

A STERLING PERFORMANCE

Who we are

Fresnillo plc is the world's leading primary silver producer and Mexico's second largest gold producer. Headquartered in Mexico City, our shares trade on the London and Mexican Stock Exchanges.

What we do

Our business spans the full mining value chain: exploration, development and mining operations. We focus on high potential silver and gold projects that can be developed into low-cost, world-class mines. We currently operate four mines, have two advanced development projects and an extensive portfolio of high-quality exploration projects and prospects, along with the largest precious metals land reserve in Mexico.

How we operate

Our license to operate is dependent upon the safety and health of our employees, good environmental stewardship, the well-being of the communities where we operate, and adherence to best governance practices. Therefore responsible and sustainable business practices are core to the business strategy of the Group and integrated into every aspect of our operations.

Our goal

We seek to create value for our stakeholders across precious metals cycles. Our goal is to produce 65 million ounces of silver per year and over 400,000 ounces of gold per year by 2018.

"Exceptional performance in 2010 affirms our leadership position in primary silver and growing profile in gold."

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The Directors' Report of Fresnillo plc for the year ended 31 December 2010 is set out on pages 106 to 110 in accordance with the Companies Act 2006, and includes the Business Review. The Directors' Report also incorporates the Management Report required by the Disclosure and Transparency Rules.

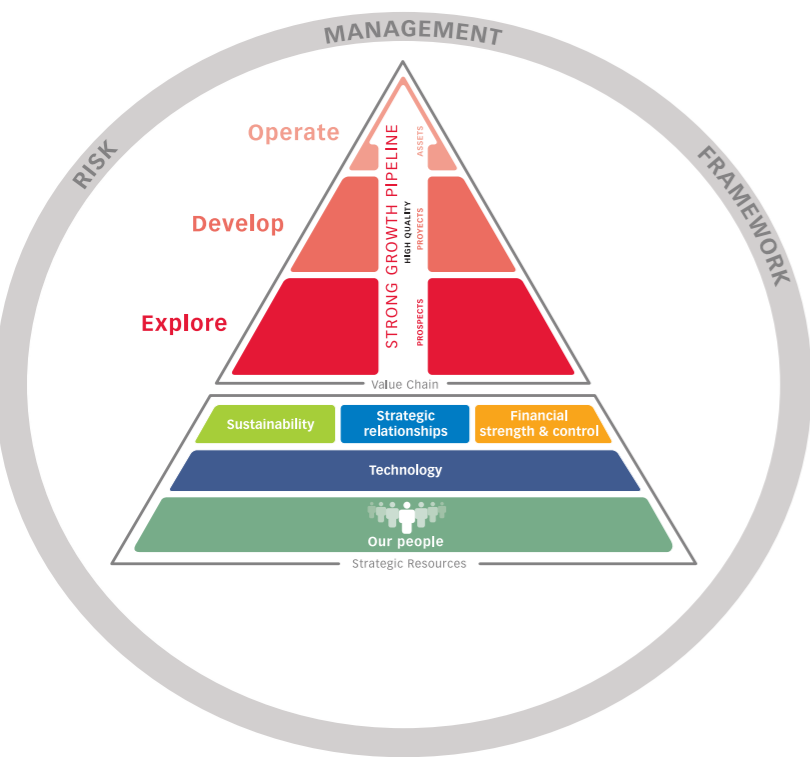
The Business Review and other sections of this Annual Report contain forward looking statements. The extent to which the Company's shareholders or anyone may rely on these forward looking statements is set out inside the back cover of this Annual Report.



FRESNILLO PLC AT A GLANCE

OUR BUSINESS MODEL

See pages 10-11



MEXICO

OPERATING MINES

See pages 34-47

Operations are supported by extensive investment in technology that enhances productivity and efficiency. When coupled with high-quality assets selectively added in the exploration and development phase, we remain competitively positioned in cash cost performance.

- 1. Fresnillo**
Underground silver mine, world's largest primary silver mine, in operation since 1554
- 2. Ciénega**
Underground gold mine, in operation since 1992
- 3. Herradura**
Open pit gold mine, in operation since 1997
- 4. Soledad-Dipolos**
Open pit gold mine, in operation since 2010

DEVELOPMENT PROJECTS

See pages 48-49

Projects must meet stringent criteria regarding the volume of silver/gold contained and embedded cost. Because of our focus on district consolidation, we evaluate potential growth in geographic regions that may create synergies for new future mines.

- 5. Saucito**
*Underground silver mine, 361.5 million ounces of silver resources
Start-up expected in 1H 2011*
- 6. Noche Buena**
*Open pit gold mine, 481,000 ounces of gold reserves
Construction begins in 2011*

EXPLORATION PROSPECTS

See pages 50-55

Exploration is the key driver of growth for the Group. Our portfolio includes projects that extend across the multiple stages of exploration (detection, discovery and definition), resulting in a strong pipeline of growth.

Advanced exploration prospects:

- 7. Juanicipio**
- 8. San Julián**
- 9. San Ramón**
- 10. Orisyvo**
- 11. Centauro Deep**
- 12. Las Casas**

Target definition exploration prospects:

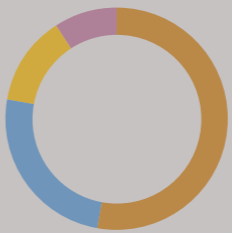
San Juan, San Nicolás del Oro, Oztumatlán, Jaralillo, Tajitos, Cairo, Manzanillas, Lucerito, Leones, Guanajuato, Tocayos

STRATEGY

See pages 12-17

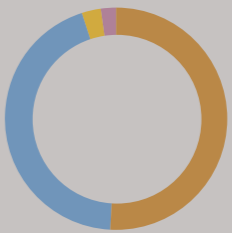
The Fresnillo Group seeks to create value for stakeholders across precious metals cycles through ongoing investment in exploration and mine development, operational excellence, and a strong commitment to disciplined and sustainable growth. The four components of our strategy are:

- 1 Maximise the potential of existing operations
- 2 Deliver growth through development projects
- 3 Extend the growth pipeline
- 4 Reinforce the sustainability of the Group



2010 ADJUSTED REVENUES BY MINE

FRESNILLO	53%
HERRADURA	25%
CIÉNEGA	13%
SOLEDAD-DIPOLOS	9%



2010 ADJUSTED REVENUES BY METAL

SILVER	51%
GOLD	44%
ZINC	3%
LEAD	2%

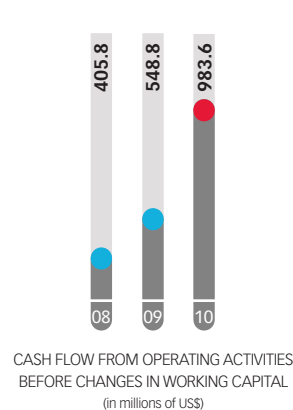
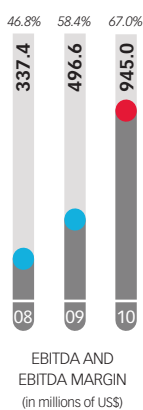
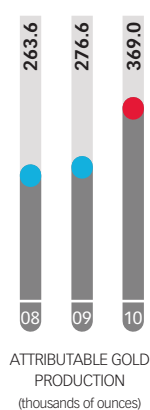
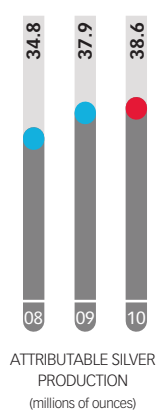
2010 HIGHLIGHTS

Operational highlights

- Record attributable production of silver (38.6 million ounces) and gold (368,995 ounces)
- First year of commercial operations at Soledad-Dipolos exceeded production budget
- Ciénega expansion and Saucito development on track for start up in 1H 2011
- Pre-feasibility study at Noche Buena concluded, construction commencing in 2011
- Positive drilling results obtained at several exploration projects and prospects, including sizeable new ore shoot at Saucito
- Total resources base increased by more than 15%, with the aggregate reserves replenished at existing mines

Financial highlights

- Adjusted revenue¹ up 56.1% to US\$1,473.9 million
- EBITDA² up 90.3% to US\$945.0 million
- EBITDA margin increases to 67.0%, from 58.4% in 2009
- Cost controls and efficiency measures maintain the Group's competitive position among global peers
- Robust balance sheet carries no debt and strong cash position
- Operating profit³ up 94.4% to US\$833.4 million
- Profit attributable to equity shareholders of the Company, excluding the Silverstream revaluation effects up 72.3% to US\$530.8 million (post-tax Silverstream revaluation effects: US\$134.3 million)
- Adjusted EPS⁴ up 72.1% to US\$0.740 per share, EPS up 106.5% to US\$0.927 per share
- Final dividend of 35.6 US cents per ordinary share



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

² Earnings before interest, taxes, depreciation and amortization (EBITDA) is calculated as gross profit plus depreciation less administrative and exploration expenses.

³ Profit from continuing operations before net finance costs and income tax.

⁴ Adjusted basic and diluted earnings per ordinary share from continuing operations, prior to the revaluation effects of the Silverstream contract.

CHAIRMAN'S STATEMENT

Dear Shareholders,

I am pleased to report a year of solid performance for Fresnillo plc. Record levels of silver and gold production, the start-up of a new mine, and substantial progress at development and exploration sites attest to the Group's operational execution and robust resource base. Combined with high silver and gold prices, Fresnillo plc delivered the best year in its history.

This performance comes in the context of a complex global economic recovery, ongoing market volatility, debt crisis in Europe, large fiscal deficits in several developed countries, loose monetary policy in the USA and the continued ascendancy of China, factors that contributed to the exceptional rise in precious metal prices.

Notwithstanding the important benefit of favourable prices, the Group's production and cost profile, growth platform and mining expertise contributed to the positive performance. With an average cash cost of US\$3.3 per ounce of silver and US\$309.1 per ounce of gold, the Fresnillo Group should be able to produce profitably well below current prices, and do so for years to come given the 1.47 billion silver ounces and 20.08 million gold ounces in resources. Furthermore, Fresnillo plc has the know-how to identify high potential resources and develop them economically, establishing a good pipeline for growth.

As such, I believe we are on course to meet the ambitious target set out at the time of our initial public offering in 2008: that by 2018, Fresnillo plc will be able to produce 65 million ounces of silver and over 400,000 ounces of gold annually. Furthermore, the Group should be in a position to maintain that level of production for the subsequent 10 years at least, based on the project delivery schedule that has been set out in our Review of Operations.

Investing across metal price cycles to extend the growth pipeline will continue to be a hallmark of our value-creation strategy. We also seek to deliver growth through development projects and maximise the potential of existing operations. Underlying this strategy are two fundamental pillars: prudent financial discipline to ensure sufficient investment capital even under unfavourable price scenarios; and most importantly, a profound and unwavering commitment to long-term sustainable development.

The Fresnillo Board regards the Group's performance in health, safety, environmental and community issues as integral to its operational performance. This year we engaged in discussions about the strategic framework for corporate social responsibility, the impact of the Group's social investments, and broader industry benchmarks in this regard. Our focus remains squarely on prioritising the health and safety of employees above all else, minimising the Group's environmental impact, and engaging constructively with communities to create lasting economic and social value.

It is thus with great sadness that I report the death of two employees this year. We hold ourselves to the highest standard in which no fatality is ever acceptable. Additional training and monitoring across the organisation are being implemented to enforce adherence to safety measures.

Furthermore, and as part of the Company's adoption of the Principles of the UK Corporate Governance Code, the Board has initiated a process to explicitly define the nature and extent of the risks we are willing to take to achieve our strategic objectives. We believe the Company already has a comprehensive approach to managing risks, and this process will enhance our framework and ensure full alignment of Board-and executive-level practices.

Like all of my board colleagues, I am firmly committed to ensuring that we collectively oversee Fresnillo plc with transparency and in the interest of all shareholders. We are fully committed to the best possible practices in corporate governance, and take our adherence to the principles and provisions of the new UK Code on Corporate Governance very seriously. In particular we recognise that the shareholding structure of Fresnillo plc requires us to ensure, as we have done, that the interests of all shareholders are well represented in the proceedings of the Board. In our reporting this year, we have sought to demonstrate the steps put in place to achieve this.

Based on the Group's 2010 performance, the Directors have recommended a final dividend of 35.6 US cents per Ordinary Share, which will be paid on 20 May 2011 to shareholders on the register on 3 May 2011. The dividend will be paid in UK pounds sterling unless shareholders elect to be paid in US dollars.

The Company's dividend policy takes into account the profitability of the business and underlying growth in earnings of the Company, as well as its capital requirements and cashflows, whilst maintaining an appropriate level of dividend cover.

For 2011, despite the uncertain outlook for economic and metal price performance, we expect that our high quality resource base and low-cost production profile will enable Fresnillo plc to deliver growth. Silver and gold production volumes will reflect the start-up of commercial operations at Saucito, a significant property with 361.5 million ounces of silver resources. Gold production will benefit from expanded milling capacity at Ciénega and the expansion of Soledad-Dipolos.

The Board has authorised a 151.1% increase in the 2011 exploration budget, to US\$251.4 million. The favourable exploration results obtained in 2010, including significant new resources identified at existing projects that will warrant mine expansion in the near term, reinforce our confidence that such expenditures are vital to the long-term growth of the Group. The focus will remain on consolidating mining districts in Mexico and Peru.

I would like to thank my fellow Board members for their service and contributions in the year. It is a pleasure to work together towards a common mission, and Fresnillo plc benefits from the wealth of experience and perspectives that our outstanding Board members bring. I would also like to commend the Group's executives and employees for delivering great performance that affirms Fresnillo plc's leadership position in primary silver and our growing profile in gold.

Alberto Baillères

NON-EXECUTIVE CHAIRMAN

Investing across metal price cycles, delivering growth through development projects and maximising the potential of existing operations will continue to be a hallmark of our value-creation strategy.





Fresnillo plc team of geologists



STRATEGY

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MARKET REVIEW



PART I: THE SILVER AND GOLD INDUSTRY

Jaime Lomelín, Chief Executive Officer of Fresnillo plc shares some thoughts on the silver and gold market.

What are the prospects for the sector in the near future?

I am fairly positive about the market. Fears of inflation and geopolitical tensions tend to encourage investment in precious metals as a safe haven. Expectations for economic growth are improving, particularly in Asia, but the US and Europe remain weak. Silver actually has a dual role in which its value can be driven both by investment as a safe haven and by industrial applications, so it benefits from both scenarios.

Industrial usage of silver has been growing quickly. Because of its properties, it is a versatile metal. It is the material of choice for a wide range of applications and its future does not depend on one industry as was the case in the past, when the photographic industry was the dominant consumer.

Tell us a bit more about those alternative applications.

Silver has unique properties such as electrical and thermal conductivity, strength, reflectivity, its use as a catalyst, and of course in photography. There are few alternative metals in most of the applications where it's being used today. Given the number of patents submitted for products and applications requiring silver, you might even say it is a "miracle metal."

For example, silver is being used in cell phones, and a range of consumer electronics. The usage of silver zinc rechargeable batteries is growing rapidly because of fewer contamination risks compared to other types of batteries. Silver is also employed as a bactericide and algicide in an ever increasing number of applications including water purification, silver impregnated clothing and paints for hospitals.

The ornamental uses of silver remain strong, such as jewellery, silverware and in mirrors. That's to say nothing of its investment properties as small bars, coins, medals and ETFs.

Isn't the latter more applicable to gold?

Yes, absolutely – the gold market has benefited from being a safe haven investment for centuries. This has been the driving force for the gold market – which has obviously helped Fresnillo. The silver market has benefited in a similar fashion but it is balanced by the wider applications I touched on. Gold's other principal use is in jewellery, although it also has many of the same properties as silver, but consumption in these areas falls as the price rises. In fact, the broader silver market has benefited as the cost of gold becomes prohibitive for jewellery and industrial applications.

What about activity in the mining sector?

How is that likely to impact the market and Fresnillo's prospects?

There are three sources of silver; mining, recycling of scrap and government sales, although the latter is insignificant at the moment. The high price is bringing more scrap to market but the main growth in supply is mining. Most silver comes as a by-product of copper, lead, zinc and gold mining, but production from this route depends on demand for the primary metal. This is where the pure silver mines like Fresnillo become important, and this is where substantial growth in silver supply will come from.

However, the great majority of exploration investment worldwide is going to two other commodities: copper and gold. There are a lot of small new gold mines coming into production globally. Many of these are not efficient, and are low grade and high cost, but are easy to mine. With the high price of gold, they can still make their margins. Silver exploration and mining is more expensive so the junior exploration companies are more focused on gold or on small and medium size silver mines. When the prices for these metals go down then margins will decrease and some of these companies and operations will have to close. That is why the strategy for Fresnillo plc is to maintain a strong pipeline of high quality exploration projects, to have an efficient operation, low cost mines and to consolidate districts.

WORLD SILVER SUPPLY AND DEMAND, 2010E

Million ounces

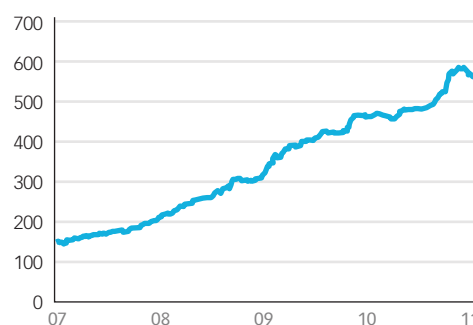
	2010E
SUPPLY	
Mine production	738.9
Net Government Sales	19.3
Net producer hedging	29.5
Scrap	180.1
Implied net disinvestment	-
Total Supply	967.9
DEMAND	
Fabrication	
Industrial	442.5
Photographic	72.1
Jewellery	165.9
Silverware	53.6
Coins & Medals	98.8
Total Fabrication	832.8
Net producer de-hedging	-
Implied net investment	135.0
Total Demand	967.9

© GFMS Limited 2011

SILVER ETF HOLDINGS

Million ounces

Tonnes



© GFMS Limited 2011

MARKET REVIEW *continued*

PART II: MEXICO, A COUNTRY OVERVIEW

Fresnillo plc is headquartered in Mexico, as are the Group's operating assets and the majority of its exploration properties.

Government and economy

Mexico is a federal republic with a stable democratic political environment. National elections will next take place in July 2012.

The country has a free market economy with a trade regime built upon agreements with the United States, Canada, the European Union, and 44 other countries. Mexico's sovereign debt carries investment grade ratings and a stable outlook.

Security

President Felipe Calderon has made combating organised crime a priority of his administration and has deployed the Mexican military to several Mexican states where Fresnillo plc has operations, including Zacatecas, Durango and Sonora, to assist or replace local and state police. Military and police have been increasingly successful in carrying out operations to remove top cartel leaders. Nonetheless, the Group has enhanced security measures at all facilities and is taking additional precautions to safeguard its personnel, who are the top priority.

Infrastructure

Mexico's land transport network is one of the most extensive in Latin America with approximately 365,000 kilometres of paved roads and 27,000 kilometres of railroads. Mexico has seven major commercial container maritime ports and numerous international airlines serve the country.

The mining industry

Mexico has a mining history extending almost 500 years and is among the world's largest metal producers. Although best known for its production of silver-over 10 billion ounces have been produced to date, and it was the second largest silver producer in the world in 2010-the country also mines significant quantities of copper, gold, lead and zinc.

The geological potential remains strong. The country's terrain is one of the most tectonically active and complex in the world. Orogenesis has pushed up mountain chains all across Mexico, including the Sierra Madre Oriental, Sierra Madre Occidental and Sierra Madre del Sur. These three regions have formed some of the key metallogenic areas. Gold and silver mineralisation is commonly linked to the two belts of hydrothermal veins and gaps that stretch out underneath both sides of the Sierra Madre Occidental.

That potential has attracted more than 250 private exploration companies to Mexico, with operations concentrated in the northern states of Sonora, Zacatecas and Chihuahua.

Because mining is an important contributor to the country's economy – according to recent government figures 1.6% of GDP, 4.2% of exports and 283,000 direct jobs – the industry benefits from a well-structured and supportive regulatory framework.

The concession system

Under the Mexican constitution, minerals are part of the national patrimony. Exploration, exploitation and beneficiation of minerals have preference over any

WORLD GOLD INVESTMENT

Tonnes

	07.Q1	07.Q2	07.Q3	07.Q4	08.Q1	08.Q2	08.Q3	08.Q4	09.Q1	09.Q2	09.Q3	09.Q4	10.Q1	10.Q2	10.Q3	10.Q4e
Official Coins	37.3	38.2	37.4	21.7	28.4	36.0	60.4	62.4	68.9	55.6	49.5	54.9	43.6	68.2	50.4	42.5
Medals & Imitation Coins	20.4	25.6	18.3	8.4	10.7	14.5	25.0	19.4	3.9	13.9	17.8	21.3	21.4	13.0	17.3	25.5
Bar Hoarding	66.6	80.7	60.7	31.4	49.4	92.2	126.4	117.8	(23.1)	74.8	93.7	70.7	115.5	96.8	141.9	127.5
Implied Investment	(14.4)	(174.8)	79.1	276.0	187.4	51.6	(123.4)	216.8	781.6	287.0	101.9	228.4	63.3	363.4	119.6	319.1
World Investment	109.9	-30.4	195.4	337.5	275.9	194.4	88.4	416.3	831.3	431.3	262.8	375.2	243.8	541.4	329.2	514.6

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. Mexico was the second largest silver producer in the world in 2010.

other use of the land. The law permits up to 100% private ownership in exploration, development and production of mineral substances.

Concessions are required to explore for and exploit mineral potential. Concession holders are required to negotiate with the surface land owner to access the land under which the concession is located.

Exploration concessions are granted for six years and are not renewable. There are no limits for mining concessions. Production concessions are awarded for 50 years and are renewable for a similar period. All concessions may specify required levels of capital expenditure and minimum environmental, health and safety standards.

Regulation for the mining sector is overseen by the *Secretaría de Economía*, while environmental permitting responsibility resides with the *Secretaría de Medio Ambiente y Recursos Naturales* (SEMARNAT).

Environmental laws

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 NAFTA), the United Nations Framework Convention on Climate Change and the Convention on Biological Diversity.

Mining companies must obtain environmental impact permits from SEMARNAT prior to any mining and exploration activities, and such activities are subsequently subject to several environmental permits from different offices within SEMARNAT, in-

cluding water extraction, wastewater discharge and tailings disposal.

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. The rate for 2010 was 30%. Based on the Tax Reform Bill approved in December 2009, this rate will decrease to 29% in 2013 and 28% in 2014 and beyond. The 2010 Fraser Institute of Canada report places Mexico fifth among 72 countries as a mining destination due to its favourable fiscal and regulatory regime.

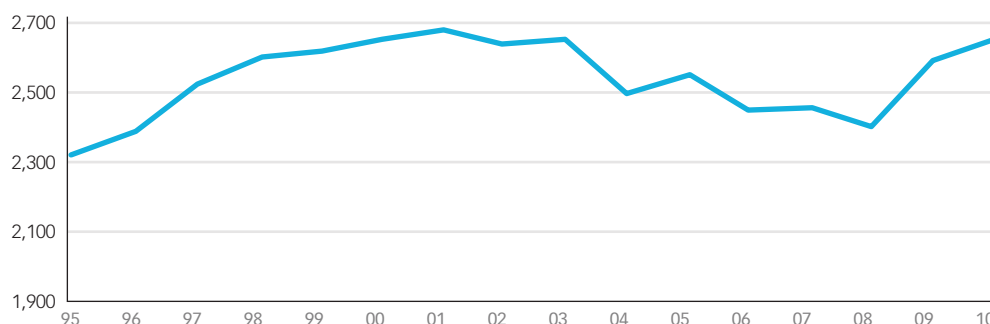
Workforce

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. Under Mexican law, it is permissible for unionised employees to engage in work stoppages and other industrial actions for disputes with their own employers or 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 2010.

i Information for this section was compiled from a number of sources, including Mexico's Secretariat of Economy and Secretariat of Communications and Transportation, Global InfoMine, Pro Mexico, U.S. Department of State.

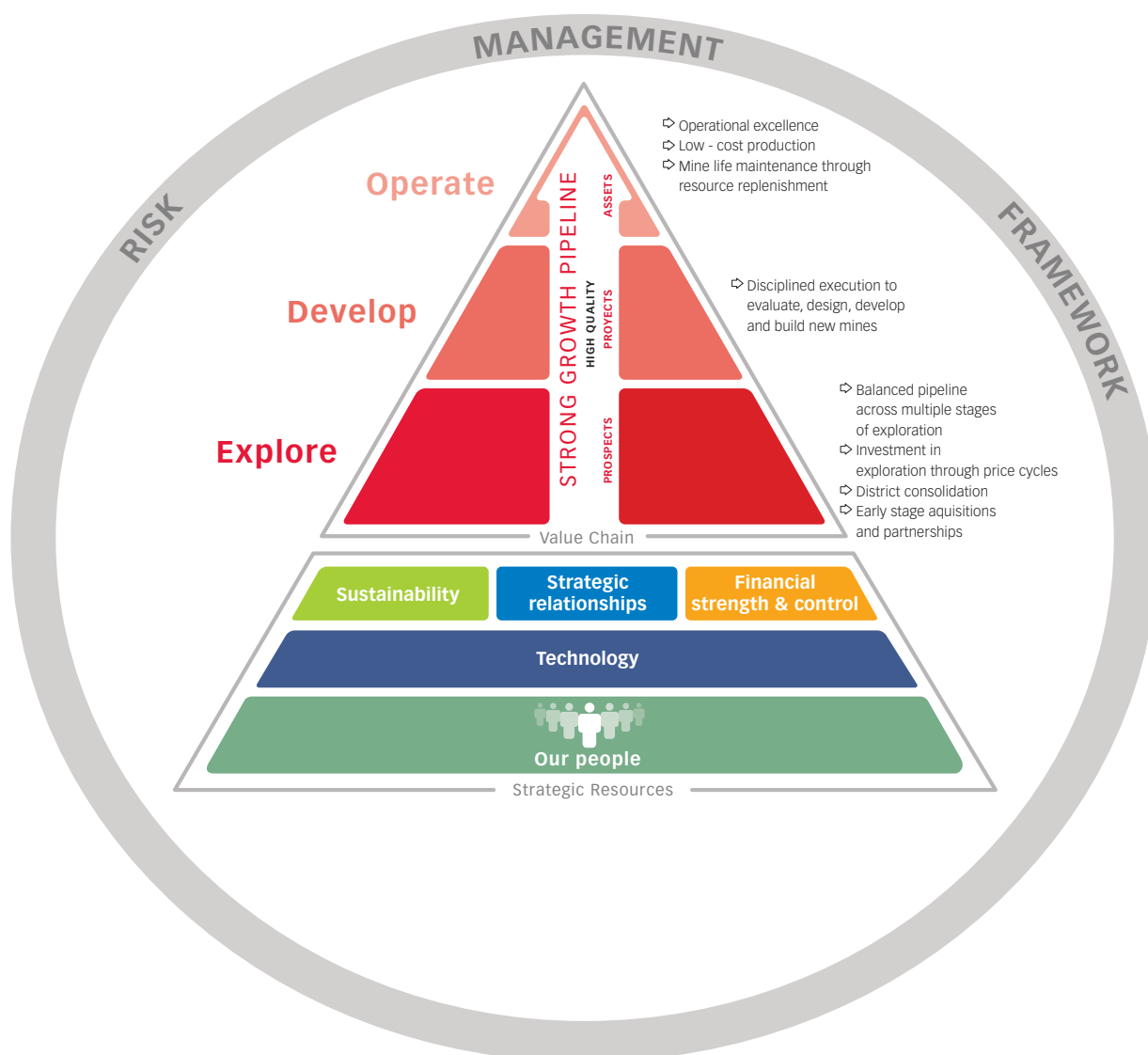
WORLD GOLD MINE PRODUCTION

Tonnes



BUSINESS MODEL

Fresnillo plc is a silver and gold mining company that seeks to create value for stakeholders throughout price cycles. What differentiates us is how we execute our strategy across our value chain of exploration, mine development and operations.



Our business model is comprised of the following components:

THE VALUE CHAIN

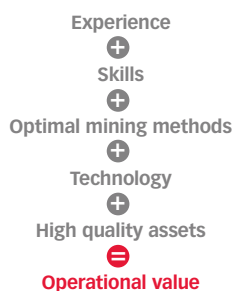
Explore: The key growth driver for the Group is locating mineral deposits that extend our resource base, with a focus on consolidating mining districts in Mexico and Latin America. We do this through continuous investment in exploration irrespective of price cycles, and ongoing acquisition of mining concessions and surface land. Our geologists have significant technical expertise and a proven track record of new discoveries. We also look for opportunities to acquire early-stage projects with strong growth potential or to partner with other groups through agreements that allow us to share the inherent benefits and risks of prospect exploration.

This comprehensive approach results in a pipeline of projects that extend across the multiple stages of exploration (detection, discovery and definition) and ensure long-term organic growth.

Develop: Projects must meet stringent criteria regarding the volume of silver/gold contained and embedded cost. Economic viability is determined by evaluating factors such as optimal mine design, investment requirements, sustaining capital expenditures and rates of return. Furthermore, because of our focus on district consolidation, we evaluate potential growth in the same geographic region that may create synergies for new future mines. During development and construction stages, we maintain tight discipline to ensure adherence to approved schedules and budget. Additionally, engineering and construction teams work closely with the team that will operate the mine, ensuring smooth transition from construction to commissioning.

Operate: Our formula to extract value from operations reflects the experience and skills of our people who seek and apply optimal mining methods in accordance with the changing characteristics of each mine, and develop initiatives to increase recoveries, operational efficiencies and reduce costs. Operations are supported by extensive investment in technology that enhances productivity and efficiency. When coupled with high-quality assets selectively added in the exploration and development phase, we remain competitively positioned in cash cost performance among industry peers.

We are committed to replenishing reserves every year. The exploration team identifies new resources along with the operating team, who then convert those resources into reserves by narrowing the drilling pattern and mining works. It is the combination of both efforts that enables the Group to achieve this goal.



STRATEGIC RESOURCES

Sustainability: Initiatives are implemented from the earliest stages of exploration until mine closure that seek to develop and benefit local economies and achieve exemplary results in environmental, safety and health performance.

Strategic relationships: Sound and mutually beneficial relationships with federal, state and municipal authorities, regulatory and governmental agencies, suppliers, labour unions, customers, communities, partners and shareholders.

Financial strength and control: Careful management of all assets and cash while maintaining a range of capital funding options.

Technology: Use of tools and processes that support exploration, increase productivity, reinforce sustainability, and enhance accountability, decision-making and financial planning processes.

Our people: The most fundamental resource upon which the successful execution of our strategy relies.

RISK MANAGEMENT FRAMEWORK

As with any company, our strategy and business model are subject to a range of risks. Fresnillo plc's Board assesses and evaluates the principle risks that could affect the Company's ability to execute its strategy and deliver on its commitments. A rigorous risk management framework is an integral part of our model to effectively manage and mitigate these risks. We are working toward integrating this framework into the day-to-day operations.

STRATEGY AND KPIs

1

Maximise the potential of existing operations



OPERATE

The Fresnillo Group seeks to create value for stakeholders across precious metals cycles through ongoing investment in exploration and mine development, operational excellence, and a strong commitment to disciplined and sustainable growth.

Our goal is to consolidate and maintain the Group's position as the world's leading producer of silver

and a top Mexican producer of gold, producing 65 million ounces of silver per year and over 400,000 ounces of gold per year by 2018, and supporting that level of production for at least 10 years.

The four components of our strategy are outlined herein, along with the key performance indicators that monitor the effectiveness of each strategy over time.

How we do it

By aiming to run operations at full capacity, replacing reserves, generating continuous improvements in productivity and cost controls, utilising technology and leveraging expansion opportunities.

2010 progress

Record silver and gold production. Successful implementation of Six Sigma, a statistics-driven methodology for improving operational performance by eliminating variability and waste, resulted in improved recovery rates and/or increased milling capacity at all operating mines.

2011 priorities

- Conclude construction of the San Carlos shaft at Fresnillo to reduce haulage costs
- Evaluate a future expansion at Fresnillo to compensate for the expected lower ore grades in order to maintain stable silver production
- Commission the shaft at Ciénega to gain access to deeper ore reserves
- Complete expansion of milling capacity from 755,000 to 930,000 tonnes per year at Ciénega to maintain stable gold production
- Expansion to produce 130,000 total ounces of gold per year at Soledad-Dipolos

KEY PERFORMANCE INDICATORS

Attributable production

Sum of ounces produced multiplied by ownership interest at each mine. Monitors total production levels at our mines and contributions from advance development projects.

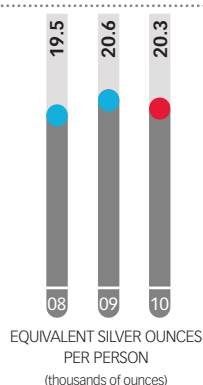
Comment

Increased ore volumes milled at Fresnillo and silver extracted from development works at Saucito resulted in record silver production. Record gold production was achieved mainly due to the start-up of Soledad-Dipolos, and to a lesser extent, to the good performances at Herradura and Ciénega.



Productivity

Ounces of silver produced at operating mines, plus ounces of gold produced at operating mines multiplied by 61, which is the 2010 spot ratio of the gold price to silver price (US\$1,224.7 per ounce of gold / US\$20.2 per ounce of silver), divided by the total number of union and non-union employees and contractors. Figures for 2008 and 2009 were adjusted using the same ratio for comparative purposes.

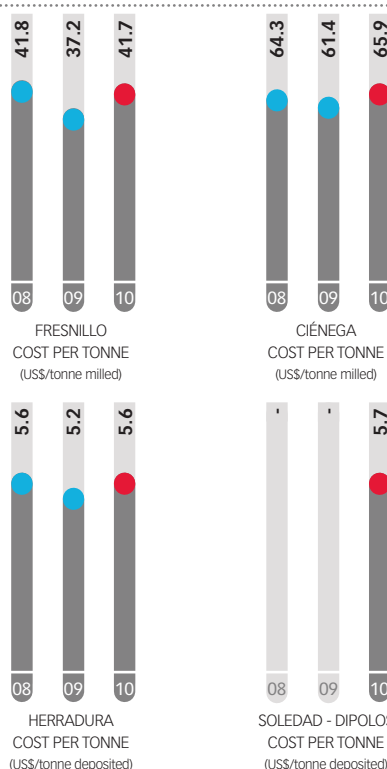


Comment

Equivalent ounces of silver decreased slightly, by 1.3%, due to new employees hired and trained at Herradura, some of whom were sent to Soledad-Dipolos and others who will be transferred to Noche Buena. These non-operating trainees shadow current employees for the first few months of their employment.

Cost per tonne

Adjusted production costs (total production costs⁵ less depreciation, profit sharing and exchange rate hedging effects) divided by total volume of tonnes milled or deposited at the leaching pads. Monitors variations of costs directly related to the production process; the analysis of such variations improves management's decision-making.



Comment

Adjusted production costs were negatively impacted by the strengthening of the peso against the dollar, higher electricity and diesel prices, increased development, and rock bolting and shotcreting activities to improve safety. At Herradura, the increase in volume deposited offset the increase in those costs.

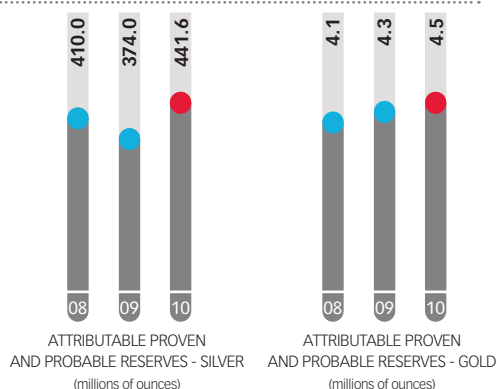
⁵ Freight costs related to sales were reclassified to adjusted production costs, with previous year figures adjusted accordingly

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.

Comment

In the context of record 2010 silver production, the Group was able to replenish and significantly increase silver reserves by 18.1%, reflecting the conversion of resources at Fresnillo and Ciénega. Total gold reserves increased 5.9% as a result of new reserves at Noche Buena and Saucito and an increase at Fresnillo and Herradura, offsetting a decrease at Ciénega and natural depletion at Soledad-Dipolos.



2

Deliver growth through development projects



DEVELOP

How we do it

Through disciplined advancement of our exploration projects towards mine development, start-up and production.

2010 progress

Successful start-up in January 2010 of commercial production at Soledad-Dipolos, with first year production that exceeded full capacity estimates. Construction of Saucito advanced ahead of schedule and below budget.

2011 priorities

- Start-up of Saucito as a new mine in 1H 2011
- Initiate construction at Noche Buena
- Conclude expansion of Soledad-Dipolos

KEY PERFORMANCE INDICATORS***Project delivery***

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

SOLEDAD-DIPOLOS

**Timeline: early completion
of construction; on target for
commercial production
Budget: on target**

SAUCITO

**Timeline: construction on target
Budget: more than 10%
below budget**

3

Extend the growth pipeline



EXPLORE

How we do it

By deploying personnel with significant expertise and allocating a healthy investment budget for exploration and technology, and continuously securing mining concessions and accompanying surface land rights when results warrant. This ensures an exploration pipeline of organic growth projects. We also pursue early stage joint ventures and make selective acquisitions in Mexico and potentially elsewhere in Latin America.

2010 progress

Replenished reserves and generated a double-digit increase in gold and silver resources. Concluded pre-feasibility study at Noche Buena. Conducted underground development at Saucito, Juanicipio and San Julián. Completed scoping studies at San Julián and Orisyvo. Conducted early stage drilling at 11 exploration prospects and continued regional exploration efforts to identify new prospects with high potential. Signed option agreements at Candameña, Cebadillas and Yesca properties.

2011 priorities

- Conclude pre-feasibility study at Juanicipio in January
- Conduct pre-feasibility study at San Julián and San Ramón
- Complete exploration audit, update scoping study and conduct metallurgical tests at Orisyvo

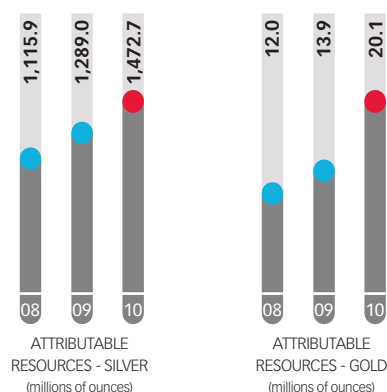
KEY PERFORMANCE INDICATORS

Total resources (attributable)

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

Comment

Silver resources rose mainly due to increases at Fresnillo and Saucito. Gold resources rose primarily due to increases at Orisyvo, Centauro Deep, Saucito and Herradura.



4

Reinforce the sustainability of the Group



STRATEGIC RESOURCES

How we do it

By putting our people first in terms of health and safety, training, development and long-term opportunities; implementing strong environmental management practices; partnering with the communities where we operate; and adhering to a broad range of sustainability guidelines.

2010 progress

While the accident rate decreased due to ongoing safety training and management efforts, two fatal accidents prevented us from maintaining our Zero Fatalities target. Strict action plans were taken to prevent further fatal accidents.

Unit consumption of water and energy declined. ISO 14001:2004 and Clean Industry certifications from PROFEPA (Mexican Federal Environmental Protection Agency) were maintained at all mine units. Cyanide certification audit process was completed at Herradura and continued at Ciénega.

2011 priorities

- Zero fatalities and continued improvements in other safety indicators
- Obtain OHSAS 18001:2008 certification at Fresnillo and 50% advance in remaining mines
- Complete Cyanide Code certification process at Ciénega, become a signatory at Soledad-Dipolos
- Obtain first level of the Safe Enterprise Certificate from STPS (Secretariat of Labour and Social Welfare) at Fresnillo, Herradura and Ciénega, and integrate Soledad-Dipolos into the programme

KEY PERFORMANCE INDICATORS

A wide range of indicators is used to measure sustainability performance. The health, safety, environment and community relations (HSECR) framework includes specific metrics for each aspect of the programme.

i See the *Sustainable Development Report* for full details.

Fatalities

Loss of life of any of the Group's employees – full or part-time, direct or subcontracted, union or non-union – during any work related activities.

Comment

After two years with no fatalities, we suffered two fatal accidents in 2010: in August, a carbon monoxide poisoning at Ciénega; in November a scoop tram accident at Fresnillo.



Lost work days rate

Total number of days lost due to disabling and non-disabling accidents divided by the total number of union and non-union employees and contractors.

Comment

While certain safety indicators such as the accident rate decreased, the increase in lost work days mainly reflects the two fatal accidents in the year.

i See the *Sustainable Development Report* pages 60-61.





STRATEGIC RESOURCES

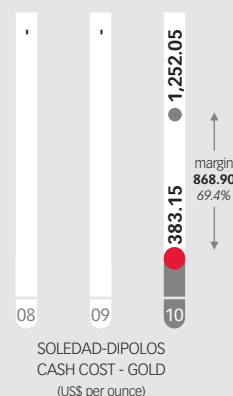
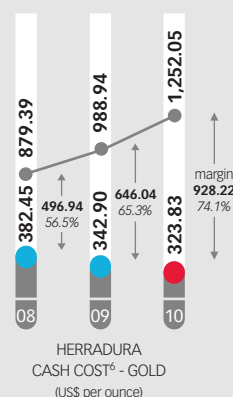
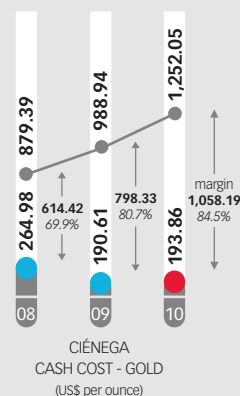
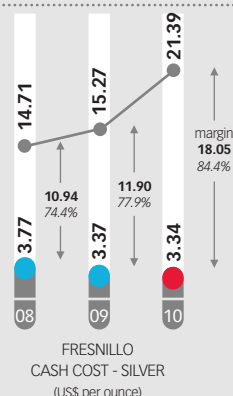
FINANCIAL KPIs

Cash cost per ounce

Total cash cost (cost of sales plus treatment and refining charges, less depreciation) less revenues from by-products divided by ounces of silver or gold sold. Used to compare operational performance among peers as well as gross profit margin performance.

Comment

Cash costs benefited from higher by-product credits and increased sales volume of silver and gold, fully offsetting the adverse effect of higher production cost per tonne at Fresnillo and Herradura, and partially offsetting that effect at Ciénega. The continued upward trend of silver and gold prices has led to higher gross profit margins (represented in the graphs by the double arrows) at all our operating mines.



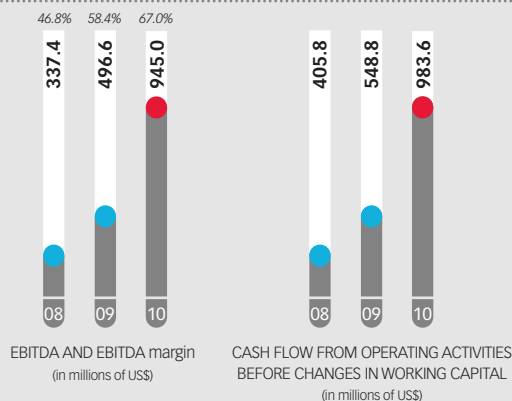
⁶ 2008 and 2009 figures were modified to reflect an intercompany elimination related to equipment leased by Minera El Bermejal to Herradura

EBITDA, EBITDA margin and Cash flow from operating activities before changes in working capital

EBITDA is gross profit plus depreciation included within cost of sales less administrative expenses and exploration expenses. EBITDA margin is EBITDA divided by total revenue. Both EBITDA and cash flow from operating activities before changes in working capital measures the Group's ability to generate cash from its core business.

Comment

Strong operating performance combined with higher average realised prices resulted in a significant increase in the gross profit. This was partially offset by higher exploration expenses.

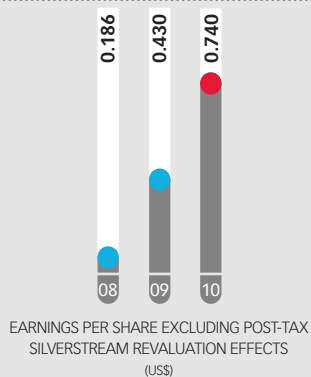


Earnings per share excluding post-tax Silverstream revaluation effects

Attributable profit available to equity shareholders, excluding the revaluation effects of the Silverstream Contract divided by the weighted average number of shares in issue during the period. Monitors net profit levels generated for equity shareholders.

Comment

EPS increased with higher net profit levels divided across an unchanged number of issued shares.



STRATEGIC RESOURCES

SUSTAINABILITY

The Group's sustainability requires a balance between economic development and the social licence to operate, which reflects corporate responsibility in the areas of health, safety, environment and community relations. To ensure that the needs of all stakeholders are met, the Group relies on Board-level HSECR oversight, sustainability measures embedded in management compensation schemes, an organisational chart that includes health, safety, environment and community relations programme managers in each business unit, and clearly defined strategic and operational policies and procedures across the full value chain.

i Further details on our sustainability programme are included in the Sustainable Development Report pages 56-69.

STRATEGIC RELATIONSHIPS

The Group maintains a number of relationships that may directly or indirectly influence the performance of the business and its value.

Government / regulators: We are required to secure mining concessions from the federal government to explore for and exploit mineral deposits, and to comply with the statutes and regulations that govern all companies, and those for natural resources and mining companies in particular, that are promulgated by various branches of the government. We are also subject to state and municipal laws and ordinances in the specific localities where we operate. As a publicly traded company, we are also subject to financial and regulatory oversight from securities bodies and the stock exchanges in London and Mexico where Fresnillo plc shares are traded.

Suppliers: We maintain close relations with our suppliers and contractors, whom we consider strategic partners, and seek to secure high quality products and services at a fair price. As such we consider them strategic partners. To align their practices and performance with our strategic objectives, we provide them with training on Group safety policies and procedures. We sign purchase agreements with a number of suppliers in order to secure better pricing and ensure timely availability of key equipment and materials. Contractors are integrated into the Group's employee management systems and training programmes.

We contract Servicios Administrativos Peñoles, S.A. de C.V. (SAPSA), a Peñoles subsidiary, for administrative services. The relationship is regulated by a Services Agreement (NSA, or New Services Agreement), ensuring that all services are delivered on arm's length and on normal commercial terms as per the Relationship Agreement with the Peñoles Group.

i Full details of the Relationship Agreement are provided in the Directors' Report page 107.

Partners: Under an agreement with Newmont USA Limited, we hold 56% of Minera Penmont S. de R.L. de C.V. (Minera Penmont). The Herradura and Soledad-Dipolos mines and the Noche Buena project are held within Minera Penmont. The Group has a 56% interest in the Juanicipio project, while MAG Silver Corporation (MAG Silver) has a 44% interest. The agreement with MAG Silver was entered into for the development of the Juanicipio concession. We also partner with a number of junior exploration companies to conduct early stage prospecting.

In December 2007 the Fresnillo Group entered into long-term arrangements with the Peñoles Group in relation to the by-product silver output from the Peñoles-owned Sabinas polymetallic mine in Zacatecas, Mexico. Under the Silverstream Contract, we are entitled to all of the proceeds (before deduction of treatment and refining charges) in respect of the payable silver produced by Sabinas during its mine life. The Silverstream Contract is accounted for as a derivative financial instrument (asset).

i Further information can be found in note 15 of the Financial Statements page 141.

Customers: In 2010 substantially all of the primary products from our mines were sold to Met-Mex Peñoles, S.A. de C.V. (Met-Mex), a refining and smelting facility at Torreón, under a series of supply agreements (the Met-Mex Arrangements) that enable the Group to benefit from relatively low transport costs associated with the proximity of their operations. The terms of the supply agreements with Met-Mex are set on an arm's length basis based on international benchmarks, with revenue being determined by the amount of metal contents and the average market prices over a defined reference period net of treatment and refining charges. However, the Group has sold to other refiners and smelters in the past and may do so in the future if conditions warrant.



STRATEGIC RESOURCES

Communities: Healthy community relations require a deep knowledge of, and respect for, customs, cultures, needs and expectations. Our community engagement efforts begin in parallel with the earliest phases of the exploration process, and extend throughout the life of a concession, from the advanced prospect phase, to development, to operating mine, to closure. Every year we invest directly and through multi-stakeholder partnerships in a range of initiatives that aim to enhance the quality of life and long-term sustainability of the communities where we operate. Focus areas include environmental culture, education, health and social integration, self-sustaining capacity, and social infrastructure.

i Further information is included in the Sustainable Development Report pages 66-69.

FINANCIAL STRENGTH AND CONTROL

We have a strong balance sheet that ensures sufficient flexibility with US\$559.5 million in cash at 31 December 2010 and no debt. The Group maintains strict control of cash, management of assets, and containment of costs and expenses in order to maximise value creation and retain our competitive position as a low cash-cost producer in the industry. We maintain a range of capital funding options should our growth strategy require additional financing. In accordance with our investors' expectations, it continues to be the Group's policy not to hedge price exposure on silver and gold realisations.

TECHNOLOGY

We continuously invest in new and current technology. At the operational level we utilise the most advanced tools to identify ore bodies, analyse mineralisation and conduct metallurgical tests. Mine development and operations benefit from equipment and automated systems that increase productivity and efficiency. At the corporate level, IT infrastructure including enterprise resource planning (ERP) systems have enhanced transparency and improved the quality of our internal audit, accountability, and financial planning processes, enabling the Group to make more rapid and informed decisions. In our sustainability efforts, technology has supported our activities to measure and control emissions, reinforce safety, and monitor the progress of a range of initiatives.

OUR PEOPLE

Our ability to find, select, train and retain personnel with the requisite knowledge, skills and experience is fundamental to the Group's success. To ensure that our people are trained and committed, we provide extensive personal and professional development opportunities, competitive wages and compensation packages and a workplace culture that fosters teamwork. We are committed to providing a safe, equitable and fair work environment, with a Board-level commitment to HSECR.

We strive to maintain mutually respectful relations with the local labour unions through continuous dialogue and collaboration, including yearly contract negotiations with that part of the workforce that is unionised. Fresnillo plc has never experienced a work stoppage or industrial action as a consequence of labour disputes with the Company. While it is permissible under Mexican law for union members to strike in sympathy with unionised employees of other companies who are engaged in a dispute with their employer, despite the absence of any dispute with their own, Fresnillo Group workers did not support any such actions in 2010.

i Further information on our employees can be found in the Sustainable Development Report pages 58-59.

RISK MANAGEMENT FRAMEWORK



RISK MANAGEMENT FRAMEWORK

The Fresnillo plc Board of Directors has overall responsibility for the Group's system of internal control, which includes risk management. Responsibility for reviewing the effectiveness of this control has been delegated to the Audit Committee, which reviews these systems on an ongoing basis. Internal Audit supports the Audit Committee through regular reviews of internal controls. Operational responsibility for managing risk and maintaining the Group's system of internal control is assumed by executive management, and carried out at the corporate and operations level by the risk owners.

The Group has established a process for identifying, evaluating and managing the significant risks faced by the Group in accordance with the Turnbull Guidance. Because of the limitations inherent in any system of internal control, this system is designed to meet the Group's particular needs and the risks to which we are exposed. It is designed to manage and mitigate risk. Consequently it can only provide reasonable and not absolute assurance against material misstatement or loss.

Our risk assessment process is dynamic and ongoing: as the macro environment changes and country- and industry-specific circumstances evolve, new risks may arise and others recede. Similarly, the ranking of these risks, based on probability and severity, may fluctuate. For the 2010 assessment, the Company's executives and operations managers identified a universe of 115 risks through a survey. From these, we narrowed down the top 15 risks across a number of categories based on likelihood and impact.

While the top risks did not change in 2010, some of their rankings did.

Specifically, gold and silver prices have trended upwards for nine years and in 2010 reached their highest level in 30 years. Given the cyclical nature of precious metal prices we believe that the associated risk of downward pricing pressure has increased. This is particularly relevant given the Group's policy not to hedge price exposure on silver and gold realisations.

With higher metal prices, profit margins in the mining industry have also expanded, increasing the likelihood of a new mining royalty or tax.

Security risk also increased as a result of escalating violence, including robbery and kidnapping in the central and northern states of the country where the Group has operations. This risk has simultaneously affected the controls associated with the use, transportation and storage of explosives, which are overseen very closely by the defence authorities.

To support the expansion of the exploration programme and new mining projects under construction, the Group has added additional contractors, some of whom do not have experience with the Group's operations. This raises the risk of safety and environmental issues due to insufficient training or adherence to Group procedures.

Conversely, the risk associated with internal union conflicts decreased following elections held in December 2010 which allowed workers for the first time to select the union of their choice.

Among the remaining risks in the full risk universe, certain rankings and assessments were also modified due to changes in the business environment and/or the implementation of controls and mitigation.

In anticipation of reporting requirements for 2011 (UK Corporate Governance Code), the Board has initiated a process to quantify its risk tolerance and risk appetite in pursuit of the Group's strategic objectives. Furthermore, in advance of Bribery Act compliance requirements, the Group identified those risks directly related to bribery and corruption; while they are not among the top 15 risks described below, specific control and mitigation measures are in the process of development and implementation.

While the nature of the risks and uncertainties the Group faces is likely to remain similar from year to year, mitigation and control measures will be mapped against the Board's risk statement to ensure full alignment at the operations level.



PRINCIPAL RISKS AND UNCERTAINTIES

STRATEGIC

RISK	MITIGATION / CONTROL
Depletion of reserves at existing mines, combined with no new mineral deposits identified, which would impact the Group's growth projections and production capabilities	<ul style="list-style-type: none"> • Highly trained and experienced exploration team • Investment in the Group's exploration programme almost doubled in 2010 and will continue to increase for regional properties and areas of influence • Use of technology to enhance probability of finding resources • Pipeline of projects across multiple stages of exploration
Delays in securing land access for performing exploration/mining activities, caused by complex or unsuccessful negotiations with <i>ejidos</i> (cooperative landowners) that could delay or interrupt the exploration activities	<ul style="list-style-type: none"> • Engagement with government agencies and communities • Retaining specialised negotiators • Purchases of surface land at and near our projects at an early stage
Security related risks such as cartel activity, kidnapping and theft, which continued to increase in Mexico over the past year, could cause business interruptions resulting from their impact on personnel and property; while the Group, 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"> • Enhanced security and surveillance measures • Greater prudence regarding ground transportation arrangements for people and goods
Finding and/or retaining personnel with the requisite knowledge, skills and experiences for key positions, particularly when competition for such personnel increases during periods of expansion in the mining industry	<ul style="list-style-type: none"> • Benchmarking information on compensation and employment supplied annually by external advisors • Competitive remuneration structure sought against domestic and international peer group • Talent identification plan deployed; training linked to a succession plan and career development • Ongoing recruitment strategy
Internal union conflicts at the national level may cause temporary stoppages or disrupt operations, even when the source of those conflicts is not related to local labour contracts and/or working conditions at the Company	<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 • Annual contract negotiations approached in cooperative manner with aim of retaining mutually beneficial contract terms

PRINCIPAL RISKS
AND UNCERTAINTIES *continued*

OPERATIONAL

RISK	MITIGATION / CONTROL
Lower ore grade associated with the natural life of the mines could impact production programmes	<ul style="list-style-type: none"> • Expand capacity so that production volumes offset lower grades, for example by adding flotation areas, optimising milling capacity and constructing new leaching pads • Implement efficiency measure that enhance production volume, such as optimising recoveries at plants and dilution control efforts • Increase in-mine exploration
Difficulty in obtaining permits from Mexico's Secretariat of National Defence for the use of explosives , due to the aforementioned security risks that have increased the military's control and management of explosives, which could impact operational continuity	<ul style="list-style-type: none"> • Engagement with the military, close communication with authorities and training of fire brigades • Compliance with procedures for reception, storage, transportation, delivery and use of explosives; enhanced inventory audits • Rigorous onsite discipline to comply with regulations
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 could affect operational continuity	<ul style="list-style-type: none"> • Strategic stocking programme maintains key parts in inventory • Long term contracts with key equipment suppliers, including efforts in 2010 to negotiate three-year agreements • Maintenance planning
Price escalation of key operating materials due to competitive demand and reliance on third party suppliers could impact cash costs and profitability	<ul style="list-style-type: none"> • Ongoing focus on productivity and efficiency (lower per unit consumption) • Long term procurement contracts with key operating materials suppliers
Expensive or insufficient energy supplied by CFE, the state-run electric utility, to meet demands of mining operations, which could impact operational continuity, cash costs and profitability	<ul style="list-style-type: none"> • Ongoing focus on energy efficiency • Close communication with CFE • Directly or indirectly participating in energy self-supply programs
Accidents or unintended events caused by the Company that may disrupt operations from a civil or legal perspective or have negative reputational effects	<ul style="list-style-type: none"> • Systems, equipment and procedures to enforce controls for the Group's HSECR System, backed by Internal Audit reviews • Live training drills for emergencies and contingencies, including annual participation in the national Mine Rescue Team Competition organised by CAMIMEX (Mexican Mining Chamber) and fire brigade training in the United States. • Liability insurance

FINANCIAL

RISK	MITIGATION / CONTROL
Volatility in silver and gold prices that could impact the realised prices of the Group's production output, and in exchange rates that could impact peso-denominated production costs when converted into dollars	<ul style="list-style-type: none"> The Group has committed to a policy of not hedging exposure to silver and gold realisations to allow investors full exposure to prices Selective hedging in MXN/US\$ exchange rates
Changes in tax law and/or mining royalty schemes , at the state and federal level, that could impact the Group's financial performance; in 2010 there was increased interest in such measures due to record metal prices and governmental budget constraints	<ul style="list-style-type: none"> Leveraging our leadership position within CAMIMEX to promote a fair balance between fiscal obligations and investments in growth

COMPLIANCE

RISK	MITIGATION / CONTROL
Failure to comply with environmental, health and safety regulations that could disrupt operations, lead to financial and legal penalties and/or terminate the Group's mining licences	<ul style="list-style-type: none"> Systems, equipment and procedures to enforce controls for the Group's HSECR System In 2010 enhanced infrastructure for the storage and signage of hazardous materials was developed Zero tolerance programme for dangerous conditions Ongoing training and investment, including specialised onsite workshops following the 2010 fatalities
External pressure (from NGOs, political groups and others) for more regulation to the mining industry in Mexico, which could increase our regulatory burden	<ul style="list-style-type: none"> Leveraging our leadership position within CAMIMEX to promote fair regulations Promote pro-mining NGOs



Mining works at Ciénega



PERFORMANCE

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CHIEF EXECUTIVE'S REPORT

Dear Shareholders,

I am pleased to report a year of exceptional performance. Silver and gold production reached record levels; Soledad-Dipolos started operations as our fourth operating mine and contributed importantly to the results; significant progress was made at the Saucito development project, and the Ciénega and Soledad-Dipolos expansions are on track; and exploration efforts increased mineralisation at all major prospects and led to a substantial increase in the total resource base.

Our operational performance was enhanced by the considerable increase in metal prices over the period, which enabled us to deliver record financial results to Fresnillo shareholders. We begin 2011 with a robust operational profile, extensive growth pipeline, strong cash position and zero debt.

A sterling performance

Total attributable silver production slightly exceeded our forecasts, rising 1.7% over 2009 to 38.6 million ounces. This reflected stable production at Fresnillo, higher ore throughput from development works at Saucito, and higher ore grades and ore deposited at Herradura. In addition, we accrued 3.4 million ounces of silver under the Silverstream Contract, above the amount received in 2009.

Attributable gold production increased by 33.4% to a record 368,995 ounces with the start of com-

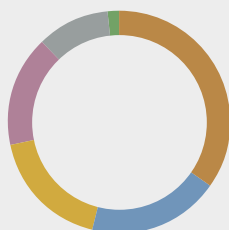
mercial production at Soledad-Dipolos in January, as well as greater volumes deposited at Herradura and ore milled at Ciénega.

The Group's precious metals production profile consolidates our global leadership position in primary silver and highlights the growing importance of gold in our portfolio.

Production of zinc and lead, which are by-products of the Group's operations at Fresnillo and Ciénega, increased by 15.1% and 9.9% respectively, mainly as a result of higher volumes of ore milled and better ore grades.

Our Group, along with much of the precious metals industry, benefited from the rise in prices this year. Continued uncertainty about the global economic recovery, market volatility and weakness of the US dollar contributed to sustained investor interest in gold, while higher silver prices reflected both investor interest and recovering demand for silver as an industrial metal. Average realised gold and silver prices for the Group increased by 26.6% and 40.0% respectively, helping drive the significant growth in earnings.

Adjusted revenues, which exclude treatment and refining charges and hedging results, rose 56.1% in the year. Total revenues increased to US\$1,409.6 million, 65.8% higher than at 31 December 2009. EBITDA rose to US\$945.0 million, with a significant increase in the EBITDA margin from 58.4% in 2009 to



2010 capex:
US\$340.3 million

INVESTING IN PRODUCTIVITY

Operating mines

● CIÉNEGA US\$65.1 million

Sinking of shaft to gain access to deeper ore reserves. Expansion of milling capacity to stabilise annual production.

● FRESNILLO US\$60.7 million

Construction of new shaft to extract mineral from the western zone of the San Carlos vein and reduce haulage costs. Ramp at San Julián project.

● HERRADURA US\$54.4 million

Conclusion of eighth leaching pad, construction of ninth. Purchase of Noche Buena's concessions.

● SOLEDAD-DIPOLOS US\$36.8 million

Construction of second leaching pad. Engineering for third, fourth and fifth leaching pads as part of expansion plan.

Projects and prospects

● SAUCITO US\$118.7 million

Mine construction including beneficiation plant, shaft, mining works, etc.

● OTHER US\$4.6 million

67.0% in 2010. Net profit attributable to shareholders, prior to Silverstream revaluation effects, was US\$530.8 million, 72.3% higher than in 2009.

There were a number of variables that led to an increase in production costs this year, including the revaluation effect of the Mexican peso-US dollar exchange rate and higher electricity and diesel prices. Further contributing to the rise in production costs were increased mine development and rock bolting and shotcreting activities to enhance safety.

Nonetheless, higher volumes, strict cost controls, ongoing efficiency efforts and higher by-product credits resulted in lower cash costs and enabled us to remain in the lowest quartile of the cost curve relative to our peers. Our low cost production profile is a key competitive advantage because it provides downside protection in a cyclical environment.

Fresnillo plc carries no bank debt, and as of 31 December 2010 had a cash position of US\$559.5 million, 79.2% above the 2009 figure. Our policy is to invest in the future growth of the business. Capital expenditures totalled US\$340.3 million in 2010, and total exploration investment, including capitalised expenses was US\$100.1 million.

An exceptional growth profile

These results are the outcome of a strategy designed to create value across precious metals cycles: a focus both on operational excellence in max-

imising current assets, and on delivering long-term growth through reserve replacement and expansion into new projects.

While we consider ourselves conservative in that we maintain strict and consistent investment parameters, we have a broad portfolio of high quality exploration projects and prospects. Our strategy is to consolidate mining districts with world-class potential, and prospects must meet our tonnage, ore grade and low-cost extraction criteria. We advance projects towards start-up through a disciplined development process.

Results from exploration activities in 2010 were very encouraging. We undertook an extensive drilling programme employing 75 exploration rigs at our mines, advanced projects and prospects. Total attributable resources rose from 1.3 billion ounces of silver at 31 December 2009 to 1.5 billion ounces, and 13.9 million ounces of gold to 20.1 million ounces.

Of particular note is the discovery of a new ore shoot at Saucito that added over 76 million ounces of silver and 300,000 ounces of gold to resources. Resources at Orisyvo rose significantly. At Noche Buena, we confirmed the resource estimate, completed the pre-feasibility study and secured all land requirements to initiate construction of a new mine in 2011. Scoping studies were completed at San Julián and Orisyvo, as was the pre-feasibility study at Juanicipio in January 2011.



WHAT WE EXPECTED TO ACHIEVE IN LAST YEAR'S ANNUAL REPORT

HOW WE PERFORMED

Silver production in line with 2009	Achieved record production
Gold production up 20%	33.4% rise due to the successful start-up of Soledad-Dipolos
Completion of expansion at Ciénega and plant infrastructure at Saucito	Ciénega leaching circuit completed, milling capacity advanced on schedule; Saucito on schedule for 1H 2011 commissioning
Exploration budget up 58% to US\$77.6 million	Exploration expenses totalled US\$82.1 million, a 67.4% increase over 2009
Decision on conducting pre-feasibility at Noche Buena	Positive decision made, pre-feasibility study concluded in 2010 and mine development to begin in 2011
Stable ore grades	Stable gold ore grades at Ciénega and Herradura, controlled silver ore grade at Fresnillo
Improvement in safety indices	Two fatalities set back our targets

The Group maintains the largest land position for precious metals exploration and mining in Mexico and we continued to acquire surface rights in 2010. We signed exploration option agreements to explore the gold properties Candameña in Chihuahua, and Cebadillas and Yesca in Nayarit, with drilling planned for 2011. We are also expanding our district exploration efforts in Guerrero, Durango, Guanajuato and Zacatecas, as well as in Peru, where we acquired concessions this year.

We are on track to meet our goal of producing 65 million ounces of silver per year and over 400,000 ounces of gold per year by 2018.

By mid-2011, the expanded capacity at Ciénega is expected to become operational, which will stabilise gold production at 110,000 ounces per year and maintain mine life at over 10 years. By the end of 2011, we expect to commission the shaft, giving us access to deeper ore reserves and reduce costs.

We are also on track in expanding capacity at Soledad-Dipolos from 100,000 ounces of gold per year to 130,000 by increasing the number of leaching pads and mobile equipment at the mine.

The new world-class Saucito mine is also on track to start commercial operations in 1H 2011. First year production levels are expected to reach 4.7 million ounces of silver and 22,500 ounces of gold, then ramping up to more than 9.0 million ounces of silver and 45,000 ounces of gold per year by 2013. In 2010, we advanced the development of the mine and construction of the beneficiation plant. During the year 1.2 million ounces of silver and 6,323 ounces of gold were obtained from the development works at Saucito, which were processed at the Fresnillo mill. In addition, 91,043 tonnes of ore from Saucito were stockpiled in preparation for the commissioning of the Saucito mill.

Renewed focus on safety

While we are proud of our operational and financial success this year, I regret to report we have not performed as well on safety. We suffered two fatalities in 2010 as a result of failure to follow company safety

procedures. We have a responsibility to improve our employees' and contractors' decision-making capabilities when it comes to workplace safety, and as such we are reinforcing the rigorous procedures and programmes already in place with supplemental training and spot drills, and have enhanced the monitoring procedures across the Group to ensure that our policies are adhered to. A zero fatality tolerance is the only acceptable standard, and I am joined by the Board and management team in extending our deep condolences to the families and colleagues.

Sustainable development

Our business model is dependent upon sound environmental management practices and community and labour relations. Sustainable development is thus deeply integrated into every aspect of our operations.

Along with ISO 14001 certifications at all mines and exploration offices, we are signatories to the International Cyanide Management Code. Herradura completed the audit process to obtain certification in 2010, and the process is underway at Ciénega, where we expect to obtain certification in 2011. Soledad-Dipolos will begin the process in the coming year.

Employees received a greater number of training hours on average in 2010, and we continued to invest in a range of professional development initiatives and workplace enhancements, including housing and recreational facilities. Annual labour negotiations concluded with the agreement of a 6.5% wage increase and a 1% bonus on base salary.

Our community relations were strengthened this year with the first full year of operations at the sewage water treatment plant at Fresnillo. In a region of water scarcity, the plant has contributed to preserving aquifers and reducing a potential source of contamination for the city, while lowering our production costs and fresh water consumption. At Ciénega we worked with the municipality to pave the main streets of the town, improving the community's transportation and air quality. We are pleased that our development projects are promoting job creation in the Herradura and Fresnillo districts, as we

have a preference to utilise the services and products of local contractors and vendors. In every community where we operate we continued to actively participate in education, healthcare and infrastructure projects.

i A full description of our sustainability programmes, objectives and performance may be found in the Sustainable Development Report on pages 56-69.

This annual report comprises our second Communication on Progress (CoP) in compliance with the Global Compact of the United Nations.

Outlook

Continued market volatility and uncertainty regarding the pace of the economic recovery will undoubtedly be reflected in metal prices. I am confident that our focus on increasing productivity, containing costs, expanding the resource and reserve base, and strengthening our growth pipeline will create ongoing and sustainable value to all our stakeholders.

Looking ahead at 2011, we expect:

- Improved safety performance
- Commissioning of Saucito
- Commissioning of expanded milling capacity and deeper shaft at Ciénega
- Completion of Soledad-Dípolos expansion
- Construction at Noche Buena under way
- Pre-feasibility study at San Julián
- Determination of next steps for development of Juanicipio
- Silver production to rise 5%
- Gold production to rise 5-6%
- Exploration budget to increase to US\$251.4 million

On behalf of the Company's personnel and the management team, I would like to extend my appreciation to our Chairman and members of the Board for their valuable support and guidance during 2010. I would also like to thank my fellow executives and employees for their enduring commitment to quality and sustainable growth.

Jaime Lomelín

CHIEF EXECUTIVE OFFICER



REVIEW OF OPERATIONS

THE YEAR IN REVIEW

Operational performance reflected positive results across the entire value chain. Operating mines in total delivered record attributable production in the year. Attributable silver production in the year increased 1.7% to 38.6 million ounces. In addition, 3.5 million ounces of silver were produced at Peñoles' Sabinas mine under the Silverstream Contract between Fresnillo and Peñoles. Attributable gold production for 2010 reached a new record of 368,995 ounces, surpassing our expectations. The 33.4% increase resulted from the start-up of commercial production at Soledad-Dipolos and strong performance at Herradura and Ciénega achieved through the implementation of several efficiency initiatives, including the Six Sigma methodology.

Saucito is on track to start commercial production in the first half of 2011. The Noche Buena gold project entered the development phase and construction has begun in 2011.

At the earliest stages of the pipeline, our land position increased by 8.6%, and measured, indicated and inferred resources expanded by 14.2% for silver and 44.4% for gold. Intensive exploration efforts resulted in three projects progressing towards the advanced exploration phase.

PRODUCTION AND SALES

FRESNILLO PLC ATTRIBUTABLE PRODUCTION

	2010	2009	% change
Silver production (Koz)	38,571	37,916	1.7
Silverstream production (Koz)	3,542	3,359	5.4
Total silver production (Koz)	42,113	41,275	2.0
Gold production (Oz)	368,995	276,584	33.4
Lead production (t)	18,977	17,264	9.9
Zinc production (t)	22,472	19,526	15.1

SALES VOLUME

(Year ended 31 December)	2010	2009	% change
Fresnillo	33,387	32,921	1.4
Ciénega	1,064	1,453	(26.7)
Herradura	381	302	26.2
Soledad-Dipolos	51	-	N/A
Silver (Koz)	34,883	34,676	0.6
Fresnillo	19,801	20,688	(4.3)
Ciénega	106,071	96,821	9.6
Herradura	288,142	245,696	17.3
Soledad-Dipolos	107,766	-	N/A
Gold (Oz)	521,780	363,205	43.6
Fresnillo	10,227	9,156	11.7
Ciénega	5,830	5,409	7.8
Lead (t)	16,057	14,565	10.2
Fresnillo	10,194	9,521	7.1
Ciénega	8,439	6,613	27.6
Zinc (t)	18,633	16,134	15.5

ECONOMIC IMPACT

To measure the economic contribution we make at the local level, we sum total wages and salaries, payments to local contractors and suppliers, and payment of municipal and state taxes. We also evaluate the number of jobs supported by our operations.

¹ Includes US\$13.8 million related to employee profit sharing ("PTU") payments.

² Includes US\$6.5 million related to PTU payments

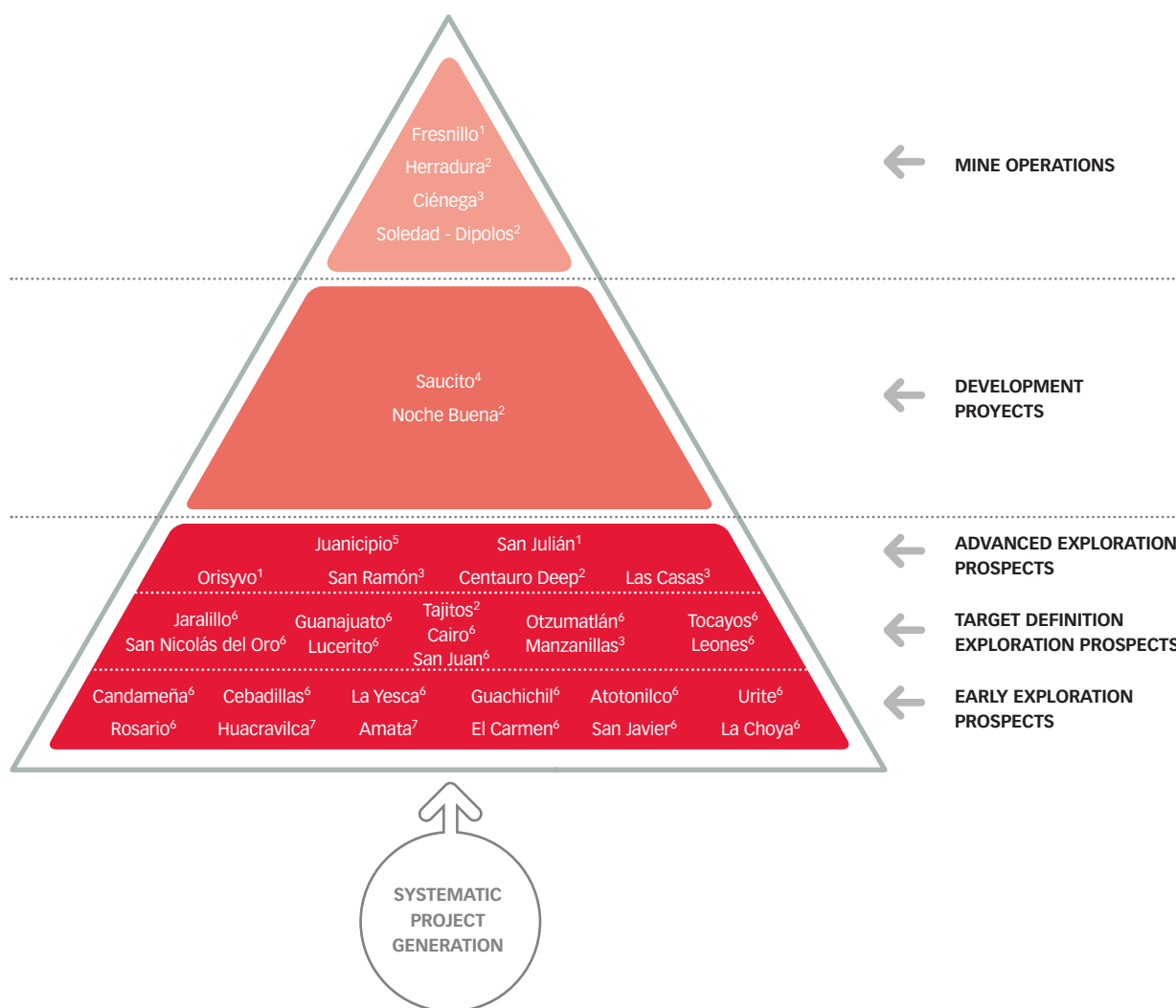
³ Includes US\$2.7 million related to PTU payments

⁴ Includes taxable income expense, flat business expense, social security expenses, employee housing contribution and water and mineral right payments.

⁵ Includes US\$0.4 million related to PTU payments

ECONOMIC IMPACT	ECONOMIC CONTRIBUTION	DIRECT JOBS	INDIRECT JOBS	FEDERAL TAXES ⁴
2010 BY BUSINESS UNIT	(monthly average) (US\$)	(average)	(average)	(monthly average)
Minera Fresnillo ¹	8.1 million	897	635	\$6.6 million
Minera Saucito	3.4 million	15	543	-
Minera Penmont ²	14.9 million	942	227	\$3.8 million
Minera Mexicana La Ciénega ³	4.5 million	440	329	\$1.1 million
Exploraciones Mineras Parreña	2.5 million	96	238	-
Others (SAFSA and Juanicipio) ⁵	874,300	59	0	228,673
Total	34.3 million	2,449	1,972	\$11.7 million

The Fresnillo plc value chain



¹ Minera Fresnillo S.A. de C.V.

² Minera Penmont S. de R.L. de C.V.

³ Minera Mexicana La Ciénega, S.A. de C.V.

⁴ Minera Saucito, S.A. de C.V.

⁵ Minera Juanicipio, S.A. de C.V.

⁶ Exploraciones Mineras Parreña, S.A. de C.V.

⁷ Fresnillo Perú, S.A.C

Mines in operation



FRESNILLO

Ownership: 100% Fresnillo plc

Location: Zacatecas

Facilities: Underground mine, flotation plant

2010 milling capacity: 8,000 tpd

In operation since: 1554

Workforce: 896 employees, 635 contractors

Avg ore grade in reserves: 324 g/t of silver

Total reserves: 365.4 million ounces of silver

746,000 ounces of gold

Mine life: 13.7 years

FRESNILLO MINE PRODUCTION	2010	2009	% CHANGE
Silver (Koz)	35,906	35,420	1.4
Gold (Oz)	24,979	24,684	1.2
Lead (t)	12,236	11,058	10.7
Zinc (t)	12,212	11,510	6.1

Panoramic view of the Fresnillo mine



Fresnillo is the world's largest primary silver mine. It is located 60 kilometres northwest of Zacatecas, the capital of the state, which has a long tradition of silver mining. The local municipality of Fresnillo is an established city with a population of 213,145 (2010 census).

Total annual silver production at Fresnillo reached a record 35.9 million ounces as a result of a 3.3% increase in ore milled, which partially offset a 2.5% decrease in silver ore grade from 486.6 g/t in 2009 to 474.4 g/t in 2010, the result of natural mine life changes. Given the age of this mine, a further 4.7% decrease in silver ore grade, to an average of 452 g/t, is expected for 2011; we will evaluate an expansion of milling capacity due to the large availability of lower grade resources, and in order to maintain production levels.

As silver ore grades decline at Fresnillo over time, lead and zinc ore grades are increasing. Production of these by-product metals in 2010 rose by 10.7% and 6.1% respectively as a result of this trend.

Production figures for Fresnillo do not include ore from the development works at Saucito which are processed at the Fresnillo mill.

SAUCITO DEVELOPMENT PRODUCTION

	2010	2009	% change
Silver (Koz)	1,222	736	66.0
Gold (Oz)	6,323	2,880	119.5
Lead (t)	273	88	210.2
Zinc (t)	147	65	126.1

Over the course of the year, reserves at the Fresnillo mine increased 11.2% to 35.1 million tonnes at 324 g/t with silver content up 6.8% to 365.4 million ounces. Based on proven and probable reserves, the expected life of the mine is 13.7 years, compared to 12.8 years in 2009.

In 2010, resources at Fresnillo increased by 12.3% from 52.7 million tonnes at 374 g/t in 2009 to 59.2 million tonnes at 383 g/t, whilst silver contained in these resources increased by 14.9% to 728 million ounces. These results were obtained through an exploration programme comprising 89,229 metres of diamond drilling and 36,582 metres of development.

FINANCIAL HIGHLIGHTS – FRESNILLO MINE

	2010	2009	% change
Adjusted revenues (US\$m)	783.5	557.3	40.6
Gross profit (US\$m)	627.0	407.7	53.8
Capital expenditure (US\$m)	60.7	34.6	75.4

Adjusted revenues rose 40.6% to US\$783.5 million in 2010, primarily as a result of higher silver prices.

Adjusted production cost increased 15.8% over 2009 to US\$106.6 million. We evaluate performance on a cost per tonne basis as it excludes the effects of changes in absolute values related to changes in production volumes. In 2010 this indicator rose 12.0%, to US\$41.7 per tonne milled. The main factors contributing to the increase were:



REVIEW OF OPERATIONS *continued*

- the 6.5% strengthening of the MXN/US\$ exchange rate, which affected costs denominated in Mexican pesos when converted to US dollars;
- higher energy costs reflecting an increase in electricity and diesel prices, and higher consumption of electricity due to the expansion of the San Carlos vein that required more power for ventilation and pumping systems;
- higher contractor and operating materials costs from increased rock bolting and shotcreting activities to improve safety conditions, and road maintenance work; and
- additional costs related to instalment or repair of equipment, and increased consumption of reagents due to different characteristics of the mineral processed; and locomotive maintenance.

The above factors were mitigated by the 3.3% increase in ore milled. Gross profit totalled US\$627.0, a 53.8% increase compared to 2009, while gross margin increased from 81.5% to 85.5%.

Productivity and cost reduction initiatives

Capital expenditures at this mine reached US\$60.7 million in 2010, a 75.4% increase over 2009. Funds were allocated to the preparation of new stopes, mining works at the San Julián project, construction of the San Carlos shaft, acquisition of surface land, and acquisition of in-mine equipment, spare parts and technology tools to ensure continuity of operations, such as ventilation equipment, pumping systems, instrumentation and control systems. We also remodelled employee facilities and administrative offices.

In its first full year of operation, the water treatment plant operated by the Group, which processes sewage from the city of Fresnillo and provides treated water for use in Fresnillo's milling process, helped lower production costs by US\$1.0 million and eliminated fresh water usage in a region where it is a scarce resource.

Construction of the San Carlos shaft remained on track to become operational in 2H 2011. This US\$19.1 million project will facilitate extraction of mineral from the highly productive western zone of the San Carlos vein, thus reducing haulage distance and cost. The installation of the hoist and civil works of the concrete head frame were completed. The sinking of the shaft reached 470 metres of a planned

557 metres, while the construction of ramps and drifts remained on track. A second stage of the project will be developed within seven years after the shaft is operational in order to access ore resources at deeper levels.

At the beneficiation plant, milling capacity was increased to 8,000 tpd through the implementation of Six Sigma quality control methodology and the installation of a new expert grinding system to optimise the size of the ore fed to the mill. These initiatives helped achieve 2.5 million tonnes milled in 2010, a 3.3% increase over last year. The work teams responsible for leading these projects were recognised for their contributions to enhancing productivity and efficiency.

2011 priorities

- Complete construction of the San Carlos shaft
- Initiate evaluation for a future expansion of milling capacity to process lower ore grade and maintain silver production

In-mine equipment (alpine)

REVIEW OF OPERATIONS *continued*



CIÉNEGA

Ownership: 100% Fresnillo plc

Location: Durango

Facilities: Underground mine, flotation and leaching plant

2010 milling capacity: 2,500 tpd

In operation since: 1992

Workforce: 439 employees, 329 contractors

Avg ore grade in reserves: 2.51 g/t of gold, 128 g/t of silver

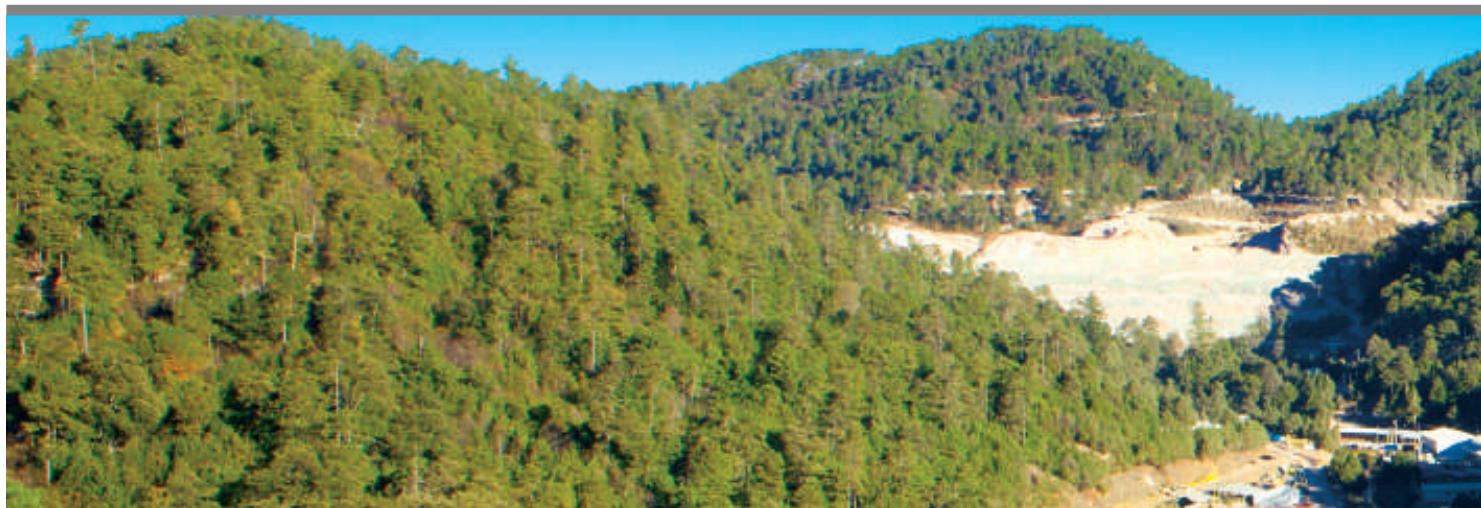
Total reserves: 840,000 ounces of gold

43.3 million ounces of silver

Mine life: 11.3 years

CIÉNEGA PRODUCTION	2010	2009	% CHANGE
Silver (Koz)	1,198	1,589	(24.6)
Gold (Oz)	113,351	103,510	9.5
Lead (t)	6,468	6,118	5.7
Zinc (t)	10,112	7,950	27.2

Tailings dam at Ciénega



Ciénega is located near the small community of Nuestra Señora de la Ciénega, population 2,700. The nearest town of Santiago Papasquiaro, population 45,000 (2010 census), is 153 kilometres away, which itself is 172 kilometres from Durango, the capital of the state. Because the community is entirely dependent on the mine, community engagement efforts include access to basic services.

Total annual gold production increased by 9.5% compared to 2009 primarily as a result of higher volumes of ore milled. Gold recovery increased through the commissioning of the gravimetric concentrator, producing 197 tonnes from which 24,548 ounces of gold were recovered. The average gold grade in 2010 remained steady at 4.3 g/t, however we expect a 12% decrease for 2011 as a result of natural mine trends.

Annual silver production significantly decreased as a result of lower ore grade, while lead production increased due to the higher volumes of ore milled. Zinc production rose as a result of higher ore milled and better ore grades and recovery rates.

The expansion of milling capacity from 755,000 tpy to 930,000 tpy continued to progress and is expected to be completed in 1H 2011. Initial investment for the project is US\$24.9 million, while sustaining capital expenditures of US\$0.5 million per annum will be incurred from 2012 to 2019. This expansion, along with dilution control through the use of mining methods for narrow veins and improved recovery rates, will contribute to stabilising production at 110,000 ounces of gold per year.

The exploration programme at this mine included 56,119 metres of diamond drilling. Resources decreased from 2.3 million ounces of gold in 2009 to 1.7 million in 2010 as a result of the lower average ore grade, while reserves decreased from 1.2 million ounces of gold in 2009 to 840,000 in 2010. The decrease in proven and probable reserves, combined with expanded milling capacity, puts mine life at 11.3 years, compared to 13.5 years in 2009.

In line with our strategy to consolidate mining districts, exploration at areas of influence was conducted at San Ramón and Las Casas.

i Further information on these projects is included on pages 52-53.

FINANCIAL HIGHLIGHTS - CIÉNEGA MINE

	2010	2009	% change
Adjusted revenues (US\$m)	186.4	140.2	32.9
Gross profit (US\$m)	116.6	80.5	44.8
Capital expenditure (US\$m)	65.1	41.7	56.1

Adjusted revenues increased from US\$140.2 million in 2009 to US\$186.4 million in 2010, reflecting increased volumes and higher prices of gold, lead and zinc.

Adjusted production costs increased by 18.1% to US\$56.7 million, while cost per tonne⁷ rose by 7.2% to US\$65.9. In addition to the exchange rate effects, the main factors impacting cost per tonne were:

⁷ 2010 Cost per tonne methodology considers market expenses as part of the freight.



REVIEW OF OPERATIONS *continued*

- higher contractor costs as a result of the approximate 6,000 metres increase in development works;
- higher unit costs of electricity and diesel, although energy efficiency ratios remained stable;
- higher consumption of explosives for development activities which increased the cost of operating materials; and
- increase in wages and bonuses paid to workers for reaching efficiency goals.

The above effects were partially offset by a 10.2% increase in volume of ore milled, lower maintenance costs due to supplier discounts, and optimised consumption of certain operating materials such as steel balls. This reflected improved control of the size of mineral fed to the mill resulting from the Six Sigma project. In addition, costs benefited from lower consumption of tyres due to their higher quality.

Gross profit at Ciénega increased from US\$80.5 million in 2009 to US\$116.6 million in 2010, while the gross margin increased from 62.6% to 67.3%.

Productivity and cost reduction initiatives

Capital expenditures rose by 56.1% from US\$41.7 million in 2009 to US\$65.1 million in 2010. Resources were allocated to the sinking of the shaft, expansion of milling capacity, development and mining works, acquisition of mining concessions and surface land, replacement of in-mine equipment and construction of additional employee housing.

The project to sink the shaft a further 300 metres, to a total depth of 720 metres in order to gain access to deeper ore reserves remains on track. The sinking was completed at year-end and additional mining works, crusher installation and a change of hoist cables in early 2011 will allow the commissioning of the shaft to take place in 2H 2011 as expected. This US\$13.3 million project will increase hoisting capacity from 2,400 to 3,000 tonnes per day once it is fully integrated with the existing shaft.

We concluded the implementation of the Six Sigma quality control methodology with the support of an interdisciplinary team comprised of mine-planning professionals and maintenance personnel. This methodology optimises drilling patterns and the utilisation of explosives, resulting in smaller-size material for the mill. Combined with better maintenance

turnaround times, this resulted in 860,500 tonnes of ore milled in the year, a 10.2% increase year on year.

Following the optimisation of the leaching circuit expansion in 2009, Six Sigma methodology was also applied at the leaching process to further increase recovery rates. Utilisation of several reagents was optimised through this methodology and action plans were established to maintain these variables within an optimal level.

The work-teams responsible for leading these projects received a one-time bonus as recognition for their contributions to enhancing productivity and efficiency.

2011 priorities

- Complete expansion of milling capacity to 930,000 tonnes per year
- Commission the deeper shaft

Long-hole drilling mining method at Ciénega





HERRADURA

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

Location: Sonora

In operation since: 1997

Facilities: Open pit mine, Merrill-Crowe plant

Workforce: 619 employees, 128 contractors

Avg ore grade in reserves: 0.83 g/t of gold

Total reserves: 1.9 million ounces of gold

Mine life: 10.0 years

HERRADURA

ATTRIBUTABLE PRODUCTION	2010	2009	% CHANGE
Silver (Koz)	216	171	26.3
Gold (Oz)	162,984	145,510	12.0

Panoramic view of the Centauro pit at Herradura



Herradura is located 125 kilometres northwest from the nearest large town of Caborca in the State of Sonora, with a population of 81,000 (2010 census). Workers from area villages are provided daily transportation to the mine site.

Attributable gold production at Herradura achieved record levels in 2010, rising 12.0% as a result of increased ore volumes deposited at the leaching pads with the benefit of additional trucks and loaders. Higher ore grade and higher average recovery rates also contributed to the increase in production. Silver production rose 26.3% due to higher ore grades and ore deposited. Gold ore grade at this mine is expected to be maintained at 0.70-0.80 g/t well beyond 2011.

The eighth leaching pad was completed in the third quarter of 2010. Construction of the ninth leaching pad began immediately thereafter. This project, which will ensure stable production at the mine, will require a US\$16.7 million investment in two phases; the first will be completed in 2H 2011 and the second in 1Q 2012.

Exploration at Herradura included 96,065 metres of reverse circulation and diamond drilling. Resources rose by 49.5% to 3.8 million ounces of gold. Proven and probable reserves were replenished in 2010, and based on higher production volumes and audited figures the expected life of the mine is 10 years, compared to 11.9 years in 2009.

Exploration at the Centauro Deep target continued with 63 diamond drill holes totalling 27,379 metres. As a result, resources at this project located below the main pit at the Herradura mine reached 1.3 million ounces of gold. Construction of the ramp to conduct additional exploration and to extract material for metallurgical tests began with 460 metres developed in 2010, out of a planned 2,000 metres. Further analysis will be carried out to define a possible underground mine with a dynamic cyanidation plant that will initially process high grade ore from the pit.

FINANCIAL HIGHLIGHTS – HERRADURA MINE

	2010	2009	% change
Adjusted revenues (US\$m)	366.8	246.5	48.8
Gross profit (US\$m)	268.9	159.9	68.2
Capital expenditure (US\$m)	54.4	64.8	(16.0)

The Herradura mine achieved adjusted revenues of US\$366.8 million, a 48.8% increase over 2009 reflecting record gold prices and production.

Adjusted production costs totalled US\$93.6 million, a 34.4% increase compared to 2009⁸. Cost per tonne rose by 9.1% compared to 2009 to US\$5.6 per tonne deposited; in addition to the negative exchange rate effects, this was mainly driven by:

⁸ 2008 and 2009 figures were modified to reflect an intercompany elimination related to equipment leased by Minera El Bermejal to Herradura.



REVIEW OF OPERATIONS *continued*

- the fact that we are no longer capitalising certain stripping costs, including diesel consumption, at the Valles pit, as the lower stripping ratio of 2010 requires that such costs now be charged to the income statement;
- higher diesel and electricity prices, and greater diesel consumption as a result of longer haulage distances and deeper pits;
- greater consumption of explosives, as the average size of the ore deposited at the pads has been reduced to optimise the leaching process; and
- increase in wages and bonuses paid to workers for reaching efficiency goals.

The 23.2% increase in ore deposited mitigated these factors. Gross profit reached a record US\$268.9 million, 68.2% higher than in 2009, and with a 73.5% gross margin.

Productivity and cost reduction initiatives

Capital expenditures totalled US\$54.4 million, decreasing 16.0% from 2009. Funds were allocated to the acquisition of Noche Buena's mineral rights and royalties, construction of leaching pads, purchase of equipment, efficiency projects, and process equipment related to obtaining certification under the Cyanide Management Code.

Construction of an automated diesel dispatch centre began in 2H 2010 to optimise equipment utilisation rates and ensure continuity of operations. This facility will comprise two large fuel storage tanks and is expected to become fully operational in 1H 2011. Technology investment included the implementation of Mine Star software that enhances productivity by optimising the utilisation of trucks and loaders.

At the laboratory, in parallel with the automated sampler system, US\$2.4 million was invested to automate the assay process, which will be concluded by 3Q 2011 and is expected to increase the volume of samples analysed per day from Herradura and Soledad-Dipolos.

A new system was installed to add lime evenly to the ore before depositing it in the pads, part of an initiative to optimise sodium cyanide consumption in the leaching process that will ultimately improve gold recovery and reduce costs.

Caterpillar awarded Operators Certification to Herradura truck operators in recognition of their skills and technical expertise. Those certified in 2010 had provided training to other employees in accident prevention and fostered proper use of the trucks, thereby reducing maintenance and increasing productivity. In 2011 we will pursue certification for shovels operators.

2011 priorities

- Continue exploration at Centauro Deep and areas of influence
- Conduct pre-feasibility study for a dynamic cyanidation plant to treat higher grade ore from the pit

New equipment and leaching pads at Herradura





SOLEDAD -DIPOLOS

Ownership: Minera Penmont JV (56% Fresnillo plc, 44% Newmont USA Limited)
Location: Sonora
In operation since: 2010
Facilities: Open pit mine, Merrill-Crowe plant
Workforce: 323 employees, 99 contractors
Avg ore grade in reserves: 0.62 g/t of gold
Total reserves: 590,000 ounces of gold
Mine life: 6.3 years

SOLEDAD-DIPOLOS			
ATTRIBUTABLE PRODUCTION	2010	2009	% CHANGE
Silver (Koz)	29	-	N/A
Gold (Oz)	61,358	-	N/A

Panoramic view of Soledad-Dipolos



Located nine kilometres northwest of the Herradura mine, Soledad-Dipolos relies on the same villages as Herradura for workers, for whom daily transportation is provided to the mine site.

Commercial production at Soledad-Dipolos commenced in 2010 following construction and development work completed in December 2009. As a result of the increase in resources reported in 2009, an expansion project was approved by the Executive Committee in early 2010 to produce 130,000 total ounces of gold per annum during the life of the mine. The total additional investment for this expansion is US\$34.0 million, of which US\$22.0 million was invested in 2010, US\$6.0 million budgeted for 2012 and the remaining US\$6.0 million for 2013.

Attributable gold production for the full year surpassed our expectations, totalling 61,358 ounces. This was the result of increased stripping and the acquisition of additional equipment in anticipation of the expansion. Gold ore grade at this mine was 0.61 g/t and is expected to be maintained throughout the life of the mine.

Exploration continued with 49,208 metres drilled, resulting in 770,000 ounces of gold resources and 590,000 million ounces of gold reserves.

Construction of the second leaching pad was concluded in 1H 2010 in line with the budget. Construction of the third, fourth and fifth leaching pads be-

gan in the 2H 2010 with advanced purchase orders placed for liners and pumping systems; the US\$18.0 million investment is part of the Soledad-Dipolos expansion and is expected to be completed by the end of 2011.

FINANCIAL HIGHLIGHTS - SOLEDAD-DIPOLOS MINE

	2010	2009	% change
Adjusted revenues (US\$m)	137.2	-	N/A
Gross Profit (US\$m)	97.7	-	N/A
Capital expenditure (US\$m)	36.8	57.7	(36.2)

In its first year of commercial operation, Soledad-Dipolos recorded adjusted revenues of US\$137.2 million. Adjusted production cost was US\$55.1 million, in line with the Company's budget, while cost per tonne was US\$5.71. Gross profit at this mine was US\$97.7 million with a gross margin of 71.4%.

Capital expenditures totalled US\$36.8 million and included stripping activities, construction of leaching pads and acquisition of equipment.

2011 priorities

- Conclude expansion to produce 130,000 total ounces of gold per year



Mines in development



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

Saucito is 8km southwest of the Fresnillo mine. The Group is developing basic infrastructure for the local *ejido* of Saucito, population of 317 (2010 census).

The Saucito project comprises a system of epithermal veins containing silver, gold, lead and zinc. The first stage of the mining plan includes the development of the Saucito, Jarillas and Mezquite veins, the latter added to this stage based on positive results in 2010. The Santa Natalia and Jarillas West veins will continue to be explored and integrated in the second stage of the project.

The Saucito shaft was commissioned in 1Q 2010 and began operations successfully. The Jarillas shaft advanced to a depth of 365 metres, out of the total 645 metres planned, and remained on schedule for start-up in late 2012. Construction of ramps and develop-

ment works reached 33,695 metres. Construction of the beneficiation plant progressed according to schedule, with commissioning of the mill in 1Q 2011.

Total investment at Saucito was originally budgeted at US\$309.0 million, of which US\$118.4 million was incurred in 2010 for equipment, beneficiation plant and tailings dam construction, and mining works. Given progress in the year, we now expect to complete the development of Saucito under the original budget.

Proceeds of US\$25.6 million realised from the sale of metal content in ore extracted as part of development works were credited to the capitalised costs of the project. Over the course of the year, 1.2 million ounces of silver and 6,323 ounces of gold were recovered from the development works at Saucito and processed at the Fresnillo mill. Since November 2010, 91,043 tonnes of ore were stockpiled in preparation for the start-up of the Saucito mill.

Panoramic view of Saucito, the Group's most advanced development project



The Fresnillo Group delivers growth through the disciplined advancement of development projects towards start up and commercial production.

NOCHE BUENA

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

Location: Sonora, 23 km from Herradura

Facilities: Open pit mine, Merrill-Crowe plant

Commercial start-up: 2012

Anticipated production: Annual average production of 42,000 attributable ounces of gold

The expected total production at this mine will be 376,000 ounces of gold over the initial five year mine life. The average ore grade will be 0.5 g/t. An independent mining consultancy confirmed reserves of 481,000 ounces of gold.

Engineering for the project was completed and all permits have been filed to commence pre-stripping activities in 2Q 2011.

The future Noche Buena mine will be supported by the same communities as Herradura and Soledad-Dipolos, with training for new workers to begin in 2011.

Noche Buena is a disseminated gold deposit acquired from Seabridge Gold Inc. in 2008. In early 2010, 58,612 metres of diamond and reverse circulation drilling (210 holes) was completed to upgrade the mineral resource and to select sites for construction of the leaching pads and mine facilities. Low grade mineralisation was extended to the east of the ore body and included in the preliminary mine plan. Construction of the mine was approved in 2H 2010, following the results obtained from the pre-feasibility study.

The Noche Buena purchase agreement included a US\$5 million payment on commencement of production and a 1.5% royalty fee. In December 2010, Minera Penmont bought out the royalty and cash payment for a total consideration of US\$10.12 million in cash.

The mine will be an open pit heap leach operation similar to the existing Herradura and Soledad-Dipolos mines with a Merrill-Crowe plant and will require estimated pre-operative capex of US\$63.0 million.



Exploration



EXPLORE

Exploration is the key driver of growth for the Group, and we maintain a policy of continuous investment across price cycles. Our exploration portfolio includes projects that extend across the multiple stages of exploration (detection, discovery and definition), resulting in a strong pipeline of growth.

The Group's exploration programme is carefully designed and executed with continued focus on consolidating our presence in the principal silver and gold districts of Mexico, and in selected properties acquired in Peru where work has been initiated. In 2010 our team of exploration geologists and engineers was increased from 55 to 70 professionals, and the land position increased from 1.7 to 1.9 million hectares, including the Candameña (Chihuahua), and Cebadillas and La Yesca (Nayarit) properties optioned from third parties.

The Group has four Exploration Offices – in Zacatecas, Toluca, Chihuahua and Hermosillo. Each has an HSECR programme focused on health, safety, environmental management systems and community engagement initiatives that allow us to build positive relationships from the earliest interactions.

In 2010, the Group's exploration programme comprised 341,265 metres of drilling, mapping, geochemical sampling, and geophysical surveys. Approximately half of the budget was invested in drilling which resulted in a substantial increase to the resource base.

These pages: Exploration at Noche Buena



Underground

MINERA SAUCITO EXPANSION

Ownership: 100% Fresnillo plc
Location: Zacatecas, 8 km SW of the Fresnillo mine
Indicated & inferred resources: 361.5 million ounces of silver
1.5 million ounces of gold

Diamond drilling (23,066 metres) was carried out from the surface on the Santa Natalia and Jarillas West veins, and underground drilling carried out on the Jarillas, Mezquite, and Saucito veins. A new ore-shoot was discovered west of the Jarillas shaft, adding over 76 million ounces of silver and 300,000 ounces of gold to the resources.

MINERA JUANICIPIO

Ownership: 56% Fresnillo plc, 44% MAG Silver
Location: Zacatecas, 8 km SW of the Fresnillo mine
Indicated & inferred resources (attributable): 90.9 million ounces of silver
332,000 ounces of gold

40 holes totalling 28,402 metres of infill drilling on the Valdecañas vein converted approximately 57% of the resources to the indicated category, and a pre-feasibility study was concluded in January 2011. Silver-gold values were also intercepted on the east segment of the Juanicipio vein where drilling continues.





EXPLORE

Underground

SAN JULIÁN

Ownership: Minera Fresnillo, S.A. de C.V. (100% Fresnillo plc)

Location: Chihuahua/Durango border

Indicated & inferred resources: 143.8 million ounces of silver
487,500 ounces of gold

We conducted 61,163 metres of drilling in 181 holes. Infill drilling on the JM disseminated ore body with silver-lead-zinc values converted 101 million ounces of silver to the indicated category in a wide ore body amenable to low cost bulk underground mining. Silver-gold resources were also added to the San Julián and San Atanasio veins. The San Julián and San Roberto ramps were extended to 5,826 and 805 metres respectively, and underground exploration has been initiated from both workings.

Results of the scoping study completed at year end recommend first developing the disseminated ore body and then the gold vein system. This sequential development plan is expected to maximise the present value of the project. Additional exploration activities and metallurgical tests are being conducted to develop a definitive mine plan.

The positive exploration results and scoping study led to an increase in the exploration budget for both 2010 and 2011, which will allow for ramp construction and development of mining works that will enable the Company to further validate the economic viability of the project. Investment in San Julián comprises approximately 40% of the total 2011 exploration budget.

SAN RAMÓN

Ownership: Minera La Ciénega, S.A. de C.V. (100% Fresnillo plc)

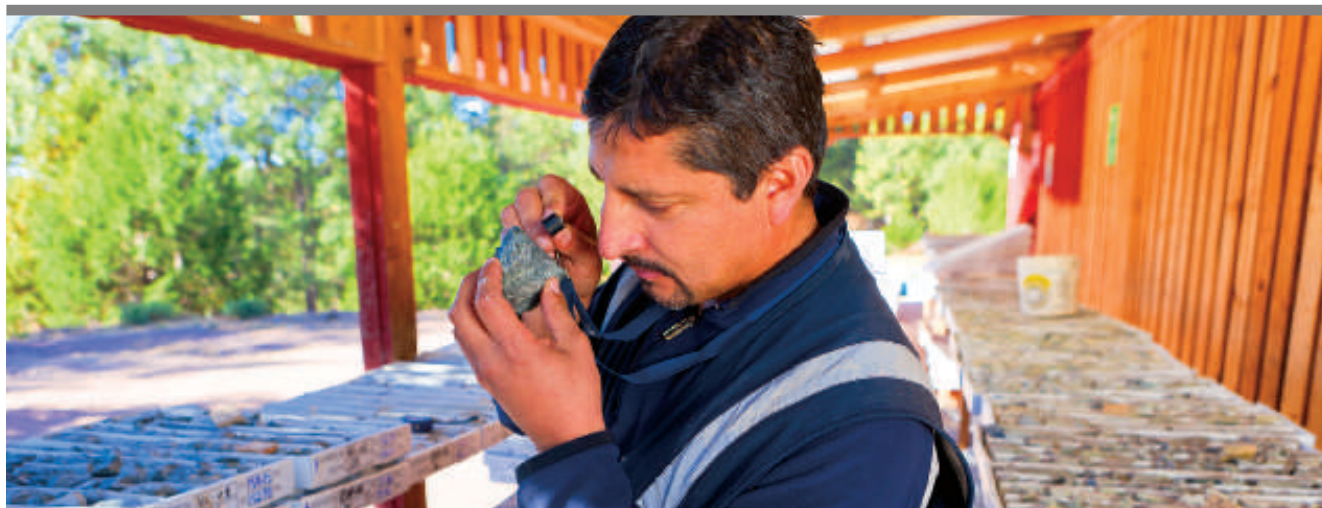
Location: Durango

Indicated & inferred resources: 21.8 million ounces of silver
132,000 ounces of gold

Exploration at this project in the Ciénega district included 23,681 metres of drilling, which converted 46% of resources to the indicated category. However decreasing grade and block reclassification led to a 67% reduction in total resources. Exploration continues along the San Ramón vein where an additional 2 million tonnes of ore has been recently delineated, and along the neighbouring Candelaria, Republicana, and Pereña veins. The San Ramón adit has now reached 805 metres along the main vein. Preparation of a pre-feasibility study will begin in 2011.

Ore extracted at San Ramón will be trucked and milled at Ciénega.

Metallurgical testing at San Ramón



LAS CASAS

Ownership: Minera La Ciénega, S.A. de C.V. (100% Fresnillo plc)

Location: Durango

Indicated & inferred resources: 33.8 million ounces of silver 308,000 ounces of gold

We conducted 34,541 metres of drilling in 2010 exploring the wide silver-lead-zinc veins in the Las Casas area, also in the Ciénega district. The vein has been recognised along a 1.2 km strike. A scoping study will be carried out in 2011 to evaluate the economic potential of this resource.

The potential size of Las Casas would warrant construction of a new mill at Ciénega.

CENTAURO DEEP

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

Location: Sonora, below the Centauro main pit at Herradura

Indicated & inferred resources (attributable): 1.3 million ounces of gold

At Centauro Deep, 63 holes totalling 27,379 metres were drilled, delineating six gold mineralised shear zones along a 1.5km strike; gold grades could support an underground operation. Potential from this zone is estimated at 6 million ounces of gold, and the structures remain open at depth.

Ramp construction at Centauro Deep





Open pit

ORISYVO

Ownership: Minera Fresnillo, S.A. de C.V. (100% Fresnillo plc)

Location: Chihuahua

Indicated & inferred resources: 2.72 million ounces of gold in oxides
6.51 million ounces of gold in sulphides

This large gold-bearing porphyry system is situated in a remote area of the Sierra Madre, where the terrain is rugged and a challenge for operations. Disseminated gold values have been delineated over a 1 by 1.5 km area, and through 400 metres vertical extent, with grades ranging from 0.5 to 2.5 g/t gold. The site for an exploration adit was selected and permitting is in process to initiate underground exploration in 1H 2011. Metallurgical testing on core samples is in progress and pilot plant testing of gold bearing material from the adit will be undertaken during 2011. Because of the additional resources identified, the scoping study will also be updated in the year.

EXPLORACIONES MINERAS PARREÑA – OTHER PROSPECTS

Ownership: 100% Fresnillo plc

Drilling is in progress at 11 early stage prospects:

- Guanajuato (Guanajuato)
- Leones (Chihuahua)
- Lucerito, El Cairo, Manzanillas, San Juan (Durango)
- Oztumatlán (Michoacán)
- San Nicolás del Oro (Guerrero)
- Tocayos, Jaralillo (Zacatecas)

Drilling on these properties is delivering promising results. Ten additional properties were evaluated in the year and merit drill testing in 2011: Candameña (Chihuahua); Cebadillas and La Yesca (Nayarit); Guachichil, Atotonilco, Urite (Zacatecas); La Choya (Sonora); Rosario (Sinaloa); and Huacravilca and Amata (Peru).

Prospecting teams are evaluating areas of potential in the north Pacific, Sierra Madre, and Mesa Central silver and gold belts of Mexico and in the southern Andes region of Peru.

Exploration activities at the Orisyvo gold project

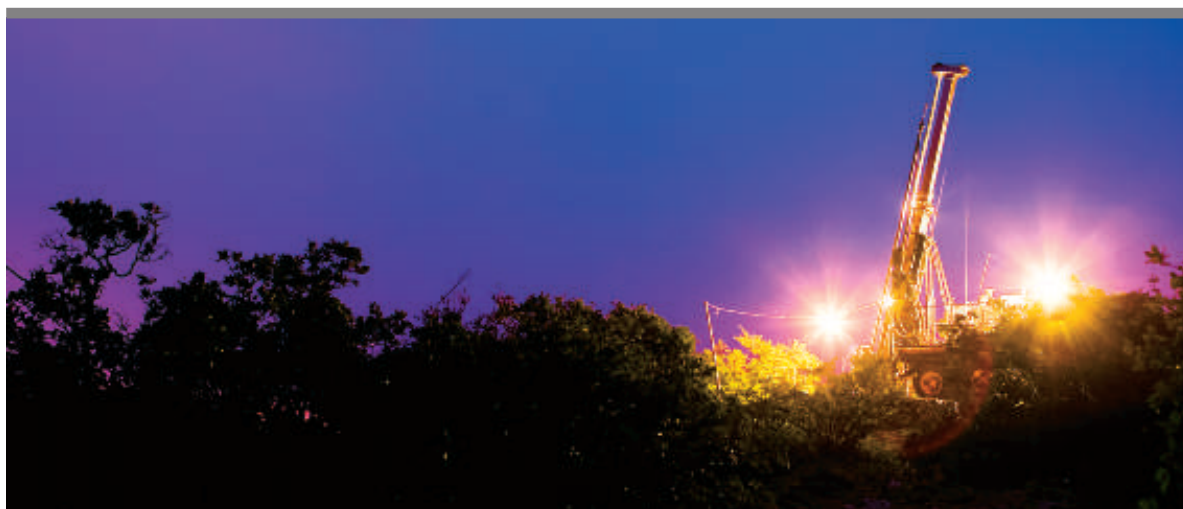


In 2H 2010, options were taken out on three green-field projects: Candameña, in the Orisyvo district in the state of Chihuahua, covers 5,185 hectares and contains the Nuevo Dolores disseminated gold prospect; and Cebadillas and Yesca in Nayarit, which host epithermal vein systems over 9,100 hectares with a combined exploration potential of three million ounces of gold. The Group has the option to acquire 100% of these three concessions.

2011 priorities

- Conclude pre-feasibility study at Juanicipio in January
- Continue exploration at San Julián and San Ramón to prepare pre-feasibility study
- Complete exploration adit and update scoping study at Orisyvo, conduct exploration and metallurgical studies
- Continue exploration activities at Las Casas to conduct scoping study
- Acquire land at targeted prospects and projects
- Intensify exploration activities to increase the total resource base and upgrade its category

Juanicipio exploration site in Zacatecas



SUSTAINABLE DEVELOPMENT REPORT

Sustainability is core to Fresnillo plc's philosophy, strategy and operations, underpinning our social license to operate. Our policies are focused on health and safety in the workplace, environmental protection, and sound relations with the communities where we operate.

We seek to ensure that our operations are fully in compliance with government regulations and industry best practices, and to foster a culture of sustainable development, teamwork and continuous improvement. An important aspect of this culture is ongoing outreach and dialogue with our stakeholders through a variety of channels.

OUR SUSTAINABILITY FRAMEWORK

Health, Safety, Environment and Community Relations System

The Group's sustainability efforts are managed through its Health, Safety, Environment and Community Relations (HSECR) System.

At the Board level, an HSECR Committee that includes the Chief Executive is responsible for formulating HSECR policies, reviewing investigations of any accidents, and evaluating independent performance audits and action plans. Key sustainability issues are identified through the risk management process, which includes an analysis of likelihood and impact.

i Further details are included in the Risk Management Framework and Principal Risks and Uncertainties on pages 22-25.

At the operations level, each business unit has separate programme managers specifically responsible for aspects of health, safety, environment and community relations who report to the business unit manager and to an HSECR corporate coordinator. Each mine also has a *Comisión de Seguridad e Higiene* – Hygiene and Safety Commission – comprised of representatives from the union and non-union employees, as well as contractors, who monitor and review performance on an ongoing basis. The HSECR team reports to the Executive Committee every three months. In 2010 the Sustainable Development Manager position was created to advise on global best practices in corporate social responsibility and coordinate Board- and operations-level initiatives.

The HSECR team met three times in 2010, including a session to integrate 59 key contractors in our supply chain into the HSECR System. An average of 27 hours per person of HSECR training was provided to employees and contractors during the year and we rolled out a six-month campaign and provided a Module on Sustainable Development to ensure that all personnel across the organisation understand the Group's sustainability guidelines and procedures in place to fight corruption and promote human rights.

International, national and industry guidelines and certifications

A core responsibility of the HSECR System is compliance with regulations issued by governmental authorities such as the Mexican Secretariat of Labour (STPS) and the Mexican Secretariat of the Environment and Natural Resources (SEMARNAT). We also seek to adhere to guidelines on workplace policies and programmes established by international institutions such as the OECD, International Labour Organisation and World Health Organisation.

For best practices in our industry, we follow the framework and recommendations of the International Council on Mining and Metals (ICMM) and the Global Reporting Initiative (GRI). We also participate in various global and national environmental initiatives such as the Corporate Commitment on Wilderness and the Mexican Greenhouse Gas Programme.

The certifications we seek to obtain and maintain are:

- OHSAS 18001:2008, an international occupational health and safety management system specification
- Safe Enterprise Certificate from the STPS
- ISO 14001:2004 for Environmental Management Systems
- Clean Industry Certificate from the Mexican Environmental Authority (PROFEPA)
- Cyanide Management Certificate from the International Cyanide Management Institute

We are signatories to the United Nations Global Compact and track awards and distinctions such as the Socially Responsible Company Award from the Mexican Centre of Philanthropy (CEMEFI) and the Ethics and Values in the Industry Award from the Mexican Confederation of Industrial Chambers (CONCAMIN). We sent our second Communication on Progress (CoP) in 2010 and participated for the first time in the Carbon Disclosure Project (CDP), an initiative aimed at quantifying and mitigating greenhouse gas emissions.

Memberships, partnerships and awards

We understand the importance of participating in international and domestic industry groups and organisations related to sustainability and corporate social responsibility, as well as in seeking partnerships with non-profit and public sector organisations.

RELATIONSHIP TYPE	NAME	OUR ROLE
Membership or participation	CAMIMEX (Mexican Mining Chamber)	Active member
	CESPEDES (Sustainable Development Studies Commission, Private Coordinator Council, CCE)	Active member of the Directive Council
	CONCAMIN (Confederation of Industrial Chambers)	Representation through CAMIMEX and recipient of the Ethics and Values Award
	CEMEFI (Mexican Centre for Philanthropy)	Recipient of the Socially Responsible Company (ESR) Award
	United Nations Global Compact	Subscriber to the 10 Principles; annual submission of Communication on Progress
Partnership or project	INIFAP (National Institute for Forestry, Agriculture and Livestock Research)	Partnership for reforestation and research at Ciénega and Fresnillo
	The Carbon Disclosure Project	Participant in the FTSE 350 category through disclosure on climate change risks and mitigation efforts
	The Wild Foundation	Subscriber to the Corporate Commitment on Wilderness to promote biodiversity conservation
	STPS (Mexican Secretariat of Labour)	Participant in the Safety Self-Management Programme
	SEMARNAT (Mexican Secretariat of the Environment) /CESPEDES	Participant in the Mexican Greenhouse Gas Programme, a public-private partnership
	CEDES (Ecology and Sustainable Development Commission of Sonora State)	Partnership to protect the Sonoran Pronghorn
	PROFEPA (Mexican Environmental Authority)	Participant in the Clean Industry Programme
	International Cyanide Management Institute	Participant in the Cyanide Management Programme
	UK Prince of Wales & Cambridge University	Subscriber to the Copenhagen and Cancun Communiqués to promote international commitments to climate change

Strategic priorities

EMPLOYEES

Objective

Provide professional development opportunities and workplace satisfaction for our personnel.

PERFORMANCE INDICATOR	2010	2009	2008	COMMENT
Professional development training Average hours / person	95	92	92	Focus on leadership, teamwork, process improvement, productivity and management skills
HSECR training Average hours / person	27	23	18	Increased training on Health, Safety, Environment and Community Relations issues. Incorporated a Module on Sustainable Development
Turnover rate Number of union and non-union employees who left the company divided by the total number of employees	4.61	5.56	8.90	Reflects improved employee profit sharing and efforts to improve quality of life
Employee satisfaction survey Survey of union and non-union workers and contractors	6.8	N/A	4.9	The study is conducted every two years by an independent third party; higher satisfaction reflects actions taken on comments from previous surveys
Labour relations Total number of days in which operations were compromised due to disagreements with local unions and/or contract negotiations	0	0	0	All collective and contract negotiations were successfully conducted



Engineers at Centauro Deep

Priorities, policies and programmes

The wellbeing of our people directly correlates to the wellbeing of the Group. The quality of life of our personnel and their families can be a competitive differentiator, thus we place significant emphasis on fair labour agreements with both union and non-union workers and competitive wages and benefits for all. In the areas where we operate, and particularly in geographically isolated regions, we provide basic services such as housing, medical services, education and transportation, as well as other benefits like access to communications and recreational and sport facilities.

This year we invested US\$1.2 million in professional development training programmes. These primarily focus on creating a result-oriented culture through leadership, process improvement, innovation, productivity and management skills. To ensure personnel alignment with our health, safety, environmental and community relations standards, more than US\$215,000 was allocated specifically to HSECR training. Personnel recruitment efforts included internship programmes for engineers to ensure a next generation of skilled mining and exploration professionals.

Contractors are seen as strategic partners and we continue to integrate them into our management systems and training programmes. Development of mines and new projects in 2010 required us to hire a significant number of new contractors. While HSECR issues are covered within our contractual arrangements, we intend to strengthen training and supervision in this particular area.

Labour environment

The Fresnillo Group fully complies with Mexican legislation regarding respect for human rights. Through its Code of Conduct and Fresnillo Plays Fair programme, the Group also promotes gender equality, and freedom of thought and association, and prohibits slavery, compulsory labour, child labour, and actions that discriminate or violate other groups' customs and culture.

i More information about the Code of Conduct and the Fresnillo Plays Fair programme may be found on page 96-97.

Teamwork is central to the Fresnillo work culture. In 2010, for example, we recognised 12 working teams for developing specific efficiency improvement projects. We also implemented Performance Evaluation

Planning during the year, which aligns employees' performance with the Company's strategic objectives.

Total 2010 wages and salaries were \$20.7 million, a 16.9% increase from 2009. Collective labour negotiations with unions concluded successfully in all units, with a 6.5% wage increase and a 1.0% bonus on base salary.

2011 priorities

- Launch the Technical Mining School at Fresnillo to improve operational skills and train new operators for several projects in the pipeline
- Develop the Institutional Training Programme for Skills Development
- Monitor and strengthen personnel security measures as needed in light of drug-related violence in Mexico

2010 WORKFORCE OVERVIEW

- 2,449 employees and 1,972 contractors (annual average), 57 geological technicians at the Exploration division (monthly average)
- 93.0% men and 7.0% women (including 48 women as heavy equipment operators)
- 80.0% unionised and 20.0% non-unionised
- 16.0% between 18-25 years, 67.0% between 26-45, 17.0% over 46
- 52.0% between 0-5 years at Company, 16.0% between 6-10, 32.0% more than 11
- 2.0% at executive level
- 269 new hires
- 30 engineers in training (annual average); accepted 77 trainees plus 20 in the Fresnillo mine

HEALTH AND SAFETY

Objective

Health: Control occupational illnesses and improve general health through preventive care

Safety: Zero fatal accidents through the elimination of dangerous workplace conditions and behaviours

PERFORMANCE INDICATOR	2010	2009	2008	COMMENT
Fatalities	2	0	0	We have a Zero Tolerance Policy in which no fatality is ever acceptable. After two years with no fatalities, we suffered two such accidents in 2010: in August, a carbon monoxide poisoning at Ciénega; in November a fall of a scoop tram at Fresnillo
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	2.21	3.10	3.63	Accident rate was reduced as a result of our safety programmes
Lost work days rate The number of days lost due to disabling and non-disabling accidents divided by the total number of union and non-union employees, as well as contractors	1.64	1.20	1.58	Increase is mainly explained by the two fatal accidents

Safety procedures for managing
sodium cyanide



Priorities, policies and programmes

Group policy is to put the life of our personnel above all else. We have zero tolerance rules that absolutely prohibit any deviation from the Group's safety rules and procedures.

In order to maintain the wellbeing of our personnel, we provide a range of medical services for union and non-union employees and contractors. Health programmes include annual examinations, routine vaccinations, health seminars, and comprehensive medical care for those in need. This enables us to monitor occupational illnesses, implement prevention programmes and monitor the general health of our personnel to reduce common conditions such as diabetes, hypertension and obesity.

Workplace safety measures are specific to the nature of each mine unit: in underground mines we install ventilation systems, provide refuge stations and reinforce mine works with a roof support system based in anchor bolts and shotcrete. At open pit operations we maintain mobile equipment in optimal condition to ensure driver safety and promote off-road trucks and shovels training to operators through a simulator that virtually exposes workers to harsh operational situations.

All hazardous materials are contained, stored and labelled properly at every worksite.

To encourage a culture of health and safety, we provide ongoing training through programmes such as Occupational Illnesses Prevention Programme, Safety Conduct Programme, Safety Programme for Facilitators, Hazardous Materials Management and First Aid.

2010 highlights

- US\$6.0 million invested in health and safety infrastructure, initiatives and training
- Group safety advisors certified by the British Standards Institution as OHSAS 18001 Leader Auditors
- Enrolled our medical doctors in a two-year occupational health master's programme at *Universidad Autónoma de Coahuila* (UAC)
- Trained 15 rescue teams; the Fresnillo mine team placed third in the Mining Rescue category at the 12th Mine Rescue Team Competition organised by CAMIMEX

- Conducted 133 medical scans of employees working in higher risk operational areas
- Reduced absenteeism at Ciénega by 2.0% through periodic visits from medical specialists to the mine
- Reduced lost work days at the Fresnillo mine by 21.0% through a Health Integration Programme implemented in partnership with the Mexican Institute for Social Security (IMSS) in 2009
- Achieved 80.0% advance in OHSAS 18001:2008 certification at Fresnillo; initiated the process at Herradura, Soledad-Dipolos and Ciénega at year end
- For the Safe Enterprise Certificate (granted by the Mexican Secretariat of Labour), certification is obtained following completion of three levels of the Safety Self-Management Programme; Herradura completed the First Level programme in 2010 and is awaiting the Secretariat's report; Fresnillo and Ciénega, due to the fatal accidents, were put on stand-by until the recommended preventive measures are reviewed; Saucito is awaiting review

2011 priorities

- Zero fatal accidents and a 20.0% improvement in other safety indices
- A 10.0% reduction in lost work days rate for general illnesses
- OHSAS 18001:2008 certification at Fresnillo and 50.0% progress at all other operating mines
- First level of the Safe Enterprise Certificate at all operating mines; integration of Soledad-Dipolos into the programme
- Creation of an internal health team and ergonomics committee at Herradura

TWO FATALITIES IN 2010

We deeply regret the loss of two employees in underground mines this year, the first at Ciénega by carbon monoxide poisoning, and the second at Fresnillo by a fall of a scoop tram.

The HSECR Committee maintains its strict commitment to a Zero Fatality Rate, and following thorough investigations of these incidents the Committee has requested additional training be provided to extend awareness about the fatal consequences of disregarding safety procedures.

ENVIRONMENT

Objective

Environmental performance: Minimise environmental impact of all operations and throughout the lifecycle of a mine

Environmental management: Comply with legal and regulatory requirements and align our operations with international best practices

PERFORMANCE INDICATOR	2010	2009	2008	COMMENT
Energy consumption Gigajoules per tonne of product	0.124	0.188	0.157	Eco-efficiency projects
Fresh water consumption Cubic meters per tonne of product	0.095	0.209	0.137	Eco-efficiency projects
Greenhouse gas emission CO ₂ e tonnes per tonne of product	0.011	0.017	0.015	Eco efficiency projects
Environmental incident lost days rate Total number of days in which operations were compromised due to environmental incidents	0	0	0	Environmental incidents refer to tailing dam leakages, leaching pad contamination, fires within mines and facilities, and spillage of hazardous materials

Sustainable forest at Ciénega



Environmental impact, policies and programmes

Our operational philosophy is to manage environmental risk and mitigate our impact over the lifecycle of a mine. The Group's environmental management systems extend from the exploration phase, to mine development and operation, to closure and restoration. This year, we invested US\$2.6 million in environmental efforts, including infrastructure and programmes.

Through our long-term experience in the mining sector, we have identified five main environmental aspects on which our operations have an impact and therefore require control and mitigation (see following page for detailed information):

- Water
- Energy
- Dust and Greenhouse Gases
- Waste and Hazardous Materials
- Land/Biodiversity

There were no reportable environmental incidents in 2010.

2010 certification highlights

- ISO14001:2004 re-certification at all Group mines and the Exploration Division
- Clean Industry (PROFEPA) re-certification at all Group mines
- International Cyanide Code Certification audit completed at Herradura, and implementation process advanced by 62.0% at Ciénega
- Obtained Mexican Greenhouse Gas Programme (GHG) membership for self-reporting of GHG emissions at the corporate level
- Registered in the Carbon Disclosure Project in the FTSE 350 category for self-reporting on Climate Change risks and strategies

2011 priorities

- Maintain all existing certifications
- Obtain Cyanide Code Certificate at Ciénega, implement initial evaluation at Soledad-Dipolos
- Coach four contractors at the Fresnillo mine so they may participate in the Clean Industry Certification process

Water treatment plant at Fresnillo

The 150 litre/second facility started operations and is treating more than 35% of the city's sewage for reuse in the mine's processes.

Climate change

We participated in the Carbon Disclosure Project for the first time in 2010, a non-profit organisation that promotes climate change reporting for risk assessment and mitigation efforts. We endorsed the Cancun Communiqué at the COP 16 seeking action by governments globally on climate change.

Biodiversity conservation

We are a founding member of The Corporate Commitment on Wilderness, a conservation partnership between the Mexican private sector and The Wild Foundation. Our three main projects are the Sustainable Forest at Ciénega, which now covers close to 500 hectares of reforested land; the Sustainable Complex at Fresnillo, an animal care facility and ecological park that welcomed 35,665 visitors in 2010; and the Sonoran Pronghorn Conservation Programme at Herradura, designed to protect and monitor pronghorn populations.

We participated in a project with the Comisión Nacional de Áreas Naturales Protegidas (CONANP, Mexican public entity that supports land conservation) to issue a catalogue of photos about the Mexican species under threat of extinction.

SUSTAINABLE
DEVELOPMENT REPORT *continued*

ASPECT	IMPACT	OBJECTIVES AND PROCEDURES	2010 HIGHLIGHTS	2011 TARGETS
Water	High water consumer but most of the needed water is reprocessed. Fresh water is sourced from within the mines at Fresnillo and Ciénega and through wells at Herradura. Minimal water discharges.	<i>Reduce unit consumption of fresh water through recirculation; control residual water discharges.</i> We limit consumption of fresh water to replacement of evaporated water from tailing dams; we have no residual water discharges.	Consumed a total of 2.8 million m ³ of fresh water, a 20.0% reduction from the previous year. The start-up of the water treatment plant at Fresnillo meant a reduction of 95.0% at the mine unit.	Zero fresh water consumption at Fresnillo and Saucito through the water treatment plant. Evaluate the use of seawater at Herradura and Soledad-Dipolos to wet down roads.
Energy	High energy consumer, mainly electricity for the beneficiation plant and diesel to operate mobile equipment.	<i>Reduce unit consumption of energy.</i> We implement energy efficiency projects and seek renewable sources of energy to the extent possible.	Consumed a total of 3.7 million of GJ (70.7% diesel, 26.2% electricity; 1.6% gasoline; 1.5% LP gas); during the year efficiency projects generated savings of 5,672 GJ compared to the prior year, equivalent to 2.8% of total consumption.	Reduce energy intensity through eco-efficiency projects (motors and lighting).
Dust and Greenhouse Gases	Medium impact from air emissions. The Company is not a major emitter of CO ₂ . Our main emissions from operations are fugitive emissions at open pit mines caused by vehicle traffic.	<i>Contain fugitive dust; minimise unit CO₂ emissions.</i> We water down mine roads and use extractors to ventilate underground mines.	Tested a new product on dust control at Herradura, using less water. As per the Mexican GHG Programme, we emitted 205,539 tonnes of CO ₂ from direct sources in 2010 and 126,788 tonnes from indirect sources.	Reduce GHG emissions intensity through eco-efficiency projects.
Waste and Hazardous Materials	High waste producer. The most significant waste product generated by our processes is tailings. We also handle hazardous materials and waste.	<i>Maximise the rate of reuse of industrial and hazardous waste; if needed, ensure their proper containment.</i> We have a range of recycling and waste management initiatives, such as the recycling of spent oil, tyres, copper, paper and cardboard. Tailings dams fully comply with national and international standards and we maintain strict controls over hazardous materials used.	92.0% of reusable material was sold to third parties as input for other processes. At Herradura, 835,790 litres of spent lube oil were used for blasting, representing 47.0% of total waste generated by the mine unit; at Fresnillo, 99,573 litres were sold for secondary usage in agriculture. Although we are in compliance with regulations related to the use of hazardous materials, we began to reinforce our internal controls due to increasing risks, legal requirements by the Secretariat of National Defence, and recommendations by Internal Audit.	Maintain the rate of reuse of spent oil; launch a waste management programme at Ciénega.
Land/ Biodiversity	High local impact on ecosystems. Areas where we impact the most are the tailing dam terrains and frontier land where we perform exploration and prospecting.	<i>Minimise disruptions to flora and fauna on land; mitigate any impact through conservation efforts, relocation and reforestation.</i> We participate in conservation projects in partnership with public agencies and communities. In exploration projects, we reforest previously forested areas where drilling has been performed.	All mines and the Exploration Division have nurseries, with combined annual capacity of 186,000 trees. Relocated plant specimens cover an area of 375.6 acres, with an average survival rate of 83.0%. At Fresnillo the Bicentennial Nursery was built with a capacity of 80,000 trees. We also built a nursery at Herradura and have monitored 480 pronghorns as compared to 250 in 1993 when the conservation programme began. At Ciénega 84,500 additional trees were planted in the Sustainable Forest and the nursery has 100,000 additional specimens. Nurseries built at Noche Buena and San Julián.	Plant 128,000 trees. Continue building nurseries in all our expansion projects, Orisyvo being the next.

Los Jales Ecological Park at Fresnillo



COMMUNITY RELATIONS

Objective

Enhance the perception of Fresnillo plc as a responsible mining company in the communities where we operate.

PERFORMANCE INDICATOR	2010	2008	2006	COMMENT
Community perception index Average perception of four components – labour, environmental, institutional and social – from three different sources – household surveys, anthropological observations and personal interviews	86	85	85	The study is conducted every two years by an independent third party; thus far the index has shown the highest possible ranking score, indicating a “very positive” perception from the community



School at the Ciénega community

Social impact management, policies and programmes

We recognise the high social impact of mining operations at the local level. Given that our success depends on the parallel success of surrounding communities, we are committed to free, prior and informed consent, fair and open negotiations, respect for the customs and culture of local communities and cooperative landowner groups (*ejidos*), and to being a good neighbour.

Community citizenship begins at the exploration phase of our work with outreach efforts and robust baseline studies. Agreements with landowners often include guaranteed investments in the development of basic infrastructure such as roads and water works. Efforts at operating mines depend upon the type of community and its specific needs, distance to the operation and available services and infrastructure.

Sustainability requires that our communities develop a level of self-sufficiency that will enable them to thrive for generations beyond the life of a given mine. Most of our engagement efforts rely on partnerships with local public agencies and NGOs and are implemented through Welfare and Community Centres. Agreements can provide a means of securing long-term access to resources, lowering transaction costs and uncertainty, and reducing exposure to disputes and legal action.

In 2010 we invested US\$6.1 million in our community outreach programme, including more than US\$97,000 at development and expansion projects. We also encourage philanthropy on a personal level, and 682 employees contributed to the United Way, a non-profit social services organisation.

We launched a comprehensive evaluation of the total impact of our community investments this year based on feedback from the biennial perception study conducted on our behalf by an independent third party.

The framework that guides our community relations efforts incorporates five areas of impact (see following page for detailed information):

- Environmental culture
- Education
- Health and social welfare
- Self-sustaining capacity
- Social infrastructure

2011 priorities

- Reinforce the family visits programme and communications at all mine units
- Complete the impact analysis of our community investments to determine alignment with communities' needs and expectations

SUSTAINABLE DEVELOPMENT REPORT *continued*

SOCIAL ASPECT	OBJECTIVES AND PROCEDURES	2010 HIGHLIGHTS
Environmental culture	<p><i>Go beyond our environmental mitigation efforts and have impact on a wider scale.</i></p> <p>We sponsor environmental campaigns and promote activities such as water conservation, recycling efforts, reforestation and clean public areas.</p>	<p>Investment: US\$54,800.</p> <p>Community celebrations of World Environment Day, World Water Day, Earth Day, World Tree Day, and National Conservation Week, with total participation of 5,940 people. Donated and planted almost 117,500 trees for reforestation campaigns at all mine units. Received close to 41,250 visitors at the Fresnillo Sustainability Complex, which was awarded certification for quality in environment management. Supplied 700 trashcans for garbage separation at Herradura. Organised monthly cleaning campaigns at the Saucito project.</p>
Education	<p><i>Promote local development.</i></p> <p>We fund local schools, support cultural festivities and promote the study of sciences and respect for values and customs through teacher training and student workshops.</p>	<p>Investment: US\$926,200.</p> <p>Cultural and civic celebrations such as the Bicentennial festivities. Facilitated values workshops for 120 teachers and 598 women. Donated teaching materials to various educational centres. Executed children summer campaigns focusing on values and confidence promotion. Implemented the INNOVEC programme at Fresnillo, benefiting 2,271 children in science innovation. At Ciénega, built a high school with the Durango State Science & Technology Studies College (CECYTED). At Fresnillo, restored a kindergarten and built a dome at the González Ortega school established for employees' families. Donated material to a library and a school at Saucito. Opened a dining room at the elementary school at Orisyvo.</p>
Health and social integration	<p><i>Promote health and positive interactions that bring together employees, families and community members.</i></p> <p>We extend wellness programmes into the community such as nutrition counselling, hygiene habits, athletics and recreational activities.</p>	<p>Investment: US\$2.5 million.</p> <p>Celebration of Miners', Mothers', Children's and Christmas Days. Offered vaccination and health campaigns through partnerships with local health offices and the Mexican Secretariat of Health. Organised sports and recreational activities for 4,930 persons. Events included support for Health Weeks (through tests such as bone density and glucose); triathlon in Fresnillo with 300 athletes; Uruguayan football tournament in Ciénega with 400 children; Baseball & Football Academy at Herradura for 70 children; and two 5 km races at Saucito, among other activities. We provide major medical coverage for families at Fresnillo and Herradura, and at Ciénega ran an onsite clinic for all personnel and dependents. This year we completed construction of 35 houses for union workers at Ciénega, restored a public gym at Fresnillo, purchased 8.2 acres of land for a sport facility for workers, and supplied equipment for the fire rescue team at Herradura.</p>
Self-sustaining capacity	<p><i>Ensure the community's long-term self-development.</i></p> <p>Through volunteer activities of the Fresnillo Ladies Committee, chaired by the wives of the Company's Chairman and CEO, and in Welfare Centres, training and development in alternative sources of income and promoting local enterprises.</p>	<p>Investment: US\$26,700.</p> <p>Offered 27 courses at our Welfare Centres with the participation of 1,297 people from surrounding communities. We offered a special course on Women's Development at all mine units.</p>
Social infrastructure	<p><i>Satisfy the basic needs of our communities.</i></p> <p>Through partnerships, support public works and services such as electricity, sewage, housing, schools, clinics, roads and telecommunications.</p>	<p>Investment: US\$2.6 million.</p> <p>At Ciénega, completed the second stage of the main street paving through a partnership with the Mexican Secretariat of Social Development (SEDESOL). Other projects underway: construction of a gym, football yard, public library and fresh water well. At Fresnillo, underwrote the paving of 3,700 metres of road. At Herradura, completed the second stage of the Costa Caborca Community Centre that benefits 14 communities and funded restoration of the community church. At Saucito, paved a path and built two meeting rooms for the <i>ejidos</i>. In Orisyvo, donated cisterns that will provide water to 30 families.</p>

Visitors at the Fresno Sustainability Complex



FINANCIAL REVIEW

The Consolidated Financial Statements of Fresnillo plc are prepared in accordance with International Financial Reporting Standards (IFRS). This Financial Review is intended to convey the main factors affecting performance and to provide a detailed analysis of the financial results in order to enhance understanding of the Group's financial statements.

i The full Financial Statements and their accompanying notes can be found on pages 114-158.

COMMENTARY ON FINANCIAL PERFORMANCE

In 2010, the Fresnillo Group generated strong financial results driven by the rally in precious metal prices, the contribution of Soledad-Dipolos and the robust operational performance of the Group mines. These were somewhat mitigated by: i) higher exploration expenses and by higher depreciation expense resulting from recent capital investments, both in support of the Group's organic growth strategy; and ii) higher adjusted production costs reflecting a stronger peso, rising electricity and diesel prices and an increase in activities to ensure continuous operations, as well as higher taxes and profit sharing. As a result, attributable profit in the year, excluding the effect of the Silverstream revaluation rose 72.3% from US\$308.0 million in 2009 to US\$530.8 million in 2010.

INCOME STATEMENT

Key items of the Income Statement are shown below:

INCOME STATEMENT KEY LINE ITEMS (US\$ millions)

	2010	2009	% Change
Revenues	1,409.55	849.94	65.8
Cost of sales	(435.08)	(321.63)	35.3
Gross profit	974.48	528.31	84.4
Exploration expenses	82.11	49.06	67.4
EBITDA	945.00	496.62	90.3
Profit before income tax	1,022.37	457.42	123.5
Income tax expense	272.97	99.15	175.3
Profit for the year	749.40	358.27	109.2
Profit for the year, excluding post-tax Silverstream revaluation effects	615.11	344.30	78.7
Attributable profit	665.13	322.01	106.6
Attributable profit, excluding post-tax Silverstream revaluation effects	530.84	308.04	72.3
Basic and diluted earnings per share (US\$/share) ¹	0.927	0.449	106.5
Basic and diluted earnings per share excluding post-tax Silverstream revaluation effects (US\$/share)	0.740	0.430	72.1

¹ The weighted average number of ordinary shares for 2010 and 2009 was 717,160,159.

Fresnillo plc's financial performance is determined by the level of efficiency in executing the Group's strategy and the impact of several external factors. The quality of our asset base, the ability to maximise its potential, and personnel and management's skills are among the most important internal drivers underlying our financial results. The external variables with material impact on Group performance are dependent on market conditions and are thus outside of Fresnillo plc's control. These include:

Precious metal prices

Volatility in the global economy and the sovereign debt crisis in Europe fostered safe-haven investment demand, resulting in gold and silver prices reaching record levels. In 2010 the average realised price of silver increased 40.0% to US\$21.39 per ounce, while the average gold price reached US\$1,252.05 per ounce, a 26.6% increase year-over-year. The Group's Income Statement is considerably impacted by these variables, as 95% of our revenues come from these metals. In addition, the strengthening of forward silver prices in 2010 significantly impacted the valuation of the Silverstream contract, considered to be a derivative instrument under IFRS, which resulted in an unrealised pre-tax gain of US\$191.8 million recognised in the income

statement. Expectations of future silver price is one of the key assumptions underlying the valuation of this contract and analysis of the impact on the contract's value of changes in the price of silver is provided in Note 32 to the Financial Statements. We maintain a policy not to hedge silver and gold price exposure and therefore provide shareholders with full exposure to fluctuations in silver and gold prices.

Foreign exchange rates

The average spot exchange rate of the Mexican peso to the US dollar was revalued from MXN13.52 per US dollar in 2009 to MXN12.64 per US dollar in 2010. This variable had an adverse effect on the Group's production costs, as costs denominated in Mexican pesos (approximately 70% of total costs) increased when converted to US dollars. The negative impact of the 6.5% average revaluation within the costs was estimated at US\$9.5 million.

The spot exchange rate at 31 December 2010 was MXN12.36 per US dollar, representing a 5.4% revaluation when compared to the MXN13.06 per US dollar at the beginning of the year. The Group's taxable profits are determined under Mexican GAAP in pesos and this revaluation had an adverse effect on the peso value of US dollar-denominated net monetary asset position, with the Silverstream Contract and cash and cash equivalents being the most important. As a result, a foreign exchange loss under Mexican GAAP was generated, lowering the Group's taxable profits.

Inflation of key operating materials

	YEAR OVER YEAR CHANGE
Steel for drilling	(0.1%)
Explosives	4.8%
Tyres	(1.3%)
Sodium cyanide	(24.4%)
Other reagents	11.3%
Oils and other lubricants	10.4%
Weighted Average	1.9%

The net increase in the weighted average input cost over the year was 1.9%. The average unit price of several operating materials fluctuated in 2010, reflecting prevailing economic conditions. Reagents such as zinc and copper sulphates increased significantly over the course of the year reflecting the higher prices of those metals. Average prices for sodium cyanide however, an important reagent used in the gold leaching process, declined.

Further increases in the unit prices of all inputs are expected for 2011, reflecting the increase in demand to support expansion plans within the broader mining industry.

Electricity

Fresnillo plc's weighted average cost of electricity increased by 24.6% when compared to 2009.

This followed the expected rate increase from the *Comisión Federal de Electricidad* (CFE), the national utility, with recovering economic conditions prompting the Mexican government to reverse its policy of reducing electricity prices to control inflation. The unit price of electricity for 2011 is expected to move in line with CFE's average generating cost.

Diesel

The weighted average cost of diesel in Mexican pesos increased by 19.6% year-on-year reflecting the Mexican government's decision to align fuel and diesel prices with international rates. In accordance with this policy, a similar increase is anticipated for 2011.

Treatment and refining charges

Treatment and refining charges (TRCs), which are deducted from adjusted revenues for the purposes of revenues as disclosed in the income statement, are reviewed annually in accordance with international benchmarks. The treatment charge per tonne of lead concentrate, including the escalator, remained steady, while treatment charge per tonne of zinc concentrate increased by 3.2% when compared to 2009. However, this increase was completely offset by a 29.7% decrease in the refining charge per ounce of silver, which represented 42% of total treatment and refining charges. As a result, total TRC charges decreased by 6.9% year-on-year, despite the increase in volumes of product sold.

The effects of the internal and external factors impacting each of the items of the Income Statement are further described below.

REVENUES**CONSOLIDATED REVENUES** (US\$ millions)

	2010	2009	Change	
			Amount	%
Adjusted revenue ²	1,473.92	943.96	529.96	56.1
Treatment and refining charges	(64.37)	(69.23)	4.86	(7.0)
Hedging losses (Pre-IPO) ³		(25.02)	25.02	(100)
Hedging gains		0.23	(0.23)	(100)
Revenues	1,409.55	849.94	559.61	65.8

² Adjusted Revenue is revenue as disclosed in the income statement adjusted to exclude hedging effects and treatment and refining charges.

³ Derivatives terminated prior to the IPO in 2008.

Total revenues for the full year rose to a record US\$1,409.5 million, a 65.8% increase when compared to 2009. The main contributor to this significant increase was adjusted revenue which rose 56.1% to US\$1,473.9 million. Higher average realised metal prices accounted for 65.6% of the total US\$530.0 million increase in adjusted revenues. The remaining 34.4% of the favourable effect reflected the additional volumes of gold ounces sold from Soledad-Dipolos, Ciénega and Herradura.

The Fresnillo Group has not entered into any silver and gold hedging contracts since its Initial Public Offering (IPO) in 2008 and does not intend to do so, thus providing full exposure to fluctuations in silver and gold prices. In 2010, Fresnillo plc did not enter any new derivative contracts to hedge the price of lead and zinc by-products.

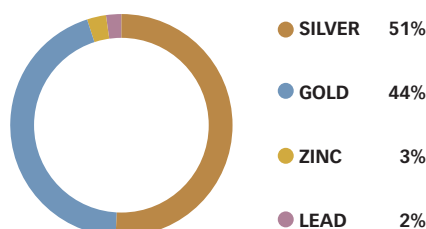
However, prior to the IPO, the Group used derivatives to reduce commodity price risks arising from the volatility of silver and gold prices. In 2009, a final non-cash charge of US\$25.0 million was reflected against adjusted revenues as a result of the hedging instruments that were terminated in 2007, but for which cumulative losses were recycled to the income statement at the time of the occurrence of the hedge transaction to which they related.

ADJUSTED REVENUES⁴ BY METAL (Year ended 31 December, US\$ millions)

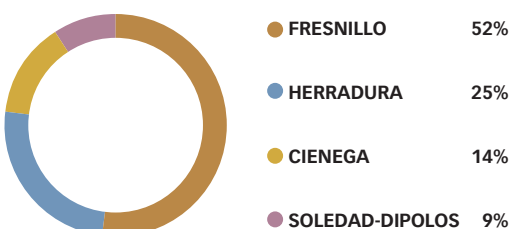
	2010		2009		Volume		Price	
					Variance	Variance	Total	%
Silver	746.18	51%	529.63	56%	3.6	212.9	216.5	40.9
Gold	653.29	44%	359.17	38%	171.2	122.9	294.1	81.9
Lead	34.38	2%	26.98	3%	2.9	4.5	7.4	27.4
Zinc	40.07	3%	28.18	3%	4.7	7.2	11.9	42.2
Total Adjusted Revenues	1,473.92	100%	943.96	100%	182.4	347.5	529.9	56.1

Gold share of total adjusted revenues increased from 38% in 2009 to 44% in 2010 as a result of the start-up of commercial production at Soledad-Dipolos. Silver share thus declined to 51% in 2010.

ADJUSTED REVENUE BY METAL



ADJUSTED REVENUE BY MINE



VOLUMES OF METAL SOLD (Year ended 31 December)

	2010	2009	% Change
Silver (Koz)	34,883	34,676	0.6
Gold (Oz)	521,780	363,205	43.7
Lead (t)	16,057	14,565	10.2
Zinc (t)	18,634	16,134	15.5

COST OF SALES

	2010	2009	Change	
			Amount	%
Adjusted production costs ⁵	311.97	209.80	102.17	48.7
Depreciation	105.22	67.23	37.99	56.5
Change in work in progress	(16.77)	12.94	(29.71)	N/A
Profit sharing	37.68	24.58	13.10	53.3
Hedging (of exchange rate)	(3.02)	7.08	(10.10)	N/A
Cost of sales	435.08	321.63	113.45	35.3

⁵Calculated as total production costs less depreciation, profit sharing and exchange rate hedging effects.

The main factors affecting the increase in cost of sales were:

- Adjusted production costs increased to US\$312.0 million, a 48.7% increase when compared to 2009. Of the US\$102.2 increase, US\$55.1 million, or 53.9%, related to production costs incurred at the new Soledad-Dipolos mine in its first year of commercial production. In addition the revaluation of the average spot exchange rate resulted in a US\$9.5 million adverse effect when converting peso-denominated costs to US dollars. The discussion below factors out the impact of foreign exchange movements in the peso denominated costs for each category in order to reflect the underlying operational unit cost changes:
- Contractor costs rose by US\$12.7 million as a result of: i) stripping cost of the Valles pit recorded in the income statement, while in 2009 these costs were capitalised; ii) the increase in development works to ensure continuous operations; iii) shotcreting and rock bolting activities carried out mainly at the Fresnillo mine to secure personnel safety; iv) increased mine services which are typically conducted by contractors such as road maintenance and pumping; v) additional volumes of ore and waste material hauled over longer distances at all our mines; and vi) higher unit fees charged by contractors, which include the annual rise in labour costs, depreciation of the contractors' equipment, operating materials and fuel and lubricants.
- The cost of energy rose by US\$10.7 million as a result of increases in electricity and diesel prices of 24.6% and 19.6% respectively. Additional consumption of energy was associated mainly with higher production volumes at our mines, and to a lesser extent, to the longer haulage distances affecting consumption of diesel.

- Operating materials increased by US\$6.0 million due to increased consumption of explosives, anchors, steel and lubricants related to the additional volumes of ore produced at the mines. These increases were mitigated by operating efficiencies achieved through the Six Sigma methodology and other cost control initiatives.
- The cost of personnel increased by US\$2.4 million as a result of: i) additional personnel hired at Herradura; ii) a 6.5% increase in wages plus a 1% bonus in base salary; iii) bonuses associated with the implementation of efficiency projects; and iv) training to improve safety indices.
- The cost of maintenance rose by US\$2.3 million due to: i) maintenance and repair of locomotives at the Fresnillo mine; and ii) intensified use of equipment to load and haul ore and waste at the mines.
- Other costs increased by US\$3.5 million as a result of additional equipment insured, surveillance, freight and IT expenses.
- Depreciation increased by US\$38.0 million mainly due to the larger asset base following the completion of Soledad-Dipolos, higher production volumes which affected the depletion factor, and the purchase of additional high-capacity trucks and loaders.
- The current year increase in work in progress as compared to the decrease in 2009 benefited the movement in COS by US\$29.7 million. In 2010, ore deposited at Soledad-Dipolos increased inventories of ore at this mine, while in 2009 a charge of US\$12.9 million was recognised as a result of the decrease of mineral and concentrate inventories at Herradura.
- Profit sharing rose by US\$13.1 million due to higher profits at our operating mines.
- The Fresnillo Group enters into certain exchange rate derivative instruments as part of a programme to mitigate its exposure to foreign exchange risk associated with costs incurred in Mexican pesos. The forward sales position that matured throughout 2010 was for US\$77.5 million at an average rate of MXN13.17 per US dollar. Forward contracts which matured throughout the year resulted in a US\$2.9 million gain recognised in the income statement. The outstanding net forward position as of 31 December 2010 was US\$51.0 million with maturity dates throughout 2011.

Additionally, the Group entered into a combination of put and call options structured at zero cost (collars). During the year, collars hedging US\$14.5 million of costs denominated in Mexican pesos matured. Resulting in a US\$0.2 million gain recognised in the income statement. Collars hedging costs denominated in Mexican pesos equivalent to US\$36.0 million will mature in 2011 with an average floor exchange rate of MXN13.03 per US dollar and cap of MXN14.23 per US dollar. These instruments guarantee a minimum exchange rate should the market fall below the floor exchange rate. Between the floor and cap exchange rates the Group sells US dollars at the market rate, and when the Mexican peso per US dollar exchange rate goes above the cap rate, the Company is obliged to sell US dollars at the contract rate.

COST PER TONNE AND CASH COST PER OUNCE

Cost per tonne milled across our operating mines increased when compared to 2009 as shown in the table below.

COST PER TONNE⁶ (Year ended 31 December)

		2010	2009	% Change
Fresnillo	US\$/tonne milled	41.73	37.24	12.1%
Ciénega	US\$/tonne milled	65.86	61.45	7.2%
Herradura	US\$/tonne deposited	5.64	5.17	9.1%
Soledad-Dipolos	US\$/tonne deposited	5.71	N/A	N/A

⁶ This indicator is calculated as total production costs less depreciation, profit sharing and exchange rate hedging effects. In 2010 however, freight costs associated with ore transported from Fresnillo plc's mines to Met-Mex facilities, which are usually presented as a deduction to Adjusted Revenues, were reclassified and added to the cost of freight of inputs under production costs, thus illustrating the full impact of freight costs.

Cost per tonne figures presented within the 2009 Annual Report excluded freight charges against revenues, thus those figures are shown with a pro forma reclassification in order to be comparable with 2010 calculations. The main variables explaining these increases on a mine by mine basis can be found in the Review of Operations on pages 32-55.

CASH COST PER OUNCE⁷ (Year ended 31 December)

		2010	2009	% Change
Fresnillo	US\$ per silver ounce	3.34	3.37	(0.9%)
Ciénega	US\$ per gold ounce	193.86	190.61	1.7%
Herradura	US\$ per gold ounce	323.83	342.90	(5.6%)
Soledad-Dipolos	US\$ per gold ounce	383.15	N/A	N/A

⁷ 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.

Cash cost per silver ounce at Fresnillo reflected a modest decrease (see table below) due to higher gold, lead and zinc by-product revenues (resulting from increased sales volumes and higher metal prices). In addition, the slight increase in volumes of silver produced and sold also mitigated the adverse effect of the higher adjusted production costs.

Cash cost per gold ounce at Ciénega slightly increased reflecting the higher adjusted production costs associated with the development works at the mine and the 24.6% decrease in silver by-product production, partially offset by the higher zinc and lead by-product sales and the increased gold ounces sold.

Cash cost per ounce at Herradura decreased by 5.5% as a result of the higher gold ounces produced and sold at this open pit mine. Cash cost per gold ounce at Soledad-Dipolos was US\$383.15, higher than Herradura's cash cost due to the natural lower ore grade impacting total gold ounces sold.

GROSS PROFIT

Gross profit, before hedging gains and losses, is an important financial indicator to measure the profitability at each mine and at the Fresnillo Group as a whole.

CONTRIBUTION BY MINE TO THE GROUP'S GROSS PROFIT EXCLUDING HEDGING GAINS AND LOSSES (US\$ millions)

					Change		
					Amount		%
	2010		2009				
Fresnillo	574.80	59.2%	366.17	65.4%	208.63	50.8%	57.0
Ciénega	94.13	9.7%	65.30	11.7%	28.83	7.0%	44.1
Herradura	217.29	22.4%	128.38	22.9%	88.91	21.7%	69.2
Soledad-Dipolos	84.09	8.7%	-		84.09	20.5%	N/A
Total for operating mines	970.31	100.0%	559.85	100.0%	410.46	100.0%	73.3
Other subsidiaries	1.15		0.33		0.82		N/A
Metal hedging (losses) and gains	-		(24.79)		24.79		(100)
MXP/USD exchange rate hedging (losses) and gains	3.02		(7.08)		10.10		N/A
Total Fresnillo plc	974.48		528.31		446.17		84.4

In 2010, total gross profit for operating mines, adjusted to exclude hedging gains and losses, increased by US\$410.5 million a 73.3% increase over 2009.

This indicator considerably benefited from the higher precious metal prices, contributing US\$327.9 million, of which 64.9% corresponded to the price of silver, 31.4% to the price of gold and the remaining 3.7% to the prices of lead and zinc by-products.

Operating performance was also an important contributor to Gross Profit excluding hedging effects. The most important factor in the 2010 increase was the contribution of the new Soledad-Dipolos gold mine (US\$84.1 million), with higher production volumes at Herradura, Fresnillo and Ciénega also benefiting gross profit. In total, the favourable effect generated by higher sales volumes at these three mines was US\$64.9 million.

Other favourable effects were lower treatment and refining charges and changes in work in progress due to the increase in Soledad-Dipolos inventories.

The benefits described above were somewhat mitigated by: i) the adverse effect of the US\$37.7 million increase in adjusted production cost; ii) the US\$27.2 negative impact of the higher depreciation expense; iii) higher profit sharing; and iv) the adverse impact of the revaluation of the Mexican peso against the US dollar impacting peso-denominated costs.

The contribution by mine to the Group's Gross Profit, excluding hedging, changed this year due to the incorporation of Soledad-Dipolos which comprised 8.7% of the total, diluting the participation of the other three mines. Fresnillo continues to be the biggest contributor with 59.2%, followed by Herradura and Ciénega with 22.4% and 9.7% respectively.

ADMINISTRATIVE EXPENSES

Administrative expenses of US\$52.6 million increased by 5.5% compared to 2009, and include administrative fees paid to Servicios Administrativos Peñoles, S.A. de C.V. (SAPSA) under the New Services Agreement (NSA), legal and advisory fees, and expenses associated with administrative personnel working at the Group's corporate offices. The increase was mainly related to additional administrative services provided by SAPSA related to the new Soledad-Dipolos mine and to the construction of Saucito.

EXPLORATION EXPENSES

BUSINESS UNIT / PROJECT (US\$ millions)

	Exploration expenses	Capitalised expenses
Herradura	8.3	0.0
Soledad-Dípolos	2.3	0.0
Fresnillo	8.8	0.0
Ciénega	5.4	0.0
Noche Buena	6.0	0.0
Herradura corridor	5.7	0.0
San Ramón	4.7	0.0
Saucito	0.0	4.2
Juanicipio	0.0	5.3
San Julián	7.5	8.5
Orisyvo	6.1	0.0
San Juan	1.8	0.0
Ciénega (area of influence)	6.4	0.0
Centauro Deep	2.1	0.0
Lucerito	1.4	0.0
Candameña	1.1	0.0
San Nicolás	0.7	0.0
Guanajuato	0.9	0.0
Leones	0.8	0.0
Others	12.1	0.0
TOTAL	82.1	18.0

Exploration expenses for the year totalled US\$82.1 million, a 67.4% increase over the previous year. An additional US\$18.0 million related to the development of the Saucito mine and for the San Julián and Juanicipio advanced exploration projects was capitalised. These projects have sufficient geological and technical information that allows for a reasonable expectation of becoming operating mines in the future. Exploration expenses, including those capitalised, totalled US\$100.1 million, representing a 77.2% increase over 2009.

As anticipated, Fresnillo plc conducted an intensive programme of exploration and mining works over the course of the year aiming to expand the resource and reserve base and confirm resources estimates. This expenditure also included the Noche Buena pre-feasibility study, San Julián and Orisyvo scoping studies and the pre-feasibility study at Juanicipio. As part of our organic growth programme, the exploration budget for 2011 has been increased to US\$251.4 million, of which US\$100 million is expected to be capitalised.

EBITDA

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

	2010	2009	% Change
Gross Profit	974.48	528.32	84.4%
+ Depreciation	105.22	67.23	56.5%
- Administrative Expenses	(52.60)	(49.87)	5.5%
- Exploration Expenses	(82.11)	(49.06)	67.4%
EBITDA	945.00	496.62	90.3%
EBITDA Margin	67.0%	58.4%	

EBITDA, which is calculated as gross profit as reflected in the income statement plus depreciation less administrative and exploration expenses, achieved a new record level of US\$945.0 million in 2010, a 90.3% increase year-on-year. This key financial indicator benefited from the higher gross profit levels, partially offset by the increase in exploration expenses. Similarly, EBITDA margin rose from 58.4% in 2009 to 67.0% in 2010.

SILVERSTREAM REVALUATION EFFECTS

The Silverstream Contract is accounted for as a derivative financial instrument carried at fair value. In 2010, the increase in fair value of the Silverstream asset was US\$191.8 million, which represents a significant increase of 64.2% compared to the value as at 31 December 2009. As a result, a corresponding non-cash gain was recognised in the income statement. This unrealised gain comprised 18.8% of the Group's profit before tax, highlighting the increased impact of this instrument in the income statement. Since the IPO, unrealised, non-cash profits associated with the Silverstream Contract have totalled US\$211.2 million. As silver prices are likely to move cyclically, any unrealised future losses would also be recognised in the income statement. For example, the Group estimates that a 25% increase/decrease in the expected future prices of silver as used in the valuation at 31 December 2010, would result in an unrealised gain/loss respectively of US\$120.2 million recognised in the income statement.

i Further information related to the Silverstream Contract is provided in the Balance Sheet section below and notes 15, 31 and 32 to the Consolidated Financial Statements.

FOREIGN EXCHANGE

The foreign exchange result is caused by the conversion of monetary assets and liabilities denominated in foreign currencies to US dollars. In 2010, a US\$3.3 million foreign exchange loss arose mainly as a result of: i) the devaluation of the UK pound sterling against the US dollar on the dividends paid in pounds and the conversion of the pound sterling position held in treasury to US dollars; and ii) the revaluation of the MXN/US dollar exchange rate which affected the value of peso-denominated net liabilities when converted to US dollars. This loss adversely compared with US\$9.5 million foreign exchange gain recognised in the 2009 Income Statement, following the devaluation of the US dollar against the UK pound sterling, which affected the cash position denominated in sterling.

TAXATION

Increased profit levels drove the income tax expense up to US\$273.0 million, a 175.3% increase compared to the previous year. Nevertheless, the effective tax rate under IFRS was 26.7%, which is lower than the statutory 30% tax rate. The main factors in the differential were: a) the revaluation of the MXN/US dollar exchange rate which generated i) a foreign exchange loss registered under Mexican GAAP, lowering the Group's taxable profits; and ii) movements in the US dollar equivalent tax value of assets that were originally valued in MXN and are not subsequently revalued for tax purposes with fluctuations in the Mexican peso/US dollar exchange rate under Mexican GAAP; and b) certain inflation adjustments for Mexican tax purposes that have no accounting effect.

PROFIT FOR THE YEAR

Profit for the year increased by 109.2% from US\$358.3 million in 2009 to US\$749.4 million in 2010. Profits due to non-controlling interests (minority shareholders) rose to US\$84.3 million in 2010, a 132.4% increase, as a result of the higher profits recorded at Herradura, profits generated by Soledad-Dipolos and the unrealised gain resulting from the Silverstream revaluation. Both mines belong to Penmont, a company jointly owned by Fresnillo plc (56%) and Newmont (44%).

Despite the 132.4% increase in non-controlling interests, profit attributable to Group shareholders increased by 106.6% to US\$665.1 million in 2010.

Profit for the year, excluding the effects of the revaluation of the Silverstream Contract, increased by 78.7% from US\$344.3 in 2009 to US\$615.1 million in 2010. Similarly, profit attributable to Group shareholders, excluding the Silverstream effects, rose by 72.3% to US\$530.8 million in 2010.

CASH FLOW

A summary of the key items impacting the Group's cash flow is set out below:

CASH FLOW KEY ITEMS *Year ended 31 December, US\$ millions*

	2010	2009	% change
Cash generated by operations before changes in working capital	983.6	548.8	79.2
(Increase) / decrease in working capital	(166.0)	(37.8)	339.2
Net cash from operating activities	700.7	390.7	79.3
Silverstream Contract	55.6	39.0	42.6
Proceeds from development works at Saucito	25.6	10.7	139.3
Purchase of property, plant & equipment	(340.3)	(261.2)	30.3
Dividends paid to shareholders of the Company	(182.6)	(93.6)	95.1
Dividends paid to non-controlling interest	(8.5)	-	N/A
Net increase in cash during the year	250.1	92.6	170.0
Cash at 31 December	559.5	312.2	79.2

The 79.2% increase in cash generated by operations before changes in working capital was a result of record profits generated at the mines. However, this effect was mitigated by a US\$166.0 million increase in working capital, which is mainly explained by:

- Trade and other receivables rose by US\$116.7 million. The main factor underlying this was the US\$99.1 million increase in accounts receivables due from Met-Mex, of which 55% is attributable to the higher metal prices, 27% to the higher volumes of ore sold to Met-Mex, and 18% by modifications in the payment conditions between Herradura and Met-Mex associated with the doré production. Loans granted to contractors for the purchase of equipment further increased other receivables. These loans are consistent with our strategy of supporting contractors.
- Inventories increased as a result of the higher volumes of ore deposited at the Soledad-Dipolos pads and ore from development works at Saucito, which were stocked in preparation for commercial production in 1H 2011. In addition, the inventory of spare parts, including tyres, increased in accordance with our policy to secure critical inputs subject to scarcity.

Despite the increase in working capital, cash flows from operating activities increased by 79.3% to US\$700.7 million in 2010.

Other important sources of funds were US\$55.6 million received in proceeds under the Silverstream Contract and US\$25.6 million in proceeds generated from the sales of ore from the development works at Saucito and processed at the Fresnillo mine; the latter was credited to the cost of the project.

The Group invested US\$340.3 million in the purchase of property, plant and equipment, a 30.3% increase when compared to spend in 2009. Investments in these items in 2010 are further described below:

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

2010		
Fresnillo mine	60.7	Mine development and construction of the San Carlos shaft. Construction of ramps and mining works at San Julián project (US\$22.9 million)
Herradura mine	54.4	Purchase of high-volume trucks and loaders, construction of leaching pads and acquisition of surface land. Noche Buena's payment for mineral rights and royalties acquisition (US\$10.6 million)
Ciénega mine	65.1	Mine development, mining works, expansion of milling capacity, sinking of the shaft and purchase of land
Soledad & Dipolos	36.8	Stripping activities and construction of leaching pads
Saucito project	118.4	Mining works and equipment for shafts and beneficiation plant
Other	4.9	Juanicipio, Exploraciones Mineras Parreña and SAFSA
Total purchase of property, plant and equipment	340.3	

Dividends paid in 2010 totalled US\$191.1 million, almost doubling those paid in 2009. The 2010 dividend payments reflected: i) the final 2009 dividend of US\$116.2 million and the 2010 interim dividend of US\$66.4 million paid to Fresnillo plc shareholders; and ii) US\$8.5 million paid to Newmont, the minority shareholder in Penmont.

The sources and uses of funds described above resulted in a net increase of US\$250.1 million in cash and cash equivalents during the year. The combination of this increase with the US\$312.2 million balance at the beginning of the year and the unfavourable effect of exchange rate movements on cash of US\$2.7 million, resulted in a net cash position of US\$559.5 million as at 31 December 2010.

BALANCE SHEET

In 2010, the Group maintained a solid financial position with no bank debt.

Cash and cash equivalents as of 31 December 2010 were US\$559.5 million, a 79.2% increase compared to year-end 2009. The main factors driving the significant increase in cash and cash equivalents were described in the cash flow section.

Trade and other receivables of US\$225.0 million rose as a result of the increase in metal prices and higher volumes sold. Additionally, turnover of accounts receivables increased from 30 days in 2009 to 34 days in 2010 mainly as a result of extended payment terms on doré sold by Minera Penmont from 5 to 15 days after product delivery. In addition, other accounts receivables increased as a result of loans granted to contractors to purchase equipment.

These increases were partially offset by the decrease in income tax refunds due, following the recovery of excess income tax paid in provisional payments during 2009 over the final income-tax return.

In accordance with the Silverstream Contract, Fresnillo plc is entitled to receive all of the proceeds in respect of the payable silver produced at the Sabinas mine owned and operated by the Peñoles Group. This contract is accounted for as a derivative financial instrument, with all payments received being credited against the carrying value of the related asset. The change in the value of the Silverstream derivative from US\$298.6 million at the beginning of the year to US\$427.7 million at the year-end reflects proceeds of US\$62.8 million (US\$55.6 million in cash and US\$7.2 million receivable) offset by a revaluation effect of \$191.8 million which is a non-cash gain reflected in the Group income statement. Given the cyclical movements of silver prices, the value of the Silverstream asset could increase or decline in line with the movements of the silver price.

The net book value of property, plant and equipment was US\$895.8 million at 31 December 2010, an increase of 30.0% when compared to 2009, reflecting capital expenditure during the year on new development projects and ongoing investments to optimise our operations. The main additions underlying the US\$207.1 million increase were the construction of the Saucito project, acquisition of new equipment mainly at Minera Penmont, construction of the San Carlos shaft at Fresnillo, purchase of land, and the sinking of the shaft and expansion of milling capacity at Ciénega.

i A more detailed explanation regarding the Company's investment can be found in the Review of Operations on pages 32-55.

Fresnillo plc's total equity was US\$1,919.3 million as of 31 December 2010, a 47.3% increase when compared to the balance at 31 December 2009. The total number of issued shares remained at 717,160,159 and their corresponding rights and obligations are set in the Group's Articles of Association.

The main factor increasing total equity was the higher profits achieved during the year. Equity attributable to minority shareholders rose from US\$127.0 million to US\$205.5 million as of 31 December 2010, reflecting the increased asset value attributable to the minority shareholders.

Dividends of US\$191.1 million were paid in the year, from retained earnings generated in previous years. Fresnillo plc's dividend policy takes into account the profitability of the business, underlying growth in earnings and the capital and cash flow requirements to support future production and expansions.

DIVIDEND

In September 2010 an interim dividend of 9.2 US cents per Ordinary Share was declared and paid for a total of US\$66.4 million. Based on the Group's 2010 performance, the Directors have recommended a final dividend of 35.6 US cents per Ordinary Share, which will be paid on 20 May 2011 to shareholders on the register on 3 May 2011. The dividend will be paid in UK pounds sterling unless shareholders elect to be paid in US dollars. The Company's dividend policy takes into account the profitability of the business and underlying growth in earnings of the Company, as well as its capital requirements and cashflows, whilst maintaining an appropriate level of dividend cover.





GOVERNANCE

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BOARD OF DIRECTORS

Alberto Baillères

NON-EXECUTIVE CHAIRMAN, 79 years old

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, Valores Mexicanos Casa de Bolsa, Crédito Afianzador, Grupo Palacio de Hierro, 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, 76 years old

HSECR Committee

Mr Lomelín spent 36 years at Peñoles where he served as Group Vice President of the metals and chemicals division for four years and subsequently held the position of CEO for 21 years. Upon the IPO of Fresnillo plc in May 2008, Mr Lomelín became its Chief Executive Officer. Mr Lomelín holds a bachelor of science degree in chemical engineering from the Universidad Nacional Autónoma de México (UNAM) and undertook business administration studies at the University of Wisconsin (1958-1959) as well as the AD2 program at the Instituto Panamericano de Alta Dirección de Empresas (IPADE) in 1975 and also the Stanford Executive Program at Stanford University (1984). Mr Lomelín is a member of the Board of Trustees of ITAM and an alternate director of Palacio de Hierro, Grupo Nacional Provincial, Valores Mexicanos Casa de Bolsa and is also Chairman of the Board of Trustees of the Chemistry School at the Universidad Nacional Autónoma de México (UNAM) as well as a member of the Fundación UNAM.

Lord Cairns

SENIOR INDEPENDENT

NON-EXECUTIVE DIRECTOR, 71 years old

Chairman, Remuneration Committee

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

Fernando Ruiz

NON-EXECUTIVE DIRECTOR, 67 years old

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 Chairman of the tax committee of the Consejo Mexicano de Hombres de Negocios. Mr Ruiz holds numerous board appointments, including Kimberly Clark de México, Mexichem, Grupo Cementos de Chihuahua, Grupo México, Empresas ICA and the Mexican Stock Exchange. Mr Ruiz graduated from the UNAM with a degree in public accounting.

Javier Fernández

NON-EXECUTIVE DIRECTOR, 55 years old

Nominations and HSECR Committees

Mr Fernández was appointed to the Board on 15 April 2008. He is Chairman of the Board of Primeiro Fianzas, a private surety company, since March 2007. He has been engaged as a consultant for public and private investment transactions and has been an active wealth management advisor since 2002. For the past 29 years Mr Fernández 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 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; of VISA, Inc., the world's largest electronic payment network and of ALFA a Mexican listed conglomerate with interests in petrochemicals, telecommunications, autoparts and processed foods. Mr Fernández 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, 50 years old

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 both the Board of Directors and the Executive Committee of Industrias Peñoles, Grupo Nacional Provincial, Grupo Palacio de Hierro, Grupo Profuturo, Valores Mexicanos Casa de Bolsa, Crédito Afianzador, Profuturo GNP Afore, Profuturo GNP Pensiones, Médica Integral, Bal-Ondeo and a member of the Board of Trustees of ITAM. Previous positions held by Mr MacGregor include CEO of Valores Mexicanos Casa de Bolsa (1994-1999); various positions, including corporate director, managing director and vice president of mutual funds at Grupo Financiero Inverlat (1985-1994), manager of investment strategies of Operadora de Bolsa, and investment assistant at Casa de Bolsa Banamex (1982-1983). Since 1999, Mr MacGregor has been a member of the Board of the Mexican Stock Exchange and is a former Vice Chairman of Mercado Mexicano de Derivados (MexDer). Mr MacGregor holds a bachelor of science in business administration from ITAM and attended the Stanford Executive Program at Stanford University.

Juan Bordes

NON-EXECUTIVE DIRECTOR, 63 years old

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 1984-1986 and CEO of Fábricas de Papel Loreto y Peña Pobre from 1986-1989. Since 1989, Mr Bordes has been a member of both the Board of Directors and the Executive Committee of Industrias Peñoles, Grupo Nacional Provincial, Grupo Palacio de Hierro, Grupo Profuturo, Valores Mexicanos Casa de Bolsa, Crédito Afianzador, Profuturo GNP Afore, 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 in chemical engineering from UNAM and attended the Stanford Executive Program at Stanford University. He also attended the Business Management Course at the Instituto Panamericano de Alta Dirección de Empresas (IPADE).

BOARD OF DIRECTORS *continued*

Arturo Fernández

NON-EXECUTIVE DIRECTOR, 57 years old

Mr Fernández was appointed to the Board on 15 April 2008. He is a member of both the Board of Directors and the Executive Committee 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 and BBVA Bancomer. Mr Fernández has been the rector of ITAM, an independent not-for-profit higher education institution, for 17 years. He 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 from ITAM as well as a PhD in economics from the University of Chicago.

Guy Wilson

NON-EXECUTIVE DIRECTOR, 62 years old

Chairman, Audit Committee

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

Fernando Solana

NON-EXECUTIVE DIRECTOR, 80 years old

Audit Committee

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 a member of the Boards of the Euroamerica Foundation in Madrid and the Institute of the Americas at the University of California in San Diego. He is a member of the Advisory Board of the Latin American Parliament. Previously, Mr Solana served in the Mexican government as Minister of Trade (1976-1977), Minister of Education (1977-1982) and Minister of Foreign Affairs (1988-1993), and as a senator in the Parliament (1994-2000). Mr Solana was President and CEO of Banco Nacional de México (1982-1988), and served as Chairman of the Mexican Banking Association (1986-1987). Mr Solana studied civil engineering, philosophy, public policy and administration at the National University of Mexico.

EXECUTIVE MANAGEMENT

Jaime Lomelín

CHIEF EXECUTIVE OFFICER,

Mr Lomelín's biographical details can be found on page 84 of this Annual Report.

Mario Arreguín

CHIEF FINANCIAL OFFICER, 54 years old

Mr Arreguín joined Fresnillo plc from Industrias Peñoles, where he was Chief Financial Officer for 11 years and Group Treasurer for the six years prior. Before joining Peñoles, Mr Arreguín worked in investment banking at Valores Finamex and in Project Management at Dupont México. Mr Arreguín holds a bachelor of chemical engineering with honours and received his MBA from the University of Chicago. He also completed the Stanford Executive Program at Stanford University.

Manuel Luévanos

CHIEF OPERATING OFFICER, 66 years old

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. Mr Luévanos holds a bachelor of chemical engineering from the University of Guanajuato and has a post-graduate degree in international business from ITAM; he also studied the Stanford Executive Program at Stanford University.

David Giles

VICE PRESIDENT, EXPLORATION, 60 years old

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 ITESM University in Mexico. He is an officer of the Society of Economic Geologists and the Mexican Association of Mining, Metallurgical and Geological Engineers.

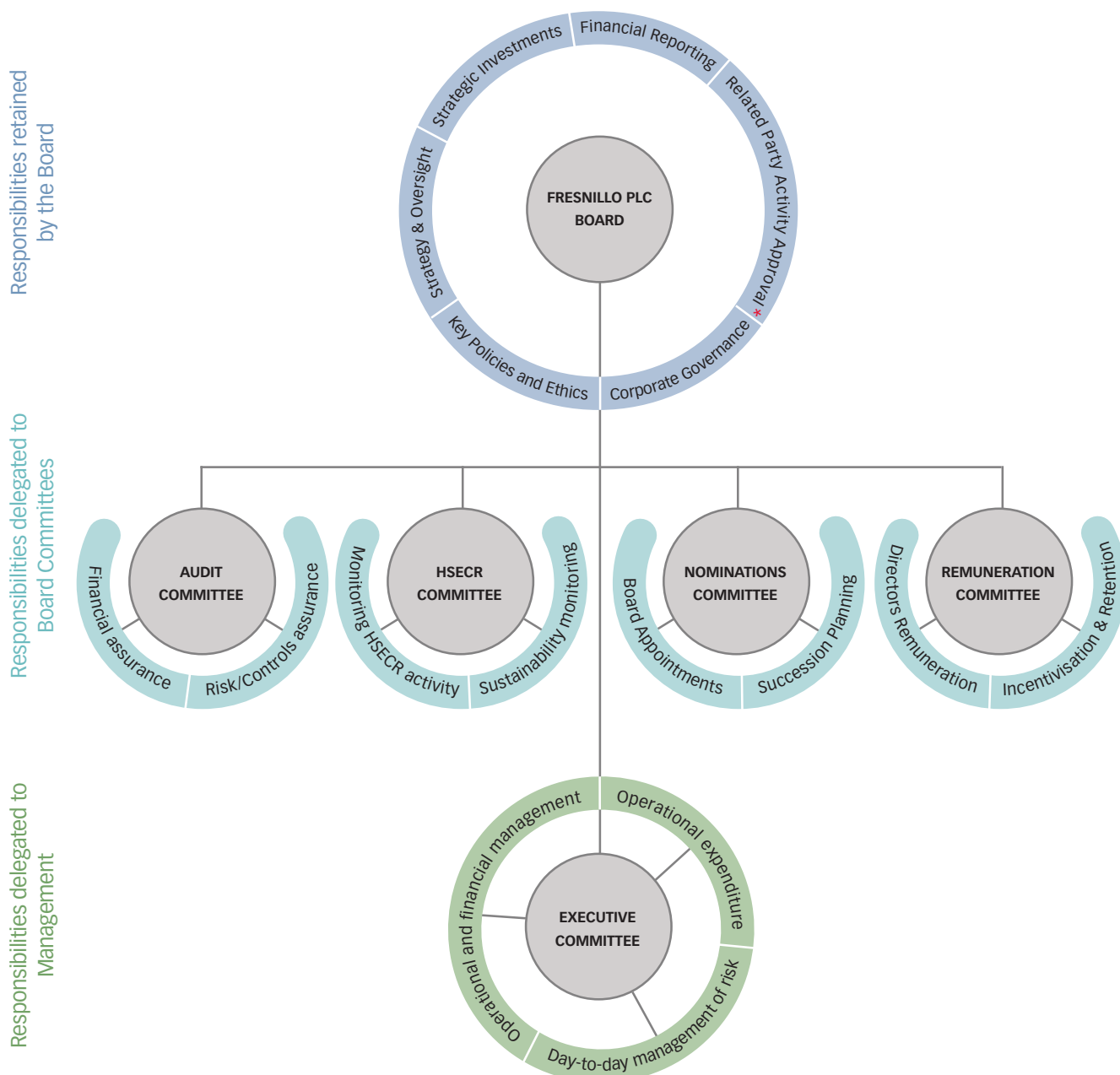
CORPORATE GOVERNANCE REPORT

Corporate Governance Overview

"Like all of my board colleagues, I am firmly committed to ensuring that we collectively oversee Fresnillo plc transparently and in the interest of all shareholders. We are fully committed to the best possible practice in corporate governance, and take our adherence to the principles and provisions of the new UK Code on Corporate Governance very seriously. In particular, we recognise that the shareholding structure of Fresnillo plc requires us to ensure that the interests of all shareholders are well represented in the proceedings of the Board. In our reporting this year, we have sought to demonstrate the steps that we have put in place to achieve this."

Alberto Baillères, Chairman, Fresnillo plc

The Governance Structure of Fresnillo plc



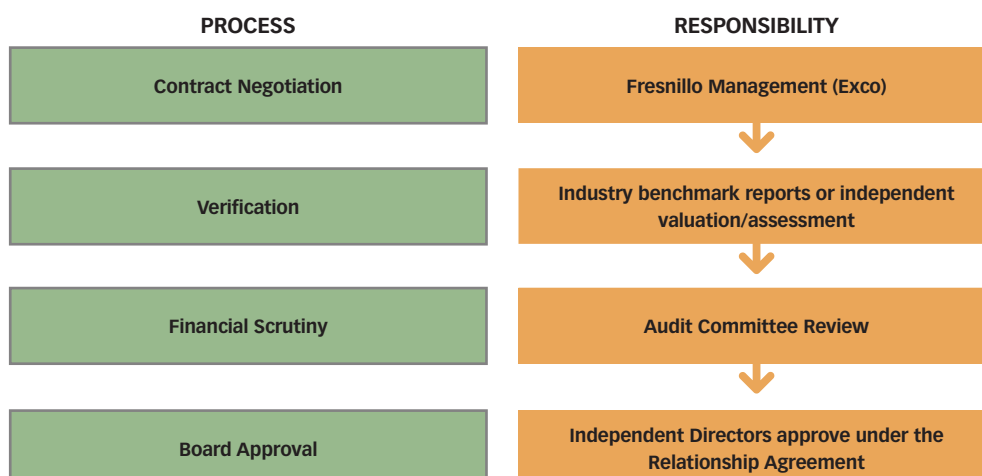
* Only Independent Directors

BOARD DIRECTORS	COMMITTEES			
	AUDIT	HSECR	NOMINATIONS	REMUNERATION
INDEPENDENT NON-EXECUTIVE DIRECTORS				
Lord Cairns (Senior Independent Director)				X (Ch)
Javier Fernández		X	X	
Fernando Ruiz	X		X	X
Fernando Solana	X			
Guy Wilson	X (Ch)			
NON-EXECUTIVE DIRECTORS				
APPOINTED BY PEÑOLES				
Alberto Baillères (Chairman)			X (Ch)	X
Juan Bordes				
Arturo Fernández				
Rafael MacGregor		X (Ch)		
EXECUTIVE DIRECTOR				
Jaime Lomelín		X		

PEÑOLES AND FRESNILLO

The Relationship Agreement aims to ensure that the Fresnillo Group can carry on its business independently of the Peñoles Group, and that transactions and relationships with the Peñoles Group are at arm's length and on normal commercial terms. Since IPO the Board has refined the process by which transactions between Peñoles and the Company are approved and the approach taken to ensure that the Relationship Agreement is fully implemented. The key elements of this process are:

Governance of Transactions with Peñoles



CORPORATE GOVERNANCE REPORT

Introduction

As a company with a Premium Listing on the London Stock Exchange, Fresnillo is required under the FSA Listing Rules to comply with the 2008 Combined Code on Corporate Governance (a copy of which may be found on the website of the Financial Reporting Council: www.frc.org.uk) or explain its reasons for non-compliance, in respect of the year ended 31 December 2010. The following statement is therefore made in compliance with such requirement, and the sections thereafter explain how the principles in the 2008 Combined Code on Corporate Governance were applied. A detailed report on Directors' remuneration can be found on pages 100 to 105.

Combined Code Compliance Statement

The 2008 Combined Code on Corporate Governance (the Code) establishes, in Section 1, seventeen main principles of good governance in four areas: Directors, Directors' Remuneration, Accountability and Audit, and Relations with Shareholders. For the financial year ended 31 December 2010, 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 in the Company. Mr Baillères has been responsible for overseeing the successful development of Fresnillo over the many years before Fresnillo was listed 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. Furthermore a transparent governance system has been established, primarily through the Relationship Agreement between Fresnillo and Peñoles, which ensures that the Company benefits from Mr Baillères leadership and experience whilst being able to demonstrate to other shareholders that the Fresnillo Group is capable of carrying on its business independently. In particular, the Relationship Agreement ensures that transactions and relationships between the Fresnillo Group and its major shareholder are at arm's length and on normal commercial terms.
- **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.

HOW THE BOARD MANAGES ITS BUSINESS

Board Membership

Throughout the year, the Board consisted of ten Directors - the Non-executive Chairman, Alberto Baillères, the Chief Executive Officer, Jaime Lomelín, and eight Non-executive Directors. There were no changes to the Board during the year to 31 December 2010. The names and biographies of the current Directors of the Company are set out on pages 84-86.

The Board Structure

The structure and business of the Board is designed to ensure that the Board focuses on strategy, supervising governance, risk and control issues. Certain aspects of the Board's responsibilities have been delegated to appropriate committees to ensure compliance with the UK Companies Act, FSA Listing Rules and the Code.

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

- Audit Committee
- Executive Committee
- HSECR Committee
- Nominations Committee
- Remuneration Committee

The terms of reference for each of the Audit, Remuneration, Nominations and Health, Safety, Environment and Community Relations Committees are available on the Company's website (www.fresnilloplc.com).

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 and budget approved by the Board.

The Report of the Remuneration Committee (the Directors Remuneration Report) sets out the responsibilities and activities of the Remuneration Committee during the year.

Board Process

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. All meetings of the Board are held in Mexico.

	FEBRUARY/MARCH	APRIL	JULY/AUGUST	OCTOBER
Key Activity	Full year results and report	Strategy	Interim results	Business plan and budget

A table of attendance of members of the Board and Board committees at meetings for the financial year ended 31 December 2010 is set out below:

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

The Company Secretary is responsible for preparing a draft agenda for each Board meeting in conjunction with Chief Executive Officer and the Chief Financial Officer. The Chairman approves the final version of the agenda. Members of the Executive Committee are responsible for preparing papers in respect of strategic planning, policies and investment proposals for each Board meeting. Papers are normally circulated five days before the Board meeting concerned.

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.

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. The Company Secretary and Carlos Ortiz Mena, the Head of Legal, supported by the Group's UK legal advisers ensure that the Board are fully briefed on all of their legal and regulatory responsibilities. Directors are encouraged to visit the Company's mines to familiarise themselves with the Fresnillo Group's operations and most of the Non-executive Directors have now visited at least one of the Group's locations.

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.

Performance Evaluation

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 2010. This questionnaire focussed on issues raised by the previous evaluation exercise conducted in 2009 (in respect to the consideration of strategy and risk) and the Company's approach to adapting its corporate governance approach to reflect the implementation of the UK Corporate Governance Code. The Board continues to consider how it may devote more time to the discussion of strategic considerations and subsequent planning. In this regard it plans to change the normal format of Board meetings to facilitate this in 2011. The Board has also commissioned advisers to assist it to develop a framework for the identification and management of risk in line with the requirements of the new UK Corporate Governance Code.

The Chairman meets with the Non-executive Directors informally from time to time without the executives present. The performance of the Chief Executive Officer of the Company, being the sole Executive Director, is reviewed by the Remuneration Committee (in connection with his annual bonus). The Independent Non-executive Directors met to evaluate the performance of the Chairman in October 2010.

Directors' and Officers' Liability Insurance

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. The Board remain satisfied that an appropriate level of cover is in place and a review of cover will take place on an annual basis.

NOMINATIONS COMMITTEE REPORT

The Nominations Committee is responsible for making recommendations to the Board on the structure, size and 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. The terms of reference of the Nominations Committee are available for inspection on the Company's website at www.fresnilloplc.com.

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 Nominations Committee met once during the year and considered the current membership of the Board and Board Committees. It reviewed the Group's succession planning, the time commitment required from each director and undertook a brief self-evaluation exercise. The Nominations Committee has not retained any external consultants to assist it in its work.

The Nominations Committee intends to review its Board appointments policy, taking into account the guidance set out in the UK Corporate Governance Code on diversity issues, when it meets in the first half of 2011.

AUDIT COMMITTEE REPORT

The Audit Committee has responsibility for 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 monitors the activity of the Internal Audit Department and reviews the effectiveness of the Group's system of internal controls and risk management systems.

The members of the Audit Committee at 31 December 2010 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 Audit Committee met four times in the year to deal with the following business:

AUDIT**COMMITTEE MEETING MAIN BUSINESS OF THE MEETING**

February 2010	<ul style="list-style-type: none"> • Review of Financial Statements for 31 December 2010 • Going concern assessment • Review of the report of the external auditor • Reviews of risk matrix, internal audit findings, the system of internal control and compliance with mining licences • Meeting with the external auditor without management present
July 2010	<ul style="list-style-type: none"> • Review of External Auditor Letter to Management • Review of Interim Results and External Auditor report • Update on risk and internal audit reviews (including internal audit findings) • Review of financial aspects of related party transactions prior to approval by the Board • Reviews of reserves data and the insurance programme
October 2010	<ul style="list-style-type: none"> • External auditor terms of engagement and year-end audit plan • Review of non-audit fees incurred with Ernst & Young and other audit firms • Presentation on Board-level review of risk and embedding risk culture within operations • Internal audit findings report and internal audit plan for 2011 • Review of Audit Committee Charter
December 2010	<ul style="list-style-type: none"> • Year-end Audit Progress Review and report from Ernst & Young on the October • Hard-close audit • Independence and objectivity of the external auditor • Review of internal audit findings • Update on the review of the system of internal controls • Meeting with internal audit without management present • Evaluation of internal audit • Review of the Whistleblowing Procedure • Review of financial aspects of related party transactions prior to approval by the Board • Audit Committee evaluation feedback

The terms of reference of the Audit Committee were amended in February 2010 to extend its duties to include reviews of the financial and commercial arrangements of any transaction requiring the approval of the Independent Directors of the Company under the Relationship Agreement. The terms of reference of the Audit Committee may be found on the Company's website (www.fresnilloplc.com).

Financial Reporting

The Audit Committee reviewed the 2010 interim financial results before recommending them to the Board for approval, likewise it has reviewed the 2010 Annual Report and Accounts and associated preliminary results announcement before recommending their approval by the Board. As part of these reviews, the Audit Committee reviewed the accounting policies, the clarity of disclosure, compliance with the Listing Rules and Disclosure & Transparency Rules of the London Stock Exchange and other legal and regulatory requirements and all material information presented in the interim financial results and the Financial Statements.

External Auditor

The Audit Committee oversees the relationship with the external auditors and reviewed the terms of engagement of Ernst & Young LLP, the external auditor and approved audit plans and timescales prior to the year-end audit. As part of its review of the financial statements prepared by the Company, the Audit Committee has reviewed the findings of the external auditor, reviewed management representation letters and considered recommendations made by the external auditor in the course of their work. During the year, the Audit Committee has noted an increasing level of collaboration between Ernst & Young LLP and the Company's Internal Audit Department in order to improve the respective efficiency of the external and internal audit processes.

The Audit Committee has reviewed, and is satisfied with, the independence of Ernst & Young LLP as the external auditor. 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 considers the re-appointment of the external auditor, Ernst & Young LLP, prior to the Company's annual general meeting, taking into account the results of the auditor assessment process, the quality of the work and communication by the external auditor and the level of audit fees. The Audit Committee considers that the rotation of the audit partner in line with ICAEW guidelines is appropriate. The Audit Committee also periodically considers the need to invite tenders for the external audit. Details of the fees paid to Ernst & Young LLP during the year are shown in note 29 to the Financial Statements.

The effectiveness of the external auditor was reviewed prior to the Board proposing their re-appointment at the forthcoming Annual General Meeting.

Internal Controls and Risk Management

The Group has in place internal controls and risk management systems in relation to the Group's financial reporting system process and the Group's process for preparing consolidated accounts. These systems include policies and procedures to ensure that adequate accounting records are maintained and transactions are recorded accurately and fairly to permit the preparation of financial statements in accordance with IFRS. 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, the Company's system is designed to meet its 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 the system of internal control 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.

The process for identifying, evaluating and managing the significant risks faced by the Group has been established in accordance with the Turnbull Guidance and is described more fully on page 22. The Audit Committee reviews the Group's major risks and uncertainties prior to publication of the interim and annual financial statements. Based on the risk categories set out in the risk matrix, the Audit Committee, through the Internal Audit Department, has sought letters of representation from the Executive Committee and the executive management on the Group's system of internal control.

There are a number of components to the system of internal controls within the Company detailed below and assurance concerning the system of internal controls focuses on these components:

COMPONENT OF THE SYSTEM OF INTERNAL CONTROL	BASIS FOR ASSURANCE
<ul style="list-style-type: none"> The Group risk matrix 	<ul style="list-style-type: none"> Updated twice a year by the Executive Committee and Internal Audit Department
<ul style="list-style-type: none"> A framework of transaction and entity level controls to prevent and detect material error and loss 	<ul style="list-style-type: none"> Reviews undertaken by the Internal Audit Department
<ul style="list-style-type: none"> A documented structure of delegated authorities and approvals for transaction and investment decisions, including any with related parties 	<ul style="list-style-type: none"> Monitored and reviewed by the Internal Audit Department
<ul style="list-style-type: none"> Operating policies and procedures 	<ul style="list-style-type: none"> Annual written representations obtained from operational and functional management
<ul style="list-style-type: none"> A budget with periodic reporting 	<ul style="list-style-type: none"> Review process performed by the Executive Committee
<ul style="list-style-type: none"> Controls and procedures set out in the Company's Accounting Policies and Procedures Manual 	<ul style="list-style-type: none"> Monitored and reviewed by the Internal Audit Department
<ul style="list-style-type: none"> A programme of internal audit reviews conducted by the Group's Internal Audit Department 	<ul style="list-style-type: none"> Reports prepared by the Internal Audit Department are discussed with management prior to finalisation and reviewed by the Audit Committee

The Board has, through the Executive Committee and the Audit Committee, reviewed the effectiveness of the Group's system of internal controls taking account of the matters noted above. On the basis of this review, the Board considers that the measures that have been implemented to create an appropriate risk management framework are appropriate to the Group's circumstances. The Board and the Audit Committee have received and approved plans presented by management setting out a number of improvements to the internal control environment to take account of the expansion of the Group's activities in exploration and mine development. These initiatives are being included in the development of related embedded risk management and assurance processes. 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.

Internal Audit

The Audit Committee has received presentations and updates from the Group Internal Audit Department throughout the year concerning their workplan for the year. A workplan for 2011-12 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 and it is satisfied that the actions agreed between management and Internal Audit are appropriate and have been implemented.

Whistleblowing Arrangements

The Fresnillo Group strives to fight corruption and promote ethical business behaviour among all of its stakeholders. The Board is in the process of reviewing the Group's policies in light of evolving anti-corruption legislation, including a review of the Code of Conduct, to which every employee must reaffirm adherence each year. The Fresnillo Group shares this Code with shareholders, clients, suppliers and community leaders and hold everyone accountable for the processes in which they participate.

The Fresnillo "Plays Fair" whistleblower hotline allows stakeholders to anonymously report violations to the Code of Conduct. The results are audited by an independent third party and classified in 25 different categories: high-risk conditions, violence, fraud, inappropriate use of confidential information, accounting irregularities, conflict of interest, client complaints, theft, unethical treatment of clients, unethical treatment of suppliers, discrimination, falsification of company records, improper use of assets, bribery and sexual harassment, among others. An Honour Commission, comprised of the Chief Executive, Chief Financial Of-

ficer and Vice President of Operations adjudicates any complaints filed. Four reports were received on the hotline in 2010. The Honour Commission asked for corrective actions in two cases and the other two were declared "not applicable".

The Audit Committee is responsible for reviewing these arrangements which it did at its meeting in December 2010 and it is satisfied with the adequacy of those arrangements.

Transactions with Related Parties

The Audit Committee reviews the financial and commercial aspects of any transaction proposed between the Fresnillo Group and the Peñoles Group prior to such matters being considered by the Independent Non-executive Directors under the terms of the Relationship Agreement or in compliance with Chapter 11 of the Listing Rules. During the year, the Audit Committee has considered the proposed charges in respect of the Met-Mex Arrangements for 2010 and the terms on which some minor exploration licences were transferred from Peñoles to Fresnillo during the year. The Audit Committee also reviews a schedule of the Company's related party transactions once a year.

HSECR COMMITTEE REPORT

Health, Safety, Environment and Community Relations (HSECR) System

The Group develops, executes and monitors a broad range of policies and practices related to health, safety, sustainability and corporate social responsibility through its Health, Safety, Environment and Community Relations System.

At the Board level, the Health, Safety, Environment and Community Relations (HSECR) Committee is responsible for formulating and recommending HSECR policies to the full Board, reviewing management's investigation of incidents or accidents, and evaluating the results of the Group's independent performance audits and action plans. The members of the HSECR Committee are Rafael MacGregor (Chairman of the Committee), Javier Fernández and Jaime Lomelín.

The terms of reference of the HSECR Committee are available for inspection on the Company's website at www.fresnilloplc.com.

Full details of the performance of the Company in matters of corporate and social responsibility and the activity of the HSECR Committee during the year are set out in the Sustainable Development Report on pages 56-69.

HOW THE BOARD MANAGES ITS RELATIONS WITH SHAREHOLDERS

The Company has an office in London where the Head of Investor Relations is based. 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 maintains 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 Vice President of Exploration and the Chief Operating Officer 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 third annual general meeting will be held on Wednesday 17 May 2011. 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.

HOW THE BOARD MAINTAINS INDEPENDENCE

Board Balance and Independence

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 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 Baillères is also the Chairman of Peñoles and other companies within the BAL Group.

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.

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. Thus, 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 very important to the Company. Furthermore, a transparent governance system has been established, primarily through the Relationship Agreement, which ensures that the Company benefits from Mr Baillères' leadership and experience whilst being able to demonstrate to other shareholders that the Fresnillo Group is capable of carrying on its business independently. In particular, the Relationship Agreement ensures that transactions and relationships between the Fresnillo Group and its major shareholder are at arm's length and on competitive commercial terms.

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 retired as a partner of Ernst & Young LLP, the Company's auditors 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.

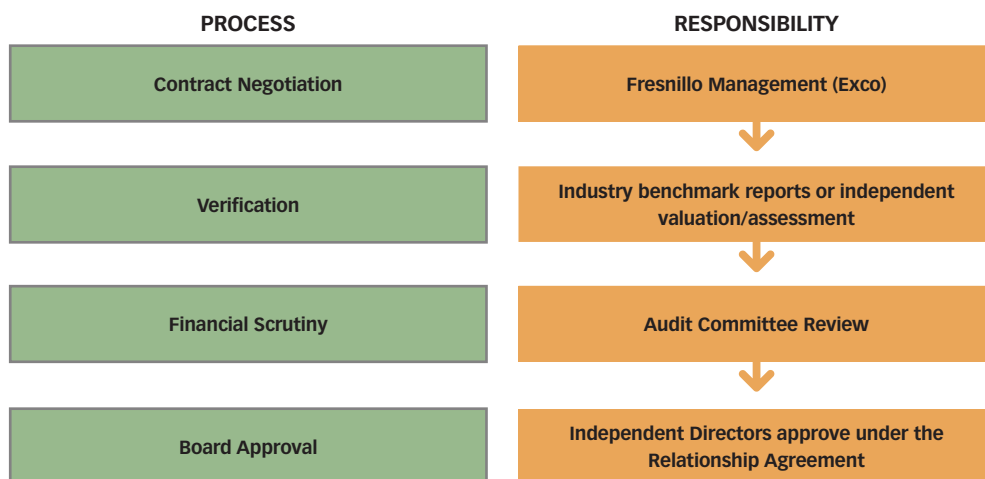
The Board considers Lord Cairns, Fernando Ruiz, Fernando Solana, Javier Fernández and Guy Wilson to be independent.

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 Fresnillo Group is capable of carrying on its business independently of the Peñoles Group, and that transactions and relationships with the Peñoles Group are at arm's length and on normal commercial terms. Peñoles has also 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.

Since the IPO the Board has refined the process by which transactions between Peñoles and the Company are approved and the approach taken to ensure that the Relationship Agreement is fully implemented. The key elements of this process are:

Governance of Transactions with Peñoles



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.

Each Director has completed a Directors List which set out details of situations where each director's interests may conflict with those of the Company ("situational conflicts"). The Directors Lists have been re-submitted by each Director as at 30 June 2010 and 31 December 2010 and the Board has considered and authorised new situational conflicts identified in these resubmitted lists. In addition, Directors are reminded at the beginning of each Board meeting to notify the Board of any further conflicts to the Board.

Lord Cairns

SENIOR INDEPENDENT DIRECTOR ON BEHALF OF THE BOARD

28 February 2011

DIRECTORS' REMUNERATION REPORT

This Report of the Remuneration Committee is the Directors' Remuneration Report of the Company and has been prepared in accordance with Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (Regulations). The Report sets out information about the remuneration of the Directors and senior management of the Company for the year ended 31 December 2010. In accordance with the Regulations, the information provided in the section entitled "Directors' Remuneration" and accompanying notes has been audited by Ernst & Young LLP. This report will be subject to an advisory shareholder vote at the Company's forthcoming Annual General Meeting.

REMUNERATION COMMITTEE

The Remuneration Committee has responsibility for making recommendations to the Board on the Group's remuneration policy for senior management (Chief Executive Officer and other members of the Executive Committee), and for determining specific remuneration packages for senior management, including pension rights and any compensation packages, as well as remuneration of the Chairman within agreed terms of reference.

The Remuneration Committee consisted of the following Directors in the year ended 31 December 2010:

- Lord Cairns (chairman), Independent Non-executive Director
- Mr Fernando Ruiz, Independent Non-executive Director
- Mr Alberto Baillères, Chairman of the Board, non-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. Terms of reference for the Remuneration Committee have been approved by the Board and are available for inspection on the Company's website at www.fresnilloplc.com.

The Remuneration Committee met twice during the year. The Chief Executive Officer usually attends meetings of the Remuneration Committee at the invitation of its chairman and the Company Secretary acts as secretary to this committee. No Director is present when his own remuneration is being discussed. In October 2010, the Remuneration Committee undertook an evaluation of its performance.

REMUNERATION POLICY

The Group's remuneration policy seeks 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 senior executives, 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. Pensions and other benefits are also set at levels that are market competitive.

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 Chief Operating Officer and the Vice President of Exploration as well as other corporate managers. The achievement of annual performance targets is rewarded through an annual performance related bonus. The performance targets upon which bonuses are based include a mix of financial and operational performance measures. In 2008, the Remuneration Committee reviewed the remuneration policy and recommended that the upper limit for short-term, cash-based remuneration incentives should be increased from a maximum of four months' salary to a maximum of six months' salary in future years. The Remuneration Committee has reviewed the impact of this change in policy and is satisfied that it has helped to improve performance by senior management.

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

ADVISERS AND BENCHMARKING

Benchmarking information on pay and employment conditions is supplied annually to the Company by Mercer, Hay Group and Data Compensation. The information provided is used across the Group in determining salaries for all employee grades including senior management. This approach seeks to maintain consistency between Group executive and staff pay structures, and ensure that a competitive remuneration structure, compared to the Company's peer group within Mexico, is preserved.

Before agreeing the salaries for the senior executives in April 2010, the Remuneration Committee received a presentation from Mercer concerning approaches to executive remuneration in comparable countries where gold and/or silver is mined, in order to validate the Company's policy towards short-term and long-term remuneration and in order to ensure that it was globally as well as locally competitive. In Mexico, short-term, cash-based incentivisation is considered more appropriate in helping attract, retain and motivate quality senior management, thus supporting 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.

DIRECTORS' REMUNERATION REPORT *continued*

SHORT-TERM INCENTIVE PLAN

A cash-based short-term incentive plan is in place for the members of the Executive Committee, including the Chief Executive Officer. The Remuneration Committee approved a number of Key Performance Indicators (KPIs) 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 point 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), a 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 (Month's Salary)	VARIABLE PAY (% Annual Salary)
100-104	2 months	16.67%
105-109	4 months	33.33%
110-114	5 months	41.67%
115+	6 months	50.00%

The Chief Executive Officer achieved in excess of 115 points for the year to 31 December 2010.

The objectives, as applied to the Chief Executive Officer's short-term incentive payment, measures associated with each objective, and the relative weighting between objectives, are detailed below:

OBJECTIVE	MEASURE	WEIGHTING
Teamwork	no measure	10.0
Stakeholder	various	13.5
Financial	net profit adjusted*	18.0
Exploration	% increase in reserves/resources	31.5
Production	equivalent ounces produced	27.0

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

SERVICE AGREEMENTS

The Chief Executive Officer, Jaime Lomelin, is employed under a contract of employment with Servicios Administrativos Fresnillo S.A. de C.V., a subsidiary of Fresnillo plc. Mr Lomelin'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 Lomelin's service agreement is MXN\$1,102,000 per month. In addition, he received other payments for holidays, company-paid savings contributions and other benefits. In 2010, his total salary payments were MXN\$17,094,433; US\$1,352,761 (2009: MXN\$16,417,772; US\$1,215,776).

Under his service agreement, Mr Lomelin is entitled to 26 working days' paid holiday per year.

BENEFITS-IN-KIND

Mr Lomelín is not entitled to profit-sharing. 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 benefit 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 with benefits frozen at this date for existing members, subject to indexation with reference to the Mexican National Consumer Price Index; 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.

Mr Lomelín is a deferred member of the defined benefit scheme but did not join the defined contribution scheme when it was introduced in 2007.

NON-EXECUTIVE DIRECTORS' LETTERS OF APPOINTMENT

Each of the Non-executive Directors signed a letter of appointment with the Company, for an initial period of three years. The fees payable to each Non-executive Director are set by the Board in accordance with its Schedule of Reserved Matters, and have been set at a level to reflect the time commitment and level of involvement they are required to make in the activities of the Board and its committees. Unless otherwise determined, the Director concerned may give not less than three months' notice of termination of the appointment. 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	UNEXPIRED TERM*	FEES PER ANNUM
Alberto Baillères	15 April 2008	3 months	3 years	45 days	£30,000
Lord Cairns	15 April 2008	3 months	3 years	45 days	£90,000
Juan Bordes	15 April 2008	3 months	3 years	45 days	£30,000
Javier Fernández	15 April 2008	3 months	3 years	45 days	£30,000
Arturo Fernández	15 April 2008	3 months	3 years	45 days	£30,000
Rafael MacGregor	15 April 2008	3 months	3 years	45 days	£30,000
Fernando Ruiz	15 April 2008	3 months	3 years	45 days	£30,000
Guy Wilson	1 July 2008	3 months	3 years	4 months	£90,000
Fernando Solana	18 February 2009	3 months	3 years	11 months, 18 days	£30,000

*As at 1 March 2011.

Copies of the Directors' letters of appointment and service agreements are available for inspection at the Company's registered office.

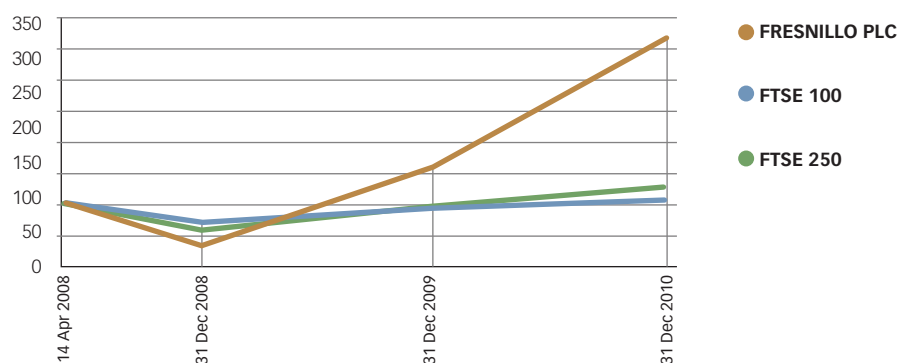
EXTERNAL APPOINTMENTS

It is the Board's policy to allow the Executive Directors to accept directorships of other quoted and non-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. None of the Executive Directors holds any appointments to the board of any other FTSE100 quoted company.

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 and FTSE 250 Indices. These are deemed to be the most appropriate indices for comparative purposes.

TOTAL SHAREHOLDER RETURN FROM 14 APRIL 2008 (DATE OF IPO) TO 31 DECEMBER 2010 FOR FRESNILLO PLC (ORDINARY SHARES) COMPARED WITH THE FTSE 100 AND FTSE 250 INDICES, REBASED TO 100



Information subject to audit

DIRECTORS' REMUNERATION - 1 JANUARY 2010 TO 31 DECEMBER 2010

SALARY, ANNUAL BONUS AND OTHER BENEFITS

US\$'000	SALARY/ FEES	BENEFITS-IN-KIND**	ANNUAL BONUS	TOTAL 2010	TOTAL 2009
Chairman					
Alberto Baillères	46	0	0	46	47
Executive Directors					
Jaime Lomelin	1,352	79	480	1,911	1,704
Non-executive Directors					
Lord Cairns	138	0	0	138	141
Juan Bordes	46	0	0	46	47
Javier Fernández	46	0	0	46	47
Arturo Fernández	46	0	0	46	47
Rafael MacGregor	46	0	0	46	47
Hector Rangel*	0	0	0	0	4
Fernando Ruiz	46	0	0	46	47
Fernando Solana	46	0	0	46	41
Guy Wilson	138	0	0	138	141
Total	1,950	79	480	2,509	2,313

* Hector Rangel resigned as a Director on 30 January 2009.

** Refer to page 103 for the nature of the "Benefits-in-Kind"

PENSION ENTITLEMENT

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

US\$'000	ACCUMULATED ACCRUED BENEFITS		INCREASE IN ACCRUED BENEFITS DURING THE YEAR		INCREASE, BEFORE INFLATION, IN ACCRUED BENEFITS DURING THE YEAR		TRANSFER VALUE OF INCREASE BEFORE INFLATION, LESS DIRECTORS CONTRIBUTIONS	
	At 31 Dec	At 31 Dec						
	2010	2009	2010	2009	2010	2009	2010	2009
Jaime Lomelin	7,856	7,206	650	(188)	290	(188)	0	0

Note: At 31 December 2009 and 2010, the accrued value of Mr Lomelin's pension fund equated to the transfer value. Mr Lomelin is no longer accruing service in the pension scheme. The increase in the accumulated accrued benefits is principally due to inflation and foreign exchange differences.

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

28 February 2011

DIRECTORS' REPORT

The Directors have the pleasure in presenting their Annual Report and the audited Financial Statements for the year ending 31 December 2010.

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 114.

An interim dividend of 9.20 US cents per share was paid on 14 September 2010 to shareholders on the register on 20 August 2010. The Directors have recommended a final dividend for the year ended 31 December 2010 of 35.6 US cents per Ordinary Share, which will be paid on 20 May 2011 to shareholders on the register on 3 May 2011. 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 on pages 6-81, inclusive, of this Annual Report. The Business Review comments, among other things, on the operation and development of the business and its future prospects along with details of the strategy, business model, key performance indicators and the description of the principal risks and uncertainties facing the Group.

This Business Review and other sections of this Annual Report contain forward looking statements. The extent to which the Company's shareholders or anyone else 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 88-99.

DIRECTORS

The names and biographies of the current Directors of the Company are set out on pages 84-86.

In accordance with the Articles of Association, Directors may be appointed by the Company either by the Board or by ordinary resolution of shareholders. If appointed by the Board, then a Director holds office until the next annual general meeting. If appointed by the annual general meeting, Directors shall retire at the annual general meeting held in the third year following the year in which they were elected or last re-elected by the Company's shareholders. Notwithstanding this, however, in accordance with Code Provision B.7.1 of the UK Corporate Governance Code, the Company intends that all Directors will stand for re-election on an annual basis commencing at the 2011 AGM.

REMUNERATION OF DIRECTORS

Details of Directors' remuneration can be found in the Directors' Remuneration Report on pages 100-105.

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.

SIGNIFICANT RELATIONSHIPS AND AGREEMENTS

Section 417(5) of the Companies Act 2006 requires the Company to disclose information on contractual or other arrangements which are essential to the business of the Company.

These 'significant relationships' are described in the Strategic Resources section of the Business Review on pages 20-21. Details of the agreement between Peñoles and the Company (the Relationship Agreement) can be found on page 98 in the Corporate Governance Report.

CHANGE OF CONTROL – SIGNIFICANT AGREEMENTS

As required by Section 992 of the Companies Act 2006, the following represents the likely effect on significant agreements with the Company were it to be subject to a 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 New Services Agreement contains a discretionary provision for Servicios Administrativos Peñoles, 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 several 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.

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.

SHARE CAPITAL – STRUCTURE, RIGHTS AND RESTRICTIONS

Details of the Company's share capital are set out in note 20 to the Financial Statements on page 144.

The Company has two classes of share capital 717,160,159 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 Annual General Meeting 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 of 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

The Company was authorised by a shareholders resolution passed at the annual general meeting held in May 2010 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.

DIRECTORS' INTERESTS

The number of Ordinary Shares of the Company in which the Directors were beneficially interested at 1 January 2010 and at 31 December 2010 was:

	1 JANUARY 2010	31 DECEMBER 2010
Alberto Baillères	See below*	See below*
Lord Cairns	15,000	15,000
Fernando Ruíz	-	30,000
Javier Fernández	-	-
Guy Wilson	15,000	15,000
Juan Bordes	15,000	15,000
Arturo Fernández	-	-
Rafael MacGregor	-	-
Fernando Solana	-	-
Jaime Lomelin	-	-

* *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 per cent of the issued share capital) in the Company.*

No Director had any dealings in the shares of the Company between 31 December 2010 and 28 February 2011.

MAJOR INTERESTS IN SHARES

As at 28 February 2011, 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	552,571,902	77.05
BlackRock, Inc*	57,226,182	7.97

*includes interests held by BlackRock Global Funds.

EMPLOYEES

Information relating to employees is given in note 8 to the Financial Statements on page 134 and in the Sustainable Development Report on pages 58-59.

CREDITOR PAYMENT POLICY

At 31 December 2010 the Company had no trade creditors (2009: nil). It is the Company's policy to agree terms of trading, including payment 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. It is not practical to estimate the market value of land and buildings at each balance sheet date. However, the Directors are confident that there is no material difference between the carrying value and the market value of land and buildings.

POLITICAL AND CHARITABLE DONATIONS

No donations were made to political organisations during the year (including in Mexico). The Group made charitable donations of US\$0.5 million (2009: US\$0.6 million) during the year.

Further information concerning the community initiatives within the Fresnillo Group are included within the Sustainable Development Report set out on pages 66-69.

FINANCIAL RISK MANAGEMENT

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

DIRECTORS RESPONSIBILITIES

Information about the Directors' responsibilities in respect of the preparation of the Annual Report and Financial Statements is provided on page 111.

GOING CONCERN

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Review on pages 6-69. The financial position of the Company is specifically described in the Financial Review on pages 70-81.

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 for the period to December 2012 including exploration and capital expenditure plans and sensitivities around those plans. They have also considered the sensitivities of the cashflow forecasts to movements in metal prices and exchange rates.

The Company has considerable financial resources, negligible liquidity risk and is operating within a sector that is experiencing increasing global demand for its products. The Directors therefore have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis of accounting in preparing the annual 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 Annual General Meeting.

ANNUAL GENERAL MEETING

The Company's Annual General Meeting will be held at Linklaters, One Silk Street, London, EC2Y 8HQ on 17 May 2011 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

28 February 2011

Fresnillo plc

Registered Office:

28 Grosvenor Street

London W1K 4QR

United Kingdom

Company No: 6344120

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 Group 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

28 February 2011

FINANCIALS

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INDEPENDENT AUDITOR'S REPORT

to the members of Fresnillo plc

We have audited the group financial statements of Fresnillo plc for the year ended 31 December 2010 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement, 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 auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 111, 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 and express an opinion on 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 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 2010 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.

Opinions 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 financial statements are prepared is consistent with the 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 111, 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; and
- Certain elements of the report to shareholders by the Board on directors' remuneration.

Other matter

We have reported separately on the parent company financial statements of Fresnillo plc for the year ended 31 December 2010 and on the information in the Directors' Remuneration Report that is described as having been audited.

Nick Gomer (Senior statutory auditor)

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

London

28 February 2011

Fresnillo plc

CONSOLIDATED INCOME STATEMENT

		Year ended 31 December			Year ended 31 December		
(US\$ thousands)	Notes	2010			2009		
		Pre-Silverstream revaluation effect	Silverstream revaluation effect	Total	Pre-Silverstream revaluation effect	Silverstream revaluation effect	Total
Continuing operations:							
Revenues	4	1,409,554		1,409,554	849,944		849,944
Cost of sales	5	(435,076)		(435,076)	(321,629)		(321,629)
Gross profit		974,478		974,478	528,315		528,315
Administrative expenses	6	(52,594)		(52,594)	(49,867)		(49,867)
Exploration expenses	7	(82,113)		(82,113)	(49,063)		(49,063)
Other income	9	4,983		4,983	3,873		3,873
Other expenses	9	(11,299)		(11,299)	(4,502)		(4,502)
Profit from continuing operations before net finance costs and income tax							
		833,455		833,455	428,756		428,756
Finance income	10	3,887		3,887	1,664		1,664
Finance costs	10	(3,483)		(3,483)	(1,901)		(1,901)
Revaluation effects of Silverstream contract	15	-	191,840	191,840	-	19,401	19,401
Foreign exchange (loss)/gain		(3,332)		(3,332)	9,498		9,498
Profit from continuing operations before income tax							
		830,527	191,840	1,022,367	438,017	19,401	457,418
Income tax expense	11	(215,417)	(57,552)	(272,969)	(93,719)	(5,432)	(99,151)
Profit for the year from continuing operations							
		615,110	134,288	749,398	344,298	13,969	358,267
Attributable to:							
Equity shareholders of the Company		530,838	134,288	665,126	308,042	13,969	322,011
Non-controlling interest		84,272	-	84,272	36,256	-	36,256
		615,110	134,288	749,398	344,298	13,969	358,267
Earnings per share: (US\$)							
Basic and diluted earnings per ordinary share from continuing operations	12	-		0.927	-		0.449
Adjusted earnings per share: (US\$)							
Adjusted basic and diluted earnings per ordinary share from continuing operations	12	0.740		-	0.430		-

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December	
	2010	2009
	(US\$ thousands)	
Profit for the year	749,398	358,267
Net (gain)/loss on cash flow hedges recycled to income statement	(2,102)	34,038
Tax effect of cash flow hedges recycled to income statement	631	(9,531)
Net unrealised gain on cash flow hedges	3,927	3,918
Tax effect of unrealised gain on cash flow hedges	(1,179)	(1,122)
Net effect of cash flow hedges	1,277	27,303
Fair value gain on available-for-sale financial assets	73,342	22,880
Tax effect of fair value gain on available-for-sale financial assets	(20,536)	(6,407)
Net effect of available-for-sale financial assets	52,806	16,473
Foreign currency translation	540	292
Other comprehensive income for the period, net of tax	54,623	44,068
Total comprehensive income for the period, net of tax	804,021	402,335
Attributable to:		
Equity shareholders of the Company	719,749	366,079
Non-controlling interest	84,272	36,256
	804,021	402,335

CONSOLIDATED BALANCE SHEET

	Notes	As at 31 December 2010	2009
(US\$ thousands)			
ASSETS			
Non-current assets			
Property, plant and equipment	13	895,783	688,718
Available-for-sale financial assets	14	141,777	68,435
Silverstream contract	15	351,530	256,059
Deferred tax asset	11	14,226	9,363
Other receivables	17	11,687	-
Other assets		2,503	504
		1,417,506	1,023,079
Current assets			
Inventories	16	63,092	33,783
Trade and other receivables	17	224,984	108,242
Prepayments	18	2,532	1,912
Derivative financial instruments	31	4,056	1,373
Silverstream contract	15	76,151	42,600
Income tax refunds due		-	20,167
Cash and cash equivalents	19	559,537	312,192
		930,352	520,269
Total assets		2,347,858	1,543,348
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 on cash flow hedges	20	2,172	895
Net unrealised gains on available-for-sale financial assets	20	65,072	12,266
Foreign currency translation reserve	20	(555)	(1,095)
Retained earnings	20	996,658	513,691
		1,713,714	1,176,124
Non-controlling interest		205,554	126,979
Total equity		1,919,268	1,303,103
Non-current liabilities			
Provision for mine closure cost	22	39,682	35,513
Provision for pensions and other post-employment benefit plans	23	6,420	5,811
Other liabilities		-	4,811
Deferred tax liability	11	217,448	119,944
		263,550	166,079
Current liabilities			
Trade and other payables	24	70,789	48,286
Derivative financial instruments	31	152	95
Income tax		54,480	-
Employee profit sharing		39,619	25,785
		165,040	74,166
Total liabilities		428,590	240,245
Total equity and liabilities		2,347,858	1,543,348

These financial statements were approved by the board of directors on 28 February 2011 and signed on its behalf by:

Jaime Lomelin
CHIEF EXECUTIVE OFFICER
 28 February 2011

CONSOLIDATED CASH FLOW STATEMENT

	Notes	Year ended 31 December	
		2010	2009
(US\$ thousands)			
Net cash from operating activities	30	700,699	390,712
Cash flows from investing activities			
Purchase of property, plant and equipment		(340,297)	(261,200)
Purchase of available-for-sale financial assets		-	(25)
Proceeds from the sale of property, plant and equipment and other assets		72	1,044
Proceeds from mines under development		25,563	10,753
Loans granted to contractors	17	(14,504)	-
Repayments of loans granted to contractors		1,363	-
Silverstream contract	15	55,623	39,010
Interest received		2,859	1,665
Other proceeds		7,231	3,526
Net cash used in investing activities		(262,090)	(205,227)
Cash flows from financing activities			
Capital contribution		2,807	891
Dividends paid to shareholders of the Company		(182,590)	(93,623)
Dividends paid to non-controlling interest		(8,504)	-
Interest paid		(251)	(105)
Net cash used in financing activities		(188,538)	(92,837)
Net increase in cash and cash equivalents during the year		250,071	92,648
Effect of exchange rate on cash and cash equivalents		(2,726)	7,559
Cash and cash equivalents at 1 January		312,192	211,985
Cash and cash equivalents at 31 December	19	559,537	312,192

Fresnillo plc

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Attributable to equity holders of the Company

					Unrealised						
					Net unrealised	gains/					
					gains/	(losses) on					
					(losses) on	available	Foreign				
					revaluation of	-for-sale	currency				
		Share	Share	Capital	cash flow	financial	translation	Retained		Non-	Total
	Notes	capital	premium	reserve	hedges	assets	reserve	earnings	Total	controlling	equity
										interest	
(US\$ thousands)											
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
Balance at 1 January 2010		358,680	818,597	(526,910)	895	12,266	(1,095)	513,691	1,176,124	126,979	1,303,103
Profit for the year		—	—	—	—	—	—	665,126	665,126	84,272	749,398
Other comprehensive income, net of tax		—	—	—	1,277	52,806	540	—	54,623	—	54,623
Total comprehensive income for the year		—	—	—	1,277	52,806	540	665,126	719,749	84,272	804,021
Capital contribution		—	—	—	—	—	—	—	—	2,807	2,807
Dividends paid	21	—	—	—	—	—	—	(182,159)	(182,159)	(8,504)	(190,663)
Balance at 31 December 2010		358,680	818,597	(526,910)	2,172	65,072	(555)	996,658	1,713,714	205,554	1,919,268

NOTES TO THE CONSOLIDATED 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 below ("the Group").

Industrias 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. Copies of Peñoles' accounts can be obtained from www.penoles.com.mx.

The consolidated financial statements of the Group for the year ended 31 December 2010, were authorised for issue by the Board of Directors of Fresnillo plc on 28 February 2011.

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 four fully developed operating mines: Fresnillo, Herradura, Ciénega, and Soledad-Dipolos, the latter starting production in January 2010.

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	%
			2010	2009
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	UK	100	100
Fresbal Investments, Ltd	Holding company for mining Investments	Canada	100	100
Fresnillo Perú, S.A.C.	Exploration services	Peru	100	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 consolidation, and statement of compliance

The Group's consolidated 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 2010 and 2009, and in accordance with the provisions of the Companies Act 2006. The consolidated financial statements are also consistent with IFRS as issued by the International Accounting Standards Board.

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.

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

The Group now uses a columnar approach to separately present the Silverstream revaluation effect, including related tax, in the income statement as in the Directors' judgment this needs to be disclosed separately in this manner by virtue of its size and volatility, in order for users of the financial statements to obtain a proper understanding of the financial information and the underlying performance of the business.

Basis of consolidation

The consolidated financial statements set out the Group's financial position as of 31 December 2010 and 2009, and the results of operations and cash flows for the years then ended.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued*

Entities that constitute the Group are those enterprises controlled by the Group regardless of the number 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 statements of the entities that constitute the Group have been prepared for the years ended 31 December 2010 and 2009 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.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. 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. The interest of non-controlling shareholders may be initially measured either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. The choice of measurement basis is made on an acquisition by-acquisition basis. Subsequent to acquisition, non-controlling interests consist of the amount attributed to such interests at initial recognition and the non-controlling interest's share of changes in equity since the date of the combination. Any losses of a subsidiary are attributed to the non-controlling interests even if that results in a deficit balance.

(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 2009 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 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 in accounting periods beginning on or after 1 July 2009 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. 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 Non-controlling interests (previously referred to as "minority interests").

Other new standards, amendments and interpretations that are effective but not applicable to the Group are as follows:

- IFRS 1 (Amendment) "First-time adoption of international financial reporting Standards-Cost of an Investment in a Subsidiary, Jointly controlled Entity or Associate"
- IFRS 2 (Amendment) "Share-based Payment-Vesting Conditions and Cancellations"
- IAS 39 (Amendment) "Financial instruments: Recognition and Measurement-Eligible hedged items"
- IFRIC 17 "Distributions of Non-Cash Assets to Owners"

Improvements to IFRSs

In April 2009 the Board issued its second omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. 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:

- IFRS 8 'Operating Segments' clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker. As the Group's chief operating decision maker does not review segment assets and liabilities, the Group has not disclosed this information in note 3.
- IAS 7 'Statement of Cash Flows' clarifies that only expenditures that result in a recognised asset can be classified as a cash flow from investing activities. The amendment has no impact on the Group.
- IAS 17 'Leases' clarifies the classification of land and buildings and the specific guidance on classifying land as a lease has been removed (only the general guidance remains). The amendment has no impact on the Group financial statements as there are no property, plant and equipment under finance lease.
- IAS 36 'Impairment of Assets' clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in IFRS 8 before aggregation for reporting purposes. The amendment has no impact on the Group as there have been no business combinations.

Other amendments resulting from the 2009 Improvements to IFRS did not have any impact on the accounting policies, financial position or performance of the Group.

New and amended standards and interpretations

Standards and amendments issued but not yet effective up to the date of issuance of the Group's financial statements are listed below. This listing is of standards and interpretations issued, which the Group reasonably expects to be applicable at a future date. The Group intends to adopt those standards when they become effective. The Group has not early adopted any standard, interpretation or amendment that was issued but is not yet effective.

In November 2009, the IASB issued *IFRS 9 Financial Instruments: Classification and Measurement (subsequently amended in October 2010)*. This new standard represents the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013. In subsequent phases, the IASB will address hedge accounting and derecognition. The completion of this project is expected in early 2011.

The adoption of the first phase of *IFRS 9* will have an effect on the classification and measurement of the Group's financial assets. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

In October 2010, the IASB issued amendments to *IFRS 7 Financial Instruments: Disclosures – Transfers of Financial Assets*, which are applicable for annual periods beginning on or after 1 July 2011. The Group intends to adopt this standard when it becomes effective.

The Group considers that the amendments to the following standards and interpretations, which are relevant to the Group will not have any impact on the accounting policies, financial position or performance of the Group:

IAS 24 Related Party Disclosures (Revised)

IFRIC 14 Prepayments of a Minimum Funding Requirement (Amendment)

In May 2010 the IASB issued *improvements to IFRSs*, a further omnibus of amendments to its standards. These amendments have not been adopted as they become effective for annual periods on or after either 1 July 2010 or 1 January 2011. The Group, however, expects no impact from the adoption of the amendments on its financial position or performance.

(c) Significant accounting judgments, estimates and assumptions

The preparation of the Group's consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. These judgments 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 judgments and estimates is contained in the accounting policies and/or the notes to the consolidated financial statements.

Judgments

Areas of judgment, 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(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.
- Evaluation of projects status – note 2(e):
The evaluation of project status impacts the accounting for costs incurred and requires management judgment. This includes the assessment of whether there is sufficient evidence of the probability of the existence of economically recoverable minerals to justify the commencement of capitalisation of costs; the timing of the end of the exploration phase and the start of the development phase and the commencement of the production phase.

These judgments directly impact the treatment of costs incurred and proceeds from the sale of metals from ore produced.

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(e) 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.
- Estimation of the amount and timing of mine closure costs – notes 2(l) and 22:
The Group assesses its mine closure cost provision annually. Significant estimates and assumptions are made in determining the provision for mine closure cost 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 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 closure costs required. Changes to estimated future costs are recognised in the balance sheet by adjusting the mine closure cost liability and the related asset originally recognized. If, for mature mines, the revised mine assets net of mine closure cost provisions exceed the recoverable 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued*

- Income tax – notes 2(u) and 11:
Judgment 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 – note 15:
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 ore reserves and mineral 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. Expectations of future silver price is one of the key assumptions underlying the valuation of this contract and the strengthening of forward silver prices in 2010 significantly impacted the valuation, resulting in an unrealised pre-tax gain of US\$191.8 million recognised in the Income Statement (2009: US\$19.4 million). The fair value of this contract is \$427.6 million as at 31 December 2010 (2009: US\$298.6 million) and changes in the underlying 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, foreign exchange, inflation and the discount rate is included in note 32.
- 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) 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.

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 US 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.

(e) Property, plant and equipment

Property, plant and equipment are stated at 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	3-14
Other assets	2-14

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 ore 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.

Mine development cost is capitalised as part of property, plant and equipment. Mine development activities commence once a feasibility study has been performed for the specific project.

When an exploration prospect has entered into the advanced exploration phase and sufficient evidence of the probability of the existence of economically recoverable minerals has been obtained preoperative expenses relating to mine preparation works are also capitalised as mine development costs.

The initial cost of a mining property comprises its construction cost, any costs directly attributable to bringing the mining property into operation and the initial estimate of the provision for mine closure cost.

Revenues from metals recovered from ore mined in the mine development phase, prior to commercial production, are credited to mining properties and 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.

Mining properties and mine development are stated at cost, less accumulated depreciation and impairment in value.

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 expenditure is 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 begins.

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.

(f) 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 and certified by an independent competent person.

The latest certified ore reserves and mineral resources are used in the unit of production calculation of depreciation for the year, in the determination of the timing of mine closure cost and for determining value in use for any impairment analysis.

There are numerous uncertainties inherent in estimating ore reserves and mineral resources. 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 ore reserves and mineral resources and may, ultimately, result in the ore reserves being restated.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued*

(g) 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.

(h) 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 equity 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 financial assets are measured at fair value with mark-to-market unrealised gains or losses recognised as other comprehensive income in the available-for-sale reserve until the financial asset is derecognised.

Financial assets classified as available-for-sale are de-recognised when they are sold, and all the risks and rewards of ownership have been transferred. When financial assets are sold, the accumulated fair value adjustments recognised in equity are included in the income statement within other operating income or expense.

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.

(i) 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.

(j) Inventories

Finished goods and work in progress inventories are measured at the lower of cost and net realisable value. Cost is determined using the weighted average cost method based on cost of production which 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).

Operating materials and spare parts are valued at the lower of cost or net realisable value. Allowance for obsolete and slow-moving inventories is determined by reference to specific items of stock. A regular review is undertaken by management to determine the extent of such allowance.

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.

(k) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued*

(l) 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.

(m) 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.

(n) 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 Ibc) 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.

(o) Employee profit sharing

In accordance with the Mexican legislation, companies in Mexico are subject to pay for employee profit sharing (PTU) equivalent to ten percent of the taxable income of each fiscal year.

PTU is accounted for as employee benefits and is calculated based on the services rendered by employees during the year, considering their most recent salaries. The liability is recognised as it accrues and is charged to the income statement. PTU, paid in each fiscal year, is considered deductible for income tax purposes.

(p) 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.

(q) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued*

(r) 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 Cedros, 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.

(s) 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.

(t) 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.

(u) 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.

(v) 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.

(w) Derivative financial instruments and hedging

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued*

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.

(x) 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.

(y) 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.

(z) 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 producing mines.

At 31 December 2009 the Group had three reportable operating segments. The construction of the Soledad-Dipolos mine was successfully concluded in December 2009 and commercial production started in January 2010.

At 31 December 2010 the Group therefore has four reportable operating segments, representing the Group's four 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;
- The Herradura mine, located in the State of Sonora is an open pit gold mine; and
- The Soledad-Dipolos mine, located in the State of Sonora is an open pit gold mine.

The operating performance and financial results are reviewed by management. As the Group's chief operating decision maker does not review segment assets and liabilities, the Group has not disclosed this information.

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 2010 all revenue was derived from customers based in Mexico.

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. 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 2010 and 2009, respectively.

Year ended 31 December 2010 (US\$ thousands)	Fresnillo	Herradura	Ciénega	Soledad-Dipolos	Other	Adjustments and eliminations	Total
Revenues:							
Third party	733,537	366,047	173,200	136,770	-	-	1,409,554
Inter-Segment	-	-	-	-	35,613	(35,613)	-
Segment revenues	733,537	366,047	173,200	136,770	35,613	(35,613)	1,409,554
Segment Profit ⁽⁷⁾	626,983	268,933	116,615	97,669	35,612	(31,457)	1,114,355
Hedging							3,020
Depreciation							(105,216)
Employee profit sharing							(37,682)
Gross profit as per the income statement							974,478
Capital expenditure ⁽¹⁾	60,716 ⁽²⁾	54,411 ⁽³⁾	65,083 ⁽⁴⁾	36,790 ⁽⁵⁾	125,021 ⁽⁶⁾	(1,813)	340,297

⁽¹⁾ Capital expenditure consists of additions of property, plant and equipment, excluding additions relating to changes in the mine closure provision.

⁽²⁾ Capital expenditure consists of scoop equipment and drilling jumbos, mine development work including a shaft and ramps.

⁽³⁾ Capital expenditure relates to leaching pads construction, equipment such as rotary drill rig tractors and dump trucks, construction of an electrical station, open pit mine development activities and Noche Buena's payment for the acquisition of mineral rights and royalties.

⁽⁴⁾ Capital expenditure relates to a processing plant expansion, scoop equipment, land and mine development work including work on a tailings dam.

⁽⁵⁾ Capital expenditure relates to leaching pads construction, equipment such as dump trucks and tractors, rotary drill rig and open pit mine development activities.

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

⁽⁷⁾ Treatment and refining charges amounting to US\$64,366 are included in the segment profit. Previously this information was presented in a separate line.

Year ended 31 December 2009 (US\$ thousands)	Fresnillo	Herradura	Ciénega	Soledad-Dipolos	Other	Adjustments and eliminations	Total
Revenues:							
Third party	500,433	245,818	128,479	-	-	(24,786)	849,944
Inter-Segment	-	-	-	-	17,385	(17,385)	-
Segment revenues	500,433	245,818	128,479	-	17,385	(42,171)	849,944
Segment Profit ⁽⁶⁾	407,664	159,953	80,532	-	18,483	(14,246)	652,386
Hedging							(31,863)
Depreciation							(67,227)
Employee profit sharing							(24,981)
Gross profit as per the income statement							528,315
Capital expenditure ⁽¹⁾	34,628 ⁽²⁾	64,813 ⁽³⁾	41,665 ⁽⁴⁾	57,734	50,034 ⁽⁵⁾	1,573	250,447

⁽¹⁾ Capital expenditure consists of additions of property, plant and equipment, excluding additions relating to changes in the mine closure provision.

⁽²⁾ Capital expenditure relates to mine development work, scoop equipment, land and raise boring equipment.

⁽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 the Saucito mine developments.

⁽⁶⁾ Treatment and refining charges amounting to US\$69,227 were reclassified in 2009 to the segment profit line for comparative purposes. Previously this information was presented in a separate line.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued*

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	
	2010	2009
	(US\$ thousands)	
Lead concentrates (containing silver, gold, lead and by-products)	797,887	573,594
Doré and slag (containing gold, silver and by-products)	502,820	245,822
Zinc concentrates	53,566	38,324
Precipitates	55,281	16,990
Effects of hedging	-	(24,786)
	1,409,554	849,944

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

⁽¹⁾ Included in the value of lead and zinc concentrates, precipitates and doré are provisional price adjustments which represent changes in the fair value of embedded derivatives. In 2010 the Group has recognised a profit of US\$35.6 million (2009: profit of US\$24.0 million). For further detail refer to note 2(f).

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	
	2010	2009
	(US\$ thousands)	
Silver	746,176	529,626
Gold ⁽¹⁾	653,294	334,169
Zinc ⁽²⁾	40,073	28,282
Lead ⁽³⁾	34,377	27,094
Value of metal content in products sold	1,473,920	919,171
Adjustment for treatment and refining charges	(64,366)	(69,227)
Total revenues ⁽⁴⁾	1,409,554	849,944

⁽¹⁾ Includes hedging losses of US\$nil (2009: US\$25 million)

⁽²⁾ Includes hedging gains of US\$nil (2009: US\$0.1 million)

⁽³⁾ Includes hedging gains of US\$nil (2009: US\$0.1 million)

⁽⁴⁾ 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 2010 the Group has recognised a profit of US\$35.6 million (2009: profit of US\$24.0 million). For further detail refer to note 2(f).

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	
	2010	2009
	(US\$ per ounce)	
Gold	1,252.1	988.9
Silver	21.4	15.3

5 COST OF SALES

	Year ended 31 December	
	2010	2009
	(US\$ thousands)	
Depreciation (note 13)	105,216	67,227
Personnel expenses (note 8)	82,932	60,349
Maintenance and repairs	56,494	39,251
Operating materials	65,177	47,110
Energy	57,856	35,257
Contractors	59,801	31,905
Freight	9,027	6,143
Mining rights and contributions	4,775	4,633
(Gain)/Loss on foreign currency hedges	(3,020)	7,077
Change in work in progress and finished goods (ore inventories)	(16,822)	12,944
Other	13,640	9,733
	435,076	321,629

6 ADMINISTRATIVE EXPENSES

	Year ended 31 December	
	2010	2009
	(US\$ thousands)	
Administrative expenses charged by Peñoles Group:		
Administrative services ⁽¹⁾	29,832	30,308
	29,832	30,308
Personnel expenses (note 8)	9,638	9,683
Other administrative expenses	13,124	9,876
	52,594	49,867

⁽¹⁾ 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\$23.7 million). On 21 December 2009, pursuant to an internal corporate restructuring within Peñoles, SIPSA's interest in the new service agreement was transferred to Servicios Administrativos Peñoles, S.A. de C.V., a wholly owned Peñoles subsidiary.

7 EXPLORATION EXPENSES

	Year ended 31 December	
	2010	2009
	(US\$ thousands)	
Contractors	57,373	33,408
Administrative services	6,519	5,214
Mining rights and contributions	6,541	3,483
Personnel expenses (note 8)	2,995	2,052
Assays	2,225	1,565
Maintenance and repairs	1,064	1,215
Operating materials	2,232	921
Rentals	919	600
Energy	213	152
Other	2,032	453
	82,113	49,063

These exploration expenses were mainly incurred in increasing the reserves and resources of the operating mines and projects held by the Fresnillo, Penmont, La Ciénega, Saucito and Juanicipio legal entities. Minor exploration expenses of US\$1.1 million (2009: US\$0.3 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.

NOTES TO THE CONSOLIDATED
FINANCIAL STATEMENTS *continued*

	Year ended 31 December	
	2010	2009
	(US\$ thousands)	
Liabilities related to exploration activities	3	677

Cash flows relating to exploration activities are as follows:

	Year ended 31 December	
	2010	2009
	(US\$ thousands)	
Operating cash out flows	82,787	48,540

8 PERSONNEL EXPENSES

	Year ended 31 December	
	2010	2009
	(US\$ thousands)	
Employees' profit sharing	38,404	24,981
Salaries and wages	20,668	17,712
Bonuses	10,637	8,416
Legal contributions	8,242	6,579
Other benefits	5,414	4,503
Vacations and vacations bonus	2,424	2,278
Social security	2,989	2,327
Post-employment benefits (note 23)	1,590	3,405
Other	5,197	1,883
	95,565	72,084

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

	Year ended 31 December	
	2010	2009
	(US\$ thousands)	
Cost of sales (note 5)	82,932	60,349
Administrative expenses (note 6)	9,638	9,683
Exploration expenses (note 7)	2,995	2,052
	95,565	72,084

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

	Year ended 31 December	
	2010	2009 ⁽¹⁾
	No.	No.
Mining	1,169	1,058
Plant concentration	285	245
Exploration	178	142
Maintenance	486	462
Administration and other	311	305
Total	2,429	2,212

⁽¹⁾ In 2010, the classification of mine employees was modified, consequently, the 2009 disclosure was modified for comparative purposes.

9 OTHER INCOME AND OTHER EXPENSES

	Year ended 31 December	
	2010	2009
	(US\$ thousands)	
Other income:		
Rentals	1,141	1,761
Royalties	609	815
Other	3,233	1,297
	4,983	3,873

	Year ended 31 December	
	2010	2009
	(US\$ thousands)	
Other expenses:		
Maintenance ⁽¹⁾	1,332	853
Donations	461	603
Loss on sale of property, plant and equipment and other assets ⁽²⁾	754	144
Write-off of accounts receivable	32	446
Other	8,720	2,456
	11,299	4,502

⁽¹⁾ Relates to maintenance of closed and leased mines owned by Compañía Minera Las Torres, S.A. de C.V.

⁽²⁾ 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	
	2010	2009
	(US\$ thousands)	
Finance income:		
Interest on short term deposits	2,369	912
Mark to market movement on currency derivatives	1,028	-
Other	490	752
	3,887	1,664
Finance costs:		
Unwinding of discount on provisions (note 22)	3,005	1,615
Mark to market movement on currency derivatives	227	-
Other	251	286
	3,483	1,901

NOTES TO THE CONSOLIDATED
FINANCIAL STATEMENTS *continued*

11 INCOME TAX EXPENSE

a) The major components of income tax expense are:

	Year ended 31 December	
	2010	2009
	(US\$ thousands)	
Consolidated income statement:		
<i>Current income tax:</i>		
Current income tax charge	196,332	110,427
Amounts overprovided in previous years	(1,308)	(6,108)
IETU ⁽¹⁾ in excess of income tax	-	249
Recognition of previously un-recognised tax losses	-	(12,946)
	195,024	91,622
<i>Deferred income tax:</i>		
Origination and reversal of temporary differences	20,393	13,189
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	57,552	(5,432)
	77,945	7,529
Income tax expense reported in the income statement	272,969	99,151

⁽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 is 30% and will continue in effect for 2011 and 2012, the tax rate for 2013 will be 29% and the tax rate from 2014 will be 28%. Deferred taxes have been calculated at the rate applicable to the year the amounts are expected to materialise.

	Year ended 31 December	
	2010	2009
	(US\$ thousands)	
Consolidated Statement of comprehensive income:		
<i>Deferred income tax related to items charged or credited directly to other comprehensive income:</i>		
Recycling of net gain/(loss) gain on valuation of cash flow hedges to income	631	(9,531)
Net gain arising on valuation of cash flow hedges	(1,179)	(1,122)
Net expense arising on unrealised gain on available-for-sale assets	(20,536)	(6,407)
Income tax expense reported in other comprehensive income	(21,084)	(17,060)

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

	Year ended 31 December	
	2010	2009
	(US\$ thousands)	
Accounting profit before income tax	1,022,367	457,418
Tax at the Group's statutory income tax rate 30.0% (2009: 28.0%)	306,710	128,077
Expenses not deductible for tax purposes	760	1,547
Inflationary uplift of the tax base of assets and liabilities	(13,802)	(4,787)
Recognition of previously un-recognised tax losses	-	(13,703)
Current income tax overprovided in previous years	(1,308)	(6,108)
Deferred income tax overprovided in previous years	-	(4,553)
Put option closed prior to maturity	-	(4,105)
Restatement on tax value of fixed assets	(1,208)	-
Tax depreciation de-recognised	-	1,029
Changes to future tax rates	-	5,082
Exchange rate effect on tax value of assets and liabilities	(6,574)	1,034
Non-deductible asset disposals	1,688	3,229
Non-deductible/non-taxable foreign exchange gains or losses	(9,402)	(5,491)
Inflationary uplift of tax losses	(1,337)	(1,141)
IETU in excess of income tax	-	249
Other	(2,558)	(1,208)
Tax at the effective income tax rate of 26.7% (2009: 21.7%)	272,969	99,151

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

	Year ended 31 December	
	2010	2009
	(US\$ thousands)	
Beginning balance	(110,581)	(88,234)
Income statement charge	(77,945)	(7,529)
Exchange difference	3,845	2,242
Others	2,453	-
Cash flow hedges recycled to income statement	631	(9,531)
Revaluation of derivatives used for cash flow hedges	(1,179)	(1,122)
Unrealised gain on available-for-sale financial assets	(20,536)	(6,407)
Ending balance	(203,222)	(110,581)

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	
	2010	2009
	(US\$ thousands)	
Deferred income tax assets	14,226	9,363
Deferred income tax liabilities	(217,448)	(119,944)
Ending balance	(203,222)	(110,581)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued*

The amounts of deferred income tax assets and liabilities before offset as at 31 December 2010 and 2009 considering the nature of the temporary differences, are as follows:

As at 31 December			
2010			
<i>(US\$ thousands)</i>			
	ASSETS	LIABILITIES	NET BALANCE
Related party receivables	-	65,921	(65,921)
Other receivables	-	494	(494)
Inventories	10,178	-	10,178
Prepayments	-	735	(735)
Derivative financial instruments including Silverstream contract	-	58,544	(58,544)
Property, plant and equipment	-	143,934	(143,934)
Operating liabilities	1,866	-	1,866
Other payables and provisions	10,523	-	10,523
Losses carried forward	52,735	-	52,735
Post-employment benefits	1,767	-	1,767
Deductible profit sharing	11,862	-	11,862
Available-for-sale financial assets	-	21,246	(21,246)
Other	-	1,279	(1,279)
Net deferred tax balances	88,931	292,153	(203,222)

As at 31 December			
2009			
<i>(US\$ thousands)</i>			
	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	-	129,505	(129,505)
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	-	711	(711)
Other	-	2,217	(2,217)
Net deferred tax balances	75,925	186,506	(110,581)

A deferred tax asset has been recognised in respect of tax losses amounting to US\$188.3 million (2009: US\$166.5 million). There are no unrecognised tax assets in either year.

(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 is expected to reverse in the foreseeable future. The temporary differences for which a deferred tax liability has not been recognised aggregate to US\$503.5 million (2009: US\$184.3 million).

Income Tax ("Impuesto Sobre la Renta" or "ISR") and Business Flat Tax ("Impuesto Empresarial a Tasa Unica" or "IETU")

In accordance to the Mexican tax law, the Group companies in Mexico are subject to Income Tax ("ISR") and Business Flat Tax ("IETU"). IETU is an alternative minimum corporate income tax effective in January 1, 2008 which replaced the business asset tax as a minimum tax. Companies are required to pay the greater of their mainstream corporate income tax liability for the year or their liability to IETU.

On 7th December 2009 new temporary tax rates were published in the Official Daily of the Federal Government. The income tax rate for 2009 was 28%, for 2010 is 30% and will continue in effect in 2011 and 2012, the tax rate for 2013 will be 29% and the tax rate from 2014 will be 28%. Deferred taxes have been calculated at the rate applicable to the year the amounts are expected to materialise. IETU is calculated at the rate of 17% for the calendar year 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, in 2009 management undertook calculations to determine the impact of the new IETU provisions on the Group. As a result of such analysis, management concluded that there was no material impact on the Group, other than the US\$6.1 million tax credit arising under IETU that was recognised in 2009, since the mainstream corporate income tax liability for each group company was forecast to be greater than the future potential IETU charge. These conditions continued in 2010, accordingly, no IETU liability was recognised in either year.

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.

The company has no dilutive potential ordinary shares.

As of 31 December 2010 and 2009, earnings per share have been calculated as follows:

	Year ended 31 December	
	2010	2009
Earnings:		
Profit from continuing operations attributable to equity holders of the Company (US\$ thousands)	665,126	322,011
Adjusted profit from continuing operations attributable to equity holders of the Company (US\$ thousands)	530,838	308,042

Adjusted profit is profit as disclosed in the Consolidated Income Statement adjusted to exclude revaluation effects of the Silverstream contract of US\$191.8 million gain (US\$134.3 million net of tax) (2009: US\$19.4 million and US\$14.0 million net of tax).

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	
	2010	2009
Number of shares:		
Weighted average number of ordinary shares in issue (ooo)	717,160	717,160
Earnings per share:		
Basic and diluted earnings per share (US\$)	0.927	0.449
Adjusted basic and diluted earnings per ordinary share from continuing operations (US\$)	0.740	0.430

NOTES TO THE CONSOLIDATED
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13 PROPERTY, PLANT AND EQUIPMENT

	LAND AND BUILDINGS	PLANT AND EQUIPMENT	MINING PROPERTIES AND DEVELOPMENT COSTS	OTHER ASSETS	CONSTRUCTION IN PROGRESS	TOTAL
	(US\$ thousands)					
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
Year ended 31 December 2010						
Cost						
At 1 January 2010	67,982	343,045	340,891	43,256	156,210	951,384
Additions	-	-	-	1,050	316,696	317,746
Disposals	(631)	(27,384)	(109)	(2,245)	-	(30,369)
Transfers and other movements	13,939	99,826	122,569	7,222	(243,556)	-
At 31 December 2010	81,290	415,487	463,351	49,283	229,350	1,238,761
Accumulated depreciation						
At 1 January 2010	(15,372)	(57,369)	(178,182)	(11,743)	-	(262,666)
Depreciation for the year	(5,078)	(36,981)	(58,378)	(4,779)	-	(105,216)
Disposals	327	20,627	336	3,614	-	24,904
At 31 December 2010	(20,123)	(73,723)	(236,224)	(12,908)	-	(342,978)
Net Book amount at 31 December 2010	61,167	341,764	227,127	36,375	229,350	895,783

Construction in progress relates mainly to the operating mines and mining projects of Saucito, Penmont, Juanicipio, La Ciénega and Fresnillo.

	As at 31 December	
	2010	2009
	(US\$ thousands)	
Saucito	96,129	85,062
Penmont	36,416	29,297
Juanicipio	24,869	20,015
La Ciénega	35,338	15,247
Fresnillo	36,249	3,637
Other	349	2,952
	229,350	156,210

The amount of borrowing costs capitalised during the year ended 31 December 2010 was US\$nil (2009: US\$nil.)

14 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Year ended 31 December	
	2010	2009
	(US\$ thousands)	
Beginning balance	68,435	45,530
Additions	-	25
Fair value change	73,342	22,880
Ending balance	141,777	68,435

Available-for-sale financial assets include the following:

	As at 31 December	
	2010	2009
	(US\$ thousands)	
Equity securities-listed Canadian companies	141,777	68,435
Total	141,777	68,435

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 2010 total proceeds received were US\$55.6 million (2009: US\$39.0 million), corresponding to 3.1 million ounces of payable silver (2009: 3.0 million ounces). As at 31 December 2010, a further US\$7.2 million (2009: US\$nil) of cash corresponding to 265,331 ounces of silver is due.

The most significant driver of the US\$191.8 million unrealised gain taken to income (2009: US\$19.4) was the strengthening of expectations of the forward price of silver during the year. A future downturn in the forward price of silver, which may happen given the cyclical nature of prices, would result in recognising an unrealised loss in the income statement.

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

	2010	2009
	(US\$ thousands)	
Balance at 1 January:	298,659	318,268
Cash received	(55,623)	(39,010)
Cash receivable	(7,195)	-
Remeasurement gains recognised in profit and loss	191,840	19,401
Balance at 31 December	427,681	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 *continued*

16 INVENTORIES

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

	As at 31 December	
	2010	2009
	(US\$ thousands)	
Finished goods ⁽¹⁾	3,027	499
Work in progress ⁽²⁾	22,938	6,277
Operating materials and spare parts	38,675	28,204
	64,640	34,980
Allowance for obsolete and slow-moving inventories	(1,548)	(1,197)
Total inventories at the lower of cost and net realisable value	63,092	33,783

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

⁽²⁾ Work in progress includes metals contained in stockpile ore and in ores in leaching pads. The majority of stockpile is located at Saucito.

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 inventories recognised as an expense in the year was US\$360.0 million (2009: US\$252.6 million). The amount of write down of inventories recognised as an expense was US\$1.2 million (2009: US\$0.1 million).

17 TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2010	2009
	(US\$ thousands)	
Trade receivables from related parties (note 28) ⁽¹⁾	188,548	89,391
Value Added Tax receivable	8,982	8,419
Advances to suppliers and contractors	3,825	2,671
Other receivables from related parties (note 28)	7,195	434
Loans granted to contractors	5,805	-
Other receivables	11,220	7,806
	225,575	108,721
Provision for impairment of "other receivables"	(591)	(479)
	224,984	108,242
Other receivables classified as non-current assets:		
Advances to suppliers and contractors	1,172	-
Loans granted to contractors	7,336	-
Other receivables	3,179	-
	11,687	-
	236,671	108,242

⁽¹⁾ "Trade receivables from related parties" includes the fair value of embedded derivatives arising due to provisional pricing in sales contracts of US\$6.2 million as at 31 December 2010 (2009: US\$ (3.3) million).

Trade receivables are shown net of any corresponding advances, are non-interest bearing and generally have payment terms of 46 to 60 days.

Loans granted to contractors bear interest of LIBOR plus 1.5% to LIBOR plus 3% and have a maturity of 2 to 6 years.

The total receivables denominated in US\$ were US\$226.0 million (2009: US\$97.9 million), and in Pesos US\$10.6 million (2009: US\$10.3 million).

Movements in the provision for impairment of "other receivables" in the table above were as follows:

	Year ended 31 December	
	2010	2009
	(US\$ thousands)	
Beginning of the year	(479)	(141)
Charge for the year	(81)	(446)
Amounts written off	-	127
Exchange difference	(31)	(19)
End of the year	(591)	(479)

As of 31 December for each year presented, with the exception of "other receivables" in the table below, all trade and other receivables were neither past due nor impaired.

Year ended 31 December	TOTAL	IMPAIRED	NEITHER PAST DUE NOR IMPAIRED	PAST DUE BUT NOT IMPAIRED <30 DAYS	30-60 DAYS
	(US\$ thousands)				
2010					
Trade receivables from related parties	188,548	-	188,548	-	-
Other receivables from related party	7,195	-	7,195	-	-
Loans granted to contractors	13,141	-	13,141	-	-
Other receivables	14,399	(591)	13,808	-	-
Total	223,283	(591)	222,692	-	-
2009					
Trade receivables from related parties	89,391	-	89,391	-	-
Other receivables from related party	434	-	434	-	-
Other receivables	7,806	(479)	7,327	-	-
Total	97,631	(479)	97,152	-	-

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	
	2010	2009
	(US\$ thousands)	
Insurance and bonds	2,531	1,883
Others	1	29
	2,532	1,912

19 CASH AND CASH EQUIVALENTS

	As at 31 December	
	2010	2009
	(US\$ thousands)	
Cash at bank and on hand	1,988	1,358
Short-term deposits	557,549	310,834
Cash and cash equivalents	559,537	312,192

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued*

20 EQUITY

Share capital and share premium

The authorised and issued share capital of the Company as at 31 December 2010 and 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 2010 and 2009, 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.

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.

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 2010 and 2009, are as follows:

	US CENTS PER ORDINARY SHARE	AMOUNT (US\$ thousands)
Year ended 31 December 2010		
Final dividend for 2009 declared and paid during the year ⁽¹⁾	16.2	116,180
Interim dividend for 2010 declared and paid during the year ⁽²⁾	9.2	65,979
	25.4	182,159
Year ended 31 December 2009		
Final dividend for 2008 declared and paid during the year ⁽³⁾	7.7	55,864
Interim dividend for 2009 declared and paid during the year ⁽⁴⁾	5.25	37,651
	12.95	93,515

⁽¹⁾ This dividend was approved by the Board of Directors on 28 April 2010 and paid on 2 June 2010.

⁽²⁾ This dividend was approved by the Board of Directors on 2 August 2010 and paid on 14 September 2010.

⁽³⁾ This dividend was approved by the Board of Directors on 20 February 2009 and paid on 27 May 2009.

⁽⁴⁾ This dividend was approved by the Board of Directors on 14 August 2009 and paid on 18 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 2010 has been calculated using an annual real discount rate of 4.33 per cent (2009: 4.33 per cent). The unwinding of discount charge in 2010 has been calculated using a nominal discount rate of 8.5 per cent (2009: 8.5 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 6 to 27 years from 31 December 2010 (8 to 19 years from 31 December 2009).

	Year ended 31 December	
	2010	2009
	(US\$ thousands)	
Beginning balance	35,513	18,951
(Decrease)/increase to existing provision	(962)	14,480
Unwinding of discount (note 10)	3,005	1,615
Foreign exchange	2,126	467
Ending balance	39,682	35,513

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	
	2010	2009
	(US\$ thousands)	
Current service cost	764	625
Interest cost on benefit obligation	2,883	2,371
Expected return on plan assets	(2,413)	(2,103)
Net actuarial (gain)/loss recognised in the year	(980)	1,280
Net defined benefit expense	254	2,173
Payments to defined contribution plans	1,336	1,232
Net benefit expense (note 8)	1,590	3,405

NOTES TO THE CONSOLIDATED
FINANCIAL STATEMENTS *continued*

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

	Year ended 31 December	
	2010	2009
	(US\$ thousands)	
Actual return on plan assets	2,758	2,400
Expected return on plan assets	(2,413)	(2,103)
Foreign exchange	(46)	(108)
Experience adjustments arising on plan assets	299	189
Experience adjustments arising on plan liabilities	681	(1,469)
Net actuarial gain/(loss) recognised in the year	980	(1,280)

b) Benefit liability:

	As at 31 December	
	2010	2009
	(US\$ thousands)	
Defined benefit obligation	(38,543)	(34,009)
Fair value of plan assets	32,123	28,198
Benefit liability	(6,420)	(5,811)

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

	As at 31 December	
	2010	2009
	(US\$ thousands)	
Defined benefit obligation at 1 January	34,009	28,851
Interest cost	2,883	2,371
Current service cost	764	625
Benefits paid	(545)	(409)
Actuarial (gains)/losses on obligation	(681)	1,469
Defined benefit increase due to personnel transfer to the Group	114	(26)
Foreign exchange	1,999	1,128
Defined benefit obligation at 31 December	38,543	34,009
Funded plan	32,445	28,771
Unfunded plan	6,098	5,238
Defined benefit obligation at 31 December	38,543	34,009

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

	As at 31 December	
	2010	2009
	(US\$ thousands)	
Fair value of plan assets at 1 January	28,198	25,352
Expected return on plan assets	2,413	2,103
Actuarial gains	299	189
Amount transferred due to personnel transfer to the Group	114	(26)
Benefits paid	(545)	(409)
Foreign exchange	1,644	989
Fair value of plan assets at 31 December	32,123	28,198

The overall expected rate of return on assets is determined based on market expectations applicable to the period over which the obligation is to be settled.

The principal assumptions used in determining pension and other post-employment benefit obligations for the Group's plans are shown below:

	As at 31 December	
	2010	2009
	%	%
Discount rate	7.8	8.5
Expected rate of return on plan assets	7.8	8.5
Future salary increases	4.8	5.5

The mortality assumptions are that for current and future pensioners, men and women aged 65 will live on average for a further 17.3 and 20.6 years respectively (2009: 17.28 years for men, 20.59 for women, 2008: 16.9 years both).

The fair value of the plan assets was as follows:

	As at 31 December	
	2010	2009
	(US\$ thousands)	
Government debt	1,076	6,762
Promissory notes	-	99
State owned companies	12,354	3,310
Corporate bonds	937	1,997
Mutual funds (fixed rates)	17,756	16,030
	32,123	28,198

The pension plan has not invested in any of the Group's own financial instruments nor in properties or assets used by the Group.

	As at 31 December			
	2010	2009	2008	2007
	(US\$ thousands)			
Fair value of plan assets	32,123	28,198	25,352	12,702
Present value of defined benefit obligation	(38,543)	(34,009)	(28,851)	(15,272)
Deficit in the plan	(6,420)	(5,811)	(3,499)	(2,570)
Experience adjustments arising on plan liabilities	681	(1,469)	(169)	1,673
Experience adjustments arising on plan assets	299	189	(488)	471

The Group has not contributed to its defined benefit pension plan in 2010 and does not expect to contribute in 2011.

24 TRADE AND OTHER PAYABLES

	As at 31 December	
	2010	2009
	(US\$ thousands)	
Trade payables	50,766	35,696
Other payables to related parties (note 28)	2,323	375
Accrued expenses	12,037	9,870
Other taxes and contributions	5,663	2,345
	70,789	48,286

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 *continued*

25 COMMITMENTS

(a) Capital expenditure:

A summary of capital expenditure commitments is as follows:

	As at 31 December	
	2010	2009
	(US\$ thousands)	
Minera Saucito, S.A. de C.V.	50,470	54,205
Minera Penmont, S. de R.L. de C.V.	70,056	12,102
Minera Mexicana La Ciénega, S.A. de C.V.	19,359	9,461
Minera Fresnillo, S. A. de C.V.	48,782	14,664
Minera El Bermejal, S. de R.L. de C.V.	40,703	-
	229,370	90,432

26 OPERATING LEASES

(a) Leases as lessor

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

	As at 31 December	
	2010	2009
	(US\$ thousands)	
Within one year	929	1,968
After one year but not more than five years	2,043	3,737
	2,972	5,705

(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	
	2010	2009
	(US\$ thousands)	
Within one year	1,070	1,068
After one year but not more than five years	651	596
	1,721	1,664

	As at 31 December	
	2010	2009
	(US\$ thousands)	
Minimum lease payments expensed in the year	1,612	1,227

27 CONTINGENCIES

As of 31 December 2010, 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 net income tax account ("Cuenta de Utilidad Fiscal Neta" o "CUFIN") 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 2010 and 2009 and balances as at 31 December 2010 and 2009.

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		ACCOUNTS PAYABLE	
	As at 31 December		As at 31 December	
	2010	2009	2010	2009
	(US\$ thousands)			
Trade:				
Met-Mex Peñoles, S.A. de C.V.	188,548	89,391	-	-
Other receivables:				
Industrias Peñoles, S.A. de C.V.	7,195	434	2,323	375
Sub-total	195,743	89,825	2,323	375
Less-Current portion	195,743	89,825	2,323	375
Non-current portion	-	-	-	-

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

Other balances with related parties:

	Year ended 31 December	
	2010	2009
	(US\$ thousands)	
Silverstream contract:		
Industrias Peñoles, S.A.B. de C.V.	427,681	298,659

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

NOTES TO THE CONSOLIDATED
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(b) Principal transactions with affiliates, including Industrias Peñoles S.A.B de C.V., the Company's parent, are as follows:

	Year ended 31 December	
	2010	2009
	(US\$ thousands)	
Income:		
<i>Sales:</i> ⁽¹⁾		
Met-Mex Peñoles, S.A. de C.V.	1,397,399	821,578
<i>Other income</i>	860	659
Total income	1,398,259	822,237

⁽¹⁾ Figures do not include hedging losses.

	Year ended 31 December	
	2010	2009
	(US\$ thousands)	
Expenses:		
<i>Administrative services:</i>		
Servicios Administrativos Peñoles, S.A. de C.V.	29,832	30,308
Servicios de Exploración, S.A. de C.V.	2,781	1,678
	32,613	31,986
<i>Energy:</i>		
Termoelectrica Peñoles, S. de R.L. de C.V.	26,074	17,785
<i>Operating materials and spare parts:</i>		
Wideco Inc	3,747	2,977
<i>Equipment repair and administrative services:</i>		
Serviminas, S.A. de C.V.	3,538	2,427
Met-Mex Peñoles, S.A. de C.V.	2,223	1,563
	5,761	3,990
<i>Other expenses:</i>	11,485	8,366
Total expenses	79,680	65,104

(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	
	2010	2009
	(US\$ thousands)	
Salaries and bonuses	3,716	3,624
Post-employment pension	59	78
Other benefits	615	562
Total compensation paid to key management personnel	4,331	4,186

	Year ended 31 December	
	2010	2009
	(US\$ thousands)	
Accumulated accrued defined pension entitlement	14,528	13,230

This compensation includes amounts paid to directors disclosed in the Directors' Remuneration Report.

The accumulated accrued defined pension entitlement represents benefits accrued at the time the benefits were frozen. There are no further benefits accruing under the defined benefit scheme in respect of current services.

29 AUDITOR'S REMUNERATION

Fees due by the Group to its auditor during the year ended 31 December 2010 and the year ended 31 December 2009 is as follows:

CLASS OF SERVICES	Ernst & Young Year ended 31 December	
	2010	2009
	(US\$ thousands)	
Audit of the financial statements	1,101	1,197
Local statutory audits of subsidiaries	202	245
Other services pursuant to legislation	263	296
Other services relating to taxation	41	107
Other services	8	-
Total	1,615	1,845

30 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

	Notes	Year ended 31 December	
		2010	2009
		(US\$ thousands)	
Reconciliation of profit for the year to net cash generated from operating activities			
Profit for the year		749,398	358,267
Adjustments to reconcile profit for the year to net cash inflows from operating activities:			
Depreciation	5	105,216	67,227
Employee profit sharing	8	38,404	24,981
Deferred income tax	11	77,945	7,529
Current income tax expense	11	195,024	91,622
Loss on the sale of property, plant and equipment and other assets	9	754	144
Other expenses		10,695	485
Net finance costs	10	397	237
Foreign exchange gain		(1,801)	(9,498)
Difference between pension contributions paid and amounts recognised in the income statement		254	2,174
Non cash movement on derivatives		(801)	25,018
Changes in fair value of Silverstream	15	(191,840)	(19,401)
Working capital adjustments			
Increase in trade and other receivables		(147,220)	(50,495)
(Increase)/decrease in prepayments and other assets		(3,303)	1,643
(Increase)/decrease in inventories		(29,309)	4,856
Increase in trade and other payables		13,865	6,162
Cash generated from operations		817,678	510,951
Income tax paid		(90,380)	(102,347)
Employee profit sharing paid		(26,599)	(17,892)
Net cash from operating activities		700,699	390,712

NOTES TO THE CONSOLIDATED
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31 FINANCIAL INSTRUMENTS

(a) Fair values

The fair value of financial assets and liabilities, together with the carrying amounts shown in the balance sheet, are as follows:

	CARRYING AMOUNT		FAIR VALUE	
	2010	2009	2010	2009
	(US\$ thousands)			
Financial assets:				
Cash and cash equivalents ⁽¹⁾	559,537	312,192	559,537	312,192
Trade and other receivables ^{(1) (2)}	218,520	97,152	218,520	97,152
Available-for-sale financial assets	141,777	68,435	141,777	68,435
Silverstream contract (note 15)	427,681	298,659	427,681	298,659
Derivative financial instruments	4,056	1,373	4,056	1,373
Financial liabilities:				
Trade and other payables ⁽¹⁾	53,089	36,071	53,089	36,071
Derivative financial instruments	152	95	152	95

⁽¹⁾ The carrying value of these financial instruments is deemed to approximate fair value (note 17, 19 and 24).

⁽²⁾ "Trade and other receivables" includes the fair value of embedded derivatives arising due to provisional pricing in sales contracts of US\$6.2 million as at 31 December 2010 (2009: US\$(3.3) 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.

	As of 31 December 2010			
	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
	(US\$ thousands)			
Financial assets:				
Derivative financial instruments:				
Option and forward foreign exchange contracts	-	4,056	-	4,056
Embedded derivatives within sales contracts	-	-	6,162	6,162
Silverstream contract	-	-	427,681	427,681
	-	4,056	433,843	437,899
Financial investments available-for-sale:				
Quoted investments	141,777	-	-	141,777
	141,777	4,056	433,843	579,676
Financial liabilities:				
Derivative financial instruments:				
Options and forward foreign exchange contracts	-	(152)	-	(152)
	-	(152)	-	(152)

	As of 31 December 2009			
	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
	(US\$ thousands)			
Financial assets:				
Derivative financial instruments:				
Option and 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:				
Option and 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.

A reconciliation of the beginning balance to the ending balance for Level 3 financial instruments other than Silverstream (which is disclosed in note 15) is shown below:

	2010	2009
	(US\$ thousands)	
Balance at 1 January:	(3,348)	3,976
Changes in fair value	35,573	23,994
Realised sales	(26,063)	(31,318)
Balance at 31 December	6,162	(3,348)

Silverstream contract:

The fair value of the Silverstream contract is determined using a valuation model (for further information relating to the 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 (r)). 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 metals are actively traded on international exchanges but the estimated metal content is a non observable input to this valuation.

At 31 December 2010 the fair value of embedded derivatives within sales contracts was US\$6.2 million (2009: US\$(3.3) million). The revaluation effects of embedded derivatives arising from these sales contracts are recorded as an adjustment to revenues.

(c) Hedging activities-cash flow hedges

The Group historically entered into derivative transactions with the purpose of managing commodity price risk associated with the sale of lead, zinc, gold and silver.

The Group did not have open commodity contracts used for base metals hedging at 31 December 2010 or 2009.

Derivative hedging instruments relating to gold and silver sales 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.

In 2009 the Group recycled pre-tax hedging losses of US\$25.0 million which was included in revenue. During 2010 there are no pre-tax losses recycled to the income statement with respect to the derivatives terminated in 2007 and as at 31 December 2010 there are no remaining pre-tax hedging losses related to these derivatives.

The Group enters into certain forward and option contracts in order to manage its exposure to foreign exchange risk associated with costs incurred in Mexican Pesos and Euros. The carrying value of these derivative contracts is detailed below:

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• Foreign currency contracts

As at 31 December 2010

	TERM	CURRENCY	CONTRACT VALUE (thousands)	CONTRACT EXCHANGE RATE	2010 FAIR VALUE (US\$ thousands)
Mexican Peso denominated forward contracts	2011	US\$	75,000*	MX\$12.50:US\$1 to MX\$13.24:US\$1	2,027

*Reflects US\$63 million forward sales contracts and US\$12 million forward purchase contracts.

The Group also entered into a number of Mexican Peso-US Dollar collars to hedge its exposure to fluctuations in foreign exchange rates. These derivative instruments mature over the period from 12 January 2011 to 2 September 2011. The collar instruments hedge costs denominated in Mexican Pesos amounting to US\$36 million with a range of floor prices from MX\$12.90 to MX\$13.30:US\$1 and a range of capped prices from MX\$13.50 to MX\$14.50:US\$1. The fair value of the Put options at 31 December 2010 was an asset of US\$2.0 million and a liability of US\$0.2 million, and the fair value of the Call options at 31 December 2010 was a liability of US\$0.1 million.

As at 31 December 2009

	TERM	CURRENCY	CONTRACT VALUE (thousands)	CONTRACT EXCHANGE RATE	2009 FAIR VALUE (US\$ thousands)
Mexican Peso denominated forward sales contracts	2010	US\$	21,000	MX\$13.50:US\$1 to MX\$14.13:US\$1	1,185
Mexican Peso denominated forward purchase 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 had maturity dates from January to June 2010 corresponding with when the hedged costs were expected to be incurred.

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

	As at 31 December	
	2010	2009
	(US\$ thousands)	
Beginning balance	895	(26,408)
(Gains)/losses recycled to income statement in the year ⁽¹⁾	(2,102)	34,038
Deferred tax recycled	631	(9,531)
Unrealised gain before tax arising during the year	3,927	3,918
Deferred tax on unrealised losses arising during the year and taken directly to equity	(1,179)	(1,122)
Ending balance	2,172	895

⁽¹⁾ Of the net gains recycled to income, US\$2.1 million gains were included in cost of sales (2009: US\$24.8 million losses in revenue and US\$7.1 million losses 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 has exposure to the following risks from its use of financial instruments:

- a) Market risk, including foreign currency, commodity price, interest rate, inflation rate and equity price risks
- b) Credit risk
- c) Liquidity risk

This note presents information about the Group's exposure to each of the above risks and the Group's objectives, policies and processes for assessing and managing risk. Further quantitative disclosures are included throughout the financial statements.

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 has financial instruments that are denominated in Mexican Pesos (2009: Mexican Pesos and UK Pound Sterling) which are exposed to foreign currency risk. Transactions in foreign currencies include the purchases of services, fixed assets, spare parts and other items. As a result, the Group has financial assets and liabilities denominated in Mexican Pesos, also holds cash and cash equivalents in Mexican Pesos (2009: Mexican Pesos and UK Pound Sterling).

The following table demonstrates the sensitivity of financial assets and financial liabilities (excluding Silverstream) 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) (US\$ thousands)	EFFECT ON EQUITY: INCREASE/(DECREASE) (US\$ thousands)
2010	10%	(715)	(8,660)
	(10%)	874	12,058
2009	10%	1,363	(2,741)
	(10%)	(1,666)	3,351

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 2011 (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)
2010	10%	-
	(10%)	-
2009	10%	(3,308)
	(10%)	4,043

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)
2010	10%	(4,953)
	(10%)	6,053
2009	10%	(5,467)
	(10%)	6,681

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued*

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.

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 (excluding Silverstream) 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 applied to all applicable periods. There is no impact on equity, other than the equivalent change in retained earnings.

Year ended 31 December	INCREASE/ (DECREASE) IN SILVER AND GOLD PRICE	EFFECT ON PROFIT BEFORE TAX: INCREASE/(DECREASE) (US\$ thousands)
2010	15% (15%)	22,065 (21,935)
2009	15% (15%)	12,112 (12,112)

The sensitivity shown in the table above relates to changes in fair value of embedded derivatives within sales contract.

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)
2010	25% (25%)	120,165 (120,165)
2009	15% (15%)	51,523 (51,523)

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 cash balances and Silverstream contract held at the balance sheet date.

The following table demonstrates the sensitivity of all financial assets and financial liabilities (excluding Silverstream) 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)
2010	100 (100)	5,727 (5,727)
2009	100 (100)	3,121 (3,121)

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 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)
2010	100	(16,887)
	(100)	18,423
2009	100	(14,796)
	(100)	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)
2010	5%	-	7,089
	(5%)	-	(7,089)
2009	5%	-	3,422
	(5%)	-	(3,422)

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 rate, 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)
2010	100	1,827
	(100)	(1,753)
2009	100	1,886
	(100)	(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 and derivative financial instruments. The 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 counterparties' failure to honour their 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's policies are aimed at minimising losses from foreign currency hedging contracts. The Company's foreign currency hedging contracts are entered into with large financial institutions with strong credit ratings.

The Group has a high concentration of trade receivables with one counterparty Met-Mex Peñoles, the Group's primary customer throughout 2010 and 2009. 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 is considered by management to be of appropriate credit rating.

Refer to note 17 for analysis of trade receivables ageing.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued*

The Group's surplus funds are managed by Servicios Administrativos Fresnillo, S.A. de C.V., which manages cash and cash equivalents investing in a number of financial institutions. In order to minimize exposure to credit risk, the Group only deposits cash and cash equivalents with financial institutions with a credit rating of P-1 (Moody's) and mxA-1+ (Standard and Poors) and above, and only for periods of less than 30 days.

The maximum credit exposure at the 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 2010, being \$427.6 million (In 2009 \$298.7).

(c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

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 2010					
Trade and other payables	53,089	-	-	-	53,089
Derivative financial instruments – assets	102,000	-	-	-	102,000
Derivative financial instruments – liabilities	12,164	-	-	-	12,164
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

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 2010					
Inflows	117,800	-	-	-	117,800
Outflows	(114,164)	-	-	-	(114,164)
Net	3,636	-	-	-	3,636
As at 31 December 2009					
Inflows	40,246	-	-	-	40,246
Outflows	(48,187)	-	-	-	(48,187)
Net	(7,941)	-	-	-	(7,941)

The above liquidity tables include expected inflows and outflows from currency option contracts which the Group expects to exercise in 2011. It is the Group's expectation that currency option contracts will not be exercised unless doing so is beneficial to the Group. Options that are not expected to be beneficial to the Group have therefore been excluded from the liquidity analysis.

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

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 2010 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 auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 111, 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 and express an opinion on 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 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 of December 2010
- 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 2010

Nick Gomer (Senior statutory auditor)

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

London

28 February 2011

Fresnillo plc

PARENT COMPANY

STATEMENT OF COMPREHENSIVE INCOME

for the years ended 31 December

	Notes	2010	2009
<hr/>			
(US\$ thousands)			
Profit for the year	3	483,813	1,475,296
Fair value gain on available-for-sale financial assets	7	73,342	22,880
Tax effect of fair value gain on available-for-sale financial assets	5	(20,536)	(6,407)
Net effect of available for sale financial assets		52,806	16,473
Other comprehensive income for the year, net of tax		52,806	16,473
Total comprehensive income for the year, net of tax, attributable to equity shareholders of the Company		536,619	1,491,769

PARENT COMPANY BALANCE SHEET

		as at 31 December	
	Notes	2010	2009
(US\$ thousands)			
ASSETS			
Non-current assets			
Investments in subsidiaries	6	7,246,569	7,092,908
Available-for-sale financial assets	7	141,777	68,435
		7,388,346	7,161,343
Current assets			
Interest bearing loans	14	61,143	-
Trade and other receivables	8	11,274	5,021
Income tax refund due		97	-
Derivative financial instruments	17	4,056	1,373
Cash and cash equivalents	9	189,396	36,625
		265,966	43,019
Total assets		7,654,312	7,204,362
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	5,789,600	5,681,583
Net unrealised gains on available-for-sale financial assets	10	58,189	5,383
Retained earnings	10	495,774	302,137
Total equity		7,520,840	7,166,380
Non-current liabilities			
Deferred tax liability	5	21,129	817
		21,129	817
Current liabilities			
Interest bearing loans	14	83,365	25,552
Derivative financial instruments	17	152	28
Income tax		-	5,858
Trade and other payables	12	28,826	5,727
		112,343	37,165
Total liabilities		133,472	37,982
Total equity and liabilities		7,654,312	7,204,362

These financial statements were approved by the board of directors on 28 February 2011 and signed on its behalf by:

Jaime Lomelín

CHIEF EXECUTIVE OFFICER

28 February 2011

PARENT COMPANY

CASH FLOW STATEMENT

		for the years ended 31 December	
	Notes	2010	2009
<i>(US\$ thousands)</i>			
Net cash from operating activities	16	72,432	22,597
Cash flows from investing activities			
Purchase of available-for-sale financial assets	7	-	(25)
Return of capital from subsidiaries		45,367	-
Capital contribution to subsidiaries		(91,011)	(403,101)
Loans granted to related parties		(111,227)	(10,546)
Proceeds from repayment of loans granted to related parties		50,073	354,164
Interest received		1,879	11,657
Dividends received		321,297	119,659
Settlement of derivative contracts		859	(7,571)
Other (payments)/proceeds		(1,429)	297
Net cash generated from investing activities		215,808	64,534
Cash flows from financing activities			
Loans granted by related parties		616,622	273,991
Repayment of loans granted by related parties		(561,350)	(290,819)
Dividends paid	11	(182,590)	(93,623)
Interest paid		(4,534)	(5,629)
Net cash used in financing activities		(131,852)	(116,080)
Net increase/(decrease) in cash and cash equivalents during the year		156,388	(28,949)
Effect of exchange rate on cash and equivalents		(3,617)	8,457
Cash and equivalents at 1 January		36,625	57,117
Cash and cash equivalents at 31 December	9	189,396	36,625

During 2010 and 2009 there were no significant non-cash transactions.

PARENT COMPANY STATEMENT OF CHANGES IN EQUITY

for the years ended 31 December 2010 and 2009

	UNREALISED GAINS/(LOSSES) ON AVAILABLE-FOR- SALE					
	SHARE CAPITAL	SHARE PREMIUM	MERGER RESERVE	FINANCIAL ASSETS	RETAINED EARNINGS	TOTAL EQUITY
(US\$ thousands)						
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
Balance at 1 January 2010	358,680	818,597	5,681,583	5,383	302,137	7,166,380
Profit for the year	–	–	–	–	483,813	483,813
Other comprehensive income, net of tax	–	–	–	52,806	–	52,806
Total comprehensive income for the year	–	–	–	52,806	483,813	536,619
Transfer of reserves	–	–	108,017	–	(108,017)	–
Dividends paid	–	–	–	–	(182,159)	(182,159)
Balance at 31 December 2010	358,680	818,597	5,789,600	58,189	495,774	7,520,840

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.

Industrias 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.

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 2010 were authorised for issue by the Board of Directors of Fresnillo plc on 28 February 2011.

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 years ended 31 December 2010 and 2009, and in accordance with the provisions of the Companies Act 2006. The Company's financial statements are also consistent with IFRS 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 measured at fair value.

The financial statements are presented in dollars of the United States of America (US dollars or 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 2009.

New standards, amendments and interpretations that are effective but not applicable to the Company are as follows:

- IFRS 3 (Revised) 'Business Combinations' and IAS 27 (Revised) 'Consolidated and Separate Financial Statements'
- IAS 39 (Amendment) 'Financial instruments: Recognition and Measurement-Eligible hedged items'.

Improvements to IFRSs

In April 2009 the Board issued its second omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. 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 Company;

- IAS 7 'Statement of Cash Flows' clarifies that only expenditures that result in a recognised asset can be classified as a cash flow from investing activities. The amendment has no impact on the Company.

Other amendments resulting from Improvements to IFRS did not have any impact on the accounting policies, financial position or performance of the Company.

New and amended standards and interpretations

Standards and amendments issued but not yet effective up to the date of issuance of the Company's financial statements are listed below. This listing is of standards and interpretations issued, which the Company reasonably expects to be applicable at a future date. The Company intends to adopt those standards when they become effective. The Company has not early adopted any standard, interpretation or amendment that was issued but is not yet effective.

In November 2010, the IASB issued *IFRS 9 Financial Instruments: Classification and Measurement (subsequently amended in October 2010)*. This new standard represents the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial

assets as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013. In subsequent phases, the IASB will address hedge accounting and derecognition. The completion of this project is expected in early 2011.

The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Company's financial assets. The Company will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

In October 2010, the IASB issued amendments to *IFRS 7 Financial Instruments: Disclosures – Transfers of Financial Assets*, which are applicable for annual periods beginning on or after 1 July 2011. The Company intends to adopt this standard when it becomes effective.

The Company considers that the amendments to *IAS 24 Related Party Disclosures (Revised)*, which are relevant to the Group, will not have any impact on the accounting policies, financial position or performance of the Company.

In May 2010 the IASB issued improvements to IFRSs, a further omnibus of amendments to its standards. These amendments have not been adopted as they become effective for annual periods on or after either 1 July 2010 or 1 January 2011. The Company, however, expects no impact from the adoption of the amendments on its financial position or performance.

(c) Significant accounting judgments, estimates and assumptions

The preparation of the Company's financial statements in conformity with IFRS requires management to make judgments, estimation and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the financial statements. These judgments 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 judgments and estimation is in the accounting policies and/or the notes to the financial statements.

Judgments

Areas of judgment, 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(n) and 5:

Judgment 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 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 2010, no impairment has been recognised. At 31 December 2010 an impairment reversal of US\$108.0 million (2009: US\$1,323.2 million) was recognised.

- Valuation of derivative financial instruments – notes 2(p) 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.

NOTES TO THE COMPANY

FINANCIAL STATEMENTS *continued*

- 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 judgment 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.

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 US 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 initially recognised at acquisition cost less any provision for impairment. Subsequent to initial recognition investment in subsidiaries are recognised at fair value determined based on the net present value of the future cash flows related to its subsidiaries, using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

When the Company incurs increases in or return of share capital, to/from its subsidiaries, such movements are recognised as an addition or return of capital to the original cost recognised in investment in subsidiaries.

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 which 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 equity 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 financial assets are measured at fair value with mark-to-market unrealised gains or losses being recognised as other comprehensive income in the available-for-sale reserve until the financial asset is derecognised.

Financial assets classified as available-for-sale are de-recognised when they are sold, and all the risks and rewards of ownership have been transferred. When financial assets are sold, the accumulated fair value adjustments recognised in equity are included in the income statement within other operating income or expense.

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.

(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.

NOTES TO THE COMPANY

FINANCIAL STATEMENTS *continued*

(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) Financial liabilities

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

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

Interest bearing loans and borrowings

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

(k) Contingencies

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

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

(l) 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.

(m) 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.

(n) 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.

(o) 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.

(p) 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. The cash flows from these derivatives are therefore not related to financing activities of the Company and the presentation in the Parent Company Cash Flow Statement has been amended to include them within investing activities.

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 contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

NOTES TO THE COMPANY

FINANCIAL STATEMENTS *continued*

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.

(q) 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.

(r) 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.

(s) 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 PROFIT OR LOSS ATTRIBUTABLE TO THE PARENT COMPANY

The profit for the Company is US\$483.8 million for the year ended 31 December 2010 (2009: US\$1,475.3 million). 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

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 reported in other comprehensive income

	Year ended 31 December	
	2010	2009
	(US\$ thousands)	
<i>Deferred income tax related to items charged or credited directly to other comprehensive income:</i>		
Unrealised gain on available-for-sale assets (note 7)	(20,536)	(6,407)
Income tax charge reported in other comprehensive income	(20,536)	(6,407)

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

	Year ended 31 December	
	2010	2009
	(US\$ thousands)	
Beginning balance	(817)	5,837
Income statement charge/(credit)	224	(247)
Unrealised gain on available-for-sale financial assets	(20,536)	(6,407)
Ending balance	(21,129)	(817)

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities.

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	
	2010	2009
	(US\$ thousands)	
Prepayments	(120)	(127)
Derivative financial instruments	238	21
Available-for-sale financial assets	(21,247)	(711)
Net deferred tax balances	(21,129)	(817)

(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 is expected to reverse in the foreseeable future. The temporary differences for which a deferred tax liability has not been recognised aggregate to US\$503.5 million (2009: US\$184.3 million).

Income Tax ("Impuesto Sobre la Renta" or "ISR") and Business Flat Tax ("Impuesto Empresarial a Tasa Unica" or "IETU")

In accordance to the Mexican tax law, the Company is subject to Income Tax ("ISR") and Business Flat Tax ("IETU"). IETU is an alternative minimum corporate income tax effective in January 1, 2008 which replaced the business asset tax. Companies are required to pay the greater of their mainstream corporate income tax liability for the year or their liability to IETU.

On 7th December 2009 new temporary tax rates were published in the Official Daily of the Federal Government. The tax income rate for 2009 was 28%, for 2010 is 30% and will continue in effect for 2011 and 2012, 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. IETU is calculated at the rate of 17% for the calendar year 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 was recognised in 2009 since the mainstream corporate income tax liability of the Company is forecast to be greater than the future potential IETU charge. These conditions continued in 2010 and no IETU liability is expected to arise in the foreseeable future.

6 INVESTMENTS IN SUBSIDIARIES

	Year ended 31 December	
	2010	2009
	(US\$ thousands)	
Beginning balance	7,092,908	5,366,624
Additions	91,011	403,101
Return of capital	(45,367)	-
Reversal of impairment	108,017	1,323,183
Ending balance	7,246,569	7,092,908

At 31 December 2010, an impairment reversal of US\$108.0 million was recognised (2009: US\$1,323.2 million). The recoverable value as at 31 December 2009 and 2010 was based on fair value less cost to sell.

NOTES TO THE COMPANY
FINANCIAL STATEMENTS *continued*

The subsidiaries in which investments are held as at 31 December 2010 and 2009 are as follows:

COMPANY	COUNTRY OF INCORPORATION	EQUITY INTEREST	
		2010	2009
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	UK	100	100
Fresbal Investments Ltd	Canada	100	100
Servicios Administrativos Fresnillo, S.A. de C.V.	Mexico	99	99
Fresnillo Perú S.A.C.	Peru	100	100

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	
	2010	2009
	(US\$ thousands)	
Beginning balance	68,435	45,530
Additions	-	25
Fair value change	73,342	22,880
Ending balance	141,777	68,435

Available-for-sale financial assets include the following:

	As at 31 December	
	2010	2009
	(US\$ thousands)	
Equity securities-listed Canadian companies	141,777	68,435
Total	141,777	68,435

8 TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2010	2009
	(US\$ thousands)	
Other receivables from related parties (note 14)	10,869	4,565
Prepayments	405	456
Total	11,274	5,021

As of 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

As at 31 December		
	2010	2009
	(US\$ thousands)	
Cash at bank and on hand	13	523
Short-term deposits	189,383	36,102
Cash and cash equivalents	189,396	36,625

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 2010 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 2010, 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.

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 2010 and 2009 represented 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.

NOTES TO THE COMPANY
FINANCIAL STATEMENTS *continued*

11 DIVIDENDS PAID

The dividends declared and paid during the year ended 31 December 2010 and 2009 were as follows:

	US CENTS PER ORDINARY SHARE	AMOUNT (US\$ thousands)
Year ended 31 December 2010		
Final dividend for 2009 declared and paid during the year ⁽¹⁾	16.2	116,180
Interim dividend for 2010 declared and paid during the year ⁽²⁾	9.2	65,979
	25.4	182,159
Year ended 31 December 2009		
Final dividend for 2008 declared and paid during the year ⁽³⁾	7.7	55,864
Interim dividend for 2009 declared and paid during the year ⁽⁴⁾	5.25	37,651
	12.95	93,515

⁽¹⁾ This dividend was approved by the Board of Directors on 28 April 2010 and paid on 2 June 2010.

⁽²⁾ This dividend was approved by the Board of Directors on 2 August 2010 and paid on 14 September 2010.

⁽³⁾ This dividend was approved by the Board of Directors on 20 February 2009 and paid on 27 May 2009.

⁽⁴⁾ This dividend was approved by the Board of Directors on 14 August 2009 and paid on 18 September 2009.

12 TRADE AND OTHER PAYABLES

	As at 31 December	
	2010	2009
	(US\$ thousands)	
Other taxes and contributions	1,063	1,858
Other payables to related parties (note 14)	27,006	3,132
Accrued expenses	757	737
	28,826	5,727

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 of 31 December 2010 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 net income tax account ("Cuenta de Utilidad Fiscal Neta" o "CUFIN") 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.

14 RELATED PARTY BALANCES AND TRANSACTIONS

Related parties are those entities owned or controlled by the ultimate controlling party and include the Company's subsidiaries disclosed in note 6, as well as those entities who have a minority participation in Fresnillo Group companies. There were no balances or transactions (other than dividends paid) with the parent company. 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 2010	31 December 2009	31 December 2010	31 December 2009
Interest bearing loans				
Comercializadora de Metales Fresnillo, S.A. de C.V.	-	-	83,365	20,752
Minera Mexicana La Ciénega, S.A. de C.V.	30,135	-	-	-
Minera Fresnillo, S.A. de C.V.	31,008	-	-	4,800
	61,143	-	83,365	25,552
Trademark royalties:				
Minera Fresnillo, S.A. de C.V.	-	4,249	20,800	-
Minera Mexicana La Ciénega, S.A. de C.V.	-	-	3,036	-
Other	-	101	1,184	-
	-	4,350	25,020	-
Dividends:				
Minera Penmont, S. de R.L. de C.V.	10,831	-	-	-
Administrative services:				
Fresnillo Management Services Ltd	-	-	156	410
Other	38	215	1,830	2,722
Sub-total	72,012	4,565	110,371	28,684
Less-Current portion	72,012	4,565	110,371	28,684
Non-current portion	-	-	-	-

Effective interest rates on loans granted to and received from related parties are as follows:

	ACCOUNTS RECEIVABLE		ACCOUNTS PAYABLE	
	(US\$ thousands)		(US\$ thousands)	
	31 December 2010	31 December 2009	31 December 2010	31 December 2009
Comercializadora de Metales Fresnillo, S.A. de C.V.:				
in US dollars	-	5.78%	-	-
in Mexican Peso	-	-	9.38%	9.58%
Exploraciones Mineras Parreña, S.A. de C.V. in US dollars	-	5.58%	-	-
Minera Mexicana La Ciénega, S.A. de C.V.:				
in US dollars	9.50%	-	-	-
in Mexican Peso	5.27%	-	-	-
Minera Fresnillo, S.A. de C.V. in US dollars	5.27%	-	-	5.67%

NOTES TO THE COMPANY
FINANCIAL STATEMENTS *continued*

(b) Principal transactions with affiliates (apart from dividends, additional investments and returns of capital) are as follows:

	Year ended 31 December	
	2010	2009
	(US\$ thousands)	
Income:		
<i>Trademark Royalties:</i>		
Minera Fresnillo, S.A. de C.V.	54,005	34,181
Minera Mexicana La Ciénega, S.A. de C.V.	14,517	6,059
Servicios Administrativos Fresnillo, S.A. de C.V.	3,019	1,045
	71,541	41,285
<i>Interest on loans to related parties:</i>		
Comercializadora de Metales Fresnillo, S.A. de C.V.	-	11,102
Minera Mexicana La Ciénega, S.A. de C.V.	932	-
Minera Fresnillo, S.A. de C.V.	127	-
Other	21	72
	1,080	11,174
<i>Sales of concentrates:</i>		
Minera Fresnillo, S.A. de C.V.	26,952	-
	26,952	-
<i>Other income:</i>		
Minera Fresnillo, S.A. de C.V.	36	5,266
Other	155	154
	191	5,420
Total income	99,764	57,879

	Year ended 31 December	
	2010	2009
	(US\$ thousands)	
Expenses:		
<i>Administrative services:</i>		
Servicios Administrativos Fresnillo, S.A. de C.V.	4,139	2,293
Fresnillo Management Services Ltd	1,597	1,735
	5,736	4,028
<i>Interest on loans from related parties:</i>		
Comercializadora de Metales Fresnillo, S.A. de C.V.	4,489	-
Minera Fresnillo, S.A. de C.V.	133	5,626
	4,622	5,626
<i>Purchase of concentrates:</i>		
Minera Saucito, S.A. de C.V.	26,144	-
	26,144	-
<i>Other expenses:</i>		
Servicios Administrativos Fresnillo, S.A. de C.V.	332	2,030
Minera Saucito, S.A. de C.V.	-	5,108
Other	-	22
	332	7,160
Total expenses	36,834	16,814

15 AUDITOR'S REMUNERATION

The auditor's remuneration for the Company was US\$0.7 million (2009: US\$1.0 million) in respect of the audit of its financial statements together with a proportion of the fees in relation to the 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.

16 NOTES TO THE CASH FLOW STATEMENT

Notes	Year ended 31 December	
	2010	2009
	(US\$ thousands)	
Reconciliation of profit for the year to net cash generated from operating activities		
Profit for the year	483,813	1,475,296
Adjustments to reconcile profit for the year to net cash inflows from operating activities:		
Impairment reversal 6	(108,017)	(1,323,183)
Income tax expense	14,474	5,538
Other income	(329,643)	(119,957)
Net finance income	(1,309)	(9,824)
Foreign exchange loss	3,620	2,874
Working capital adjustments		
Decrease/(increase) in trade and other receivables	4,525	(1,656)
Decrease in prepayments and other assets	55	100
Increase in trade and other payables	25,642	2,634
Cash generated from operations	93,160	31,822
Income tax paid	(20,728)	(9,225)
Net cash from operating activities	72,432	22,597

17 FINANCIAL INSTRUMENTS

a) Fair values

The fair values of financial assets and liabilities, together with the carrying amounts shown in the balance sheet, are as follows:

	CARRYING AMOUNT		FAIR VALUE	
	2010	2009	2010	2009
	(US\$ thousands)			
Financial assets:				
Cash and cash equivalents ⁽¹⁾	189,396	36,625	189,396	36,625
Derivative financial instruments	4,056	1,373	4,056	1,373
Interest bearing loans	61,143	-	61,143	-
Trade and other receivables ⁽¹⁾	10,869	4,565	10,869	4,565
Available-for-sale financial assets	141,777	68,435	141,777	68,435
Financial liabilities:				
Interest bearing loans ⁽¹⁾	83,365	25,552	83,365	25,552
Trade and other payables ⁽¹⁾	27,006	3,132	27,006	3,132
Derivative financial instruments	152	28	152	28

⁽¹⁾ The carrying value of these financial instruments is deemed to approximate fair value.

NOTES TO THE COMPANY
FINANCIAL STATEMENTS *continued*

(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:

As of 31 December 2010				
	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
	(US\$ thousands)			
Financial assets:				
Derivative financial instruments:				
Option and forward foreign exchange contracts	-	4,056	-	4,056
Financial investments available-for-sale:				
Quoted investments	141,777	-	-	141,777
	141,777	4,056	-	145,833
Financial liabilities:				
Derivative financial instruments:				
Option and forward foreign exchange contracts	-	(152)	-	(152)
	-	(152)	-	(152)

As of 31 December 2009				
	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
	(US\$ thousands)			
Financial assets:				
Derivative financial instruments:				
Option and forward foreign exchange contracts	-	1,373	-	1,373
Financial investments available-for-sale:				
Quoted investments	68,435	-	-	68,435
	68,435	1,373	-	69,808
Financial liabilities:				
Derivative financial instruments:				
Option and forward foreign exchange contracts	-	(28)	-	(28)
	-	(28)	-	(28)

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 subsidiaries' exposure to 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.

- Foreign currency contracts

As at 31 December 2010:

	TERM	CURRENCY	CONTRACT VALUE	CONTRACT EXCHANGE RATE	FAIR VALUE
					(US\$ thousands)
Mexican Peso denominated forward contracts	2011	US\$	75,000*	MX\$12.50:US\$1 to MX\$13.24:US\$1	2,027

*Reflects US\$63 million forward sales contracts and US\$12 million forward purchase contracts.

The Company entered into a number of Mexican Peso-US Dollar collars to hedge exposure to fluctuations in foreign exchange rates as result of the operations of its subsidiaries. These derivative instruments mature over the period from 12 January 2011 to 2 September 2011. The collar instruments hedge costs denominated in Mexican Pesos amounting to US\$36 million with a range of floor prices from MX\$12.90 to MX\$13.30:US\$1 and a range of capped prices from MX\$13.50 to MX\$14.50:US\$1. The fair value of the Put options at 31 December 2010 was an asset of US\$2.0 million and a liability of US\$0.2 million, and the fair value of the Call options at 31 December 2010 was a liability of US\$0.1 million.

As at 31 December 2009:

	TERM	CURRENCY	CONTRACT VALUE	CONTRACT EXCHANGE RATE	FAIR VALUE <i>(US\$ thousands)</i>
Mexican Peso denominated forward sale contracts	2010	US\$	21,000	MX\$13.50:US\$1 to MX\$14.13:US\$1	1,185
Mexican Peso denominated forward purchase 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 contracts held as at 31 December 2009 had maturity dates from January 2010 to June 2010 corresponding with when the Mexican 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 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, interest rate and equity price risks
- b) Credit risk
- c) Liquidity risk

This note presents information about the Company's exposure to each of the above risks and the Company's objectives, policies and processes for assessing and managing risk. Further quantitative disclosures are included throughout the financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Company risk management framework.

The Company's risk management policies 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, 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 Mexican Pesos.

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.

NOTES TO THE COMPANY
FINANCIAL STATEMENTS *continued*

Year ended 31 December	STRENGTHENING/(WEAKENING)	EFFECT ON PROFIT
	OF US DOLLAR	BEFORE TAX: INCREASE/(DECREASE)
		(US\$ thousands)
2010	10%	(4,269)
	(10%)	6,691
2009	10%	1,210
	(10%)	(1,480)

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)	EFFECT ON PROFIT
	OF US DOLLAR	BEFORE TAX: INCREASE/(DECREASE)
		(US\$ thousands)
2010	10%	-
	(10%)	-
2009	10%	(3,271)
	(10%)	3,997

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 of 31 December 2010 and 2009 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)	EFFECT ON PROFIT
	IN INTEREST RATE	BEFORE TAX: INCREASE/(DECREASE)
		(US\$ thousands)
2010	100	1,892
	(100)	(1,892)
2009	100	111
	(100)	(111)

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

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	EFFECT ON PROFIT	EFFECT ON EQUITY:
	EQUITY PRICE	BEFORE TAX: INCREASE/(DECREASE)	INCREASE/(DECREASE)
		(US\$ thousands)	(US\$ thousands)
2010	5%	-	7,089
	(5%)	-	(7,089)
2009	5%	-	3,422
	(5%)	-	(3,422)

(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 and derivative financial instruments. The 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 counterparties' failure to honour their 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. The Company's policies are aimed at minimising losses from the foreign currency hedging contracts. The Company's foreign currency hedging contracts are entered into with large financial institutions with strong credit ratings.

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 the 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 2010					
Interest bearing loans	83,365	-	-	-	83,365
Trade and other payables	27,006	-	-	-	27,006
Derivative financial instruments – assets	102,000	-	-	-	102,000
Derivative financial instruments – liabilities	12,164	-	-	-	12,164
As at 31 December 2009					
Interest bearing loans	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

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 2010					
Inflows	117,800	-	-	-	117,800
Outflows	(114,164)	-	-	-	(114,164)
Net	3,636	-	-	-	3,636
As at 31 December 2009					
Inflows	31,394	-	-	-	31,394
Outflows	(38,187)	-	-	-	(38,187)
Net	(6,793)	-	-	-	(6,793)

The above liquidity tables include expected inflows and outflows from currency option contracts which the Company expects to exercise in 2011. It is the Company's expectation that currency option contracts will not be exercised unless doing so is beneficial to the Company. Options that are not expected to be beneficial to the Company have therefore been excluded from the liquidity analysis.

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

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios that support its business and maximise shareholder value. Management considers capital to consist only of equity as disclosed in the balance sheet. In order to ensure an appropriate return for shareholder's capital invested in the Company, management thoroughly evaluates all material projects and potential acquisitions and approves them at its Executive Committee before submission to the Board for ultimate approval, where applicable.

Fresnillo plc

OPERATING STATISTICS

ORE PROCESSED

(tonnes)

SILVER

(grams/tonne)

	2006	2007	2008	2009	2010	2006	2007	2008	2009	2010
FRESNILLO	2,207,282	2,312,691	2,324,575	2,471,657	2,553,991	519.0	492.0	494.0	486.6	474.4
CIÉNEGA	673,448	718,726	751,143	780,881	860,513	68.7	54.0	46.2	74.5	49.4
HERRADURA	8,789,794	10,869,234	13,609,318	15,617,014	16,616,247	0.9	1.0	0.6	0.8	1.3
SAUCITO	0	0	0	71,170	145,148	0	0	0	367.2	306.0
SOLEDAD-DIPOLOS	0	0	0	0	9,647,939	0	0	0	0	0.6

ZINC CONCENTRATE

(tonnes)

SILVER

(grams/tonne)

	2006	2007	2008	2009	2010	2006	2007	2008	2009	2010
FRESNILLO	27,522	24,102	21,922	22,317	23,719	2,387	2,090	2,212	2,516	2,444
CIÉNEGA	19,338	18,486	21,806	15,150	18,950	267	202	162	344	186
HERRADURA	0	0	0	0	0	0	0	0	0	0
SAUCITO	0	0	0	165	302	0	0	0	2,811	2,473
SOLEDAD-DIPOLOS	0	0	0	0	0	0	0	0	0	0

LEAD CONCENTRATE

(tonnes)

SILVER

(grams/tonne)

	2006	2007	2008	2009	2010	2006	2007	2008	2009	2010
FRESNILLO	39,855	38,406	39,608	51,699	60,526	24,444	25,586	25,064	19,972	17,276
CIÉNEGA	18,353	19,107	21,795	16,092	17,436	1,767	1,382	1,123	2,567	1,734
HERRADURA	0	0	0	0	0	0	0	0	0	0
SAUCITO	0	0	0	1,250	2,869	0	0	0	17,937	12,994
SOLEDAD-DIPOLOS	0	0	0	0	0	0	0	0	0	0

DORÉ AND OTHER PRODUCTS

PRODUCT

(tonnes)

SILVER

(grams/tonne)

	2006	2007	2008	2009	2010	2006	2007	2008	2009	2010
CIÉNEGA PRECIPITATES	11.8	16.5	18.8	24.6	25.1	144,748	100,543	80,665	113,635	122,745
CIÉNEGA GRAVIMETRIC CONCENTRATOR	0	0	0	36.5	197.1	0	0	0	3,192	2,150
HERRADURA DORÉ	11.4	13.8	13.1	17.2	21.2	371,677	483,722	419,249	469,606	502,980
HERRADURA SLAG	192.2	325.0	420.6	492.6	588.1	1,437	3,429	3,255	2,939	2,234
SOLEDAD-DIPOLOS DORÉ	0	0	0	0	5.0	0	0	0	0	174,199
SOLEDAD-DIPOLOS SLAG	0	0	0	0	496.1	0	0	0	0	1,490
FRESNILLO CONCENTRATE FROM TAILINGS DAM	1,959.5	2,765.7	2,610.3	2,914.7	3,247.1	3,565.0	3,473.9	3,571.8	4,451.2	4,048.0

METAL PRODUCED - ATTRIBUTABLE¹

SILVER

(ounces)

GOLD

(ounces)

	2006	2007	2008	2009	2010	2006	2007	2008	2009	2010
FRESNILLO	33,658,884	33,520,617	33,775,660	35,419,848	35,905,701	29,245	26,246	24,008	24,684	24,979
CIÉNEGA	1,262,996	1,022,207	949,574	1,588,994	1,197,792	150,527	143,719	116,903	103,510	113,351
HERRADURA	81,582	140,318	123,656	171,303	215,686	101,702	110,167	122,730	145,510	162,984
SAUCITO	0	0	0	735,744	1,222,473	0	0	0	2,881	6,323
SOLEDAD-DIPOLOS	0	0	0	0	29,086	0	0	0	0	61,358
FRESNILLO TOTAL	35,003,462	34,683,142	34,848,889	37,915,889	38,570,738	281,474	280,132	263,640	276,584	368,995

¹ Including Production from Fresnillo's Tailings Dam

GOLD

(grams/tonne)

2006	2007	2008	2009	2010	2006	2007	2008	2009	2010	2006	2007	2008	2009	2010
0.60	0.51	0.47	0.41	0.41	1.01	0.83	0.76	0.79	0.85	0.54	0.45	0.42	0.50	0.54
7.33	6.55	5.14	4.33	4.27	2.43	2.15	2.32	1.64	1.77	1.50	1.39	1.46	1.00	0.95
0.81	0.75	0.72	0.68	0.70	0	0	0	0	0	0	0	0	0	0
0	0	0	1.53	1.67	0	0	0	0.30	0.37	0	0	0	0.15	0.22
0	0	0	0	0.61	0	0	0	0	0	0	0	0	0	0

ZINC

(%)

LEAD

(%)

GOLD

(grams/tonne)

2006	2007	2008	2009	2010	2006	2007	2008	2009	2010	2006	2007	2008	2009	2010
3.6	3.1	2.9	2.7	2.5	52.3	51.2	51.5	51.6	51.5	0	0	0	0	0
12.4	11.4	7.9	7.1	4.7	52.8	51.8	51.5	52.5	53.4	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	12.4	0	0	0	39.7	48.8	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

ZINC

(%)

LEAD

(%)

GOLD

(grams/tonne)

2006	2007	2008	2009	2010	2006	2007	2008	2009	2010	2006	2007	2008	2009	2010
20.1	18.9	16.9	13.3	11.5	0	0	0	0	0	26.6	24.0	21.9	21.4	20.2
213.3	192.0	134.2	149.3	117.4	0	0	0	0	0	41.5	41.7	41.8	38.0	37.1
0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
0	0	0	70.7	67.3	0	0	0	0	0	0	0	0	7.0	9.5
0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

ZINC

(%)

LEAD

(%)

GOLD

(grams/tonne)

2006	2007	2008	2009	2010
44,775	35,409	28,564	20,944	24,936
0	0	0	5,343	3,874
455,639	390,309	418,800	395,547	379,778
2,251	2,245	3,147	2,613	1,699
0	0	0	0	512,231
0	0	0	0	1,676
4.8	5.8	5.4	6.4	6.5

ZINC

(tonne)

2006	2007	2008	2009	2010	2006	2007	2008	2009	2010
14,792	12,349	11,277	11,510	12,212	10,611	9,219	8,685	11,058	12,236
10,205	9,571	11,237	7,950	10,112	7,617	7,958	9,109	6,118	6,468
0	0	0	0	0	0	0	0	0	0
0	0	0	65	147	0	0	0	88	273
0	0	0	0	0	0	0	0	0	0
24,997	21,920	22,515	19,526	22,472	18,228	17,177	17,793	17,264	18,977

LEAD

(tonne)

RESERVES AND RESOURCES TABLES

Fresnillo plc December 31, 2010 Consolidated Mineral Resource Statement⁽¹⁾

RESOURCE CATEGORY	CUT-OFF GRADE	MEAS. & IND. (Mt)	INFERRED (Mt)	SILVER (gpt)	GOLD (gpt)	LEAD (%)	ZINC (%)	SILVER (Moz)	GOLD (Moz)	LEAD (Mt)	ZINC (Mt)
MINERA FRESNILLO											
Fresnillo											
Measured		9.5		719	0.76	0.75	1.29	218.9	0.23	0.071	0.122
Indicated	86 gpt Ag-Eq	28.0		333	0.78	2.15	4.47	298.9	0.71	0.601	1.249
San Julián											
Indicated (Veins)*	2.1 gpt Au-Eq	4.4		176	1.71	0.00	0.00	25.2	0.24	0.000	0.000
Indicated (Disseminated)*	125 gpt Ag-Eq	16.3		193	0.08	0.53	1.36	101.1	0.04	0.087	0.222
Measured & Indicated		58.2		344	0.65	1.30	2.74	644.1	1.22	0.759	1.593
Fresnillo											
Inferred	86 gpt Ag-Eq		21.7	301	0.68	1.92	4.18	210.2	0.48	0.417	0.910
San Julián											
Inferred (Veins)*	2.1 gpt Au-Eq		3.8	145	1.68	0.00	0.00	17.5	0.20	0.000	0.000
Inferred (Disseminated)*	125 gpt Ag-Eq		0.04	49	0.03	0.47	2.26	0.1	0.00	0.000	0.001
Inferred			25.5	278	0.83	1.64	3.57	227.8	0.68	0.417	0.911
MINERA CIÉNEGA											
Measured		5.0		105	3.38	1.00	1.48	16.8	0.54	0.050	0.074
Indicated	1.20 gpt Au-Eq	12.0		118	1.87	0.50	0.83	45.6	0.72	0.060	0.100
Measured & Indicated		17.0		114	2.31	0.65	1.02	62.4	1.26	0.110	0.174
Inferred	1.20 gpt Au-Eq		9.1	109	1.52	0.68	1.36	31.8	0.44	0.062	0.123
Inferred			9.1	109	1.52	0.68	1.36	31.8	0.44	0.062	0.123
MINERA PENMONT⁽²⁾											
Herradura (Disseminated)											
Measured		38.7		1	0.83	0.00	0.00	1.2	1.03	0.000	0.000
Indicated	0.30 gpt Au	46.3		1	0.79	0.00	0.00	1.5	1.18	0.000	0.000
Herradura (Veins)											
Indicated	1.5 gpt Au	4.2		1	3.19	0.00	0.00	0.1	0.43	0.000	0.000
Soledad & Dipolos											
Measured		18.7		1	0.60	0.00	0.00	0.6	0.36	0.000	0.000
Indicated	0.30 gpt Au	18.9		1	0.58	0.00	0.00	0.6	0.35	0.000	0.000
Noche Buena											
Indicated	0.30 gpt Au	23.4		1	0.49	0.00	0.00	0.8	0.37		
Measured & Indicated		150.2		1	0.77	0.00	0.00	4.8	3.72	0.000	0.000
Herradura (Disseminated)											
Inferred	0.30 gpt Au		15.6	1	0.67	0.00	0.00	0.5	0.34	0.000	0.000
Herradura (Veins)											
Inferred	1.5 gpt Au		8.1	1	3.27	0.00	0.00	0.3	0.85	0.000	0.000
Soledad & Dipolos											
Inferred	0.30 gpt Au		3.2	1	0.57	0.00	0.00	0.1	0.06	0.000	0.000
Noche Buena											
Inferred	0.30 gpt Au		6.3	1	0.47	0.00	0.00	0.2	0.10	0.000	0.000
Inferred			33.2	1	1.26	0.00	0.00	1.1	1.34	0.000	0.000
MINERA SAUCITO											
Measured		0.2		888	5.16	0.28	0.47	5.4	0.03	0.001	0.001
Indicated* S & M	137 gpt Ag-Eq	1.7		536	3.39	0.77	1.08	28.6	0.18	0.013	0.018
Indicated* J & V	200 gpt Ag-Eq	5.4		514	1.66	0.92	1.70	88.6	0.29	0.049	0.091
Measured & Indicated		7.2		529	2.15	0.87	1.53	122.6	0.5	0.062	0.110
Inferred* S & M	137 gpt Ag-Eq		3.2	215	3.04	0.69	1.01	22.0	0.31	0.022	0.032
Inferred* J & V	200 gpt Ag-Eq		13.7	491	1.60	2.25	3.64	216.9	0.70	0.309	0.501
Total Inferred*			16.9	439	1.87	1.95	3.15	238.9	1.02	0.331	0.533
MINERA JUANICIPÍO⁽²⁾											
Indicated*	200 gpt Ag-Eq	2.9		560	1.85	2.28	3.98	52.4	0.17	0.066	0.116
Measured & Indicated		2.9		560	1.85	2.28	3.98	52.4	0.17	0.066	0.116
Inferred*	200 gpt Ag-Eq		2.7	446	1.84	1.65	3.24	38.5	0.16	0.044	0.087
PARREÑA											
Indicated (veins)*	4.0 gpt Au-Eq	0.9		141	3.49	0.00	0.00	4.2	0.10	0.000	0.000
Indicated (Disseminated)*	0.38 gpt Au	99.9		1	1.17	0.00	0.00	4.3	3.77	0.000	0.000
Measured & Indicated		100.8		3	1.20	0.00	0.00	8.5	3.87	0.000	0.000
Inferred (breccia)*	60 gpt Ag		7.05	113	0.01	1.46	1.27	25.5	0.00	0.103	0.090
Inferred (veins)*	4.0 gpt Au-Eq		1.9	115	3.64	0.00	0.00	7.0	0.22	0.000	0.000
Inferred (Disseminated)*	0.38 gpt Au		167.9	1	1.01	0.00	0.00	7.4	5.47	0.000	0.000
Inferred			176.8	7	1.00	0.06	0.05	39.9	5.70	0.103	0.090
TOTALS											
Measured & Indicated		336.3		83	0.99	0.30	0.59	894.8	10.75	0.997	1.992
Inferred			264.3	68	1.10	0.36	0.66	577.9	9.33	0.957	1.743

⁽¹⁾ Mineral resources are reported inclusive of mineral reserves. Mineral resources are not mineral reserves and do not have demonstrated economic viability. All figures rounded to reflect the relative accuracy of the estimates. Gold, silver, lead and zinc assays were capped where appropriate. Mineral resources are reported at variable metal equivalent cut-off grades based on variable metal price assumptions and appropriate metallurgical recoveries.

⁽²⁾ Mineral resources quoted reflect the Fresnillo plc's attributable 56% ownership.

* 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 sulphide material, respectively.

Fresnillo plc 31 December 2010 Consolidated Mineral Reserve Statement⁽¹⁾

RESERVE CATEGORY	CUT OFF GRADE	PROVEN & PROBABLE	SILVER	GOLD	LEAD	ZINC	SILVER	GOLD	LEAD	ZINC
		(Mt)	(gpt)	(gpt)	(%)	(%)	(Moz)	(Moz)	t(000s)	t(000s)
Minera Fresnillo										
Proven		7.4	447	0.48	0.47	0.78	106.7	0.11	35.0	58.3
Probable		27.7	291	0.71	1.98	4.11	258.7	0.63	547.1	1,135.1
Proven & Probable 131 gpt AgEq		35.1	324	0.66	1.66	3.40	365.4	0.75	582.1	1,193.4
Minera Saucito										
Proven		0.3	420	2.49	0.13	0.21	3.6	0.02	0.4	0.6
Probable		2.3	347	2.16	0.49	0.69	25.5	0.16	11.2	15.8
Proven & Probable 154 gpt AgEq		2.6	355	2.20	0.45	0.64	29.3	0.18	11.6	16.4
Ciénega										
Proven		3.0	96	3.22	0.92	1.30	9.4	0.31	27.9	39.4
Probable		7.4	142	2.21	0.53	0.81	33.9	0.53	39.4	60.2
Proven & Probable 2.38 gpt AuEq		10.5	128	2.51	0.64	0.95	43.3	0.84	67.3	99.6
Herradura⁽¹⁾										
Proven		33.1	1	0.85	0.00	0.00	1.1	0.90	0.0	0.0
Probable		37.2	1	0.82	0.00	0.00	1.2	0.98	0.0	0.0
Proven & Probable 0.30 gpt Au		70.3	1	0.83	0.00	0.00	2.3	1.88	0.0	0.0
Soledad/Dipolos⁽¹⁾										
Proven		14.5	1	0.63	0.00	0.00	0.5	0.29	0.0	0.0
Probable		15.3	1	0.60	0.00	0.00	0.5	0.30	0.0	0.0
Proven & Probable 0.30 gpt Au		29.8	1	0.62	0.00	0.00	1.0	0.59	0.0	0.0
Noche Buena⁽¹⁾										
Proven		16.7	1	0.50	0.00	0.00	0.5	0.27	0.0	0.0
Proven & Probable 0.30 gpt Au		16.7	1	0.50	0.00	0.00	0.5	0.27	0.0	0.0
Fresnillo plc Total										
Proven		58.4	65	0.88	0.11	0.17	121.3	1.65	63.2	98.2
Probable		106.6	93	0.84	0.56	1.14	320.3	2.86	597.7	1,211.1
Proven & Probable		165.0	83	0.85	0.40	0.79	441.6	4.51	660.9	1,309.3

⁽¹⁾ Mineral reserves quoted reflect the Fresnillo plc's attributable 56% ownership.

GROUP OVERVIEW

STRATEGY

PERFORMANCE

GOVERNANCE

FINANCIALS

UN GLOBAL COMPACT INDEX

UNITED NATIONS GLOBAL COMPACT - COMMUNICATION ON PROGRESS

(STATED IN PAGES 31 AND 56)

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1.	Businesses should support and respect the protection of internationally proclaimed human rights, within their influence scope.	59, 61, 63, 67, 68
2.	Businesses should make sure they are not complicit in human rights abuses.	59, 96, 97
3.	Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.	9, 23, 59
4.	Businesses should uphold the elimination of all forms of forced and compulsory labour.	59
5.	Businesses should uphold the effective abolition of child labour.	59
6.	Businesses should uphold the elimination of discrimination in respect of employment and occupation.	59
7.	Businesses should support a precautionary approach to environmental challenges.	9, 63, 64
8.	Businesses should undertake initiatives to promote greater environmental responsibility.	25, 63, 64
9.	Businesses should encourage the development and diffusion of environmentally friendly technologies.	63, 64
10.	Businesses should work against corruption in all its forms, including extortion and bribery.	22, 59, 96, 97

GLOSSARY

Adit

Entrance to an underground mine which is horizontal or nearly horizontal by which the mine can be accessed, drained of water and ventilated

AGM or Annual General Meeting

The annual general meeting of the Company which is scheduled to be held on Wednesday 17 May 2011 at noon at the offices of Linklaters LLP at One Silk Street, London, EC2Y 8HQ

Annual Report

The annual report of Fresnillo plc for the year ended 31 December 2010 and comprising the Chairman's Letter, Chief Executive's Statement, Business Review, Directors' Report, Financial Statements and accompanying notes

Articles of Association

The articles of association of the Company which took effect on 28 May 2010

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

Cancun Communiqué

Document signed by nearly 1,000 businesses setting out a case for action on climate change

Capex

Capital expenditures; expenditures not classified as operating costs

Carbon Disclosure Project

Independent not-for-profit organisation holding the largest database of primary corporate climate change information in the world

CFE

Comisión Federal de Electricidad, the Mexican state-owned electric utility

CO₂

Carbon dioxide

Code of Conduct

The set of principles for ethical behaviour to which all employees of the Company are obliged to adhere

Combined Code

The Combined Code on Corporate Governance published by the Financial Reporting Council dated June 2008 as amended

Company [see also Fresnillo plc]

Fresnillo plc, a company incorporated under the UK 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

Consolidated Financial Statements

The consolidated financial statements of the Company for the year ended 31 December 2010

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

Dilution

Waste, which is unavoidably mined with ore

Directors

The directors of the Company

GLOSSARY *continued***Disseminated deposit or ore body**

A disseminated deposit is that in which the metal is evenly distributed in generally low concentrations throughout large masses of rock.

Doré

An impure alloy of gold and silver, generally the final product of mining and processing; the doré bullion will be refined into high purity metal

EBITDA

Gross profit plus depreciation included within cost of sales, less administrative expenses and exploration expenses

Ejido(s)

In Mexico, the communal farmland of a village, usually assigned in small parcels to villagers to be farmed under a federally supported system of communal land tenure

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, investment funds that are traded on a stock exchange

Executive Committee

The executive committee of the Board

Executive Directors

The executive Directors of the Company

Exploraciones Mineras Parreña, S.A. de C.V.

A wholly-owned Fresnillo plc company that controls a number of exploration prospects

Financial Statements

The consolidated and parent company financial statements of the Company and accompanying notes for the year ended 31 December 2010

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 UK Companies Act 1985 and registered in England and Wales with registered number 6344120

FSA

The Financial Services Authority of the United Kingdom

FTSE 100, 250 or 350

Share indices compiled by FTSE International Limited and comprising the top 100, 250 or 350 companies by full market value

g/t

Grammes per tonne

GAAP

Generally Accepted Accounting Principles

GAAS

Generally Accepted Auditing Standards

GHG

Greenhouse gases

GJ

Gigajoules

Government

Unless otherwise specified the government of the Republic of Mexico

Grade

The measure of concentration of metal within mineralised rock

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 grammes/tonne or 0.05% by weight

GRI

The Global Reporting Initiative, a network-based organisation that pioneered the world's most widely used sustainability reporting framework

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

The Fresnillo Group Health, Safety, Environment and Community Relations System (*Sistema de Salud, Seguridad, Medio Ambiente y Relaciones con la Comunidad*), headed by the HSECR Committee of the Board

HSECR Committee

Health, safety, environment and community relations committee of the Board

IAS

International Accounting Standards

ICMM

International Council on Mining and Metals, founded in 2001 to advocate performance improvement in the mining and metals industry

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 and by reference to Provision A.3.1 of the Combined Code

INIFAP

Instituto Nacional de Investigaciones Forestales, Agrícolas y Pecuarias, a national R&D institute for forestry, agriculture and livestock

International Cyanide Management Code

Voluntary industry and audit-based programme for the gold mining industry to promote responsible management of cyanide used in gold mining

IPO [also Listing]

Initial Public Offering; the admission of the Company's Ordinary Shares both to the UKLA Official List and to trading on the Main Market of 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

JV

Joint venture

koz

Thousand troy ounces

GLOSSARY *continued***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 IPO]

The admission of the Company's Ordinary Shares both to the UKLA Official List and to trading on the Main Market of the London Stock Exchange on 14 May 2008

Listing Rules

Rules relating to the admission to the Official List maintained by the UKLA in accordance with the Financial Services and Markets Act 2000

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

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

Mineralisation

Any mass of host rock in which minerals of potential commercial value occur

mt

Million tonnes

MXN

Mexican peso

New Services Agreement [also NSA]

New Services Agreement dated 28 October 2009 between Fresnillo and SAPSA for the provision of administrative and non-administrative services to the Fresnillo Group

NGO

Non-governmental organisation

Nominations Committee

The nominations committee of the Board

Non-executive Directors

The Non-executive Directors of the Company

OHSAS 18001

An international occupational health and safety management system specification created by a number of leading national standards bodies, certification bodies, and specialist consultancies

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 can be mined and treated profitably under economic conditions deemed to be reasonable

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

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

Porphyry

A variety of igneous rock consisting of crystals embedded in a finer groundmass of minerals

Pre-feasibility study

A preliminary study undertaken to determine if it would be worthwhile to proceed to the feasibility study stage, which defines the technical and economic viability of a project to support the search for project financing

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

Premium Listing

That category of Listing Rules applying conditions for Listing over and above those required under European law

Primary silver producer

A company generating over 50% of its revenue from silver production

PROFEPA

Procuraduría Federal de Protección al Ambiente, the Mexican Federal Environmental Protection Agency

Prospect

A mineral deposit with insufficient data available on the mineralisation to determine if it is economically recoverable, but warranting further investigation

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

Remuneration Committee

The remuneration committee of the Board

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

SAPSA

Servicios Administrativos Peñoles, S.A. de C.V.

Scoping study

A preliminary assessment based on measured, indicated, or inferred mineral resources, or a combination of any of these; includes disclosure of forecasted mine production rates that may contain capital costs required to develop and sustain the mining operation, as well as operating costs and projected cash flows

SEDESOL

Secretaría de Desarrollo Social, Secretariat of Social Development

SEMARNAT

Secretaría de Medio Ambiente y Recursos Naturales, Secretariat of the Environment and Natural Resources

Shaft

An opening cut downwards from the surface for transporting personnel, equipment, supplies, ore and waste

GLOSSARY *continued***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

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

Six Sigma

A statistics-driven approach to quality control developed originally by Motorola; the methodology aims to improve operational performance, practices and systems by eliminating variability and waste and reducing defects in manufacturing processes to 3.4 defects per million

Smelting

A high temperature pyrometallurgical operation conducted in a furnace, in which the valuable metal is collected to a molten matte or doré phase and separated from the gangue components that accumulate in a less dense molten slag phase

Sterling Deferred Shares

Deferred shares of £1.00 each in the share capital of the Company

Stope

Underground void created by mining

STPS

Secretaría del Trabajo y Previsión Social, Secretariat of Labour and Social Welfare

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

The Wild Foundation

International organisation dedicated to wilderness protection and wilderness conservation around the world

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 administered by the UK Financial Reporting Council setting out best practice on internal control for UK listed companies to assist them in applying section C.2 of the UK Combined Code

UK£

United Kingdom pounds sterling

UKLA

The United Kingdom Listing Authority; that section of the FSA acting in its capacity as the competent authority for the purposes of Part VI of the Financial Services & Markets Act 2000 (Official Listing)

UNAM

Universidad Nacional Autónoma de México, a public university in Mexico City

United Nations Global Compact

A strategic policy initiative for businesses that are committed to aligning their operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption

US\$

United States dollar

SHAREHOLDER INFORMATION

FINANCIAL CALENDAR

Preliminary Statement:	1 March 2011
First Interim Management Statement:	13 April 2011
Annual General Meeting:	17 May 2011
Interim Statement:	2 August 2011
Second Interim Management Statement:	12 October 2011

DIVIDEND PAYMENT SCHEDULE

2010 Final Dividend Record Date:	3 May 2011
2010 Final Dividend Payment Date:	20 May 2011
2011 Interim Dividend Record Date:	19 August 2011
2011 Interim Dividend Payment Date:	13 September 2011

Registrar

Computershare Investor Services PLC
P.O. Box 82
The Pavilions
Bridgwater Road
Bristol BS99 7NH
United Kingdom

Registered office

28 Grosvenor Street
London W1K 4QR
United Kingdom

Corporate headquarters

Moliere No. 222
Col. Polanco
11540 Mexico, D.F.
Mexico

Sponsor

JPMorgan Cazenove Limited
20 Moorgate
London EC2R 6DA
United Kingdom

Joint Corporate Broker

JPMorgan Cazenove Limited
20 Moorgate
London EC2R 6DA
United Kingdom

Merrill Lynch International
2 King Edward Street
London EC1A 1HQ
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

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Arturo Espinola, 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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