

LEADERSHIP QUALITY SUSTAINABLE GROWTH

Fresnillo plc 2009 ANNUAL REPORT



Fresnillo plc is the leading primary silver producer in the world and the second largest gold producer in Mexico. We have a long track record in profitable exploration, development and mine operations.

Beyond our past achievements and current performance, what sets us apart is the opportunity that still lies ahead: our world-class precious metal assets, an exceptional portfolio of development and exploration prospects, proven execution capabilities and commitment to social responsibility. Together, these form the foundation of truly sustainable growth that creates value for all our stakeholders.

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What sets us apart, however, isn't our past achievement or current position, but rather the opportunity that still lies ahead. We have world-class precious metal assets and an exceptional portfolio of development projects and exploration prospects, which combined with the quality of our people, proven execution capabilities and commitment to social responsibility form the foundation of truly sustainable growth.

THE GROUP AT A GLANCE

Who we are

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

What we do

Our goal is to maintain the Group's position as the world's largest primary silver company, producing 65 million ounces of silver and 400,000 ounces of gold by 2018.



1 SONORA



2 CHIHUAHUA



3 DURANGO



4 ZACATECAS

↑
OPERATE

World - Class precious metal mines

↑
DEVELOP

New low-cost mines, at rate of one per year as of 2010

↑
EXPLORE

High potential silver and gold prospects

COMPETITIVE ADVANTAGES

LEADERSHIP - QUALITY - SUSTAINABLE GROWTH

- Highly experienced management team with a proven track record
- Largest precious metals land reserve in Mexico
- Lowest quartile of the cash cost curve in our industry
- Healthy balance sheet, no debt
- Double digit reserve life at all mines
- Aim of one new mine or expansion per year until 2014

Our Operations



OPERATING MINES

- Fresnillo**
(underground)
Production:
35.4 million ounces of silver
24,684 ounces of gold
- Ciénega**
(underground)
Production:
1.6 million ounces of silver
103,510 ounces of gold
Expansion programme underway
- Herradura**
(open pit)
Attributable production:
0.2 million ounces of silver
145,510 ounces of gold



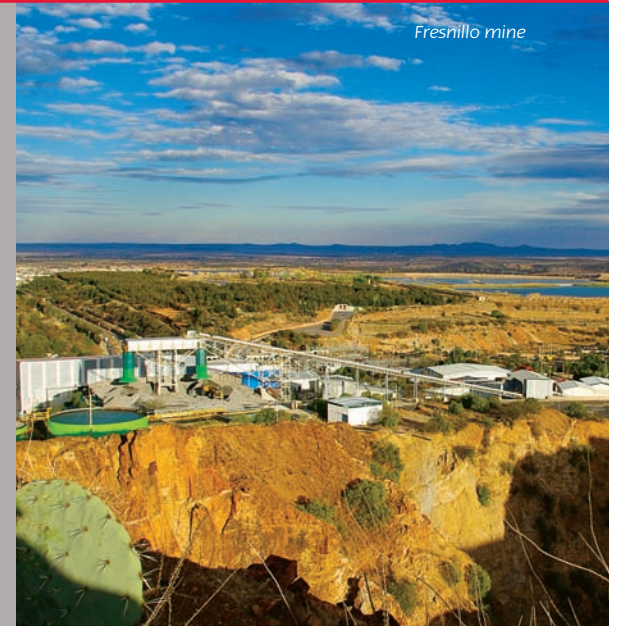
MINES IN DEVELOPMENT

- Soledad-Dipolos**
(open pit)
(commercial production 1Q 2010)
Expected attributable production:
56,000 ounces of gold
- Saucito**
(underground)
(commercial production 1H 2011)
Expected annual production, year one:
4.7 million ounces of silver
22,500 ounces of gold
Ramping up to annual production, starting year three:
9.0 million ounces of silver
45,000 ounces of gold

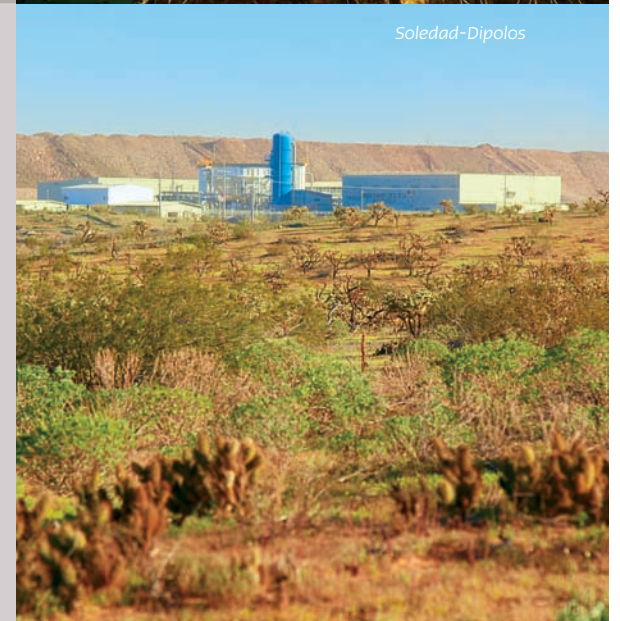


EXPLORATION PROJECTS

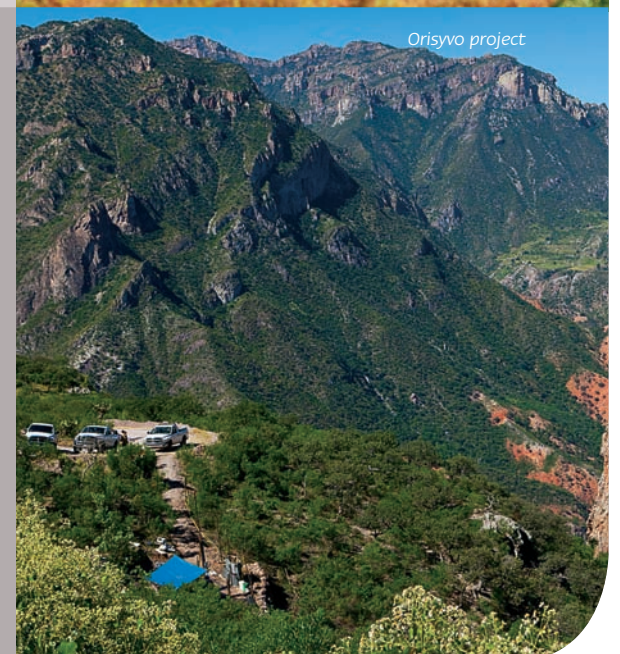
- Advanced development:**
Saucito expansion
Noche Buena
- Advanced prospects:**
Juanicipio
- San Julián
 - Orisyvo
San Ramón
Las Casas
 - San Juan
San Nicolás
Lucerito
Sombrerete
Fresnillo Perú
- Long-term prospects:**
Centauro Deep



Fresnillo mine



Soledad-Dipolos



Orisyvo project

HIGHLIGHTS FROM THE YEAR

Fresnillo plc has delivered another year of strong performance.

→ LEADERSHIP

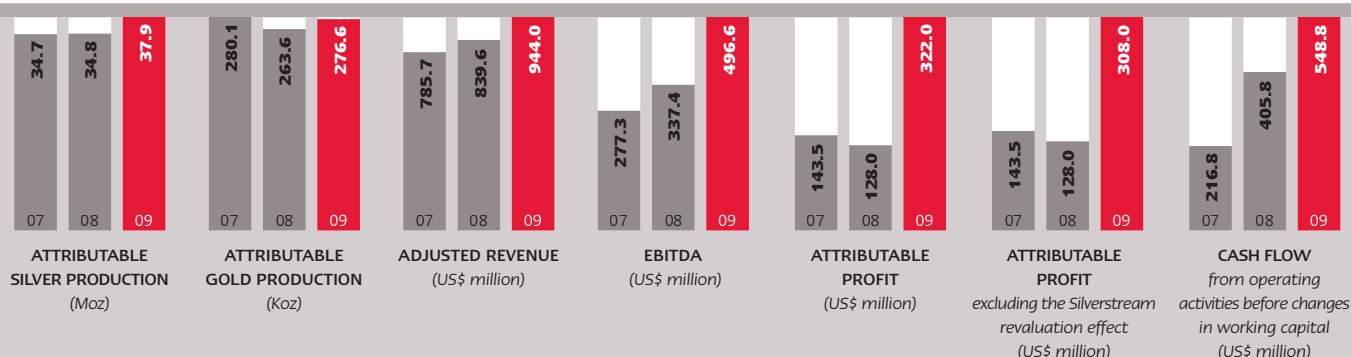
- Record attributable silver production of 37.9 million ounces, up 8.8% over 2008
- Gold production of 276,584 ounces, up 4.9%

→ QUALITY

- Adjusted revenue¹ up 12.4% to US\$944.0 million
- Operating profit up 51.2% to US\$428.8 million
- Production costs place us in a leading position in the precious metals mining industry
- Robust balance sheet with strong cash position and no debt

→ SUSTAINABLE GROWTH

- Double digit increase in the total resources base
- Soledad-Dipolos development works completed ahead of schedule and within budget
- Mineralisation extended at all advanced exploration prospects and further exploration land acquired



A LOOK AHEAD AT 2010

- Silver production expected to be in line with 2009
- Gold production expected to be higher reflecting Soledad-Dipolos contribution
- Saucito construction on track, with planned start up in 2011
- Larger exploration budget
- Stable ore grades
- Continued focus on improvement in safety performance

¹ Adjusted revenue is revenue as disclosed in the income statement adjusted to exclude hedging effects and treatment and refining charges.

LETTER FROM THE CHAIRMAN



Dear Shareholders,

It is a privilege to report that Fresnillo plc has delivered another year of strong performance. As we stated at the time of the Group's initial public offering in 2008, we are committed to maintaining our position as the world's largest primary silver producer, with the goal of producing 65 million ounces of silver and 400,000 ounces of gold per year by 2018. Results in 2009 indicate we are firmly on track, with strong operational performance, quality and sustainable growth across our operations.

The Group more than delivered on its commitments during the past year. Silver production reached record levels, planned cost reduction and efficiency projects were completed, and progress at exploration and development sites was on target, with the start-up of Soledad-Dipolos ahead of schedule and within budget. Indicators of future performance remained strong, with double-digit mine life and a significant increase in total ore resources. These results further underscore the Group's strong competitive advantages:

- Global leadership in the primary production of silver
- Operational excellence and low-cost production
- A robust resource base and exceptional growth portfolio
- A large land position in Mexico, which provides an attractive environment for mining activities
- Management's proven execution capabilities
- Strong balance sheet
- An enduring commitment to corporate responsibility

OUR STRATEGY

LEADERSHIP – QUALITY – SUSTAINABLE GROWTH

- Continuing the sustainable development of the group
- Maximising the potential of existing operations
- Delivering growth through development projects
- Extending the growth pipeline
- Maintaining strict financial discipline

We enter 2010 well-positioned to deliver continued growth.

The rise in Fresnillo plc's share price accompanied a rally in precious metal prices. Nonetheless, we believe that our ranking as the top performer in 2009 among gold and silver miners in the FTSE350 Index, and number three among all mining companies in that Index, are evidence of the market's recognition of our operational performance and the quality of our asset base.

The Company has the fundamental ingredients for long-term sustainable growth. The Board utilises a number of indicators, as set out in this report, to monitor the implementation of the Group's value-creation strategy and to measure its effectiveness in delivering against objectives.

We enter 2010 well-positioned to deliver continued growth. As of today, gold and silver prices are significantly higher than they were one year ago, buoyed by momentum in investment demand and signs of a global economic recovery. The start up of Soledad-Dipolos as an operating mine will boost attributable gold production by an expected 20%. Major construction on the first stage of the Saucito mine will near completion during the coming year, and ore from the project is already being processed in the Fresnillo mill and contributing to silver production.

We have authorised a 58% increase in the 2010 exploration budget to US\$77.6 million, which is commensurate

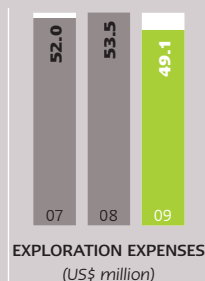
with our expectations of financial performance. Our focus remains on consolidating mining districts, expanding the growth platform and ensuring that our reserve and resource base are of the highest quality. To that end, the Group will pursue acquisition opportunities that may arise if they are value accretive to our shareholders and comply with our strategic and financial return criteria. (See Strategy and KPIs on pages 10 to 15)

I would like to extend my appreciation to my fellow Board members for their dedication and invaluable advice. This diverse group of professionals combine a wealth of experience and perspectives to enhance the strategy and governance of the organisation. I would also like to commend the Group's executives and employees for their impressive execution against objectives this year, demonstrating the strength of their commitment and teamwork.

Alberto Baillères

NON-EXECUTIVE CHAIRMAN

58%
increase in the 2010
exploration budget
to US\$77.6 million



SUSTAINABLE GROWTH

Exploration is a cornerstone
of our growth strategy

CHIEF EXECUTIVE'S STATEMENT



Dear Shareholders,

I am pleased to report a year of significant operational progress: record attributable silver production, the completion of development works and start-up of operations at Soledad-Dipolos, advances at the Saucito project, substantial increase in total resources, and mineralisation extended at our major exploration prospects. We enter 2010 with a strong cash position and no debt.

These results are the outcome of a strategy designed to create value across precious metals cycles: a focus both on operational excellence in maximising current assets, and on delivering long-term growth through ore reserve replacement and expansion into new projects.

We have a strong foundation upon which to deliver on this commitment to stakeholders:

- **Leadership:** The Fresnillo Group is the world's leading primary silver producer and Mexico's second largest gold producer. Among our global precious metals peers, we are ranked in the lowest quartile on the cash cost curve. Leadership is also an attribute exemplified on the ground through our people. The Group's professionals make a substantial difference in where we choose to explore, how prospects are evaluated, the pace at which projects are developed, the efficiency with which we operate our assets, and the effectiveness of our administrative processes.
- **Quality:** We have world-class, low-cost precious metal assets, including the largest silver mine in the world. At 31 December 2009 we had double-

Focused on increasing productivity, reducing costs, expanding the resource and reserve base, and strengthening our growth pipeline.

digit reserve life at all our mines and attributable reserves of 374.0 million ounces of silver and 4.3 million ounces of gold. This is an indication of the quality of our mine development and exploration efforts.

- Sustainable growth:** We have an extensive portfolio of high quality exploration projects and prospects, along with the largest land position for precious metals exploration and mining in Mexico. In 2009 we once again extended mineralisation at all advanced exploration prospects and further consolidated our mining districts. At 31 December 2009, total attributable resources included 1,289.0 million ounces of silver (2008: 1,115.9 Moz) and 13.9 million ounces of gold (2008: 12.0 Moz). Our aim is to deliver one new mine or mine expansion a year for the next four years, starting with Soledad-Dipolos.

These attributes are backed up by our commitment to sustainable development. We have developed a comprehensive health, safety and environmental management system that integrates personnel training and development. In addition, we invest in conservation and biodiversity efforts and closely collaborate with communities to ensure that our growth is truly sustainable.

OPERATING AND FINANCIAL RESULTS

In 2009 we delivered strong performance and made progress across all our KPIs (see KPIs on pages 12 to 15). Attributable silver production achieved a new record, rising 8.8% over

2008 to 37.9 million ounces. This was largely as a result of an increase in ore volumes milled at Fresnillo, higher metal contents extracted from the development works at Saucito, and higher silver ore grade at Ciénega.

Attributable gold production surpassed our expectations, rising 4.9% to 276,584 ounces. Greater throughput at Herradura and Fresnillo helped compensate for the lower average gold ore grade at Ciénega. Total gold production at Herradura reached an all-time record with 259,839 ounces. Production at Ciénega has now been stabilised at approximately 100,000 ounces per year; furthermore, a capacity expansion project was approved for 2010 with higher production expected in 2011.

Lead and zinc production, by-products of the Fresnillo and Ciénega mines, declined 3.0% and 13.3% against 2008, respectively, due to lower grades at Ciénega.

Market conditions and metals prices evolved favourably over the course of the year. By the second half of 2009, gold staged a remarkable rally and rose to new historic levels, while silver largely recovered the ground it had lost at year-end 2008. For 2009 as a whole, the market price for gold averaged US\$972.98 per ounce, compared to US\$871.71 per ounce in 2008, while the average market silver price was US\$14.67 per ounce, compared to US\$14.97 per ounce in 2008.

WHAT WE EXPECTED TO ACHIEVE IN LAST YEAR'S ANNUAL REPORT	HOW WE PERFORMED
Production at Fresnillo: in line with 2008	Silver production rose 4.9%
Production at Ciénega: in line with 2008 production	Silver production rose 67.3% but gold declined 11.5%
Production at Herradura: small increase over 2008 production	Significant 18.6% increase in attributable gold production, 38.5% in silver
Completion of construction at Soledad-Dipolos	Accomplished ahead of time and within budget; first dore bar poured on 9 December 2009
Pre-feasibility study for first stage at Saucito; upgrade/expansion of ore resources	Accomplished

A number of input costs were higher in the year when compared to 2008, particularly drilling steel, sodium cyanide and tyres, but the average 21.4% devaluation of the Mexican peso against the US dollar meant that costs denominated in pesos, representing approximately 70% of total production costs, were significantly reduced when converted to US dollars. Combined with greater ore throughput, this served to decrease costs per tonne at all three operating mines. We also worked more efficiently this year, as measured in total equivalent silver ounces produced per person.

Our financial performance reflected the combination of higher average metal prices, excellent operational results and lower costs per tonne. Adjusted revenues, which exclude treatment and refining charges and hedging results, rose 12.4% in the year. Total revenues increased to US\$849.9 million, 18.0% higher than at 31 December 2008. EBITDA rose to US\$496.6 million, with a significant expansion in the margin from 46.8% in 2008 to 58.4% in 2009. Net profit attributable to shareholders, prior to Silverstream revaluation effects, was US\$308.0 million, 140.8% higher than in 2008.

There was a 65-day labour strike at the lead-silver refinery of our customer Met-Mex Peñoles², where all products from our mines are shipped under contract. During this strike we managed to export part of our concentrates, precipitates and dore at similar terms with no major financial impact.

Fresnillo plc has no bank debt, and as at 31 December 2009 a cash position of US\$312.2 million, 47.3% above the 2008 figure, which shows continued strengthening of our balance sheet.

INVESTING IN PRODUCTIVITY AND COST CONTROLS

At Fresnillo, we constructed a water treatment plant to treat sewage from the city of Fresnillo. Instead of utilising fresh water from aquifers, the flotation plants at Fresnillo and Saucito will use treated water, which brings environmental benefits to the community and reduces our fresh water consumption costs. Construction was completed in 2009 and the plant is now fully operational. We are also constructing a new shaft to extract mineral from the western zone of the San Carlos vein and reduce haulage costs. The first stage of the project, expected to be completed in 1H 2011, is progressing according to schedule.

At Ciénega, we completed the optimisation of the leaching circuit by the year end. We have already begun to see an improvement in recoveries, which were further enhanced with the Knelson gravimetric concentrator that started operations in September. The sinking of the shaft at Ciénega a further 300 metres is progressing according to schedule and should be concluded in 2H 2011; this project will enable us to gain access to deeper ore reserves. In addition, an increase in milling capacity from 755,000tpy to 930,000tpy was approved at an investment of US\$24.9 million, which will increase average production to 110,000 ounces of gold per year; this project will commence in 1H 2011.

At Herradura, the expansion of the beneficiation plant to increase the flow from 1,200 m³ to 1,600 m³ per hour was completed at year end, allowing us to maintain production above 250,000 ounces of gold per year. In addition, the laboratory

was expanded to receive samples from Soledad-Dipolos and included the installation of an automated sampler system. We concluded construction of the seventh leaching pad in 2009 and began work on the eighth, and acquired new mobile equipment to enhance productivity.

DELIVERING GROWTH

Our pipeline of organic growth includes two development projects and a number of advanced and long-term exploration prospects.

Construction was completed at Soledad-Dipolos in December 2009, ahead of schedule and within budget. This project will be an operating mine in 2010, with commercial production having started in January 2010. Total annual gold production is expected to be 100,000 ounces, increasing to approximately 130,000 ounces in the following years with an investment of US\$34.0 million in mobile equipment and leaching pads.

At Saucito, the pre-feasibility study for the first phase of the project was approved in August 2009 with total capital expenditure of US\$309.0 million. Mining operations at this world-class silver deposit are scheduled to begin in 2011, with expected first year production levels of 4.7 million ounces of silver and 22,500 ounces of gold gradually ramping up by the third year of operations to approximately 9.0 million ounces of silver and 45,000 ounces of gold. In 2009, 735,744 ounces of silver and 2,880 ounces of gold were obtained from the development works at Saucito and processed at the Fresnillo mill.

Results from exploration activities during the year were very encouraging:

- 173.1 million ounces of silver added to the resource base (+15.5%)
- 1.9 million ounces of gold added to resource base (+15.8%)

Of particular note was the preliminary confirmation of ore resources at Noche Buena. We have accelerated the exploration programme in 2010 in order to determine whether a pre-feasibility study should be conducted.

In addition to organic growth, we also evaluate potential acquisitions on an ongoing basis. These targets must meet strict operational requirements and value creation criteria. In 2009 we evaluated a number of acquisitions, none of which were considered to be in the best interest of shareholders.

Nonetheless, we are optimistic about new opportunities for growth and remain open to potential acquisition opportunities that may arise if they are value accretive to our shareholders and comply with our strategic and financial return criteria. We will commence exploration activities in Peru, which has a rich mining tradition and significant potential for precious metals, having incorporated Fresnillo Perú in 2009.

COMMITMENT TO SUSTAINABLE DEVELOPMENT

Health, safety, environment and community relations programmes are an integral part of the Group's activities. I am pleased to report another improvement in safety performance: once again zero fatalities, and an improvement in safety indices.

² Since 2006 the primary products from the Group's mines, silver- and gold-rich lead and zinc concentrates and dore have been sold to the Peñoles Group's refining and smelting facility at Torreón, operated by Met-Mex Peñoles S.A. de C.V. (Met-Mex) under a series of supply agreements. See Customer Relationships in the Directors' Report, page 83.

Our adherence to domestic and international standards of environmental performance is evidenced by ISO 14001 certification at all mines and exploration offices. In addition, Heradura completed the certification process for adherence to the International Cyanide Management Code, and we initiated the process at Ciénega.

We continue to enjoy excellent relations with our personnel. Annual labour negotiations concluded with the agreement of a 6% wage increase, 1% increase in fringe benefits and a one-time bonus of 1% of base salary for 2009. Community investments this year included education programmes and sponsorship of athletic teams, arts and culture.

Efforts to protect biodiversity are considered within our operations' planning process, including investments in nursery management, reforestation and conservation efforts. In 2009 Fresnillo plc became a founding member of the Corporate Commitment to Wilderness. This is an initiative of the WILD Foundation, an international non-profit organisation dedicated to wilderness protection around the world. The Company also endorsed the Copenhagen Communiqué, an initiative of the Prince of Wales' Corporate Leaders Group on Climate Change.

A full description of the Group's sustainability programmes, objectives and performance may be found in the Sustainable Development Report on pages 46 to 59.

OUTLOOK

While we are not insulated from continued volatility in the global economy, I am confident that the Group is well-positioned to consolidate its leadership in the global precious metal industry. We remain focused on increasing productivity, reducing costs, expanding the resource and reserve base, and strengthening our growth pipeline in support of our strategy to create ongoing and sustainable value to all our stakeholders.

Specifically, we expect:

- Silver production to remain in line with 2009 levels
- Attributable gold production to rise 20% reflecting the contribution from the recently completed Soledad-Dipolos mine
- Completion of expansion at Ciénega and plant infrastructure at Saucito
- A 58% increase in the exploration budget to US\$77.6 million
- Decision on whether to conduct pre-feasibility study at Noche Buena
- Stable ore grades
- Continued improvement in safety indices

Our 2010 priorities and targets are included in full in the Strategy section on pages 10 to 11.

In closing, I would like to extend my gratitude to our Chairman and Board members for their continued support and oversight this year. As the Group enhances its international profile, their guidance is vital. To my fellow executives and employees, thank you for your dedication to quality and sustainable growth. I am proud to be a member of the Fresnillo plc team.

Jaime Lomelín

CHIEF EXECUTIVE OFFICER



Worker at Fresnillo mine

LEADERSHIP

Operational excellence

Leadership on the ground, union and non-union alike, keeps Fresnillo plc in the lowest quartile of the cash cost curve.



Fresnillo: world's largest primary silver mine

QUALITY

World class precious metal assets

Record silver production in 2009 and double digit reserve life at operating mines underscore the quality of our mining and exploration efforts.



Exploration at Juanicipio

SUSTAINABLE GROWTH

Extensive portfolio of projects and prospects

Metal contained in total resources grew 15.8% for gold and 15.5% for silver in 2009. The Company aims to deliver one new mine or expansion per year for the next five years.



Hoist at the main shaft, Fresnillo mine

STRATEGY AND PERFORMANCE

STRATEGY

This is how we intend to achieve our goal:

We seek to create value across precious metal cycles through leadership, quality and sustainable growth. We have a target of producing 65 million ounces of silver and over 400,000 ounces of gold by 2018.

**1**

Continuing the sustainable development of the Group

**2**

Maximise the potential of existing operations

**3**

Deliver growth through development projects

**4**

Extend the growth pipeline

**5**

Maintain strict financial discipline

HOW WE DO IT



HOW WE MEASURE IT



2009 PROGRESS



2010 PRIORITIES



By putting our people first in terms of safety, health, training and development; partnering with our communities; implementing strong environmental management practices; and adhering to domestic and international sustainability standards

Fatalities, accident and lost work day rates, training hours per person, unit consumption of energy and water, environmental incidents, regulatory and standards compliance

Zero fatalities, improvement across all safety indices, completion and start-up of water treatment plant at Fresnillo, completion of cyanide certification process for Herradura, strong relations sustained with all stakeholders

Zero fatalities, continued focus on improvement in safety indices, reinforcement of safety behaviours, cyanide certification in process for Ciénega, reduction in unit energy and water consumption



By ensuring full capacity operations through reserve replacement, and generating continuous improvements in productivity and cost controls

Production volume, personnel productivity (silver equivalent oz per person), costs per tonne, reserve replenishment

Record total and per person silver production, increased gold production, lower costs per tonne

Improvement in dilution and recovery ratios; maintain silver production at Fresnillo; complete capacity expansion at Ciénega; full implementation of Six Sigma quality control methodology at Ciénega and Fresnillo



Through disciplined advancement of our projects towards start-up and production

Project delivery

Soledad-Dipolos development works completed, Saucito construction well advanced with production from initial development works

Consolidate and grow operations at Soledad-Dipolos; advance plant infrastructure and mine development at Saucito



Organically, through exploration of our prospects; and via acquisition, by securing mining rights and land for new prospects, pursuing joint ventures (controlled by Group companies), and making selective acquisitions primarily in Mexico and also possibly elsewhere in Latin America

Reserves and resources

Total resource base substantially increased, opening of Fresnillo Perú field office

Reserves replacement; determination on pre-feasibility study at Noche Buena; resource definition at San Julián; parametric drilling at key prospects; district consolidation; regional land acquisition



Through careful management of assets, cash and costs across metal price cycles to stabilise profitability and position us as a low-cost producer; and by maintaining a strong balance sheet

Profitability, cash costs, cash flow

Stronger profit margins, lower cash costs, no debt

Maintain strong balance sheet

KEY PERFORMANCE INDICATORS

In 2009 we delivered strong performance and made progress across all our KPIs.

We utilise a number of financial and non-financial performance indicators to monitor our performance and benchmark the effectiveness of our strategy over time. Many of these measures are tied to remuneration.



Panoramic view of the Saucito shaft

FINANCIAL

Financial KPIs measure the Group's ability to create value across precious metals cycles.




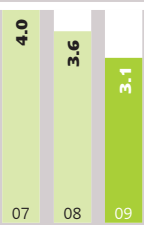

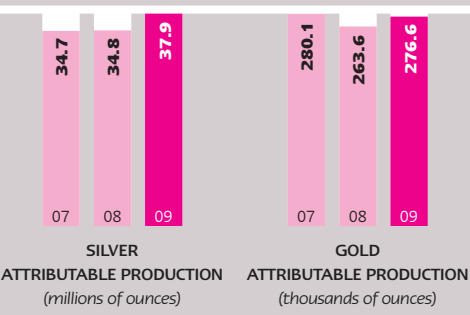

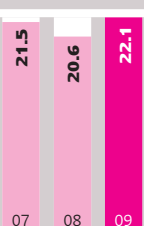

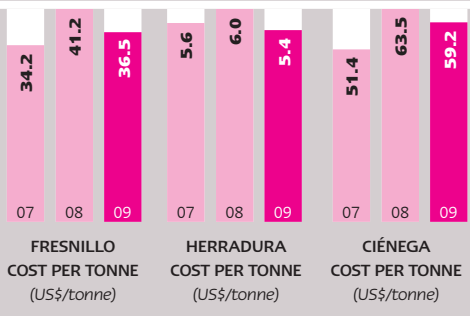
MEASURE	PERFORMANCE	COMMENT												
<div></div> <div>CASH COST PER OUNCE</div> <div>Total cash cost (cost of sales plus treatment and refining charges, less depreciation) less revenues from by-products divided by the silver or gold ounces sold. Used to compare operational performance among peers as well as period-to-period cash flow performance and operating efficiency.</div>	<div><table><thead><tr><th>Company</th><th>2008</th><th>2009</th></tr></thead><tbody><tr><td>FRESNILLO CASH COST (US\$/silver ounce)</td><td>3.77</td><td>3.37</td></tr><tr><td>CIÉNEGA CASH COST (US\$/gold ounce)</td><td>264.98</td><td>190.61</td></tr><tr><td>HERRADURA CASH COST (US\$/gold ounce)</td><td>397.49</td><td>358.91</td></tr></tbody></table></div>	Company	2008	2009	FRESNILLO CASH COST (US\$/silver ounce)	3.77	3.37	CIÉNEGA CASH COST (US\$/gold ounce)	264.98	190.61	HERRADURA CASH COST (US\$/gold ounce)	397.49	358.91	Favourable exchange rate between the Mexican peso and US dollar, lower treatment charges and higher volumes of silver or gold ounces sold improved performance in the year.
Company	2008	2009												
FRESNILLO CASH COST (US\$/silver ounce)	3.77	3.37												
CIÉNEGA CASH COST (US\$/gold ounce)	264.98	190.61												
HERRADURA CASH COST (US\$/gold ounce)	397.49	358.91												
<div></div> <div>GROSS PROFIT</div> <div>Adjusted to exclude hedging gains and losses</div>	<div><table><thead><tr><th>Year</th><th>Gross Profit (in millions of US\$)</th></tr></thead><tbody><tr><td>07</td><td>471.3</td></tr><tr><td>08</td><td>466.2</td></tr><tr><td>09</td><td>560.2</td></tr></tbody></table></div>	Year	Gross Profit (in millions of US\$)	07	471.3	08	466.2	09	560.2	Reflects record profits achieved at Fresnillo and Herradura and steady results obtained at Ciénega				
Year	Gross Profit (in millions of US\$)													
07	471.3													
08	466.2													
09	560.2													
<div></div> <div>EBITDA MARGIN</div> <div>EBITDA (gross profit plus depreciation included within cost of sales, less administrative expenses and exploration expenses) as a percentage of total revenue. Measures cash generating ability and operating performance.</div>	<div><table><thead><tr><th>Year</th><th>EBITDA MARGIN (%)</th></tr></thead><tbody><tr><td>07</td><td>42.8</td></tr><tr><td>08</td><td>46.8</td></tr><tr><td>09</td><td>58.4</td></tr></tbody></table></div>	Year	EBITDA MARGIN (%)	07	42.8	08	46.8	09	58.4	The increase in margin reflects higher gross profit and lower administrative expenses as a percentage of revenue.				
Year	EBITDA MARGIN (%)													
07	42.8													
08	46.8													
09	58.4													
<div></div> <div>ADJUSTED EARNINGS PER SHARE ⁽¹⁾⁽²⁾</div> <div>The amount of attributable profit available to equity shareholders, excluding the revaluation effects of the Silverstream Contract (based on the weighted average number of shares in issue during the period).</div>	<div><table><thead><tr><th>Year</th><th>ADJUSTED EARNINGS PER SHARE (US\$)</th></tr></thead><tbody><tr><td>07</td><td>0.226</td></tr><tr><td>08</td><td>0.186</td></tr><tr><td>09</td><td>0.430</td></tr></tbody></table></div>	Year	ADJUSTED EARNINGS PER SHARE (US\$)	07	0.226	08	0.186	09	0.430	Higher attributable profit across an unchanged number of shares issued.				
Year	ADJUSTED EARNINGS PER SHARE (US\$)													
07	0.226													
08	0.186													
09	0.430													
<div></div> <div>CASH FLOW FROM OPERATING ACTIVITIES BEFORE CHANGES IN WORKING CAPITAL</div> <div>A measure of the Group's ability to generate cash from its core business.</div>	<div><table><thead><tr><th>Year</th><th>CASH FLOW FROM OPERATING ACTIVITIES BEFORE CHANGES IN WORKING CAPITAL (in millions of US\$)</th></tr></thead><tbody><tr><td>07</td><td>216.8</td></tr><tr><td>08</td><td>405.8</td></tr><tr><td>09</td><td>548.8</td></tr></tbody></table></div>	Year	CASH FLOW FROM OPERATING ACTIVITIES BEFORE CHANGES IN WORKING CAPITAL (in millions of US\$)	07	216.8	08	405.8	09	548.8	The increase reflects higher operating profits.				
Year	CASH FLOW FROM OPERATING ACTIVITIES BEFORE CHANGES IN WORKING CAPITAL (in millions of US\$)													
07	216.8													
08	405.8													
09	548.8													

(1) The weighted average number of ordinary shares for 2009 was 717,160,159. For 2008, 687,688,000 ordinary shares were considered for the EPS calculation. (See note 12 in the Consolidated Financial Statements).

(2) Adjusted basic and diluted earnings per share reflects profit in the year attributable to equity shareholders of the company adjusted to exclude Silverstream revaluation effects in the year.

NON-FINANCIAL

Operational KPIs measure the Group's productivity, efficiency, execution and growth capabilities, and the effectiveness of our sustainability measures.

MEASURE	PERFORMANCE	COMMENT
 FATALITIES Loss of life incurred as a result of work at the Company among any of the Group's employees – full or part time, direct or subcontracted, union or non-union.	 <p>FATALITIES</p>	No fatality is ever acceptable. We invest in safety programmes and training on a continuous basis.
 ACCIDENT RATE The accident rate is calculated as the number of disabling accidents (absence from work for more than three days) divided by the total number of union and non-union employees, as well as contractors, multiplied by 100.	 <p>ACCIDENT RATE</p>	Ongoing safety training and a focus on ensuring safe workplaces improved a range of safety indices.
 ATTRIBUTABLE PRODUCTION Sum of ounces produced multiplied by ownership interest at each mine. Demonstrates progress towards achieving our target of producing 65 million ounces of silver and 400,000 ounces of gold by 2018.	 <p>SILVER ATTRIBUTABLE PRODUCTION (millions of ounces)</p> <p>GOLD ATTRIBUTABLE PRODUCTION (thousands of ounces)</p>	Record silver production reflected increased ore volumes at Fresnillo, silver extracted from development works at Saucito, and higher ore grade at Ciénega. Gold production rose with more ore deposited and better recoveries at Herradura.
 EQUIVALENT SILVER OUNCES PER PERSON Ounces of silver produced, plus gold ounces produced multiplied by 70 (the 2009 spot ratio of the gold price to silver price), divided by the total number of union and non-union employees and contractors.	 <p>EQUIVALENT SILVER OUNCES PER PERSON (thousands of ounces)</p>	
 COST PER TONNE Adjusted production costs (total production costs less depreciation, profit sharing and exchange rate hedging effects). Monitors effectiveness of cost controls without consideration of metal prices and ore grades.	 <p>FRESNILLO COST PER TONNE (US\$/tonne)</p> <p>HERRADURA COST PER TONNE (US\$/tonne)</p> <p>CIÉNEGA COST PER TONNE (US\$/tonne)</p>	Costs per tonne benefited primarily from exchange rates and higher volumes of ore milled at Fresnillo and Ciénega; this was somewhat offset by increases in personnel, contractors and maintenance.

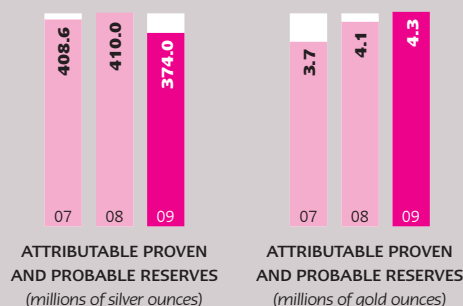
MEASURE

PERFORMANCE

COMMENT

**PROVEN AND PROBABLE RESERVES (ATTRIBUTABLE)**

A measure of the quality of the Group's operating assets and our ability to extend the life of operating mines.



Attributable reserves decreased due to Fresnillo mine resources that were not converted into reserves, these resources will be converted next year.

**PROJECT DELIVERY**

Ability to adhere to forecasted schedules and budgets. This measures management's forecasting capabilities and execution strength.

SOLEDAD-DIPOLOS:

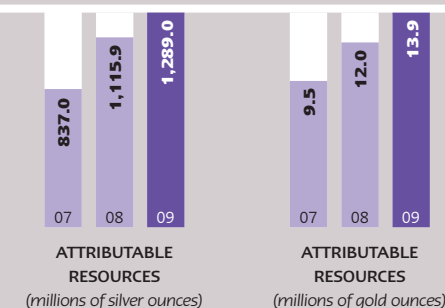
Timeline: early
Budget: on target

SAUCITO:

Timeline: on target
Budget: on target

**TOTAL RESOURCES (ATTRIBUTABLE)**

Quantifies measured & indicated as well as inferred resources at projects and prospects; an indicator of the Group's growth potential and our ability to discover and develop new ore bodies.



Attributable resources increased as a result of the intensive exploration at our projects and prospects.

Our sustainable development 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 46 to 59.

MARKET REVIEW



200-tonne truck at Herradura mine

THE SILVER PRICE (US\$/oz)



THE SILVER MARKET

The silver price started 2009 at US\$11.08 per ounce and rose steadily throughout the year to peak at US\$19.18 in early December and closed the year at US\$16.99. The rising price was driven by an increase in investor demand as investors sought refuge in precious metals in response to global uncertainty about the economic outlook. Investor demand in Exchange Traded Funds (ETFs) and coins increased substantially (see Demand section below) over the year giving rise to higher prices. Nonetheless, the average price of silver in 2009 was US\$14.67, a 2% decrease from the 2008 average.

The silver price remained closely correlated with gold and to a lesser extent copper as it acts as both an investment and as a base metal for industrial uses. The correlation with gold strengthened over the year from 58.4 in 2008 to 64.1 in 2009, slightly above the average of 62.1 since 2001, as gold reassumed its traditional position as a classic risk hedge in volatile markets. Gold was also subject to increased demand as a result of heavy buying by central banks including those of Russia, China and India in particular.

SILVER DEMAND

Demand for silver can broadly be split into two categories – fabrication demand, which includes industrial applica-

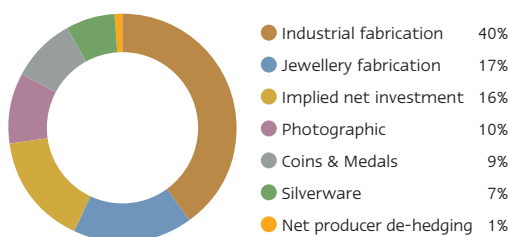
tions, photography, jewellery/silverware and coins, and investment demand, which includes Exchange Traded Funds (ETFs).

Total fabrication demand in 2009 fell about 11% from 2008 to 2009 as a result of the decline in economic growth. For example, shipments of semi-conductors, in which silver is the key material of a number of components, fell in 2009. The demand for silver from the photographic industry continued its secular decline as digital technology continued to grow. Photography as a percent of total silver demand fell from 12% in 2008 to 10% in 2009. Demand from the jewellery and silverware markets remained similar to that in 2008 although demand for the minting of silver coins increased as investors purchased coins as the global recession continued.

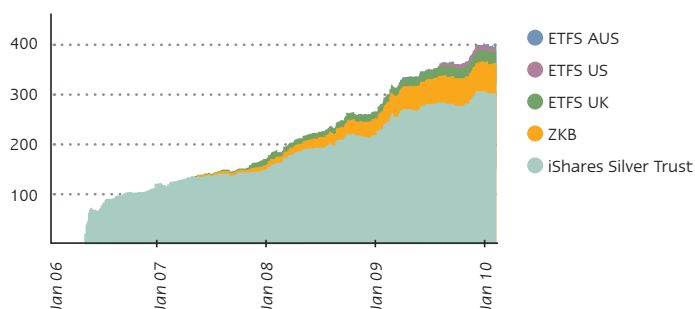
SILVER INVESTMENT

Since the launch of Exchange Traded Funds in silver in 2006, there has been a steady increase in demand for these investment products as an asset class. In 2009 there was a very strong increase in the demand for silver investment products as the crisis in the credit markets and weakness of the US dollar continued. Net silver investment as a percent of total silver demand went from 5% in 2008 to 16% in 2009.

WORLD SILVER DEMAND 2009 Source: GFMS Ltd.



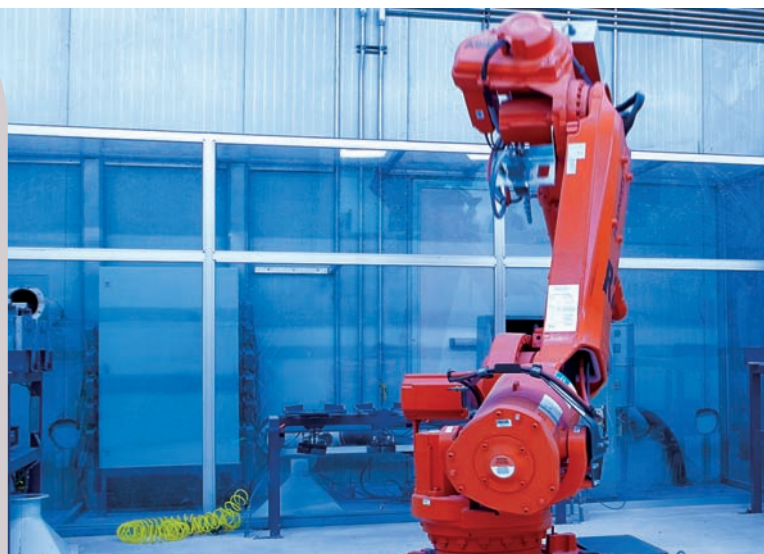
ETF SILVER HOLDINGS Source: GFMS Ltd.



SILVER PRODUCERS

Nº	COMPANY	2009	2008
		PRODUCTION (moz Ag)	
1	KGHM Polska Miedz	42	38
2	BHP Billiton	42	42
3	Fresnillo	38	35
4	Pan American Silver	23	19
5	Volcan	21	23
6	Coeur d'Alene	20	12
7	Hochschild Mining	19	17
8	Buenaventura	18	16
9	Polymetal	17	17
10	Kazakhmys	17	17
11	Grupo Mexico	13	12
12	Goldcorp	9	10
13	Rio Tinto	9	6

Source: Data compiled from published company reports

**SILVER SUPPLY**

There are very few primary silver producers as over 70% of mine production is as a by-product or co-product credit to base metal or gold mining. The Fresnillo Group is the largest primary silver producer in the world.

Total supply increased modestly to 889 million ounces in 2009 from 874 million ounces in 2008. By far the majority of supply – around 78% – came from mine production, which contributed 695 million ounces in 2009 compared with 674 million in 2008. This 2% increase in supply from the mines was due to a number of new projects that began operation while others increased capacity, particularly in Latin America. These activities more than offset lower production from the disruptions at base metals operations in Canada, Chile and Australia.

The increases in production also outweighed lower supply from silver scrap, which fell by around 6 million ounces to 171 million ounces, and by a reduction in government sales of silver, which reduced supply on the market. The fall in scrap was driven by the structural declines in the photographic use of silver.

THE GOLD MARKET

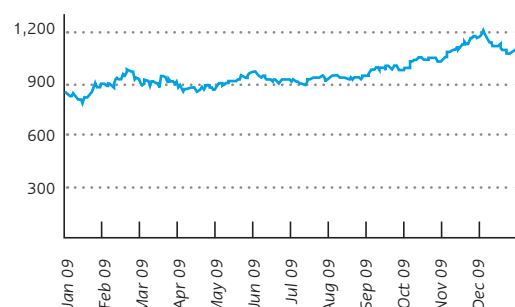
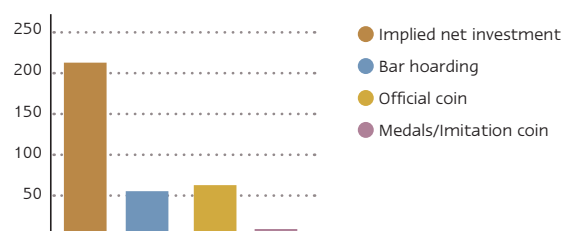
The gold price rose for the ninth consecutive year to end the year at US\$1,087.50 per ounce, up 25% during 2009. The price

rallied from its January low of US\$810.00 per ounce to set successive record highs throughout the fourth quarter. Its ascent to the end of the year was driven by a number of factors that also drove the silver price, including the weak US dollar, inflation protection, central bank buying and investment flows. Gold's "safe haven" status was reaffirmed in 2009 as geo-political volatility saw more investors turn to gold as a store of value. The average gold price for 2009 was US\$972.98 per ounce.

Furthermore, on 7 August 2009, a group of 19 European central banks agreed to renew a pact to limit gold sales, the Central Bank Gold Agreement (CBGA3). Annual sales under the agreement are limited to 400 tonnes, down from 500 tonnes in the second agreement, which expired in late September. Other central banks, such as those in Russia, China and India chose to increase their gold reserves by buying in the open market.

GOLD DEMAND

Demand for gold is mostly driven by jewellery fabrication and to a lesser extent applications in dentistry, electronics and coinage. Jewellery accounts for three quarters of the gold demand. 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.

THE GOLD PRICE (US\$/oz)**WORLD GOLD INVESTMENT (Tonnes) Source: GFMS Ltd**



Automated sampler system at the Herradura laboratory

GOLD PRODUCERS		2009	2008
SELECT MID-CAP		PRODUCTION	
Nº	GOLD PRODUCERS	(koz Au)	
1	Agnico Eagle	493	300
2	Randgold	488	428
3	Petropavlovsk	487	394
4	Polymetal	311	285
5	Oceana	300	264
6	Fresnillo	277	264
7	BHP Billiton	174	163
8	Aurizon	159	159
9	Hochschild Mining	157	153
10	Kazakhmys	135	124

Source: Data compiled from published company reports

High gold prices and the impact of the global recession reduced gold demand for jewellery by 30% from 2008 to 2009. The decline in gold demand was universal with demand from the Middle East particularly hit. The region is one of the key customers for gold jewellery and demand fell by more than 100 tonnes, with that in India, another traditional customer, falling by around 80 tonnes.

GOLD INVESTMENT

Growth in investment demand has been the key driver of higher prices throughout 2009. Although the global economy began to show signs of recovery in the latter half of the year, the pace of the recovery remained uncertain. Large sums of money supply that reached the global market in 2008 caused concern over eventual inflation or in some cases the future of the US dollar.

Investor demand for gold within exchange traded funds continued to be strong, although their maturity in comparison to silver ETFs, which were introduced several years earlier, meant their rate of growth was more modest. Investors bought 573 tonnes of gold in the form of ETFs over the year and net long positions in the physical metal increased sharply throughout the year.

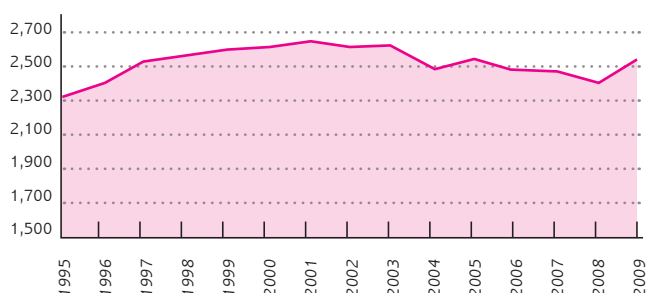
Hoarding of gold bars remained strong in 2009 with a particularly strong fourth quarter reflecting a recovery in investment demand in non-western gold markets such as China and India.

GOLD SUPPLY

The supply of gold comes from mine production, Central Bank sales and scrap. Gold mine production increased by just 6% year on year to 2,500 tonnes as mine output increased from Indonesia, China and Russia. This increase more than offset weakness in traditional gold heartlands such as South Africa. The other source of supply from producers is de-hedging which increased over the year as a few producers completed hedge book restructuring. Gold supply from scrap sources also increased, as high prices and high margins brought more supply gold onto the scrap market, although this source is very small as a percent of the total supply.

Sales under the third Central Bank Gold Agreement continued to decline over the year whilst banks and official sector institutions outside of the agreement continued to purchase gold. In September, the IMF announced the sale of 403 tonnes of gold to be conducted in such a way as to not disturb the market. Thus, these off market transactions had no impact on the net supply of or demand for gold.

WORLD GOLD MINE PRODUCTION, 1995 – 2009 (Tonnes) Source: GFMS Ltd



Mexico provides a favourable environment for mining; flexible and well-structured mining and environmental legislation; political support; strong mining tradition and expertise; a skilled workforce; and ample access to good infrastructure.

COUNTRY OVERVIEW: MEXICO

Mexico is a federal republic with a stable democratic 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 2009. The country's silver is produced by mines where silver is the primary product, as well as 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. Concessions are required to explore for and exploit mineral potential, and they may specify required levels of capital expenditure and minimum environmental, health and safety standards. In order to maintain these concessions in good standing, companies are required to pay yearly fees based on hectares under claim and to demonstrate continued work in progress. 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.

The fiscal regime

There are no taxes or levies imposed specifically on the mining industry. Companies are subject to standard corporate income tax rates, which are determined by the Federal Government. That rate for 2009 was 28%. Based on the Tax Reform Bill approved by the Mexican Government in December 2009, this rate will temporarily increase to 30% for the years 2010-2012, then decrease to 29% in 2013 and revert to 28% in 2014.

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 extraction, wastewater discharge and tailings disposal. Mining companies must also obtain environmental impact permits prior to any mining and exploration activities. There are official standards for building and managing tailings dams. Mexican environmental regulations have become increasingly stringent over the last decade as a result of international agreements that Mexico has ratified, including the North American Agreement on Environmental Cooperation (parallel to the North American Free Trade Agreement), the United Nations Framework Convention on Climate Change and 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. Fresnillo Group workers did not support any such actions in 2009.



Los Jales Ecological Park at Fresnillo

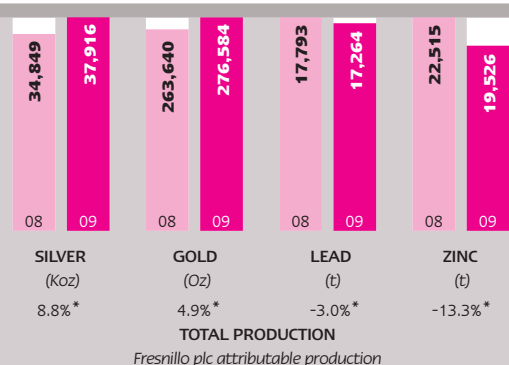
OPERATING REVIEW



50-tonne hydraulic shovel and 200-tonne truck at Herradura

2009 HIGHLIGHTS

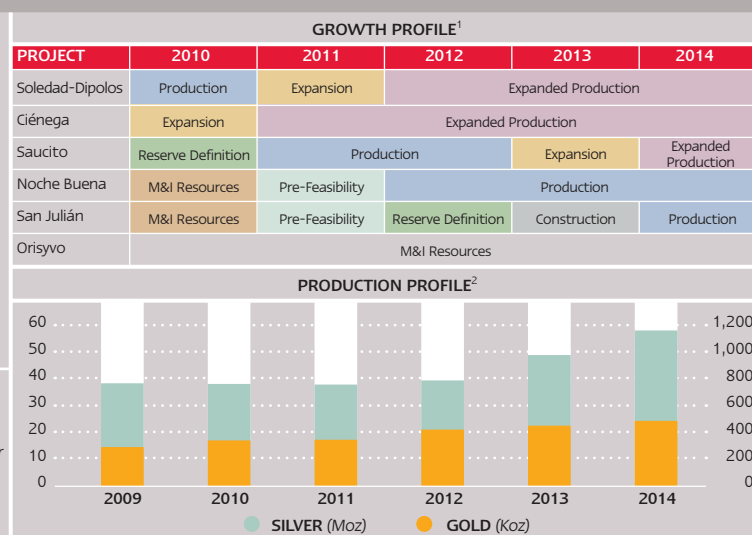
- Record annual attributable silver production, up 8.8%
- Annual attributable gold production up 4.9%, with record production at Herradura
- First dore bar poured at Soledad-Dipolos in December, with commercial production in January 2010
- Several cost reduction and efficiency projects completed in the year; results expected to be seen in 2010
- Construction of the Saucito project remains on track, with onsite commercial production expected in 1H 2011
- Silver contained in total resources at operating mines increased 1.6% to 683.8 million ounces
- Increased resources at Saucito, San Ramón, San Julián and Orisyvo exploration projects



* Unless otherwise stated, all percentage changes refer to the 2009 figures compared to those of 2008.

¹ Growth Profile - aim to bring one new mine or expansion on stream per year until 2014.

² Estimated production from current mines and projects, only if exploration succeeds and under current long term metal prices scenario.





MINES IN OPERATION

During 2009 the Fresnillo Group had three producing mines, all located in Mexico. Attributable silver production in the year reached a new record of 37.9 million ounces, 8.8% higher than in 2008. In addition to silver produced from Fresnillo's operating mines, the equivalent of 3.0 million ounces of payable silver (2008: 2.5 Moz) was realised through the Silverstream Contract between Fresnillo and Peñoles. Attributable gold production for 2009 of 276,584 ounces surpassed expectations, rising 4.9%, as a result of strong performance at Herradura and the stabilisation of gold grade at Ciénega.

FRESNILLO

Ownership: 100% Fresnillo plc

Location: Zacatecas

Facilities: Underground mine, concentrator plant

Workforce: 894 employees, 637 contractors

Avg ore grade in reserves: 338 g/t of silver

Total reserves: 342.0 million ounces of silver
500,000 ounces of gold

Fresnillo is the world's largest primary silver mine. It has been in near continuous operation since 1550. Total annual silver production in 2009 reached a new record high of 35.4 million ounces as a result of the increase in ore milled. Lead production increased mainly as a result of higher ore grade, while zinc production remained stable. The preparation of additional stopes at Fresnillo has led to higher operational flexibility and better grade control.

Production figures for the Fresnillo mine do not include ore from the development works at Saucito processed at the Fresnillo mill. Metal contents from Saucito in 2009 totalled 735,744 silver ounces, 2,880 gold ounces, 88 tonnes of lead and 65 tonnes of zinc, all of which are included in the total production figures but not in those of the Fresnillo mine.

Over the course of the year, 105,263 metres of diamond drilling was conducted, resulting in a 55.0% increase in the mine's total resources, from 34.0 million tonnes at 538 g/t of silver to 52.7 million tonnes at 374 g/t. Promising potential remains in the western zone of the mine. Based on proven and probable reserves, the expected life of the mine is 12.8 years, compared to 12.5 years in 2008.



FRESNILLO

MINE PRODUCTION

	2009	2008	% CHANGE
Silver from op mines (Koz)	35,420	33,776	4.9
Gold (Oz)	24,684	24,008	2.8
Lead (t)	11,058	8,685	27.3
Zinc (t)	11,510	11,277	2.1

SUSTAINABLE GROWTH:

“Produce more with less”

The new water treatment plant will preserve aquifers, reduce fresh water costs and consumption, and lower the municipality's water treatment costs.

Productivity and cost reduction initiatives

A new water treatment plant became fully operational in November, following an investment of US\$4.3 million. This project allows sewage water from the Fresnillo municipality to be obtained at no cost, and once treated, it is used in the milling process instead of fresh water. This preserves local aquifers, reduces the Group's fresh water costs and lowers the municipality's water treatment costs. The plant has capacity to treat 150 litres per second; and cost savings from the reduction of fresh water consumption will be fully realised in 2010 onwards.

Construction of a new shaft to extract mineral from the western zone of the San Carlos vein is underway, with the structure of the concrete head frame completed in December. Sinking advanced 342 metres of a planned total 557 metres. This US\$19.1 million project, which will reduce haulage costs, is expected to be concluded by 1H 2011. The second stage of the project will be developed six or seven years after the shaft is operational, to access ore resources at deeper levels.

In 2009 implementation of Six Sigma quality control methodology was initiated at the beneficiation plant to increase milling capacity and recoveries.



Water treatment plant at Fresnillo

LEADERSHIP:

World's largest primary silver mine.

CIÉNEGA

Ownership: 100% Fresnillo plc

Location: Durango

Facilities: Underground mine, concentrator plant

Workforce: 431 employees, 320 contractors

Avg ore grade in reserves: 3.52 g/t of gold, 92.0 g/t of silver

Total reserves: 1.2 million ounces of gold
31.3 million ounces of silver

Annual gold production decreased by an expected 11.5% as a result of the decline in ore grade in the early part of the year. The average gold grade in 2009 decreased from 5.1g/t in 2008 to 4.3g/t where it has currently stabilised with the ongoing investment in efficiency projects and preparation of new stopes; no further declines are expected in 2010.

An expansion of the milling capacity at the Ciénega mine from 755,000tpy to 930,000tpy was approved in October and is currently in the engineering phase. This expansion will further compensate for the lower ore grade and help stabilise gold production at around 110,000 ounces per year, while maintaining the mine life at over 10 years. The project will become operational in 1H 2011, with an initial cost of US\$24.9 million plus further sustaining capital expenditure of US\$0.5 million per annum from 2012 to 2019.

Silver production for the full year increased due to the higher ore grade and ore milled. Lead and zinc production decreased as a result of lower ore grades.

Surface and in-mine diamond drilling totalled 56,712 metres in 2009. Based on proven and probable reserves, the expected life of the mine at current milling capacity is 13.5 years, compared to 13.2 years in 2008. Exploration was also conducted at areas of influence around Ciénega. See *Las Casas and San Ramón* in the Exploration section on pages 32 to 33.



CIÉNEGA PRODUCTION

	2009	2008	% CHANGE
Silver (Koz)	1,589	950	67.3
Gold (Oz)	103,510	116,903	-11.5
Lead (t)	6,118	9,109	-32.8
Zinc (t)	7,950	11,237	-29.3

Productivity and cost reduction initiatives

The optimisation of the leaching circuit at Ciénega was concluded and tests of the equipment, tanks and pumps began in the fourth quarter. This project will increase the flow from 220 m³ to 390 m³ per hour and is expected to achieve a 2.2% and 0.8% increase in gold and silver recovery rates, respectively, once final adjustments are made and the project becomes fully operational in the first quarter of 2010. Total investment was US\$4.2 million, coming in below budget. An additional 0.3% gold recovery is expected to be achieved with the new Knelson gravimetric concentrator that became operational in September, following a US\$1.2 million investment.

The project to sink the shaft a further 300 metres to gain access to deeper ore reserves remains on track, with the US\$13.3 million project scheduled for completion in the second half of 2011. In 2009, the sinking advanced 117 metres.

In 2009 we initiated implementation of Six Sigma quality control methodology at the beneficiation plant to increase milling capacity and recoveries.



Optimisation of the leaching circuit at Ciénega

HERRADURA

Ownership: 56% Fresnillo plc, 44% Newmont USA Limited (Minera Penmont JV)

Location: Sonora

Facilities: Open pit mine

Workforce: 762 employees, 132 contractors

Avg ore grade in reserves: 0.64 g/t of gold

Total reserves: 1.8 million ounces of gold

Attributable gold production at Herradura achieved new record levels in 2009, rising 18.6% due to the increase of ore deposited in the leaching pads from the Centauro pit, including the new adjacent Valles pit, and better recovery as a result of the expansion of the beneficiation plant. Higher ore grade and a better recovery rate drove silver production up by 38.5%.

The seventh leaching pad was completed in November and the construction of the eighth leaching pad began, with the preparation of filtering material, levelling of land and the receipt of liners completed by the end of 2009. The new eighth leaching pad will be completed in the third quarter of 2010.

We conducted ongoing drilling of 102,877 metres in the year. Based on proven and probable reserves, the expected life of the mine is 11.9 years, compared to 12 years in 2008.

At the Centauro Deep target, which is located below the main pit at the Herradura mine, 16 diamond drill holes totalling 7,530 metres were completed. A potential of three million ounces is under exploration; construction of a ramp to facilitate exploration and metallurgical work will begin in 2010 in order to estimate a resource for defining a possible underground mine.



HERRADURA

ATTRIBUTABLE PRODUCTION	2009	2008	% CHANGE
Silver (Koz)	171	124	38.5
Gold (Oz)	145,510	122,730	18.6

QUALITY:

Higher ore grades and better recoveries at Herradura led to double-digit increases in gold and silver production in 2009.

Productivity and cost reduction initiatives

In November, the expansion of the beneficiation plant was concluded and tests of the new pumps and deoxygenating tower began. This US\$6.4 million project is expected to increase the flow from 1,200 m³ to 1,600 m³ per hour once it reaches target capacity in the first quarter of 2010. The laboratory was expanded to receive additional production from Herradura as well as samples from Soledad-Dipolos. An automated sampler system was installed that increases sampling from 400 to 700 samples per day. We also acquired a 50-tonne capacity hydraulic shovel and six 200-tonne trucks in 2009.



Rock bolting activities at Centauro Deep



MINES IN DEVELOPMENT

The Fresnillo Group delivers growth through the disciplined advancement of development projects towards start up and production. A major milestone in 2009 was achieved with the completion of development at the Soledad-Dipolos project.

SOLEDAD-DIPOLOS

Ownership: 56% Fresnillo plc, 44% Newmont USA Limited (Minera Penmont JV)

Location: Sonora, 9 km NW of the Herradura mine

Facilities: Open pit mine

Commercial start-up: January 2010

Anticipated production: Approximately 100,000 gold ounces by year end 2010

The construction of the Soledad-Dipolos mine was successfully concluded in December 2009 and the production tests were completed with positive results. The first dore bar was poured on 9 December 2009 and commercial production started in January 2010, ahead of schedule and within budget. Pre-production investment in Soledad-Dipolos was US\$67.8 million, with US\$13.5 million in sustaining capital budgeted over the next six years.



Preparation for blasting at Soledad-Dipolos



Jarillas shaft at Saucito Project

SAUCITO

Ownership: 100% Fresnillo plc

Location: Zacatecas, 8 km SW of the Fresnillo mine

Facilities: Underground mine, flotation plant

Commercial start-up: 1H 2011

Anticipated production: 4.7 million ounces of silver and 22,500 ounces of gold gradually ramping up to approximately 9.0 million ounces of silver and 45,000 ounces of gold from the third year of operations onwards

The Saucito geology is a system of epithermal veins containing silver, lead and zinc. The first stage of the project includes the Saucito and Jarillas veins. The Mezquite, Santa Natalia and Valdecañas East veins will continue to be explored as prospects for inclusion in the second stage of the Saucito project.

The capital cost of the project is expected to be US\$309.0 million of which US\$50.0 million was incurred in 2009. Capitalised costs in the year were offset by US\$9.9 million realised from the sale of metal content in ore extracted as part of development works.

Construction of the Saucito project was on track in 2009. All permits are in place; engineering of the concentrator plant is advancing according to schedule and orders for the main equipment have been placed; construction of the access road was concluded at year-end and the construction of the ramps advanced by 2,795 metres, while the drifts and cross-cuts increased by 3,750 and 2,170 metres respectively. Mining works were completed at the Saucito shaft, which will start up operations in 1Q 2010. Progress on sinking the 750-metre Jarillas shaft continued on schedule for start-up in 2013.

During the year 735,744 silver ounces and 2,880 gold ounces were recovered from the development works at Saucito and processed at the Fresnillo mill. Ore from the Saucito project will continue to be processed at Fresnillo as it is accumulated until the beneficiation plant is concluded at Saucito, which is expected to be in the 1H 2011.

LEADERSHIP:

Disciplined execution brought Soledad-Dipolos online ahead of schedule. The first bar of dore was poured in December 2009.

SUSTAINABLE GROWTH:

Saucito: 4.7 million ounces of silver coming on line in 2011, ramping up to 9.0 million ounces.



EXPLORATION

Exploration continues to be the key growth driver for the Fresnillo Group, in both greenfield and brownfield regions. The Company focuses on projects and properties with large tonnage and low-cost potential in Mexico and Latin America. Our strategy is to consolidate mining districts with world class potential via acquisition, using a disciplined approach to evaluate potential new prospects, joint ventures or selective acquisitions. Exploration investment in 2009 totalled US\$49.1 million.



Two development projects adjacent to producing mines: Saucito silver project near Fresnillo and Noche Buena near Herradura. The Group also has five advanced exploration prospects in Mexico: Juanicipio (Ag) in the Fresnillo district; San Julián (Au-Ag) and Orisyvo (Au), in Chihuahua; San Ramón (Au-Ag) and Las Casas (Au-Ag) in the Ciénega district, in Durango; as well as a number of other long-term exploration prospects.

MINERA SAUCITO EXPANSION

Ownership: 100% Fresnillo plc

Location: Zacatecas, 8 km SW of the Fresnillo mine

Indicated & inferred resources:

285.7 million ounces of silver (+22%)

1.2 million ounces of gold (+16%)

The second stage of exploration and development at Saucito is centred on the Valdecañas East, Mezquite and Santa Natalia veins. Infill diamond drilling on the three veins and drifting along the Jarillas vein is in progress to convert resources into the indicated category.

NOCHE BUENA

Ownership: 56% Fresnillo plc, 44% Newmont USA Limited (Minera Penmont JV)

Location: Sonora, 270 km NW of Hermosillo

Reverse circulation drilling was conducted at the Noche Buena gold project (23 kilometres southeast of the Herradura mine) to delineate the limits of the gold mineralisation and identify areas for the construction of leach pads. A previous exploration company reported a resource of 600,000 gold ounces on this property. The Penmont diamond drill programme for reserve calculation and metallurgical samples will be completed in 1Q 2010.

CENTAURO DEEP

Ownership: 56% Fresnillo plc, 44% Newmont USA Limited (Minera Penmont JV)

Location: Sonora

Diamond drilling below the Centauro pit has identified a series of five veins with interesting gold values for an underground operation. Exploration potential is open along the strike of these structures and to date there is an attributable inferred resource of 454,000 ounces of gold.

MINERA JUANICIPIO

Ownership: 56% Fresnillo plc, 44% MAG Silver

Location: Zacatecas, 8 km SW of the Fresnillo mine

Indicated & inferred resources (attributable):

103.3 million ounces of silver (+1%)

313,000 ounces of gold (+8%)

Infill drilling on the Valdecañas vein has converted approximately 30% of the tonnes, which contain 46% of the silver ounces of the resource, into the indicated category on this vein. Diamond drilling was also carried out on the Juanicipio vein and an adjacent structure without locating additional resources. This work will continue in 2010.

During the year narrow intervals of mineralisation were encountered at the Juanicipio vein and deeper drilling has been initiated. A third-party scoping study recommended additional exploration at the Valdecañas vein to convert resources into the indicated category, which is currently in process to advance the project toward the pre-feasibility stage.

SAN JULIÁN

Ownership: 100% Fresnillo plc

Location: Chihuahua/Durango border

Indicated & inferred resources:

135.5 million ounces of silver (+39%)

375,000 ounces of gold (-8%)

In 2009 drilling on the San Julián, Refugio and the newly discovered Ruth vein identified interesting gold and silver values. The exploration ramp at the JM silver-lead-zinc deposit was extended and intersected the San Atanasio vein. Additional surface ground was purchased in the ramp area and 32,300 hectares of additional claims were staked in the San Julián region, where the Fresnillo Group now controls 153,900 hectares.

SAN RAMÓN AND LAS CASAS

Ownership: 100% Fresnillo plc

Location: Durango

Indicated & inferred resources:

66.0 million ounces of silver

397,000 ounces of gold

These prospects are located in the Ciénega district. At Las Casas, drilling extended the silver-lead-zinc mineralisation in two wide veins. At the San Ramón vein, resources identified to date make it an important prospect and a budget has been approved to carry out development work and additional drilling in 2010, with the potential to support the expansion of operations of the Ciénega mine.

EXPLORACIONES MINERA PARREÑA - ORISYVO, SAN JUAN AND OTHER PROSPECTS

Ownership: 100% Fresnillo plc

Location: Chihuahua, Durango, Zacatecas

Indicated & inferred resources:

14.6 million ounces of silver (+48%)

5.2 million ounces gold (+68%)

Orisyvo is a large disseminated gold system outcropping in the remote area of the Sierra Madre which has considerable exploration potential. In 2009 the oxide mineralisation was extended to the north and west with interesting gold values. Additional intersections were made during the year on the high grade sulphide ore and a scoping study will be prepared in 2010. At San Juan in Durango, additional surface land was purchased in order to continue exploration efforts. At Lucerito in Durango and Sombrerete in Zacatecas mapping, sampling and permitting were carried out in 2009 and first drilling campaigns will commence in 1H 2010.

OTHER PROSPECTS

The Fresnillo Group has a number of additional prospects in Mexico that meet the criteria for continued investment. At San Nicolás del Oro in Guerrero, where economic gold-silver values have been intersected at the San Nicolás vein; further drilling will occur in 2010.

The La India joint venture association with Northair Mines Ltd. was terminated due to poor drilling results.

In 2009 Fresnillo Perú was incorporated in order to commence exploration activities in that country.



Work at Centauro Deep



Exploration at the Noche Buena project

FINANCE REVIEW



Construction of the San Carlos shaft at the Fresnillo mine

The Consolidated Financial Statements of Fresnillo plc are prepared in accordance with International Financial Reporting Standards (IFRS). This review is intended to convey the main factors affecting performance and to provide a detailed analysis of the financial results in order to facilitate understanding of the Group's financial statements. Management recommends reading this review in conjunction with the Financial Statements and their accompanying notes on pages 90 to 134.

COMMENTARY ON FINANCIAL PERFORMANCE

Despite the global economic crisis, the volatility in commodity prices and significant cost pressures experienced in 2009, Fresnillo plc generated strong financial results.

The effective execution of our strategy, including cost control efforts, combined with favourable external factors such as higher metal prices and a weakening Mexican peso against US dollar helped drive the increase in total revenues, gross profit, EBITDA and operating profit in 2009. These positive factors were partially offset by higher average unit costs from a number of key mining inputs such as reagents, tyres and steel for drilling, which contrary to expectations, did not decline until late in the year. Key line items of the Income Statement are shown below:

INCOME STATEMENT KEY LINE ITEMS

(US\$ millions)

	2009	2008	% Change
Revenues	849.94	720.48	18.0
Cost of sales	(321.63)	(299.87)	7.2
Gross profit	528.32	420.61	25.6
Exploration expenses	49.06	53.48	(8.3)
EBITDA	496.62	337.36	47.2
Profit from continuing operations before income tax	457.42	267.36	71.1
Income tax expense	99.15	114.58	(13.5)
Profit for the year	358.27	152.78	134.5
Profit for the year, excluding post-tax Silverstream revaluation effects	344.30	152.78	125.4
Attributable profit	322.01	127.95	151.7
Basic and diluted earnings per share (US\$/share) ¹	0.449	0.186	141.3
Adjusted basic and diluted earnings per share (US\$/share) ²	0.430	0.186	131.2

¹ The weighted average number of ordinary shares for 2009 was 717,160,159. For 2008, 687,688,000 ordinary shares were considered for the EPS calculation. (See note 12 in the Consolidated Financial Statements).

² Adjusted basic and diluted earnings per share reflect profit in the year attributable to equity shareholders of the company adjusted to exclude Silverstream revaluation effects in the year (see note 12 in the Consolidated Financial Statements).

Fresnillo's financial results are highly dependent on the performance of our operating assets and thus management's decision-making and execution capabilities. However, there are certain variables which are beyond the Group's control that have a material impact on its financial statements. A description of these external factors and their impact on results is provided below.

Precious metal prices

Silver and gold prices are the most significant variable impacting the financial statements, as approximately 94% of Fresnillo's revenues come from these metals. The average realised price of silver in 2009 was US\$15.27 per ounce, an increase of 3.8% year-over-year. The average realised gold price increased by 12.5% year-on-year to US\$988.94 per ounce. These increases benefited the Group's annual financial results. The Group remains fully exposed to movements in the underlying metals prices as a result of our strategy of not hedging silver and gold production.

Foreign exchange rates

The average spot exchange rate for 2009 was MXN13.52 per US dollar, compared with MXN11.14 per US dollar in 2008, representing an average devaluation of 21.4%. As a result,

the Group's production costs decreased when compared to 2008, as costs denominated in Mexican pesos (approximately 70% of total costs) were lower when converted to US dollars.

The Mexican peso-US dollar spot exchange rate at 31 December 2009 was MXN13.06 per US dollar, compared to the exchange rate at the beginning of the year of MXN13.54 per US dollar, a revaluation of 3.5% that had an aggregate adverse effect on peso-denominated monetary assets and liabilities which are valued at the year-end spot rate. Additionally, the US dollar devalued against sterling by 9.1%, generating a foreign exchange gain from our cash position in sterling. The net foreign exchange gain in the year compared favourably against the significant foreign exchange loss incurred in 2008, which was generated as a result of the strengthening of the US dollar against both MXN and sterling.

Under Mexican tax legislation, Fresnillo pays taxes on the basis of results prepared in accordance with Mexican accounting standards (GAAS) which are denominated in Mexican pesos. This results in different exchange effects for tax purposes to those reported under IFRS and can therefore cause significant differences between the effective tax rate under IFRS and the statutory Mexican tax rate.

Inflation of key operating materials

The average unit price of key operating materials remained high throughout the year, limiting profit margin growth. The unit prices for some key inputs such as steel balls for milling and explosives decreased slightly in the first quarter of 2009 following record levels in the second half of 2008. However, the average unit prices of these inputs in 2009 continued to be at higher levels than in the previous year and it was not until the last two months of 2009 when input prices began to decline year-on-year. As a result, the net increase in the weighted average input cost over the year was 1.0%.

YEAR OVER YEAR CHANGE

Steel balls for milling	(14.7%)
Steel for drilling	4.8%
Explosives	(5.8%)
Tyres	6.2%
Reagents	10.6%
Weighted Average	1.0%

Electricity

The Group's average cost of electricity decreased by 14.9% when compared to 2008. The lower rates charged by Comisión Federal de Electricidad, the national utility, reflected the Mexican Government's initiative to reduce electricity to control inflation. However, electricity prices are expected to increase as economic conditions improve during 2010.

Treatment and refining charges

Treatment and refining charges are determined annually using international benchmarks. The treatment charge per tonne of lead and zinc concentrates, including the escalator, decreased by 29.7% and 20.8% respectively when compared to 2008. However, these reductions were partially offset by a 23.5% increase in the refining charges per ounce of silver, which represented 52.2% of total treatment and refining charges. As a result, treatment and refining charges, which are deducted from adjusted revenues for the purposes of revenues as disclosed in the income statement, decreased by 5.8% in 2009 compared to 2008.

REVENUES

CONSOLIDATED REVENUES

(US\$ millions)

	2009	2008	Change	
			Amount	%
Adjusted revenue ¹	943.96	839.60	104.35	12.4
Treatment and refining charges	(69.23)	(73.52)	4.29	(5.8)
Hedging losses (Pre-IPO) ²	(25.02)	(45.60)	20.58	(45.1)
Hedging gains	0.23	0.00	0.23	N/A
Revenues	849.94	720.48	129.46	18.0

¹ Adjusted Revenue is revenue as disclosed in the income statement adjusted to exclude hedging effects and treatment and refining charges.

² Derivatives terminated prior to the IPO in 2008.

Adjusted revenue increased by 12.4% to US\$944.0 million in 2009. The higher average realised silver and gold prices contributed 60% of the favourable US\$104.4 million movement, whilst the remaining 40% was explained by the increase in the volumes of silver and gold sold.

VOLUMES OF METAL IN PRODUCTS SOLD

(Year ended 31 December)

	2009	2008	% Change
Fresnillo	32,921	31,487	4.6
Ciénega	1,453	857	69.5
Herradura	302	218	38.5
Silver (KOz)	34,676	32,562	6.5
Fresnillo	20,688	20,938	(1.2)
Ciénega	96,821	107,879	(10.3)
Herradura	245,696	216,356	13.6
Gold (Oz)	363,205	345,173	5.2
Fresnillo	9,156	7,452	22.9
Ciénega	5,409	7,976	(32.2)
Lead (MT)	14,565	15,428	(5.6)
Fresnillo	9,521	9,248	2.9
Ciénega	6,613	9,353	(29.3)
Zinc (MT)	16,134	18,601	(13.3)

Silver and gold adjusted revenues increased year-on-year, however their respective share of total adjusted revenues remained stable compared to 2008.

ADJUSTED REVENUES* BY METAL

(Year ended 31 December, US\$ millions)

	2009		2008		% Change
Silver	529.63	56%	479.05	57%	10.6
Gold	359.17	38%	303.54	36%	18.3
Lead	26.98	3%	30.29	4%	(10.9)
Zinc	28.18	3%	26.72	3%	5.5
Total Adjusted Revenues	943.96	100%	839.60	100%	12.4

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

Prior to the IPO in 2008, the Fresnillo Group had 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. 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 recycles them to the income statement in line with the occurrence of the transactions to which they related. In 2009, a final non-cash charge of US\$25.0 million was deducted from revenues, decreasing hedging losses from the previous year by 45.1%, and as at 31 December 2009 there are no remaining deferred losses related to the terminated gold and silver derivatives.

The Group has not entered into any new silver or gold hedging contracts and does not intend to do so. However, it has entered derivative contracts related to the price of lead and zinc to mitigate the risks associated with the sale of these by-products. In 2009, a gain of US\$0.2 million was reflected in revenues as a result of the maturity of several contracts entered into in 2008 and 2009. All derivative instruments related to the price of by-products matured in 2009 and no further contracts have been entered into for subsequent years.

COST OF SALES

Cost of sales increased by 7.2% compared to 2008, while adjusted production costs, calculated as total production costs less depreciation, profit sharing and the effects of exchange rate hedging, decreased by 6.1%.

	2009	2008	Change	
			Amount	%
Adjusted production cost	209.80	223.49	(13.69)	(6.1)
Depreciation	67.23	51.91	15.32	29.5
Change in work in progress	12.94	3.47	9.47	272.9
Profit sharing	24.58	21.00	3.58	17.0
Hedging	7.08	-	7.08	N/A
Cost of sales	321.63	299.87	21.76	7.2

The increase in cost of sales is explained as follows:

- Adjusted production costs decreased by US\$13.7 million primarily due to the effect of the higher average spot exchange rate which benefitted costs denominated in Mexican pesos when converted to US dollars. The exchange-related decrease in adjusted production costs was equivalent to US\$25.5 million. By factoring out the impact of the exchange rate on the peso-denominated components for each cost category, the changes explained below reflect the estimated underlying operational and dollar-denominated unit costs changes.

Other positive aspects were:

- Operating efficiencies offset the small increase in the average unit cost of key operating materials, which resulted in a US\$1.4 million benefit; and
- The cost of energy decreased by US\$0.5 million, due to a 14.9% reduction in the unit cost of electricity, which more than offset the 9.5% increase in consumption at the mines related to production increases and the higher cost of diesel.

The benefit of the peso devaluation, operating efficiencies and decrease in energy costs was partially offset by the following factors:

- The cost of contractors increased by US\$5.1 million mainly due to: i) an increase in development works at our operating mines, which is a key factor to ensure future production; ii) additional civil works; iii) increased volumes of ore and waste hauled; iv) rock bolting and shotcreting activities carried out with the aim of ensuring our workers' safety; and v) an average wage increase of 6.0%, in line with the increase given to union workers.
- Personnel costs, excluding profit sharing, increased by US\$4.4 million as a result of an increase of 8.0% in salaries at our three mines, productivity bonuses, training, and an increase in the number of workers at Ciénega.
- Maintenance and repair costs increased by US\$2.8 million primarily due to higher utilisation of equipment and the consumption of additional spare parts to service the increase in equipment.
- Other costs increased by US\$1.4 million, which resulted from the combination of increases in insurance, security, maintenance of workers camps and mining rights, and the reduction in freight costs.

- Depreciation: increased by US\$15.3 million mainly due to the increased production volumes which affected the depletion factor, the acquisition of the Noche Buena project in December 2008 and the purchase of high-volume trucks and loaders at Herradura and in-mine equipment at Fresnillo.
- Change in work in progress: increased by US\$9.5 million mainly as a result of the reduction of mineral and concentrate inventories at our mines.
- Profit sharing: increased by US\$3.6 million due to higher profits at our operating mines.
- Foreign exchange hedging losses: During the first months of 2008, the average spot exchange rate was MXN10.64 per dollar. Given the high volatility environment prevailing at that time, the Group entered into exchange rate derivative instruments as part of a programme to meet its commitments contracted in Mexican pesos, such as the payment of wages and taxes, and to guarantee a fixed exchange rate should the US dollar weaken. As a result, Fresnillo plc sold forward US\$60.0 million at an average rate of MXN11.17 per US dollar. However, the average spot exchange rate at maturity dates was MXN13.25 per US dollar, thus generating an exchange rate hedging loss of US\$9.5 million. In 2009, the Group sold forward an additional US\$16.0 million at an average rate of MXN14.68 per US dollar, which matured throughout 2009 and generated an exchange rate hedging gain of US\$2.4 million as the average spot exchange rate was MXN12.81 per US dollar. The combination of the aforementioned positions resulted in a final exchange rate loss of US\$7.1 million. Additionally, in 2009, the Group sold forward US\$29.0 million at an average rate of MXN13.70 per US dollar with maturity dates throughout 2010. In order to assure a minimum exchange rate and at the same time benefit from a possible devaluation of the peso against the US dollar, four put options were purchased totalling US\$10.0 million, at an average strike of MXN11.75 per US dollar with maturity dates in 2010.

COST PER TONNE AND CASH COST PER OUNCE

A key measure to evaluate the performance at our mines is the adjusted production cost per tonne.

In 2009, cost per tonne milled at Fresnillo and Ciénega decreased by 11.4% and 6.8% respectively, whilst at Herradura cost per tonne deposited, excluding ore deposited from the Valles area, decreased by 9.8% when compared to 2008.

COST PER TONNE*

(Year ended 31 December)

		2009	2008	% Change
Fresnillo	US\$/tonne milled	36.49	41.19	(11.4%)
Ciénega	US\$/tonne milled	59.21	63.53	(6.8%)
Herradura	US\$/tonne deposited	5.44	6.03	(9.8%)

* Cost per tonne is calculated as total production costs less depreciation, profit sharing and exchange rate hedging effects

The principal driver of cost reduction across the Group was the higher MXN/US\$ exchange rate, which benefited costs denominated in Mexican pesos when converted to US dollars and, to a lesser extent, the increase in volumes milled/deposited at the mines. Notwithstanding, these aspects were partially offset by increases in personnel, contractor and maintenance costs, as further described below.

Cost per tonne at the Fresnillo mine, excluding the effects of foreign exchange was negatively impacted by: i) higher contractor costs due mainly to a 14% increase in metres developed in order to prepare a larger number of production stopes, higher volumes (approximately 7%) of ore hauled through longer distances, and a 126.6% increase in shotcreting activities for safety purposes; ii) an 8.0% increase in wages and fringe benefits as a result of the negotiations with the union; iii) increase in maintenance and repair costs derived principally from the intensive use of equipment; and iv) a 17.0% increase in insurance fees and mining concessions. These increases were offset by the devaluation effect, higher ore milled and the lower cost of electricity and operating materials, which resulted from the decrease in the unit price of steel balls for the mill and explosives. Fresnillo's cash cost³ decreased by 10.6% from US\$3.77 per silver ounce in 2008 to US\$3.37 in 2009.

Cost per tonne at Ciénega, excluding the effects of foreign exchange was affected by: i) higher personnel costs due to a 6.4% increase in the number of workers and the 8.0% increase in wages and fringe benefits; ii) increased maintenance costs of scoops and loaders, as a result of the intensive use of equipment that supported the increase in production; iii) higher contractor costs due to an increase of 67.5% in development (10,000 additional metres), aiming to prepare a larger number of production stopes, and civil works carried out at the plant and mining village.

These increases were offset by the devaluation effect and the increased ore milled. Ciénega's cash cost³ decreased by 28.1% (US\$190.6 per gold ounce in 2009 vs US\$264.9 per gold ounce in 2008), which was achieved as a result of the increased silver revenues credited to the total cash cost. The higher revenues of this by-product were obtained due to both the increased price of silver and volume sold during 2009.

Cost per tonne at Herradura, excluding the effects of foreign exchange was impacted by the following factors: i) an 8.0% increase in wages and fringe benefits and training; ii) higher costs of operating materials principally resulting from the increase in unit price and consumption of sodium cyanide used to improve recovery rates, and the increased consumption of tyres at higher unit costs derived from the more intensive use of equipment and the acquisition of bigger trucks; and iii) increase in maintenance costs as a result of additional equipment and purchase of spare parts. These increases were offset mainly by the devaluation effect and the higher ore deposited. In 2009, Herradura's cash cost³ decreased from US\$397.5 per gold ounce in 2008 to US\$358.9 per gold ounce in 2009, a reduction of 9.8%.

GROSS PROFIT

Gross profit, before hedging gains and losses for each mine, is an important financial indicator continuously monitored by management to measure the performance of each business unit and the Group as a whole. In 2009, gross profit, adjusted to exclude hedging gains and losses, increased by 20.2% compared to the previous year mainly due to steady results obtained at Ciénega and record profits achieved at Fresnillo and Herradura.

Specifically, the Ciénega mine maintained its contribution to the Group's gross profit excluding hedging effects as a result of the higher ore milled and the significant increase in silver ore grade, which compensated for the lower gold ore grade extracted. Although in 2009 the Fresnillo mine reduced its contribution to the gross profit excluding hedging effects, it remained the largest contributor to the increase in the year. Finally, Herradura's contribution increased from 18.9% in 2008 to 22.9% in 2009 due to higher production of gold resulting from the increase in ore deposited and better recovery rates, which led to a record gross profit.

CONTRIBUTION BY MINE TO THE GROUP'S GROSS PROFIT EXCLUDING HEDGING GAINS AND LOSSES

(US\$ millions)

	2009	2008	Change				
			Amount		%		
Fresnillo	366.17	65.4%	323.44	69.4%	42.73	45.7%	13.2
Ciénega	65.30	11.7%	54.55	11.7%	10.75	11.5%	19.7
Herradura	128.38	22.9%	88.31	18.9%	40.07	42.8%	45.4
Total for operating mines	559.85	100.0%	466.30	100.0%	93.55	100.0%	20.1
Other subsidiaries	0.33		(0.09)		N/A		N/A
Total	560.18		466.21		93.97		20.2

ADMINISTRATIVE EXPENSES

Until May 2008, administrative expenses included a trademark royalty paid by the Fresnillo Group to Peñoles which is no longer payable. Between 1 May 2008 and 31 October 2009, administrative fees were paid to Servicios Industriales Peñoles, S.A. de C.V. under the Transitional Services Agreement (TSA) which has subsequently been replaced by the New Services Agreement. Under this new agreement, an annual fee of US\$27.6 million is payable, a reduction as compared to the annual fee of US\$34.0 million that was payable under the TSA. The combined effect of these changes was the main reason for the

³ Cash cost per ounce is calculated as total cash cost (cost of sales plus treatment and refining charges less depreciation) less revenues from by-products divided by the silver or gold ounces sold.

reduction in administrative expenses of US\$31.8 million. The aforementioned decrease was partially offset by the increase in legal and advisory fees related to evaluations of potential acquisitions.

EXPLORATION EXPENSES

Exploration expenses for 2009 totalled US\$49.1 million, which were mainly incurred in exploration programmes aimed at increasing resources and reserves at our three operating mines, confirming and increasing resource estimates at the Soledad-Dipolos, Noche Buena and Saucito projects, and continuing drilling at the San Julián and Orisyvo prospects. However, exploration expenses decreased by 8.3% compared to the US\$53.5 million incurred in 2008 mainly due to the more intensive exploration phase which took place at the Soledad-Dipolos project in the previous year.

BUSINESS UNIT / PROJECT		
(US\$ millions)	Exploration expenses	Capitalised expenses
Herradura (Soledad-Dipolos)	13.5	0.0
Fresnillo	8.0	0.0
Ciénega	11.8	0.0
Saucito	0.0	3.9
Juanicipio	0.0	3.5
San Julián	5.9	0.0
Orisyvo	3.3	0.0
San Juan	0.9	0.0
San Nicolás	0.8	0.0
Guachichil	0.8	0.0
Guanajuato	0.5	0.0
Others	3.6	0.0
TOTAL	49.1	7.4

EBITDA

EBITDA, which is calculated as gross profit as reflected in the income statement plus depreciation less administrative and exploration expenses, is a key indicator of the Group's financial performance. In 2009, EBITDA achieved a new record level of US\$496.6 million, representing an increase of 47.2% year-on-year. Similarly, the EBITDA margin rose from 46.8% in 2008 to 58.4% in 2009.

EBITDA & EBITDA MARGIN			
(Year ended 31 December, US\$ millions)			
	2009	2008	% Change
Gross Profit	528.32	420.61	25.6%
Depreciation	67.23	51.91	29.5%
Administrative Expenses	(49.87)	(81.68)	(38.9%)
Exploration Expenses	(49.06)	(53.48)	(8.3%)
EBITDA	496.62	337.36	47.2%
EBITDA Margin	58.4%	46.8%	

SILVERSTREAM REVALUATION EFFECTS

The Silverstream Contract is accounted for as a derivative financial instrument, which is carried at fair value. In 2009, the fair value of this instrument increased by US\$19.4 million, with a corresponding non-cash gain recognised in the income statement. Further information related to the Silverstream Contract is provided in the Balance Sheet and in the note 15 to the Consolidated Financial Statements on page 117.

FOREIGN EXCHANGE

The foreign exchange result is caused by the conversion of monetary assets and liabilities denominated in foreign currencies. A foreign exchange gain of US\$9.5 million was recognised in the income statement mainly as a result of the weakening of the US dollar against the UK pound sterling, which affected the cash position denominated in sterling. In contrast, a loss of US\$14.6 million was recorded during 2008 mainly as a result of the devaluation of the sterling against the US dollar.

TAXATION

Income tax expense for 2009 was US\$99.1 million, 13.5% lower compared to the previous year. The effective tax rate was 21.7%. A significant factor in the reduction from 2008 was that Minera Fresnillo purchased the San Julián project from the subsidiary exploration company Exploraciones Minera Parreña at market value. In accordance with Mexican tax legislation, the acquisition of a project can be deducted from the company's income, which thus significantly decreased the taxable profit of Minera Fresnillo, whilst Exploraciones Minera Parreña was able to utilise tax losses brought forward from previous years which were previously not recognised as a deferred asset. Other factors which contributed to the lower income tax expense were the inflationary adjustments and certain tax credits. In addition, a foreign exchange loss was recorded in the income statement under Mexican GAAS as set out above, which lowered the Group's taxable profits. This loss was caused by the 3.5% revaluation of the Mexican peso-US dollar exchange rate which affected the Group's cash and other monetary assets and liabilities denominated in US dollars, the most significant of which being the Silverstream Contract, cash and cash equivalents.

PROFIT FOR THE YEAR

Profit for the year increased significantly from US\$152.8 million to US\$358.3 million, a 134.5% increase year-on-year. Despite the 46.0% increase in minority interest, profit attributable to the shareholders of the Group increased by 151.7% from US\$128.0 to US\$322.0 million in 2009.

Adjusted profit for the year, being profit for the year adjusted to exclude the effects of the revaluation of the Silverstream Contract, increased by 125.4% from US\$152.8 in 2008 to US\$344.3 million in 2009.

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)

	2009	2008
Cash generated by operations before changes in working capital	548.8	405.8
(Increase) / Decrease in changes in working capital	(37.8)	129.6
Net cash from operating activities	390.7	414.7
Purchase of property, plant & equipment	(250.4)	(185.0)
Silverstream Contract	39.0	31.7
Dividends paid	(93.6)	(42.2)
Shares issued and paid pursuant to the Global Offer	-	901.1
Distribution to equity shareholders of the Group	-	(406.7)
Net increase in cash and cash equivalents during the year	92.6	226.9
Cash and cash equivalents at 31 December	312.2	212.0

Cash generated by operations before changes in working capital increased by 35.2% to US\$548.8 in 2009 as a result of the higher profits derived from the increase in precious metal prices and solid performance at the operating mines. However, there was a US\$37.8 million increase in working capital due to higher prices and volumes sold, which increased trade receivables by year-end. The above effects resulted in a 5.8% decrease in cash flow from operating activities after changes in working capital, to US\$390.7 million. Another important source of funds was the US\$39.0 million received in proceeds under the Silverstream Contract. The use of these funds included the purchase of property, plant and equipment (US\$250.4 million). Investments in these items are further described below:

PURCHASE OF PROPERTY, PLANT AND EQUIPMENT

(US\$ millions)

2009

Herradura mine	64.8	Expansion of the Centauro pit, purchase of hydraulic shovel and high-volume trucks, construction of leaching pads and acquisition of surface land
Ciénega mine	41.7	Mine development, mining works, optimisation of the leaching circuit, sinking of the shaft and purchase of land
Fresnillo mine	34.6	Mine development and construction of the San Carlos shaft and the sewage water treatment plant
Soledad-Dipolos	57.7	Pre-production stripping activities, construction of the mine and of the first leaching pad
Saucito project	39.1	Equipment for the shafts and mining works
San Julián project	5.0	Construction of exploration ramp
Juanicipio project	3.5	Diamond drilling expenses
Others	4.0	La Parreña Exploration and SAFSA
Total purchase of property, plant and equipment	250.4	

Additionally, dividends paid in 2009 totalled US\$93.6 million, of which US\$55.8 million corresponded to the final dividend of 2008, and the remaining US\$37.8 million to the payment of the 2009 interim dividend.

After considering all the sources and uses of funds, there was a net increase of US\$92.6 million in cash and cash equivalents during the year which, when combined with the US\$212.0 million balance at the beginning of the year and the favourable effect of the exchange rate of US\$7.6 million, resulted in a net cash position of US\$312.2 million as at 31 December 2009.

BALANCE SHEET

The Group has a strong balance sheet with no bank debt.

Cash and cash equivalents as of 31 December 2009 increased by 47.3% compared to the cash position at year-end 2008 to US\$312.2 million due to the factors described in the cash flow section.

The increase in trade and other receivables was mainly caused by the rise in metal prices during the last months of the year, and recoverable taxes.

Fresnillo plc is entitled to receive all of the proceeds in respect of the payable silver produced at the Sabinas mine under the Silverstream Contract. This contract is accounted for as a derivative financial instrument, with all payments received being credited against the carrying value of the asset. The change in the value of the Silverstream derivative from US\$318.3 million at the beginning of the year to US\$298.7 million at the year-end reflects cash proceeds received of US\$39.0 million offset by a revaluation effect of US\$19.4 million which is a non-cash gain reflected in the Group income statement.

The net book value of property, plant and equipment was US\$688.7 million at 31 December 2009, an increase of 38.3% when compared to 2008. The main additions underlying this increase were development works including the construction of the Soledad-Dipolos project, acquisition of new equipment at the mines, purchase of land and several leaching circuit optimisation projects carried out at the Ciénega and Herradura mines.

DIVIDEND

The final dividend will be approved at the next Board meeting, scheduled for 28 April, and communicated thereafter to shareholders. It is intended that it will be paid following the AGM in line with the previous year, and the exact date together with the record date for entitlement will be communicated at the same time as the amount. The dividend will be in line with the Company's stated dividend policy.



Computer room at the Fresno-sponsored General González Ortega school.

RESPONSIBILITY



1 Continuing the sustainable development of the Group



2 Maximise the potential of existing operations



3 Deliver growth through development projects



4 Extend the growth pipeline



5 Maintain strict financial discipline

SUSTAINABLE DEVELOPMENT



We donated 88,000 trees to communities to promote environmental culture

2009 HIGHLIGHTS

Fresnillo is committed to sustainability across all its business operations. Our core responsibilities are to ensure the safety and health of our employees, safeguard the environment, promote community well-being and adhere to best governance practices.

- Zero fatalities; improvement across all safety indicators
- Average hours of training per person remained stable at 92 hours
- ISO 14001 certification at all mines and Exploration Division
- Completed process for International Cyanide Code Certification at Herradura, initiated at Ciénega
- Certification by the Mexican Greenhouse Gas Programme
- US\$2.9 million invested in community development efforts
- Recognised as a socially responsible company by the Mexican Centre for Philanthropy (CEMEFI)
- Received Ethics and Values Award from the Federation of Industrial Chambers (CONCAMIN)
- First Communication on Progress for the UN Global Compact




COMMUNICATION ON PROGRESS TOWARDS THE TEN PRINCIPLES OF THE UN GLOBAL COMPACT**Page**

1. Businesses should support and respect the protection of internationally proclaimed human rights, within their influence scope.	50-51
2. Businesses should make sure they are not complicit in human rights abuses.	50-51, 55
3. Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.	50, 54
4. Businesses should uphold the elimination of all forms of forced and compulsory labour.	50, 54
5. Businesses should uphold the effective abolition of child labour.	50-51
6. Businesses should uphold the elimination of discrimination in respect of employment and occupation.	50, 54
7. Businesses should support a precautionary approach to environmental challenges.	51, 56-57
8. Businesses should undertake initiatives to promote greater environmental responsibility.	56-57
9. Businesses should encourage the development and diffusion of environmentally friendly technologies.	56-57
10. Businesses should work against corruption in all its forms, including extortion and bribery.	51,55



In 2009 we planted 60,000 saplings and continued to operate the Sustainable Forest at Ciénega

PERFORMANCE INDICATORS

MEASURE	2009	2008	COMMENT
 HEALTH AND SAFETY Fatalities	0	0	No fatality is ever acceptable and we have a zero tolerance policy on this KPI. Ongoing training and continued improvement in work conditions is improving overall safety performance
Accident rate (number of disabling accidents that require absence from work for more than three days, divided by the total number of union and non-union employees, as well as contractors, multiplied by 100)	3.10	3.63	
Lost work days rate (total number of days lost due to disabling accidents divided by the total number of union and non-union employees, as well as contractors)	1.20	1.58	
 EMPLOYEES Professional development training (average hours/person)	92	92	Focus on leadership, teamwork, process improvement, productivity and management skills
ESH training (average hours/person)	23.3	18.4	Increased training on the SSMARC system
 ENVIRONMENT Energy consumption (GJ per tonne)	0.188	0.157	The increase in unit consumption primarily reflects resource requirements at development works with no production output; the start-up of Soledad-Dipolos in 2010 should stabilise these figures
Fresh water consumption (m ³ per tonne)	0.209	0.137	
Environmental incidents	0	0	These include tailing dam leakages, leaching pad contamination, fires within mines and facilities, spillage of hazardous materials



Continuing the sustainable development of the Group



Investment in education includes infrastructure and instructional programmes

Fresnillo plc's long-term operating performance and ability to create value for all stakeholders require an ongoing disciplined approach. We implement this through occupational safety and health, environmental stewardship, mutually beneficial relationships with our communities, and robust governance practices. Indeed, our very licence to operate is dependent upon the ability to meet our responsibilities as a corporate citizen. Thus, for the Fresnillo Group sustainability efforts are core to the business strategy.

Our core values support this – trust, responsibility, integrity and loyalty – as does our Code of Conduct that must be reaffirmed annually by every employee. Furthermore, as a signatory to the UN Global Compact, the Group has publicly committed to best practices in sustainable development. In 2009, we sent our first Communication on Progress (CoP) as a signatory. We also follow the Framework for Sustainable Development of the International Council on Mining and Metals (ICMM) and the framework guidelines set out by the Global Reporting Initiative (GRI). In Mexico, we follow the Decalogue of the Socially Responsible Companies established by the Mexican Centre for Philanthropy.

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

CORPORATE SOCIAL RESPONSIBILITY FRAMEWORK



ALREADY ACQUIRED

- ISO14001:2004
- Socially Responsible Company Certificate
- Ethics and Values in the Industry Award
- Global Compact

IN PROCESS OF ACQUISITION

- BS OHSAS18001:2007
- Safe Industry Certificate
- Code of Cyanide Certificate

RELATED INITIATIVES

- Corporate Commitment on Wilderness membership
- Copenhagen Communiqué signatory



We received distinction as a "Socially Responsible Company" from the Mexican Centre for Philanthropy (CEMEFI) for the fulfilment of standards in "quality of life in the company," "business ethics", "connection with the community" and "care and environmental preservation". Also, our Ethics and Values Award from the Federation of Industrial Chambers (CONCAMIN) recognises our compliance and asset management in areas such as human rights, labour relations, environmental protection, illicit business prevention, ethics and corporate citizenship for the implementation and dissemination of CSR practices.

for human rights, the prohibition of slavery and the exploitation of child labour, and combats actions that violate respect for customs and traditions.

We have long integrated sustainable development practices into our operations and monitored our performance across a number of variables. Since the IPO, we have worked to formalise and consolidate our policies and programmes in this area.

The Group's sustainable development strategy and practices are monitored at the Board level through the Health, Safety, Environment and Community Relations (HSECR) Committee, which is chaired by a Non-executive Director and includes an Independent Non-executive Director and the Group's Chief Executive.

The responsibilities of the Committee are to:

- Formulate and recommend to the Board the Fresnillo Group's policy for HSECR issues, including the international and industry standards to which the Group should adhere
- Review management's investigation of incidents or accidents that may 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, HSECR efforts are managed through the Health, Safety, Environment and Community Relations System. Known as SSSMARC (acronym for *Sistema de Salud, Seguridad, Medio Ambiente y Relaciones con la Comunidad*), this is a comprehensive management system that integrates the technical, social and economic variables involved in workplace and stakeholder engagement, as well as environmental and quality of life concerns.

We utilise SSSMARC to identify sustainability risks; develop and execute mitigation programmes; and ensure regulatory compliance and voluntary adherence to the standards determined by the HSECR Committee. SSSMARC performance is to be evaluated at least once per year by the SSSMARC Committee, which is comprised of senior executives and operations managers of each mine.

CSR ORGANISATIONAL CHART



At Herradura we installed an IMMERSIVE simulator in 2009 to train operators for open pit off-road trucks. This simulator virtually exposes workers to difficult operational situations such as equipment failure or special atmospheric conditions.



HEALTH AND SAFETY

Fresnillo has adopted the occupational health and safety guidelines of the International Labour Organisation and the World Health Organisation to develop our workplace policies and programmes. We comply with all regulations put forth by the Mexican Ministry of Labour.

In accordance with these guidelines, each mine has a health and safety commission (known as *Comisión de Seguridad e Higiene*) comprised of executives and union and non-union employees who monitor and review performance. These commissions are also responsible for the implementation of training and safety programmes.

Certifications

OHSAS 18001:2008

We are seeking OHSAS 18001:2008 certification at each of our mines, which requires specific procedures for measuring, monitoring and training. We have started implementing these procedures and are now 20% through the certification programme at Fresnillo. Once this is complete we will begin at Herradura and Ciénega.

2010 target: Advance 80% towards OHSAS certification at Fresnillo and initiate the process towards certification at Herradura and Ciénega.

Safe Industry Certification

In 2009 we initiated the process to obtain Safe Industry Certification from the Mexican Ministry of Labour. This process measures compliance with national safety regulations and the effectiveness of safety management systems through voluntary audits conducted by the Company, unions and Government. **2010 target:** Complete the first level of the certification programme at all mines, including at the Saucito project.

The Group's main health and safety initiatives are:

Safety

Objective – Eliminate unsafe working conditions, and train employees and contractors to eliminate unsafe acts, resulting in zero fatalities.

Workplace safety measures are specific to each area of the business: for example, in underground mines we install ground anchors and reinforce mine works with shotcrete; at the open pit operation we maintain mobile equipment in optimal condition to ensure driver safety; and explosives and hazardous materials are contained, stored and labelled consistently at every worksite. As part of the safety facilities and infrastructure in our underground mines we have 21 refuge stations and train and equip 13 rescue teams.



Fresnillo plc safety programmes: US\$2.6 million invested in 2009

- Safety Conduct Programme
- Personalised training through STOP™
- Hazardous materials management
- Internal Safety Audit Programme
- First aid training
- Defensive driving training



In 2009, 3D ultrasound and X-ray equipment was installed at Fresnillo and Ciénega, and an ambulance was purchased at Herradura.

Safety training is an ongoing requirement for all employees and contractors, and encompasses a broad range of job-related topics: from scaling and electrical work to operational procedures and interpersonal behaviours. A special 180-hour course for commission members took place at the three mines in 2009.

Health

Objective – Eliminate occupational illnesses and improve general health through preventive care and wellness programmes.

We provide a range of medical services for union and non-union employees as well as contractors. These include annual exams for all employees at our onsite clinics, comprehensive medical care for those in need, and routine and seasonal flu vaccinations. In 2009 we also provided H1N1 vaccines. At Fresnillo and Herradura, we provide major medical insurance coverage for families, and at Ciénega, the onsite clinic treats all personnel and dependents.

We screen for and treat occupational illnesses such as silicosis, hearing loss and elevated blood lead levels as evidence of these may imply unhealthy work conditions that require additional preventive measures. We also monitor general health conditions such as diabetes, hypertension and obesity due to their potential impact on productiv-

ity and mortality. **2010 target:** Complete 100% of annual medical exams; zero cases of elevated blood lead levels.

Measuring safety and health performance

Fresnillo plc has achieved two consecutive years with zero fatal accidents and improved safety performance year over year. The Soledad-Dipolos project was constructed without major accidents. **2010 target:** Maintain zero fatal accidents and improve other safety indices by 20.0%.

HEALTH & SAFETY INDICATORS			
	2009	2008	2007
Fatalities	0	0	2
Accident rate	3.10	3.63	4.02
Lost work days rate	1.20	1.58	2.20

Rescue teams from our three mine units participated in the 10th Mine Rescue Teams Competition organised by the Mexican Mining Chamber (CAMIMEX) in the city of Pachuca. The Herradura mine team was awarded first place in First Aid; the Fresnillo team second place in Mine Rescue, and the Ciénega team third place in Mine Rescue.





EMPLOYEES

The 2009 Fresnillo Group workforce (annual average):

- 2,212 employees and 1,323 contractors, 200 technicians for geological work (monthly average)
- 93.0% men and 7.0% women (including 68 women as heavy equipment operators)
- 84.5% unionised and 15.5% non-unionised
- 19.0% are between 18 – 25 years, 61.0% between 26 – 45 and 20.0% are 46+
- 2.4% are at an executive level
- 308 new hires made in 2009 (of which 182 were for the Saucito project)
- Turnover rate of 5.6%

Compensation, benefits and quality of life

Total wages and salaries paid in 2009 were US\$17.7 million, an increase of 5.0% over the previous year reflecting salary increases and new hires. A variable compensation scheme for managers and executives was established, which takes into account continuous improvement and business indicators. Revisions to union labour contracts resulting from the annual review were completed on a mutually satisfactory basis, with a 6% increase to salary, 1% increase to fringe benefits and 1% as a one-time bonus. Contracts at Herradura were revised in March, Fresnillo in April and Ciénega in May.

We recognise the extraordinary commitment that employees make to the Group, especially mine workers living in isolated communities. Aside from compensation, we believe we have a responsibility to enhance the quality of life of our employees, including education, personal and professional development opportunities, and in some areas of the operation, housing, transportation and access to communications.

Training and education

The Group invested US\$220,865 in training in 2009, focused primarily on creating a result-oriented culture of teamwork and integration, with workshops and courses in leadership, teamwork, process improvement, produc-

Teamwork and innovation

The Ministry of Labour and Social Welfare grants annual recognition to teams that generate innovation practices or improve production or organisational processes. The Fresnillo and Herradura teams were recognised with the first prize in the large industrial sector category in the area of process innovation. The prize was delivered in February 2009 by President Felipe Calderón.

The Fresnillo "Visionaries" team project reduced fresh water consumption by 25% in the mineral concentration process while increasing tonnage by 4%. The Herradura "Analytical Force" team project increased the physical availability of the 992G loader from 75.0% to 84.7% to cover production schedules.

Our benefits extend to employees' families. At Fresnillo, we run a tuition-free elementary school for the children of employees. At Ciénega, in coordination with the municipality, the company financially sponsors elementary and middle school education for its employees' families, and will underwrite the opening of a new high school in 2010. At Herradura, the company provides financial support to area technical schools.

At all three mines, training workshops in self-esteem, small business entrepreneurship, and family and workplace values are provided for spouses, and for school teachers to impart to students.

tivity and management skills. We believe that teamwork drives operational improvements, workplace satisfaction and the innovation potential of the Company. In 2009, 29 working teams were constituted to develop specific efficiency improvement projects.

Transparency and accountability

As part of our commitment to transparent governance and strong stakeholder relations, we rely on the Fresnillo "Plays Fair" programme to enforce our Code of Conduct. This programme includes an anonymous whistleblower hotline that provides employees, contractors and suppliers with an institutional path for reporting ethical violations, unfair treatment of suppliers, workplace discrimination, abuse of authority, harassment, or conflicts of interest. Complaints are taken to the Fresnillo Honour Commission, which is comprised of the Chief Executive, Chief Operating Officer and the Human Resources Manager. The progress of each investigation can be monitored through an access code and password assigned to each case. In 2009, we received one complaint classified under "unfair treatment of a supplier" which was satisfactorily resolved.





In 2009 the Fresnillo mine installed an industrial dispatcher that reduced electrical consumption by 3.0%, as well as solar panels to heat water in restrooms and sanitary facilities, with a savings of 70.0%.



Fresnillo plc signed the Copenhagen Communiqué in November 2009 in recognition of our commitment to climate change mitigation. This is an initiative of the Prince of Wales' Corporate Leaders Group on Climate Change that promotes climate impact mitigation initiatives.

ENVIRONMENT

To comply with legal and regulatory requirements and align our operations with international standards, environmental considerations must be factored into all areas of the operation. These span the life cycle of a mine, from pre-feasibility studies in the exploration phase, to mine development and operation, to closure and restoration plans.

There were no reportable environmental incidents in 2009. This category includes tailing dam leakages, leaching pad contamination, fires within mines and facilities, and spillage of hazardous materials.

We utilise the guidelines and recommendations of the International Council on Mining and Metals to develop our environmental policies and programmes. Our compliance with these standards in 2009 is evidenced by:

- ISO 14001:2004 certification at all Group mines and the Exploration Division
- Clean Industry Certification from PROFEPA, the Mexican environmental authority
- Completion of the International Cyanide Code Certification process at Herradura
- Certification from the Mexican Greenhouse Gas Programme for self-reporting emissions

2010 target: Maintain all existing certifications, obtain the Cyanide Code Certification at Herradura and complete the process at Ciénega.

While these certifications validate the efficacy of our environmental programmes, our philosophy is "to produce more with less." Thus we evaluate our performance on the basis of eco-efficiency indicators that measure consumption of non-renewable resources per tonne of production. In 2009 the rise in energy and water consumption reflected an increase in operating activities that had no production output, specifically the development works at Soledad-Dipolos and Saucito. As these projects become producing mines, the Group's eco-efficiency performance is expected to level off and gradually improve.

Our operations primarily impact the following five categories:

Energy:

Objective – Reduce unit consumption of energy.

In 2009 we consumed 3.1 million Gigajoules (28.4% electricity, 69.3% diesel, 1.4% petrol, 0.9% LP Gas). To the extent possible, we seek renewable sources of electric energy; nonetheless, the majority of our consumption will remain in fossil fuels as necessitated by our usage of mobile equipment. A number of energy efficiency projects saved approximately 19,250 GJ in the year, equivalent to 0.6% of total consumption. **2010 target:** Reduce consumption by 10,000 GJ through energy efficient projects.

INDICATOR

(per tonne of production)	2009	2008	2007
Energy consumption (GJ)	0.188	0.157	0.152
Fresh water consumption (m ³)	0.209	0.137	0.194

Water:

Objective – Reduce unit consumption of fresh water through the recirculation of water.

The minimal residual water that the Company discharges fully complies with government quality standards. Fresh water is sourced from within the mines at Fresnillo and Ciénega, and through wells at Herradura. Consumption is limited to replacement of evaporated water from tailing dams and is used primarily in the beneficiation plants, offices and facilities, and for dust control at open pit mines.

Total water consumption was 3.5 million m³ in 2009, compared to 2.3 m³ in 2008. The increase reflects higher throughput at Fresnillo and Ciénega and development works at the open pit Soledad-Dipolos project. The start up of the new water treatment plant at Fresnillo will replace fresh water used in the operation with treated water sourced from the nearby municipality of Fresnillo. **2010 target:** 20.0% reduction in fresh water consumption per tonne of production.

Emissions:

Objective – Contain fugitive dust and minimise unit CO₂ emissions from indirect sources of energy.

Fugitive dust is caused at open pit operations by vehicle traffic on the mine's roads. To prevent this, roads are constantly wetted down.

Fresnillo plc, like other mining companies, is not a significant emitter of carbon dioxide. However we participate in the Mexico Greenhouse Gas Programme, a public-private initiative through which companies voluntarily report their GHG emissions. In 2009, the Group emitted less than 0.017 tonnes of CO₂ per tonne of mineral production from both direct sources (diesel equipment and vehicles) and indirect sources (electricity generated by third parties). **2010 target:** Decrease GHG emission by 5.0% per tonne.

Waste and hazardous materials:

Objective – Maximise the rate of reuse of hazardous materials and ensure their proper containment.

We employ a range of initiatives to recycle operating materials. In 2009, 78.7% of the hazardous waste produced by the Group was reused in other processes, compared to 80.3% in 2008. In addition, 7,250 tonnes of industrial waste was sold to third parties, an increase of 5.0% over the previous year.

One of the Company's main waste products is tailings generated by the flotation process. The construction and management of our tailings dams fully comply with international and Mexican standards. **2010 target:** Increase the reuse of hazardous waste 5.0%.

Biodiversity:

Objective – Minimise disruptions to endemic flora and fauna on our land; mitigate any impact through conservation efforts, relocation and reforestation.

Nurseries at our mines have an annual capacity of 110,000 trees, including the new facility built in 2009 by the Exploration Division to facilitate restoration in prospecting areas. We donated 88,000 trees in 2009 to schools and communities to promote environmental culture. We relocated 93,200 plant specimens in 2009, with an overall survival rate of 86.7%. **2010 target:** Double capacity at the Ciénega nursery to 100,000 trees; replant 115 hectares at Ciénega and Fresnillo; relocate endemic species at 80 hectares at Herradura.

We recycle materials such as spent oil, tyres, copper, paper and cardboard.

At Herradura, spent oil from equipment maintenance is used for blasting at the open pit, which reduces diesel consumption.



At the 9th World Wilderness Congress (WILD9) held in Merida, Yucatan in November 2009, Fresnillo plc became a founding member of the Corporate Commitment to Wilderness. This programme will foster cooperation among participating companies.

Our conservation efforts include the Ciénega Sustainable Forest, conservation of the Sonoran pronghorn at Herradura, and wildlife protection at the Environmental Management Unit at Fresnillo.





Through United Way, Group employees contributed US\$13,000 to community philanthropic efforts.



Third Iberoamerican Silversmith Summit

With the objective of adding value to the extraction of silver and promoting the use of silver in jewellery and craftsmanship, Fresnillo plc, along with the Silver Institute sponsored the Third Iberoamerican Summit organised in November in the city of Zacatecas.

This event was created in 2001 by initiative of the Peruvian Silver Trust and neighbouring countries to exchange expertise and creativity in silversmithing through lectures, exhibitions and workshops. Following the first two summits in Cuzco and Lima (Peru), the Zacatecas meeting brought together over 300 participants from 16 countries. The Governor of Zacatecas, Ms. Amalia García Medina, was an active participant.

COMMUNITIES

Fresnillo's relationships with the communities where we operate are critical to the continuity of operations. We share resources such as land, water, infrastructure and often municipal services. As good corporate citizens, our goal is to develop harmonious and mutually beneficial relationships across the lifecycle of our mines, and to strengthen the community's long-term self-sustaining capabilities.

By nature it is difficult to measure performance in this area. We contract with an independent third party to conduct bi-annual perception studies in the communities where we operate, and rely on the feedback and recommendations of these reports to guide our engagement programmes and investments.

A key effort is to promote local enterprises by providing training, financing and preferential procurement opportunities in areas such as transportation, maintenance and mine work and consumable supplies.

Working in conjunction with local governments and NGOs, our community engagement is focused on five areas, with US\$2.9 million spent in 2009:

- **Environmental awareness:** sponsoring and promoting activities such as water conservation, recycling efforts, reforestation and clean public areas. Objective: to go beyond our environmental mitigation efforts and have impact on a wider scale, and to enhance the perception of a responsible mining company.
- **Education:** building, equipping and funding local schools and promoting the study of sciences through teacher training. Objective: to promote local development.
- **Social integration:** extending corporate health, athletics and recreation activities to the community. Objective: to bring together employees, families and community members in positive interactions.
- **Self-sustaining capacity:** training and development in alternative sources of income. Objective: to ensure the community's long-term well-being.
- **Social infrastructure:** ensuring that communities have access to basic services such as electricity, sewage, housing, paved roads, telecommunications and healthcare. Objective: to satisfy the basic needs of our communities.

We begin community outreach efforts at the exploration phase of our work. We are committed to fair and open negotiations, and respect the customs and culture of local communities and cooperative landowner groups (*ejidos*). Agreements with landowners often include guaranteed investments in the development of basic infrastructure.

At our mines in operation, our efforts depend upon the type of community and its specific needs, distance to the operation and available services and infrastructure.

Fresnillo

The mine is located 60 kilometres northwest of Zacatecas City in the state of Zacatecas, which has a long tradition of silver mining. The local municipality of Fresnillo is an established town of 110,000 (2005 census) with solid infrastructure and decent basic services.

Our community engagement efforts include the 40-hectare Sustainability Complex that includes a recreational park,

small zoo with 184 animal species, a mesquite and cactus conservation and research facility, and a tourist mine and mining museum. The Complex serves to educate tourists and residents about our mining and conservation activities and welcomed 29,000 visitors in 2009.

In 2009, we completed construction of the water treatment plant that will treat 50% of the city's sewage for reuse in the Fresnillo mine's processes, bringing environmental benefits to the town while reducing our fresh water consumption.

Other investments this year included the remodelling of the elementary school for the children of Fresnillo's employees, and sponsorship of various athletic activities.

Herradura

The mine is located 80 kilometres from the nearest large town of Caborca, population 70,000 (2005 census) in the State of Sonora. Workers from area villages are provided daily transportation to the mine site.

We work in partnership with the Ecology and Sustainable Development Commission of Sonora State (CEDES) to protect the Sonoran pronghorn, an endangered species. Since 1997, we have monitored and protected their habitat and measure the effectiveness of the programme through a regular aerial and terrestrial census. We also sponsor educational programmes in the community.

The relocation of flora is particularly important at Herradura because it is an open pit mine. For example, we relocate thousands of cactuses each year. In 2009 we began construction of a nursery that will open in 2010.

In 2009, in conjunction with the Borquez Schwarzbeck Foundation we provided materials and funding for the construction of a new community centre in a village near the mine. The facility, which includes a computer lab and meeting space, aims to build educational capacity through workshops. Separately, we funded a technical school in Caborca.

Ciénega

The mine is supported by the small, isolated community of Nuestra Señora de la Ciénega, population 2,500. The nearest town is Santiago Papasquiaro, population 47,000 (2005 census), 153 kilometres away, which itself is 172 kilometres from Durango City. Because the immediate community is entirely dependent on the mine, we provide or facilitate all basic services including housing, food, sanitation, healthcare and education.

Based on feedback received in the community survey, we prioritised certain projects in 2009 such as the paving of the main road in the village, of which 900 metres was completed in conjunction with the municipality. We also constructed 30 houses for employees' families this year and installed a new cell phone tower to facilitate mobile communications.

At Ciénega we operate the Sustainable Forest reforestation programme, which started in 2003 in partnership with the National Institute for Forestry, Agriculture and Livestock Research. Covering almost 300 hectares, the forest is planted with evergreen and deciduous trees, and includes endangered species in the mushroom family. In 2009 we planted 60,000 saplings, the majority of which came from our own nurseries, and continued to enhance the water collection systems with the addition of 182 small cisterns.

We built a Christmas tree out of more than 2,000 PET bottles at the community centre in Ciénega.



More information :

Visit the following websites to learn more about the certifications and organisations mentioned in this report.

International Cyanide Code Certification

www.cyanidecode.org

UN Global Compact

www.unglobalcompact.org

Framework for Sustainable Development of the International Council on Mining and Metals (ICMM)

www.icmm.com/our-work/sustainable-development-framework

OHSAS 14001 and 18001

www.bsigroup.co.uk/en/Assessment-and-Certification-services/Management-systems/Standards-and-Schemes/BS-OHSAS-18001

Clean Industry Certification (PROFEPA)

www.profepa.gob.mx/profepa

Mexican Greenhouse Gas Programme

www.geimexico.org

International Labour Organisation

www.ilo.org

World Health Organisation

www.who.org

MANAGING OUR RISKS



An intensive exploration programme helps replenish reserves

Risk management is vital to meeting our objectives and creating sustainable value.

The Board has overall responsibility for ensuring that risk is effectively managed across the Fresnillo Group, while the efficacy of the internal control system is monitored by the Audit Committee. The day-to-day responsibility for managing risk and maintaining the Group's system of internal control lies with the Executive Committee, which is supported in this task by the Internal Audit department.

Fresnillo's risk assessment process is dynamic and ongoing: as the macro environment changes, country- and industry-specific circumstances evolve, and our own internal processes become more institutionalised, new risks may arise and others recede. Similarly, the ranking of these risks (based on probability and severity) may fluctuate.

For the 2009 assessment, the Company's executives and operations managers identified a universe of more than 100 risks through a survey conducted by the Internal Audit team. From these, senior management narrowed down the top 15, which reflect the emergence of new risks since the IPO, changes in the impact and/or likelihood of existing risks, and those risks requiring careful monitoring and reinforced controls.

Management will continue to refine the processes for monitoring, measuring and reporting risk over the course of 2010.

Further information on the Fresnillo Group's risk management processes and internal controls are found in the Corporate Governance Report on pages 72 to 77.



PRINCIPAL RISKS

STRATEGIC

OPERATIONAL

RISK	MITIGATION / CONTROL	RISK	MITIGATION / CONTROL
Depletion of reserves at existing mines and development projects, combined with no new mineral deposits identified, which would impact the Company's growth projections and production capabilities.	<ul style="list-style-type: none"> Company's exploration programme has been intensified, including a doubling of the budget in regional properties and areas of influence Long-term exploration programme Highly trained and experienced exploration team 	Lower ore grade extracted compared to planning stage estimates that could impact cash cost projections and production programmes.	<ul style="list-style-type: none"> Capacity increases at mines and plants Optimisation of recoveries at our plants Ongoing search for deposits in areas of influence Dilution control efforts
Delays in obtaining access to the land for performing exploration/mining activities, caused by complex or unsuccessful negotiations with <i>ejidos</i> (cooperative landowners).	<ul style="list-style-type: none"> Engagement with government agencies and communities Hiring of personnel with specific expertise Purchases of surface land at and near our projects at an early stage 	Difficulty in sourcing critical equipment and strategic spare parts to meet operational needs, due to long production and delivery timeframes, as well as shortages caused by competition for such parts.	<ul style="list-style-type: none"> Strategic redundancy programme maintains key parts in inventory Long term contracts with suppliers
Difficulty in finding and/or retaining personnel with the requisite knowledge, skills and experiences for key positions, particularly when competition for such personnel is greater during periods of expansion in the mining industry.	<ul style="list-style-type: none"> Talent identification plan deployed Ongoing training programme linked to a succession plan and development programme Ongoing recruitment strategy 	Continued upward trend in the price of key operating materials due to competitive demand and reliance on third party suppliers.	<ul style="list-style-type: none"> Ongoing focus on productivity (lower per unit consumption and cost control) Long term procurement programmes with key suppliers
Internal union conflicts at the national level may cause temporary stoppages or discontinue operations, even when the source of those conflicts is not related to local labour contracts and/or working conditions at Fresnillo plc.	<ul style="list-style-type: none"> Close communication with union leaders at both the local and national level Efforts to broaden the base of support among unionised workers, including outreach to key influencers 	Expensive or insufficient energy to meet demands of mining operations, due to reliance on CFE, the state-run electric utility.	<ul style="list-style-type: none"> Evaluating feasibility of direct or indirect (JV/ associations) investments in alternative energy programmes (wind and hydroelectric) Generators installed in key operating equipment Close communication with CFE
Security related risks such as drug cartels, kidnapping, thefts, etc., which have increased markedly in Mexico over the past year, could cause business interruptions resulting from their impact on personnel and property. While the Company, its employees, contractors and facilities are not necessarily specific targets, security issues have become pervasive in many parts of the country.	<ul style="list-style-type: none"> Philosophy of no involvement with "power groups" Prudence regarding unknown persons around our offices and operations Security measures in place at the local level 	Accidents or irresponsible actions caused by the Company in the communities where it operates that may disrupt operations from a civil or legal perspective.	<ul style="list-style-type: none"> Training in execution of civil contingency plans. Compliance controls for the Group's Health, Safety, Environment and Community Relations System
		Difficulties in obtaining permission from the Mexican Ministry of Defence for the use of explosives , due to the aforementioned security risks that have increased the military's control and management of explosives.	<ul style="list-style-type: none"> Engagement with the Mexican military, close communication with authorities Key personnel being added; training reinforced Rigorous on site discipline to comply with regulations

FINANCIAL

RISK

Volatility in **silver and gold prices** that could impact the realised prices of the Company's production output, and in **exchange rates** that could impact peso-denominated production costs when converted into dollars.

Adverse changes in the tax law and/or new mining royalties, rights or duties that could impact the Company's profitability. Highly profitable companies and industries tend to attract more scrutiny in times of governmental budget constraints.

MITIGATION / CONTROL

- Silver and gold: none; the Company has committed not to hedge in order to allow investors full exposure to silver and gold prices
- MXN/US\$ exchange rate: selective hedging to protect against the adverse impact on the peso component of costs and expenses
- Dialogue with key legislators via CAMIMEX (Mexican Mining Chamber) to influence Government decisions makers
- Collaboration with peer group mining companies to engage with the Government regarding industry interests

COMPLIANCE

RISK

External pressure (from NGOs, political groups and others) for **more regulation** to the mining industry in Mexico, which could increase our regulatory burden.

Failure to comply with environmental, health and safety regulations that could disrupt operations, lead to financial and legal penalties, and/or terminate the Company's mining licences.

MITIGATION / CONTROL

- Leveraging our position in CAMIMEX to influence legislators to produce acceptable regulations
- Monitoring of Government policies and political activists
- Compliance controls for the Group's Health, Safety, Environment and Community Relations System
- Enforcement of strict safety and health regulations; training
- Zero tolerance programme for dangerous conditions



Environment, safety and health inspection at the Fresnillo milling area



CFO Mario Arreguín, CEO Jaime Lomelín and Chairman Alberto Baillères

CORPORATE GOVERNANCE



1 Continuing the sustainable development of the Group



2 Maximise the potential of existing operations



3 Deliver growth through development projects



4 Extend the growth pipeline



5 Maintain strict financial discipline

BOARD OF DIRECTORS





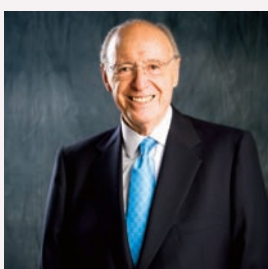
Alberto Baillères

NON-EXECUTIVE CHAIRMAN, 78

*Chairman, Nominations Committee;
Remuneration Committee*

Mr Baillères has been on the board of Industrias 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/Dine and BBVA Bancomer. 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 México (ITAM). In addition, Mr Baillères is a member of the Consejo Mexicano de Hombres de Negocios and also of Fundación para las Letras Mexicanas, A.C.



Jaime Lomelín

CHIEF EXECUTIVE OFFICER, 75

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-president 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 México (UNAM) and postgraduate studies in Business Administration in the University of Wisconsin and Stanford Executive Program at Stanford University.

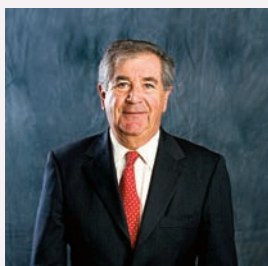


Lord Cairns

**SENIOR INDEPENDENT NON-EXECUTIVE
DIRECTOR, 70**

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.

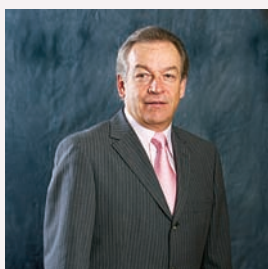


Fernando Ruiz

NON-EXECUTIVE DIRECTOR, 66

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 Coordinador Empresarial, as well as an adviser to this 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 México (UNAM) with a degree in public accounting.



Javier Fernández

NON-EXECUTIVE DIRECTOR, 54

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.

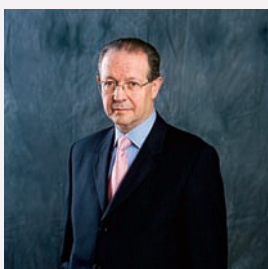


Rafael MacGregor

NON-EXECUTIVE DIRECTOR, 49

Chairman, HSECR Committee

Mr MacGregor was appointed to the Board on 11 January 2008. He has been a corporate director in Técnica Administrativa BAL since 1999. He is a member of the board of directors and a member of the executive committee of Industrias 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.



Juan Bordes

NON-EXECUTIVE DIRECTOR, 62

Mr Bordes was appointed to the Board on 11 January 2008. Mr Bordes has been corporate director in Técnica Administrativa BAL since 1979. He was the CEO of Artes Gráficas Unidas from 1984 until 1986 and CEO of Fábricas de Papel Loreto 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 México (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).



Arturo Fernández

NON-EXECUTIVE DIRECTOR, 56

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 Mexicanos 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.

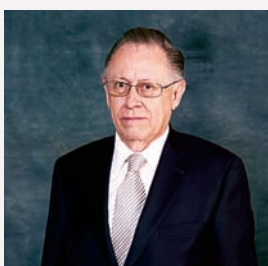


Guy Wilson

NON-EXECUTIVE DIRECTOR, 61

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 privatizations 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.



Fernando Solana

NON-EXECUTIVE DIRECTOR, 79

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 México from 1982-1988. 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, Philosophy, Public Policy and Administration at the National University of Mexico.

EXECUTIVE MANAGEMENT



1. Jaime Lomelín

CHIEF EXECUTIVE OFFICER, 75

Mr. Lomelín's biographical details can be found on page 67 of this Annual Report.

2. Mario Arreguín

CHIEF FINANCIAL OFFICER, 53

Mr Arreguín was previously employed by Industrias 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 investment banking (Valores Finamex) and in Dupont México. 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

CHIEF OPERATING OFFICER, 65

Mr Luévanos spent over 35 years at Industrias Peñoles, including executive vice president of metals, executive vice president of mining and a variety of senior management positions over the last 25 years. Mr Luévanos holds a bachelor of chemical engineering degree from the University of Guanajuato and has a post-graduate degree in international business from ITAM and studied the Stanford Executive Program at Stanford University.

4. David Giles

VICE PRESIDENT, EXPLORATION, 59

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 applied science and engineering degree in Geology from the University of Toronto and holds an MBA from the ITESM University in Mexico. He is an officer of the Society of Economic Geologists, and the Mexican Association of Mining, Metallurgical and Geological Engineers.

Members of the Executive Management joined Fresnillo plc prior to the IPO in May 2008.

CORPORATE GOVERNANCE REPORT

COMPLIANCE STATEMENT

The 2008 Combined Code on Corporate Governance (the Code) establishes, in Section 1, 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 78 to 81). For the financial year ended 31 December 2009, the Company has complied with Section 1 of the Code, save in the following two respects:

- **Code Provision A.2.2:** The Code states that the chairman should on appointment meet the independence criteria set out within the Code. 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 Chairman is very important to the Company at the present stage of its development;
- **Code Provision B.2.1:** The Code provides that the Board should establish a remuneration committee of at least three Independent Non-executive Directors. The composition of the Fresnillo Remuneration Committee is made up of three members including two independent Non-executive Directors one of whom, Lord Cairns, is the chairman of the Committee. The Chairman of the Company, Mr Baillères, who was not independent at the time of his appointment, is also a member. The Board believes that Mr Baillères experience and knowledge of the Group and the Mexican market and his considerable contribution to the Remuneration Committee's deliberations justifies his membership of the Remuneration Committee. Mr Baillères is not involved in matters concerning his own remuneration.

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 members of 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 Director 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 the Executive Director and the members of the Executive Committee, including pension rights and any compensation packages. Full details of the composition and role of the Remuneration Committee and the Company's compliance with the Code Provisions relating to remuneration are set out in the Directors' Remuneration Report on pages 78 to 81.

The Nominations Committee: which has responsibility for making recommendations to the Board on the composition of the Board and its committees and succession planning for the Directors and other senior executives. Before making appointments of new Directors the Committee is responsible for evaluating the balance of skills, knowledge and experience on the Board and identifying and nominating suitable candidates.

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 46 to 59.

The Executive Committee: The Executive Committee is led by the Chief Executive and is responsible for the 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 Nominations and Health, Safety, Environment and Community Relations Committee are available on the Company's website.

THE BOARD

The Board meets at least four times a year and has an established programme of meetings. At these meetings the Board takes responsibility for the Group's long-term objectives and commercial strategy and monitors the management of the Group's activities. There is a formal schedule of matters reserved for the Board's decision which includes approvals of major expenditure and investments and key policies.

A table of attendance of members of the Board and Board committees at meetings for the financial year ended 31 December 2009 is set out below:

	BOARD (5 meetings)	AUDIT COMMITTEE (5 meetings)	REMUNERATION COMMITTEE (3 meetings)	NOMINATIONS COMMITTEE (1 meeting)	HSECR COMMITTEE (1 meeting)
Alberto Baillères ¹	5/5		2/2	1/1	
Jaime Lomelín	5/5				1/1
Lord Cairns ²	4/5		3/3		
Fernando Ruiz	5/5	5/5	3/3	1/1	
Javier Fernández	5/5			1/1	0/1
Rafael MacGregor	5/5				1/1
Juan Bordes	5/5				
Arturo Fernández	5/5				
Guy Wilson ²	4/5	5/5			
Fernando Solana ³	4/4	4/4			

¹ Mr Baillères was appointed to the Remuneration Committee in February 2009 and was only eligible to attend two meetings of that Committee.

² Lord Cairns and Mr Wilson were unable to attend a Board meeting convened at relatively short notice to consider a commercial matter.

³ Mr Solana was appointed to the Board and Audit Committee in February 2009 and was only eligible to attend four Board and four Audit Committee meetings.

All meetings of the Board are held in Mexico. The Chairman met with the Non-executive Directors without the executives present in April 2009. The Independent Non-executive Directors met to evaluate the performance of the Chairman in October 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 pages 66 to 69 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 agreed by the Board. There have been no changes to these roles since they were agreed by the Board.

Mr Hector Rangel resigned on 30 January 2009 and Mr Fernando Solana was appointed as an Independent Non-executive Director on 18 February 2009.

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. The Board has considered the independence of all of the Directors and its 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	✓	
Fernando Ruiz	✓	
Javier Fernández	✓	
Guy Wilson	✓	
Fernando Solana	✓	

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 83.

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 the Fresnillo Group over many years and therefore the Board considers that his continued involvement as its non-executive chairman is vitally important to the Company.

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 Code, the Board has considered the independence of Fernando Ruiz and Guy Wilson and has concluded that they are both independent in character and judgement.

The Non-executive Directors have letters of appointment for periods of three years and 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 other 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 79. 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 each Director shall retire at the Annual General Meeting held in the third calendar year following the year in which he was elected or last re-elected by the Company. At the annual general meeting held in 2009 all the Directors offered themselves for election having been appointed during the year. None of the Directors will be standing for re-election at the forthcoming Annual General Meeting.

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.

In 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"). At that time, 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. During 2009, these Directors Lists have been resubmitted by each Director as at 30 June 2009 and 31 December 2009 and the Board has been able to authorise the minor update changes identified in their resubmitted lists. In addition, Directors are reminded at the beginning of each Board meeting to notify any further conflicts to the Board.

BOARD PROCESS

It is the Chairman's responsibility to provide timely information to the Board supported by the Company Secretary. Board papers are circulated in a timely manner and 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. Matters that purely require Executive Committee approval are reported to the Board and matters that require approval under the Schedule of Reserved Matters, are considered by the Executive Committee and then presented to the Board for deliberation and approval.

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 ensures that the induction and training processes for new Directors continues to be developed. Mr Solana was presented with a briefing pack and an induction on his appointment to the Board in February 2009.

The Directors may 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 Board). A procedure has been established to enable Directors to obtain independent professional advice at the Company's expense in relevant circumstances.

During the year an evaluation of performance of the individual Directors and the Board was carried out by way of anonymous questionnaires that were collated by the Company Secretary and then reviewed and discussed by the Board in October 2009. The responses to all questions relating to the performance of the Board were very positive. Suggestions for improvement included that the Board should spend more time on strategy and also focus more on monitoring risk on an ongoing basis. These suggestions will be considered further during 2010.

Directors and Officers Liability Insurance cover is in place and a review of the cover, particularly by reference to the mining peer group among the London-listed companies, was carried out in July 2009.

NOMINATIONS COMMITTEE

The members of the Nominations Committee are Alberto Baillères (Chairman of the Committee), Javier Fernández and Fernando Ruiz. The majority of the members of the Nominations Committee are, therefore, 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. Such a review was carried out at the time of Mr Solana's appointment. The Nominations Committee considers succession planning for Directors and other senior executives from time to time.

The Nominations Committee has met once in the year to consider the appointment of Mr Solana and other matters in accordance with the terms of reference. The Terms of Reference of the Nominations Committee were reviewed during the year.

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 2009, were Guy Wilson (Chairman of the Committee), Fernando Ruiz and Fernando Solana. 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, auditing and accounting experience. 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 five times in the year to carry out its responsibilities as described in its terms of reference.

Accordingly the Audit Committee has reviewed the 2009 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 and reviewed the terms of engagement of the external auditors at its meeting in August 2009. The effectiveness of the external auditor was reviewed by the Audit Committee in April 2009. In addition 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. 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. Details of the fees paid to Ernst & Young LLP during the year are shown at note 29 to the Financial Statements. The Audit Committee has a policy in place in respect of the provision of non-audit services to the Fresnillo Group by the external auditor. The engagement of the external auditor to provide statutory audit, assurance, taxation and certain advisory services is pre-approved. Any engagement of the external auditor to provide permitted services above US\$150,000 is subject to the specific approval of the Audit Committee.

The Audit Committee has received presentations and updates from the Group Internal Audit Department throughout the year concerning their workplan during the year. A workplan for 2010 has also been presented and approved by the Audit Committee. Regular update reports on the internal audit reviews conducted by the Internal Audit Department are also received by the Audit Committee. Where necessary the Audit Committee will seek assurance that any serious weaknesses have been addressed. During the year 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 December 2009 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 to the Audit Committee its responsibility for reviewing the effectiveness of these controls. The Audit Committee reviews 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 classified into a number of categories 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.
- Progress with the implementation of 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 and functional 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 year.

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 continues 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 been implemented over the past 18 months to create an appropriate risk management framework are appropriate to the Group's circumstances. The Board is committed to the continued development of its internal control regime with a view to achieving and maintaining best practice levels of risk management and internal control for international mining companies listed on the London Stock Exchange.

RELATIONS WITH SHAREHOLDERS

The Company has an office in London and 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 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 second annual general meeting will be held on 28 May 2010. 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 of the Board 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

1 March 2010

DIRECTORS REMUNERATION REPORT

PART I - UNAUDITED INFORMATION

INTRODUCTION

The board of directors of Fresnillo plc is pleased to present their Directors Remuneration Report for 2009.

This Report has been prepared in accordance with Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (the Regulations) and sets out information about the remuneration of the Directors and senior management of the Company for the year ended 31 December 2009. Part 2 of this report has been audited by Ernst & Young LLP in accordance with the requirements of 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 has met three times during the year. The Remuneration Committee consists of three Directors, two of which are Independent Non-executive Directors - Lord Cairns, who is the chairman of the Remuneration Committee, and Mr Fernando Ruiz. Mr Alberto Baillères, who was appointed as a member of the Remuneration Committee on 18 February 2009, was not independent at the time of his appointment. The Board believes that Mr Baillères' experience and knowledge of the Group and the Mexican market and his considerable contribution to the Remuneration Committee's deliberations justifies his membership of the Remuneration Committee. Mr Baillères is not involved in matters concerning his own remuneration.

Attendance at meetings of the Remuneration Committee by individual members is detailed in the Corporate Governance Report on page 73.

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 Chief Executive Officer and other members of the Executive Committee, 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 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 operated by the Company and approve the total annual payments made under such schemes. The terms of reference of the Remuneration Committee are available for inspection on the Company's website at www.fresnilloplc.com.

The Chief Executive Officer usually attends 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 to the Company by Mercer, Hay Group and Data Compensation. Mercer supplies comparative information on 330 companies in Mexico and Hay Group produces comparative information for 22 companies in the mining sector. Such information is used when setting salaries for all employees, not just the senior executive thus ensuring consistency between Group pay and executive pay structures. Benchmark information for international mining companies is provided to ensure that remuneration is competitive compared to the peer group.

Towards the end of the year, the Remuneration Committee agreed that Mercer should be asked to meet with the Remuneration Committee from time to time to present its data on executive remuneration.

REMUNERATION POLICY

The Remuneration Committee has agreed 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 Remuneration Committee seeks to ensure that salaries are market competitive both within the Mexican context and in the international context for gold and silver producers. Total compensation is set around the median level. Salaries are benchmarked annually and total remuneration is benchmarked biennially.

The variable component of remuneration is embodied within the short term incentive plan which is available to the Chief Executive Officer, the Chief Financial Officer, the Vice President of Operations and the Vice President of 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 a mix of financial and operational performance measures.

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.

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 Chief Executive Officer who is the sole Executive Director. A number of Key Performance Indicators (KPI's) were approved by the Remuneration Committee for each member of the Executive Committee and KPI targets were set at which payments equivalent to 0% to 50% of annual salary could be earned. A scoring system is used whereby each objective set for the executive at the beginning of the year is allocated a points-rating which represents a median performance target for that objective. Upper and lower points thresholds are set to allow for outstanding performance and ensure that underperformance is not rewarded. For each member of the Executive Committee (including the Chief Executive Officer), bonus is only payable if the aggregate performance equals or exceeds 100 points. Bonus payments are paid for aggregate performance against target at or above 100 points as follows:

POINTS	VARIABLE PAY (MONTHS SALARY)	VARIABLE PAY (PERCENTAGE OF ANNUAL SALARY)
100-104	Two months	16.67%
105-109	Four months	33.33%
110-114	Five months	41.67%
115+	Six months	50.00%

The Chief Executive Officer achieved in excess of 115 points for the year to 31 December 2009.

The Objectives, Measure and Weighting applied to the Chief Executive Officer's short term incentive payment is as follows:

OBJECTIVE	MEASURE	WEIGHTING
Production	Equivalent ounces produced	27.0
Exploration	% increase in reserves/resources	31.5
Financial	Net profit adjusted*	18.0
Stakeholder	Fatalities, lost days, LTIFR, Strikes	13.5
Teamwork	No measure	10.0
Total		100.0

* Adjusted to eliminate currency fluctuations, the effect of year-on-year changes in metals prices and to exclude any revaluation of the Silverstream Contract.

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. Mr Lomelín's contract was entered into on 9 May 2008 and is governed by Mexican Federal Labour Law. It does not have a fixed term. This means that it may be terminated in writing by either party on notice in writing and there is no entitlement to additional compensation for termination other than compensation payments required for termination without cause under Mexican labour laws. No benefits are payable under the service agreement upon termination of employment.

The salary payable under Mr Lomelín's service agreement is MXN\$977,000 per month. In addition, he received other payments for holidays, company-paid savings contributions and other benefits. In 2009, his total salary payments were MXN\$16,417,772 (US\$1,215,776) (2008: 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 not entitled to profit-sharing as otherwise set out in the Company's policies from time to time. He is entitled to life insurance, the use of a company car, the payment of medical expenses and medical benefits. He is also entitled to membership of the defined pension plan in respect of service before 30 June 2007.

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 the latter scheme is voluntary, contributions of between 5% and 8% are made to this plan by its members and contributions are matched by the Company.

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 his letter of appointment on 1 July 2008 and Fernando Solana who signed his letter of appointment on 19 February 2009.

The Non-executive Directors have each been appointed for an initial period of three years 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 Fernández	15 April 2008	3 months	3 years	£30,000
Arturo Fernández	15 April 2008	3 months	3 years	£30,000
Rafael MacGregor	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
Fernando Solana	19 February 2009	3 months	3 years	£30,000

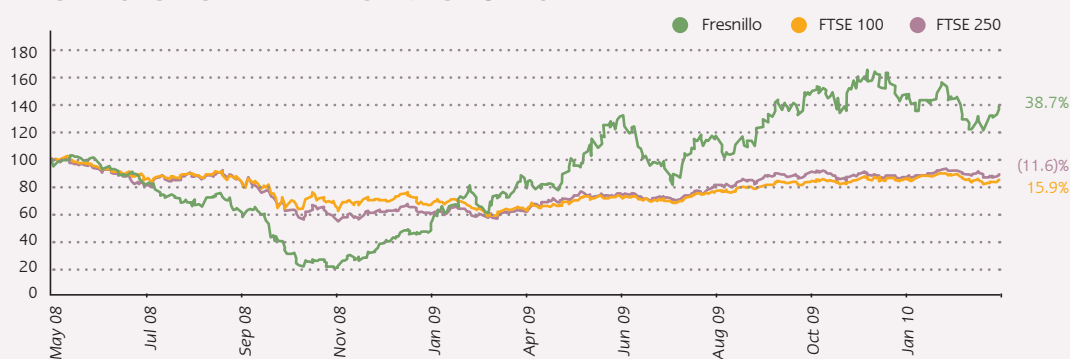
All of the Directors retired in accordance with the provisions of the articles of association of the Company at the annual general meeting of the Company on 27 May 2009. Their appointments were subject to their being elected at the first annual general meeting following their appointment. That condition having now been fulfilled, their appointments are 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 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 Indices. These are deemed to be the most appropriate indices for comparative purposes.

FRESNILLO VS FTSE 100 AND FTSE 250 SINCE IPO**PART II – AUDITED INFORMATION****DIRECTORS' REMUNERATION FOR THE PERIOD 1 JANUARY 2009 TO 31 DECEMBER 2009****SALARY, ANNUAL BONUS AND OTHER BENEFITS**

US\$'000	SALARY/ FEES	PENSION	BENEFITS-IN- KIND	ANNUAL BONUS	TOTAL 2009	TOTAL 2008
Chairman						
Alberto Baillères	47	0	0	0	47	37
Executive Directors						
Jaime Lomelín	1,215	0	55	434	1,704	1,731
Non-executive Directors						
Lord Cairns	141	0	0	0	141	111
Juan Bordes	47	0	0	0	47	37
Javier Fernández	47	0	0	0	47	37
Arturo Fernández	47	0	0	0	47	37
Rafael MacGregor	47	0	0	0	47	37
Hector Rangel (See note)	4	0	0	0	4	37
Fernando Ruiz	47	0	0	0	47	37
Fernando Solana	41	0	0	0	41	0
Guy Wilson	141	0	0	0	141	73
Total	1,824	0	55	434	2,313	2,174

Note: Hector Rangel resigned as a Director on 30 January 2009.

PENSION ENTITLEMENT

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

US\$'000	ACCUMULATED		INCREASE IN ACCRUED		INCREASED, BEFORE		TRANSFER VALUE OF	
	ACCRUED BENEFITS		BENEFITS DURING THE		INFLATION, IN ACCRUED		INCREASE BEFORE	
	At 31 Dec 2009	At 31 Dec 2008	2009	2008	2009	2008	2009	2008
Jaime Lomelín	7,206	7,377	(188)	49	(188)	(501)	0	39

Note: At 31 December 2008 and 2009, the accrued value of Mr Lomelin's pension fund equated to the transfer value.

DIRECTORS INTERESTS IN ORDINARY SHARES

The interests of Directors are set out in the Directors' Report on page 84.

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

1 March 2010

DIRECTORS' REPORT

INTRODUCTION

The Directors have the pleasure in presenting their Annual Report and the audited Financial Statements for the year ending 31 December 2009.

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 90.

An interim dividend of 5.25 US cents per share was paid on 18 September 2009 to shareholders on the register on 28 August 2009. The final dividend for the year ended 31 December 2009 will be announced on 29 April 2010. 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 page 2 and 3.
- The Chief Executive's Statement set out on page 4 to 7.
- Strategy and Performance set out on pages 9 to 43 including:
 - Strategy;
 - Key Performance Indicators;
 - Market Review;
 - Operating Review;
 - Finance Review
- Responsibility set out on pages 45 to 63 including:
 - Sustainable Development; and
 - Managing our Risks
- 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

The Company is required to comply with the 2008 Combined Code on Corporate Governance or explain its reasons for non-compliance. A report on corporate governance and compliance with the provisions of the Combined Code is set out on pages 72 to 77.

REMUNERATION OF DIRECTORS

Details of Directors' remuneration can be found in the Directors' Remuneration Report on pages 78 to 81.

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 USA Limited, the Company holds 56% of Minera Penmont S. de R.L. de C.V. (Minera Penmont) with the aim of exploiting and developing gold production. The Company's Herradura mine and the Soledad-Dipolos developments are held within Minera Penmont.

The Fresnillo Group currently has an interest of 56% in the Juanicipio project. MAG Silver Corporation (MAG Silver) has an interest of 44% in the Juanicipio project under a joint venture agreement originally entered into in 2005 in connection with the development of the Valdecañas prospect within the Juanicipio concession area.

Supply Relationships: On 31 December 2007, the Fresnillo Group entered into long-term arrangements with the Peñoles Group (the Silverstream Contract) in relation to the by-product silver output from the Peñoles-owned polymetallic mine at Sabinas in Zacatecas, Mexico. Under the Silverstream Contract, 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 Contract can be found in note 15 of the Financial Statements on page 117.

At the time of the IPO, the Company entered into a Transitional Services Agreement with Servicios Industriales Peñoles, S.A. de C.V. (SIPSA) for the provision of administrative and other services in return for arm's length fees for an initial period of 12 months (the SIPSA Agreement). The SIPSA Agreement was extended for a further period of six months and terminated on 31 October 2009. Fresnillo and SIPSA entered into a new services agreement which commenced on 1 November 2009 (the NSA). To ensure that the NSA was entered on arm's length normal commercial terms, KPMG conducted a benchmarking exercise in relation to the fee paid in respect of the services under the agreement, determining that such fee was in fact on normal commercial terms. On 21 December 2009, pursuant to an internal corporate restructure within Peñoles, SIPSA's interest in the NSA was acquired by Dolorey, S.A. de C.V., a wholly-owned Peñoles subsidiary.

Further information concerning the NSA can be found in the Finance Review on page 40 and note 6 of the Financial Statements on page 109.

Customer Relationships: During the period substantially all of the primary products from the Group's mines, silver- and gold-rich lead and zinc concentrates and dore were sold to the Peñoles Group's refining and smelting facility at Torreón, operated by Met-Mex Peñoles, 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 "arm's length" basis with revenue being determined by the amount of metal contained in the ores and the average market prices over a certain period net of certain deductions.

Government Relationships: Under Mexican law, mining concessions from the Federal government are required to explore for and exploit mineral potential. The Fresnillo Group holds such concessions in respect of its operations in return for which it pays maintenance fees to the Government and has to meet capital expenditure commitments. The Fresnillo Group is required by law to operate in accordance with environmental and health & safety standards.

Employee Relationships: Approximately two thirds of the Group's workforce is employed and one third are contractors. Further details can be found in the Sustainable Development Report on page 54. The Group has contracts with a large number of different service and personnel providers. Details of the service agreement with the Chief Executive Officer are found in the Directors' Remuneration Report on page 79.

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 66 to 69. 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 Directors retired and offered themselves for election at the annual general meeting in 2009. 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 brought by third parties and pension scheme liabilities subject to the conditions set out in the Companies Act 2006. 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 1 January 2009* and at 31 December 2009 were:

	1 January 2009*	31 December 2009
Alberto Baillères	See below **	See below **
Lord Cairns	15,000	15,000
Fernando Ruiz	-	30,000
Javier Fernandez	-	-
Guy Wilson	15,000	15,000
Juan Bordes	15,000	15,000
Arturo Fernandez	-	-
Rafael MacGregor	-	-
Fernando Solana	-	-
Jaime Lomelín	-	-

* Or date of appointment if later

** 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 2009 and 1 March 2010, being a date less than one month prior to the date of convening the Annual General Meeting.

MAJOR INTERESTS IN SHARES

As at 1 March 2010, 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	28,500,000	3.97

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 bye-laws subject to preferential rights of existing shareholders.

The NSA contains a discretionary provision for Dolorey, S.A. de C.V to terminate the agreement should they so wish if there was a change of control of Fresnillo plc.

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

The Group's mining concessions are held by various of its Mexican subsidiary companies. As long as 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 on pages 119 to 121. 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 Ordinary Shares are listed on the London Stock Exchange and the Mexican Stock Exchange. 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. 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. 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 Sterling Deferred Shares only entitle the shareholder to payment of the amount paid up after repayment to Ordinary Shareholders, on winding up or on a return of capital. 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.

AUTHORITY TO PURCHASE OWN SHARES CHANGE

The Company was authorised by a shareholders resolution passed at the annual general meeting held in May 2009 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 110 and in the Sustainable Development Report on page 54.

CREDITOR PAYMENT POLICY

At 31 December 2009 the Company had no trade creditors (2008: 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\$0.6 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 46 to 59.

FINANCIAL RISK MANAGEMENT

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

DIRECTORS RESPONSIBILITIES

Information about the Directors' responsibilities in respect of the preparation of Financial Statements is provided on page 87.

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:

- so far as he is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- 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 section 418 of the Companies Act 2006.

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.

ANNUAL GENERAL MEETING

The Company's Annual General Meeting will be held at Linklaters, One Silk Street, London, EC2Y 8HQ on 28 May 2010 at 12 noon. 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

1 March 2010

STATEMENT OF DIRECTORS' RESPONSIBILITIES

IN RELATION TO GROUP AND PARENT COMPANY FINANCIAL STATEMENTS

The Directors are responsible for preparing the Annual Report and the Group and parent company 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;
- state that the Company and the Group has complied with IFRS, subject to any material departures disclosed and explained in the financial statements; and
- 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 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.

RESPONSIBILITY STATEMENT OF THE DIRECTORS IN RESPECT OF THE ANNUAL REPORT AND ACCOUNTS

I confirm on behalf of the Board that to the best of my knowledge;

- a) the financial statements give a true and fair view of the assets, liabilities, financial position and profit and loss of the Company and the undertakings included in the consolidation taken as a whole; and
- b) the management report (entitled "Business Review") includes a fair review of the development and performance of the business, and the principal risks and uncertainties that they face.

For and on behalf of the Board

Jaime Lomelín

CHIEF EXECUTIVE OFFICER

1 March 2010

FINANCIALS

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FRESNILLO PLC

We have audited the consolidated financial statements of Fresnillo plc for the year ended 31 December 2009 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement and the Consolidated Statement of Changes in Equity and the related notes 1 to 32. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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

As explained more fully in the Directors' Responsibilities Statement set out on page 87, the directors are responsible for the preparation of the group financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit the group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

OPINION ON FINANCIAL STATEMENTS

In our opinion the group financial statements:

- give a true and fair view of the state of the group's affairs as at 31 December 2009 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

OPINION ON OTHER MATTER PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion:

- the information given in the Directors' Report for the financial year for which the group financial statements are prepared is consistent with the group financial statements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 87, in relation to going concern; and
- the part of the Corporate Governance Statement relating to the company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

OTHER MATTER

We have reported separately on the parent company financial statements of Fresnillo plc for the year ended 31 December 2009 and on the information in the Directors' Remuneration Report that is described as having been audited.

Graeme Dacomb (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor

London

1 March 2010

Fresnillo plc

CONSOLIDATED INCOME STATEMENT

		Year ended 31December		
		Notes	2009	2008
(US\$ thousands)				
Continuing operations:				
Revenues	4		849,944	720,483
Cost of sales	5		(321,629)	(299,872)
Gross profit			528,315	420,611
Administrative expenses	6		(49,867)	(81,679)
Exploration expenses	7		(49,063)	(53,483)
Other income	9		3,873	5,901
Other expenses	9		(4,502)	(7,769)
Profit from continuing operations before net finance costs and income tax			428,756	283,581
Finance income	10		1,664	8,861
Finance costs	10		(1,901)	(10,515)
Revaluation effects of Silverstream contract	15		19,401	-
Foreign exchange gain/(loss)			9,498	(14,570)
Profit from continuing operations before income tax			457,418	267,357
Income tax expense	11		(99,151)	(114,577)
Profit for the year from continuing operations			358,267	152,780
Attributable to:				
Equity shareholders of the Company			322,011	127,949
Minority interest			36,256	24,831
			358,267	152,780
Earnings per share: (US\$)				
Basic and diluted earnings per ordinary share from continuing operations	12		0.449	0.186
Adjusted earnings per share: (US\$)				
Adjusted basic and diluted earnings per ordinary share from continuing operations	12		0.430	0.186

Fresnillo plc

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	2009	2008
Year ended 31 December			
(US\$ thousands)			
Profit for the year		358,267	152,780
Net loss on cash flow hedges recycled to income statement		34,038	45,602
Tax effect of cash flow hedges recycled to income statement		(9,531)	(12,768)
Net unrealised gain/(loss) on cash flow hedges		3,918	(11,659)
Tax effect of unrealised gain/(loss) on cash flow hedges		(1,122)	3,264
Net effect of cash flow hedges		27,303	24,439
Fair value gain/(loss) on available-for-sale financial assets		22,880	(25,533)
Tax effect of fair value gain/(loss) on available-for-sale financial assets		(6,407)	7,149
Impairment of available-for-sale financial assets taken to income		-	4,936
Tax effect of impairment of available-for-sale financial assets taken to income		-	(1,382)
Net effect of available-for-sale financial assets		16,473	(14,830)
Foreign currency translation		292	(1,276)
Other comprehensive income for the period, net of tax		44,068	8,333
Total comprehensive income for the period, net of tax		402,335	161,113
Attributable to:			
Equity shareholders of the Company		366,079	136,282
Minority interest		36,256	24,831
		402,335	161,113

Fresnillo plc

CONSOLIDATED BALANCE SHEET

		Year ended 31 December	
	Notes	2009	2008
(US\$ thousands)			
ASSETS			
Non-current assets			
Property, plant and equipment	13	688,718	497,844
Available-for-sale financial assets	14	68,435	45,530
Silverstream contract	15	256,059	286,968
Deferred tax asset	11	9,363	3,161
Other assets		504	185
		1,023,079	833,688
Current assets			
Inventories	16	33,783	38,639
Trade and other receivables	17	108,242	81,495
Derivative financial instruments	31	1,373	2,409
Prepayments	18	1,912	1,894
Silverstream contract	15	42,600	31,300
Income tax refunds due		20,167	-
Cash and cash equivalents	19	312,192	211,985
		520,269	367,722
Total assets		1,543,348	1,201,410
EQUITY AND LIABILITIES			
Capital and reserves attributable to shareholders of the Company			
Share capital	20	358,680	358,680
Share premium	20	818,597	818,597
Capital reserve	20	(526,910)	(526,910)
Net unrealised gains/(losses) on cash flow hedges	20	895	(26,408)
Net unrealised gains/(losses) on available-for-sale financial assets	20	12,266	(4,207)
Foreign currency translation reserve	20	(1,095)	(1,387)
Retained earnings	20	513,691	285,195
		1,176,124	903,560
Minority interest		126,979	89,832
Total equity		1,303,103	993,392
Non-current liabilities			
Provision for mine closure cost	22	35,513	18,951
Provision for pensions and other post-employment benefit plans	23	5,811	3,499
Other liabilities		4,811	4,552
Deferred tax liability	11	119,944	91,395
		166,079	118,397
Current liabilities			
Trade and other payables	24	48,286	42,665
Derivative financial instruments	31	95	14,068
Income tax		-	15,259
Employee profit sharing		25,785	17,629
		74,166	89,621
Total liabilities		240,245	208,018
Total equity and liabilities		1,543,348	1,201,410

These financial statements were approved by the board of directors on 1 March 2010 and signed on its behalf by:

Jaime Lomelin
Chief Executive Officer
 1 March 2010

Fresnillo plc

CONSOLIDATED CASH FLOW STATEMENT

		Year ended 31 December	
	Notes	2009	2008
(US\$ thousands)			
Net cash from operating activities	30	390,712	414,666
Cash flows from investing activities			
Purchase of property, plant and equipment		(250,447)	(185,024)
Purchase of available-for-sale financial assets		(25)	(39,752)
Proceeds from the sale of property, plant and equipment and other assets		1,044	16,057
Loans granted to related parties		-	(321,538)
Proceeds from repayment of loans granted to related parties		-	353,980
Silverstream contract	31	39,010	31,732
Interest received		1,665	8,861
Other proceeds		3,526	5,030
Net cash used in investing activities		(205,227)	(130,654)
Cash flows from financing activities			
Loans granted by related parties		-	782,652
Repayment of loans granted by related parties		-	(1,238,102)
Capital contribution		891	2,118
Dividends paid		(93,623)	(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)
Interest paid		(105)	(9,319)
Net cash used in financing activities		(92,837)	(57,088)
Net increase in cash and cash equivalents during the year		92,648	226,924
Effect of exchange rate on cash and cash equivalents		7,559	(19,741)
Cash and cash equivalents at 1 January	19	211,985	4,802
Cash and cash equivalents at 31 December	19	312,192	211,985

Fresnillo plc

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Attributable to equity holders of the Company

		Share	Share	Capital	Net unrealised	Unrealised					
		capital	premium	reserve	gains/	gains/					
					(losses) on	(losses) on					
					revaluation of	available	Foreign				
					cash flow	for sale	currency				
					hedges	financial	translation	Retained		Minority	Total
	Notes					assets	reserve	earnings	Total	interest	equity
(US\$ thousands)											
Balance at 1 January 2008		634,270	-	(526,910)	(50,847)	10,623	(111)	293,133	360,158	62,883	423,041
Profit for the year		-	-	-	-	-	-	127,949	127,949	24,831	152,780
Other comprehensive income/(loss), net of tax		-	-	-	24,439	(14,830)	(1,276)	-	8,333	-	8,333
Total comprehensive income/(loss) 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	21	-	-	-	-	-	-	(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
Balance at 1 January 2009		358,680	818,597	(526,910)	(26,408)	(4,207)	(1,387)	285,195	903,560	89,832	993,392
Profit for the year		-	-	-	-	-	-	322,011	322,011	36,256	358,267
Other comprehensive income, net of tax		-	-	-	27,303	16,473	292	-	44,068	-	44,068
Total comprehensive income for the year		-	-	-	27,303	16,473	292	322,011	366,079	36,256	402,335
Capital contribution		-	-	-	-	-	-	-	-	891	891
Dividends paid	21	-	-	-	-	-	-	(93,515)	(93,515)	-	(93,515)
Balance at 31 December 2009		358,680	818,597	(526,910)	895	12,266	(1,095)	513,691	1,176,124	126,979	1,303,103

Fresnillo plc

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 CORPORATE INFORMATION

Fresnillo plc ("the Company") is a public limited company 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 Bailères family, whose beneficial interest is held through Peñoles. 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 2009, were authorised for issue by the Board of Directors of Fresnillo plc on 1 March 2010.

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, and has completed the development of a fourth, Soledad-Dipolos during 2009.

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 2009	2008
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	100
Fresnillo Management Services Ltd	Administrative services	London	100	100
Fresbal Investments Ltd	Holding company for mining investments	Canada	100	100
Fresnillo Peru, S.A.C.	Exploration services	Peru	100	-

(*) Certain of the mines of Compañía 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 (IFRS) as adopted by the European Union as they apply to the financial statements of the Group for the years ended 31 December 2009 and 2008, and in accordance with the provisions of the Companies Act 2006. The Consolidated 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 year ended 31 December 2008 which presents the results of the Group's businesses as if the Company had always been the holding company.

The consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments, available-for-sale financial instruments and defined benefit pension scheme assets which have been measured at fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

(b) Changes in accounting policies and presentation rules

The accounting policies applied are consistent with those applied in the preparation of the consolidated financial statements for the year ended 31 December 2008 except for the adoption of certain new standards, amendments and interpretations to existing standards. Those that are applicable to the Group are as follows:

- *IFRS 7 'Financial instruments: Disclosures'*, is applicable for annual periods beginning on or after 1 January 2009. The amended standard requires additional disclosure about fair value measurement and liquidity risk. Fair value measurements are to be disclosed by source of inputs using a three level hierarchy for each class of financial instrument. In addition, a reconciliation between the beginning and ending balance for Level 3 fair value measurements is now required, as well as significant transfers between Level 1, Level 2 and Level 3 fair value measurements. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. The fair value measurement disclosures are presented in note 31 and the liquidity risk disclosures are presented in note 32.
- *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, requires the disclosure of segment information based on the internal reports regularly reviewed by the Group's Chief Operating Decision Maker, as defined in IFRS 8, in order to assess each segment's performance and to allocate resources to them. The adoption of this standard has given rise to additional disclosures set out in note 3, including the related comparative information.
- *IAS 1 (Revised) 'Presentation of Financial Statements'*, is 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 now includes 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 Group has elected to present two linked statements.
- *IAS 23 Amendment, 'Borrowing Costs (revised in March 2007)'*, is applicable for annual periods beginning on or after 1 January 2009. IAS 23 (Revised) has 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. This amendment has not impacted the Group, as the Group's current policy is to capitalise borrowing costs on qualifying assets.

An amendment to IFRS 3 (Revised) has been published and is mandatory for the Group's accounting period beginning 1 January 2010, as follows:

- *IFRS 3 (Revised) 'Business Combinations' and IAS 27 (Revised) 'Consolidated and Separate Financial Statements'*, issued in January 2008. 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. 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 introduced by IFRS 3R and IAS 27R will affect future acquisitions or loss of control and transactions with Minority interests.

Improvements to IFRS

In May 2008 and April 2009 the IASB issued omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. All applicable and effective amendments were adopted, the majority of which did not have any impact on the accounting policies, financial position or performance of the Group. The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Group.

IAS 16 'Property, plant and equipment': Replaces the term "net selling price" with "fair value less costs to sell".

IAS 19 'Employee benefits': Amendments have been made to curtailments and negative past service costs, plan administration costs, additional guidance has been given on contingent liabilities and the replacement of the term "fall due" with "that are due to be settled".

IAS 23 'Borrowing costs': The definition of borrowing costs is revised to consolidate the two types of items that are considered components of "borrowing costs" into one – the interest expense calculated using the effective interest rate method calculated in accordance with IAS 39.

Amendments to the following existing standards have been published and are mandatory for the Group's accounting period beginning 1 January 2010 although they are not expected to have any impact on the financial position or performance of the Group. Those that are applicable to the Group are:

IAS 17 'Leases'

IAS 36 'Impairment of assets'

IAS 39 'Financial instruments: Recognition and Measurement'

IFRS 8 'Operating Segments'

(c) Significant accounting judgements, estimates and assumptions

Many of the amounts included in the consolidated 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 consolidated financial statements. Information about such judgements and estimates is contained in the accounting policies and/or the notes to the consolidated financial statements.

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 estimates may impact upon the carrying value of mine properties, property, plant & equipment, the 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 eventual disposal and 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 – notes 2(j) and 14:
The Group classifies certain financial assets as available-for-sale and recognises movements in their fair value in equity. When the fair value declines, management assesses the decline in value to determine whether it is an impairment that should be recognised in profit or loss. At 31 December 2009 no impairment losses have been recognised relating to the available for-sale assets. (2008: US\$4.9 million).
- Estimation of the amount and timing of mine closure costs – notes 2(m) and 22:
The Group 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, mine life, recoverable reserves and changes in discount rates. Those uncertainties may result in future actual expenditure differing from the amounts currently provided. The provision at the balance sheet 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

- **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 \$298.6 million as at 31 December 2009 (2008: US\$318.3 million) and changes in these assumptions may change this value. For further detail of this arrangement, see note 15. For further detail on the inputs that have a significant effect on the fair value of this derivative, see note 31. The impact of changes in silver price assumptions, inflation 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 remeasured 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 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 at 31 December 2009 and 2008, and operations and cash flows for the years 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 2009 and 2008 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 2008 the functional currency of the Company changed to US dollars as a result of changes in the transactions undertaken by the 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.

The cost less the 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 mine production process or on a straight line basis over the estimated useful life of the individual asset when not related to the mine 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 properties and 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.

Mining properties and 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 there is sufficient probability of the existence of economically recoverable minerals and a feasibility study has been performed for the specific project. Revenues from metals recovered from ore mined in the development phase, prior to commercial production, is credited to development costs. 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 de-recognised. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(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 2009.

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 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.

The recoverable amount of an asset

The recoverable amount of an asset is the greater of its 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, 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 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 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 balance sheet date. 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 fair value through profit or loss 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 receivables are de-recognised 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(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). Interest income is included as finance income in the income statement.

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. Costs incurred are charged to the income statement until there is sufficient probability of the existence of economically recoverable minerals and a feasibility study has been performed for the specific project.

(u) Finance income and costs

Finance income and costs comprise interest expense on borrowings, interest income on funds invested and the unwinding of the discount on provisions.

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 or 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 of 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) De-recognition of financial assets and liabilities

A financial asset or liability is generally de-recognised 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 de-recognition 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 hedged item or transaction, the nature of the risk being hedged and how the entity will assess 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 are recognised as a liability when these are approved by the Company's shareholders or Board as appropriate. Dividends payable to minority shareholders are recognised as a liability when these are approved by the Company's subsidiaries.

(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

For management purposes the Group is organised into operating segments based on mining projects, and therefore has three reportable operating segments, representing the Group's three producing mines as follows:

- The Fresnillo mine, located in the State of Zacatecas is the world's largest primary silver mine;
- The Ciénega mine, located in the State of Durango is an underground gold mine; and,
- The Herradura mine, located in the State of Sonora is an open pit gold mine.

No operating segments have been aggregated to form the above reportable operating segment. Projects under development have been aggregated into the Other segment below.

Management monitors the results of its operating segments separately for the purpose of performance assessment and making decisions about resource allocation. Segment performance is evaluated without taking into account certain adjustments included in Revenue as reported in the consolidated income statement, and certain costs included within Cost of Sales and Gross Profit which are considered to be outside of the control of the operating management of the mines. The table below provides a reconciliation from segment profit to Gross Profit as per the consolidated income statement. Other income and expenses included in the consolidated income statement are not allocated to operating segments. Transactions between reportable segments are accounted for on an arm's length basis similar to transactions with third parties.

In 2009 all revenue was derived from customers based in Mexico, the Company's country of domicile, except for approximately 3.3% of revenue as per the consolidated income statement which was sold to a third party customer based in the Netherlands. This revenue is shown within the Fresnillo and Ciénega segments below. In 2008 all revenue was derived from customers based in Mexico. All non-current assets are located in Mexico.

Operating segments

The following tables present revenue and profit information regarding the Group's operating segments for the year ended 31 December 2009 and 2008, respectively.

Year ended 31 December 2009

(US\$ thousands)

	Herradura	Ciénega	Fresnillo	Other	Eliminations	Total
Revenues:						
Third party	245,565	126,735	498,572	-	(20,928)	849,944
Inter-Segment	-	-	-	17,385	(17,385)	-
Segment revenues	245,565	126,735	498,572	17,385	(38,313)	849,944
Segment profit	160,635	92,247	464,494	18,483	(14,246)	721,613
Hedging						(31,863)
Treatment and refining charges						(69,227)
Depreciation						(67,227)
Employee profit sharing						(24,981)
Gross profit as per the income statement						528,315
Profit before tax	113,874	19,926	293,340	271,434	(241,156)	457,418
Gain/(loss) on disposal of property, plant and equipment	94	114	(16,010)	105,955	(90,297)	(144)
Segment assets ⁽¹⁾	207,318	127,970	263,342	204,394	(114,306)	688,718
Capital expenditure ⁽²⁾	64,813 ⁽³⁾	41,665 ⁽⁴⁾	34,628 ⁽⁵⁾	107,768 ⁽⁶⁾	1,573	250,447

⁽¹⁾ Segment assets only include property, plant and equipment.

⁽²⁾ Capital expenditure consists of additions of property, plant and equipment, excluding additions relating to changes in the mine closure provision.

⁽³⁾ Capital expenditure relates to equipment such as dump trucks, wheel loaders and mine development activities.

⁽⁴⁾ Capital expenditure relates to mine development work including work on a tailing dam and shaft sinking.

⁽⁵⁾ Capital expenditure relates to mine development work including a shaft, waste waters treatment plant and raise boring equipment.

⁽⁶⁾ Capital expenditure relates to the Soledad-Dipolos and Saucito mine developments including hoisting equipment and ramp and shaft developments.

Year ended 31 December 2008

(US\$ thousands)

	Herradura	Ciénega	Fresnillo	Other	Eliminations	Total
Revenues:						
Third party	192,237	118,070	451,554	55	(41,433)	720,483
Inter-Segment	-	-	-	21,169	(21,169)	-
Segment revenues	192,237	118,070	451,554	21,224	(62,602)	720,483
Segment profit	109,788	90,172	408,403	21,227	(16,761)	612,829
Hedging						(45,602)
Treatment and refining charges						(73,522)
Depreciation						(51,906)
Employee profit sharing						(21,188)
Gross profit as per the income statement						420,611
Profit/(loss) before tax	71,095	(204)	218,111	(45,197)	23,552	267,357
Gain/(loss) on disposal of property, plant and equipment	225	(527)	(11,533)	4,540	8,314	1,019
Segment assets ⁽¹⁾	164,324	97,037	142,548	99,131	(5,196)	497,844
Capital expenditure ⁽²⁾	74,742 ⁽³⁾	27,183 ⁽⁴⁾	28,757 ⁽⁵⁾	54,342 ⁽⁶⁾	-	185,024

⁽¹⁾ Segment assets only include property, plant and equipment.

⁽²⁾ Capital expenditure consists of additions of property, plant and equipment, excluding additions relating changes in the mine closure provision.

⁽³⁾ Capital expenditure relates to the acquisition of the Noche Buena gold project, dump trucks, and investment in the maintenance workshop.

⁽⁴⁾ Capital expenditure relates to mine development work, scoop equipment, land and raise boring equipment.

⁽⁵⁾ Capital expenditure relates to mine development work, scoop equipment, land and raise boring equipment.

⁽⁶⁾ Capital expenditure relates to the Soledad-Dipolos and Saucito mine developments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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	
	2009	2008
	(US\$ thousands)	
Lead concentrates (containing silver, gold, lead and by-products)	573,594	529,283
Doré and slag (containing gold, silver and by-products)	245,822	192,509
Zinc concentrates	38,324	28,131
Precipitates	16,990	16,162
Effects of hedging	(24,786)	(45,602)
	849,944	720,483

In 2009 all lead concentrates, precipitates, doré and slag, were sold to Peñoles' metallurgical complex for smelting and refining, aside from a minimal amount of product sold to a third party. In 2008 all product was sold to Peñoles.

⁽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 2009 the Group has recognised a profit of US\$24.0 million (2008: loss of US\$18.2 million). For further detail refer to note 2(s).

b) Value of metal content in products sold

For products other than refined silver and gold, invoiced revenues are derived from the value of metal content 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	
	2009	2008
	(US\$ thousands)	
Silver ⁽¹⁾	529,626	460,031
Gold ⁽²⁾	334,169	276,963
Zinc ⁽³⁾	28,282	26,725
Lead ⁽⁴⁾	27,094	30,286
Value of metal content in products sold	919,171	794,005
Adjustment for treatment and refining charges	(69,227)	(73,522)
Total revenues ⁽⁵⁾	849,944	720,483

⁽¹⁾ Includes hedging losses of US\$nil (2008: US\$19 million)

⁽²⁾ Includes hedging losses of US\$25 million (2008: US\$26.6 million)

⁽³⁾ Includes gains of US\$0.1 million (2008: US\$nil)

⁽⁴⁾ Includes gains of US\$0.1 million (2008: US\$nil)

⁽⁵⁾ 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 2009 the Group has recognised a profit of US\$24.0 million (2008: loss of US\$18.2 million). For further detail refer to note 2(s).

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	
	2009	2008
	(US\$ per ounce)	
Gold	988.9	879.3
Silver	15.3	14.7

5 COST OF SALES

	Year ended 31 December	
	2009	2008
	(US\$ thousands)	
Depreciation (note 13)	67,227	51,906
Personnel expenses (note 8)	60,349	59,986
Maintenance and repairs	39,251	41,326
Operating materials	47,110	50,363
Energy	35,257	37,800
Contractors	31,905	32,701
Freight	6,143	7,313
Mining rights and contributions	4,633	5,016
Loss on foreign currency hedges	7,077	-
Change in work in progress and finished goods (ore inventories)	12,944	3,466
Other	9,733	9,995
	321,629	299,872

6 ADMINISTRATIVE EXPENSES

	Year ended 31 December	
	2009	2008
	(US\$ thousands)	
Administrative expenses charged by Peñoles Group:		
Trademark royalties ⁽¹⁾	-	31,232
Administrative services ⁽²⁾	30,308	43,081
	30,308	74,313
Personnel expenses (note 8)	9,683	4,315
Other administrative expenses	9,876	3,051
	49,867	81,679

⁽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 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⁾ For the period from the IPO on 14 May 2008 to 31 October 2009 certain services, comprising administrative and non-administrative services were provided by Servicios Industriales Peñoles, S.A. de C.V. ("SIPSA") to the Group under a Transitional Services Agreement entered into on 15 April 2008 for a global fee of US\$51.0 million. Of this amount, approximately US\$15.0 million related to engineering and construction, technical research and development and central workshop costs, which are considered non-administrative services. The remaining US\$36.0 million related to administrative expenses. From 1 November 2009 a new agreement was entered into for the period to 31 October 2012. The annual fee amounts to US\$6.1 million and MXP277.5 million (US\$20.5 million). On 21 December 2009, pursuant to an internal corporate restructuring within Peñoles, SIPSA's interest in the new service agreement was transferred to Dolorey, S.A. de C.V., a wholly owned Peñoles subsidiary.

7 EXPLORATION EXPENSES

	Year ended 31 December	
	2009	2008
	(US\$ thousands)	
Contractors	33,408	32,806
Administrative services	5,214	9,141
Mining rights and contributions	3,483	3,988
Personnel expenses	2,052	1,022
Assays	1,565	2,082
Maintenance and repairs	1,215	590
Operating materials	921	1,316
Rentals	600	939
Energy	152	575
Other	453	1,024
	49,063	53,483

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

These exploration expenses were mainly incurred in increasing the reserves and mine life of the Fresnillo, Herradura and Ciénega mines. Minor exploration expenses of US\$0.3 million (2008: US\$1.9 million) were incurred in the year elsewhere in Latin America.

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	
	2009	2008
	(US\$ thousands)	
Liabilities related to exploration activities	677	154

Cash flows relating to exploration activities are as follows:

	Year ended 31 December	
	2009	2008
	(US\$ thousands)	
Operating cash out flows	48,540	54,565

8 PERSONNEL EXPENSES

	Year ended 31 December	
	2009	2008
	(US\$ thousands)	
Employees' profit sharing	24,981	21,188
Salaries and wages	17,712	16,872
Bonuses	8,416	7,458
Legal contributions	6,579	6,777
Other benefits	4,503	4,224
Vacations and vacations bonus	2,278	2,544
Social security	2,327	1,966
Post-employment benefits (note 23)	3,405	2,618
Other	1,883	1,676
	72,084	65,323

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

	Year ended 31 December	
	2009	2008
	(US\$ thousands)	
Cost of sales	60,349	59,986
Administrative expenses	9,683	4,315
Exploration expenses	2,052	1,022
	72,084	65,323

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

	Year ended 31 December	
	2009	2008
	No.	No.
Mining	1,203	1,083
Plant concentration	274	245
Exploration	131	76
Maintenance	368	325
Administration and other	236	128
Total	2,212	1,857

9 OTHER INCOME AND OTHER EXPENSES

	Year ended 31 December	
	2009	2008
	(US\$ thousands)	
Other income:		
Gain on sale of mining assets ⁽¹⁾	-	1,391
Rentals	1,761	1,220
Royalties	815	306
Other	1,297	2,984
	3,873	5,901
	Year ended 31 December	
	2009	2008
	(US\$ thousands)	
Other expenses:		
Maintenance ⁽²⁾	853	1,185
Donations	603	870
Loss on sale of property, plant and equipment and other assets ⁽³⁾	144	372
Impairment of available-for-sale financial assets (note 14)	-	4,936
Write-off of accounts receivable	446	16
Other	2,456	390
	4,502	7,769

⁽¹⁾ In January 2008, Compañía Minera Las Torres sold the La Guitarra mine to La Guitarra Compañía 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	
	2009	2008
	(US\$ thousands)	
Finance income:		
Interest on short term deposits	912	5,668
Interest on loans to related parties (note 28)	-	1,876
Other	752	1,317
	1,664	8,861
Finance costs:		
Interest on loans from related parties (note 28)	-	8,928
Unwinding of discount on provisions (note 22)	1,615	1,185
Other	286	402
	1,901	10,515

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11 INCOME TAX EXPENSE

a) The major components of income tax expense are:

	Year ended 31 December	
	2009	2008
	(US\$ thousands)	
Consolidated income statement:		
Current income tax:		
Current income tax charge	110,427	146,762
Amounts overprovided in previous years	(6,108)	(1,619)
Credit for income tax paid on dividends	-	(12,559)
IETU ⁽¹⁾ in excess of income tax	249	-
Recognition of previously un-recognised tax losses	(12,946)	-
	91,622	132,584
Deferred income tax:		
Origination and reversal of temporary differences	13,189	(18,007)
Changes to future tax rates ⁽²⁾	5,082	-
Recognition of previously un-recognised tax losses	(757)	-
Amounts overprovided in previous years	(4,553)	-
Revaluation effects of Silverstream contract	(5,432)	-
	7,529	(18,007)
Income tax expense reported in the income statement	99,151	114,577

⁽¹⁾ Business Flat tax (Impuesto Empresarial a Tasa Unica" or "IETU")

⁽²⁾ On 7th December 2009 new temporary tax rates were published in the Official Daily of the Federal Government. The tax rate for 2010, 2011 and 2012 will be 30%, the tax rate for 2013 will be 29% and the tax rate for 2014 will be 28%. The deferred taxes have been calculated at the rate applicable to the year the amounts are expected to materialise.

	Year ended 31 December	
	2009	2008
	(US\$ thousands)	
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	(9,531)	(12,768)
Net loss arising on valuation of cash flow hedges	(1,122)	3,264
Unrealised (gain)/loss on available-for-sale assets	(6,407)	5,767
Income tax (gain)/expense reported in equity	(17,060)	12,222

(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	
	2009	2008
	(US\$ thousands)	
Accounting profit before income tax	457,418	267,357
Tax at the Group's statutory income tax rate 28.0% (2008: 28.0%)	128,077	74,860
Expenses not deductible for tax purposes	1,547	364
Inflationary uplift of the tax base of assets and liabilities	(4,787)	(4,244)
Tax losses arising in the year not recognised	-	7,234
Recognition of previously un-recognised tax losses	(13,703)	-
Current income tax overprovided in previous years	(6,108)	(1,619)
Deferred income tax overprovided in previous years	(4,553)	-
Put option closed prior to maturity	(4,105)	-
Tax credit not previously recognised on past dividends	-	(12,559)
Tax depreciation de-recognised	1,029	3,054
Changes to future tax rates	5,082	-
Exchange rate effect on tax value of assets and liabilities	1,034	8,010
Non-deductible asset disposals	3,229	7,062
Non-deductible/non-taxable foreign exchange gains or losses	(5,491)	30,891
Inflationary uplift of tax losses	(1,141)	-
IETU in excess of income tax	249	-
Other	(1,208)	1,524
Tax at the effective income tax rate of 2009: 21.7% (2008: 42.9%)	99,151	114,577

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

	Year ended 31 December	
	2009	2008
	(US\$ thousands)	
Beginning balance	(88,234)	(99,623)
Income statement (charge)/credit	(7,529)	18,007
Exchange difference	2,242	(2,881)
Unrealised (gain)/loss on available-for-sale financial assets	(6,407)	5,767
Cash flow hedges recycled to income statement	(9,531)	(12,768)
Revaluation of derivatives used for cash flow hedges	(1,122)	3,264
Ending balance	(110,581)	(88,234)

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:

	As at 31 December	
	2009	2008
	(US\$ thousands)	
Deferred income tax assets	9,363	3,161
Deferred income tax liabilities	(119,944)	(91,395)
Ending balance	(110,581)	(88,234)

The amounts of deferred income tax assets and liabilities before offset as at 31 December 2009 and 2008 considering the nature of the temporary differences, are as follows:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December

2009

(US\$ thousands)

	ASSETS	LIABILITIES	NET BALANCE
Related party receivables	-	36,921	(36,921)
Other receivables	50	-	50
Inventories	8,098	-	8,098
Prepayments	-	590	(590)
Derivative financial instruments including Silverstream contract	-	16,562	(16,562)
Property, plant and equipment	-	126,829	(126,829)
Operating liabilities	1,551	-	1,551
Other payables and provisions	10,310	-	10,310
Losses carried forward	46,616	-	46,616
Post-employment benefits	1,627	-	1,627
Deductible profit sharing	7,673	-	7,673
Available-for-sale financial assets	-	3,387	(3,387)
Other	-	2,217	(2,217)
Net deferred tax balances	75,925	186,506	(110,581)

As at 31 December

2008

(US\$ thousands)

	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-employment 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)

Tax losses expire in the following years:

As at 31 December

2009

2008

(US\$ thousands)

	2009	2008
Recognised:		
Expire after five years	166,486	100,300
	166,486	100,300
Unrecognised:		
Expire after five years	-	54,039
	-	54,039

(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\$184.3 million (2008: US\$132.3 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 Group, other than the US\$6.1 million tax credit arising under IETU that is recognised in 2009, since 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 year 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 at 31 December 2009 and 2008, earnings per share have been calculated as follows:

	Year ended 31 December	
	2009	2008
Earnings:		
Profit from continuing operations attributable to equity holders of the Company (US\$ thousands)	322,011	127,949
Adjusted profit from continuing operations attributable to equity holders of the Company (US\$ thousands)	308,042	127,949

Adjusted profit is profit as disclosed in the Consolidated Income Statement adjusted to exclude revaluation effects of the Silverstream contract of US\$19.4 million gain (US\$14.0 million net of tax) (2008: US\$ nil).

Adjusted earnings per share have been provided in order to provide a measure of the underlying performance of the Group, prior to the revaluation effects of the Silverstream contract, a derivative financial instrument.

	Year ended 31 December	
	2009	2008
Number of shares:		
Weighted average number of ordinary shares in issue (ooo)	717,160	687,688
Earnings per share:		
Basic and diluted earnings per share (US\$)	0.449	0.186
Adjusted basic and diluted earnings per ordinary share from continuing operations (US\$)	0.430	0.186

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13 PROPERTY, PLANT AND EQUIPMENT

			MINING PROPERTIES AND DEVELOPMENT COSTS	OTHER ASSETS	CONSTRUCTION IN PROGRESS	TOTAL
	LAND AND BUILDINGS	PLANT AND EQUIPMENT				
	(US\$ thousands)					
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
Year ended 31 December 2009						
Cost						
At 1 January 2009	49,812	241,222	266,976	24,361	115,617	697,988
Additions	-	-	-	14,480	244,141	258,621
Disposals	(182)	(4,481)	-	(562)	-	(5,225)
Transfers and other movements	18,352	106,304	73,915	4,977	(203,548)	-
At 31 December 2009	67,982	343,045	340,891	43,256	156,210	951,384
Accumulated depreciation						
At 1 January 2009	(11,303)	(35,807)	(144,448)	(8,586)	-	(200,144)
Depreciation for the year	(4,161)	(25,215)	(34,322)	(3,529)	-	(67,227)
Disposals	92	3,653	588	372	-	4,705
At 31 December 2009	(15,372)	(57,369)	(178,182)	(11,743)	-	(262,666)
Net Book amount at						
31 December 2009	52,610	285,676	162,709	31,513	156,210	688,718

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

	Year ended 31 December	
	2009	2008
	(US\$ thousands)	
Saucito	85,062	53,464
Penmont	29,297	31,447
Juanicipio	20,015	17,099
Ciénega	15,247	7,540
Other	6,589	6,067
	156,210	115,617

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 2009 was US\$nil (2008: US\$nil.)

14 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Year ended 31 December	
	2009	2008
	(US\$ thousands)	
Beginning balance	45,530	31,311
Additions	25	39,752
Fair value change	22,880	(25,533)
Ending balance	68,435	45,530

In 2008 US\$4.9 million of losses recognised in equity were reclassified to the income statement reflecting an impairment change of the related equity securities. These securities were considered impaired due to a significant reduction in market value in 2008.

Available-for-sale financial assets include the following:

	As at 31 December	
	2009	2008
	(US\$ thousands)	
Equity securities-listed Canadian companies	68,435	45,530
Total	68,435	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 1 January 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
Additions	-	-	-	397,714
Number of shares held at 31 December 2009	9,314,877	2,800,000	382,582	482,213

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 2009 total proceeds received were US\$39.0 million (2008: US\$31.7 million), corresponding to 3.0 million ounces of payable silver (2008: 2.5 million ounces). During the year revaluation effects of US\$19.4 million gain were taken to income (2008: US\$nil).

A reconciliation of the beginning balance to the ending balance is shown below

	(US\$ thousands)
Balance at 1 January 2009:	318,268
Cash received	(39,010)
Remeasurement gains recognised in profit and loss	19,401
Balance at 31 December 2009	298,659

See note 31 for further information on the inputs that have a significant effect on the fair value of this derivative, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16 INVENTORIES

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

	As at 31 December	
	2009	2008
	(US\$ thousands)	
Finished goods ⁽¹⁾	499	369
Work in progress ⁽²⁾	6,277	16,874
Operating materials and spare parts	28,204	22,447
	34,980	39,690
Allowance for obsolete and slow-moving inventories	(1,197)	(1,051)
Total inventories at the lower of cost and net realisable value	33,783	38,639

⁽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 (2008: US\$0.1 million).

17 TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2009	2008
	(US\$ thousands)	
Trade receivables from related parties (note 28) ⁽¹⁾	89,391	60,423
Value Added Tax receivable	8,419	8,269
Advances to suppliers	2,671	4,651
Other receivables from related parties (note 28)	434	68
Other receivables	7,806	8,225
	108,721	81,636
Provision for impairment of "other receivables"	(479)	(141)
	108,242	81,495

⁽¹⁾ "Trade receivables from related parties" includes the fair value of embedded derivatives arising due to provisional pricing in sales contracts of US\$(3.3) million as at 31 December 2009 (2008: US\$4.0 million).

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\$97.9 million (2008: US\$68.5 million), and in Pesos US\$10.3 million (2008: US\$12.9 million).

As at 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:

	Year ended 31 December	
	2009	2008
	(US\$ thousands)	
Beginning of the year	(141)	(126)
Charge for the year	(446)	(16)
Amounts written off	127	-
Exchange difference	(19)	1
End of the year	(479)	(141)

As at 31 December, the analysis of trade receivables that were past due but not impaired is as follows:

Year ended 31 December	TOTAL	NEITHER PAST DUE NOR IMPAIRED	PAST DUE BUT NOT IMPAIRED	
			<30 DAYS	30-60 DAYS
(US\$ thousands)				
2009	89,391	89,391	-	-
2008	60,423	60,423	-	-

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 at 31 December	
	2009	2008
(US\$ thousands)		
Insurance and bonds	1,883	1,449
Others	29	445
	1,912	1,894

19 CASH AND CASH EQUIVALENTS

	As at 31 December	
	2009	2008
(US\$ thousands)		
Cash at bank and on hand	1,358	441
Short-term deposits	310,834	211,544
Cash and cash equivalents	312,192	211,985

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 for the year ended 31 December 2008 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 reorganisation.

The authorised and issued share capital of the Company as at 31 December 2009 and 2008 is as follows:

CLASS OF SHARES	AUTHORISED		ISSUED	
	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 2009 and 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 Ordinary 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 Ordinary 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 Ordinary Shares at a price of £1.00 or, as custodian, purchase or cancel the Sterling Deferred Ordinary Shares or require the holder to transfer the Sterling Deferred Ordinary Shares. Except at the option of the Company the Sterling Deferred Ordinary Shares are not transferrable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The changes in share capital are as follows:

	NUMBER OF SHARES	SHARE CAPITAL (£ thousands)	SHARE CAPITAL (US\$ thousands)	SHARE PREMIUM (US\$ thousands)
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 2009 and 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 2009 and 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. The value of these Deferred Ordinary shares as reflected in equity in US dollars was determined at the exchange rate on this date.

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 years ended 31 December 2009 and 2008, are as follows:

	US CENTS PER ORDINARY SHARE	AMOUNT (US\$ thousands)
Year ended 31 December 2009		
Final dividend for 2008 declared and paid during the year ⁽¹⁾	7.7	55,864
Interim dividend for 2009 declared and paid during the year ⁽²⁾	5.25	37,651
	12.95	93,515
Year ended 31 December 2008		
Interim dividend for 2008 declared and paid during the year ⁽³⁾	5.9	42,203
	5.9	42,203

The final dividend for the year ended 31 December 2009 will be announced on 29 April 2010. No liability for this dividend has been reflected in the financial statements at 31 December 2009.

⁽¹⁾ This dividend was approved by the Board of Directors on 20 February 2009 and paid on 27 May 2009.

⁽²⁾ This dividend was approved by the Board of Directors on 14 August 2009 and paid on 18 September 2009.

⁽³⁾ This dividend was approved by the Board of Directors on 12 August 2008 and paid on 19 September 2009.

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 2009 has been calculated using an annual real discount rate of 4.33 per cent (2008: 4.33 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.

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 production life of each mine, which ranges from 8 to 19 years from 31 December 2009.

	As at 31 December	
	2009	2008
	(US\$ thousands)	
Beginning balance	18,951	14,295
Increase to existing provision	14,480	6,495
Unwinding of discount (note 10)	1,615	1,185
Change in discount rate	-	8
Foreign exchange	467	(3,032)
Ending balance	35,513	18,951

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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		
	2009	2008	2007
	(US\$ thousands)		
Current service cost	625	781	686
Interest cost on benefit obligation	2,371	1,865	1,432
Expected return on plan assets	(2,103)	(1,689)	(957)
Defined benefit decrease due to plan amendment	-	-	(3,096)
Net actuarial loss/(gain) recognised in the year	1,280	657	(2,144)
Net defined benefit expense	2,173	1,614	(4,079)
Payments to defined contribution plans	1,232	1,004	314
Net benefit expense (note 8)	3,405	2,618	(3,765)

Analysis of net actuarial (loss)/gain recognised in the year:

	Year ended 31 December		
	2009	2008	2007
	(US\$ thousands)		
Actual return on plan assets	2,400	918	1,437
Expected return on plan assets	(2,103)	(1,689)	(957)
Foreign exchange	(108)	283	(9)
Experience adjustments arising on plan assets	189	(488)	471
Experience adjustments arising on plan liabilities	(1,469)	(169)	1,783
Changes in assumptions underlying the present value of the schemes' liabilities	-	-	(110)
Net actuarial (loss)/gain recognised in the year	(1,280)	(657)	2,144

b) Benefit liability:

	As at 31 December		
	2009	2008	2007
	(US\$ thousands)		
Defined benefit obligation	(34,009)	(28,851)	(15,272)
Fair value of plan assets	28,198	25,352	12,702
Benefit liability	(5,811)	(3,499)	(2,570)

Changes in the present value of the defined benefit obligation are as follows:

	As at 31 December		
	2009	2008	2007
	(US\$ thousands)		
Defined benefit obligation at 1 January	28,851	15,272	18,258
Interest cost	2,371	1,865	1,432
Current service cost	625	781	686
Benefits paid	(409)	(455)	(389)
Actuarial losses/(gains) on obligation	1,469	169	(1,673)
Defined benefit increase due to personnel transfer to the Group	(26)	14,624	-
Defined benefit decrease due to plan amendment	-	-	(3,096)
Foreign exchange	1,128	(3,405)	54
Defined benefit obligation at 31 December	34,009	28,851	15,272
Funded plan	28,771	23,955	9,897
Unfunded plan	5,238	4,896	5,375
Defined benefit obligation at 31 December	34,009	28,851	15,272

Changes in the fair value of plan assets are as follows:

	2009	As at 31 December 2008	2007
		(US\$ thousands)	
Fair value of plan assets at 1 January	25,352	12,702	10,590
Expected return on plan assets	2,103	1,689	957
Contributions by employer	-	-	915
Actuarial (losses)/gains	189	(488)	471
Amount transferred due to personnel transfer to the Group	(26)	14,624	-
Benefits paid	(409)	(455)	(244)
Foreign exchange	989	(2,720)	13
Fair value of plan assets at 31 December	28,198	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:

	2009	As at 31 December 2008	2007
	%	%	%
Discount rate	8.5	8.5	8.5
Expected rate of return on plan assets	8.5	8.5	8.5
Future salary increases	5.5	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 17.28 and 20.59 years respectively (2008: 16.9 years, 2007: 16.2 years).

The fair value of the plan assets was as follows:

	As at 31 December		
	2009	2008	2007
	(US\$ thousands)		
Government debt	6,762	6,533	2,978
Equity shares	-	-	1,083
Promissory notes	99	87	-
State own companies	3,310	2,193	1,068
Corporate bonds	1,997	3,395	1,509
Mutual funds (fixed rates)	16,030	13,144	6,064
	28,198	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 2009 and does not expect to contribute in 2010.

24 TRADE AND OTHER PAYABLES

	As at 31 December	
	2009	2008
	(US\$ thousands)	
Trade payables	35,696	32,560
Other payables to related parties (note 28)	375	668
Accrued expenses	9,870	7,719
Other taxes and contributions	2,345	1,718
	48,286	42,665

Trade payables are mainly for the acquisition of materials, supplies and contractor 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25 COMMITMENTS

(a) Capital expenditure:

A summary of capital expenditure commitments is as follows:

	As at 31 December	
	2009	2008
	(US\$ thousands)	
Minera Saucito, S.A. de C.V.	54,205	36,602
Minera Penmont, S. de R.L. de C.V.	12,102	22,583
Minera Mexicana La Ciénega, S.A. de C.V.	9,461	5,261
Minera Fresnillo, S.A. de C.V.	14,664	9,893
Servicios Administrativos Fresnillo S.A. de C.V.	-	262
	90,432	74,601

26 OPERATING LEASES

(a) Leases as lessor

The group leases certain small mines to third parties. Future minimum rentals receivable under non-cancellable operating leases are as follows:

	As at 31 December	
	2009	2008
	(US\$ thousands)	
Within one year	1,968	1,432
After one year but not more than five years	3,737	1,447
	5,705	2,879

(b) Leases as lessee

The group has financial commitments in respect of non-cancellable operating leases for land, offices and equipment. These leases have renewal terms at the option of the lessee at lease payments based on market prices at the time of renewal. There are no restrictions placed upon the Group by entering into these leases. The future minimum rental commitments under these leases are as follows:

	As at 31 December	
	2009	2008
	(US\$ thousands)	
Within one year	1,068	1,134
After one year but not more than five years	596	1,495
	1,664	2,629

	As at 31 December	
	2009	2008
	(US\$ thousands)	
Minimum lease payments expensed in the year	1,227	965

27 CONTINGENCIES

As at 31 December 2009, 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 2009 and 2008 and balances as at 31 December 2009 and 2008. During 2008, and as a result of the initial public offering of the Group, related party receivables and payables with members of the Peñoles 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 As at 31 December		ACCOUNTS PAYABLE As at 31 December	
	2009	2008	2009	2008
	(US\$ thousands)			
Trade:				
Met-Mex Peñoles, S.A. de C.V.	89,391	60,423	-	-
Other	434	68	375	668
Sub-total	89,825	60,491	375	668
Less-Current portion	89,825	60,491	375	668
Non-current portion	-	-	-	-

Related party accounts receivable and payable will be settled in cash.

Other balances with related parties:

	Year ended 31 December	
	2009	2008
	(US\$ thousands)	
Silverstream contract:		
Industrias Peñoles, S.A.B. de C.V.	298,659	318,268

The Silverstream contract can be settled in either silver or cash. Details of the Silverstream contract are provided in note 15.

- (b) Principal transactions with affiliates, including Industrias Peñoles, the Company's parent, are as follows:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	Year ended 31 December	
	2009	2008
	(US\$ thousands)	
Income:		
Sales: ⁽¹⁾		
Met-Mex Peñoles, S.A. de C.V.	821,578	773,704
Interest on loans to related parties:		
Industrias Peñoles, S.A.B. de C.V.	-	1,863
Other	-	13
	-	1,876
Other income	659	2,820
Total income	822,237	778,400

⁽¹⁾ Figures do not include hedging losses.

	Year ended 31 December	
	2009	2008
	(US\$ thousands)	
Expenses:		
Administrative services:		
Servicios Industriales Peñoles, S.A. de C.V.	30,308	44,825
Servicios de Exploración, S.A. de C.V.	1,678	3,324
	31,986	48,149
Trademark royalties:		
Industrias Peñoles, S.A.B. de C.V.	-	31,232
Realised result on derivatives:		
Energy:		
Termoelectrica Peñoles, S. de R.L. de C.V.	17,785	17,038
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
	-	8,928
Operating materials and spare parts:		
Wideco Inc	2,977	2,870
Equipment repair and administrative services:		
Serviminas, S.A. de C.V.	2,427	2,241
Met-Mex Peñoles, S.A. de C.V.	1,563	1,891
	3,990	4,132
Other expenses:	8,366	9,555
Total expenses	65,104	121,904

(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	
	2009	2008
	(US\$ thousands)	
Salaries and bonuses	3,624	2,322
Other benefits	562	508
Total compensation paid to key management personnel	4,186	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 2009 and the year ended 31 December 2008 is as follows:

CLASS OF SERVICES	Ernst & Young Year ended 31 December	
	2009	2008
	(US\$ thousands)	
Audit fees pursuant to legislation	1,738	1,677
Other services relating to taxation	107	26
Corporate finance services ⁽¹⁾	-	6,347
Total	1,845	8,050

⁽¹⁾ 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	
	2009	2008
	(US\$ thousands)	
Reconciliation of profit for the year to net cash generated from operating activities		
Profit for the year	358,267	152,780
Adjustments to reconcile profit for the period to net cash inflows from operating activities:		
Depreciation	5 67,227	51,906
Employee profit sharing	8 24,981	21,188
Deferred income tax	11 7,529	(18,007)
Income tax expense	11 91,622	145,143
Credit for income tax paid on dividends	11 -	(12,559)
Gain on sale of mining assets	9 -	(1,391)
Loss on the sale of property, plant and equipment and other assets	9 144	372
Other expenses	485	2,887
Net finance costs	10 237	1,654
Foreign exchange (gain)/loss	(9,498)	14,570
Difference between pension contributions paid and amounts recognised in the income statement	2,174	1,614
Non cash movement on derivatives	25,018	45,602
Changes in fair value of Silverstream	31 (19,401)	-
Working capital adjustments		
(Increase)/decrease in trade and other receivables	(50,495)	118,384
Decrease/(increase) in prepayments and other assets	1,643	(1,102)
Decrease/(increase) in inventories	4,856	(2,158)
Increase in trade and other payables	6,162	14,430
Cash generated from operations	510,951	535,313
Income tax paid	(102,347)	(96,404)
Employee profit sharing paid	(17,892)	(24,243)
Net cash from operating activities	390,712	414,666

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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		As at 31 December	
	2009	2008	2009	2008
	(US\$ thousands)			
Financial assets:				
Cash and cash equivalents	312,192	211,985	312,192	211,985
Trade and other receivables ⁽¹⁾	97,152	68,575	97,152	68,575
Available-for-sale financial assets	68,435	45,530	68,435	45,530
Silverstream contract (note 15)	298,659	318,268	298,659	318,268
Derivative financial instruments	1,373	2,409	1,373	2,409
Financial liabilities:				
Trade and other payables	36,071	33,228	36,071	33,228
Derivative financial instruments	95	14,068	95	14,068

⁽¹⁾ "Trade and other receivables" includes the fair value of embedded derivatives arising due to provisional pricing in sales contracts of US\$(3.3) million as at 31 December 2009 (2008:US\$4.0 million).

(b) Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of the financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The financial assets and liabilities measured at fair value are categorised into the following fair value hierarchy as at 31 December 2009:

As at 31 December 2009				
	Level 1	Level 2	Level 3	Total
(US\$ thousands)				
Financial assets:				
Derivative financial instruments:				
Forward foreign exchange contracts	-	1,373	-	1,373
Silverstream contract	-	-	298,659	298,659
	-	1,373	298,659	300,032
Financial investments available-for-sale:				
Quoted investments	68,435	-	-	68,435
	68,435	1,373	298,659	368,467
Financial liabilities:				
Derivative financial instruments:				
Forward foreign exchange contracts	-	(95)	-	(95)
Embedded derivatives within sales contracts	-	-	(3,348)	(3,348)
	-	(95)	(3,348)	(3,443)

There have been no significant transfers between Level 1 and Level 2 of the fair value hierarchy, and no transfers into and out of Level 3 fair value measurements.

Silverstream contract:

The fair value of the Silverstream contract is determined using a valuation model (for further information relating to Silverstream contract see note 15). This derivative has a term of over 20 years and the valuation model utilises a number of inputs that are not based on observable market data due to the nature of these inputs and/or the duration of the contract. Inputs that have a significant effect on the recorded fair value are the volume of silver that will be produced and sold from the Sabinas mine over the contract life, the future price of silver, future foreign exchange rates between the Mexican Peso and US Dollar, future inflation and the discount rate used to discount future cash flows.

The sensitivity of the valuation to the inputs relating to market risks, being the price of silver, foreign exchange rates, inflation and the discount rate is disclosed in note 32.

The estimate of the volume of silver that will be produced and sold from the Sabinas mine requires estimates of the recoverable silver reserves and resources, the related production profile based on the Sabinas mine plan and the expected recovery of silver from ore mined. The estimation of these inputs is subject to a range of operating assumptions and may change over time. Estimates of reserves and resources are updated annually by Peñoles, the operator and sole interest holder in the Sabinas mine and provided to the Company. The production profile and estimated payable silver that will be recovered from ore mined is based on the latest plan and estimates, also provided to the Company by Peñoles. The inputs assume no interruption in production over the life of the Silverstream contract and production levels which are consistent with those achieved in recent years.

Embedded derivatives within sales contracts:

Sales of concentrates, precipitates and doré bars are "provisionally priced" and revenue is initially recognised using this provisional price and the Group's best estimate of the contained metal. Revenue is subject to final price and metal content adjustments subsequent to the date of delivery (see note 2 (s)). This price exposure is considered to be an embedded derivative and is separated from the sales contract.

At each reporting date the provisionally priced metal content is revalued based on the forward selling price for the quotational period stipulated in the relevant sales contract. The selling price of metals can be reliably measured as these are actively traded on international exchanges but the estimated metal content is a non observable input to this valuation.

At 31 December 2009 the fair value of embedded derivatives within sales contracts was US\$(3.3) million (2008: US\$ 4.0 million). The revaluation effects of embedded derivatives arising from these sales contracts are recorded as an adjustment to revenue.

(c) Hedging activities- cash flow hedges

The Group enters 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 and Euros. Prior to 2008, 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:

• Commodity contracts

At 31 December 2009, the Group does not have open commodity contracts that are used for base metals hedging.

As at 31 December 2008

	Term	Tonnes	Price per tonne (US\$)	2008 Fair value (US\$ thousands)
Zinc forwards – US\$ denominated contracts	2009	900	1,845	547
Lead forwards – US\$ denominated contracts	2009	1,800	2,043-2,050	1,862

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 were deferred in equity and reclassified to the income statement when the forecast transaction occurs.

During 2009 pre-tax losses of US\$25.0 million (2008: US\$45.6 million) were recycled to the income statement with respect to the derivatives terminated in 2007. These amounts were included in revenue. As at 31 December 2009 there are no remaining pre-tax hedging losses related to these terminated derivatives.

• Foreign currency contracts

As at 31 December 2009

	TERM	CURRENCY	CONTRACT VALUE (thousands)	CONTRACT EXCHANGE RATE	2009 FAIR VALUE (US\$ thousands)
Mexican Peso denominated forward contracts	2010	US\$	21,000	MX\$13.50:US\$1 to MX\$14.13:US\$1	1,185
Mexican Peso denominated forward contracts	2010	US\$	8,000	MX\$13.11 US\$1 to MX\$13.53 US\$1	(28)
Mexican Peso denominated option contracts	2010	US\$	10,000	MX\$11.50:US\$1 to MX\$12.00:US\$1	(67)
Euro denominated forward contracts	2010	EUR	5,508	US\$1.40:EUR€1	188

Foreign currency hedging contracts held as at 31 December 2009 have maturity dates from January 2010 to June 2010 corresponding with when the hedged costs are expected to be incurred.

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As at December 2008

	TERM	CURRENCY	CONTRACT VALUE (thousands)	CONTRACT EXCHANGE RATE	2008 FAIR VALUE (US\$ thousands)
Mexican Peso denominated forward contracts	2009	US\$	60,000	MX\$10.72:US\$1 to MX\$13.64:US\$1	(13,838)
Mexican Peso denominated option contracts	2009	US\$	80,000	MX\$10.72:US\$1 to MX\$13.64:US\$1	(230)

Foreign currency hedging contracts held as at 31 December 2008 had maturity dates from April 2009 to December 2009 corresponding with when the hedged costs were expected to be incurred.

The following table summarises the movements in deferred gains or losses qualifying for hedge accounting, on derivative instruments net of tax effects, recorded in equity for the year:

	As at 31 December	
	2009	2008
	(US\$ thousands)	
Beginning balance	(26,408)	(50,847)
Losses recycled to income statement in the year ⁽¹⁾	34,038	45,602
Deferred tax recycled	(9,531)	(12,768)
Unrealised losses before tax arising during the year	3,918	(11,659)
Deferred tax on unrealised losses arising during the year and taken directly to equity	(1,122)	3,264
Ending balance	895	(26,408)

⁽¹⁾ Of the net losses recycled to income, US\$24.8 million losses were included in revenue and US\$7.1 million losses in cost of sales (2008: US\$45.6 million losses in revenue and US\$nil in cost of sales).

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.

The Group enters 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:

- Market risk, including foreign currency, commodity price, interest rate, inflation rate and equity price risks
- Credit risk
- 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 UK pound 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 Mexican pesos and also holds cash and cash equivalents in both the peso and UK pound sterling.

The following table demonstrates the sensitivity of financial assets and financial liabilities to a reasonably possible change in the US dollar exchange rate compared to the Mexican peso, reflecting the impact 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	STRENGTHENING/(WEAKENING) OF US DOLLAR	EFFECT ON PROFIT BEFORE TAX: INCREASE/(DECREASE)	EFFECT ON EQUITY: INCREASE/(DECREASE)
		(US\$ thousands)	(US\$ thousands)
2009	10%	1,363	(2,741)
	(10%)	(1,666)	3,351
2008	10%	(664)	(4,339)
	(10%)	712	4,955

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 2010 (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 US dollar exchange rate compared to the UK pound sterling on the Group's profit before tax and equity, with all other variables held constant:

Year ended 31 December	STRENGTHENING/(WEAKENING) OF US DOLLAR	EFFECT ON PROFIT BEFORE TAX: INCREASE/(DECREASE)
		(US\$ thousands)
2009	10%	(3,308)
	(10%)	4,043
2008	10%	(6,236)
	(10%)	4,760

There is no impact on the Group's equity other than the equivalent change in retained earnings.

Foreign currency risk - Silverstream

Future foreign exchange rates are one of the inputs to the Silverstream valuation model. The following table demonstrates the sensitivity of the Silverstream contract valuation to a reasonably possible change in the Mexican peso as compared to the US dollar, with all other inputs to the Silverstream valuation model held constant. It is assumed that the same percentage change in exchange rates is applied to all applicable periods in the valuation model.

Year ended 31 December	STRENGTHENING/(WEAKENING) OF US DOLLAR	EFFECT ON FAIR VALUE: INCREASE/(DECREASE)
		(US\$ thousands)
2009	10%	(5,467)
	(10%)	6,681

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 2009 and 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 favourable price trends.

The table below reflects the aggregate sensitivity of financial assets and liabilities to a reasonably possible change in gold and silver prices, reflecting the impact on the Group's profit before tax with all other variables held constant. It is assumed that the same percentage change in gold and silver prices is

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applied to all applicable periods. There is no impact on equity, other than the equivalent change in retained earnings. In both 2008 and 2009, the impact these sensitivities are primarily impacted by the Silverstream contract, which is only impacted by silver price risk.

Year ended 31 December	INCREASE/ (DECREASE) IN GOLD AND SILVER PRICE	EFFECT ON PROFIT BEFORE TAX: INCREASE/(DECREASE)
		(US\$ thousands)
2009	15%	63,635
	(15%)	(63,635)
2008	15%	65,783
	(15%)	(65,783)

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, with all other variables held constant. It is assumed that the same percentage change in lead and zinc prices is applied to all applicable periods.

Year ended 31 December	INCREASE/(DECREASE) IN LEAD AND ZINC PRICES	EFFECT ON PROFIT BEFORE TAX: INCREASE/(DECREASE)	EFFECT ON EQUITY: INCREASE/(DECREASE)
		(US\$ thousands)	(US\$ thousands)
2009	15%	-	-
	(15%)	-	-
2008	15%	-	(360)
	(15%)	-	360

Commodity price risk - Silverstream

Future silver price is one of the inputs to the Silverstream valuation model. The following table demonstrates the sensitivity of the Silverstream contract valuation to a reasonably possible change in future silver prices, with all other inputs to the Silverstream valuation model held constant. It is assumed that the same percentage change in silver price is applied to all applicable periods in the valuation model.

Year ended 31 December	INCREASE/ (DECREASE) IN SILVER PRICE	EFFECT ON FAIR VALUE: INCREASE/(DECREASE)
		(US\$ thousands)
2009	15%	51,523
	(15%)	(51,523)

Commodity price risk - Embedded derivatives within sales contracts

Year ended 31 December	INCREASE/ (DECREASE) IN SILVER AND GOLD PRICE	EFFECT ON FAIR VALUE: INCREASE/(DECREASE)
		(US\$ thousands)
2009	15%	12,112
	(15%)	(12,112)

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 at 31 December 2009 and 2008 there were no interest bearing loans and borrowings outstanding.

The following table demonstrates the sensitivity of all 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: INCREASE/(DECREASE)
		(US\$ thousands)
2009	100	(11,674)
	(100)	13,271
2008	100	(17,142)
	(100)	19,478

There is no impact on the Group's equity other than the equivalent change in retained earnings.

The sensitivity shown in the table above primarily relates to the valuation of the Silverstream contract and a full year of interest on cash balances held as at the year end.

Interest rate risk - Silverstream

Future interest rates are one of the inputs to the Silverstream valuation model. The following table demonstrates the sensitivity of the Silverstream contract valuation to a reasonably possible change in interest rates, with all other inputs to the Silverstream valuation model held constant. It is assumed that the same change in interest rate is applied to all applicable periods in the valuation model.

Year ended 31 December	BASIS POINT INCREASE/ (DECREASE) IN INTEREST RATE	EFFECT ON FAIR VALUE: INCREASE/(DECREASE) (US\$ thousands)
2009	100 (100)	(14,796) 16,392

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	EFFECT ON PROFIT BEFORE TAX: INCREASE/(DECREASE) (US\$ thousands)	EFFECT ON EQUITY: INCREASE/(DECREASE) (US\$ thousands)
2009	5% (5%)	- -	3,422 (3,422)
2008	5% (5%)	184 (2,276)	2,092 -

Inflation rate risk- Silverstream

Future inflation rates are one of the inputs to the Silverstream valuation model. The following table demonstrates the sensitivity of the Silverstream contract to a reasonably possible change in the inflation, with all other inputs to the Silverstream valuation model held constant. It is assumed that the same change in inflation is applied to all applicable periods in the valuation model.

Year ended 31 December	BASIS POINT INCREASE/ (DECREASE) IN INFLATION RATE	EFFECT ON FAIR VALUE: INCREASE/(DECREASE) (US\$ thousands)
2009	100 (100)	1,886 (1,830)

(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 28, 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 17.

The Group has a high concentration of trade receivables with one counterparty Met-Mex Peñoles, the Group's primary customer throughout 2009 and 2008. 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.

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. 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 minimise exposure to credit risk, the Group

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

only deposits cash and cash equivalents with financial institutions with a credit rating of P-1 (Moody's) and mxA-1+ (Standard 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 14 for the maximum credit exposure to available-for-sale financial assets, note 19 for cash and cash equivalents and note 28 for related party balances with Met-Mex. The maximum credit exposure with relation to the Silverstream contract is the value of the derivative as at 31 December 2009, being \$298.7 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.

		(US\$ thousands)			
	WITHIN 1 YEAR	1-2 YEARS	2-3 YEARS	> 3 YEARS	TOTAL
As at 31 December 2009					
Trade and other payables	36,071	-	-	-	36,071
Derivative financial instruments – assets	30,187	-	-	-	30,187
Derivative financial instruments – liabilities	18,000	-	-	-	18,000
As at 31 December 2008					
Trade and other payables	33,228	-	-	-	33,228
Derivative financial instruments – assets	2,928	-	-	-	2,928
Derivative financial instruments – liabilities	60,000	-	-	-	60,000

The payments disclosed for 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:

		(US\$ thousands)			
	WITHIN 1 YEAR	1-2 YEARS	2-3 YEARS	> 3 YEARS	TOTAL
As at 31 December 2009					
Inflows	40,246	-	-	-	40,246
Outflows	(48,187)	-	-	-	(48,187)
Net	(7,941)	-	-	-	(7,941)
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 2009 which comprise the Parent Company Statement of Comprehensive Income, Parent Company Balance Sheet, the Parent Company Cash Flow Statement, the Parent Company Statement of Changes in Equity and the related notes 1 to 18. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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

As explained more fully in the Directors' Responsibilities Statement set out on page 87, the directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

OPINION ON FINANCIAL STATEMENTS

In our opinion the parent company financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2009;
- have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the parent company financial statements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

OTHER MATTER

We have reported separately on the group financial statements of Fresnillo plc for the year ended 31 December 2009.

Graeme Dacomb (Senior statutory auditor)

for and on behalf of Ernst & Young LLP

London

1 March 2010

Fresnillo plc

PARENT COMPANY STATEMENT OF COMPREHENSIVE INCOME

for the years ended 31 December 2009 and 2008

	Notes	2009	2008
<i>(US\$ thousands)</i>			
Profit/(loss) for the year		1,475,296	(1,462,593)
Fair value gain/(loss) on available-for-sale financial assets	7	22,880	(20,339)
Tax effect of fair value (loss)/gain on available-for-sale financial assets	5	(6,407)	5,695
Impairment of available-for-sale financial assets taken to income	7	-	4,936
Tax effect of impairment of available-for-sale financial assets taken to income		-	(1,382)
Net effect of available-for-sale financial assets		16,473	(11,090)
Other comprehensive income/(loss) for the year, net of tax		16,473	(11,090)
Total comprehensive income/(loss) for the year, net of tax, attributable to equity shareholders of the Company		1,491,769	(1,473,683)

Fresnillo plc

PARENT COMPANY BALANCE SHEET

as at 31 December 2009 and 2008			
	Notes	2009	2008
(US\$ thousands)			
ASSETS			
Non-current assets			
Available-for-sale financial assets	7	68,435	45,530
Investments in subsidiaries	6	7,092,908	5,366,624
Deferred tax asset	5	-	5,837
		7,161,343	5,417,991
Current assets			
Trade and other receivables	8	5,021	359,494
Derivative financial instruments	17	1,373	2,409
Cash and cash equivalents	9	36,625	57,117
		43,019	419,020
Total assets		7,204,362	5,837,011
EQUITY AND LIABILITIES			
Capital and reserves attributable to equity shareholders of the Company			
Share capital	10	358,680	358,680
Share premium	10	818,597	818,597
Merger reserve	10	5,681,583	4,358,400
Net unrealised gains/(losses) on available-for-sale financial assets	10	5,383	(11,090)
Retained earnings	10	302,137	243,539
Total equity		7,166,380	5,768,126
Non-current liabilities			
Deferred tax liability	5	817	-
		817	-
Current liabilities			
Interest bearing loans and borrowings	14	25,552	42,000
Derivative financial instruments	17	28	13,838
Income tax payable		5,858	9,963
Trade and other payables	12	5,727	3,084
		37,165	68,885
Total liabilities		37,982	68,885
Total equity and liabilities		7,204,362	5,837,011

The financial statements on pages 136 to 139 were approved by the board of directors on 1 March 2010 and signed on its behalf by:

Jaime Lomelin
Chief Executive Officer
 1 March 2010

Fresnillo plc

PARENT COMPANY

CASH FLOW STATEMENT

for the years ended 31 December 2009 and 2008

	Notes	2009	2008
(US\$ thousands)			
Net cash from operating activities	16	22,597	28,095
Cash flows from investing activities			
Purchase of available-for-sale financial assets	7	(25)	(39,752)
Capital contribution to subsidiaries		(403,101)	(35,699)
Cash received pursuant to the Merger Agreement		-	21,681
Loans granted to related parties		(10,546)	(740,477)
Proceeds from repayment of loans granted to related parties		354,164	382,594
Interest received		11,657	15,499
Dividends received		119,659	-
Other investing cash proceeds		297	298
Net cash generated from/(used in) investing activities		72,105	(395,856)
Cash flows from financing activities			
Loans granted by related parties		273,991	65,396
Repayment of loans granted by related parties		(290,819)	(429,911)
Issue of share capital		-	100
Dividends paid	11	(93,623)	(42,203)
Shares issued and paid pursuant to the Global Offer		-	901,081
Transaction costs associated with issue of shares		-	(46,597)
Interest paid		(5,629)	(1,664)
Settlement of derivative contracts		(7,571)	-
Net cash (generated from)/used in financing activities		(123,651)	446,202
Net (decrease)/increase in cash and cash equivalents during the year		(28,949)	78,441
Effect of exchange rate on cash and equivalents		8,457	(21,324)
Cash and equivalents at 1 January		57,117	-
Cash and cash equivalents at 31 December	9	36,625	57,117

Non-cash transactions for the year:

During 2009 there were no significant non-cash transactions.

As disclosed in note 10, 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. 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 years ended 31 December 2009 and 2008

for the years ended 31 December 2009 and 2008							
				UNREALISED GAINS/LOSSES ON AVAILABLE-FOR- SALE FINANCIAL ASSETS	RETAINED EARNINGS	TOTAL EQUITY	
NOTES	SHARE CAPITAL	SHARE PREMIUM	MERGER RESERVE				
(US\$ thousands)							
Balance at 1 January 2008	-	-	-	-	-	-	
Loss for the period	-	-	-	-	(1,462,593)	(1,462,593)	
Other comprehensive loss, net of tax	-	-	-	(11,090)	-	(11,090)	
Total comprehensive loss 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	10	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	10	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	
Balance at 1 January 2009	358,680	818,597	4,358,400	(11,090)	243,539	5,768,126	
Profit for the year	-	-	-	-	1,475,296	1,475,296	
Other comprehensive income, net of tax	-	-	-	16,473	-	16,473	
Total comprehensive income for the year	-	-	-	16,473	1,475,296	1,491,769	
Transfer of reserves	-	-	1,323,183	-	(1,323,183)	-	
Dividends paid	-	-	-	-	(93,515)	(93,515)	
Balance at 31 December 2009	358,680	818,597	5,681,583	5,383	302,137	7,166,380	

Fresnillo plc

NOTES TO THE COMPANY FINANCIAL STATEMENTS

1 CORPORATE INFORMATION

Fresnillo plc ("the Company") is a public limited company registered in England and Wales and is the holding company for the Fresnillo subsidiaries detailed in note 6.

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"). 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 financial statements of the Company for the year ended 31 December 2009 were authorised for issue by the Board of Directors of Fresnillo plc on 1 March 2010.

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 2009, and in accordance with the provisions of the Companies Act 2006. 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) Standards, interpretations and amendment

The accounting policies applied are consistent with those applied in the preparation of the financial statements for the year ended 31 December 2008 except for the adoption of certain new standards, amendments and interpretations to existing standards. 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 is mandatory for the Company's 2009 financial information, requires the disclosure of segment information based on the internal reports regularly reviewed by the Company's Chief Operating Decision Maker, as defined in IFRS 8, in order to assess each segment's performance and to allocate resources to them. The adoption of this standard does not impact the Company's financial statements as segmental information is provided in the Company's consolidated financial statements.
- *IAS 1 (Revised) 'Presentation of Financial Statements'* is 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 now includes 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 has taken the exemption in section 408 of the Companies Act 2006 not to disclose an Income Statement.
- *IFRS 7 'Financial Instruments: Disclosures'* is applicable for annual periods beginning on or after 1 January 2009. The amended standard requires additional disclosure about fair value measurement and liquidity risk. Fair value measurements are to be disclosed by source of inputs using a three level hierarchy for each class of financial instrument. In addition, a reconciliation between the beginning and ending balance for Level 3 fair value measurements is now required, as well as significant transfers between Level 1 and Level 2 fair value measurements. The amendments also clarify the requirements for liquidity risk disclosures.

- IAS 27 'Consolidated and Separate Financial Statements'- certain amendments are effective for financial years beginning on or after 1 January 2009. The amendments require that all dividends from subsidiaries, jointly controlled entities or associates are recognised in the income statement. Accordingly, all dividends received from subsidiaries have been recognised in the income statement.

Improvements to IFRSs

In May 2008 and April 2009 the IASB issued an omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. None of the amendments that are effective for the year ended 31 December 2009 had any impact on the accounting policies, financial position or performance of the Company. None of the amendments that are effective for the year beginning 1 January 2010 are expected to have any impact on the accounting policies, financial position or performance of the Company.

(c) 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 statements.

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 statements are:

- Determination of functional currency – note 2(d):
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(o) and 5:
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(g) and 7:
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 assesses the decline in value to determine whether it is an impairment that should be recognised in profit or loss. At 31 December 2009 no impairment losses have been recognised relating to the available-for-sale assets (2008: US\$4.9 million).
- Impairment and subsequent reversal of impairment of investments in subsidiaries – notes 2(e) and 6:
The Company assesses the investments in subsidiaries 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 the value in use. A value in use assessment requires 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. Where an impairment charge has previously been recognised, the Company assesses at the end of each reporting period whether there is any indication that the impairment loss may no longer exist or may have decreased. If any such indication exists, the Company estimates the recoverable amount of that investment, requiring similar estimates and assumptions as those for determining an impairment charge. At 31 December 2009 an impairment reversal of US\$1,323.2 million was recognised (2008: impairment charge of US\$1,431.2 million).
- Valuation of derivative financial instruments – notes 2(q) and 17:
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 valued using valuation approaches and methodologies applicable to the specific type of derivative instrument.
- Contingent liabilities regarding claims from tax authorities – note 13:
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.

(d) 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.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

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 value is determined.

(e) 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.

At each reporting date, an assessment is made to determine whether there are any indicators of impairment. Where an indicator of impairment exists, a formal estimate of the recoverable amount of the investment in subsidiary is made, which is considered to be the higher of the fair value less costs to sell and the value in use. Fair value is determined as the amount that would be obtained from the sale of the investment in an arm's length transaction between knowledgeable and willing parties. If the carrying amount of an investment exceeds the recoverable amount, a provision is recorded in the income statement to reflect the investment at the recoverable amount.

Where an impairment charge has previously been recognised, an assessment is made at the end of each reporting period whether there is any indication that the impairment loss may no longer exist or may have decreased. If any such indication exists, an estimate of the recoverable amount is made. An impairment loss is reversed to the income statement to the extent that the increased carrying value of the investment in subsidiary does not exceed that that would have been determined had no impairment loss been recognised for the asset in prior years.

(f) Financial assets

Financial assets are recognised when the Company becomes party to 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 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 balance sheet date. 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 fair value transactions through profit and loss 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.

(g) 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 receivables 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.

(h) 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.

(i) 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.

(j) 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.

(k) 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.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

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.

(l) 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.

(m) 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.

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.

(n) Finance income and costs

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

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

(o) 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 of 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.

(p) De-recognition of financial assets and liabilities

A financial asset or liability is generally de-recognised 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 de-recognition 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.

(q) Derivative financial instruments and hedging

The Company enters into 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. Such 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 carried as assets when the fair value is positive and as liabilities when the fair value is negative.

In the Group's consolidated financial statements these derivative instruments 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. 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.

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.

(r) 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.

(s) 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.

(t) 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.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

3 PROFIT OR LOSS ATTRIBUTABLE TO THE PARENT COMPANY

The profit for the Company is US\$1,475.3 million for the year ended 31 December 2009 (2008: US\$1,462.6 million loss). In accordance with the exemption granted under section 408 of the Companies Act 2006 a separate income statement for the Company has not been presented.

4 SEGMENT REPORTING

IFRS 8 'Operating Segments' introduces the management approach to segment reporting, which requires the disclosure of segment information based on the internal reports regularly reviewed by the Chief Operating Decision Maker in order to assess each segment's performance and to allocate resources to them.

Segmental information is not presented in the Company's stand-alone financial statements as this is presented in the Company's consolidated financial statements.

5 INCOME TAX

a) Income tax taken to equity

	Year ended 31 December	
	2009	2008
	(US\$ thousands)	
Deferred income tax related to items charged or credited directly to equity:		
Unrealised (gain)/loss on available-for-sale assets (note 7)	(6,407)	4,313
Income tax (charge)/credit reported in equity	(6,407)	4,313

(b) The movements in the deferred income tax (liability)/asset are as follows:

	Year ended 31 December	
	2009	2008
	(US\$ thousands)	
Beginning balance	5,837	-
Income statement (credit)/charge	(247)	1,524
Unrealised (gain)/loss on available-for-sale financial assets	(6,407)	4,313
Ending balance	(817)	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:

	As at 31 December	
	2009	2008
	(US\$ thousands)	
Prepayments	(127)	(151)
Other payable	-	33
Derivative financial instruments	21	260
Available-for-sale financial assets	(711)	5,695
Net deferred tax balances	(817)	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\$184.3 million (2008: US\$132.3 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 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, other than a US\$6.1 million tax credit arising under IETU that is recognised in 2009 since 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.

6 INVESTMENTS IN SUBSIDIARIES

	Year ended 31 December	
	2009	2008
	(US\$ thousands)	
Beginning balance	5,366,624	-
Additions	403,101	6,797,824
Impairment	-	(1,431,200)
Reversal of impairment	1,323,183	-
Ending balance	7,092,908	5,366,624

In 2008 an impairment loss of US\$1,431.2 million was recognised with respect to certain of the Company's investments in subsidiaries. Recoverable value was 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 was determined on the basis of value in use using a discount rate of approximately 12%. The recoverable value of other investments was based on estimated fair value less cost to sell.

US\$1,323.2 million of this impairment loss has been reversed in 2009. The recoverable value as at 31 December 2009 was based on fair value less cost to sell.

The subsidiaries in which investments are held as at 31 December 2009 and 2008 are as follows:

COMPANY	COUNTRY OF INCORPORATION	EQUITY INTEREST	
		2009	2008
Minera Fresnillo, S.A. de C.V.	Mexico	100	100
Minera Penmont, S. de R.L. de C.V.	Mexico	56	56
Minera Mexicana La Ciénega, S.A. de C.V.	Mexico	100	100
Minera Saucito, S.A. de C.V.	Mexico	100	100
Minera Juanicipio, S.A. de C.V.	Mexico	56	56
Comercializadora de Metales Fresnillo, S.A. de C.V.	Mexico	100	100
Exploraciones Mineras Parreña, S.A. de C.V.	Mexico	100	100
Minera El Bermejil, S. de R.L. de C.V.	Mexico	56	56
Compañía Minera Las Torres, S.A. de C.V.	Mexico	100	100
Fresnillo Management Services Ltd	London	100	100
Fresbal Investments Ltd	Canada	100	100
Servicios Administrativos Fresnillo, S.A. de C.V.	Mexico	99	-
Fresnillo Perú S.A.C.	Peru	100	-

As at 31 December 2008 the Company held an indirect interest in Servicios Administrativos Fresnillo, S.A. de C.V. (incorporated in Mexico), which was wholly owned by Minera Fresnillo, S.A. de C.V. During 2009 Servicios Administrativos Fresnillo S.A. de C.V. issued new shares to the Company who now holds a 99% equity interest. Minera Fresnillo, S.A. de C.V. retains a 1% shareholding in Servicios Administrativos Fresnillo S.A. de C.V.

7 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Year ended 31 December	
	2009	2008
	(US\$ thousands)	
Beginning balance	45,530	-
Shares obtained pursuant to the Merger Agreement on 18 April 2008	-	26,117
Additions	25	39,752
Fair value change	22,880	(20,339)
Ending balance	68,435	45,530

NOTES TO THE COMPANY FINANCIAL STATEMENTS

In 2008 US\$4.9 million of losses recognised in equity were reclassified to the income statement reflecting an impairment charge of the carrying value of the related equity securities. These securities were considered impaired due to a significant reduction in market value.

Available-for-sale financial assets include the following:

	As at 31 December	
	2009	2008
	(US\$ thousands)	
Equity securities-listed Canadian companies	68,435	45,530
Total	68,435	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 NORTH AIR MINES, LTD
Number of shares held at 1 January 2008	-	-	-	-
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
Additions	-	-	-	397,714
Number of shares held at 31 December 2009	9,314,877	2,800,000	382,582	482,213

8 TRADE AND OTHER RECEIVABLES

	Year ended 31 December	
	2009	2008
	(US\$ thousands)	
Loans and interest due from related parties (note 14)	-	356,095
Other receivables from related parties (note 14)	4,565	2,860
Prepayments	456	539
	5,021	359,494

As at 31 December for each year presented, other receivables from related parties were neither past due nor impaired. In determining the recoverability of a receivable, the Company performs a risk analysis considering the type and age of the outstanding receivable and the credit worthiness of the counterparty.

9 CASH AND CASH EQUIVALENTS

	Year ended 31 December	
	2009	2008
	(US\$ thousands)	
Cash at bank and on hand	523	2
Short-term deposits	36,102	57,115
Cash and cash equivalents	36,625	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.

10 EQUITY

Share capital and share premium

The authorised and issued share capital of the Company as at 31 December 2009 is as follows:

CLASS OF SHARES	AUTHORISED		ISSUED	
	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 2009, 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 Ordinary 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 Ordinary 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 Ordinary Shares at a price of £1.00 or, as custodian, purchase or cancel the Sterling Deferred Ordinary Shares or require the holder to transfer the Sterling Deferred Ordinary Shares. Except at the option of the Company the Sterling Deferred Ordinary Shares are not transferrable.

The changes in share capital are as follows:

	NUMBER OF SHARES	SHARE CAPITAL (£ thousands)	SHARE CAPITAL (US\$ thousands)	SHARE PREMIUM (US\$ thousands)
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 2009 and 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 2009 and 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. The value of these Deferred Ordinary shares as reflected in equity in US dollars was determined at the exchange rate on this date.

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 Peñoles, 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.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

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 reorganisation and the nominal value of the shares issued pursuant to the Merger Agreement. The movement in this reserve during 2009 represents a transfer from retained earnings following the reversal of an impairment charge relating to the Company's investments in subsidiaries.

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.

Retained earnings

This reserve records the accumulated results of the Company, less any distributions and dividends paid.

11 DIVIDENDS PAID

The dividends declared and paid during the year ended 31 December 2009 and 2008, were as follows:

	US CENTS PER ORDINARY SHARE	AMOUNT (US\$ thousands)
Year ended 31 December 2009		
Final dividend for 2008 declared and paid during the year ⁽¹⁾	7.7	55,864
Interim dividend for 2009 declared and paid during the year ⁽²⁾	5.25	37,651
	12.95	93,515
Year ended 31 December 2008		
Interim dividend for 2008 declared and paid during the year ⁽³⁾	5.9	42,203
	5.9	42,203

The final dividend for the year ended 31 December 2009 will be announced on 29 April 2010. No liability for this dividend has been reflected in the financial statements at 31 December 2009.

⁽¹⁾ This dividend was approved by the Board of Directors on 20 February 2009 and paid on 27 May 2009.

⁽²⁾ This dividend was approved by the Board of Directors 14 August 2009 and paid on 18 September 2009.

⁽³⁾ This dividend was approved by the Board of Directors on 12 August 2008 and paid on 19 September 2008.

12 TRADE AND OTHER PAYABLES

	Year ended 31 December	
	2009	2008
	(US\$ thousands)	
Other taxes and contributions	1,858	2,140
Other payables to related parties (note 14)	3,132	830
Accrued expenses	737	114
	5,727	3,084

The fair value of trade and other payables approximate their book values. The Company's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 18.

13 CONTINGENCIES

As at 31 December 2009 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.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

14 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. Related party balances will be settled in cash.

(a) Related party accounts receivable and payable

	ACCOUNTS RECEIVABLE		ACCOUNTS PAYABLE	
	(US\$ thousands)		(US\$ thousands)	
	31 December 2009	31 December 2008	31 December 2009	31 December 2008
<i>Interest bearing loans and borrowings:</i>				
Comercializadora de Metales Fresnillo, S.A. de C.V.	-	355,395	20,752	-
Exploraciones Mineras Parreña, S.A. de C.V.	-	700	-	-
Minera Fresnillo, S.A. de C.V.	-	-	4,800	42,000
	-	356,095	25,552	42,000
<i>Trademark royalties:</i>				
Minera Fresnillo, S.A. de C.V.	4,249	1,847	-	-
Minera Mexicana La Ciénega, S.A. de C.V.	-	470	-	-
Other	101	-	-	-
	4,350	2,317	-	-
<i>Administrative services:</i>				
Fresnillo Management Services Ltd	-	-	410	555
Other	215	543	2,722	275
Sub-total	4,565	358,955	28,684	42,830
Less-Current portion	4,565	358,955	28,684	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 2009	31 December 2008	31 December 2009	31 December 2008
Comercializadora de Metales Fresnillo, S.A. de C.V.:				
in US dollars	5.78%	3.95%	-	-
in Mexican peso	-	-	9.58%	-
Exploraciones Mineras Parreña, S.A. de C.V. in US dollars	5.58%	3.95%	-	-
Minera Fresnillo, S.A. de C.V. in US dollars	-	-	5.67%	3.95%

(b) Principal transactions with affiliates are as follows:

	Year ended 31 December	
	2009	2008
	(US\$ thousands)	
Income:		
<i>Trademark Royalties:</i>		
Minera Fresnillo, S.A. de C.V.	34,181	4,929
Minera Mexicana La Ciénega, S.A. de C.V.	6,059	20,012
Servicios Administrativos Fresnillo, S.A. de C.V.	1,045	-
	41,285	24,941
<i>Interest on loans to related parties:</i>		
Comercializadora de Metales Fresnillo, S.A. de C.V.	11,102	11,731
Other	72	315
	11,174	12,046
<i>Other income</i>		
Minera Fresnillo, S.A. de C.V.	5,266	-
Other	154	62
	5,420	62
Total income	57,879	37,049

	Year ended 31 December	
	2009	2008
	(US\$ thousands)	
Expenses:		
<i>Administrative services:</i>		
Servicios Administrativos Fresnillo, S.A. de C.V.	2,293	1,080
Fresnillo Management Services Ltd	1,735	640
	4,028	1,720
<i>Interest on loans from related parties:</i>		
Industrias Peñoles, S.A.B. de C.V.	-	1,430
Other	5,626	222
	5,626	1,652
<i>Other expenses:</i>		
Servicios Administrativos Fresnillo, S.A. de C.V.	2,030	-
Minera Saucito, S.A. de C.V.	5,108	-
Other	22	174
	7,160	174
Total expenses	16,814	3,546

15 AUDITOR'S REMUNERATION

The auditor's remuneration for the Company was US\$1.0 million (2008: US\$1.0 million) 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.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

16 NOTES THE CASH FLOW STATEMENT

Notes	Year ended 31 December	
	2009	2008
	(US\$ thousands)	
Reconciliation of profit for the year to net cash generated from operating activities		
Profit/(loss) for the period	1,475,296	(1,462,593)
Adjustments to reconcile profit for the period to net cash inflows from operating activities:		
Impairment (reversal)/charge 6	(1,323,183)	1,431,200
Income tax expense	5,538	23,928
Other (income)/expenses	(119,957)	5,607
Net finance income	(9,824)	(2,406)
Foreign exchange loss	2,874	25,882
Working capital adjustments		
(Increase)/decrease in trade and other receivables	(1,656)	11,278
Decrease/(increase) in prepayments and other assets	100	(884)
Increase/(decrease) in trade and other payables	2,634	(2,871)
Cash generated from operations	31,822	29,141
Income tax paid	(9,225)	(1,046)
Net cash from operating activities	22,597	28,095

17 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	
	2009	2008	2009	2008
	(US\$ thousands)			
Financial assets:				
Cash and cash equivalents	36,625	57,117	36,625	57,117
Derivative financial instruments	1,373	2,409	1,373	2,409
Other receivables	4,565	358,955	4,565	358,955
Available-for-sale financial assets	68,435	45,530	68,435	45,530
Financial liabilities:				
Interest bearing loans and borrowings	25,552	42,000	25,552	42,000
Trade and other payables	3,132	830	3,132	830
Derivative financial instruments	28	13,838	28	13,838

(b) Fair value hierarchy

The Company uses the following hierarchy for determining and disclosing the fair value of the financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The financial assets and liabilities measured at fair value are categorised into the following fair value hierarchy as at 31 December 2009:

Year ended 31 December				
	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
	(US\$ thousands)			
Financial assets:				
Derivative financial instruments:				
Forward foreign exchange contracts	-	1,373	-	1,373
Financial investments available-for-sale:				
Quoted investments	68,435	-	-	68,435
Other financial assets:				
Trade and other receivables	4,565	-	-	4,565
	73,000	1,373	-	74,373
Financial liabilities:				
Derivative financial instruments:				
Forward foreign exchange contracts	-	(28)	-	(28)
Other financial liabilities:				
Trade and other payables	(3,132)	-	-	(3,132)
	(3,132)	(28)	-	(3,160)

There have been no significant transfers between Level 1 and Level 2 of the fair value hierarchy, and no transfers into and out of Level 3 fair value measurements.

(c) Derivative financial instruments

The Company enters 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 arising from the activities of its subsidiaries. In the Group's consolidated 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.

- Commodity contracts

At 31 December 2009, the Company does not have open commodity contracts.

As at 31 December 2008:

	TERM	TONNES	PRICE PER TONNE (US\$)	FAIR VALUE (US\$ thousands)
Zinc forwards – US\$ denominated contracts	2009	900	1,845	547
Lead forwards – US\$ denominated contracts	2009	1,800	2,043 – 2,050	1,862

- Foreign currency contracts

As at 31 December 2009:

	TERM	CURRENCY	CONTRACT VALUE	CONTRACT EXCHANGE RATE	FAIR VALUE (US\$ thousands)
Mexican Peso denominated forward contracts	2010	US\$	21,000	MX\$13.50:US\$1 to MX\$14.13:US\$1	1,185
Mexican Peso denominated forward contracts	2010	US\$	8,000	MX\$13.11 US\$1 to MX\$13.53 US\$1	(28)
Euro denominated forward contracts	2010	EUR	5,508	US\$1.40:EUR1	188

Foreign currency hedging contracts held as at 31 December 2009 have maturity dates from January 2010 to June 2010 corresponding with when the Peso and Euro denominated costs are expected to be incurred by the Company's subsidiaries.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

As at December 2008:

	TERM	CURRENCY	CONTRACT VALUE	CONTRACT EXCHANGE RATE	FAIR VALUE (US\$ thousands)
Mexican Peso denominated forward contracts	2009	US\$	60,000	MX\$10.72:US\$1 to MX\$13.64:US\$1	(13,838)

Foreign currency hedging contracts held as at 31 December 2008 had maturity dates from January 2009 to December 2009 corresponding with when the Peso denominated costs were expected to be incurred by the Company's subsidiaries.

18 FINANCIAL RISK MANAGEMENT

Overview

The Company's principal financial assets and liabilities, other than derivatives, are comprised of trade receivables, cash, available-for-sale assets and trade payables.

The Company enters into certain derivative transactions with the purpose of managing base metals commodity price risk and foreign exchange risk arising on the activity and transactions of 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.

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 Company risk management framework.

The Company's risk management policies have been 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 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 responsibility for overseeing how management monitors compliance with the Company 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 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 currencies other than the US dollar (primarily the Mexican peso and UK pound sterling). Transactions in foreign currencies include the purchases of services and other items. As a result, the Company has financial liabilities denominated in Mexican pesos. The Company also holds cash and cash equivalents in both the Mexican peso and UK pound sterling.

The following table demonstrates the sensitivity of financial assets and financial liabilities to a reasonably possible change in the US dollar exchange rate compared to the Mexican peso, reflecting the impact 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	STRENGTHENING/(WEAKENING) OF US DOLLAR	EFFECT ON PROFIT BEFORE TAX: INCREASE/(DECREASE)
		(US\$ thousands)
2009	10%	1,210
	(10%)	(1,480)
2008	10%	(426)
	(10%)	520

There is no impact on the Company's equity other than the equivalent change in retained earnings.

The following table demonstrates the sensitivity of financial assets and financial liabilities to a reasonably possible change in the US dollar compared to the UK pound sterling, reflecting the impact on the Company's profit before tax, with all other variables held constant:

Year ended 31 December	STRENGTHENING/(WEAKENING) OF US DOLLAR	EFFECT ON PROFIT BEFORE TAX: INCREASE/(DECREASE)
		(US\$ thousands)
2009	10%	(3,271)
	(10%)	3,997
2008	10%	(6,236)
	(10%)	4,760

There is no impact on the Company's equity other than the equivalent change in retained earnings.

Commodity price risk

The Company has exposure to changes in lead and zinc prices as a result of commodity derivatives held.

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 Company's profit before tax, 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: INCREASE/(DECREASE)
		(US\$ thousands)
2009	15%	-
	(15%)	-
2008	15%	(360)
	(15%)	360

There is no impact on the Company's equity other than the equivalent change in retained earnings.

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 any floating element of the Company's interest bearing loans and borrowings. As at 31 December 2009 and 2008 there were no floating rate interest bearing loans and borrowings.

The following table demonstrates the sensitivity of all 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: INCREASE/(DECREASE)
		(US\$ thousands)
2009	100	111
	(100)	(111)
2008	100	3,712
	(100)	(3,712)

There is no impact on the Company's equity other than the equivalent change in retained earnings.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

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	EFFECT ON PROFIT BEFORE TAX: INCREASE/(DECREASE)	EFFECT ON EQUITY: INCREASE/(DECREASE)
		(US\$ thousands)	(US\$ thousands)
2009	5%	-	3,422
	(5%)	-	(3,422)
2008	5%	184	2,092
	(5%)	(2,276)	-

(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. Individual exposures are monitored with customers subject to credit limits to ensure that the Company's exposure to bad debts is not significant. 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. At each balance sheet date, the Company's financial assets were neither impaired nor past due.

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. Following the IPO 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+ (Standard 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 7 for the maximum credit exposure for available-for-sale investments, note 9 for cash and cash equivalents and note 14 for related party balances.

(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 financial liabilities based on contractual undiscounted payments.

	(US\$ thousands)				
	WITHIN 1 YEAR	1-2 YEARS	2-3 YEARS	> 3 YEARS	TOTAL
As at 31 December 2009					
Interest bearing loans and borrowings	25,972	-	-	-	25,972
Trade and other payables	3,132	-	-	-	3,132
Derivative financial instruments – assets	30,187	-	-	-	30,187
Derivative financial instruments – liabilities	8,000	-	-	-	8,000
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

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:

	(US\$ thousands)				
	WITHIN 1 YEAR	1-2 YEARS	2-3 YEARS	> 3 YEARS	TOTAL
As at 31 December 2009					
Inflows	31,394	-	-	-	31,394
Outflows	(38,187)	-	-	-	(38,187)
Net	(6,793)	-	-	-	(6,793)
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

Prior to the IPO, the capital of the Company was managed as part of the capital of the Peñoles Group.

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)

	2005	2006	2007	2008	2009
Fresnillo	2,197,819	2,207,282	2,312,691	2,324,575	2,471,657
Ciénega	587,683	673,448	718,726	751,143	780,881
Herradura	7,780,864	8,789,794	10,869,234	13,609,318	15,617,014
Saucito	0	0	0	0	71,170

SILVER

(grams/tonne)

	2005	2006	2007	2008	2009
Fresnillo	524.2	519.0	492.0	494.0	486.6
Ciénega	113.4	68.7	54.0	46.2	74.5
Herradura	0.5	0.9	1.0	0.6	0.8
Saucito	0	0	0	0	367.2

ZINC CONCENTRATE

(tonnes)

	2005	2006	2007	2008	2009
Fresnillo	23,850	27,522	24,102	21,922	22,317
Ciénega	20,783	19,338	18,486	21,806	15,150
Herradura	0	0	0	0	0
Saucito	0	0	0	0	165

SILVER

(grams/tonne)

	2005	2006	2007	2008	2009
Fresnillo	2,321	2,387	2,090	2,212	2,516
Ciénega	377	267	202	162	344
Herradura	0	0	0	0	0
Saucito	0	0	0	0	2,811

LEAD CONCENTRATE

(tonnes)

	2005	2006	2007	2008	2009
Fresnillo	39,114	39,855	38,406	39,608	51,699
Ciénega	21,384	18,353	19,107	21,795	16,092
Herradura	0	0	0	0	0
Saucito	0	0	0	0	1,250

SILVER

(grams/tonne)

	2005	2006	2007	2008	2009
Fresnillo	25,138	24,444	25,586	25,064	19,972
Ciénega	2,197	1,767	1,382	1,123	2,567
Herradura	0	0	0	0	0
Saucito	0	0	0	0	17,937

DORÉ AND OTHER PRODUCTS

PRODUCT

(tonnes)

	2005	2006	2007	2008	2009
Ciénega precipitates	13.1	11.8	16.5	18.8	24.6
Herradura doré	7.5	11.4	13.8	13.1	17.2
Herradura slag	145.2	192.2	325.0	420.6	492.6

SILVER

(grams/tonne)

	2005	2006	2007	2008	2009
Ciénega precipitates	202,815	144,748	100,543	80,665	113,635
Herradura doré	120,455	371,677	483,722	419,249	469,606
Herradura slag	908	1,437	3,429	3,255	2,939

METAL PRODUCED - ATTRIBUTABLE

SILVER

(ounces)

	2005	2006	2007	2008	2009
Fresnillo	33,391,520	33,434,271	33,211,717	33,475,904	35,002,727
Ciénega	1,847,753	1,262,996	1,022,207	949,574	1,588,994
Herradura	18,734	81,582	140,318	123,656	171,303
Saucito	0	0	0	0	735,744
Fresnillo Total	35,258,007	34,778,849	34,374,242	34,549,134	37,498,769

GOLD

(ounces)

	2005	2006	2007	2008	2009
Fresnillo	27,981	28,943	25,728	23,553	24,086
Ciénega	146,116	150,527	143,719	116,903	103,510
Herradura	102,864	101,702	110,167	122,730	145,510
Saucito	0	0	0	0	2,881
Fresnillo Total	276,961	281,171	279,614	263,185	275,987

METAL PRODUCED (INCLUDING PRODUCTION FROM FRESNILLO'S TAILINGS DAM)- ATTRIBUTABLE

SILVER

(ounces)

	2005	2006	2007	2008	2009
Fresnillo	33,924,871	33,658,884	33,520,617	33,775,660	35,419,848
Ciénega	1,847,753	1,262,996	1,022,207	949,574	1,588,994
Herradura	18,734	81,582	140,318	123,656	171,303
Saucito	0	0	0	0	735,744
Fresnillo Total	35,791,358	35,003,462	34,683,142	34,848,889	37,915,889

GOLD

(ounces)

	2005	2006	2007	2008	2009
Fresnillo	28,695	29,245	26,246	24,008	24,684
Ciénega	146,116	150,527	143,719	116,903	103,510
Herradura	102,864	101,702	110,167	122,730	145,510
Saucito	0	0	0	0	2,881
Fresnillo Total	277,675	281,474	280,132	263,640	276,584

GOLD					ZINC					LEAD				
(grams/tonne)					(%)					(%)				
2005	2006	2007	2008	2009	2005	2006	2007	2008	2009	2005	2006	2007	2008	2009
0.59	0.60	0.51	0.47	0.41	0.89	1.01	0.83	0.76	0.79	0.51	0.54	0.45	0.42	0.50
8.22	7.33	6.55	5.14	4.33	3.32	2.43	2.15	2.32	1.64	2.13	1.50	1.39	1.46	1.00
0.91	0.81	0.75	0.72	0.68	0	0	0	0	0	0	0	0	0	0
0	0	0	0	1.53	0	0	0	0	0.30	0	0	0	0	0.15

GOLD					ZINC					LEAD				
(grams/tonne)					(%)					(%)				
2005	2006	2007	2008	2009	2005	2006	2007	2008	2009	2005	2006	2007	2008	2009
3.7	3.6	3.1	2.9	2.7	52.6	52.3	51.2	51.5	51.6	0	0	0	0	0
13.1	12.4	11.4	7.9	7.1	52.9	52.8	51.8	51.5	52.5	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
0	0	0	0	7.3	0	0	0	0	39.7	0	0	0	0	0

GOLD					ZINC					LEAD				
(grams/tonne)					(%)					(%)				
2005	2006	2007	2008	2009	2005	2006	2007	2008	2009	2005	2006	2007	2008	2009
20.0	20.1	18.9	16.9	13.3	0	0	0	0	0	25.4	26.6	24.0	21.9	21.4
174.0	213.3	192.0	134.2	149.3	0	0	0	0	0	45.9	41.5	41.7	41.8	38.0
0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
0	0	0	0	70.7	0	0	0	0	0	0	0	0	0	7.0

GOLD				
(grams/tonne)				
2005	2006	2007	2008	2009
42,170	44,775	35,409	28,564	20,944
701,704	455,639	390,309	418,800	395,547
2,892	2,251	2,245	3,147	2,613

ZINC					LEAD				
(tonnes)					(tonnes)				
2005	2006	2007	2008	2009	2005	2006	2007	2008	2009
12,542	14,381	12,349	11,277	11,510	9,932	10,611	9,219	8,685	11,058
10,995	10,205	9,571	11,237	7,950	9,813	7,617	7,958	9,109	6,118
0	0	0	0	0	0	0	0	0	0
0	0	0	0	65	0	0	0	0	88
23,537	24,586	21,920	22,515	19,526	19,744	18,227	17,177	17,793	17,264

ZINC					LEAD				
(tonnes)					(tonnes)				
2005	2006	2007	2008	2009	2005	2006	2007	2008	2009
14,738	14,792	12,349	11,277	11,510	9,932	10,611	9,219	8,685	11,058
10,995	10,205	9,571	11,237	7,950	9,813	7,617	7,958	9,109	6,118
0	0	0	0	0	0	0	0	0	0
0	0	0	0	65	0	0	0	0	88
25,733	24,997	21,920	22,515	19,526	19,745	18,228	17,177	17,793	17,264

RESERVES AND RESOURCES TABLES

FRESNILLO PLC 31 DECEMBER 2009 CONSOLIDATED MINERAL RESOURCE STATEMENT

RESOURCE CATEGORY	CUT-OFF GRADE	MEAS. & IND.	INFERRED	SILVER	GOLD	LEAD	ZINC	SILVER	GOLD	LEAD	ZINC
		(Mt)	(Mt)	(gpt)	(gpt)	(%)	(%)	(Moz)	(Moz)	(Mt)	(Mt)
MINERA FRESNILLO											
Fresnillo											
Measured	88 gpt AgEq	9.32		742	0.73	0.70	1.24	222.3	0.219	0.065	0.116
Indicated	88 gpt AgEq	25.26		327	0.61	1.73	3.44	265.5	0.495	0.437	0.869
San Julián											
Indicated (Veins)*	3.0 gpt Au-Eq	2.51		182	2.02	—	—	14.7	0.163	—	—
Indicated (Disseminated)*	150 gpt Ag-Eq	5.57		207	0.09	0.59	1.54	37.0	0.016	0.033	0.086
Measured & Indicated		42.66		393	0.65	1.25	2.51	539.6	0.893	0.535	1.070
Fresnillo											
Inferred	88 gpt AgEq		18.12	250	0.43	0.74	1.06	145.6	0.250	0.134	0.192
San Julián											
Indicated (Veins)*	3.0 gpt Au-Eq		2.14	175	2.36	—	—	12.1	0.163	—	—
Indicated (Disseminated)*	150 gpt Ag-Eq		11.38	196	0.09	0.54	1.53	71.7	0.033	0.061	0.174
Inferred			31.64	225	0.44	0.62	1.16	229.4	0.446	0.195	0.366
MINERA SAUCITO											
Indicated*	200 gpt Ag-Eq	7.25		528	2.41	0.80	1.39	123.2	0.562	0.058	0.101
Measured & Indicated		7.25		528	2.41	0.80	1.39	123.2	0.562	0.058	0.101
Inferred*	200 gpt Ag-Eq		14.45	350	1.48	1.29	2.00	162.5	0.652	0.186	0.289
MINERA JUANICIPIO⁽²⁾											
Indicated*	200 gpt Ag-Eq	1.80		824	2.03	2.89	4.61	47.8	0.118	0.052	0.083
Measured & Indicated		1.80		824	2.03	2.89	4.61	47.8	0.118	0.052	0.083
Inferred*	200 gpt Ag-Eq		3.49	495	1.74	1.85	3.23	55.5	0.195	0.065	0.113
MINERA CIÉNEGA											
Measured	1.63 gpt AuEq	4.03		102	4.20	1.19	1.79	13.2	0.544	0.048	0.072
Indicated	1.63 gpt AuEq	8.48		100	3.41	0.77	1.24	27.3	0.929	0.065	0.105
Measured & Indicated		12.51		101	3.67	0.91	1.42	40.5	1.474	0.113	0.177
Inferred (Ciénega)	1.63 gpt AuEq		3.57	79	3.52	0.64	1.07	9.1	0.404	0.023	0.038
Inferred (San Ramón)*	2.1 gpt Au-Eq		4.79	428	2.58	0.50	0.91	66.0	0.397	0.024	0.044
Inferred			8.36	279	2.98	0.56	0.98	75.1	0.801	0.047	0.082
MINERA PENMONT⁽²⁾											
Herradura (Disseminated)											
Measured	0.20 gpt Au	40.29		0.25	0.65	—	—	0.3	0.842	—	—
Indicated	0.20 gpt Au	46.50		0.25	0.64	—	—	0.4	0.957	—	—
Soledad & Dipolos (Disseminated)											
Measured	0.30 gpt Au	22.28		—	0.64	—	—	—	0.458	—	—
Indicated	0.30 gpt Au	17.89		—	0.60	—	—	—	0.345	—	—
Measured & Indicated		126.96		0.17	0.64	—	—	0.7	2.602	—	—
Herradura (Disseminated)											
Inferred	0.20 gpt Au		17.25	0.25	0.55	—	—	0.1	0.305	—	—
Herradura (Veins)											
Inferred	3.0 gpt Au		3.26	—	4.33	—	—	—	0.454	—	—
Soledad & Dipolos (Disseminated)⁽³⁾											
Inferred	0.30 gpt Au		9.05	—	0.57	—	—	—	0.166	—	—
Inferred			29.56	0.15	0.97	—	—	0.1	0.925	—	—
MINERA PARREÑA											
Indicated (Veins)*	4.0 gpt Au-Eq	0.70		142	4.16	—	—	3.2	0.094	—	—
Measured & Indicated		0.70		142	4.16	—	—	3.2	0.094	—	—
Inferred (Veins)*	4.0 gpt Au-Eq		1.69	116	3.89	—	—	6.3	0.211	—	—
Inferred (Disseminated)*	0.79 gpt Au		97.49	2	1.57	—	—	5.1	4.933	—	—
Inferred			99.18	4	1.61	—	—	11.4	5.144	—	—
TOTALS⁽³⁾											
Measured & Indicated		191.88		122	0.93	0.39	0.75	755.0	5.743	0.758	1.431
Inferred			186.69	89	1.36	0.26	0.45	534.0	8.164	0.493	0.849

⁽¹⁾ Mineral resources are reported inclusive of mineral reserves. Mineral resources are not mineral reserves and do not have demonstrated economic viability. All figures are 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 metal price assumptions as follows: Gold: US\$819.22 per oz; Silver: US\$14.09 per oz; Lead: US\$0.95 per lb; and Zinc: US\$1.08 per lb and appropriate metallurgical recoveries.

⁽²⁾ Mineral resources quoted reflect Fresnillo plc's attributable 56% ownership.

⁽³⁾ The mineral resources of the Soledad-Dipolos deposits have not been audited by SRK.

* Cut-off grade calculations assume 100% metal recovery, except for Minera Parreña disseminated where gold recovery of 68% and 45% were considered for oxide and sulfide material, respectively.

FRESNILLO PLC 31 DECEMBER 2009 CONSOLIDATED MINERAL RESERVE STATEMENT

RESERVE CATEGORY	PROVEN & PROBABLE	SILVER	GOLD	LEAD	ZINC	SILVER	GOLD	LEAD	ZINC
	(Mt)	(gpt)	(gpt)	(%)	(%)	(Moz)	(Moz)	t(000s)	t(000s)
Minera Fresnillo									
Proven	7.56	494	0.47	0.46	0.78	120.1	0.1	34.8	59.0
Probable	23.97	288	0.56	1.63	3.22	221.9	0.4	390.7	771.8
Proven & Probable	31.53	338	0.54	1.35	2.63	342.0	0.5	425.5	830.8
Ciénega									
Proven	3.18	95	3.57	0.99	1.46	9.7	0.4	31.5	46.4
Probable	7.37	91	3.50	0.72	1.10	21.6	0.8	53.1	81.1
Proven & Probable	10.55	92	3.52	0.8	1.21	31.3	1.2	84.6	127.5
Herradura⁽¹⁾									
Proven	40.29	0.25	0.65	0	0	0.3	0.8	0	0
Probable	46.50	0.25	0.64	0	0	0.4	1.0	0	0
Proven & Probable	86.79	0.25	0.64	0	0	0.7	1.8	0	0
Soledad/Dipolos⁽¹⁾⁽²⁾									
Proven	19.84	0	0.64	0	0	0	0.4	0	0
Probable	16.04	0	0.60	0	0	0	0.3	0	0
Proven & Probable	35.88	0	0.62	0	0	0	0.7	0	0
Fresnillo plc Total									
Proven	71	57.13	0.76	0.09	0.15	130	1.73	66	105
Probable	94	80.81	0.84	0.47	0.91	244	2.53	444	853
Proven & Probable	165	70.62	0.80	0.31	0.58	374	4.26	510	958

* Included in the audited mineral resource statement.

⁽¹⁾ Mineral reserves quoted reflect the Fresnillo plc's attributable 56% ownership.

⁽²⁾ SRK has not 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 2009 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 28 May 2010 at noon 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 2009

Audit Committee

The audit committee of the Board

Beneficiation plant

Facility where extracted ore is reduced to particles that can be separated into mineral that is suitable for further processing or direct use

Board

The Board of Directors of the Company

CAMIMEX

Cámara Minera de México, the Mexican Mining Chamber

Capex

Capital expenditures; expenditures not classified as operating costs

CFE

Comisión Federal de Electricidad, the Mexican state-owned electric utility

CO₂

Carbon Dioxide

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

Consolidated Financial Statements

The consolidated financial statements of the Company for the year ended 31 December 2009

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

Dore

Dore bullion is an impure alloy of gold and silver and is generally the final product of mining and processing; the dore 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

Exploraciones Minera Parreña, S.A. de C.V.

A wholly-owned Fresnillo plc company that controls a number of exploration prospects

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 consolidated and parent company financial statements of the Company and accompanying notes for the year ended 31 December 2009

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 [see also 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

GAAP

Generally Accepted Accounting Principles

GAAS

Generally Accepted Accounting Standards

GHG

Greenhouse gases

GJ

Gigajoules

Global Offering [also IPO, Listing]

The listing of the Company's Ordinary Shares on the London Stock Exchange on 14 May 2008

Government

Unless otherwise specified the government of the Republic of Mexico

g/t

Grammes per tonne

Grade

The measure of concentration of metal within mineralised rock

Group [see also Fresnillo Group]

Fresnillo plc and its subsidiary undertakings

Haulage

A horizontal underground excavation which is used to transport mined ore

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 of the Board

IAS

International Accounting Standards

ICMM

International Council on Mining and Metals

IETU

Impuesto Empresarial a Tasa Unica, a business tax in Mexico

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

ITAM

Instituto Tecnológico Autónomo de México, a private research university in Mexico City

JORC

Joint Ore Reserves Committee

JORC Code

Code developed by the Australian Joint Ore Reserves Committee for reporting mine reserves and resources

JV

Joint venture

Knelson gravimetric concentrator

A fluidised 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

Leaching

The process by which soluble constituents are dissolved and carried down through the soil by a percolating fluid

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

LSE

London Stock Exchange plc

M³

Cubic metres

Met-Mex

Met-Mex Peñoles, S.A. de C.V., the operator of a refining and smelting facility in Torreón (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 USA Limited in which Fresnillo plc has a 56% interest

Moz

Million troy ounces

MXN

Mexican peso

New Services Agreement [also NSA]

New Services Agreement dated 28 October 2009 between Fresnillo and SIPSA for the provision of administrative and non-administrative services to the Fresnillo Group. SIPSA's interest in the NSA was transferred to Dolorey, S.A. de C.V., another wholly-owned Peñoles Group subsidiary, on 21 December 2009

Nominations Committee

The nominations committee of the Board

Non-executive Directors

The Non-executive Directors of the Company

Ordinary Shares

Ordinary shares of US\$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

OHSAS 18001

An assessment specification for Occupational Health and Safety Management Systems

Ounce

Troy ounce

Oz

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 (*Procuraduría 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, the purpose of which is to ensure that the Company and its subsidiaries are capable of carrying on business independently of the Peñoles Group

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*)

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 Contract

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. Now replaced by the New Services Agreement (NSA)

Six Sigma

A statistics-driven approach to quality control developed originally by Motorola; the methodology aims to improve operational performance, practices and systems by identifying and preventing defects in manufacturing processes

Smelting

A high temperature pyrometallurgical operation conducted in a furnace, in which the valuable metal is collected to a molten matte or dore 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

Tonne [or t]

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

UNAM

Universidad Nacional Autónoma de México, a public university in Mexico City

US\$

United States dollar

SHAREHOLDER INFORMATION

FINANCIAL CALENDAR

Preliminary Statement:	2 March 2010
First Interim Management Statement:	14 April 2010
Annual General Meeting:	28 May 2010
Interim Statement:	3 August 2010
Second Interim Management Statement:	13 October 2010

DIVIDEND PAYMENT SCHEDULE

2009 Final Dividend Record Date:	14 May 2010
2009 Final Dividend Payment Date:	2 June 2010
2010 Interim Dividend Record Date:	20 August 2010
2010 Interim Dividend Payment Date:	14 September 2010

Registrar

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United Kingdom

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28 Grosvenor Street
London W1K 4QR
United Kingdom

Corporate headquarters

Moliere No. 222
Col. Polanco
11540 Mexico, D.F.
Mexico

Sponsor and Corporate Broker

JPMorgan Cazenove Limited
20 Moorgate
London EC2R 6DA
United Kingdom

Auditor

Ernst & Young LLP
1 More London Place
London SE1 2AF
United Kingdom

Solicitor

Linklaters LLP
One Silk Street
London EC2Y 8HQ
United Kingdom

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

For further information, please visit our website:

www.fresnilloplc.com or contact:

Fresnillo plc

Tel: +44(0)20 7399 2470

Octavio Alvidrez, Head of Investor Relations

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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