
Fresnillo plc
Annual Report 2011
**Strengthening our
precious metals position**



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

Soledad-Dipolos This mine located in the Herradura District commenced operations in 2010. The successful ramp-up of expanded production capacity in 2011 contributed to record gold production in the year.

Strengthening Our Precious Metals Position

Our profile as the world's leading silver producer was further enhanced in 2011 alongside our rising position as a gold producer. Record sales of both metals reflected our ability to maximise operations and meet project delivery targets. With a low cost production profile, rich resource base, robust growth pipeline, strong cash position and unwavering commitment to sustainability, Fresnillo plc is positioned to create long-term value for all stakeholders.

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The Directors' Report of Fresnillo plc for the year ended 31 December 2011, which the Directors are required to prepare by the Companies Act 2006, is set out in the Overview, Strategic Review, Performance and Governance sections on pages 2 to 119. The Directors' Report has been approved by the Board of Directors of Fresnillo plc and signed on behalf of the Board by Lord Cairns, Senior Independent Director. The Directors' Report 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.

What Differentiates Us

Our longevity in the industry and performance in the financial markets is built upon these competitive differentiators.

Operational excellence

Experienced personnel, efficient mining methods, continuous reserve replenishment and a strong track record of delivering on expectations.

World-class assets

We operate the largest primary silver mine in the world and control the largest area of mining concessions in Mexico. This allows us to consolidate prime precious metals mining districts around our current mines, leveraging existing infrastructure and assets.

Strong organic growth pipeline

Continuous investment across precious metals price cycles has resulted in projects spanning all stages of exploration and a disciplined development programme to bring them into production.

Competitive cash cost performance

Stringent viability criteria at the earliest stages of a project, combined with disciplined execution and high quality assets, positions us in the lowest cost quartile among our peers.

Financial strength and flexibility

No debt on our balance sheet and careful management of assets and cash provides us a range of capital funding options.

Strong community support

We partner with our communities in every place we operate to ensure that social value grows in line with economic value.

Our Performance

We achieved strong operating and financial results in 2011, underpinned by the strength of precious metal prices.

Operational highlights

- Record attributable gold production due to ramp-up at Soledad-Dipolos and higher throughput at Herradura
- Stable silver production benefited from the start-up of Saucito
- Construction of Noche Buena on track for 1Q 2012 start-up
- Encouraging exploration results, with significant expansion of the resource base

Attributable silver production

millions of ounces

2011	41.9
2010	42.1
2009	41.3

Attributable gold production

thousands of ounces

2011	448.9
2010	369.0
2009	276.6

Attributable silver resources

millions of ounces

2011	1,811.1
2010	1,472.7
2009	1,289.0

Attributable gold resources

thousands of ounces

2011	23,500
2010	20,100
2009	13,900

Financial highlights

- Adjusted revenue¹ of US\$2,307.4 million, up 56.6%
- Gross profit of US\$1,563.5 million, up 59.6%
- EBITDA² of US\$1,538.5 million, up 62.8%
- Profit from continuing operations up 63.3% to US\$1,360.9 million
- Profit for the year of US\$1,038.6 million, up 39% (including a US\$114.5 million of Silverstream revaluation effects)
- Profit attributable to equity shareholders of the Company, excluding the Silverstream revaluation effects, up 48.3% to US\$787.3 million
- Basic and diluted earnings per ordinary share from continuing operations of US\$1.257 per share, up 35.6%
- Adjusted EPS³ of US\$1.098 per share, up 48.4%
- Final dividend of 40.0 US cents per ordinary share

Adjusted revenue¹

US\$ million

2011	2,307.4
2010	1,473.9
2009	944.0

EBITDA²

US\$ million

2011	1,538.5
2010	945.0
2009	496.6

Adjusted EPS³

US\$

2011	1.098
2010	0.740
2009	0.430

Gross profit

US\$ million

2011	1,563.5
2010	979.4
2009	532.3

Profit from continuing operations

US\$ million

2011	1,360.9
2010	833.5
2009	428.8

Total dividends paid

US cents

2011	102.85
2010	44.80
2009	21.40

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

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

³ Adjusted basic and diluted earnings per ordinary share from continuing operations, prior to the revaluation effects of the Silverstream contract.

What We Do

Our business spans the full mining value chain: exploration, development, construction and mining operations. We focus on high-potential projects that can be developed into low-cost, world-class mines. Having already exceeded our original goal for attributable gold production of 400,000 ounces, set at the time of the IPO, we now aim to produce 65 million ounces of silver and 500,000 ounces of gold per year by 2018, with 650 million ounces of silver and 5.0 million ounces of gold in reserves at that time.

How we do it

We aim to achieve our goal through ongoing investment in exploration and mine development, operational excellence, and a strong commitment to disciplined and sustainable growth.

1 Operate

Maximise the potential of existing operations

We seek to operate at full capacity, replenish reserves, generate continuous improvements in productivity and cost controls, and leverage expansion opportunities.

Mines in operation

① Fresnillo	● ● ● ●	See page 48
② Saucito	● ● ● ●	See page 50
③ Ciénega	● ● ● ●	See page 52
④ Herradura	●	See page 54
⑤ Soledad-Dipolos	●	See page 56

More on this strategy and KPIs on pages 26–27

● Gold ● Silver ● Lead ● Zinc

2 Develop

Deliver growth through development projects

The disciplined advancement of exploration projects towards mine development, construction, start-up and production. Projects must meet stringent criteria regarding mineral content and embedded cost.

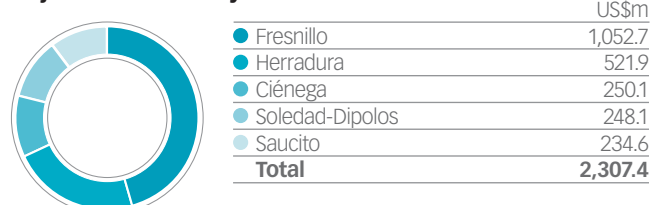
Development projects

⑥ Noche Buena	●	See page 58
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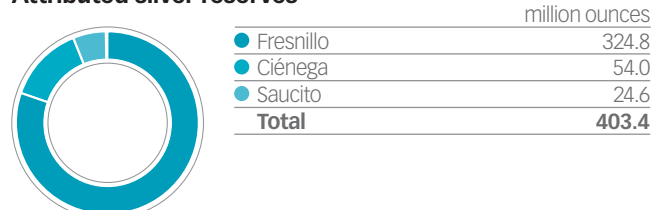
More on this strategy and KPIs on pages 28–29

How we are performing

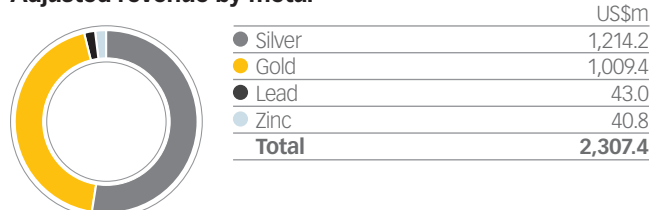
Adjusted revenue by mine



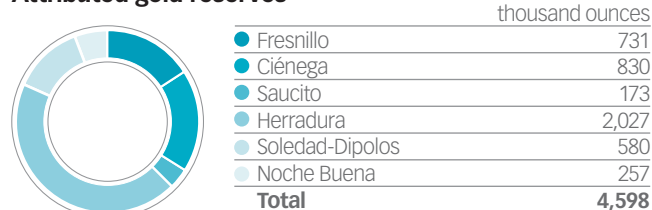
Attributed silver reserves



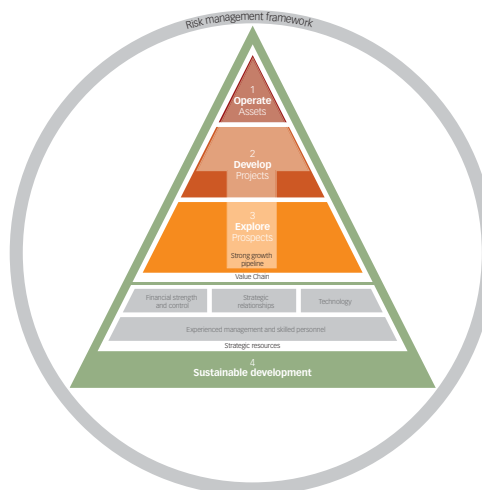
Adjusted revenue by metal



Attributed gold reserves



Our Business Model



How we operate

Responsible and sustainable business practices are core to the business strategy of the Group and integrated into every aspect of our operations, from the earliest stages of exploration until mine closure.

3 Explore

Extend the growth pipeline

The key growth driver for the Group is supported by significant technical expertise, continuous investment irrespective of metal prices, and selective partnerships and acquisitions. Our portfolio extends across the multiple stages of exploration (prospecting, drilling and resource definition).

Advanced exploration prospects

7 San Julián	● ● ● ●	See page 60
8 Centauro Deep	● ● ● ●	See page 60
9 Juanicipio	● ● ● ●	See page 59
10 Orisyvo	● ● ● ●	See page 60
11 Las Casas-Rosario	● ● ● ●	See page 60

More on this strategy and KPIs on pages 30–31

4 Sustainability

Advance our sustainable development

Our license to operate is dependent upon the safety and health of our employees, good environmental stewardship, the wellbeing of the communities where we operate, and adherence to best governance practices, from the earliest stages of exploration until mine closure.

More on this strategy and KPIs on pages 32–33

Where we do it

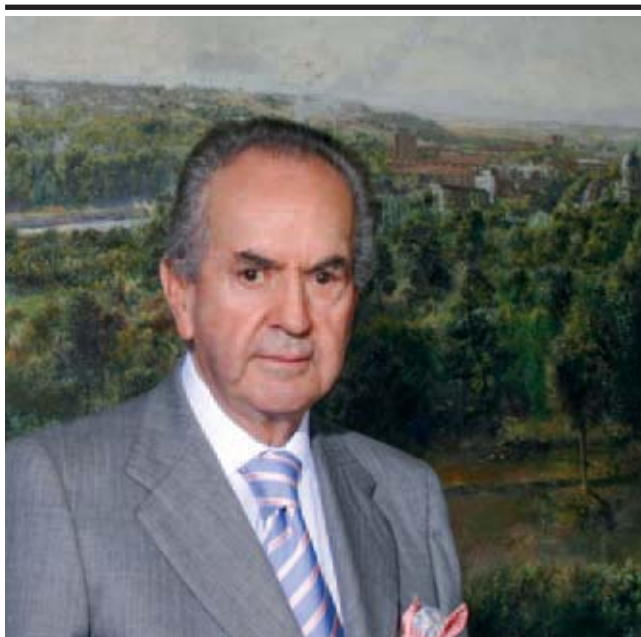
Our core operations are in Mexico, which has a mining history extending more than 500 years. The country ranked as the world's largest silver producer in 2010 and 9th in gold production, with strong geological potential for continued growth. We focus on consolidating gold and silver mining districts, evaluating projects that offer the potential for synergies.

We will continue to seek and evaluate potential mergers and acquisitions, including outside of Mexico.



Chairman's Statement

Strong financial results and an increased focus on sustainability



Alberto Baillères
Non-executive Chairman

"The Group's strategy is aligned with our values of responsible and sustainable business practices. Reserve replenishment and exploration will continue to underpin our long-term growth, while operational developments will be bolstered by a stronger safety framework and the full integration of our new Enterprise Risk Management approach."

2011 was an exceptional year for precious metals miners. Gold and silver prices increased by 28.1% and 74.4% respectively over 2010 figures as a result of strong investment demand for both metals, as well as growing industrial uses for silver.

While the latter part of the year saw greater volatility and concern about the fundamentals supporting these prices, I believe that global financial instability and demand for silver in technology applications is likely to support continued demand.

Against this backdrop of a favourable price environment, Fresnillo plc continued to strengthen its operations and deliver on development projects, resulting in increased gold and stable silver production. This included the start-up of the Saucito mine, which was delivered on schedule and under budget. In July the President of Mexico, Felipe Calderón, joined in the dedication of this new mine, which will become an important contributor to the growth of Fresnillo plc. Cost control measures and efficiency gains in the year also contributed to our competitive cash-cost position.

Substantial progress was made at exploration projects, enhancing our already robust resource base. The Group's production and project delivery schedule is on track to meet our revised growth targets. Having already exceeded our original goal for attributable gold production, set at the time of the IPO, of 400,000 ounces by 2018, our aim now is to grow this level of production to 500,000 attributable ounces of gold by that time, as well as 65 million attributable ounces of silver, with 5.0 million ounces of gold and 650 million ounces of silver in reserves. These figures exclude the potential contribution from Orisyvo, an advanced exploration project in Chihuahua, that while large and promising has special technical and logistical challenges.

Fresnillo plc achieved adjusted revenue⁴ of US\$2,307.4 million, up 56.6% over 2010, and EBITDA⁵ of US\$1,538.5 million, up 62.8%. Attributable net profit, excluding the Silverstream revaluation effects, was US\$787.3 million, up 48.3%⁶.

The Board is committed to prudent financial policies to ensure sufficient investment capital even under more conservative price scenarios. With US\$684.9 million in cash and no debt on the balance sheet as of 31 December 2011, our capital funding options remain flexible for exploration and development, pursuing potential acquisitions and returning dividends to shareholders.

Metals prices will remain volatile until global macroeconomic imbalances are properly addressed. The approach of our Board is to take the long view, with a value creation strategy that does not change with unpredictable short-term shifts in the market. Thus investing across price cycles will continue to be a hallmark of our strategy, as will the disciplined development of new, value-creating projects. Fundamental to this strategy is the social license to operate, which is earned by a profound and unwavering commitment to sustainable development and to the wellbeing of our workforce.

Dividend

US\$786.9m +311.8%

2010: US\$191.1m

As Chairman I consider my greatest responsibilities to be ensuring that Fresnillo plc is governed with transparency and in the interest of all shareholders, and that the Group's strategy is aligned with our values of responsible and sustainable business practices.

I focused on a number of governance issues this year, as laid out in this Report, but none more important than in the areas of safety and risk management.

The Board and I are deeply concerned and saddened to report the fatalities that occurred during the year. We see this as a serious and unacceptable situation. In addition to the actions taken by management, which are discussed in detail on pages 68–69, safety issues continue to receive Board priority and we consider it of critical importance that the entire organisation reinforces its commitment to the target of zero fatalities. The Board's Health, Safety, Environment and Community Relations (HSECR) Committee oversaw the investigation of the accidents, including the appointment of third-party reviews. The Committee also re-examined the Group's safety policies and training procedures, made recommendations to the Executive Committee, and is monitoring the implementation of new practices. While progress is clearly being made, one fatality has already been reported in 2012; we must continue to work diligently to improve our performance.

I have always believed that the pursuit of profits can never justify unethical business practices. I fully endorse the anti-corruption policies adopted by the Board this year in anticipation of the requirements of the UK Bribery Act. Management have been putting in place the necessary procedures and policies, including amendments to our Code of Conduct.

Partly in response to the new requirements of the UK Corporate Governance Code and partly to embed a new Enterprise Risk Management approach into the Fresnillo Group, we undertook an extensive review to explicitly define our risk appetite and tolerance in achieving the Group's strategic objectives. I am pleased to see broad support for this process across the organisation as I believe it strengthens our controls and risk-awareness culture.

This year the Board also commissioned an independent review of Board effectiveness, conducted by Independent Audit Ltd., as part of our own continuous progress. The report was positive in general and we are evaluating the findings to improve future board practice.

The sustained success of our business is dependent on having the right people on our team at all levels of the organisation: those with the skills, experience, responsibility and determination to help the Company achieve its goals. Fresnillo plc has been at the forefront of opening the doors of employment to people in Mexico, including women, who have not traditionally held jobs in the mining industry. Increasing the diversity of our workforce on the basis of merit, as we have done over the past ten years, demonstrates our attention to this issue. I am also committed to greater diversity

Investment in safety

US\$5.2m +20.9%

2010: US\$4.3m

at the Board level, and this objective will be given due consideration in future appointments.

The Directors have recommended a final dividend of 40.0 US cents per Ordinary Share, which will be paid on 23 May 2012 to shareholders on the register on 27 April 2012. The dividend will be paid in UK pounds sterling unless shareholders elect to be paid in US dollars. This is in addition to the US\$300 million second interim dividend, equivalent to 41.85 US cents per Ordinary Share, declared in December 2011 following a close review of the Group's financial liquidity and future cash requirements.

Looking ahead to 2012, despite uncertainty in the financial and commodity markets, we anticipate that Fresnillo plc will continue to strengthen its precious metals position with the commissioning of the new Noche Buena gold mine, the construction of the dynamic leaching plant at Herradura and the ramp-up of silver production at Saucito. While our ore resource inventory is strong, reserve replenishment and exploration of new projects will continue to underpin our long-term growth strategy. Operational developments will be bolstered by a stronger safety and sustainability framework, as well as the full integration of our new Enterprise Risk Management approach.

The Board has authorised a risk capital investment in exploration budget of US\$360.4 million for 2012, which is a 36.5% increase over the original guidance for 2012, and 101.3% greater than the 2011 expenditure, reflecting our confidence that such investments today are vital to the long-term growth of the Group.

I would like to thank my fellow Board members for their service and contribution in the year. And on behalf of the Board I extend my deepest gratitude to our people for their hard work and commitment to delivering results year after year.

Alberto Baillères
Non-executive Chairman

⁴ Adjusted revenue is revenue as disclosed in the income statement adjusted to exclude treatment and refining charges.

⁵ Earnings before interest, taxes, depreciation and amortisation (EBITDA) is calculated as gross profit plus depreciation less administrative, selling and exploration expenses.

⁶ Information on the revaluation effects of the Silverstream Contract can be found on page 86.



Strategic Review

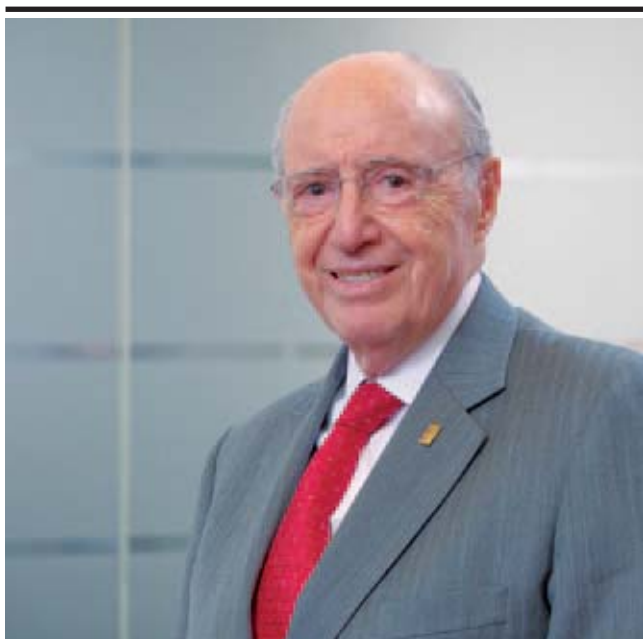
With world-class assets and a strong organic growth pipeline, we are positioned to capitalise on continued demand for silver and gold, delivering value across precious metals cycles and maintaining our position as a leading precious metals producer.

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Fresnillo Our flagship Fresnillo mine has been in near continuous operation since 1554 and is the world's largest primary silver mine, producing approximately 2.8% of global silver output in 2011. We continue to maximise the potential of this operation in a sustainable way.

Chief Executive Officer's Report

Our growth strategy seeks to optimise the mining value chain: exploration, development, construction and operations. We continue to strengthen our precious metals position with a commitment to disciplined and sustainable growth.



Jaime Lomelín
Chief Executive Officer

I am pleased to report strong financial results in 2011, driven by the strength of precious metal prices and record gold production. While silver production dropped at our flagship Fresnillo mine due to declining ore grades and additional safety measures, it was largely compensated for by the successful start-up of the Saucito mine.

Our continuous and growing investment in exploration in recent years has resulted in a strong pipeline of projects at all stages of exploration and development, ensuring long-term organic growth and advancing our strategic objectives. We begin 2012 well positioned in the precious metals industry with a low cost production profile, rich resource base, robust growth pipeline and strong cash position.

I believe the renewed focus on safety and corrective measures we are taking following our unacceptable 2011 safety performance, combined with a more deeply embedded risk management culture will support long-term value creation for all Fresnillo stakeholders.

Our growth strategy

The fundamentals of the precious metals market have significantly changed in the past decade, with exchange traded funds and investment demand now seen as the primary drivers of pricing, which in turn are strongly influenced by global macroeconomic instability and geopolitical tensions rather than the once typical cycle of our industry: rising demand—higher prices—producer expansion—rising inventories—softer prices. See Market Overview pages 16–19

Our strategy of consistent investment across precious metals cycles seems particularly prescient when those cycles are increasingly volatile and unpredictable. Given the typical 10+ year span from discovery of an ore body to commissioning of a mine and the difficulty of predicting metal prices, we believe that consistent investment in exploration and low cost production is most likely to ensure long-term, profitable growth. Furthermore, this strategy has allowed us to continuously employ a stable and loyal workforce with the skill mix required for all stages of the project cycle, which is a competitive advantage during times such as these when skilled workers are in high demand.

As a result of this strategy, in 2011 we commissioned the new Saucito mine (silver), completed construction of Noche Buena (gold) and expanded production capacity at Soledad-Dipolos (gold), all of which were early exploration prospects at a time when silver and gold prices were nowhere near their levels today.

Maximising the potential of our operations

Of course revenue generation is driven by prevailing prices at the time our concentrates reach the market. Our margins are driven by continued improvements in production, productivity, replacement of ore reserves and cost controls.

Our flagship Fresnillo silver mine has been in near continuous operation for almost 500 years and is still the world's single largest primary silver mine, producing 2.8% of global production in 2011. The challenge is to compensate for the trend of declining grades in current reserves by identifying new high grade areas and increasing the volume of ore processed, while profitably mining the plentiful, lower grade resources. To do so, we continue to explore in the mine's area of influence and plan to expand milling capacity from 8,000 to 10,000 tpd in 2013-2014.

To reinforce safety conditions in the mine, we restricted production at certain higher grade stopes at Fresnillo for several months to ensure adequate backfilling and ground control. This resulted in annual silver production at this mine of 30.3 million ounces, lower than the expected 34.7 million, but reaffirmed our commitment to the safety of our employees. The San Carlos shaft was commissioned at year end, which will reduce hoisting and haulage costs by providing direct access to the western zone of the San Carlos vein.

The successful commercial start-up of the Saucito mine in April 2011, the Group's fifth operating mine, compensated for the lower production of the Fresnillo mine. The ramp-up of production to 5.9 million silver ounces over the course of the year exceeded the revised target of 5.5 million ounces, itself up from the original full year target of 4.7 million ounces. Higher than expected production was achieved by milling at full capacity of 3,000 tpd, treatment of stockpiled ore from the pre-operative phase and ore from the initial production stopes. Over the course of 2012 the mine and plant operations should stabilise and concentrate quality improve as more ore becomes available from production stopes.

Total attributable silver production in the year included 3.9 million ounces of silver accrued under the Silverstream Contract, 10.8% higher than in 2010.

The Group achieved record gold production of 448,866 attributable ounces, up 21.6% over 2010. This was due to the successful ramp-up of expanded production capacity at Soledad-Dipolos to 158,513 ounces, exceeding the target of 130,000 ounces (attributable production at this mine was 88,767 ounces); higher volumes from Herradura and Saucito; and the commissioning of Ciénega's plant expansion and development ore from its new satellite mining area, San Ramón.

These results put us on track to meet our revised production targets for 2018 of 65 million ounces of silver and 500,000 ounces of gold per year, with 650 million ounces of silver and 5.0 million ounces of gold in reserves at that time.

Lead and zinc production increased by 13.0% and 2.9% respectively, due to the increased volumes of ore processed and higher ore grades at Fresnillo and Saucito. These base metals are by-products of the Group's core operations.

Total attributable silver resources

1.8 billion ounces +23.0%

2010: 1.5

Total attributable gold resources

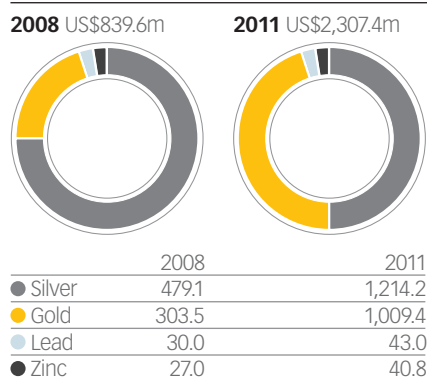
23.5 million ounces +16.9%

2010: 20.1

Sales by metal

Our growing profile as a gold producer is reflected in the composition of sales since the time of our IPO in 2008.

US\$2,307.4m +37.5% 2008: US\$839.6m



Capex 2011

US\$467.7m +37.5% 2010: US\$340.3m

Investing in productivity



Operating mines		US\$m
1	Ciénega	79.8
2	Herradura	72.7
3	Fresnillo	71.2
4	Soledad-Dipolos	65.3
5	Saucito	37.1
Projects and prospects		
6	Other	141.6

Silver continues to account for a majority of Group revenues, but the share of gold rose from 36.1% in 2008 to 43.7% in 2011. Given that three of our five operating mines, the new mine coming on line next year, and three of our five advanced exploration prospects are all in gold, our profile as a gold producer will strengthen over time while we maintain our position as the world's largest primary silver miner. By-product metals, lead and zinc, comprised only 3.7% of 2011 revenues.

Our capital expenditure profile illustrates the Group's strategy of organic growth and continued productivity improvements.

In 2011, we completed the expansion at Soledad-Dipolos and construction of the San Carlos shaft at Fresnillo. We also expanded milling capacity at Ciénega and the sinking of the shaft to stabilise gold production at this mine at 110,000 ounces per year.

We also completed the sinking of the Jarillas shaft at Saucito, which will reduce hoisting and haulage costs when operational in late 2012; and began construction of the dynamic leaching plant at Herradura, which will process high grade ore from Herradura and Soledad-Dipolos, increasing the gold recovery rate from approximately 70% (obtained with the current heap leaching process) to 95% once operational in 2013. This project will add an average of 51,000 gold ounces per year.

Estimated project delivery programme

On track to produce 65moz of silver and 500koz of gold by 2018

							Resources	
	2011	2012	2013	2014	2015	2016	Gold '000 ounces	Silver m ounces
Noche Buena							760	n/a
Herradura Leaching							Improved recovery	
San Julián							780	153.8
Saucito II							2,590	535.9
Centauro Deep							1.45	n/a
Orisyvo							9,620	13.5

■ Reserve definition
 ■ Pre-feasibility
 ■ Feasibility
 ■ Construction
 ■ Production

See Performance section pages 50–60 for further details on these projects.

A robust growth profile in precious metals

In 2011 we concluded construction of the Noche Buena gold mine, consolidating our position in the Herradura District. The mine will become operational in the first quarter of 2012 with annual average production of 42,000 attributable ounces of gold over the initial five year mine life (75,000 total gold ounces), although we are confident that there is potential for longer mine life.

The Group maintains the largest land area of concessions for precious metals exploration and mining in Mexico, totalling 2.1 million hectares. Our primary focus is on high potential silver and gold projects that can be developed into low-cost, long-life world-class mines or clusters of mines. Central to our land acquisition and exploration efforts are community relations. The support of local governments, non-governmental organisations and community leaders is essential to the successful progression of any project.

We maintain strict and consistent investment parameters in terms of tonnage, ore grade and production costs, with an eye towards consolidating our mining districts. Projects that meet these criteria are advanced through a disciplined development process.

The development of underground mines takes time, with results from surface drilling requiring confirmation by underground exploration and the metallurgical testing of bulk samples. We conduct initial underground exploration and development in the pre-feasibility phase in a manner that will optimise the investment and shorten future mine development schedules. Progress at advanced projects includes:

- At San Julián (silver/gold) and Centauro Deep (gold), we are constructing ramps to conduct further exploratory drilling and testing.
- Work on the second stage of the Saucito mine included drilling at the Santa Natalia (silver/gold) and Jarillas west (silver/gold) veins and commencement of development activities.
- At Orisyvo (gold) we are constructing an exploration adit and are continuing to delineate the ore body in order to determine whether it should be developed into an open pit or underground mine, and to obtain further samples for metallurgical testing.

The Group's total capital investment in exploration was a record US\$179.0 million in 2011, a 78.8% increase over the 2010 figure. Of this, US\$134.0 million was expensed to the income statement, while the remainder was capitalised on the balance sheet, reflecting investment in construction and mine works.

The 2011 exploration programme yielded promising results. Total attributable resources rose from 1.5 billion ounces of silver at 31 December 2010 to 1.8 billion ounces, and from 20.1 million ounces of gold to 23.5 million ounces.

Interesting values were intersected in new areas at the Lucerito (Durango), Candameña (Chihuahua), and Amata (Peru) projects. A number of new targets are currently being analysed in the Herradura corridor and northern Mesa Central (the plateau in Mexico that extends across the states of Coahuila, San Luis Potosí, Aguascalientes and Zacatecas), where additional ground was staked to consolidate positions.

The pre-feasibility study for Juanicipio will be delivered in 1Q 2012, and for San Julián in 2Q 2012.

Strengthening the sustainability framework

Our business model is dependent on community support and constructive labour relations, sound environmental management, and exemplary safety and healthy performance. Indeed, a core pillar of our strategy is strengthening the Group's sustainability framework.

Yet our safety performance in 2011 was unacceptable, particularly in the context of our strong track record, with 11 fatalities in our mining operations during the year, and an additional fatality in early 2012. Whether these were contractors or employees, new or experienced personnel, the result of human error or equipment failure, no fatality is ever acceptable. With deep sadness, the Board of Directors and entire Senior Management team extends our condolences to the families and colleagues of the deceased.

Exploration expenditure across the value chain

Investment at current mines helps replenish reserves and explore areas of influence; at development project we convert resources into reserves and expand the total resource base; prospecting and drilling at early stage prospects and projects feeds our growth pipeline.

US\$179.0m +78.8% 2010: \$100.1m

1 Operate

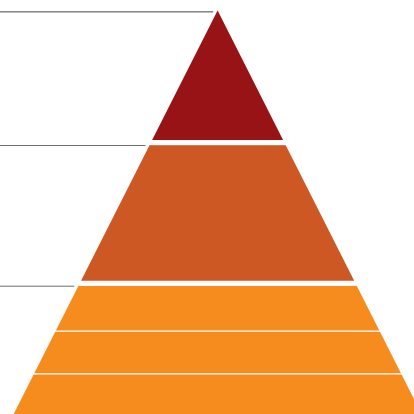
\$38.4m 21.5%

2 Develop

\$10.2m 5.7%

3 Explore

\$130.4m 72.8%



As a result of our safety performance in 2011 we undertook a major review of our health and safety programme. We solicited an independent audit by a third party safety consultancy and asked Industrias Peñoles, S.A.B. de C.V to carry out an audit as part of the services provided to us⁷. We also recruited a rock mechanics specialist to identify safety risks and recommend corrective measures. Based on these findings, actions were immediately taken including backfilling of long-hole stopes and improved ground control by wider use of rock bolts and shotcreting. In addition, inspections were conducted in collaboration with the Mexican Secretariat of Labour at all our mines and contractors.

Across the Group we intensified training and drills, enhanced monitoring procedures, and held working sessions with our contractors to underscore compliance procedures. We then reviewed and reinforced the alignment of our strategies and policies with on-the-ground execution, monitoring and enforcement. The aim is to deeply embed a safety culture within the operation through action and accountability. We also hired an experienced corporate safety manager focused exclusively on monitoring measures across the Group, who reports directly to the Chief Operating Officer.

The independent reports highlighted the importance of high level leadership to achieve our objectives. Our Chairman and the entire Board took an active role in the fatality review process and development of corrective measures, reaffirming that safety is a high priority and that no effort should be spared to implement a culture of safety that starts at the top and permeates through all levels of the organization and its contractors.

I am personally committed to turning around our performance in this area and see it as an important corollary to the work we are doing in enterprise risk management and enhancing the overall sustainability framework. See Our Risk Management Framework pages 36–43

A full description of our sustainability programmes, objectives and performance may be found in the Sustainability Report pages 62–75

Strong financial results

Precious metals prices reached record levels in 2011, helping drive the significant growth in Group revenue and earnings. The average realised silver price rose 62.5% (US\$34.75 per ounce in 2011 versus US\$21.39 per ounce in 2010), while the average realised gold price rose by 26.6% to US\$1,585.33 per ounce (2010: US\$1,252.05 per ounce).

Adjusted revenue, which excludes treatment and refining charges, rose 56.6% in 2011. Refining charges per silver ounce rose a significant 193.8% in the year (US\$2.17 per ounce in 2011 versus US\$0.74 per ounce in 2010) due to the lack of global refining capacity for lead concentrates with high silver content.

Total revenues increased to US\$2,192.7 million, 55.6% higher than in 2010. EBITDA rose to US\$1,538.5 million, with a corresponding increase in EBITDA margin from 67.0% in 2010 to 70.1% in 2011. Net profit attributable to shareholders, prior to Silverstream revaluation effects, was US\$787.3 million, 48.3% higher than in 2010.

There were a number of variables that led to an increase in costs per tonne this year, including higher average electricity and diesel prices (15.4% and 15.2%, respectively), higher costs for key operating materials, the increase in mine development, and more safety and ground control measures. See Our Risk Management Framework pages 36–43

Achievements and outlook

I am confident that we are on track to meet our goal of producing 65 million ounces of silver per year and 500,000 attributable ounces of gold per year by 2018, based on our proven track record of evaluating, designing, developing and building new mines.

What we said we would do in 2011

- Improved safety performance
- Increase silver production 5% and gold production 5-6%
- Complete the expansion of Soledad-Dipolos
- Commence commercial operations at Saucito
- Commission expanded milling capacity and deeper shaft at Ciénega
- Conclude construction of the San Carlos shaft at Fresnillo
- Construct the Noche Buena mine
- Conduct pre-feasibility study at San Julián
- Continue pre-feasibility study at Juanicipio which was originally scheduled for October 2010

⁷ We contract Peñoles to supply administrative services as regulated by a Services Agreement (see Directors' Report page 100). This Agreement was put in place after the IPO and listing of Fresnillo plc on the London Stock Exchange in 2008, which resulted from the restructuring of Peñoles that separated the precious metals business into Fresnillo plc.

While we benefited from higher volumes and increased by-product credits, higher profit sharing and the significant increase in refining charges led to an increase in cash costs year over year, primarily at the Fresnillo mine. Notwithstanding, we believe Group performance continued to position us in the lowest quartile of the cost curve relative to our peers.

Fresnillo plc carries no debt, and as of 31 December 2011 had a cash position of US\$684.9 million, 22.4% above the 2010 figure of US\$559.5 million. This follows total dividend payments of US\$786.9 million, purchase of property, plant and equipment of US\$467.7 million and exploration expenses of US\$134.0 million.

Achievements and outlook

I see our safety performance as the most challenging development of the year and consider our work in reinforcing safety conditions as the single most important effort. That said, I am pleased with our performance in operational efficiency and competitive cash costs, our progress at development sites, and the significant advancement of our growth platform as a result of the increase in total ore resources.

I am confident that we are on track to meet our goal of producing 65 million ounces of silver per year and 500,000 attributable ounces of gold per year by 2018, with 650 million ounces of silver and 5.0 million ounces of gold in reserves at that time, based on our proven track record of evaluating, designing, developing and building new mines.

We remain committed to identifying and evaluating partnership and acquisition opportunities that align with our strategy and add value. I also believe that our ongoing focus on increasing productivity, containing costs, expanding the resource and reserve base, and strengthening our growth pipeline while investing in our people and communities will create ongoing and sustainable value for our shareholders and all our stakeholders.

I would like to extend my appreciation to our Chairman, Board Members and Executive Committee for their guidance and support; to the employees of the Group, whom I am proud to call my colleagues, for their dedication and efforts each and every day; and to our shareholders for their continued confidence in Fresnillo plc.



Jaime Lomelin
Chief Executive Officer

What we did in 2011

- Implement the Safety Action Plan with a range of corrective measures in response to fatalities in the year
- Silver production remained stable; gold production rose 21.6%
- Completed expansion at Soledad-Dípolos; started up commercial production at Saucito; commissioned expanded milling capacity and concluded sinking of the shaft at Ciénega and construction of the San Carlos shaft at Fresnillo
- Concluded construction of the new Noche Buena gold mine
- Initiated construction of the dynamic leaching plant at Herradura
- Pre-feasibility studies initiated at San Julián and in progress at Juanicipio
- Added 338.4 million ounces of new silver resources and 3.4 million new ounces of gold
- Obtained Cyanide Code certification at Herradura and Highly Protected Risk recognition from FM Global at the Fresnillo mine
- Reviewed and enhanced the Risk Management framework and established policies for adherence to the Bribery Act

What we plan to do in 2012

- Improve our safety culture and systems at all levels
- Ramp up production at Saucito to 6.5 million ounces of silver
- Commission Noche Buena
- Continue construction of the dynamic leaching plant at Herradura (1H 2013 start-up)
- Complete construction of the Jarillas shaft at Saucito
- Conclude engineering for the expansion of the beneficiation plant at Fresnillo to 10,000 tpd (2013/2014 start-up)
- Conclude pre-feasibility study at San Julián and initiate construction
- Initiate pre-feasibility study at Las Casas
- Define mining method and metallurgy at Orisyvo
- Continue development/ramps at Centauro Deep
- Conclude pre-feasibility at Juanicipio 1Q 2012 and define course of action
- Expand our resource base to help support our long-term targets; US\$360.4 million has been budgeted for risk capital investment in exploration

Fresnillo plc is a major silver and gold mining company in Mexico. Our business strategy and risk management framework take into consideration the market context of the precious metals industry in which we compete, as well as the country environment of Mexico where the majority of our people and operations are located.

Peer group: primary silver producers

	Production in moz		
	2011	2010	2009
Fresnillo plc	42	42	41
Silver Wheaton	24	22	17
Pan American Silver Corp.	22	24	23
Coeur d'Alene Mines Corp.	19	17	17
Hochschild Mining	15	18	19
Hecla	9	11	11
Silver Standard Resources	7	6	N/A
Silver Corp Metals	6	5	5

Competitive environment

Fresnillo plc is a major silver and gold mining company in Mexico. Unique among precious metals producers, each metal contributes approximately half of gross profit.

We consider our peer group in silver to be the other primary silver producers, although much of global output is derived as a by-product of gold, lead, zinc and copper mining. Fresnillo plc has long been among the top three global producers of silver but in 2011 we surpassed all other silver miners, both by-product and primary, to become the top silver producer in the world⁸. In gold we benchmark our performance against producers with similar annual production profiles.

Peer group: global silver producers (by-product and primary)

	Production in moz		
	2011	2010	2009
Fresnillo plc	42	42	41
KGHM Polska Miedz	41	37	42
BHP Billiton	39	47	42
Goldcorp Inc.	27	23	9
Pan American Silver Corp.	22	24	23

Peer group: medium-size gold producers

	Production in koz		
	2011	2010	2009
Agnico Eagle	985	988	493
Randgold	696	440	488
Petropavlovsk	630	507	487
Fresnillo plc⁹	449	369	277
Polymetal	443	444	311
Oceana	252	269	300
BHP Billiton	178	158	174
Aurizon	164	141	159
Hochschild Mining	127	144	157
Kazakhmys plc	118	127	135

⁸ Our total silver production figures include the contribution from the Silverstream.

⁹ Figures reflect attributable gold production; total gold production 2011: 663 koz; 2010: 545 koz; 2009:391 koz

Average spot silver price

US\$35.1 +74.4%

2010: US\$20.1

Average spot gold price

US\$1,571.6 +28.1%

2010: US\$1,226.8

The precious metals market

Demand for silver and gold

Demand for silver falls into two categories: fabrication, including jewellery, silverware, photography and other industrial applications; and investment, including bullion and Exchange Traded Funds (ETFs).

Fabrication still constitutes the largest demand for silver, although jewellery remains essentially flat and silverware and photographic use of silver continue to decline. The continued growth in industrial demand reflects the metal's unique properties which make it an attractive input in a wide range of applications and new and emerging technologies such as photovoltaic cells, water purification, anti-bacterial and biomedical applications, electronics and architectural applications. The rise in silver investment, both retail and institutional, has outpaced all other demand in recent years, making it a key driver behind the rise in silver prices. We believe the long-term trend points to rising demand for the metal.

In gold, much of the demand is driven by its status as a so-called safe haven, with consumers and investors buying the metal to protect their savings and purchasing power in an environment of high inflation and low interest rates, and as a means to diversify away from the US dollar. In some markets gold has strong cultural allure, with China overtaking India in the third quarter of 2011 as the largest gold jewellery market, according to the World Gold Council. Buying by central banks has also generated net demand for gold, with reserves at some of their highest levels in years. We believe that continued sovereign risk in Europe, geopolitical instability, modest global growth, persistent low interest rates in the US and continued accumulation of gold reserves by central banks should sustain appetite for gold in the coming years.

World silver supply and demand

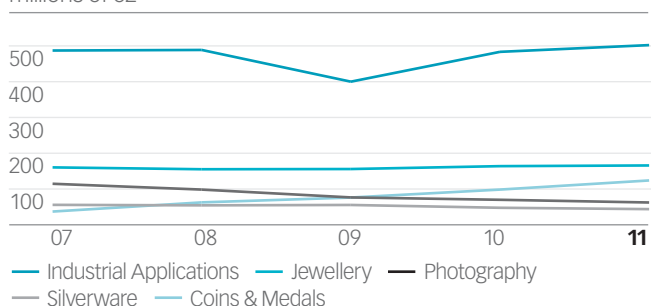
	2011E moz
Supply	
Mine Production	784.1
Net Government Sales	10.0
Old Silver Scrap	235.3
Producer Hedging	35.0
Implied Net Disinvestment	–
Total Supply	1,064.4
Demand	
Fabrication	
Industrial Applications	506.3
Photography	65.1
Jewellery	168.9
Silverware	46.5
Coins & Medals	126.9
Total Fabrication	913.7
Net Government Purchases	–
Producer De-Hedging	–
Implied Net Investment	150.7
Total Demand	1,064.4

Source: Thomson Reuters GFMS.

Copyright: Thomson Reuters GFMS, 2012.

Silver fabrication demand

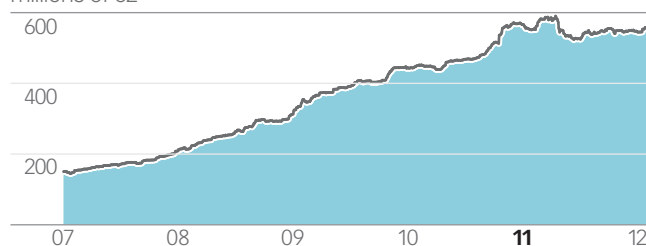
millions of oz



Source: World Silver Survey 2011

Silver ETF holdings

millions of oz



Source: Respective ETF Issuers

Copyright: Thomson Reuters GFMS, 2012

Gold mine production

2,812 tonnes +4%

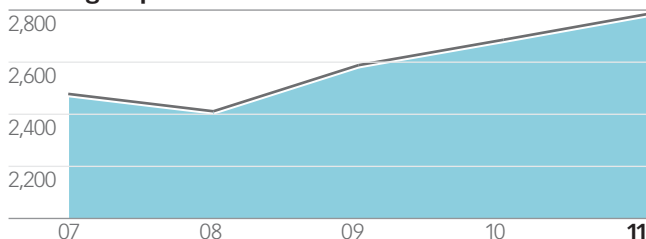
2010: 2,709 tonnes

Silver mine production

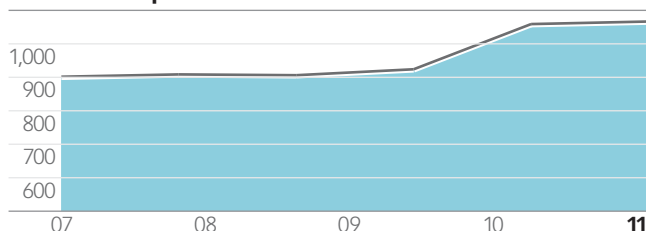
784.1moz +7%

2010: 735.9moz

Global gold production million ounces



Global silver production tonnes



Source: Thomson Reuters GFMS
Copyright: Thomson Reuters GFMS, 2012

Silver and gold supply

The majority of silver supply (74%+) comes from mine output, with the remainder from recycling/scrap and minimally from government sales. Of the estimated 1,064.4 million ounces of silver produced globally in 2011, the bulk was derived as a by-product from base metals and gold mining (~69%), and less than 31% from primary silver mines. Total mine production has risen notably in recent years following significant investment made earlier in the cycle and strong prices that encourage producers to maximise production. The Silver Institute's Survey prepared by Thomson Reuters Gold Fields Mineral Services indicates silver mine output increased from 736moz in 2010 to 784moz in 2011, with production expected to continue to climb in 2012 by a similar magnitude.

Mine output accounts for approximately two thirds of the global gold supply, with the remainder from recycling and central bank sales. In 2011 gold mine production increased by 3.8% over 2010, and central banks were net buyers of the metal.

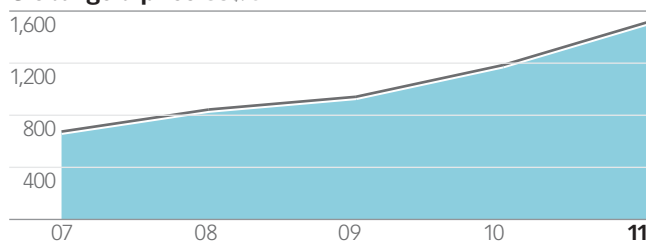
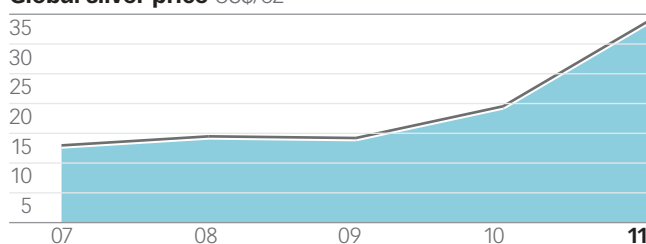
While investment in exploration has increased to meet the continued rise in demand, there have been no new large-scale discoveries of silver or gold and exploration has become increasingly dependent on junior companies. Furthermore, the discovery process has grown more challenging because of regulatory requirements and the need to go farther and search harder every year, often in remote, unstable or insecure areas of the world. Global reserves have marginally increased, but the rise in demand and accelerated production has led to a fall in average mine life worldwide.

Silver price

The price of silver started 2011 at US\$30.7 per ounce and soared as high as US\$50 per ounce before experiencing a correction that took it back below \$30. The average price in the year was US\$35.1 per ounce, 74.4% higher than in 2010, attributable to inflationary pressures, a weakening dollar and emerging market demand. Continued uncertainty about economic growth in the United States and Europe and a potential deceleration in China, combined with geopolitical tensions, is likely to provide continued price support for silver.

Gold price

There was also significant volatility in the price of gold in 2011, ranging from US\$1,319.0 per ounce at its lowest in January rising to a high of US\$1,895.0 per ounce in September. Geopolitical insecurity and the Eurozone crisis, combined with a fall in the price of the dollar led many investors to this so-called safe haven for the first nine months of the year, while strong flows back into and demand for US dollars eased prices in the last quarter of 2011, as did liquidation by hedge funds to fund redemption requests and slack physical demand from India as a result of the sizeable depreciation of the rupee at the end of summer, among other factors. Nonetheless, the more than decade long rise in the price of gold continued, with the average price in the year at US\$1,571.6 per ounce, 28.1% higher than in 2010.

Global gold price US\$/oz**Global silver price** US\$/oz

Source: LBMA

Industry trends

Competition for labour, equipment and material

The significant expansion of mining activity in recent years has led to a global shortage of skilled and experienced mining professionals. In Mexico, that shortage extends to exploration activities and mining operations and to the availability of competent and reliable contractors. Global capital expenditure on mining has also resulted in shortages of equipment and consumables, generating additional industry-wide cost pressures to those discussed below.

Other cost pressures

As extraction and production have accelerated to meet demand, mineral deposit grades are declining, requiring a higher volume of ore to be processed in order to meet and exceed production targets. At the same time energy costs, a key component of the cost structure, have risen, as have treatment and refining charges.

Governmental actions

Global mining companies have been subject to a range of new taxes, royalties, laws and regulations by the governments of the countries where they operate. Mining taxes have recently been implemented in several Latin American countries including Chile and Peru, and some Mexican legislators have proposed similar initiatives, although to date not successfully. The Mexican mining industry, through the Mining Chamber, will continue to petition against any mining tax as it affects employment creation, direct foreign and local investment, and the industry's ability to compete.

Country environment: Mexico

Mexico provides a favourable environment for mining: flexible and well-structured mining and environmental legislation; a favourable political climate; strong mining tradition and expertise; a skilled workforce, currently in high demand due to increased mining and exploration activity in the sector; and solid infrastructure.

The geological potential remains strong, and more than 300 mining companies and private exploration groups have projects and facilities in Mexico, with operations concentrated in the northern states of Durango, Sonora, Zacatecas and Chihuahua.

Mining is an important contributor to the country's economy, accounting for approximately 1.6% of GDP, and 286,000 direct jobs. As such the industry benefits from a well-structured and supportive regulatory and fiscal framework.

Security in Mexico has continued to deteriorate as drug cartels seek to control access routes to the United States, abetted by weak control in the flow of weapons across the border. While we believe media reporting has exaggerated the extent of the security threat, we recognise the potential risk to our business and have put in place policies and procedures to protect our personnel, operations and assets. The security situation has had no significant impact on the Group's performance or production, although the measures we have taken do influence the way we operate and explore

See Our Risk Management Framework pages 36–43.

Fresnillo plc is a silver and gold mining company operating in Mexico. We currently operate five mines with a sixth to be commissioned in 2012, and have an extensive portfolio of high-quality exploration projects and prospects underpinning our organic growth pipeline.

Where we sit in the precious metals value chain

Our business spans the exploration, development and construction, extraction and beneficiation phases of the precious metals value chain. We focus on high potential projects that can be developed into low-cost, world-class mines or clusters of mines.

Our business model

Our business model spans the full mining value chain from exploration, development and construction, to mining operations, which are supported by strategic resources essential to the effective execution of the business. Sustainable development practices uphold our license to operate, while a comprehensive risk management framework ensures that we manage and mitigate the risks that could impact our ability to execute our strategy.

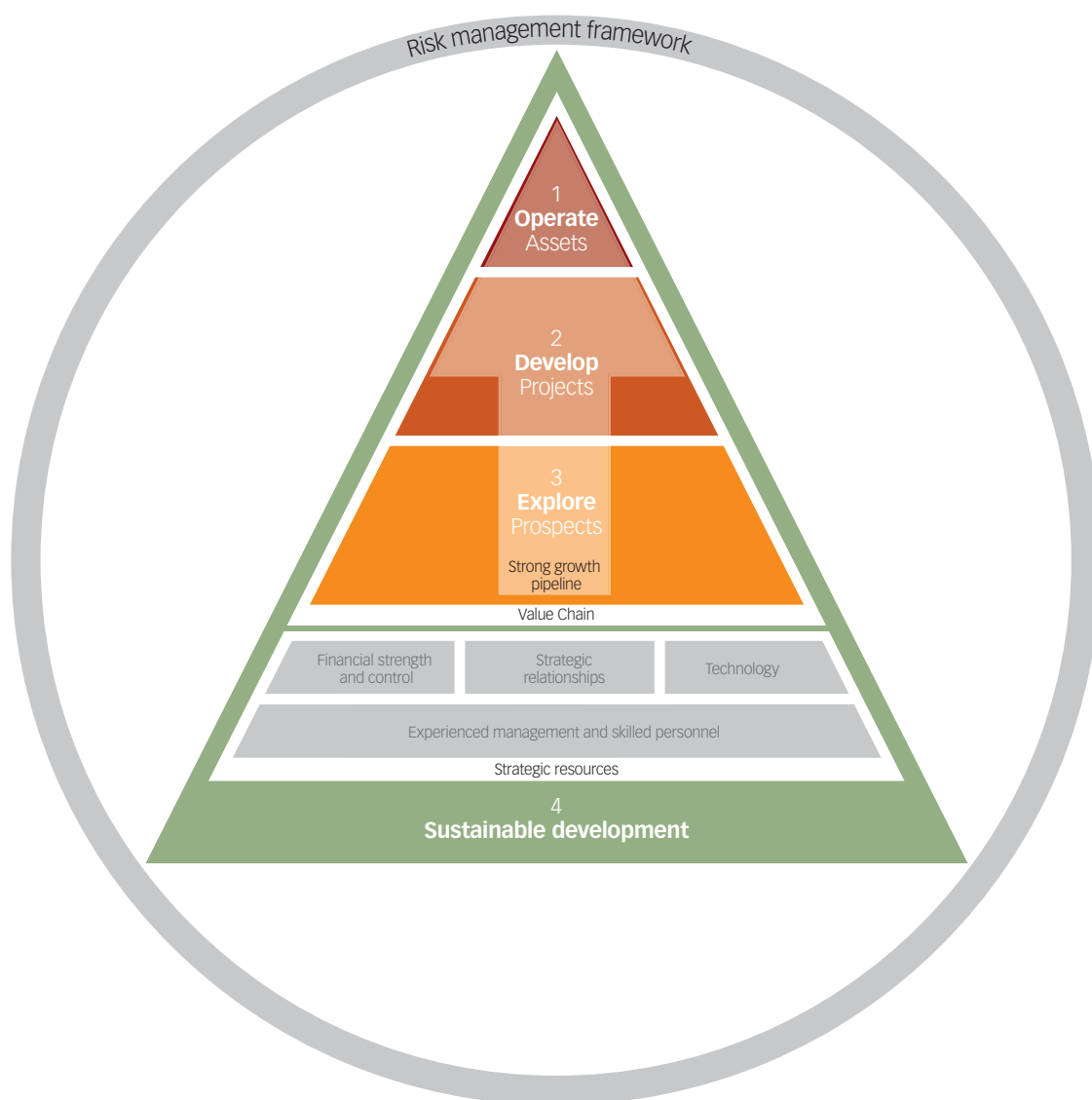
Through this model we seek to create value for our stakeholders across precious metal cycles. Our goal is to produce 65 million ounces of silver per year and 500,000 ounces of gold per year by 2018, with 650 million ounces of silver and 5.0 million ounces of gold in reserves at that time.

Precious metal value chain

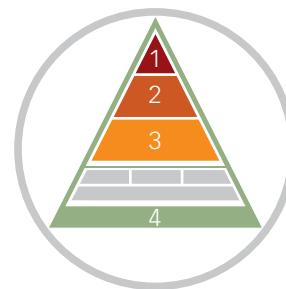


Our business model

This graphic illustration of the business model differs slightly from 2010. Most notably, sustainable development is now shown as its own component of the business model, with greater strategic significance.



Business model component	Description	Strategic focus
Value chain		
Operate Maximise the potential of existing operations 1	<p>The extraction and beneficiation of ore from our operating mines. We apply optimal mining methods in accordance with the changing characteristics of each mine, benefited by the skills of our personnel and leading technology tools. When coupled with high-quality assets selectively added in the exploration and development phase, we remain competitively positioned in cost performance among industry peers.</p> <p>See Review of Operations pages 48–57</p>	<p>Maximise operational potential through full capacity utilisation, reserve replacement, continuous improvements in productivity and cost controls.</p> <p>See Our Strategy and KPIs pages 26–27</p>
Develop Deliver growth through development projects 2	<p>The development and construction of new operating mines, with disciplined adherence to schedules and budgets. Feasibility, engineering, procurement and construction teams work closely with operating personnel to ensure smooth transition from construction to commissioning.</p> <p>See Review of Operations page 58</p>	<p>Deliver growth through the disciplined advancement of exploration projects towards mine development, start-up and production. Projects must meet stringent criteria regarding mineral content and embedded cost. Economic viability is determined by factors such as metallurgy, mine design, investment requirements, sustaining capital expenditures and rates of return.</p> <p>See Our Strategy and KPIs pages 28–29</p>
Explore Extend the growth pipeline 3	<p>The search for and quantification of mineral deposits that extend our resource base, with a focus on consolidating mining districts in Mexico and Latin America. Our track record of new discoveries is bolstered by continuous investment irrespective of metal prices, significant technical expertise, and partnerships and early-stage acquisitions that allow us to share the inherent benefits and risks of prospect exploration.</p> <p>Our project pipeline extends across the multiple stages of exploration (prospecting, drilling and resource definition).</p> <p>See Review of Operations pages 59–61</p>	<p>Extend the growth pipeline by deploying expert personnel, allocating sufficient investment capital, securing concessions and surface land rights, and pursuing selective early stage partnerships and acquisitions.</p> <p>See Our Strategy and KPIs pages 30–31</p>
Licence to operate		
Sustainability Advance our sustainable development 4	<p>The responsible operation of our business to create value for and ensure the wellbeing of all stakeholders, without compromising future generations, through the comprehensive management of health, safety, environment and community relations programmes from the earliest stages of exploration until mine closure.</p> <p>See Creating Stakeholder Value pages 24–25, Sustainability Report pages 62–75</p>	<p>Reinforce the sustainable development of the Group by implementing and enforcing policies and procedures and investing in equipment and training that put our people first in terms of health and safety; support strong environmental management practices; benefit the communities where we operate; and secure our adherence to best practices.</p> <p>See Our Strategy and KPIs pages 32–33, Sustainability Report pages 62–75</p>



Business model component	Description	Strategic focus
Strategic resources		
Financial strength and control	<p>The strict control of cash, assets, and costs and expenses in order to secure operational continuity and retain our competitive position as a low cost producer, ensure continuous investment in exploration, and maintain flexible capital funding options.</p> <p>See Financial Review pages 76–89</p>	<p>Maximise value creation by controlling internal drivers of financial performance using tools such as long-term supply and service agreements, cost controls; inventory, trade and receivables management; fiscal planning; and exchange rate hedging. It continues to be the Group's policy not to hedge price exposure on silver and gold realisations.</p> <p>See Financial Review pages 76–89</p>
Strategic relationships	<p>Key suppliers of equipment and services; contractors; customers; equity partners in our mines and projects; authorities and regulators. Also see Sustainable Development component.</p> <p>See Creating Stakeholder Value pages 24–25</p>	<p>Create mutual value by acting with fairness, integrity and transparency, sharing best practices and fostering innovation.</p> <p>Creating Stakeholder Value pages 24–25</p>
Technology	<p>Tools and processes that support exploration, increase productivity, reinforce sustainability, enhance accountability, and support decision-making and financial planning processes.</p>	<p>Invest in innovation, maintain and continuously upgrade technology and training to promote productivity and efficiency.</p>
Experienced management and skilled personnel	<p>The critical human factor upon which the successful execution of our strategy relies.</p> <p>See Community Relations pages 72–73, Executive Management page 95</p>	<p>Find, select, train and retain personnel with the requisite knowledge, skills and experience.</p> <p>See Community Relations pages 72–73</p>
Risk management framework		
Risk management framework	<p>The assessment, evaluation and mitigation of the principal risks that could affect the Company's ability to execute its strategy and deliver on its commitments.</p> <p>See Our Risk Management Framework pages 36–43</p>	<p>At the operational level, to identify, assess and mitigate risk at mines, development projects and exploration sites; within each major capital project, to analyse and monitor project delivery risks; at the Executive Management and Board level, to assess and mitigate strategic and financial risks.</p> <p>See Our Risk Management Framework pages 36–43</p>

Our key inputs and outputs

The mineral resources contained within our mining concessions are the Group's key input. We allocate significant investment capital in acquiring these concessions and exploring for economically viable deposits. The Group's precious metals concessions in Mexico are the largest in terms of total hectares. To extract and process the mineral we rely on a number of critical operating materials such as steel for drilling and milling, explosives, sodium cyanide and other reagents, lubricants; mining equipment; tyres and spare parts, among others, as well as diesel and electricity to fuel our equipment and plants. See Our Risk Management Framework pages 36–43

Our revenues are primarily derived from silver and gold contents, and to a lesser extent from zinc and lead contents, contained in lead and zinc concentrates and doré produced at our mines, which are sold to smelting and refining companies. Revenue is determined by the volume of metal contained in those concentrates and doré at the market prices of the contained metals sold, net of treatment and refining charges.

Creating stakeholder value

We believe the successful execution of our strategy is dependent on creating long-term value for stakeholders in a sustainable manner. Thus value creation is part of the business model rather than an outcome of the business.

To a certain extent this reflects our industry's dependence on the social licence to operate and shareholders' appetite to invest in projects whose timeframes require several years or even decades to deliver returns.

Key stakeholders and strategic relationships

Employees

Our ability to select, recruit, train and retain personnel with knowledge, skills and experience is fundamental to the Group's ability to achieve its strategic goals. 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 sustainable development.

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. See Community Relations pages 72–73

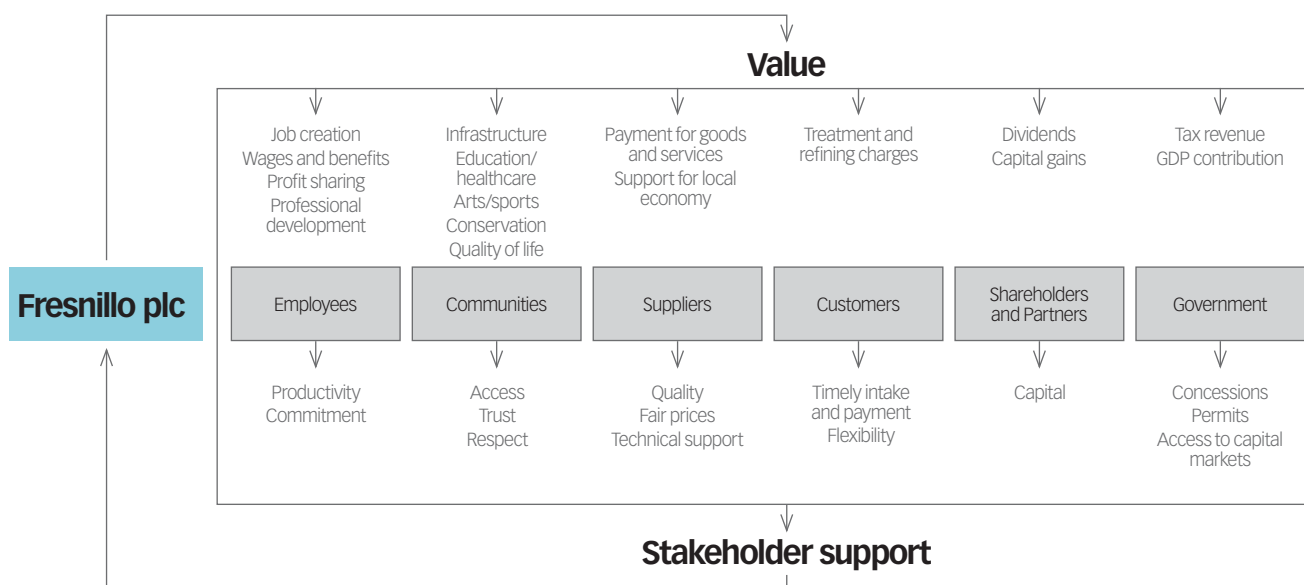
Communities

Healthy community relations require a deep knowledge of, and respect for, their customs, cultures, needs and expectations. Our community engagement efforts begin in parallel with the earliest phases of the exploration process, to the advanced prospect phase, to development and construction, 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 are present. Focus areas include environmental culture, education, health and social integration, self-sustaining capacity, and social infrastructure. See Community Relations pages 74–75

Suppliers

We maintain close relations with our suppliers and contractors, whom we consider long-term strategic partners, and seek to secure high quality products and services at a fair price. To align their practices and performance with our strategic objectives, we provide them with training on Group safety policies and procedures. We often sign long-term purchase agreements 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.

Creating stakeholder value



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). See Note 15 of the Financial Statements page 152

We contract Servicios Administrativos Peñoles, S.A. de C.V. (SAPSA), a Peñoles subsidiary, to supply administrative services. The relationship is regulated by a Services Agreement (NSA, or New Services Agreement), ensuring that all services are delivered at arm's length and on normal commercial terms as per the Relationship Agreement with the Peñoles Group. See full details of the Relationship Agreement in the Directors' Report pages 100

Customers

In 2011 substantially all of the primary products from our mines were sold to the Met-Mex Peñoles, S.A. de C.V. (Met-Mex) refining and smelting facility in Torreón, Coahuila (Mexico) 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. The Group has sold to other refiners and smelters in the past and may do so in the future if conditions warrant.

Shareholders

The major shareholder in Fresnillo plc is Industrias Peñoles S.A. de C.V. (Peñoles) which holds approximately 77% of the issued share capital of the Company. Peñoles has been the principal investor in the Fresnillo Group assets for over fifty years and is committed to the long-term growth and development of the Group. Peñoles is also a significant supplier of services to the Fresnillo Group which are described more fully in the Supplier section herein.

Approximately 23% of Fresnillo plc shares have been listed on the London and Mexican Stock Exchanges since 2008. The Company's listing provides visibility to the Group's approach and activities which

would help it secure sources of finance, should they be required, for its strategic development. The Group maintains a regular dialogue with its independent investors and the arrangements for maintaining relations with shareholders are described more fully in the Corporate Governance Report.

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.

Authorities/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. These include environmental and construction permits and use and handling of explosives, among others. 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.

Economic impact

One way we measure value creation is through our economic contribution at the local level. This includes total wages and salaries, payments to local contractors and suppliers, and payment of municipal and state taxes. Employee profit sharing, known as PTU ('participación de los trabajadores en las utilidades') and included in the total wages calculation, is an important mechanism that aligns the interests of shareholders, management and personnel. We believe the transparency of our PTU agreements has contributed to healthy labour relations.

Economic impact

	Economic contribution (monthly average) (US\$)	Direct jobs (average)	Indirect jobs (average)	Federal taxes ⁴ (monthly average)
Minera Fresnillo ¹	10.5m	929	671	\$9.6m
Minera Saucito	3.5m	67	798	\$10.0m
Minera Penmont ²	21.0m	1,378	592	\$6.2m
Minera Mexicana La Ciénega ³	5.7m	452	328	\$1.4m
Exploraciones Mineras Parreña	4.7m	109	0	\$397,128
Minera Bermejil	798,734	0	0	\$69,184
Minera Juanicipio	12,763	0	0	\$1,619
Others (SAFSA and Juanicipio) ⁵	981,704	70	0	\$3.7m
Total	47.2m	3,005	2,389	\$31.3m

¹ Includes US\$2.1 million in PTU

² Includes US\$1.0 million in PTU

³ Includes US\$0.3 million in PTU

⁴ Includes SAFSA, Comercializadora, Fresnillo plc, Torres; figures include US\$0.06 million in PTU

⁵ Includes federal tax payments, IMSS, INFONAVIT, water rights, mining concessions

1 Operate

Maximise the potential of existing operations

How we do it

By operating at full capacity, replenishing reserves, generating continuous improvements in productivity and cost controls, utilising technology and leveraging expansion opportunities.

What we said we would do in 2011

- Increase silver production 5% and gold production 5–6%
- Conclude construction of the San Carlos shaft at Fresnillo to reduce haulage costs
- Commission the shaft at Ciénega to gain access to deeper ore reserves and reduce costs
- 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
- Evaluate a future expansion at Fresnillo to compensate for the expected lower ore grades in order to maintain stable silver production

Key performance indicators

Attributable production

Sum of ounces produced multiplied by ownership interest at each mine, plus ounces accrued through the Silverstream Contract. Monitors total production levels at our mines and contributions from advance development projects. Our goal is to produce 65 million ounces of silver by 2018 and increase gold production to 500,000 ounces of gold per year, excluding the potential contribution from Orisyvo.

Results

Expanded capacity at Soledad-Dipolos and Ciénega and higher volumes of ore deposited at Herradura resulted in record gold production. Silver production decreased slightly due to the lower than expected ore grade at Fresnillo, which was largely offset by contributions from the new Saucito mine.

Silver production

millions of ounces

2011	37.9	41.9
2010	38.6	42.1
2009	37.9	41.3
2008	34.8	37.8

Bar graph illustrates silver production from our own mines, with shaded portion representing additional ounces accrued under the Silverstream Agreement.

Gold production

thousands of ounces

2011	448.9
2010	369.0
2009	276.6
2008	263.6

Cost per tonne

Adjusted production costs (total production costs¹⁰ less depreciation, profit sharing and exchange rate hedging effects) divided by total volume of tonnes milled or deposited. Monitors variations of costs directly related to the production process; the analysis of such variations improves management's decision-making.

Results

Adjusted production costs across the Group were affected by higher personnel costs, higher electricity and diesel prices, unit cost pressure on operating materials such as steel balls for milling, explosives and sodium cyanide, increased development.

¹⁰ In 2011 freight costs associated with ore transported from Fresnillo plc's mines to Met-Mex facilities are included as selling expenses in the income statement. They were previously reported as part of cost of sales and therefore also as part of adjusted production costs. Comparative information for previous years has been amended to reflect this reclassification to selling expenses in order to facilitate comparison with current year figures.

Fresnillo

US\$/tonne milled

2011	43.0
2010	40.9
2009	36.5
2008	41.2

Herradura

US\$/tonne deposited

2011	6.0
2010	5.6
2009	5.1
2008	5.6

Ciénega

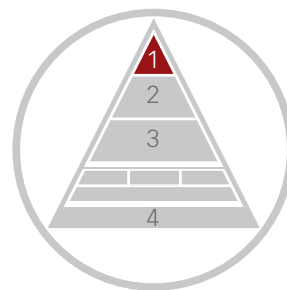
US\$/tonne milled

2011	73.4
2010	63.2
2009	59.2
2008	63.5

Soledad-Dipolos

US\$/tonne deposited

2011	5.8
2010	5.7



What we did in 2011

We met most of our objectives in the year, generating record volumes of gold but falling short in silver, with stable volumes. In addition, construction was approved and initiated for a dynamic leaching plant at Herradura that will increase the gold recovery rate.

Our assets

Fresnillo: Underground primary silver mine, world's largest silver mine, in operation since 1554 See page 48

Saucito: Underground primary silver mine, commenced operations in 2011 See page 50

Ciénega: Underground gold mine, in operation since 1992 See page 52

Herradura: Open pit gold mine, in operation since 1997 See page 54

Soledad-Dipolos: Open pit gold mine, in operation since 2010 See page 56

What we plan to do in 2012

- Prepare economic evaluation, conclude engineering and begin construction of capacity expansion at the Fresnillo mine beneficiation plant in order to maintain silver production at current levels; expansion to be commissioned in 2014
- Ramp up production to 6.5 million ounces of silver at Saucito; the mine is expected to produce approximately 9.0 million ounces of silver and 45,000 ounces of gold from the end of its third year of operation onwards
- Complete construction of the dynamic leaching plant, which will process high grade ore from Herradura and Soledad-Dipolos when it starts up in 2013; the plant is expected to increase gold production by an average of 51,000 total ounces per year over the 2013–2020 period
- Evaluate leaching methods to recover silver and gold from zinc concentrates at Ciénega
- Evaluate pyrites flotation from Fresnillo and Saucito tailings to increase gold recovery
- Complete construction of the Jarillas shaft at Saucito

Longer term targets

- Maintain production levels despite lower ore grades mainly at Fresnillo and Ciénega mines

Productivity¹¹

Tonnes of ore milled per person, including contractors, at underground mines; and tonnes of ore deposited and waste material moved per person, including contractors, at open pit mines.

Results

Fresnillo: Decreased productivity as a result of higher number of workers performing backfilling at long-hole stopes and additional rock bolting and shotcreting activities. **Ciénega:** Increase due to technical expertise of workers which reduced maintenance time and increased milling efficiency. **Herradura:** Increase due to greater availability of equipment. **Soledad-Dipolos:** Decrease mainly as a result of increased time for maintenance and repairs which reduced availability of loaders. **Saucito:** First year of operation.

Soledad-Dipolos: Decrease mainly as a result of increased time for maintenance and repairs which reduced availability of loaders. **Saucito:** First year of operation.

¹¹ The previous indicator of equivalent silver ounces produced per person was calculated on the basis of certain factors, among others, that were beyond the Group's control such as ore grades and the spot ratio of gold price to silver price. In 2011, this indicator was replaced by tonnes processed/moved per person as it is more related to the variables under Fresnillo plc's control.

Fresnillo

ore milled per person (tonnes)

2011	1,620.2
2010	1,668.2
2009	1,614.2
2008	1,489.5

Herradura

ore/waste moved per person (tonnes)

2011	92,231.1
2010	91,918.9
2009	101,755.5
2008	87,718.3

Ciénega

ore milled per person (tonnes)

2011	1,230.0
2010	1,120.5
2009	1,053.8
2008	1,161.3

Soledad-Dipolos

ore/waste moved per person (tonnes)

2011	103,455.2
2010	111,746.3

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. Our goal is to have 650 million ounces of silver and 5.0 million ounces of gold in reserves by 2018.

Results

Silver reserves decreased by 8.6% due to lower ore grades at the Fresnillo mine and silver production at Saucito exceeding the replenishment of reserves, which were calculated under stricter parameters regarding distance of mineralisation from the mine. Gold reserves slightly increased mainly because of Herradura.

Silver

millions of ounces

2011	403.4
2010	441.6
2009	374.0
2008	410.0

Gold

millions of ounces

2011	4.6
2010	4.5
2009	4.3
2008	4.1

2 Develop

Deliver growth through development projects

How we do it

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

What we said we would do in 2011

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

Key performance indicators

Project delivery

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

Saucito See pages 50–51

Timeline

1992	2006	2007	2008	2009	2010	2011
↓ Regional exploration begins.	↓ Saucito vein was discovered (2002) with drilling activities until Sept 2006. Jarillas vein was discovered.		↓ Detailed engineering was conducted in Saucito to build surface facilities. Mezquite vein was discovered.	↓ Infill diamond drilling on Mezquite and Santa Natalia was in progress. Pre-feasibility study was approved.	↓ Advanced construction of Saucito.	↓ Commercial production in the 1H 2011.

Total capex
US\$273m

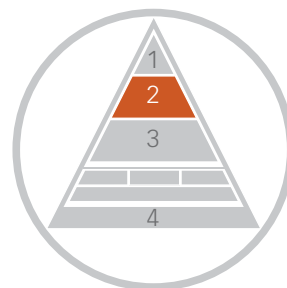
Original budget
US\$309m

The difference was explained by the timely purchase of critical equipment taking advantage of the global economic slowdown, application of cost controls, and lower than expected requirement for equipment purchases, as some contractors used their own.

Annual production
Gold 33,493 ounces/Silver 5,904,000 ounces



Commercial operations at Saucito, our newest operating mine, commenced in April 2011



What we did in 2011

We met and surpassed our stated objectives. Start-up of Saucito came in below budget, while first year production volumes exceeded full capacity estimates. Construction at Noche Buena was nearly completed in the year, with the commissioning of the laboratory, workshop and warehouse.

What we plan to do in 2012

- Start-up of Noche Buena as a new mine in 1Q 2012; budgeted production at this mine is 376,000 total ounces of gold over the initial five year mine life, although we expect to extend the resource base of this project

Long-term targets

- Develop and construct at least four new mines by 2018 to meet our production targets

Our projects

Noche Buena See page 58

* Saucito moved into mines in operation following the start of commercial production in 1H 2011. See pages 50–51 for a full performance review.

Noche Buena See page 58

Timeline

2008	2009	2010	2011	2012
↓ Fresnillo Group through its Penmont joint venture, acquired the Noche Buena gold project.	↓ Intensive exploration programme was carried out.	↓ Pre-feasibility study was concluded and engineering was completed.	↓ Construction of Noche Buena under way.	↓ Start-up expected for the 1Q 2012.

Capex 2011
US\$63.3m

Budget
US\$63.0m

The investment includes construction of a leaching pad, maintenance workshop and warehouse, and purchase of trucks and loaders. Construction of the Merrill-Crowe plant advanced as expected in the year towards its commissioning in 1Q 2012. This budget has been revised and further increased by US\$13.8 million to construct a second leaching pad to accommodate a longer potential mine life.

Noche Buena will further consolidate our position in the Herradura District

Anticipated average annual production
Gold 42,000 ounces (attributable)



3 Explore

Extend the growth pipeline

How we do it

By allocating continuous funding for mining concessions and exploration activities, and deploying expert personnel and technology, to ensure an exploration pipeline of organic growth projects. We also pursue early stage partnerships and make selective acquisitions in Mexico and potentially elsewhere in Latin America.

What we said we would do in 2011

- Conclude pre-feasibility study at Juanicipio in January
- Conduct pre-feasibility study at San Julián and San Ramón
- Complete exploration adit, 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.

Results

Silver resources rose 23.0% mainly due to the increase of the resource base at Saucito, discovery of a new vein at San Julián, and a new ore shoot discovered on the extension of the San Ramón vein (Ciénega). Exploration drilling at Lucerito (Durango) encountered silver-gold mineralisation. Gold resources rose primarily due to increases at Orisyvo, Centauro Deep and Noche Buena.

Attributable resources

Silver

millions of ounces

2011	1,811.1
2010	1,472.7
2009	1,289.0
2008	1,115.9

Attributable resources

Gold

millions of ounces

2011	23.5
2010	20.1
2009	13.9
2008	12.0



What we did in 2011

We exceeded certain objectives and fell short on others, but the overall exploration programme advanced significantly with a double-digit increase in gold and silver resources. We upgraded inferred resources to the indicated category at Juanicipio as we moved towards finalising the pre-feasibility study. At San Julián, pre-feasibility work was delayed due to the identification of additional resources and underground exploration to confirm measured and indicated resources of the disseminated ore body.

The resource base at San Ramón, combined with its proximity to Ciénega, warranted the classification of this project as a satellite of the mine. We immediately began extracting development ore and the mine will be commissioned in 1Q 2012. At Orisyvo, an exploration adit was started to test and delineate the ore body. Additional work in the year included ramp construction at Centauro Deep. We also acquired 218,806 additional hectares of mining claims, as well as certain corresponding surface land rights to continue regional exploration and identify new prospects with high potential.

What we plan to do in 2012

- Conclude pre-feasibility study at Juanicipio in 1Q 2012 and define course of action immediately afterwards
- Conduct pre-feasibility study at San Julián with new resources estimates
- Define mining method and metallurgy at Orisyvo
- Initiate pre-feasibility study at Las Casas (Ciénega)
- Continue exploration ramps at Centauro Deep and upgrade resources in order to initiate construction of the shaft

Longer term targets

- Advance new and early stage prospects into the drilling and advanced explorations phases
- Replenish the portfolio of new prospects
- Expand the exploration team by 40%+

Advanced exploration prospects

Minera Juanicipio See page 59

Centauro Deep See page 60

Las Casas-Rosario See page 60

San Julián See page 60

Orisyvo See page 60

Other projects See page 61

San Julián

Silver and gold resources increased at this advanced exploration project in 2011 and new veins were discovered. The pre-feasibility study and initial construction will take place in 2012.



4 Sustainability

Advance our sustainable development

How we do it

Health

By improving general health and limiting occupational illnesses through preventive care.

Safety

By eliminating dangerous workplace conditions and behaviours.

Environment

By minimising the environmental impact of all operations throughout the life cycle of a mine, and complying with national regulatory requirements and international best practices.

Community relations

By providing professional development opportunities and workplace satisfaction for our personnel and maintaining sound relations with the communities where we are present.

What we said we would do in 2011

- Zero fatalities and continued improvements in safety indicators
- Obtain OHSAS 18001:2008 certification¹² 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

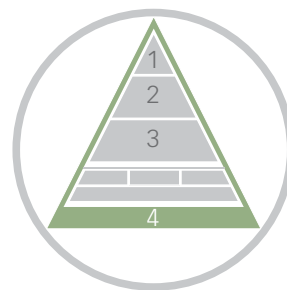
A wide range of indicators is used to measure sustainability performance. The health, safety, environment and community relations (HSECR) framework includes specific metrics for each aspect of the programme. See additional information in the Sustainability Report pages 62–75.

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.

Fatalities

2011	11
2010	2
2009	0
2008	0



What we did in 2011

We fell far short of our primary objective with 11 fatalities in the year. Immediate corrective actions were taken and a Safety Action Plan was established after comprehensive internal and external review and consultation. Separately, the Herradura mine obtained International Cyanide Management Code certification and Soledad-Dipolos became a signatory, while the process was delayed at Ciénega due to the capacity expansion. Fresnillo gained Highly Protected Risk recognition from FM Global, confirming the satisfactory safety conditions of the operation. Energy and water consumption per tonne of product increased due to ramp-up at Saucito and expansion at Soledad-Dipolos, while ISO 14001:2004 and Clean Industry certifications from PROFEPA (Mexican Federal Environmental Protection Agency) were maintained at all currently certified mine units.

What we plan to do in 2012

- Continue implementation of the Safety Action Plan to improve, enhance and embed our safety culture and systems at all levels, to meet our zero fatalities target
- Obtain International Cyanide Management Code certification at Ciénega and Soledad-Dipolos

Longer term targets

- Fully integrate the HSECR System across the entire organisation as part of our stakeholder culture

Focus on safety

Following a review of our safety and health programme, we took immediate action in 2011 to bolster in-mine safety. Here, rock bolting at the Fresnillo mine improves ground control.



Reforestation

Nurseries at our mines and advanced exploration projects support relocation and reforestation efforts. This facility at Ciénega has contributed to 735 hectares of restoration.



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.

Results

While certain safety indicators such as the accident rate decreased, the increase in lost work days reflects the higher severity of incidents, as 1 fatality = 1,000 lost days.

Lost work days rate

2011	3.11
2010	1.64
2009	1.20
2008	1.58

Financial KPIs

Financial strength and control

How we do it

We seek to maintain financial strength and control in order to support the Company's long-term strategic objectives, by ensuring operational continuity, allocating continuous investment in exploration, and maintaining flexible capital funding options.

Key performance indicators

Cash cost per ounce¹³

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.

Results

Cash costs were affected by higher mining costs due to the increase in electricity and diesel prices, the higher unit cost of operating materials, annual wage increase and higher unit fees charged by contractors (See financial review pages 82–83). In addition, silver refining charges and profit sharing further increased cash cost, although their impact differed on a mine-by-mine basis. The lower ore grade at the mines also affected their cash cost, however this adverse effect was partially mitigated by synergies achieved mainly at the Herradura and Ciénega Districts. The strength of silver and gold prices benefited gross profit margins at all our operating mines.

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, selling 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.

Results

Higher average realised prices and record gold production resulted in higher gross profit levels, which were slightly offset by higher exploration expenses.

EBITDA and EBITDA margin

US\$ million

2011	1,538.5	70.2%
2010	945.0	67.0%
2009	496.6	58.4%
2008	337.4	46.8%

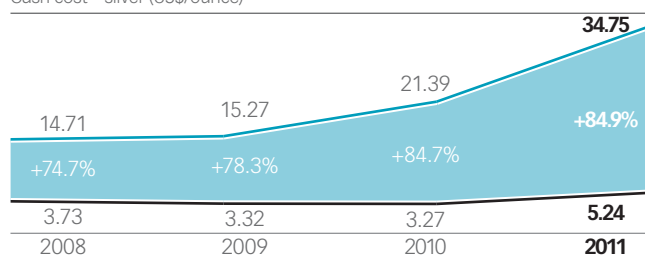
Cash flow

US\$ million

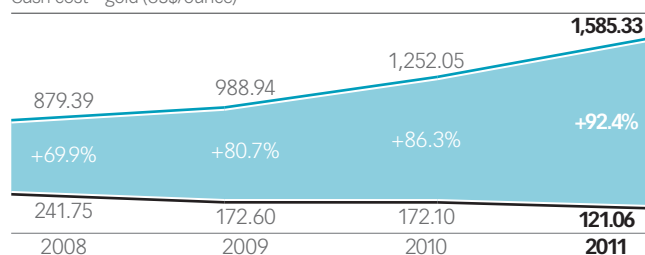
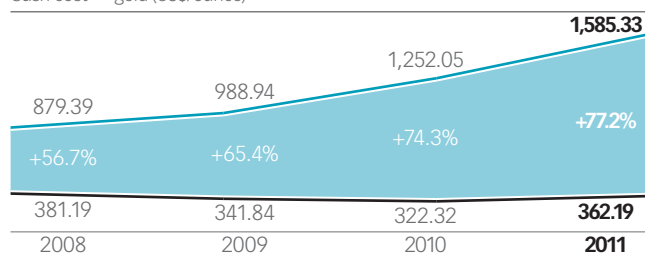
2011	1,612.1
2010	983.6
2009	548.8
2008	405.8

Fresnillo

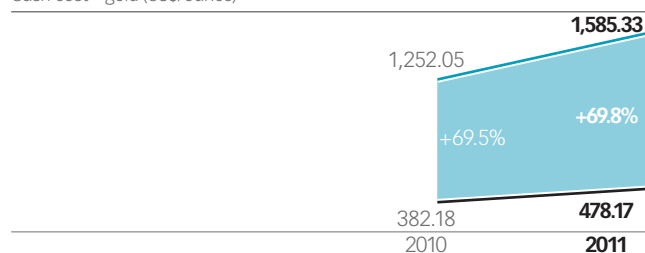
Cash cost – silver (US\$/ounce)

**Ciénega**

Cash cost – gold (US\$/ounce)

**Herradura**Cash cost¹⁴ – gold (US\$/ounce)**Soledad-Dipolos**

Cash cost – gold (US\$/ounce)



— Cash cost — Gold/silver price

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.

Results

Higher net profits divided across an unchanged number of issued shares.

Earnings per share

US\$

Year	2011
2011	1.098
2010	0.740
2009	0.430
2008	0.186

¹³ In 2011 freight costs associated with ore transported from Fresnillo plc's mines to Met-Mex facilities are included as selling expenses in the income statement. They were previously reported as part of cost of sales and therefore also as part of adjusted production costs. Comparative information for previous years has been amended to reflect this reclassification to selling expenses in order to facilitate comparison with current year figures.

¹⁴ 2009 figures were modified to reflect an intercompany elimination related to equipment leased by Minera El Bermejal to Herradura.

The graphs show cash cost as the black bar on the bottom, and the average market price of the metal as the blue line on top. The difference between them is the cash gross profit excluding depreciation and cash gross margin for each mine.

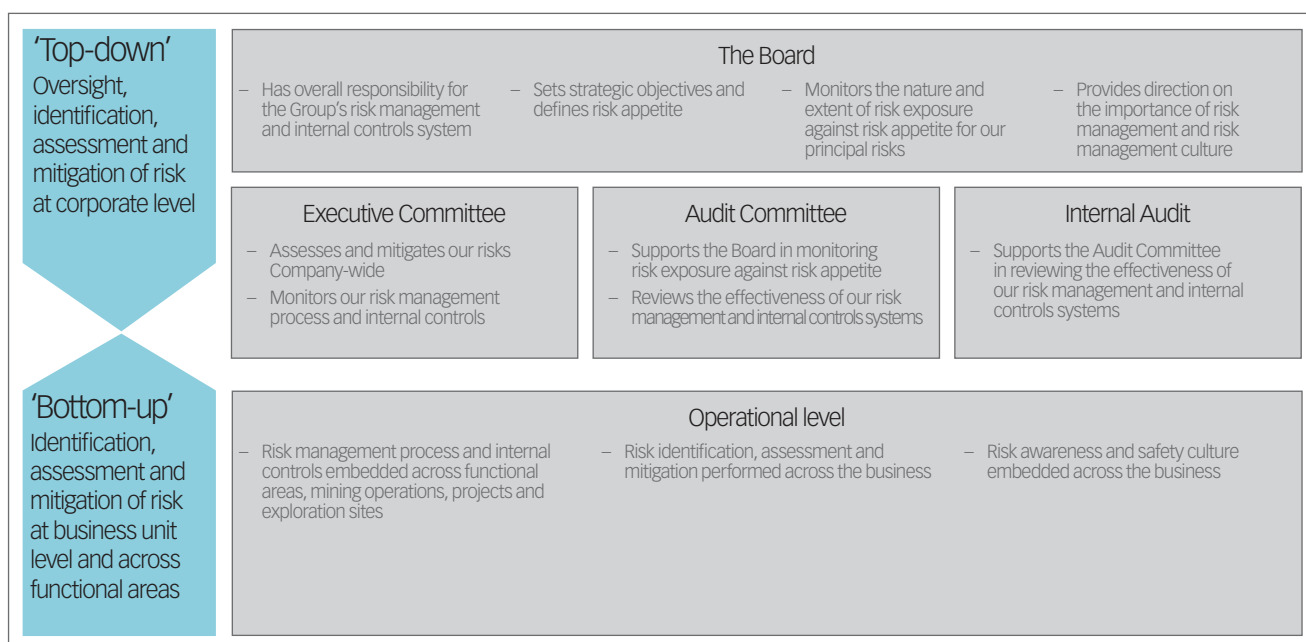
Our Risk Management Framework

Our comprehensive risk management framework ensures that we manage and mitigate the risks that could impact our ability to execute our strategy. A more deeply embedded risk management culture supports long-term value creation for all Fresnillo stakeholders.

The Board of Directors is responsible for maintaining our risk management and internal controls systems. Through its risk governance mandate, the Board defines risk appetite and is responsible for monitoring our risk exposures to ensure that the nature and extent of significant risks taken by the Company are aligned with our overall goals and strategic objectives. The Audit Committee supports the Board of Directors in monitoring our risk exposures and has been delegated the responsibility for reviewing the effectiveness of our risk management and internal controls systems. Internal Audit supports the Audit Committee in evaluating the design and operating effectiveness of our risk mitigation strategies and the internal controls implemented by management.

Risk management processes and internal controls operate across our mine sites, exploration and development projects and corporate offices. Risk management and internal control procedures are embedded within our business practices across functional areas including finance, HSECR, human resources, procurement, IT, legal, security and insurance management. Risk identification, assessment and mitigation is performed at various degrees of granularity from a very detailed assessment of safety risk at the operational hazard level at each mine site, to the analysis and monitoring of project delivery risks within each of our major capital projects, to the assessment and mitigation of strategic and financial risk at the Executive Management and Board level.

Risk management framework diagram



What we did in 2011

We view risk management as an evolving process, and have taken significant steps during 2011 to build on our existing risk management framework to enhance risk governance and risk management across the business. We had three key priorities for improving our risk management in 2011:

- Formalise the definition of risk appetite for our principal risks
- Augment our risk identification and assessment process throughout the business
- Implement an anti-bribery and corruption programme

What we plan to do in 2012

Now that we have a more formalised definition of risk appetite and enhanced risk identification and assessment processes, we will continue to evolve our risk management process in 2012 with our priorities being:

- Continue to embed risk management processes within the business. Formalise our practices for defining, implementing and monitoring risk management action plans for the principal risk areas, particularly where the current level of risk exceeds our risk appetite.
- Continue to refine our risk monitoring processes. Define and implement Key Risk Indicator metrics in alignment with our Key Performance Indicators to allow management to identify changes to our risk exposures and to highlight new and emerging risks.
- Managers across the business will undergo refresher training so that we may continue to integrate risk management processes, giving us a consistent risk management approach, risk language and risk culture.

What we did in 2011

Benefits for our Stakeholders

Formalise the definition of risk appetite for our principal risks

Risk appetite was defined by the Board of Directors through a series of workshops and dedicated time during the July and October Board meetings. During these sessions the Directors reviewed our goals and strategy from a risk perspective, the expectations of our stakeholders and the current level of risk exposure for our principal risk areas. Risk appetite is not static, and going forward the Board of Directors will continue to monitor and reassess our principal risks and risk appetite to ensure it continues to be aligned with our goals and strategy.

Formalising the definition of risk appetite strengthens our risk governance structure within which opportunities can be pursued and the downside of risks mitigated by setting out which risks and how much risk we are willing to take in the pursuit of our goals.

Augment our risk identification and assessment process throughout the business

We implemented a more structured approach for risk identification and assessment incorporating a 'top-down' and 'bottom-up' perspective on risk. The 'top-down' process involved the identification and assessment of risks by the Board, Executive Management and other management at the Corporate level. The 'bottom-up' process involved a more comprehensive and operationally focused identification and assessment of risks provided by senior and line management at the Business Unit level and across functional areas. Each risk identified through these processes was assessed and scored based on both quantitative and qualitative criteria for likelihood of occurrence and the degree of impact on the achievement of our objectives.

We have enhanced our mechanism for understanding, documenting, analysing and responding to risks as they emerge at different levels throughout the organisation, while maintaining focus by the Board of Directors and Executive Management on our strategic risks. This enriches our ability to analyse risks and respond to opportunities as we pursue our strategic objectives.

Implement an anti-bribery and corruption programme

The Board of Directors appointed a Compliance Officer and a Compliance Manager, and established an Honour Commission to provide oversight and governance for the anti-bribery and corruption programme. Meetings of the Honour Commission have begun, and reports received through our enhanced whistleblower mechanism continue to be analysed and responded to directly by the Honour Commission. We have implemented a bribery and corruption risk assessment process, which provides management and the Board with deeper insights into the potential transactions and third-party relationships through which bribery and corruption may occur. As well as performing an assessment of Fresnillo plc's exposure to potential bribery and corruption risks, core anti-bribery and corruption policies were designed, approved and implemented across the business through training, with employees now required to certify their understanding and compliance with the policies.

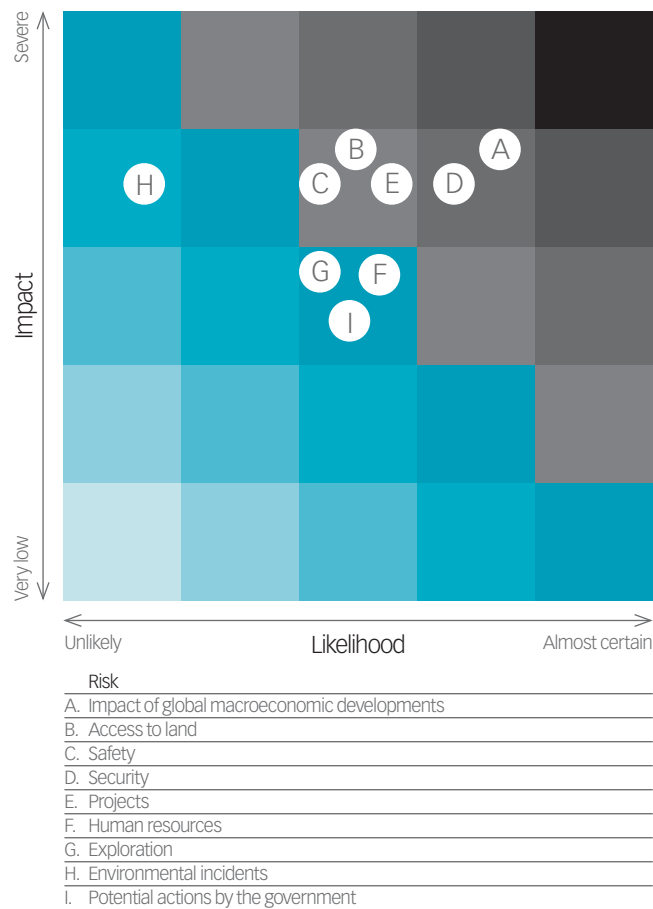
The implementation of the anti-bribery and corruption programme demonstrates our dedication to conducting business with the highest standards of integrity and ethical values. We have formalised our mechanisms for ensuring that the six principles for bribery prevention, as set out in the Bribery Act 2010 Guidance published by the Ministry of Justice, are embedded within our business. The work we have completed in 2011 to implement an anti-bribery and corruption programme provides our stakeholders with greater comfort that we have the commitment, structure and procedures in place to effectively counter bribery and corruption.

Our risk profile

97 risks were identified and assessed through our risk identification and assessment processes in 2011. Executive Management and the Board of Directors performed further analysis to prioritise these risks with a focus on highlighting the principal risks to the achievement of our strategic objectives. Of the total risks identified, 25 were highlighted as higher priority and then further consolidated into our nine ‘principal’ risks. These nine risks are monitored closely by Executive Management and the Board of Directors. While these principal ‘top 9’ risks represent a significant portion of our overall risk profile, Executive Management and the Audit Committee continue to monitor the entire universe of risks to identify and assess any changes in risk exposure, new or emerging risks for consideration by the Board of Directors.

Risk heat map

The following risk heat map illustrates the relative positioning of our principal risks in terms of impact and likelihood:



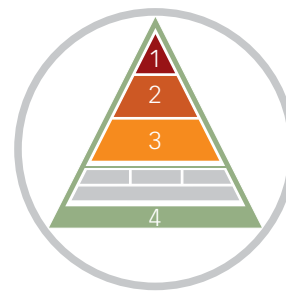
Our approach for managing risk is underpinned by our understanding of our current risk exposures, risk appetite and how our risks are changing over time.

Risk	Risk rating	Risk appetite	Risk change during 2011	Description of risk change
A. Impact of global macroeconomic developments	High	High	↑	Considering the cyclical nature of metals prices the likelihood of a drop in the price of gold and silver has increased
B. Access to land	High	Medium	↑	More challenging negotiations for land in Mexico combined with an increase in requirement for land
C. Safety	High	Low	↑	Increased reliance on contractors, not all of whom are initially familiar or in compliance with our safety policies and procedures
D. Security	High	Low	↑	Increased state of insecurity in Mexico
E. Projects	High	Medium	—	We continue to mitigate project risk through our investment governance process and system of capital project controls
F. Human resources	Medium	Medium	↑	Greater competition for skilled personnel
G. Exploration	Medium	Medium	—	Continued investment in the exploration programme has stabilised this risk
H. Environmental incidents	Low	Low	↓	Mature environmental management programme continues to reduce the likelihood of a significant environmental incident
I. Potential actions by the government	Medium	Low	↑	Pressure for a mining tax in Mexico has increased. Mining taxes have recently been implemented in other Latin American countries (Chile and Peru), and Mexican legislators continue to take steps to move in this direction.

For those risks with a risk rating that is above our risk appetite, management takes action to reduce the level of risk. See Risk Response/Mitigation in the following table.

Our principal risks

Strategic objective	Risk description and context	Risk response/mitigation
A. Impact of Global Macroeconomic Developments		
1,2,3	<p>There could be an adverse impact on our sales and profit, and potentially the economic viability of projects, from macroeconomic developments such as:</p> <ul style="list-style-type: none"> – a decrease in gold and silver prices after a prolonged period of increase (primary driver of the risk) – adverse fluctuations in MXN/USD exchange rates or other foreign currencies – inflation and – a decrease in the price of by-products (zinc and lead) 	<p>Prices of gold and silver: we have full exposure to fluctuations and currently no hedging as per our investors' mandate</p> <p>Prices of by-products and foreign exchange movements, including currencies impacting equipment purchase commitments – we have hedging policies in place See Note 31 in the Financial Statements page 163</p> <p>Inflationary pressures: we engage suppliers in long-term contracts to maintain our position as a low cost producer and control the impact of the rising cost of mining inputs See Suppliers page 24</p>
B. Access to land		
1,2,3	<p>Given our growth strategy and aggressive exploration plan, failure or significant delays in accessing the surface over our mineral concessions and other land of interest is a persistent risk with a potentially high impact on our objectives.</p> <p>Potential barriers to land access include:</p> <ul style="list-style-type: none"> – Rising expectations of land owners – Influence of multiple interest groups in land negotiations – Conflicts in land boundaries with an often arduous resolution process – Succession issues among land owners resulting in a lack of clarity about the legal entitlement to possess and sell land – Insecurity and conflicts in our exploration/operation areas increases land access complexity 	<p>To maximise our opportunities for successful land access we:</p> <ul style="list-style-type: none"> – Invest in hiring and training negotiators and provide Executive Management support for our negotiation teams – Plan well in advance for land requirements and acquisitions (e.g. anticipating potential land purchase before intensive exploration) – Foster strong community relations through investment in community programmes and infrastructure See Community Relations pages 74-75 – Always seek tri-party cooperation between the government, community and ourselves in securing access to land
C. Safety		
4	<p>Inherent to our industry is the risk of incidents due to unsafe acts or conditions causing injuries or fatalities to our people.</p> <p>Increased operational and project activity, combined with increased reliance on contractors who may not initially comply with our safety policies and procedures, has increased this risk during 2011, evidenced sadly by the fatalities from such incidents during 2011.</p> <p>Our people face risks of fires, explosions, electrocution and carbon monoxide poisoning, as well as risks specific to each mine site and development project, for example rock falls caused by the geological conditions, collisions of equipment in large operations, cyanide contamination, collisions between equipment and people and smaller vehicles.</p>	<p>Mitigating activities include:</p> <ul style="list-style-type: none"> – Ownership of safety risk by management of business units (mines, projects and exploration), supported with safety guides, operational manuals and detailed procedures, with oversight through our comprehensive HSECR system and people, who coordinate consistent and complete responses to safety risks – Training including reinforcing employee and contractor instruction and emphasis on Leadership in Safety – Zero tolerance attitude for safety incidents at all levels of operations, with rules incorporated into operational procedures, safety manuals and all aspects of communication on safety. Contractors must sign up to specific requirements, standards and procedures to align with our safety policies <p>Comprehensive information on our response to safety risk is on page 69 in the Sustainability Report.</p>



Strategic objective	Risk description and context	Risk response/mitigation
D. Security		
1,2,3,4	<p>Our people face the risk of kidnapping, extortion or harm due to violence and insecurity prevailing in Mexico. In regions of particular insecurity we also face the risk of restricted access to operations/projects or theft of assets.</p> <p>The growing influence of drug cartels, other criminal elements and general lawlessness in the north of Mexico, combined with our aggressive exploration and project activity in areas of transfer or cultivation of drugs, makes working in these areas particularly risky for us.</p>	<p>As well as closely monitoring the security situation, clear internal communications and coordination of work in areas of higher insecurity, we have a number of practices in place to manage our security risks and prevent possible incidents:</p> <ul style="list-style-type: none"> – Travel management e.g. reroute to avoid risky areas, travel in convoy, use aircraft versus land travel and avoid known insecure areas – Enhanced on-site security measures (cameras, barriers, delayed access) – Theft prevention e.g. alternating frequency of shipments, minimum inventory, minimum people informed about shipment logistics and facilities management – Invest in community programmes, infrastructure improvements, and government initiatives to support development of lawful local communities and discourage criminal acts
E. Projects		
2	<p>Core to our strategic objectives is pursuing advanced exploration and significant development opportunities, which carry project related risks:</p> <ul style="list-style-type: none"> – Economic viability: impact of capital cost to develop and maintain the mine, future metals prices and operating costs through the mine's production life cycle. – Uncertainties associated with developing and operating new mines: such as fluctuations in ore grade and recovery, unforeseen complexities in the mining process, poor rock quality, unexpected presence of water, lack of community support, and inability to obtain and maintain required operating permits. – Delivery risk: projects may go over budget in terms of cost and time, or may not be constructed in accordance with the required specifications. <p>Our other principal risk areas have an impact too, such as lack of reliable contractors, failure or delays in gaining access to land, inability to replace mined reserves, and uncertainty relating to global economic condition.</p> <p>Some projects are riskier than others. For example, Orisyvo and San Julián currently represent significant risks to the Company as both are in areas of significant insecurity impacting the movement of people and supplies. Orisyvo is very sensitive to metals prices and exposed to operational complexities which increase risk.</p>	<p>Our investment evaluation process determines how to best direct available capital using technical, financial and other qualitative criteria.</p> <p>Technical: we assess the resource estimate and confirmed resources, metallurgy of the mineral bodies, investment required in general infrastructure (e.g. roads, power, general services, housing) and infrastructure required for the mine and plant.</p> <p>Financial: we look at risk relative to return for proposed investments of capital. We set expected internal rates of return (IRR) per project as thresholds for approving the allocation of capital based on the present value of expected cash flows from the invested capital.</p> <p>Other qualitative factors: e.g. strategic alignment of investment with our business model and value chain; synergies with other investments and operating assets; and implications for safety, security, people and resourcing and community relations.</p> <p>We closely monitor our project controls to ensure we deliver approved projects on time, on budget and as per defined specifications. The Executive Management Team and Board of Directors is regularly updated on progress.</p> <p>Each advanced exploration project and major capital development project has a risk register containing the identified and assessed risks specific to the project.</p> <p>For example at the Orisyvo project, we are looking at various potential models for the mine and alternative mining techniques to mitigate economic viability and project delivery risks.</p>

Strategic objective Risk description and context

Risk response/mitigation

F. Human resources

1,2,3,4 Our people are critical to delivering our objectives. We face risks in selecting, recruiting, training and retaining the people we need, particularly as the current mining boom has created a global shortage of skilled and experienced earth sciences professionals.

Although we have a risk of union action or degradation of union relations at some sites, our overall relationship continues to strengthen and this risk has decreased.

We risk a lack of reliable contractors with adequate infrastructure, machinery, performance and skilled people, with the mining boom limiting availability of the pool of competent contractors available for the development and construction of mining works. Our growth plans make this a significant risk for us.

Recruitment: We assessed our requirements for hiring key people between now and 2015, which we aim to meet through internal training and promotion, and by recruitment through:

- Our close relationships with universities offering earth sciences programmes (we have dedicated programmes to identify potential candidates based on performance who may be hired as interns and/or residents on graduation)
- CETEF (Centre for Technical Studies Fresnillo) which teaches specific mining operational skills
- CETLAR (the Peñoles Centre for Technical Studies) which trains mechanics and electrical technicians

Retention: We provide a stable labour environment, strong corporate culture committed to our people, good working conditions, competitive benefits and career development opportunities.

Contractors: We have long-term drilling and mining contracts and provide financial resources to contractors for purchasing supplies and equipment. We invest significantly in training contractors, particularly on safety and environmental requirements.

Unions: We have clearly assigned responsibilities and programmes for maintaining close relationships with unions at mine site and national levels. Our very experienced legal team, specifically at Peñoles, provide legal support to us. We are proactive and timely in our responses to the needs of the union.

G. Exploration

3 We are highly dependent on the success of our exploration plan in meeting our targets (2011 to 2018) and through them our strategic value-creation, production and reserves goals. See Our Strategy and KPIs pages 30–31

Risks that might impact prospecting and converting inferred resources include the growing level of insecurity, lack of qualified personnel, available land and sufficient coverage of target areas.

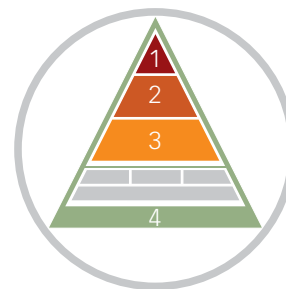
As our production escalates and more mines come close to the end of their lives, it becomes increasingly challenging to replenish their reserves.

See pages 59–61 for more on our exploration programmes and investment

We invest heavily in our exploration programme, aiming to maintain a sufficient exploration budget across metals cycles.

We also ensure we have:

- a team of highly **trained and motivated geologists**, both employees and longer-term contractors
- a **broad and robust portfolio of prospects and projects** with sufficient potential in terms of indicated and inferred resources
- advisory **technical reviews** by international third party experts
- up-to-date and integrated **GIS databases and software** for identifying favourable metallurgical belts and districts
- **drill-ready projects** see page 46 for pipeline
- a focus on increasing the **regional district exploration** programme
- strong **links with government** to promote better conditions for mining
- **identified opportunities and openness** to partnerships, mergers and early stage projects acquisitions.



Strategic objective	Risk description and context	Risk response/mitigation
H. Environmental incidents		
4	<p>Inherent to our industry is the risk of environmental incidents such as a tailings dam overflow or collapse, cyanide spill and dust emissions, among others, any of which could have a high potential impact on our people, communities and business.</p>	<p>We have strong environmental systems, procedures and controls in place and, as for Safety risks, Environmental risks are owned by the Business Units with oversight provided by the HSECR team. Our environmental management system supports our compliance with all required regulations.</p> <p>Our operations are certified under ISO 14001 and the Clean Industry programme and we rigorously adhere to the requirements established by each project's environmental permit (Environmental Impact Manifest).</p>
I. Potential actions by the Government		
1,2,3,4	<p>We face the risk of potential implementation of new requirements from the government with an adverse impact on us, such as a tax/royalty on mining companies in Mexico or new or more stringent ecological or explosives regulations (e.g. banning open pit mining, the use of cyanide, etc.).</p> <p>The current risk level is very difficult to measure as there is lack of certainty on the likelihood, structure and magnitude of any potential mining tax/royalty. The potential likelihood of new ecological regulation is currently highly uncertain. However, stricter regulation on explosives is likely due to their interconnection with security risk.</p>	<p>Our Executive Team are members of the Mexican Mining Chamber. We participate in industry and government meetings and events to continuously monitor the political and regulatory environment.</p> <p>We collaborate with other members of the mining community to lobby against new detrimental taxes/royalties or regulations. We also aim for resilience against potential impact by maintaining a low cost of production and a strong capital position.</p> <p>We maintain strict control in receiving, handling, storing and dispatching explosives in each of our operations.</p>



Performance

With a portfolio of world-class operating mines and an extensive pipeline of growth projects, underpinned by a programme of continuous investment regardless of precious metals cycles, we are on track to achieve our goal of producing 65 million ounces of silver and 500,000 ounces of gold by 2018.

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Herradura Production at the Herradura gold mine has increased continuously since the commencement of operations in 1997. Exploration and development in the Herradura District has consolidated our regional position.

Performance Overview

We maintained silver production levels in 2011 and exceeded our annual production target for gold despite lower average ore grades. We drew on our technical expertise to increase volumes of ore milled and improve recovery rates, while successfully ramping up operations at Saucito and expanding capacity at Soledad-Dipolos and Ciénega.

What we did in 2011

We maintained silver production levels in 2011 and exceeded our annual production target for gold despite lower average ore grades. We drew on our technical expertise to increase volumes of ore milled and improve recovery rates, while successfully ramping up operations at Saucito and expanding capacity at Soledad-Dipolos and Ciénega.

We implemented a Safety Action Plan and additional underground control measures following the unacceptable 11 fatalities in the year. The short-term cost of delayed production was small but necessary to ensure the long-term safety of our personnel.

Our cost reduction initiatives and efficiency projects remained on track with the commissioning of the San Carlos shaft at Fresnillo and the commencement of operations at Ciénega's shaft.

Construction of the Noche Buena gold mine and dynamic leaching plant at Herradura are advancing as expected for completion in early 2012 and 2013 respectively.

Global capital expenditure in the mining industry surpassed expected levels in 2011, resulting in shortages of equipment and consumables and generating industry-wide cost pressures. Cost per tonne milled/deposited increased at all our operating mines due to the higher unit prices of operating materials, whose estimated weighted average cost increased 11.7%; higher electricity (+15.4%) and diesel (+15.2%) costs. In addition, we implemented a 6.5% wage increase in Mexican pesos, plus 1.5% in fringe benefits. The adverse effect of a 1.7% revaluation of the Mexican peso against the US dollar affected peso-denominated production costs when translated into US dollars.

Given the scarcity of trained industry experts, we were pleased to increase our team of exploration geologists and engineers from 70 to 80 professionals in 2011. This helped grow our exploration programme from 341,265 metres of drilling in 2010 to 509,330 metres in 2011. Measured, indicated and inferred resources expanded by 23.0% for silver and 16.9% for gold. We also increased our claim holdings from 1.9 million to 2.1 million hectares in Mexico, and from 29,135 to 78,800 hectares in Peru.

Attributable production

	2011	2010	% change
Silver production (koz)	37,950	38,571	-1.6
Silverstream production (koz)	3,923	3,542	10.8
Total silver production (koz)	41,873	42,113	-0.6
Gold production ¹ (oz)	448,866	368,995	21.6
Lead production (tonnes)	21,442	18,977	13.0
Zinc production (tonnes)	23,113	22,472	2.9

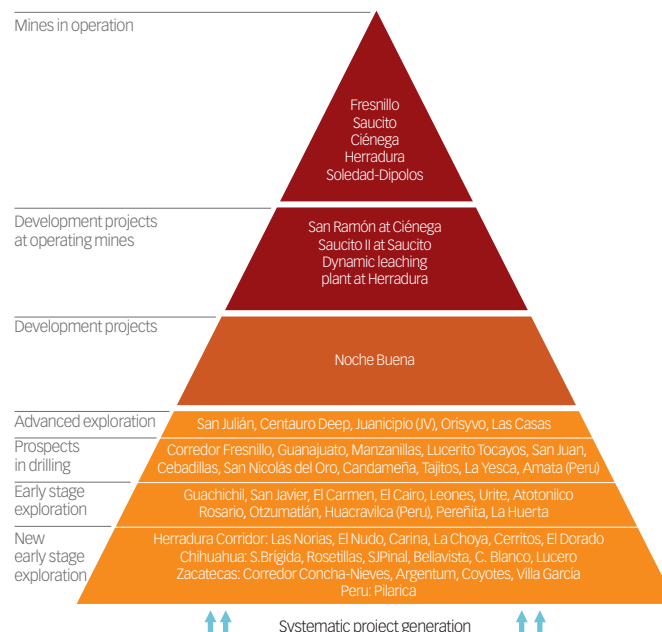
¹ Total gold production 2011: 662,813 ounces; 2010: 545,263 ounces

Adjusted revenue by mine²

	2011 US\$m	2010 US\$m	% change
Fresnillo	1,052.7	783.5	34.3
Saucito	234.6	N/A	N/A
Ciénega	250.1	186.4	34.2
Herradura	521.9	366.8	42.3
Soledad-Dipolos	248.1	137.2	80.8

² Adjusted revenue excluding inter-segment transactions to reflect the financial performance of the individual business unit

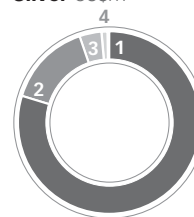
Our value chain



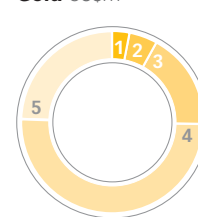
Sales contribution by mine

	Silver US\$	Gold US\$	Lead US\$	Zinc US\$
1 Fresnillo	971.1	33.1	26.3	22.2
2 Saucito	181.8	48.4	2.8	1.6
3 Ciénega	44.5	174.8	13.9	16.9
4 Herradura	13.8	508.1	–	–
5 Soledad-Dipolos	3.0	245.1	–	–

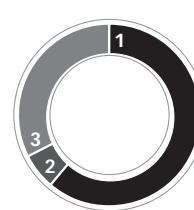
Silver US\$m



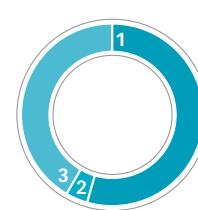
Gold US\$m



Lead US\$m



Zinc US\$m



Our mining districts



Maximising the potential of existing operations

Fresnillo

Ownership: **100% Fresnillo plc**

Location: **Zacatecas**

Facilities: **Underground mine and flotation plant**

2011 milling capacity: **8,000 tpd / 2,640,000 tpy**

Workforce: **920 employees, 675 contractors**

Reserves and mine life

In operation since: **1554**

Mine life: **13.3 years** (2010: 13.7)

Total reserves	2011	2010	% change
Silver (moz)	324.7	365.4	-11.1
Gold (oz)	731,000	746,000	-2.0

Average ore grade in reserves	2011	2010	% change
Silver (g/t)	287	324	-11.4

Mine production

	2011	2010	% change
Ore milled (kt)	2,584	2,554	1.2
Silver (koz)	30,295	35,906	-15.6
Gold (oz)	26,237	24,979	5.0
Lead (tonnes)	13,385	12,236	9.4
Zinc (tonnes)	12,623	12,212	3.4

Financial highlights

	2011	2010	% change
Adjusted revenue (US\$m)	1,052.7	783.5	34.3
Gross profit (US\$m)	859.9	627.0	37.1
Capital expenditure (US\$m)	104.4	60.7	72.0

Strategy

Maintain silver production as average ore grades decrease towards the average of the resource base, by expanding milling capacity and intensifying exploration work to expand the resource base, all in a safe workplace.

What we said we would do in 2011

- 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

What we did in 2011

- Commissioned the San Carlos shaft
- Initiated evaluation of beneficiation plant expansion
- Increased backfilling to secure safety conditions
- Obtained Highly Protected Risk recognition from FM Global (first mine in Mexico to obtain this recognition from the noted insurance company)

What we plan to do in 2012

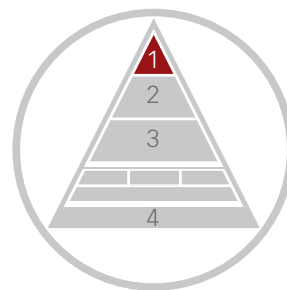
- Mitigate lower ore grades through accelerated and mechanised preparation of new areas of the mine
- Conclude engineering for the expansion of the beneficiation plant to 10,000 tpd (3,300,000 tpy) (2H 2012 construction, 2013 start-up)
- Complete OHSAS 18001 certification process, an international occupational health and safety management system specification

Fostering community support

The Fresnillo mine's investment in regional infrastructure and community development includes the Los Jales Ecologic Park, a tourist mine and a zoo, which receive a combined 500 daily visitors on average during vacation season.

This year we began renovating the zoo, opened a new recreational park at a former mine shaft, restored the elementary school of the Beleña community and built a bicicross stadium considered one of the best in Mexico. We also supported the State of Zacatecas by co-sponsoring the National Silver Fair and an economic development zone for the mining sector.





About the mine

Fresnillo is the world's largest primary silver mine, producing approximately 2.8% of total global silver production in 2011. The mine generated 45.6% of the Group's adjusted revenue in 2011 and 80.0% of total attributable silver production.

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).

Specific safety concerns at this mine include the increased risk of rock falls due to the geological conditions of the mine and the large size of its mining stopes. Due to the scale of the operation (more than 300 pieces of diesel equipment in the mine with significant movement) there is an increased risk of fire and accidents due to collisions between equipment, and between equipment and personnel. In addition, drilling with long recesses increases the risk of falls to gradient. We implemented specific controls in 2011 regarding backfilling and drilling methods to mitigate these risks.

Key developments in 2011

Annual silver production at Fresnillo decreased 15.6% from 2010 due to lower ore grades. This was a combination of natural and expected mine life changes and limited extraction from high grade stopes due to backfilling activities conducted for safety reasons. To compensate for this effect and maximise the full potential of the mine, we increased production at lower grade stopes.

As a result, the average silver ore grade declined to 396 g/t in 2011, beyond the Group's expectations of 452 g/t. Further declines in the silver ore grade are expected at Fresnillo due to depletion of high grade stopes, with expected averages closer to the resource grade throughout the remaining life of the mine (albeit with higher gold, lead and zinc ore grades).

To maintain silver production at current levels, we plan to expand milling capacity from 2,640,000 to 3,300,000 tpy in 2013, with engineering already underway and construction set to begin in late 2012. To ensure sufficient feed for the expanded milling capacity we are accelerating the preparation of new stopes.

In contrast to silver ore grades, gold, lead and zinc ore grades are increasing at Fresnillo. Production of these by-product metals in 2011 rose by 5.0%, 9.4% and 3.4% respectively as a result of this natural trend.

Despite achieving certain sustainability objectives in 2011, such as zero consumption of fresh water and increased usage of recycled oil, there were an unacceptable five fatalities in the year which led to a significant re-examination of our safety and health programme, as discussed in detail on pages 66–69. The resulting Safety Action Plan included an acceleration of backfilling activities at long-hole

stopes and increased rock bolting and shotcreting work across the entire mine. Safety procedures are being further reinforced with a revised mine plan that reduces the depth of the long-hole drill to further improve stability, and backfilling that occurs immediately after extraction is completed from all zones.

Investment in maintenance, productivity and growth

Capital expenditures totalled US\$71.2 million in 2011, an 88.3% increase over 2010. Funds were allocated to the acquisition of surface land, preparation and development of new stopes, acquisition and replacement of equipment and spare parts. This figure does not include mining works at the wholly owned San Julián project.

The San Carlos shaft was commissioned at year end 2011, which will facilitate extraction of mineral from the highly productive western zone of the San Carlos vein, thus reducing haulage distance and cost at the Fresnillo mine. A second stage of the project will be developed in 2018 in order to access ore resources at deeper levels.

Resources at Fresnillo increased from 59.2 million tonnes at 383 g/t to 64.7 million tons at 360 g/t. Silver contained in these resources increased by 3.0% to 750 million ounces. In terms of reserves, tonnage remained stable at 35.2 million tons (2010: 35.1mt), ore grade decreased to 287 g/t (2010: 324 g/t) with silver content of 324.7 million ounces (2010: 365.4 moz). Based on proven and probable reserves and current milling capacity, the expected life of the mine is 13.3 years (2010: 13.7).

Financial performance

Despite the reduction in silver ounces produced in 2011, adjusted revenue excluding inter-segment sales, rose 34.3% to US\$1,052.7 million due to higher silver prices.

Cost per tonne milled rose by 5.1% over 2010 to US\$43.0 as a result of the annual increase in wages and fringe benefits and changes in the actuarial assumptions which increased the pension fund liability. This mine was impacted more severely compared to other mines within the Fresnillo Group due to the age, seniority and wages profile of employees. Other factors affecting cost per tonne were higher energy and diesel prices, additional backfilling, rock bolting and shotcreting activities, as well as higher volumes of material hauled, which impacted the mine's expenditures on contractors, fuel and equipment.

These factors were partially mitigated by the 1.2% increase in ore milled and lower maintenance costs. Gross margin expanded from 85.5% in 2010 to 88.6% in the current period.

Our Mines in Operation **continued**

Maximising the potential of existing operations

Saucito

Ownership: **100% Fresnillo plc**
 Location: **Zacatecas, 8 km SW of the Fresnillo mine**
 Facilities: **Underground mine and flotation plant**
 2011 milling capacity: **3,000 tpd / 990,000 tpy**
 Workforce: **767 contractors**

Reserves and mine life

In operation since: **2011**

Mine life: **2.8 years** (2010: 2.6)

Total reserves	2011	2010	% change
Silver (moz)	24.6	29.3	-16.0
Gold (oz)	173,000	180,000	-3.9
Average ore grade in reserves	2011	2010	% change
Silver (g/t)	275	355	-22.5

Mine production

	2011	2010	% change ¹
Ore milled (kt)	818	145	>100
Silver (koz)	5,904	1,222	>100
Gold (oz)	33,493	6,323	>100
Lead (tonnes)	1,742	273	>100
Zinc (tonnes)	1,171	147	>100

Financial highlights

	2011 ²	2010	% change
Adjusted revenue (US\$m)	234.6		
Gross profit (US\$m)	177.5		
Capital expenditure (US\$m)	65.3		

¹ 2010 figures are for development ore processed at the Fresnillo mill

² 2010 revenue was credited to the investment in the project

Strategy

Ramp up operations and achieve targeted annual production levels of 9.0 million silver ounces and 45,000 ounces of gold; intensify drilling activities to convert resources into reserves with a possible future expansion of the mine.

What we said we would do in 2011

- Complete construction of the mine

What we did in 2011

- Commissioned the mine on time and below budget

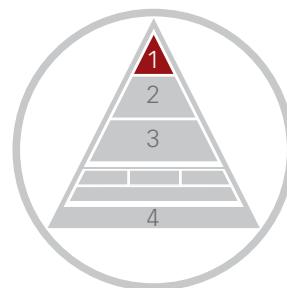
What we plan to do in 2012 and beyond

- Ramp up production to 6.5 million ounces of silver
- Obtain Clean Industry certification, initiate OHSAS 18001 and ISO 14001 certification processes
- Expand the tailings dam

Fostering community support



We built a middle school library and renovated the community kindergarten in 2011. For the two traditional festivals of Fatima Virgin Day and San Juan Bautista Day, we sponsored sport tournaments, a 5K race and pilgrimage. We also organised a training programme for teachers from area schools.



About the mine

Saucito is eight kilometres southwest of the Fresnillo mine. The Group is developing basic infrastructure for the local ejido (collective community) of Saucito del Poleo, population of 317 (2010 census). This mine, which started up operations in 2011, is expected to become one of the key drivers of silver production and earnings growth for the Group, while playing a significant role in boosting local economic development.

As with the Fresnillo mine, safety concerns at Saucito include the risk of rock falls, fire, equipment and personnel collisions, and the risk of falls to gradient in areas of drilling with long recesses. Specific controls were implemented in 2011 regarding backfilling and drilling methods to mitigate these risks.

Key developments in 2011

Commercial production at Saucito commenced in April 2011 following a total investment of US\$273 million, below the original budget due to the timely purchase of critical equipment and lower than expected equipment requirements as some contractors used their own. Annual silver production of 5.9 million ounces surpassed the estimated figure for the first year of production, which was revised to 5.5 million ounces in 2H 2011. Similarly, gold production reached 33,493 ounces in 2011, which favourably compared to the anticipated 22,500 ounces.

This outcome was achieved by milling at full capacity while depleting stockpiled ore from the pre-operative phase and processing ore from current preparation activities and production stopes.

The construction of the Jarillas shaft remained on schedule for start-up in 2H 2012. This new shaft will have a 5,000 tonnes per day capacity and will reduce haulage and hoisting costs at the Saucito mine.

Notwithstanding strong production results, there were three fatalities at Saucito in 2011 due to improper adherence to safety procedures, and the mine experienced higher than average personnel turnover in the year related to the perceived external security situation. The employee retention rate improved as the Company enhanced its security measures over the course of the year, which also helped strengthen safety performance given the correlation between tenure and participation in safety training. We also inaugurated the Occupational Health Unit during the year.

The challenge at Saucito is to convert our vast resource base into proven and probable reserves. Total resources in 2011 were 46 million tonnes with an average ore grade of 362 g/t with silver content totalling 536 million ounces, as well as 2.6 million ounces of gold. Current audited reserves indicate a more modest profile, with 2.8 million tonnes with ore grade of 275 g/t with silver content of 24.6 million ounces of silver.

A feasibility study for the potential expansion of Saucito (known as Saucito II) in the coming years will be conducted once resources are converted into reserves. Work on the potential expansion site also include 23,066 metres of diamond drilling on the surface of the Santa Natalia and Jarillas veins, while underground drilling was conducted on the Jarillas, Mezquite and Saucito veins. Definition drilling was also carried out on the ore-shoot west of the Jarillas shaft, adding over 76 million ounces of silver and 300,000 ounces of gold to the resources.

Financial performance

In its first year of commercial operation, Saucito generated US\$234.6 million in adjusted revenue, almost 10% of the Group's consolidated figure. Cost per tonne of US\$51.7 was in line with our projections. Gross margin was 81.3%.

Investment in maintenance, productivity and growth

Capital expenditures totalled US\$65.3 million and were incurred on mining works, ramps and construction of a tailings dam.

Our Mines in Operation **continued**

Maximising the potential of existing operations

Ciénega

Ownership: **100% Fresnillo plc**
 Location: **Durango**
 Facilities: **Underground mine, flotation and leaching plant**
 2011 milling capacity: **2,800 tpd / 930,000 tpy**
 Workforce: **452 employees, 334 contractors**

Reserves and mine life

In operation since: **1992**

Mine life: **13.8 years** (2010: 11.3)

Total reserves	2011	2010	% change
Gold (oz)	830,000	840,000	-1.2
Silver (moz)	54.0	43.3	24.7
Average ore grade in reserves	2011	2010	% change
Gold (g/t)	2.01	2.51	-19.9
Silver (g/t)	131	128	2.3

Mine production

	2011	2010	% change
Ore milled (kt)	967	860	12.4
Gold (oz)	116,841	113,351	3.1
Silver (koz)	1,474	1,198	23.0
Lead (tonnes)	6,315	6,468	-2.4
Zinc (tonnes)	9,318	10,112	-7.9

Financial highlights

	2011	2010	% change
Adjusted revenue (US\$m)	250.1	186.4	34.2
Gross profit (US\$m)	165.7	116.6	42.1
Capital expenditure (US\$m)	79.8	65.1	22.6

Strategy

Maintain production in equivalent gold ounces; compensate for lower average gold ore grade by exploring and extracting mineral from the San Ramón satellite and other areas of influence, controlling costs, and evaluating the leaching of gold and silver from zinc concentrates.

What we said we would do in 2011

- Complete expansion of milling capacity to 930,000 tpy
- Commission the deeper shaft

What we did in 2011

- Operated at expanded capacity, exceeding 930,000 tpy
- Commissioned the deeper shaft
- Developed the San Ramón satellite

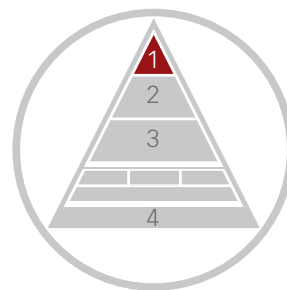
What we plan to do in 2012

- Commission the San Ramón satellite; ore will be trucked and processed at Ciénega
- Ongoing dilution control
- Evaluate opportunities to increase silver and gold recovery rates by leaching zinc concentrates
- Obtain International Cyanide Management Code certification, which was delayed in 2011 due to the expansion
- Continue exploration of the Cebollitas cluster, which is also expected to be a satellite of Ciénega

Fostering community support

We completed construction of a library this year, renovated middle school facilities and co-sponsored a public health day with the Santiago Papasquiaro municipality. Our Sustainable Forest project continued to grow, expanding by 235 hectares to 735 hectares in total, including 100,000 new trees planted to reforest areas damaged by a dry season that caused fires all over Mexico. We also sponsored the 10th Community Fair with cultural activities such as a travelling museum and a cavalcade.





About the mine

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, we provide a broad range of basic services including telecommunication, education and healthcare.

This mine has an increased safety risk associated with the reliance on contractors, although extensive training and monitoring procedures are in place, and have been further increased following one fatality in 2011.

In 2011 the San Ramón project was classified as a satellite mining zone to Ciénega due to its proximity to the mine. We completed construction of a 14 km road to truck ore from San Ramón to Ciénega.

Key developments in 2011

Annual gold production rose by 3.1% over 2010 due to the expansion of milling capacity to 2,800 tpd (930,000 tpy). This new capacity was used to process ore from the production stopes at Ciénega as well as from development at the San Ramón satellite, where volumes totalled 86,226 tonnes in 2011. Production in the year was further increased through maintenance improvements, reduction in size of mill feed, dilution control and improved recovery rates.

Average gold ore grade decreased by 9% compared to 2010, lower than the anticipated 12%, and is expected to remain stable at 3.5 g/t in 2012. However annual silver production increased due to the high silver grade contents from San Ramón and increased ore throughput at the Ciénega mine. Production of lead and zinc by-products declined as a result of lower average ore grades.

The sinking of the shaft a further 300 metres to gain access to deeper ore reserves was completed and hoisting of material began in December. This project will contribute to maintaining our production target of at least 110,000 gold ounces per year and to reducing costs.

Investment in maintenance, productivity and growth

Capital expenditures rose by 22.6% from 2010 to US\$79.8 million with resources allocated to development and mining works, San Ramón development, expansion of milling capacity, sinking of the shaft, acquisition of surface land, expenditures related to obtaining certification under the International Cyanide Management Code, and replacement of equipment.

Resources remained stable at 1.7 million ounces of gold in 2011, while silver significantly increased from 94.2 million ounces in 2010 to 122.2 ounces in 2011. Gold content in reserves slightly decreased to 830,000 gold ounces (2010: 840,000 oz), but with silver increasing by 24.7% to 54 million ounces. The mine life is estimated at 13.8 years at the expanded capacity.

At the San Ramón satellite resources were increased to 37.2 million ounces of silver and 248,000 ounces of gold, and a new ore shoot was identified in the eastern extension of the Bandera vein.

Financial performance

Adjusted revenue increased by 34.2% to US\$250.1 million in 2011, reflecting increased volumes and higher prices of gold, silver and lead.

Cost per tonne this year was largely impacted by the additional 2,538 metres developed at Ciénega and mining works at San Ramón aimed at preparing near-term commercial production. These activities particularly affected costs of contractors and certain operating materials, as well as higher diesel consumption and maintenance costs due to longer haulage distances. These factors were partially offset by a 12.4% increase in volume of ore milled. Nonetheless, cost per tonne milled rose by 16.1% to US\$73.4. Gross margin in the year increased to 70.1% from 67.3% in 2010.

Our Mines in Operation **continued**

Maximising the potential of existing operations

Herradura

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

Location: **Sonora**

Facilities: **Open pit mine, heap leach and Merrill-Crowe plant**

Workforce: **782 employees, 220 contractors**

Reserves and mine life

In operation since: **1997**

Mine life: **7.2 years** (2010: 10.0)

Total reserves	2011	2010	% change
Gold (moz)	2.0	1.9	5.3
Average ore grade in reserves	2011	2010	% change
Gold (g/t)	0.78	0.83	-6.0

Mine production

	2011	2010	% change
Ore deposited (kt)	21,020	16,616	26.5
Gold (oz) ²	183,528	162,984	12.6
Silver (koz)	227	216	5.1

Financial highlights

	2011	2010	% change
Adjusted revenue (US\$m)	521.9	366.8	42.3
Gross profit (US\$m)	404.8	268.9	50.5
Capital expenditure (US\$m)	72.7	54.4	33.6

Strategy

Maximise gold production with consideration of price cycles and ore grades; increase volumes of ore deposited; increase recovery rates of high grade ore with the construction of a dynamic leaching plant; conduct ongoing exploration at the Centauro Deep project and areas of influence; evaluate an expansion of the Merrill-Crowe plant.

What we said we would do in 2011

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

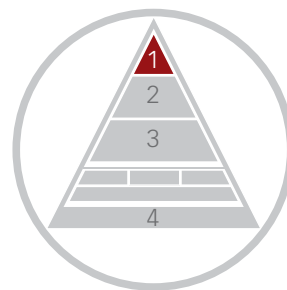
What we did in 2011

- Processed record volumes of mineral and produced record gold ounces
- Intensified exploration programme, increasing resources 13.3% at Centauro Deep
- Concluded pre-feasibility study and began construction of the dynamic leaching plant
- Obtained International Cyanide Management Code certification
- Identified new areas with high potential near the Centauro pit

What we plan to do in 2012

- Complete construction of the dynamic leaching plant (2013 start-up)
- Convert inferred resources into measured and indicated in Centauro Deep to support construction of a shaft
- Advance OHSAS 18001 certification process to 90% of completion
- Intensify exploration at areas of influence to increase the resource base

² Total gold production 2011: 327,729 ounces, 2010: 291,043 ounces



About the mine

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.

The specific safety risks associated with this open pit mine include collision between major equipment, trucks running over smaller vehicles or people, diesel fire and cyanide contamination, all of which have safeguards and monitoring procedures in place.

The Centauro Deep exploration project is taking shape below the main pit of Herradura for potential development as an underground mine. See Review of Operations pages 60

Key developments in 2011

Annual attributable gold production benefited from increased ore volumes deposited at the leaching pads, reaching record levels at 183,528 ounces, as a result of additional trucks and loaders and the efficiency achieved by contractors. Total gold production was 327,729 ounces.

Average gold ore grade in 2011 decreased by 7.5% to 0.65 g/t as a result of the Company's strategy to deposit volumes of low grade ore which are economically viable at current price levels. In 2012, we expect a slight increase in gold ore grade as mineral from the bottom of the Centauro pit is deposited.

Herradura attained its International Cyanide Management Code certification in May 2011.

Attributable resources, which include those of Centauro Deep, remained stable at 3.7 million ounces of gold, while attributable proven and probable reserves rose by 5.3% to 2.0 million ounces in 2011. Based on audited reserves and the increased production volumes the expected life of the mines is 7.2 years, compared to 10 years in 2010.

Investment in maintenance, productivity and growth

Capital expenditures totalled US\$72.7 million, a 66.0% rise from 2010. Funds were allocated to the construction of leaching pads, expansion of the Centauro pit, and construction of the dynamic leaching plant.

The construction of the first phase of the ninth leaching pad was concluded and the second phase remained on schedule to become operational in 1H 2012, ensuring operational continuity at current levels.

The dynamic leaching plant now under construction will process high grade ore from Herradura and Soledad-Dipolos when it starts up in 2013. This project is expected to increase gold production by an average of 51,000 total ounces per year over the 2013–2020 period. Total investment in the project is budgeted at US\$106.8 million.

Financial performance

The Herradura mine generated adjusted revenue of US\$521.9 million, a 42.3% increase over 2010 reflecting higher sales volume and record gold prices.

Cost per tonne deposited rose by 6.2% to US\$6.0 primarily due to longer haulage distances and the deeper Centauro pit and maintenance of trucks and loaders. In addition, higher wages and bonuses were paid to workers for reaching efficiency goals. These costs were somewhat mitigated by the 26.5% rise in volumes of ore deposited, and 100% reuse of spent lube oil for blasting, representing more than 600,000 litres. Gross margin expanded from 73.5 to 77.7%.

Fostering community support



We helped fund restoration of a local football stadium and built an addition to the Community Centre where we sponsor regular physical, cultural and educational activities for women, senior citizens and children. We also sponsored the traditional festival of the Caborca community with a civic parade and promoted a better understanding of mining activities through regular visits to our facilities.

Our Mines in Operation **continued**

Maximising the potential of existing operations

Soledad-Dipolos

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

Location: **Sonora**

Facilities: **Open pit mine and Merrill-Crowe plant (except smelting, which is done at Herradura)**

Workforce: **377 employees, 256 contractors**

Reserves and mine life

In operation since: **2010**

Mine life: **4.3 years** (2010: 6.3)

Total reserves	2011	2010	% change
Gold	580,000	590,000	-1.7
Average ore grade in reserves	2011	2010	% change
Gold	0.60	0.62	-3.2

Mine production

	2011	2010	% change
Ore deposited (kt)	12,265	9,648	27.1
Gold (oz) ³	88,767	61,358	44.7
Silver (koz)	50	29	72.4

Financial highlights

	2011	2010	% change
Adjusted revenue (US\$m)	248.1	137.2	80.8
Gross profit (US\$m)	180.4	97.7	84.7
Capital expenditure (US\$m)	37.1	36.8	0.8

Strategy

Maintain gold production levels for the next four years at the expanded capacity of 130,000 gold ounces per year; continue exploration to increase the resource base and increase mine life

What we said we would do in 2011

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

What we did in 2011

- Completed expansion and exceeded production target with 158,513 total gold ounces

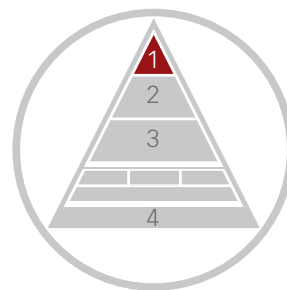
What we plan to do in 2012

- Continue exploration at areas of influence to extend mine life
- Advance OHSAS 18001 certification process to 90% of completion
- Obtain International Cyanide Management Code certification

³ Total gold production 2011: 158,513 ounces, 2010: 109,567 ounces



Attributable gold production increased by 44.7% in the year, in line with our strategy to accelerate throughput at current price levels. We continue to explore in the mine's area of influence to expand the resource base.



About the mine

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.

The specific safety risks at Soledad-Dipolos are the same as with any open pit gold mine: equipment collisions and accidents, fire and cyanide contamination, all of which have safeguards and monitoring procedures in place.

Key developments in 2011

Attributable gold production increased by 44.7% compared to 2010 due mainly to the ramp-up of expanded production capacity to 130,000 total gold ounces per year. Similar to Herradura, higher volumes of mineral were hauled and deposited at the pads by contractors, in line with the Company's strategy to accelerate throughput at current price levels. This contributed to the increase in total gold production to 158,513 total ounces in 2011.

For 2012 a decrease in production volumes to the stated capacity of 130,000 ounces is expected due to the shifting of contractors from production activities to stripping.

Average gold ore grade was 0.57g/t in 2011 and is expected to remain at similar levels for 2012.

Attributable resources at this mine totalled 600,000 ounces of gold by year-end, a 22.1% decrease, while attributable reserves decreased from 590,000 to 580,000 ounces of gold resulting in an expected mine life of 4.3 years at the current production capacity. Notwithstanding, the Group continues to explore in the area of influence to expand the resource base at this mine.

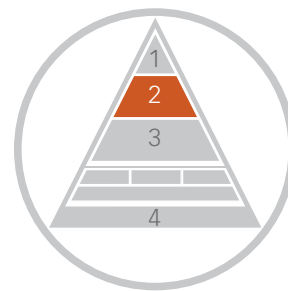
Investment in maintenance, productivity and growth

Capital expenditures of US\$36.8 million were allocated to mine development, construction of leaching pads and acquisition of additional equipment.

Financial performance

Adjusted revenue increased by 80.8% to US\$248.1 million due to increased volumes of gold ounces sold at higher prices. The increase in mine development and surveillance impacted costs in the year although this was partially offset by synergies resulting from the 27.1% increase in ore deposited. Cost per tonne deposited increased by 2.0% to US\$5.8. Gross margin of 73.0% in 2011 compared favourably to the 71.4% in 2010.

Our Development Projects



Noche Buena

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

Location: **Sonora, 23 km from Herradura**

Facilities: **Open pit mine, heap leach and Merrill-Crowe plant**

Production forecast

Commercial production: **1Q 2012**

Anticipated annual average production: **42,000 attributable ounces of gold**



Positive exploration results indicate the potential for longer mine life, warranting the construction of a second leaching pad.

About the project

Noche Buena was acquired in 2008. It is a disseminated gold deposit being developed as an open pit heap leach operation, similar to the existing Herradura and Soledad-Dipolos mines.

The budgeted production at this mine is 376,000 ounces of gold over the initial five year mine life, although we expect to extend that figure. The average ore grade will be 0.5 g/t. Our unaudited reserves estimate of 460,000 ounces of gold was deemed conservative by an independent mining consultancy. Unaudited total gold resources increased to 1.35 million ounces.

The Noche Buena mine will be supported by the same communities as Herradura and Soledad-Dipolos.

As with all our development projects, safety risk is increased due to the extensive reliance on contractors, some of whom are new and not accustomed to the Group's safety policies and procedures. All contractors are subject to strict training and monitoring as part of our risk mitigation.

What we did in 2011

Development remained on track to start commercial production in 1Q 2012.

Personnel were trained over the course of 2011, included truck operators who are currently working with the development team. Safety training courses for all new employees have already begun.

Given the encouraging exploration results that indicate potential for longer mine life (460,000 total ounces of gold in reserves and 1.3 million total ounces in resources at year end 2011), the Executive Committee approved construction of a second leaching pad which will require an additional US\$13.8 million investment and is expected to be completed in 2H 2012.

What we plan to do in 2012

- Commission the mine and operate at expected capacity
- Initiate International Cyanide Management Code certification process
- Verify potential to expand capacity and submit evaluation to purchase additional trucks and loaders

Noche Buena

Timeline

2008	2009	2010	2011	2012
Fresnillo Group through its Penmont joint venture, acquired the Noche Buena gold project.	Intensive exploration programme was carried out.	Pre-feasibility study was concluded and engineering was completed.	Construction of Noche Buena under way.	Start-up expected for the 1Q 2012.

Extending the Growth Pipeline

Our Exploration Programme



How we do it

What we did in 2011

The Group's exploration programme in 2011 included 509,330 metres of drilling, mapping, geochemical sampling, and geophysical surveys.

The Group's precious metals growth pipeline was significantly strengthened in the year with a double-digit increase in gold and silver resources, including the upgrading of inferred resources to the indicated category at Juanicipio, new resources located at San Julián, and the acquisition of 218,806 additional hectares of mining claims.

Two fatalities occurred in 2011, one at Centauro Deep and one at San Julián. The Group's Safety Action Plan developed in response to safety performance in the year, integrates extensive training and monitoring procedures in exploration sites as it does across all the operations.

What we plan to do in 2012

- Conclude the pre-feasibility study at San Julián and initiate construction
- Continue development and ramp construction at Centauro Deep
- Conclude the pre-feasibility study at Juanicipio
- Define metallurgy and determine mining method at Orisyvo
- Initiate the pre-feasibility study at Las Casas (Ciénega)

Our long-term objective is to discover and develop economically viable silver-gold deposits, and to advance new and early stage prospects into the drilling and advanced exploration phases.

Fresnillo District

Minera Juanicipio

Ownership: 56% Fresnillo plc, 44% MAG Silver

Location: Zacatecas, 8 km SW of the Fresnillo mine

Indicated & inferred resources (attributable)

Silver: 108.7 million ounces

Gold: 340,000 ounces

Infill drilling continued to upgrade resources on the Valdecañas vein to the indicated category. Additional exploration along the Juanicipio and Las Venadas veins shows variable grade and thickness. Drilling is currently underway at the Las Venadas lineament to define the geological models. The pre-feasibility study will be delivered in 1Q 2012 which will help determine the next steps for this project.

Other sites in the Fresnillo corridor

Drilling of new geophysical-geochemical targets was initiated in two areas, 13 kilometres east and 11 kilometres south of the Fresnillo mine, and totalled 10,434 metres in 15 holes. Anomalous silver and base metals were obtained. Additional claims were purchased to consolidate the holdings in this District.

At the Juanicipio project, inferred resources were upgraded to the indicated category.



Exploration in the Herradura District is further strengthening our profile in gold.



Extending the Growth Pipeline *continued*

Our Exploration Programme

Herradura District

Centauro Deep

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

Location: **Sonora, below the Centauro main pit at Herradura**

Indicated & inferred resources (attributable)

Gold: **1.4 million ounces**

Drilling continued from the bottom of the current pit with 33 holes totalling 30,750 metres, with gold mineralisation persisting to 1,500 metres depth. Mining works remained on track. A pre-feasibility study is scheduled for 2012–2013.

Ciénega District

Las Casas-Rosario

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

Location: **Durango**

Indicated & inferred resources

Gold: **365,000 ounces**

Silver: **34.4 million ounces**

We conducted 35,040 metres of drilling in 2011 in 87 holes exploring the wide silver-lead-zinc veins. Additional mineralisation was identified, as well as a new vein, Las Casas del Bajo. As a result, a new geological model was developed and the scoping study initially planned for 2011 will be conducted in 2012 to evaluate the economic potential of this resource and the better grade ore shoots.

We continue to drill at veins adjacent and parallel to the Ciénega system and the transversal vein on the east end of the mine.

Other prospects in Mexico

San Julián

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

Location: **Chihuahua/Durango border**

Indicated & inferred resources (attributable)

Silver: **153.8 million ounces**

Gold: **780,000 ounces**

We increased surface holdings to 2,746 hectares in the year and conducted 88,028 metres of drilling in 186 holes. Silver and gold resources both increased from the previous year and several gold-silver veins were discovered in the Shalom area. The San Julián ramp was extended to 13,389 metres and 237 metres were constructed on the new Todos Santos adit. A new oblique vein system with good gold grades was exposed in these workings.

In accordance with the original scoping study, initial development work was conducted on the disseminated JM silver deposit. As a result of a series of new discoveries of silver gold veins, the volume of vein ore is now similar to the disseminated ore. A new scoping study will include these additional vein resources.

Orisyvo

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

Location: **Chihuahua**

Indicated & inferred resources (attributable)

Gold: **9.6 million ounces**

We drilled 37,580 metres in 51 holes and constructed the first 300 metres of an exploration adit in 2011 to obtain further samples for metallurgical testing and to delineate the mineralisation at this large gold-bearing porphyry system situated in a remote area of the Sierra Madre. The 40% increase in indicated resources warrants continued investment, and in 2012 we will explore the higher grade sulphide core from surface and underground drill stations.



Exploraciones Minera Parreña

Ownership: **100% Fresnillo plc**

Guanajuato (Guanajuato)

Positive gold and silver drilling results in the Opulencia and La Luz veins, with an initial resource estimate at Opulencia yielding 150,000 ounces of gold equivalent; good exploration potential is envisioned in seven target areas and access and environmental permitting is in process

Lucerito (Durango)

Initial resource estimate yielded 1.3 million ounces of gold and 81.1 million ounces of silver, with lead and zinc credits; potential for open-pit mining of sulphide ores hosted by breccias along a 1.6km strike

San Juan (Durango)

Drilling showed closure of El Indio structure at its northwest end, however interesting silver-gold intercepts at the Lorena vein extension; a scoping study will be conducted in 2012

Manzanillas (Durango)

Initial resource estimate yielded 130,000 ounces of gold and 2.5 million ounces of silver on the Tres de Mayo vein. Drilling is planned on the nearby Aguas Blancas structure

San Nicolás del Oro (Guerrero)

Work in 2011 was primarily focused on community relations; initial resource estimate of 630,000 ounces of gold equivalent in three target zones with mineralization open along strike and at depth; 40% of the district has been explored and three additional target areas have been delineated for drill testing; access and environmental permitting is in process

Tajitos (Sonora)

Initial drilling at this vein and disseminated gold prospect resulted in 0.3 to 2 g/t gold over 8 metres to 48 metres thickness in two areas

Candameña (Chihuahua)

Initial drilling at this disseminated gold prospect indicates interesting values in both oxide and sulphide material, 50 metres to 150 metres thick, with silver and copper credits; drilling also started in the adjacent 100%-owned Memelichi prospect, with anomalous gold and silver values intersected

Guachichil (Zacatecas)

High-resolution aeromagnetometry and environmental studies completed; awaiting exploration permits for a 2012 plan of 45,000 metres combined core and reverse circulation drilling

Cebadillas (Nayarit)

Drilling was initiated at the Olga and Santana veins; initial resource estimate at Olga yielded 250 koz of gold equivalent in oxide, open-pittable ore; three additional veins with good exploration potential to be tested in 2012

Peru

Amata

Ownership: **100% Fresnillo plc**

At this disseminated gold-silver prospect in the southern Peruvian Andes, 50% of the core drilling programme was completed in two target areas, with additional target areas to be tested in 2012.

Advancing our sustainable development



Jaime Lomelín
Chief Executive Officer

"A core pillar of our strategy is strengthening the Group's sustainability framework; I am personally committed to our performance in this area."

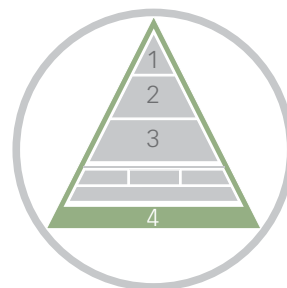
Overview

The Fresnillo plc business model is dependent upon solid sustainable development practices. We believe that the sole way to secure a thriving and successful business is to safeguard the life and wellbeing of its stakeholders. Given the high social and environmental impact of the mining sector at the local level, we strive to earn and maintain our social licence to operate with responsible stewardship of Health, Safety, Environment and Community Relations (HSECR). We also believe that a commitment to operational efficiency and improved performance in areas such as unit consumption of energy and water, recycling and waste management will benefit our own productivity and reputation, as well as the development of Mexico.

We are proud of our track record as a socially and environmentally responsible company and deeply value our relationships with all our stakeholders. Thus I am profoundly saddened by our safety performance in 2011. We lost 11 men, two employees and nine contractors, whom we also honour for their roles as husbands and fathers and friends in the communities where we operate. This performance signalled insufficient compliance with our safety systems and procedures and we responded immediately, as per the Safety Action Plan described herein, recognising that strengthening our precious metals position requires strengthening every component of our business model.

Following an assessment by PricewaterhouseCoopers (PwC) of our HSECR system we prepared a 2012–2016 Action Plan to ensure that gaps are closed and we achieve a fully integrated and effective corporate responsibility programme. This is part of a change in our approach to sustainability that looks at systems, processes and data holistically. We have a long-term goal to strengthen the way in which we operate, working closely with our employees, contractors, governments and communities to create real solutions and make real contributions to the places where we operate.

This report summarises our programmes and performance and corresponds to our third Communication on Progress as signatory of the United Nations Global Compact. We invite you to visit our website to learn more about our integrated sustainability initiatives.



Sustainability strategy at a glance

Area of focus	Objectives	KPIs	Targets
Health			
Risk: Impact of our operations on the health of employees and contractors Opportunity: Promotion of healthier lifestyles in the locations we impact	Control occupational illnesses and improve general health through preventive care	<ul style="list-style-type: none"> – Disabling occupational disease rate – Lost work days rate for general diseases 	<ul style="list-style-type: none"> – Continuous improvement
Safety			
Risk: Impact of our operations on the physical integrity of employees and contractors Opportunity: Promotion of behavioural change towards a shared culture of safety	Zero fatalities and lost time accidents through the elimination of dangerous workplace conditions and behaviours	<ul style="list-style-type: none"> – Fatalities – Accident rate – Lost work days rate – Lost work days rate for work accidents 	<ul style="list-style-type: none"> – Zero fatalities – Accident rate under 2.0 – Lost work days rate under 1.0
Environment			
Risk: Impact of our operations on the environment at the local and global level Opportunity: Promotion of behavioural change towards a shared culture of environmental awareness and conservation; operational efficiencies and improved practices	Limit environmental impact of all operations (control dust emissions, manage tailings ponds and cyanide) throughout the life of a mine; comply with national regulatory requirements and international best practices	<ul style="list-style-type: none"> – Unit consumption of energy – Unit consumption of water – Unit GHG emissions – Environmental incidents 	<ul style="list-style-type: none"> – Zero environmental incidents – Further improvement in water and energy unit consumption
Community relations			
Risk: Negative perception of our business from surrounding communities; long-term dependency on our operations Opportunity: Promotion of local development through employment opportunities and social projects	Human resources: Provide professional development opportunities and workplace satisfaction for our personnel Communities: Enhance the perception of Fresnillo plc as a responsible mining company Develop self-sustaining communities	<ul style="list-style-type: none"> – Training – Turnover rate – Employee satisfaction survey – Labour relations – Community perception index 	<ul style="list-style-type: none"> – Turnover rate under 5.0 – Zero days lost for labour conflicts – Continuous improvement in community perception index

Sustainable Development Report **continued**

Advancing our sustainable development

The HSECR framework

The Group's sustainability efforts are managed through its HSECR System. See the Corporate Governance Report page 109

The Board approved a comprehensive Sustainability Strategy in July 2011 that outlined objectives and performance indicators for the four areas of focus: health, safety, environment and community relations. This strategy is aligned with the overall corporate strategy and includes similar management processes of materiality, risk assessment and controls. See Our Risk Management Framework pages 36–43

Our aim is to fully integrate the HSECR System across the entire organisation, including contractors; embed HSECR as part of our stakeholder culture; and ensure that our HSECR systems remain proactive and forward-looking.

In 2011 PricewaterhouseCoopers carried out an external verification of our HSECR System. Based on their recommendations, we developed a 2012–2016 Action Plan to advance our vision of transformation and integration in this area.

The assessment determined that our system has reached its midpoint of consolidation, and included the following key recommendations:

- Continue promoting the integration of the HSECR System
- Ensure that a sustainability culture permeates all levels and all mine units and projects
- Involve and sensitise contractors in all HSECR elements
- Integrate community relations aspects to the System
- Ensure that everyone in the Group shares a vision of the HSECR System as a holistic system and not a set of disparate activities

The HSECR consolidation progress

To close the gaps and advance towards a fully optimised system in line with the recommendations of the PricewaterhouseCoopers evaluation, in 2012 we intend to:

Strategy

- Communicate the Policy on Sustainable Development at all levels of the organisation
- Fully align HSECR objectives to other processes such as Enterprise Risk Management and anti-bribery programmes
- Identify areas of the system where more integration is needed

Structure

- Define the organisational structure regarding HSECR aspects
- Define the stakeholder engagement process

Processes

- Define forward-looking indicators
- Establish an internal verification system

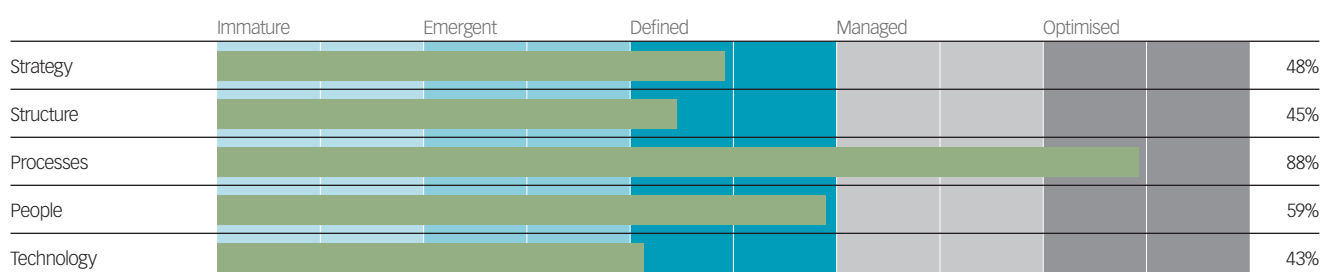
People

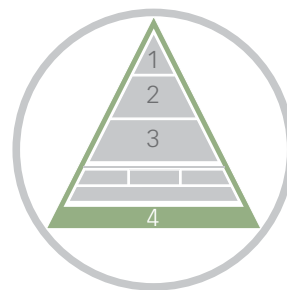
- Define responsibilities and roles in the organisation
- Define HSECR metrics

Technology

- Establish reporting processes
- Formalise documentation processes and systems
- Formalise accounting processes for HSECR investments

The HSECR consolidation progress





Memberships, partnerships and awards

The global image of the mining sector still suffers from negative perceptions, although the industry has made enormous strides in becoming a modern, ethical and responsible participant in the global economy. Participation in international and domestic industry groups and organisations that share this vision of the industry, and alliances with NGOs and public sector organisations helps maintain

our community standing and provides an opportunity to share and learn best practices as well as common frameworks for reporting.

Our HSECR system and framework is aligned with the recommendations of organizations such as the United Nations Global Compact (UNGC), Global Reporting Initiative (GRI), International Council on Mining and Metals (ICMM), Organization for Economic Cooperation and Development (OECD) and International Finance Corporation (IFC).

Relationship type	Name	Our role and progress in 2011
Certification process	STPS (Mexican Secretariat of Labour)	Participant in the Safety Self-Management Programme. The programme aims to ensure compliance with safety regulations and improve performance.
	PROFEPA (Mexican Environmental Authority)	Participant in the Clean Industry Programme, aimed at ensuring compliance with environmental regulations and improving performance.
	International Cyanide Management Institute	Participant in the Cyanide Management Programme aimed at implementing best practices in cyanide management.
	ISO 14001	All mine units (except for Saucito) and the Exploration Division have current certifications for their environmental management systems.
	OHSAS 18001	Mine units are pursuing the certification for their health and safety management systems.
Membership or participation	CAMIMEX (Mexican Mining Chamber)	Active member. The Chamber promotes sector agreements, lobbying processes and benchmarks. See Our Risk Management Framework page 43. Fresnillo plc's VP of Operations, Mr Manuel Luévanos, is currently President of the Chamber.
	CESPEDES (Sustainable Development Studies Commission, Private Coordinator Council, CCE)	Active member of the Executive Committee. The Commission aims to coordinate the Mexican private sector stance on relevant issues such as a transition towards a green economy and Greenhouse Gases mitigation efforts in the country
	United Nations Global Compact	Subscriber to the 10 Principles; the current report represents our third Communication on Progress (CoP).
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 for the second time through disclosure on climate change risks and mitigation efforts.
Awards	WildCorp	Alliance with The Wild Foundation aimed at promoting biodiversity conservation in the Mexican private sector.
	SEMARNAT (Mexican Secretariat of the Environment)	Participant in the Mexican Greenhouse Gas Programme, a public-private partnership with CESPEDES.
	CEDES (Ecology and Sustainable Development Commission of Sonora State)	Partnership to implement the Sonoran Pronghorn Protection Programme
	CONCAMIN (Confederation of Industrial Chambers)	Representation through CAMIMEX for benchmarks and best practices in the Mexican industrial sector. Recipient of the Ethics and Values Award for the third time
	CEMEFI (Mexican Centre for Philanthropy)	Largest organization in Mexico for corporate social responsibility. Recipient of the Socially Responsible Company (ESR) Award since 2008.
	IPADE Business School and GESOC (Gestión Social y Cooperación)	Ranked #6 out of 93 companies in a benchmark of the most transparent companies in reporting sustainability in Mexico

Health

Objective

Control occupational illnesses and improve general health through preventive care

What we said we would do in 2011

- Implement preventive medicine efforts aimed at reducing general illnesses, and create health teams in the mine units

What we plan to do in 2012

- Implement forward-looking indicators concerning occupational health risks; enforce health guidelines for contractors and implementation of medical units for contractor companies with more than 100 workers

How we do it

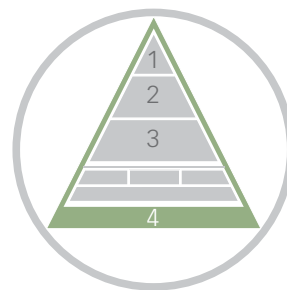
By providing preventive care and education, as well as ongoing health care services

What we did in 2011

- Reinforce health programmes through better medical infrastructure, specialists and measurement systems

Performance indicator

	2011	2010	2009	Comment
Rate of permanent disability due to occupational illness Percentage of workers permanently disabled as qualified by the Mexican Social Security Institute (IMSS), divided by the total number of workers, multiplied by 100.	0.83	–	–	Indicator added in 2011
Rate of lost work days due to other illnesses Number of days lost due to non-occupational diseases, divided by the total number of workers, multiplied by 100.	10.68	–	–	Indicator added in 2011
Investment in health Expenditures in infrastructure, programmes and payments to the Mexican Social Security Institute (IMSS); training not included	US\$7.8 million	US\$6.6 million	–	Indicator added in 2010



Programme highlights

Employee retention, productivity and satisfaction require good health. We provide a range of medical services for union and non-union employees and contractors, including 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 reduce common conditions such as diabetes, hypertension and obesity.

The main occupational illnesses in our industry have historically been lung disease, hearing loss and elevated blood lead levels, as well as heat stress and spinal injuries. Training is provided on the use of preventive equipment and workplace hygiene requirements. Our greater health concern comes from chronic and degenerative diseases related to limited awareness of and access to preventive medicine in Mexico. Through collaboration with local and national public health entities, we execute ongoing awareness campaigns on nutrition, hygiene and family planning; vaccination campaigns; and infectious disease prevention.

In 2011 we conducted approximately 3,000 diagnostic health tests and exams. The Fresnillo and Saucito mines implemented a Comprehensive Preventive Health Activities Programme, the Occupational Health Unit initiated operations at Saucito, and at Herradura we extended a preventive health programme to contractors. At Ciénega medical specialists visit the mine every two months so that workers do not need to travel.

We began to incorporate medical guideline requirements for contractors with 100 or more workers that specify the need for healthcare facilities and medical professionals onsite.

Improving health at Fresnillo and Saucito

Comprehensive Preventive Health Activities Programme

To combat chronic diseases and promote better health among workers, the Fresnillo and Saucito mine units implemented the Comprehensive Preventive Activities Programme in 2011 with initiatives such as vaccination, de-parasitisation, disease screening and monitoring, reproductive health, dental care and nutrition. The campaign benefited almost 5,200 unionised workers, contractors and their immediate families.

We also scaled up the programme to a broader health campaign for educational institutions in collaboration with federal and local public agencies including the Mexican Social Security Institute (IMSS), the Mexican Secretariat of Health (SSA), the Fresnillo municipality, Don Napoleón Gómez Sada trade union and Gilberto, A.C., an NGO. More than 2,000 students from surrounding schools took part, and we are committed to sustaining this programme over time.



"Thank you very much for being interested in me and my family; I had breast cancer detected and access to social security was much easier."
Virginia Ibarra Arguelles, the mother of a Fresnillo plc employee, 30 November 2011

Safety

Objective

Zero fatalities and lost time accidents through the elimination of dangerous workplace conditions and behaviours

What we said we would do in 2011

- Zero fatal accidents and a 20.0% improvement in other safety indices; OHSAS certification at Fresnillo and 50.0% progress at other operating mines; first level of the Safe Enterprise Certificate at all operating mines

What we plan to do in 2012

- Continue implementing the Safety Action Plan to improve, enhance and embed our safety culture and systems at all levels, with full compliance with our Zero Tolerance Rules for Safety
- Complete the pending OHSAS 18001 certification process at Fresnillo; 90% advance at Herradura and Soledad-Dipolos; 80% advance at Ciénega; initiate process at Saucito
- Achieve Second Level of the Safety Self-Management Programme for Herradura and Soledad-Dipolos and First Level at all other mine units; register Noche Buena to the programme

How we do it

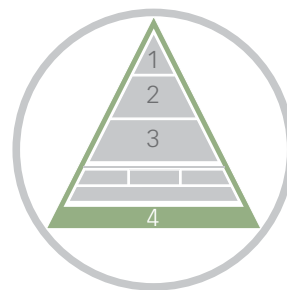
By reinforcing safety policies and procedures, investing in safety equipment and training, and conducting drills to reinforce safety behaviour

What we did in 2011

- Following 11 fatal accidents we implemented a comprehensive Safety Action Plan that includes supplemental training, enforcement of rules regarding violation of our Zero Tolerance policy, and operational improvements in the mine works

Performance indicator

	2011	2010	2009	Comment
Fatalities	11	2	0	Unacceptable performance led to immediate action being taken. See Special Report on Safety page 69
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.	1.73	2.21	3.10	Decrease reflects benefit of additional safety training and lower frequency of disabling accidents
Lost work days rate The number of days lost due to disabling accidents divided by the total number of union and non-union employees, as well as contractors.	3.11	1.64	1.20	Increase reflects higher severity of disabling accidents, as 1 fatality = 1,000 lost days
Lost work days rate for work accidents Number of days lost due to work accidents, divided by the total number of workers, multiplied by 100.	2.45	–	–	Indicator added in 2011
Investment in safety The amount reflects investment in infrastructure and initiatives (training is not included).	US\$5.2 million	US\$4.3 million	–	Indicator added in 2010



Special report on safety

The most critical issue the Company faced in 2011 was safety, with 11 fatal accidents. We launched an aggressive Safety Action Plan in response, including changes to mine plans and drilling methods. While certain actions resulted in adjustments to the production profile this year, they also represent a fundamental investment in the employees and contractors of Fresnillo plc.

The Plan was based on the recommendations and feedback from the following audits, assessments and inspections:

- Our own internal Safety Team
- Industrias Peñoles S.A.B. de C.V Safety and Environment team
- External safety expert (from Chile)
- Rock mechanics specialist (from Canada)
- Mexican Secretariat of Labour (STPS)

The resulting measures undertaken included:

- Strict enforcement of compliance with Group safety policies and procedures, which if violated could lead to dismissal
- Additional training to embed the Zero Tolerance attitude and to improve behavioural processes
- The addition of a Safety Corporate Manager who reports to the VP of Operations, and a Safety Assistant Manager for Development Projects
- Implementation of Health, Safety and Environmental Guidelines for all contractors
- Opening of a safety hotline dedicated to reporting safety incidents
- Operational measures such as immediate backfilling in long hole stopes; increased shotcreting and systematic rock bolting at all mining works; auxiliary illumination; remote control mucking scoops; improved ventilation in development areas; and mechanised scaling

Programme highlights

The key challenge we face is a culture of disregard of safety procedures, specifically among new workers hired or contracted to support the expansion of our operations. To mitigate this risk, we are implementing a comprehensive training and awareness plan to embed a culture of safety and a zero tolerance attitude for violations of our policies and procedures. This year families were invited to participate in discussions on the dangers their loved ones faced in disregarding safety procedures, which served to elevate the issue and increase accountability at home.

We comply with all government and industry safety regulations.

Safety training in 2011 comprised 42.7% of total training hours, with particular emphasis on Leadership in Safety and the zero tolerance attitude for safety. Strict enforcement of non-compliance with our safety rules includes dismissal of our employees and termination of third party contracts.

The Group also subscribes to a number of national and international safety certification programmes, including:

OHSAS 18001 certification

Fresnillo advanced 80%; Ciénega 50%; Herradura and Soledad-Dipolos 40%.

Safety Self-Management Programme (Mexican Secretariat of Labour)

Soledad-Dipolos recognised with the First Level (out of three); Herradura received the same recognition, although a fatality in the Centauro Deep project put the mine on stand-by; Fresnillo and Ciénega on stand-by for First Level after fatalities.

Key training programmes include Operational Discipline, STOP™ and TAKE TWO...for Safety™. We also provide specialised training in hazardous materials management, defensive driving and first aid, among others.

Process for Behavioural Change

An institutional programme for a culture of safety

We know that accidents are not caused by unsafe conditions or lack of training alone, but often from unsafe attitudes and behaviours. One of our key priorities is to promote a culture of safety.

We have collaborated for over five years with an organisation called Integral Health Advisors in a programme called Process for Behavioural Change (PCC™) that seeks to achieve "comprehensive behavioural change in each worker... making conscious what usually remains unconscious." The programme includes a workshop facilitated by psychologists where skills such as trust, self-esteem, listening, empathy, teamwork, assertiveness, communication, conflict resolution and work performance are addressed. The workshop also increases awareness by exercising participants' different emotions.

PCC™ was brought to Ciénega in 2008 and extended to Herradura the following year, and in 2011 it was introduced at Fresnillo. A total of 2,181 workers in 124 groups have participated to date.



"The workshop made me more conscious about my actions so I could stop myself in my path and modify inappropriate conduct."
Jorge Rosales, Beneficiation Plant Supervisor, Fresnillo, 26 August 2011

Environment

Objective

Limit the environmental impact of all operations and throughout the life of a mine; comply with national regulatory requirements and international best practices

What we said we would do in 2011

- Maintain all existing certifications; advance the Cyanide Code Certification process and coach contractor companies for participation in Environmental Compliance Certification process for PROFEPA

What we plan to do in 2012

- Maintain zero environmental incidents
- Secure environmental permit for the expansion of tailings dams at Saucito and Ciénega
- Obtain Clean Industry certification and begin the ISO 14001 process at Saucito
- Obtain International Cyanide Management Code certification at Ciénega and Soledad-Dipolos
- Register Noche Buena for the relevant environmental certification processes

How we do it

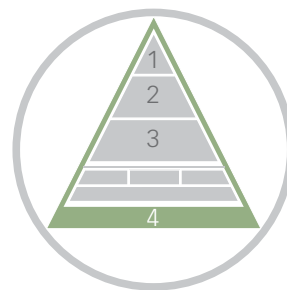
By monitoring and minimising the use of non-renewable resources, maintaining strict oversight and maintenance of preventive equipment and systems, and investing in conservation efforts

What we did in 2011

- Maintained all certifications; two contractor companies achieved the Environmental Compliance Certification; Herradura obtained Cyanide Certification

Performance indicator

	2011	2010	2009	Comment
Unit energy consumption Gigajoules per tonne of product	0.138	0.124	0.188	Expansion of the Company's operations (Soledad-Dipolos, Saucito and Noche Buena)
Unit fresh water consumption Cubic metres per tonne of product	0.101	0.095	0.209	See above
Unit greenhouse gas emission CO ₂ e tonnes per tonne of product	0.013	0.011	0.017	See above
Lost days by an environmental incident Total number of days in which operations were compromised due to environmental incidents	–	–	–	Environmental incidents refer to tailings dam leakages, cyanide contamination, fires within mines and facilities, and spillage of hazardous materials.
Investment in environmental efforts Infrastructure, equipment and programmes (excluding training)	US\$3.0 million	US\$2.6 million	–	Indicator added in 2010



Programme highlights

The Group's environmental management systems extend from the exploration phase, to mine development, construction and operation, to closure and restoration. Our primary challenges arise from intensive consumption of strategic resources such as energy and water and the potential impact our operations have on local ecosystems.

The Group registered no significant environmental incidents or fines in 2011. The results of periodic tests for dust emission, noise, illumination, ventilation, tailings dam management and vibration confirmed compliance with all national regulations. Total investment in environmental efforts was US\$3.0 million in 2011, including infrastructure, equipment and programmes. The largest expenditures were environmental infrastructure maintenance, reforestation and flora relocation efforts, and environmental permits.

The five key areas where we measure environmental impact and invest in controls are as follows:

Water

3.47 million m³ of fresh water consumed (2010: 2.8 million m³) due to the Company's expansion projects. Water efficiency projects generated savings of 266,426 m³. Fresnillo and Saucito maintained zero consumption of fresh water.

Energy

5.0 million GJ of energy consumed (72.5% diesel, 25.5% electricity, 1.8% gasoline, 0.3% LP gas) (2010: 3.7 million GJ); efficiency projects generated savings of 9,100 GJ.

Greenhouse gas emissions

All emissions comply with regulatory limits. 282,936 tonnes of CO₂ emitted from direct sources, 176,345 tonnes from indirect (2010: 205,539 tonnes direct, 126,788 tonnes indirect).

Extended ecosystem restoration

Expansion in the Herradura district

A core aspect of our mine development and expansion work is environmental impact analysis. The Herradura mine was commissioned in 1997 and has since undergone expansion and supported regional growth with the development of the Soledad-Dipolos mine and Noche Buena project. Operating in parallel with this growth was the Flora and Fauna Rescue and Relocation Programme, which concluded its work in March 2011 after more than three years.

A total of 231,628 plants and 450 reptiles and mammals were relocated, and more than 400 hectares rehabilitated to serve as habitat for endangered species such as the Sonoran Pronghorn. The results of the programme were highly satisfactory with a general survival rate for relocated plants of more than 90%. In fact, part of the environmental land use permits granted us for the Noche Buena project by the Mexican Environmental Secretariat (SEMARNAT) included the donation and transport of 600 specimens to a public conservation park in central Mexico, which was coordinated by a local NGO.

Waste management

49.3% of reusable material was either used as input for other processes or sold to third parties as raw materials. Herradura reused 830,466 litres of spent lube oil and the Group sold a total of 294,241 litres to third parties.

Biodiversity

162,650 trees planted and donated (2010: 118,000 trees); all mines and advanced projects have nurseries, with combined capacity of 140,200 plants (2010: 186,000); 235 more hectares of land were reforested in Ciénega, for 735 hectares in total; 57 hectares of land were rehabilitated at Herradura through flora and fauna relocation, for 421 hectares in total.

The Group subscribes to a number of national and international environmental certification programmes, including:

ISO 14001 certification

Fresnillo, Ciénega, Herradura, Soledad-Dipolos, Exploration Division

Clean Industry certification

(Mexican Environmental Authority, PROFEPA)

Fresnillo, Ciénega, Herradura, Soledad-Dipolos

International Cyanide Management Code (voluntary gold mining industry programme)

Herradura certified in May; process delayed at Ciénega due to capacity expansion but expected to conclude in 2012; Soledad-Dipolos now a signatory with process underway



Community Relations

Objective

Provide development opportunities and workplace satisfaction for our personnel; enhance communities' perception of Fresnillo plc as a responsible mining company, and promote their self-sustainment

What we said we would do in 2011

- Expand the family visit programme, enhance communications and complete an impact analysis of our community investments

What we plan to do in 2012

- Conduct the biannual employee satisfaction survey
- Conduct the biannual community perception survey
- Launch the Community Relations Scorecard as a tool to measure the social impact of our activities

How we do it

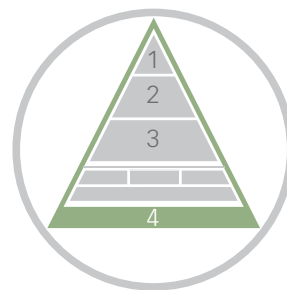
By providing professional development opportunities and workplace satisfaction for our personnel and maintaining sound relations with the communities where we operate

What we did in 2011

- We reinforced our social programmes, scheduled regular visits by employee families and communities and reinforced communications strategy at our mine units

Performance indicator

	2011	2010	2009	Comment
Human resources				
Professional development training Average hours/person	96	95	92	Leadership, teamwork, process improvement, productivity and management skills
HSECR training Average hours/person	41	27	23	Primary focus on safety; substantial increase due to the implementation of the Process of Behavioural Change programme; continued module on Sustainable Development for unionised workers
Investment in training programmes	US\$1.7 million	US\$1.2 million	–	Indicator added in 2010
Turnover rate Number of union and non-union employees who left the Company divided by the total number of employees	5.69	4.61	5.56	Reflects the launch of construction at Noche Buena; new projects normally involve large-scale hiring and thus an increase in turnover
Employee satisfaction survey Survey of union and non-union workers and contractors	N/A	6.8	4.9 (2008)	Conducted every two years by independent third party
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



Human resources programme highlights

Selection, recruitment, retention and professional development are material issues for the Group, and the wellbeing of our people directly correlates to the sound performance of the Company. Our human resources programme positions quality of life for our personnel and their families as a competitive differentiator.

Human rights are a fundamental principle for us, and along with full compliance with human rights regulations, our Code of Conduct requires gender equality, respect for freedom of thought and association, and prohibition of slavery, child labour and discrimination of customs and cultures. Any violations of these principles can be anonymously reported at all levels through the whistleblower programme Fresnillo Plays Fair.

We maintain fair labour agreements and offer competitive wages and benefits for our union and non-union workers. A 6.5% increase in wages plus a 1.5% increase in fringe benefits was approved in 2011, the highest of all sectors in Mexico. In geographically isolated mines sites we provide basic services such as housing, medical services, education and transportation. Contractors are considered strategic partners and we continue to integrate them into our systems and culture through specialised training.

To support the growth and safety of our operations, we hired 617 new employees and 455 new contractors in 2011. Total wages and salaries were US\$25.1 million, excluding employee profit sharing, a 21.3% increase from the previous year. We continued to partner with a number of technical and academic institutions to train and develop the next generation of earth science and engineering graduates.

2011 workforce overview

- Total: 3,051 employees (2010: 2,449); 2,252 contractors (2010: 1,972); of employees 80.4% are unionised
- Gender: 90.7% men, 9.3% women (while the physical nature of mining correlates to the gender breakdown, notably 60% of new hires at Herradura and Saucito in 2011 were women, as are 10.4% of all supervisors and managers)
- Age: 21% 18–25; 62% 26–45; 17% 46+
- Tenure: 57% 0–5 years; 15% 6–10 years; 28% 11+ years
- Executives: 2.4% at management level
- Engineer Training Programme: 36 interns
- Value Creation Programme: 21 work teams whose innovation projects were recognised, 13 of which were comprised entirely of unionised workers

The promotion of earth sciences

The Technical Studies Centre at Fresnillo (CETEF)

As part of our effort to develop personnel and support the expansion of the mining sector through academic alliances, we inaugurated the Fresnillo Technical Studies Centre in September 2011 with a first cohort of 22 students specialising in the operation of technical mining equipment. Most students are family members of employees from our mine unit. The educational plan includes a dual system that incorporates 80% of empirical training done in the Company's facilities and 20% of theoretical knowledge. Student housing was also inaugurated, with facilities such as a recreational yard and dining and TV rooms.



"The inauguration of CETEF by Fresnillo is an excellent self-development opportunity for our students."
Saul Herrera, Trainer, Fresnillo, 14 February 2012

Sustainable Development Report **continued**

Advancing our sustainable development

Community relations continued

Community programme highlights

We see communities as our strategic partners because they supply vital services and a local labour force. We are committed to free, prior and informed consent, fair and open negotiations, respect for local customs and culture and cooperative landowner groups (ejidos), and support for a culture of long-term economic and environmental self-sustainability.

Outreach efforts and baseline studies begin at the exploration phase, and agreements with landowners often include guaranteed investments in basic infrastructure such as roads and water.

We welcome visitors as part of our culture of engagement and transparency regarding safety and environmental practices.

Each mine unit implements its own community engagement programme based on our Institutional Agenda for Community Relations and the specific social and environmental context of each business unit. See Our Mines in Operation pages 48–57 for segment information.

Efforts are divided into five pillars of action

- Environmental awareness
- Education
- Health and social welfare
- Self-sustaining capacity
- Infrastructure

The power of partnerships

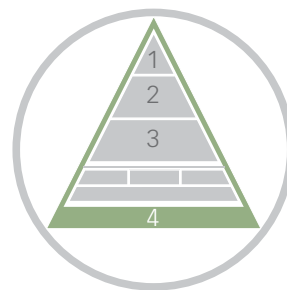
Local development at Ciénega

Ciénega is located in the middle of the Durango sierra, far from any major urban centre. As a result of this geographic isolation we have invested in basic social services such as drainage, electrification and paving. However, the risk of creating undue dependency on the Company, and our mission to foster self-sustaining communities, led to a strategy of investing in infrastructure projects through trilateral partnerships with government agencies and local organisations.

Two such projects were inaugurated in 2011: a high school built in partnership with the College of Scientific and Technologic Studies for the State of Durango (CECyTED), and the paving of the main road in partnership with the municipal and federal government through a national programme sponsored by the Mexican Secretariat of Social Development.



"Those who have seen the growth and sustained development at Ciénega de Nuestra Señora since the foundation of the mining company, are loyal witnesses of the improvement in the quality of life."
Carlos Gandarilla, Contractor, Ciénega, 5 October 2011



Performance indicator

	2011	2010	2009	Comment
Communities				
Community perception index Average perception of four components – labour, environmental, institutional and social – from three different sources – household surveys, anthropological observations and personal interviews	N/A	86	85 (2008)	Conducted every two years by independent third party; most recent score is highest possible ranking with “very positive”
Total investment in community wellbeing (includes the five pillars of action)	US\$8.7 million	US\$6.1 million	–	Indicator added in 2010

Communication on Progress Chart – United Nations Global Compact

		Section in the Report
1.	Businesses should support and respect the protection of internationally proclaimed human rights, within their influence scope.	24–25, 38, 40, 42, 72–75
2.	Businesses should make sure they are not complicit in human rights abuses.	24–25, 32–33, 66–69, 72–75, 107
3.	Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.	24, 42, 72–75
4.	Businesses should uphold the elimination of all forms of forced and compulsory labour.	72–75
5.	Businesses should uphold the effective abolition of child labour.	72–75
6.	Businesses should uphold the elimination of discrimination in respect of employment and occupation.	7, 24–25, 72–75, 96
7.	Businesses should support a precautionary approach to environmental challenges.	21–22, 32–33
8.	Businesses should undertake initiatives to promote greater environmental responsibility.	5, 38–39, 43, 65, 70–71
9.	Businesses should encourage the development and diffusion of environmentally friendly technologies.	23, 70–71
10.	Businesses should work against corruption in all its forms, including extortion and bribery.	37, 97, 101, 107

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. All comparisons refer to 2011 figures compared to 2010, unless otherwise noted. The full Financial Statements and their accompanying notes can be found on pages 123–171.

Commentary on financial performance

The Company achieved strong financial results with 56.6% growth in adjusted revenue, 59.6% in gross profit, 62.8% in EBITDA and 48.3% in attributable profit for the year, excluding the effect of the Silverstream revaluation.

The Group's financial results were driven by the strength of gold and silver prices and the increase in sales volume of gold following the successful expansion of production capacity at Soledad-Dipolos, expanded milling capacity at Ciénega and higher throughput at Herradura. Furthermore, the start-up of Saucito contributed to maintaining sales volume in silver at similar levels to 2010, offsetting lower production at the Fresnillo mine.

Notwithstanding favourable top line performance, there was an increase in refining charges driven by market conditions as well as in cost of sales resulting from: i) new operations and increased production levels at current mines which required additional consumption of inputs and personnel, ii) additional development and preparation at our mines, as well as backfilling, rock bolting and shotcreting activities carried out at the Fresnillo mine to improve safety conditions, iii) higher electricity and diesel prices, and iv) industry costs pressures resulting from global shortages of mining inputs.

As anticipated, exploration expenditure rose significantly over 2010 to support the Group's organic growth strategy.

Cash flow generated by our operations and the Silverstream Contract, combined with a healthy cash position, enabled the Company to continue investing in plant and equipment and to pay dividends. As of December, Fresnillo plc held US\$684.9 million in cash which will continue to support our growth strategy in the future.

Income Statement

The Group's financial performance is strongly determined by the operating performance of our assets, the skills of our personnel and management's efficiency in executing the Group's strategy. However, a number of external factors also have a material impact on our financial statements. These include:

Precious metal prices

In 2011, demand for precious metals as safe haven instruments gained further momentum as a result of geopolitical tensions arising in the Middle East and North Africa, increased sovereign risk in Europe and uncertainty surrounding global economic recovery. These factors also fostered volatility in the financial markets and gold and silver prices reached record levels in the year. The average realised price of silver increased by 62.6% over 2010 to US\$34.75 per ounce, while the average realised gold price rose by 26.6% to US\$1,585.33. These increases drove the Group's financial results, as 96.4% of our adjusted revenue comes from these metals.

The Group maintains a policy not to hedge silver and gold prices and therefore provides shareholders with full exposure to underlying metal price trends.

Foreign exchange rates

In 2011, the average spot Mexican peso/US dollar exchange rate was MXN12.42 per US dollar, compared to MXN12.64 per US dollar in 2010. While this represented an average 1.7% revaluation, there was in fact significant fluctuation in the exchange rate over the course of the year: in the first eight months, the Mexican peso rose strongly against the US dollar, while in the last four months the dollar regained its strength against the peso. This resulted in an estimated US\$3.4 million adverse effect on the Group's production costs denominated in Mexican pesos (approximately 70% of total costs) when converted to US dollars.

The spot exchange rate at 31 December 2011 was MXN13.98 per US dollar, a 13.1% devaluation compared to the MXN12.36 per US dollar at the beginning of the year. As the Group's taxable profits are determined in accordance with Mexican legislation based on spot rates in pesos, this increased the peso value of US dollar-denominated net monetary asset position, with the Silverstream Contract and cash equivalents being the most important components. As a result, a foreign exchange gain (MXN\$2,028 million) in Mexican pesos was generated, increasing the Group's taxable profits.

Key items of the Income Statement are shown below

	2011 US\$ million	2010 US\$ million	Amount US\$	Change %
Adjusted revenue ¹	2,307.45	1,473.92	833.53	56.6
Treatment and refining charges	(114.79)	(64.37)	(50.42)	78.3
Revenues	2,192.66	1,409.55	783.11	55.6
Cost of sales	(629.20)	(430.18)	(199.02)	46.3
Gross profit	1,563.46	979.37	584.09	59.6
Exploration expenses	133.99	82.11	51.88	63.2
EBITDA ²	1,538.49	944.99	593.51	62.8
Profit before income tax	1,534.38	1,022.37	512.02	50.1
Income tax expense	495.77	272.97	222.80	81.6
Profit for the year	1,038.62	749.40	289.22	38.6
Profit for the year, excluding post-tax Silverstream revaluation effects	924.14	615.11	309.03	50.2
Attributable profit	901.75	665.13	236.62	35.6
Attributable profit, excluding post-tax Silverstream revaluation effects	787.27	530.84	256.43	48.3
Basic and diluted earnings per share (US\$/share) ³	1.257	0.927	0.330	35.6
Basic and diluted earnings per share excluding post-tax Silverstream revaluation effects (US\$/share) ³	1.098	0.740	0.358	48.4

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

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

³ The weighted average number of ordinary shares for 2011 and 2010 was 717,160,159.

Inflation of key operating materials

	Year over year change %
Steel balls for milling	14.1
Explosives	18.6
Tyres	4.7
Sodium cyanide	29.0
Other reagents	8.9
Oils and other lubricants	14.6
Weighted Average	11.7

In 2011, cost pressures across the mining industry arose reflecting the increase in the price of commodities used to fabricate inputs and greater demand for these inputs as a result of industry-wide expansion. Specifically, unit prices of explosives were affected as a result of a global shortage of ammonium nitrate, while increased demand for sodium cyanide drove prices up by 29.0%. Cost of lubricants and greases increased by 14.6% while price of steel continue to rise gradually, affecting unit prices of mining and milling steel, anchors, and liners for mills, crushers and trucks. As a result, the net increase in the weighted average input cost over the year was 11.7%.

Electricity

The Group's weighted average cost of electricity increased by 15.4%.

Unit cost of electricity depends on the rates set by the Comisión Federal de Electricidad (CFE), the national utility, based on their average generating cost, which correlates to fuel oil and coal prices.

Diesel

The weighted average cost of diesel in US dollars increased by 15.2% in accordance with the Mexican government's decision to align fuel and diesel prices with rates in the United States.

Treatment and refining charges

Treatment and refining charges, which are deducted from adjusted revenue 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 stable, while the treatment charge per tonne of zinc concentrate decreased by 9.0%. However, silver refining charges for lead concentrates increased by 193.8% year-on-year due to the shortage of global refining capacity to process lead concentrates with high silver content.

The higher silver refining charges, together with greater volumes of concentrates and doré shipped to Met-Mex, resulted in a 78.3% increase in treatment charges expressed in absolute terms in the income statement.

The main line items of the Income Statement are further analysed below.

Revenues

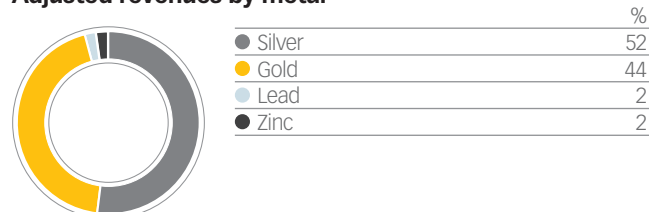
Total revenues for the full year reached a new record at US\$2,192.7 million, a 55.6% increase compared to 2010. This was explained by higher adjusted revenue, which rose by 56.6% to US\$2,307.4 million. The benefit of higher metal prices represented 79.5% of the total US\$833.53 million increase in adjusted revenue, while the favourable effect of higher volumes sold accounted for 20.5%, with the rise in gold sales volume being the main contributor to this increase.

While silver volumes were stable and gold production increased markedly, the rise in silver prices significantly outpaced that of gold, thus each metal's share of adjusted revenue remained nearly unchanged in the year.

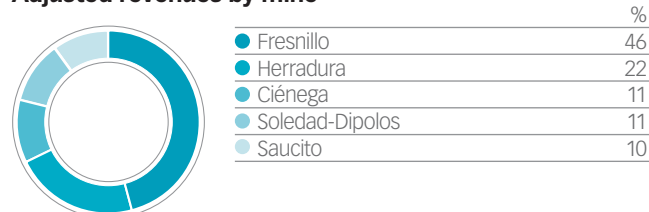
Saucito contributed 10.2% to adjusted revenue with 5.3 million silver ounces and 29,532 gold ounces sold in its first year of operations. The lower sales volume of silver from the Fresnillo mine reduced its participation to adjusted revenue from 52% to 46%.

Adjusted revenues

Adjusted revenues by metal



Adjusted revenues by mine



Consolidated revenues

	2011 US\$ millions	2010 US\$ millions	Amount US\$	Change %
Adjusted revenue ¹	2,307.45	1,473.92	833.53	56.6
Treatment and refining charges	(114.79)	(64.37)	(50.42)	78.3
Revenues	2,192.66	1,409.55	783.11	55.6

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

Adjusted revenues¹ by metal

	2011		2010		Volume Variance	Price Variance	Total US\$	%
	US\$ millions	%	US\$ millions	%				
Silver	1,214.21	52	746.18	51	1.5	466.5	468.0	62.7
Gold	1,009.44	44	653.29	44	163.1	193.1	356.1	54.5
Lead	43.01	2	34.38	2	5.5	3.1	8.6	25.1
Zinc	40.79	2	40.07	3	1.0	(0.3)	0.7	1.8
Total Adjusted Revenues	2,307.45	100	1,473.92	100	171.2	662.4	833.5	56.6

Volumes of metal sold

Year ended 31 December

	2011 US\$ millions	2010 US\$ millions	Amount	Change %
Silver (koz)	34,938	34,883	55	0.2
Gold (oz)	636,737	521,780	114,958	22.0
Lead (tonnes)	18,527	16,057	2,470	15.4
Zinc (tonnes)	19,106	18,634	472	2.5

Cost of sales

In the year, cost of sales totalled US\$629.2 million, representing a 46.3% increase compared to 2010. The main factors explaining the US\$199.0 million increase were:

- Adjusted production costs accounted for US\$419.4 million, a 36.6% increase over 2010. However, of the total US\$112.3 million increase, 37.7% or US\$42.3 million, was related to the adjusted production costs incurred at Saucito in its first year of commercial production. In addition the revaluation of the average spot exchange rate resulted in a US\$3.4 million adverse effect when converting peso-denominated costs to US dollars. By factoring out the new Saucito mine and the impact of the exchange rate on the peso-denominated components for each category, the factors explained below reflect the underlying operational and dollar-denominated cost changes:
 - Contractor costs rose by US\$22.5 million as a result of: i) higher production volumes which required a greater number of contractors particularly at San Ramón and Soledad-Dipolos, contributing to an estimated 55% of the total increase in contractor costs; ii) higher unit fees charged by contractors, which include the annual rise in labour costs, depreciation of contractors' equipment, and higher costs for their operating materials, fuel and lubricants; iii) backfilling, shotcreting and rock bolting activities carried out mainly at the Fresnillo mine to secure safety conditions for our personnel; iv) increased mine services which are typically conducted by contractors, such as road maintenance, personnel transportation and surveillance; and v) haulage of ore and waste material across longer distances at all our mines.
 - Operating materials increased by US\$14.4 million, of which 30% is estimated to be linked to the additional volumes of ore produced at the mines. The remaining US\$10.1 million was explained by the 11.7% weighted average increase in the unit price of operating materials and higher consumption of several inputs such as explosives and drilling steel related to the stripping of waste material, development activities and shotcreting, rock bolting and backfilling to enhance mine safety.
 - The cost of energy rose by US\$12.6 million as a result of higher electricity and diesel prices (15.4% and 15.2% respectively). Additional consumption of electricity and diesel directly associated with higher production volumes was estimated at US\$3.0 million. However, diesel consumption was further increased due to longer haulage distances and backfilling and rock bolting activities.
 - The cost of personnel increased by US\$5.8 million as a result of i) additional personnel hired mainly at Soledad-Dipolos, Fresnillo and Ciénega to increase production levels, which contributed an estimated 30% of the increase in cost of personnel; ii) a 6.5% increase in wages plus a 1.5% increase in fringe benefits in Mexican pesos; iii) a minor adjustment to the pension plan in accordance with annual actuarial studies; iv) training to improve the safety of our personnel; and v) acquisition of safety equipment for the additional employees.
- The cost of maintenance rose by US\$5.5 million due to i) the intensified use of equipment to haul waste at Herradura; ii) consumption of additional spare parts at higher prices; and iii) the programmed maintenance of hydraulic shovels at Herradura which did not take place last year. It is estimated that 50% of the increase in the cost of maintenance was related to the higher volumes of ore milled/deposited at the mines.
- Other costs increased by US\$5.8 million as a result of additional rights paid related to mining concessions to consolidate the Group's growth strategy, equipment insurance, freight and IT expenses.
- Profit sharing rose by US\$31.4 million due to increased profits at our operating mines.
- Depreciation increased by US\$66.9 million mainly due to the larger asset base following the completion of Saucito, expanded capacity at Soledad-Dipolos and Ciénega, and higher production volumes which affected the depletion factor.
- The increase in work in progress, which had a favourable effect of US\$8.7 million in the income statement. The higher inventories of ore deposited on the leaching pads at Herradura and Soledad-Dipolos were the main factor explaining this benefit.
- 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. In 2011, Fresnillo plc sold forward US\$77.0 million at an average rate of MXN12.87 per US dollar, which matured throughout the year and resulted in a US\$3.2 million gain recognised in the income statement. The outstanding net forward position of these derivatives as of 31 December 2011 was US\$38.5 million with maturity dates throughout 2012. Additionally, the Group entered into a combination of exchange rate put and call options structured at zero cost. In 2011, US\$44 million of costs denominated in Mexican pesos were hedged using these collars, with an average floor exchange rate of MXN13.02 per US dollar and cap of MXN14.17 per US dollar, which resulted in a US\$2.7 million gain recognised in the income statement. The total outstanding position using collar structures as of 31 December 2011 was US\$82 million with maturity dates throughout 2012. These instruments guarantee a minimum exchange rate should the market fall below the floor exchange rate. Between the floor and cap 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 of sales

	2011 US\$ millions	2010 US\$ millions	Amount US\$	Change %
Adjusted production cost ¹	419.39	307.07	112.32	36.6
Depreciation	172.07	105.22	66.86	63.5
Change in work in progress	(25.49)	(16.77)	(8.72)	52.0
Profit sharing	69.08	37.68	31.40	83.3
Hedging (of exchange rate)	(5.87)	(3.02)	(2.85)	94.3
Cost of sales	629.20	430.18	199.02	46.3

¹ Calculated as total production costs less depreciation and profit sharing. In 2011, freight costs associated with ore transported from Fresnillo plc's mines to Met-Mex facilities are included as selling expenses in the income statement. These were previously reported as part of Cost of sales and therefore also as part of Adjusted production costs. Comparative information for 2010 has been amended to reflect this reclassification to Selling expenses in order to facilitate comparison with current year figures.

Cost per tonne and cash cost per ounce

Cost per tonne, calculated as total production costs less depreciation, profit sharing and the exchange rate hedging effects, increased when compared to 2010 as shown in the table herein.

Cost per tonne

At all operating mines increases in the cost per tonne were due to i) the higher unit prices of operating materials, with an estimated weighted average increase of 11.7%; ii) higher electricity (+15.4%) and diesel (+15.2%) costs; iii) a 6.5% wage increase in pesos, plus 1.5% in fringe benefits; and iv) to a lesser extent, the adverse effect of a 1.7% revaluation of the peso against the dollar, which affected peso-denominated production costs when converted to US dollars; and v) higher unit fees charged by contractors, as the factors explained above also impacted their unit costs.

In addition, certain specific factors impacted cost per tonne at each individual mine. These included:

- Fresnillo: changes in the pension plan resulting from changes in the actuarial assumptions that had greater impact at this mine due to the age, seniority and wage profile of employees; higher insurance fees; and additional shotcreting, rock bolting and backfilling activities
- Ciénega: mine development and the new San Ramón satellite whose distance from the mill incurred additional haulage costs
- Herradura: maintenance of trucks and loaders; higher haulage distances and deeper pits; and productivity bonuses paid to workers for reaching efficiency goals
- Soledad-Dipolos: mine development

Cash cost per ounce

Cash costs increased at most Group mines in the year. This was a combined result of increased mining costs, as outlined in the cost per tonne explanation above, lower average ore grades, higher treatment and refining charges, and higher profit sharing. By-product revenues in mines producing secondary metals are credited to the cost which helped mitigate these factors, and in the case of Ciénega to completely offset other cash cost pressures.

The specific variations in year over year cash costs are explained as follows:

Fresnillo

+US\$1.97 per silver ounce +60.2%

Higher refining charges (+US\$1.53), lower ore grades (+US\$0.66), higher profit sharing (+US\$0.50), and increase in mining costs (+US\$0.16), partially offset by higher gold, lead and zinc by-product credits resulting from increased production volumes and higher metal prices (-US\$0.88 per silver ounce)

Ciénega

-US\$51.04 per gold ounce -29.7%

Increased mining costs (+US\$82.50), lower gold ore grades (+US\$49.2) and higher profit sharing (+US\$5.14), more than offset by higher by-product credits, primarily reflecting the 23% increase in silver production and 65% rise in silver price, as well as lead and zinc by-product credits; the combined effect of these credits (-US\$187.88) reflected the mine's strong polymetallic profile

Herradura

+US\$39.87 per gold ounce +12.4%

Higher profit sharing (+US\$42.2) and increased mining costs (+US\$20.0), offset by the silver by-product revenues credited (-US\$15.0) and the net benefit of higher gold recovery rates despite lower ore grades (-US\$7.3)

Soledad-Dipolos

+US\$96.0 per gold ounce +25.1%

Lower ore grades (+US\$52.3), higher profit sharing (+US\$33.0) and the increase in mining costs and treatment and refining charges (+US\$10.7)

Saucito

The low cash cost of US\$0.81 per silver ounce reflects a total cost of US\$10.8 per silver ounce offset by US\$9.99 in by-product revenues

Cost per tonne¹

Year ended 31 December

		2011	2010		Change
		US\$	US\$	US\$	%
Fresnillo	US\$/tonne milled	43.03	40.93	2.10	5.1%
Ciénega	US\$/tonne milled	73.36	63.18	10.18	16.1%
Herradura	US\$/tonne deposited	5.96	5.61	0.35	6.2%
Soledad-Dipolos	US\$/tonne deposited	5.81	5.70	0.11	2.0%
Saucito	US\$/tonne milled	51.75	N/A	N/A	N/A

¹ In 2011, freight costs associated with ore transported from Fresnillo plc's mines to Met-Mex facilities are included as selling expenses in the income statement. These were previously reported as part of Cost of sales and therefore also as part of Adjusted production costs. Comparative information for 2010 has been amended to reflect this reclassification to Selling expenses in order to facilitate comparison with current year figures.

Cash cost per ounce²

Year ended 31 December

		2011	2010		Change
		US\$	US\$	US\$ per oz	%
Fresnillo	US\$ per silver ounce	5.24	3.27	1.97	60.2%
Ciénega	US\$ per gold ounce	121.06	172.10	(51.04)	(29.7%)
Herradura	US\$ per gold ounce	362.19	322.32	39.87	12.4%
Soledad-Dipolos	US\$ per gold ounce	478.17	382.18	95.99	25.1%
Saucito	US\$ per silver ounce	0.81	N/A	N/A	N/A

² 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.

Gross profit

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

In 2011, total gross profit for operating mines, adjusted to exclude hedging gains and losses, reached US\$1,550.42 million, a 59.0% increase over 2010.

The US\$575.2 million increase was largely explained by the benefit of higher precious metal prices, which accounted for US\$620.5 million, of which 70% corresponded to the price of silver and the remaining 30.0% to the price of gold.

Operating results were also an important driver to this significant increase. The start-up of the Saucito mine contributed US\$136.3 million to the Group's gross profit, while the expansion of Soledad-Dipolos added an estimated US\$68.1 million to this indicator.

In addition, an estimated US\$127.5 million reflected increased ore volumes processed at the Fresnillo, Ciénega and Herradura mines. These activities partially mitigated the estimated US\$219.4 million adverse effect of lower ore grades processed at those mines.

Other factors affecting this indicator were higher adjusted production costs, higher treatment and refining charges and increased profit sharing.

The contribution by mine to the Group's Gross Profit, excluding hedging effects, changed this year, reflecting the 8.8% contribution of the new Saucito mine and the 9.9% participation of Soledad-Dipolos following the ramp-up of its capacity expansion. These factors diluted the contribution of the other three mines, while Fresnillo's participation was further decreased as a result of lower silver sales volume in 2011. Notwithstanding, this mine continues to be the biggest contributor to Gross Profit with 51.1%, followed by Herradura and Soledad-Dipolos with 21.8% and 9.9% respectively.

Given the great dependency of our profit levels to changes in precious metals prices, management continuously conduct financial and sensitivity analysis to estimate the economic effect should the prices increase/decrease by 15%. For example, a 15% increase/decrease in gold and silver prices would result in a +US\$24.5 (-US\$24.4) million effect in the Company's profit before tax.

Administrative expenses

Administrative expenses of US\$31.2 million increased by 36.9% compared to 2010 due mainly to the 6.8% increase in salaries, increased advisory fees associated mainly with the new Bribery Act and risk management, and changes in actuarial assumptions which affected the pension plan at Servicios Administrativos Fresnillo S.A. Additional administrative personnel hired to service a larger number of mines and projects further increased administrative expenses. Corporate expenses of US\$25.3 million were broadly in line with the previous year.

Exploration expenses

Exploration expenses for the year totalled US\$134.0 million, a 63.2% increase over the previous year, reflecting the commitment to our organic growth programme. Further details of the exploration programme and its results may be found in the Review of Operations. In addition, US\$45.0 million was capitalised mainly at San Julián, Exploraciones Mineras Parreña and Juanicipio as there was sufficient geological and technical information to allow for a reasonable expectation of becoming operating mines in the future. This figure was below the expected US\$100 million due to additional resources discovered at the San Julián project which required the original plan to be adjusted accordingly, as well as security concerns in the region that delayed contractor work at the project. In total, risk capital invested in exploration reached US\$179.0 million, a 78.8% increase compared to 2010.

To continue expanding our resource base and achieve our long-term goals, the exploration budget for 2012 has been revised and increased to US\$360.4 million, of which US\$161.2 million is expected to be capitalised.

EBITDA

A key indicator of the Group's ability to generate cash is EBITDA, which is calculated as gross profit as reflected in the income statement plus depreciation, less administrative, selling and exploration expenses. In 2011, this indicator achieved a new record level at US\$1,538.5 million. The 62.8% year-on-year increase largely reflected higher gross profit, which was partially offset by the increase in expenses. As a result, EBITDA margin rose from 67.0% in 2010 to 70.2% in 2011.

Contribution by mine to the Group's gross profit excluding hedging gains and losses

	2011		2010		Change	
	US\$ million	%	US\$ million	%	Amount	%
Fresnillo	792.78	51.1	576.84	59.2	215.94	37.4
Herradura	338.46	21.8	217.73	22.3	120.73	55.4
Soledad-Dipolos	153.20	9.9	84.20	8.6	69.00	81.9
Saucito	136.34	8.8			136.34	N/A
Ciénega	129.64	8.4	96.44	9.9	33.20	34.4
Total for operating mines	1,550.42	100.0	975.20	100.0	575.22	59.0
Other subsidiaries	7.18		1.15		6.03	N/A
MXP/USD exchange rate hedging (losses) and gains	5.87		3.02		2.85	94.4
Total Fresnillo plc	1,563.46		979.37		584.09	59.6

Exploration expenses

	Exploration expenses US\$ million	Capitalised expenses US\$ million
Herradura	10.7	0.0
Soledad-Dipolos	5.3	0.0
Fresnillo	7.3	0.0
Ciénega	11.5	0.0
Saucito	3.6	0.0
Noche Buena	10.2	0.0
Herradura corridor	6.9	0.0
San Ramón	12.2	0.0
Juanicipio	0.0	5.5
San Julián	11.4	33.2
Orisyvo	11.0	0.6
San Juan	3.0	0.0
Centauro Deep	8.2	0.0
Lucerito	5.2	0.0
Manzanillas	4.3	0.0
Candameña	3.2	0.0
Guanajuato	2.1	0.0
Cairo	1.0	0.0
Others	16.9	5.7
Total	134.0	45.0

EBITDA & EBITDA margin

Year ended 31 December

	2011 US\$ million	2010 US\$ million	Amount	Change %
Gross Profit	1,563.46	979.37	584.09	59.6
+ Depreciation	172.07	105.22	66.86	63.5
– Administrative Expenses	(56.52)	(52.60)	(3.92)	7.5
– Exploration Expenses	(133.99)	(82.11)	(51.88)	63.2
– Selling expenses	(6.53)	(4.89)	(1.64)	33.5
EBITDA	1,538.49	944.99	593.51	62.8
EBITDA Margin	70.2%	67.0%		

Silverstream revaluation effects

The Silverstream Contract is accounted for as a derivative financial instrument carried at fair value. In 2011, the higher long-term price of silver, increase in resources at the Sabinas mine and an adjustment to the discount rate reflecting current LIBOR rates, increased the fair value of the Silverstream asset by US\$159.9 million, with a corresponding non-cash gain being recognised in the income statement. While this unrealised gain was lower than the US\$191.8 million recorded in 2010, it comprised 10.4% of the Group's profit before tax.

Since the IPO, unrealised, non-cash profits associated with the Silverstream Contract have totalled US\$371.1 million. The cyclical behaviour of the silver price may generate unrealised losses in the future, which 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 2011, would result in an unrealised gain/loss respectively of US\$143.0 million recognised in the income statement. 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 2011, a US\$14.7 million foreign exchange gain was recorded in the income statement mainly as a result of the devaluation of the MXN/US dollar exchange rate which affected the value of peso-denominated net liabilities when converted to US dollars. This gain favourably compared with the US\$3.3 million loss recognised in 2010.

Taxation

Income tax expense of US\$495.8 million increased by 81.6% compared to 2010 as a result of the higher profits levels achieved. The effective tax rate during the year was 32.3%, which is higher than the statutory 30% tax rate. The difference is explained by:

- a) the devaluation of the MXN/US dollar exchange rate generating
- i) a taxable foreign exchange gain when taxable profit is determined in MXN for the purpose of current tax calculations, which does not arise in the Group's USD denominated IFRS results; and
- ii) movements in the tax values of assets and liabilities, which are fixed in MXN for tax purposes, but are translated into USD for the purposes of the calculation of deferred tax under IFRS; and
- b) certain inflation adjustments for Mexican tax purposes that have no accounting effect.

Profit for the year

Profit for the year increased by 38.6% from US\$749.4 million in 2010 to \$1,038.6 million in 2011. Profits attributable to non-controlling interests (minority shareholders) rose to US\$136.9 million in 2011, a 62.4% increase, as a result of the higher profits recorded at Herradura and Soledad-Dipolos. Both mines are owned by Penmont, a company jointly held by Fresnillo plc (56%) and Newmont (44%). Profit attributable to Group shareholders increased by 35.6% to US\$901.7 million in 2011.

Profit for the year, excluding the effects of the revaluation of the Silverstream Contract, increased by 50.2% from US\$615.1 million in 2010 to US\$924.1 million in 2011. Similarly, profit attributable to Group shareholders, excluding the Silverstream effects, rose by 48.3% to US\$787.3 million in 2011.

Cash flow

In 2011, cash generated by operations before changes in working capital reached US\$1,612.1 million, a 63.9% increase due to higher profits generated at the mines. Taxes and profit sharing figures rose by 179.3% to US\$326.8 million; these figures reflect cash payments for the previous year's tax and profit sharing obligations and provisional tax payment for 2011.

Working capital increased by US\$36.1 million due mainly to:

- Trade and other receivables rose by US\$10.9 million, most significantly as a result of insurance claims pending.
- A US\$37.7 million increase in ore inventories at Herradura and Soledad-Dipolos pads and the additional inventory of spare parts, including tyres, to secure critical inputs subject to scarcity.

As a result of the above factors, net cash from operating activities increased by 78.3% to US\$1,249.2 million in 2011.

The proceeds received from the Silverstream Contract were another important source of funds accounting for US\$103.0 million. In addition, a US\$20.8 million capital contribution was recorded in the year from our non-controlling interest partners to purchase new equipment at Penmont and conduct exploration activities at Minera Juanicipio.

The Group invested US\$467.7 million in the purchase of property, plant and equipment, a 37.5% increase compared to 2010. Capital expenditure in 2011 is further described herein or on page 88.

Dividends paid in 2011 totalled US\$786.9 million, which represented a 311.8% increase compared to 2010. This payment included i) the final 2010 dividend of US\$254.8 million, the 2011 interim dividend of US\$150.6 million and the second interim dividend of US\$300.0 paid to Fresnillo plc shareholders; and ii) US\$81.5 million paid to Newmont, the minority shareholder in Penmont.

The sources and uses of funds described above resulted in a net increase of US\$130.6 million in cash and cash equivalents during the year. The combination of this increase with the US\$559.5 million balance at the beginning of the year and the unfavourable effect of exchange rate movements on cash of US\$5.2 million, resulted in a net cash position of US\$684.9 million as at 31 December 2011.

Cash flow

Year ended 31 December

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

	2011 US\$ million	2010 US\$ million	Amount US\$	Change %
Cash generated by operations before changes in working capital	1,612.1	983.6	628.5	63.9
(Increase)/decrease in working capital	(36.1)	(166.0)	129.9	(78.3)
Taxes and Employee Profit Sharing paid	(326.8)	(117.0)	(209.8)	179.3
Net cash from operating activities	1,249.2	700.7	548.5	78.3
Silverstream Contract	103.0	55.6	47.4	85.2
Capital contribution	20.8	2.8	18.0	N/A
Purchase of property, plant & equipment	(467.7)	(340.3)	(127.4)	37.5
Dividends paid to shareholders of the Company	(705.5)	(182.6)	(522.9)	286.4
Dividends paid to non-controlling interest	(81.5)	(8.5)	73.0	858.8
Net increase in cash during the year	130.6	250.1	(119.5)	(47.8)
Cash at 31 December	684.9	559.5	125.4	22.4

Purchase of property, plant and equipment

	2011 US\$ million	
Fresnillo mine	71.2	Mine development, replacement of in-mine equipment, purchase of equipment for contractors and construction of the San Carlos shaft
Herradura mine	72.7	Construction of leaching pads and dynamic leaching plant, purchase of additional trucks, mine preparation and acquisition of surface land
Ciénega mine	79.8	Mine development, expansion of milling capacity, sinking of a shaft, purchase of land and mining works at San Ramón
Soledad & Dipolos	37.1	Mine preparation and construction of leaching pads
Saucito	65.3	Mine development and equipment for shafts and beneficiation plant
Noche Buena	63.3	Construction of leaching pad, plant and purchase of equipment
San Julián	33.2	Construction of ramps and mining works
Juanicipio	5.5	Exploration activities subject to capitalisation
Other	39.6	Bermejal, La Parreña Exploration Company and SAFSA
Total purchase of property, plant and equipment	467.7	

Balance sheet

In 2011, the Group continued to maintain a solid financial position with no bank debt.

Cash and cash equivalents as of 31 December 2011 totalled US\$684.9 million, a 22.4% increase compared to year-end 2010. 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\$249.3 million rose as a result of the an insurance claim pending and increase in value added tax refunds due. Additionally, loans granted to contractors to purchase equipment and receivables on the sale of fixed assets to contractors further increased other accounts receivables.

The change in the value of the Silverstream derivative from US\$427.7 million at the beginning of the year to US\$478.1 million at the year end reflects proceeds of US\$95.9 million received in cash and US\$13.6 million receivable as at 31 of December and a revaluation effect of \$159.9 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\$1,194.4 million at 31 December 2011, an increase of 33.3% over 2010, reflecting investment during the year on new development projects, replacement of equipment and ongoing capital expenditures related to cost control initiatives. The main additions underlying the US\$298.6 increase were the construction of the Saucito project, the expansion of production capacity at Soledad-Dipolos, construction of the Noche Buena gold mine, the sinking of the shaft and expansion of milling capacity at Ciénega, acquisition of new equipment mainly at Minera Penmont, construction of the San Carlos shaft at Fresnillo and purchase of surface land. A more detailed explanation regarding the Company's investment can be found in the Our Mines in Operation on pages 48–57 and capex section.

Fresnillo plc's total equity was US\$2,149.4 million as of 31 December 2011, a 12.0% increase compared to the balance at 31 December 2010. The higher profits achieved in 2011 were the main factor driving this increase. The rights and obligations of the 717,160,159 issued shares are set in the Group's Articles of Association.

Equity attributable to minority shareholders rose from US\$205.5 million to US\$281.6 million as of 31 December 2011, reflecting the increased asset value attributable to the minority shareholders, primarily at Penmont.

The increase in retained earnings reflects the profit from 2011 less dividends paid during the period. Dividends were declared in line with Fresnillo plc's dividend policy that 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 2011 an interim dividend of 21.0 US cents per Ordinary Share was paid for a total of US\$150.6 million. However, the prevailing strength of the precious metal prices during 2011 and the solid operating performance of the Group generated additional cash flow. As a result, a second interim dividend of 41.85 US cents per Ordinary Share was declared and paid in December, accounting for US\$300.0 million. Based on the Group's 2011 performance, the Directors have recommended a final dividend of 40.0 US cents per Ordinary Share, which will be paid on 23 May 2012 to shareholders on the register on 27 April 2012. The dividend will be paid in UK pounds sterling unless shareholders elect to be paid in US dollars.



Governance

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

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San Julián Engineers at the San Julián advanced exploration project on the Chihuahua/Durango border.

Board of Directors



Alberto Baillères

Non-executive Chairman (80)

Chairman, Nominations Committee

Member, Remuneration Committee

Perspectives and Experience

Mr Baillères has been on the board of Industrias Peñoles since 1962 and has served as Chairman since 1967. He has extensive experience and knowledge of both the Group and the Mexican markets in which it operates and has overseen the development of both the Fresnillo Group and its associated companies that provide essential services to the Group from both the investor and the supervisory perspectives.

Appointment

Mr Baillères became non-independent, Non-executive Chairman on 15 April 2008.

Background and External Appointments

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 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 as 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, the J.P. Morgan International Council and also of Fundación para las Letras Mexicanas, A.C.



Jaime Lomelín

Chief Executive Officer (77)

Member, HSECR Committee

Perspective and Experience

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. He brings to the Board an invaluable wealth of senior operational experience in the fields of mining and engineering.

Appointment

Mr Lomelín was appointed to the Board on 15 April 2008.

Background and External Appointments

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. Mr Lomelín is a director of the non-profit organisations, INNOVEC (which promotes the teaching of science), the Mexican Mining Chamber and the Council of Economic Development of the State of Zacatecas.



Lord Cairns

Senior Independent Non-executive Director (72)

Chairman, Remuneration Committee

Perspectives and Experience

Lord Cairns brings a macro-economic perspective to the Board's discussions which is supplemented by his career as an investment banker in London. He is able to provide an informed view of institutional investor attitudes and issues. His wide international experience and connections enable him to contribute a supra-governmental view to the Board's discussions.

Appointment

Lord Cairns was appointed to the Board on 15 April 2008.

Background and External Appointments

Lord Cairns graduated from Trinity College, Cambridge. Following a career with SG Warburg where he had been Deputy Chairman and CEO, he held a number of positions, including as Chairman of BAT plc and Chairman of Allied Zurich. Subsequently, he has served as Chairman of the Charities Aid Foundation, Zain Africa B.V. (formerly Celtel International B.V.), Actis LLP and CDC Group.

Lord Cairns is currently a board member of the Mo Ibrahim Foundation and acts in an advisory capacity to Satya Capital (an African venture capital house).



Javier Fernández

Non-executive Director (56)

Member, Nominations and HSECR Committees

Perspectives and Experience

Through his wide-ranging commercial experience, both at a Mexican and International level and across a variety of industrial and services sectors, Mr Fernández contributes a deep and independent business perspective to the Board's discussions.

Appointment

Mr Fernández was appointed to the Board on 15 April 2008.

Background and External Appointments

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.

Mr Fernández has previously held senior executive positions at leading Mexican companies, including 14 years' 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 has been engaged as a consultant for public and private investment transactions and has been an active wealth management advisor since 2002. Since March 2007, Mr Fernández has been Chairman of the Board of Primero Fianzas, a private Mexican surety company. He is a member of the Board of Directors of the following publicly listed companies: FEMSA, a leading Latin American beverage company; CEMEX, a multinational building materials and cement manufacturer based in Mexico; VISA, the world's largest electronic payments network and ALFA, a Mexican conglomerate with interests in petrochemicals, telecommunications, autoparts and processed foods.



Fernando Ruiz

Non-executive Director (68)

Member, Audit, Remuneration and Nominations Committees

Perspectives and Experience

Before joining Fresnillo plc, Mr Ruiz was managing partner of Chevez, Ruiz, Zamarripa y Cia., S.C., tax advisers and consultants. He contributes to the Board and Audit Committee proceedings thorough experience of audit and international accounting frameworks and a specialist knowledge of Mexican tax.

Appointment

Mr Ruiz was appointed to the Board on 15 April 2008.

Background and External Appointments

Mr Ruiz graduated from the UNAM with a degree in public accounting. He is a member of the Asociación Mexicana de Contadores Públicos and currently Chairman of the tax committee of the Consejo Mexicano de Hombres de Negocios.

Mr Ruiz holds numerous board appointments with companies including Kimberly Clark de México, Mexichem, Grupo Cementos de Chihuahua, Grupo México, Grupo ICA and the Mexican Stock Exchange.



Rafael MacGregor

Non-executive Director (51)

Chairman, HSECR Committee

Perspectives and Experience

Mr MacGregor has wide-ranging commercial experience across a number of sectors, including institutional financial services and the Mexican Stock Exchange. His knowledge of the external investment perspective, coupled with his wider BAL-Group involvement provides an invaluable contribution to the Board's strategic process.

Appointment

Mr MacGregor was appointed to the Board on 11 January 2008.

Background and External Appointments

Mr MacGregor holds a bachelor of science in business administration from ITAM and attended the Stanford Executive Program at Stanford University.

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 is the Chairman of Valores Mexicanos Casa de Bolsa, and member of both the Board of Directors and the Executive Committee of Industrias Peñoles, Grupo Nacional Provincial, Grupo Palacio de Hierro, Grupo Profuturo, Crédito Afianzador, Mercado Mexicano de Derivados Bal-Ondeo. He is also a member of the Board of Trustees of ITAM.



Juan Bordes

Non-executive Director (64)

Perspectives and Experience

Mr Bordes brings to the Board practical and extensive cross-sector business experience, including within financial services. His involvement with the wider BAL-Group helps supplement this external context, bringing group perspective to bear in the Board process.

Appointment

Mr Bordes was appointed to the Board on 11 January 2008.

Background and External Appointments

Mr Bordes holds a Bachelor of Science degree 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).

Mr Bordes has been a corporate director of 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.



Arturo Fernández

Non-executive Director (58)

Perspectives and Experience

Mr Fernández' economics background, as well as his experience and connections within the Mexican public policy arena is coupled with plural external directorships across a number of sectors to provide the Board with commercial input and the macro-economic perspective.

Appointment

Mr Fernández was appointed to the Board on 15 April 2008.

Background and External Appointments

Mr Fernández holds a bachelor of economics from ITAM as well as a PhD in economics from the University of Chicago. He has 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 has been the rector of ITAM, an independent not-for-profit higher education institution, for 20 years.

Mr Fernández is a member of both the Board of Directors and the Executive Committee of Industrias Peñoles, Grupo Nacional Provincial, Grupo Profuturo, Grupo Palacio de Hierro, Valores Mexicanos Casa de Bolsa and Crédito Afianzador. He 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.



Guy Wilson

Non-executive Director (63)

Chairman, Audit Committee

Perspectives and Experience

Mr Wilson's distinguished career within a global audit firm and his experience of capital transactions and corporate actions provide the Board with an important international audit and accountancy perspective; invaluable in the strategic assessment of capital opportunities, and the wider fulfilment of Audit Committee duties, including the interaction with the financial reporting and audit processes.

Appointment

Mr Wilson was appointed to the Board on 1 July 2008.

Background and External Appointments

Mr Wilson joined the Board following his retirement from Ernst & Young LLP where he was employed from 1967, becoming a partner in 1979. From 1972, he 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 until joining Fresnillo plc, Mr Wilson primarily, but not exclusively, concentrated on transactions in the financial services sector.



Fernando Solana

Non-executive Director (81)

Member, Audit Committee

Perspectives and Experience

Mr Solana's extensive experience and connections within the political, banking and diplomatic arenas enables him to contribute to these aspects of strategic analysis at Board level. He is able to provide insight into the domestic political and regulatory framework within Mexico.

Appointment

Mr Solana was appointed to the Board on 18 February 2009.

Background and External Appointments

Mr Solana studied civil engineering, philosophy, public policy and administration at the National University of Mexico. He has 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).

He is currently President of Solana Consultores 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. He is also a member of the boards of several companies as well as philanthropic and cultural organisations.

Executive Management



Jaime Lomelín

Chief Executive Officer (77)

Mr Lomelín's biographical details can be found on page 92 of this Annual Report.



Mario Arreguín

Chief Financial Officer (55)

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 (67)

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 (61)

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.

"As Chairman, I see my greatest responsibilities to be ensuring that Fresnillo plc is governed with transparency and in the interests of all shareholders, and that the Group's strategy is aligned with our values of responsible and sustainable business practices. I focused on a number of governance issues this year, as laid out in this Report."

Alberto Baillères

Non-executive Chairman, Fresnillo plc

UK Corporate Governance Code

Following the introduction of the UK Corporate Governance Code (the Code) which took effect, in the case of Fresnillo, from 1 January 2011, the Board took a series of measures to comply with the principal changes that have been made to the Code. Consequently, the Schedule of Matters reserved for the Board and some of the Committee terms of reference have been updated. The annual re-election of directors was introduced for the 2011 annual general meeting and externally facilitated board performance evaluation was undertaken for the first time in September 2011, the results having been discussed at the meeting on 5 October 2011, with follow-up actions being monitored subsequently.

More recently there has been widespread comment on the issue of diversity and succession planning. The Nominations Committee and the Board are clear that there will be no discrimination in appointments at Board or senior management levels. As the Board membership is refreshed over the coming years, new appointments by the Board will be made strictly on merit in line with the Group's overall philosophy of providing equality of opportunity irrespective of gender or ethnicity.

Risk Governance

The Board has undertaken an in-depth review of its approach to risk in response to the new requirements concerning risk appetite and tolerance. Consequently, there is a clear set of principal risks and uncertainties which has been agreed by the Board along with clearly agreed parameters for risk appetite and tolerance. Further detail on principal risks and uncertainties can be found within the 'Our Risk Management Framework' section on page 36.

UK Bribery Act

The Fresnillo Group has undertaken an extensive review of its policies and procedures in order to ensure compliance with the requirements of the UK Bribery Act. One element of this review focused on the leadership given by the Board in this regard. As a result, the Company's Anti-Bribery and Corruption Policy, Donations Policy and Code of Conduct were reviewed by the Board and communicated to staff. The Fresnillo Code of Conduct is available on the Company's website at www.fresnilloplc.com.

Health & Safety

The number of fatalities suffered during the year has prompted a number of initiatives by management. Both the Board and the HSECR Committee have evaluated the investigations undertaken following these incidents and the responses of management to ensure that they are appropriate. In the short-term at least, the HSECR Committee is expected to meet more often than previously in order to ensure that both procedures and behaviours can be improved as one means to try and minimise the potential for fatalities to occur.

Minority Shareholders

The Board seeks to ensure that the interests of minority shareholders in Fresnillo plc are properly respected and aligned with those of major shareholders. The Board maintains procedures for dealing with transactions with Related Parties as well as Directors' conflicts of interest and has continued to monitor the appropriateness of those procedures.

Corporate Governance Report

As a company with a Premium Listing on the London Stock Exchange, Fresnillo is required under the FSA Listing Rules to comply with the Provisions of the 2010 UK Corporate Governance Code (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 2011. The following statement is therefore made in compliance with such requirement, and the sections thereafter explain how the principles in the Code were applied and provide cross-references to other sections where more detailed description is available. A detailed report on Directors' remuneration can be found on pages 110 to 115.

UK Corporate Governance Code Compliance Statement

The Code establishes eighteen main principles of good governance in five areas: Leadership, Effectiveness, Accountability, Remuneration and Relations with Shareholders. The remainder of this report provides further detail on how the Company applies good governance in these five areas.

For the financial year ended 31 December 2011, the Company has complied with the provisions of the Code in all these areas, save in respect of D.2.1., which 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.

Fresnillo Governance Structure

The Board Structure

The structure and business of the Board is designed to ensure that the Board focuses on strategy, monitoring the performance of the management team, 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:

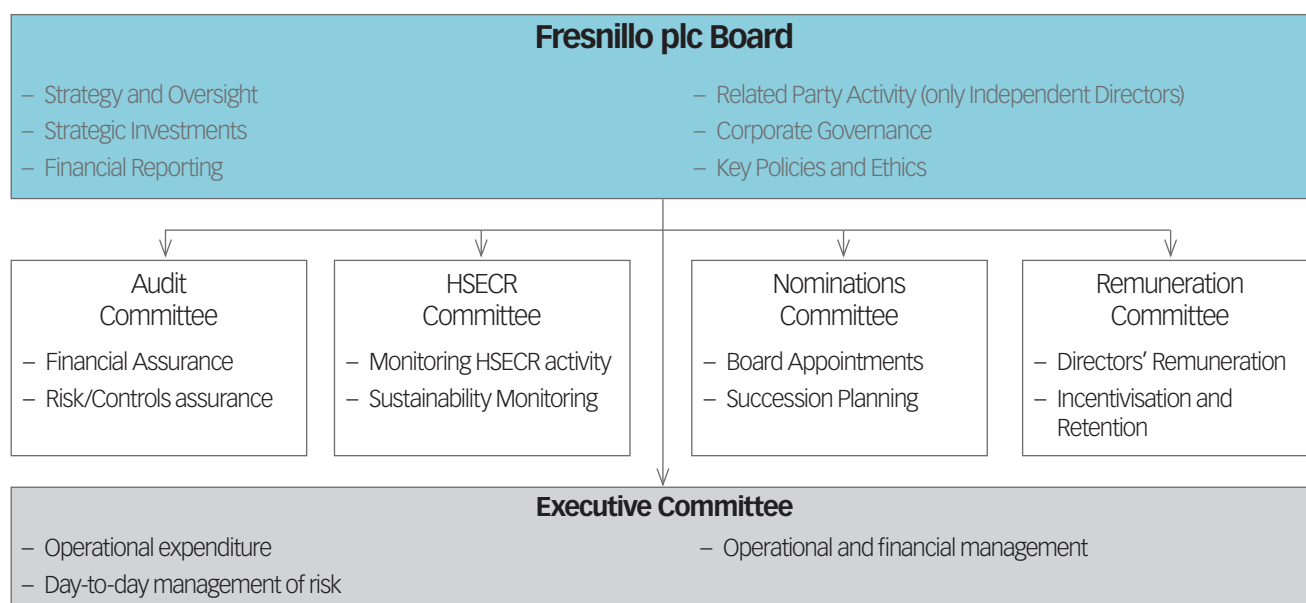
- Audit Committee
- Executive Committee
- Health, Safety, Environment and Community Relations (HSECR) Committee
- Nominations Committee
- Remuneration Committee

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 Officer 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 and can be found on pages 110 to 115.

Fresnillo Governance Structure and Key Responsibilities



Board Composition and Independence

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 2011. The names and biographies of the current Directors of the Company are set out on pages 92 to 94.

Board Balance and Roles

The composition of the Board and the roles of the Chairman, Chief Executive Officer 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. The Chairman, 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.

Board Independence

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 in character and judgement but also by reference to Provision B.1.1. of the Code.

Relationship Agreement

Since May 2008, there has been a relationship agreement in place between Peñoles and the Company to regulate the ongoing relationship between them. 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 2008, 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 outlined in the diagram below:

Conflicts of Interests

The duties 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 sets 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 31 December 2011 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 of interest in accordance with sections 175, 177 and 182 of the Companies Act 2006.

Oversight of the Relationship Agreement

The approach taken to ensure that the Relationship Agreement is fully implemented

Process

Contract negotiation

Verification

Financial scrutiny

Board approval

Responsibility

Fresnillo Management and Executive Committee

Industry benchmarking reports or independent valuation/assessment

Audit Committee review

Independent Directors approve under the Relationship Agreement

Board Process

The primary objective of the Board is to take responsibility for the Group's long-term objectives and commercial strategy and to monitor the management of the Group's activities. During the year more time has been allocated to presenting and discussing aspects of strategy as part of the normal agenda for each Board meeting. A special strategy discussion was also held in April to enable the Directors to discuss this at greater length. Non-executive Directors are encouraged to engage in constructive debate regarding strategy and fully participate in these sessions.

There is a formal schedule of matters reserved for the Board's decision which includes approvals of major expenditure and investments and key policies. This schedule of matters was revised in April to account for the introduction of the UK Corporate Governance Code.

The Board also provides leadership to the Fresnillo Group in establishing the values by which it will conduct its business. During the year, the Board has monitored the Company's response to the provisions set out in the UK Bribery Act 2010. In particular, it has considered its role in setting the 'tone from the top' in relation to the Fresnillo Group's procedures under the Bribery Act. As a result, in April 2011, the Board considered and approved revised versions of the Company's Anti-Bribery and Anti-Corruption Policy, its Code of Conduct and its Donations and Political Contributions Policy. Following approval of these policies, a full communication programme has been undertaken to ensure that employees and contractors are aware of the Board's position on these matters.

In addition to the usual pattern of meetings, a further Board meeting was held in December 2011 to approve the second interim dividend paid to shareholders on 30 December 2011. A table of attendance of members of the Board and Board committees at meetings during the financial year ended 31 December 2011 is set out below. All meetings of the Board are held in Mexico.

The Company Secretary is responsible for preparing a draft agenda for each Board meeting in conjunction with the 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 usually circulated about 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 of the 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 is fully briefed on all its legal and regulatory responsibilities. During 2011, Directors received briefings on the new UK Corporate Governance Code. The Directors also received a briefing on the UK Bribery Act.

Directors are encouraged to visit the Company's mines to familiarise themselves with the Fresnillo Group's operations. Although all the Non-executive Directors have visited at least one of the Group's locations, the Company is implementing a more structured programme to increase the frequency of site visits.

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.

The Board meets at least four times a year and has an established programme of meetings as follows:

Board Meetings: Programme and Attendance

	February/March		April	July/August		October
Key Activity	Full year results and report		Strategy	Interim Results	Business Plan and Budget	
	Board (5 meetings)	Audit Committee (5 meetings)	Remuneration Committee (2 meetings)	Nominations Committee (1 meeting)	HSECR Committee (2 meetings)	
Alberto Baillères	5/5		2/2	1/1		
Jaime Lomelín	5/5				2/2	
Lord Cairns	4/5*		2/2			
Fernando Ruiz	5/5	5/5	2/2	1/1		
Javier Fernández	5/5			1/1	1/2*	
Rafael MacGregor	5/5				2/2	
Juan Bordes	5/5					
Arturo Fernández	5/5					
Guy Wilson	4/5*	5/5				
Fernando Solana	3/5*	3/5*				

* Lord Cairns and Guy Wilson were unable to travel to attend the December 2011 Board meeting, but were consulted on matters for discussion via telephone, prior to the meeting. Fernando Solana was unable to attend meetings in early 2011 due to ill-health. Javier Fernández was unable to attend the September 2011 HSECR meeting due to the meeting being scheduled at short notice.

Board Performance Evaluation

"Our overall view is that, while the Fresnillo Board may work differently in some areas from more conventional UK plc boards, it is showing strongly the characteristics which make it capable of being an effective board... The progress made over only three years is commendable: the focus of agendas is now on the business; discussion is more open – for some to a surprising extent; an effective chemistry based on trust has been established; and the Company has strived to meet the spirit of the UK Corporate Governance Code."

Independent Audit Limited

Fresnillo plc Review of Board Effectiveness 2011.

Our aim

The Board attaches considerable weight to making sure that its governance approach is effective. It fully recognises that sound governance has a role to play in securing strategic success and strong performance as well as in protecting the interests of its shareholders. It is especially conscious of the need for its governance to result in practical and effective independent oversight given its particular ownership structure and relatively short history as a UK listed company. The Board is determined to make sure that it is working effectively to the long-term benefit of all shareholders and recognises the role the Directors collectively have to play in maintaining this focus.

In 2011 the Board appointed Independent Audit Limited (IAL) to undertake an independent review of Board effectiveness. This appointment formed part of a three-pronged engagement of IAL to review how far the most critical components of the corporate governance approach at this time are meeting the needs of the business:

1. the work of the Board;
2. the oversight provided by the Audit Committee; and
3. the governance of risk (in conjunction with PricewaterhouseCoopers).

The main focus of the Board Performance Evaluation exercise was to provide an objective assessment of the Board's development since the IPO to ensure that it is fulfilling its role in the interests of all of its shareholders.

Our approach

The Board performance evaluation exercise included individual discussions with each of the Directors, the Chief Financial Officer, Chief Operating Officer, the Vice President for Exploration and the Company Secretary. Board and committee papers covering a twelve month period were also reviewed. Two extensive meetings with the Chairman covered his views on the Board's work and his governance goals and a detailed review of IAL's findings. The report was presented to the Board by IAL in October 2011. An action plan has been developed since that meeting.

Our development

The main recommendations were set out as (i) items for immediate action; (ii) items for further thought; and (iii) items for the future. Some of the recommendations in relation to the development of the role of the HSECR Committee in reviewing serious accidents (and management responses) and the Board's approach to risk governance were adopted immediately.

Furthermore, the Chairman prepared a plan in response to the development points arising from the Review which was discussed and agreed at the Board meeting on 29 February 2012. The key features of this plan are:

- Over the next year, management will develop KPIs to enable the Board to monitor people strategies and understand organisational culture;
- Board members will be provided with more information on technical issues, market trends and political developments in Mexico with more time allocated to discuss such issues during the year;
- The Nominations Committee will report to the Board on succession issues following its meeting in April 2012;
- The role of the Audit Committee in monitoring the Company's procedures for dealing with related party transactions was looked at particularly closely and considered to be appropriate. A separate evaluation of the Audit Committee being undertaken by IAL will also result in a more detailed action plan being created specifically for the Audit Committee to implement.

Next steps

Progress in implementing the action plan will be reviewed again in July 2012 and this will form a key consideration in scoping out the 2012 Board Performance Evaluation exercise.

Individual Performance Reviews

The Chairman meets with the Non-executive Directors informally from time to time without the executives present. These meetings provide an opportunity for the Chairman to ensure that the Non-executive Directors' training and development needs are being satisfied. 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 2011 following which the Senior Independent Director discussed the views of the independent directors with the Chairman.

Relations with Shareholders

Free-float investors by location



	%
UK	55.1
North America & Canada	30.3
Rest of Europe	9.2
Rest of world	5.4

Source: J.P. Morgan Cazenove

The Board seeks to ensure that the interests of minority shareholders in Fresnillo plc are properly respected and aligned with those of major shareholders. As described on page 100, the Board maintains procedures for dealing with transactions with Related Parties as well as Directors' conflicts of interest.

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 Director of Exploration and the Director of Operations participate in the major roadshows to meet with analysts and shareholders. The Head of Investor Relations, supported by the Chief Executive Officer, gives a report at each Board meeting on communications and shareholder activity.

In December 2011, FTSE Group announced that it would be revising the criteria for membership of its UK Index Series. This includes the FTSE 100 Index of which Fresnillo plc is a constituent. The minimum free float for a company to be eligible will be increased from 15% to 25%. The Company recognises the value of being a member of the FTSE 100 Index and during 2012 will consider arrangements for increasing its free float in order to satisfy the new criteria.

The Company's fourth annual general meeting will be held on 18 May 2012. The business of the Annual General Meeting will be conducted in accordance with the provisions E.2.1. and E.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.

Nominations Committee Report



"In introducing the report of the Nominations Committee, I would like to repeat the comments I have made on diversity issues in the Chairman's Letter at the beginning of this annual report. The sustained success of our business is dependent on having the right people on our team at all levels of the organisation; those with the skills, experience, responsibility and determination to help the Company achieve its goals. Fresnillo plc has been at the forefront of opening the doors of employment to people in Mexico who have not traditionally held jobs in the mining industry, including women, who are advancing on their own merit.

Increasing the diversity of our workforce, as we have done over the past ten years, demonstrates our attention to this issue.

I am also committed to greater diversity, based on merit, at the Board level, and this objective will be given due consideration in future appointments."

Alberto Baillères

Chairman of the Nominations Committee

Membership

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.

Role

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 on the Company's website at www.fresnilloplc.com.

What we did in 2011

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, the letters of appointment for the Non-executive Directors and undertook a brief self-evaluation exercise. The Nominations Committee has not retained any external consultants to assist it in its work. As required by the UK Corporate Governance Code, the letters of appointment for the Non-executive Directors are made available for inspection at the Company's registered office, during normal business hours.

In April, the Nominations Committee considered the report, 'Women on Boards' published by Lord Davies of Abersoch.

The Nominations Committee confirms that the Board is committed to the principle of appointments to the Board being made on the basis of merit. The criteria for determining the composition of the Board and future Board appointments continues to be based on:

- the Relationship Agreement requirements for appointments to the Board by Peñoles;
- the Company's leading position as a precious metals miner in Mexico;
- the Company's inclusion in the FTSE 100 Index;
- the specific functions on Board committees which independent directors will be required to fulfil; and
- the criteria set out in the current terms of reference of the Nominations Committee.

The Nominations Committee has endorsed the Company's non-discrimination policy in relation to employment opportunities but recognises that within the mining industry opportunities to consider female appointments to the Board and senior positions would be more restricted than in other sectors. Nevertheless, it was noted that the proportion of women employed in the Company is now 9.3% compared to nil ten years ago and women are increasingly employed in management positions. Against this backdrop, the Nominations Committee will consider female candidates for future appointment to the Board as part of the process of succession planning and future changes to the Board as and when the composition of the Board is refreshed. The Nominations Committee will consider Board succession at its meeting in April 2012 prior to recommending to the Board proposals for the re-election of directors at the forthcoming Annual General Meeting.

Audit Committee Report



“The principal duties of your Audit Committee are to oversee the internal control and risk management of your company; to review the financial statements and related accounting policies; and to assess the effectiveness of the internal and external audit functions. In addition, on behalf of the independent directors, we review the financial aspects of all related party transactions with our major shareholder prior to their approval.

This year, our role overseeing risk management has expanded to encompass a detailed review of the processes underlying the Company's thorough analysis of risks and related mitigations inherent in all our operations and also those necessary to ensure that we comply with all aspects of the Bribery Act, some of the strict provisions of which have no equivalent in Mexico. In respect of the financial statements, we concentrate on those areas where judgement is required. Over the past three years, we have worked with management and Ernst & Young to refine the key methodologies to ensure that third party validation and necessary assumptions are transparent and consistently applied. Although we are not complacent, we are satisfied that the current methodologies are appropriate.

Our oversight of the whole audit function continues to evolve. We have promoted greater communication and hence understanding between the internal and external audit functions which is leading towards a more integrated approach and this aspect will continue to be a main focus for us in the year ahead. We monitor carefully the independence of Ernst & Young and do not permit them to do any work that might jeopardise their independence. As a result, other accountancy and advisory firms are employed where appropriate and this year the fees for those services were US\$2.3 million.

Looking to the future, we have noted the European Commission's proposals for audit reform and continue to monitor the arguments for and against. In the UK and certain other European countries, the regulators, many companies and the audit profession have challenged some of the more radical proposals but we will be prepared for whatever outcome finally emerges. In the meantime, the Audit Committee continues to evaluate the performance of the external auditors each year.”

Mr Guy Wilson

Chairman of the Audit Committee

Membership

The members of the Audit Committee at 31 December 2011 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 five times in the year. The external auditor is represented at each meeting, providing opportunities for the auditors to gain direct information relevant to the external audit process and for the Audit Committee to better understand the factors relevant to the auditors when exercising their professional judgement.

Role

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. The Audit Committee 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 terms of reference of the Audit Committee are available on the Company's website at www.fresnilloplc.com and its duties are categorised under the following headings:

- Financial Reporting
- Internal Controls and Risk Management
- Whistleblowing Procedures
- Internal Audit
- External Audit
- Related Party Matters

The following sections summarise how the Audit Committee has fulfilled its duties in 2011.

Financial Reporting

At its meeting in February 2011, the Audit Committee reviewed the 2010 Annual Report and financial statements for the year-ended 31 December 2010 and the related preliminary announcement prior to recommending them to the Board for approval. Prior to approval, the Board considered the consistency of the accounting policies adopted and the application of accounting standards. Particular areas of focus for the Audit Committee were:

- the valuation of the Silverstream contract;
- the mine closure model and estimation of related provisions;
- the judgements used in calculating the PTU charge;
- the impact of exchange rate movements;
- the allocation of exploration expenditure between capital cost and revenue expense;
- the correct application of depreciation policy over mine assets;
- the basis of calculation of the Group's tax charge; and
- the going concern basis for preparing the accounts.

At its July meeting, the Audit Committee reviewed the 2011 interim financial results before recommending them to the Board for approval. In undertaking that review, the Audit Committee seeks to ensure that issues discussed during the review process for the full-year financial statements have been progressed and that there is consistency between the policies and judgements used in preparing the full-year and half-year financial statements.

At its meeting in February 2012, the Committee reviewed the financial statements for the year-ended 31 December 2011, prior to recommending them to the Board for approval.

Internal Controls and Risk Management

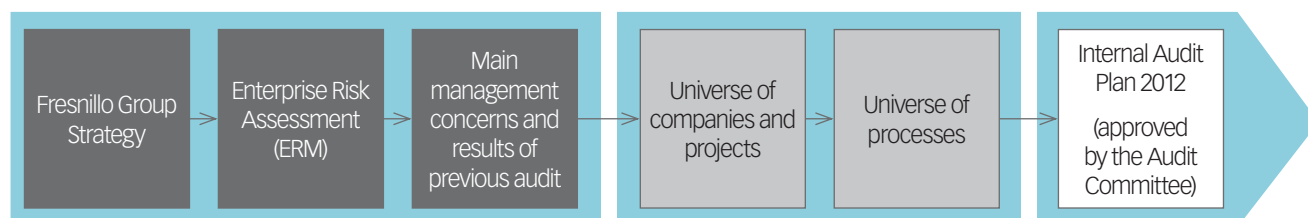
In December each year, the Audit Committee agrees the process by which the Board will undertake a review of the Group's system of internal controls. The outcome of that review is presented to the Audit Committee in the following February. The Group has in place internal controls and risk management systems in relation to the processes for both financial reporting and the preparation of 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. A comprehensive and detailed risk review was undertaken by the Company during the year, which is described more fully in the 'Our Risk Management Framework' section on page 36.

Fresnillo Internal Audit Plan Process



Internal Controls and Risk Management

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
The Group risk matrix.	Updated twice annually by the Executive Committee and Internal Audit Department.
A framework of transaction and entity level controls to prevent and detect material error and loss.	Reviews undertaken by the Internal Audit Department.
A documented structure of delegated authorities and approvals for transaction and investment decisions, including any with related parties.	Monitored and reviewed by the Internal Audit Department.
Operating policies and procedures.	Reports from Internal Audit and the external auditors following their reviews supplemented by annual written representations from operational and functional management.
A budget with periodic reporting.	Review process performed by the Executive Committee.
Controls and procedures set out in the Company's Accounting Policies and Procedures Manual.	Monitored and reviewed by the Internal Audit Department.
A programme of internal audit reviews conducted by the Group's Internal Audit Department.	Reports prepared by the Internal Audit Department are discussed with management prior to finalisation and reviewed by the Audit Committee.

In February 2011 and July 2011, the Audit Committee reviewed the process for identifying the Group's major risks and uncertainties prior to publication of the annual financial and interim 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 to supplement the specific work undertaken by Internal Audit and External Audit.

The Board has, through the Executive Committee and the Audit Committee (at its February 2012 meeting), 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. In 2011, the Board and the Audit Committee 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, particularly in the light of the need for increasing numbers of contractors. 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.

Whistleblowing Arrangements

In the course of reviewing the Company's arrangements for ensuring compliance with the requirements of the UK Bribery Act, the Audit Committee has received reports from management concerning the framework by which employees can raise concerns about matters of financial or non-financial impropriety. In June 2011, the Honour Commission, which provides the forum by which violations may be considered, was re-constituted and its terms of reference revised to embrace the procedures adopted in response to the Bribery Act.

The 'Fresnillo Plays Fair' whistleblower hotline allows stakeholders to anonymously (via an independent third party) report violations of our 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. The Honour Commission comprises the Chief Executive Officer, the Compliance Officer (currently the Chief Financial Officer), the Director of Internal Audit, the Chief Operating Officer, the Vice President of Exploration and the Legal Manager. The Honour Commission received seven complaints which have been investigated. The Audit Committee reviewed the actions taken in response to those complaints at its meeting in December.

The Audit Committee is responsible for reviewing the overall whistleblowing arrangements which it did at its meetings in July and October 2011 and it is satisfied that they remain adequate.

Internal Audit

The Audit Committee receives presentations and updates from the Group Internal Audit Department at each of its meetings throughout the year. A workplan for the following year is agreed prior to the end of the year. Any changes to the plan during the year are agreed with the Audit Committee.

The Internal Audit team seeks to complete audits of all of the Company's mining assets on a regular basis. During 2011 particular focus has been placed on auditing the Company's new mines to ensure that proper procedures are implemented in those new operations. There has also been particular focus on Treasury, IT and third party contractor management. At each meeting during the year, the Audit Committee has focused on the progress made by management in addressing 'red flag' items raised during internal audit visits to ensure that the management responses to remediation are appropriate and timely.

An internal audit workplan for 2012 and beyond was presented to and approved by the Audit Committee at its October 2011 meeting. The resourcing of the internal audit function was reviewed during the year. It is anticipated that there will be an increase in resourcing to take account of the expanded responsibilities of the internal audit department as a result of the expansion of the Group's mining assets, increased third party contractor activity and the assurance activity required to ensure that the Group is properly implementing adequate procedures under the UK Bribery Act.

The members of the Audit Committee undertook a review of the Internal Audit Department and the results of that review were discussed during a meeting between the Chairman of the Audit Committee, the Head of Internal Audit and the Internal Audit Manager.

External Auditor

The Audit Committee oversees the relationship with the external auditors. Ernst & Young LLP has provided audit services to the Company since its incorporation as a new company in 2008. The Audit Committee considers that the rotation of the audit partner in line with ICAEW guidelines is appropriate. The current audit partner was appointed in 2010. The Audit Committee considers the reappointment of the external auditor as part of its annual programme of work. In February 2011, the Audit Committee considered and recommended the re-appointment of Ernst & Young LLP, to the Board prior to the Company's annual general meeting. This review took 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 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.

In October 2011, the Audit Committee reviewed the terms of engagement in respect of the audit of the financial statements for the year-ended 31 December 2011 including audit plans and timescales. In October 2011, the Audit Committee also 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 reviewed the findings of the external auditor in respect of the financial statements for the year ended 31 December 2010 at its February 2011 meeting and in

respect of the financial statements for the six-month period ending on 30 June 2011 at its July 2011 meeting. This process was repeated at the February 2012 meeting. As part of each of these reviews, the Audit Committee met with representatives from Ernst & Young LLP without management present and with management without representatives of Ernst & Young present, to ensure that there are no issues in the relationship between management and the external auditor which it should address. There were none. At each of those meetings, the Audit Committee also approved the respective representation letters given to Ernst & Young LLP by management.

In addition, the Audit Committee reviewed the initial findings of the hard close audit undertaken by Ernst & Young LLP in respect of the period to 31 October 2011 at its meeting in December 2011.

In April 2011, the Audit Committee reviewed the letters to management detailing 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. This policy was considered at the October meeting of the Committee. The Committee reviewed the extent of services provided by other audit firms and advisors at its October and December meetings. Non-audit services supplied by Ernst & Young during 2011 were minimal, focused on tax advice, and are not considered material enough to affect auditor objectivity or independence. Non-audit services of approximately US\$2.3 million have been placed with other audit firms during the year. In February 2012, the Audit Committee approved a policy on the employment of former employees of the auditor.

Related Party Matters

In reviewing the full-year financial statements prior to recommending them to the Board for approval, the Audit Committee reviewed a schedule all of the Company's related party transactions during the year ended 31 December 2011.

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 2011. Based on the satisfactory outcome of that review, the Chairman of the Audit Committee recommended that the independent directors approve the proposed charges for 2011 under the Met-Mex Arrangements.

Evaluation

The Audit Committee has reviewed how it evaluates both its own performance and the effectiveness of the internal and external auditors during the year.

Committee evaluation

In previous years, the Audit Committee has undertaken an internal questionnaire-based evaluation of its own performance. This process has been facilitated by the Company Secretary. In 2011, following their external evaluation of the board of Fresnillo plc, Independent Audit Limited were commissioned to undertake an external evaluation of the Committee. The results of this evaluation were considered in February 2012 along with the main recommendations that the Committee should:

- adopt a more structured approach to assessing the effectiveness of the external auditor;
- evaluate in a more rigorous way the performance of the internal audit team;
- develop further its review of the achievement of non-financial objectives and the measures employed to monitor performance; and
- determine the scope of its role in monitoring risk exposures in support of the Board.

The steps taken in response to the comments on the evaluation of the external and internal auditors are commented on below.

In response to comments made by Independent Audit Limited in relation to their Board Evaluation report, the Audit Committee also reviewed their terms of reference and are in the process of updating them to reflect the present responsibilities of the Audit Committee. A copy of the terms of reference of the Committee may be found on the Company's website at www.fresnilloplc.com.

External auditor evaluation

Previously, the Audit Committee has undertaken an informal evaluation of the external auditors after the completion of the year-end audit. Recognising the need for a more robust and objective process for evaluating the external auditor in future years, the Audit Committee intends to use a questionnaire-based process for evaluating the performance of the external auditor.

Internal auditor evaluation

Each year, the Audit Committee members evaluate the internal audit function. The Chairman of the Audit Committee circulates a questionnaire, which considers different aspects of the role and performance of the internal audit function, to the other members of the Committee. The members of the Committee send their written comments to the Chairman of the Audit Committee who then meets with the other committee members to discuss their views on the performance of the internal audit function. He then meets with the Head of Internal Audit and the Audit Manager responsible for the Fresnillo businesses to review the output from the Audit Committee's evaluation exercise. In February 2012, all of the members of the Audit Committee met with the internal audit team to provide this feedback. Later in the year, Independent Audit Limited has been commissioned to undertake an external evaluation of the internal audit function on behalf of the Audit Committee.

HSECR Committee Report



“The Health, Safety, Environment and Community Relations (HSECR) Committee has been in close contact with Company management in order to stress the importance of achieving HSECR objectives within the Company’s overall strategy.

During 2011, the Company experienced the unfortunate fatal accidents of eleven collaborators. These accidents are unacceptable and represent a deviation from the Company’s record on safety. The HSECR Committee expresses its sincere condolences to the families of these collaborators. The position of the HSECR Committee is that safety is first at all times, including a zero-tolerance approach to breaches in safety measures, with adequate procedures being the first check point to be verified each day during each daily work shift. In September 2011 the Company appointed a Corporate Safety Manager specifically charged with ensuring that adequate safety procedures are followed at all times by personnel and collaborators. In the CEO’s report, further detail is provided regarding the Company’s response to these accidents, including the special audits that have been performed and the actions taken.

Regarding health, environmental and community relations indicators, during 2011 the Company’s ongoing medical programmes have promoted health amongst employees as well as in the local communities where the Company operates. The Company reports that all mine units have ISO 14001 and Clean Industry Certifications (Minera Saucito began operations in 2011 and is in the process of obtaining environmental certifications). Additionally, the Company continues to work with local communities, promoting education, sports culture and infrastructure that improve the quality of lives where it operates.

The special audit conducted by PricewaterhouseCoopers in Q1 2011 concluded that the level of maturity of the HSECR System continues to develop and management is working to have it at full maturity by 2016.

With a view to monitoring more closely Company operations, the HSECR Committee has decided to meet more frequently, including at least one meeting per year at operational locations. The fundamental responsibility of the HSECR Committee is, with the support of the Board, to ensure that the management of the Company strives at all times to operate in a sustainable manner as a socially responsible company.”

Mr Rafael MacGregor

Chairman of the HSECR Committee

Membership

The members of the HSECR Committee are Rafael MacGregor (Chairman of the Committee), Javier Fernández and Jaime Lomelín.

Meetings are also attended by various operational and unit managers.

Role

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

The HSECR Committee evaluates the effectiveness of the Company’s policies and systems for identifying and managing HSECR matters within the Company’s operations. The Company reports to the HSECR Committee on such matters.

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

What we did in 2011

During the year, the Committee has received reports from management on health, safety, environmental and community relations issues. The inadequate safety record of the Company as compared to previous years, as well as the recommendations and actions taken by management, have been reviewed by the HSECR Committee.

The Committee requested the Company to undertake an independent study regarding the current HSECR system in order to verify its design and measure its maturity, pursuant to which the Company appointed PricewaterhouseCoopers (PwC). The Committee also reviewed the independent safety audits requested by the Company, and the recommendations from such audits as well as the results of the PwC study were reported to the Board in October.

Additionally, the HSECR Committee reviewed the re-enforcement and implementation by management of specific action plans and the development of forward-looking indicators in order to assess and monitor HSECR matters, as well as the improvement of communications thereto related.

The HSECR Committee formally met twice during the year and has been in close contact with management during the year.

Details of the specific measures taken during the year on HSECR matters, including in response to the external study by PwC and the safety independent audits, are set out in the Sustainable Development Report on page 62. Please also refer to the ‘Performance’ section starting on page 45.

Remuneration Committee Report



"The Remuneration Committee seeks to ensure the senior executives of your company are rewarded in a manner that is fair by the standards of comparability with companies in the sector both nationally and internationally. We wish to retain and motivate them to create long-term value for shareholders within a framework of high quality concern for all employees and the communities within which they work.

Fixed remuneration forms a higher proportion of the total than in many international companies although this is closer to local custom in Mexico. Also, the relationship of variable reward to changes in share value is not a feature of our system. Rather, we believe that relating a significant portion of variable compensation to finding and proving commercially viable long-term gold and silver reserves is the most appropriate way to align the interests of executives and shareholders in matters over which the former have responsibility and control."

Lord Cairns

Chairman of the Remuneration Committee

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 2011. In accordance with the Regulations, the information provided in the section entitled 'Directors' Remuneration – 1 January 2011 to 31 December 2011' 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.

Membership

The Remuneration Committee consisted of the following Directors in the year ended 31 December 2011:

- Lord Cairns (chairman), Independent Non-executive Director
- Mr Fernando Ruiz, Independent Non-executive Director
- Mr Alberto Baillères, Chairman of the Board

Mr Baillères was non-independent at the time of his appointment to the Board and therefore his membership of the Remuneration Committee does not comply with Code Provision D.2.1 of the UK Corporate Governance Code. However, 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.

Role

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 considers remuneration objectives in line with the Company's business plan and budget. It also takes account of the remuneration packages across the whole workforce. The Remuneration Committee recognises that the financial performance of the Company is heavily influenced by macro-economic considerations such as commodity price and exchange rate movements. These factors are, therefore, discounted when determining variable pay. The focus of the remuneration policy is therefore directed towards operational performance of the business as a whole and the individual roles of each of the senior executives in achieving that performance.

Terms of reference for the Remuneration Committee have been approved by the Board and are available on the Company's website at www.fresnilloplc.com.

What we did in 2011

The Remuneration Committee formally met twice during the year. In addition, the members of the Committee also met informally to discuss and progress matters within the Committee's remit. 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.

During 2011, the Remuneration Committee considered and approved the salary review for the Executive Committee members (a 5% increase in salaries for Executive Committee members excluding the Chief Executive Officer, who is the sole Executive Director taking effect from 1 April 2011); the short-term incentive plan payments for 2010; performance objectives for 2011; reviewed and benchmarked Group pension provision; reviewed the remuneration policy and defined provisional targets for 2012 based on the business plan. In October 2011, the Remuneration Committee undertook an evaluation of its own performance.

The key themes of the Remuneration Committee's discussions in 2011 have been on the incentives to promote (a) the sustainable maintenance of reserves and resources; (b) improving the Company's safety performance; and (c) progress towards the Company's long-term production targets.

Advisers and Benchmarking

Remuneration consultants are engaged to provide benchmarking information on remuneration but not to provide guidance on the structure of remuneration. All of the consultants that the Company uses are independent of the Company. Benchmarking information on pay and employment conditions is supplied annually 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 is preserved, compared to the Company's peer group within Mexico and internationally.

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.

Base salary levels are key to the retention of managers in Mexico. Therefore, 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 comparable companies. Salaries are benchmarked annually.

Total compensation is set around the median level for the Company's peer group within Mexico and total remuneration is benchmarked biennially to ensure that the whole remuneration package is maintained at this level over the long-term.

The maximum variable payment is the equivalent of six months basic salary. Thus, whilst variable pay, by definition, will alter from year to year, it will not be more than 50% of basic salary.

Pensions and other benefits are also set at levels that are market competitive to ensure that the retentive benefits of market competitive salaries are not eroded by poor benefits. The Remuneration Committee monitors the competitiveness of the Company's pension arrangements and a review was undertaken by Mercer in April 2011.

The strategic aims are achieved through the variable component of remuneration which is embodied within the short-term incentive plan. This element is available to the Chief Executive Officer, the Chief Financial Officer, the Vice President of Operations and the Vice President of Exploration as well as other corporate managers. The achievement of annual performance targets is rewarded through an annual performance related bonus. The performance targets upon which bonuses are based include a mix of financial and operational performance measures. The prospect that this system will continue in future years, albeit with some variations to allow for changing circumstances, provides a fundamental bridge with shareholders long-term interests.

A review conducted by Mercer in April 2010, enabled the Remuneration Committee to validate the Company's policy towards short-term and long-term remuneration and ensure that it was globally as well as locally competitive. This last review concluded that, in Mexico, short-term, cash-based incentivisation is considered more appropriate in helping attract, retain and motivate quality senior management.

Below Board level, a statutory profit-sharing arrangement (PTU) is operated which, in recent, years has enabled employees within the operating companies to receive significant levels of bonus in line with the increased profitability of the Company. Neither the Chief Executive Officer or any of the Non-executive Directors participate in a PTU scheme within the Fresnillo Group. The members of senior management group below Board level are employed by Servicios Administrativos Fresnillo SA de CV which pays annual PTU payments. However such payments are modest.

The Remuneration Committee keeps the policy under review and considers that the upper limit for short-term, cash-based remuneration incentives is appropriate. In setting this level, the Remuneration Committee has considered both local market practice and that within the global mining industry. The Remuneration Committee is satisfied that this has helped to incentivise senior management in managing the Group sustainably and in meeting shareholders' reasonable expectations.

It is the Company's policy not to use its equity to incentivise long-term performance. The Company's core strategy is one of long-term sustainable growth. Sustainable growth in mining requires the steady and safe expansion of the Group's operations through the discovery of new resources and construction, maintenance and/or expansion of new mines. The annual short-term incentive KPI targets are designed to contribute to both short-term and long-term goals. The Remuneration Committee believes that this format is the most effective way of aligning both the short- and long-term interests of management and shareholders than by introducing other long-term equity-based remuneration plans.

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	Two	16.67
105–109	Four	33.33
110–114	Five	41.67
115+	Six	50.00

The Chief Executive Officer achieved 100.7 points for the year to 31 December 2011 (2010: 115 points) and therefore was awarded a bonus of two months' salary for 2011.

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 Points	2011 Award Points
Production	Increase in equivalent ounces produced ¹	26	26.5
Exploration/growth	Increase in total resources and resources upgraded from inferred to indicated ¹	30	33.2
Financial	Net profit adjusted ²	17	14.3
Stakeholder	Various	12	13.7
Teamwork	No measure	10	14.0
Safety	Fatal accidents ³	5	0
TOTAL		100	101.7
Adjustments		–	(1.0)
TOTAL		100	100.7

¹ Any decrease in equivalent ounces produced and/or in reserves and resources will result in points being deducted from the total points scored.

² Net profit is adjusted to reflect currency fluctuation, the effect of year-on-year changes in metals prices and to exclude any revaluation of the Silverstream contract in determining this measure.

³ A further penalty of one point will be deducted from the total bonus for each employee fatality. Recognising that a number of contractor fatalities occurred in 2011, this penalty will be extended to include contractors' employees in 2012.

The Remuneration Committee has considered the effectiveness of KPIs and targets set in 2011 with a view to confirming those to be set for 2012. It continues to consider that the overall structure of the Short-Term Incentive Plan is appropriate however it has made adjustments to the criteria as follows:

Criteria	Change 2012	Reason for Change in 2012
Exploration/growth	In 2011, 15 points was awarded for the Total Resource target and 15 points awarded for meeting target upgrades from inferred to indicated resources. In 2012 10 points will be awarded for the Total Resources target and 20 points awarded for the upgrade to Indicated Resources.	This is designed to place greater emphasis on maintaining the quality of resources.
Safety	The criteria will include all fatalities, not just employees. The points value for zero fatalities has been increased from 5 to 10 points in order to give this higher priority.	The safety performance among contractors in 2011 was a particular cause for concern.

Long-Term Incentives

Fresnillo does not offer any share- or cash-based long-term incentives to management.

Executive Director

The Chief Executive Officer, Jaime Lomelín, is the sole Executive Director and is employed under a contract of employment with Servicios Administrativos Fresnillo S.A. de C.V., a subsidiary of Fresnillo plc. Mr Lomelín's contract was entered into on 9 May 2008 and is governed by Mexican Federal Labour Law. It does not have a fixed term. This means that it may be terminated in writing by either party on notice in writing and there is no entitlement to additional compensation for termination other than compensation payments required for termination without cause under Mexican labour laws. No benefits are payable under the service agreement upon termination of employment.

The salary payable under Mr Lomelín's service agreement is MXN\$1,062,600 per month, an increase of 5% on 2010 (2010: MXN\$1,012,000). In addition, he received other payments for holidays, company-paid savings contributions and other cash benefits. In 2011, his total salary payments were MXN\$17,849,322; US\$1,436,299 (2010: MXN\$17,094,433; US\$1,352,761).

Under his service agreement, Mr Lomelín is entitled to 26 working days' paid holiday per year. He is not entitled to profit-sharing.

Benefits-in-kind – Executive Director

Mr Lomelín is entitled to life insurance, the use of a company car, the payment of medical expenses and medical benefits.

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 in respect of service before 30 June 2007. He did not join the defined contribution scheme when it was introduced in 2007 and has no accrued benefits under that scheme.

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.

Non-executive Directors' Letters of Appointment

On their initial appointment, each of the Non-executive Directors signed a letter of appointment with the Company, for an initial period of three years. In April 2011, the letters of appointment for all the Non-executive Directors were amended in accordance with provision B.7.1 of the UK Corporate Governance Code, obliging them to retire at each Annual General Meeting and be subject to annual re-election by shareholders to serve for a further term of one year. The amendments have been drafted such that renewed appointment will not necessitate a new letter of appointment.

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

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

Director	Date of appointment	Notice period from Director to the Company	Duration of term*	Fees p.a.
Alberto Baillères	15 April 2008	3 months	1 year	£30,000
Lord Cairns	15 April 2008	3 months	1 year	£90,000
Juan Bordes	15 April 2008	3 months	1 year	£30,000
Javier Fernández	15 April 2008	3 months	1 year	£30,000
Arturo Fernández	15 April 2008	3 months	1 year	£30,000
Rafael MacGregor	15 April 2008	3 months	1 year	£30,000
Fernando Ruiz	15 April 2008	3 months	1 year	£30,000
Guy Wilson	1 July 2008	3 months	1 year	£90,000
Fernando Solana	18 February 2009	3 months	1 year	£30,000

* Unexpired term: The Non-executive Directors all have rolling contracts which are subject to the annual re-election at the Annual General Meeting. The current term expires on 18 May 2012, being the date of the next Annual General Meeting but the appointment will continue after that date provided that each Director is re-elected at the AGM.

External Appointments

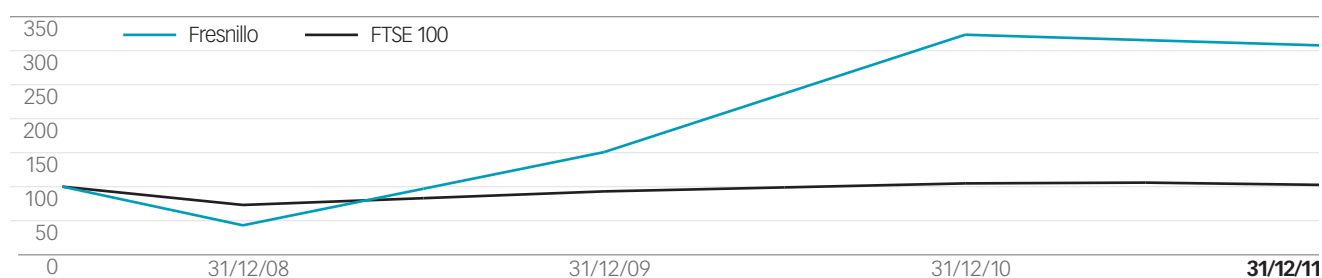
It is the Board's policy to allow Executive Directors to accept directorships of other quoted and non-quoted companies provided that they have obtained the consent of the Chairman of the Company. Any such directorships must be formally notified to the Board. Currently, Mr Lomelín is the sole Executive Director and he does not hold any appointments to the board of any other FTSE 100 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 Index. This is deemed to be the most appropriate index for comparative purposes.

Total shareholder return

Total Shareholder Return from 14 May 2008 (date of Listing) to 31 December 2011 for Fresnillo plc (ordinary shares) compared with the FTSE 100 index, rebased to 100.



Information subject to audit

Directors' Remuneration – 1 January 2011 to 31 December 2011

Salary, Annual Bonus and other benefits*

US\$'000	Salary/Fees	Benefits-in-Kind**	Annual Bonus	Total 2011	Total 2010
Chairman					
Alberto Baillères	48	0	0	48	46
Executive Directors					
Jaime Lomelín	1,439	88	171	1,698	1,911
Non-executive Directors					
Lord Cairns	144	0	0	144	138
Juan Bordes	48	0	0	48	46
Javier Fernández	48	0	0	48	46
Arturo Fernández	48	0	0	48	46
Rafael MacGregor	48	0	0	48	46
Fernando Ruiz	48	0	0	48	46
Fernando Solana	48	0	0	48	46
Guy Wilson	144	0	0	144	138
Total	2,063	88	171	2,322	2,509

* Fees are paid to Non-executive Directors in UK pounds sterling but for the purposes of this table the amounts paid during the year are shown in the reporting currency of US dollars

** Refer to page 113 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 2011	At 31 Dec 2010	2011	2010	2011	2010	2011	2010
Jaime Lomelín	6,928	7,856	(928)	650	(14)	290	0	0

Note: At 31 December 2010 and 2011, the accrued value of Mr Lomelín's pension fund equated to the transfer value. Mr Lomelín is no longer accruing service in the pension scheme. Changes in accumulated accrued benefits are 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

5 March 2012

Other Statutory Disclosures

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 123.

An interim dividend of 21.0 US cents per share was paid on 13 September 2011 to shareholders on the register on 19 August 2011. A second interim dividend of 41.85 US cents per share was paid on 30 December 2011 to shareholders on the register on 16 December 2011. The Directors have recommended a final dividend for the year ended 31 December 2011 of 40.0 US cents per Ordinary Share, which will be paid on Wednesday 23 May 2012 to shareholders on the register on Friday 27 April 2012. The dividend will be paid in UK pounds sterling unless shareholders elect to be paid in US dollars.

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 'Our Business Model' section on pages 20 to 25. Details of the agreement between Peñoles and the Company (the Relationship Agreement) can be found on page 100 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 interests of the shareholders 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 is 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 155. 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 represented 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:

- The standard restrictions for a UK-quoted company set out in article 32 of the Articles of Association and:
- where, from time to time, certain restrictions may become 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 transferable.

Authority to Purchase Own Shares

The Company was authorised by a shareholders resolution passed at the annual general meeting held in May 2011 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 2011 and at 31 December 2011 was:

	1 January 2011	31 December 2011
Alberto Baillères	552,595,191 (see note below*)	552,595,191 (see note below*)
Lord Cairns	15,000	15,000
Fernando Ruiz	30,000	30,000
Javier Fernández	—	—
Guy Wilson	15,000	15,000
Juan Bordes	15,000	15,000
Arturo Fernández	—	—
Rafael MacGregor	—	—
Fernando Solana	—	—
Jaime Lomelín	—	—

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

No Director had any dealings in the shares of the Company between 31 December 2011 and 5 March 2012.

Directors' Indemnities

The Company has deeds of indemnity in place with the Directors in respect of liability arising against them in connection with the Company's (and any associated company's) activities and (if relevant) where Directors act as pension trustees. These deeds are in place at the date of this report and operate subject to the conditions set out in the Companies Act 2006.

Directors' and Officers' Liability Insurance

Directors' and Officers' Liability Insurance cover is in place at the date of this report. A review of the cover, particularly by reference to the Company's mining peer group among London-listed companies, was carried out in July 2011. The Board remains satisfied that an appropriate level of cover is in place and a review of cover will take place on an annual basis.

Major Interests in shares

As at 5 March 2012, the Company had been advised, in accordance with the Disclosure and Transparency Rules of the Financial Services Authority, of the following notifiable interests (whether directly or indirectly held) in its voting rights:

Notification received from:	Number of voting rights	%
Peñoles	552,595,191	77.05
BlackRock, Inc*	51,399,264	7.16

* Includes interests held by BlackRock Global Funds.

Employees

Information relating to employees is given in note 8(b) to the Financial Statements on page 146 and in the section, 'Community Relations' on pages 72 to 73.

Creditor Payment Policy

At 31 December 2011 the Company had no trade creditors (2010: 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 Company has no intention of making political donations anywhere, and, accordingly, the matter will not require consideration at the 2012 Annual General Meeting. The Group made charitable donations of US\$0.5 million (2010: US\$0.5 million) during the year. Further information concerning the community initiatives within the Fresnillo Group are included within the section, 'Community Relations' set out on pages 74 to 75.

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 notes 31 and 32 to the Financial Statements.

Going Concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Review on pages 9 to 43. The financial position of the group, its cash flows and liquidity position are described in the Financial Review on pages 76 to 89. In addition, notes 31 and 32 to the financial statements include the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

The Group has considerable financial resources, negligible liquidity risk and is operating within a sector that is experiencing increasing global demand for its products. In making this assessment the Directors have considered the Group budget and cash flow forecasts for the period to December 2013, including exploration and capital expenditure plans. The cash flow forecasts are most sensitive to movements in metal prices and sensitivities around these have been considered. The Directors therefore have a reasonable expectation that the Company and the Group have 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 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 18 May 2012 at 11:00am. 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.

Approval of Directors' Report

The Directors' Report of Fresnillo plc for the year ended 31 December 2011, which the Directors are required to prepare by the Companies Act 2006, is set out in the 'Overview', 'Strategic Review', 'Performance' and 'Governance' sections on pages 2 to 119. The Directors' Report has been approved by the Board of Directors of Fresnillo plc.

Signed on behalf of the Board.

Lord Cairns

Senior Independent Non-executive Director
5 March 2012

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.

Neither the Company nor the Directors accept any liability to any person in relation to the annual financial report except to the extent that such liability could arise under English law. Accordingly, any liability to a person who has demonstrated reliance on any untrue or misleading statement or omission shall be determined in accordance with Section 90A and Schedule 10A of the Financial Services and Markets Act 2000.

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, prepared in accordance with International Financial Reporting Standards as adopted by the European Commission, give a true and fair view of the assets, liabilities, financial position and profit and loss of the Company and the undertakings included in the consolidation taken as a whole; and
- b) the management report (encompassed within the 'Overview', 'Strategic Review', 'Performance' and 'Governance' sections) includes a fair review of the development and performance of the business, and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

For and on behalf of the Board

Jaime Lomelín
Chief Executive Officer
5 March 2012



Financial Statements

Our financial statements and accompanying notes are prepared in accordance with International Financial Reporting Standards (IFRS) and reflect our performance as of the dates and for each of the periods indicated. This information should be read in conjunction with the Overview, Strategic Review, Performance and Governance sections set out on pages 2–119.

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Orisyvo The Orisyvo gold project in Chihuahua, now in the advanced exploration phase, has significant potential, but also special technical and logistical challenges. In 2012 we will determine the mining methodology and obtain further samples for metallurgical testing.

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 2011 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement and the Consolidated Statement of Changes in Equity and the related notes 1 to 32. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 119, 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. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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 2011 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the Group financial statements are prepared is consistent with the Group financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

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

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 119, in relation to going concern; and
- provisions of the UK Corporate Governance 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 2011 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

5 March 2012

Consolidated Income Statement

Year ended 31 December

Year ended 31 December 2011				Year ended 31 December 2010		
Notes	US\$ thousands			US\$ thousands		
	Pre-Silverstream revaluation effect	Silverstream revaluation effect	Total	Pre-Silverstream revaluation effect	Silverstream revaluation effect	Total
Continuing operations:						
Revenues	4	2,192,663	2,192,663	1,409,554		1,409,554
Cost of sales	5	(629,200)	(629,200)	(430,183)		(430,183)
Gross profit		1,563,463	1,563,463	979,371		979,371
Administrative expenses	6	(56,516)	(56,516)	(52,594)		(52,594)
Exploration expenses	7	(133,994)	(133,994)	(82,113)		(82,113)
Selling expenses		(6,532)	(6,532)	(4,893)		(4,893)
Other income	9	8,898	8,898	4,983		4,983
Other expenses	9	(14,432)	(14,432)	(11,299)		(11,299)
Profit from continuing operations before net finance costs and income tax		1,360,887	1,360,887	833,455		833,455
Finance income	10	8,172	8,172	3,887		3,887
Finance costs	10	(9,236)	(9,236)	(3,483)		(3,483)
Revaluation effects of Silverstream contract	15	–	159,865	–	191,840	191,840
Foreign exchange gain/(loss)		14,694	14,694	(3,332)		(3,332)
Profit from continuing operations before income tax		1,374,517	159,865	830,527	191,840	1,022,367
Income tax expense	11	(450,380)	(45,386)	(215,417)	(57,552)	(272,969)
Profit for the year from continuing operations		924,137	114,479	615,110	134,288	749,398
Attributable to:						
Equity shareholders of the Company		787,269	114,479	530,838	134,288	665,126
Non-controlling interest		136,868	136,868	84,272	–	84,272
		924,137	114,479	615,110	134,288	749,398
Earnings per share: (US\$)						
Basic and diluted earnings per ordinary share from continuing operations	12	–	1.257	–		0.927
Adjusted earnings per share: (US\$)						
Adjusted basic and diluted earnings per Ordinary Share from continuing operations	12	1.098	–	0.740		–

Consolidated Statement of Comprehensive Income

Year ended 31 December

Year ended 31 December			
	Notes	2011 US\$ thousands	2010 US\$ thousands
Profit for the year		1,038,616	749,398
Net gain on cash flow hedges recycled to income statement		(7,158)	(2,102)
Tax effect of net gain on cash flow hedges recycled to income statement	11	2,147	631
Net unrealised (loss)/gain on cash flow hedges		(4,341)	3,927
Tax effect of net unrealised (loss)/gain on cash flow hedges	11	1,302	(1,179)
Net effect of cash flow hedges		(8,050)	1,277
Fair value (loss)/gain on available-for-sale financial assets	14	(46,916)	73,342
Tax effect of fair value (loss)/gain on available-for-sale financial assets	11	13,137	(20,536)
Net effect of available-for-sale financial assets		(33,779)	52,806
Foreign currency translation		73	540
Other comprehensive (loss)/income for the period, net of tax		(41,756)	54,623
Total comprehensive income for the period, net of tax		996,860	804,021
Attributable to:			
Equity shareholders of the Company		860,198	719,749
Non-controlling interest		136,662	84,272
		996,860	804,021

Consolidated Balance Sheet

As at 31 December

As at 31 December

	Notes	2011 US\$ thousands	2010 US\$ thousands
ASSETS			
Non-current assets			
Property, plant and equipment	13	1,194,445	895,783
Available-for-sale financial assets	14	94,861	141,777
Silverstream contract	15	414,842	351,530
Deferred tax asset	11	40,425	14,226
Other receivables	17	13,125	11,687
Other assets		963	2,503
		1,758,661	1,417,506
Current assets			
Inventories	16	99,836	63,092
Trade and other receivables	17	249,281	224,984
Prepayments	18	3,226	2,532
Derivative financial instruments	31	217	4,056
Silverstream contract	15	63,241	76,151
Cash and cash equivalents	19	684,922	559,537
		1,100,723	930,352
Total assets		2,859,384	2,347,858
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 (losses)/gains on cash flow hedges	20	(5,672)	2,172
Net unrealised gains on available-for-sale financial assets	20	31,293	65,072
Foreign currency translation reserve	20	(482)	(555)
Retained earnings	20	1,192,315	996,658
		1,867,821	1,713,714
Non-controlling interest		281,562	205,554
Total equity		2,149,383	1,919,268
Non-current liabilities			
Provision for mine closure cost	22	50,754	39,682
Provision for pensions and other post-employment benefit plans	23	9,240	6,420
Derivative financial instruments	31	693	–
Deferred tax liability	11	357,989	217,448
		418,676	263,550

Consolidated Balance Sheet *continued*

As at 31 December

As at 31 December			
	Notes	2011 US\$ thousands	2010 US\$ thousands
Current liabilities			
Trade and other payables	24	88,726	70,789
Derivative financial instruments	31	13,069	152
Income tax		128,441	54,480
Employee profit sharing		61,089	39,619
		291,325	165,040
Total liabilities		710,001	428,590
Total equity and liabilities		2,859,384	2,347,858

These financial statements were approved by the Board of Directors on 5 March 2012 and signed on its behalf by:

Jaime Lomelin
Chief Executive Officer
5 March 2012

Consolidated Cash Flow Statement

Year ended 31 December

Year ended 31 December			
	Notes	2011 US\$ thousands	2010 US\$ thousands
Net cash from operating activities	30	1,249,176	700,699
Cash flows from investing activities			
Purchase of property, plant and equipment		(467,742)	(340,297)
Proceeds from the sale of property, plant and equipment and other assets		4,144	72
Proceeds from mines under development		3,941	25,563
Loans granted to contractors		(15,051)	(14,504)
Repayments of loans granted to contractors		9,564	1,363
Silverstream contract	15	103,042	55,623
Interest received		7,326	2,859
Other proceeds		2,414	7,231
Net cash used in investing activities		(352,362)	(262,090)
Cash flows from financing activities			
Capital contribution		20,806	2,807
Dividends paid to shareholders of the Company		(705,456)	(182,590)
Dividends paid to non-controlling interest		(81,460)	(8,504)
Interest paid		(132)	(251)
Net cash used in financing activities		(766,242)	(188,538)
Net increase in cash and cash equivalents during the year		130,572	250,071
Effect of exchange rate on cash and cash equivalents		(5,187)	(2,726)
Cash and cash equivalents at 1 January		559,537	312,192
Cash and cash equivalents at 31 December	19	684,922	559,537

Consolidated Statement of Changes in Equity

Year ended 31 December

Attributable to equity holders of the Company										
Notes	Share capital	Share premium	Capital reserve	Net unrealised (losses)/ gains on revaluation of cash flow hedges	Net unrealised (losses)/ gains on available-for-sale financial assets	Foreign currency translation reserve	Retained earnings	Total	Non-controlling interest	Total equity
US\$ thousands										
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
Balance at 1 January 2011	358,680	818,597	(526,910)	2,172	65,072	(555)	996,658	1,713,714	205,554	1,919,268
Profit for the year	–	–	–	–	–	–	901,748	901,748	136,868	1,038,616
Other comprehensive income, net of tax	–	–	–	(7,844)	(33,779)	73	–	(41,550)	(206)	(41,756)
Total comprehensive income for the year	–	–	–	(7,844)	(33,779)	73	901,748	860,198	136,662	996,860
Capital contribution	–	–	–	–	–	–	–	–	20,806	20,806
Dividends declared and paid 21	–	–	–	–	–	–	(706,091)	(706,091)	(81,460)	(787,551)
Balance at 31 December 2011	358,680	818,597	(526,910)	(5,672)	31,293	(482)	1,192,315	1,867,821	281,562	2,149,383

Notes to the Consolidated Financial Statements

1. Corporate information

Fresnillo plc ('the Company') is a public limited company and registered in England and Wales with registered number 6344120 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. Further information on related party balances and transactions with Penoles group companies is disclosed in note 28.

The consolidated financial statements of the Group for the year ended 31 December 2011 were authorised for issue by the Board of Directors of Fresnillo plc on 5 March 2012.

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 five fully developed operating mines: Fresnillo, Herradura, Ciénega, Soledad-Dipolos and Saucito, the latter having started production in April 2011. Further information is disclosed in note 3.

The principal activities of the Company's subsidiaries included in the consolidated financial statements are as follows:

Legal company	Principal activity	Country of incorporation	Equity interest %	
			Year ended 31 December 2011	2010
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.	Production of lead and zinc concentrates	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 through the Silverstream contract	Mexico	100	100
Exploraciones Mineras Parreña, S.A. de C.V.	Exploration services	Mexico	100	100
Minera El Bermejil, 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

Basis of preparation 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 2011 and 2010, 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 uses a columnar approach to separately present the Silverstream revaluation effect, including related tax, in the income statement as in the Directors' judgement 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.

Notes to the Consolidated Financial Statements **continued**

In 2011, freight costs associated with ore transported from Fresnillo plc's mines to Met-Mex facilities have been presented as selling expenses in the income statement in order to be consistent with the information reviewed by the Executive Committee and the Board of Directors. These were previously presented as part of cost of sales. Comparative information has been amended to reflect this reclassification in order to be comparable with the presentation in 2011. As a result cost of sales as at 31 December 2010 has decreased by USD\$4.9 million.

Basis of consolidation

The consolidated financial statements set out the Group's financial position as of 31 December 2011 and 2010, and the results of operations and cash flows for the years then ended.

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.

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 disclosures

The accounting policies applied are consistent with those applied in the preparation of the consolidated financial statements for the year ended 31 December 2010, except for the reclassifications of freight cost from cost of sales to selling expenses described in note 2 (a) and for the adoption of certain amendments to existing standards effective as of 1 January 2011. Those that are applicable or relevant to the Group, resulting in changes to accounting policies, but with no impact on its financial position or performance are as follows:

Amendments to IFRSs

- **IAS 24 Related Party Transactions (Amendment):** It clarifies the definitions of a related party. The new definitions emphasise a symmetrical view of related party relationships as well as clarifying in which circumstances persons and key management personnel affect related party relationships of an entity. Also, the amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity.

Other amendments to existing interpretations that are effective but not applicable to the Group are as follows:

- **IFRIC 14 Prepayments of a Minimum Funding Requirement (Amendment):** The amendment removes an unintended consequence when an entity is subject to minimum funding requirements (MFR) and makes an early payment of contributions to cover such requirements. The amendment permits a prepayment of future service cost by the entity to be recognised as a pension asset.

Improvements to IFRSs

In May 2010, the IASB issued its third 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, performance or disclosures of the Group.

- **IFRS 3 Business Combinations:** The measurement options available for a non-controlling interest (NCI) have been amended. Only components of NCI that constitute a present ownership interest that entitles their holder to a proportionate share of the entity's net assets in the event of liquidation shall be measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components are to be measured at their acquisition date fair value. The improvements to IFRS 3 will have an impact on the Group's future acquisitions.
- **IFRS 7 Financial Instruments – Disclosures:** The amendment was intended to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context.

The IASB and IFRIC have issued other amendments resulting from Improvements to IFRSs that management considers do 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 or early adopted 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.

- **IAS 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income ('OCI'):** The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012. The Group currently does not have items in OCI that will never be recycled through earnings and therefore, the adoption of this revised standard would not impact the current presentation of the statement of comprehensive income except for the potential impacts of IAS 19 (2011) described below, which requires that actuarial gains or losses arising from employee benefits that are currently recognised in the income statement would have to be presented in OCI as items that would never be recycled to the income statement.
- **IAS 19 Employee Benefits (Amendment):** The IASB has issued numerous amendments to IAS 19. The amendment becomes effective for annual periods beginning on or after 1 January 2013 and is applicable retrospectively from the beginning of the earliest period presented.

The most significant impacts of this standard as it relates to the Group's consolidated financial position and results of operations are expected to be as follows:

- Presentation changes to the statement of comprehensive income: the net actuarial gain recognised in the year will be presented within OCI, instead of being recognised in the income statement; and
- Financial performance change: due to presentation changes, the profit/(loss) of the year and earning per shares will be impacted.

The Group is currently assessing the full impact of the remaining standards and interpretations.

- **IAS 27 Consolidated and Separate Financial Statements (as revised in 2011):** As a consequence of the new IFRS 10 and IFRS 12, (see below), what remains of IAS 27 does not change the recognition and presentation requirements as it relates to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements (cost method or fair value) and as a result the adoption of this revised standard is not expected to impact the separate financial statements of the Group. The amendment becomes effective for annual periods beginning on or after 1 January 2013.
- **IAS 28 Investments in Associates and Joint Ventures (as revised in 2011):** As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The other provisions within IAS 28 remain consistent as it relates to accounting for investments in associates under the equity method. The amendment becomes effective for annual periods beginning on or after 1 January 2013.
- **IFRS 9 Financial Instruments – Classification and Measurement:** IFRS 9 reflects 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 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The Group is in the process of identifying the potential impacts of the current changes to IFRS 9 and will quantify the effects on its consolidated financial position and results of operations in conjunction with the other phases, when issued, to present a comprehensive picture of such impacts on its consolidated financial statements.
- **IFRS 10 Consolidated Financial Statements:** IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation – Special Purpose Entities. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. This standard becomes effective for annual periods beginning on or after 1 January 2013. The Group's management does not expect impacts on its consolidated financial statements with the adoption of this new standard when it becomes effective.
- **IFRS 12 Disclosure of Involvement with Other Entities:** IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard will become effective for annual periods beginning on or after 1 January 2013 with the adoption of IFRS 10, IFRS 11, IAS 27 (2011) and IAS 28 (2011). The Group will include the relevant disclosures required by IFRS 12 upon adoption.

- **IFRS 13 Fair Value Measurement:** IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Group is currently assessing the impact that this standard will have on its financial position and performance. This standard becomes effective for annual periods beginning on or after 1 January 2013. Given that the Group does not currently have non-monetary assets measured at fair value, the potential impacts of this new standard would be in relation to its financial instruments measured at fair value.
- **IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine (New interpretation):** This interpretation provides guidance for the recognition of production stripping cost as a non-current asset. This interpretation establishes that stripping costs are recognised as a non-current asset, to the extent the benefit is improved access to ore and only if it is probable that the future economic benefit associated with the stripping activity will flow to the entity, the component of the ore body for which access has been improved can be clearly identified and the costs relating to the stripping activity associated with that component can be measured reliably. This standard becomes effective for annual periods beginning on or after 1 January 2013. The Group is in the process of analysing the impacts of IFRIC 20.

The IASB has issued other amendments resulting from Improvements to IFRSs that management considers do not have any impact on the accounting policies, financial position or performance of the Group.

(c) Significant accounting judgements, estimates and assumptions

The preparation of the Group's consolidated financial statements in conformity with IFRS requires management to make judgements, 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 judgements and estimates are based on management's best knowledge of the relevant facts and circumstances, with regard to prior experience, but actual results may differ from the amounts included in the consolidated financial statements. Information about such judgements and estimates is contained in the accounting policies and/or the notes to the consolidated financial statements.

Judgements

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

- Determination of functional currencies note 2(d):
The determination of functional currency requires management judgement, 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 judgement. 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 judgements 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 statements include:

- Determination of useful lives of assets for depreciation and amortisation purposes notes 2(e) and 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 estimated 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 provision for mine closure cost 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 recognised. 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.

– Income tax notes 2(u) and 11:

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

– Silverstream 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 2011 significantly impacted the valuation, resulting in an unrealised pre-tax gain of US\$159.9 million recognised in the income statement (2010: US\$191.8 million). The fair value of this contract is US\$478.1 million as at 31 December 2011 (2010: US\$427.6 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:

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 judgement 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

Notes to the Consolidated Financial Statements **continued**

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 rights to 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 costs are 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 cost.

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 begin.

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

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

(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 prospectively, 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.

(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 at 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.

(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 IBCA) credit-rated bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid. Actuarial gains and losses are recognised as income or expense in the period in which they occur.

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

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

Defined contribution pension plan

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

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

Seniority premium for voluntary separation

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

Notes to the Consolidated Financial Statements **continued**

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 statements and are disclosed in the notes unless their occurrence is remote.

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

(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 El 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:

- Cost of sales: costs relating to in-mine exploration, that ensure continuous extraction quality and extend mine life, and
- Exploration expenses:
- Costs incurred in geographical proximity to existing mines in order to replenish or increase reserves, and
- 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 income on funds invested, interest expense on borrowings 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:

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

- 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:

- 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
- 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 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, European foreign exchange options are valued using the Garman-Kohlhagen formula. The Silverstream contract is valued using a Net Present Value valuation approach.

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

When hedging with options, the Group designates only the intrinsic value movement of the hedging option within the hedge relationship. The time value of the option contracts is therefore excluded from the hedge designation. Changes in fair value of time value is recognised in the income statement in finance costs.

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 2011 the Group has five reportable operating segments following the successful conclusion of the development of the Saucito mine in March 2011 and commercial production starting in April 2011. These represent the Group's five producing mines as follows:

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

The operating performance and financial results for each of these mines 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.

The exploration services provided by Exploraciones Mineras Parreña, S.A. de C.V and projects under development have been aggregated into the Other segment on page 142.

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 on page 142 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 2011 and 2010 all revenue was derived from customers based in Mexico.

Notes to the Consolidated Financial Statements *continued*

Operating segments

The following tables present revenue and profit information regarding the Group's operating segments for the year ended 31 December 2011 and 2010, respectively.

Year ended 31 December 2011								
US\$ thousands	Fresnillo	Herradura	Cienega	Soledad y Dipolos	Saucito	Other ⁹	Adjustments and eliminations	Total
Revenues:								
Third party	989,443	520,749	236,462	247,040	198,969	—	—	2,192,663
Inter-Segment	—	—	—	—	19,401	63,067	(82,468)	—
Segment revenues	989,443	520,749	236,462	247,040	218,370	63,067	(82,468)	2,192,663
Segment Profit ⁸	859,924	404,791	165,738	180,440	177,513	63,045	(52,698)	1,798,753
Hedging								5,867
Depreciation								(172,073)
Employee profit sharing								(69,084)
Gross profit as per the income statement								1,563,463
Capital expenditure ¹	71,269 ²	72,666 ³	79,768 ⁴	37,084 ⁵	65,280 ⁶	141,675 ⁷		467,742

¹ Capital expenditure consists of additions to 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 construction of leaching pads, equipment such as rotary drill rig tractors and dump trucks, construction of an electrical station and open pit mine development activities

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

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

⁶ Capital expenditure relates to mine development work, including hoisting equipment and ramp and shaft developments and scoop equipment.

⁷ Capital expenditure relates to mine development and acquisition of property, plant and equipment for the Noche Buena and San Julian projects

⁸ Treatment and refining charges amounting to US\$114.8 million are included in Segment Profit.

⁹ Exploration services provided by Exploraciones Mineras Parreña, S.A. de C.V.

Year ended 31 December 2010								
US\$ thousands	Fresnillo	Herradura	Cienega	Soledad y Dipolos	Saucito ⁶	Other ⁹	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 ^{7,8}	629,029	269,367	118,923	97,774	—	35,613	(31,457)	1,119,249
Hedging								3,020
Depreciation								(105,216)
Employee profit sharing								(37,682)
Gross profit as per the income statement								979,371
Capital expenditure ¹	60,716 ²	54,411 ³	65,083 ⁴	36,790 ⁵	125,021 ⁶		(1,813)	340,208

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

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

³ Capital expenditure relates to the construction of leaching pads, 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.

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

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

⁶ Certain comparative information has been disclosed to conform to current period presentation, such as capital expenditure related to the Saucito mine development, including hoisting equipment and ramp and shaft developments, which was previously presented in the 'Other' line.

⁷ Treatment and refining charges amounting to US\$64.4 million are included in Segment Profit.

⁸ Freight costs relating to sales, amounting to US\$4.9 million are excluded from Segment Profit. In the prior year, these costs were presented within cost of sales.

⁹ Exploration services provided by Exploraciones Mineras Parreña, S.A. de C.V.

4. Revenues

Revenues reflect the sale of goods, being concentrates, doré, slag, and precipitates of which the primary contents are silver, gold, lead and zinc¹.

(a) Revenues by product sold

	Year ended 31 December	
	2011 US\$ thousands	2010 US\$ thousands
Lead concentrates (containing silver, gold, lead and by-products)	1,253,090	797,887
Doré and slag (containing gold, silver and by-products)	767,789	502,820
Zinc concentrates (containing zinc, silver and by-products)	92,027	53,566
Precipitates (containing gold and silver)	79,757	55,281
	2,192,663	1,409,554

Substantially all lead concentrates, precipitates, doré and slag, were sold to Peñoles' metallurgical complex, Met-Mex, 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 2011 the Group has recognised a loss of US\$20.6 million (2010: profit of US\$35.6 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	
	2011 US\$ thousands	2010 US\$ thousands
Silver	1,214,214	746,176
Gold	1,009,439	653,294
Zinc	40,791	40,073
Lead	43,008	34,377
Value of metal content in products sold	2,307,452	1,473,920
Adjustment for treatment and refining charges	(114,789)	(64,366)
Total revenues ¹	2,192,663	1,409,554

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 2011 the Group has recognised a loss of US\$20.6 million (2010: profit of US\$35.6 million). For further detail refer to note 2(f).

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

	Year ended 31 December	
	2011 US\$ per ounce	2010 US\$ per ounce
Gold	1,585.3	1,252.1
Silver	34.8	21.4

5. Cost of sales

	Year ended 31 December	
	2011 US\$ thousands	2010 US\$ thousands
Depreciation (note 13)	172,073	105,216
Personnel expenses (note 8)	122,517	82,932
Maintenance and repairs	67,685	56,494
Operating materials	84,882	65,177
Energy	79,574	57,856
Contractors	97,515	59,801
Freight	6,211	4,134
Insurance	4,435	2,922
Mining rights and contributions	7,368	4,775
Gain on foreign currency hedges	(5,867)	(3,020)
Change in work in progress and finished goods (ore inventories)	(20,309)	(16,892)
Other	13,116	10,788
	629,200	430,183

In 2011, the classification of freight costs relating to sales was modified (as detailed in note 2 (a)) and as a result the December 2010 disclosure was modified for comparative purposes. In addition to this, insurance cost has been reclassified from other cost of sales to be disclosed separately in 2011, consequently 2010 figures have been modified for comparative purposes.

6. Administrative expenses

	Year ended 31 December	
	2011 US\$ thousands	2010 US\$ thousands
Administrative expenses charged by Peñoles Group:		
Administrative services ¹	25,349	29,832
	25,349	29,832
Personnel expenses (note 8)	14,420	9,638
Other administrative expenses	16,747	13,124
	56,516	52,594

¹ From 1 November 2009 through 31 October 2012 the Group has a Service Agreement with Servicios Administrativos Peñoles, S.A. de C.V., ("SAPSA") a wholly owned Peñoles subsidiary which comprises administrative and non-administrative services for an annual fee of US\$6.1 million and MXP277.5 million (US\$25.4 million).

During the year ended 31 December 2011, the Company incurred expenses of US\$31.5 million under the above mentioned agreement (US\$29.8 million for the year ended 31 December 2010). Expenses include administrative expenses of US\$25.3 million (2010: US\$29.8 million), exploration expenses of US\$0.7 million and US\$5.5 million relating to engineering costs that was capitalised. In the year ended 31 December 2011, the Company paid US\$1.2 million for additional non-recurring services from SAPSA.

7. Exploration expenses

	Year ended 31 December	
	2011 US\$ thousands	2010 US\$ thousands
Contractors	107,030	57,373
Administrative services	7,489	6,519
Mining rights and contributions	7,495	6,541
Personnel expenses (note 8)	3,264	2,995
Assays	3,919	2,225
Maintenance and repairs	490	1,064
Operating materials	2,008	2,232
Rentals	1,354	919
Energy	276	213
Other	669	2,032
	133,994	82,113

These exploration expenses were mainly incurred in increasing the reserves and resources of the Fresnillo, Penmont, La Ciénega, Saucito and Juanicipio legal entities. Minor exploration expenses of US\$3.1 million (2010: 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.

	Year ended 31 December	
	2011 US\$ thousands	2010 US\$ thousands
Liabilities related to exploration activities	6,568	3

Cash flows relating to exploration activities are as follows:

	Year ended 31 December	
	2011 US\$ thousands	2010 US\$ thousands
Operating cash out flows	127,429	82,787

8. Personnel expenses

	Year ended 31 December	
	2011 US\$ thousands	2010 US\$ thousands
Employees' profit sharing	69,957	38,404
Salaries and wages	25,065	20,668
Bonuses	10,906	10,637
Legal contributions	8,872	8,242
Other benefits	5,593	5,414
Vacations and vacations bonus	3,106	2,424
Social security	4,429	2,989
Post-employment benefits (note 23)	5,533	1,590
Other	6,740	5,197
	140,201	95,565

Notes to the Consolidated Financial Statements *continued*

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

	Year ended 31 December	
	2011 US\$ thousands	2010 US\$ thousands
Cost of sales (note 5)	122,517	82,932
Administrative expenses (note 6)	14,420	9,638
Exploration expenses (note 7)	3,264	2,995
	140,201	95,565

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

	Year ended 31 December	
	2011 No.	2010 No.
Mining	1,276	1,169
Plant concentration	341	285
Exploration	201	178
Maintenance	532	486
Administration and other	389	311
Total	2,739	2,429

9. Other income and other expenses

	Year ended 31 December	
	2011 US\$ thousands	2010 US\$ thousands
Other income:		
Net insurance recovery	3,353	—
Rentals	1,594	1,141
Royalties	591	609
Other	3,360	3,233
	8,898	4,983

	Year ended 31 December	
	2011 US\$ thousands	2010 US\$ thousands
Other expenses:		
Maintenance ¹	991	1,332
Donations	5,530	461
Loss on sale of property, plant and equipment ²	2,823	754
Write-off of accounts receivable	10	32
Other	5,078	8,720
	14,432	11,299

¹ Relates to maintenance of closed and leased mines owned by Compañía Mineras 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	
	2011 US\$ thousands	2010 US\$ thousands
Finance income:		
Interest on short-term deposits	7,186	2,369
Mark to market movement on currency derivatives	–	1,028
Other	986	490
	8,172	3,887
Finance costs:		
Unwinding of discount on provisions (note 22)	3,154	3,005
Mark to market movement on currency derivatives	5,950	227
Other	132	251
	9,236	3,483

11. Income tax expense

a) Major components of income tax expense:

	Year ended 31 December	
	2011 US\$ thousands	2010 US\$ thousands
Consolidated income statement:		
Current income tax:		
Current income tax charge	366,298	196,332
Amounts overprovided in previous years	(943)	(1,308)
	365,355	195,024
Deferred income tax:		
Origination and reversal of temporary differences	85,025	20,393
Revaluation effects of Silverstream contract	45,386	57,552
	130,411	77,945
Income tax expense reported in the income statement	495,766	272,969

	Year ended 31 December	
	2011 US\$ thousands	2010 US\$ thousands
Consolidated statement of comprehensive income:		
Deferred income tax related to items charged or credited directly to other comprehensive income:		
Net gain on cash flow hedges recycled to income statement	1,302	631
Net unrealised loss/(gain) arising on valuation of cash flow hedges	2,147	(1,179)
Net expense arising on unrealised loss/(gain) on available-for-sale assets	13,137	(20,536)
Income tax expense reported in other comprehensive income	16,586	(21,084)

Notes to the Consolidated Financial Statements *continued*

(b) Reconciliation of the income tax expense at the Group's statutory income rate to income tax expense at the Group's effective income tax rate:

	Year ended 31 December	
	2011 US\$ thousands	2010 US\$ thousands
Accounting profit before income tax	1,534,382	1,022,367
Tax at the Group's statutory income tax rate 30.0%	460,314	306,710
Expenses not deductible for tax purposes	202	760
Inflationary uplift of the tax base of assets and liabilities	(13,628)	(13,802)
Current income tax overprovided in previous years	(943)	(1,308)
Restatement on tax value of fixed assets	–	(1,208)
Exchange rate effect on tax value of assets and liabilities	27,584	(6,574)
Non-deductible asset disposals	1,539	1,688
Non-deductible/non-taxable foreign exchange gains or losses	26,106	(9,402)
Inflationary uplift of tax losses	(1,520)	(1,337)
Other	(3,888)	(2,558)
Tax at the effective income tax rate of 32.3% (2010: 26.7%)	495,766	272,969

(c) Movements in deferred income tax liabilities and assets:

	Year ended 31 December	
	2011 US\$ thousands	2010 US\$ thousands
Beginning balance	(203,222)	(110,581)
Income statement charge	(130,411)	(77,945)
Exchange difference	(517)	3,835
Others	–	2,453
Net gain on cash flow hedges recycled to income statement	1,302	631
Net unrealised loss/(gain) arising on valuation of cash flow hedges	2,147	(1,179)
Unrealised gain on available-for-sale financial assets	13,137	(20,536)
Ending balance	(317,564)	(203,222)

The amounts of deferred income tax assets and liabilities as at 31 December 2011 and 2010, considering the nature of the temporary differences, are as follows:

	Consolidated balance sheet		Consolidated income statement	
	2011 US\$ thousands	2010 US\$ thousands	2011 US\$ thousands	2010 US\$ thousands
Related party receivables	(101,416)	(65,921)	35,495	28,303
Other receivables	(6,463)	(494)	5,969	1,949
Inventories	20,042	10,178	(9,864)	(2,080)
Prepayments	(5,532)	(735)	4,797	146
Derivative financial instruments including Silverstream contract	(83,950)	(58,544)	27,230	41,562
Property, plant and equipment	(184,699)	(143,934)	43,636	19,547
Operating liabilities	1,391	1,866	475	–
Other payables and provisions	14,211	10,523	(3,688)	(315)
Losses carried forward	17,818	52,735	34,917	(6,119)
Post-employment benefits	2,560	1,767	(793)	(140)
Deductible profit sharing	18,307	11,862	(6,445)	(4,102)
Available-for-sale financial assets	(8,109)	(21,246)		
Other	(1,724)	(1,279)	(1,318)	(806)
Deferred tax expense/(income)			130,411	77,945
Total deferred tax liability	(317,564)	(203,222)		
Reflected in the statement of financial position as follows:				
Deferred tax assets	40,425	14,226		
Deferred tax liabilities-continuing operations	(357,989)	(217,448)		
Total deferred tax liability	(317,564)	(203,222)		

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.

A deferred tax asset has been recognised in respect of tax losses amounting to US\$63.6 million (2010: US\$188.3 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 are expected to reverse in the foreseeable future. The temporary differences for which a deferred tax liability has not been recognised aggregate to US\$992.5 million (2010: US\$503.5 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 7 December 2009 new temporary tax rates were published in the Official Daily of the Federal Government. The income tax rate for 2010 and 2011 is 30% and will continue in effect for 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 17.5% 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 2011 and 2010 management undertook calculations to determine the impact of the IETU provisions on the Group. As a result of such analysis, management concluded that there was no material impact on the Group, since the mainstream corporate income tax liability for each Group company was forecast to be greater than the future potential IETU charge, accordingly, no IETU liability was recognised in either year.

Notes to the Consolidated Financial Statements *continued*

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 2011 and 2010, earnings per share have been calculated as follows:

	Year ended 31 December	
	2011 US\$ thousands	2010 US\$ thousands
Earnings:		
Profit from continuing operations attributable to equity holders of the Company	901,748	665,126
Adjusted profit from continuing operations attributable to equity holders of the Company	787,269	530,838

Adjusted profit is profit as disclosed in the Consolidated Income Statement adjusted to exclude revaluation effects of the Silverstream contract of US\$159.9 million gain (US\$114.5 million net of tax) (2010: US\$191.8 million and US\$134.3 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.

	2011 thousands	2010 thousands
Number of shares:		
Weighted average number of ordinary shares in issue	717,160	717,160

	2011 US\$	2010 US\$
Earnings per share:		
Basic and diluted earnings per share	1.257	0.927
Adjusted basic and diluted earnings per ordinary share from continuing operations	1.098	0.740

13. Property, plant and equipment

	Year ended 31 December 2010					
	Land and buildings	Plant and Equipment	Mining properties and development costs	Other assets	Construction in Progress	Total
	US\$ thousands					
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

Year ended 31 December 2011

	Land and buildings	Plant and Equipment	Mining properties and development costs	Other assets	Construction in Progress	Total
						US\$ thousands
Cost						
At 1 January 2011	81,290	415,487	463,351	49,283	229,350	1,238,761
Additions	2,549	55,659	26,332	12,144	380,698	477,382
Disposals	(115)	(8,859)	–	(1,199)	(4,425)	(14,598)
Transfers and other movements	13,879	162,226	116,451	23,655	(316,211)	–
At 31 December 2011	97,603	624,513	606,134	83,883	289,412	1,701,545
Accumulated depreciation						
At 1 January 2011	(20,123)	(73,723)	(236,224)	(12,908)	–	(342,978)
Depreciation for the year	(8,307)	(90,442)	(61,379)	(11,945)	–	(172,073)
Disposals	48	6,972	–	931	–	7,951
At 31 December 2011	(28,382)	(157,193)	(297,603)	(23,922)	–	(507,100)
Net Book amount at 31 December 2011	69,221	467,320	308,531	59,961	289,412	1,194,445

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

	Year ended 31 December	
	2011 US\$ thousands	2010 US\$ thousands
Saucito	30,157	96,129
Penmont	99,019	36,416
Juanicipio	30,843	24,869
Ciénega	36,816	35,338
Fresnillo	90,367	36,249
Other	2,210	349
	289,412	229,350

During the year ended 31 December 2011 and 2010, the Group has no capitalised borrowing costs within construction in progress.

14. Available-for-sale financial assets

	Year ended 31 December	
	2011 US\$ thousands	2010 US\$ thousands
Beginning balance	141,777	68,435
Fair value change	(46,916)	73,342
Ending balance	94,861	141,777

Available-for-sale financial assets include the following:

	As at 31 December	
	2011 US\$ thousands	2010 US\$ thousands
Equity securities-listed Canadian companies	94,861	141,777
Total	94,861	141,777

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 2011 total proceeds received in cash were US\$103.1 million, of which US\$7.2 million was in respect of proceeds receivable as at 31 December 2010 (2010: US\$ nil as there were not proceeds receivable from the prior year). Cash received in respect of the year of US\$95.9 million corresponds to 2.9 million ounces of payable silver (2010: 3.1 million ounces). As at 31 December 2011, a further US\$13.6 million (2010: US\$7.2 million) of cash corresponding to 520,088 ounces of silver is due (2010: 265,331 ounces).

The most significant driver of the US\$159.9 million unrealised gain taken to income (2010: US\$191.8 million) 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:

	2011 US\$ thousands	2010 US\$ thousands
Balance at 1 January:	427,681	298,659
Cash received in respect of the year	(95,847)	(55,623)
Cash receivable	(13,616)	(7,195)
Remeasurement gains recognised in profit and loss	159,865	191,840
Balance at 31 December	478,083	427,681
Less – Current portion	63,241	76,151
Non-current portion	414,842	351,530

See note 31 for further information on the inputs that have a significant effect on the fair value of this derivative, note 32 for further information relating to market and credit risks associated with the Silverstream asset, and note 2(c) for the estimates and assumptions.

16. Inventories

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

	As at 31 December	
	2011 US\$ thousands	2010 US\$ thousands
Finished goods ¹	3,790	3,027
Work in progress ²	48,788	22,938
Operating materials and spare parts	49,162	38,675
	101,740	64,640
Allowance for obsolete and slow-moving inventories	(1,904)	(1,548)
Total inventories at the lower of cost and net realisable value	99,836	63,092

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 ores in leaching pads.

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

The amount of inventories recognised as an expense in the year was US\$659.6 million (2010: US\$360 million). The amount of write down of inventories recognised as an expense was US\$1.8 million (2010: US\$1.2 million).

17. Trade and other receivables

	Year ended 31 December	
	2011 US\$ thousands	2010 US\$ thousands
Trade receivables from related parties (note 28) ¹	183,988	188,548
Value Added Tax receivable	13,645	8,982
Advances to suppliers and contractors	5,687	3,825
Other receivables from related parties (note 28)	18,419	7,195
Loans granted to contractors	9,281	5,805
Other receivables arising on the sale of fixed assets	7,204	–
Other receivables	11,590	11,220
	249,814	225,575
Provision for impairment of 'other receivables'	(533)	(591)
	249,281	224,984
Other receivables classified as non-current assets:		
Advances to suppliers and contractors	–	1,172
Loans granted to contractors	9,349	7,336
Other receivables arising on the sale of fixed assets	3,776	3,179
	13,125	11,687
	262,406	236,671

¹ 'Trade receivables from related parties' includes the fair value of embedded derivatives arising due to provisional pricing in sales contracts of US\$(14.5) million as at 31 December 2011 (2010: US\$ 6.2 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\$236.3 million (2010: US\$226.0 million), and in Pesos US\$26.1 million (2010: US\$10.6 million).

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

	Year ended 31 December	
	2011 US\$ thousands	2010 US\$ thousands
Beginning of the year	(591)	(479)
Charge for the year	(10)	(81)
Exchange difference	68	(31)
End of the year	(533)	(591)

Notes to the Consolidated Financial Statements *continued*

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.

	Total US\$ thousands	Impaired US\$ thousands	Neither past due nor impaired US\$ thousands	Past due but not impaired <30 days US\$ thousands	Past due but not impaired 30–60 days US\$ thousands
2011					
Trade receivables from related parties	183,988	–	183,988	–	–
Other receivables from related party	18,419	–	18,419	–	–
Loans granted to contractors	18,630	–	18,630		
Other receivables arising on the sale of fixed assets	10,980	–	10,980		
Other receivables	11,590	(533)	11,057	–	–
Total	243,607	(533)	243,074	–	–
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	–	–

In determining the recoverability of receivables, 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	
	2011 US\$ thousands	2010 US\$ thousands
Insurance and bonds	2,925	2,531
Other	301	1
	3,226	2,532

19. Cash and cash equivalents

	As at 31 December	
	2011 US\$ thousands	2010 US\$ thousands
Cash at bank and on hand	5,485	1,988
Short-term deposits	679,437	557,549
Cash and cash equivalents	684,922	559,537

Cash at bank earns interest at floating rates based on daily bank deposits. Short-term deposits are made for varying periods of between 1 to 30 days, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

20. Equity

Share capital and share premium

The authorised and issued share capital of the Company as at 31 December 2011 and 2010 is as follows:

Class of share	Number	Authorised		Issued	
		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 2011 and 2010, 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 gain or 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 declared and paid

The dividends declared and paid during the years ended 31 December 2011 and 2010 are as follows:

	US cents per ordinary share	Amount US\$ thousands
Year ended 31 December 2011		
Final dividend for 2010 declared and paid during the year ¹	35.6	255,355
Interim dividend for 2011 declared and paid during the year ²	21.0	150,603
Interim dividend for 2011 declared and paid during the year ³	41.9	300,133
	98.5	706,091
Year ended 31 December 2010		
Final dividend for 2009 declared and paid during the year ⁴	16.2	116,180
Interim dividend for 2010 declared and paid during the year ⁵	9.2	65,979
	25.4	182,159

¹ This dividend was approved by the Board of Directors on 17 May 2011 and paid on 20 May 2011.

² This dividend was approved by the Board of Directors on 1 August 2011 and paid on 13 September 2011.

³ This dividend was approved by the Board of Directors on 5 December 2011 and paid on 30 December 2011.

⁴ This dividend was approved by the Board of Directors on 28 April 2010 and paid on 2 June 2010.

⁵ This dividend was approved by the Board of Directors on 2 August 2010 and paid on 14 September 2010.

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 2011 has been calculated using an annual real discount rate of 4.33 percent (2010: 4.33 percent). The unwinding of discount charge in 2011 has been calculated using a nominal discount rate of 7.75 percent (2010: 8.50 percent). 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 4 to 38 years from 31 December 2011 (6 to 27 years from 31 December 2010).

	As at 31 December	
	2011 US\$ thousands	2010 US\$ thousands
Beginning balance	39,682	35,513
Increase/(decrease) to existing provision	13,095	(962)
Unwinding of discount (note 10)	3,154	3,005
Foreign exchange	(5,177)	2,126
Ending balance	50,754	39,682

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	
	2011 US\$ thousands	2010 US\$ thousands
Current service cost	718	764
Interest cost on benefit obligation	2,673	2,883
Expected return on plan assets	(2,225)	(2,413)
Net actuarial loss/(gain) recognised in the year	2,703	(980)
Net defined benefit expense	3,869	254
Payments to defined contribution plans	1,664	1,336
Net benefit expense (note 8)	5,533	1,590

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

	Year ended 31 December	
	2011 US\$ thousands	2010 US\$ thousands
Actual return on plan assets	1,076	2,758
Expected return on plan assets	(2,225)	(2,413)
Foreign exchange	(10)	(46)
Actuarial (losses)/gain on plan assets	(1,159)	299
Actuarial (losses)/gain on obligation	(1,544)	681
Net actuarial (loss)/gain recognised in the year	(2,703)	980

(b) Benefit liability:

	As at 31 December	
	2011 US\$ thousands	2010 US\$ thousands
Defined benefit obligation	(38,150)	(38,543)
Fair value of plan assets	28,910	32,123
Benefit liability	(9,240)	(6,420)

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

	As at 31 December	
	2011 US\$ thousands	2010 US\$ thousands
Defined benefit obligation at 1 January	38,543	34,009
Interest cost	2,673	2,883
Current service cost	718	764
Benefits paid	(783)	(545)
Actuarial losses/(gains) on obligation	1,544	(681)
Defined benefit increase due to personnel transfer to the Group	–	114
Foreign exchange	(4,545)	1,999
Defined benefit obligation at 31 December	38,150	38,543
Funded plan	32,087	32,445
Unfunded plan	6,063	6,098
Defined benefit obligation at 31 December	38,150	38,543

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

	As at 31 December	
	2011 US\$ thousands	2010 US\$ thousands
Fair value of plan assets at 1 January	32,123	28,198
Expected return on plan assets	2,225	2,413
Actuarial (losses)/gains on plan assets	(1,159)	299
Amount transferred due to personnel transfer to the Group	–	114
Benefits paid	(783)	(545)
Employer's contributions	169	–
Foreign exchange	(3,665)	1,644
Fair value of plan assets at 31 December	28,910	32,123

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	
	2011 %	2010 %
Discount rate	7.5	7.8
Expected rate of return on plan assets	7.5	7.8
Future salary increases	5.0	4.8

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 (2010 and 2009: 17.3 years for men, 20.6 for women).

Notes to the Consolidated Financial Statements *continued*

The fair value of the plan assets was as follows:

	As at 31 December	
	2011 US\$ thousands	2010 US\$ thousands
Government debt	822	1,076
State owned companies	11,315	12,354
Corporate bonds	428	937
Mutual funds (fixed rates)	16,345	17,756
	28,910	32,123

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				
	2011 US\$ thousands	2010 US\$ thousands	2009 US\$ thousands	2008 US\$ thousands	2007 US\$ thousands
Fair value of plan assets	28,910	32,123	28,198	25,352	12,702
Present value of defined benefit obligation	(38,150)	(38,543)	(34,009)	(28,851)	(15,272)
Deficit in the plan	(9,240)	(6,420)	(5,811)	(3,499)	(2,570)
Experience adjustments arising on plan liabilities	(1,544)	681	(1,469)	(169)	1,673
Experience adjustments arising on plan assets	(1,159)	299	189	(488)	471

The Group contributed US\$169 thousands to its defined pension plan in 2011 (2010: nil).

24. Trade and other payables

	As at 31 December	
	2011 US\$ thousands	2010 US\$ thousands
Trade payables	68,477	50,766
Other payables to related parties (note 28)	926	2,323
Accrued expenses	16,690	12,037
Other taxes and contributions	2,633	5,663
	88,726	70,789

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.

25. Commitments

A summary of capital expenditure commitments is as follows:

	As at 31 December	
	2011 US\$ thousands	2010 US\$ thousands
Minera Saucito, S.A. de C.V.	11,936	50,470
Minera Penmont, S. de R.L. de C.V.	80,990	70,056
Minera Mexicana La Ciénega, S.A. de C.V.	15,786	19,359
Minera Fresnillo, S. A. de C.V.	165,479	48,782
Minera El Bermejal, S. de R.L. de C.V.	44,679	40,703
	318,870	229,370

26. Operating leases

(a) Operating 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	
	2011 US\$ thousands	2010 US\$ thousands
Within one year	1,183	929
After one year but not more than five years	–	2,043
	1,183	2,972

(b) Operating 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 Group has put in place several arrangements to finance mine equipment through loans and the sale of mine equipment to contractors. In both cases, contractors are obligated to use these assets in rendering services to the Group as part of the mining work contract, during the term of financing or credit, which ranges from 2 to 6 years. The Group considers that the related mining work contracts contain embedded operating leases.

The future minimum rental commitments under these leases are as follows:

	As at 31 December	
	2011 US\$ thousands	2010 US\$ thousands
Within one year	8,633	1,070
After one year but not more than five years	8,662	651
	17,295	1,721

	As at 31 December	
	2011 US\$ thousands	2010 US\$ thousands
Minimum lease payments expensed in the year	4,741	1,612

27. Contingencies

As of 31 December 2011, the Group has the following contingencies:

- The Group is subject to various laws and regulations which, if not observed, could give rise to penalties.
- 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.

- 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

Notes to the Consolidated Financial Statements *continued*

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' or 'CUFIN') account after Admission and is relieved of tax as a result of the consolidation, it is required to pay Peñoles an amount in respect of that tax.

28. Related party balances and transactions

The Group had the following related party transactions during the years ended 31 December 2011 and 2010 and balances as at 31 December 2011 and 2010.

Related parties are those entities owned or controlled by the ultimate controlling party, as well as 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	
	2011 US\$ thousands	2010 US\$ thousands	2011 US\$ thousands	2010 US\$ thousands
Trade:				
Met-Mex Peñoles, S.A. de C.V.	183,988	188,548	—	—
Other receivables:				
Industrias Peñoles, S.A.B. de C.V.	13,616	7,195	—	2,323
Grupo Nacional Provincial, S.A.B. de C.V.	4,779	—	—	—
Other	24	—	926	—
Sub-total	202,407	195,743	926	2,323
Less – Current portion	202,407	195,743	926	2,323
Non-current portion	—	—	—	—

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

Other balances with related parties:

	Year ended 31 December	
	2011 US\$ thousands	2010 US\$ thousands
<i>Silverstream contract:</i>		
Industrias Peñoles, S.A.B. de C.V.	478,083	427,681

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

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

	Year ended 31 December	
	2011 US\$ thousands	2010 US\$ thousands
Income:		
<i>Sales:</i> ¹		
Met-Mex Peñoles, S.A. de C.V.	2,179,064	1,397,399
<i>Insurance receipts:</i>		
Grupo Nacional Provincial, S.A.B. de C.V.	6,029	—
<i>Other income</i>	286	860
Total income	2,185,379	1,398,259

¹ Figures do not include hedging losses.

Year ended 31 December		
	2011 US\$ thousands	2010 US\$ thousands
Expenses:		
<i>Administrative services:</i>		
Servicios Administrativos Peñoles, S.A. de C.V. ²	31,461	29,832
Servicios de Exploración, S.A. de C.V.	3,026	2,781
	34,487	32,613
<i>Energy:</i>		
Termoelectrica Peñoles, S. de R.L. de C.V.	29,566	26,074
<i>Operating materials and spare parts:</i>		
Wideco Inc	3,449	3,747
<i>Equipment repair and administrative services:</i>		
Serviminas, S.A. de C.V.	3,114	3,538
Met-Mex Peñoles, S.A. de C.V.	2,704	2,223
	5,818	5,761
<i>Insurance premiums:</i>		
Grupo Nacional Provincial, S.A.B. de C.V.	7,036	–
<i>Other expenses:</i>	6,272	11,485
Total expenses	86,628	79,680

² Includes US\$5.5 million relating to engineering costs that was capitalised in 2011.

(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		
	2011 US\$ thousands	2010 US\$ thousands
Salaries and bonuses	4,035	3,716
Post-employment pension	64	59
Other benefits	666	615
Total compensation paid in respect of key management personnel	4,766	4,390

Year ended 31 December		
	2011 US\$ thousands	2010 US\$ thousands
Accumulated accrued defined pension entitlement	14,113	14,528

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 2011 and the year ended 31 December 2010 are as follows:

Class of services	Ernst & Young Year ended 31 December	
	2011 US\$ thousands	2010 US\$ thousands
Audit of the financial statements	1,154	1,101
Local statutory audits of subsidiaries	263	202
Other services pursuant to legislation	374	263
Other services relating to taxation	61	41
Other services	–	8
Total	1,852	1,615

30. Notes to the consolidated cash flow statement

	Notes	2011 US\$ thousands	2010 US\$ thousands
Reconciliation of profit for the year to net cash generated from operating activities			
Profit for the year		1,038,616	749,398
Adjustments to reconcile profit for the period to net cash inflows from operating activities:			
Depreciation	5	172,073	105,216
Employee profit sharing	8	69,957	38,404
Deferred income tax	11	130,411	77,945
Current income tax expense	11	365,355	195,024
Loss on the sale of property, plant and equipment and other assets	9	2,823	754
Other (gains)/losses		(3,019)	10,695
Net finance (income)/costs	10	(4,886)	397
Foreign exchange gain		(9,001)	(1,801)
Difference between pension contributions paid and amounts recognised in the income statement		3,700	254
Non cash movement on derivatives		5,950	(801)
Changes in fair value of Silverstream	15	(159,865)	(191,840)
Working capital adjustments			
Increase in trade and other receivables		(10,951)	(147,220)
Increase in prepayments and other assets		(946)	(3,303)
Increase in inventories		(37,682)	(29,309)
Increase in trade and other payables		13,487	13,865
Cash generated from operations		1,576,022	817,678
Income tax paid		(284,439)	(90,380)
Employee profit sharing paid		(42,407)	(26,599)
Net cash from operating activities		1,249,176	700,699

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	
	2011 US\$ thousands	2010 US\$ thousands	2011 US\$ thousands	2010 US\$ thousands
Financial assets:				
Cash and cash equivalents ¹	684,922	559,537	684,922	559,537
Trade and other receivables ^{1,2}	243,074	218,520	243,074	218,520
Available-for-sale financial assets	94,861	141,777	94,861	141,777
Silverstream contract (note 15)	478,083	427,681	478,083	427,681
Derivative financial instruments	217	4,056	217	4,056
Financial liabilities:				
Trade and other payables ¹	69,403	53,089	69,403	53,089
Derivative financial instruments	13,762	152	13,762	152

¹ The carrying value of these financial instruments is deemed to approximate fair value (as reflected in notes 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\$(14.5) million as at 31 December 2011 (2010: US\$6.2 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 fair value hierarchy as at 31 December as follows:

	As of 31 December 2011			
	Level 1 US\$ thousands	Level 2 US\$ thousands	Level 3 US\$ thousands	Total US\$ thousands
Financial assets:				
Derivative financial instruments:				
Option and forward foreign exchange contracts	–	217	–	217
Silverstream contract	–	–	478,083	478,083
	–	217	478,083	478,300
Financial investments available-for-sale:				
Quoted investments	94,861	–	–	94,861
	94,861	217	478,083	573,161
Financial liabilities:				
Derivative financial instruments:				
Embedded derivatives within sales contracts	–	–	(14,479)	(14,479)
Options and forward foreign exchange contracts	–	(13,762)	–	(13,762)
	–	(13,762)	(14,479)	(28,511)

Notes to the Consolidated Financial Statements *continued*

As of 31 December 2010

	Level 1 US\$ thousands	Level 2 US\$ thousands	Level 3 US\$ thousands	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)

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:

	2011 US\$ thousands	2010 US\$ thousands
Balance at 1 January:	6,162	(3,348)
Changes in fair value	6,162	35,573
Realised embedded derivatives during the year	(26,803)	(26,063)
Balance at 31 December	(14,479)	6,162

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 2011 the fair value of embedded derivatives within sales contracts was US\$(14.5) million (2010: US\$6.2 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 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 other currencies.

The Group entered into a number of forward derivative contracts to hedge its exposure to fluctuations in foreign exchange rates. The outstanding contracts as at 31 December 2011 are as follows:

As at 31 December 2011					
	Term	Currency	Contract value (thousands)	Contract exchange rate	2011 Fair value (US\$ thousands)
Mexican peso denominated forward contracts	2012	US\$	38,500	MX\$12.21:US\$1 to	(4,188)
				MX\$12.62:US\$1	
Euros denominated forward contracts	2012	EUR	2,556	EUR€1.36:US\$1 to	(231)
				EUR€1.42:US\$1	
Swedish krona denominated forward contracts	2012–2014	SEK	481,163	SEK6.42:US\$1 to	(2,752)
				SEK7.07:US\$1	

The Group's Mexican peso denominated forwards derivative instruments mature over the period from 6 February 2012 to 7 May 2012 with a weighted average rate of MX\$12.52: US\$1. Euro denominated forward derivative instruments mature over the period from 13 June 2012 to 14 September 2012 with a weighted average rate of US\$1.41:€1. The Group also entered into a number of SEK-US dollar forward contracts to hedge its exposure to fluctuations in foreign exchange rates. These derivative instruments mature over the period from 13 March 2012 to 12 March 2014 with a weighted average rate of SEK6.69:USD\$1. The Group does not apply hedge accounting for SEK:USD forward contracts, therefore the fair value is recognised in the income statement of the year.

The Group also entered into Mexican peso-US dollar collars to hedge its exposure to fluctuations in foreign exchange rates. Collar derivative instruments mature over the period from 9 April 2012 to 12 November 2012. The collar instruments hedge costs denominated in Mexican pesos amounting to US\$82 million with a range of floor prices from MX\$12.00 to MX\$13.50:US\$1 and a range of capped prices from MX\$12.65 to MX\$16.04:US\$1. The fair value of the Put options at 31 December 2011 was an asset of US\$0.1 million, and the fair value of the Call options at 31 December 2011 was a liability of US\$6.2 million.

The Group also entered into Euro-US dollar collars which mature on 2 July 2012. The collar instruments hedge costs denominated in Euros amounting to € 5 million with a range of floor prices from US\$1.31 to US\$1.37:€1 and a cap price of US\$1.50:€1. The fair value of the Put options at 31 December 2011 was a liability of US\$0.5 million, and the fair value of the Call options at 31 December 2011 was an asset of US\$0.1 million.

Forward derivative contracts that were outstanding as at 31 December 2010 were as follows:

As at 31 December 2010					
	Term	Currency	Contract value (thousands)	Contract exchange rate	2011 Fair value (US\$ thousands)
Mexican peso denominated forward contracts	2011	US\$	75,000*	MX\$12.50:US\$1 to	2,027
				MX\$13.24:US\$1	

* Reflects US\$63 million forward sales contracts and US\$12 million forward purchase contracts.

The Group also held entered into a number of Mexican peso-US dollar collars in 2010. 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.

Notes to the Consolidated Financial Statements *continued*

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	
	2011 US\$ thousands	2010 US\$ thousands
Beginning balance	2,172	895
Gains recycled to income statement in the year ¹	(7,158)	(2,102)
Deferred tax recycled	2,147	631
Unrealised (losses)/gains before tax arising during the year	(4,341)	3,927
Deferred tax on unrealised (losses)/gains arising during the year and taken directly to equity	1,302	(1,179)
Ending balance	(5,878)	2,172

¹ Gains recycled to income are included 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:

- Market risk, including foreign currency, commodity price, interest rate, inflation rate and equity price risks
- Credit risk
- Liquidity risk

This note presents information about the Group's exposure to each of the above risks and the Group's objectives, policies and processes for assessing and managing risk. Further quantitative disclosures are included throughout the financial statements.

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, UK pounds sterling, Euros and Swedish krona (2010: only Mexican peso) which are exposed to foreign currency risk. Transactions in currencies other than the US dollar include the purchase of services, dividends, fixed assets, spare parts and other items. As a result, the Group has financial assets and liabilities denominated in currencies other than the functional currency, and holds cash and cash equivalents in Mexican peso.

In order to manage the Group's exposure to foreign currency risk on expenditure denominated in currencies other than the US dollar, the Group has entered into certain forward and option derivative contracts with maturity dates from 2012 to 2014 (see note 31 for additional detail).

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 periods 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
2011	15%	181	(13,414)
	(15%)	2,444	14,098
2010	10%	(715)	(8,660)
	(10%)	874	12,058

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

Year ended 31 December	Strengthening/(weakening) of US dollar	Effect on profit before tax: increase/(decrease) US\$ thousands
2011	10%	(5,359)
	(10%)	8,030
2010	10%	—
	(10%)	—

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 Euro 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 periods.

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
2011	10%	162	522
	(10%)	94	(942)
2010	10%	—	—
	(10%)	—	—

Notes to the Consolidated Financial Statements **continued**

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

Year ended 31 December	Strengthening/(weakening) of US dollar	Effect on profit before tax: increase/(decrease) US\$ thousands
2011	15%	(5,438)
	(15%)	7,357
2010	10%	(4,953)
	(10%)	6,053

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 the Group's 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
2011	15%	24,478
	(15%)	(24,445)
2010	15%	22,065
	(15%)	(21,935)

The sensitivity shown in the table above relates to changes in fair value of embedded derivatives within sales contracts.

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

Year ended 31 December	Increase/(decrease) in silver price	Effect on fair value: increase/(decrease) US\$ thousands
2011	25%	142,999
	(25%)	(142,999)
2010	25%	120,165
	(25%)	(120,165)

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

Year ended 31 December	Basis point increase/(decrease) in interest rate	Effect on profit before tax: increase/(decrease) US\$ thousands
2011	25	1,745
	(10)	(698)
2010	100	5,727
	(100)	(5,727)

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

Year ended 31 December	Basis point increase/(decrease) in interest rate	Effect on fair value increase/(decrease) US\$ thousands
2011	100	(25,552)
	(100)	28,341
2010	100	(16,887)
	(100)	18,423

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
2011	20%	–	18,972
	(20%)	–	(18,972)
2010	5%	–	7,089
	(5%)	–	(7,089)

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

Year ended 31 December	Basis point (increase/(decrease) in inflation rate	Effect on fair value increase/(decrease) US\$ thousands
2011	100	1,472
	(100)	(1,412)
2010	100	1,827
	(100)	(1,753)

(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 2011 and 2010. 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 percent 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.

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. As at 31 December 2011 the Group had concentrations of credit risk as 52 percent of cash and cash equivalents was deposited with one financial institution and 47 percent was held in short-term Mexican government paper. On an ongoing basis the Group deposits cash and cash equivalents on a short-term basis with a range of financial institutions, depending on market conditions.

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 2011, being US\$478.1 million (2010: US\$427.6 million).

(c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

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 2011					
Trade and other payables	69,403	–	–	–	69,403
Derivative financial instruments – liabilities	177,173	17,451	2,230	–	196,854
Embedded derivatives within sales contracts – liability	14,479	–	–	–	14,479
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

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 2011					
Inflows	174,543	16,804	2,176	–	193,523
Outflows	(177,173)	(17,451)	(2,230)	–	(196,854)
Net	(2,630)	(647)	(54)	–	(3,331)
As at 31 December 2010					
Inflows	117,800	–	–	–	117,800
Outflows	(114,164)	–	–	–	(114,164)
Net	3,636	–	–	–	3,636

The above liquidity tables include expected inflows and outflows from currency option contracts which the Group expects to be exercised from 2012 to 2014 as at 31 December 2011 and in 2011 as at 31 December 2010, either by the Group or counterparty.

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, excluding net unrealised gains and losses on revaluation of cash flow hedges and available-for-sale financial assets. In order to ensure an appropriate return for shareholders' 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. The Group's dividend policy is based on the profitability of the business and underlying growth in earnings of the Group, as well as its capital requirements and cash flows, including cash flows from the Silverstream contract.

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 2011 which comprise the Parent Company Statement of Comprehensive Income, the Parent Company Balance Sheet, the Parent Company Cash Flow Statement, the Parent Company Statement of Changes in Equity and the related notes 1 to 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 119, 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. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the parent Company financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2011;
- 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 2011.

Nick Gomer (Senior statutory auditor)

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

5 March 2012

Parent Company Statement of Comprehensive Income

Year ended 31 December

Year ended 31 December			
	Notes	2011 US\$ thousands	2010 US\$ thousands
Profit for the year	3	507,537	483,813
Fair value (loss)/gain on available-for-sale financial assets	7	(46,916)	73,342
Tax effect of fair value (loss)/gain on available-for-sale financial assets	5	13,137	(20,536)
Net effect of available-for-sale financial assets		(33,779)	52,806
Other comprehensive income for the year, net of tax		(33,779)	52,806
Total comprehensive income for the year, net of tax, attributable to equity shareholders of the Company		473,758	536,619

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Parent Company Balance Sheet

As at 31 December

As at 31 December			
	Notes	2011 US\$ thousands	2010 US\$ thousands
Assets			
Non-current assets			
Investments in subsidiaries	6	7,333,689	7,246,569
Available-for-sale financial assets	7	94,861	141,777
		7,428,550	7,388,346
Current assets			
Interest bearing loans	14	15,016	61,143
Trade and other receivables	8	3,740	11,274
Income tax refund due		–	97
Derivative financial instruments	17	217	4,056
Cash and cash equivalents	9	59,092	189,396
		78,065	265,966
Total assets		7,506,615	7,654,312
Equity and liabilities			
Capital and reserves attributable to shareholders of the Company			
Share capital		358,680	358,680
Share premium		818,597	818,597
Merger reserve		5,789,600	5,789,600
Net unrealised gains on available-for-sale financial assets		24,410	58,189
Retained earnings		297,220	495,774
Total equity	10	7,288,507	7,520,840
Non-current liabilities			
Deferred tax liability	5	9,706	21,129
Derivative financial instruments	17	693	–
		10,399	21,129
Current liabilities			
Trade and other payables	12	7,259	28,826
Income tax		9,720	–
Derivative financial instruments	17	13,069	152
Interest bearing loans	14	177,661	83,365
		207,709	112,343
Total liabilities		218,108	133,472
Total equity and liabilities		7,506,615	7,654,312

These financial statements were approved by the Board of Directors on 5 March 2012 and signed on its behalf by:

Jaime Lomelín
Chief Executive Officer
5 March 2012

Parent Company Cash Flow Statement

Year ended 31 December

Year ended 31 December			
	Notes	2011 US\$ thousands	2010 US\$ thousands
Net cash from operating activities	16	73,161	72,432
Cash flows from investing activities			
Return of capital from subsidiaries		–	45,367
Capital contribution to subsidiaries		(87,120)	(91,011)
Loans granted to related parties		(83,693)	(111,227)
Proceeds from repayment of loans granted to related parties		129,138	50,073
Interest received		5,013	1,879
Dividends received		436,492	321,297
Settlement of derivative contracts		5,867	859
Other payments		(3,979)	(1,429)
Net cash generated from investing activities		401,718	215,808
Cash flows from financing activities			
Loans granted by related parties		1,699,729	616,622
Repayment of loans granted by related parties		(1,582,918)	(561,350)
Dividends paid		(705,456)	(182,590)
Interest paid		(12,500)	(4,534)
Net cash used in financing activities		(601,145)	(131,852)
Net (decrease)/increase in cash and cash equivalents during the year		(126,266)	156,388
Effect of exchange rate on cash and equivalents		(4,038)	(3,617)
Cash and equivalents at 1 January		189,396	36,625
Cash and cash equivalents at 31 December	9	59,092	189,396

During 2011 and 2010 there were no significant non-cash transactions.

Parent Company Statement of Changes in Equity

Year ended 31 December

US\$ thousands

	Share capital	Share premium	Merger reserve	Unrealised gains/(losses) on available-for-sale financial assets	Retained earnings	Total equity
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
Balance at 1 January 2011	358,680	818,597	5,789,600	58,189	495,774	7,520,840
Profit for the year	–	–	–	–	507,537	507,537
Other comprehensive income, net of tax	–	–	–	(33,779)	–	(33,779)
Total comprehensive income for the year	–	–	–	(33,779)	507,537	473,758
Transfer of reserves	–	–	–	–	–	–
Dividends declared and paid	–	–	–	–	(706,091)	(706,091)
Balance at 31 December 2011	358,680	818,597	5,789,600	24,410	297,220	7,288,507

Notes to the Company Financial Statements

1. Corporate information

Fresnillo plc ('the Company') is a public limited company and registered in England and Wales with registered number 6344120 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 2011 were authorised for issue by the Board of Directors of Fresnillo plc on 5 March 2012.

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 2011 and 2010, 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.

These financial statements have been prepared on a going concern basis which considers the realisation of assets and satisfaction of liabilities in the normal course of business. As at 31 December 2011, the Company is in a net current liability position due to an increase in the intercompany loan. The Company's Directors confirm that Fresnillo plc's subsidiaries have funds and distributable earnings available for distribution sufficient to repay the intercompany loan and to fund other forecast liabilities of the Company to be incurred in the next twelve months. Further, given that the loan counter-party is a 100% owned subsidiary of the Company, the Directors have a reasonable expectation that it will not request a repayment of the loan until such time as the Company has sufficient cash balances to make the repayment. As such the going concern basis of accounting in preparing the annual financial statements of the Company is deemed appropriate.

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 valued 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 2010, except for the adoption of certain amendments to existing standards effective as of 1 January 2011. Those that are applicable or relevant to the Company, resulting in changes to accounting policies, but with no impact on its financial position or performance are as follows:

Amendments for IFRSs

- **IAS 24 Related Party Transactions (Amendment):** It clarifies the definitions of a related party. The new definitions emphasise a symmetrical view of related party relationships as well as clarifying in which circumstances persons and key management personnel affect related party relationships of an entity. Also, the amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity.

Improvements to IFRSs

In May 2010, the IASB issued its third 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 and certain disclosures, but did not have any impact on the financial position or performance of the Company.

- **IFRS 7 Financial Instruments – Disclosures:** The amendment was intended to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context. This amendment did not have an impact on the current disclosures to the Parent's consolidated financial statements.

The IASB and IFRIC have issued other amendments resulting from Improvements to IFRSs that management considers do 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 or early adopted 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.

- **IAS 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income ('OCI'):** The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has no impact on the Company's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012. The Company currently does not have items in OCI that will never be recycled through earnings and therefore, the adoption of this revised standard would not impact the current presentation of the statement of comprehensive income.
- **IAS 27 Consolidated and Separate Financial Statements (as revised in 2011):** As a consequence of the new IFRS 10 and IFRS 12 (see below), what remains of IAS 27 does not change the recognition and presentation requirements as it relates to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements (cost method or fair value) and as a result the adoption of this revised standard is not expected to impact the Parent Company financial statements. The amendment becomes effective for annual periods beginning on or after 1 January 2013, with early adoption permitted.
- **IFRS 7 Financial Instruments – Disclosures (Enhanced Derecognition Disclosure Requirements):** The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Company's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, the Company's continuing involvement in those derecognised assets. The amendment becomes effective for annual periods beginning on or after 1 July 2011.
- **IFRS 9 Financial Instruments – Classification and Measurement:** This reflects the first phase of the IASBs 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 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The Company is in the process of identifying the potential impacts of the current changes to IFRS 9 and will quantify the effects on its financial position and performance in conjunction with the other phases, when issued, to present a comprehensive picture of such impacts on its financial statements.
- **IFRS 10 Consolidated Financial Statements:** IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation – Special Purpose Entities. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. This standard becomes effective for annual periods beginning on or after 1 January 2013, with early adoption permitted. The Group's management does not expect impacts on its consolidated financial statements with the adoption of this new standard when it becomes effective.
- **IFRS 12 Disclosure of Involvement with Other Entities:** This includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard will become effective for annual periods beginning on or after 1 January 2013 with the adoption of IFRS 10, IFRS 11, IAS 27 (2011) and IAS 28 (2011). The Company will include the relevant disclosures required by IFRS 12 upon adoption.
- **IFRS 13 Fair Value Measurement:** IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Company is currently assessing the impact that this standard will have on the financial position and performance. This standard becomes effective for annual periods beginning on or after 1 January 2013, with early adoption permitted. Given that the Company does not currently have non-monetary assets measured at fair value, the potential impacts of this new standard would be in relation to its financial instruments measured at fair value.

(c) Significant accounting judgements, estimates and assumptions

The preparation of the Company's financial statements in conformity with IFRS requires management to make judgements, estimation and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the financial statements. These judgements and estimates are based on management's best knowledge of the relevant facts and circumstances, with regard to prior experience, but actual results may differ from the amounts included in the financial statements. Information about such judgements and estimation is in the accounting policies and/or the notes to the financial statements.

Judgements

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

- **Determination of functional currency note 2(d):**

The determination of functional currency requires management judgement, 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:

– 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 2011, no impairment has been recognised. At 31 December 2010, an impairment reversal of US\$108.0 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.

– Contingent liabilities regarding claims from tax authorities note 13:

By nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of contingencies inherently involves the exercise of significant judgement and estimates of the outcome of future events.

(d) Foreign currency translation

The Company's financial statements are presented in US dollars, which is the functional currency of the Company. The functional currency for the Company is determined by the currency of the primary economic environment in which it operates.

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 recognised at acquisition cost less any provision for impairment.

When the Company incurs increases in or return of share capital, to/from its subsidiaries, such as 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. When this information is not available the fair value is 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. If the carrying amount of an investment exceeds the recoverable amount, a provision is recorded in the income statement to reflect the investment at the recoverable amount.

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

(f) Financial assets

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

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

Financial assets at fair value through profit or loss

Financial assets classified as held-for-trading and other assets designated as fair value transactions through profit and loss at 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.

(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 information and are disclosed in notes unless their occurrence is remote.

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

(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:

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

- where the deferred income tax asset relating to deductible temporary differences arises 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
- 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 foreign exchange which impact the financial and business transactions of its subsidiaries. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

In the Group's consolidated financial statements these derivative instruments are designated as cash flow hedges but for the purposes of the Company's stand-alone financial statements the related hedged items are not held by the Company, so do not qualify as cash flow hedges.

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

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

Embedded derivatives

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

(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\$507.5 million for the year ended 31 December 2011 (2010: US\$483.9 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	
	2011 US\$ thousands	2010 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)	13,137	(20,536)
Income tax charge reported in other comprehensive income	13,137	(20,536)

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

	Year ended 31 December	
	2011 US\$ thousands	2010 US\$ thousands
Beginning balance	(21,129)	(817)
Income statement (credit)/charge	(1,714)	224
Unrealised gain on available-for-sale financial assets (note 7)	13,137	(20,536)
Ending balance	(9,706)	(21,129)

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities.

Notes to the Company Financial Statements *continued*

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:

	Year ended 31 December	
	2011 US\$ thousands	2010 US\$ thousands
Prepayments and other	(5,660)	(120)
Derivative financial instruments	4,064	238
Available-for-sale financial assets	(8,110)	(21,247)
Net deferred tax balances	(9,706)	(21,129)

(c) Unrecognised deferred tax on investments in subsidiaries

The Company has not recognised all of the deferred tax liability in respect of distributable reserves of its subsidiaries because it controls them and only part of the temporary differences are expected to reverse in the foreseeable future. The temporary differences for which a deferred tax liability has not been recognised aggregate to US\$992.5 million (2010: US\$503.5 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 2010 and 2011 is 30% and will continue in effect for 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 17.5% 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, in 2011 and 2010 management undertook calculations to determine the impact of the IETU provisions on the Company. As a result of such analysis, management has concluded that there was no material impact on the Company, since the mainstream corporate income tax liability of the Company is forecast to be greater than the future potential IETU charge. Accordingly no IETU liability was recognised in either year.

6. Investments in subsidiaries

	Year ended 31 December	
	2011 US\$ thousands	2010 US\$ thousands
Beginning balance	7,246,569	7,092,908
Additions	87,120	91,011
Return of capital	—	(45,367)
Reversal of impairment	—	108,017
Ending balance	7,333,689	7,246,569

At 31 December 2010, an impairment reversal of US\$108.0 million was recognised. The recoverable value as at 31 December 2010 was based on fair value less cost to sell.

The subsidiaries in which investments are held as at 31 December 2011 and 2010 are as follows:

Company	Country of incorporation	Equity interest	
		2011	2010
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

7. Available-for-sale financial assets

	Year ended 31 December	
	2011 US\$ thousands	2010 US\$ thousands
Beginning balance	141,777	68,435
Fair value change	(46,916)	73,342
Ending balance	94,861	141,777

Available-for-sale financial assets include the following:

	Year ended 31 December	
	2011 US\$ thousands	2010 US\$ thousands
Equity securities-listed Canadian companies	94,861	141,777
Total	94,861	141,777

8. Trade and other receivables

	Year ended 31 December	
	2011 US\$ thousands	2010 US\$ thousands
Other receivables from related parties (note 14)	3,453	10,869
Prepayments	287	405
	3,740	11,274

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

	Year ended 31 December	
	2011 US\$ thousands	2010 US\$ thousands
Cash at bank and on hand	65	13
Short-term deposits	59,027	189,383
Cash and cash equivalents	59,092	189,396

Cash at bank earns interest at floating rates based on daily bank deposits. Short-term deposits are made for varying periods of between 1 to 30 days, 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 2011 is as follows:

Class of shares	Number	Authorised	Number	Issued
		Amount		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 2011, 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 2011 and 2010 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.

11. Dividends declared and paid

The dividends declared and paid during the year ended 31 December 2011 and 2010 were as follows:

	US cents per ordinary share	Amount (\$US thousands)
Year ended 31 December 2011		
Final dividend for 2010 declared and paid during the year ¹	35.6	255,355
Interim dividend for 2011 declared and paid during the year ²	21.0	150,603
Interim dividend for 2011 declared and paid during the year ³	41.9	300,133
	98.5	706,091
Year ended 31 December 2010		
Final dividend for 2009 declared and paid during the year ⁴	16.2	116,180
Interim dividend for 2010 declared and paid during the year ⁵	9.2	65,979
	25.4	182,159

¹ This dividend was approved by the Board of Directors on 17 May 2011 and paid on 20 May 2011.

² This dividend was approved by the Board of Directors on 1 August 2011 and paid on 13 September 2011.

³ This dividend was approved by the Board of Directors on 5 December 2011 and paid on 30 December 2011.

⁴ This dividend was approved by the Board of Directors on 28 April 2010 and paid on 2 June 2010.

⁵ This dividend was approved by the Board of Directors on 2 August 2010 and paid on 14 September 2010.

12. Trade and other payables

	Year ended 31 December	
	2011 US\$ thousands	2010 US\$ thousands
Other taxes and contributions	5,663	1,063
Other payables to related parties (note 14)	530	27,006
Accrued expenses	1,066	757
	7,259	28,826

The fair value of trade and other payables approximates 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 2011 the Company has the following contingencies:

- The Company is subject to various laws and regulations which, if not observed, could give rise to penalties.
- 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.

- 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' or '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 US\$ thousands		Accounts payable US\$ thousands	
	31 December 2011	31 December 2010	31 December 2011	31 December 2010
Interest bearing loans:				
Comercializadora de Metales Fresnillo, S.A. de C.V.	—	—	177,661	83,365
Minera Mexicana La Ciénega, S.A. de C.V.	6,509	30,135	—	—
Minera Fresnillo, S.A. de C.V.	5,002	31,008	—	—
Exploraciones Mineras Parreña, S.A. de C.V.	3,505	—	—	—
	15,016	61,143	177,661	83,365
Trademark royalties:				
Minera Fresnillo, S.A. de C.V.	—	—	—	20,800
Minera Mexicana La Ciénega, S.A. de C.V.	—	—	—	3,036
Other	—	—	—	1,184
	—	—	—	25,020
Dividends:				
Minera Penmont, S. de R.L. de C.V.	—	10,831	—	—
Administrative services:				
Fresnillo Management Services Ltd	33	—	530	156
Other	3,420	38	—	1,830
Sub-total	18,469	72,012	178,191	110,371
Less – Current portion	18,469	72,012	178,191	110,371
Non-current portion	—	—	—	—

Effective interest rates on loans granted to and received from related parties are as follows:

	Accounts receivable		Accounts payable	
	31 December 2011	31 December 2010	31 December 2011	31 December 2010
Comercializadora de Metales Fresnillo, S.A. de C.V.:				
– In Mexican peso	–	–	9.31%	9.38%
Minera Mexicana La Ciénega, S.A. de C.V.:				
– In US dollars	5.48%	5.27%	–	–
– In Mexican peso	–	9.50%	–	–
Minera Fresnillo, S.A. de C.V. in US dollars	5.48%	5.27%	–	–
Exploraciones Mineras Parreña, S.A. de C.V. in US dollars	5.48%	–	–	–

(b) Principal transactions with affiliates (apart from dividends, additional investments and returns of capital) are as follows:

	Year ended 31 December	
	2011 US\$ thousands	2010 US\$ thousands
Income:		
Trademark Royalties:		
Minera Fresnillo, S.A. de C.V.	93,511	54,005
Minera Mexicana la Ciénega, S.A. de C.V.	17,301	14,517
Minera Saucito, S.A. de C.V.	15,713	–
Servicios Administrativos Fresnillo, S.A. de C.V.	3,790	3,019
	130,315	71,541
Interest on loans to related parties:		
Minera Mexicana la Ciénega, S.A. de C.V.	1,887	932
Minera Fresnillo, S.A. de C.V.	506	127
Other	52	21
	2,445	1,080
Sales of concentrates:		
Minera Fresnillo, S.A. de C.V.	–	26,952
	–	26,952
Other income:		
Minera Fresnillo, S.A. de C.V.	–	36
Other	29	155
	29	191
Total income	132,789	99,764

Notes to the Company Financial Statements *continued*

	Year ended 31 December	
	2011 US\$ thousands	2010 US\$ thousands
Expenses:		
Administrative services:		
Servicios Administrativos Fresnillo, S.A. de C.V.	845	4,139
Fresnillo Management Services Ltd	1,811	1,597
	2,656	5,736
Interest on loans from related parties:		
Comercializadora de Metales Fresnillo, S.A. de C.V.	12,424	4,489
Minera Fresnillo, S.A. de C.V.	—	133
	12,424	4,622
Purchase of concentrates:		
Minera Saucito, S.A. de C.V.	—	26,144
	—	26,144
Other expenses:		
Servicios Administrativos Fresnillo, S.A. de C.V.	703	332
	703	332
Total expenses	15,783	36,834

(c) Compensation of key management personnel of the Company

Key management personnel comprise Non-Executive Directors. In 2011, their compensation was of US\$0.7 million (2010: US\$0.6 million). This compensation paid is disclosed in the Directors' Remuneration Report.

15. Auditor's remuneration

The auditor's remuneration for the Company was US\$0.8 million (2010: US\$0.7 million) in respect of the audit of its financial statements together with a proportion of the fees in relation to Fresnillo Group audit.

Fees paid to Ernst & Young LLP and its associates for non-audit services to the Company itself are not disclosed in the stand alone financial statements because Group financial statements are prepared which are required to disclose such fees on a consolidated basis.

16. Notes to the cash flow statement

		Year ended 31 December
	Notes	<div> <div>2011</div> <div>US\$ thousands</div> </div> <div> <div>2010</div> <div>US\$ thousands</div> </div>
Reconciliation of profit for the year to net cash generated from operating activities		
Profit for the period		<div>507,537</div> <div>483,813</div>
Adjustments to reconcile profit for the period to net cash inflows from operating activities:		
Impairment reversal	6	<div>–</div> <div>(108,017)</div>
Income tax expense		<div>42,139</div> <div>14,474</div>
Other income		<div>(421,967)</div> <div>(329,643)</div>
Net finance loss/(income)		<div>16,034</div> <div>(1,309)</div>
Foreign exchange (gain)/loss		<div>(19,716)</div> <div>3,620</div>
Working capital adjustments		
Decrease in trade and other receivables		<div>4</div> <div>4,525</div>
Decrease in prepayments and other assets		<div>112</div> <div>55</div>
(Decrease)/increase in trade and other payables		<div>(21,826)</div> <div>25,642</div>
Cash generated from operations		<div>102,317</div> <div>93,160</div>
Income tax paid		<div>(29,156)</div> <div>(20,728)</div>
Net cash from operating activities		<div>73,161</div> <div>72,432</div>

17. Financial instruments

(a) Fair values

The fair value of financial assets and liabilities, together with the carrying amounts shown in the balance sheet, are as follows:

As at 31 December

	Carrying Amount		Fair Value	
	2011 US\$ thousands	2010 US\$ thousands	2011 US\$ thousands	2010 US\$ thousands
Financial assets:				
Cash and cash equivalents ¹	59,092	189,396	59,092	189,396
Derivative financial instruments	217	4,056	217	4,056
Interest bearing loans	15,016	61,143	15,016	61,143
Trade and other receivables ¹	3,453	10,869	3,453	10,869
Available-for-sale financial assets	94,861	141,777	94,861	141,777
Financial liabilities:				
Interest bearing loans	177,661	83,365	177,661	83,365
Trade and other payables ¹	530	27,006	530	27,006
Derivative financial instruments	13,762	152	13,762	152

¹ The carrying value of these financial instruments is deemed to approximate fair value (as reflected in notes 8, 9 and 12).

(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 fair value hierarchy as at 31 December as follows:

	As of 31 December 2011 US\$ thousands			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Derivative financial instruments:				
Option and forward foreign exchange contracts	–	217	–	217
Financial investments available-for-sale:				
Quoted investments	94,861	–	–	94,861
	94,861	217	–	95,078
Financial liabilities:				
Derivative financial instruments:				
Option and forward foreign exchange contracts	–	(13,762)	–	(13,762)
	–	(13,762)	–	(13,762)

Notes to the Company Financial Statements *continued*

As of 31 December 2010
US\$ thousands

	Level 1	Level 2	Level 3	Total
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)

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.

The Company entered into a number of forward derivative contracts to hedge its subsidiaries' exposure to fluctuations in foreign exchange rates. The outstanding contracts as at 31 December 2011 are as follows:

As at 31 December 2011					
	Term	Currency	Contract value (thousands)	Contract exchange rate	2011 Fair value (US\$ thousands)
Mexican peso denominated forward contracts	2012	US\$	38,500	MX\$12.21:US\$1	
				to MX\$12.62:US\$1	(4,188)
Euro denominated forward contracts	2012	EUR€	2,556	EUR€1.36:US\$1	
				to EUR€1.42:US\$1	(231)
Swedish krona denominated forward contracts	2012–2014	SEK	481,163	SEK6.42:US\$1 to SEK7.07:US\$1	(2,752)

The Group's Mexican peso denominated forward derivative instruments mature over the period from 6 February 2012 to 7 May 2012 with a weighted average rate of MX\$12.52: US\$1. Euro denominated forward derivative instruments mature over the period from 13 June 2012 to 14 September 2012 with a weighted average rate of US\$1.41:€1. The Group also entered into a number of SEK-US dollar forward contracts to hedge its exposure to fluctuations in foreign exchange rates. These derivative instruments mature over the period from 13 March 2012 to 12 March 2014 with a weighted average rate of SEK6.69:USD\$1. The Group does not apply hedge accounting for SEK:USD forward contracts, therefore, the fair value is recognised in the income statement of the year.

The Group also entered into Mexican peso-US dollar collars to hedge its exposure to fluctuations in foreign exchange rates. Collar derivative instruments mature over the period from 9 April 2012 to 12 November 2012. The collar instruments hedge costs denominated in Mexican pesos amounting to US\$82 million with a range of floor prices from MX\$12.00 to MX\$13.50:US\$1 and a range of capped prices from MX\$12.65 to MX\$16.04:US\$1. The fair value of the Put options at 31 December 2011 was an asset of US\$0.1 million, and the fair value of the Call options at 31 December 2011 was a liability of US\$6.2 million.

The Group also entered into Euro-US dollar collars which mature on 2 July 2012. The collar instruments hedge costs denominated in Euros amounting to €5 million with a range of floor prices from US\$ 1.31 to US\$ 1.37:€1 and a cap price of US\$1.50:€1. The fair value of the Put options at 31 December 2011 was a liability of US\$ 0.5 million, and the fair value of the Call options at 31 December 2011 was an asset of US\$0.1 million.

Forward derivative contracts that were outstanding as at 31 December 2010 were as follows:

	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 Company also held entered into a number of Mexican peso-US dollar collars to hedge exposure to fluctuations in foreign exchange rates as a 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.

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:

- Market risk, including foreign currency, interest rate and equity price risks
- Credit risk
- 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 (Mexican peso, UK pound sterling, Euro and Swedish krona). Transactions in foreign currencies include the purchase of services, dividends 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.

Notes to the Company Financial Statements *continued*

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. It is assumed that the same percentage change in exchange rates is applied to all applicable periods. There is no impact on the Company's equity other than the equivalent change in retained earnings.

Year ended 31 December	Strengthening/(weakening) of US dollar	Effect on profit before tax: increase/(decrease) US\$ thousands
2011	15%	9,906
	(15%)	(14,763)
2010	10%	(4,269)
	(10%)	6,691

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

Year ended 31 December	Strengthening/(weakening) of US dollar	Effect on profit before tax: increase/(decrease) US\$ thousands
2011	10%	(5,359)
	(10%)	8,030
2010	10%	—
	(10%)	—

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

Year ended 31 December	Strengthening/(weakening) of US dollar	Effect on profit before tax: increase/(decrease) US\$ thousands
2011	10%	684
	(10%)	(848)
2010	10%	—
	(10%)	—

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 2011 and 2010 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. There is no impact on the Company's equity other than the equivalent change in retained earnings.

Year ended 31 December	Basis point increase/(decrease) in interest rate	Effect on profit before tax: increase/(decrease) US\$ thousands
2011	25	148
	(10)	(59)
2010	100	1,892
	(100)	(1,892)

Equity price risk

The Company has exposure to changes in the price of equity instruments that it holds as available-for-sale assets.

The following table demonstrates the sensitivity of available-for-sale assets to a reasonably possible change in market price of these equity instruments, reflecting the effect on the Company's profit before tax and equity:

Year ended 31 December	Increase/(decrease) in equity price	Effect on profit before tax: increase/(decrease)	Effect on equity: increase/(decrease) US\$ thousands
2011	20%	–	18,972
	(20%)	–	(18,972)
2010	5%	–	7,089
	(5%)	–	(7,089)

(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 Poor's) 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.

Notes to the Company Financial Statements *continued*

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 2011					
Interest bearing loans	177,661	–	–	–	177,661
Trade and other payables	530	–	–	–	530
Derivative financial instruments – liabilities	177,173	17,451	2,230	–	196,854
As at 31 December 2010					
Interest bearing loans	83	–	–	–	83,365
Trade and other payables	27	–	–	–	27,006
Derivative financial instruments – assets	102	–	–	–	102,000
Derivative financial instruments – liabilities	12	–	–	–	12,164

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 2011					
Inflows	174,543	16,804	2,176	–	193,523
Outflows	(177,173)	(17,451)	(2,230)	–	(196,854)
Net	(2,630)	(647)	(54)	–	(3,331)
As at 31 December 2010					
Inflows	117,800	–	–	–	117,800
Outflows	(114,164)	–	–	–	(114,164)
Net	3,636	–	–	–	3,636

The above liquidity tables include expected inflows and outflows from currency option contracts which the Company expects are going to be exercised from 2011 to 2014, either by the Company or counterparty.

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, excluding net unrealised gains and losses on revaluation of cash flow hedges and available-for-sale financial assets. 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. The Company's dividend policy is based on the profitability of the business and underlying growth in earnings of the Group, as well as its capital requirements and cash flows.

Reserves and Resources Tables

Fresnillo plc Consolidated Audited Mineral Resource Statement

As at 31 December 2011

Resource Category ¹	Cut-off Grade*	Quantity	Grade				Contained Metal			
		Tonnes (000s)	Gold (g/t)	Silver (g/t)	Lead (%)	Zinc (%)	Gold Ounces (000's)	Silver Ounces (000's)	Lead Tonnes (000's)	Zinc Tonnes (000's)
Fresnillo Underground										
Measured	73 g/t AgEq	9,484	0.77	692	0.78	1.33	234	211,085	74	127
Indicated		28,018	0.80	310	2.03	4.02	717	279,632	570	1,125
Measured & Indicated		37,502	0.79	407	1.72	3.34	950	490,716	643	1,252
Inferred	73 g/t AgEq	27,177	0.73	296	1.71	3.60	634	258,911	464	979
Minera Ciénega Underground										
Measured	1.22 g/t AuEq	5,520	3.11	106	0.88	1.38	553	18,853	49	76
Indicated		15,595	1.41	115	0.49	0.80	707	57,479	76	125
Measured & Indicated		21,116	1.86	112	0.59	0.95	1,260	76,332	125	201
Inferred	1.22 g/t AuEq	12,134	1.06	118	0.43	0.84	414	45,946	52	102
Minera Saucito Underground										
Measured	94 g/t AgEq	408	5.38	655	0.44	0.76	71	8,593	2	3
Indicated		1,471	3.49	526	0.76	1.10	165	24,873	11	16
Measured & Indicated		1,879	3.90	554	0.69	1.03	236	33,466	13	19
Inferred		44,101	1.66	354	1.55	2.44	2,347	502,420	682	1,075
Minera Penmont Underground – Herradura Veins ²										
Measured	1.5 g/t Au	–	–	–	–	–	–	–	–	–
Indicated		5,870	3.15	0	0	0	595	–	–	–
Inferred	1.5 g/t Au	8,009	3.32	0	0	0	855	0	0	0
Minera Penmont Open Pit ²										
Herradura (Disseminated)										
Measured	0.3 g/t Au	39,947	0.78	–	–	–	996	–	–	–
Indicated		41,635	0.78	–	–	–	1,044	–	–	–
Soledad & Dipolos										
Measured	0.3 g/t Au	14,574	0.64	–	–	–	300	–	–	–
Indicated		15,290	0.57	–	–	–	279	–	–	–
Noche Buena ³										
Measured	0.3 g/t Au	–	–	–	–	–	–	–	–	–
Indicated		13,310	0.60	–	–	–	258	–	–	–
Total Measured & Indicated for Minera Penmont Open Pit										
		124,755	0.72	–	–	–	2,877	–	–	–
Herradura (Disseminated)										
Inferred	0.3 g/t Au	11,902	0.66	–	–	–	253	–	–	–
Soledad & Dipolos										
Inferred	0.3 g/t Au	1,172	0.47	–	–	–	18	–	–	–
Noche Buena ³										
Inferred	0.3 g/t Au	30,808	0.50	–	–	–	497	–	–	–
Total Inferred for Minerva Penmont Open Pit										
		43,882	0.54	–	–	–	768	–	–	–
Totals – Underground ⁴										
Measured & Indicated		66,367	1.43	281	1.18	2.22	3,041	600,515	781	1,472
Inferred		91,421	1.45	275	1.31	2.36	4,250	807,278	1,198	2,156
Totals – Open Pit ⁵										
Measured & Indicated		124,755	0.72	0	0.00	0.00	2,877	0	0	0
Inferred		43,882	0.54	0	0.00	0.00	768	0	0	0

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 metal price assumptions** and appropriate metallurgical recoveries.

² Mineral resources quoted reflect the Fresnillo plc's attributable 56% ownership.

³ The Noche Buena mineral resources listed above do not pass SRK's auditing procedures for EOY 2011. SRK's check models indicate a lower resource tonnage at a similar grade.

⁴ Includes Fresnillo (Proaño), Saucito, Ciénega and Herradura Vein deposits.

⁵ Includes the open pit portion of Herradura, Soledad and Dipolos and Noche Buena deposits (Penmont).

* Cut-off grade calculations assume variable metallurgical recoveries.

** Metal price assumptions considered for the calculation of metal equivalent grades are: Gold (US\$/oz 1,200.00), Silver (US\$/oz 22.00), Lead (US\$/lb 0.93) and Zinc (US\$/lb 0.89).

Consolidated Audited Mineral Resource Statement of Exploration Projects and Prospects**

Deposit ¹		Quantity	Grade				Contained Metal			
		Tonnes Mt	Gold (gpt)	Silver (gpt)	Lead (%)	Zinc (%)	Gold Moz	Silver Moz	Lead Mt	Zinc Mt
Fresnillo Subsidiary		Cut-off Grade*								
Measured Mineral Resource										
Minera Fresnillo (veins)	2.1 gpt AuEq	0.22	2.66	82	—	—	0.02	0.58	—	—
Minera Fresnillo (disseminated Au)	0.38 gpt Au	—	—	—	—	—	—	—	—	—
Minera Fresnillo (disseminated Ag)	125 gpt AgEq	—	—	—	—	—	—	—	—	—
Minera Juanicipio ²	200 gpt AgEq	—	—	—	—	—	—	—	—	—
Minera Parreña (breccia)	60 gpt Ag	—	—	—	—	—	—	—	—	—
Minera Parreña (breccia/mantos)	0.9 gpt AuEq	—	—	—	—	—	—	—	—	—
Minera Parreña (veins)	2.7 gpt AuEq	—	—	—	—	—	—	—	—	—
Minera Ciénega (veins – 3demayo)	2.1 gpt AuEq	—	—	—	—	—	—	—	—	—
Total Measured		0.22	2.66	82	0.00	0.00	0.02	0.58	0.000	0.000
Indicated Mineral Resource										
Minera Fresnillo (veins)	2.1 gpt AuEq	9.45	1.85	155	—	—	0.56	47.05	—	—
Minera Fresnillo (disseminated Au)	0.38 gpt Au	150.19	1.09	1	—	—	5.27	6.75	—	—
Minera Fresnillo (disseminated Ag)	125 gpt AgEq	13.85	0.08	208	0.56	1.37	0.04	92.65	0.078	0.190
Minera Juanicipio ²	200 gpt AgEq	3.11	1.95	692	2.05	4.15	0.19	69.20	0.064	0.129
Minera Parreña (breccia)	60 gpt Ag	—	—	—	—	—	—	—	—	—
Minera Parreña (breccia/mantos)	0.9 gpt AuEq	—	—	—	—	—	—	—	—	—
Minera Parreña (veins)	2.7 gpt AuEq	1.69	2.26	136	—	—	0.12	7.37	—	—
Minera Ciénega (veins – 3demayo)	2.1 gpt AuEq	0.47	3.73	69	—	—	0.06	1.05	—	—
Total Indicated		178.75	1.09	39	0.08	0.18	6.24	224.07	0.141	0.319
Inferred Mineral Resource										
Minera Fresnillo (veins)	2.1 gpt AuEq	2.74	1.82	153	—	—	0.16	13.47	—	—
Minera Fresnillo (disseminated Au)	0.38 gpt Au	156.43	0.86	1	—	—	4.35	6.71	—	—
Minera Fresnillo (disseminated Ag)	125 gpt AgEq	0.01	0.05	53	0.68	2.93	0.00	0.02	0.000	0.000
Minera Juanicipio ²	200 gpt AgEq	3.09	1.53	397	1.77	3.10	0.15	39.50	0.055	0.096
Minera Parreña (breccia)	60 gpt Ag	7.05	0.01	113	1.46	1.27	0.00	25.51	0.103	0.090
Minera Parreña (breccia/mantos)	0.9 gpt AuEq	77.26	0.53	33	0.36	0.57	1.31	81.14	0.280	0.444
Minera Parreña (veins)	2.7 gpt AuEq	2.84	2.69	120	—	—	0.25	10.96	—	—
Minera Ciénega (veins – 3demayo)	2.1 gpt AuEq	0.71	3.17	61	—	—	0.07	1.38	—	—
Total Inferred		250.13	0.78	22	0.17	0.25	6.29	178.68	0.437	0.630

¹ Mineral resources are not mineral reserves and do not have demonstrated economic viability. All figures rounded to reflect the relative accuracy of the estimates. Metal assays were capped where appropriate. Mineral resources are reported at variable metal equivalent cut-off grades and assuming 100 percent metal recovery except for Orisyvo and Lucerito where mineral resources are reported at two cut-off grades inside a conceptual pit shell based reasonable mining and processing costs, and gold recovery for oxide and sulphide material. Equivalent metal grades based on US\$1,200 per ounce of gold, US\$22.00 per ounce of silver, US\$93 per pound of zinc and US\$0.89 per pound of lead.

² Portions of the Valdecañas deposit within the Minera Juanicipio SA property where Fresnillo plc holds a 56% interest. Mineral resources quoted reflect Fresnillo plc's attributable 56% ownership.

* Cut-off grade calculations assume variable metallurgical recoveries.

** Mineral resources statement prepared independently by SRK CA.

Consolidated Reserve Statement

As at 31 December 2011

Deposit ¹	Cut-off Grade*	Quantity	Grade				Contained Metal			
		Tonnes (000s)	Gold (g/t)	Silver (g/t)	Lead (%)	Zinc (%)	Gold Ounces (000's)	Silver Ounces (000's)	Lead Tonnes (000's)	Zinc Tonnes (000's)
Fresnillo										
Proved	109 g/t AgEq	7,090	0.45	387	0.46	0.77	103	88,112	33	55
Probable		28,148	0.69	261	1.80	3.56	628	236,635	508	1,003
Proved and Probable		35,238	0.65	287	1.53	3.00	731	324,747	541	1,057
Minera Ciénega										
Proved	1.93 g/t AuEq	3,539	2.93	109	0.73	1.09	334	12,451	26	39
Probable		9,331	1.66	139	0.47	0.76	497	41,585	44	71
Proved and Probable		12,869	2.01	131	0.55	0.85	830	54,036	70	109
Minera Saucito										
Proved	121 g/t AgEq	612	2.43	281	0.19	0.31	48	5,523	1	2
Probable		2,174	1.80	274	0.39	0.57	126	19,120	9	12
Proved and Probable		2,786	1.94	275	0.35	0.51	173	24,644	10	14
Minera Penmont ²										
Herradura (Disseminated)										
Proved	0.3 g/t Au	39,667	0.78	–	–	–	995	–	–	–
Probable		41,134	0.78	–	–	–	1,032	–	–	–
Soledad & Dipolos										
Proved	0.3 g/t Au	14,574	0.64	–	–	–	300	–	–	–
Probable		15,290	0.57	–	–	–	280	–	–	–
Noche Buena ³										
Probable	0.3 g/t Au	13,310	0.60	–	–	–	257	–	–	–
Total Proved and Probable for Minera Penmont										
Open Pit		123,975	0.72	–	–	–	2,863	–	–	–
Totals – Underground ⁴										
Proved	various	11,241	1.34	294	0.53	0.85	484	106,086	60	95
Probable		39,652	0.98	233	1.41	2.74	1,250	297,341	561	1,086
Proved and Probable		50,893	1.06	247	1.22	2.32	1,735	403,427	621	1,181
Totals – Open Pit ⁵										
Proved	various	54,241	0.74	–	–	–	1,295	–	–	–
Probable		69,734	0.70	–	–	–	1,569	–	–	–
Proved and Probable		123,975	0.72	–	–	–	2,863	–	–	–

¹ Mineral reserves are reported as included in mineral reserves. All figures rounded to reflect the relative accuracy of the estimates. Mineral reserves are reported at variable metal equivalent cut-off grades based on metal price assumptions** and appropriate metallurgical recoveries.

² Mineral resources quoted reflect the Fresnillo plc's attributable 56% ownership.

³ The Noche Buena ore reserves listed above are considered conservative based on SRK's auditing procedures for EOY 2011. SRK's check models indicate a larger reserve tonnage at a similar grade.

⁴ Includes Fresnillo (Proaño), Saucito, Cienega and Herradura Vein deposits.

⁵ Includes the open pit portion of Herradura, Soledad and Dipolos and Noche Buena deposits (Penmont).

* Cut-off grade calculations assume variable metallurgical recoveries.

** Metal price assumptions considered for the calculation of metal equivalent grades are: Gold (US\$/oz 1,200.00), Silver (US\$/oz 22.00), Lead (US\$/lb 0.93) and Zinc (US\$/lb 0.89).

Operating Statistics

	Ore Processed (tonnes)						Silver (grams/tonne)					
	2006	2007	2008	2009	2010	2011	2006	2007	2008	2009	2010	2011
Fresnillo	2,207,282	2,312,691	2,324,575	2,471,657	2,553,991	2,584,163	519.0	492.0	494.0	486.6	474.4	395.9
CIénega	673,448	718,726	751,143	780,881	860,513	966,812	68.7	54.0	46.2	74.5	49.4	53.3
Herradura	8,789,794	10,869,234	13,609,318	15,617,014	16,616,247	21,020,356	0.9	1.0	0.6	0.8	1.3	1.1
Saucito	0	0	0	71,170	145,148	818,405	0	0	0	367.2	306.0	249.9
Soledad-Dipolos	0	0	0	0	9,647,939	12,264,860	0	0	0	0	0.6	0.7

	Zinc Concentrate (tonnes)						Silver (grams/tonne)					
	2006	2007	2008	2009	2010	2011	2006	2007	2008	2009	2010	2011
Fresnillo	27,522	24,102	21,922	22,317	23,719	24,544	2,387	2,090	2,212	2,516	2,444	2,363
CIénega	19,338	18,486	21,806	15,150	18,950	17,657	267	202	162	344	186	266
Herradura	0	0	0	0	0	0	0	0	0	0	0	0
Saucito	0	0	0	165	302	3,064	0	0	0	2,811	2,473	1,917
Soledad-Dipolos	0	0	0	0	0	0	0	0	0	0	0	0

	Lead Concentrate (tonnes)						Silver (grams/tonne)					
	2006	2007	2008	2009	2010	2011	2006	2007	2008	2009	2010	2011
Fresnillo	39,855	38,406	39,608	51,699	60,526	61,050	24,444	25,586	25,064	19,972	17,276	14,337
CIénega	18,353	19,107	21,795	16,092	17,436	17,877	1,767	1,382	1,123	2,567	1,734	2,084
Herradura	0	0	0	0	0	0	0	0	0	0	0	0
Saucito	0	0	0	1,250	2,869	14,419	0	0	0	17,937	12,994	12,329
Soledad-Dipolos	0	0	0	0	0	0	0	0	0	0	0	0

	Doré and Other Products Product (tonnes)						Silver (grams/tonne)					
	2006	2007	2008	2009	2010	2011	2006	2007	2008	2009	2010	2011
CIénega precipitates	11.8	16.5	18.8	24.6	25.1	36.5	144,748	100,543	80,665	113,635	122,745	101,662
CIénega Gravimetric Concentrator	0	0	0	36.5	197.1	88.5	0	0	0	3,192	2,150	2,069
Herradura doré	11.4	13.8	13.1	17.2	21.2	24.2	371,677	483,722	419,249	469,606	502,980	474,514
Herradura slag	192.2	325.0	420.6	492.6	588.1	542.7	1,437	3,429	3,255	2,939	2,234	2,036
Soledad-Dipolos doré	0	0	0	0	5.0	7.5	0	0	0	0	174,199	208,897
Soledad-Dipolos slag	0	0	0	0	496.1	590.1	0	0	0	0	1,490	2,024
Fresnillo Concentrates from Tailings Dam	1,959.5	2,765.7	2,610.3	2,914.7	3,247.1	2,658.7	3,565.0	3,473.9	3,571.8	4,451.2	4,048.0	3,387.5

	Metal Produced – Attributable ¹ Silver (ounces)						Gold (ounces)					
	2006	2007	2008	2009	2010	2011	2006	2007	2008	2009	2010	2011
Fresnillo	33,658,884	33,520,617	33,775,660	35,419,848	35,905,701	30,295,121	29,245	26,246	24,008	24,684	24,979	26,237
CIénega	1,262,996	1,022,207	949,574	1,588,994	1,197,792	1,473,927	150,527	143,719	116,903	103,510	113,351	116,841
Herradura	81,582	140,318	123,656	171,303	215,686	226,626	101,702	110,167	122,730	145,510	162,984	183,528
Saucito	0	0	0	735,744	1,222,473	5,904,176	0	0	0	2,881	6,323	33,493
Soledad-Dipolos	0	0	0	0	29,086	49,777	0	0	0	0	61,358	88,767
Fresnillo Total	35,003,462	34,683,142	34,848,889	37,915,889	38,570,738	37,949,627	281,474	280,132	263,640	276,584	368,995	448,866

¹ Including Production from Fresnillo's Tailings Dam

Gold (grams/tonne)						Zinc (%)						Lead (%)					
2006	2007	2008	2009	2010	2011	2006	2007	2008	2009	2010	2011	2006	2007	2008	2009	2010	2011
0.60	0.51	0.47	0.41	0.41	0.42	1.01	0.83	0.76	0.79	0.85	0.87	0.54	0.45	0.42	0.50	0.54	0.58
7.33	6.55	5.14	4.33	4.27	3.89	2.43	2.15	2.32	1.64	1.77	1.45	1.50	1.39	1.46	1.00	0.95	0.82
0.81	0.75	0.72	0.68	0.70	0.65	0	0	0	0	0	0	0	0	0	0	0	0
0	0	0	1.53	1.67	1.43	0	0	0	0.30	0.37	0.42	0	0	0	0.15	0.22	0.23
0	0	0	0	0.61	0.57	0	0	0	0	0	0	0	0	0	0	0	0

Gold (grams/tonne)						Zinc (%)						Lead (%)					
2006	2007	2008	2009	2010	2011	2006	2007	2008	2009	2010	2011	2006	2007	2008	2009	2010	2011
3.6	3.1	2.9	2.7	2.5	2.7	52.3	51.2	51.5	51.6	51.5	51.4	0	0	0	0	0	0
12.4	11.4	7.9	7.1	4.7	6.2	52.8	51.8	51.5	52.5	53.4	52.8	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
0	0	0	7.3	12.4	14.0	0	0	0	39.7	48.8	38.2	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

Gold (grams/tonne)						Zinc (%)						Lead (%)					
2006	2007	2008	2009	2010	2011	2006	2007	2008	2009	2010	2011	2006	2007	2008	2009	2010	2011
20.1	18.9	16.9	13.3	11.5	12.0	0	0	0	0	0	0	26.6	24.0	21.9	21.4	20.2	21.9
213.3	192.0	134.2	149.3	117.4	111.5	0	0	0	0	0	0	41.5	41.7	41.8	38.0	37.1	35.3
0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
0	0	0	70.7	67.3	69.3	0	0	0	0	0	0	0	0	0	7.0	9.5	12.1
0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

Gold (grams/tonne)					
2006	2007	2008	2009	2010	2011
44,775	35,409	28,564	20,944	24,936	32,663
0	0	0	5,343	3,874	3,822
455,639	390,309	418,800	395,547	379,778	379,755
2,251	2,245	3,147	2,613	1,699	1,851
0	0	0	0	512,231	502,909
0	0	0	0	1,676	1,949
4.8	5.8	5.4	6.4	6.5	6.0

Zinc (tonne)						Lead (tonne)					
2006	2007	2008	2009	2010	2011	2006	2007	2008	2009	2010	2011
14,792	12,349	11,277	11,510	12,212	12,623	10,611	9,219	8,685	11,058	12,236	13,385
10,205	9,571	11,237	7,950	10,112	9,318	7,617	7,958	9,109	6,118	6,468	6,315
0	0	0	0	0	0	0	0	0	0	0	0
0	0	0	65	147	1,172	0	0	0	88	273	1,742
0	0	0	0	0	0	0	0	0	0	0	0
24,997	21,920	22,515	19,526	22,472	23,113	18,228	17,177	17,793	17,264	18,977	21,442

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 18 May 2012 at 11:00am at the offices of Linklaters, One Silk Street, London EC2Y 8HQ
Annual Report	The annual report of Fresnillo plc for the year ended 31 December 2011 and comprising the 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
Backfill	A mining method used to fill previously mined-out stopes (often mine waste tailings blended with cementitious binders) in order to provide regional rock support
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
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	<i>Comisión Federal de Electricidad</i> , 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
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 2011
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
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 Minera 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 2011
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 or FTSE 350	Share indices compiled by FTSE International Limited and comprising the top 100 or 350 companies by market capitalisation
g/t	Grammes per tonne
GAAP	Generally Accepted Accounting Principles
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
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 (<i>Sistema de Salud, Seguridad, Medio Ambiente y Relaciones con la Comunidad</i>), 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	<i>Impuesto Empresarial a Tasa Unica</i> , 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 B.1.1 of the UK Corporate Governance Code
INIFAP	<i>Instituto Nacional de Investigaciones Forestales, Agrícolas y Pecuarias</i> , 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	<i>Instituto Tecnológico Autónomo de México</i> , a private research university in Mexico City
JORC	Joint Ore Reserves Committee
koz	Thousand troy ounces
KPI	Key Performance Indicator
Leaching, heap leaching or dynamic leaching	A process to extract metals from ore in which the mined ore is crushed and heaped onto an impervious pad and irrigated with a leaching agent that percolates through the heap and leaches out the metals. In dynamic leaching, the piles are continuously reclaimed after leaching has been completed and subsequently rebuilt with fresh ore
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 company jointly held by Fresnillo plc (56% interest) and MAG Silver Corporation (44% interest)
Minera Penmont S. de R.L. de C.V.	A company jointly held by Fresnillo plc (56% interest) and Newmont USA Limited (44% 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	<i>Procuraduría Federal de Protección al Ambiente</i> , 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., a 100% Peñoles subsidiary that supplies administrative services to Fresnillo plc under a relationship regulated by the New Services Agreement
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
SEMARNAT	<i>Secretaría de Medio Ambiente y Recursos Naturales</i> , Secretariat of the Environment and Natural Resources
Shaft	An opening cut downwards from the surface for transporting personnel, equipment, supplies, ore and waste
Shotcrete	Concrete or mortar conveyed through a hose and pneumatically projected at high velocity onto any type or shape of surface, including vertical or overhead areas; shotcrete undergoes placement and compaction at the same time due to the force with which it is projected from the nozzle
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 from the Peñoles-owned Sabinas polymetallic mine in Zacatecas, Mexico.
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	<i>Secretaría del Trabajo y Previsión Social</i> , 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 Corporate Governance Code
UK Bribery Act	The UK Bribery Act 2010, which came into effect on 1 July 2011, prohibits bribery or attempted bribery such as kickbacks, corrupt commissions, and other forms of illicit business payments to secure business or government contracts
UK Corporate Governance Code	The UK Corporate Governance Code (formerly the Combined Code) sets out standards of good practice in relation to board leadership and effectiveness, remuneration, accountability and relations with shareholders. All companies with a Premium Listing of equity shares in the UK are required under the Listing Rules to report on how they have applied the UK Corporate Governance Code in their annual report and accounts
UK£	United Kingdom pounds sterling
UNAM	<i>Universidad Nacional Autónoma de México</i> , 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:	6 March 2012
First Interim Management Statement:	18 April 2012
Annual General Meeting:	18 May 2012
Interim Statement:	31 July 2012
Second Interim Management Statement:	17 October 2012

Dividend payment schedule

2011 Final Dividend Record Date:	27 April 2012
2011 Final Dividend Payment Date:	23 May 2012
2012 Interim Dividend Record Date:	17 August 2012
2012 Interim Dividend Payment Date:	11 September 2012

Registrar

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Share fraud warning

Share fraud includes scams where investors are called out of the blue and offered shares that turn out to be worthless or non-existent, or an inflated price for shares they own. These calls come from fraudsters operating in 'boiler rooms', mostly based abroad. While high profits are promised, those who buy or sell shares in this way usually lose their money. Most victims are experienced investors, losing on average £20,000.

Protect yourself

If you are offered unsolicited investment advice, discounted shares, inflated prices for shares you own, or free company or research reports, take these steps before handing over any money:

1. Get the name of the person and organisation.
2. Check the FSA Register at www.fsa.gov.uk/fsaregister to ensure they are authorised.
3. Use the details on the FSA Register to contact the firm.
4. Call the FSA Consumer Helpline on **0845 606 1234** if there are no contact details on the Register or you are told they are out of date.
5. Search the list of unauthorised firms and individuals to avoid doing business with.
6. **REMEMBER: if it sounds too good to be true, it probably is!**

If you use an unauthorised firm to buy or sell shares, you will not have access to the Financial Ombudsman Service or Financial Services Compensation Scheme (FSCS) if things go wrong.

Report a scam

If you are approached about a share scam you should tell the FSA using the form at www.fsa.gov.uk/scams (where you can also review the latest scams) or call the Consumer Helpline on **0845 606 1234**.

If you have already paid money to share fraudsters then contact Action Fraud on 0300 123 2040

For further information, please visit our website: www.fresnilloplc.com or contact:

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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.

