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

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Who We Are

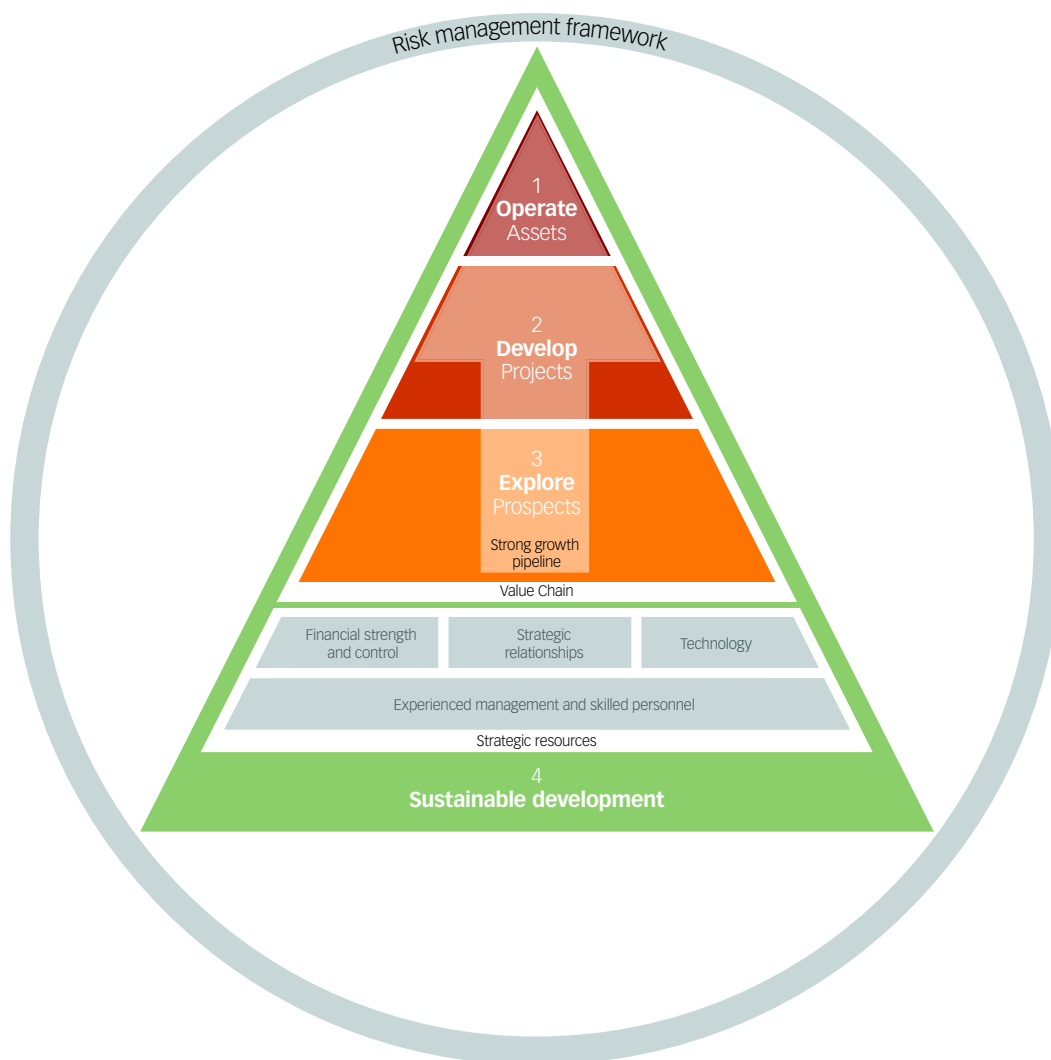
Fresnillo plc is the world's leading silver producer and Mexico's second largest gold producer. Headquartered in Mexico City, our shares trade on the London and Mexican Stock Exchanges.

**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.



### 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   |
|---|---|---|
| <b>Value chain</b>  |   |   |
| <b>Operate</b><br>Maximise the potential of existing operations<br><div>1</div> | <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>   |
| <b>Develop</b><br>Deliver growth through development projects<br><div>2</div>   | <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>           |
| <b>Explore</b><br>Extend the growth pipeline<br><div>3</div>                    | <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>   |
| <b>Licence to operate</b>   |   |   |
| <b>Sustainability</b><br>Advance our sustainable development<br><div>4</div>    | <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> |

## 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 certification<sup>12</sup> 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

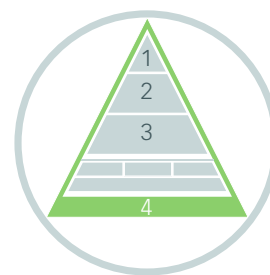
A wide range of indicators is used to measure sustainability performance. The health, safety, environment and community relations (HSECR) framework includes specific metrics for each aspect of the programme. See additional information in the Sustainability Report pages 62–75.

#### 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 |

# 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."

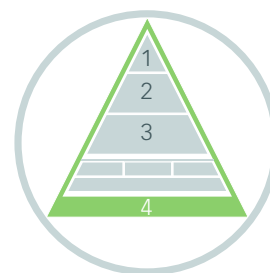
### Overview

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  |
|---|---|---|--|
| <b>Health</b>   |   |   |  |
| <b>Risk:</b> Impact of our operations on the health of employees and contractors<br><br><b>Opportunity:</b> 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"> <li>– Disabling occupational disease rate</li> <li>– Lost work days rate for general diseases</li> </ul>   | <ul style="list-style-type: none"> <li>– Continuous improvement</li> </ul>   |
| <b>Safety</b>   |   |   |  |
| <b>Risk:</b> Impact of our operations on the physical integrity of employees and contractors<br><br><b>Opportunity:</b> 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"> <li>– Fatalities</li> <li>– Accident rate</li> <li>– Lost work days rate</li> <li>– Lost work days rate for work accidents</li> </ul>                        | <ul style="list-style-type: none"> <li>– Zero fatalities</li> <li>– Accident rate under 2.0</li> <li>– Lost work days rate under 1.0</li> </ul>  |
| <b>Environment</b>  |   |   |  |
| <b>Risk:</b> Impact of our operations on the environment at the local and global level<br><br><b>Opportunity:</b> 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"> <li>– Unit consumption of energy</li> <li>– Unit consumption of water</li> <li>– Unit GHG emissions</li> <li>– Environmental incidents</li> </ul>            | <ul style="list-style-type: none"> <li>– Zero environmental incidents</li> <li>– Further improvement in water and energy unit consumption</li> </ul>                                       |
| <b>Community relations</b>  |   |   |  |
| <b>Risk:</b> Negative perception of our business from surrounding communities; long-term dependency on our operations<br><br><b>Opportunity:</b> Promotion of local development through employment opportunities and social projects                                    | <b>Human resources:</b> Provide professional development opportunities and workplace satisfaction for our personnel<br><br><b>Communities:</b> Enhance the perception of Fresnillo plc as a responsible mining company<br><br>Develop self-sustaining communities | <ul style="list-style-type: none"> <li>– Training</li> <li>– Turnover rate</li> <li>– Employee satisfaction survey</li> <li>– Labour relations</li> <li>– Community perception index</li> </ul> | <ul style="list-style-type: none"> <li>– Turnover rate under 5.0</li> <li>– Zero days lost for labour conflicts</li> <li>– Continuous improvement in community perception index</li> </ul> |



### 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

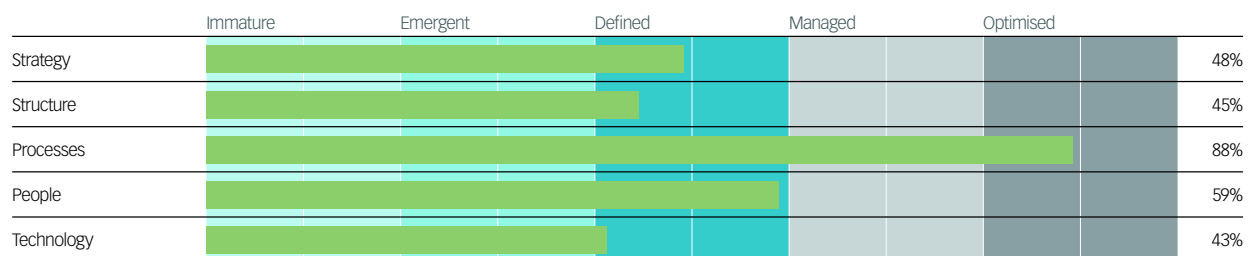
#### People

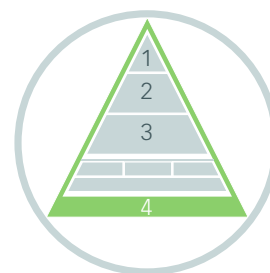
- Define responsibilities and roles in the organisation
- Define HSECR metrics

#### 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  |
|------------------------------------|--|--|
| <b>Certification process</b>       | <b>STPS (Mexican Secretariat of Labour)</b>  | Participant in the Safety Self-Management Programme. The programme aims to ensure compliance with safety regulations and improve performance.  |
|                                    | <b>PROFEPA (Mexican Environmental Authority)</b>   | Participant in the Clean Industry Programme, aimed at ensuring compliance with environmental regulations and improving performance.  |
|                                    | <b>International Cyanide Management Institute</b>  | Participant in the Cyanide Management Programme aimed at implementing best practices in cyanide management.  |
|                                    | <b>ISO 14001</b>   | All mine units (except for Saucito) and the Exploration Division have current certifications for their environmental management systems.   |
|                                    | <b>OHSAS 18001</b>   | Mine units are pursuing the certification for their health and safety management systems.  |
| <b>Membership or participation</b> | <b>CAMIMEX (Mexican Mining Chamber)</b>  | 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.    |
|                                    | <b>CESPEDES (Sustainable Development Studies Commission, Private Coordinator Council, CCE)</b> | 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 |
|                                    | <b>United Nations Global Compact</b>   | Subscriber to the 10 Principles; the current report represents our third Communication on Progress (CoP).  |
| <b>Partnership or project</b>      | <b>INIFAP (National Institute for Forestry, Agriculture and Livestock Research)</b>            | Partnership for reforestation and research at Ciénega and Fresnillo.   |
|                                    | <b>The Carbon Disclosure Project</b>   | Participant in the FTSE 350 category for the second time through disclosure on climate change risks and mitigation efforts.  |
| <b>Awards</b>                      | <b>WildCorp</b>  | Alliance with The Wild Foundation aimed at promoting biodiversity conservation in the Mexican private sector.  |
|                                    | <b>SEMARNAT (Mexican Secretariat of the Environment)</b>                                       | Participant in the Mexican Greenhouse Gas Programme, a public-private partnership with CESPEDES.   |
|                                    | <b>CEDES (Ecology and Sustainable Development Commission of Sonora State)</b>                  | Partnership to implement the Sonoran Pronghorn Protection Programme  |
|                                    | <b>CONCAMIN (Confederation of Industrial Chambers)</b>   | Representation through CAMIMEX for benchmarks and best practices in the Mexican industrial sector. Recipient of the Ethics and Values Award for the third time   |
|                                    | <b>CEMEFI (Mexican Centre for Philanthropy)</b>  | Largest organization in Mexico for corporate social responsibility. Recipient of the Socially Responsible Company (ESR) Award since 2008.  |
|                                    | <b>IPADE Business School and GESOC (Gestión Social y Cooperación)</b>                          | 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

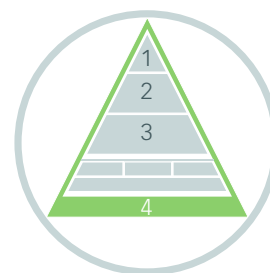
#### What we did in 2011

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

### Performance indicator

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

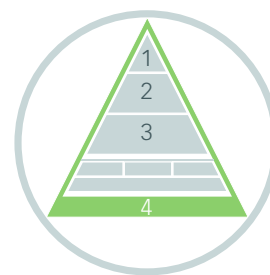
By reinforcing safety policies and procedures, investing in safety equipment and training, and conducting drills to reinforce safety behaviour

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

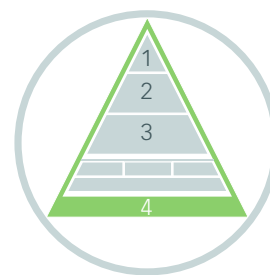
By monitoring and minimising the use of non-renewable resources, maintaining strict oversight and maintenance of preventive equipment and systems, and investing in conservation efforts

### 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  |
|---|------------------------|-----------------|-------|--|
| <b>Unit energy consumption</b><br>Gigajoules per tonne of product   | <b>0.138</b>           | 0.124           | 0.188 | Expansion of the Company's operations (Soledad-Dipolos, Saucito and Noche Buena)   |
| <b>Unit fresh water consumption</b><br>Cubic metres per tonne of product  | <b>0.101</b>           | 0.095           | 0.209 | See above  |
| <b>Unit greenhouse gas emission</b><br>CO <sub>2</sub> e tonnes per tonne of product  | <b>0.013</b>           | 0.011           | 0.017 | See above  |
| <b>Lost days by an environmental incident</b><br>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. |
| <b>Investment in environmental efforts</b><br>Infrastructure, equipment and programmes (excluding training)                               | <b>US\$3.0 million</b> | 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 m<sup>3</sup> of fresh water consumed (2010: 2.8 million m<sup>3</sup>) due to the Company's expansion projects. Water efficiency projects generated savings of 266,426 m<sup>3</sup>. 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 CO<sub>2</sub> 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

### 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 said we would do in 2011

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

### 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

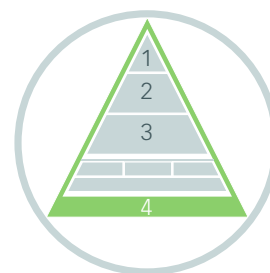
### What we plan to do in 2012

- 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

### Performance indicator

|  | 2011                   | 2010            | 2009       | Comment   |
|--|------------------------|-----------------|------------|---|
| <b>Human resources</b>   |                        |                 |            |   |
| <b>Professional development training</b><br>Average hours/person   | <b>96</b>              | 95              | 92         | Leadership, teamwork, process improvement, productivity and management skills   |
| <b>HSECR training</b><br>Average hours/person  | <b>41</b>              | 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 |
| <b>Investment in training programmes</b>   | <b>US\$1.7 million</b> | US\$1.2 million | –          | Indicator added in 2010   |
| <b>Turnover rate</b><br>Number of union and non-union employees who left the Company divided by the total number of employees                            | <b>5.69</b>            | 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   |
| <b>Employee satisfaction survey</b><br>Survey of union and non-union workers and contractors   | <b>N/A</b>             | 6.8             | 4.9 (2008) | Conducted every two years by independent third party  |
| <b>Labour relations</b><br>Total number of days in which operations were compromised due to disagreements with local unions and/or contract negotiations | <b>0</b>               | 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

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## 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

### 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

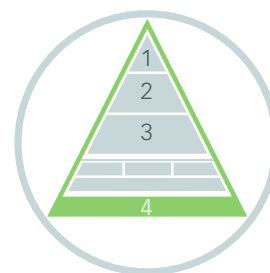
#### Local development at Ciénega

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  |
|---|-----------------|-----------------|-----------|--|
| <b>Communities</b>  |                 |                 |           |  |
| <b>Community perception index</b><br>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” |
| <b>Total investment in community wellbeing</b><br>(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                |