution plan is a post-employment benefit plan under which the Group pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in profit or loss when they are due. The contributions are based on the employee's salary.

This plan started on 1 July 2007 and it is voluntary for all employees to join this scheme.

Seniority premium for voluntary separation

This unfunded plan corresponds to an additional payment over the legal seniority premium equivalent to approximately 12 days of salary per year for those unionised workers who have more than 15 years of service. Non-unionised employees with more than 15 years of service have the right to a payment equivalent to 12 days for each year of service. For both cases, the payment is based on the legal current minimum salary.

The cost of providing benefits for the seniority premium for voluntary separation is determined using the projected unit credit actuarial valuation method and prepared by an independent actuarial firm as at each year end balance sheet date. Actuarial gains and losses are recognised as income or expense in the period in which they occur.

Other

Benefits for death and disability are covered through insurance policies.

Termination payments for involuntary retirement (dismissals) are charged to the income statement, when incurred.

(p) Employee profit sharing

In accordance with local legislation, companies in Mexico must provide for employee profit sharing equivalent to ten percent of the taxable income of each year. This amount is charged to the income statement and is considered deductible for income tax purposes.

(q) Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date including whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

a. There is a change in contractual terms, other than a renewal or extension of the arrangement;

b. A renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;

c. There is a change in the determination of whether fulfilment is dependent on a specified asset; or

d. There is a substantial change to the asset.

Group as a lessee

Finance leases which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property, or if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are reflected in the income statement.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expense in the income statement on a straight line basis over the lease term.

Group as a lessor

Leases where the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Where a reassessment is made, lease accounting commences or ceases from the date when the change in circumstances gave rise to the reassessment for scenarios a), c) or d) and at the date of renewal or extension period for scenario b) above.

For arrangements entered into prior to 1 January 2005, the date of inception is deemed to be 1 January 2007, in accordance with the transitional requirements of IFRIC 4.

(r) Contingencies

Contingent liabilities are not recognised in the consolidated financial information and are disclosed in notes unless their occurrence is remote.

Contingent assets are not recognised in the consolidated financial information, but they are disclosed in notes if they are deemed probable.

(s) Revenue recognition

Revenue is recognised to the extent that it is probable that economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of consideration received excluding discounts, rebates, and other sales taxes.

Sale of goods

Revenue is recognised in the income statement when all significant risks and rewards of ownership are transferred to the customer, usually when title has been passed. Revenue excludes any applicable sales taxes.

The Group recognises revenue on a provisional basis at the time concentrates, precipitates and doré bars are delivered to the customer's smelter or refinery, using the Group's best estimate of contained metal. Revenue is subject to adjustment once the analysis of the product samples is completed, contract conditions have been fulfilled and final settlement terms are agreed. Any subsequent adjustments to the initial estimate of metal content are recorded in revenue once they have been determined.

In addition, sales of concentrates and precipitates throughout each calendar month, as well as doré bars that are delivered after the 20th day of each month, are "provisionally priced" subject to a final adjustment based on the average price for the month following the delivery to the customer, based on the market price at the relevant quotation point stipulated in the contract. Doré bars that are delivered in the first 20 days of each month are finally priced in the month of delivery.

For sales of goods that are subject to provisional pricing, revenue is initially recognised when the conditions set out above have been met using the provisional price. The price exposure is considered to be an embedded derivative and hence separated from the sales contract. At each reporting date the provisionally priced metal is revalued based on the forward selling price for the quotational period stipulated in the contract until the quotation period ends. The selling price of the metals can be reliably measured as these are actively traded on international exchanges. The revaluing of provisionally priced contracts is recorded as an adjustment to revenue.

Royalties

Income derived from royalties is recognised only at the time when it is probable that the amounts related to certain rights will be received. Currently the Group receives royalties based on a percentage of the sales of concentrates from the El Cedro, Peregrina and Sirena small scale mines rented to a third party.

Rental income

Rental income arising from operating leases on a small scale mine rented to a third party is accounted for on a straight line basis over the lease term.

Interest income

Interest income is recognised as interest accrues (using the effective interest method; i.e., the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset).

Dividend income

Dividend income is recognised when the Group´s right to receive the payment is established.

(t) Exploration expenses

Exploration activity involves the search for mineral resources, the determination of technical feasibility and the assessment of commercial viability of an identified resource.

Exploration expenses are charged to the income statement as incurred and are recorded in the following captions:

(i) Cost of sales- costs relating to in-mine exploration, that ensure continuous extraction quality and extend mine life, and

(ii) Exploration expenses:

a. Costs incurred in geographical proximity to existing mines in order to replenish or increase reserves, and

b. Costs incurred in regional exploration with the objective of locating new ore deposits in Mexico and Latin America and which are identified by project. These exploration expenses, which include exploratory drilling, sample testing and pre-feasibility studies, are charged to the income statement until the mineral reserves of that specific project are economically recoverable.

(u) Finance income and costs

Finance income and costs comprise interest expense on borrowings, interest income on funds invested and gains and losses from the change in fair value of derivative instruments.

Interest income and costs are recognised as accrued, taking into account the effective yield on the asset or liability.

(v) Income tax

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences, except:

(i) where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of transaction, affects neither the accounting profit nor taxable profit loss; and

(ii) in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

(i) where the deferred income tax asset relating to deductible temporary differences arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

(ii) in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

(w) Derecognition of financial assets and liabilities

A financial asset or liability is generally derecognised when the contract that gives rise to it is settled, sold, cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, such that the difference in the respective carrying amounts together with any costs or fees incurred are recognised in profit or loss.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in the income statement.

(x) Derivative financial instruments and hedging

The Group uses derivatives to reduce certain market risks derived from changes in prices of base metals and foreign exchange which impact its financial and business transactions. Hedges are designed to protect the value of expected production against the dynamic market conditions. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains and losses arising from changes in fair value on derivatives during the year that do not qualify for hedge accounting are taken directly to the income statement.

Derivatives are valued using valuation approaches and methodologies (such as Black Scholes and Net Present Value) applicable to the specific type of derivative instrument. The fair value of forward currency and commodity contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The Silverstream contract is valued using a net present value valuation approach.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for the undertaken hedge. The documentation includes identification of the hedging instrument, the hedge item or transaction, the nature of the risk being hedged and how the entity will asses the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated. Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

Cash flow hedges

For derivatives that are designated and qualify as cash flow hedges, the effective portion of changes in the fair value of derivative instruments are recorded as a component of equity and are transferred to the income statement when the hedged transaction affects profit or loss, such as when a forecast sale or purchase occurs. For gains and losses related to the hedging of revenues, these are included as part of revenues and for those related to the hedging of foreign exchange risk, in the line item in which the hedged costs are reflected. Where the hedged item is the cost of a non-financial asset or liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability. The ineffective portion of changes in the fair value of cash flow hedges is recognised in the income statement of the related period.

If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, any cumulative gain or loss recognised directly in equity from the period that the hedge was effective remains separately in equity until the forecast transaction occurs, when it is recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Embedded derivatives

Contracts are assessed for the existence of embedded derivatives at the date that the Group first becomes party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. Embedded derivatives which are not clearly and closely related to the underlying asset, liability or transaction are separated and accounted for as stand alone derivatives.

(y) Dividend distribution

Dividends payable to the Company's shareholders and the minority shareholders in Company's subsidiaries are recognised as a liability when these are approved by the Company's shareholders and Company's subsidiaries respectively.

(z) Value added tax

Revenues, expenses and assets are recognised net of the amount of value added tax

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

(za) Borrowing costs

Finance costs are generally expensed as incurred except where they relate to the financing of construction or development of qualifying assets requiring a substantial period of time to prepare for their intended future use.

In the case of such qualifying assets, finance costs are capitalised up to the date when the asset is ready for its intended use. The amount of finance costs capitalised (before the effects of income tax) for the period is determined by applying the interest rate applicable to appropriate borrowings outstanding during the period to the average amount of accumulated expenditure for the assets during the period.

3 SEGMENT REPORTING

The Group's activities are principally related to mining operations which involve the beneficiation of non-ferrous minerals and the sale of related production. The primary contents of this production are silver, gold, lead and zinc. Products are subject to the same risks and returns and are sold through the same distribution channels. As such, the Group has only one business segment as its primary reporting segment. The Group operates primarily in Mexico. During the period certain minor exploration activities were also undertaken in Latin America.

4 REVENUES

Revenues reflect the sale of goods, being concentrates, doré, slag, and precipitates of which the primary contents are silver, gold, lead and zinc [(1)].

a) Revenues by product sold

	Year ended 31 December 2008	2007
	(in thousands of US dollars)	
Lead concentrates (containing silver, gold, lead and by-products)	529,283	496,545
Doré and slag (containing gold, silver and by-products)	192,509	140,842
Zinc concentrates	28,131	60,084
Precipitates	16,162	13,880
Effects of hedging	(45,602)	(63,411)
	720,483	**647,940**

Throughout 2007 and 2008 all lead concentrates, precipitates doré and slag, were sold to Peñoles' metallurgical complex for smelting and refining.

(1) Included in the value of lead and zinc concentrates, precipitates and doré are provisional price adjustments which represent changes in the fair value of embedded derivatives. In 2008 the Group has recognised a loss of US$18.2 million (2007: US$8.6 gain). For further detail refer to note 2(s).

b) Value of metal content in products sold

Invoiced revenues are derived from the value of the metal content of products sold adjusted by treatment and refining charges incurred by the metallurgical complex of the customer. The value of the metal content of the products sold, before treatment and refining charges is as follows:

	Year ended 31 December 2008	2007
	(in thousands of US dollars)	
Silver[1]	460,031	399,242
Gold[2]	276,963	224,803
Zinc	26,725	58,467
Lead	30,286	39,767
Value of metal content in products sold	794,005	722,279
Adjustment for treatment and refining charges	(73,522)	(74,339)
Total revenues[3]	720,483	647,940

(1) Includes hedging losses of US$19.0 million in 2008 and US$39.7 million in 2007.

(2) Includes hedging losses of US$26.6 million in 2008; US$23.7 million in 2007.

(3) Included in the value of lead and zinc concentrates, precipitates and doré are provisional price adjustments which represent changes in the fair value of embedded derivatives. In 2008 the Group has recognised a loss of US$18.2 million (2007: US$8.6 million gain).

The average realised prices for the gold and silver content of products sold, including the effects of hedging but prior to the deduction of treatment and refining charges, were:

	Year ended 31 December 2008	2007
	(in US dollars per ounce)	
Gold	879.31	710.21
Silver	14.71	13.56

5 COST OF SALES

	Year ended 31 December	
	2008	**2007**
	(in thousands of US dollars)	
Depreciation (note 13)	51,906	49,873
Personnel expenses (note 8)	59,986	44,715
Maintenance and repairs	41,326	41,347
Operating materials	50,363	35,350
Energy	37,800	26,958
Contractors	32,701	23,635
Freight	7,313	5,891
Mining rights and contributions	5,016	5,253
Change in work in progress and finished goods (ore inventories)	3,466	(2,025)
Other	9,995	9,058
	299,872	**240,055**

6 ADMINISTRATIVE EXPENSES

	Year ended 31 December	
	2008	**2007**
	(in thousands of US dollars)	
Administrative expenses charged by Peñoles Group:		
Trademark royalties[1]	31,232	66,890
Administrative services[2]	43,081	61,022
	74,313	127,912
Personnel expenses (note 8)	5,272	-
Other administrative expenses	2,094	533
	81,679	**128,445**

[1] Trademark royalties were those paid to the Peñoles Group, specifically for the use of the Peñoles' trademark name, design and logo. These royalties were charged on a comparable basis to 2007 for the period in 2008 prior to the initial public offering of the Group. Following Admission on 14 May 2008, trademark royalties are no longer payable to Peñoles.

[2] Prior to Admission, administrative services were charged by the Peñoles Group for administration, management and other services including, but not limited to, IT, management information, accounting and financial reporting, treasury, taxation, employee benefit administration, payroll and professional services, engineering and construction, research and development and central workshop services. These charges were charged on a comparable basis to 2007 for the period in 2008 prior to the initial public offering of the Group. Following Admission, certain services, comprising administrative services and non-administrative services, are being provided by Servicios Industriales Peñoles S.A. de C.V. ("SIPSA") to the Group. These services are to be provided to the Group by SIPSA for a initial period of 12 months from the date of Admission for a global fee of US$34 million and the SIPSA Agreement has been extended for a further four months to 31 August 2009.

7 EXPLORATION EXPENSES

	Year ended 31 December	
	2008	**2007**
	(in thousands of US dollars)	
Contractors	32,806	34,542
Administrative services	9,141	7,046
Mining rights and contributions	3,988	3,410
Assays	2,082	2,600
Operating materials	1,316	1,043
Rentals	939	857
Maintenance and repairs	590	259
Energy	575	819
Other	2,046	1,443
	53,483	**52,019**

These exploration expenses were mainly incurred in increasing the reserves and mine life of the Fresnillo, Herradura and Ciénega mines, as well as further exploring the Juanicipio and El Saucito gold – silver projects in Mexico. Minor exploration expenses of US$1.9 million were incurred in the year ended 31 December 2008 elsewhere in Latin America (year ended 31 December 2007: US$2.3 million).

The following table sets forth liabilities (generally payables) incurred in the exploration activities of the Group companies engaged only in exploration, principally Exploraciones Mineras Parreña, S.A. de C.V. Liabilities related to exploration activities incurred by the Group operating companies are not included since it is not possible to separate the liabilities related to exploration activities of these companies from their operating liabilities.

	Year ended 31 December	
	2008	**2007**
	(in thousands of US dollars)	
Liabilities related to exploration activities	154	1,236

Cash flows of exploration activities are as follows:

	Year ended 31 December	
	2008	**2007**
	(in thousands of US dollars)	
Operating cash flows	54,565	51,495

8 PERSONNEL EXPENSES

	Year ended 31 December	
	2008	**2007**
	(in thousands of US dollars)	
Employees' profit sharing	21,188	15,878
Salaries and wages	16,872	13,529
Bonuses	7,458	6,195
Legal contributions	6,777	5,976
Other benefits	4,224	2,811
Vacations and vacations bonus	2,544	1,757
Social security	1,966	1,511
Post-employment benefits (note 23)	2,618	(3,765)
Other	1,676	823
	65,323	**44,715**

a) Personnel expenses are distributed in the following line items:

	Year ended 31 December	
	2008	**2007**
	(in thousands of US dollars)	
Cost of sales	59,986	44,715
Exploration expenses	65	-
Administrative expenses	5,272	-
	65,323	**44,715**

b) The monthly average number of employees during the year was as follows:

	Year ended 31 December	
	2008	**2007**
	No.	No.
Mining	1,083	1,037
Plant concentration	245	231
Exploration	131	48
Maintenance	325	298
Administration and other	220	161
Total	**2,004**	**1,775**

9 OTHER INCOME AND OTHER EXPENSES

	Year ended 31 December 2008	2007
	(in thousands of US dollars)	
Other income:		
Gain on sale of mining assets [(1)]	1,391	3,125
Rentals	1,220	520
Royalties	306	937
Other	2,984	2,403
	5,901	**6,985**

	Year ended 31 December 2008	2007
	(in thousands of US dollars)	
Other expenses:		
Maintenance [(2)]	1,185	846
Donations	870	2,939
Loss on sale of property, plant and equipment and other assets [(3)]	372	5,915
Impairment of available-for-sale financial assets (note 14)	4,936	-
Other	406	97
	7,769	**9,797**

[(1)] In May 2007, Compañía Minera Las Torres, S.A. de C.V., Exploraciones Mineras Parreña, S.A. de C.V. and Química Magna, S.A. de C.V. (a related-party) sold the Bolañitos and Cebada mines (gold and silver mines respectively), located in the State of Guanajuato, to the Canadian mining company Endeavour Silver Corp. (TXS: EDR, AMEX: EXK, DBFrankfurt: EJD). The small-scale Bolañitos and Cebada mines had been shut down in 1999 and later were leased to a third party until the date of their disposal. The fair value of the Endeavour shares received in consideration for the disposal was US$4.3 million. The gain on the sale was US$3.1 million.

In January 2008, Compañia Minera Las Torres sold the La Guitarra mine to La Guitarra Compañia Minera S.A. de C.V. The consideration received was US$1.0 million of cash and shares of Genco Resources LTD with a fair value of US$0.4 million. The gain on the sale was US$1.4 million.

[(2)] Relates to maintenance of closed and leased mines owned by Compañía Minera las Torres, S.A. de C.V.

[(3)] Includes the disposal of assets as a result of replacing equipment due to capacity expansions.

10 FINANCE INCOME AND FINANCE COSTS

	Year ended 31 December 2008	2007
	(in thousands of US dollars)	
Finance income:		
Interest on short term deposits	5,668	1,661
Interest on loans to related parties (note 28)	1,876	14,523
Other	1,317	1,944
	8,861	**18,128**
Finance costs:		
Interest on loans from related parties (note 28)	8,928	1,122
Unwinding of discount on provisions (note 22)	1,185	721
Other	402	586
	10,515	**2,429**

11 INCOME TAX EXPENSE

a) The major components of income tax expense are:

	Year ended 31 December 2008	2007
	(in thousands of US dollars)	
Consolidated income statement:		
Current income tax:		
Current income tax charge	146,762	64,844
Adjustments in respect of current income tax of previous years	(1,619)	1,114
Credit for income tax paid on dividends	(12,559)	(5,534)
	132,584	60,424
Deferred income tax:		
Relating to origination and reversal of temporary differences	(18,007)	14,259
	(18,007)	14,259
Income tax expense reported in the income statement	**114,577**	**74,683**

	Year ended 31 December 2008	2007
	(in thousands of US dollars)	
Consolidated statement of changes in equity:		
Deferred income tax related to items charged or credited directly to equity:		
Cost from issue of ordinary shares of the initial public offering	15,959	-
Recycling of net loss on valuation of cash flow hedges to income	(12,768)	(17,755)
Net loss arising on valuation of cash flow hedges	3,264	6,715
Unrealised loss/(gain) on available-for-sale assets	5,767	(2,001)
Income tax expense reported in equity	**12,222**	**(13,041)**

(b) The following is a reconciliation of the income tax expense at the Group's statutory income rate to income tax expense at the Group's effective income tax rate.

	Year ended 31 December 2008	2007
	(in thousands of US dollars)	
Accounting profit before income tax	267,357	235,698
Tax at the Group's statutory income tax rate 28.0% (2007: 28.0%)	74,860	65,995
Expenses not deductible for tax purposes	364	61
Inflationary uplift of the tax base of assets and liabilities	(4,244)	(2,416)
Tax losses arising in the year not recognised	7,234	5,549
Prior year adjustment	(1,619)	1,114
Tax credit not previously recognised on past dividends	(12,559)	(5,534)
Tax depreciation de-recognised	3,054	6,833
Exchange rate effect on tax value of assets and liabilities	8,010	-
Non-deductible asset disposals	7,062	-
Non-deductible/non-taxable foreign exchange gains or losses	30,891	1,084
Other	1,524	1,997
Tax at the effective income tax rate of 2008: 42.9% (2007: 31.6%)	**114,577**	**74,683**

(c) The movements in the deferred income tax liabilities and assets are as follows:

	Year ended 31 December 2008	2007
	(in thousands of US dollars)	
Beginning balance	(99,623)	(64,575)
Income statement credit/(charge)	18,007	(14,259)
Other	-	(7,698)
Exchange difference	(2,881)	(50)
Unrealised loss/(gain) on available-for-sale financial assets	5,767	(2,001)
Revaluation of derivatives used for cash flow hedges	(9,504)	(11,040)
Ending balance	**(88,234)**	**(99,623)**

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to the same fiscal authority.

The amounts after offset are as follows:

	Year ended 31 December 2008	2007
	(in thousands of US dollars)	
Deferred income tax assets	3,161	-
Deferred income tax liabilities	(91,395)	(99,623)
Ending balance	**(88,234)**	**(99,623)**

The amounts of deferred income tax assets and liabilities before offset as at 31 December 2008 and 2007 considering the nature of the temporary differences, are as follows:

	Year ended 31 December 2008		
	(in thousands of US dollars)		
	ASSETS	LIABILITIES	NET BALANCE
Related party receivables	-	20,098	(20,098)
Other receivables	-	187	(187)
Inventories	5,250	-	5,250
Prepayments	-	364	(364)
Derivative financial instruments including Silverstream contract	-	26,541	(26,541)
Property, plant and equipment	-	93,670	(93,670)
Other payables to related parties	624	-	624
Operating liabilities	1,629	-	1,629
Other payables and provisions	5,306	-	5,306
Losses carried forward	28,084	-	28,084
Post-employement benefits	980	-	980
Deductible profit sharing	4,866	-	4,866
Derivative financial instruments	3,265	-	3,265
Available-for-sale financial assets	3,018	-	3,018
Other	-	396	(396)
Net deferred tax balances	**53,022**	**141,256**	**(88,234)**

	Year ended 31 December 2007		
	(in thousands of US dollars)		
	ASSETS	LIABILITIES	NET BALANCE
Trade receivables	-	6,455	(6,455)
Related party receivables	-	39,484	(39,484)
Other receivables	35	-	35
Inventories	9,066	-	9,066
Prepayments	-	474	(474)
Property, plant and equipment	-	71,129	(71,129)
Operating liabilities	526	-	526
Other payables and provisions	4,002	-	4,002
Post-employment benefits	720	-	720
Losses carried forward	1,409	-	1,409
Deductible profit sharing	6,513	-	6,513
Available-for-sale financial assets	-	4,131	(4,131)
Other	-	221	(221)
Net deferred tax balances	**22,271**	**121,894**	**(99,623)**

Tax losses expire in the following years:

	Year ended 31 December 2008	2007
	(in thousands of US dollars)	
Recognised:		
Expire after five years	100,300	5,032
	100,300	**5,032**
Un-recognised:		
Expire after five years	54,039	34,522
	54,039	**34,522**

Other unrecognised deferred income tax assets comprise:

	Year ended 31 December 2008	2007
	(in thousands of US dollars)	
Income tax credit on dividend paid	-	6,946

The above amounts have not been recognised on the basis that it is not considered that the recoverability is sufficiently certain.

(d) Unrecognised deferred tax on investments in subsidiaries

The Group has not recognised all of the deferred tax liability in respect of distributable reserves of its subsidiaries because it controls them and only part of the temporary differences are expected to reverse in the foreseeable future. The temporary differences for which a deferred tax liability has not been recognised aggregate to US$132.3 million (2007: US$137.0 million).

Business Flat Tax ("impuesto Empresarial a Tasa Unica" or "IETU")

Effective 1 January 2008 a new alternative minimum corporate income tax called the Flat Rate Business Tax was introduced in Mexico to replace the existing business asset tax. From this date companies are required to pay the greater of their mainstream corporate income tax liability for the year or their liability to IETU.

IETU is calculated at the rate of 16.5% for the calendar year 2008, 17% for 2009 and 17.5% for subsequent years and applies to the sale of goods, rendering of independent services and temporary use or enjoyment of goods. In calculating the charge to IETU, deductions are allowed for certain expenses incurred in generating income.

In respect of the Group, management has undertaken calculations to determine the impact of the new IETU provisions on the Group. As a result of such analysis, management has concluded that there should be no material impact on the Consolidated Group, since in all instances, the mainstream corporate income tax liability for each group company is forecast to be greater than the future potential IETU charge. Accordingly, no IETU liability should arise in the foreseeable future.

12 EARNINGS PER SHARE

Earnings per share ('EPS') is calculated by dividing profit for the period attributable to equity shareholders of the Company by the weighted average number of ordinary shares in issue during the period.

As described in note 20, the share capital for the Company in the periods prior to the Pre-IPO Reorganisation on 18 April 2008 is presented as if this reorganisation was completed as at 1 January 2007.

The company has no dilutive potential ordinary shares.

As of 31 December 2008 and 2007, earnings per share have been calculated as follows:

	Year ended 31 December 2008	2007
Profit from continuing operation attributable to equity holders of the Company (US$000)	127,949	143,497
Weighted average number of ordinary shares in issue* (ooo)	687,688	634,270
Basic and diluted earnings per share	0.186	0.226

*For 2007 the EPS calculation has assumed that the ordinary shares in issue pursuant to the Merger agreement dated 18 April 2008 have been in issue throughout the periods.

13 PROPERTY, PLANT AND EQUIPMENT

	LAND AND BUILDINGS	PLANT AND EQUIPMENT	MINING PROPERTIES AND DEVELOPMENT COSTS	OTHER ASSETS	CONSTRUCTION IN PROGRESS	TOTAL
			(in thousands of US dollars)			
Year ended 31 December 2007						
Cost						
At 1 January 2007	42,881	187,381	186,480	18,003	22,474	457,219
Additions	-	-	-	-	103,168	103,168
Disposals	(5,697)	(30,902)	(7,920)	(3,906)	-	(48,425)
Transfers and other movements	2,362	38,500	26,156	1,594	(68,612)	-
At 31 December 2007	39,546	194,979	204,716	15,691	57,030	511,962
Accumulated depreciation						
At 1 January 2007	(5,150)	(13,512)	(113,831)	(7,715)	-	(140,208)
Depreciation for the year	(3,704)	(28,915)	(14,986)	(2,268)	-	(49,873)
Disposals	372	27,129	5,146	3,158	-	35,805
At 31 December 2007	(8,482)	(15,298)	(123,671)	(6,825)	-	154,276
Net Book amount at 31 December 2007	**31,064**	**179,681**	**81,045**	**8,866**	**57,030**	**357,686**
Year ended 31 December 2008						
Cost						
At 1 January 2008	39,546	194,979	204,716	15,691	57,030	511,962
Additions	-	-	-	5,888	189,471	195,359
Disposals	(7)	(8,534)	(72)	(528)	(192)	(9,333)
Transfers and other movements	10,273	54,777	62,332	3,310	(130,692)	-
At 31 December 2008	49,812	241,222	266,976	24,361	115,617	697,988
Accumulated depreciation						
At 1 January 2008	(8,482)	(15,298)	(123,671)	(6,825)	-	(154,276)
Depreciation for the year	(2,825)	(26,035)	(20,849)	(2,197)	-	(51,906)
Disposals	4	5,526	72	436	-	6,038
At 31 December 2008	(11,303)	(35,807)	(144,448)	(8,586)	-	(200,144)
Net Book amount at 31 December 2008	**38,509**	**205,415**	**122,528**	**15,775**	**115,617**	**497,844**

For the purpose of preparation for the Initial Public Offering, the Group appointed Ingeniería, Costos y Servicios, S.A. de C.V., an accredited company holding a licence to conduct valuation of assets, to carry out an independent appraisal of certain items of property, plant and equipment as of 1 January 2005. The valuation of these assets was determined with reference to market value or, for assets of a specialised nature, at their depreciated replacement cost. In accordance with IFRS1 the deemed cost of these items of property, plant and equipment as of 1 January 2007, the date of transition to IFRS, was determined by reference to the valuation as of 1 January 2005, adjusted for depreciation for the period until the date of transation.

Construction in progress relates mainly to mining projects taking place in Saucito, Juanicipio and Penmont mines.

In December 2008 the Group acquired the Noche Buena gold project in Sonora, Mexico. The consideration for this project was US$25.0 million payable in cash at acquisition date and US$5.0 million payable upon commencement of commercial production. A royalty is then payable on production.

The amount of borrowing costs capitalised during the year ended 31 December 2008 was $nil (2007: $nil).

14 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Year ended 31 December	
	2008	**2007**
	(in thousands of US dollars)	
Beginning balance	31,311	13,052
Additions	39,752	11,111
Fair value change	(25,533)	7,148
Ending balance	**45,530**	**31,311**

During the period US$4.9 million of losses recognised in equity have been reclassified to the income statement reflecting an impairment change of the related equity securities. These securities are considered impaired due to a significant reduction in market value in the year.

Available-for-sale financial assets include the following:

	Year ended 31 December 2008	2007
	(in thousands of US dollars)	
Equity securities-listed Canadian companies	45,530	31,311
Total	**45,530**	**31,311**

The breakdown of the investments in equity securities held is as follow (number of shares):

	MAG SILVER CORP.	ENDEAVOUR SILVER CORP. [1]	FIRST MAGESTIC SILVER CORP.	INTERNATIONAL NORTHAIR MINES, LTD
Number of shares held at 1 January 2007	621,577	2,000,000	382,582	-
Additions	625,200	800,000	-	-
Number of shares held at 31 December 2007	**1,246,777**	**2,800,000**	**382,582**	**-**
Additions	8,068,100	-	-	84,499
Number of shares held at 31 December 2008	**9,314,877**	**2,800,000**	**382,582**	**84,499**

(1) The Endeavour Silver Corp. shares received in 2007 were received as payment for the sale of the assets of Cebada and Bolañitos mines. See note 9 for further details.

15 SILVERSTREAM CONTRACT

On 31 December 2007, the Group entered into an agreement with Peñoles through which it is entitled to receive the proceeds received by the Peñoles Group in respect of the refined silver sold from the Sabinas Mine ("Sabinas"), a base metals mine owned and operated by the Peñoles group, for an upfront payment of US$350 million. In addition, a per ounce cash payment of $2.00 in years 1 to 5 and $5.00 thereafter (subject to an inflationary adjustment commencing on 31 December 2013) is payable to Peñoles. Under the contract, the Group has the option to receive a net cash settlement from Peñoles attributable to the silver produced and sold from Sabinas, to take delivery of an equivalent amount of refined silver or to receive settlement in the form of both cash and silver. If, by 31 December 2032, the amount of silver produced by Sabinas is less than 60 million ounces, a further payment is due from Peñoles of US$1 per ounce of shortfall.

The Silverstream contract represents a derivative financial instrument which has been recorded at fair value and classified within non-current and current assets as appropriate. Changes in the contract's fair value, other than those represented by the realisation of the asset through the receipt of either cash or refined silver, are charged or credited to the income statement. In the year ended 31 December 2008 total proceeds received were US$31.7 million (2007: US$nil).

See note 32 for further information relating to market and credit risks associated with the Silverstream asset, and note 2(c) for the estimates and assumptions.

16 INVENTORIES

At the date of the balance sheet this item is comprised of the following:

	As of 31 December 2008	2007
	(in thousands of US dollars)	
Finished goods[1]	369	745
Work in progress[2]	16,874	19,964
Operating materials and spare parts	22,447	17,005
	39,690	37,714
Allowance for obsolete and slow-moving inventories	(1,051)	(1,233)
Total inventories at the lower of cost and net realisable value	**38,639**	**36,481**

(1) Finished goods include metals contained in concentrates and doré bars, and concentrates on hand or shipped to a smelter or refinery.

(2) Work in progress include metals contained in ores in leaching pads.

Concentrates are a product containing sulphides with variable content of precious and base metals and are sold to smelters and/or refineries. Doré is an alloy containing a variable mixture of gold and silver that is delivered in bar form to refineries. These products once processed by the smelter and refinery are sold to customers in the form of refined products.

The amount of write down of inventories recognised as an expense was US$0.1 million in 2008 and US$0.2 million in 2007.

17 TRADE AND OTHER RECEIVABLES

	Year ended 31 December 2008	2007
	(in thousands of US dollars)	
Loans and interest due from related parties (note 28)	–	30,555
Trade receivables from related parties (note 28)	60,423	149,474
Value Added Tax receivable	8,269	27,545
Advances to suppliers	4,651	2,113
Other receivables from related parties (note 28)	68	12,455
Other receivables	8,225	9,468
	81,636	231,610
Provision for impairment of "other receivables"	(141)	(126)
	81,495	**231,484**

Trade receivables are shown net of any corresponding advances, are non-interest bearing and generally have payment terms of 46 to 60 days.

The total receivables denominated in US$ were US$68.5 million in 2008 (2007: US$163.9 million), and in Pesos US$12.9 million (2007: US$67.6 million).

As of 31 December for each year presented, with the exception of "other receivables" in the table above, all trade and other receivables were neither past due nor impaired.

Movements in the provision for impairment of "other receivables" in the table above were as follows:

	As of 31 December 2008	2007
	(in thousands of US dollars)	
Beginning of the year	(126)	(612)
Charge for the year	(16)	(83)
Amounts written off	-	572
Exchange difference	1	(3)
End of the year	**(141)**	**(126)**

As at 31 December, the analysis of trade receivables that were past due but not impaired is as follows:

			PAST DUE BUT NOT IMPAIRED	
Year ended 31 December	TOTAL	NEITHER PAST DUE NOR IMPAIRED	<30 DAYS	30-60 DAYS
		(in thousands of US dollars)		
2008	60,423	60,423	-	-
2007	149,474	149,047	-	427

In determining the recoverability of a trade receivable, the Group performs a risk analysis considering the type and age of the outstanding receivable and the credit worthiness of the counterparty.

18 PREPAYMENTS

At the date of the balance sheet this item is comprised of the following:

	As of 31 December 2008	2007
	(in thousands of US dollars)	
Expenses incurred relating to IPO(1)	–	10,057
Insurance and bonds	1,449	725
Premium options	445	–
	1,894	**10,782**

(1) The prepayments balance as at 31 December 2007 included costs incurred with relation to the initial public offering of the Group. These costs were subsequently transferred to share premium upon issuance of new shares on 14 May 2008.

19 CASH AND CASH EQUIVALENTS

	Year ended 31 December 2008	2007
	(in thousands of US dollars)	
Cash at bank and on hand	441	522
Short-term deposits	211,544	4,280
Cash and cash equivalents	**211,985**	**4,802**

Cash at bank earns interest at floating rates based on daily bank deposits. Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

20 EQUITY

Share capital and share premium

As described in note 2, the pooling of interests method of accounting has been applied in the presentation of the consolidated financial statements and this method presents the results of the Group as if the Company had been the holding company of the Group since 1 January 2007. For the periods presented prior to 18 April 2008 when the Pre-IPO Reorganisation was completed, the share capital presented reflects that issued pursuant to this reorganization.

The authorised and issued share capital of the Company as at 31 December 2008 is as follows:

	AUTHORISED		ISSUED	
CLASS OF SHARES	NUMBER	AMOUNT	NUMBER	AMOUNT
Ordinary shares each of US$0.50	1,000,000,000	$500,000,000	717,160,159	$358,580,080
Sterling Deferred Ordinary Shares each of £1.00	50,000	£50,000	50,000	£50,000

At 31 December 2008, all issued shares with a par value of US$0.50 each are fully paid. The rights and obligations attaching to these shares are governed by law and the Company's Articles of Association. Ordinary shareholders are entitled to receive notice and to attend and speak at any general meeting of the Company. There are no restrictions on the transfer of the Ordinary shares.

The Sterling Deferred shares only entitle the shareholder on winding up or on a return of capital to payment of the amount paid up after repayment to Ordinary shareholders. The Sterling Deferred Shares do not entitle the holder to payment of any dividend, or to receive notice or to attend and speak at any general meeting of the Company. The Company may also at its option redeem the Sterling Deferred Shares at a price of £1.00 or , as custodian, purchase or cancel the Sterling Deferred Shares or require the holder to transfer the Sterling Deferred Shares. Except at the option of the Company the Sterling Deferred Shares are not transferrable.

The changes in share capital are as follows:

	NUMBER OF SHARES	SHARE CAPITAL £000	SHARE CAPITAL US$000	SHARE PREMIUM US$000
Deferred Ordinary shares of £1 each issued and fully paid				
Ordinary shares issued to the initial shareholder	1	-	-	-
Allotment and issue of ordinary shares on 1 January 2008	49,999	50	-	-
Ordinary shares of £1 each issued and fully paid prior to re-designation as 50,000 £1 deferred ordinary shares on 4 March 2008	50,000	50	-	-
As at 31 December 2008	**50,000**	**50**	**-**	**-**
Ordinary shares of US$1.00 each issued and fully paid				
Shares issued pursuant to the Merger Agreement on 18 April 2008	634,270,000		634,270	-
Ordinary shares prior to capital reduction effective 24 April 2008	634,270,000		634,270	-
Ordinary shares of US$0.50 each issued and fully paid				
Shares following capital reduction effective 24 April 2008	634,270,000		317,135	-
Shares issued and paid pursuant to the Global Offer dated 9 May 2008	82,890,159		41,445	859,636
Transaction cost associated with issue of shares				(41,039)
As at 31 December 2008	**717,160,159**		**358,580**	**818,597**

Creation of Company and Pre-IPO Reorganisation

The Company was incorporated and registered in England and Wales on 15 August 2007 with an authorised share capital of £100 divided into 100 ordinary shares of £1.00 each. 1 share of £1.00 was issued. On 11 January 2008 the authorised share capital of the Company was increased to £50,000 and 49,999 shares were allotted and issued to Peñoles.

On 4 March 2008 the authorised share capital of the Company was increased by the creation of 1,000,000,000 ordinary shares of US$1.00 each and the 50,000 ordinary shares of £1.00 each were re-designated as 50,000 deferred shares of £1.00 each.

On 18 March 2008 the Company entered into a Merger Agreement with Compania Fresnillo S.A. de C.V., the then holding company of subsidiaries constituting the precious metals mining business of Peñoles, completing the Pre-IPO Reorganisation. Pursuant to the Merger Agreement, the Company became the holding company of the Group through the allotment and issue of 634,270,000 ordinary shares paid up as to their nominal value.

Reduction of share capital

Effective 24 April 2008, the share capital of the company was reduced by US$317,135,000 in accordance with Chapter 2 of Part 13 of the Companies Act 2006, by cancelling and extinguishing the paid up capital to the extent of US$0.50 upon each of the ordinary shares of US$1.00. The nominal value of each of the ordinary shares of the Company, whether issued or unissued, was reduced to US$0.50.

Re-registration of the Company as a public company

On 15 April 2008 the Company was re-registered as a public company.

Issuance of shares on IPO

On 14 May 2008 the Company successfully completed its IPO and Listed on the London Stock Exchange. A total number of 82,890,159 shares with a par value of US$0.50 each were issued at US$10.87 for total proceeds of US$901.1 million. Costs, net of deferred tax, related to the issuance of new shares taken against share premium amounted to US$41.0 million.

Reserves

Share premium

This reserve records the consideration premium for shares issued at a value that exceeds their nominal value.

Capital reserve

The capital reserve arose as a consequence of the Pre-IPO Reorganisation as a result of using the pooling of interest method. As such, it is reflected as if this Pre-IPO Reorganisation took place as at 1 January 2007.

Net unrealised gains/(losses) on revaluation of cash flow hedges

This reserve records the portion of the loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge, net of tax. When the hedged transaction occurs, the gain or the loss is transferred out of equity to the income statement.

Unrealised gains/(losses) on available-for-sale financial assets

This reserve records fair value changes on available-for-sale investments, net of tax. On disposal, the cumulative changes in fair value are recycled to the income statement.

Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial information of entities with a functional currency different to that of the presentational currency of the Group.

Retained earnings/accumulated losses

This reserve records the accumulated results of the Group, less any distributions and dividends paid.

21 DIVIDENDS PAID

The dividends declared and paid during the year ended 31 December 2008, are as follows:

	PER SHARE	AMOUNT
	US CENTS	$ MILLION
Year ended 31 December 2008		
Interim dividend for 2008 declared and paid during the year	5.9	42.2
	5.9	**42.2**

This dividend was approved at the Board Meeting on 12 August 2008.

On 20 February 2009 the Directors proposed a final dividend of US cents 7.7 per share which is not reflected as a liability as at 31 December 2008.

22 PROVISION FOR MINE CLOSURE COST

The provision represents the discounted values of the estimated cost to decommission and rehabilitate the mines at the estimated date of depletion of mine deposits. The present value of the provision at 31 December 2008 has been calculated using an annual real discount rate of 4.33 per cent (2007: 4.83 per cent). Uncertainties in estimating these costs include potential changes in regulatory requirements, decommissioning, dismantling, and reclamation alternatives and timing and the levels of discount and inflation rates.

It is important to note that Mexican regulations regarding the decommissioning and rehabilitation of mines are limited and less developed in comparison to regulations in many other jurisdictions. It is the Group's intention to rehabilitate the mines beyond the requirements of Mexican law, and estimated costs reflect this level of expense. The Group intends to fully rehabilitate the affected areas at the end of the life of the mines.

The provision is expected to become payable at the end of the useful life of each mine, which ranges from 12 to 19 years from 31 December 2008 and 2007.

	As of 31 December	
	2008	**2007**
	(in thousands of US dollars)	
Beginning balance	**14,295**	**14,434**
Increase/(decrease) to existing provision	6,495	(173)
Unwinding of discount (note 10)	1,185	721
Change in discount rate	8	192
Disposals	-	(511)
Foreign exchange	(3,032)	(368)
Ending balance	**18,951**	**14,295**

23 PENSIONS AND OTHER POST-EMPLOYMENT BENEFIT PLANS

The tables below provide information relating to the defined benefit pension plan, the seniority premium for voluntary separation and payments to the defined contribution plan.

a) Net benefit expense (recognised in cost of sales):

	Year ended 31 December	
	2008	**2007**
	(in thousands of US dollars)	
Current service cost	781	686
Interest cost on benefit obligation	1,865	1,432
Expected return on plan assets	(1,689)	(957)
Defined benefit decrease due to plan amendment	–	(3,096)
Net actuarial loss/(gain) recognised in the year	657	(2,144)
Net defined benefit expense	1,614	(4,079)
Payments to defined contribution plans	1,004	314
Net benefit expense/(credit) (note 8)	**2,618**	**(3,765)**

Analysis of net actuarial (loss)/gain recognised in the year:

	Year ended 31 December	
	2008	**2007**
	(in thousands of US dollars)	
Actual return on plan assets	918	1,437
Expected return on plan assets	(1,689)	(957)
Foreign exchange	283	(9)
Experience adjustments arising on plan assets	(488)	471
Experience adjustments arising on plan liabilities	(169)	1,783
Changes in assumptions underlying the present value of the schemes' liabilities	–	(110)
Net actuarial (loss)/gain recognised in the year	(657)	2,144

b) Benefit liability:

	As of 31 December 2008	2007
	(in thousands of US dollars)	
Defined benefit obligation	(28,851)	(15,272)
Fair value of plan assets	25,352	12,702
Benefit liability	**(3,499)**	**(2,570)**

Changes in the present value of the defined benefit obligation are as follows:

	As of 31 December 2008	2007
	(in thousands of US dollars)	
Defined benefit obligation at 1 January	**15,272**	**18,258**
Interest cost	1,865	1,432
Current service cost	781	686
Benefits paid	(455)	(389)
Actuarial losses/ (gains) on obligation	169	(1,673)
Defined benefit increase due to personnel transfer to the Group	14,624	–
Defined benefit decrease due to plan amendment	–	(3,096)
Foreign exchange	(3,405)	54
Defined benefit obligation at 31 December	**28,851**	**15,272**
Funded plan	23,955	9,897
Unfunded plan	4,896	5,375
Defined benefit obligation at 31 December	**28,851**	**15,272**

Changes in the fair value of plan assets are as follows:

	As of 31 December 2008	2007
	(in thousands of US dollars)	
Fair value of plan assets at 1 January	**12,702**	**10,590**
Expected return on plan assets	1,689	957
Contributions by employer	–	915
Actuarial (losses) / gains	(488)	471
Amount transferred due to personnel transfer to the Group	14,624	–
Benefits paid	(455)	(244)
Foreign exchange	(2,720)	13
Fair value of plan assets at 31 December	**25,352**	**12,702**

The overall expected rate of return on assets is determined based on market expectations applicable to the period over which the obligation is to be settled.

The principal assumptions used in determining pension and other post-employment benefit obligations for the Group's plans are shown below:

	As of 31 December 2008	2007
	(in thousands of US dollars)	
	%	**%**
Discount rate	8.5	8.5
Expected rate of return on plan assets	8.5	8.5
Future salary increases	5.0	5.0

The mortality assumptions are that for current and future pensioners, men and women aged 65 will live on average for a further 16.9 years (2007: 16.2 years).

The fair value of the plan assets was as follows:

	As of 31 December 2008	2007
	(in thousands of US dollars)	
Equity shares	-	1,083
Government debt	6,533	2,978
Promissory notes	87	–
State own companies	2,193	1,068
Corporate bonds	3,395	1,509
Mutual funds (fixed rates)	13,144	6,064
	25,352	**12,702**

The pension plan has not invested in any of the Group's own financial instruments nor in properties or assets used by the Group.

The Group has not contributed to its defined benefit pension plan in 2008 and does not expect to contribute in 2009.

24 TRADE AND OTHER PAYABLES

	Year ended 31 December 2008	2007
	(in thousands of US dollars)	
Trade payables	32,560	20,840
Other payables to related parties (note 28)	668	1,478
Accrued expenses	7,719	4,020
Other taxes and contributions	1,718	1,505
	42,665	**27,843**

Trade payables are mainly for the acquisition of materials, supplies and contractors services. These payables do not accrue interest and no guarantees have been granted. The fair value of trade and other payables approximate their book values.

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 32.

25 COMMITMENTS

(a) Capital expenditure:

A summary of capital expenditure commitments is as follows:

	Year ended 31 December 2008	2007
	(in thousands of US dollars)	
Minera Saucito, S.A. de C.V.	36,602	24,420
Minera Penmont, S. de R.L. de C:V.	22,583	15,930
Minera Mexicana La Ciénega, S.A. de C.V.	5,261	12,835
Minera Fresnillo, S. A. de C.V.	9,893	10,726
Servicios Administrativos Fresnillo S.A. de C.V.	262	-
	74,601	**63,911**

26 OPERATING LEASES

(a) Leases as lessor

The group leases certain small mines to third parties. These non-cancellable leases have remaining terms of approximately one and a half years. Future minimum rentals receivable under non-cancellable operating leases are as follows:

	As of 31 December 2008	2007
	(in thousands of US dollars)	
Within one year	1,432	720
After one year but not more than five years	1,447	480
	2,879	**1,200**

(b) Leases as lessee

The group has financial commitments in respect of non-cancellable operating leases for land, offices and equipment. These leases have non-cancellable lease terms of one year and have an average life of between two and four years, with renewal terms at the option of the lessee at lease payments based on market prices at the time of renewal. There are not restrictions placed upon the Group by entering into these leases. The future minimum rental commitments under these leases are as follows:

	As of 31 December	
	2008	**2007**
	(in thousands of US dollars)	
Within one year	1,134	434
After one year but not more than five years	1,495	463
	2,629	**897**

	As of 31 December	
	2008	**2007**
	(in thousands of US dollars)	
Minimum lease payments expensed in the year	965	578

27 CONTINGENCIES

As of 31 December 2008, the Group has the following contingencies:

(a) The Group is subject to various laws and regulations which, if not observed, could give rise to penalties.

(b) Tax periods remain open to review by the Mexican tax authorities in respect of income taxes for five years following the date of the filing of corporate income tax returns, during which time the authorities have the right to raise additional tax assessments including penalties and interest. Under certain circumstances the reviews may cover longer periods.

In addition, because a number of tax periods remain open to review by the tax authorities, there is a risk that transactions, and in particular related party transactions, that have not been challenged in the past by the authorities, may be challenged by them in the future, and this may result in the raising of additional tax assessments plus penalties and interest. It is not practical to determine the amount of any such potential claims or the likelihood of any unfavourable outcome. However, management believes that its interpretation of the relevant legislation is appropriate and that the Group has complied with all regulations and paid or accrued all taxes and withholdings that are applicable.

(c) On 8 May 2008, the Company and Peñoles entered into the Separation Agreement (the "Separation Agreement"). This agreement relates to the separation of the Group and the Peñoles Group and governs certain aspects of the relationship between the Fresnillo Group and the Peñoles Group following the initial public offering in May 2008 ("Admission"). The Separation Agreement provides for cross-indemnities between the Company and Peñoles so that, in the case of Peñoles, it is held harmless against losses, claims and liabilities (including tax liabilities) properly attributable to the precious metals business of the Group and, in the case of the Company, it is held harmless by Peñoles against losses, claims and liabilities which are not properly attributable to the precious metals business. Save for any liability arising in connection with tax, the aggregate liability of either party under the indemnities shall not exceed US$250 million in aggregate

Peñoles has agreed to indemnify the Fresnillo Group in relation to (i) any tax charge, subject to certain exceptions, the Company may incur as a result of the Pre-IPO Reorganisation (including as a result of a transaction following Admission of a member of the Fresnillo Group, provided that Peñoles has confirmed that the proposed transaction will not give rise to a tax charge, or as a result of a transaction of a member of the Peñoles Group on or after Admission), the Global Offer or Admission and (ii) certain tax aspects of certain other pre-Admission transactions. Peñoles' liability under these indemnities and in respect of general tax liabilities arising pre-Admission which are not properly attributable to the precious metals business of the Fresnillo Group shall not exceed US$500 million. If a member of the Fresnillo Group forming part of Peñoles' tax consolidation pays an intra-group dividend in excess of its CUFIN account after Admission and is relieved of tax as a result of the consolidation, it is required to pay Peñoles an amount in respect of that tax.

28 RELATED PARTY BALANCES AND TRANSACTIONS

The Group had the following related party transactions during the years ended 31 December 2008 and 2007 and balances as at 31 December 2008 and 2007. During the year, and as a result of the initial public offering of the Group, related party receivables and payables with members of the Penoles Group have been settled other than related party trade receivables arising from the sale of the Group's products to Met-Mex Peñoles S.A.B. de C.V., with whom trade is continuing.

Related parties are those entities owned or controlled by the ultimate controlling party, those who have a minority participation in Group companies, and key management personnel of the Group.

(a) Related party accounts receivable and payable

	ACCOUNTS RECEIVABLE Year ended 31 December		ACCOUNTS PAYABLE Year ended 31 December	
	2008	2007	2008	2007
	(in thousands of US dollars)			
Trade:				
Met-Mex Peñoles, S.A. de C.V.	60,423	149,474	–	–
Loans granted / received and interest:				
Industrias Peñoles, S.A.B. de C.V.	–	27,380	–	105,921
Minas Peñoles, S.A. de C.V.	–	–	–	350,000
Servicios Industriales Peñoles, S.A. de C.V.	–	3,175	–	–
	–	30,555	–	455,921
Expenses incurred relating to IPO:				
Minas Peñoles, S.A. de C.V.	–	11,310	–	–
Administrative services:				
Servicios Industriales Peñoles, S.A. de C.V.	–	–	–	514
Other	68	1,145	668	964
Sub-total	60,491	192,484	668	457,399
Less-Current portion	60,491	192,484	668	457,399
Non-current portion	–	–	–	–

Effective interest rates on loans granted to and received from related parties are as follows:

	ACCOUNTS RECEIVABLE As of 31 December		ACCOUNTS PAYABLE As of 31 December	
	2008	2007	2008	2007
Industrias Peñoles, S.A.B. de C.V. in Mexican pesos	-	9.4%	-	9.4%
Industrias Peñoles, S.A.B. de C.V. US dollars	-	7.2%	-	-
Minas Peñoles, S.A. de C.V. in US dollars	-	-	-	7.2%
Servicios Industriales Peñoles S.A. de C.V. in Mexican Pesos	-	9.4%	-	-

As at 31 December of each year, trade receivables from related parties were neither past due nor impaired. No security has been granted or guarantees given by the Group in respect of these related party balances. The expectation is for all balances to be cash settled.

Other balances and operations with related parties:

	Year ended 31 December	
	2008	2007
	(in thousands of US dollars)	
Unrealised result on valuation of hedges:		
Industrias Peñoles, S.A.B. de C.V.	–	70,621
Silverstream contract:		
Industrias Peñoles, S.A.B. de C.V.	318,268	350,000

(b) Principal transactions between affiliates are as follows:

	Year ended 31 December 2008	2007
	(in thousands of US dollars)	
Income:		
Sales:[1]		
Met-Mex Peñoles, S.A. de C.V.	773,704	646,788
Interest on loans to related parties:		
Industrias Peñoles, S.A.B. de C.V.	1,863	14,165
Minas Peñoles, S.A. de C.V.	–	331
Other	13	27
	1,876	14,523
Other income	2,820	4,190
Total income	**778,400**	**665,501**

[1] Figures do not include hedging losses.

	Year ended 31 December 2008	2007
	(in thousands of US dollars)	
Expenses:		
Administrative services:		
Servicios Industriales Peñoles, S.A. de C.V.	44,825	65,051
Servicios de Exploración, S.A. de C.V.	3,324	2,872
	48,149	67,923
Trademark royalties:		
Industrias Peñoles, S.A.B. de C.V.	31,232	66,890
Realised result on derivatives:		
Industrias Peñoles, S.A.B. de C.V.	–	63,411
Energy:		
Termoelectrica Peñoles, S. de R.L. de C.V.	17,038	10,929
Interest on loans from related parties:		
Minas Peñoles, S.A. de C.V.	5,864	–
Industrias Peñoles, S.A.B. de C.V.	3,064	938
Other	–	184
	8,928	1,122
Operating materials and spare parts:		
Wideco Inc	2,870	569
Equipment repair and administrative services:		
Serviminas, S.A. de C.V.	2,241	1,343
Met-Mex Peñoles, S.A. de C.V.	1,891	908
	4,132	2,251
Other expenses:	9,555	3,921
Total expenses	**121,904**	**217,016**

(c) Compensation of key management personnel of the Group

Key management personnel include the members of the Board of Directors and the Executive Committee who receive remuneration.

	Year ended 31 December 2008	2007
	(in thousands of US dollars)	
Salaries and bonuses	2,322	–
Other benefits	508	–
Total compensation paid to key management personnel	**2,830**	**–**

Includes amounts paid to directors disclosed in the Directors' Remuneration Report.

29 AUDITOR'S REMUNERATION

Fees due by the Group to its auditor during the year ended 31 December 2008 and the year ended 31 December 2007 is as follows:

	Ernst & Young Year ended 31 December	
CLASS OF SERVICES	**2008**	**2007**
	(in thousands of US dollars)	
Audit fees pursuant to legislation [1]	1,677	-
Other services relating to taxation	26	6
Corporate finance services [2]	6,347	6,370
Total	8,050	6,376

[1] Includes US$ 1,003,000 (2007:US$ nil) relating to the audit fees of the parent company together with a proportion of the fees in relation to the consolidated Group audit, which has been incurred by the parent company.

[2] Corporate finance services relate to the IPO of the Company which are presented as a reduction in the share premium account (refer to note 20).

Other than fees associated with the IPO, all fees are included in administrative expenses, within the other administrative expenses caption (refer to note 6).

30 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

	Notes	Year ended 31 December 2008	2007
		(in thousands of US dollars)	
Reconciliation of profit for the year to net cash generated from operating activities			
Profit for the year		152,780	161,015
Adjustments to reconcile profit for the period to net cash inflows from operating activities:			
Depreciation	5	51,906	49,873
Employee profit sharing	8	21,188	15,878
Deferred income tax	11	(18,007)	14,259
Income tax expense	11	145,143	65,958
Credit for income tax paid on dividend	11	(12,559)	(5,534)
Gain on sale of mining assets	9	(1,391)	(3,125)
Loss on the sale of property, plant and equipment and other assets		372	5,915
Other expenses		2,887	22
Net finance costs/(income)	10	1,654	(15,699)
Foreign exchange		14,570	3,871
Difference between pension contributions paid and amounts recognised in the income statement		1,614	(4,994)
Non cash movement on derivatives		45,602	10,675
Payment on termination of derivatives		–	(81,296)
Working capital adjustments			
Decrease/(increase) in trade and other receivables		118,384	(71,572)
(Increase)/decrease in prepayments and other assets		(1,102)	37,594
Increase in inventories		(2,158)	(7,714)
Increase/(decrease) in trade and other payables		14,430	(3,283)
Cash generated from operations		**535,313**	**171,843**
Income tax paid		(96,404)	(71,192)
Employee profit sharing paid		(24,243)	(21,385)
Net cash from operating activities		**414,666**	**79,266**

There are no other significant non-cash transactions other than those disclosed in note 9 and the deferred consideration element of the consideration paid for the acquisition of the Noche Buena gold project as detailed in note 13.

31 FINANCIAL INSTRUMENTS

(a) Fair values

The fair value of financial assets and liabilities, together with the carrying amounts shown in the balance sheet, are as follows:

	CARRYING AMOUNT		FAIR VALUE	
	As of 31 December			
	2008	2007	2008	2007
	(in thousands of US dollars)			
Financial assets:				
Cash and cash equivalents	211,985	4,802	211,985	4,802
Trade and other receivables	81,439	231,484	81,439	231,484
Available-for-sale financial assets	45,530	31,311	45,530	31,311
Silverstream contract (note 15)	318,268	350,000	318,268	350,000
Derivative financial instruments	2,409	–	2,409	–
Financial liabilities:				
Interest bearing loans and borrowings	–	455,921	–	455,921
Trade and other payables	42,617	27,843	42,617	27,843
Derivative financial instruments	14,068	–	14,068	–

(b) Hedging activities- cash flow hedges

During 2008 the Group has entered into certain forward and option contracts in order to manage its exposure to commodity price risk relating to the sale of lead and zinc and foreign exchange risk associated with costs incurred in Pesos. The Group also historically entered into forward and option contracts that were used to hedge prices realised from the sale of gold and silver production. The carrying value of these derivative contracts is detailed below:

				As of December	
	TERM	TONNES	PRICE PER TONNE	2008 FAIR VALUE	2007 FAIR VALUE
			US$	(in thousands of US dollars)	
Commodity contracts					
Zinc forwards – US$ denominated contracts	2009	900	1,845.00	547	–
Lead forwards – US$ denominated contracts	2009	1,800	2,043 - 2,050	1,862	–

Base metals hedging contracts held as at 31 December 2008 have maturity dates from February 2009 to January 2010 corresponding with when the hedged sales are expected to occur.

				As of December	
	TERM	CONTRACT VALUE	CONTRACT EXCHANGE RATE	2008 FAIR VALUE	2007 FAIR VALUE
			(in thousands of US dollars)		
Foreign currency contracts					
Mexican Peso denominated forward contracts	2009	60,000	MX$10.72:US$1 to MX$13.64:US$1	(13,838)	–
Mexican Peso denominated option contracts	2009	80,000	MX$10.72:US$1 to MX$13.64:US$1	(230)	–

Foreign exchange hedging contracts held as at 31 December 2008 have maturity dates from April 2009 to December 2009 corresponding with when the hedged costs are expected to occur.

The Group historically entered into derivative transactions with the purpose of managing commodity price risk associated with the sale of gold and silver. These derivative hedging instruments were terminated during the second half of 2007 resulting in a cash payment of US$81.3 million at the date of termination. The cumulative hedging losses relating to the terminated hedging instruments are deferred in equity and reclassified to the income statement when the forecast transaction occurs.

During 2008 pre-tax losses of US$45.6 million (2007: US$63.4 million) were recycled to the income statement with respect to the derivatives terminated in 2007. These amounts were included in revenue.

The remaining pre-tax hedging losses relating to these terminated derivatives in equity as of 31 December 2007 was US$25 million (2007: US$70.6 million) which are expected to be charged to income statement in 2009 as follows:

	2009
	(in thousands of US dollars)
1 January – 30 June	12,442
1 July – 31 December	12,577
Total	25,019

The following table summarises the deferred losses on derivative instruments, net of tax effects, recorded in equity for the year:

	As of 31 December	
	2008	2007
	(in thousands of US dollars)	
Beginning balance	(50,847)	(79,235)
Losses recycled to income statement in the year [1]	45,602	63,411
Deferred tax recycled	(12,768)	(17,755)
Unrealised losses before tax arising during the year	(11,659)	(23,983)
Deferred tax on unrealised losses arising during the year and taken directly to equity	3,264	6,715
Ending balance	(26,408)	(50,847)

[1] Losses recycled to the income statement are included in revenue.

32 FINANCIAL RISK MANAGEMENT

Overview

The Group's principal financial assets and liabilities, other than derivatives, comprise trade receivables, cash, available-for-sale assets and trade payables. As at 31 December 2007 these also included interest bearing loans and borrowings to and from related parties.

During 2008 the Group has entered into certain derivative transactions with the purpose of managing base metals commodity price risk and foreign exchange risk. Historically, the Group also entered into derivative transactions to manage precious metals commodity risk but during 2007 these instruments were terminated and the Group has assumed precious metals commodity price risk exposure.

The Group has exposure to the following risks from its use of financial instruments:

a) Market risk, including foreign currency, commodity price, interest rate and equity price risk

b) Credit risk

c) Liquidity risk

This note presents information about the Group's exposure to each of the above risks and the Group's objectives, policies and processes for assessing and managing risk. Further quantitative disclosures are included throughout the financial statements.

Prior to the IPO in May 2008 financial risk was managed as part of the Peñoles Group, with the Peñoles Audit Committee having responsibility for its oversight. Subsequent to the IPO, these risk management activities are performed by the Fresnillo Group.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Fresnillo Audit Committee has responsibility for overseeing how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Audit Committee is assisted in its oversight role by Internal Audit, which undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

(a) Market risk

Market risk is the risk that changes in market factors, such as foreign exchange rates, commodity prices or interest rates will affect the Group's income or the value of its financial instruments.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Foreign currency risk

The Group is exposed to foreign currency risk on transactions and balances that are denominated in currencies other than the US dollar (primarily the Mexican Peso and GBP Sterling). Transactions in foreign currencies include the purchases of services, fixed assets, spare parts and other items. As a result, the Group has financial liabilities denominated in Pesos. The Group also holds cash and cash equivalents in both the Mexican Peso and GBP Sterling.

The following table demonstrates the sensitivity of financial assets and financial liabilities to a reasonably possible change in the Mexican Peso compared to the US dollar on the Group's profit before tax and equity, with all other variables held constant. It is assumed that the same percentage change in exchange rates is applied to all applicable exchange rates for the purposes of calculating the sensitivity with relation to derivative financial instruments.

Year ended 31 December	INCREASE/(DECREASE) IN EXCHANGE RATE	EFFECT ON PROFIT BEFORE TAX	EFFECT ON EQUITY
		(in thousands of US dollars)	(in thousands of US dollars)
2008	10%	(3,944)	(4,339)
	(10%)	4,821	4,955
2007	10%	4,773	–
	(10%)	(5,834)	–

In order to manage the Group's exposure to foreign currency risk on expenditure denominated in Mexican Pesos, the Group has entered into certain forward and option derivative contracts with maturity dates in 2009 (see note 31 for additional detail).

The following table demonstrates the sensitivity of financial assets and financial liabilities to a reasonably possible change in the GBP sterling compared to the US dollar on the Group's profit before tax and equity, with all other variables held constant:

Year ended 31 December	INCREASE/(DECREASE) IN EXCHANGE RATE	EFFECT ON PROFIT BEFORE TAX	EFFECT ON EQUITY
		(in thousands of US dollars)	(in thousands of US dollars)
2008	10%	4,760	–
	(10%)	(6,236)	–
2007	10%	–	–
	(10%)	–	–

Commodity risk

The Group has exposure to changes in metals prices (specifically silver, gold, lead and zinc) which have a significant effect on the Group's results. These prices are subject to global economic conditions and industry-related cycles.

During 2008 the Group entered into certain derivative instruments to manage base metals commodity price fluctuations, specifically zinc and lead (see note 31 for additional detail). Historically the Group used derivative instruments to hedge against precious metals commodity price fluctuations. This practice was discontinued in 2007, when the Group assumed precious metals commodity risk exposure in response to favorable price trends. All related derivatives were terminated during 2007 (see note 31 for further detail).

As described in note 15, the Group entered into the Silverstream contract on 31 December 2007 which represents a derivative financial instrument. As such, the Group is exposed to changes in the value of the Silverstream contract as a result of changes in commodity prices.

The following table demonstrates the sensitivity of financial assets and financial liabilities to a reasonably possible change in gold and silver prices, reflecting the effect on the Group's profit before tax and equity, assuming the same percentage change in prices underlying the valuation of derivatives, with all other variables held constant:

Year ended 31 December	INCREASE/(DECREASE) IN GOLD AND SILVER PRICES	EFFECT ON PROFIT BEFORE TAX
		(in thousands of US dollars)
2008	15%	57,867
	(15%)	(57,867)
2007	5%	19,425
	(5%)	(19,425)

The above table reflects the aggregate sensitivity of financial assets and liabilities to gold and silver price movements. For 2008 and 2007, this sensitivity with relation to profit before tax, only relates to the Silverstream contract, which is only impacted by silver price risk. There is no impact on equity, beyond the impact of profit before tax and retained earnings.

The impact of any reasonably possible change in the silver and gold prices on the valuation of embedded derivatives arising from provisional pricing arrangements is not significant on the pre-tax profit or equity of the Group.

The following table demonstrates the sensitivity of financial assets and financial liabilities to a reasonably possible change in zinc and lead prices, reflecting the effect on the Group's profit before tax and equity, assuming the same percentage change in prices underlying the valuation of derivatives, with all other variables held constant:

Year ended 31 December	INCREASE/(DECREASE) IN LEAD AND ZINC PRICES	EFFECT ON PROFIT BEFORE TAX	EFFECT ON EQUITY
		(in thousands of US dollars)	(in thousands of US dollars)
2008	15%	–	(360)
	(15%)	–	360
2007	–	–	–
	–	–	–

Interest rate risk

The Group is exposed to interest rate risk from the possibility that changes in interest rates will affect future cash flows or the fair values of its financial instruments, principally relating to the Silverstream contract and cash balances held at the balance sheet date.

The Group's earnings are sensitive to changes in interest rates on any floating element of the Group's interest bearing loans and borrowings. As of 31 December 2008 there were no interest bearing loans and borrowings outstanding. As of 31 December 2007 100% of interest bearing loans and borrowings were floating rate.

The following table demonstrates the sensitivity of financial assets and financial liabilities to a reasonably possible change in interest rate applied to a full year from the balance sheet date as well as the impact of the change in interest rate on the valuation of the Silverstream contract:

Year ended 31 December	BASIS POINT INCREASE/ (DECREASE) IN INTEREST RATE	EFFECT ON PROFIT BEFORE TAX
		(in thousands of US dollars)
2008	100	(17,142)
	(100)	19,478
2007	100	(25,952)
	(100)	28,570

The sensitivity in 2008 primarily relates to the valuation of the Silverstream contract and interest on cash balances held as at the year end. In 2007 this principally related to the Silverstream contract.

The above table assumes that interest bearing loans and borrowings and loans due from related parties as at 31 December 2007 are not repaid during the following twelve months. In practice, all floating rate interest bearing loans and borrowings as at 31 December 2007 except for the $350 million loan from Minas Peñoles, S.A. de C.V. relating to the Silverstream contract, were repaid within 3 months of the balance sheet date.

The maturity of the Group's interest bearing fixed rate instruments as at 31 December 2007 varied from 5 to 29 days following the balance sheet date. Therefore any reasonably possible change in interest rates on fixed rate financial assets or liabilities would not materially impact the Group's pre-tax profit or equity.

Equity price risk

The Group has exposure to changes in the price of equity instruments that it holds as available-for-sale assets.

The following table demonstrates the sensitivity of available-for-sale assets to a reasonably possible change in market price of these equity instruments, reflecting the effect on the Group's profit before tax and equity:

Year ended 31 December	INCREASE/(DECREASE) IN EQUITY PRICE OF AVAILABLE-FOR-SALE ASSETS	EFFECT ON PROFIT BEFORE TAX	EFFECT ON EQUITY
		(in thousands of US dollars)	(in thousands of US dollars)
2008	5%	184	2,092
	(5%)	(2,276)	–
2007	5%	624	941
	(5%)	(624)	(941)

(b) Credit risk

Exposure to credit risk arises as a result of transactions in the Group's ordinary course of business and is applicable to all financial assets. These financial assets are trade and other receivables, cash and cash equivalents, the Silverstream contract and available-for-sale financial assets.

The Group's policies are aimed at minimising losses as a result of a counterparty's failure to honour its obligations. Individual exposures are monitored with customers subject to credit limits to ensure that the Group's exposure to bad debts is not significant. The Group's exposure to credit risk is influenced mainly by the individual characteristics of each counterparty. The Group's financial assets are with counterparties with what the Group considers to have an appropriate credit rating. As disclosed in note 17, the counterparties to a significant proportion of these financial assets are related parties. At each balance sheet date, the Group's financial assets were neither impaired nor past due, other than "Other receivables" as disclosed in note 28.

The Group has a high concentration of trade receivables with one counterparty – Met-Mex Peñoles, the Group's primary customer throughout 2008 and 2007. A further concentration of credit risk arises from the Silverstream contract. Both Met-Mex and the counterparty to the Silverstream contract are subsidiaries in the Peñoles group which currently owns 77 per cent of the shares of the Company and are considered by management to be of appropriate credit rating. All receivables are not past due.

Refer to note 17 for analysis of trade receivables ageing.

For the periods prior to the IPO, Peñoles treasury policies required all of the Group's subsidiaries to concentrate their surplus funds within the Peñoles cash-pooling facility for investment management. As at 31 December 2007, the Group had invested its surplus funds in cash and in cash deposits with Servicios Industriales Peñoles, S.A. de C.V. Following the IPO the Group's surplus funds are managed by Servicios Administrativos Fresnillo, S.A. de C.V., which manages cash and cash equivalents investing in a number of financial institutions. In order to minimize exposure to credit risk, the Group only deposits cash and cash equivalents with financial institutions with a credit rating of P-1 (Moody´s) and mxA-1+ (Standards and Poors) and above, and only for periods of less than 30 days.

The maximum credit exposure at reporting date of each category of financial asset above is the carrying value as detailed in the relevant notes. See note 28 for the maximum credit exposure to related party balances with Met-Mex and note 19 for the maximum exposure to cash and cash equivalents. The maximum credit exposure with relation to the Silverstream contract is the value of the derivative as at 31 December 2008, being $318 million.

(c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

Prior to the IPO the Group's liquidity was managed as part of the cash management of the Peñoles Group. Subsequent to the IPO, the Group monitors its risk of a shortage of funds using projected cash flows from operations and by monitoring the maturity of both its financial assets and liabilities.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments.

	WITHIN 1 YEAR	1-2 YEARS	2-3 YEARS	> 3 YEARS	TOTAL
As at 31 December 2008					
Interest bearing loans and borrowings	–	–	–	–	–
Trade and other payables	33,228	–	–	–	33,228
Derivative financial instruments – assets	2,928	–	–	–	2,928
Derivative financial instruments – liabilities	60,000	–	–	–	60,000
As at 31 December 2007					
Interest bearing loans and borrowings	462,318	–	–	–	462,318
Trade and other payables	22,318	–	–	–	22,318
Derivative financial instruments	–	–	–	–	–

The disclosed financial derivative instruments in the above table are the gross undiscounted cash flows. However those amounts may be settled gross or net. The following table shows the corresponding estimated inflows based on the contractual terms:

	WITHIN 1 YEAR	1-2 YEARS	2-3 YEARS	> 3 YEARS	TOTAL
As at 31 December 2008					
Inflows	51,205	–	–	–	51,205
Outflows	(62,928)	–	–	–	(62,928)
Net	**(11,723)**	**–**	**–**	**–**	**(11,723)**

Management considers that the Group has adequate current assets and forecast cash from operations to manage liquidity risks arising from current liabilities and non-current liabilities.

Capital management

Prior to the IPO, the capital of the Group was managed as part of the capital of the Peñoles Group.

Subsequent to the IPO, the primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios that support its business and maximise shareholder value. Management considers capital to consist only of equity as disclosed in the balance sheet. In order to ensure an appropriate return for shareholder's capital invested in the Company, management thoroughly evaluates all material projects and potential acquisitions and approves them at its Executive Committee before submission to the Board for ultimate approval, where applicable.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF Fresnillo plc

We have audited the parent company financial statements of Fresnillo plc for the year ended 31 December 2008 which comprise the Parent Company Balance Sheet, the Parent Company Cash Flow Statement, the Parent Company Statement of Changes in Equity and the related notes 1 to 17. These parent company financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

We have reported separately on the Group financial statements of Fresnillo plc for the year ended 31 December 2008.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the parent company financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the parent company financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the parent company financial statements give a true and fair view and whether the parent company financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the parent company financial statements. The information given in the Directors' Report includes that specific information presented in the Business Review that is cross referred from the Business Review section of the directors' report.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited parent company financial statements. The other information comprises only the Directors' Report, the Chairman's Letter, the Chief Executive's Statement, the Business Review and the Corporate Governance Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent company financial statements. Our responsibilities do not extend to any other information.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the parent company financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the parent company financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the parent company financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the parent company financial statements and the part of the Directors' Remuneration Report to be audited.

OPINION

In our opinion:

- the parent company financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of the company's affairs as at 31 December 2008 and of its loss for the year then ended;
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the parent company financial statements.

Ernst & Young LLP
Registered auditor
London
20 February 2009

Fresnillo plc
PARENT COMPANY BALANCE SHEET

as at 31 December 2008 and 2007

	Notes	2008	2007
		(in thousands of US dollars)	
ASSETS			
Non-current assets			
Available-for-sale financial assets	6	45,530	-
Investments in subsidiaries	5	5,366,624	-
Deferred tax asset	4	5,837	
		5,417,991	**-**
Current assets			
Trade and other receivables	7	359,494	-
Derivative financial instruments	16	2,409	
Cash and cash equivalents	8	57,117	-
		419,020	-
Total assets		**5,837,011**	**-**
EQUITY AND LIABILITIES			
Capital and reserves attributable to equity shareholders of the Company			
Share capital	9	358,680	-
Share premium	9	818,597	-
Merger reserve	9	4,358,400	-
Unrealised losses on available-for-sale financial assets	9	(11,090)	-
Retained earnings	9	243,539	-
Total equity		**5,768,126**	**-**
Current liabilities			
Interest bearing loans and borrowings	13	42,000	-
Derivative financial instruments	16	13,838	-
Income tax payable		9,963	-
Trade and other payables	11	3,084	-
		68,885	-
Total liabilities		**68,885**	**-**
Total equity and liabilities		**5,837,011**	**-**

The accompanying accounting policies and notes on pages 118-135 are an integral part of these financial statements. The financial statements on pages 115-117 were approved by the Board of Directors on 20 February 2009 and signed on its behalf by:

Jaime Lomelín
Chief Executive Officer
20 February 2009

Fresnillo plc

PARENT COMPANY CASH FLOW STATEMENT

for the year ended 31 December 2008 and the period ended 31 December 2007

	Notes	2008	2007
		(in thousands of US dollars)	
Net cash from operating activities	**15**	**28,095**	–
Cash flows from investing activities			
Purchase of available for sale instruments	6	(39,752)	–
Capital contribution to subsidiaries		(35,699)	–
Cash received pursuant to the Merger Agreement		21,681	
Loans granted to related parties		(740,477)	–
Proceeds from repayment of loans granted to related parties		382,594	–
Interest received		15,499	–
Other proceeds		298	
Net cash used in investing activities		**(395,856)**	**–**
Cash flows from financing activities			
Loans granted by related parties		65,396	–
Repayment of loans granted by related parties		(429,911)	–
Issue of share capital		100	–
Dividends paid	10	(42,203)	–
Shares issued and paid pursuant to the Global Offer		901,081	–
Transaction costs associated with issue of shares		(46,597)	–
Interest paid		(1,664)	–
Net cash used in financing activities		**446,202**	**–**
Net increase in cash and cash equivalents during the year		78,441	–
Effect of exchange rate on cash and equivalents		(21,324)	–
Cash and equivalents at 1 January		–	–
Cash and cash equivalents at 31 December	**8**	**57,117**	**–**

Non-cash transactions for the year ended 31 December 2008:

As disclosed in note 9, on 18 April 2008 the Company became the holding company of the Fresnillo Group of companies through the allotment and issue of 634,270,000 ordinary shares paid up as to their nominal value.

As disclosed in note 9, effective 24 April 2008 the share capital of the Company was reduced by US$317,135,000.

Fresnillo plc

PARENT COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2008 and the period ended 31 December 2007

	Notes	Share capital	Share premium	Merger reserve	Unrealised losses on available-for-sale financial assets	Retained earnings	Total equity
				(in thousands of US dollars)			
Balance at 15 August 2007		**–**	**–**	**–**	**–**	**–**	**–**
Issue of share capital		–	–	–	–	–	–
Balance at 31 December 2007		**–**	**–**	**–**	**–**	**–**	**–**
Balance at 1 January 2008		**–**	–	–	–	–	–
Fair value losses on available-for-sale financial assets		–	–	–	(20,339)	–	(20,339)
Tax effect on fair value losses on available-for-sale financial assets		–	–	–	5,695	–	5,695
Impairment charge on available-for-sale assets taken to income		–	–	–	4,936	–	4,936
Tax effect on impairment charge on available-for-sale assets		–	–	–	(1,382)	–	(1,382)
Net income recognised directly in equity		–	–	–	(11,090)	–	(11,090)
Loss for the period		–	–	–	–	(1,462,593)	(1,462,593)
Total income and expense for the period		–	–	–	(11,090)	(1,462,593)	(1,473,683)
Issue of share capital		100	–	–	–	–	100
Shares issued pursuant to the Merger Agreement on 18 April 2008	9	634,270	–	5,789,600	–	–	6,423,870
Shares following capital reduction effective 24 April 2008		(317,135)	–	–	–	317,135	–
Shares issued as part of Global Offer, net of transaction costs	9	41,445	818,597	–	–	–	860,042
Transfer of reserves		–	–	(1,431,200)	–	1,431,200	–
Dividends paid		–	–	–	–	(42,203)	(42,203)
Balance at 31 December 2008		**358,680**	**818,597**	**4,358,400**	**(11,090)**	**243,539**	**5,768,126**

Fresnillo plc
NOTES TO THE COMPANY FINANCIAL STATEMENTS

1 CORPORATE INFORMATION

Fresnillo plc ("the Company") is a public limited company that was incorporated on 15 August 2007 under the Companies Act 1985 and registered in England and Wales and is the holding company for the Fresnillo subsidiaries detailed in note 5.

On 14 May 2008 the Company's shares were admitted to the Official List of the United Kingdom Listing Authority ("UKLA") and to trading on the main market of the London Stock Exchange (this process being referred to as "the Global Offer" or the "Initial Public Offering", ("IPO")).

Peñoles S.A.B. de C.V. ("Peñoles") currently owns 77 percent of the shares of the Company and the ultimate controlling party of the Company is the Baillères family, whose beneficial interest is held through Penoles. The country of incorporation of Peñoles is Mexico. Copies of Peñoles' accounts can be obtained from www.penoles.com.mx.

In preparation for the Global Offer, Peñoles conducted a reorganisation, which completed on 18 April 2008, whereby the companies comprising the precious metals mining business of Peñoles were reorganised under the Company (the "Pre-IPO Reorganisation"). As such, prior to 18 April 2008, the Company did not control the entities it acquired pursuant to the Pre-IPO Reorganisation.

The primary activity of the Company is as holding company for the Fresnillo Group of companies.

The separate financial statements of the Company for the year ended 31 December 2008, were authorised for issue by the Board of Directors of Fresnillo plc on 20 February 2009.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation and statement of compliance

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union as they apply to the financial statements of the Company for the year ended 31 December 2008, and in accordance with the provisions of the Companies Acts 1985 and 2006, where relevant. The Company's financial statements are also consistent with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The financial statements of the Company have been prepared on a historical cost basis, except for certain derivative financial instruments and available-for-sale financial instruments which have been valued at fair value.

The financial statements are presented in US dollars (US$) and all monetary amounts are rounded to the nearest thousand (US$000) except when otherwise indicated.

The basis of preparation and accounting policies used in preparing the financial statements are set out below. These accounting policies have been consistently applied to all the periods presented unless otherwise stated.

(b) Significant accounting judgements, estimates and assumptions

Many of the amounts included in the financial statements involve the use of judgement and/or estimation. These judgements and estimates are based on management's best knowledge of the relevant facts and circumstances, with regard to prior experience, but actual results may differ from the amounts included in the financial information.

Information about such judgements and estimation is in the accounting policies and/or the notes to the financial statements.

Judgements

Areas of judgement, apart from those involving estimations, that have the most significant effect on the amounts recognised in the financial information are:

- Determination of functional currencies – note 2(e);
  The determination of functional currency requires management judgment, particularly where there may be several currencies in which transactions are undertaken and which impact the economic environment in which the entity operates.

Estimates and assumptions

Significant areas of estimation uncertainty made by management in preparing the consolidated financial information include:

- Income tax – notes 2(p) and 4:
  Judgement is required in determining whether deferred tax assets are recognised on the balance sheet. Deferred tax assets, including those arising from un-utilised tax losses require management to assess the likelihood that the Company will generate taxable earnings in future periods, in order to utilise recognised deferred tax assets. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realise the net deferred tax assets recorded at the balance sheet date could be impacted.

- Impairment of available-for-sale assets – note 2(h) and 6:
  The Company classifies certain financial assets as available-for-sale and recognises movements in their fair value in equity. When the fair value declines, management makes assumptions about the decline in value to determine whether it is an impairment that should be recognised in profit or loss. At 31 December 2008 impairment losses of $4.9 million have been recognised relating to the available-for-sale assets (2007: US$nil).

- Impairment of investments in subsidiaries – notes 2(f) and 5:
  Where an indicator of impairment exists, a formal estimate of the recoverable amount is made. These assessments require the use of estimates and assumptions such as long-term commodity prices, discount rates, future capital requirements, exploration potential and operating performance. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. At 31 December 2008 impairment losses of $1,431.2 million (2007: US$nil) have been recognised relating to the subsidiaries (2007: US$nil)

- Valuation of derivative financial instruments – notes 2(r) and 16:
  Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are valued using valuation approaches and methodologies applicable to the specific type of derivative instrument.

- Contingent liabilities regarding claims from tax authorities – note 12:
  By nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of contingencies inherently involves the exercise of significant judgement and estimates of the outcome of future events.

(c) Changes in accounting policies and disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the change of presentation currency to US dollars. In the previous year, the Company's presentation currency was pound sterling and the Company has changed the presentation currency in order to be consistent with the functional currency. This change has been retrospectively applied but has not had any effect on the financial statements.

(d) Standards, interpretations and amendment to existing standards that are not yet effective and have not been adopted early by the Company

Certain new standards, amendments and interpretations to existing standards have been published and are mandatory for the Company's accounting periods beginning on or after 1 January 2009 or later periods but which the Company has not adopted early. Those that are applicable to the Company are as follows:

- *IFRS 8 'Operating Segments'* is applicable for annual periods beginning on or after 1 January 2009. This standard introduces the "management approach" to segment reporting. IFRS 8, which becomes mandatory for the Group's 2009 financial information, will require the disclosure of segment information based on the internal reports regularly reviewed by the Group's Chief Operating Decision Maker in order to assess each segment's performance and to allocate resources to them. The adoption of this standard will not have any effect on the financial performance or position of the Company.
- *IFRS 3 (Revised) 'Business Combinations' and IAS 27 (Revised) 'Consolidated and Separate Financial Statements'*, issued in January 2008 and becomes effective for financial years beginning on or after 1 July 2009. IFRS 3R introduces a number of changes in the accounting for business combinations occurring after this date that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. IAS27R requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as an equity transaction. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by partially-owned subsidiaries as well as the loss of control of a subsidiary. Other consequential amendments were made to IAS 7 *'Statement of Cash Flows'*, IAS 12 *'Income Taxes'*, IAS 21 *'The Effects of Changes in Foreign Exchange Rates'*, IAS 28 *'Investment in Associates'* and IAS 31 *'Interests in Joint Ventures'*. The changes to IFRS 3R and IAS27R will affect future acquisitions or loss of control and transactions with minority interests. The standards may be early applied. However, the Company does not intend to take advantage of this possibility.
- *IAS 1 (Revised) 'Presentation of Financial Statements'*, issued in September 2007 and becomes effective for financial years beginning on or after 1 January 2009. The Standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Company is still evaluating whether it will have one or two statements.
- *IFRS 1 'First-time Adoption of International Financial Reporting Standards' and IAS 27 'Consolidated and Separate Financial Statements'*, the amendments to IFRS 1 allows an entity to determine the cost of investment in subsidiaries, jointly controlled entities or associates in its opening IFRS financial statements in accordance with IAS 27 or using a deemed cost. The amendment to IAS requires all dividends from subsidiary, jointly controlled entity or associate to be recognized in the income statement. Both revisions will be effective for financial years beginning on or after 1 January 2009. The revision to IAS 27 will have to be applied prospectively. The new requirements may impact the Company's presentation of dividends.

The Directors do not anticipate that the adoption of these standards and interpretations will have a material impact on the Company's financial statements in the period of initial application.

Those new standards, amendments and interpretations not yet effective and not applicable to the Company are as follows:

- *IFRS 2 (Amendment) 'Share-based Payment'*, effective for annual periods beginning on or after January 1, 2009, clarifies that only service conditions and performance conditions are vesting conditions, and other features of a share-based payment are not vesting conditions. In addition, it specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. Management does not expect this amendment to impact the Company.
- *IAS 23 Amendment, 'Borrowing Costs (revised in March 2007)'*, will be applicable for annual periods beginning on or after 1 January 2009. IAS 23 (Revised) requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. Management considers this amendment is not applicable to the Company, as the Company does not have qualifying assets.
- *IAS 32 (Amendment) 'Financial Instruments: Presentation' and IAS 1 (Amendment) 'Presentation of Financial Statements' – 'Puttable Financial Instruments and Obligations Arising on Liquidation'*, both effective for annual periods beginning on or after January 1, 2009, require entities to classify as equity certain financial instruments provided certain criteria are met. The instruments to be classified as equity are puttable financial instruments and those instruments

that impose an obligation on the entity to deliver to another party a pro rata share of the net assets of the entity only on liquidation. Management does not expect this amendment to impact the Company.

- *IFRIC 13 'Customer Loyalty Programmes'*, effective for annual periods beginning on or after July 1, 2008. IFRIC 13 addresses accounting by entities that operate or otherwise participate in customer loyalty programmes for their customers. IFRIC 13 applies to sales transactions in which the entities grant their customers award credits that, subject to meeting any further qualifying conditions, the customers can redeem in the future for free or discounted goods or services. The interpretation requires that an entity recognises credits that it awards to customers as a separately identifiable component of revenue, which would be deferred at the date of the initial sale. IFRIC 13 will become mandatory for the Company's financial statements beginning April 1, 2009 with earlier application permitted. Management does not expect this amendment to impact the Company.
- *IAS 39 'Financial instruments: Recognition and measurement – Eligible Hedged Items'*, issued in August 2008 and become effective for financial years beginning on or after 1 July 2009. The amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. The Company has concluded that the amendment will have no impact on the financial position or performance of the Company.
- *IFRIC 15 'Agreement for the Construction of Real Estate'*, IFRIC 15 was issued in July 2008 and becomes effective for financial years beginning on or after 1 January 2009. The interpretation is to be applied retrospectively. It clarifies when and how revenue and related expenses from the sale of a real state unit should be recognized if an agreement between a developer and buyer is reached before the construction of the real estate is completed. Furthermore, the interpretation provides guidance on how to determine whether an agreement is within the scope of IAS 11 or IAS 18. IFRIC 15 will not have an impact on the consolidated financial statement because the Group does not conduct such activity.
- *IFRIC 16 'Hedges of a Net Investment in a Foreign Operation'*, issued in July 2008 and becomes effective for financial years beginning on or after 1 October 2008. The interpretation is to be applied prospectively. IFRIC 16 provides guidance on the accounting for a hedge of a net investment. As such it provides guidance on identifying the foreign currency risks that qualify for hedge accounting in the hedge of a net investment, where within the Group the hedging instruments can be held in the hedge of a net investment and how an entity should determine the amount of foreign currency gain or loss, relating to both the net investment and the hedging instrument, to be recycled on the disposal of the net investment. The Company has concluded that the amendment will have no impact on the financial position or performance of the Company.
- *IFRIC 17 'Distribution of Non-cash Assets to Owners'*, issued in November 2008 and becomes effective for financial years beginning on or after 1 July 2009. ICRIC 17 clarifies that a dividend payable should be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity. It also clarifies that an entity should measure the dividend payable at the fair value of the net assets to be distributed and that an entity should recognise the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss. The Company has concluded that the amendment will have no impact on the financial position or performance of the Company.

(e) Foreign currency translation

The Company's financial statements are presented in US dollars, which is the functional currency of the Company. The functional currency for the Company is determined by the currency of the primary economic environment in which it operates and the Directors consider that this has changed in the year as a result of the Company becoming the holding company for Fresnillo Group, and changes in the transactions undertaken following the IPO.

Transactions denominated in currencies other than the functional currency of the Company are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rate of exchange ruling at the balance sheet date. All differences that arise are recorded in the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated into dollars using the exchange rate at the date when the fair valued is determined.

(f) Investments in subsidiaries

Subsidiaries are entities over which the Company controls operating and financial policies, generally by owning more than 50% of voting rights. Investments in subsidiaries are recognised at acquisition cost less any provision for impairment.

Dividends are recognised when the Company's right to receive payments is established. Dividends received out of pre-acquisition profits of a subsidiary are recorded as a reduction to the carrying value of the investment. Dividends received out of post-acquisition profits are recorded in the income statement.

At each reporting date, an assessment is made to determine whether there are any indicators of impairment. If there are indicators of impairment, an exercise is undertaken to determine whether the carrying value of the investment in the subsidiary is in excess of its recoverable amount.

If the carrying amount of an investment exceeds the recoverable amount, a provision is recorded in the income statement to reflect the asset at the recoverable amount.

(g) Financial assets

Financial assets are recognised when the Company becomes party to the contracts that give rise to them and are classified as financial assets at fair value through profit or loss; loans and receivables; held-to maturity investments; or as available-for-sale financial assets, as appropriate. The Company determines the classification of its financial assets at initial recognition and re-evaluates this designation at each financial year-end. When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Financial assets at fair value through profit or loss

Financial assets classified as held for trading and other assets designated as such on inception are included in this category. Financial assets are classified as held for trading if they are acquired for sale in the short term. Derivatives are also classified as held for trading unless they are designated as hedging instruments. Financial assets at fair value through profit or loss are carried in the balance sheet at fair value with gains or losses recognised in the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, do not qualify as trading assets and have not been designated as either fair value through profit and loss or available for sale.

After initial measurement such assets are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Gains and losses are recognised in income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Current trade receivables are carried at the original invoice amount less provision made for impairment of these receivables. Long-term receivables are stated at amortised cost.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as such or are not classified in any of the preceding categories and are not held-to-maturity investments.

Available-for-sale financial assets represent investments that have a quoted market price in an active market, therefore a fair value can be reliably measured. After initial measurement, available for sale assets are measured at fair value with unrealised gains or losses being recognised as a separate component of equity.

Fair value

In determining estimated fair value, investments in shares or portfolios of listed securities are valued at quoted bid prices. When quoted prices on an active market are not available (and for listed non-actively traded securities), fair value is determined using a valuation technique. Valuation techniques include using a recent arm's length transaction, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If the range of reasonable fair value is significant and the probabilities of the various estimates cannot be reliably assessed, the investment is not re-measured at fair value.

(h) Impairment of financial assets

The Company assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss is recognised in profit or loss.

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Company will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Available-for-sale financial investments

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. In assessing whether there is an impairment, the Group considers whether a decline in fair value is either significant or prolonged, by considering the size of the decline in this value and the historic volatility in changes in fair value. Reversals in respect of equity instruments classified as available for sale are not recognised in the income statement. Reversals of impairment losses on debt instruments are reversed through the income statement if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in the income statement.

(i) Cash and cash equivalents

For the purposes of the balance sheet, cash and cash equivalents comprise cash at bank, cash on hand and short-term deposits held with banks that are readily convertible into known amounts of cash and which are subject to insignificant risk of changes in value. Short-term deposits earn interest at the respective short-term deposit rates between one day and three months.

For the purposes of the cash flow statement, cash and cash equivalents as defined above are shown net of outstanding bank overdrafts.

(j) Share Capital

Ordinary shares issued by the Company are recorded at the net proceeds received, which is the fair value of the consideration received less costs that are incurred in connection with the share issue. The nominal par value of the shares issued is taken to the share capital account and any excess is recorded in the share premium account, including the costs that were incurred with the share issue.

(k) Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

(l) Financial liabilities

The Company recognises financial liabilities on its balance sheet when, and only when, it becomes a party to the contractual provisions of the instrument. Financial liabilities are initially recognised at the fair value of the consideration received, including any transaction costs incurred.

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Interest bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

(m) Contingencies

Contingent liabilities are not recognised in the financial information and are disclosed in notes unless their occurrence is remote.

Contingent assets are not recognised in the financial information, but they are disclosed in notes if they are deemed probable.

(n) Revenue recognition

Revenue is recognised to the extent that it is probable that economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of consideration received excluding discounts, rebates, and other sales taxes.

Trademark Royalties

Trademark royalty income is recognised only at the time when it is probable that the amounts related to certain rights will be received. Currently the Company receives royalties based on a percentage of the sales of concentrates from the Minera Fresnillo and Minera Mexicana la Cienega.

Interest income

Interest income is recognised as interest accrues (using the effective interest method; i.e., the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset).

Dividend income

Dividend income is recognised when the Company's right to receive the payment is established.

(o) Finance income and costs

Finance income and costs comprise interest expense on borrowings, interest income on funds invested and gains and losses from the change in fair value of derivative instruments.

Interest income and costs are recognised as accrued, taking into account the effective yield on the asset or liability.

(p) Income tax

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences, except:

(i) where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of transaction, affects neither the accounting profit nor taxable profit loss; and

(ii) in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

(i) where the deferred income tax asset relating to deductible temporary differences arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

(ii) in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

(q) Derecognition of financial assets and liabilities

A financial asset or liability is generally derecognised when the contract that gives rise to it is settled, sold, cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, such that the difference in the respective carrying amounts together with any costs or fees incurred are recognised in profit or loss.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in the income statement.

(r) Derivative financial instruments and hedging

The Company uses derivatives to reduce certain market risks derived from changes in prices of base metals and foreign exchange which impact its financial and business transactions. Hedges are designed to protect the value of expected production against the dynamic market conditions. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains and losses arising from changes in fair value on derivatives during the year that do not qualify for hedge accounting are taken directly to the income statement, as finance cost or income.

Derivatives are valued using valuation approaches and methodologies (such as Black Scholes and Net Present Value) applicable to the specific type of derivative instrument. The fair value of forward currency and commodity contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

The Company's derivative activities were limited in volume and confined to risk management activities. Usually, hedges were designed to protect the value of expected production against the dynamic market conditions.

During 2008 the Company has entered a number of derivative contracts in order to manage certain market risks derived from changes in prices of base metals and foreign exchange which impact the financial and business transactions of its subsidiaries. In the Group's financial statements these are designated as cash flow hedges but for the purposes of the Company's stand alone financial statements the related hedged items are not held by the Company, so do not qualify as cash flow hedges.

Embedded derivatives

Contracts are assessed for the existence of embedded derivatives at the date that the Company first becomes party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. Embedded derivatives which are not clearly and closely related to the underlying asset, liability or transaction are separated and accounted for as stand alone derivatives.

(s) Dividend Distribution

Dividends payable to the Company's shareholders are recognised as a liability in the financial statements in the period in which the dividends are approved by the Company's shareholders.

(t) Value added tax

Revenues, expenses and assets are recognised net of the amount of value added tax

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

(u) Borrowing costs

Finance costs are generally expensed as incurred except where they relate to the financing of construction or development of qualifying assets requiring a substantial period of time to prepare for their intended future use.

In the case of such qualifying assets, finance costs are capitalised up to the date when the asset is ready for its intended use. The amount of finance costs capitalised (before the effects of income tax) for the period is determined by applying the interest rate applicable to appropriate borrowings outstanding during the period to the average amount of accumulated expenditure for the assets during the period.

3 LOSS ATTRIBUTABLE TO THE PARENT COMPANY

The loss for the Company is US$1,462.6 million for the year ended 31 December 2008 (2007: US$nil). In accordance with the exemption granted under section 230 of the Companies Act 1985 a separate income statement for the Company has not been presented.

4 INCOME TAX

a) Income tax taken to equity

	Year ended 31 December **2008**	Period ended 31 December **2007**
	(in thousands of US dollars)	
Deferred income tax related to items charged or credited directly to equity:		
Unrealised loss on available-for-sale assets (note 6)	4,313	-
Income tax credit reported in equity	**4,313**	**-**

(b) The movements in the deferred income tax asset are as follows:

	31 December **2008**	31 December **2007**
	(in thousands of US dollars)	
Beginning balance	-	-
Income statement charge	1,524	-
Unrealised loss on available-for-sale financial assets	4,313	-
Ending balance	**5,837**	**-**

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to the same fiscal authority.

The amounts of deferred income tax assets and liabilities before offset as at 31 December considering the nature of the temporary differences, are as follows:

	31 December 2008	31 December 2007
	(in thousands of US dollars)	
Prepayments	(151)	-
Other payables	33	-
Derivative financial instruments	260	-
Available-for-sale financial assets	5,695	-
Net deferred tax balances	**5,837**	**-**

(c) Unrecognised deferred tax on investments in subsidiaries

The Company has not recognised all of the deferred tax liability in respect of distributable reserves of its subsidiaries because it controls them and only part of the temporary differences are expected to reverse in the foreseeable future. The temporary differences for which a deferred tax liability has not been recognised aggregate to US$176.7 million (2007: US$nil).

Business Flat Tax ("Impuesto Empresarial a Tasa Unica" or "IETU")

Effective 1 January 2008 a new alternative minimum corporate income tax called the Flat Rate Business Tax was introduced in Mexico to replace the existing business asset tax. From this date companies are required to pay the greater of their mainstream corporate income tax liability for the year or their liability to IETU.

IETU is calculated at the rate of 16.5% for the calendar year 2008, 17% for 2009 and 17.5% for subsequent years and applies to the sale of goods, rendering of independent services and temporary use or enjoyment of goods. In calculating the charge to IETU, deductions are allowed for certain expenses incurred in generating income.

In respect of the Company, management has undertaken calculations to determine the impact of the new IETU provisions on the Company. As a result of such analysis, management has concluded that there should be no material impact on the Company, since in all instances, the mainstream corporate income tax liability of the Company is forecast to be greater than the future potential IETU charge. Accordingly, no IETU liability should arise in the foreseeable future.

5 INVESTMENTS IN SUBSIDIARIES

	Year ended 31 December 2008	Period ended 31 December 2007
	(in thousands of US dollars)	
Beginning balance	-	-
Additions	6,797,824	-
Impairment	(1,431,200)	-
Ending balance	**5,366,624**	**-**

During the year an impairment loss of US$1,431.2 million was recognised with respect to certain of the Company's investments in subsidiaries. This impairment reflects the reduction in value of these investments since recognition on 18 April 2008 pursuant to the Merger Agreement (note 9). Recoverable value has been estimated by subsidiary which generally hold one operating mine or development project. Recoverable value for investments in companies which include operating mines and projects under development has been determined on the basis of value in use using a discount rate of approximately 12%. The recoverable value of other investments is based on estimated fair value less cost to sell.

The subsidiaries in which investments are held as at 31 December 2008 are as follows:

COMPANY	COUNTRY OF INCORPORATION	EQUITY INTEREST %
Minera Fresnillo, S.A. de C.V.	Mexico	100
Minera Penmont, S. de R.L. de C.V.	Mexico	56
Minera Mexicana La Ciénega, S.A. de C.V.	Mexico	100
Minera Saucito, S.A. de C.V.	Mexico	100
Minera Juanicipio, S.A. de C.V.	Mexico	56
Comercializadora de Metales Fresnillo, S.A. de C.V.	Mexico	100
Exploraciones Mineras Parreña, S.A. de C.V.	Mexico	100
Minera El Bermejal, S. de R.L. de C.V.	Mexico	56
Compañía Minera Las Torres, S.A. de C.V.	Mexico	100
Fresnillo Management Services	London	100
Fresbal Investments LTD	Canada	100

The Company holds an indirect interest on Servicios Administrativos Fresnillo, S.A. de C.V (incorporated in Mexico), which is wholly owned by Minera Fresnillo, S.A. de C.V.

6 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Year ended 31 December 2008	Period ended 31 December 2007
	(in thousands of US dollars)	
Beginning balance	-	-
Shares obtained pursuant to the Merger Agreement on 18 April 2008	26,117	-
Additions	39,752	-
Fair value change	(20,339)	-
Ending balance	**45,530**	**-**

During the year US$4.9 million of losses recognised in equity have been reclassified to the income statement reflecting an impairment charge of the carrying value of the related equity securities. These securities are considered impaired due to a significant reduction in market value.

Available-for-sale financial assets include the following:

	31 December 2008	31 December 2007
	(in thousands of US dollars)	
Equity securities-listed Canadian companies	45,530	-
Total	**45,530**	**-**

The breakdown of the investments in equity securities held is as follow (number of shares):

	MAG SILVER CORP.	ENDEAVOUR SILVER CORP.	FIRST MAGESTIC SILVER CORP.	INTERNATIONAL NORTHAIR MINES, LTD
Number of shares held at 31 December 2007	-	-	-	-
Shares obtained pursuant to the Merger Agreement on 18 April 2008	1,246,777	2,800,000	382,582	-
Additions	8,068,100	-	-	84,499
Number of shares held at 31 December 2008	**9,314,877**	**2,800,000**	**382,582**	**84,499**

7 TRADE AND OTHER RECEIVABLES

	31 December 2008	31 December 2007
	(in thousands of US dollars)	
Loans and interest due from related parties (note 13)	356,095	-
Other receivables from related parties (note 13)	2,860	-
Prepayments	539	
	359,494	**-**

8 CASH AND CASH EQUIVALENTS

	31 December 2008	31 December 2007
	(in thousands of US dollars)	
Cash at bank and on hand	2	-
Short-term deposits	57,115	-
Cash and cash equivalents	**57,117**	**-**

Cash at bank earns interest at floating rates based on daily bank deposits. Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Company, and earn interest at the respective short-term deposit rates.

9 EQUITY

Share capital and share premium

The authorised and issued share capital of the Company as at 31 December 2008 is as follows:

	AUTHORISED		ISSUED	
CLASS OF SHARES	NUMBER	AMOUNT	NUMBER	AMOUNT
Ordinary shares each of US$0.50	1,000,000,000	$500,000,000	717,160,159	$358,580,080
Sterling Deferred Ordinary Shares each of £1.00	50,000	£50,000	50,000	£50,000

At 31 December 2008, all issued shares with a par value of $0.50 each are fully paid. The rights and obligations attaching to these shares are governed by law and the Company's Articles of Association. Ordinary shareholders are entitled to receive notice and to attend and speak at any general meeting of the Company. There are no restrictions on the transfer of the Ordinary shares.

The Sterling Deferred shares only entitle the shareholder on winding up or on a return of capital to payment of the amount paid up after repayment to Ordinary shareholders. The Sterling Deferred Shares do not entitle the holder to payment of any dividend, or to receive notice or to attend and speak at any general meeting of the Company. The Company may also at its option redeem the Sterling Deferred Shares at a price of £1.00 or, as custodian, purchase or cancel the Sterling Deferred Shares or require the holder to transfer the Sterling Deferred Shares. Except at the option of the Company the Sterling Deferred Shares are not transferrable.

The changes in share capital are as follows:

	NUMBER OF SHARES	SHARE CAPITAL £000	SHARE CAPITAL US$000	SHARE PREMIUM US$000
Deferred Ordinary shares of £1 each issued and fully paid				
Ordinary shares issued to the initial shareholder	1	-	-	-
Allotment and issue of ordinary shares on 1 January 2008	49,999	50	-	-
Ordinary shares of £1 each issued and fully paid prior to re-designation as 50,000 £1 deferred ordinary shares on 4 March 2008	50,000	50	-	-
As at 31 December 2008	**50,000**	**50**	**-**	**-**
Ordinary shares of US$1.00 each issued and fully paid				
Shares issued pursuant to the Merger Agreement on 18 April 2008	634,270,000		634,270	-
Ordinary shares prior to capital reduction effective 24 April 2008	634,270,000		634,270	-
Ordinary shares of US$0.50 each issued and fully paid				
Shares following capital reduction effective 24 April 2008	634,270,000		317,135	-
Shares issued and paid pursuant to the Global Offer dated 9 May 2008	82,890,159		41,445	859,636
Transaction cost associated with issue of shares				(41,039)
As at 31 December 2008	**717,160,159**		**358,580**	**818,597**

Creation of Company and Pre-IPO Reorganisation

The Company was incorporated and registered in England and Wales on 15 August 2007 with an authorised share capital of £100 divided into 100 ordinary shares of £1.00 each. 1 share of £1.00 was issued. On 11 January 2008 the authorised share capital of the Company was increased to £50,000 and 49,999 shares were allotted and issued to Peñoles.

On 4 March 2008 the authorised share capital of the Company was increased by the creation of 1,000,000,000 ordinary shares of US$1.00 each and the 50,000 ordinary shares of £1.00 each were re-designated as 50,000 deferred shares of £1.00 each.

On 18 March 2008 the Company entered into a Merger Agreement with Compañía Fresnillo S.A. de C.V., the then holding company of subsidiaries constituting the precious metals mining business of Penoles, completing the Pre-IPO Reorganisation. Pursuant to the Merger Agreement, the Company became the holding company of the Fresnillo Group subsidiaries through the allotment and issue of 634,270,000 ordinary shares paid up as to their nominal value.

Reduction of share capital

Effective 24 April 2008, the share capital of the company was reduced by US$317,135,000 in accordance with Chapter 2 of Part 13 of the Companies Act 2006, by cancelling and extinguishing the paid up capital to the extent of US$0.50 upon each of the ordinary shares of US$1.00. The nominal value of each of the ordinary shares of the Company, whether issued or unissued, was reduced to US$0.50.

Re-registration of the Company as a public company

On 15 April 2008 the Company was re-registered as a public company.

Issuance of shares on IPO

On 14 May 2008 the Company successfully completed its IPO and Listed on the London Stock Exchange. A total number of 82,890,159 shares with a par value of US$0.50 each were issued at US$10.87 for total proceeds of US$901.1 million. Costs, net of deferred tax, related to the issuance of new shares taken against share premium amounted to US$41.0 million.

Reserves

Share premium

This reserve records the consideration premium for shares issued at a value that exceeds their nominal value.

Merger reserve

The merger reserve at 18 April 2008 represents the difference between the value of the net assets acquired as part of the pre-IPO reorganization and the nominal value of the shares issued pursuant to the Merger Agreement. Movements in this reserve during 2008 represent the impairment of the carrying value of Fresnillo's investments in subsidiaries transferred from retained earnings.

Unrealised losses on available-for-sale financial assets

This reserve records fair value changes on available-for-sale investments, net of tax. On disposal, the cumulative changes in fair value are recycled to the income statement.

Retained earnings

This reserve records the accumulated results of the Company, less any distributions and dividends paid.

10 DIVIDENDS PAID

The dividends declared and paid during the year ended 31 December 2008, were as follows:

	PER SHARE	AMOUNT
	US cents	$ million
Year ended 31 December 2008		
Interim dividend for 2008 declared and paid during the year	5.9	42.2
	5.9	**42.2**

This dividend was approved at the Board Meeting on 12 August 2008.

On 20 February 2009 the Directors proposed a final dividend of US cents 7.7 per share which is not reflected as a liability as at 31 December 2008.

11 TRADE AND OTHER PAYABLES

	31 December **2008**	31 December **2007**
	(in thousands of US dollars)	
Other taxes and contributions	2,140	-
Other payables to related parties (note 13)	830	-
Accrued expenses	114	-
	3,084	**-**

12 CONTINGENCIES

As of 31 December 2008, the Company has the following contingencies:

(a) The Company is subject to various laws and regulations which, if not observed, could give rise to penalties.

(b) Tax periods remain open to review by the Mexican tax authorities in respect of income taxes for five years following the date of the filing of the corporate income tax return, during which time the authorities have the right to raise additional tax assessments including penalties and interest. Under certain circumstances the reviews may cover longer periods.

In addition, because a number of tax periods remain open to review by the tax authorities, there is a risk that transactions, and in particular related party transactions, that have not been challenged in the past by the authorities, may be challenged by them in the future, and this may result in the raising of additional tax assessments plus penalties and interest. It is not practical to determine the amount of any such potential claims or the likelihood of any unfavourable outcome. However, management believes that its interpretation of the relevant legislation is appropriate and that the Company has complied with all regulations and paid or accrued all taxes and withholdings that are applicable.

(c) On 8 May 2008, the Company and Peñoles entered into the Separation Agreement (the "Separation Agreement"). This agreement relates to the separation of the Fresnillo Group ("the Group") and the Peñoles Group and governs certain aspects of the relationship between the Fresnillo Group and the Peñoles Group following the initial public offering in May 2008 ("Admission"). The Separation Agreement provides for cross-indemnities between the Company and Peñoles so that, in the case of Peñoles, it is held harmless against losses, claims and liabilities (including tax liabilities) properly attributable to the precious metals business of the Group and, in the case of the Company, it is held harmless by Peñoles against losses, claims and liabilities which are not properly attributable to the precious metals business. Save for any liability arising in connection with tax, the aggregate liability of either party under the indemnities shall not exceed US$250 million in aggregate.

Peñoles has agreed to indemnify the Fresnillo Group in relation to (i) any tax charge, subject to certain exceptions, the Company may incur as a result of the Pre-IPO Reorganisation (including as a result of a transaction following Admission of a member of the Fresnillo Group, provided that Peñoles has confirmed that the proposed transaction will not give rise to a tax charge, or as a result of a transaction of a member of the Peñoles Group on or after Admission), the Global Offer or Admission and (ii) certain tax aspects of certain other pre-Admission transactions. Peñoles' liability under these indemnities and in respect of general tax liabilities arising pre-Admission which are not properly attributable to the precious metals business of the Fresnillo Group shall not exceed US$500 million. If a member of the Fresnillo Group forming part of Peñoles' tax consolidation pays an intra-group dividend in excess of its CUFIN account after Admission and is relieved of tax as a result of the consolidation, it is required to pay Peñoles an amount in respect of that tax.

13 RELATED PARTY BALANCES AND TRANSACTIONS

Related parties are those entities owned or controlled by the ultimate controlling party, as well as those who have a minority participation in Fresnillo Group companies.

(a) Related party accounts receivable and payable

The Company had the following related party transactions during the year ended 31 December 2008 and the period ended 31 December 2007 and balances as at 31 December 2008 and 2007.

	ACCOUNTS RECEIVABLE		**ACCOUNTS PAYABLE**	
	31 December 2008	31 December 2007	31 December 2008	31 December2007
Loans granted / received and interest:				
Comercializadora de Metales Fresnillo, S.A. de C.V.	355,395	-	-	-
Exploraciones Mineras Parreña, S.A. de C.V.	700	-	-	-
Minera Fresnillo, S.A. de C.V.	-	-	42,000	-
	356,095	-	42,000	-
Trademark royalties:				
Minera Fresnillo, S.A. de C.V.	1,847	-	-	-
Minera Mexicana La Ciénega, S.A. de C.V.	470	-	-	-
	2,317	-	-	-
Administrative services:				
Fresnillo Management Services	-	-	555	-
Other	543	-	275	-
Sub-total	358,955	-	42,830	-
Less-Current portion	358,955	-	42,830	-
Non-current portion	-	-	-	-

Effective interest rates on loans granted to and received from related parties are as follows:

	ACCOUNTS RECEIVABLE		ACCOUNTS PAYABLE	
	31 December 2008	31December 2007	31 December2008	31December 2007
Comercializadora de Metales Fresnillo, S.A. de C.V. in US dollars	3.95%	-	-	-
Exploraciones Mineras Parreña, S.A. de C.V. in US dollars	3.95%	-	-	-
Minera Fresnillo, S.A. de C.V. in US dollars	-	-	3.95%	-

(b) Principal transactions between affiliates are as follows:

	Year ended 31 December **2008**	Period ended 31December **2007**
	(in thousands of US dollars)	
Income:		
Trademark Royalties:		
Minera Fresnillo, S.A. de C.V.	4,929	-
Minera Mexicana la Ciénega, S.A. de C.V.	20,012	
	24,941	
Interest on loans to related parties:		
Comercializadora de Metales Fresnillo, S.A. de C.V.	11,731	-
Other	315	-
	12,046	**-**
Other income	62	-
Total income	**37,049**	**-**

	Year ended 31 December **2008**	Period ended 31December **2007**
	(in thousands of US dollars)	
Expenses:		
Administrative services:		
Servicios Administrativos Fresnillo, S.A. de C.V.	1,080	-
Fresnillo Management Services	640	-
	1,720	**-**
Interest on loans from related parties:		
Industrias Peñoles, S.A.B. de C.V.	1,430	-
Other	222	-
	1,652	**-**
Other expenses:	174	-
Total expenses	**3,546**	**-**

14 AUDITOR'S REMUNERATION

The auditor's remuneration for the Company was US$1.0 million (2007: US$nil) in respect of the audit of its financial statements together with a proportion of the fees in relation to Fresnillo Group audit..

Fees paid to Ernst & Young LLP and its associates for non-audit services to the Company itself are not disclosed in the stand alone financial statements because Group financial statements are prepared which are required to disclose such fees on a consolidated basis.

15 NOTES TO THE CASH FLOW STATEMENT

	Notes	Year ended 31 December 2008	Period ended 31December 2007
		(in thousands of US dollars)	
Reconciliation of loss for the year to net cash generated from operating activities			
Loss for the year		(1,462,593)	-
Adjustments to reconcile loss for the year to net cash inflows from operating activities:			
Impairment charge	5	1,431,200	-
Income tax expense		23,928	-
Other expenses		5,607	-
Net finance income		(2,406)	-
Foreign exchange		25,882	-
Working capital adjustments			
Decrease in trade and other receivables		11,278	-
Increase in prepayments and other assets		(884)	-
Decrease in trade and other payables		(2,871)	-
Cash generated from operations		**29,141**	**-**
Income tax paid		(1,046)	-
Net cash from operating activities		**28,095**	**-**

16 FINANCIAL INSTRUMENTS

a) Fair values

The fair value of financial assets and liabilities, together with the carrying amounts shown in the balance sheet, are as follows:

	As of 31 December			
	CARRYING AMOUNT		FAIR VALUE	
	2008	2007	2008	2007
	(in thousands of US dollars)			
Financial assets:				
Cash and cash equivalents	57,117	-	57,117	-
Derivative financial instruments	2,409	-	2,409	-
Other receivables	359,494	-	359,494	-
Available-for-sale financial assets	45,530	-	45,530	-
Financial liabilities:				
Interest bearing loans and borrowings	42,000	-	42,000	-
Trade and other payables	3,084	-	3,084	-
Derivative financial instruments	13,838	-	13,838	-

b) Derivative financial instruments

During 2008 the Company has entered into certain forward contracts in order to reduce market risks derived from changes in sales price of base metals and foreign exchange arising from the activities of its subsidiaries. In the Group financial statements these derivatives are designated as cash flow hedges but for the purposes of the Company's stand alone financial statements the related hedged items are not held by the Company, so do not qualify as cash flow hedges.

The carrying value of these derivative contracts is detailed below:

				As of December	
				2008	2007
	TERM	TONNES	PRICE PER TONNE	FAIR VALUE	FAIR VALUE
			US$	(in thousands of US dollars)	
Commodity contracts					
Zinc forwards – US$ denominated contracts	2009	900	1,845	547	–
Lead forwards – US$ denominated contracts	2009	1,800	2,043 - 2,050	1,862	–

Base metals contracts held as at 31 December 2008 have maturity dates from January 2009 to December 2009 corresponding with when the sales in the subsidiaries selling zinc or lead are expected to occur.

				As of December	
				2008	2007
	TERM	CONTRACT VALUE	CONTRACT EXCHANGE RATE	FAIR VALUE	FAIR VALUE
			(in thousands of US dollars)		
Foreign currency contracts					
Mexican Peso denominated forward contracts	2009	60,000	MX$10.72:US$1 to MX$13.64:US$1	(13,838)	–

Foreign exchange contracts held as at 31 December 2008 have maturity dates from January 2009 to December 2009 corresponding with when the Peso denominated costs incurred by subsidiaries are expected to occur.

17 FINANCIAL RISK MANAGEMENT

Overview

The Company's principal financial assets and liabilities, other than derivatives, comprise trade receivables, cash, available-for-sale assets, interest bearing loans and borrowings granted to and from related parties and trade payables.

The Company has entered into derivative transactions with the purpose of managing base metals commodity price risk and foreign exchange risk arising in the Fresnillo Group as a result of transactions in its subsidiaries.

The Company has exposure to the following risks from its use of financial instruments:

a) Market risk, including foreign currency, commodity price, interest rate and equity price risks

b) Credit risk

c) Liquidity risk

This note presents information about the Company's exposure to each of the above risks and the Company's objectives, policies and processes for assessing and managing risk. Further quantitative disclosures are included throughout the financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Company risk management framework.

The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Fresnillo Audit Committee has the responsibility for overseeing how management monitors compliance with the Company's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Company. The Audit Committee is assisted in its oversight role by Internal Audit, which undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

(a) Market risk

Market risk is the risk that changes in market factors, such as foreign exchange rates, commodity prices or interest rates will affect the Company's income or the value of its financial instruments.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Foreign currency risk

The Company is exposed to foreign currency risk on transactions and balances that are denominated in a foreign currency (primarily the Mexican Peso and GBP Sterling) other than the Company's functional currency. Transactions in foreign currencies include the purchases of services and loans to subsidiaries. The Company also holds cash and cash equivalents in both the Mexican Peso and GBP Sterling.

The following table demonstrates the sensitivity of financial assets and financial liabilities to a reasonably possible change in the Mexican Peso compared to the US dollar on the Company's profit before tax, with all other variables held constant. It is assumed that the same percentage change in exchange rates is applied to all applicable exchange rates for the purposes of calculating the sensitivity with relation to derivative financial instruments:

Year ended 31 December	INCREASE/(DECREASE) IN EXCHANGE RATE	EFFECT ON PROFIT BEFORE TAX
		(in thousands of US dollars)
2008	10%	(4,437)
	(10%)	5,423
2007	10%	-
	(10%)	-

There is no impact on the Company's equity other than the equivalent change in retained earnings.

The Company's management considers that the potential impact demonstrated above is not significant and does not therefore currently undertake actions to actively manage this risk.

The following table demonstrates the sensitivity of financial assets and financial liabilities to a reasonably possible change in GBP sterling compared to the US dollar on the Company's profit before tax and equity, with all other variables held constant:

Year ended 31 December	INCREASE/(DECREASE) IN EXCHANGE RATE	EFFECT ON PROFIT BEFORE TAX	EFFECT ON EQUITY
		(in thousands of US dollars)	(in thousands of US dollars)
2008	10%	4,760	–
	(10%)	(6,236)	–
2007	10%	–	–
	(10%)	–	–

Commodity risk

The Company has exposure to changes in precious metal prices (specifically zinc and lead) as a result of forward derivative contracts held. These prices are subject to global economic conditions and industry-related cycles.

The following table demonstrates the sensitivity of financial assets and financial liabilities to a reasonably possible change in lead and zinc prices, reflecting the effect on the Company's profit before tax and equity, assuming the same percentage change in prices underlying the valuation of derivatives, with all other variables held constant:

Year ended 31 December	INCREASE/(DECREASE) IN LEAD AND ZINC PRICES	EFFECT ON PROFIT BEFORE TAX	EFFECT ON EQUITY
		(in thousands of US dollars)	(in thousands of US dollars)
2008	15%	(360)	–
	(15%)	360	–
2007	5%	–	–
	(5%)	–	–

Interest rate risk

The Company is exposed to interest rate risk from the possibility that changes in interest rates will affect future cash flows or the fair values of its financial instruments.

The Company's earnings are sensitive to changes in interest rates on the floating element of the Company's interest bearing loans and borrowings and loans due from related parties. There were no floating rate interest bearing loans and borrowings as at 31 December 2008.

The following table demonstrates the sensitivity of financial assets and financial liabilities to a reasonably possible change in interest rate applied to a full year from the balance sheet date:

Year ended 31 December	BASIS POINT INCREASE/ (DECREASE) IN INTEREST RATE	EFFECT ON PROFIT BEFORE TAX
		(in thousands of US dollars)
2008	100	3,712
	(100)	(3,712)
2007	100	–
	(100)	–

Equity price risk

The Company has exposure to changes in the price of equity instruments that it holds as available-for-sale assets.

The following table demonstrates the sensitivity of available-for-sale assets to a reasonably possible change in market price of these equity instruments, reflecting the effect on the Company's profit before tax and equity:

Year ended 31 December	INCREASE/(DECREASE) IN EQUITY PRICE OF AVAILABLE-FOR-SALE ASSETS	EFFECT ON PROFIT BEFORE TAX	EFFECT ON EQUITY
		(in thousands of US dollars)	(in thousands of US dollars)
2008	5%	184	2,092
	(5%)	(2,276)	–
2007	5%	–	–
	(5%)	–	–

(b) Credit risk

Exposure to credit risk arises as a result of transactions in the Company's ordinary course of business and is applicable to all financial assets. These financial assets are trade and other receivables, cash and cash equivalents and available-for-sale financial assets.

The Company's policies are aimed at minimising losses as a result of a counterparty's failure to honour its obligations. The Company's exposure to credit risk is influenced mainly by the individual characteristics of each counterparty. The Company's financial assets are with counterparties with what the Company considers to have an appropriate credit rating. As disclosed in note 7, the counterparties to a significant proportion of these financial assets are related parties. At each balance sheet date, the Company's financial assets were neither impaired nor past due.

The Company's surplus funds are managed by Servicios Administrativos Fresnillo, S.A. de C.V., which manages cash and cash equivalents investing in a number of financial institutions. In order to minimise exposure to credit risk, the Company only deposits cash and cash equivalents with financial institutions with a credit rating of P-1 (Moody´s) and mxA-1+ (Standards and Poors) and above, and only for periods of less than 30 days.

The maximum credit exposure to each category of financial asset above is detailed in the relevant notes. See note 13 for the maximum credit exposure to related parties balances and note 8 for maximum exposure to cash and cash equivalents.

(c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.

The Company monitors its risk of a shortage of funds using projected cash flows and by monitoring the maturity of both its financial assets and liabilities.

The table below summarises the maturity profile of the Company's financial liabilities based on contractual undiscounted payments.

	WITHIN 1 YEAR	1-2 YEARS	2-3 YEARS	> 3 YEARS	TOTAL
As at 31 December 2008					
Interest bearing loans and borrowings	43,659	–	–	–	43,659
Trade and other payables	830	–	–	–	830
Derivative financial instruments – assets	2,928	–	–	–	2,928
Derivative financial instruments – liabilities	60,000	–	–	–	60,000
As at 31 December 2007					
Interest bearing loans and borrowings	–	–	–	–	–
Trade and other payables	–	–	–	–	–
Derivative financial instruments	–	–	–	–	–

The disclosed financial derivative instruments in the above table are the gross undiscounted cash flows. However those amounts may be settled gross or net. The following table shows the corresponding estimated inflows based on the contractual terms:

	WITHIN 1 YEAR	1-2 YEARS	2-3 YEARS	> 3 YEARS	TOTAL
As at 31 December 2008					
Inflows	51,205	–	–	–	51,205
Outflows	(62,928)	–	–	–	(62,928)
Net	**(11,723)**	**–**	**–**	**–**	**(11,723)**

Management considers that the Company has adequate current assets and forecast cash from operations to manage liquidity risks arising from current liabilities and non-current liabilities.

Capital management

Subsequent to the IPO, the primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios that support its business and maximise shareholder value. Management considers capital to consist only of equity as disclosed in the balance sheet. In order to ensure an appropriate return for shareholder´s capital invested in the Company, management thoroughly evaluates all material projects and potential acquisitions and approves them at its Executive Committee before submission to the Board for ultimate approval, where applicable.

Fresnillo plc
OPERATING STATISTICS

	ORE PROCESSED (tonnes)				SILVER (grams/tonne)			
	2005	2006	2007	2008	2005	2006	2007	2008
Fresnillo	2,197,819	2,207,282	2,312,691	2,324,575	524.2	519.0	492.0	494.0
Ciénega	587,683	673,448	718,726	751,143	113.4	68.7	54.0	46.2
Herradura	7,780,864	8,789,794	10,869,234	13,609,318	0.5	0.9	1.0	0.6

	ZINC CONCENTRATE (tonnes)				SILVER (grams/tonne)			
	2005	2006	2007	2008	2005	2006	2007	2008
Fresnillo	23,850	27,522	24,102	21,922	2,321	2,387	2,090	2,212
Ciénega	20,783	19,338	18,486	21,806	377	267	202	162
Herradura	-	-	-	-	-	-	-	-

	LEAD CONCENTRATE (tonnes)				SILVER (grams/tonne)			
	2005	2006	2007	2008	2005	2006	2007	2008
Fresnillo	39,114	39,855	38,406	39,608	25,138	24,444	25,586	25,064
Ciénega	21,384	18,353	19,107	21,795	2,197	1,767	1,382	1,123
Herradura	-	-	-	-	-	-	-	-

DORÉ AND OTHER PRODUCTS

	PRODUCT (tonnes)				SILVER (grams/tonne)			
	2005	2006	2007	2008	2005	2006	2007	2008
Ciénega precipitates	13.1	11.8	16.5	18.8	202,815	144,748	100,543	80,665
Herradura doré	7.5	11.4	13.8	13.1	120,455	371,677	483,722	419,249
Herradura slag	145.2	192.2	325.0	420.6	908	1,437	3,429	3,255

METAL PRODUCED - ATTRIBUTABLE

	SILVER (ounces)				GOLD (ounces)			
	2005	2006	2007	2008	2005	2006	2007	2008
Fresnillo	33,391,520	33,434,271	33,211,717	33,475,904	27,981	28,943	25,728	23,553
Ciénega	1,847,753	1,262,996	1,022,207	949,574	146,116	150,527	143,719	116,903
Herradura	18,734	81,582	140,318	123,656	102,864	101,702	110,167	122,730
Fresnillo Total	35,258,007	34,778,849	34,374,242	34,549,134	276,961	281,171	279,614	263,185

METAL PRODUCED (INCLUDING PRODUCTION FROM FRESNILLO'S TAILINGS DAM)- ATTRIBUTABLE

	SILVER (ounces)				GOLD (ounces)			
	2005	2006	2007	2008	2005	2006	2007	2008
Fresnillo	33,924,871	33,658,884	33,520,617	33,775,660	28,695	29,245	26,246	24,008
Ciénega	1,847,753	1,262,996	1,022,207	949,574	146,116	150,527	143,719	116,903
Herradura	18,734	81,582	140,318	123,656	102,864	101,702	110,167	122,730
Fresnillo Total	35,791,358	35,003,462	34,683,142	34,848,889	277,675	281,474	280,132	263,640

GOLD (grams/tonne)				ZINC (%)				LEAD (%)			
2005	2006	2007	2008	2005	2006	2007	2008	2005	2006	2007	2008
0.59	0.60	0.51	0.47	0.89	1.01	0.83	0.76	0.51	0.54	0.45	0.42
8.22	7.33	6.55	5.14	3.32	2.43	2.15	2.32	2.13	1.50	1.39	1.46
0.91	0.81	0.75	0.72	0	0	0	0	0	0	0	0

GOLD (grams/tonne)				ZINC (%)				LEAD (%)			
2005	2006	2007	2008	2005	2006	2007	2008	2005	2006	2007	2008
3.7	3.6	3.1	2.9	52.6	52.3	51.2	51.5	-	-	-	-
13.1	12.4	11.4	7.9	52.9	52.8	51.8	51.5	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-

GOLD (grams/tonne)				ZINC (%)				LEAD (%)			
2005	2006	2007	2008	2005	2006	2007	2008	2005	2006	2007	2008
20.0	20.1	18.9	16.9					25.4	26.6	24.0	21.9
174.0	213.3	192.0	134.2					45.9	41.5	41.7	41.8
-	-	-	-	-	-	-	-	-	-	-	-

GOLD (grams/tonne)			
2005	2006	2007	2008
42,170	44,775	35,409	28,564
701,704	455,639	390,309	418,800
2,892	2,251	2,245	3,147

ZINC (tonne)				LEAD (tonne)			
2005	2006	2007	2008	2005	2006	2007	2008
12,542	14,381	12,349	11,277	9,932	10,611	9,219	8,685
10,995	10,205	9,571	11,237	9,813	7,617	7,958	9,109
23,537	24,586	21,920	22,515	19,744	18,227	17,177	17,793

ZINC (tonne)				LEAD (tonne)			
2005	2006	2007	2008	2005	2006	2007	2008
14,738	14,792	12,349	11,277	9,932	10,611	9,219	8,685
10,995	10,205	9,571	11,237	9,813	7,617	7,958	9,109
25,733	24,997	21,920	22,515	19,745	18,228	17,177	17,793

RESERVES AND RESOURCES TABLES

Fresnillo plc December 31st 2008 Consolidated Mineral Resource Statement[1]

RESOURCE CATEGORY	MEASURED & INDICATED (Mt)	INFERRED (Mt)	SILVER (g/t)	GOLD (g/t)	SILVER (Moz)	GOLD (Moz)
Minera Fresnillo						
Measured	6.79		814	0.86	177.7	0.188
Indicated	19.87		507	0.77	323.7	0.491
Measured & Indicated	26.66		585	0.79	501.4	0.679
Inferred		7.38	369	0.62	87.6	0.148
Ciénega						
Measured	4.43		104	3.81	14.8	0.543
Indicated	9.88		111	3.06	35.2	0.972
Measured & Indicated	14.31		109	3.29	50.0	1.515
Inferred		10.55	97	2.51	33.0	0.851
Herradura[2]						
Measured	57.37		0.25	0.60	0.5	1.111
Indicated	66.98		0.25	0.60	0.5	1.303
Measured & Indicated	124.35		0.25	0.60	1.0	2.414
Inferred		44.8	0.25	0.48	0.4	0.696
Soledad & Dipolos[2]						
Measured	16.51		0.0	0.52	0.0	0.274
Indicated	13.63		0.0	0.49	0.0	0.213
Measured & Indicated	30.14		0.0	0.50	0.0	0.487
Inferred		23.85	0.0	0.46	0.0	0.356
Saucito (M. Saucito)						
Indicated	1.8		438	5.42	25.4	0.314
Measured & Indicated	1.8		438	5.42	25.4	0.314
Inferred		1.5	278	4.28	13.4	0.206
Santa Natalia (M.Saucito)						
Inferred		3.88	386	0.52	48.1	0.065
Valdecañas(M Juanicipio)[3]						
Indicated	2.14		783	2.08	53.9	0.143
Measured & Indicated	2.14		783	2.08	53.9	0.143
Inferred		6.63	601	1.76	128.1	0.375
Valdecañas (M.Saucito)						
Indicated	0.06		534	0.53	1.1	0.001
Measured & Indicated	0.06		534	0.53	1.1	0.001
Inferred		2.12	575	1.36	39.1	0.092
Jarillas (M.Saucito)						
Indicated	2.78		469	1.31	42.0	0.117
Measured & Indicated	2.78		469	1.31	42.0	0.117
Inferred		5.48	365	1.45	64.2	0.256
San Julián						
Inferred Veins		4.80	229	2.47	35.3	0.381
Inferred Diseminations		8.06	239	0.10	62.0	0.026
San Juan						
Indicated	0.76		144	3.92	3.5	0.096
Measured & Indicated	0.76		144	3.92	3.5	0.096
Inferred		1.69	116	3.89	6.3	0.211
Orisyvo O/P						
Inferred		69.41	0.0	1.26	0.0	2.804
Totals						
Measured & Indicated	202.99		104	.88	678.4	5.766
Inferred		190.15	85	1.06	517.5	6.467

(1) Mineral resources are reported inclusive of mineral reserves. Mineral resources are not mineral reserves and do not have demonstrated economic viability. All figures rounded to reflect the relative accuracy of the estimates. Gold, silver, lead and zinc assays were capped where appropriate. Mineral resources are reported at variable metal equivalent cut-off grades based on variable metal price assumptions and assuming 100 percent metal recovery.

(2) Mineral resources quoted reflect the Fresnillo plc's attributable 56% ownership of the Penmont joint venture.

(3) Portions of the Valdecañas deposit within the Minera Juanicipio SA property where Fresnillo plc holds a 56 percent interest.

Fresnillo plc December 31st 2008 Consolidated Mineral Reserve Statement

RESERVE CATEGORY	PROVEN & PROBABLE (Mt)	SILVER (g/t)	GOLD (g/t)	SILVER (Moz)	GOLD (Moz)
Minera Fresnillo					
Proven	5.76	492	0.53	91.1	0.098
Probable	22.81	383	0.60	280.9	0.440
Proven & Probable	28.57	405	0.59	372.0	0.538
Ciénega					
Proven	2.85	111	4.06	10.2	0.372
Probable	6.91	120	3.70	26.7	0.821
Proven & Probable	9.76	118	3.80	36.9	1.193
Herradura(1)					
Proven	31.20	0.5	0.90	0.5	0.906
Probable	37.03	0.5	0.90	0.6	1.069
Proven & Probable	68.23	0.5	0.90	1.1	1.975
Soledad/Dipolos(1) (2)					
Proven	10.58	0.0	0.69	0.0	0.233
Probable	8.24	0.0	0.66	0.0	0.175
Proven & Probable	18.82	0.0	0.67	0.0	0.408
Fresnillo plc Total					
Proven	50.39	63	0.99	101.8	1.609
Probable	74.99	128	1.04	308.2	2.505
Proven & Probable	125.38	102	1.08	410.0	4.114

(1) Mineral reserves quoted reflect the Fresnillo plc's attributable 56% ownership of the Penmont joint venture.

(2) SRK has not yet reviewed the technical economic study supporting the Soledad/Dipolos reserves. For this reason the Soledad/Dipolos reserves reported by Fresnillo plc have not yet been audited by SRK.

GLOSSARY

Annual Report
The annual report of Fresnillo plc for the year ended 31 December 2008 and comprising the Chairman's Letter, Chief Executive's Statement, Business Review, Directors Report, Corporate Governance Report, Directors Remuneration Report, the Financial Statements and accompanying notes

AGM or Annual General Meeting
The annual general meeting of the Company which is scheduled to be held on Wednesday 27 May 2009 at 11.30am in the offices of Linklaters LLP at One Silk Street London EC2Y 8HQ

Articles of Association
The articles of association of the Company which took effect on 1 October 2008

Audit Committee
The audit committee of the Board

Board
The board of directors of the Company

Capex
Capital expenditures; expenditures not classified as operating costs

CBGA
Central Bank Gold Agreement, a multilateral agreement by which central banks agree a framework for trading in gold reserves

Combined Code
The Combined Code on Corporate Governance published by the Financial Reporting Council dated June 2006 as amended

Comex
US Commodity Exchange

Company [see also Fresnillo plc]
Fresnillo plc, a company incorporated under the Companies Act 1985 and registered in England and Wales with registered number 6344120

Concentrate
A metal-rich product resulting from a mineral enrichment process such as gravity concentration or flotation, in which most of the desired mineral has been separated from the waste material in the ore

Concentrator
Equipment used in the reduction of ore

Cut and fill
A method of stoping in which ore is removed in slices and the resulting excavation filled with waste material (backfill) which supports the walls of the stope when the next cut is mined

Dilution
Waste, which is unavoidably mined with ore

Diamond drilling
A drilling method where the rock is cut with a diamond bit attached to hollow rods; it cuts a core of rock, recovered in cylindrical sections for geological analysis

Directors
The directors of the Company

Doré
Doré bullion is an impure alloy of gold and silver and is generally the final product of mining and processing; the doré bullion will be transported to be refined to high purity metal.

DTR
The disclosure and transparency rules made by the FSA

EBITDA
Gross profit plus depreciation included within cost of sales, less administrative expenses and exploration expenses.

EPS
The amount of attributable profit available to equity shareholders, as calculated by dividing attributable profit for the period by the weighted average number of ordinary shares in issue during the period.

ETF
Exchange traded funds

Executive Committee
The executive committee of the Board

Executive Directors
The executive directors of the Company

Feasibility study
A comprehensive engineering estimate of all costs, revenues, equipment requirements and production levels likely to be achieved if a mine is developed; the study is used to define the technical and economic viability of a project and to support the search for project financing

Financial Statements
The company and parent company financial statements of the Company and accompanying notes for the year ended 31 December 2008

Flotation
A recovery process by which valuable minerals are separated from waste to produce a concentrate; selected minerals are induced to become attached to air bubbles and float

Fresnillo Group
Fresnillo plc and its subsidiary undertakings

Fresnillo plc [see also Company]
A company incorporated under the Companies Act 1985 and registered in England and Wales with registered number 6344120

FSA
The Financial Services Authority of the United Kingdom

FTSE 100
Financial Times Stock Exchange Index of the top 100 companies by capitalisation

GJ
Gigajoules

Global Offering [also IPO, Listing]
The listing of the Company's Ordinary Shares on the London Stock Exchange on 14 May 2008

g/t
Grams per tonne

Grade
The measure of concentration of metal within mineralised rock

Haulage
A horizontal underground excavation which is used to transport mined ore

Heap leaching
A process by which crushed ore is irrigated with a dilute cyanide solution that percolates through the heap and leaches out the precious metal

Hectare
A unit of area equal to 10,000 square metres, or 2.47 acres

Hoist
Equipment used in underground mining to raise and lower conveyances within the mine shaft

HSECR Committee
Health, Safety, Environment and Community Relations Committee

IAS
International Accounting Standards

IFRS
International Financial Reporting Standards

Independent Non-executive Directors
The non-executive directors of the Company who are independent of Peñoles as defined by the Relationship Agreement

IPO [also Listing, Global Offering]
Initial Public Offering; the listing of the Company's Ordinary Shares on the London Stock Exchange on 14 May 2008

ISO 14001
An international environmental management system standard published by the International Organisation for Standardisation

GAAP
Generally Accepted Accounting Principles

JORC
Joint Ore Reserves Committee

JORC Code
Code developed by the Australian Joint Ore Reserves Committee for reporting mine reserves and resources

Jumbo
Drill rig equipped with multiple drills mounted on a mobile carriage

JV
Joint venture

Knelson gravimetric concentrator
A fluidized centrifuge that separates heavy material such as gold from lighter background material; applied to materials in which the heavy component to be recovered is a very small fraction of the total material, generally less than 500 grams/tonne or 0.05% by weight

kOz
Thousand troy ounces

KPI
Key Performance Indicator

kt
Thousand tonnes

Leaching
The process by which soluble constituents are dissolved and carried down through the soil by a percolating fluid

LIBOR
London Inter Bank Offer Rate

Listing [also Global Offering, IPO]
The listing of the Company's Ordinary Shares on the London Stock Exchange on 14 May 2008

Listing Rules
Rules relating to the admission to the official List maintained by the Financial Services Authority in accordance with the Financial Services and Markets Act 2000

LME
London Metals Exchange

Load-Haul-Dump machines
A vehicle with a large bucket on the front used for transporting ore to crushing stations

LSE
London Stock Exchange plc

M^3
Cubic metres

Met-Mex
Met-Mex Peñoles, S.A. de C.V., the operator of a refining and smelting facility in Torréon (a 100% subsidiary of Peñoles)

Met-Mex Arrangements
A series of contracts between the Company and Met-Mex for the sale of the primary products from the Group's mines, silver- and gold-rich lead and zinc concentrates

Milling or milled ore
A general term used to describe the process in which the ore is crushed and ground and subjected to physical or chemical treatment to extract the valuable metals to a concentrate or finished product

Mineralisation
Any mass of host rock in which minerals of potential commercial value occur

Minera Juanicipio S.A. de C.V.
A joint venture company with MAG Silver Corporation in which Fresnillo plc has a 56% interest

Minera Penmont S. de R.L. de C.V.
A joint venture company with Newmont Mining Corporation in which Fresnillo plc has a 56% interest

MXN
Mexican peso

Nominations Committee
The nominations committee of the Board

Non-executive Directors
The non-executive Directors of the Company

Ordinary Shares
Ordinary shares of $0.50 each in the Company

Ore
Material that contains one or more minerals, at least one of which has commercial value and which can be recovered at a profit

Ore body
A continuous well-defined mass of material of sufficient mineral content to make extraction economically feasible

Ore grade
The classification or value of ore

OTC
Over the counter

Ounce
Troy ounce

Payable Silver
The amount of silver in ounces contained in concentrates from Peñoles' Sabinas mine

Peñoles
Industrias Peñoles S.A.B. de C.V.

Peñoles Group
Peñoles and its subsidiary undertakings

Pre-IPO Reorganisation
A reorganisation conducted by Peñoles in preparation for the Global Offer which completed on 18 April 2008, whereby the companies comprising the precious metals mining business of Peñoles were reorganised under the Company

Primary silver producer
A company generating over 50% of its revenue from silver production

PROFEPA
The Mexican Federal Environmental Protection Agency (*Procuraduria Federal de Protección al Ambiente*)

Prospect
A mineral deposit with insufficient data available on the mineralisation to determine if it is economically recoverable, but warranting further investigation

Remuneration Committee
The remuneration committee of the Board

Relationship Agreement
The relationship agreement between Peñoles and the Company dated 8 May 2008

Reserves
The economically mineable portions of mineral resources, which are sub-divided into two categories of increasing confidence: probable reserves relate to indicated mineral resources; and proven reserves relate to measured mineral resources

Resources
A concentration or occurrence of material of intrinsic economic interest in or on the Earth's crust in such form, quality and quantity that there are reasonable prospects for eventual economic extraction; mineral resources are sub-divided, in order of increasing geological confidence, into inferred, indicated and measured categories

SEMARNAT
Federal Ministry of Environment and Natural Resources (*Secretaría de Medio Ambiente y Recursos Naturales*)

Servicios Peñoles
Servicios Industriales Peñoles S.A. de C.V.

Shaft
An opening cut downwards from the surface for transporting personnel, equipment, supplies, ore and waste

Shotcrete
Concrete or mortar conveyed through a hose and pneumatically projected at high velocity onto any type or shape of surface, including vertical or overhead areas; shotcrete undergoes placement and compaction at the same time due to the force with which it is projected from the nozzle

Silver equivalent ounces
Group's total gross sales before hedging losses divided by the average silver price for the period

Silverstream Arrangements
A series of the 12 agreements between Comercializadora de Metales Fresnillo, S.A. de C.V. and Peñoles pursuant to which the Fresnillo Group has the right to receive all proceeds for the Payable Silver

SIPSA
Servicios Industriales Peñoles. S.A. de C.V.

SIPSA Agreement
The transitional services agreement between SIPSA and the Company dated 8 May 2008 for the provision of administrative and non-administrative services to the Fresnillo Group

Smelting
A high temperature pyrometallurgical operation conducted in a furnace, in which the valuable metal is collected to a molten matte or doré phase and separated from the gangue components that accumulate in a less dense molten slag phase

SSSMARC
The Fresnillo Group Health, Safety, Environment and Community Relations System (*Sistema de Salud, Seguridad, Medio Ambiente y Relaciones con la Comunidad*)

Sterling Deferred Shares
Deferred shares of £1.00 each in the share capital of the Company

Stope
Underground void created by mining

Strike
Direction of line formed by the intersection of strata surfaces with the horizontal plane, always perpendicular to the dip direction

Tailings dam
A dammed reservoir to which the slurry is transported, where the solids settle and the supernatant liquid may be withdrawn

TEP
Termoeléctrica Peñoles S. de R.L. de C.V.

Tonne
Metric tonne = 1,000 kilograms

tpd
Tonnes per day

tpy
Tonnes per year

Treatment charges
Fees payable by mines to smelters for processing concentrates

Turnbull Guidance
Guidance issued by the Institute of Chartered Accountants in England & Wales in 1999 concerning the implementation of the requirements of the Combined Code concerning internal control

UK£
United kingdom pounds sterling

UKLA
The United Kingdom Listing Authority

US$
United States dollar

SHAREHOLDER INFORMATION

FINANCIAL CALENDAR

Preliminary Statement:	23 February 2009
First Interim Management Statement:	15 April 2009
Annual General Meeting:	27 May 2009
Interim Statement:	17 August 2009
Second Interim Management Statement:	14 October 2009

DIVIDEND PAYMENT SCHEDULE

2008 Final Dividend Record Date:	8 May 2009
2008 Final Dividend Payment Date:	29 May 2009
2009 Interim Dividend Record Date:	28 August 2009
2009 Interim Dividend Payment Date:	18 September 2009

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WARNING TO SHAREHOLDERS - BOILER ROOM SCAMS

Over the last year, many companies have become aware that their shareholders have received unsolicited phone calls or correspondence concerning investment matters. These are typically from overseas based 'brokers' who target UK shareholders, offering to sell them what often turn out to be worthless or high risk shares in US or UK investments. These operations are commonly known as 'boiler rooms'. These 'brokers' can be very persistent and extremely persuasive, and a 2006 survey by the Financial Services Authority (FSA) has reported that the average amount lost by investors is around £20,000.

It is not just the novice investor that has been duped in this way; many of the victims had been successfully investing for several years. Shareholders are advised to be very wary of any unsolicited advice, offers to buy shares at a discount or offers of free company reports. If you receive any unsolicited investment advice:

- Make sure you get the correct name of the person and organisation
- Check that they are properly authorised by the FSA before getting involved by visiting www.fsa.gov.uk/register
- Report the matter to the FSA either by calling 0845 606 1234 or visiting www.moneymadeclear.fsa.gov.uk
- If the calls persist, hang up.

If you deal with an unauthorised firm, you will not be eligible to receive payment under the Financial Services Compensation Scheme. The FSA can be contacted by completing an online form at www.fsa.gov.uk/pages/doing/regulated/law/alerts/overseas.shtml.

Details of any share dealing facilities that the Company endorses will be included in Company mailings.

More detailed information on this or similar activity can be found on the FSA website www.moneymadeclear.fsa.gov.uk

FORWARD LOOKING STATEMENTS

This document includes statements that are, or may be deemed to be, "forward-looking statements". These forward-looking statements can be identified by the use of forward-looking terminology, including the terms "believes", "estimates", "plans", "projects", "anticipates", "expects", "intends", "may", "will", or "should" or, in each case, their negative or other variations or comparable terminology, or by discussions of strategy, plans, objectives, goals, future events or intentions. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this document and include, but are not limited to, statements regarding the Group's intentions, beliefs or current expectations concerning, among other things, the Group's results of operations, financial position, liquidity, prospects, growth, strategies and the silver and gold industries. By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances.

Forward-looking statements are not guarantees of future performance and the actual results of the Group's operations, financial position and liquidity, and the development of the markets and the industry in which the Group operates, may differ materially from those described in, or suggested by, the forward-looking statements contained in this document. In addition, even if the results of operations, financial position and liquidity, and the development of the markets and the industry in which the Group operates are consistent with the forward-looking statements contained in this document, those results or developments may not be indicative of results or developments in subsequent periods. A number of factors could cause results and developments to differ materially from those expressed or implied by the forward-looking statements including, without limitation, general economic and business conditions, industry trends, competition, commodity prices, changes in regulation, currency fluctuations (including the US dollar and Mexican peso exchange rates), the Group's ability to recover its reserves or develop new reserves, including its ability to convert its resources into reserves and its mineral potential into resources or reserves, changes in its business strategy, political and economic uncertainty.

Forward-looking statements may, and often do, differ materially from actual results. Any forward-looking statements in this document speak only as of the date of this document, reflect the Group's current view with respect to future events and are subject to risks relating to future events and other risks, uncertainties and assumptions relating to the Group's operations, results of operations, growth strategy and liquidity. Investors should specifically consider the factors identified in this document which could cause actual results to differ before making an investment decision. Subject to the requirements of the Prospectus Rules, the Disclosure and Transparency Rules and the Listing Rules or applicable law, the Group explicitly disclaims any obligation or undertaking publicly to release the result of any revisions to any forward-looking statements in this document that may occur due to any change in the Group's expectations or to reflect events or circumstances after the date of this document.

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