FRESNILLO®

Advancing our strategy in precious metals
Annual report 2012

Who we are

Fresnillo plc is the world's leading silver mining company and Mexico's second largest in gold. Headquartered in Mexico City, we are a FTSE 100 company with shares trading on the London and Mexican Stock Exchanges.

Cover: Centauro pit at Herradura
Inside cover: San Julián silver project

Within this document you will find the following bookmark that will direct you to further information in this report on a related topic.

Read more: p00

Contents

Advancing towards our 2018 production targets

As we approach the midpoint between the IPO, when our ambitious ten-year targets were set, and 2018, when we aim to produce 65 million ounces of silver and 500,000 ounces of gold, we reflect on our ongoing evolution and affirm our commitment to delivering on our goals.

Attributable reserves million of ounces

2008 Silver 410.0	2012 Silver 498.5 — **+23.6%** 2011 (403.4 million)
2008 Gold 4.1	2012 Gold 5.5 — **+19.6%** 2011 (4.6 million)

The Directors' Report of Fresnillo plc for the year ended 31 December 2012, 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 146. 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.

Overview
Strategic Review
Performance
Governance
Financial Statements

Our performance

Fresnillo plc continues to strengthen its profile as the world's leading silver miner alongside its rising position in gold.

Operational highlights

- Record attributable gold production of 473,034 ounces, up 5.4% mainly due to the successful first year of operations at Noche Buena and continuous ramp-up at Saucito
- Attributable silver production of 41 million ounces (including 4 million ounces from the Silverstream) in line with our guidance
- On time, on budget start-up of the Noche Buena gold mine
- Construction commenced at the San Julián silver mine
- Healthy expansion of the resource base

Financial highlights

- Adjusted revenue[1] of US$2,287.2 million, –0.9% change
- Gross profit and EBITDA down 13.6% and 14.8% respectively, to US$1,350.7 million and US$1,311.5 million
- Profit from continuing operations of US$1,046.8 million, –23.1% change
- Profit for the year including Silverstream revaluation of US$845.4 million, –18.6% change
- Basic and diluted earnings per ordinary share from continuing operations of US$1.026 per share –18.4%
- Profit attributable to equity shareholders of the Company, excluding the Silverstream revaluation effects of US$652.1 million, –17.2% change
- Adjusted EPS[2] of US$0.909, –17.2% change
- Final dividend of 42.4 US cents per ordinary share

Attributed production

Silver millions of ounces

41.0

2012	41.0
2011	41.9
2010	42.1
2009	41.3

Gold thousands of ounces

473.0

2012	473.0
2011	448.9
2010	369.0
2009	276.6

Adjusted revenue

US$ million

2,287.2

2012	2,287.2
2011	2,307.4
2010	1,473.9
2009	944.0

EBITDA

US$ million

1,311.5

2012	1,311.5
2011	1,538.5
2010	945.0
2009	496.6

Attributed resources

Silver millions of ounces

2,033.0

2012	2,033.0
2011	1,811.1
2010	1,472.7
2009	1,289.0

Gold millions of ounces

27.0

2012	27.0
2011	23.5
2010	20.1
2009	13.9

Adjusted EPS

US$

0.909

2012	0.909
2011	1.098
2010	0.740
2009	0.430

Gross profit

US$ million

1,350.7

2012	1,350.7
2011	1,563.5
2010	979.4
2009	532.3

Profit from continuing operations

US$ million

1,046.8

2012	1,046.8
2011	1,360.9
2010	833.5
2009	428.8

Total dividends paid

US cents

57.9

2012	57.9
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] Adjusted basic and diluted earnings per ordinary share from continuing operations, prior to the revaluation effects of the Silverstream contract.

What differentiates us

Our capacity to create long-term value requires an ongoing focus on these competitive differentiators

Operational excellence
World-class assets
Strong organic growth pipeline
Competitive cash cost performance
Financial strength and flexibility
Strong community support

What differentiates us continued

Operational excellence

Operational excellence requires experienced personnel, efficient mining methods, continuous reserve replenishment and delivering on expectations.

Herradura, Mexico's largest open pit gold mine

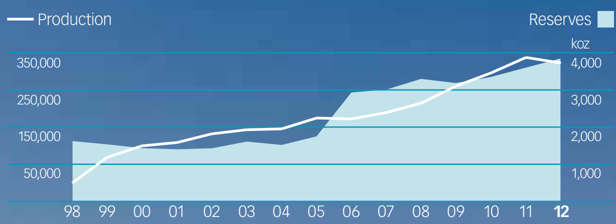
We first began exploration in the Herradura district in 1988, and commenced operations at the new mine in 1998. In its first full year, the mine produced 90,300 gold ounces and was expected to reach full capacity at 150,000 ounces per year, with an expected mine life of ten years.

Now, 14 years later, operational discipline has increased total annual production to 314,500 gold ounces in 2012 with an expected 6.6 years in remaining mine life due to successful exploration by our team of experienced geologists, continuous reserve replenishment and efficient mining methods. Furthermore, we are evaluating the Mega Centauro project, an expansion of the main pit, whilst underground, we are assessing the potential development of Centauro Deep as a new mine.

Gold ounces attributable to Fresnillo plc

56% of total production

Herradura gold reserves and production ounces



World-class assets

We operate the largest primary silver mine in the world and a portfolio of low cost mines, high-potential development projects and advanced exploration sites.

Fresnillo District

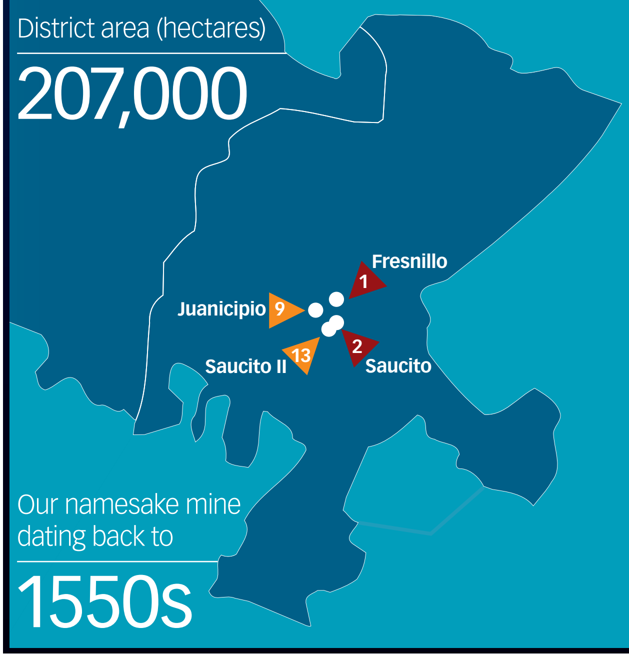
The Fresnillo District is one of the oldest mining regions in Mexico, with official records for our namesake mine dating back to the early 1550s. Our mineral concessions in the District cover 207,000 hectares.

Recognising the exploration potential of the District, in the early nineties our team initiated an integrated programme of geological mapping and geophysical and geochemical surveys to select new drilling targets in the valley areas around the original mine. The Company invested in a deep drilling programme and located a number of well-mineralised veins that are now in production.

Resources ounces	**Reserves** ounces
Silver	Silver
1,326.2 million	427.3 million
Gold	Gold
3.7 million	1.3 million

District area (hectares)

207,000



Our namesake mine dating back to

1550s

What differentiates us continued

Timeline

1992	2006	2008	2009	2010	2011	2012
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.	**Exploration programme at Saucito II converted resources to reserves to support pre-feasibility study.**

Silver prices (US$/oz)

1992	2006	2008	2009	2010	2011	2012
3.95	11.57	15.02	14.65	20.16	35.11	31.15

Source: LBMA

Growth pipeline/opportunity

2013

Obtain Board approval to initiate construction; place orders for long lead time equipment; secure environmental permits; build pumping station; explore Natalias vein field

2014

Increase development and mine; expand capacity at beneficiation plant from 3,000 to 6,000 tpd

2015

Commence operations

Strong organic growth pipeline

Continuous investment across precious metal price cycles has resulted in projects spanning all stages of exploration and development.

Saucito: continuous exploration leads to a new mine and a sizable additional deposit

Contributions from our newest silver mine demonstrate the value of our long-term investment horizon. That same commitment could transform one of today's early exploration sites into the next world-class precious metal mine.

Total expected production ounces

Saucito I	Saucito II
9.0 million	8.4 million

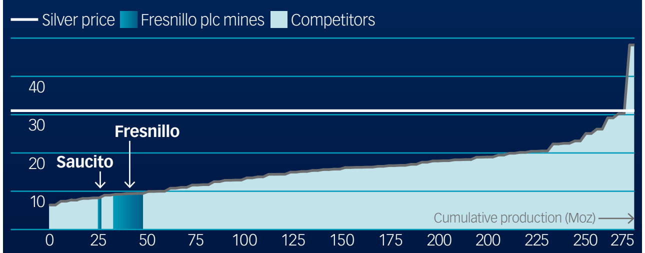
Competitive cash cost performance

Stringent viability criteria at the earliest stages of a project have helped position us historically in the lowest cost quartile amongst our peers.

Cash cost curve

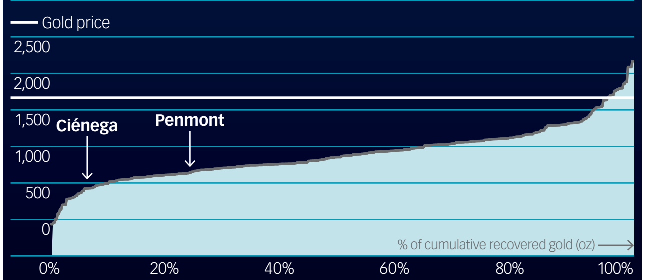
Gold and silver cash costs curves show our position relative to other producers. Our low cost operations ensure that margins continue to be sufficient even though precious metal prices might fall.

Silver cash cost curve US$/oz



Source: CRU*

Gold cash cost curve US$/oz (as of Sept 2012)



Source: Thomson Reuters GFMS

* Data are based on extrapolated 2011 costs, but adjusted to reflect 2012's production estimates, prices, smelter charges and exchange rates.

What differentiates us continued

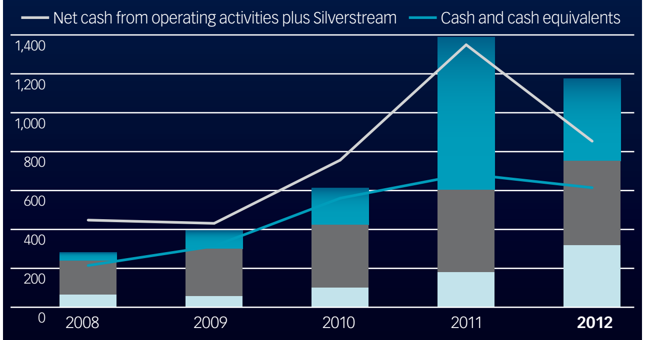
Financial strength and flexibility

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

Main sources and uses of funds

The cash generated by our mines has significantly enabled funding for exploration costs, capex and dividend payments. In the past two years, growth initiatives and shareholder returns have received further funding from our cash reserves.

Main sources and uses of funds US$ million



Strong community support

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

Community engagement in Peru

We acquired the Santo Domingo silver and gold concessions in 2012 that cover 5,500 hectares in the Apurimac region of Peru, complementing the 8,100 hectares we already own in the region.

Our team has worked with the local communities of Curanco and Totora Oropesa since 2011 to ensure that their environmental and socio-economic needs are factored into the Company's exploration programme, and in 2012 we opened a community relations office in the town of Antabamba. We have hired 50 temporary workers to generate local jobs under the Buenos Vecinos initiative ('good neighbours') that respects the culture, beliefs and natural environment of these communities. These engagement initiatives support our efforts to secure environmental permits whilst immediately contributing to the local economy.

What we do

Fresnillo plc is the world's leading silver mining company and Mexico's second largest in gold. We seek to create value across precious metal price cycles, focusing on high-potential projects that can be developed into low-cost, world-class mines.

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

2 Develop

Deliver growth through development projects

Once projects meet stringent criteria for mineral content and associated cost, they are advanced towards mine development, construction, start-up and production.

3 Explore

Extend the growth pipeline

The key growth driver for the Group, our exploration portfolio, extends across multiple stages (prospecting, drilling, resource definition), and we invest continuously in exploration irrespective of metal prices.

How we operate

Responsible and sustainable business practices are core to our strategy and business model, from the earliest stages of exploration until mine closure.

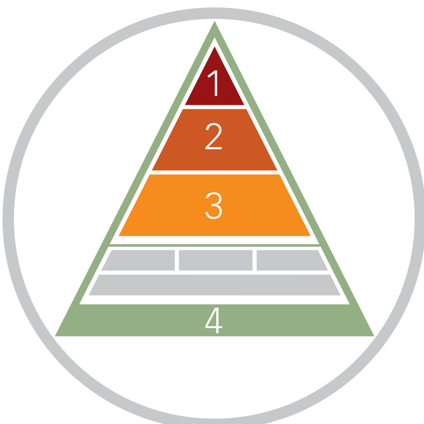
4 Sustainability

Advance our sustainable development

In every aspect of our operations there is a focus on the safety and health of our employees, responsible environmental stewardship, the wellbeing of the communities where we operate, and adherence to best governance practices.

Our value chain

Our business model spans the full mining value chain from exploration, development and construction, to mining operations.



Read more:
Our business model p28-32
Our Strategy and KPIs p33-45
Our performance p57-107

Our progress

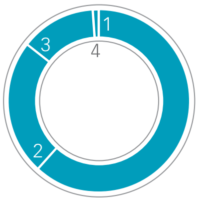
Fresnillo plc is advancing its strategy in precious metals, creating long-term value for all stakeholders by having increased attributable reserves of silver by 23.6% and gold by 19.6%.

Our 2018 goal

Profitably and sustainably maintain the Group's position as the world's largest primary silver company, which requires continuous evaluation of project delivery timetables.

Attributable reserves: silver
moz

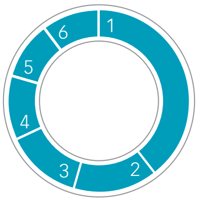
498.5



1	Fresnillo	308.47
2	Saucito	118.88
3	Ciénega	66.14
4	Penmont	4.98

Attributable reserves: gold
koz

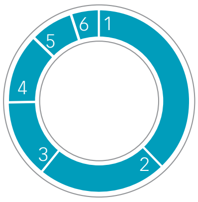
5,474



1	Herradura	2,167
2	Ciénega	828
3	Fresnillo	733
4	Noche Buena	629
5	Saucito	568
6	Soledad-Dipolos	549

Adjusted revenue by mine
US$ million

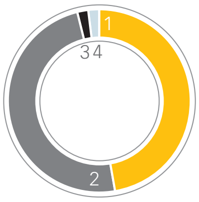
2,287.24



		US$m
1	Fresnillo	865.68
2	Herradura	528.55
3	Ciénega	320.12
4	Saucito	285.94
5	Soledad-Dipolos	178.48
6	Noche Buena	108.47

Adjusted revenue by metal
US$ million

2,287.24



	US$m
Gold	1,084.33
Silver	1,118.59
Lead	43.50
Zinc	40.82

Targeted silver production
ounces per year

65 million

Targeted silver reserves
ounces per year

650 million

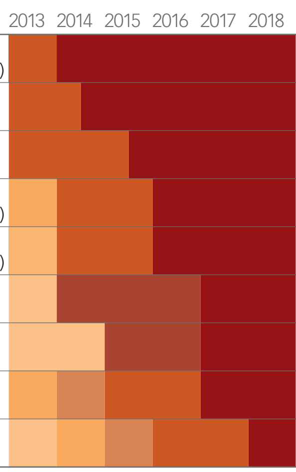
Targeted gold production
ounces per year

500,000

Targeted gold reserves
ounces per year

5.0 million

Advancing towards achieving our long-term goals



	Expected production: Gold '000 ounces	Expected production: Silver m ounces
Dynamic leaching (optimisation project)	50	n/a
San Julián	45	10
Saucito II	35	10
Fresnillo 10,000 TPD (optimisation project)	n/a	4
Pyrites plant (optimisation project)	n/a	4
Mega Centauro Pit	200	n/a
Centauro Deep	200	n/a
Juanicipio	30	10
Orisyvo	110	n/a

Exploration · Basic engineering · Detailed engineering · Construction · Development · Production

Where we do it

Our core operations are in Mexico, which has a mining history extending more than 500 years and strong geological potential for continued growth. We will continue to seek and evaluate potential M&A opportunities, in both Mexico and Latin America.

Our projects

New mine construction

7 San Julián

Under construction, start-up 2H 2014

Measured, indicated and inferred resources:

Silver million ounces	157.5
Gold ounces	845,000

Advanced exploration

8 Centauro Deep (at Herradura)

Intensive exploration prior to pre-feasibility study

Indicated and inferred resources:

Gold ounces	349,000

9 Juanicipio

Infill drilling post-feasibility study

Indicated and inferred resources:

Silver million ounces	115.0
Gold ounces	368,000

10 Orisyvo

Metallurgical testing of the ore body

Measured, indicated and inferred resources:

Gold million ounces	9.9

11 Mega Centauro (at Herradura)

Intensive infill exploration prior to pre-feasibility study

Resources are included in Herradura figures

12 Las Casas (at Ciénega)

Intensive exploration prior to pre-feasibility study

Resources are included in Ciénega figures

13 Saucito II (at Saucito)

Construction to commence 2H 2013

Resources are included in Saucito figures

Read more:
Our business model p28-32
Our Strategy and KPIs p33-45
Our performance p57-107

Mines in operation

1 Fresnillo	
Mine life	12.5
Employees	903
Contractors	705
Total reserves	
Silver million ounces	308.5
Gold ounces	733,000
2012 revenue US$m	817.7

2 Saucito	
Mine life	11.4
Contractors	867
Total reserves	
Silver million ounces	118.9
Gold ounces	568,000
2012 revenue US$m	262.3

3 Ciénega & San Ramón	
Mine life	16.7
Employees	453
Contractors	452
Total reserves	
Silver million ounces	66.1
Gold ounces	828,000
2012 revenue US$m	303.9

4 Herradura	
Mine life	6.6
Employees	819
Contractors	311
Total reserves	
Silver million ounces	2.9
Gold million ounces	2.2
2012 revenue US$m	526.9

5 Soledad-Dipolos	
Mine life	3.2
Employees	386
Contractors	330
Total reserves	
Silver ounces	890,000
Gold ounces	549,000
2012 revenue US$	177.5

6 Noche Buena	
Mine life	4.1
Employees	286
Contractors	233
Total reserves	
Silver million ounces	1.1
Gold ounces	629,000
2012 revenue US$m	108.1

Systematic project generation

We have an extensive portfolio of prospects and high-quality projects underpinning our organic growth pipeline, make ongoing investments in exploration, mine development and operational excellence, and are strongly committed to disciplined and sustainable growth.

3 Explore

New early stage exploration:
Las Norias
El Nudo
Carina
La Choya
Cerritos
El Dorado
S. Brígida
Rosetillas
SJPinal
Bellavista
C. Blanco
Lucero
Concha-Nieves
Corridor
Argentum
Coyotes
Villa García
(all in Mexico)

Early stage exploration:
Mexico:
San Javier
El Carmen
Urite
Atotonilco
Rosario
Otzumatlán
Pereñita
La Huerta
Rodeo
Peru:
Huacravilca

Prospects in drilling:
Mexico:
Fresnillo area of influence
Guachichil
Guanajuato
Manzanillas
Leones
El Cairo
Lucerito
Tocayos
San Juan
Cebadillas
San Nicolás del Oro
Candameña
Tajitos
La Yesca
Peru:
Amata
Cautivas
Pilarica

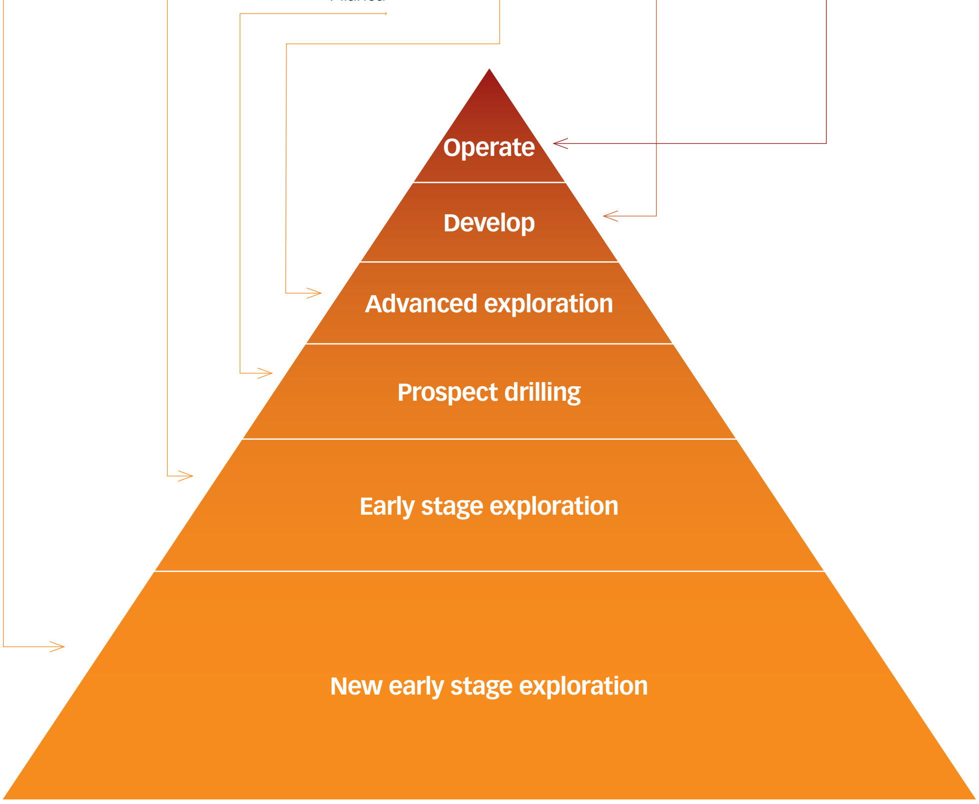
Advanced exploration:
8 Centauro Deep
9 Juanicipio
10 Orisyvo
11 Mega Centauro (at Herradura)
12 Las Casas (at Ciénega)

2 Develop

New mine construction:
7 San Julián
Projects at current mines:
4 Dynamic leaching (at Herradura)
13 Saucito II (at Saucito)

1 Operate

Mines in operation:
1 Fresnillo
2 Saucito
3 Ciénega & San Ramón
4 Herradura
5 Soledad-Dipolos
6 Noche Buena



Chairman's statement

Fresnillo plc moved steadily forward on executing its disciplined organic growth strategy, resulting in record gold and stable silver production.

"I am pleased to report another year of good operational performance for Fresnillo plc, which is particularly notable in a year of challenges for the mining industry and management transitions in our Company."

Alberto Baillères
Non-executive Chairman

We were pleased to announce the appointment of Octavio Alvídrez as Fresnillo plc's new Chief Executive Officer following the retirement of long-time CEO Jaime Lomelín. Mr Alvídrez is an experienced and effective leader. We are confident that he will build on the Company's past achievements and, with Board guidance and the support of an outstanding executive team, lead Fresnillo to the next stage of growth and performance. His first initiatives as CEO display a keen alignment with our values of operational excellence.

Market environment

Precious metal miners faced volatile metal prices, higher production costs and growing social and environmental pressures.

The weak gold price of the first half of the year recovered during the second half of the year as central banks increased reserves and investors sought protection against economic uncertainty and possible inflation. Demand also improved in certain markets such as India and China. As a result, the average realised gold price increased 5.6% over 2011, to US$1,674.1 per ounce.

After five months of continuous decline, the silver price hit a low of US$27.34 in July, from where it recovered some lost ground and closed the year at US$30.2. Physical purchases by investment funds provided support for silver prices, whilst lower industrial demand, the debt crisis in the euro zone and weak economic growth in the United States limited the recovery. The average realised price of silver was US$31.4 per ounce, 9.8% lower than in 2011.

Across the industry, producers also faced an increased shortage of skilled labour and higher unit costs for operating materials such as explosives, tyres and reagents. In addition, the global decline in new high grade ore deposits affected cash costs per ounce as miners continued to invest in lower grade, less economic deposits.

The industry also received additional and deserved scrutiny for its community and employee relations this year following a number of labour conflicts and social concerns. Whilst our Group has long enjoyed productive and beneficial relationships at the local level, we are not immune to such risks and thus continue to prioritise community relations and investments in areas that reinforce the creation of stakeholder value.

Average realised price US$ per ounce

Gold	Silver
1,674.1	31.4
+5.6%	–9.8%

Advancing our strategy in precious metals

2008

Debut on London Stock Exchange

2012

Seamless transition of new CEO: Octavio Alvídrez

Adjusted revenue US$

2012	2011
2,287.2 million –0.9%	2,307.4 million

Performance

Against this backdrop, Fresnillo plc moved steadily forward on executing its organic growth strategy, resulting in record gold and stable silver production. The continued ramp-up of Saucito, combined with the increase in the Silverstream volume, offset the anticipated decline in silver grades at Fresnillo. Gold production benefited from the start-up of the Noche Buena mine which was completed on schedule and on budget in March 2012, as well as increased contributions from Ciénega and Saucito. The benefits of our consolidation strategy in three mining districts are evident in the efficiencies achieved in the Herradura, Ciénega and Fresnillo districts.

We are also pleased to report significant progress in continuing to grow our strong ore resource base. In addition to our extensive drilling campaigns, we carried out underground development to confirm resources at San Julián, Orisyvo and Centauro Deep, completed the pre-feasibility studies for Juanicipio and San Julián, and increased ore reserves at most operations with particular success at Noche Buena and Saucito. The Group's production and project implementation schedule is on track to meet our growth targets. Furthermore, a large number of prospects in early stage exploration, in both current and new districts, should ensure our longer term project pipeline.

Fresnillo plc reported adjusted revenue of US$2,287.2 million in 2012, down 0.9% from 2011, and EBITDA of US$1,311.5 million, 14.8% lower than in the previous year. Attributable net profit, excluding Silverstream effects, was US$652.1 million, down 17.2%. These figures reflect the change in average silver prices, the anticipated natural decline in silver grades at the Fresnillo mine, and higher production costs, factors which were partially mitigated by higher tonnages of ore processed, higher gold prices and the devaluation of the Mexican peso against the US dollar. Furthermore, cost control measures and efficiency gains helped maintain our position in the lower quartile of production cost curve.

Cash holdings totalled US$613.8 million at 31 December 2012, and with no debt on the balance sheet our capital funding options remain flexible. Miners have come under some pressure to take on more debt in a bid to increase shareholder returns, yet over the decades that I have worked in this industry, the idea of re-leveraging balance sheets has emerged with almost as much frequency as cyclical downturns and calls for de-leveraging.

Strategy and Governance

My Board colleagues and I remain committed to prudent financial policies that ensure sufficient cash on hand to invest in optimising existing operations, pursuing organic growth and early stage acquisition opportunities, as well as maintaining a healthy dividend stream. 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 market dynamics. We conduct regular reviews of the Group's financial liquidity and future cash requirements, and will continue to make our capital allocation decisions accordingly.

It seems appropriate to reaffirm the Group's value creation strategy as we approach the fifth anniversary of the listing of Fresnillo plc shares on the London Stock Exchange and at the mid-point of our ambitious 10-year growth targets. We will continue to pursue operational excellence and the disciplined development of new projects by investing across price cycles, whilst bolstering the safety and sustainability framework in which we operate. Financial returns, job creation and economic development of our local communities must always be hallmarks of this strategy.

We are not immune to a number of challenges, having grown from three operating mines in 2008 to six mines and a satellite today, and another nine major projects expected to come on line in the next five years. This pace of growth requires a skilled management team capable of scaling up across all areas of the operation, from budgeting and planning to talent management and government relations.

Since our UK listing and inclusion in the FTSE 100 index in 2008, we have also sought to build on the governance structures and processes that were put in place at that time. As our externally-facilitated Board Evaluation review demonstrated a year ago, we have a Board structure and processes which are working effectively, although we have continued to seek ways to improve them during the past year. We have made significant strides in recent years in areas such as risk governance and anti-corruption policies and procedures, whilst making more measured but nevertheless significant progress in other areas such as succession planning.

Notably in 2012, we appointed one new Independent Board Director, Ms María Asunción Aramburuzabala, one Non-independent Non-executive Director, Mr Alejandro Baillères, and welcomed former Chief Executive Officer Mr Jaime Lomelín as a Non-executive Director. They bring a broad range of experience in Mexican and international business that will broaden the perspectives of Board discussions, and strengthen the overall mix of skills and experience of the Board.

Chairman's statement continued

Advancing our investment in safety (US$)

2009

2.6m

2012

4.6m

2011 (5.2 million)

You will find more information on our HSECR system on pages 78-94

Sustainable development

As a Board and through our HSECR Committee, we work to ensure that the Group adheres to responsible and sustainable business practices. I remain personally focused on the areas of safety and community relations as critical components of our licence to operate.

It is thus with profound regret that I report the six fatalities that occurred during the year. There is nothing more important than a human life and we must strive to ensure that our workers and contractors are protected from injury and accidents. The Board reviewed each of these incidents as well as the actions taken by management to bolster safety policies and training procedures. The reviews of safety performance are not perfunctory, with remuneration tied in part to safety performance. Whilst progress has clearly been made year over year, we must do better.

Outlook

We expect market volatility to be a permanent factor in the environment in which we operate, given an increasingly complex and often imbalanced global economy. There is no certainty that the fundamentals will remain in place to support long-term demand for both silver and gold, but we are well positioned to supply those markets at competitive costs and profitable levels for our stakeholders.

Fresnillo plc also benefits from its primary and long-term operational presence in Mexico. The country's newly elected government seems keen to retain and strengthen business friendly policies. Mexico must still contend with such challenges as shortfalls in public security and education, but the political transition has been marked by an encouraging outreach to the private sector for shared opportunities to reinforce the economic foundations of the country.

I am confident that Fresnillo plc will continue to advance its proven strategy in precious metals in 2013. The dynamic leaching plant at Herradura will be commissioned during the year; construction has commenced at San Julián, opening up a significant new mining district, and is expected to remain on track; the expansion of Saucito has been approved and we will analyse the best way to further optimise production, including the potential construction of a plant to treat pyrites which would improve gold and silver recoveries.

Risk capital investment US$

2012	2011
318.9 million +78.1%	179.0 million

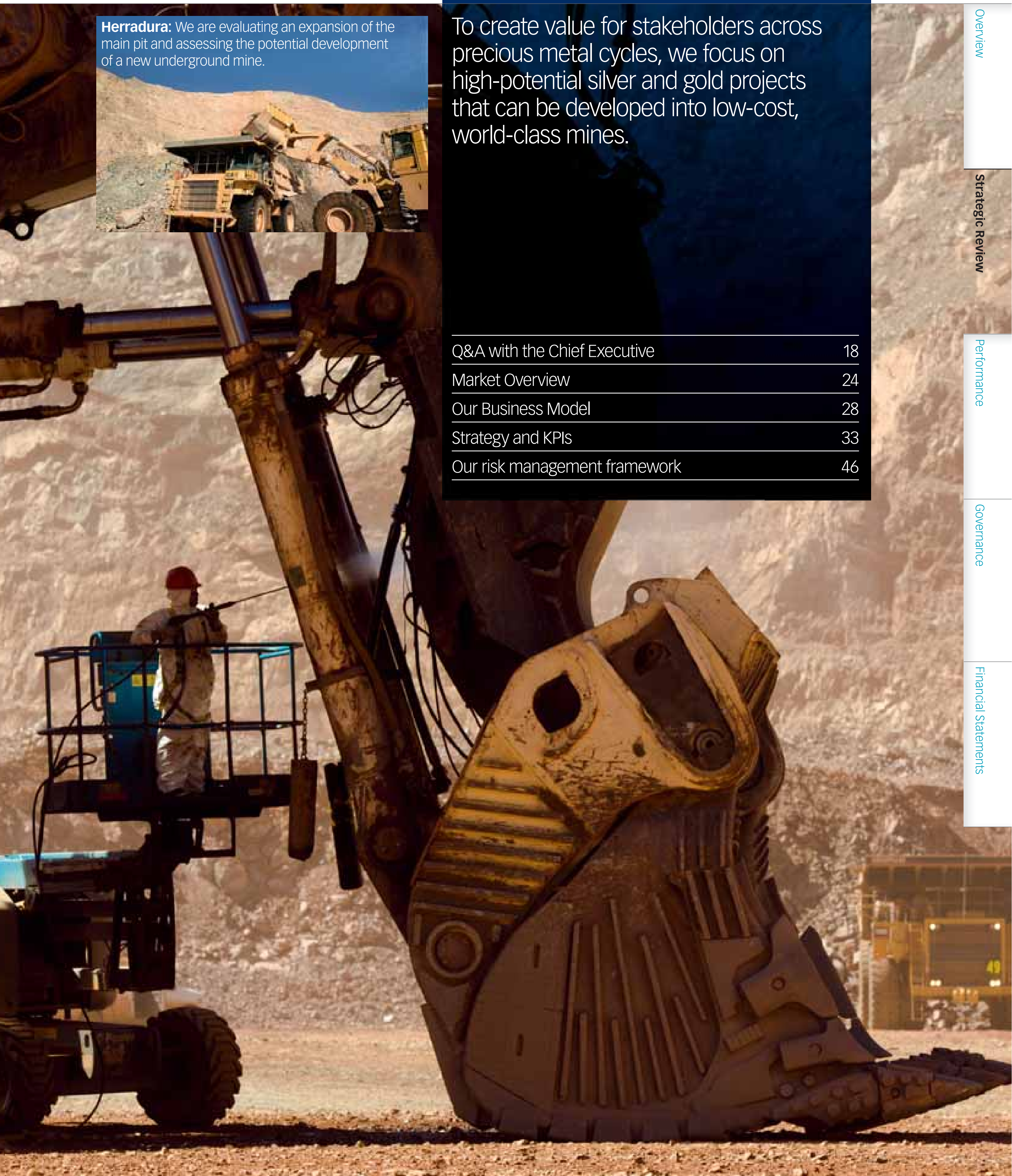
The Board has authorised a total budget of US$279.6 million to be invested in exploration and early stage underground development in 2013, a decrease of 12.3% over the US$318.9 million investment in 2012. As we look ahead to the second half of this decade and our 2018 commitments, this investment reflects our disciplined approach to allocating risk capital to the continued profitable growth of the Group.

The Directors have recommended a final dividend of 42.4 US cents per Ordinary Share, which will be paid on 8 May 2013 to shareholders on the register on 19 April 2013. The dividend will be paid in UK pounds sterling unless shareholders elect to be paid in US dollars.

I want to express my appreciation for the thoughtful participation and timely contributions of my fellow Board members, and my deepest gratitude to the people of Fresnillo for their daily efforts and demonstrated commitment to advancing the Company's strategy.

Alberto Baillères
Non-executive Chairman

Strategic Review



Herradura: We are evaluating an expansion of the main pit and assessing the potential development of a new underground mine.

To create value for stakeholders across precious metal cycles, we focus on high-potential silver and gold projects that can be developed into low-cost, world-class mines.

Q&A with the Chief Executive

"As for strategy, to be frank, our stakeholders can expect a great degree of continuity."

Mr Alvídrez
Chief Executive Officer

Q: What experience does Mr Alvídrez bring with him to Fresnillo?

A:

Mr Alvídrez brings extensive industry experience to the position. He joined Peñoles in 1988 and has held senior operational and executive positions across Peñoles and Fresnillo, including in metals purchasing, treasury and finance. He most recently served as General Manager of Peñoles's Madero mine, one of Mexico's largest zinc mines. Mr Alvídrez holds a degree in Mining Engineering from the Universidad de Guanajuato (Mexico) and an MBA from the Wharton School of the University of Pennsylvania (USA).

Octavio Alvídrez was appointed CEO of Fresnillo plc in August 2012, taking the reins from Jaime Lomelín who led the Company since its IPO in 2008 and served as Chief Executive of Peñoles for the 21 years prior.

He begins his tenure as CEO near the midpoint of the Company's ambitious ten-year targets set for 2018, overseeing a far-reaching exploration programme, a multi-year project delivery schedule and a growing portfolio of operating mines, as well as implementation of the 2012–2016 HSECR Action Plan.

In the following interview, Octavio Alvídrez reflects on his role, discusses 2012 performance, and outlines the Group's strategic priorities. This interview, as well as the full Strategic Review and Performance sections on pages 24-55 and 57-107, correspond to our fourth Communication on Progress as signatory of the United Nations Global Compact.

Q: What might stakeholders expect from you as the CEO? How will your leadership differ from that of your predecessor?

A: I am keenly aware of stepping into the shoes of such a well-respected leader in our industry. Mr Lomelín was a mentor to me and many other mining professionals in Mexico. He was able to combine technical expertise with a broader view of the industry landscape, and I certainly hope to follow in his footsteps in that regard.

As for strategy, to be frank, our stakeholders can expect a great degree of continuity. We are committed to the 2018 goal of producing 65 million ounces of silver per year and 500,000 ounces of gold, and doing so profitably and sustainably. The vision we've had from the time of the IPO – to maintain our position as the world's leading silver miner and a top Mexican producer of gold – won't change under my leadership.

That being said, management styles obviously differ, and I will have my own take on how we execute and prioritise shorter term objectives, how I work with my colleagues, the culture we foster and expectations we set for ourselves.

Q: What were your initial priorities when you came on board last August?

A: This may sound trite, but I believe people truly are our most important asset. I knew the Company well from my previous management roles, but I wanted to take the time to listen and speak with our people at every operating mine and development site, as well as with our exploration team, union leaders and key suppliers. Their insights into the day-to-day operations are extremely valuable, and I wanted that perspective as part of my comprehensive review of mine plans, development projects and exploration programmes.

What I walked away with was a deep appreciation for the team we have in place – the calibre, commitment and professionalism of our workforce is truly impressive. Without a doubt, my number one priority must be safeguarding our people.

Q: Looking at operating performance in 2012, what stands out for you?

A: Once again, I will start with our people. We shouldn't take pride in a safety record that shows an improving fatality rate. Zero tolerance is zero tolerance, and no fatality is ever acceptable. Yes, we are doing a lot to move the needle forward on safety in general, but regarding this specific issue I am not patient.

From a production standpoint, obviously record gold production stands out, which largely reflects the start-up of our new Noche Buena mine. In no small measure, however, we also benefited from the contribution of higher ore grades at Saucito and higher volumes of ore processed at Ciénega, San Ramón and Saucito. I emphasise this because it underscores our strategy of maximising current operations.

Attributable gold production Koz

2012	2011
473.0	448.9

Second, I would say that our performance in silver was noteworthy given the expected decline in ore grades at Fresnillo. The extent to which we were able to keep total production stable in the year reflects greater throughput at that mine as well as higher ore grades at San Ramón and the ramp-up of Saucito. Fresnillo will remain our key silver producing mine for some time – and indeed it is still the world's largest primary silver mine – but we are reaching an inflection point where we must look for growth in silver production elsewhere in the portfolio, and invest accordingly. I should also note that in 2012 we benefited from an increase in silver ounces accrued under the Silverstream Contract with Peñoles.

Third, I would highlight the rate at which we successfully converted resources into reserves. This is one of the strongest indicators of future production, and I am pleased to note the 23.6% and 19.6% increase in proven and probable silver and gold reserves, respectively.

Q: Yet the Company's financial performance couldn't keep pace with previous years' growth. Are you concerned about volatility in precious metal prices?

A: To say that we disregard metal prices would be inaccurate, but in reality, because price movements affect everyone in this industry, we must focus on what we can control – namely costs, productivity and having safe and sustainable operations. To the extent we look at market factors, it is to ensure that we extract the most economically viable material at any given time. We are fortunate in that we are positioned to withstand a fair amount of volatility and still generate healthy cash flow and EBITDA. This is because of our low embedded cash costs and conservative financial structure.

Q&A with the Chief Executive continued

Q: You are strengthening in gold, does this spell a change in strategy for silver?

A: It is understandable to think that might be the case looking at the past year or two. Indeed, the remarkable growth in gold production, dovetailing as it did with record prices, nicely mitigated the natural decline in silver ore grades at our Fresnillo mine. And we also have a number of exciting gold projects coming on stream.

But the reality is that our strategy has not changed. If you look at our ten-year plan and 2018 targets, gold production is slated to rise from today's level of around 470 thousand ounces to 500 thousand ounces, whereas silver growth will be exponentially greater, increasing from around 40 million ounces to 65 million ounces. We will still be a silver company at heart, but one with an impressive profile in gold.

Q: So what keeps you up at night?

A: I will say it again: safety. It is so fundamental to our license to operate. Changing ore grades, fluctuating input prices, equipment requirements, all those are the operational realities of mining, and our Company has proved exceptionally capable of thriving across metal cycles. I am confident we can continue to execute and deliver on our strategy.

Where we aim to make further progress is in the process already underway, namely taking our Health, Safety, Environment and Community Relations framework and embedding the culture and systems of safety and sustainability throughout the organisation. This in complete alignment with the Board's direction and the values our Company holds dear.

Q: 2012 was the first year rolling out the HSECR Action Plan. Has the implementation gone according to plan?

A: Yes, we have hit the right milestones for year one. Following the assessment PwC conducted of our HSECR system in 2011, we're taking an approach to sustainability that looks at systems, processes and data holistically, and are now working to ensure that gaps are closed.

One area that garnered particular attention in our industry this year, and rightfully so, was employee and community relations following the tragic events in South Africa. Our own policy has always been to collaborate with communities and secure their engagement at the earliest stages of exploration, and we continue to enjoy effective and mutually beneficial relationships. Notwithstanding, the Group took the step in 2012 of incorporating public perception of mining activity as a potential risk that must be monitored and mitigated.

In terms of the HSECR Action Plan, in 2012 we formally adopted a Sustainable Development Policy and put in place leadership teams at each business unit. We established prevention and performance indicators and developed criteria and guidelines governing institutional programmes and how budgets are shaped to incorporate HSECR issues. We are now putting in place the tools to validate our monitoring and reporting systems.

Q: Won't all that be challenging in the context of bringing on major projects in the next five years?

A: On the contrary, these systemic enhancements will in fact support the ambitious growth plan we've laid out, which nearly doubles our operating assets in the next few years. Having a rigorous operating framework with embedded sustainability measures is extremely beneficial.

We have already trained and equipped the team that is set to operate the dynamic leaching plant coming online before the end of 2013, and we started construction on the San Julián development project a few months ago. Engineering work is currently being conducted at Saucito II, and Juanicipio, and conceptual engineering at Orisyvo. So yes, there's a lot on our plate but we have the people, resources and now systems to accomplish great things.

Advancing towards our 2018 targets

Production 2008	2012	2018
Silver 37.8	41.0moz	65.0moz
Gold 263.6	473.0koz	500.0koz

Q: The exploration programme continues to expand beyond the core districts. What challenges and opportunities do you anticipate with that?

A: We have very strict and consistent criteria when it comes to exploration, in terms of tonnage, ore grade and production costs. District consolidation – in the form of proximate mining concessions – makes a lot of sense because we can leverage existing infrastructure. But we must also continue to extend our resource base, using the same strict criteria of course, as we have done at San Julián. Our exploration programme, to which US$318.9 million was allocated in 2012, is focused on areas with proven geological potential that may become new districts for us.

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.

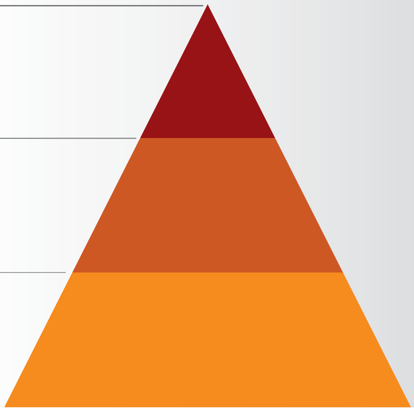
Investment in exploration programme US$m

2012 US$m	2011 US$m
318.9 +78.1%	179.0

1 Operate
$85.6m 26.8%

2 Develop
$85.0m 26.6%

3 Explore
$148.3m 46.5%



As you saw in 2012, we are not necessarily doing this all on our own. The association agreement we signed with Orex Minerals of Canada has us exploring and developing our adjacent mineral concessions in Coneto, Durango as one large project.

The challenges in Peru are more of distance, but there too we work to consolidate our land position. We have had a team there for some time, investing in the critical work of community engagement and stakeholder outreach whilst exploring some interesting prospects. This year, for example, we saw some exciting preliminary results at the Pilarica silver project.

Q: For the shorter term, what are your priorities for 2013? Are there specific milestones you are targeting?

A: Within the context of our broader strategy and path to 2018 targets, we will be looking at the safety programme and full HSECR framework, along with cost cutting and efficiency initiatives to ensure we're aligned with market realities such as the expected inflation in operating materials even as our mine development programme will require additional stripping and longer haulage distances. In terms of production we expect to keep attributable silver production stable at around 41 million ounces, and grow gold production to 490,000 ounces.

As for development and growth, we will commission the new dynamic leaching plant before year-end and start construction of the processing plant at San Julián. The Saucito expansion, which we have been calling Saucito II because of its impressive resource profile, has just received Board approval and construction will start in the second half of the year. We will also look at the potential expansion of the main pit at Herradura, known as the Mega Centauro project, and evaluate an integrated plan for growth across the Fresnillo District that may include new processing capacity at the Fresnillo mine along with increased development in the mine's western zone, as well as a pyrites plant at Saucito to process tailings from both Fresnillo and Saucito. Lastly, we intend to utilise our healthy cash flow to continue investing in exploration, with a budget of US$279.6 million allocated to our effort to continue expanding our resource base.

Q&A with the Chief Executive continued

What we said we would 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 (originally for 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
- 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 in 1Q 2012 and define course of action
- Expand our resource base to help support long-term targets; US$360.4 million budgeted for risk capital investment in exploration

What we did in 2012

- We undertook extensive efforts in safety and made measurable progress in some key indicators; albeit there were an unacceptable six fatalities in the year
- Saucito produced 7.0 million ounces of silver in 2012
- Noche Buena was commissioned on time and in line with budget
- We relocated the future site of the dynamic leaching plant to accommodate a potential future expansion of the Centauro pit; construction advanced 55% in the year and plant start-up is now expected in late 2013
- The Jarillas shaft neared completion at year-end, with commissioning expected in March 2013
- Whilst significant work was done towards the potential expansion of the Fresnillo mine, it was deferred to ensure that any additional processing capacity benefit all operations within the District
- The San Julián feasibility study was approved at year-end; construction for the new mine began immediately thereafter
- To prepare for the pre-feasibility study at Las Casas, an intensive exploration programme was carried out along with mine works, which resulted in 21 million tonnes of resources
- At Orisyvo, ongoing testing of the ore body as the level of resource increases will determine the most cost effective extraction and processing methodology. The new adit confirmed continuous good gold grades along 400 metres
- Mine work at Centauro Deep reached 6,556 metres in 2012 and construction of a pumping station began in the last quarter of the year
- Based on the recommendations of the Juanicipio pre-feasibility study, which showed positive results supporting a stand-alone mining and processing operation, infill drilling continues to upgrade resource quality along the Valdecañas vein
- The Mega Centauro expansion project identified 3.6 million ounces of measured, indicated and inferred gold contents
- We invested US$318.9 million (of the US$360.4 million budgeted) in exploration, and grew our total silver and gold resources by 12.2% and 15.0%, respectively

What we plan to do in 2013

Improve safety performance and meet our zero fatalities target
Attributable silver production to remain stable at 41 million ounces, including Silverstream
Attributable gold production to reach 490,000 ounces
Exploration budget of US$279.6 million (including capitalised exploration expenses) will focus on key projects, 12.3% below the US$318.9 million spent in 2012
Commission the dynamic leaching plant at Herradura in 4Q 2013
Conclude construction of the pumping station at Centauro Deep; continue exploration activities to increase the resource base
Conclude detailed engineering at San Julián and continue construction of the processing plant; start-up expected in 2H 2014
Submit the Saucito II silver project for Board approval in 1Q 2013; begin construction in 2H 2013
Evaluate the expansion of the main pit at Herradura (Mega Centauro) and an integrated growth plan in the Fresnillo District that would potentially include a 2,000 tpd extension to the current facility at Fresnillo, increased development of the mine's western zone to feed the new mill, and a pyrites plant at Saucito to process tailings from Fresnillo and Saucito
Cost control initiatives to mitigate the expected inflation in operating materials, increased stripping ratios and longer haulage distances

Market Overview

Fresnillo plc is a major silver and gold mining company, with the majority of our people and operations located in Mexico.

The market factors to which we have exposure are those common to the precious metals industry, as well as those specific to companies operating in Mexico.

Advancing our market position

Global silver producers

2008
3rd
Production 35moz

2012
1st
Production 41moz

Medium-size gold producers

2008
6th
Production 264koz

2012
5th
Production 473koz

Competitive environment

Revenues for mining companies primarily depend on the prevailing prices for the metals contained in the mineral concentrates they produce. These metals are globally traded, and like its competitors, Fresnillo plc does not control the prices it receives for its products and does not hedge exposure to gold and silver prices.

Amongst major precious metal mining companies, Fresnillo plc is unique in that silver and gold contribute approximately half of net revenues each. In silver, we consider our peer group to be other primary silver miners, although much of global output is derived as a by-product of gold, lead, zinc and copper mining. Irrespective, Fresnillo plc has long been amongst the top three global producers of silver, both by-product and primary. In gold we benchmark our performance against global miners with similar annual production profiles, which are the medium-sized gold companies.

The precious metals market

Demand for silver and gold

For silver, demand is driven by fabrication (industrial applications, jewellery, coins and medals, photography and other applications) and investment (bullion and Exchange Traded Funds, or ETFs). Fabrication still constitutes the largest demand for silver, although its significance declined in 2012 compared to 2011, whilst investment demand rose.

Underlying the change in demand mix is a long-term trend of decline for both photographic use of silver and silverware, combined with the current slowdown in industrial demand due to weak economic growth and industrial production, and a reduction in certain applications such as photovoltaic silver due to lower silver use per unit. In contrast, jewellery posted modest growth in 2012 as healthy gains in emerging markets more than offset losses in western countries. The rise in retail and institutional silver investment, in which ETFs have been instrumental, has outpaced all other demand in recent years, making it a key driver behind the rise in silver prices.

For gold, demand is largely driven by its status as a 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 and India leading the demand for gold jewellery. ETF investors and central banks also continue to support demand for gold.

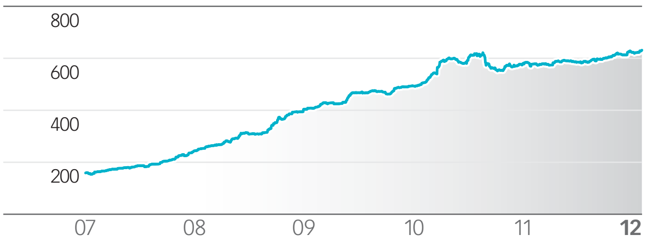
Peer group comparison

	2012	2011	2010	2009
Primary silver producers Production in moz				
Fresnillo plc	**41**	**42**	**42**	**41**
Silver Wheaton	27	24	22	17
Pan American Silver Corp.	25	22	24	23
Coeur d'Alene Mines Corp.	18	19	17	17
Hochschild Mining	14	15	18	19
Silver Standard Resources	9	7	6	N/A
Hecla	6	9	11	11
Silver Corp Metals	5	6	5	5
Global silver producers (by-product and primary)				
Fresnillo plc	**41**	**42**	**42**	**41**
KGHM Polska Miedz	41	41	37	42
BHP Billiton	39	39	47	42
Goldcorp Inc.	30	28	20	9
Pan American Silver Corp.	25	22	24	23
Medium-size gold producers Attributable production in koz				
Agnico Eagle	1,044	985	988	493
Randgold	795	696	440	488
Petropavlovsk	710	630	507	487
Polymetal	589	443	444	311
Fresnillo plc[1]	**473**	**449**	**369**	**277**
Oceana	233	252	269	300
Coeur d'Alene Mines Corp.	226	221	157	72
BHP Billiton	156	178	158	174
Aurizon	137	164	141	159
Kazakhmys plc	129	151	127	135
Hochschild Mining	112	127	144	157

World silver supply and demand

	2012E*	2011	2010	2009	2008
Silver Supply[2] Moz					
Mine production	**797.0**	763.8	751.4	716.1	683.6
Net government sales	**8.4**	12.0	44.2	15.6	30.5
Net producer hedging	**–**	10.9	50.4	–	–
Scrap	**260.7**	256.9	228.6	199.9	200.9
Implied net disinvestment	**–**	–	–	–	–
Total Supply	**1,066.0**	1,043.6	1,074.6	931.5	915.0
Silver Demand[2] Moz					
Fabrication:					
Industrial	**454.4**	481.9	499.5	406.5	492.7
Photographic	**54.2**	66.1	72.1	79.3	101.3
Jewellery	**178.7**	176.5	182.6	173.6	171.0
Silverware	**45.1**	48.5	53.5	61.3	59.8
Coins & Medals	**89.7**	118.3	99.4	78.8	65.3
Total fabrication	**822.1**	891.5	907.2	799.4	890.1
Net producer de-hedging	**10.0**	–	–	17.4	8.5
Implied net investment	**233.9**	152.2	167.4	114.7	16.4
Total Demand	**1,066.0**	1,043.6	1,074.6	931.5	915.0

Silver ETF holdings[2] million of ounces



[1] Total gold production 2012: 687 thousand ounces; 2011: 663 thousand ounces; 2010: 545 thousand ounces; 2009: 391 thousand ounces.

[2] Source: Thomson Reuters GFMS, Copyright: Thomson Reuters GFMS, 2013.

* Estimated figures.

Market Overview continued

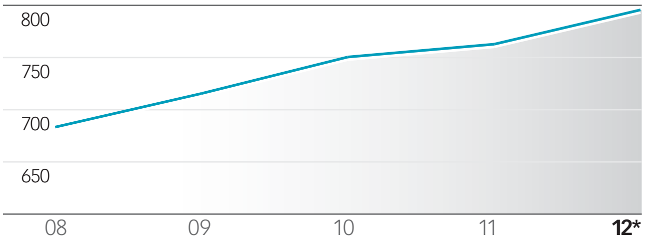
Silver and gold supply

Mine output provides the majority of silver supply, and recycling and scrap provide much of the remainder, with government sales a minor and unpredictable source. An estimated 797.0 million ounces of silver were produced globally in 2012 (compared to 763.8 million in 2011), driven by a strong project pipeline, high precious metal prices and healthy performance by the base metal sector. Approximately one-third of mined silver comes from primary silver mines, with the majority as a by-product from base metals and gold mining. Scrap supply was marginally higher in 2012, whilst government sales were minimal.

In gold, mine output accounts for approximately two thirds of the global gold supply, with the remainder coming from recycling and central bank sales. Gold mine production remained stable as compared to 2011 despite disruptions in output caused by labour unrest in South Africa and reduced supply from Indonesia. Central banks were net buyers of the metal, although at a slower pace than in the previous year.

Global silver production million of ounces

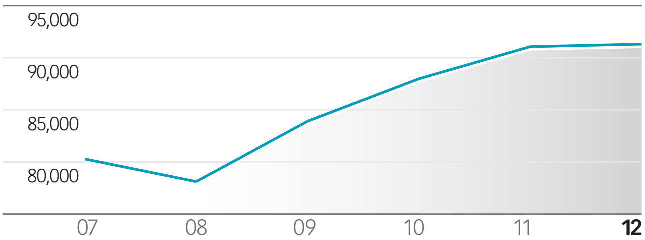
797.0



Source: Thomson Reuters GFMS, Copyright: Thomson Reuters GFMS, 2013

Global gold production thousands of ounces

91,414.6



Source: Thomson Reuters GFMS, Copyright: Thomson Reuters GFMS, 2013

Silver price

The price of silver fluctuated significantly over the year, from a low of US$26.7 per ounce in July to a high of US$37.2 in February. However, the average realised silver price decreased by 9.8% from 2011, to $31.4 per ounce. Physical purchases by investment funds provided support for silver prices, whilst lower industrial demand, the debt crisis in the euro zone and weak economic growth in the United States limited its recovery.

Gold price

The price of gold also fluctuated over the year, ranging from a low of US$1,540.0 per ounce in May to a high of US$1,791.7 in October. The average realised gold price increased by 5.6%, to US$1,674.1 per ounce, with ETFs and central banks remaining committed to the metal.

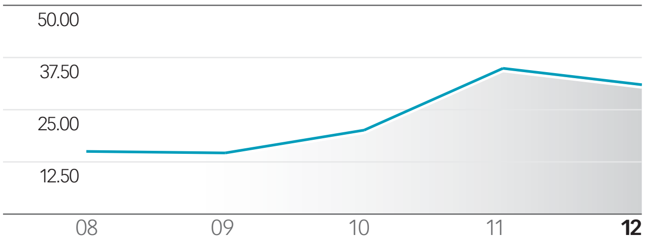
Our outlook

For silver, we believe the long-term trend points to continued demand for the metal as industrial demand follows economic growth, whilst investment appetite should remain healthy while interest rates remain low. In gold, rising incomes in key developing countries should drive demand for jewellery, whilst persistent low interest rates and continued accumulation of gold reserves by central banks is likely to sustain investment appetite.

At the same time, there is clear indication of a tightened supply scenario. No new large-scale discoveries of silver or gold have been identified in recent years, despite significant outlays in exploration. The discovery process has grown more challenging because of regulatory requirements, the need to go deeper and farther, and search harder every year often in remote, unstable or insecure areas of the world, and growing investor pressure to deliver better returns. Global reserves have marginally increased, but the rise in demand and accelerated production in the current high metal price environment has led to a fall in average mine life worldwide.

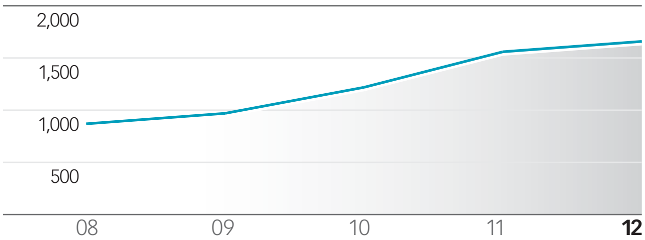
Global silver price million of ounces

31.2



Global gold price thousands of ounces

1,668.8



Source: LBMA

* Estimated figures.

Industry trends

The global mining industry faces a number of common challenges. These include:

Governmental actions ('resource nationalism')

As governments seek to derive additional value from the mining and metals sector, many have gone beyond taxation to introduce other mandates, levies and limits on foreign ownership. 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. In Mexico, revived governmental discussions of mining royalties indicate such a measure may be forthcoming.

Competition for skilled 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, this extends to exploration activities and mining operations and the availability of competent and reliable contractors. Global capital expenditures on mining have driven the continued escalation of costs over the past year and were not offset by metals price gains. Cost inflation will continue to be a challenge across the industry.

Capital allocation

The uncertain economic environment, changes to expected rates of return, and the cost of debt and equity have impacted capital allocation in the mining industry, with a stronger focus on organic growth and cost-cutting to enhance returns on investment. Investors are increasingly looking at all-in cash costs as a means to evaluate management performance in this area.

Our outlook

Our view on a mining tax/royalty in Mexico is discussed below. We have numerous initiatives to attract and retain talent and to develop contractors into the skilled workforce we require. Our strategy has always focused on creating value in the form of sustainable and profitable growth; in 2012, for example, we undertook a comprehensive resource allocation review regarding processing capacity in the Fresnillo district, and determined that further analysis was required to ensure that timing, investment and location best meet the needs of all our mines and projects in the District.

Country environment

Mexico is amongst the world's largest metal producers. With a mining history that spans more than 500 years, the country provides a favourable environment for mining in terms of its environmental legislation, political climate, skilled workforce and solid infrastructure. Mexico ranks as the fifth most attractive country in the world for mining investment[4]. The geological potential in Mexico 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 source of foreign currency in Mexico.

Presidential and congressional elections were held in 2012 and the new president, Enrique Peña Nieto, took office on 1 December 2012. His stated priority is economic growth, with energy and tax reforms as central to that effort. Whilst there is broad political consensus on the need for comprehensive reform, no detailed proposals have yet been brought forth.

New labour laws were passed in November, the first major changes in more than 40 years. The reforms ease legal constraints on a company's ability to hire and dismiss personnel, lifts a ban on part-time employment, allows probationary periods for new hires, caps the amount of money that companies must pay to laid-off workers, and provides criteria for classifying relationships as either being outsourcing or employment in nature, amongst other measures. Fresnillo plc is currently analysing any potential impact on its operational practices or labour agreements as a result.

Unlike other countries in Latin America with a strong mining sector such as Chile and Peru, Mexico does not currently levy any mining taxes. Past proposals for royalties on the industry have not been successful but members of Congress from all parties have indicated they will push to implement such a measure. The Mexican Mining Chamber, of which Fresnillo plc is a member, will continue to lobby against any mining tax / royalty and to ensure that fiscal regulations do not curtail growth or investment.

The security situation in Mexico remains poor; crime and violence, much of it fuelled by drug cartels seeking to control access routes to the United States, affect many parts of the country. The government has deployed federal police and military troops and has taken significant steps to strengthen its law enforcement capabilities. These efforts have begun putting organised criminal networks on the defensive, and for the first time in five years the murder rate fell in 2012. Fresnillo plc has put in place policies and procedures to protect its personnel, operations and assets, and whilst the frequency of overall incidents has increased, there have been no major security-related incidents or impact on our performance and production.

Our outlook

The new government is taking a different approach towards security and it is unclear what the impact will be. Overall, however, we believe that Mexico will continue to provide an extremely favourable environment for our operations. We see significant and untapped precious metals resources, a stable business environment and still favourable mining regulations as all benefiting the long-term viability of our business.

[4] Source: Behre Dolbear Group, Inc. *'2012 Ranking of Countries for Mining Investment.'*

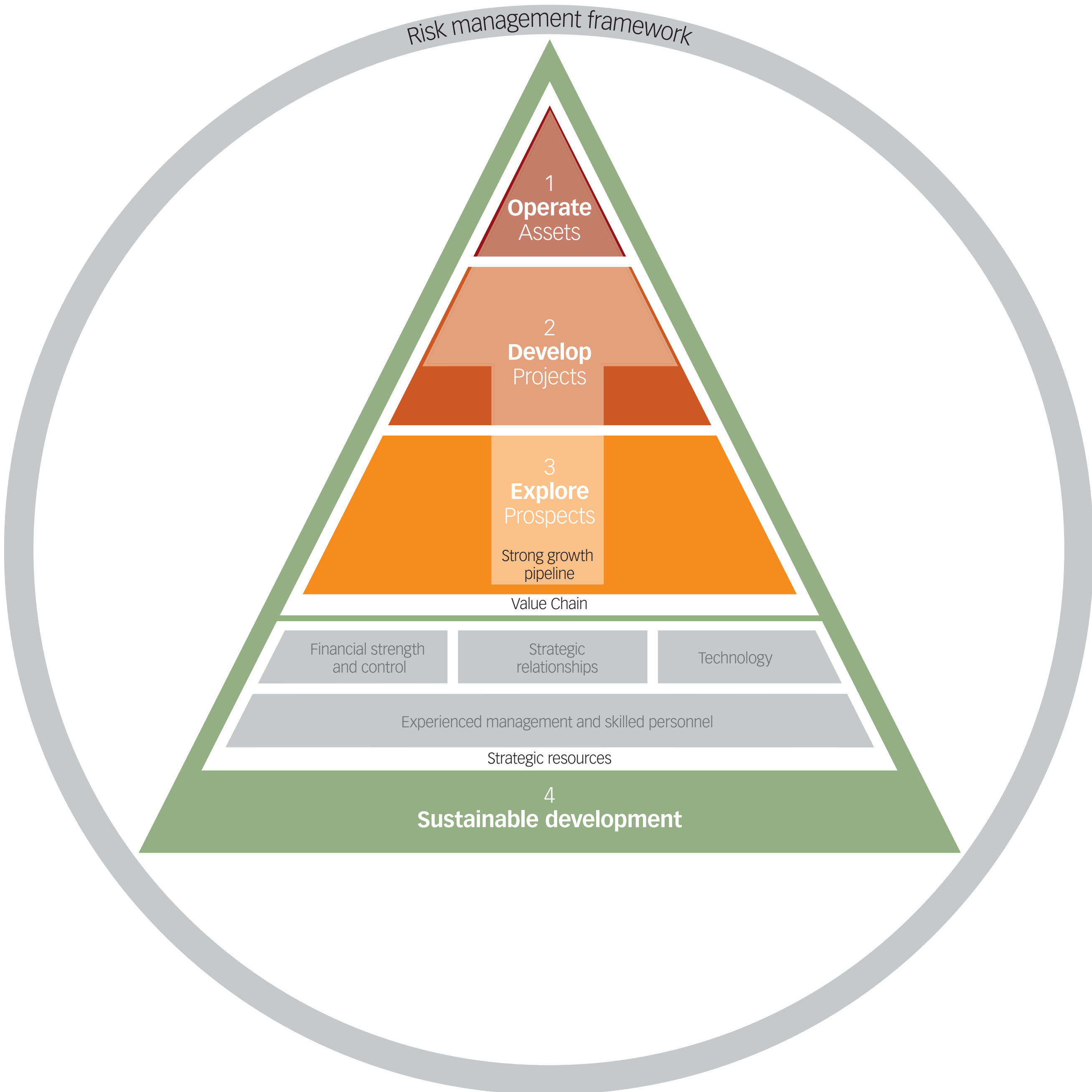
Our Business Model

We seek to create value for our stakeholders across precious metal cycles, focusing on high-potential silver and gold projects that can be developed into low-cost, world-class mines.

Our business model spans the full mining value chain from exploration, development and construction, to mining operations. These activities are supported by strategic resources and relationships essential to the effective execution of the business, and sustainable development practices that uphold our license to operate.

A comprehensive risk management framework ensures that we assess and mitigate the risks that could impact our ability to execute our strategy.

Precious metal value chain


Risk management framework
1
Operate
Assets
2
Develop
Projects
3
Explore
Prospects
Strong growth pipeline
Value Chain
Financial strength and control
Strategic relationships
Technology
Experienced management and skilled personnel
Strategic resources
4
Sustainable development

Our Business Model continued

Description	How we deploy it

Value chain

1 Operate
Maximise the potential of existing operations

The extraction and beneficiation of ore from our operating mines.

Optimise capacity utilisation, and strive to replace reserves and secure continuous improvements in productivity and cost controls. We adapt mining methods in accordance with the changing characteristics of each mine; when coupled with the high-quality assets selectively added in the exploration and development phase, we remain competitively positioned in cost performance amongst industry peers.

Read more:
See Mines in operation p60-71
Strategy and KPIs p33-37

2 Develop
Deliver growth through development projects

The development and construction of new operating mines.

Projects must meet stringent economic viability criteria such as metallurgy, mine design, investment requirements, sustaining capital expenditures and rates of return.

Advance exploration projects towards mine development, start-up and production, 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.

Read more:
See Development projects p72
Strategy and KPIs p38-39

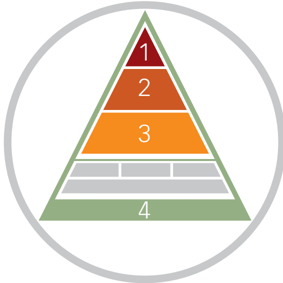
3 Explore
Extend the growth pipeline

The search for and quantification of ore deposits that extend our resource base, with a focus on consolidating mining districts in Mexico and Latin America.

Our project pipeline extends across the multiple stages of exploration (prospecting, drilling, resource definition).

Deploy expert personnel, allocate sufficient but prudent investment capital irrespective of metal prices, secure concessions and surface land rights, and pursue selective early stage partnerships and acquisitions that allow us to share the inherent benefits and risks of prospect exploration.

Read more:
See Exploration p73-77
Strategy and KPIs p40-41



Description	How we deploy it
Risk management framework	
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.	At the Board and Executive Management level, assess and mitigate strategic and financial risks; at the operational level, identify, assess and mitigate risks at mines, development projects and exploration sites; within each major capital project, analyse and monitor project delivery risks. Read more: See Our risk management framework p46-55

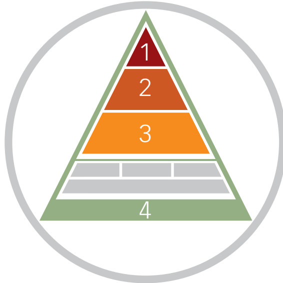
License to operate

4 Sustainability

Advance our sustainable development

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.	Deploy policies, procedures, equipment and training that put our people first in terms of health & safety; enforce strong environmental management practices; respect and engage the communities where we operate for mutual benefit; and adhere to best governance practices in all our jurisdictions. Read more: See Sustainable development p78-95 Strategy and KPIs p42-43

Our Business Model continued



Description	How we deploy it
Strategy resources and relationships	
Financial strength and control	
Strict control of cash, assets, costs and expenses to retain our competitive position as a low-cost producer, secure operational continuity, ensure continuous investment in exploration and maintain flexible capital funding options. Read more: Financial Review p96-107	Control internal drivers of financial performance with tools such as long-term supply and service agreements; inventory management; fiscal planning; securing credit lines and continuously monitoring available financing alternatives; and exchange rate hedging. By policy the Group does not hedge price exposure on silver and gold realisations.
Experienced management and skilled personnel	
The critical human factor behind the successful execution of our strategy. Read more: Our Community Relations p91-95	Identify, select, train and retain personnel with the requisite knowledge, skills and experience.
Technology	
Tools and systems that support exploration, increase productivity, reinforce sustainability, enhance accountability, and support decision-making and financial planning processes.	Invest in innovation, maintain and continuously upgrade technology and training to promote productivity and efficiency.
Strategic relationships	
Key suppliers of equipment and services; contractors; customers; equity partners in our mines and projects; authorities and regulators; employees; communities where we operate. Read more: Significant Relationships and Agreements p142-143	Foster mutual value by acting with fairness, integrity and transparency, sharing best practices and fostering innovation.

Strategy and KPIs

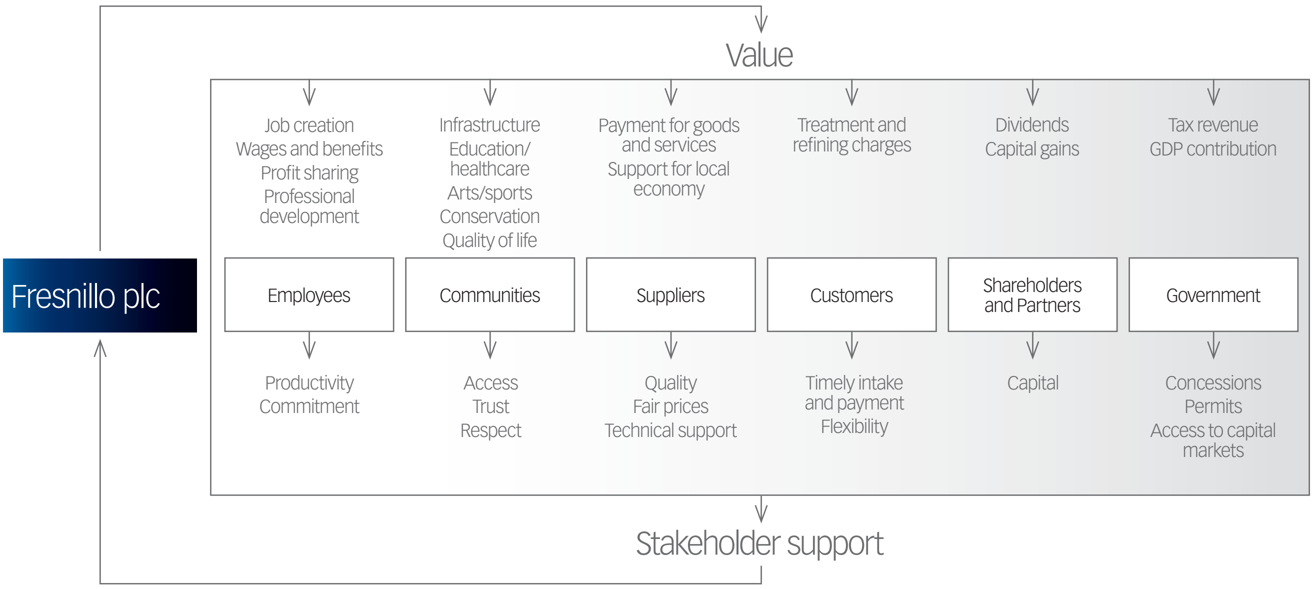
We seek to create value across precious metal cycles.

With value creation as the foundation of our strategy, and all stakeholders as our beneficiaries, we seek to balance growth in the business with investment in our people and communities. Operational excellence, responsible business practices and an ongoing commitment to disciplined capital allocation can deliver the sustainable returns and growth that are required by all our stakeholders.

Our goal of producing 65 million ounces of silver and 500,000 attributable ounces of gold annually by 2018 is the outcome of that strategy: what we believe we can profitably find, build, replace and extract in that time frame. Thus short-term mine plans and project delivery timetables may be adjusted to ensure that we deliver on our value creation strategy.

On the following pages we lay out the four pillars of our operating strategy and the indicators we use to measure performance. We also include financial KPIs that monitor value creation for shareholders. Taken together, we believe that the effective execution of our strategy through our business model generates value for all stakeholders, who in turn provide the ongoing support to sustain the Company.

Creating stakeholder value



Strategy and KPIs continued

1 Operate
Maximise the potential of existing operations

How we do it

By seeking to operate at full capacity, replenish reserves, maintain a robust exploration programme, generate continuous improvements in productivity, utilise technology and leverage expansion opportunities. We continue to refine mining methods and metallurgy to sustain high recovery rates, and strive to maintain our position as a low-cost producer.

What we said we would do in 2012

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 lead concentrates at Ciénega

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

Evaluate pyrites flotation from Fresnillo and Saucito tailings to increase gold recovery

Complete construction of the Jarillas shaft at Saucito which will reduce haulage and hoisting costs by providing direct access to the Jarillas vein

Key assets

Fresnillo: Underground primary silver mine, world's largest silver mine, in operation since 1554 See pages 60-61

Saucito: Underground primary silver mine, in operation since 2011 See pages 62-63

Ciénega: Underground gold mine, in operation since 1992; San Ramón satellite commissioned in 2012 See pages 64-65

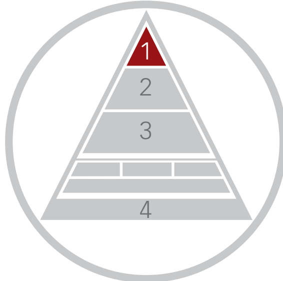
Herradura: Open pit gold mine, in operation since 1997 See pages 66-67

Soledad-Dipolos: Open pit gold mine, in operation since 2010 See pages 68-69

Noche Buena: Open pit gold mine, commissioned in 2012 See pages 70-71

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

Read more:
Our mines in operation
p60-71



What we did in 2012

Saucito produced 7.0 million ounces of silver in 2012

We relocated the future site of the dynamic leaching plant to accommodate a potential expansion of the Centauro pit in light of additional gold resources found in the area; plant start-up is still expected in 2013 and the total budget for the project was increased from US$106.8 million to US$116.0 million

We continued to evaluate a range of viable alternatives to profitably increase payable silver and gold from lead concentrates at Ciénega

Whilst significant work was done towards the potential expansion of the Fresnillo mine, it was determined that further analysis should be undertaken to optimise production across the Fresnillo District, including the potential pyrites plant

The Jarillas shaft was nearly concluded at year-end, with commissioning expected in March 2013

We increased the total volume of ore processed through extensive mine preparation, and adapted mine plans in accordance with the current metal price environment

What we plan to do in 2013

Maintain attributable silver production at a stable 41 million ounces, including Silverstream; produce 490,000 ounces of attributable gold

Conclude construction of the Jarillas shaft

Commission the dynamic leaching plant at Herradura in 4Q 2013

Optimise the milling process at Ciénega by reducing bottlenecks, increasing the volume of ore processed and maintaining production levels at expected lower gold ore grades

Accelerate the leaching process in the pads at Soledad-Dipolos

Evaluate new and/or expanded processing capacity in the Fresnillo District, including a 2,000 tpd extension to the current Fresnillo beneficiation plant, and a pyrites plant at Saucito to increase gold recoveries from Fresnillo and Saucito tailings

Implement cost cutting and efficiency initiatives to mitigate the expected inflation in operating materials, increased stripping ratios and longer haulage distances

Longer-term targets

Optimise production across our mining districts to accommodate the size, location and quality of the resource base, with a special focus on cost controls

KPIs

continued overleaf

Attributable production

Sum of ounces produced multiplied by ownership interest in each mine, plus ounces accrued through the Silverstream Contract. Monitors total production levels at our mines and contributions from advance development projects.

Results
Silver: Silver production slightly decreased due to the expected decline in ore grade at Fresnillo, and was mitigated by higher silver ore grade at Ciénega, ramped up production at Saucito and increased volumes from the Silverstream.

Graph illustrates silver production from our own mines, with shaded portion representing additional ounces accrued under the Silverstream Contract.

Gold: Record gold production resulted from the start-up of Noche Buena, higher grades and more ore processed from Saucito and increased throughput at Ciénega.

Silver production

Millions of ounces

41.0

2012	36.9	41.0
2011	37.9	41.9
2010	38.6	42.1
2009	37.9	41.3
2008	34.8	37.8

Gold production

Thousands of ounces

473.0

2012	473.0
2011	448.9
2010	369.0
2009	276.6
2008	263.6

Strategy and KPIs continued

1 Operate
Maximise the potential of existing operations

Cost per tonne

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

Results
In 2012 adjusted production costs at all our mines were affected by a combination of higher contractor costs and greater consumption per tonne of operating materials resulting from increased development and longer haulage distances, higher weighted average unit prices of operating materials, and a rise in labour costs in Mexican pesos. These were partially offset by the synergies and productivity gains obtained from the increased volumes of ore processed and by the 6.0% devaluation of the Mexican peso against the US dollar. Figures are provided for mines in commercial operation for the full years 2011 and 2012 for accurate comparability purposes, thus Saucito and Noche Buena are excluded.

Read more:
Financial Review p102

Fresnillo

US$/tonne milled

44.5

2012	44.5
2011	43.0
2010	40.9
2009	36.5
2008	41.2

Ciénega & San Ramón

US$/tonne milled

77.0

2012	77.0
2011	73.4
2010	63.2
2009	59.2
2008	63.5

Herradura

US$/tonne deposited

6.5

2012	6.5
2011	6.0
2010	5.6
2009	5.1
2008	5.6

Soledad-Dipolos

US$/tonne deposited

6.3

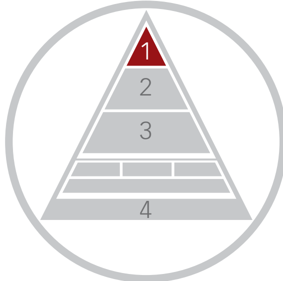
2012	6.3
2011	5.8
2010	5.7

Production, Productivity and Performance

While gold production reached a new record high, reflecting the start-up of Noche Buena, higher grades and more ore processed from Saucito, and increased throughput at Ciénega, adjusted production costs were affected by a combination of higher contractor costs and greater consumption per tonne of operating materials resulting from increased development and longer haulage distances, higher weighted average unit prices of operating materials, and a rise in labour costs in Mexican pesos. These were partially offset by the synergies and productivity gains obtained from the increased volumes of ore processed and by the 6.0% devaluation of the Mexican peso against the US dollar.

Read more:
Our mines in operation
p60-71

Longer haulage distances at Herradura affected adjusted production costs.



Productivity

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. Figures are provided for mines in commercial operation for the full years 2011 and 2012 for accurate comparability purposes.

Results

Fresnillo: Increase reflects efficiency of workers in conducting development and the greater availability of stopes to feed the mill and run it at full capacity.

Ciénega and San Ramón: Productivity remained stable due to reduced maintenance time which helped exceed designed milling capacity; this was offset by a greater number of contractors for development and haulage at San Ramón.

Herradura: Productivity decreased as more contractors were needed to maintain ore and waste haulage rates in the deeper pit.

Soledad-Dipolos: Productivity decreased as more contractors were needed to maintain ore and waste haulage rates in the deeper pit.

Fresnillo

ore milled per person (tonnes)

1,703.2

2012	1,703.2
2011	1,620.2
2010	1,668.2
2009	1,614.2
2008	1,489.5

Ciénega and San Ramón

ore milled per person (tonnes)

1,229.7

2012	1,229.7
2011	1,230.0
2010	1,120.5
2009	1,053.8
2008	1,161.3

Herradura

ore/waste moved per person (tonnes)

85,931.0

2012	85,931.0
2011	92,231.1
2010	91,918.9
2009	101,755.5
2008	87,718.3

Soledad-Dipolos

ore/waste moved per person (tonnes)

88,336.4

2012	88,336.4
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 at profitable levels. Our goal is to have 650 million ounces of silver and 5.0 million ounces of gold in reserves by 2018.

Results

Silver reserves increased by 23.6% as a result of the drilling programme and accelerated mine work/development at Saucito that converted resources to reserves, and from additional resources identified at San Ramón and Las Casas.

Gold reserves increased by 19.6 % due to additional mineralisation found at Saucito and the Noche Buena and Herradura pits.

Silver

millions of ounces

498.5

2012	498.5
2011	403.4
2010	441.6
2009	374.0
2008	410.0

Gold

millions of ounces

5.5

2012	5.5
2011	4.6
2010	4.5
2009	4.3
2008	4.1

Strategy and KPIs continued

2 Develop
Deliver growth through development projects

How we do it

Through disciplined advancement of our exploration projects and processing facilities towards development, construction, start-up and production. We focus on delivery timelines and diligent capex control, and deploy specialised engineering and construction teams.

What we said we would 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.

Continue construction of the dynamic leaching plant at Herradura for 1H 2013 start-up

KPIs

Project delivery

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

Dynamic leaching plant:

Timeline

2011

- Evaluate construction of the leaching plant.
- Analysis of risks; place orders for key equipment.
- Detailed engineering.

2012

- Site relocation and revised budget.
- Foundation construction nearly completed; delivery of some key equipment.

Growth pipeline/opportunity

2013

Civil works to be completed; ongoing equipment assembly.

2014

Conclude construction, conduct tests and commence commercial production.

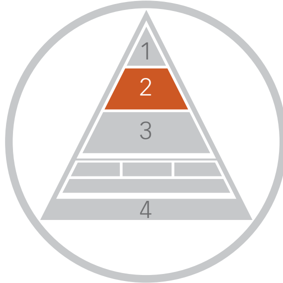
Total capex
US$ million
116.0

Capex spent
US$ million
49.9

Original budget
US$ million
106.0

Average attributable gold production
ounces per year
28,000


Construction of dynamic leaching plant at Herradura.



What we did in 2012

Noche Buena was successfully commissioned in March 2012, in line with budget, and reached full capacity by year-end, contributing to the Group's record gold production in the year

The future site of the dynamic leaching plant was relocated mid-year to accommodate a potential expansion of the Centauro pit; the budget was increased from US$106.8 million to US$116.0 million, and based on the revised timeline, the project remained on track for commercial production in 4Q 2013

The San Julián feasibility study was approved at year-end and construction for the new mine began immediately thereafter

What we plan to do in 2013

Conclude construction and commence operation of the dynamic leaching plant at Herradura

Conclude detailed engineering and continue the construction of the San Julián processing plant, with start-up expected in 2H 2014

Initiate construction of Saucito II

Longer-term targets

Develop and construct at least four new mines and five expansion projects by 2018 to meet our production targets

Key assets

Dynamic leaching plant: Facility to process high grade ore from Herradura and Soledad-Dipolos, as well as mineral extracted from the Centauro Deep project; scheduled for start-up in 4Q 2013

San Julián: Underground silver and gold mine scheduled for start-up in 2H 2014

San Julián:

Timeline

2003	2004	2004–05	2006	2007	2008	2009	2011	2012
Prospecting and field reconnaissance of veins related to rhyolite domes.	Initial staking of mineral claims; in November, acquisition of claims owned by SGM (Mexico Geological Survey) to consolidate the San Julián District.	Mapping and regional and detailed sampling.	Initial diamond drilling.	Discovery of the JM deposit and evaluation of Todos Santos and San Atanasio veins.	First resource estimation; mineral resources have been constantly growing.	Development and mining works to support exploration begin.	Discovery of the Shalom vein system.	Pre-feasibility study approved by the Board; discovery of the Todos Santos Norte vein system.

Total capex
US$ million
500

Capex spent
US$ million
3.9

Average attributable silver production
ounces per year
9.6 million

Average attributable gold production
ounces per year
40,000

Growth pipeline/opportunity

2013

Construct mine site housing, continue detailed engineering for the beneficiation plants and development of veins; infrastructure work on electricity and water supply, design and permitting for tailings dams; begin construction of the flotation plant.

2014

Place additional orders for long lead time equipment purchases, secure environmental permits, water supply and contractor bids; accelerate civil and structural work on concentrators.

2014 2H

Commercial production begins.

Strategy and KPIs continued

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. We strive to maintain reserves sufficient for at least ten years of operation.

What we said we would do in 2012

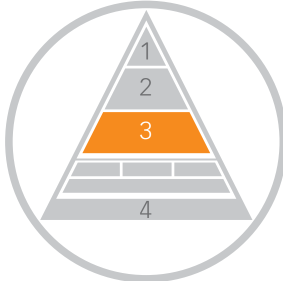
- Conclude pre-feasibility study at Juanicipio in 1Q 2012 and define course of action immediately afterwards
- Conduct pre-feasibility study at San Julián with new resources estimates
- Define mining method and metallurgy at Orisyvo
- Initiate pre-feasibility study at Las Casas (Ciénega)
- Continue exploration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

Key assets

Juanicipio See pages 74
Las Casas-Rosario See pages 75
Centauro Deep See pages 74
Orisyvo See pages 75
Saucito II See pages 63
Mega Centauro See pages 67
Other projects and prospects See pages 76-77

Read more:
Our exploration programme p73-77

In 2012 we continued the development of exploration ramps at Orisyvo.



What we did in 2012

Based on results of the Juanicipio study issued by the independent evaluator, infill drilling continues to upgrade resource quality along the Valdecañas vein

The San Julián project received Board approval for development as a mine

As resources increase at Orisyvo, ongoing testing of the ore body will determine the most cost effective extraction and processing methodology. The new adit confirmed continuous good gold grades along 400 metres

The pre-feasibility study at Las Casas was deferred until further knowledge of the resource was available; intensive exploration, including diamond drilling, mine work and preparation, resulted in a 44.6% increase in total gold equivalent ounces contained at higher grades

Mine work at Centauro Deep reached 6,556 metres in 2012 and construction of a pumping station began in the last quarter

Aggressive exploration efforts at Mega Centauro, the potential expansion project of the main pit at Herradura, extended across more than 130,000 metres

We signed an association agreement with Orex Minerals of Canada to explore our adjacent mineral concessions in Coneto, Durango as one large project. Additional mapping and core drilling started immediately; some positive gold and silver intersections have been obtained

221.9 million new silver ounces and 3.5 million new gold ounces were added to the resource base; of particular note were the findings at Guachichil, Candameña and Lucerito in Mexico, and Pilarica in Peru

Hired the personnel required to achieve our long-term targets

What we plan to do in 2013

At Las Casas, prepare a pilot stope to verify the geological model and geotechnical characteristics; conduct a scoping study

At Centauro Deep, conclude construction of the pumping station, continue exploration activities to increase the resource base

Evaluate the Mega Centauro expansion project

At Juanicipio, continue the exploration programme in accordance with the recommendations set out in the pre-feasibility study

At Saucito II, submit the feasibility study for Board approval in 1Q 2013; begin construction in 2H 2013 for this expansion of the Saucito mine

Long-term targets

Advance new and early stage prospects into the drilling and advanced exploration phases

Replenish the portfolio of new prospects

KPIs

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 increased by 12.2% as a result of the additional mineralisation encountered at deeper levels of the Fresnillo mine, addition of resources at Las Casas and San Ramón and new mineralisation found in the Pilarica, Lucerito, Candameña, San Nicolás del Oro and Guachichil projects.

Gold resources increased by 15.0% due mainly to the first resource estimation at Candameña, Guachichil and Tajitos and the addition of resources at Lucerito, Orisyvo and Noche Buena.

Attributable silver resources

millions of ounces

2,033.1

2012	2,033.1
2011	1,811.1
2010	1,472.7
2009	1,289.0
2008	1,115.9

Attributable gold resources

millions of ounces

27.0

2012	27.0
2011	23.5
2010	20.1
2009	13.9
2008	12.0

Strategy and KPIs continued

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 practice

Community relations

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 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

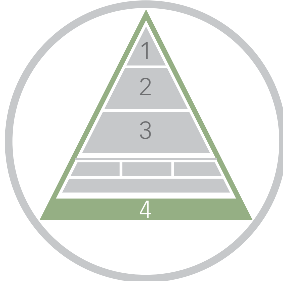
Obtain International Cyanide Management Code certification at Ciénega and Soledad-Dipolos

Community support

Promoting an environmental culture garners community support: Fresnillo plc's Sustainability Calendar includes the celebration of the United Nations sponsored World Water Day (March 22) and World Environmental Day (June 5). We bring employees, contractors, families and community members together through parades, competitions, workshops, seminars and cleaning and reforestation activities, as well as tours to select environmental programmes such as the waste water treatment plants in Fresnillo and Saucito, and the Sustainable Forest in Ciénega. In 2012, approximately 1,540 persons participated.

Read more:
Our Safety Action Plan p86
Environment p88-90

The sustainable forest at Ciénega extends almost 1,000 hectares.



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What we did in 2012

We did not achieve our zero fatalities target despite measurable progress in other aspects of our safety programme such as a decrease in the accident rate and lost work days rate

At Ciénega, the International Cyanide Management Code certification process advanced to 75% due to external delays, whilst at Soledad-Dipolos it reached 85% as we continued to implement the suggested preventive measures

What we plan to do in 2013

Improve safety performance and meet our zero fatalities target

Enhance the strategic alignment of the HSECR System, incorporating assets such as Centauro Deep and San Julián

Continue to advance the maturity level of the HSECR System; monitor compliance by contractor companies and formalise a reporting, assurance and internal control process for the HSECR System

Complete International Cyanide Management Code certification for Ciénega and Soledad-Dipolos

Incorporate consultation processes for other key stakeholders

Longer-term targets

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

KPIs

We use a wide range of indicators to measure sustainability performance within each aspect of our health, safety, environment and community relations (HSECR) framework.
See page 78-95

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.

Results
Despite the stronger safety measures and improved safety conditions, six fatal accidents occurred during the year, five in the Fresnillo District and one at San Julián.

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
Primarily reflects the lower severity of incidents, as 1 fatality = 1,000 lost days.

Fatalities

6

2012	6
2011	11
2010	2
2009	0
2008	0

Lost work days rate

1.14

2012	1.14
2011	3.11
2010	1.64
2009	1.20
2008	1.58

Strategy and KPIs continued

Financial KPIs
Measuring financial strength and control

How we do it

To retain our competitive position as a low-cost producer, secure operational continuity, make ongoing and disciplined investments in exploration, and maintain flexible capital funding options that balance growth and sustainable returns for all stakeholders.

KPIs

Cash cost per ounce

Total cash cost (cost of sales plus treatment and refining charges, less depreciation) less revenues from by-products divided by ounces of silver or gold sold. Used to compare profit margins and economic competitiveness amongst peers. Figures are provided for mines in commercial operation for the full years 2011 and 2012 for accurate comparability purposes, thus Saucito and Noche Buena are excluded.

Cash costs overall were affected by higher mining costs as explained in the cost per tonne KPI (see page 36). Other mine-specific factors are indicated herein. Despite the decline in silver price during the year, both silver and gold prices remained at high levels and helped maintain strong profit margins across our mines.

Results

Fresnillo: Lower ore grade and increase in silver refining charges were mitigated by higher by-product credits and lower profit sharing.

Ciénega and San Ramón: Significantly higher by-product credits, mainly from silver, more than offset higher mining costs and lower ore grade.

Herradura: The increase reflected lower ore grades and higher mining costs.

Soledad-Dipolos: Lower ore grades together with increased mining costs drove the increase in cash cost.

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 measure the Group's ability to generate cash from its core business.

Results

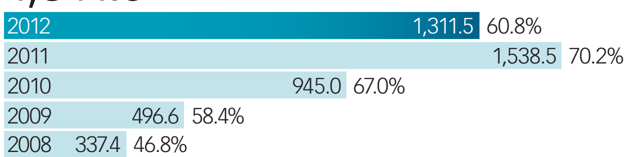
Decreased gross profit resulting from lower ore grades and silver price and higher production costs; mitigated by new production from Noche Buena and Saucito, increased ore volumes processed at all operating mines and higher gold price; these factors and higher exploration expenses affected EBITDA, with EBITDA margin decreasing to 60.8%.

The decline in cash flow reflects lower profits.

EBITDA and EBITDA margin

US$ million

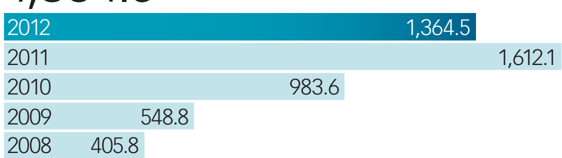
1,311.5



Cash flow

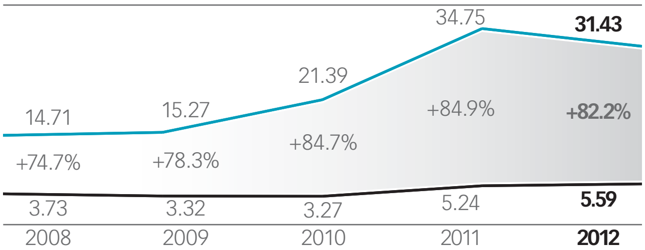
US$ million

1,364.5

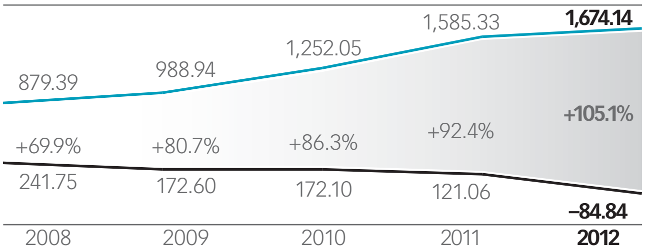


Read more:
Financial Review p96-107

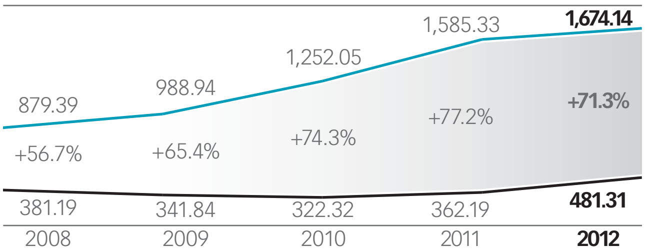
Fresnillo
Cash cost – silver (US$/ounce)



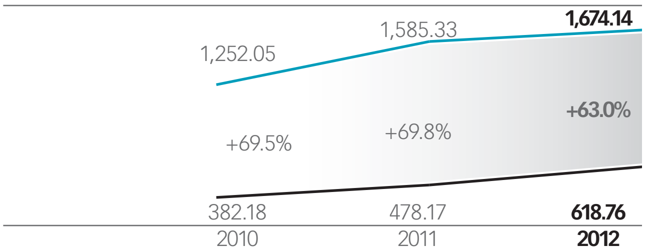
Ciénega and San Ramón
Cash cost – gold (US$/ounce)



Herradura
Cash cost – gold (US$/ounce)



Soledad-Dipolos
Cash cost – gold (US$/ounce)



— Cash cost — Gold/silver price

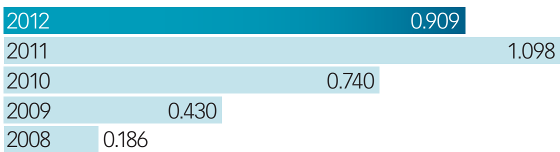
Earnings per share excluding post-tax Silverstream revaluation effects

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

Earnings per share

US$
0.909



Overview
Strategic Review
Performance
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Financial Statements

Our Risk Management Framework

Our aim is to deeply embed a risk management culture to support effective strategy execution and long-term value creation.

The Board of Directors is responsible for maintaining the Company's risk management and internal control systems. The Board's mandate includes defining risk appetite and monitoring 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 is responsible for reviewing the effectiveness of our risk management and internal control 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 and internal control procedures are largely embedded within our business practices across functional areas including finance, HSECR, human resources, procurement, IT, legal, security and insurance management. Risk management processes and internal controls operate across our mine sites, exploration and development projects and corporate offices.

Risk identification, assessment and mitigation is performed at various degrees of specificity, from detailed assessment of safety risk at the operational level at each mine site, to monitoring of project delivery risks for each major capital projects, to the assessment and mitigation of strategic and financial risks at the Executive Management and Board levels.

Risk management framework diagram from 2011

The annual risk identification and assessment process is integrated with the strategic planning process. Executive Management assesses the level of risk inherent to achieving the Company's strategies, and incorporates controls into the strategic plan to mitigate this. Identifying and assessing risks during the strategic planning process is the first step in the 'top-down' risk identification and assessment process, and helps to ensure that the 'bottom-up' risk identification process is aligned with and focused on the current strategy and execution.

'Top-down'
Oversight, identification, assessment and mitigation of risk at corporate level

The Board
- Has overall responsibility for the Group's risk management and internal controls system
- Sets strategic objectives and defines risk appetite
- Monitors the nature and extent of risk exposure against risk appetite for our principal risks
- Provides direction on the importance of risk management and risk management culture

Executive Committee
- Assesses and mitigates our risks Company-wide
- Monitors our risk management process and internal controls

Audit Committee
- Supports the Board in monitoring risk exposure against risk appetite
- Reviews the effectiveness of our risk management and internal controls systems

Internal Audit
- Supports the Audit Committee in reviewing the effectiveness of our risk management and internal controls systems

'Bottom-up'
Identification, assessment and mitigation of risk at business unit level and across functional areas

Operational level
- Risk management process and internal controls embedded across functional areas, mining operations, projects and exploration sites
- Risk identification, assessment and mitigation performed across the business
- Risk awareness and safety culture embedded across the business

What we said we would do in 2012	What we did in 2012
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 (KRI) 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	We integrated risk analysis processes at the strategic planning level and initiated quarterly reporting on the enterprise risk management programme to the Audit Committee and Board of Directors. We updated action plans for elevated risks and refined a number of mitigation and control measures across the risk spectrum. A new key risk was identified for inclusion amongst those to be closely monitored by the Board. We conducted our annual risk assessment process We defined the KRIs and also initiated data collection for reporting these metrics. The KRI monitoring mechanism will be formally launched in 2013
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	We delivered refresher training at both the business unit and corporate levels
	In furtherance of our anti-bribery and corruption (ABAC) programme, the CEO, Compliance Officer, Compliance Manager & Risk Manager have initiated regular and ongoing communications within the organisation, sharing outcomes from the whistle-blowing line and reinforcing key ABAC policies within the organisation. All new contracts with third parties, and those subject to renewal, require acknowledgment and acceptance of the Company's anti-bribery and corruption clause

What we plan to do in 2013–2018

The annual and ongoing elements of the enterprise risk management programme have been formalised, including the definition of risk appetite and risk identification and assessment processes. We will continue to evolve and build on our existing risk management framework, enhancing risk governance and management across the business in line with best practices. Our next set of priorities includes:

- Developing a formalised and documented methodology to evaluate and follow up project risks
- Periodically reporting KRI metrics and status of action plans for each principal risk
- Incorporating appraisal of risk management performance in annual employee performance reviews

Our Risk Management Framework continued

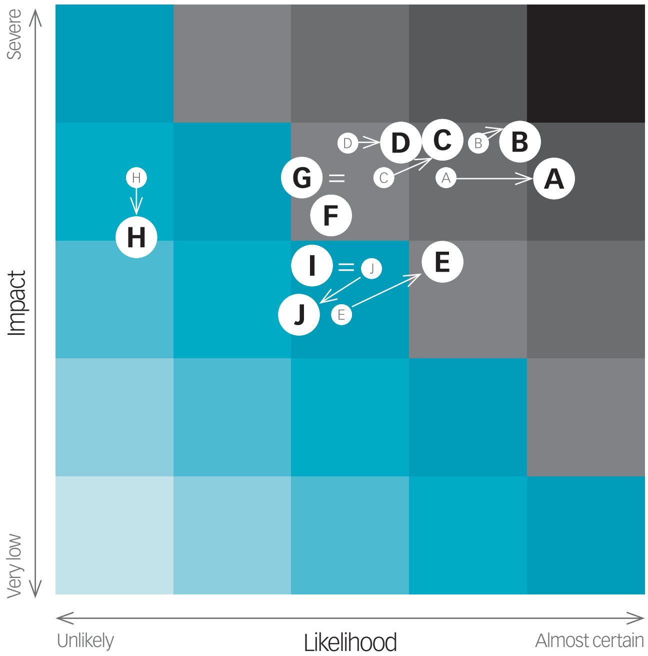
Risk assessment

The annual risk assessment exercise across all our operations, advanced projects, exploration offices, support and corporate areas identified and evaluated over 100 risks. This universe was narrowed down into major risks monitored by Executive Management and the Audit Committee, and then further consolidated into the principal risks monitored by Executive Management and the Board of Directors.

All nine principal risks from 2011 persisted in 2012, and one new risk arose for consideration by the Board of Directors: the public perception against mining, reflecting an increase in opinion that mining activity is not commensurate with the sustainability of local communities or the environment. To a certain extent this inaccurate perception stems from the industry's insufficient engagement efforts with local communities and ineffective communications regarding the widespread benefits of mining. Whilst there has been no direct impact on Fresnillo plc to date, public opinion in recent years has put increased pressure on regulators regarding the ability of mining companies to operate. Such pressure has impacted the industry in a number of ways, from delays in obtaining permits and licences, to community protests, negative media coverage, and blockades of projects and mines, resulting in the derailment or shutdown of select mining operations (temporary and permanent) around the world. Due to this increased pressure, the Executive Committee proposed to the Board the inclusion of this new risk within the principal risks to be closely monitored. The Board approved the proposal and included this risk in its risk appetite and mitigation discussions during the year.

Risk heat map

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



Risk
A. Security
B. Impact of global macroeconomic developments
C. Projects
D. Access to land
E. Potential actions by the government
F. Public perception against mining*
G. Safety
H. Environmental incidents
I. Exploration
J. Human resources

* New risk considered in 2012

Key milestones

2009	2010	2011	2012
Senior management identify the emergence of new risks since the IPO.	Risk assessment exercise with the participation of the entire organisation.	Formalise our definition of risk appetite for our principal risks in compliance with the UK Corporate Governance Code.	Integration of risk analysis at the strategic planning process.

Major targets

2013

Evolve our risk analysis methodology for projects.

Quarterly reporting KRI metrics and status of action plans for each principal risk.

2013–2014

Incorporate the risk element in the annual 2013 appraisal process.

2015

Adopt the new Guidance on Internal Control to be issued by the Financial Reporting Council expected by 2014.

Assessment of the effectiveness of our ABAC programme.

2016

Assessment of the effectiveness of our Risk Management function.

2018: Vision

Being a best in class Risk Management function.

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.

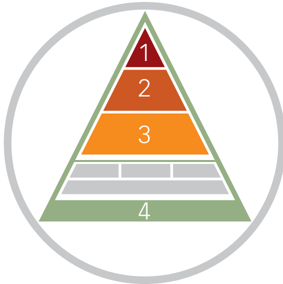
Risk	Risk appetite	Risk rating 2011	Risk rating 2012	Change	Description of risk change
A. Security	Low	High	Very high	↑	The state of insecurity in regions of Mexico where we operate has continued to increase, with a number of incidents in areas closer to our operations and exploration projects.
B. Impact of global macroeconomic developments	High	High	High	↑	Among industry and financial analysts who follow metals prices, some see cyclicality in the industry and predict a downward trend for long-term average silver prices.
C. Projects	Medium	High	High	↑	The change in risk reflects two factors: higher exposure due to the level of committed risk capital for the San Julián project that was approved in 2012; and, helping offset that factor, greater certainty about the mineral resources at our advanced exploration projects, which increased over the past year, as well as enhancements in our investment governance process and system of capital project controls that improve our ability to deliver growth through development projects in time and on budget.
D. Access to land	Medium	High	High	↑	Negotiations for land in Mexico, combined with an increase in land requirements, remain a challenge. Foreign mining companies in general and Canadian ones in particular have set certain precedents for future negotiations in their agreements with indigenous community (*ejido*) leaders.
E. Potential actions by the government	Low	Medium	High	↑	In December 2012 the Mexican Government enacted an amendment to the Labour Law; we have retained advisors to help ascertain and analyse any possible impact. Pressure for a mining tax/royalty in Mexico continues to increase. Mexican legislators have taken steps to move in this direction. The Company, through the Mining Chamber and directly through our high ranking executives and Chairman, will continue to lobby against any mining royalty and to ensure that fiscal regulations do not curtail growth or investment.
F. Public perception against mining	Low	N/A	High	↑	The potential for social activism is a growing global phenomenon within the mining sector with the potential to impact all strategic areas; there have been recent examples impacting other mining companies in Mexico.
G. Safety	Low	High	High	—	Accident rates have declined due to our strict application of procedures and greater supervision of safety for personnel and contractors, however the risk remains high and we have still not met our safety goals.
H. Environmental incidents	Low	Low	Low	↓	Our mature environmental management programme continues to reduce the likelihood of a significant environmental incident.
I. Exploration	Medium	Medium	Medium	—	Continued investment in the exploration programme has stabilised this risk and we foresee no change in risk status based on available information.
J. Human resources	Medium	Medium	Medium	↓	Competition for skilled personnel remains a challenge, however we have begun to see results from our recruitment and retention strategies.

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 Risk Management Framework continued

Our principal risks

Strategic objective	Risk description and context	Risk response/mitigation
A. Security		
1 Operate 2 Develop 3 Explore 4 Sustainability	Our people face the risk of kidnapping, extortion or harm due to security conditions in the regions where we operate. We face the risk of restricted access to operations/projects and theft of assets. The growing influence of drug cartels, other criminal elements and general lawlessness in the regions where we operate, combined with our aggressive exploration and project activity in areas of transfer or cultivation of drugs, makes working in these areas of particular risk for us.	We closely monitor the security situation, maintain clear internal communications and coordinate work in areas of higher insecurity, along with the following practices to manage our security risks and prevent possible incidents: – **Travel management** e.g. travel in convoy, use aircraft versus land travel and avoid known insecure areas; in 2012 we used remote conferencing technology when possible to minimise travel while facilitating management oversight of remote locations. – Enhanced **on-site security** measures (cameras, barriers, delayed access); we installed US$2.97 million of new equipment in 2012 in our operating units and exploration offices. – **Theft prevention:** We optimised logistics in 2012 to further reduce the probability of theft, including changes to schedules for daylight travel and the use of real-time tracking technology. – We invest in **community programmes,** infrastructure improvements, and government initiatives to support development of lawful local communities and discourage criminal acts; such investments totalled US$2.48 million in 2012.
B. Impact of global macroeconomic developments		
1 Operate 2 Develop 3 Explore	There could be an adverse impact on our sales and profit, and potentially the economic viability of projects, from macroeconomic developments such as: – A decrease in gold and silver prices after a prolonged period of increase (primary driver of the risk); this was the case for silver in 2012, with a decline of 9.8% in the annual average price over the previous year – Adverse fluctuations in MXN/USD exchange rates or other foreign currencies – Inflation – A decrease in the price of by-products (zinc and lead)	We have full exposure to fluctuations in the **prices of gold and silver:** and currently no hedging as per our investors' mandate. For new major projects, the Company may consider undertaking some degree of hedging. The extent of risk appetite in this area will continue to be evaluated frequently to ensure ongoing alignment with shareholders' expectations. We have hedging policies in place for **foreign exchange movements,** including currencies impacting equipment purchase commitments. See note 29 in the Financial Statements page 186. **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 142.



Strategic objective | **Risk description and context** | **Risk response/mitigation**

C. Projects

2 Develop

Risk description and context

Pursuing advanced exploration and development opportunities, which are core to meeting our strategic goals, carry certain project-related risks:

- Economic viability: impact of capital cost to develop and maintain the mine, future metals prices and operating costs through the mine's life cycle.
- Uncertainties associated with developing and operating new mines: 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, or major mining equipment may not be delivered in time.

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.

Risk response/mitigation

Our investment evaluation process determines how to best direct available capital using technical, financial and other qualitative criteria.

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.

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.

Other qualitative factors: e.g. alignment of the investment with our strategic plan and business model; synergies with other investments and operating assets; implications for safety, security, people, resourcing and community relations.

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 are regularly updated on progress.

Each advanced exploration project and major capital development project has a risk register containing the identified and assessed risks specific to the project.

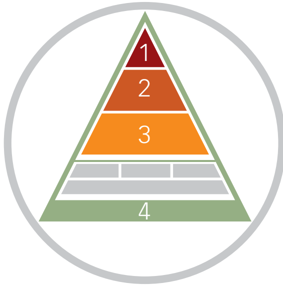
In 2012, the Board approved the San Julián project with an investment of US$500 million; at the time of this report, the engineering and construction group is updating the plan which will be used to monitor progress versus budget. Included in the plan will be project specifications such as fly in – fly out schedules, geo-hydrological and geo-physical studies for water supply, power supply negotiations, land acquisition, mining models, contractor selection and human resources availability.

At the Centauro Deep project we must identify an adequate and profitable mining system, thus we plan to continue exploration to confirm the nature of the mineral and mechanical and hydrological characteristics.

The major risk driver at the Orisyvo project is metallurgical recovery. We continue investigating and performing tests on mineral processing options.

Our Risk Management Framework continued

Strategic objective	Risk description and context	Risk response/mitigation
D. Access to land		
1 Operate 2 Develop 3 Explore 4 Sustainability	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. Potential barriers to land access include: – 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	Fresnillo plc acquired 34,468 hectares of surface land in 2012. To maximise our opportunities for successful land access we: – Invest in **hiring and training** negotiators and provide Executive Management support for our negotiation teams; in 2012 we contracted five negotiators in the exploration group for land acquisitions in Peru and Mexico. – In addition, we have negotiators dedicated to acquiring land required for infrastructure for advanced projects. – **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. – Always **seek tri-party cooperation** between the government, community and ourselves in securing access to land.
E. Potential action by the Government		
1 Operate 2 Develop 3 Explore 4 Sustainability	We face the risk of potential implementation of new governmental requirements that would have 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.). 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. We are currently analysing what, if any, potential impact we may face with the amendment to the Mexico Labour Law that was enacted in December 2012.	We participate in industry and government meetings and events to continuously monitor the political and regulatory environment, including tax and labour reforms. We collaborate with other members of the mining community via the Mexican Mining Chamber to lobby against new detrimental taxes/royalties or regulations. At the same time we strive for maximum resilience by maintaining low cost of production and a strong capital position. We maintain strict control in receiving, handling, storing and dispatching explosives in each of our operations and projects.



Strategic objective	Risk description and context	Risk response/mitigation

F. Public perception against mining

Strategic objective: 1 Operate 2 Develop 3 Explore 4 Sustainability

Risk description and context

Public opinion globally is increasingly concerned with the potential adverse social and environmental consequences of opening and developing mining operations. This growing sentiment manifests itself through increased regulatory obligations for mining companies and increased social activism by communities and other grass roots organisations.

Risk response/mitigation

The Company collaborates with peers in the international and Mexican mining community to pursue an industry response to this risk.

Our formal programme for community engagement includes:

- Conducting community perception surveys and monitoring public opinion within the local media (newspapers, radio stations, local channels).
- Tracking and following up on concerns reported by the community, maintaining open and transparent communications, and clarifying any miscommunications that could be used to target the Company's reputation.
- Working with communities, *ejido* representatives and land owners at an early exploration stage to understand their needs and communicate the benefits of developing and operating a mine in terms of social welfare and quality of life.

G. Safety

Strategic objective: 4 Sustainability

Risk description and context

Inherent to our industry is the risk of incidents due to unsafe acts or conditions causing injuries or fatalities to our people.

Our people face risks of fire, explosion, electrocution and carbon monoxide poisoning, as well as risks specific to each mine site and development project, for example rock falls caused by geological conditions, collisions of equipment in large operations, cyanide contamination, collisions between equipment and people and smaller vehicles.

Risk response/mitigation

We have zero tolerance for safety incidents at every level of the operation, with rules incorporated into operational procedures, safety manuals and all aspects of communication on safety. In 4Q 2012 we launched a 'No more accidents' process led by all senior management and the Executive Committee. The programme includes mandatory participation in monthly safety meetings by all personnel (including contractors) at the business units.

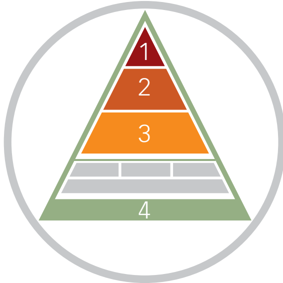
In 2012 the Executive Committee approved a US$5.3 million project to minimise operational safety risks, which includes location-based sensors for people and equipment, an anti-collision system and real-time communication inside the mine.

Other mitigating activities include:

- Ownership of safety risk by management of business units (mines, projects and exploration), with oversight from our comprehensive HSECR system and people who coordinate consistent and complete responses to safety risks, supplemented by safety guides, operational manuals and detailed procedures; in 2012 we increased the number of onsite safety supervisors by an average of 50%.
- Training, including reinforcing employee and contractor instruction and emphasis on Leadership in Safety. In 2012 all supervisors participated in a two-week training on the importance of observing safety guidelines; we conducted 252,000 hours of safety training in 2012, a 32% increase over 2011.

Our Risk Management Framework continued

Strategic objective	Risk description and context	Risk response/mitigation
H. Environmental incidents		
4 Sustainability	Inherent to our industry is the risk of environmental incidents such as overflow/collapse of tailings dams, cyanide spills and dust emissions, among others, any of which could have a high potential impact on our people, communities and business. Read more: Our sustainable strategy p42-43	We have strong environmental systems, procedures and controls in place and, as with Safety risks, Environmental risks are owned by the Business Units with oversight provided by the HSECR team. Our environmental management system supports compliance with all required regulations. 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). We also support contractors in their efforts to integrate environmental management systems. In 2012 we conducted an inventory of greenhouse gas emissions as part of GHG Mexico. See pages 88-90 for more on our sustainable development strategy.
I. Exploration		
1 Operate 3 Explore	We are highly dependent on the success of the exploration programme to meet our targets, and maintain our strategic value-creation, production and reserves goals. Risks that may impact prospecting and converting inferred resources include: the growing level of insecurity, lack of qualified personnel, available land and sufficient concession and surface right coverage in target areas. As our production escalates and more mines approach the end of their lives, it becomes increasingly challenging to replenish their reserves. Read more: Our exploration programme and investment p73-77	We invest heavily in our exploration programme, aiming to maintain a consistent exploration budget across metals cycles. The budgeted risk capital invested in exploration for 2013 is US$279.6 million, with 41% of the budget allocated to exploration around major projects and the remainder to a combination of mine site exploration, prospects and regional prospecting. We also ensure we have: – A focus on increasing the **regional exploration** programme to locate new districts with high potential. – A team of highly **trained and motivated geologists**, both employees and long-term contractors; we expanded this segment of the workforce by 20% in 2012. – A **broad and robust portfolio of prospects and projects** with sufficient potential in terms of indicated and inferred resources; we added an additional 219,757 hectares of mining concessions to our portfolio in 2012. – 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** – **Identified opportunities and openness** to partnerships, mergers and early stage projects acquisitions, such as the Orex agreement signed in 2012. Acquisitions increased our concession area by 42,292 hectares in 2012. See pages 73-77 for more on our exploration programmes and investment.



Strategic objective	Risk description and context	Risk response/mitigation

J. Human resources

Strategic objective: 1 Operate 2 Develop 3 Explore 4 Sustainability

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.

There is a lack of reliable contractors with adequate infrastructure, machinery, performance and skilled people, as demand in the industry has limited the availability 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 hiring requirements for key positions in the 2012–2018 period, and aim to meet openings 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; 20 of the 2012 graduates joined the Company as full-time employees. We welcomed the second cohort of mining technicians with 20 new students who will graduate in 2014.
- CETLAR (the Peñoles Centre for Technical Studies) which trains mechanics and electrical technicians; eight of the 2012 graduates joined the Company as full-time employees. 14 new students registered for the 2012–2014 programme.

Retention: We provide a stable labour environment, strong corporate culture committed to our people, good working conditions, competitive benefits and career development opportunities. Two of our business units were recognised with Great Place to Work certification in 2012.

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. We support 12 of our major contractor companies in their integration into the Self-Management Programme on Safety and Health at Work (PASST), promoted by the Mexican Secretariat of Labour and Social Welfare (STPS).

Unions: We have clearly assigned responsibilities and programmes for maintaining close relationships with unions at mine site and at the national level. We engage experienced legal counsel, both internal and external, to support us. We are proactive and timely in our responses to the needs of the union, and experienced no labour-related work stoppages in 2012.

Performance

We advanced our strategy in precious metals, delivering record gold production and stable silver volumes in 2012. Cash generated by our mines has significantly enabled funding for exploration, capex and dividends.

Ciénega: Ore throughput exceeded designed capacity in 2012, supported by maintenance improvements, continuous development and access to deeper ore reserves.

Review of Operations

In 2012 we advanced our strategy in precious metals, further consolidating our position as a leading silver and gold miner.

Since the time of our IPO in 2008, Fresnillo plc has expanded its portfolio from three mining units to six and significantly grown its project pipeline and resource base, whilst balancing growth in the business with a focus on operational excellence, responsible business practices and an ongoing commitment to disciplined capital allocation.

In 2012 we advanced our strategy in precious metals, further consolidating our position as a leading silver and gold miner. Strong operating performance resulted in record gold production and stable silver volumes, both in line with the targets we set out for the year. We adapted short-term mine plans for the metal price environment in 2012, and benefited from our district consolidation strategy with important synergies at our business units in the Fresnillo and Herradura Districts.

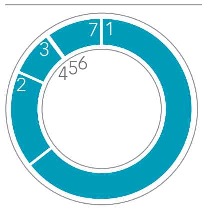
Operating performance in the year benefited from the on-time and on-budget commissioning of the Noche Buena gold mine, the successful ramp-up of production at Saucito, our ability to maximise operating capacity at most mines – even exceeding it at Fresnillo and Ciénega – and a full year of commercial production at the San Ramón satellite mine.

Attributable production	2012	2011	% change
Silver (koz)	**36,938**	37,950	–2.7
Silverstream (koz)	**4,035**	3,923	2.9
Total silver (koz)	**40,973**	41,873	–2.1
Gold[1] (oz)	**473,034**	448,866	5.4
Total production	**687,488**	662,813	3.7
Lead (tonnes)	**24,639**	21,442	14.9
Zinc (tonnes)	**24,928**	23,113	7.9
Adjusted revenue by mine[2]	**US$m**	US$m	% change
Fresnillo	**865.7**	1,052.7	(17.8)
Herradura	**528.5**	521.9	1.3
Ciénega	**320.1**	250.1	28.0
Saucito	**285.9**	234.6	21.9
Soledad-Dipolos	**178.5**	248.1	24.9
Noche Buena	**108.5**	N/A	N/A

Sales contribution by mine	Silver US$m	Gold US$m	Lead US$m	Zinc US$m
1 Fresnillo	**771.5**	**41.4**	**28.6**	**24.1**
2 Saucito	**209.6**	**68.9**	**4.6**	**2.7**
3 Ciénega	**93.7**	**202.1**	**10.3**	**14.0**
4 Herradura	**7.5**	**521.0**	**–**	**–**
5 Soledad-Dipolos	**1.5**	**176.9**	**–**	**–**
6 Noche Buena	**0.4**	**108.0**	**–**	**–**

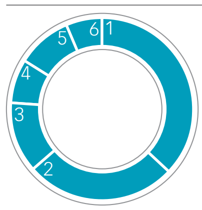
1 Total gold production 2012: 687,488 ounces, 2011: 662,813 ounces.
2 Excludes inter-segment transactions.

Silver production by mine
Ounces
40,973



1	Fresnillo	26,383
2	Saucito	7,054
3	Ciénega	3,329
4	Herradura	136
5	Soledad-Dipolos	28
6	Noche Buena	8
7	Silverstream	4,035

Gold production by mine
Ounces
473,034



1	Herradura	176,146
2	Ciénega	125,275
3	Soledad-Dipolos	60,104
4	Noche Buena	36,690
5	Saucito	45,246
6	Fresnillo	29,573

Review of Operations

Production

Annual attributable silver production remained stable year on year with 41 million ounces produced, including 4.0 million ounces from the Silverstream Contract. This resulted from increased production at Ciénega, mainly due to higher silver ore grade at the San Ramón satellite mine, combined with the ramped-up production at Saucito. This was offset by the anticipated decline in silver ore grade at the Fresnillo mine.

Annual attributable gold production rose to a new record of 473,034 ounces, 5.4% more than in 2011 primarily due to the start-up of Noche Buena, higher ore volumes milled and better ore grades at Saucito, and greater throughput at Ciénega. These factors helped offset lower production at Soledad-Dipolos due to lower ore grades, which in turn reduced recoveries.

Development

Development projects at current mines include the construction of a dynamic leaching plant at Herradura, the future site of which was relocated mid-year to accommodate a potential expansion of the Centauro pit. The project remained on track with the revised timeline for commercial production in 4Q 2013, whilst the budget was modestly increased by 8.6%. The plant will play a key role in the Herradura District by processing high grade ore from the Herradura and Soledad-Dipolos pits, as well as mineral extracted from the Centauro Deep project.

At Saucito, exploration and engineering work on the Saucito II expansion project confirmed a robust resource base, with 527.5 million ounces of silver and 2.0 million ounces of gold. The feasibility study was approved by the Board in March 2013, and construction will begin in 2H 2013 with operations to commence in 2015.

Following Board approval, construction of the San Julián silver-gold mine began in late 2012. Mine work and detailed engineering of the plant are underway, water and drainage infrastructure work progresses, and construction of the landing strip for this fly-in fly-out project is nearly complete. The US$500 million project is expected to be concluded in 2H 2014 and will produce an average of 9.6 million ounces of silver and 40,000 ounces of gold per year once at full capacity, thus playing a critical role towards achieving our long-term production targets. In addition, exploration continues in the northern part of the district which we believe has high potential.

We are currently evaluating an integrated growth and optimisation plan for the Fresnillo District that includes:

- additional 2,000 tpd processing capacity at the Fresnillo mine with the construction of a ball mill and new flotation cells adjacent to the current facility;
- increased development of the vein branches in the western zone of the mine to feed the new capacity; and
- a pyrites plant at Saucito to process tailings from Fresnillo and Saucito that will increase recoveries by producing a silver-gold precipitate.

These potential developments, along with the planned flotation plant at Saucito II, will have the capability to process ore with higher lead and zinc grades in line with the District's expected resource profile.

Exploration

The resource base was increased through our aggressive exploration programme, with drilling at 20 prospects and projects during the year, completing 593,968 metres of core and 249,225 metres of reverse circulation. Exploration efforts are concentrated around our operating mines and in development and advanced exploration projects. The audited resource and reserve figures show significant overall increases and a healthy conversion from the inferred category into measured and indicated.

Of particular note were the positive results obtained at Noche Buena East, Centauro and Tajitos in the Herradura District, and at the Las Casas vein system and San Ramón satellite operation in the Ciénega District. The pre-feasibility study was concluded at Juanicipio and continued exploration will aim to convert resources into the next category. Drilling has also delivered interesting gold and silver grades over mineable widths in the Guanajuato district, and positive results continue to come from the Coneto silver-gold prospect, a joint-venture with Orex Minerals, and from the Pilarica silver prospect in Peru.

The total capital risk investment in exploration was US$318.9 million, against the budgeted US$360.4 million but a 78.1% increase over 2011; this figure includes US$85.4 million capitalised mainly at the San Julián, Centauro Deep and Juanicipio projects.

Annual attributable silver production moz

2012	2011
41.0 –2.1%	41.9

Total investment in exploration US$

2012	2011
318.9 +78.1%	179.0

Annual attributable gold production oz

2012	2011
473,034 +5.4%	418,866

Safety

The ongoing implementation of the Safety Action Plan and further maturing of the HSECR framework yielded a number of important operational improvements, but the six fatalities in 2012 indicate a need to reinforce safety measures and eliminate breaches of procedure. We deeply regret the loss of life and offer our condolences to their families and colleagues. Over the course of the year we conducted extensive campaigns to ensure strict adherence to safety policies and to foster a renewed safety culture across the entire Company. We have also accelerated and intensified the training requirements for our workers and contractors, and remain steadfast in our commitment to zero fatalities.

Costs

Cost per tonne rose across the Group due to several factors:

- higher contractor costs;
- greater consumption per tonne of operating materials resulting from increased development and longer haulage distances;
- an 8.1% increase in the weighted average unit cost of operating materials; and
- the 6.5% rise in wages in Mexican pesos for unionised workers.

These adverse effects were mitigated by:

- benefits obtained from greater productivity and improved economies of scale generated by the increased volumes of ore processed at all our operating mines; and
- the 6.0% devaluation of the Mexican peso against the US dollar.

We anticipate further increases, mainly in energy and operating materials, will negatively affect our costs in 2013; we will continue to invest in cost control initiatives aimed at preserving healthy margins. These include optimising consumption of explosives during blasting and providing additional training in blasting techniques to make the process more efficient; optimising the consumption of reagents at the beneficiation plants; ongoing road maintenance to increase life of tyres; reducing shotcreting by using wire mesh; and decreasing consumption of diesel and lubricants by optimising the design of waste pads.

Outlook

We expect attributable silver production to remain stable at 41 million ounces, including Silverstream, with the ramp-up at Saucito to approximately 8.5 million ounces offsetting the expected decrease in silver ore grade at Fresnillo. Attributable gold production is expected to reach 490,000 ounces due to ramp-up at Noche Buena. At Ciénega, an increase in ore processed through the optimisation of the milling process will partially mitigate the adverse effect of lower expected gold ore grade. The dynamic leaching plant at Herradura will be commissioned in 4Q 2013, contributing an additional average attributable gold production of 28,000 ounces per year.

Detailed engineering will take place at San Julián whilst construction of the processing plant continues. Start-up is expected in 2H 2014. We will also conclude construction of the pumping station at the Centauro Deep project and continue exploration activities to increase the project's resource base.

Construction is expected to commence in the second half of the year at the Saucito II silver project, approved by the Board in March 2013. We will evaluate the expansion of the main pit at Herradura (Mega Centauro) and an integrated growth and optimisation plan in the Fresnillo District that would include construction of additional capacity at Fresnillo and a pyrites plant at Saucito.

The Group's exploration budget for 2013 has been decreased to US$279.6 million (including capitalised exploration expenses), 12.3% below the investment in 2012.

We will continue to focus on safety across all our operations and exploration projects to improve performance and meet our zero fatalities target.

Key milestones

2008	2009	2010	2011	2012
IPO; Noche Buena acquisition; construction of Soledad-Dipolos approved	Saucito pre-feasibility study approved	Commercial production begins at Soledad-Dipolos	Saucito commences operations: Ciénega expansion commissioned	Production begins at Noche Buena; gold profile strengthens

Future targets

2013
Dynamic leaching plant to be commissioned

2015
Commercial production to begin at Saucito II

2014
San Julián to commence operations

2016
Centauro Deep to commence operations

2018
Produce 65moz of silver and 500,000 ounces of gold

Our Mines in Operation

1 Operate
Maximise the potential of existing operations

Fresnillo

Ownership: **100% Fresnillo plc**

Location: **Zacatecas**

In operation since: **1554**

Facilities: **Underground mine and flotation plant**

2012 milling capacity: **8,000 tpd / 2,640,000 tpy**

Workforce: **903 employees, 705 contractors**

	2012	2011	% change
Reserves and mine life			
Mine life (years)	**12.5**	13.3	
Total reserves			
Silver (moz)	**308.5**	324.7	–5.0
Gold (oz)	**733,000**	731,000	–0.3
Avg ore grade in reserves			
Silver (g/t)	**281**	287	–2.1
Mine production			
Ore milled (kt)	**2,738**	2,584	6.0
Silver (koz)	**26,383**	30,295	–12.9
Gold (oz)	**29,573**	26,237	12.7
Lead (tonnes)	**16,190**	13,385	21.0
Zinc (tonnes)	**14,966**	12,623	18.6
Financial highlights US$			
Adjusted revenue	**865.7**	1,052.7	–17.8
Segment profit	**656.1**	859.9	–23.7
Capital expenditure	**147.8**	104.4	41.6
Exploration	**9.4**	7.3	28.8

Adjusted revenue US$

2012	2011
865.7 million –17.8%	1,052.7 million

Segment profit US$

2012	2011
656.1 million –23.7%	859.9 million

Fresnillo is the largest primary silver mine in the world and one of the world's oldest continuously operating mines. In 2012 Fresnillo produced 64.4% of the Group's total attributable silver and generated 37.8% of adjusted revenue.

As average silver ore grades continue their natural and expected decline we are seeking to: i) optimise production of the remaining resource by operating at full capacity; ii) manage higher grades of lead and zinc in the beneficiation process; iii) increase recovery rates by processing tailings; iv) replace and expand the resource base through intensive local and regional exploration; and iv) consolidate District-wide growth and optimisation efforts for the processing of ore and tailings from multiple sites.

What we said we would 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

Complete OHSAS 18001 certification process

What we did in 2012

By successfully preparing additional areas of the mine we increased the volume of ore processed and exceeded milling capacity by 2.2%

Whilst significant work was done towards the potential expansion of the mine, it was determined that further analysis should be undertaken to ensure the optimal processing of materials from across the District

We completed the audit process for the OHSAS international occupational health and safety management system specification and expect certification in early 2013

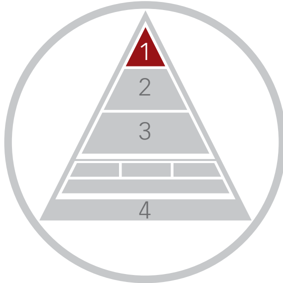
What we plan to do in 2013

Evaluate new and/or expanded processing capacity in the Fresnillo District, including a 2,000 tpd extension to the current Fresnillo beneficiation plant, and a pyrites plant at Saucito to increase gold recoveries from Fresnillo and Saucito tailings

Continue exploration at current investment levels to replace/grow the resource base

Continue to develop and prepare new stopes

Cost cutting/efficiency initiatives



Key developments in the year

Annual silver production at Fresnillo decreased 12.9% from 2011 due to the expected and natural decline in ore grades, from 396 g/t in 2011 to 328g/t in 2012. Based on our current assessments, we expect ore grades to decline to approximately 300 g/t level in 2013, then to remain within the range between 300g/t and 325g/t for four years before declining in the following years towards the ore grade in reserves (281 g/t). Simultaneously, gold, lead and zinc ore grades will increase to reach the levels contained in reserves, as already evidenced in our 2012 production figures. Gold, lead and zinc contents increased by 12.7%, 21.0% and 18.6% respectively over 2011.

To help compensate for the decline in silver ore grade we increased volumes milled by preparing additional stopes at the San Diego and San Alberto veins, and exceeded the beneficiation plant's total milling capacity in the year (8,174 tpd).

As the composition of the ore at Fresnillo changes, and work throughout the District increases, we have re-evaluated the original expansion project for the Fresnillo plant and determined that further analysis was required to ensure that operations are rationalised throughout the entire Fresnillo District. We are currently evaluating an integrated plan to expand processing capacity District-wide, including a 2,000 tpd extension to the Fresnillo beneficiation plant and a pyrites plant at Saucito.

Whilst safety conditions related to rock fall at the mine improved in 2012 with systematic bolting, backfilling and shotcreting, and no rock fall-related fatalities occurred in the year, breaches of certain safety procedures resulted in three fatalities during the year, as a result of which the Company intensified awareness campaigns and increased oversight. See Our Safety Action Plan on page 86.

Investment in maintenance, productivity and growth

Capital expenditures at this mine totalled US$84.2 million in 2012, reflecting an increase in development work to prepare new stopes, equipment replacement, and purchases of land. This figure does not include mining works at the wholly-owned San Julián project (US$62.2 million) and Orisyvo (US$1.3 million).

An intensive exploration programme at deeper zones and in the western area of the mine was conducted. As a result, resources at Fresnillo increased from 64.7 million tonnes at 360 g/t to 70.3 million tonnes at 353 g/t. Silver contained in these resources increased by 6.5% to 799 million ounces. In terms of reserves, tonnage decreased slightly to 34.2 million tons (2011: 35.2mt), but ore grade remained stable at 281 g/t (2011: 287 g/t). As a result, silver content decreased from 324.7 million ounces in 2011 to 308.5 million ounces in 2012. Based on proven and probable reserves and current milling capacity, the expected life of the mine is 12.5 years (2011: 13.3).

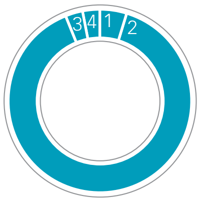
In 2013 we plan to implement certain cost cutting and efficiency initiatives. These include: improving contractors' efficiency by planning drilling sites to reach an average of 3,600 metres developed per month; optimising equipment utilisation; training in blasting techniques to optimise blasting pattern; continued optimisation of reagents dosage; monitoring demand of ventilation systems to control speed and reduce consumption of electricity; and reducing shotcreting by using wire mesh.

Financial performance

Adjusted revenue[1], excluding inter-segment sales, decreased by 17.8% to US$865.7 million. Fresnillo is predominantly a silver mine, thus the 9.8% decrease in silver price and 11.9% decline in silver volumes sold had a significant impact on the mine's performance. Nonetheless, adjusted revenues from this mine represented 37.8% of the Group's consolidated figure, while the mine's participation in consolidated silver revenues was 71.1%.

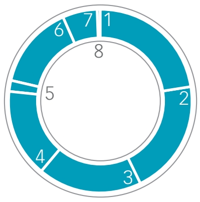
Adjusted production costs[2] totalled US$121.9 million, or 21.1% of the consolidated Group figure. As shown in the accompanying graph, the key components are contractor and personnel costs, operating materials, and electricity, which is used mainly at the beneficiation plant in the milling process.

Adjusted revenue by metal US$
865.7 million



	US$ million
1 Gold	41.4
2 Silver	771.5
3 Lead	28.6
4 Zinc	24.2

Adjusted production costs US$
121.9 million



	US$ million
1 Contractor	27.7
2 Operating materials	24.7
3 Personnel	22.1
4 Electricity	19.1
5 Diesel	2.5
6 Maintenance	17.7
7 Others	7.5
8 Freight	0.6

While the estimated total cost inflation at Fresnillo was 4.3%, the cost per tonne milled at this mine rose only 3.5% over 2011 to US$44.5. This reflected the benefit of greater productivity and improved economies of scale generated by the 6.0% increase in ore processed, which mitigated the adverse effect of higher production costs resulting from: i) higher contractor fees as a result of the annual review at this mine, as well as for additional haulage of ore and waste material, and increased work to develop stopes and improve safety conditions in the mine; ii) an increase in the average unit price of operating materials (+5.9% at this mine); iii) greater per tonne consumption of diesel, anchors and steel for drilling (the latter two related to increased safety measures); iv) greater consumption of spare parts and maintenance to fire detection systems; and v) the replacement of armour for the mill. These factors were partially mitigated by the devaluation of the MXP/USD exchange rate.

The 6.7% increase in cash cost per silver ounce to US$5.59 (2011: US$5.24) is mainly a result of the lower volumes of silver sold, reflecting the 17.3% decline in ore grade during the period. To a lesser extent, higher silver refining charges and an increase in mining costs also contributed. This was partially mitigated by lower profit sharing resulting from the decrease in silver price and the 24.9% increase in by-product credits, mainly from gold.

As a result of the above factors, margin per ounce, calculated as the average realised price minus cash cost per ounce of silver, decreased by 12.4% to US$25.8; the margin expressed as a percentage of silver price declined from 84.9% in 2011 to 82.2% in 2012. This mine represented 44.2% of the total gross profit for operating mines.

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

[2] Adjusted production costs is calculated as total production costs less depreciation, profit sharing and the effects of exchange rate hedging.

Our Mines in Operation continued

1 Operate
Maximise the potential of existing operations

Saucito

Ownership: **100% Fresnillo plc**			
Location: **Zacatecas, 8 km SW of the Fresnillo mine**			
In operation since: **2011**			
Facilities: **Underground mine and flotation plant**			
2012 milling capacity: **3,000 tpd / 990,000 tpy**			
Workforce: **867 contractors**			
	2012	2011	% change
Reserves and mine life			
Mine life (years)	**11.4**	2.8	
Total reserves			
Silver (moz)	**118.9**	29.3	>100
Gold (oz)	**568,000**	180,000	>100
Avg ore grade in reserves			
Silver (g/t)	**357**	275	29.8%
Mine production			
Ore milled (kt)	**905**	818	10.6
Silver (koz)	**7,054**	5,904	19.5
Gold (oz)	**45,246**	33,493	35.1
Lead (tonnes)	**2,773**	1,742	59.2
Zinc (tonnes)	**1,791**	1,171	52.9
Financial highlights (US$m)			
Adjusted revenue	**285.9**	234.6	21.9
Segment profit	**206.3**	177.5	16.2
Capital expenditure	**54.4**	65.3	–16.7
Exploration	**3.7**	3.6	2.8

Adjusted revenue US$

2012	2011
285.9 million +21.9%	234.6 million

Segment profit US$

2012	2011
206.3 million +16.2%	177.5 million

This mine, which commenced operations in 2011, is one of the Group's key growth drivers in silver. Along with its planned Saucito II expansion, Saucito is critical to advancing towards our 2018 production target of 65 million ounces of silver. To achieve this objective, we will continue to: i) ramp up operations and achieve the targeted annual production levels of 9.0 million silver ounces and 45,000 ounces of gold; ii) prepare areas of the mine sufficient for approximately two years of production, in line with Group policy; iii) invest in exploration to upgrade resources to reserves and maintain the life of the mine at ten years; and iv) advance the Saucito II expansion towards start-up in 2015.

What we said we would do in 2012

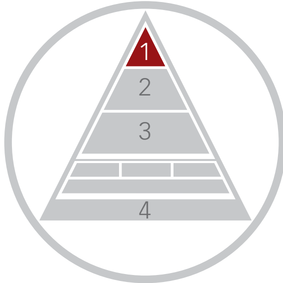
- Ramp up production to 6.5 million ounces of silver
- Obtain Clean Industry certification, initiate OHSAS 18001 and ISO 14001 certification processes
- Expand the tailings dam

What we did in 2012

- Produced 7.0 million ounces of silver
- Advanced the Clean Industry certification process to 61%; our revised expectation is to obtain certification in 2013
- Supported the integration of our contractors to the Self-Management Programme on Safety and Heath administered by the Mexican Secretariat of Labour and Social Welfare
- Concluded the tailings dam expansion

What we plan to do in 2013

- Submit the Saucito II expansion project for Board approval; begin construction in 2H 2013 accordingly
- Obtain Clean Industry certification and conduct the initial audit for the ISO 14001 certification process
- Maintain exploration efforts on the Natalias veins to expand the mine's resources
- Cost cutting/efficiency initiatives: reduce consumption of reagents and electricity; increase contractor productivity in development works
- Evaluate construction of a pyrites plant in conjunction with the integrated Fresnillo District growth optimisation plan



Overview
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Key developments in the year

We reached designed operating capacity of 3,000 tonnes per day, with annual silver production of 7.0 million ounces and gold production of 45,246 ounces, surpassing our initial expectations for 2012. In addition to work on the Saucito vein, we began development of the richer Jarillas vein, which contributed to the higher than forecasted production volumes.

The construction of the Jarillas shaft was nearly concluded at year end, with commissioning expected in March 2013. This new shaft will have capacity of 5,000 tonnes per day and will reduce haulage and hoisting costs at the Saucito mine by providing direct access to the Jarillas vein.

There were two fatalities in 2012, resulting in intensified awareness campaigns and increased oversight, particularly as this mine is operated entirely by contractors. Nonetheless, Saucito made progress in other aspects of the HSECR framework, designing its hazardous waste management plan and supporting the integration of its contractors into the Self-Management Programme on Safety and Health administered by the Mexican Secretariat of Labour and Social Welfare. See Our Safety Action Plan on page 86.

We carried out an intensive US$3.7 million exploration programme, which combined with a US$18 million investment in development works successfully converted part of the vast resource base into the reserves category. Total resources in 2012 remained stable at 45.3 million tonnes with an average ore grade of 362 g/t and silver content totalling 527.5 million ounces and 2.0 million ounces of gold. Audited reserves increased significantly, with tonnage increasing to 10.4 million tonnes (2011: 2.8mt) and ore grade rising to 357 g/t (2011: 275 g/t). As a result, silver content in reserves increased from 24.6 million ounces in 2011 to 118.9 million ounces in 2012. Based on proven and probable reserves and current milling capacity, the expected life of the mine is 11.4 years (2011: 2.8 years).

Based on the audited reserves and resources figures obtained in early 2013, we have completed a feasibility study for the Saucito II expansion. We currently estimate a capex budget of US$233 million for this project, with average annual production of 8.4 million ounces of silver and 35,000 ounces of gold. If approved, construction will begin in 2H 2013 and operation would commence in 2015, ramping up to full production in 2017.

Investment in maintenance, productivity and growth

Capital expenditures totalled US$54.4 million and were primarily allocated to development, ramps and construction of the Jarillas shaft. As the Saucito II expansion project moves forward, capital expenditures will rise; for 2013, US$150 million has been budgeted with 54% allocated for the Saucito II expansion.

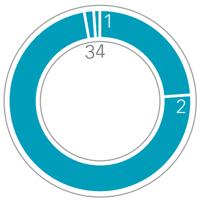
Financial performance

Adjusted revenues[1] at Saucito increased by 21.9% to US$285.9 million, reflecting the increase in silver and gold volumes sold, which offset the adverse effect of the lower silver price. Total adjusted revenues represented 12.5% of the Group's consolidated figure, while the mine's participation in consolidated silver revenues rose to 19.3% from 15.0%, underscoring Saucito's growing importance to the Company's silver profile. Gold remains an important component at this mine, as illustrated in the accompanying graph.

Adjusted production[2] costs of US$55.1 million represented 9.6% of the total consolidated costs. Because Saucito is operated by contractors, the mine's cost structure is heavily weighted towards contractor costs, which also includes some operating materials, depreciation and diesel.

Adjusted revenue by metal US$

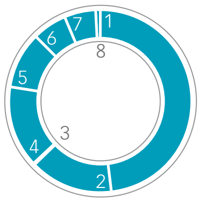
285.9 million



	US$ million
1 Gold	69.0
2 Silver	209.6
3 Lead	4.6
4 Zinc	2.7

Adjusted production costs US$

55.1 million



	US$ million
1 Contractor	26.7
2 Electricity	8.0
3 Diesel	0.2
4 Operating materials	7.9
5 Maintenance	5.5
6 Personnel	3.4
7 Others	3.0
8 Freight	0.4

Cost per tonne was US$60.9, which is more representative of the mine's true cost structure, as 2012 was the first full year of commercial production whereas in 2011 we processed stockpiles from the development phase.

Cash cost of US$0.49 per silver ounce reflected the favourable effect of high by-product revenues, mainly from gold, and higher grades from the production stopes. As a result, margin per ounce of silver decreased by 8.8% to US$30.94, whilst expressed as a percentage of silver price the margin was 98.4%. This mine represented 11.1% of the total gross profit for operating mines.

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

[2] Adjusted production costs is calculated as total production costs less depreciation, profit sharing and the effects of exchange rate hedging.

Our Mines in Operation continued

1 Operate
Maximise the potential of existing operations

Ciénega

Ownership: **100% Fresnillo plc**

Location: **Durango**

In operation since: **1992**

Facilities: **Underground mine, flotation and leaching plant**

2012 milling capacity: **2,800 tpd / 930,000 tpy**

Workforce: **453 employees, 452 contractors**

	2012	2011	% change
Reserves and mine life			
Mine life (years)	**16.7**	13.8	
Total reserves			
Silver (moz)	**66.1**	54.0	22.4
Gold (oz)	**828,000**	830,000	–0.24
Avg ore grade in reserves			
Silver (g/t)	**111**	131	–15.3
Gold (g/t)	**1.38**	2.01	–32.3
Mine production			
Ore milled (kt)	**1,113**	967	15.1
Silver (koz)	**3,329**	1,474	125.8
Gold (oz)	**125,275**	116,841	7.2
Lead (tonnes)	**5,676**	6,315	–10.1
Zinc (tonnes)	**8,171**	9,318	–12.3
Financial highlights (US$m)			
Adjusted revenue	**320.1**	250.1	28.0
Segment profit	**217.7**	165.7	31.4
Capital expenditure	**81.9**	79.8	2.6
Exploration	**15.4**	11.5	33.9

Adjusted revenue US$

2012	2011
320.1 million +28.0%	250.1 million

Segment profit US$

2012	2011
217.7 million +31.4%	165.7 million

Whilst Ciénega has long been classified as a gold mine, it is also rich in silver resources and silver revenues have risen markedly in recent years. Given the mine's revenue profile, Ciénega may convert to a primarily silver mine in the medium term. Notwithstanding, in order to maintain production in equivalent gold ounces and compensate for lower average gold ore grade, we will reduce certain bottlenecks in the flotation plant to increase milling capacity, intensifying exploration and extraction from San Ramón and other areas of influence, and over the longer term, will evaluate the leaching of gold and silver from the mine's lead concentrates.

The mine's remote location in Durango near the village of Nuestra Señora de la Ciénega, and the local community's economic dependence on the mine, requires that we incorporate a wide range of basic services including telecommunication, education and healthcare as part of the operating profile of this business unit, which includes the San Ramón satellite mine.

What we said we would 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

What we did in 2012

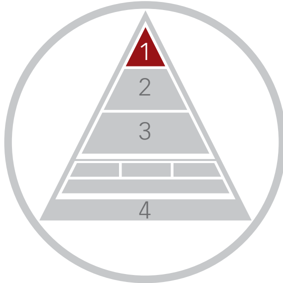
Commercial production started at San Ramón satellite reaching its full capacity of 1,000 tonnes per day

We were able to control dilution caused by narrow veins by blasting more precisely

We continue to evaluate a range of viable alternatives to profitably increase payable silver and gold from lead and zinc concentrates

The process to obtain International Cyanide Management Code certification advanced to 75% (delays were external and unrelated to the mine's performance); we conducted the first audit and began to address areas for improvement. Simultaneously, we advanced the OHSAS certification to 85%

Exploration in areas of influence generated encouraging results



What we plan to do in 2013

- Prepare a scoping study for the Las Casas project
- Intensify exploration programme at Cebollitas
- Evaluate alternatives to increase the tailings dam's capacity
- Cost cutting /efficiency initiatives

Key developments in the year

Annual gold production increased by 7.2% over 2011 due to higher ore throughput, exceeding the designed milling capacity of 930,000 tonnes per year to reach 1.1 million tonnes. This was supported by maintenance improvements at the beneficiation plant, continuous development, and access to deeper ore reserves following the sinking of the shaft. Annual silver production increased significantly as a result of higher grades; conversely, lead and zinc production fell with lower grades.

At the San Ramón satellite, 263,200 tonnes of ore were extracted, representing 24% of Ciénega's total production. In addition, 34,628 metres of core drilling was conducted to evaluate the recently discovered East shoot of the main Porvenir-Bandera vein and the Republicana structure. 200,000 ounces of gold equivalent were added to the resource base after replenishment of mined material. 1,000 tpd of ore is trucked daily from San Ramón to the Ciénega process plant.

Average gold ore grade (of 3.6 g/t) decreased by 7.7% compared to 2011, in line with the expected 3.5 g/t for 2012. However silver ore grade doubled to 105.2 g/t reflecting higher silver content at the San Ramón satellite mine and Ciénega. Gold grades are expected to continue decreasing towards the level contained in resources, whilst silver grade will remain at current level in the coming years, strengthening the relative silver profile at this mine.

Investment in maintenance, productivity and growth

Capital expenditures rose 2.6% from 2011 to US$81.9 million, with resources allocated to development and mine work mainly at Ciénega, the purchase of land and replacement of equipment.

Intensive exploration, including mine work and preparation, was conducted at Las Casas during the year, an advanced exploration project located 800 metres from Ciénega mine. This resulted in the addition of 21 million tonnes to resources, containing 716,000 ounces of gold and 69 million ounces of silver. In 2013 we will prepare a pilot stope to verify the geological model and geotechnical characteristics of the deposit, and conduct a scoping study to evaluate the inclusion of this advanced exploration site as a second satellite to Ciénega given its proximity to the mine.

As part of our cost cutting and efficiency initiatives, in 2013 we will also reduce bottlenecks in the flotation plant, which will increase processing to 3,600 tpd and 1.2 million tonnes of ore milled per year as of 2H 2013; and build a water drainage channel that will eliminate electric pumps and their associated costs.

On a combined basis, gold resources at Ciénega, San Ramón and Las Casas remained stable at 1.7 million ounces of gold (2011: 1.7 million ounces) and silver increased by 11.9% to 136.8 million ounces in 2012 (2011: 122.2 million ounces). In terms of reserves, gold content remained stable at 828,000 ounces, whilst silver rose 22.4% to 66.1 million ounces in 2012. The mine life is estimated at 16.7 years at current capacity.

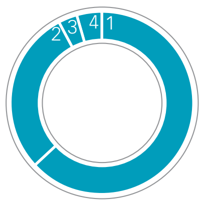
Financial performance

Adjusted revenue[1] increased by 28.0% to US$320.1 million in 2012, reflecting increased volumes of gold and silver and higher prices of gold, and representing 14.0% of the Group's total. Ciénega is the Group's most polymetallic mine, as evidenced by the 36.9% contribution from silver, lead and zinc.

Adjusted production costs[2] at this mine were US$85.7 million, 14.9% of the Group's consolidated figure. Contractor costs have become a more important component of the cost structure at this mine, comprising 41.6% in 2012 (2011: 35.0%) primarily as a result of the San Ramón satellite mine which is mainly operated by contractors.

Adjusted revenue by metal US$

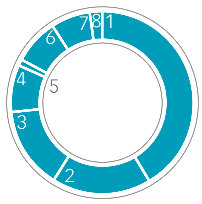
320.1 million



	US$ million
1 Gold	202.1
2 Silver	93.7
3 Lead	10.3
4 Zinc	14.0

Adjusted production costs US$

85.7 million



	US$ million
1 Contractor	35.6
2 Operating materials	14.9
3 Personnel	12.4
4 Electricity	7.2
5 Diesel	1.0
6 Maintenance	6.8
7 Others	6.1
8 Freight	1.7

Cost per tonne milled at Ciénega rose by 5.0% to US$77.1. This reflected the increase in haulage, development and rock bolting at San Ramón. Per tonne consumption of diesel and operating materials such as steel for milling, explosives and reagents, was also impacted by the formal commencement of this satellite mine, with higher freight costs for materials and spare parts to support the operation. These factors were partially offset by the Mexican peso devaluation and the synergies and efficiencies gained by the 15.1% increase in volume of ore processed.

Higher mining costs and lower ore grade at this mine were more than offset by the credit of higher silver by-product revenues, resulting in a cost of –US$84.8 per ounce. Margin per ounce of gold increased significantly to US$1,759.0 per ounce, a 20.1% increase over 2011. This mine represented 12.8% of the total gross profit for operating mines.

1 Adjusted revenue is revenue as disclosed in the income statement adjusted to exclude treatment and refining charges.
2 Adjusted production costs is calculated as total production costs less depreciation, profit sharing and the effects of exchange rate hedging.

Our Mines in Operation continued

1 Operate
Maximise the potential of existing operations

Herradura

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

Location: **Sonora**

In operation since: **1997**

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

Workforce: **819 employees, 311 contractors**

	2012	2011	% change
Reserves and mine life			
Mine life (years)	**6.6**	7.2	
Total reserves			
Gold (moz)	**2.2**	2.0	10.0
Avg ore grade in reserves			
Gold (g/t)	**0.73**	0.78	–6.4
Mine production			
Ore deposited (kt)	**24,641**	21,020	17.2
Silver (koz)	**136**	227	–40.1
Gold (oz)	**176,146**	183,528	–4.0
Financial highlights (US$m)			
Adjusted revenue	**528.6**	521.9	1.3
Segment profit	**369.5**	404.8	–8.7
Capital expenditure	**109.1**	72.7	50.1
Exploration	**13.5**	10.7	26.2

Adjusted revenue US$

2012	2011
528.6 million +1.3%	521.9 million

Segment profit US$

2012	2011
369.5 million –8.7%	404.8 million

Herradura is Mexico's largest open pit gold mine. We seek to:

- Maximise gold production with consideration of price cycles and ore grades
- Increase volumes of ore processed
- Increase recovery rates of high grade ore with the construction of a dynamic leaching plant
- Evaluate a potential expansion of the Mega Centauro pit; and
- Conduct ongoing exploration at the Centauro Deep project, which is taking shape below the main pit of Herradura for potential development as an underground mine, as well as at areas of influence and across the District. As ore grades decline and operating costs increase, we must also identify opportunities to increase efficiency and cut costs

What we said we would do in 2012

- 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

What we did in 2012

- A significant part of the resources at Centauro Deep were transferred to the Mega Centauro project, thus additional exploration will take place in 2013 to again increase the resource base at this project
- Advance OHSAS 18001 certification process to 85% of completion
- Increased the total resource base at the Centauro pit and continued exploration at areas of influence with encouraging results

What we plan to do in 2013

- Continue exploration at Centauro Deep to increase the resource base at this project
- Increase the resource base through extensive exploration
- Evaluate a future expansion of the Mega Centauro pit
- Obtain OHSAS 18001 certification
- Cost cutting/efficiency initiatives

Key developments in 2012

Annual attributable gold production decreased by 4.0% as a result of lower ore grades and recovery rates. Total gold production was 314,547 ounces.

Average gold ore grade in 2012 decreased by 13.8% to 0.56 g/t. This resulted from lower than expected grades at the bottom of the Centauro pit combined with the Company's decision to deposit greater volumes of low grade ore, which are economically viable at current price levels. However, we remain confident in our estimation that gold ore grade will not vary significantly in 2013 from the geological models, thus ore grade is expected to return to the 0.65 g/t level.

Attributable resources, including those of Centauro Deep and the Mega Centauro project, increased by 5.4% to 3.9 million ounces of gold, whilst attributable proven and probable reserves rose by 10.0% to 2.2 million ounces in 2012. Based on audited reserves and increased production volumes the expected life of the mine is 6.6 years, compared to 7.2 years in 2011.

At the Mega Centauro project more than 130,000 metres of drilling was conducted in the year. Intensive infill exploration will continue in preparation for a pre-feasibility study.

Investment in maintenance, productivity and growth

Capital expenditures increased by 50.1% to US$109.1 million in 2012. Funds were allocated to the construction of leaching pads, replacement of equipment, preparation of new banks; mining works at Centauro Deep and construction of the dynamic leaching plant, which represented approximately 34.3% of the total (US$37.4 million). Equipment purchased by Bermejal, a subsidiary of Penmont, and leased to Herradura totalled US$24.4 million.

The construction of the second phase of the ninth leaching pad was concluded in 2012 and the tenth leaching pad remained on schedule to become operational in 2013, ensuring operational continuity at current levels.

Exploration at the Centauro Deep project progressed well, including mine work aimed at converting inferred resources to the indicated and measured category. Because resources from this project were transferred to the Mega Centauro project, exploration will continue in 2013 to again expand the resource base.

As part of our cost cutting and efficiency initiatives for 2013, we plant to increase the life of tyres through road maintenance; reduce diesel consumption by limiting haulage cycles in the upper levels of the pit; improve the methodology to mix lime with the ore to stabilise pH level; and reduce usage of oils/lubricants.

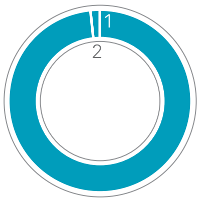
Financial performance

Adjusted revenue[1] remained stable at US$528.6 million, as record gold prices almost fully mitigated lower sales volumes, maintaining the mine's position as the second largest contributor to the Group's consolidated adjusted revenues with a 23.1% participation.

Adjusted production costs[2] of US$159.1 million represented 27.6% of the Group's total. Contractors, operating materials, diesel and maintenance costs are the most important cost components at this open pit mine.

Adjusted revenue by metal US$

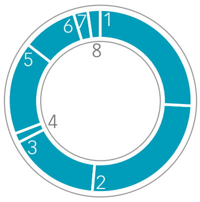
528.6 million



	US$ million
1 Gold	521.1
2 Silver	7.5

Adjusted production costs US$

159.1 million



	US$ million
1 Contractor	41.4
2 Operating materials	40.6
3 Diesel	25.5
4 Electricity	2.9
5 Maintenance	26.0
6 Personnel	15.3
7 Others	4.1
8 Freight	3.3

Cost per tonne rose by 8.3% to US$6.5 primarily due to the increased contractor participation to haul ore and waste material across longer distances and to prepare production banks, as well as the increased unit fees for contractors resulting from the annual review at this mine. As the pit deepens and haulage distances increase, per tonne consumption of tyres, diesel and lubricants are also affected. Furthermore, higher consumption of sodium cyanide per tonne to increase recovery rates and more expensive, non-diluting explosives required for deeper banks also impacted cost per tonne. These costs were partially mitigated by the Mexican peso devaluation and by the synergies and efficiencies gained with the 17.2% rise in volumes of ore processed.

Cash cost was US$481.31 per gold ounce, an increase of 32.9%, as a result of the decline in ore grade and increase in cost per tonne. This affected the margin per ounce of gold expressed as a percentage of the gold price, which decreased from 77.2% in 2011 to 71.3% in 2012. This mine represented 22.8% of the total gross profit for operating mines.

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

[2] Adjusted production costs is calculated as total production costs less depreciation, profit sharing and the effects of exchange rate hedging.

Our Mines in Operation continued

1 Operate
Maximise the potential of existing operations

Soledad-Dipolos

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

Location: **Sonora**

In operation since: **2010**

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

Workforce: **386 employees, 330 contractors**

	2012	2011	% change
Reserves and mine life			
Mine life (years)	**3.2**	4.3	
Total reserves			
Gold (oz)	**549,000**	580,000	–5.3
Avg ore grade in reserves			
Gold (g/t)	**0.62**	0.60	3.3
Mine production			
Ore deposited (kt)	**15,318**	12,265	24.9
Silver (koz)	**28**	50	–42.0
Gold (oz)	**60,104**	88,767	–32.3
Financial highlights (US$m)			
Adjusted revenue	**178.5**	248.1	–28.0
Segment profit	**112.2**	180.4	–37.8
Capital expenditure	**8.7**	37.1	–76.5
Exploration	**10.6**	5.3	100.0

Adjusted revenue US$

2012
178.5 million
–28.0%

2011
248.1 million

Segment profit US$

2012
112.2 million
–37.8%

2011
180.4 million

Mine profile and strategic objectives

Located nine kilometres northwest of the Herradura mine, Soledad-Dipolos also faces a decline in ore grades. Our focus is to maintain gold production levels for the next three years at current capacity, which will require enhancing recoveries on the leaching pads to accommodate for the volumes of ore deposited. We will also continue exploration to increase the resource base and increase mine life, whilst putting in place cost cutting measures.

What we said we would 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

What we did in 2012

The exploration programme did not obtain sufficient results to extend mine life

OHSAS 18001 certification process advanced to 80% of completion reflecting a greater focus on the Safety Self-Management Programme and the incorporation of contractor companies

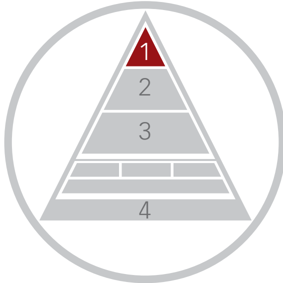
International Cyanide Management Code certification advanced to 85% as we continued to implement suggested preventive measures

What we plan to do in 2013

Accelerate gold recovery at the pads, including an expansion of processing capacity at the plant from 750 to 1,250 m^3 per hour

Complete OHSAS 18001 certification process and obtain International Cyanide Management Code certification

Cost cutting/efficiency initiatives



Key developments in 2012

Attributable gold production decreased by 32.3% compared to 2011 due mainly to the lower ore grades, resulting from both: i) our strategy to process lower ore grades which were profitable at current prices, and ii) lower grades from production stopes. In addition, a slow down in the recovery speed further affected production volumes and increased gold inventories in the leaching pads. Total gold production of 107,329 ounces was below the stated capacity of 130,000 ounces.

For 2013, a slight increase to 110,000 ounces is expected. We expect a higher stripping ratio and modifications to accelerate the flow rate at the beneficiation plant will improve production during the year.

Average gold ore grade was 0.51g/t in 2012, a 10.5% decrease compared to 2011. Based on our revised geological model, we expect ore grades will slightly decrease to 0.47g/t in 2013, and will broadly increase on a medium-term trend as the pit is deepened.

Attributable resources at this mine totalled 549,000 ounces, an 8.5% decrease, whilst attributable reserves decreased to 549,000 ounces of gold, resulting in an expected mine life of 3.2 years at current production capacity. The Group continued 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$8.7 million were allocated to development, construction of leaching pads and improved safety procedures to obtain the International Cyanide Management Code certification. Equipment purchased by Bermejal and leased to Soledad-Dipolos totalled US$6.9 million.

To increase efficiency and reduce costs, in 2013 we plan to implement certain initiatives such as increasing the velocity of gold recovery; increasing the life of tyres through road maintenance; reducing diesel consumption by limiting haulage distances to the closer waste pad; improving the methodology to mix lime with the ore to stabilise pH level; and reducing usage of oils, lubricants and explosives.

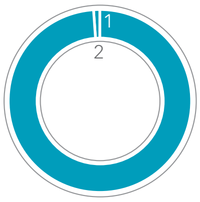
Financial performance

Adjusted revenue[1] decreased by 28.0% to US$178.5 million due to lower volumes of gold ounces sold, offsetting the benefit of higher gold prices. Notwithstanding, the mine contributed 7.8% of the Group's consolidated adjusted revenue, and 15.8% of gold revenues.

Adjusted production costs[2] of US$96.8 million represented 16.8% of the consolidated costs. Similar to Herradura, 80.0% of the costs are comprised of contractors, operating materials, maintenance and diesel costs.

Adjusted revenue by metal US$

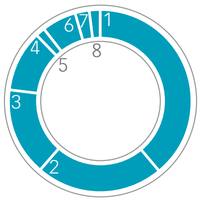
178.5 million



	US$ million
1 Gold	176.9
2 Silver	1.6

Adjusted production costs US$

96.8 million



	US$ million
1 Contractor	37.6
2 Operating materials	21.8
3 Maintenance	15.3
4 Diesel	10.4
5 Electricity	1.6
6 Personnel	5.9
7 Others	2.6
8 Freight	1.6

Cost per tonne increased by 8.8% to US$6.3 as a result of: i) the increased participation of contractors in hauling ore and waste material over longer distances; ii) intensive use of equipment and greater consumption of tyres, lubricants and diesel per tonne as a result of longer distances as the pit is deepened; and iii) the 11.1% increase in the weighted unit price of operating materials at this mine. These costs were partially mitigated by the Mexican peso devaluation and by the synergies and efficiencies gained with the 24.9% rise in volumes of ore processed.

Cash cost at this mine was US$618.8 per ounce of gold, a 29.4% increase over 2011, reflecting the lower gold grade (-10.5%) and slower speed of recovery at the leaching pads, combined with the higher mining costs. As a result, margin per ounce decreased by 4.7% to US$1,055.4 in 2012. Margin expressed as a percentage of gold price declined to 63.0% from 69.8% in 2011. This mine represented 6.1% of the total gross profit for operating mines.

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

[2] Adjusted production costs is calculated as total production costs less depreciation, profit sharing and the effects of exchange rate hedging.

Our Mines in Operation continued

1 Operate
Maximise the potential of existing operations

Noche Buena

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

Location: **Sonora**

In operation since: **2012**

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

Workforce: **286 employees, 233 contractors**

	2012
Reserves and mine life	
Mine life (years)	**4.1**
Total reserves	
Gold (oz)	**629,000**
Avg ore grade in reserves	
Gold (g/t)	**0.55**
Mine production	
Ore deposited (kt)	**8,447**
Silver (koz)	**8**
Gold (oz)	**36,690**
Financial highlights (US$m)	
Adjusted revenue	**108.5**
Segment profit	**68.3**
Capital expenditure	**42.0**
Exploration	**22.2**

Adjusted revenue US$

2012

108.5 million

Segment profit US$

2012

68.3 million

Mine profile and strategic objectives

Noche Buena commenced operations as an open pit gold mine in 2012. It is located in the Herradura District 23 km from the Herradura mine, and was acquired in 2008 from Seabridge as part of the Group's district consolidation strategy that includes identifying early stage acquisitions. We will continue to ramp up gold production and expand the resource base through an ongoing exploration programme, with a potential expansion of capacity. This mine is supported by the same communities as Herradura and Soledad-Dipolos, where our long record of community engagement enhances the sustainability profile of the mine.

What we said we would do in 2012

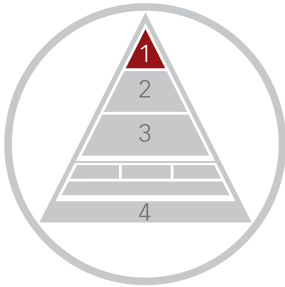
- Commission the mine and operate at expected capacity
- Initiate International Cyanide Management Code certification process
- Verify potential to expand capacity and submit evaluation to purchase additional trucks and loaders

What we did in 2012

- Successfully commissioned the mine in March, in line with budget, and reached full capacity by year end
- Initiated work on the prevention programme as part of the International Cyanide Management Code certification process
- Advanced the exploration programme and submitted new resources and reserves estimations to audit

What we plan to do in 2013

- Expand processing capacity at the plant from 750 to 1,600 m³ per day
- Expand capacity and increase average annual gold production to 75,000 attributable ounces in the 2013-2018 period
- Advance the International Cyanide Management Code certification process; obtain certification in 2014
- Initiate/advance the OHSAS 18001 certification process
- Cost cutting/efficiency initiatives



Key developments in 2012

Commercial production at Noche Buena commenced in March 2012 following a total investment of US$63.3 million in line with budget and expected timeline. Gold production at this new mine ramped up successfully, reaching full capacity by the end of the year and producing 36,690 attributable ounces. This surpassed our expected production figure by 9.0% and was instrumental in strengthening the Group's gold production profile in the year.

An intensive exploration programme was conducted to verify and expand the resource base. Audited attributable resources at this mine totalled 887,400 gold ounces by year-end, with reserves estimated at 629,000 ounces.

As a result, an expansion of capacity, pending Board approval, would be concluded in 2013. This would grow average annual gold production to 75,000 attributable ounces from 2013-2018.

Investment in maintenance, productivity and growth

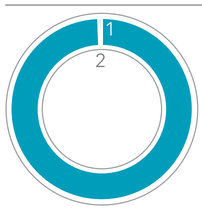
Capital expenditures of US$42.0 million were allocated to construction of leaching pads, development activities and purchase of equipment. Equipment purchased by Bermejal and leased to Noche Buena totalled US$30.8 million.

In 2013 we plan to increase life of tyres through road maintenance; reduce diesel consumption by limiting haulage cycles in the upper levels of the pit; improve the methodology to mix lime with the ore to stabilise pH; and reduce usage of oils/lubricants, all as part of our cost cutting and efficiency initiatives.

Financial performance

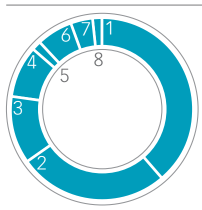
In its first 10 months of operations, Noche Buena generated US$108.5 million in adjusted revenue[1], representing 4.7% of the Group's consolidated figure. Adjusted production costs[2] of US$57.8 million represented 10.0% of the Group's total figure, with a similar cost structure to Soledad-Dipolos.

Adjusted revenue by metal US$
108.5 million



	US$ million
1 Gold	108.0
2 Silver	0.5

Adjusted production costs US$
57.8 million

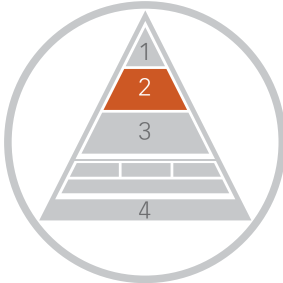


	US$ million
1 Contractor	22.4
2 Operating materials	15.4
3 Maintenance	7.0
4 Diesel	5.3
5 Electricity	0.9
6 Personnel	3.7
7 Others	2.2
8 Freight	0.9

Cost per tonne of US$6.8 and cash cost of US$582.41 per ounce of gold were in line with our forecasts. Margin per ounce was US$1,091.7, while margin expressed as a percentage of gold price was 65.2%. This mine represented 2.9% of the total gross profit for operating mines.

[1] Adjusted revenue is revenue as disclosed in the income statement adjusted to exclude treatment and refining charges.
[2] Adjusted production costs is calculated as total production costs less depreciation, profit sharing and the effects of exchange rate hedging.

Our Projects in Development



2 Develop
Delivering growth through development projects

Dynamic leaching plant

Ownership:	**Minera Penmont JV** (56% Fresnillo plc, 44% Newmont USA Limited)
Location:	**Sonora**
Facilities:	**Milling and leaching area**
Commercial production:	**4Q 2013**
Anticipated production:	The plant is expected to increase gold production by an average of 28,000 attributable ounces per year over the 2013–2020 period

Project profile and strategic objectives

The dynamic leaching plant at Herradura will process high grade ore from Herradura and Soledad-Dipolos. This project is expected to increase gold production by an average of 28,000 attributable ounces per year over the 2013-2020 period, of which 85% is expected to come from the Herradura mine and the remainder from Soledad-Dipolos.

What we did in 2012

The future site of the dynamic leaching plant was relocated due to the potential expansion of Herradura's Centauro pit in light of additional gold resources found. As a result, capex for this project was reviewed and increased from US$106.8 million to US$116.0 million, new environmental permitting was secured for the new location, plans for the construction of a new tailings dam were developed, and the commissioning of the plant moved into the second half of 2013.

What we plan to do in 2013

Conclude construction of the plant, conduct testing and commence commercial production

San Julián

Ownership:	**100% Fresnillo plc**
Location:	**Chihuahua/Durango border**
Facilities:	**Underground mine, flotation plant and a dynamic leaching plant**
Commercial production:	**2H 2014**
Anticipated production:	Annual average production of 9.6 million ounces of silver and 40,000 ounces of gold

Project profile and strategic objectives

The San Julián project comprises a series of silver-gold veins as well as disseminated ore. In 4Q 2012 the Board of Directors approved San Julián feasibility study, and construction for the new mine began immediately thereafter. This project is vital to advancing the Company's goal to produce 65 million ounces of silver and 500,000 ounces of gold per year by 2018, and management believes there is sufficient geological potential to establish a new mining district in the future.

The estimated capital cost of the project is US$500 million and includes construction of two plants: i) a flotation plant with 6,000 tpd capacity to process ore from the disseminated body; and ii) a dynamic leaching plant to treat 3,000 tpd of ore from the veins. Commercial production is expected to commence in 2H 2014, with 5.7 million ounces of silver and 1,300 ounces of gold in the first year, gradually ramping-up to an average of 9.6 million ounces of silver and 40,000 ounces of gold per year, once at full capacity. Cash costs are expected to be in the lowest quartile of the international cash cost curve.

What we did in 2012

With Board approval of the project, mine work and detailed engineering for the plant continued, and construction activities progressed, including infrastructure work preparation of a landing strip, which will facilitate the fly-in/fly-out requirement of the mine. Housing and logistics for employees and contractors was arranged and the necessary workforce has been secured, with safety training already underway. Notwithstanding, a fatality occurred during a maintenance procedure, the result of which was increased oversight and targeted training. See Our Safety Action Plan on page 86.

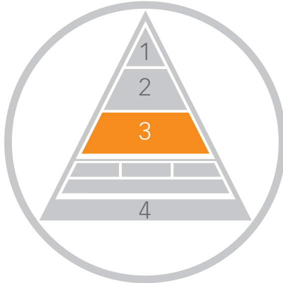
Mine work advanced at an accelerated pace; development, stope preparation, and ventilation advanced to 27,408 metres. Intensive core drilling exploration continued, with 103,731 metres completed in the northern part of the district. The new Todos Santos Norte blind vein system was discovered, adding 200,000 equivalent gold ounces to the resource base.

Resources were updated in the year to include 21.8 million tonnes in the disseminated body with an average grade of 147 g/t of silver, and 11.8 million tonnes in the vein system with average grades of 131 g/t of silver and 1.56 g/t of gold. Ore from development activities is being stockpiled for processing once tests and commercial production begin.

What we plan to do in 2013

- Conclude detailed engineering and continue the construction of the processing plant
- Hire and train additional personnel
- Implement the 'Operational Discipline' programme to instill a safety culture at this earliest phase

Our Exploration Programme



3 Explore
Extend the growth pipeline

How we do it

The Fresnillo plc exploration team is focused on the discovery and acquisition of large, low-cost silver and gold ore bodies in Latin America. Our team of 78 geologists, along with a support staff of 75, are based in five field offices: Hermosillo, Chihuahua, Zacatecas and Toluca in Mexico; and in Lima, Peru. In addition, we employ 465 local community members across our project sites.

Considerable attention is given to promote sustainable development and maintain good health and safety practices at all times. In 2012 we renewed our ISO-14001:2004 certification, ensuring that all of our exploration activities are completed under strict care for the environment. We maintain six nurseries with 18,000 plant specimens that thrive in the climate regions where we explore, including endangered species. We conducted dozens of community engagement and environmental education activities in 2012 to strengthen our mutually beneficial relations with local communities.

What we said we would do in 2012

- Conclude the pre-feasibiity study at San Julián and initiate construction
- Continue development and ramp construction at Centuro 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)

What we did in 2012

An aggressive exploration programme was completed in 2012, including 593,968 metres of core and 249,225 metres of reverse circulation drilling on 20 properties, following geological mapping and geochemical/geophysical surveys. Silver resources were increased 12.2% to 2.03 billion ounces and gold resources increased 15.0% to 27.0 million ounces. Reserves and replenishment of the mined ore were increased to 498.5 million ounces silver (+23.6%) and 5.5 million ounces gold (+19.6%).

The Board of Directors approved the San Julián project in 2012, and work on the new mine began immediately. Ramp construction continued at Centauro Deep, advancing to 9,228 metres. A pre-feasibility study was concluded at Juanicipio, and we are following the recommendations of the independent third party. At Orisyvo, a bulk sample of sulphide gold ore from the exploration adit was submitted to the lab for metallurgical test work and a full-scale evaluation is underway. At Las Casas, additional drilling delivered significant improvements in tonnage and grades, and conversion to indicated from inferred resources; mine work has now reached the veins.

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Our Exploration Programme continued

3 Explore
Extend the growth pipeline

Fresnillo district

Minera Juanicipio

Ownership: **56% Fresnillo plc, 44% MAG Silver**

Location: **Zacatecas, 8 km SW of the Fresnillo mine**

Indicated & inferred resources
(attributable) 115.0 million ounces of silver
368,000 ounces of gold

A pre-feasibility study completed in 2012 indicated positive results supporting a stand-alone mining and processing operation. 28,887 metres of 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 has started at the new Mesa Grande target, south of Valdecañas.

Other sites in the Fresnillo corridor

18,846 metres of core drilling were distributed amongst geophysical-geochemical targets east and south of the Fresnillo mine, delivering anomalous to ore grade silver and base metals in erratic intervals; drilling will continue in 2013 to define the main mineralised structures. Claims were purchased at the Santa Rosa historic mine, 35 km southwest of Fresnillo, where an exploration programme will be implemented in 2013.

Herradura district

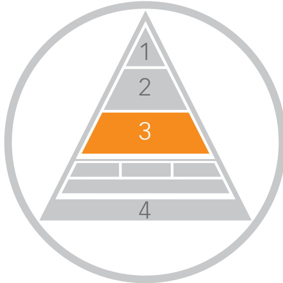
Centauro Deep

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

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

Indicated & inferred resources
(attributable) 349,000 ounces of gold

25,801 metres of drilling from the current pit continued to deliver mineralised intersections from surface down to 1,500 metre depth. Reserves at Centauro Deep have been incorporated into the new Mega Centauro pit design. Exploration will now be intensified at deeper levels to delineate ore for the planned underground mine.



Ciénega district

Las Casas-Rosario

Ownership: **Minera La Ciénega, S.A. de C.V.** (100% Fresnillo plc)	
Location: **Durango**	
Indicated & inferred resources 68.7 million ounces of silver 716,000 ounces of gold	

33,859 metres of infill core drilling were completed at the Las Casas vein system. The positive results helped produce an improved geological model, which delivered 44% and 165% increases in total resources and measured & indicated resources, respectively. Underground drifting has started along these veins to fully evaluate the economic potential of this resource and the better grade ore shoots. New exploration targets were developed in the Ciénega Sur area, which will be drilled in 2013.

Other prospects in Mexico

Orisyvo

Ownership: **Minera Fresnillo, S.A. de C.V.** (100% Fresnillo plc)	
Location: **Chihuahua**	
Indicated & inferred resources 9.9 million ounces of gold	

We drilled 33,001 metres of core in the main central sulphide zone and in the upper North and West Oxide ore bodies. Infill drilling was successful within these ore bodies and extensions were found to the east. Indicated resources were increased by 21.6%. The exploration adit advanced to 2,171 metres, reaching the main sulphide zone and proving continuity of good gold grades. Material for metallurgical test work was extracted and a full-scale evaluation is underway.

Our Exploration Programme continued

3 Explore
Extend the growth pipeline

Exploraciones Minera Parreña

Other prospects

Ownership: **100% Fresnillo plc**

Guanajuato (Guanajuato)

34,550 metres of diamond drilling continued to show good gold and silver results in the Opulencia, El Gigante and La Joya vein systems; resources in the district total 348,000 equivalent gold ounces. Detailed mapping and sampling in this historic district has delineated numerous zones with good exploration potential that will be evaluated in 2013.

Lucerito (Durango)

Gold and silver resources in this open pittable deposit increased to 1.8 million ounces and 114.5 million ounces, respectively, following positive results of 28,449 metres of core drilling. A thorough metallurgical evaluation of these sulphide ores to improve gold recoveries is in process.

San Juan (Durango)

13,447 metres of core drilling allowed for the definition of the Lorena extension ore shoot; resources increased to 299,000 ounces of gold and 24.9 million ounces of silver. With these updated resources a scoping study will be commissioned in 2013. The project is currently in care and maintenance.

Manzanillas (Durango)

The final resource estimate of the 3 de Mayo vein yielded 137,000 ounces of gold and 2.7 million ounces of silver, contained in 1.2 mt carrying 3.5 g/t gold and 70 g/t silver. Drilling on Aguas Blancas showed limited growth potential of this district. Alternatives for the exploitation of this small resource will be analysed in 2013.

San Nicolás del Oro (Guerrero)

Audited resources in this gold-silver vein district total 120,000 ounces of gold and 16.4 million ounces of silver, with ore bodies open along strike and at depth. Security issues in the region prevented us from carrying out additional work; the prospect displays three areas with good potential that merit drill-testing. A community relations programme remains active whilst additional social and environmental permits have been granted.

Tajitos (Sonora)

6,122 metres of core and 34,276 metres of reverse circulation drilling delineated a low-grade, near-surface, oxidised gold deposit containing 218,000 ounces of gold. Exploration potential remains open along the main structures. The land surface over the ore body was purchased from private owners. A scoping study will be delivered in 2013, envisioning a fast-tracked new gold operation.

Candameña (Chihuahua)

At this disseminated gold and silver prospect, amenable to open pit mining, information from systematic core drilling of 17,341 metres was used to develop a geological model and to produce an initial resource estimate of 294,000 ounces of gold and 9.3 million ounces of silver in oxide material, and an additional 843,000 ounces of gold and 17.4 million ounces of silver in sulphides. Metallurgical tests to improve gold grade in the sulphide concentrate are in progress. The ore deposit remains open to the southeast, and four drill targets of similar mineralisation occur in the adjacent Memelichi prospect, which will be drilled in 2013.

Guachichil (Zacatecas)

An initial resource estimate of 993,000 ounces of gold and 16.3 million ounces of silver was produced at this open pit prospect, 25% in oxide and transitional material and 75% in the sulphide zone. Exploration potential is open in the northeast. Diamond drilling was conducted over 35,127m; follow-up exploration is programmed for 2013.

Cebadillas (Nayarit)

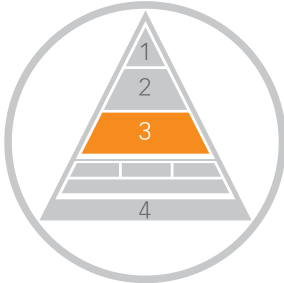
Drilling at the Olga and Santana veins reached 6,664 metres; the initial resource estimate (audited) delivered 51,000 ounces of gold and 1.6 million ounces of silver in open-pittable ore. Exploration of neighbouring veins will continue in 2013.

Yesca (Nayarit)

5,453 metres of core drilling were completed in this silver-gold vein system, results show anomalous to ore grade intersections that will be followed up in 2013.

Coneto (Durango)

This historic silver-gold vein system reaching 15km length is in exploration through a joint-venture with Orex Minerals. 7,603 metres of core drilling were completed at several veins of the district, with ore grade intervals coming from the Loma Verde, Santo Niño and La Bufa veins. Exploration will continue through 2013.



Peru

Pilarica

Ownership: **100% Fresnillo plc**

This disseminated silver deposit in sulphide-bearing, sub-horizontal strata amenable to open pit mining methods is located at 3,500 metre elevation. 5,277 metres of core drilling permitted the definition of a resource containing 38.5 million ounces of silver at good grades. Preliminary metallurgical test work showed positive silver recoveries using standard floatation technology. A second phase of drilling is programmed for 2013 that will test extensions of the known ore body and will evaluate surrounding target areas.

Cautivas

Ownership: **100% Fresnillo plc**

This silver and gold-bearing vein field with numerous historic workings is located in the northern Peruvian Andes. 4,898 metres of core drilling delivered anomalous to ore grade intersections; drilling will continue in 2013 to evaluate the entire district.

Amata

Ownership: **100% Fresnillo plc**

This disseminated gold-silver prospect in the southern Peruvian Andes is located at 4,500 to 5,000 metres elevation. 5,189 metres of core drilling returned 5 to 20 metre wide anomalous to ore grade intervals. A second phase of drilling will search for higher grade roots of the mineralised system and will evaluate remaining targets in the area.

La Pampa

Ownership: **100% Fresnillo plc**

A 7 km-long gold-bearing vein system outcropping in coastal northern Peru was acquired from private owners. Detailed mapping and sampling of the 1-30 metre wide structures is underway; preliminary results show promising gold grades.

Santo Domingo

Ownership: **100% Fresnillo plc**

Claims were purchased consolidating this district in south central Peru. The property contains six veins traceable over a 30 km strike with interesting silver-gold values in a number of areas. Structures outcrop at 5,000 metres elevation and good potential exists at depth. A community engagement programme was initiated.

Sustainable Development Report

4 Sustainability
Advance our sustainable development

"An enduring commitment to the safety and health of our employees, responsible environmental stewardship, the wellbeing of the communities where we operate, and adherence to best governance practices."

Rafael MacGregor
Chairman Health, Safety, Environment and Community Relations Committee

From the Chairman of the HSECR Committee

Sustainable development is an essential component of Fresnillo plc's business model and is achieved through the application of the Health, Safety, Environment and Community Relations (HSECR) System. The report which accompanies this letter summarises the most relevant aspects of the Company's HSECR record and performance for 2012.

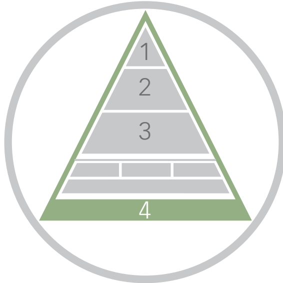
As a Committee of the Board of Directors, the main responsibility of the HSECR Committee (the 'Committee') is to ensure on behalf of the Board that the management of the Company achieves health, safety, environment and community relations objectives. The Committee met twice in 2012 (April and October).

What we did in 2012

- The Company suffered six fatalities of contractor personnel during 2012, a situation that remains unacceptable; the Company and the Committee extend their most sincere condolences to each of their families
- The Committee has continued to stress that safety is first at all times as further detailed in the 'Safety' section
- The Company requested a second independent review by PriceWaterhouseCoopers to verify progress on the HSECR Action Plan 2012–2016; the HSECR System has reached a 64.6% maturity level. The goal by 2016 is that the System will become fully integrated and mature
- Designation of HSECR Leaders and Coordinators at all mine units
- Definition of KPIs (key performance indicators) and KRIs (key risk indicators) for the HSECR System
- Improvement of accounting methodology for HSECR investments

What we plan to do in 2013

- Reinforcement of the Safety Action Plan
- Incorporation of the HSECR framework at advanced projects (San Julián, Centauro Deep and others)
- Reinforcement of the integration of contractors into HSECR processes
- Implementation of a more robust reporting and assurance programme for the HSECR system
- Continued progress to reach a fully mature HSECR System by 2016



Safety

As opposed to 2011, when most of the accidents were caused by rock falls derived from structural weaknesses, during 2012 the fatalities resulted from breaches by contractor personnel of Company safety procedures.

Management has informed the Committee that it has already reinforced the Safety Action Plan in coordination with internal and external advisors and will ensure a more robust supervision and adherence to safety guidelines, including more stringent measures and consequences for violations to the Rules That Save Lives. In some cases, these measures have involved termination of the relationships with contractors.

Also noteworthy amongst the highlights are:

- Progress on the implementation of the Safety Self-Management programme and OHSAS 18001 certification processes
- Launch of the No More Accidents programme to stress the message to all personnel that safety is an essential working condition; the programme achieved an important reduction of accidents over the same period as compared to 2011
- Continuance of works with advisors on rock mechanics and ventilation
- Greater supervision of contractor personnel
- The Company supported 24 contractor companies to incorporate into their operations the Safety Self-Management programme headed by the Mexican Ministry of Labour

Health

Launch of the Alert ON programme, which is a preventive alert system for chronic health issues, including fatigue or consumption of drugs or alcohol. Other highlights include:

- Implementation of the Promoting Life campaign, where the Company provided information on healthier lifestyles
- Requests made to key contractor companies to incorporate a medical doctor and a clinic within their operations
- Maintenance of preventive programmes for occupational health
- Continuance of medical campaigns, including vaccination and periodical medical examinations

Environment

The Company maintained its ISO 14001 and Clean Industry certificates and made continued progress on the implementation of the Cyanide Code certification process. Other highlights include:

- The Company promoted adherence by contractors to the Clean Industry programme, headed by the Mexican Environmental Procurement Agency (PROFEPA)
- Implementation of the Environmental Leadership for Competitiveness Programme to promote waste recycling opportunities in the value chain
- The Company participated in the second stage of the Mexican Greenhouse Gas Programme through the verification of greenhouse gas emissions inventory

Community Relations

The Company continued supporting local communities where it operates. Highlights include:

- Definition of Community Relations guidelines
- Improved traceability of Company's social programmes
- Implementation of institutional programmes such as a Sustainability Calendar, A Leer/IBBY (culture of reading) and PROEMPLEO (business skills for local suppliers)
- Support of social infrastructure such as a public plaza at Ciénega, a water well at Saucito, a church at Beleña (Fresnillo Mine) and the expansion of the Community Centre for Caborca (Penmont)

The Board, through the Committee, will continue to stress to management the importance of achieving excellence on HSECR matters, with safety on the forefront of the Company's priorities and with a view of achieving full maturity of the HSECR System by 2016.

Rafael MacGregor
Chairman
Health, Safety, Environment and Community Relations Committee

Key milestones

2008	2009	2010	2011	2012
HSECR Committee formed and policies defined	First Communication on Progress for UN Global Compact; Mexican Greenhouse Gas Programme certification for self-reporting emissions	Self-reporting of GHG emissions through Mexican Greenhouse Gas Programme; registered in the Carbon Disclosure Project in the FTSE 350 category for self-reporting on Climate	First external verification of HSECR system; definition of the Action Plan 2012–2016	Safety Action Plan and second independent review of the HSECR system to verify its progress; definition of KPIs and KRIs

Future targets

2013
Implementation of a more robust reporting and assurance programme for the HSECR system; align contractors

2015
Update platforms and software in accordance to reviewed strategic objectives

2014
Update HSECR system objectives with strategic objectives, review level of integration and performance

2016
HSECR system fully integrated across the entire organisation

2013–2018
Achieve zero fatalities target and integrate interest of all stakeholders to the programme

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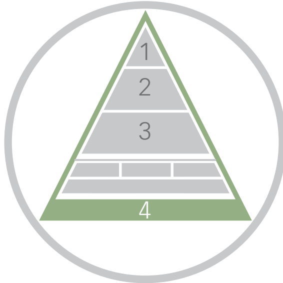
Sustainable Development Report continued

4 Sustainability
Advance our sustainable development

Sustainability at a glance

This table highlights the key drivers of our health, safety, environment and community relations framework. We determine materiality for our Sustainability Strategy, HSECR System and this report based on recommendations from the HSECR Committee and operational team, findings from the Enterprise Risk Management programme, our participation in national and global initiatives, and a wide variety of analyses undertaken by Management.

Why it matters	Our programmes and processes	KPIs
Health		
The Group's personnel are the most critical factor for the successful execution of our business strategy. Their health and wellbeing include not only the absence of illness, but personal fulfilment physically and psychologically.		
Opportunity: Physical and mental health, as well as healthier lifestyles, can raise productivity, family wellness, community satisfaction and reputation. **Challenge:** Poor health amongst workers and communities can impact safety, reputation, productivity and profit.	Occupational health: Prevention and care of occupational illnesses historically related to mining operations. General health: Prevention and care of chronic and infectious diseases. Promotion of healthy lifestyles: Outreach and capacity building. Alert On: Early warning system for health problems that may lead to safety incidents.	– Disabling occupational disease rate – Lost work days rate for general diseases
Safety		
The Group's personnel are the most critical factor for the successful execution of our business strategy. Their safety requires controls over operational processes, the empowerment of each worker to live within a culture of safety, and compliance with jurisdictional regulations.		
Opportunity: A culture of safety and operational discipline can raise productivity and reputation. **Challenge:** Poor safety behaviours and failure to adhere to procedures can impact safety performance, cause injuries and fatalities, disrupt operations, impact productivity, employee satisfaction and reputation, and subject us to legal claims.	Certification processes: OHSAS 18001 and Safety-Self Management. Leadership and Commitment: Outreach, oversight and enforcement of safety activities by senior management. Behavioural improvements: Technical and conduct skills to promote an individual and collective culture of safety. Operational discipline: Oversight and enforcement of processes to eliminate unsafe conditions. Rules that Save Lives: Mandatory rules for every person in situations where a breach may lead to fatality. Quality in accidents investigation: Analysis and implementation of changes to prevent future occurrences of past safety incidents.	– Fatalities – Accident rate – Lost work days rate



Why it matters	Our programmes and processes	KPIs

Environment

Environmental stewardship supports i) profitability through the efficient use of inputs; ii) reputation, which is intrinsic to our social license to operate; and iii) compliance with jurisdictional legislation.

Why it matters	Our programmes and processes	KPIs
Opportunity: Growth potential through access to environmental permits; better operating efficiency and profitability; a shared culture of environmental awareness and conservation can improve community support and raise reputation.	Certification processes: ISO 14001, Clean Industry and Cyanide Code. Eco-efficiency: Water and energy consumption, emissions reduction.	– Unit consumption of energy – Unit consumption of fresh water – Unit GHG emissions
Challenge: Poor environmental performance and inefficient use of resources may impede access to environmental permits, weaken strategic relationships, increase the cost of key inputs, impact reputation, subject us to legal claims and disrupt operations.	Remediation: Tailing dams restoration, soil and habitat remediation. Conservation: Flora and fauna restitution, reforestation, care for endangered species.	– Personnel hours required for environmental incident remediation

Community relations

As part of the communities where we operate, success has to be mutual to be sustainable and must extend from the earliest stages of land acquisition and exploration to beyond the operating life of a mine. Engagement efforts support reputation, which is intrinsic to our social license to operate.

Why it matters	Our programmes and processes	KPIs
Opportunity: Support for our operations is enhanced by investment in the long-term self-sustainability of local communities (economic, social and environmental) **Challenge:** Poor engagement efforts may lead to negative perceptions and impact reputation, impacting current and future projects; insufficient vision and investment in long-term self-sustainability may create dependency on our operations.	**Human resources:** Recruitment and selection: Attracting new and strategic talent to the Group, particularly in the area of Earth Sciences. Training and performance evaluation: Aligning individual skills and performance with business targets. Retention and succession: Enhancing workplace satisfaction, reducing turnover, ensuring operational continuity.	– Average training hours – Turnover rate – Employee satisfaction
	Communities: Environmental culture: Outreach and execution of environmental stewardship programmes. Education: Programmes to increase literacy and academic skills. Social welfare: Promotion of social interaction, sports and public health. Self-development: Training and development programmes for non-mining livelihoods. Social infrastructure: Provision of basic services.	– Beneficiaries in community programmes – Community relations performance index – Community perception index

Sustainable Development Report continued

4 Sustainability
Advance our sustainable development

Sustainability strategy

Sustainability has been a core strategic driver for Fresnillo plc since its founding. At the time of the IPO the Group's mining units already had in place established programmes and we had broad experience managing social and environmental issues within Mexico's regulatory framework. The listing in the UK market brought new requirements and opportunities to enhance our sustainability strategy, implementation and controls.

As part of its corporate governance role, in 2008 the Board structured and empowered the Health, Safety, Environment and Community Relations (HSECR) Committee to oversee the Group's social and environmental programme. In 2011 the Board approved the Sustainability Strategy of the Group, which is integrated within the business model and underpins our entire value chain.

To incentivise performance on HSECR issues at all levels within the Group, environmental and social objectives are included in the performance evaluations of applicable employees such as managers and operational superintendents, amongst others. For operational directors and managers, annual bonuses depend on environmental and social variables such as fatalities and eco-efficiency measures. Grants are awarded to work teams that propose and implement successful efficiency projects; these teams may be comprised of union and non-union employees, as well as contractors.

HSECR System Management

We requested a second independent review by PriceWaterhouseCoopers to verify progress on the HSECR Action Plan adopted in 2011 to advance the maturity of our system in terms of strategy, structure, processes, people and technology. Broadly in line with plan, we reached a maturity level of 64.6% in 2012 (2011: 56.6%), with a commitment to achieving in 2016 a fully integrated HSECR system at all business units, which aligns with international best practices, incorporates key stakeholders and embraces the process of continuous improvement.

HSECR Action Plan: 2012 milestones

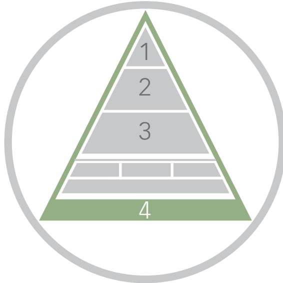
- Redesign and simplification of the HSECR System
- Approval and dissemination of the Sustainable Development Policy
- Consolidation of the HSECR team with the designation of an HSECR Leader and HSECR Coordinator in the business units
- Formalisation and monitoring of key performance indicators
- Preparation of corporate guidelines for HSECR institutional programmes and budgets
- Improved accounting standards for HSECR investments
- Definition certain control and reporting tools

In 2012 we also aligned the Exploration Division within the HSECR system; introduced safety, health and environmental requirements for our key contractor companies; re-launched Crisis Management Committees at all mine units; and incorporated HSECR elements into corporate programmes such as Enterprise Risk Management and Anti-Bribery and Corruption.

Sustainability framework

Whilst legal compliance necessarily underpins our sustainability strategy, the Group's sustainable development framework also incorporates numerous principles derived from the global sustainability agenda, including those formulated in the United Nations Global Compact, the Global Reporting Initiative and the International Council on Mining and Metals.

We seek to align and benchmark ourselves with national and international organisations that share a common vision of sustainability and pursuit of best practices. These include:



Name	Our role/2012 progress
Certifications	
STPS (Mexican Secretariat of Labour): Safety Self-Management	All mine units participate voluntarily in the Safety Self-Management Programme, aimed at ensuring compliance with safety regulations and improved performance. We are helping key contractor companies to participate in the Programme.
PROFEPA (Mexican Environmental Authority): Clean Industry	All mine units participate voluntarily in the Clean Industry Programme, aimed at ensuring compliance with environmental regulations and improving performance. We are helping key contractor companies to participate in the Programme.
International Cyanide Management Institute	All gold mining units participate voluntarily in the Cyanide Management Programme aimed at implementing best practices in cyanide management.
ISO 14001	All mine units and the Exploration Division participate in external audits aimed at certifying their environmental management systems.
OHSAS 18001	All mine units participate in the development of a health & safety management system suitable for third party audit.
Memberships	
CAMIMEX (Mexican Mining Chamber)	Active member. The Chamber promotes sector agreements, lobbying processes and benchmarks for the Mexican mining sector.
CESPEDES (Sustainable Development Studies Commission for the Mexican Private Sector)	Active member of the Executive Committee. The Commission is part of the Mexican Business Coordinating Council (CCE) and aims to coordinate the private sector stance on key issues such as a transition towards a green economy and greenhouse gas mitigation efforts in the country.
Mining Cluster for the State of Zacatecas	Through this cluster, the Fresnillo business unit and other mining companies in Zacatecas state promote the development of economic, social and environmental best practices across the mining supply chain.
Partnerships	
Programme for Forestry and Agriculture Technical Cooperation	The Ciénega and Fresnillo business units work in partnership with the National Institute for Forestry, Agriculture and Livestock Research (INIFAP) to reinforce their reforestation and remediation programmes.
Carbon Disclosure Project	Participant in the FTSE 350 category through the disclosure of climate change risks and greenhouse gases inventory. The Group also participates in the Water Disclosure Project as of 2012.
WildCorp	Alliance with The Wild Foundation aimed at promoting biodiversity conservation in the Mexican private sector.
Sonoran Pronghorn Protection Programme	Minera Penmont[1] works in partnership with the Ecology and Sustainable Development Commission of Sonora State (CEDES) to protect this endangered native species.
The United Way	Through this non-profit organisation, personnel from Fresnillo plc voluntarily donate funds to social causes.
Confederation of Industrial Chambers (CONCAMIN)	Representation through CAMIMEX for benchmarks and best practices in the Mexican industrial sector. Recipient of the Ethics and Values Award for the fourth time.
Awards	
CEMEFI (Mexican Centre for Philanthropy)	Largest organisation in Mexico for corporate social responsibility. Fresnillo plc has received annually the Socially Responsible Company (ESR) Award since 2008.
Mexico Greenhouse Gases Award – Second Level	Fresnillo plc participates in the Mexico Greenhouse Gases Programme coordinated by the Mexican Environmental Secretariat and CESPEDES to generate a national inventory for the private sector. In 2012 the Group obtained the second level through an external verification of its inventory.
Environmental Leadership for Competitiveness	Fresnillo and Ciénega participated in this project from PROFEPA to promote environmental efficiency in the supply chain.
PwC Building Public Trust	Winner in the Excellence in Reporting in the FTSE 100 category.
Prospectors and Developers Association of Canada (PDAC)	Thayer Lindsley Award to Mr David Giles, VP Exploration, for the international discovery in mining.

We also have partnerships with several academic institutions in Mexico, such as the National Autonomous University of Mexico (UNAM), the National Polytechnic Institute of Mexico (IPN), the Autonomous University of Guanajuato and the Autonomous University of Zacatecas, aimed at attracting new talent, and promoting innovation and research in the mining sector.

[1] Minera Penmont, or Penmont hereafter, refers to Minera Penmont S. de R.L. de C.V., a company jointly held by Fresnillo plc (56% interest) and Newmont USA Limited (44% interest), that owns the Herradura, Soledad-Dipolos and Noche Buena mine units.

Sustainable Development Report continued

4 Sustainability
Advance our sustainable development

Health

Prevention, education and medical services to improve general health and prevent occupational illnesses.

What we said we would do in 2012

- Implement forward-looking indicators concerning occupational health risks
- Enforce health guidelines for our key contractors
- Install medical units in contractor companies with over 100 workers

What we did in 2012

- Defined preventive health indicators and requirements, including that all contractor companies with over 100 workers must have a medical doctor and a clinic on site; installed several medical units in contractor companies
- Merged the Occupational Health group with the Safety group at every mine unit to guarantee a preventive health culture within the operation and immediately attend to any safety incident
- Launched the Alert On Programme, an early alert process for operational risks related to health problems

What we plan to do in 2013

- Fully implement the Alert On Programme
- Consolidate the integration between health and safety units, with joint inspections
- Continue promoting a preventive culture

Alert On Programme

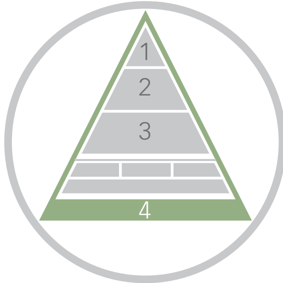
The lack of a preventive health culture in Mexico, as illustrated by the country's ranking as number one in obesity, presents serious public health challenges particularly in terms of chronic diseases and their impact on the workplace. In September 2012 we launched the Alert On Programme to address the risk of employees and contractors with health conditions, particularly those working in on-site operational roles. The programme incorporates an early alert system to monitor the main health factors that could affect exposed workers, focusing on conditions such as hypertension, diabetes, cancer, fatigue and substance abuse.

Alert On incorporates activities such as outreach and monitoring, anti-doping and breathalyser tests and fatigue detection. If a health risk is determined for a particular worker, management has the discretion to relocate or suspend the employee, within the context of respecting their dignity and confidentiality. The programme reached 20% implementation in 2012. A total of 11 persons were permanently relocated to less risky areas, mainly due to age-related health conditions.

Occupational health

The primary health risks in our underground mines relate to emissions and noise, whilst the use of heavy mobile equipment and heat stress are the most prevalent risks in open pit mines. Our prevention strategies for both include ongoing training and continuous supervision regarding the use of safety equipment, as well as regular outreach on health and hygiene. Our occupational medicine programme conducts medical exams for new workers and provides annual medical checkups for all employees, as well as health campaigns and the functional coordination of relocating vulnerable workers.

In 2012, we strengthened all Health units and incorporated health and hygiene guidelines for contractors. In line with our more rigorous guidelines, several key contractors installed medical clinics, including at Fresnillo, Saucito and Penmont. We continued providing medical consultations and vaccinations to employees and their families, and to contractors. Additionally, we launched the permanent Promoting Life health campaign to share preventive information on breast cancer, smoking, obesity and other health issues. For the first time in 2012, the Exploration division implemented a health campaign across all offices and projects.



Performance indicator*	Comment	2012	2011	2010
Rate of permanent partial disabilities due to occupational risks				
Number of workers with a permanent partial disability, as qualified by the Mexican Social Security Institute (IMSS), divided by the total number of workers exposed to risk areas, multiplied by 100.	Occupational risks now include both occupational illnesses and work accidents, whereas in 2011 only illnesses were considered.	**0.42**	0.83	–
Rate of lost work days due to other illnesses				
Number of days lost due to non-occupational illnesses, divided by the total number of days, as registered with IMSS.	In 2011 all illness-related lost work days were considered, whereas in 2012 only those dictated by IMSS	**1.17**	10.68	–
Investment in health				
Expenditures in infrastructure, programmes and payments to the Mexican Social Security Institute (IMSS); excludes training.	Main investments are contributions to IMSS, employee insurance and medical tests and equipment	**US$9.6m**	US$7.8m	US$6.6m

* Health performance indicators include only employees and union workers. Therefore, Saucito is not included as it is operated by contractors.

Sustainable Development Report continued

4 Sustainability
Advance our sustainable development

Safety

Eliminating dangerous workplace conditions and behaviours to ensure zero fatalities, and investing in equipment, training and enforcement to strengthen safety performance.

What we said we'd 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

Conclude the OHSAS 18001 certification process at Fresnillo; 90% advance at Herradura and Soledad-Dipolos; 80% at Ciénega; and initiate the process at Saucito

Obtain the second level in the Safety Self-Management Programme at Herradura and Soledad-Dipolos, and first level at the rest of the mines; register Noche Buena to the programme

What we did in 2012

Despite implementation of the Safety Action Plan, six fatalities occurred in the year; as a consequence, we further intensified efforts with internal and external safety specialists and conducted extensive outreach with all employees, contractors and operational supervisors

Ciénega and the Herradura were reintegrated to the Safety Self-Management programme; Herradura applied for the second level, but the administrative procedure was delayed; Saucito and Ciénega supported contractor companies to incorporate this programme

Fresnillo was approved for OHSAS 18001 certification; Herradura advanced 85%; Soledad-Dipolos 80%; Ciénega 85%; these advances reflect a greater focus during the year on the Safety Self-Management Programme and the incorporation of contractor companies; similarly Saucito has not yet commenced the certification process

What we plan to do in 2013

Improve safety performance and meet our zero fatalities target

Continue working with key stakeholders, mainly contractors, to promote a safety culture

Maintain reviews by external experts

Incorporate support personnel into prevention efforts

Extend the No More Accidents process, which aims to enrich safety initiatives with clear and continuous leadership and awareness

Within the Safety Self-Management Programme, obtain the first level of compliance at Ciénega, second (advanced) level at Penmont, and re-incorporate the programme at Fresnillo

Safety Action Plan

One of the most critical challenges we face and a key risk for the Group is safety. Poor performance in 2011 led to the implementation of a rigorous Safety Action Plan that included continuous supervision from internal and external safety experts, and particular focus on drilling and mining processes to eliminate unsafe geological conditions. These actions resulted in a 12% decrease in the overall number of accidents in 2012, with no fatalities caused by rock fall.

Notwithstanding, an unacceptable six fatal accidents occurred in 2012, largely due to unsafe behaviour and breaches to our safety rules and procedures. The considerable growth of the Company's operations, and more specifically our reliance on contractors indicated a continued need to address the core problem.

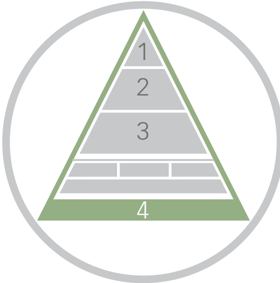
Based on the recommendations of safety specialists, we implemented the following measures in 2012:

– Launched the No More Accidents process (see below)
– Initiated monthly reviews for the elimination of unsafe conditions
– Hired an external expert on ventilation
– Met twice with the leadership of our main contractor companies, implemented a policy whereby all contractor companies with over 25 workers must employ a safety advisor and register to the Safety Self-Management Programme
– Applied disciplinary measures to contractors who violated our safety rules, from temporary suspension to contract rescission
– Reviewed risk maps of strategic operational areas and developed new mitigation procedures
– Increased training in safety, mainly through a programme for newly hired workers and workshops for operational supervisors
– Convened two meetings of a special safety team comprised of the CEO, Vice Presidents, Corporate Managers, managers of mine units and projects, and safety superintendents.

No More Accidents

In recognition of the role of leadership in promoting a culture of safety, the Executive Committee launched a Group-wide campaign called No More Accidents with a symbolic one-hour suspension of all work on 8 October 2012 to highlight Fresnillo plc's priority: 'Safety goes first at all times.'

The campaign included videos and in-person presentations from the Company's senior executives to reinforce the Group values of Trust, Responsibility, Integrity, Loyalty and Safety; workshops and conferences; posters and photo exhibits; and other mass communications that reached 7,000 people. Follow-up activities have been organised on a monthly basis to maintain awareness, and will continue into 2013. In the three month period following the launch of the No More Accidents campaign, accidents decreased 52%.



"For Fresnillo plc, there is nothing as important as human life."

Octavio Alvídrez
CEO
8 October 2012

Other safety programmes

Our core processes and training programmes remained in place, including the Health and Hygiene Commission, Operational Discipline, STOP™, Behavioural Change, Rock Mechanics, Hazardous Materials Management, First Aid and Defensive Driving. We supported the Mexican Secretariat of Labour in implementing the Safety Vigilance for Mines Programme and reinforced awareness within contractor companies through two meetings with residents and supervisors.

Performance indicator	Comment	2012	2011	2010
Fatalities				
	Unacceptable performance required reinforcement of the Safety Action Plan.	**6**	11	2
Accident rate				
Number of disabling accidents that require absence from work for more than three days, divided by the total of union and non-union employees, as well as contractors, multiplied by 100.	The decrease reflects efforts derived from the Safety Action Plan. The national average in Mexico, according to the Mexican Mining Chamber, is 2.8.	**1.42**	1.73	2.21
Lost work days rate				
The number of days lost to disabling accidents divided by the total number of union and non-union employees, as well as contractors.	The decrease reflects efforts derived from the Safety Action Plan and fewer fatal accidents.	**1.48**	3.11	1.64
Investment in safety				
The amount reflects investment in infrastructure and initiatives; training not included.	The decrease reflects shared responsibility with contractor companies that acquired safety equipment by themselves. Main investments are personal protection and emergency aid equipment	**US$4.6 million**	US$5.2 million	US$4.3 million

					Penmont	
Certification	**Fresnillo**	**Saucito**	**Ciénega & San Ramón**	**Herradura**	**Soledad-Dipolos**	**Noche Buena**
OHSAS 18001						
An international occupational health & safety management system specification.	Approved	Not yet implemented	85%	90%	90%	Not yet implemented
Safety Self-Management Programme						
A voluntary programme of the Mexican Secretariat of Labour aimed at ensuring compliance with safety regulations.	On stand-by for reinstatement	Supporting 12 contractor companies	80%	Supporting 12 contractor companies. Reinstated (first level)	In process of authorisation (first level)	In process of authorisation (first level)

Sustainable Development Report continued

4 Sustainability
Advance our sustainable development

Environment

Limiting the environmental impact of our operations throughout their lifecycle, minimising the use of non-renewable resources, and investing in conservation.

What we said we would do in 2012

Maintain zero environmental incidents

Secure environmental permits 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

What we did in 2012

Zero environmental incidents and existing certifications maintained

Secured environmental permits secured for Saucito and Ciénega

Saucito achieved a 61% advance in the Clean Industry process while the ISO 14001 process was delayed due to a focus on other certifications and the incorporation of contractor companies

Ciénega achieved a 75% and Soledad-Dipolos a 85% advance in the cyanide certification process

Promoted environmental management systems and eco-efficient practices within our key contractor companies

Initial implementation of environmental management systems at Noche Buena; formal certification processes require one full year of operations

Disclosed our verified greenhouse gases inventory through our participation in the Mexico GHG Programme, in advance of new regulations in the UK

What we plan to do in 2013

Maintain zero environmental incidents

Continue promoting environmental practices within our value chain

Obtain Clean Industry certification at Saucito and Cyanide Code at Ciénega

Our main environmental challenges related to the intensive use of strategic natural resources, specifically water and energy, and the potential impact of our operations on local ecosystems, particularly in this period of operational growth. To address these challenges we utilise the best technology available and deploy environmental management systems from the earliest phases of exploration through mine development, construction, operation and closure.

Two additional issues have emerged as critical within our industry in recent years, garnering greater public scrutiny and increased regulatory oversight: climate change and biodiversity. Fresnillo plc has long monitored and tracked greenhouse gas emissions as participants in the Mexican GHG Programme, and in 2012 for the first time our GHG inventory was audited by an external third party, in advance of UK regulations. As high consumers of fossil fuels, we believe mining companies must enhance energy efficiency and reduce greenhouse gas emissions.

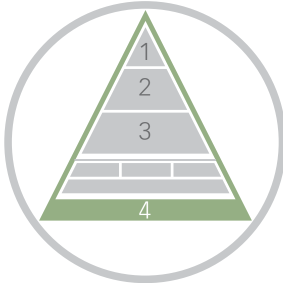
Conservation, too, has long been a core component of our environmental strategy. We plant over 100,000 trees each year, care for endangered species and implement conservation efforts such as reforestation and flora and fauna relocation. These efforts also support our community relations objectives.

In 2012 we again achieved our target performance of zero environmental incidents and fines; all periodic tests, such as tailing dams, ventilation, vibration, illumination, noise and others, complied with national regulations, and we maintained our institutional programmes in reforestation, cleaning, recycling of strategic inputs and ecosystem restitution.

To obtain environmental permits for exploration and expansion projects in 2012, we conducted a variety of compensatory measures such as flora and fauna relocation and remittance of fees to environmental authorities. We built sanitary landfill facilities at Fresnillo and Herradura, a new area to confine hazardous residues at Noche Buena, and designed a hazardous waste management plan for Saucito. At Fresnillo and Ciénega we expanded water treatment capacity.

The following table outlines our 2012 performance in the five key areas of our environmental management system. It should be noted that in greenhouse gas emissions, figures vary significantly from those reported in the 2011 Annual Report due to a change in methodology made during the third party verification process we voluntarily submitted to for the first time this year.

In 2012 we participated in the Carbon Disclosure Project for the third time, and for the first time in the Water Disclosure Project. In order to incorporate environmental best practices along our value chain, we also helped key contractor companies to pursue certification processes, with two obtaining ISO 14001 certification in the year, and two others the Environmental Compliance Certification.



Consumption

Efficiency projects generated savings

Water

Total water
million m³
7.99

Fresh water
million m³
4.67
(2011: 3.47 million m³)

Treated water
million m³
3.32

Fresnillo and Saucito maintained zero fresh water consumption.

Energy

Total energy
million GJ
6.5
(2011: 5.0 million GJ)

Diesel
65.0%

Electricity
32.5%

Gasoline
1.6%

LP gas
0.9%

Solar energy is now being used in some exploration projects and employee housing.

Greenhouse gases emissions

CO_2 emitted from direct sources
tonnes
236,184
(2011: 198,117)

CO_2 emitted from indirect sources
tonnes
346,134
(2011: 388,906)

All emissions comply with regulatory limits. An external auditor, ANCE, verified our GHG inventory for the first time in 2012[1]. We also calculated Scope 3 emissions, mainly derived from materials transportation (2012: 138,838 tons)

Waste management

Herradura reused
litres of spent lube oil
964,269
(2011: 830,466)

Ciénega and Fresnillo brought 32 contractor companies into PROFEPA's Environmental Leadership programme, which resulted in different recycling projects that are still in process.

Biodiversity

Trees planted/ donated
144,388
(2011: 162,650)

Nursery capacity
plants
120,000
(2011: 140,200)

The Sustainable Forest in Ciénega added 159 hectares and now extends almost 1,000 hectares; flora and fauna restitution and reforestation efforts covered more than 5,100 hectares.

[1] Prior to 2012, we included emissions from contractor companies, both direct (Scope 1) and indirect (Scope 2); now they are incorporated as 'Scope 3' emissions. In addition, we had previously considered indirect emissions to include only those related to the electricity emissions factor from the Mexican Federal Electricity Agency; however, as an important part of our consumption comes from Termoeléctrica Peñoles, a generation plant fuelled by petroleum coke, this is now included in our GHG inventory and thus contributing to the higher emissions factor in 2012.

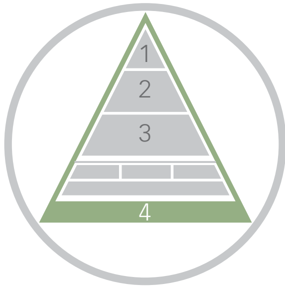
Sustainable Development Report continued

4 Sustainability
Advance our sustainable development

Environment continued

Performance indicator	Comment	2012	2011	2010
Unit energy consumption				
Gigajoules per tonne of product	Control over these indicators comes from our energy and water efficiency policies	**0.122**	0.138	0.124
Unit fresh water consumption				
Cubic metres per tonne of product		**0.088**	0.101	0.095
Unit greenhouse gas emission				
CO_2 emissions per tonne of product		**0.014**	0.013	0.011
Investments in environmental efforts				
Infrastructure, equipment and programmes (excluding training)	Main investments are related to waste management, soil and flora restitution, environmental monitoring tests and equipment maintenance	**US$4.4 million**	US$3.0 million	US$2.6 million

Certification	Exploration Division	Fresnillo	Saucito	Ciénega and San Ramón	Penmont		
					Herradura	Soledad-Dipolos	Noche Buena
ISO 14001							
An international environmental management system standard published by the International Organisation for Standardisation	Certified	Certified	In process	Certified	Certified	Certified	In process
Clean Industry							
A voluntary programme of the Mexican Environmental Authority aimed at ensuring compliance with environmental regulations	N/A	Certified	61%	Certified	Certified	Certified	In process
International Cyanide Management Code							
A voluntary industry and audit-based programme for the gold mining industry to promote responsible management cyanide used in gold mining	N/A	N/A	N/A	75%	Certified	85%	Signatory



Community relations

Creating a fulfilling workplace for personnel and fostering sound relations with our communities

What we said we would do in 2012

Conduct the biannual employee satisfaction and community perception survey

Launch the Community Relations System as a tool to measure the social impact of our activities

What we did in 2012

The employee survey resulted in two business units being recognised as Great Places to Work: SAFSA (the corporate offices), and Penmont

The community perception survey resulted in a "very positive" opinion towards Fresnillo plc once again

We launched the Community Relations System and included results within our performance indicators

What we plan to do in 2013

Enhance our recruitment, training and performance evaluation programmes

Consolidate institutional projects in surrounding communities

The foundation of Fresnillo plc's guidelines and standards for social interaction is the Code of Conduct. Every employee and contractor receives this document each year. As signatories to the United Nations Global Compact, our Code of Conduct promotes absolute respect for human rights, including non-discrimination, gender equality, respect for freedom of thought and association, respect for the customs and cultures of indigenous communities, and a prohibition against child labour.

Any violation to our Code of Conduct may be anonymously reported by any stakeholder through the Fresnillo Plays Fair Programme, a whistle blowing line managed by an independent third party. Cases brought forth through this channel such as abuse, discrimination, sexual harassment, bullying and others are discussed within an Honour Commission. The programme was strengthened this year through the incorporation of the Anti-Bribery and Corruption Policy. In 2012, five reports were received, all of which were investigated and settled. We also have a hotline specifically devoted to safety, Safe Fresnillo, where any worker at any level can report unsafe conditions or behaviours in the workplace.

4 Sustainability
Advance our sustainable development

Community relations continued

Human resources

The Group's personnel are the most critical factor for the successful execution of our business strategy. We thus invest significant resources in the selection, recruitment, training and retention of our people, and institute performance evaluations to ensure alignment with our strategy and compensation policies.

For union and non-union workers, we maintained fair labour agreements and competitive wages in 2012. A 6.0% increase in wages was approved in the year (2011: 6.5%) plus a 1.5% increase in fringe benefits, the highest of all sectors in Mexico. In total, wages and salaries were US$29.0 million (2011: US$25.1 million), excluding profit sharing, a 15.5% increase from the previous year. Additionally, in isolated mines and projects, we provided basic services such as housing, medical services, education and transportation as well as flexible work programmes to ensure work-life balance for families.

To support new operations, we hired in 551 new employees in 2012 (2011: 617) and 856 contractors (2011: 455). We recognised 31 work teams for their culture of teamwork and innovation, many of which included union workers and contractors. Our gender diversification efforts included the appointment of a woman to the Board of Directors, and 67 women were hired within various business units.

Our long-term talent management efforts include the promotion of the earth sciences. For nearly ten years we have recruited interns who study mining, metallurgy, geology, topography and environmental engineering from prestigious Mexican universities such as the National Autonomous University of Mexico, the National Polytechnic Institute and local universities. Many of these trainees are offered permanent employment by the Group. In 2012, 38 students participated in the internship programme, and 14 were hired for permanent positions. In addition, we sponsored 21 students and 12 professionals through our Engineers in Training programme.

Workforce overview

Total employees

2012
3,300

2011
3,051

Employees 3,300

3,245 **Contractors**
(2011: 2,252 Contractors)

Unionised 79.3%

Executives at management level 2.4%

Female 8.5%

91.5% **Male**

11.8% of all supervisors and managers are women
(2011: 10.4%)

Age years

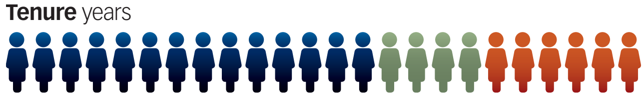
New hires

18–25 18.0%

26–45 66.2%

46+ 15.8%

Tenure years



0–5 58.5%

6–10 15.3%

11+ 26.2%

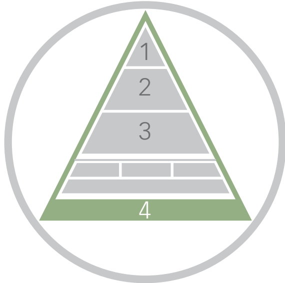
Employment changes

New hires
551

Promotions
928

Lay-offs
221

Transfers
27



Human Resources

Performance indicator*	Comment	2012	2011	2010
Professional development training				
Average hours/person	Training covers technical, management and leadership skills	**94**	96	95
HSECR Training				
Average hours/person	Primary focus on safety; the increase reflects pursue of the Safety Action Plan as a means to promote safe behaviours among workers	**50**	41	27
Investment in training programmes				
	The main programmes are technical and safety certification programmes, the Behavioural Change Programme and English language	**US$1.8m**	US$1.7m	US$1.2m
Turnover rate				
Number of union and non-union employees who left the Company divided by the total number of employees	The increase reflects workers who decided to migrate from isolated mines	**6.70**	5.69	4.61
Employee satisfaction survey				
Survey of union and non-union workers as well as contractors	Conducted every two years by an independent third party; a new provider in 2012 used somewhat different surveying methodology than in previous years; 88% of the workforce participated. Two business units were recognised as Great Places to Work	**6.6**		6.8
Labour relations				
Total number of days in which operations were compromised due to disagreements with local unions and/or contract negotiations	All collective and contract negotiations were successfully conducted	**0**	0	0

Sustainable Development Report continued

4 Sustainability
Advance our sustainable development

Community relations continued

Community relations programme highlights

We believe the communities surrounding our operations must be seen as strategic partners in our endeavours. Thus each business unit implements a community engagement programme focusing on our direct influence communities, which includes partnerships with government and non-profit organisations. We focus on five strategic issues: environmental culture, education, social welfare (public health, social interaction and sports), social infrastructure, and the promotion of non-mining workforce development.

Land negotiations are based on the principle of free, prior and informed consent; respect for local cultures; and fair and open agreements with local cooperative landowner groups (ejidos).

Social investments are determined through baselines studies implemented in the early exploration phase, and monitored via perception surveys conducted every two years, with a formal system aimed at addressing particular requests from different stakeholders. We also organise outreach efforts such as health, education, environmental and cultural campaigns.

In 2012, activities benefited 116,024 persons of all ages, and included programmes such as:

- Sustainability Calendar: celebration of social and environmental awareness days; 40,000 persons
- A Leer/IBBY: recreational reading circles; more than 2,200 persons
- Innovec: scientific education for children; 2,000 children
- Proempleo: development of small local businesses and suppliers; 60 entrepreneurs
- Community Centres: access to social and business activities in public spaces, such as computer and language workshops, sports, and crafts; 2,000 persons
- United Way: 697 employees donated US$22,106 to various social causes

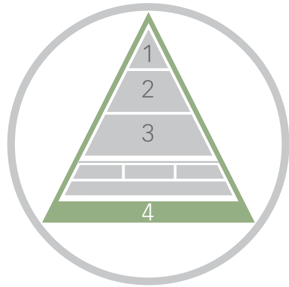
Specific 2012 initiatives by business unit include:

- Fresnillo: New chapel and sports facilities in the neighbouring community of Beleña; preventive health programme in local school
- Saucito: New water wells for the neighbouring villages of Saucito del Poleo and Valdecañas
- Penmont: A partnership with the Social Participation Programme to improve public facilities, in particular the expansion of the Community Centre; visits to the Company's facilities for workers' families
- Ciénega: New public square; neighbourhood electrification; new recycling containers; new water well; improved worker housing. Many of these efforts were collaborations with local government

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 that profit sharing contributes to healthy labour relations.

Communities	Comment	2012	2011	2010
Community perception index				
Average perception of four components – labour, environmental, institutional and social – from three different sources –household surveys, anthropological observations and personal interviews	Conducted every two years by an independent third party; the score again ranks as 'very positive' with a slight decrease noted primarily because of fatalities	**81**	–	86
Community relations performance index				
Weighting of performance from the five pillars of action and the number of beneficiaries	Indicator added in 2012 through the Community Relations System	**94.7**	–	–
Investments in community wellbeing				
(Includes the five pillars of action)	Main investments relate to social infrastructure projects. In 2011 we made a one-time donation to the state of Zacatecas to promote economic development	**US$3.1 million**	US$8.7 million	US$6.1 million



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Business unit	Local economic contribution (US$m)[1]	Direct jobs (average)	Indirect jobs (average)	Payments to Federal Government[6] (US$m)
Minera Fresnillo[1]	156.9[2]	903	705	74.9
Minera Saucito	38.0	61	867	99.6
Minera Penmont	343.0[3]	1,502	873	80.0
Minera Mexicana La Ciénega	75.8[4]	453	452	18.4
Exploraciones Parreña	102.5	139	467	8.3
Minera Bermejal	55.0	N/A	N/A	30.1
Minera Juanicipio	0.8	N/A	N/A	0.0
Others (SAFSA, Juanicipio, Fresnillo plc, Torres)	17.9[5]	93	0	60.7
Total	**789.9**	**3,151**	**3,364**	**372.0**

1 Includes salary, wages and benefits (such as employer matched savings, paid time off, food coupons and subsidised cafeteria food, scholarship aid and annual bonuses, among others), payment to local suppliers, and local vehicle, payroll and property taxes.
2 Includes US$29.5 million of employee profit sharing.
3 Includes US$28.9 million of employee profit sharing.
4 Includes US$4.1 million of employee profit sharing.
5 Includes US$0.8 million of employee profit sharing.
6 Includes federal tax payables, federal social security (IMSS) and worker housing (INFONAVIT) payments, water rights and mining concessions.

Communication on Progress Chart – United Nations Global Compact

	Pages
1. Businesses should support and respect the protection of internationally proclaimed human rights, within their influence scope.	48, 49, 53, 55, 91-95, 142
2. Businesses should make sure they are not complicit in human rights abuses.	42-43, 84-87, 91-95, 142, 131
3. Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.	33, 55, 91-95
4. Businesses should uphold the elimination of all forms of forced and compulsory labour.	91-95
5. Businesses should uphold the effective abolition of child labour.	91-95
6. Businesses should uphold the elimination of discrimination in respect of employment and occupation.	15, 91-95, 116, 127, 131, 142
7. Businesses should support a precautionary approach to environmental challenges.	29, 31, 42-43, 54
8. Businesses should undertake initiatives to promote greater environmental responsibility.	10, 48-49, 54, 83, 88-90
9. Businesses should encourage the development and diffusion of environmentally friendly technologies.	32, 88-90
10. Businesses should work against corruption in all its forms, including extortion and bribery.	15, 47, 109, 111, 116-117, 128, 130-131

Financial Review

Revenues reflected the strength of gold prices and record sales volume of gold, driven by the successful first year of operations at Noche Buena and continuous ramp-up at Saucito.

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 2012 figures compared to 2011, unless otherwise noted. The financial information is presented in US dollars, and all values in this commentary are expressed in millions except where indicated. The full Financial Statements and their accompanying notes can be found on pages 149-194.

Commentary on financial performance

The Group generated stable adjusted revenue performance in the year, down a slight 0.9% to US$2,287.2 million, while an increase in cost of sales put pressure on gross profit and EBITDA, which declined 13.6% and 14.8% respectively. Attributable profit in the year, excluding the positive effect of the Silverstream valuation, declined 17.2%.

Revenues reflected the strength of gold prices and record sales volume of gold, driven by the successful first year of operations at Noche Buena and continuous ramp-up at Saucito, and were offset by lower silver prices and the slight decline in silver production, whereby the ramp-up at Saucito helped mitigate the anticipated natural decrease in silver ore grade at the Fresnillo mine.

The 28.2% increase in cost of sales was mainly due to the rise in adjusted production cost to US$576.2 million, an increase of 37.4%, which resulted from a combination of factors including: i) costs associated with the new Noche Buena gold mine and the first full year of production at Saucito; ii) increased volumes of ore processed at all business units; combined, these two factors represented more than two thirds of the adjusted production costs[1]; iii) cost inflation, while estimated at 3.1%, was nonetheless lower than the average in the global mining industry, due to the beneficial impact of the devaluation of the average Mexican peso/US dollar exchange rate on costs denominated in Mexican pesos; and iv) operating factors such as longer haulage distances of ore and waste material, additional development and preparation at our mines, as well as backfilling, rock bolting and shotcreting to improve safety conditions, all of which increased consumption of several key operating materials. The cost of sales was also impacted by higher depreciation resulting mainly from the temporarily higher depletion factor at Noche Buena and Saucito and from the increased asset base.

Exploration expenses increased over the prior year as part of our strategy to grow the Group's resource base.

Cash flow generated by our operations and the Silverstream Contract, combined with a healthy cash position, enabled the Company to allocate capital to plant and equipment and to pay shareholder dividends. As of December, Fresnillo plc held US$613.8 million in cash.

[1] Adjusted production costs is calculated as total production costs less depreciation, profit sharing and the effects of exchange rate hedging.

Income statement

The Group's financial results are strongly determined by the quality and performance of our assets, the skills of our personnel and the capabilities of management to effectively execute Group strategy. A number of important variables, however, lie beyond the Group's control and have a significant impact on our financial statements. These include:

Precious metal prices

In 2012 an increase in perceived sovereign risk in Europe, slow economic recovery in the US and uncertainty about that country's economic policies, as well as the lower rate of growth in China and continued geopolitical tensions in the Middle East had a broad impact on the financial markets. Gold and silver prices reflected this volatility. The average realised gold price increased by 5.6%, to US$1,674.1 per ounce. In contrast, and more than offsetting gold's positive impact, the average realised silver price decreased by 9.8% from 2011, to $31.4 per ounce, influenced by slower industrial demand. Furthermore, average lead and zinc prices decreased by 11.1% and 7.9% respectively over 2011.

The Group has maintained a policy to remain fully exposed to volatility in precious metal prices and does not hedge silver and gold production. The Group did not enter any new derivative contracts to hedge the price of lead and zinc by-products during the period.

Foreign exchange rates

The average spot Mexican peso/US dollar exchange rate devalued by 6.0%, from $12.42 per US dollar in 2011 to $13.17 per US dollar in 2012. This devaluation generated a favourable effect estimated at US$16.1 million on the Group's production costs, as costs denominated in Mexican pesos (approximately two thirds of total costs) were lower when converted to US dollars.

However, the Mexican peso/US dollar spot exchange rate at 31 December 2012, of $13.01 per US dollar, was lower compared to the prevailing spot exchange rate at the beginning of the year, $13.98 per US dollar. As a result, there was an adverse effect on the peso value of the US-dollar denominated net monetary asset position, which is used for calculating taxes payable in accordance with Mexican legislation. This generated a foreign exchange loss in Mexican pesos (MXN$907.2 million), thus decreasing the Group's taxable profits.

The Group did enter into certain derivative contracts in the year to hedge foreign exchange exposure, as outlined in the Cost of Sales description on page 101.

Key line items	2012 US$ million	2011 US$ million	Amount US$	Change %
Adjusted revenue[1]	**2,287.24**	2,307.45	(20.21)	(0.9)
Treatment and refining charges	**(129.84)**	(114.79)	(15.05)	13.1
Total revenues	**2,157.40**	2,192.66	(35.26)	(1.6)
Cost of sales	**(806.70)**	(629.20)	(177.50)	28.2
Gross profit	**1,350.70**	1,563.46	(212.76)	(13.6)
Exploration expenses	**233.53**	133.99	99.54	74.3
EBITDA[2]	**1,311.54**	1,538.49	(226.95)	(14.8)
Profit before income tax	**1,164.43**	1,534.38	(369.95)	(24.1)
Income tax expense	**318.98**	495.77	(176.78)	(35.7)
Profit for the year	**845.45**	1,038.62	(193.17)	(18.6)
Profit for the year, excluding post-tax Silverstream effects	**761.42**	924.14	(162.72)	(17.6)
Attributable profit	**736.09**	901.75	(165.66)	(18.4)
Attributable profit, excluding post-tax Silverstream effects	**652.07**	787.27	(135.20)	(17.2)
Basic and diluted earnings per share (US$/share)[3]	**1.026**	1.257	(0.231)	(18.4)
Basic and diluted earnings per share, excluding post-tax Silverstream effects (US$/share)	**0.909**	1.098	(0.189)	(17.2)

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 calculated as gross profit plus depreciation less administrative, selling and exploration expenses.
3 The weighted average number of Ordinary Shares was 717,160,159. See note 18 in the Consolidated Financial Statements.

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Financial Review continued

Cost Inflation

To calculate cost inflation for the year, we consider five key components: labour, energy, operating materials, contractors and maintenance, then estimate the unit price increase for each and calculate the weighted average. The resulting cost inflation estimate for 2012 was 3.1%, and was heavily influenced by the 6.0% Mexican peso devaluation against the US dollar. All figures and year-on-year variations are provided in US dollar terms unless otherwise noted.

Labour

Employees received a 6.5% increase in wages in Mexican pesos; however when converted to US dollars the inflation factor was 0.5%.

Energy

The Company uses two sources of energy, electricity and diesel.

Electricity

The Group's weighted average cost of electricity declined slightly to US$10.2 cents per kw (–2.3%), compared to US$10.6 in 2011. Electricity rates are 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 was US$65.7 cents per litre, a 2.3% increase over the US$64.2 cents in 2011. The Mexican Government continued adjusting fuel and diesel prices to international rates. However, the devaluation of the Mexican peso/US dollar exchange rate benefited the unit cost of diesel when converted to US dollars.

Operating materials

Unit prices of key operating materials in US dollars rose in 2012, with an 8.1% increase in the net weighted average compared to 2011. This reflects the combined effect of price inflation and the weighting of each component in the total cost of operating materials. As shown in the table on page 99, unit costs for a number of key inputs increased by double digits, most notably sodium cyanide (+23.7%) due to increased demand in the gold mining industry, and demand for tyres (+13.5%) and explosives (+10.3%) from miners in general. Nonetheless, unit costs for lubricants, reagents and other operating materials such as lime, concrete, anchors and pipes, amongst others, remained broadly stable during the period and their combined weighting in the cost of operating materials was sufficient to contain the Group's weighted average inflation.

Contractors

Agreements are signed individually with each contractor and have specific terms and conditions that cover operating materials, equipment and labour, amongst others. Contractor costs are an important component of the Company's total costs denominated Mexican pesos. Not all contracts were due for review during the year. Increases in dollar terms ranged from 13.5% to –5.6% resulting in a weighted average of 3.0%.

Maintenance

Unit prices of spare parts to provide maintenance increased by an estimated 0.4% in US dollars.

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, decreased by 5.9%, whilst the treatment charge per tonne of zinc concentrate decreased by 15.2%. However, silver refining charges for lead concentrates increased by 22.1% year-on-year due to limited refining capacity for lead concentrates such as ours with high silver content.

The higher silver refining charges, together with greater volumes of concentrates and doré shipped to Met-Mex, resulted in a 13.1% aggregate increase in treatment and refining charges.

The effects of the above external factors, combined with the Group's internal variables, are further described below through the main line items of the income statement.

Revenues

Adjusted revenues of US$2,287.2 reflected a slight 0.9% decrease from 2011. Whilst the increased volume and higher average price of gold resulted in a total favourable effect of US$109.1 million, and similarly, the increased volume of lead sold contributed a US$0.6 million benefit, this was more than offset by the US$129.9 million adverse effect of the lower average silver price and reduced volumes of silver sold from the Fresnillo mine. These variables resulted in a combined net negative effect of US$20.2 million in adjusted revenues.

The total metal price effect (higher price of gold and lower prices of silver, zinc and lead), resulted in an adverse effect of US$65.9 million. The total volume effect (8.9% increase in ore milled at underground mines and 45.4% deposited at open pit mines, resulting in higher sales volumes of gold and by-product lead and zinc, but a decline in silver sales volume), resulted in a favourable effect of US$45.6 million. Had the Company not increased ore milled and deposited, revenues would have declined an estimated 16% at current ore grades and recovery rates.

The Noche Buena gold mine commenced operations in March 2012 and sold 64,814 ounces of gold and 14,249 ounces of silver in the year. This new mine, together with the higher volumes of gold sold by Ciénega and Saucito and the changes in relative prices, further strengthened our gold profile. As a result, the contribution of gold to adjusted revenues rose from 43.7% in 2011 to 48.9% in 2012. The contribution from silver decreased from 52.5% to 47.4% mainly due to the lower price of this precious metal. This ratio will continue to evolve as new mines ramp up production, new projects come on line, and precious metal prices fluctuate.

As expected, the Fresnillo mine contributed a lesser share of adjusted revenues, whilst Saucito, having completed its first full year of commercial production, increased its contribution and Noche Buena contributed for the first time.

Operating materials

	Year over year change in USD %
Sodium cyanide	23.7
Tyres	13.5
Explosives	10.3
Steel for drilling	7.5
Lubricants	5.7
Other reagents	3.0
Steel balls for milling	2.3
Other operating materials	1.5
Weighted average of all operating materials	**8.1**

Consolidated revenues

			Change	
	2012 US$ million	2011 US$ million	Amount US$	%
Adjusted revenue[1]	**2,287.24**	2,307.45	(20.21)	(0.9)
Treatment and refining charges	**(129.84)**	(114.79)	(15.05)	13.1
Total revenues	**2,157.40**	2,192.66	(35.26)	(1.6)

Adjusted revenues[1] by metal

	2012		2011		Volume	Price	Total	
	US$ million	**%**	US$ million	%	Variance	Variance	US$	%
Silver	**1,084.33**	**47**	1,214.21	52	(14.6)	(115.3)	(129.9)	(10.7)
Gold	**1,118.59**	**49**	1,009.44	44	51.2	57.9	109.1	10.8
Lead	**43.50**	**2**	43.01	2	5.6	(5.1)	0.5	1.1
Zinc	**40.82**	**2**	40.79	2	3.4	(3.4)	0.0	0.1
Total adjusted revenues	**2,287.24**	**100**	2,307.45	100	45.6	(65.9)	(20.2)	(0.9)

Adjusted revenues by mine

	2012 US$ million	2011 US$ million
Fresnillo	**865.68**	1,052.72
Herradura	**528.55**	521.90
Ciénega	**320.12**	250.11
Saucito	**285.94**	234.65
Soledad-Dipolos	**178.48**	248.07
Noche Buena	**108.47**	N/A
Total	**2,287.24**	2,307.45

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

Financial Review continued

Volumes of metal sold

	2012	2011	Change %
Silver (koz)			
Fresnillo	24,536	27,864	(11.9)
Ciénega	3,003	1,301	130.8
Herradura	238	392	(39.2)
Soledad-Dipolos	49	86	(43.2)
Saucito	6,659	5,296	25.7
Noche Buena	14	0	N/A
Total Silver (koz)	34,499	34,938	(1.3)
Gold (koz)			
Fresnillo	24	21	16.5
Ciénega	121	110	9.7
Herradura	311	321	(3.1)
Soledad-Dipolos	106	155	(31.8)
Saucito	41	30	39.7
Noche Buena	65	0	N/A
Total Gold (koz)	668	637	4.9
Lead (mt)			
Fresnillo	13,875	11,329	22.5
Ciénega	4,978	5,914	(15.8)
Saucito	2,220	1,284	72.9
Total Lead (mt)	21,073	18,527	13.7
Zinc (mt)			
Fresnillo	12,290	10,447	17.6
Ciénega	7,071	7,922	(10.7)
Saucito	1,406	737	90.8
Total Zinc (mt)	20,767	19,106	8.7

Cost of sales

	2012 US$ million	2011 US$ million	Change Amount US$	Change %
Adjusted production costs[1]	576.23	419.39	156.83	37.4
Depreciation	253.89	172.07	81.82	47.5
Change in work in progress	(74.31)	(25.49)	(48.82)	191.6
Profit sharing	48.78	69.08	(20.31)	(29.4)
Hedging	2.11	(5.87)	7.98	(136.0)
Cost of sales	806.70	629.20	177.50	28.2

1 Adjusted production costs is calculated as total production costs less depreciation, profit sharing and the effects of exchange rate hedging.

Cost of sales totalled US$806.7 million, an increase of 28.2% over 2011. The US$177.5 million increase is explained by the following factors:

- Adjusted production costs (+US$156.8 million): Of the increase, nearly half (US$73.8 million) was related to new operations, namely adjusted production costs incurred at the new Noche Buena mine in its first year of commercial production and three additional months of production at Saucito in 2012. Of the remaining US$83.0 million increase in adjusted production cost, we estimate that US$51.0 million is related to the increase in volume of ore processed at all our operations, US$13.0 million to cost inflation, US$15.2 million to operating factors, and US$3.8 million to other factors. By production cost component, this US$83.0 million is a result of:
  - Contractor costs (US$68.5) million as a result of: i) an increase of ore and waste material hauled over longer distances at the open pit and underground mines; ii) an increase in the share of haulage carried out by contractors compared to unionised labour, in contrast to the labour mix in previous years; iii) backfilling, shotcreting and rock bolting to secure safety conditions at the underground mines; and iv) an increase in the unit fees charged by contractors, which included the annual rise in labour cost, depreciation of contractors' equipment and operating materials.
  - Cost of operating materials (US$18.0) million, mainly explained by: i) the 8.1% weighted average increase in the unit price of operating materials; ii) higher consumption of explosives and reagents at Herradura and Soledad-Dipolos related to the increased volumes deposited and to increase recovery speed; iii) higher consumption of steel for drilling at Fresnillo and Ciénega; and iv) higher consumption of anchors and tyres associated with the additional rock bolting and shotcreting activities.
  - Cost of maintenance (US$6.5 million) due to: i) at Fresnillo, additional maintenance on the fire detection systems and electric spare parts for in-mine equipment; ii) at Saucito, increase in spare parts for the additional equipment; and iii) at Herradura, replacement of Terex shovel components.
  - Personnel costs, excluding profit sharing, (US$5.8) million mainly due to: i) a 6.5% increase in wages in Mexican pesos; ii) the additional personnel hired at Herradura, Soledad-Dipolos and Ciénega to increase volumes of ore processed; and iii) additional hours of training to improve safety.
  - The cost of energy (electricity and diesel) (US$5.1) million mainly due to longer haulage distances and deeper pits at Herradura and Soledad-Dipolos. The higher production volumes also increased energy consumption.
  - The above factors were partially mitigated by the 6.0% devaluation of the average Mexican peso/US dollar spot exchange rate, which resulted in a US$16.1 million favourable effect when converting peso-denominated costs to US dollars, and by a US$4.8 million decrease in other costs.
- Depreciation (+US$81.8 million): The increase was mainly due to the increased asset base with Noche Buena and a full year of depreciation for Saucito, as compared to nine months in 2011. Furthermore, the depletion factors for these mines were higher than those expected in the future as these utilised proven and probable reserves prior to increases reflected in the audited reserves figures obtained in early 2013, which will be utilised prospectively. In addition, the depreciation for other mines was impacted by the higher depreciable capital base as a result of additional mine work and higher production volumes.
- Change in work in progress (–US$48.8 million): The higher change in work in progress resulted principally from the increase in ore inventories at Noche Buena related to the construction of pads and at Soledad-Dipolos due to the slower recovery speed.
- Profit sharing (–US$20.3 million): Lower profit sharing reflected lower profits mainly at the Fresnillo mine.
- Hedging (+US$8.0): The Group enters into certain exchange rate derivative instruments as part of a programme to manage its exposure to foreign exchange risk associated with costs incurred in Mexican pesos. In 2012, forward dollar sales for US$50.0 million at an average rate of $12.65 matured, resulting in a narrow loss (US$0.7 million) recognised in the income statement (versus a profit of US$3.2 million last year). There was no outstanding net forward position as of 31 December 2012.
- Additionally, the Group entered into a combination of put and call options structured at zero cost (collars). In 2012, these derivatives were used to hedge US$121.5 million of costs denominated in Mexican pesos with average floor and cap exchange rates of $12.58 and $13.77 per US dollar respectively, resulting in a US$1.4 million loss recorded in the income statement (versus a profit of US$2.7 million in 2011). The total outstanding position using collar structures as of 31 December 2012 was US$115.0 million with maturity dates throughout 2013. These instruments guarantee a minimum exchange rate should the market fall below the floor exchange rate. Between the floor and cap exchange rates the Group sells US dollars at the market rate, and when the Mexican peso per US dollar exchange rate goes above the cap rate, the Company is obliged to sell US dollars at the contract rate.

Financial Review continued

Cost per tonne and cash cost per ounce

Cost per tonne in 2012 continued to be closely monitored by management to evaluate the effects of mining inflation and the efficiency of the Group's cost controls. This key indicator, calculated as total production costs less depreciation, profit sharing and exchange rate hedging effects, changed over 2011 as shown in the table below.

Fresnillo
Higher contractor costs due to a 13.5% rise in unit fees; increased stope preparation in order to feed the mill at current levels of production, additional haulage of ore and waste material, and shotcreting, rock bolting and scaling to improve safety conditions. Other factors contributing to the increase in cost were the 5.9% weighted average increase in the unit price of operating materials at this mine, additional maintenance to fire detection systems, electric spare parts for in-mine equipment, additional hours of training, and the change of armour for the mills. The benefit of the Mexican peso devaluation (6.0%) together with productivity gains and improved economies of scale offset most of the adverse effects, resulting in a cost per tonne increase of only 3.5%.

Ciénega
Higher contractor costs related to the San Ramón satellite mine, where 263,200 tonnes of ore were extracted, or 24% of Cienega's total ore processed, versus 87,095 tonnes in 2011 which represented only 9%; the 6.2% increase in the weighted unit price of operating materials at this mine; increased consumption of diesel per tonne due to longer haulage distances, and greater consumption of steel for milling, explosives and reagents per tonne; and higher freight costs for materials and spare parts to support the operation. The benefit of the Mexican peso devaluation together with productivity gains and improved economies of scale mitigated these adverse effects, resulting in a cost per tonne increase of 5.0%.

Herradura
Higher contractor costs related to: i) an increase in the number of contractors hired to a) haul a greater share of the total ore and waste material compared to 2011, over longer distances, and to haul additional volumes for which contractors were exclusively responsible; and b) prepare production banks at the current rate of production; and ii) increased unit fees for contractors resulting from the annual review and adjustment. In addition, cost per tonne was affected by: greater consumption of tyres, diesel and lubricants per tonne as a result of hauling waste material over longer distances and lower depths; higher consumption of sodium cyanide per tonne to increase recovery rates; an 8.8% increase in the weighted unit cost of operating materials at this mine; and more expensive, non-diluting explosives required for deeper banks where there is a presence of water. The benefit of the Mexican peso devaluation together with productivity gains and improved economies of scale partially offset these adverse effects, resulting in a cost per tonne increase of 8.3%.

Soledad-Dipolos
Higher contractor costs due to their increased participation in hauling ore and waste material over the period; higher consumption of tyres and lubricants per tonne related to the more intensive use of equipment; increased diesel consumption per tonne as a result of longer distances as the pit is deepened; and an 11.1% increase in the weighted unit price of operating materials at this mine. The benefit of the Mexican peso devaluation together with productivity gains and improved economies of scale partially offset these adverse effects, resulting in a cost per tonne increase of 8.8%.

Saucito
Cost per tonne at this mine are not comparable as an important part of the ore processed in 2011 was sourced from stockpiled material during construction of the mine.

Noche Buena commenced operations in March 2012, thus there are no comparable year-on-year figures.

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Cost per tonne		2012	2011	Change %
Fresnillo	US$/tonne milled	**44.52**	43.03	3.5
Ciénega	US$/tonne milled	**77.05**	73.36	5.0
Herradura	US$/tonne deposited	**6.46**	5.96	8.3
Soledad-Dipolos	US$/tonne deposited	**6.32**	5.81	8.8
Saucito	US$/tonne milled	**60.93**	*	N/A
Noche Buena	US$/tonne deposited	**6.84****	N/A	N/A

* Cost per tonne at Saucito is not comparable as an important part of the ore processed in 2011 was sourced from stockpiled material during the construction of the mine.
** An important part of the ore processed in 2012 was sourced from stockpiled material during the construction of the mine.

Cash cost per ounce[1]		2012	2011	Change %
Fresnillo	US$ per silver ounce	**5.59**	5.24	6.7
Ciénega	US$ per gold ounce	**(84.84)**	121.06	N/A
Herradura	US$ per gold ounce	**481.31**	362.19	32.9
Soledad-Dipolos	US$ per gold ounce	**618.76**	478.17	29.4
Saucito	US$ per silver ounce	**0.49**	*	N/A
Noche Buena	US$ per gold ounce	**582.41****	N/A	N/A

1 Cash cost per ounce is calculated as total cash cost (cost of sales plus treatment and refining charges less depreciation) less revenues from by-products divided by the silver or gold ounces sold.
* Cash cost at Saucito is not comparable as an important part of the ore process in 2011 was sourced from stockpiled material during the construction of the mine.
** An important part of the ore process in 2012 was sourced from stockpiled material during the construction of the mine.

The particular variations in cash cost for each mine are explained as follows:

Fresnillo

+US$5.59/oz (2012) vs US$5.24/oz (2011), + 6.7%
The increase in cash cost per ounce is mainly a result of the lower volumes of silver sold, reflecting the 17.3% decline in ore grade during the period. To a lesser extent, higher silver refining charges and an increase in mining costs also contributed. This was partially mitigated by lower profit sharing resulting from the decrease in silver price and the 24.9% increase in by-product credits reflecting the higher price and increased production of gold.

Ciénega

–US$84.84/oz (2012) vs US$121.06/oz (2011), N/A
The reduction in cash cost per ounce, to being negative in the year, was as a result of significantly higher volumes (+130.9%) of silver by-product credited to costs, more than offset higher mining costs and an 8.0% decrease in gold ore grade.

Herradura

+US$481.31/oz (2012) vs US$362.19/oz (2011), +32.9%
The increase in cash cost per ounce resulted mainly from the 13.0% decline in ore grade combined with the aforementioned 8.3% increase in cost per tonne, as well as lower silver revenues credited.

Soledad-Dipolos

+US$618.76/oz (2012) vs US$478.17/oz (2011), +29.4%
The increase in cash cost per ounce was mainly due to the 31.8% decrease in gold ounces sold derived from the 10.5% decline in ore grade and slower speed of recovery at the leaching pads. The aforementioned higher mining costs also contributed to the higher cash cost.

Saucito

+US$0.49/oz (2012), N/A
The favourable effect of high by-product revenues, with gold representing 24.1% of Saucito's total income, and higher grades from the production stopes contributed to the low cash cost. This was partially offset by the mining costs and silver refining charges.

Gross profit

Gross profit, excluding hedging gains and losses, is a key financial indicator of profitability at each business unit and at the Fresnillo Group as a whole.

Total gross profit for operating mines, excluding hedging gains and losses, was US$1,334.3 million, a 13.9% decrease over 2011.

Total gross profit decreased by US$212.8 million. The income statement indicates that this was the result of higher production costs and the increase in depreciation. The operational factors behind this change were: i) lower ore grades at Fresnillo, Herradura and Soledad-Dipolos (–US$326.1 million); ii) lower silver prices (–US$114.6 million); iii) higher adjusted production costs before Mexican peso/US dollar exchange rate effects and new operations, as described above (–US$99.1 million); and iv) higher depreciation related to an increased asset base and temporarily higher depletion rates at recently opened mines (–US$41.0 million).

However, these factors were mitigated by: i) increased ore volumes processed at Fresnillo, Herradura and Soledad-Dipolos (+US$127.9 million); ii) the benefit of increased production volumes at Ciénega (+US$69.3 million); iii) higher gold prices (+US$55.0 million); iv) the start-up of Noche Buena (+US$39.2 million); and v) the contribution of Saucito corresponding to the additional three months of operations in 2012 (+US$32.5 million). Had the Company not increased the volume of ore processed at its existing operations and commenced operations at Noche Buena, gross profit would have declined an estimated 26% at current ore grades and recovery rates.

Other factors affecting this indicator were lower lead and zinc prices and increased treatment and refining charges, which were partially compensated by the lower profit sharing that resulted mainly from the decline in silver price and the benefit of the devaluation of the Mexican peso/US dollar exchange rate.

The contribution by mine to the Group's gross profit, excluding hedging effects, changed year over year. Gross profit at the Fresnillo mine decreased 25.5% to US$590.3 million in 2012 as a result of the factors discussed above. Notwithstanding, our flagship mine remained the largest contributor to the consolidated gross profit, followed by Herradura and Ciénega with shares of 22.8% and 12.8%, respectively. Gross profit at Saucito increased by 9.2% over 2011 due to the benefit of an additional three months of operations in 2012, enhancing the mine's contribution to the Group's gross profit from 8.8% to 11.1%. Finally, Noche Buena contributed 2.9% of the consolidated gross profit.

Contribution by mine to consolidated gross profit, excluding hedging gains and losses

	2012		2011		Change	
	US$ million	**%**	US$ million	%	Amount US$	%
Fresnillo	**590.33**	**44.2**	792.78	51.1	(202.45)	(25.5)
Herradura	**304.67**	**22.8**	338.46	21.8	(33.79)	(10.0)
Ciénega	**170.42**	**12.8**	129.64	8.4	40.78	31.5
Saucito	**148.76**	**11.1**	136.34	8.8	12.42	9.2
Soledad-Dipolos	**80.84**	**6.1**	153.20	9.9	(72.36)	(47.3)
Noche Buena	**39.25**	**2.9**	0.00	–	39.25	N/A
Total for operating mines	**1,334.27**	**100**	1,550.42	100	(216.15)	(13.9)
MXP/USD exchange rate hedging (losses) and gains	**(2.11)**		5.87		(7.98)	N/A
Other subsidiaries	**18.54**		7.18		11.36	N/A
Total Fresnillo plc	**1,350.70**		1,563.46		(212.76)	(13.6)

Financial Review continued

Administrative expenses

Administrative expenses in 2012 decreased 5.8% to US$53.2 million, primarily explained by lower legal and advisory fees related mainly to the Bribery Act and Risk Management, and lower expenses from non-recurring services provided by Servicios Industriales Peñoles S.A.B de C.V. (Peñoles).

Exploration expenses

Exploration expenses recorded in the Group's income statement totalled US$233.5 million, representing a 74.3% increase over 2011. This figure remained in line with our strategy to ensure the long-term growth of the Group by expanding the resource and reserve base. Exploration activities were intensified in the Herradura and Fresnillo Districts and at the San Julián, Orisyvo, Centauro Deep, Guachichil and Guanajuato projects. In addition, US$85.4 million associated with the San Julián, Centauro Deep, Juanicipio and Orisyvo projects was capitalised. The total investment in exploration of US$318.9 million in the period was below the budgeted US$360.4 million due mainly to lower expenses at San Julián, Centauro Deep and Orisyvo, but nonetheless represented a 78.1% increase compared to the US$179.0 million invested in 2011.

EBITDA

EBITDA, which is calculated as gross profit plus depreciation, less administrative, selling and exploration expenses is another key indicator of the Group's financial performance. EBITDA decreased by 14.8% in the year to US$1,311.54 million mainly due to the adverse effect of lower gross profit and increased exploration expenses. EBITDA margin declined accordingly from 70.2% in 2011 to 60.8% in 2012.

Silverstream effects

The Silverstream contract is accounted for as a derivative financial instrument carried at fair value. The US$117.7 million effect of the Silverstream Contract resulted from: i) updating of the assumptions utilised to value the Silverstream Contract, most significantly the forward price of silver, US$52.5 million; ii) the unwinding of the discount, US$21.8 million; and iii) the difference between payments actually received in 2012 and payments estimated in the valuation model as at 31 December 2011, US$43.4 million.

Since the IPO, cumulative cash received totalled US$350 million, while total non-cash revaluation gains of US$488.8 million have been taken to income. However, it was anticipated that the Group would expect further unrealised gains or losses taken to the income statement in accordance with the cyclical behaviour of the silver price or changes in the variables considered in valuing this contract. Further information related to the Silverstream contract is provided in the Balance Sheet section below and in notes 14 and 29 to the Consolidated Financial Statements.

Foreign exchange

The revaluation of the Mexican peso/US dollar exchange rate had an adverse effect over the value of peso-denominated net liabilities when converted to US dollars. As a result, a foreign exchange loss of US$8.4 million was recorded in the year, which compared negatively to the US$14.7 million gain recognised in 2011.

Taxation

As a result of the lower profits earned in 2012, the income tax expense decreased by 35.7% to US$319.0 million. The Group's effective tax rate was 27.4% which is lower than the statutory 30% tax rate. The difference is explained by: i) the revaluation of the MXN/US dollar exchange rate generating a) a deductible foreign exchange loss when taxable profit is determined in MXN for the purpose of current tax calculations, which is greater than that arising for accounting purposes in the Group's USD denominated IFRS results; and b) a positive effect of the retranslation of the MXN denominated tax values of assets and liabilities into USD for the purposes of the calculation of deferred tax under IFRS; and ii) certain inflation adjustments for Mexican tax purposes that have no accounting effect.

Profit for the year

Profit for the year decreased by 18.6% to US$845.4 million due to the factors discussed above. Profits due to non-controlling interests of US$109.4 million decreased 20.1% compared to 2011, with the profits generated at Noche Buena, where Newmont owns 44% of the outstanding shares, offset by declines at Soledad-Dipolos and Herradura. Accordingly, profit attributable to equity shareholders of the Group reduced by 18.4% from US$901.7 million to US$736.1 million in 2012.

Excluding the favourable effects of the Silverstream Contract, profit for the year decreased by 17.6% from US$924.1 million to US$761.4 million. Similarly, profit attributable to equity shareholders of the Group, excluding the Silverstream effects, declined by 17.2%.

Exploration expenses: Business unit/project

	Exploration expenses US$ million	Capitalised expenses US$ million
Ciénega	15.4	–
Fresnillo	9.4	–
Herradura	13.5	–
Soledad-Dipolos	10.6	–
Saucito	3.7	–
Noche Buena	22.2	–
San Ramón	10.8	–
San Julián	22.7	62.3
Orisyvo	19.5	1.2
New Herradura Corridor	5.8	–
Centauro Deep	33.1	8.1
San Juan	3.7	–
Lucerito	5.5	–
Candameña	4.6	–
Guachichil	7.4	–
Guanajuato	5.9	–
Peru	3.8	–
Manzanillas	2.8	–
Juanicipio	0.0	5.7
Others	33.1	8.1
Total	233.5	85.4

EBITDA

	2012 US$ million	2011 US$ million	Change Amount US$	Change %
Gross Profit	**1,350.70**	1,563.46	(212.76)	(13.6)
+ Depreciation	**253.89**	172.07	81.82	47.5
– Administrative expenses	**(53.21)**	(56.52)	3.30	(5.8)
– Exploration expenses	**(233.53)**	(133.99)	(99.54)	74.3
– Selling expenses	**(6.31)**	(6.53)	0.23	(3.5)
EBITDA	**1,311.54**	1,538.49	(226.95)	(14.8)
EBITDA margin %	**60.8**	70.2		

Cash flow

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

Key line items	**2012 US$ million**	2011 US$ million	Change Amount US$	Change %
Cash generated by operations before changes in working capital	**1,364.5**	1,612.1	(247.6)	(15.4)
(Increase)/decrease in working capital	**(107.6)**	(36.1)	(71.5)	198.1
Taxes and Employee Profit Sharing paid	**(513.3)**	(326.8)	(186.4)	57.0
Net cash from operating activities	**743.6**	1,249.2	(505.5)	(40.5)
Silverstream contract	**110.6**	103.0	7.6	7.4
Capital contribution	**3.7**	20.8	(17.1)	(82.3)
Purchase of property, plant & equipment	**(520.0)**	(467.7)	(52.3)	11.2
Dividends paid to shareholders of the Company	**(397.6)**	(705.5)	307.8	(43.6)
Dividends paid to non-controlling interest	**(26.2)**	(81.5)	55.2	(67.8)
Net (decrease)/increase in cash during the period before foreign exchange differences	**(72.3)**	130.6	(202.9)	N/A
Cash at 31 December	**613.8**	684.9	(71.2)	(10.4)

Financial Review continued

Cash flow

Cash generated by operations before changes in working capital decreased by 15.4% to US$1,364.5 million, reflecting lower profits generated at some of our mines. The US$107.6 million increase in working capital also affected the Group's cash flow, and was mainly the result of:

– A US$98.3 million increase in ore inventories resulting from ore deposited at the leaching pads of Herradura and Noche Buena and slower recovery at Soledad-Dipolos.
– Trade and other receivables which rose by US$13.0 million due to: i) higher receivables resulting from the increased volumes of ore sold and higher gold prices; ii) increased recoverable value added tax; and iii) equipment sold to contractors on credit.

Taxes and employee profit sharing paid increased by 57.0% over 2011 to US$513.3 million. The final income tax payment on profits generated in 2011 was paid in the first months of 2012 in accordance with Mexican regulations. Provisional payments for 2012 increased significantly compared to the previous year, as the higher profit levels from 2011 affected the factor used to calculate those provisional payments in 2012, with final payment to be made in early 2013.

As a result of the above factors, net cash from operating activities of US$743.6 million decreased by 40.5% when compared to 2011.

The Group received proceeds totalling US$110.6 million under the Silverstream Contract. This figure represented a 7.4% increase when compared to the US$103.0 million recorded in 2011 due to the higher volume of payable silver.

The Group purchased property plant and equipment for a total of US$520.0 million, which represented an 11.2% increase when compared to 2011. Capital expenditures for 2012 are further described on page 107.

Dividends paid in 2012 totalled US$423.8 million, which represented a 46.1% decrease from 2011 mainly due to a second interim dividend paid in 2011, and not in 2012. The total dividend payment in 2012 included: i) the final 2011 dividend of US$286.4 million; ii) interim dividend of 2012 of US$111.2 million; and iii) dividends paid to Newmont, the minority shareholders in Penmont, of US$26.2 million.

The Group ended 2012 with US$613.8 million in cash and cash equivalents, reflecting a net decrease of US$71.2 million after considering all the sources and uses of funds described above.

Balance sheet

Fresnillo plc continued to maintain a solid financial position with no bank debt.

Cash and cash equivalents as of 31 December 2012 of US$613.8 million decreased by 10.4% compared to the cash position at year-end 2011.

Trade and other receivables of US$263.6 million increased during the period mainly due to: i) the higher price of gold and volumes sold; ii) higher recoverable taxes related to value added tax generated by the increased purchases of operating materials and additional services contracted; and iii) equipment sold.

The change in the value of the Silverstream derivative from US$478.1 million at the beginning of the year to US$487.8 million as of 31 December 2012 reflects proceeds of US$107.9 million, (US$97 million in cash and US$10.9 million receivable) and the Silverstream effect in the income statement of US$117.7 million.

The net book value of property, plant and equipment was US$1,480.3 million at 31 December 2012, representing a 23.9% increase when compared to the US$1,194.4 at 31 December 2011. The US$285.9 million increase was mainly explained by the intensified mine work at all our operating mines and at the San Julián project, acquisition of additional in-mine equipment and purchase of surface land and mining concessions. The construction of the dynamic leaching plant and of additional leaching pads at the Herradura District also contributed to the rise in fixed assets.

The Group's total equity was US$2,602.1 million as of 31 December 2012, a 21.1% increase compared to 2011.

Dividends

Based on the Group's 2012 performance, the Directors have recommended a final dividend of 42.4 US cents per Ordinary Share, which will be paid on 8 May 2013 to shareholders on the register on 19 April 2013. The dividend will be paid in UK pounds sterling unless shareholders elect to be paid in US dollars. This is in addition to the interim dividend of 15.5 US cents per share totalling US$111.16 million which was paid on 11 September 2012.

Purchase of property, plant and equipment

		2012 US$ million
Herradura mine	Construction of dynamic leaching plant (US$37.4 million) and leaching pads, development, purchase of surface land, and acquisition of additional equipment for Centauro Deep (US$8.9 million)	109.1
Fresnillo mine	Mine development, acquisition and replacement of in-mine equipment and purchase of land. Construction of ramps and mine work, purchase of equipment and acquisition of land at San Julián (US$62.2 million) and Orisyvo project (US$1.3 million)	147.8
Ciénega mine	Development, mine work, purchase of surface land and acquisition of new equipment	81.9
Noche Buena	Construction of leaching pads, purchase of mobile equipment to support the operations and development	42.0
Saucito mine	Development, mine work and construction of ramps and the Jarillas shaft	54.4
Soledad-Dipolos mine	Construction of leaching pads, purchase of equipment and development activities	8.7
Bermejal	Acquisition of equipment to lease to Herradura US$24.4 million, Soledad-Dipolos US$6.9 million and Noche Buena US$30.8 million; other US$0.4 million	62.4
Juanicipio project	Exploration expenses	5.6
Other	Exploraciones Mineras Parreña and SAFSA	8.1
Total purchase of property, plant and equipment		**520.0**

Governance

Applying the principles of good corporate governance to ensure that the Board and its Committees fulfil their obligations and commitments in the best interests of all stakeholders.

Fresnillo: The Board receives regular updates on projects, such as those reducing costs at Fresnillo, which support the Group's strategy of optimising operations thus creating value for all stakeholders.

Corporate Governance Overview

"I believe that the Fresnillo Group is governed in the best interests not only of all of its shareholders but also of its employees and contractors as well as the communities, and indeed the countries, in which its operations are located."

Mr Alberto Baillères
Chairman of the Board

Dear Shareholder,

The London Stock Exchange is currently considering how companies with controlling shareholders such as Fresnillo plc should be regulated. I would like to offer my observations on the corporate governance journey that my Board colleagues and I have travelled since 2008. As we approach the fifth anniversary of the listing of Fresnillo plc shares on the London Stock Exchange, it seems an appropriate point at which to review the progress that we have made since that time. As most companies do at the time of their listing, we produced a Prospectus which set out the Board and Committee structure that we had decided to put in place to substantially comply with the requirements of the Combined Code (as it was then called) and that we considered appropriate for effective governance.

At that time, there was only one provision of the Combined Code that we did not comply with and that related to my own independence as a Non-executive Chairman. Since 2008, we have thought carefully about how we apply the principles of good corporate governance and sought to ensure that the Board and its Committees fulfil all of their obligations and commitments. In doing so, I believe that the Fresnillo Group is governed in the best interests not only of all of its shareholders but also of its employees and contractors as well as the communities, and indeed the countries, in which its operations are located.

Just over a year ago, we commissioned an external evaluation of the Fresnillo Board and I was particularly pleased that this exercise commented on the progress that the Board has made towards becoming an effective working group over the past few years. The Board and each of the Board Committees has had to find its role and best way of working within the framework that we established in 2008 and I believe that the Board evaluation exercise demonstrated the progress made in this regard.

The context of the Group has been a key factor in determining our approach to Board succession and development. In the past year we have made two significant appointments – the appointment of our first female Non-executive Director and the appointment of a new Chief Executive Officer. Neither of these appointments was made lightly and both have been the result of many months of deliberation involving my Board colleagues, including of course the members of the Nominations Committee. The decisions were based on merit and the expected contributions of each candidate.

Perhaps the greatest area of tangible progress in the way that the Board works over the past few years has been seen in the development of the Group's approach to risk governance and ethical business principles and practices (particularly those that are relevant to the UK Bribery Act). The management team have initiated a thorough approach to both of these with clear accountability provided by the Audit Committee and ultimately by the Board. To a lesser extent, but nonetheless still important particularly in the current climate, has been the consolidation of the Group processes for monitoring and approving related party transactions over the past five years. The role of the Audit Committee has been key in this and we have tried to demonstrate more fully in this report how we see these processes working. We should not be complacent and the current safety performance of the Group points to a continued need for the HSECR Committee and the Board to oversee management efforts to make the necessary improvements in that very important area.

Each of the Board Committee chairmen has written their own introductory letters to their committee reports in the following sections which, I trust that you will agree, build on my own observations in this letter.

I would conclude by saying that I and my Board colleagues are wholeheartedly supporting the principles of good governance within the Fresnillo Group and we look forward to continuing to develop our approach to governance as we engage with new regulatory requirements and, more generally, as we continue to identify ways to improve what we do.

Yours faithfully

Mr Alberto Baillères
Chairman of the Board

Corporate Governance Overview continued

Advancing good governance since 2008.

Since Fresnillo plc listed on the London Stock Exchange in 2008, the Board has sought to understand the spirit as well as the letter of the UK Corporate Governance Code ('the Code') and align its own governance structure accordingly.

This section highlights the principal developments of the past few years by which the Company's governance has been advanced.

Related Party Transactions

- Since 2008, the Board has developed procedures for dealing with transactions with related parties as well as Directors' conflicts of interest which are regularly reviewed.
- The Shared Services Agreement (including renewal of the agreement in early 2013) and commercial arrangements with Met-Mex have been financially appraised by the Audit Committee and authorised by the Independent Non-executive Directors in accordance with the Relationship Agreement.
- The Audit Committee regularly reviews all related party transactions.

Board

Nominations Committee

Health & Safety

- In 2011 and 2012, both the Board and the HSECR Committee have taken steps to understand the causes of incidents and the responses of management to ensure that they are appropriate.
- The HSECR Committee is overseeing a long-term programme to develop the maturity of the Group's HSECR systems.

Diversity

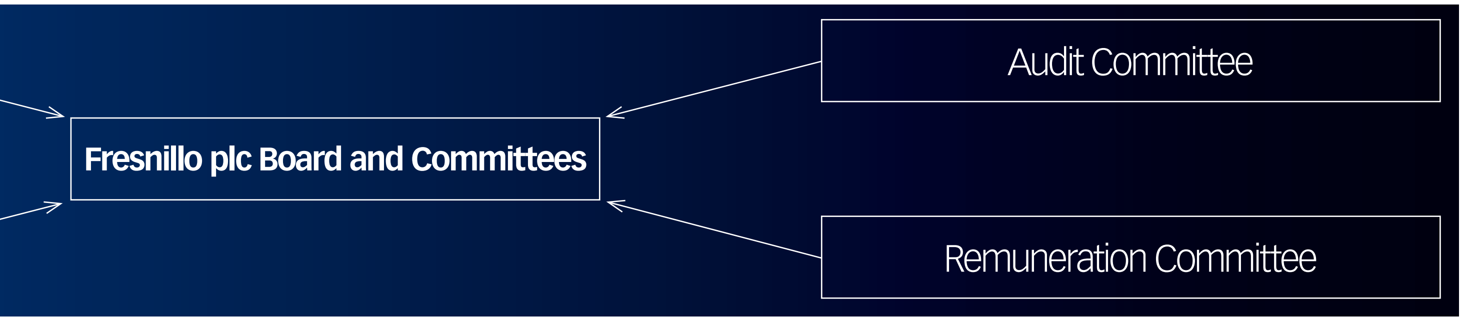
- The Board appointed its first female director during 2012.

Risk Governance

- The Enterprise Risk Management framework has been implemented since 2010.
- The Board's appetite and tolerance of risk is clearly set down.
- The Audit Committee assists the Board in monitoring risk management in more detail. Risk governance updates are provided at every meeting of the Audit Committee and Board.
- Further detail can be found within the 'Our Risk Management Framework' section on pages 46-55.

Anti-Bribery & Corruption

- An extensive review of anti-corruption policies was undertaken following the introduction of the UK Bribery Act in 2010.
- The Company's Anti-Bribery and Corruption Policy, Donations Policy and Code of Conduct were approved by the Board and communicated to staff in 2011.
- Training and procurement procedures were undertaken in 2012.
- The Honour Commission was first established in 2009 as the central medium of the Group Whistleblowing Procedures.
- The Fresnillo Code of Conduct is available at www.fresnilloplc.com



Succession

- Board and Senior Management succession plans have been developed.
- Implementation began in 2012 with new appointments.

Key Performance Indicators and Incentives

- Key Performance Indicators ('KPIs') developed for measuring implementation of strategy.
- The remuneration of senior executives has been more aligned to the long-term strategy by increasing the level of variable pay comprising total remuneration.
- The use of KPIs in determining remuneration has been adapted to focus greater attention on safety performance and the maintenance of reserve and resource levels.

Board of Directors and Executive Committee

The Board consists of a balance of Independent and Non-independent, Non-executive Directors who together decide on matters presented to them by the Executive Committee members.

Fresnillo plc Boardroom

Independent Directors

María Asunción Aramburuzabala
Non-executive Director

Fernando Ruiz
Non-executive Director

Fernando Solana
Non-executive Director

Javier Fernández
Non-executive Director

The Chairman leads the Board

Alberto Baillères
Non-executive Chairman

Fresnillo Boardroom

Non-independent Directors

Alejandro Baillères
Non-executive Director

Juan Bordes
Non-executive Director

Arturo Fernández
Non-executive Director

Jaime Lomelín
Non-executive Director

Committee Chairmen report on the discussions of their Committees

Lord Cairns
Senior Independent Director

Guy Wilson
Independent Non-executive Director

Rafael MacGregor
Non-executive Director

The Executive Committee members inform and support Board and Committee discussions

Mario Arreguín
Chief Financial Officer

Octavio Alvídrez
Chief Executive Officer

David Giles
Vice President Exploration

Chairman and Independent Directors

Alberto Baillères
Non-executive Chairman
Appointed 15 April 2008
Chairman: Nominations Committee
Member: Remuneration Committee
Mr Baillères 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.

Lord Cairns
Senior Independent Non-executive Director
Appointed 15 April 2008
Chairman: Remuneration Committee
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.

María Asunción Aramburuzabala
Independent Non-executive Director
Appointed 16 April 2012
Ms Aramburuzabala brings experience of a broad range of Mexican and international businesses to her role.

Javier Fernández
Independent Non-executive Director
Appointed 15 April 2008
Member: Nominations and HSECR Committees
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.

Fernando Ruiz
Independent Non-executive Director
Appointed 15 April 2008
Member: Audit, Nominations and Remuneration Committees
Mr Ruiz contributes to the Board and Audit Committee proceedings through experience of international audit and accounting frameworks and a specialist knowledge of Mexican tax.

Fernando Solana
Independent Non-executive Director
Appointed 19 February 2009
Member: Audit Committee
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.

Guy Wilson
Independent Non-executive Director
Appointed 1 July 2008
Chairman: Audit Committee
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.


Alberto Baillères


Lord Cairns


María Asunción Aramburuzabala


Javier Fernández


Fernando Ruiz


Fernando Solana


Guy Wilson

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Board of Directors and Executive Committee continued

Non-independent Directors

Alejandro Baillères
Non-executive Director

Appointed 16 April 2012

Mr Baillères brings experience of a broad range of Mexican and international businesses to his role.

Juan Bordes
Non-executive Director

Appointed 15 April 2008

Mr Bordes brings to the Board practical and extensive cross-sector business experience, including within financial services.

Arturo Fernández
Non-executive Director

Appointed 15 April 2008

Mr Fernández' economics background, as well as his experience and connections within the Mexican public policy arena provide the Board with commercial input and the macro-economic perspective.

Rafael MacGregor
Non-executive Director

Appointed 15 April 2008
Chairman: HSECR Committee

Mr MacGregor has wide-ranging commercial experience across a number of sectors, including institutional financial services and the Mexican Stock Exchange.

Jaime Lomelín
Non-executive Director
(former Chief Executive Officer)

Appointed 15 April 2008
Member: HSECR Committee

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

Biographical details for each of the Directors will be set out in the Circular accompanying the Notice of the Annual General Meeting.

Executive Committee

Octavio Alvídrez
Chief Executive Officer

Appointed 15 August 2012
Member: Executive Committee
Invited to: Board; HSECR and Remuneration Committee meetings

Mr Alvídrez has extensive experience within the mining industry and was previously General Manager of the Madero mine, one of Mexico's largest mines and an important operation for Peñoles. Mr Alvídrez joined Peñoles in August 1988. Since then he has held a number of senior operational and financial positions across Peñoles and Fresnillo, including that of Treasurer, Head of Investor Relations in London and Head of Procurement. He is a graduate of the Universidad de Guanajuato (Mexico), where he gained a degree in Mining Engineering, and holds an MBA from The Wharton School (US).

Mario Arreguín
Chief Financial Officer

Appointed 15 April 2008
Member: Executive Committee
Invited to: Board and Audit Committee meetings

Mr Arreguín joined Fresnillo plc from 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 Project Management at Dupont México. Mr Arreguín holds a bachelor of chemical engineering degree with honours and received his MBA from the University of Chicago. He also completed the Stanford Executive Program at Stanford University.

David Giles
Vice President Exploration

Appointed 15 April 2008
Member: Executive Committee
Invited to: Board meetings

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.

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Corporate Governance Report

UK Corporate Governance Code Compliance Statement

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 2012. 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.

The Code establishes 18 main principles of good governance in five areas: Leadership, Effectiveness, Accountability, Remuneration and Relations with Shareholders. The remainder of this report; the section on Risk Management (which can be found on pages 46-55); the Sustainability Report (which can be found on pages 78-95) and a detailed report on Directors' remuneration (which can be found on pages 133-141) provides further detail on how the Company applies good governance in these five areas.

For the financial year ended 31 December 2012, 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 its time and energy 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 certain authorities 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

Read more:
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).

Detailed reports on the activities of the Audit Committee and the Nominations Committee are set out in this Report.

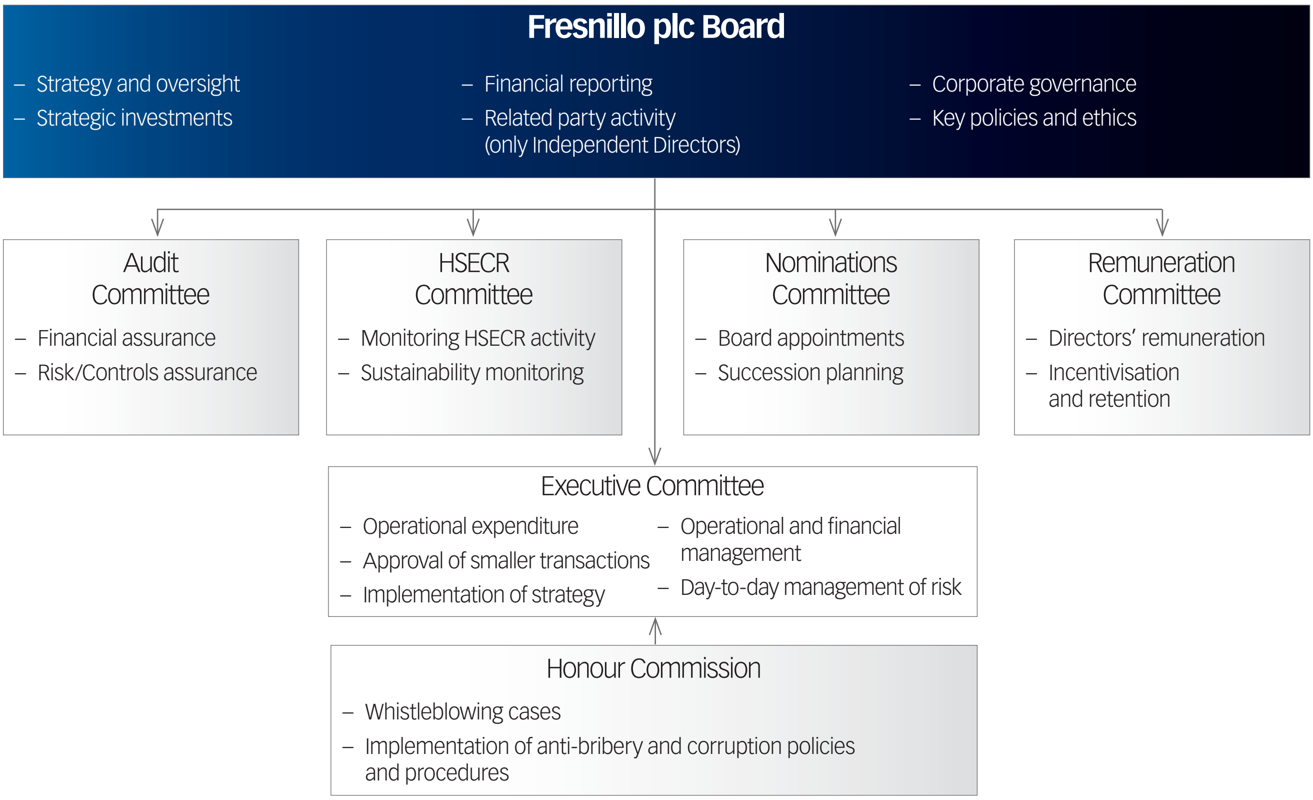
The Executive Committee is led by the Chief Executive Officer and consists of the most senior executives within the Fresnillo Group. It is responsible for the management of the Company's businesses including the implementation of decisions agreed in principle by the Board and all executive management of the operations of the Group within the strategy and budget approved by the Board. It has certain powers to approve smaller transactions on behalf of the Board (such transactions are reported and explained to the Board at its next scheduled meeting). Over the past few years, the role of the Executive Committee has evolved in three main areas:

- Risk: It is also responsible for the identification, prioritisation and management of risk within a framework monitored regularly by the Board.
- Business Conduct: Members of the Executive Committee also serve on the Honour Commission which has, over the past two years, taken on a key role in maintaining ethical business standards within the Fresnillo Group. The terms of reference and membership of the Honour Commission are set by the Executive Committee.
- Safety Performance: Whilst the HSECR Committee oversees health and safety issues on behalf of the Board, the Executive Committee is responsible for the day-to-day management of safety. In response to the decline in the Group's fatalities record over the past two years, the Executive Committee has increasingly focused its attention on this issue.

The HSECR Committee evaluates the effectiveness of the Company's policies and systems for identifying and managing HSECR matters within the Company's operations. As such, management reports to the HSECR Committee on such matters. 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. The Sustainable Development Report on pages 78-95 sets out the activities of the HSECR Committee during the year.

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 133-141.

Fresnillo Governance Structure and Key Responsibilities



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Corporate Governance Report continued

Board composition and independence

Board membership

During the year, two new Non-executive Directors – María Asunción Aramburuzabala and Alejandro Baillères – were appointed to the Board. Consequently as at 31 December 2012, the Board consisted of 12 Directors – the Non-executive Chairman, Alberto Baillères, six Independent Non-executive Directors and five Non-independent Non-executive Directors. The further details about the current directors of the Company are set out on pages 113 and 114.

Board balance and roles

The composition of the Board has been structured to ensure that no one individual can dominate the decision-making processes of the Board. The Chairman is beneficially interested in more than 50% of the share capital of the Company through his interest in Industrias Peñoles S.A.B de C.V ('Peñoles'), the Company's controlling shareholder. The Chairman, Mr Baillères, is also the Chairman of Peñoles and other companies within the BAL Group.

Peñoles has entered into a relationship agreement with the Company which ensures that decisions in relation to transactions with Peñoles must be taken by the independent Non-executive Directors of the Company. The key provisions of the Relationship Agreement are summarised below.

The Chairman is responsible for the leadership of the Board and ensuring its effectiveness as to all aspects of its role.

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. Following the retirement on 15 August 2012 of Jaime Lomelín (who was the Chief Executive Officer prior to that date), the Statement of Responsibilities of the Chairman and Chief Executive Officer was reviewed but left unchanged notwithstanding that the new Chief Executive Officer, Octavio Alvídrez, is not currently a member of the Board.

The 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

The Board consists of 12 Non-executive Directors. Six are considered to be non-independent and six are considered to be independent; as follows:

Non-independent	Independent
Alberto Baillères (Chairman and Chairman of Nominations Committee)	Lord Cairns (Senior Independent Director and Chair of Remuneration Committee)
Alejandro Baillères	María Asunción Aramburuzabala
Juan Bordes	Javier Fernández
Arturo Fernández	Fernando Ruiz
Rafael MacGregor (Chair of HSECR Committee)	Fernando Solana
Jaime Lomelín (former Chief Executive Officer)	Guy Wilson (Chair of Audit Committee)

The Board considers María Asunción Aramburuzabala, Lord Cairns, Javier Fernández, Fernando Ruiz, Fernando Solana, and Guy Wilson to be independent in character and judgement. For each of these Directors, their circumstances are assessed by reference to Provision B.1.1. of the Code and the Board remains satisfied that they are each independent when the scenarios set out in Code Provision B.1.1 are taken into account.

The Non-independent Directors listed above 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.

At the time of the Company's IPO in 2008, the Board sought to establish a transparent governance system, 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. Since that time, the Board has sought to build on that system. Thus the duties of the Audit Committee have since been expanded to ensure that financial aspects of related party transactions are reviewed by that committee.

Fernando Ruiz has, since 2008, been a retired partner and consultant in the firm Chevez, Ruiz, Zamarripa y Cia., S.C., a firm providing professional services to the Company. Guy Wilson retired as a partner of Ernst & Young LLP, the Company's auditors, in 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.

Related party governance in practice

There are a number of checks and balances which ensure that there is full transparency in the way that related party transactions are dealt with by the Board. The following diagram summarises these checks and balances:

Monitoring of Directors' Interests

If a director is interested in a company which could potentially enter into transactions with a Fresnillo plc Group company, the Board will normally consider that interest under its arrangements for authorising conflicts of interest under section 175 of Companies Act.

Negotiation of Transactions

The negotiation of the terms of all major transactions is the responsibility of the Executive Committee. The Executive Committee will seek to ensure that the best possible terms are achieved for a proposed transaction.

Proposed Transaction

Independent Director Approval

Under the Relationship Agreement, the Independent Directors must approve any transaction without the Non-independent Directors voting. For example, the renewal of the Met-Mex contract was approved by the Independent Directors in 2012.

Financial Appraisal

The Audit Committee reviews the key terms of major transactions which are verified as to price and quality with external consultants where possible. For example, KPMG provided benchmarking information in relation to the proposed New Shared Services Agreement during 2012.

Corporate Governance Report continued

Relationship Agreement

Since the time of the Company's listing on the London Stock Exchange in 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 process by which the Relationship Agreement has been implemented has been developed as specific issues have been addressed by the Board and the Independent Directors under the terms of the Relationship Agreement; the current arrangements are summarised 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 he/she 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 resubmitted by each Director as at 31 December 2012 and the Board has considered and authorised any new situational conflicts identified in these re-submitted 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

Responsibility	Process
Fresnillo Management and Executive Committee	Contract negotiation
Industry benchmarking reports or independent valuation/assessment	Verification
Audit Committee review	Financial scrutiny
Independent Directors approve under the Relationship Agreement	Board approval

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. The Board also provides leadership to the Fresnillo Group in establishing the values by which it will conduct its business. 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. 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 was last revised in April 2011.

A table of attendance of members of the Board and Board committees at meetings during the financial year ended 31 December 2012 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. Papers are usually circulated about five days before the Board meeting concerned.

Members of the Executive Committee are responsible for preparing papers in respect of strategic planning, policies and investment proposals for each Board meeting. 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.

Led by the Chief Executive Officer, members of the Executive Committee attend all of the Board meetings and present all of the papers on operational and financial matters. The only discussions which members of the Executive Committee are not present for are discussions about management succession and the annual Board evaluation report discussion.

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.

Board programme in 2012

The Board meets at least four times a year and has an established programme of meetings. A key feature of the Board's evaluation discussions since the Company was formed has been a desire to focus more time on strategy during the Board discussions. Thus, as well as the functions that it is required to perform as part of its annual cycle of activity, the Board now allocates time at each of its scheduled meetings to strategic issues and discussion. As a consequence, the key business of the Board at each of its main scheduled meetings this year was:

Meeting/ Key Activity	Regular Activity and Approvals	Strategy Presentation
February	Approval of 2011 Results and Annual Report	Precious Metals Market
April	Board Lunch and Strategy Discussion	Growth Strategy
July	Approval of Interim Results	Sustainable Development and People Strategies
October	Approval of 2013 Business Plan and Budget Approval of San Julián Project	Financial Strategy

The Board also received presentations, for its information only, concerning matters approved by the Executive Committee, under its terms of reference. The topics covered by these presentations included the commercial arrangements for the procurement of long lead-time equipment; an agreement with Orex Minerals in respect of a stake in a JV owning gold and silver claims in Durango, Mexico; updates on the purchases of mining concessions; and investment proposals in relation to projects to improve production.

Between Board meetings Directors are provided with information on important developments and issues e.g. reports on fatalities.

In addition to the four main scheduled meetings, an additional meeting was convened in December 2012 for a specific discussion of a corporate finance matter.

Corporate Governance Report continued

Board development

Following recommendations made during the 2012 Board Evaluation exercise, a number of initiatives have been taken to give the Non-executive Directors more information about the broader context to the Company's activities. These included:

- a presentation on Mexican political developments by an external speaker at the Board meeting in April;
- case study presentations by senior managers; and
- regular distribution of industry briefings on technical, market and sector issues.

Directors are encouraged to visit the Company's mines to familiarise themselves with the Fresnillo Group's operations. The Non-executive Directors have visited at least one of the Group's locations and a number of the Independent Non-executive Directors visited the Herradura mining district following the October Board meeting.

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.

Board performance evaluation

The Board 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. Given the Company's particular ownership structure, the Board has, during the Company's short history as a UK listed company, sought to use its annual Board evaluation exercise to develop and improve its effectiveness. 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 the first externally facilitated independent review of Board effectiveness. The main focus of that 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.

Following the presentation of the recommendations that IAL made as a result of that process (the 'IAL Recommendations') to the Board in October 2011, the Chairman consulted with Directors and management and presented a proposed action plan (the 'Action Plan') in response to those recommendations at the Board meeting held in February 2012. The Action Plan, which responded to 25 specific recommendations which had been made by IAL, was endorsed by the Board at that meeting. The key elements of the Action Plan and subsequent actions taken during 2012 are set out below.

The Board agreed in October 2012 that its board evaluation exercise in 2012 ('the 2012 Board Evaluation') would ensure that Board members were satisfied that the Action Plan was appropriate and had been properly implemented. Thus, the 2012 Board Evaluation was conducted using an in-house questionnaire-based approach and was facilitated by the Company Secretary. This exercise demonstrated that, other than a few minor points, the Board was satisfied with the effectiveness of the Action Plan and that the benefits of its implementation were beginning to be seen.

Committee evaluation reviews

Each of the Board committees annually reviews its own performance and the adequacy of its terms of reference. Following a review of its terms of reference in October 2012, the Audit Committee recommended certain minor changes to its terms of reference which have been approved by the Board.

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 Independent Non-executive Directors met to evaluate the performance of the Chairman in October 2012 following which the Senior Independent Director discussed the views of the Independent Directors with the Chairman.

Board evaluation reviews

The following table summarises the key findings of the 2011 and 2012 Board evaluation reviews.

2011 Key recommendations	2012 Outcome
Strategy	
KPIs to be developed for monitoring people strategies and understanding of organisational culture	This process was initiated with a discussion on people strategy at the July 2012 meeting and will be continued in 2013
Education and information	
Board members to be provided with more information on technical issues, market trends and political developments	Industry bulletins are now circulated to Directors from time to time. The February strategy discussion focused on the precious metals market. An external expert gave a presentation on political developments at the Board lunch in April
Health & Safety	
Reports to be provided immediately on all fatalities and associated action plans	The Board members have received such reports on all six fatalities in 2012
Succession	
The Nominations Committee to report to the Board more fully on succession issues	In April 2012, a presentation was made to the Board on the succession plans for Executive Committee members
Related party transactions	
The role of the Audit Committee in monitoring related party transactions to be developed	An external evaluation of the Audit Committee was completed. The Audit Committee has devoted more time to receiving information on related party transactions and assessing related party activity

Corporate Governance Report continued

Board and Committee meeting attendance

	Board	Audit Committee	HSECR Committee	Nominations Committee	Remuneration Committee	Comments
No. of Meetings in year	5	5	2	2	4	
Alberto Baillères	5/5			2/2	4/4	
María Asunción Aramburuzabala	2/3					Ms Aramburuzabala was unable to attend a meeting because of her involvement in a significant corporate transaction unrelated to the Company.
Alejandro Baillères	3/3					
Juan Bordes	5/5					
Lord Cairns	4/5				4/4	Lord Cairns was unable to travel to a Board meeting convened at short notice.
Arturo Fernández	5/5					
Javier Fernández	4/5		2/2	2/2		Mr Fernández was unable to attend one meeting due to another commitment that he was unable to re-arrange.
Jaime Lomelín	5/5		2/2			
Rafael MacGregor	5/5		2/2			
Fernando Ruiz	4/5	4/5		1/2	2/4	Due to a change to one of the Board meeting dates, Mr Ruiz was unable to attend Board and Committee meetings all held on the same re-arranged day.
Fernando Solana	4/5	5/5				Mr Solana was unable to attend one meeting due to another business commitment abroad.
Guy Wilson	5/5	5/5				

Relations with shareholders

The Board seeks to ensure that the interests of minority shareholders in the Company are properly respected and aligned with those of major shareholders. As described on page 120, 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 communications and investor relations programme since its listing in 2008 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 and Chief Financial Officer participate in the major roadshows to meet with analysts and shareholders. They are joined by other members of the Executive Committee for some of these visits. The Head of Investor Relations, supported by the Chief Executive Officer, gives a report at each Board meeting on communications and shareholder activity.

The Company continues to recognise the value of being a member of the FTSE 100 Index and therefore continues to consider arrangements for increasing its free float in order to satisfy the new free float criteria.

The Company's fifth annual general meeting will be held on Thursday 2 May 2013. The business of the Annual General Meeting ('AGM') will be conducted in accordance with the provisions B.7.1, B.7.2, 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.

In planning the business of each AGM, the Board takes account of institutional shareholder guidelines on pre-emption rights, share buy-backs and shareholder rights in relation to general meetings when drafting the usual resolutions dealing with those matters. In each case, resolutions are presented to the AGM to give the Board flexibility to respond to market developments.

The principal investor relations and communications activities during 2012 were:

Investor Relations Activity in 2012

- Conference call following the Production Results announcement in January
- Roadshows following the Preliminary Announcement in March in the UK, USA and Canada
- Conference calls following the Production Report in April
- Interim Results roadshows in the UK and North America in July
- Conference calls following the Production Results announcement in October

Major Industry Conferences and Briefings in 2012

- BMO Global Metals & Mining Conference in February/March
- BAML Global Metals & Mining Conference in May
- Denver Gold Forum in September
- Goldman Sachs Natural Resources Forum in September
- UBS Reverse Roadshow in November
- RBC Annual Silver Conference in December

Corporate Governance Report continued

Nominations Committee Report

"Thinking for the long term has always been ingrained into the culture and values of this Company and it follows that change is not always rushed. This is certainly true of the work of the Nominations Committee when dealing with Board succession."

Mr Alberto Baillères
Chairman of the Nominations Committee

Dear Shareholder,

This year has been a significant year for the Nominations Committee and the Fresnillo plc Board. Two new Non-executive Directors have been appointed and Octavio Alvídrez was appointed to the position of Chief Executive Officer following the retirement of Jaime Lomelín from that role in August. I am delighted that the Board has been able to continue to benefit from Jaime's considerable knowledge of and experience in the mining industry in his new role as a Non-independent Non-executive Director.

The Board changes during 2012 are, however, the culmination of a process which has been overseen by the Nominations Committee since Fresnillo plc listed in 2008. From the start, the Board and the Nominations Committee were aware that succession issues would need to be addressed and, additionally, during the intervening period, diversity in Board composition has become an issue that has attracted much comment. Thinking for the long term has always been ingrained into the culture and values of this Company and it follows that change is not always rushed. This is certainly true of the work of the Nominations Committee when dealing with Board succession. Nevertheless, 2012 has been a year in which much of the thinking and planning behind the scenes over the past few years has come to fruition. The appointment of María Asunción Aramburuzabala demonstrates our commitment both to gender diversity and to ensuring that the best qualified people serve on our Board. At the time we noted that the appointments of both Mariasun and Alejandro Baillères brought a broad range of experience of Mexican and international business to Board discussions, strengthening the overall mix of skills and experience on the Board. They also give our Board a more balanced age profile within our group of Non-executive Directors. This development sits well with the appointment of our new Chief Executive Officer which could be characterised as a passing of the stewardship of Fresnillo plc to a new generation.

The Nominations Committee will continue to monitor the membership of the Board to ensure that it provides the right leadership needs for the Company as it continues with its long-term growth strategy.

Yours faithfully

Mr 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.

The letters of appointment for the Non-executive Directors are made available for inspection at the Company's registered office, during normal business hours.

Board Appointments Policy

The Nominations Committee and the Board are 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 may be more restricted than in other sectors. The Nominations Committee has considered and will continue to consider female candidates for future appointment to the Board as part of the process of succession planning and future changes to the Board. A formal Board policy on diversity will be considered by the Nominations Committee during 2013.

Board appointments process

The process for making new appointments to the Board is led by the Chairman. Potential candidates are considered on the basis of their skills and experience and their fit with the blend of skills of the rest of the Board. The Board Appointments Policy provides a frame of reference for the process. The candidates identified by the Chairman are presented to the Nominations Committee for approval prior to being recommended to the Board for appointment.

The Nominations Committee did not use open advertising or retain any external consultants when making new appointments to the Board during the year as such assistance was considered unnecessary considering the Company's contacts within Mexico.

Nominations Committee activity during 2012

The Nominations Committee met twice during the year and considered the following matters:

- succession plans for each member of the Executive Committee;
- the appointment of new Non-executive Directors to the Board;
- the current membership of the Board and Board Committees;
- the time commitment required from each Director;
- the proposed re-election of each of the Directors at the Annual General Meeting and the continuation of letters of appointment for the Non-executive Directors; and
- a self-evaluation exercise.

Corporate Governance Report continued

Audit Committee Report

"Our priorities over the next few years are to monitor the implementation of the risk management controls… ensuring that the internal control environment responds effectively to the organisational growth of the Group… monitoring the embedding of robust third party contractor processes… ensuring that the procedures for managing transactions with the controlling shareholder and related parties keep pace with emerging regulation and best practice… continuing the evaluation of external audit…"

Mr Guy Wilson
Chairman of the Audit Committee

Dear Shareholder,

The role of your Audit Committee has developed substantially over the last five years since our listing on the London Stock Exchange. Initially, we focused on financial accounting and reporting together with internal controls, concentrating on the judgemental areas in the financial statements. This remains our first priority but we have taken on delegated responsibility from the Board for the oversight of management's processes to implement the risk management framework, including the methodologies developed to address the requirements of the Bribery Act. We have refined our methodologies to assess transactions with any related party, including access to independent advisers, to address the requirement to ensure that any such transaction is on terms that are reasonable for all our shareholders. We have facilitated a deeper understanding of the processes of internal and external audit and fostered greater coordination between them to ensure that all the audit resources available to us are focused on the risks inherent in our strategy set out on pages 33-45 of the Annual Report.

Next year, we will be required to report on whether we consider the Annual Report taken as a whole is fair, balanced and understandable. The financial statements are prepared by management and reviewed for audit purposes by Ernst & Young LLP prior to being considered by the Audit Committee. Our hard-close audit for the 10 months to 31 October 2012 greatly assists this process, enabling issues to be raised and resolved on a timely basis. Our financial statements, subject to minor disclosure and presentational adjustments, have remained relatively stable over the past five years. The Audit Committee members receive a draft of the full Annual Report some weeks prior to the March meeting, enabling them to ensure that the numbers therein are consistent with those in the financial statements or are sourced from appropriate data. More importantly, they can assess whether the words used are consistent with their understanding of the Company's business obtained through Board and Audit Committee meeting papers; discussions at those meetings; and other interaction that they have with management; using their experience to assess whether the Annual Report is fair, balanced and understandable.

The above, however, is history; our priorities over the next few years, in addition to our normal review of financial statements and related accounting policies, are:

- Continuing to monitor the implementation of the risk management controls to ensure that they are embedded within the organisation.
- Ensuring that the internal control environment responds effectively to the organisational growth of the Group as implementation of our strategy unfolds and that internal audit is appropriately aligned in accordance with the suggestions included in Independent Audit Ltd's independent report that we commissioned this year.
- Monitoring the embedding of robust third party contractor processes.
- Ensuring that the procedures for managing transactions with the controlling shareholder and related parties keep pace with emerging regulation and best practice.
- Continuing the evaluation of external audit and, following the evaluation questionnaire exercise that we conducted this year, we will conduct an independent evaluation in 2013.

Yours faithfully

Mr Guy Wilson
Chairman of the Audit Committee

Audit Committee Constitution

The members of the Audit Committee at 31 December 2012 were Guy Wilson (Chairman of the Committee), Fernando Ruiz and Fernando Solana. Guy Wilson was previously a partner at Ernst & Young and is therefore considered to have recent and relevant financial, auditing and accounting experience.

The Audit Committee met five times in the year. The duties of the Audit Committee set out in its terms of reference are set out under the following headings:

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

The following sections summarise how the Audit Committee has fulfilled its duties during the year.

The Audit Committee uses regular evaluation processes as a means of ensuring that the controls governance environment is appropriate. During 2012, the Company Secretary facilitated the evaluation of the Audit Committee itself through an informal discussion among the members of the Committee. As a result of that discussion, minor amendments to the terms of reference of the Audit Committee were proposed to and approved by the Board in March 2013. The Company Secretary has also facilitated an internal evaluation of the external auditor using a confidential questionnaire. Independent Audit Limited, an external consultancy who facilitated the Board evaluation process and reviewed the Audit Committee process in 2011, has also undertaken reviews of the internal audit function and the risk governance framework.

Financial reporting

A key aspect of the Audit Committee's activity is its oversight of the Company's financial reporting and its programme of meetings has been developed to enable it to fulfil this key responsibility.

Timing of Audit Committee Meeting	Financial Reporting Oversight Activity
July/August	Review of Interim Report
October	Year-end audit planning
December	Hard-close initial review and progress update
February/March	Review of Annual Report
April	Follow-up Issues

In February 2012, the Audit Committee reviewed the 2011 Annual Report and financial statements for the year-ended 31 December 2011, and the results of the year-end audit, 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 depreciation of mining assets;
- the mine closure model and valuations;
- the allocation of exploration expenditure between capital cost and revenue expense;
- the impact of exchange rate movements;
- the judgements used in calculating the PTU charge;
- the basis of calculation of the Group's tax charge;
- the valuation of the Silverstream Contract; and
- the going concern basis for preparing the accounts.

A number of these areas of focus have been reviewed each year since the Audit Committee began its work, as these are the key areas of audit risk and judgement for the Company. Each year, including 2011 and 2012, the importance of each of these areas is re-assessed with management and Ernst & Young to ensure that it remains a valid area of focus and that there are no other financial risk areas to consider. Since 2008, the Audit Committee has refined its processes and methods to ensure that it is satisfied with appropriateness of the financial reporting.

In August 2012, the Audit Committee reviewed the 2012 interim financial results before recommending them to the Board for approval. In undertaking that review, the Audit Committee sought to ensure that issues discussed during the review process for the full-year financial statements had been progressed and that there was consistency between the policies and judgements used in preparing the full-year and half-year financial statements.

In March 2013, the Audit Committee reviewed the Annual Report and the financial statements for the year-ended 31 December 2012 prior to recommending them to the Board for approval. As part of that review process, the members of the Committee were provided with a draft of those documents a few weeks prior to formal review by the Audit Committee and Board in order to ensure that they could satisfy themselves that both the financial statements and the related reports are consistent with their knowledge of the business and, therefore, that the Annual Report was being developed in a way that they consider to be fair, balanced and understandable. This additional review by Audit Committee members, supplemented by advice received from external advisors during the drafting process assists the Board in determining that the report is fair, balanced and understandable at the time that it is approved.

The Audit Committee has evolved its approach to evaluating the going concern basis of preparation for the statutory accounts. This includes assessing whether, in adverse circumstances, there are adequate liquid resources to fulfil the stated strategy. This means that with production profiles at each mine being relatively predictable and with budgeted expenditure for capital investment and exploration being necessary to achieve the strategy, the fundamental risk lies in metal prices, as PTU, tax and dividends are mathematical calculations from operating results. The approach, therefore, is to flex silver and gold prices down to a level at which the Company exhausts its cash resources at 31 December 2014. Those flexed prices are compared to all available external market predictions of the worst future prices of those metals and then, only if not satisfied that there is an adequate cash margin even at those depressed prices, would the Board consider what other actions management could take to ensure adequate cash resources.

Corporate Governance Report continued

Risk Management and Internal Controls

Since 2008, the Audit Committee has invested a significant amount of its time overseeing the development of the Company's risk governance processes and risk management framework. This process has been led by the Chief Financial Officer and facilitated by PricewaterhouseCoopers. During this time, internal management resources devoted to risk management have been established. The remit of the risk management function has evolved taking account of the changing requirements of the UK Corporate Governance Code in relation to risk appetite and tolerance, and the requirements of the UK Bribery Act. The Audit Committee now receives update reports on risk and the ongoing implementation of the Fresnillo Group's bribery and anti-corruption programme at each of its meetings. Similar reports are also made to the Board as a whole.

The development of the risk governance system now provides a robust framework enabling the Audit Committee and the Board to evaluate continuously the risk profile of the Group and adapt its focus in response to changes to the risk profile. The Audit Committee and Board formally reviewed the Principal Risks and Uncertainties of the Group prior to the publication of both the full year and interim financial statements. In 2012, this process resulted in the addition of a new Principal Risk (the increase in public perception that mining activity is not commensurate with the sustainability of local communities or the environment). Further details of the Risk Management System are set out on pages 46-55.

During the year, the Company engaged Independent Audit Limited to undertake an external evaluation of the Company's risk governance arrangements in order to provide assurance that the risk governance system is achieving its objectives. The results of that review were considered in December 2012 and the recommendations for refinements in the processes are now being evaluated.

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 considered by the Audit Committee in the following February/March, prior to submission to the Board which then decides on the statement to be made about the review of the system of internal control.

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

The Board has overall responsibility for the Group's system of internal control, which includes risk management, and reviewing its effectiveness. The system of internal control is designed to identify, evaluate and manage significant risks associated with the achievement of the Group's objectives. Because of the limitations inherent in any system of internal control, the Group'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 risk categories set out in the risk matrix were used as the basis for the process of reviewing the system of internal controls. The Internal Audit Department obtained letters of representation from the Executive Committee and the executive management on the Group's system of internal control.

Internal Controls

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.
Controls and procedures set out in the Company's Accounting Policies and Procedures Manual.	Monitored and reviewed by the Internal Audit department.
Operating policies and procedures.	Annual written representations obtained from operational and functional management.
A budget with quarterly reporting.	Review process performed by the Executive Committee.
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.

The Board has, through the Executive Committee and the Audit Committee (at its March 2013 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.

An area of ongoing focus in the Company's risk management activities and review of internal control is the increased use of contractors in the Group's operations as a result of the expansion of activities in exploration, mine development and production. The Board and the Audit Committee have received regular reports from Internal Audit with respect to contractors' activities across our portfolio during the year and have reviewed action plans presented by management setting out a number of improvements to the internal control environment with a special emphasis on the contractors governance process in which we have continued to experience difficulties. Areas of specific focus include the procurement and effective ongoing oversight of contractor services and ensuring that all activities reflect our focus on, and commitment to, safety. These initiatives are being included in the development of related embedded risk management and assurance processes and will continue to be an area of focus for Internal Audit across our operations. The Board and the Audit Committee will continue to closely monitor the implementation and progress of these initiatives during 2013.

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

The Group's arrangements for enabling employees to raise concerns about financial and non-financial improprieties have developed over the past few years, prompted in part by the requirements of the UK Bribery Act. An internal body called The Honour Commission has been established to oversee these arrangements. The terms of reference of the Honour Commission also embrace the procedures adopted in response to the Bribery Act. The Honour Commission, comprised of the Chief Executive, the Compliance Officer (currently the Chief Financial Officer), the Director of Internal Audit, the Vice President of Exploration and the Legal Manager. The Audit Committee regularly receives reports from management concerning the discussions and decisions of the Honour Commission.

The 'Fresnillo Plays Fair' whistleblower hotline allows stakeholders to anonymously (via an independent third party) report violations to the Group's Code of Conduct. The results are audited by an independent third party and classified in 25 different categories including, but not limited to: 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. Five reports were received via the hotline in 2012. The Honour Commission has reviewed the actions being taken in response to each report. Four were concluded by the end of the year and one case, originating in November 2012, was still awaiting final resolution at the end of the year.

The Audit Committee is responsible for reviewing these arrangements which it does at each meeting; and it is satisfied that they remain adequate.

Internal Audit

Internal Audit services are provided to the Company under a Shared Services Agreement between the Company and Peñoles. The scope of the services provided by Internal Audit is closely monitored by the Audit Committee and each year an Internal Audit Plan is reviewed by the Audit Committee at its meeting in October. The Audit Committee considers the level and quality of the resources within the Internal Audit Department and its appropriateness to the needs of the Fresnillo Group. The internal audit workplan for 2013 was presented to and approved by the Audit Committee at its October 2012 meeting. Any changes to the plan during the year are agreed with the Audit Committee.

The Internal Audit team seek to complete audits of all of the Fresnillo Group's mining assets on a regular basis. Particular focus continues to be placed on auditing the Group's new mines to ensure that proper procedures are implemented in those new operations. The Audit Committee receives presentations and updates from the Group Internal Audit Department at each of its meetings throughout the year. At each meeting during the year, the Audit Committee has focused on the progress made by management in dealing with 'red flag' items raised during internal audit visits to ensure that the management responses to remediation are appropriate and timely.

During 2012, the Audit Committee asked the Internal Audit Department to undertake a pan-Group review of third party contractor arrangements; a different approach to the usual mine-based internal audit approach. The Audit Committee invited the Chief Executive Officer and other members of the Executive Committee to attend its discussion of the audit findings.

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 ascertain that the Group is properly implementing adequate procedures under the UK Bribery Act.

The Head of Internal Audit meets with the members of the Audit Committee without management present twice a year and is mandated to advise the Chairman of the Audit Committee if there are any issues which he considers should be brought to the attention of the Audit Committee.

The Audit Committee commissioned Independent Audit Limited to undertake an external review of the Internal Audit Department. The findings of that review were discussed during a meeting between the Chairman of the Audit Committee, the Chief Financial Officer, the Head of Internal Audit and the Internal Audit Manager. The final report from Independent Audit Limited was discussed at the Audit Committee meeting in December 2012 at which the Chief Executive Officer was present and the recommendations are being evaluated.

Corporate Governance Report continued

External auditor

The Audit Committee oversees the relationship with the external auditor. In October 2011, the Audit Committee reviewed the terms of engagement of Ernst & Young LLP, the external auditor, for the financial statements included in the 2011 Annual Report and in October 2012, it reviewed the terms of engagement in respect of the audit of the financial statements for the year ended 31 December 2012. In October 2012, 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 2011 at its February 2012 meeting and in respect of the financial statements for the six-month period ending on 30 June 2012 at its July 2012 meeting. As part 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. The Audit Committee also approved the respective representation letters given to Ernst & Young LLP at each of those meetings.

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 2012 at its meeting in December 2012.

In April 2012, the Audit Committee reviewed the management letters and recommendations made by the external auditor in the course of their work. During the year, the Audit Committee has monitored the increasing and evolving collaboration between Ernst & Young LLP and the Company's Internal Audit Department, which it believes is improving the efficiency of both the external and internal audit processes.

In February 2012, the Audit Committee considered and recommended the re-appointment of the external auditor, Ernst & Young LLP, to the Board prior to the Company's annual general meeting. This review took account of the results of the auditor assessment process, the quality of the work and communication by the external auditor and the level of audit fees. During the second half of 2012, the Company Secretary facilitated an internal evaluation of the External Auditor which involved members of the Audit Committee, the Chief Financial Officer, senior finance executives and representatives from Internal Audit. The results of the survey were reviewed by the Audit Committee in December 2012. Although these were broadly satisfactory, management and Ernst & Young LLP have agreed a few measures to enhance the audit process.

The Audit Committee is mindful of its responsibility to ensure that the external auditor maintains its independence and objectivity. It has therefore 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 confirmed at the October 2012 meeting of the Audit Committee. The Audit Committee reviewed the levels of engagement of other audit firms and advisors at its October and December meetings. Details of the fees paid to Ernst & Young LLP during the year as shown in note 27 to the Financial Statements were US$1.86 million, and the fees paid to other accountants and advisory firms were US$1.12 million.

During the year, the Audit Committee considered future plans for both auditor and audit partner rotation, taking account of the current requirements of the UK Corporate Governance Code and associated guidance from the Financial Reporting Council on audit tendering. It is currently envisaged that the audit will be put out to tender in about four years unless circumstances change.

Transactions with related parties

The Shared Services Agreement is an agreement between the Company and Peñoles under which a range of services are provided to the Company by Peñoles. The Shared Services Agreement was initially put in place in 2009 and has been renewed with effect from 31 December 2012. KPMG has been engaged to facilitate the new Shared Services Agreement and an important element of their work has been to ensure that the scope of services to be provided is appropriate to the needs of the Fresnillo Group and that the pricing for services provided under the Shared Services Agreement is appropriately benchmarked. Key Performance Indicators have been established. The Audit Committee has received reports on the revised Shared Services Agreement from KPMG at each of its meetings in July, October and December 2012. At the request of the Audit Committee, the Company's UK legal advisers, Linklaters, reviewed the terms of the Shared Services Agreement and the facts surrounding its negotiation and confirmed that the arrangements were in the ordinary course of business, not on unusual terms and had been negotiated on an arm's length basis. They recommended that the Shared Services Agreement be approved by the Independent Non-executive Directors, as required by the Relationship Agreement, and such approval was obtained.

The Audit Committee also 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 2012. Based on the satisfactory outcome of that review, the Chairman of the Audit Committee recommended to the Board that the Independent Directors approve the proposed charges for 2012 under the Met-Mex Arrangements which they did in October 2012. In October and December 2012 and March 2013, the Audit Committee reviewed a schedule of all of the Company's related party transactions during the year and was satisfied that all transactions listed, other than those in relation to the Shared Services Agreement or the Met-Mex Arrangement described above, were in the ordinary course of business.

The Corporate Governance Report has been approved by the Board of Directors of Fresnillo plc.

Signed on behalf of the Board

Lord Cairns
Senior Independent Director

11 March 2013

Directors' Remuneration Report

Remuneration Committee Report

"Our objective remains unchanged: retaining and motivating our talented team to create long-term value for shareholders within a framework of high respect for all employees and the communities within which they work."

Lord Cairns
Chairman of the Remuneration Committee

Dear Shareholder,

The Remuneration Committee continues to seek to ensure that senior executives of your company are rewarded in a manner that is fair by the comparison with companies in its sector both within Mexico and internationally.

Our objective remains unchanged: retaining and motivating our talented team to create long-term value for shareholders within a framework of high respect for all employees and the communities within which they work.

Fixed remuneration forms a higher proportion of the total than in many of its peer group companies reflecting more closely custom in Mexico. Similarly, changes in share value are not a determinant of variable payments. Instead, my colleagues and I believe that relating a significant portion of such compensation to finding and proving commercially viable long-term gold and silver reserves and resources is the most appropriate way to align the interests of executives and shareholders in matters over which the former have responsibility and control. Consequently, there may be years where share prices fall as a result of falling gold and silver prices but the quantum of variable remuneration may go up and vice versa.

While the new Chief Executive Officer is not currently a Board member, and therefore the UK regulations do not strictly require us to report on his remuneration; we have nevertheless reported on Octavio Alvídrez' remuneration since becoming Chief Executive Officer as if he was a Board member, given our commitment to transparent reporting.

Since Fresnillo has become a separately quoted company, the maximum level of variable payments has been increased to provide an extra level of incentive for individual achievement. However, our overall approach diverges from much international practice which we, as a committee, monitor carefully. We are confident that our structure provides an efficient balance to reconcile the best interests of all of our stakeholders.

Yours faithfully

Lord Cairns
Chairman of the Remuneration Committee

Directors' Remuneration Report continued

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 ('the Regulations'). The Report sets out information about the remuneration of the Directors and senior management of the Company for the year ended 31 December 2012. In accordance with the Regulations, the information provided in the section entitled 'Directors' Remuneration – 1 January 2012 to 31 December 2012' and accompanying notes has been audited by Ernst & Young LLP.

Membership

The Remuneration Committee consisted of the following Directors in the year ended 31 December 2012:

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

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 (the 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; also taking account of wider influences such as global trends within the mining industry and the remuneration norms within Mexico. It also takes account of the remuneration packages across the whole of the Fresnillo Group 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.

Activities of the Remuneration Committee in 2012

During the year, the Committee met four times. Its key activities during the year were:

- Consideration of a report from Towers Watson on international executive remuneration.
- Consideration of information about Mexican inflation trends and internal employee salary reviews prior to setting the annual salary increases for the Chief Executive Officer and members of the Executive Committee.
- Review of the performance of the Chief Executive Officer and members of the Executive Committee compared to the KPIs set for 2011 and approval of annual bonus awards for 2011 based on achievement of KPI targets.
- Review of KPI targets for members of the Executive Committee for 2012 including approval of changes to the targets to reward better performance in safety improvement and exploration efforts.
- Setting the salary for the incoming Chief Executive Officer; this review took account of the previous experience of the new appointee.
- Monitoring UK developments in executive remuneration.
- Other activities e.g. Committee evaluation, as required by the Committee's terms of reference.

Advisers to the Remuneration Committee

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.

In addition, the Remuneration Committee receives specific reports comparing the remuneration of the members of the Executive Committee to international benchmarks. In April 2012, such a review was conducted by Towers Watson to validate the Company's policy towards short-term and long-term remuneration and ensure that it was globally, as well as locally competitive.

The Company Secretary ensures that the Remuneration Committee fulfils its duties under its terms of reference and provides regular updates to the Remuneration Committee on relevant regulatory developments in the UK.

The Group Human Resources Department provides information on Mexican market trends and compensation structures for the broader employee population in the Fresnillo Group.

Fresnillo Remuneration Policy Table

The table below sets out the key elements of pay to which any potential Executive Director would be entitled:

Purpose and link to strategy	Operation	Maximum Value	Performance Metric	Changes in year
Base Salary				
Reflects role and experience of individual	Reviewed annually and fixed for 12 months starting on 1 April each year and the review is influenced by: – Role, experience and performance – Average workforce salary adjustments – Mexican economic factors – Comparison with the Company's peer group in Mexico and internationally	Salaries are market competitive both within the Mexican context and internationally for comparable companies. The previous Chief Executive's salary increased by 6% in 2012 to reflect cost of living rise, in line with all other employees.	None	Salaries are reviewed in April each year
Benefits				
Help recruit and retain employees	An Executive Director would be entitled to life insurance, the use of a company car, the payment of medical expenses and medical benefits.	Full cost of benefits provided.	None	None are planned
Pension				
Rewards continued employment and sustained contribution	The Group closed its defined benefit scheme in 2007 and commenced a defined contribution scheme on 1 July 2007. Executive Directors are entitled to membership of the defined contribution scheme.	Contributions of between 5% and 8% are made to this plan by its members and contributions are matched by the Company.	None	None
Incentive Plan[1]				
Rewards the achievement of short- and long-term financial and strategic business targets and delivery of personal objectives	Targets are renewed annually and relate to the strategic aims of the business as a whole. Bonus level is determined by the Remuneration Committee based on performance against the targets.	The maximum percentage of salary is 50%.	– Increase in equivalent ounces produced – Increase in total resources and resources upgraded – Net profit adjusted – Various stakeholder KPIs – Fatal accidents	None

1 Fresnillo plc does not operate share option or long-term incentive schemes.

Directors' Remuneration Report continued

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.

Setting base salary levels for senior executives at an appropriate level is a key to managerial retention in Mexico. Therefore, the Remuneration Committee seeks to ensure that salaries are market competitive both within the Mexican context and internationally for comparable companies. 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. No Director is involved in setting his or her own remuneration.

The Remuneration Committee seeks to vary salaries of the senior executives of the Company in light of salary adjustments being applied to the whole of the workforce.

Salary

- International mining company and domestic corporate comparators
- Mexican economic metrics (e.g. inflation)
- Individual experience

Annual Bonus

- KPI targets aligned to strategic objectives
- Long-term and short-term priorities
- Business performance compared to KPIs
- Personal contribution to objectives

Aligning Strategic Aims and Executive Remuneration

Strategic Objective	Area of KPI Focus	Timeframe
Maximise the potential of existing operations	– Increase production – Safety	– Short and long term – Short term
Deliver growth through development projects	– Increase total resources and resources upgraded from inferred to indicated	– Long term
Extend the growth pipeline		
Advance sustainable development	– Various Stakeholder Measures – Financial (Net Profit Adjusted)	– Long term – Short and long term

The Company operates a single cash-based incentive plan for the members of the Executive Committee, including the Chief Executive Officer. At the beginning of each year, the Remuneration Committee approves 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. Thus, whilst variable pay, by definition, will alter from year to year, it will not be more than 50% of basic salary. Although the targets are set annually, the Remuneration Committee seeks to ensure that the KPIs and targets are designed to focus on the long-term development of the Fresnillo Group. No distinction is therefore made between short- and long-term incentives.

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 performance targets upon which bonuses are based evolve from year-to-year in line with the strategy and include a mix of financial and operational performance measures covering both short- and long-term timescales. The prospect that this system will continue in future years provides a fundamental bridge with shareholders' long-term interests.

The KPI targets on which variable remuneration is based generally focus on risks that are within the control and influence of management. Thus, the management of safety, security, project, human resource, exploration and environmental risks are all implicitly covered within the KPIs currently set.

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 Remuneration Committee keeps the policy under review and considers that the upper limit for 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.

Shareholder voting on remuneration

This report will be subject to an advisory shareholder vote at the Company's forthcoming Annual General Meeting.

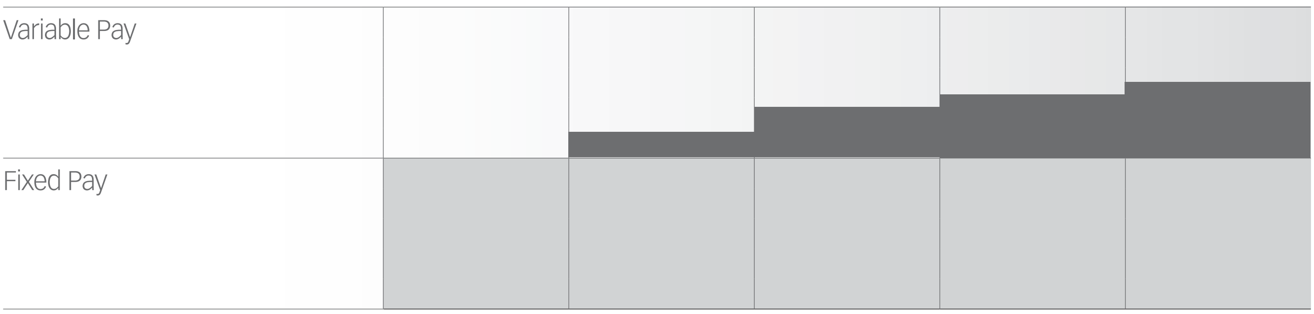
The Remuneration Committee's approach to executive remuneration has received strong support from shareholders at every annual general meeting since the Company's listing on the London Stock Exchange in 2008. More than 99% of independent share votes cast on the advisory vote at each AGM have been in favour of the Directors' Remuneration Report.

AGM Voting on the Remuneration Report %

	All Shares Voted		Free Float Shares Voted	
	For	Against	For	Against
2009	99.88	0.12	99.34	0.66
2010	99.99	0.01	99.97	0.03
2011	99.98	0.02	99.88	0.12
2012	99.99	0.01	99.95	0.05

Bonus payments are paid for aggregate performance against target at or above 100 points as follows:

Scenarios by Points Awarded	<100	100–104	105–109	110–114	115+
Variable Pay (Month's Salary)	Nil	Two	Four	Five	Six
Variable Pay (% Annual Salary)	0	16.67	33.33	41.67	50.00
	Minimum				Maximum



Directors' Remuneration Report continued

Implementation

Fixed remuneration

In setting the fixed remuneration of the members of the Executive Committee, information relating to the mining company comparators is provided by various consultants. Information relating to Mexican economic metrics and internal benchmarking is collated by management for the Remuneration Committee to consider. In 2012, information showing the three-year trends for inflation, market growth and pay increases in Mexico was considered in setting salary increases for members of the Executive Committee.

A review conducted by Towers Watson in April 2012 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. The analysis evaluated the elements of base salary; short-term compensation (guaranteed payments and short-term bonus) and, separately, long-term compensation (primarily stock programmes). It concluded that the level of total remuneration for all of the members of the Executive Committee was set in line with the objective of the remuneration policy.

Variable remuneration

The Remuneration Committee has considered the effectiveness of KPIs and targets set in 2012 and it continues to consider that the overall structure of the Incentive Plan and the targets set in 2012 remain appropriate for 2013. However the Remuneration Committee will keep this under review. In particular, they have asked the new Chief Executive Officer to consider these targets and make recommendations to the Remuneration Committee, as appropriate, for its evaluation and possible inclusion for future years.

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 nor any of the Non-executive Directors participate in a PTU scheme within the Fresnillo Group. The other members of the senior management group below Board level are employed by Servicios Administrativos Fresnillo S.A. de C.V. which pays annual PTU payments. However such payments are modest.

A scoring system is used for the plan. 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.

As Mr Jaime Lomelín was only in post as Chief Executive Officer until 15 August 2012, on an annually adjusted basis, he achieved 106.4 points for the period to 15 August 2012 (2011: 100.7 points) and therefore was awarded a bonus of US$213,649 for 2012. Mr Octavio Alvídrez, on a similar set of metrics, achieved an equivalent annualised performance of 106.4 points for the period from 15 August 2012 to 31 December 2012 and therefore was awarded a bonus of US$72,838 for the period from 15 August to 31 December 2012.

The objectives, as applied to Mr Lomelín and Mr Alvídrez' incentive payments, the measures associated with each objective, and the relative weighting between objectives, are detailed below:

Objective	Measure	Weighting Points	2012 Award Points
Production	Increase in equivalent ounces produced[1]	26	**26.2**
Exploration/growth	Increase in total resources and resources upgraded from inferred to indicated[1]	30	**38.2**
Financial	Net profit adjusted[2]	17	**14.9**
Stakeholder	Various stakeholder measures	11	**15.0**
Teamwork	No measure	11	**15.4**
Safety	Fatal accidents[3]	5	**0**
Total		100	**109.7**
Adjustments		–	**(3.3)**
Total		100	**106.4**

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 exclude currency fluctuation, the effect of year-on-year changes in metals prices and any revaluation of the Silverstream Contract.
3 For the purposes of calculating fatalities; all fatalities are included, irrespective of whether they are employees or contractors. In addition, in the event of zero fatalities during the year, the number of points awarded would be increased to 10 points.

Chief Executive Officers' Remuneration

Total Remuneration

The Total Remuneration paid to Messrs Lomelín and Alvídrez, including non-cash benefits, for their respective periods of service as Chief Executive Officer during the year was US$1,328,374 in the case of Mr Lomelín and US$464,842 in the case of Mr Alvídrez.

In the absence of any long-term, equity-based incentive arrangement or defined benefit pension arrangements, the remuneration policy enables a clear line of sight to total remuneration being simply the annual cost of salary, bonus and benefits.

Mr Jaime Lomelín

Until 15 August 2012, the then Chief Executive Officer, Jaime Lomelín, was the sole Executive Director and was 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 was governed by Mexican Federal Labour Law. It did not have a fixed term and could have been terminated in writing by either party on notice in writing with no entitlement to additional compensation for termination other than compensation payments required for termination without cause under Mexican labour laws. No benefits were payable under the service agreement upon termination of employment. Mr Lomelín's service agreement was terminated on 15 August 2012 when he took retirement from executive employment. On the same day he entered into a letter of appointment as a Non-executive Director of the Company (see below).

The salary payable under Mr Lomelín's service agreement, at the time of his retirement was MXN$1,126,360 per month (an increase of 6% on 2011 (2011: MXN$1,062,600). In addition, he received other payments for holidays, company-paid savings contributions and other cash benefits. In 2012, his total salary payments were MXN$16,668,157; US$1,264,655 (2011: MXN$17,849,322; US$1,436,299).

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

Mr Lomelín was entitled to life insurance, the use of a company car, personal security, meals, the payment of medical expenses and medical benefits.

Mr Octavio Alvídrez

On 15 August 2012, Octavio Alvídrez was appointed Chief Executive Officer but was not appointed as a member of the Board of Directors. Mr Alvídrez is employed under a contract of employment with Servicios Administrativos Fresnillo S.A. de C.V., a subsidiary of Fresnillo plc. Mr Alvídrez's contract was entered into on 15 August 2012 and is governed by Mexican Federal Labour Law. It does not have a fixed term and can be terminated in writing by either party on notice in writing with no entitlement to additional compensation for termination other than compensation payments required for termination without cause under Mexican labour laws. No benefits were payable under the service agreement upon termination of employment. The salary payable under Mr Alvídrez' service agreement is MXN$640,000 per month. In addition, he receives other payments for holidays, company-paid savings contributions and other cash benefits. In 2012, his total salary payments were MXN$5,923,542; US$449,434.

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

Mr Alvídrez 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, but 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 pensioner 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.

Mr Alvídrez is a member of the Company's defined benefit pension scheme in respect of service before 30 June 2007 and of the defined contribution scheme in respect of service since 1 July 2007.

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

Director	Date of original letter of appointment	Notice period from Director to the Company	Duration of term[1]	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
Alejandro Baillères	16 April 2012	3 months	1 year	£30,000
María Asunción Aramburuzabala	16 April 2012	3 months	1 year	£30,000
Jaime Lomelín	15 August 2012	3 months	1 year	£30,000

1 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 2 May 2013, 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.

Directors' Remuneration Report continued

Pensions and other benefits are 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 of pensions benchmarking was last undertaken by Mercer in April 2011.

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. Since April 2011, the letters of appointment of all serving Non-executive Directors have been drafted in accordance with provision B.7.1 of the UK Corporate Governance Code, thus 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.

Non-executive Directors' letters of appointment on the same terms were entered into with Alejandro Baillères and María Asunción Aramburuzabala on 16 April 2012 and Jaime Lomelín on 15 August 2012 (following his retirement from executive duties).

Each Non-executive Director is expected to commit a minimum of 14 days per year in fulfilling their duties as a Director of the Company. A base fee of £30,000 is paid to each Non-executive Director. Lord Cairns and Guy Wilson receive a higher fee to reflect; i) the additional time commitment that they make in order to travel to Board meetings in Mexico; and ii) their responsibilities as Senior Independent Director and Chairman of the Remuneration Committee (in the case of Lord Cairns) and Chairman of the Audit Committee (in the case of Guy Wilson).

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 as a whole. There are no set fees for membership of any Board 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.

External appointments

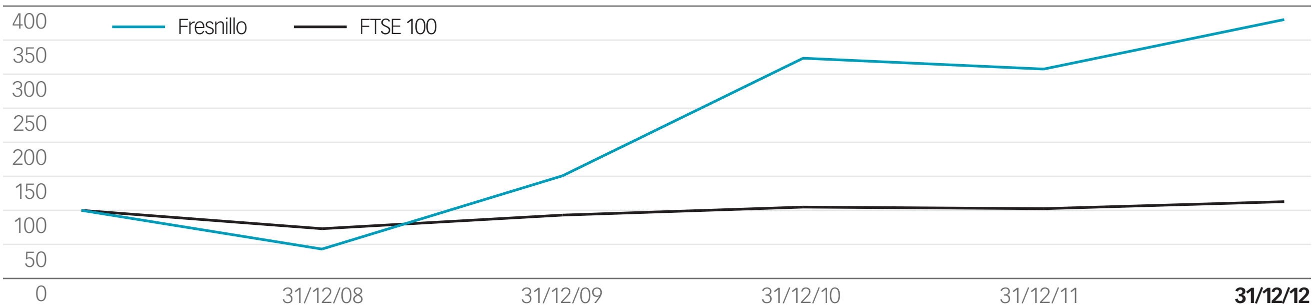
It is the Board's policy to allow Executive Directors to accept directorships of other quoted and non-quoted companies provided that they have obtained the consent of the Chairman of the Company. Any such directorships must be formally notified to the Board.

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 2012 for Fresnillo plc (Ordinary Shares) compared with the FTSE 100 index, rebased to 100.



Information subject to audit

Directors' Remuneration – 1 January 2012 to 31 December 2012

Salary, Annual Bonus and Other Benefits

US$'000	Salary/Fees[1]	Benefits-in-Kind[2]	Annual Bonus	Total 2012	Total 2011
Chairman					
Alberto Baillères	48	0	0	**48**	48
Executive Directors					
Jaime Lomelín (for period from 1.1.12 to 15.8.12)	1,051	64	214	**1,329**	1,698
Non-executive Directors					
Lord Cairns	145	0	0	**145**	144
Juan Bordes	48	0	0	**48**	48
Javier Fernández	48	0	0	**48**	48
Arturo Fernández	48	0	0	**48**	48
Rafael MacGregor	48	0	0	**48**	48
Fernando Ruiz	48	0	0	**48**	48
Fernando Solana	48	0	0	**48**	48
Guy Wilson	145	0	0	**145**	144
Alejandro Baillères	34	0	0	**34**	0
María Asunción Aramburuzabala	34	0	0	**34**	0
Jaime Lomelín (for period from 15.8.12 to 31.12.12)	18	0	0	**18**	0
Total	1,763	64	214	**2,041**	2,322

1 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.

2 Details of the Benefits-in-Kind are set out on page 139.

Pension entitlement

The pension entitlement of the former Chief Executive Officer, being the only Executive Director until 15 August 2012, 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 Director's contributions	
	At 31 Dec 2012	At 31 Dec 2011	**2012**	2011	**2012**	2011	**2012**	2011
Jaime Lomelín	**0**	6,928	**(6,928)**	650	**(6,928)**	290	**0**	0

Note: At 31 December 2011 and 15 August 2012, 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. Following Mr Lomelín's retirement from executive duties the entire amount of the fund was transferred out of the Fresnillo Pension Scheme.

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

11 March 2013

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 149.

An interim dividend of 15.5 US cents per share was paid on 11 September 2012 to shareholders on the register on 17 August 2012. The Directors have recommended a final dividend for the year ended 31 December 2012 of 42.4 US cents per Ordinary Share, which will be paid on Wednesday 8 May 2013 to shareholders on the register on Friday 19 April 2013. 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. Details of the agreement between Peñoles and the Company (the 'Relationship Agreement') can be found on page 120 in the Corporate Governance Report. Other significant relationships and agreements are set out below:

Employees
Fresnillo's 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. The Group provides extensive personal and professional development opportunities, competitive wages and compensation packages and a workplace culture that fosters teamwork. It strives to maintain mutually respectful relations with the local labour unions through continuous dialogue and collaboration, including yearly contract negotiations with the unionised workforce. To date, Fresnillo plc has never experienced a work stoppage or industrial action as a consequence of labour disputes with the Company. The Group is committed to providing a safe, equitable and fair work environment, with a Board-level commitment to sustainable development. Information relating to employees is given in note 8 to the Financial Statements on page 168 and in the 'Sustainable Development Report' on pages 92 and 93.

Communities
Healthy community relations require a deep respect for and knowledge of the customs, cultures, needs and expectations of each community. Engagement efforts begin at the earliest phases of exploration and continue throughout the life cycle of a project, including beyond mine closure. Every year the Group invests directly 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 it is present. The Group focuses on environment, education, health and social integration, entrepreneurship, and social infrastructure.

Suppliers
The Group considers suppliers and contractors to be strategic partners. It often signs 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. To align practices and performance with strategic objectives, training on Group safety policies and procedures is given.

The Group contracts 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.

Customers
Substantially all of the primary products originating from Fresnillo's mines in 2012 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.B. 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 50 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, as described in the Supplier section herein.

Approximately 23% of Fresnillo plc shares have been trading 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 as described in the Corporate Governance Report.

Silverstream
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, the Fresnillo Group is 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).

Partners

Under an agreement with Newmont USA Limited, the Group holds 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. The Group also partners with a number of junior exploration companies to conduct early stage prospecting, such as the association agreement signed in 2012 with Orex Minerals Inc. ('Orex') to explore and develop our respective mineral concessions in the Coneto gold-silver mining district in northern Durango State, Mexico.

Authorities and regulators

In Mexico and Peru, the Group has to secure mining concessions from the federal government in order to explore for and exploit mineral deposits; it is subject to the statutes and regulations governing 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 the use and handling of explosives, among others. The Group is also subject to state and municipal laws and ordinances in the specific localities where it operates.

As a publicly traded company on the London and Mexico stock exchanges, the Company is subject to issuer requirements from these exchanges as well as financial and regulatory oversight from the securities bodies in the UK and Mexico.

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 change of control.

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 18 to the Financial Statements on page 176. 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.

Other Statutory Disclosures continued

Authority to purchase own shares

The Company was authorised by a shareholders' resolution passed at the Annual General Meeting held in May 2012 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 2012, or date of appointment if later, and at 31 December 2012 was:

	1 January 2012 (or date of appointment if later)	31 December 2012
Alberto Baillères	552,595,191[1]	552,595,191[1]
Lord Cairns	15,000	15,000
María Asunción Aramburuzabala[2]	–	–
Javier Fernández	–	–
Fernando Ruiz	30,000	30,000
Fernando Solana	–	–
Guy Wilson	15,000	15,000
Alejandro Baillères[2]	–	–
Juan Bordes	15,000	15,000
Arturo Fernández	–	–
Jaime Lomelín	–	–
Rafael MacGregor	–	–

[1] 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.

[2] Appointed 16 April 2012.

No Director had any dealings in the shares of the Company between 31 December 2012 and 11 March 2013.

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 2012. 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 11 March 2013, 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[1]	51,399,264	7.16

[1] Includes interests held by BlackRock Global Funds.

Creditor payment policy

At 31 December 2012 the Company had no trade creditors (2011: 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. The Company's suppliers all have standard commercial arrangements with the Company.

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 2013 Annual General Meeting. The Group made charitable donations of US$0.7 million (2011: US$5.0 million) during the year. Further information concerning the community initiatives within the Fresnillo Group are included within the 'Sustainable Development Report' set out on pages 78-95.

Financial risk management

The Company's objectives and policies on financial risk management including information on the Company's exposures to Market risk, including foreign currency, commodity price, interest rate, inflation rate and equity price risks; Credit risk and Liquidity risk can be found in note 30 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 17-55. The financial position of the Group, its cash flows and liquidity position are described in the Financial Review on pages 96-107. In addition, note 30 to the financial statements includes 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.

After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. In making this assessment they have considered the Company and Group budgets, and cash flow forecasts for the period to 31 December 2014, including the exploration and capital expenditure plans and sensitivities around those plans. They have also considered the sensitivities of the cash flow forecasts to movements in metal prices. The Company has considerable financial resources, negligible liquidity risk and is operating within a sector that is experiencing relatively stable demand for its products. 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 or she is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- he/she has taken all the reasonable steps that he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of the information.

The confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Auditors

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

Annual General Meeting

The Company's Annual General Meeting will be held at Linklaters, One Silk Street, London, EC2Y 8HQ on 2 May 2013 at 11.00a.m. 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 2012, 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 2-107. In particular, mandatory disclosures are set out in the following sections:

Section	Pages	Requirement
Overview	2-16	Fair review of business
		Main trends and factors likely to affect the Group
Strategic Review	44-45	Analysis using financial key performance indicators
	50-55	Description of principal risks and uncertainties
Performance	78-95	Environmental and employee matters (with KPIs)
		Sustainable growth

Fresnillo plc
Registered Office:
28 Grosvenor Street
London W1K 4QR
United Kingdom
Company No: 6344120

The Directors' Report has been approved by the Board of Directors of Fresnillo plc.

Signed on behalf of the Board

Lord Cairns
Senior Independent Director

11 March 2013

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 its 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

Lord Cairns
Senior Independent Director

11 March 2013

Financial Statements

Noche Buena: Our newest mine commenced operations in 2012; we will continue to ramp up gold production and expand the resource base through an ongoing exploration programme

Our model is structured to deliver a balance between growth and returns; our track record of delivering profitable growth, investing in our future and returning cash to shareholders has continued over the year under review.

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 2012 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 30. 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 146, 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 2012 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 146, in relation to going concern; and
- the part of the Corporate Governance Statement relating to the company's compliance with the nine provisions of the 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 2012 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

11 March 2013

Consolidated Income Statement
Year ended 31 December

		Year ended 31 December 2012			Year ended 31 December 2011		
		US$ thousands			US$ thousands		
	Notes	Pre-Silverstream revaluation effect	Silverstream revaluation effect	Total	Pre-Silverstream revaluation effect	Silverstream revaluation effect	Total
Continuing operations:							
Revenues	4	2,157,404		2,157,404	2,192,663		2,192,663
Cost of sales	5	(806,700)		(806,700)	(629,200)		(629,200)
Gross profit		**1,350,704**		**1,350,704**	**1,563,463**		**1,563,463**
Administrative expenses	6	(53,212)		(53,212)	(56,516)		(56,516)
Exploration expenses	7	(233,532)		(233,532)	(133,994)		(133,994)
Selling expenses		(6,306)		(6,306)	(6,532)		(6,532)
Other operating income	9	6,912		6,912	8,898		8,898
Other operating expenses	9	(17,770)		(17,770)	(14,432)		(14,432)
Profit from continuing operations before net finance costs and income tax		**1,046,796**		**1,046,796**	**1,360,887**		**1,360,887**
Finance income		12,273		12,273	8,172		8,172
Finance costs		(3,922)		(3,922)	(9,236)		(9,236)
Revaluation effects of Silverstream contract	14	–	117,682	117,682	–	159,865	159,865
Foreign exchange (loss)/gain		(8,402)		(8,402)	14,694		14,694
Profit from continuing operations before income tax		**1,046,745**	**117,682**	**1,164,427**	**1,374,517**	**159,865**	**1,534,382**
Income tax expense	10	(285,324)	(33,658)	318,982	(450,380)	(45,386)	(495,766)
Profit for the year from continuing operations		**761,421**	**84,024**	**845,445**	**924,137**	**114,479**	**1,038,616**
Attributable to:							
Equity shareholders of the Company		652,065	84,024	736,089	787,269	114,479	901,748
Non-controlling interest		109,356		109,356	136,868		136,868
		761,421	**84,024**	**845,445**	**924,137**	**114,479**	**1,038,616**
Earnings per share: (US$)							
Basic and diluted earnings per ordinary share from continuing operations	11	–		1.026	–		1.257
Adjusted earnings per share: (US$)							
Adjusted basic and diluted earnings per Ordinary Share from continuing operations	11	0.909		–	1.098		–

Consolidated Statement of Comprehensive Income
Year ended 31 December

	Notes	Year ended 31 December 2012 US$ thousands	2011 US$ thousands
Profit for the year		**845,445**	**1,038,616**
Net gains/(losses) on cash flow hedges recycled to income statement		2,488	(7,158)
Tax effect of cash flow hedges (gains)/losses recycled to income statement	10	(746)	2,147
Gains on cash flow hedge reclassified to the value of other assets		965	–
Tax effect on cash flow hedge gains reclassified to the value of other assets		(289)	–
Net unrealised gains/(losses) on cash flow hedges		5,924	(4,341)
Tax effect of net unrealised (gains)/losses on cash flow hedges	10	(1,777)	1,302
Net effect of cash flow hedges		**6,565**	**(8,050)**
Fair value gains/(losses) on available-for-sale financial assets	13	29,556	(46,916)
Tax effect of fair value (gains)/losses on available-for-sale financial assets	10	(8,276)	13,137
Net effect of available-for-sale financial assets		**21,280**	**(33,779)**
Foreign currency translation		**(60)**	**73**
Other comprehensive gain/(loss) for the year, net of tax		**27,785**	**(41,756)**
Total comprehensive income for the year, net of tax		**873,320**	**996,860**
Attributable to:			
Equity shareholders of the Company		763,665	860,198
Non-controlling interest		109,565	136,662
		873,230	**996,860**

Consolidated Balance Sheet
As at 31 December

	Notes	As at 31 December 2012 US$ thousands	2011 US$ thousands
ASSETS			
Non-current assets			
Property, plant and equipment	12	1,480,285	1,194,445
Available-for-sale financial assets	13	127,442	94,861
Silverstream contract	14	419,489	414,842
Deferred tax asset	10	70,815	40,425
Other receivables	16	21,003	13,125
Other assets		2,171	963
		2,121,205	**1,758,661**
Current assets			
Inventories	15	198,007	99,836
Trade and other receivables	16	263,644	249,281
Prepayments		3,103	3,226
Derivative financial instruments	29	2,842	217
Silverstream contract	14	68,290	63,241
Cash and cash equivalents	17	613,773	684,922
		1,149,659	**1,100,723**
Total assets		**3,270,864**	**2,859,384**
EQUITY AND LIABILITIES			
Capital and reserves attributable to shareholders of the Company			
Share capital	18	358,680	358,680
Share premium	18	818,597	818,597
Capital reserve	18	(526,910)	(526,910)
Net unrealised gains/(losses) on cash flow hedges	18	684	(5,672)
Net unrealised gains on available-for-sale financial assets	18	52,573	31,293
Foreign currency translation reserve	18	(542)	(482)
Retained earnings	18	1,530,380	1,192,315
		2,233,462	1,867,821
Non-controlling interest		368,608	281,562
Total equity		**2,602,070**	**2,149,383**
Non-current liabilities			
Provision for mine closure cost	20	104,712	50,754
Provision for pensions and other post-employment benefit plans	21	10,723	9,240
Derivative financial instruments	29	–	693
Deferred tax liability	10	376,124	357,989
		491,559	**418,676**

Consolidated Balance Sheet continued
As at 31 December

		As at 31 December	
	Notes	**2012 US$ thousands**	2011 US$ thousands
Current liabilities			
Trade and other payables	22	95,287	88,726
Derivative financial instruments	29	1,128	13,069
Income tax		28,994	128,441
Employee profit sharing		51,826	61,089
		177,235	**291,325**
Total liabilities		**668,794**	**710,001**
Total equity and liabilities		**3,270,864**	**2,859,384**

These financial statements were approved by the Board of Directors on 11 March 2013 and signed on its behalf by:

Mr Jaime Lomelín
Non-executive Director

11 March 2013

Consolidated Cash Flow Statement
Year ended 31 December

		Year ended 31 December	
	Notes	**2012 US$ thousands**	2011 US$ thousands
Net cash from operating activities	28	**736,380**	**1,249,176**
Cash flows from investing activities			
Purchase of property, plant and equipment		(520,002)	(467,742)
Proceeds from the sale of property, plant and equipment and other assets		13,807	4,144
Proceeds from mines under development		–	3,941
Purchase of available for sale financial assets		(3,025)	–
Loans granted to contractors		(6,428)	(15,051)
Repayments of loans granted to contractors		10,125	9,564
Silverstream contract	14	110,621	103,042
Interest received		6,365	7,326
Other proceeds		–	2,414
Net cash used in investing activities		**(388,537)**	**(352,362)**
Cash flows from financing activities			
Capital contribution		3,694	20,806
Dividends paid to shareholders of the Company		(397,610)	(705,456)
Dividends paid to non-controlling interest		(26,213)	(81,460)
Interest paid		(1)	(132)
Net cash used in financing activities		**(420,130)**	**(766,242)**
Net (decrease)/increase in cash and cash equivalents during the year		(72,287)	130,572
Effect of exchange rate on cash and cash equivalents		1,138	(5,187)
Cash and cash equivalents at 1 January		684,922	559,537
Cash and cash equivalents at 31 December	17	**613,773**	**684,922**

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 gains/(losses) on revaluation of cash flow hedges	Net unrealised gains/(losses) on available-for-sale financial assets	Foreign currency translation reserve	Retained earnings	Total	Non-controlling interest	Total equity
											US$ thousands
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	19	–	–	–	–	–	–	(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**
Balance at 1 January 2012		**358,680**	**818,597**	**(526,910)**	**(5,672)**	**31,293**	**(482)**	**1,192,315**	**1,867,821**	**281,562**	**2,149,383**
Profit for the year		–	–	–	–	–	–	736,089	736,089	109,356	845,445
Other comprehensive income, net of tax		–	–	–	6,356	21,280	(60)	–	27,576	209	27,785
Total comprehensive income for the year		–	–	–	6,356	21,280	(60)	736,089	736,665	109,565	873,230
Capital contribution										3,694	3,694
Dividends declared and paid	19	–	–	–	–	–	–	(398,024)	(398,024)	(26,213)	(424,237)
Balance at 31 December 2012		**358,680**	**818,597**	**(526,910)**	**684**	**52,273**	**(542)**	**1,530,380**	**2,233,462**	**368,608**	**2,602,070**

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 Peñoles' group companies is disclosed in note 26.

The consolidated financial statements of the Group for the year ended 31 December 2012 were authorised for issue by the Board of Directors of Fresnillo plc on 4 March 2013.

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. Further information about the Group operating mines and its principal activities 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	
			2012	2011
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
Exploraciones y Desarrollos Mineros Coneto, S.A. P.I. de C.V.	Exploration services	Mexico	**55**	–
Exploraciones Coneto, S.A. de C.V.	Exploration services	Mexico	**100**	–
Minera El Bermejal, S. de R.L. de C.V.	Mining equipment leasing	Mexico	**56**	56
Compañía Minera Las Torres, S.A. de C.V.	Closed mines*	Mexico	**100**	100
Servicios Administrativos Fresnillo, S. A. de C.V.	Administrative services	Mexico	**100**	100
Fresnillo Management Services, Ltd	Administrative services	UK	**100**	100
Fresbal Investments, Ltd	Holding company for mining Investments	Canada	**100**	100
Fresnillo Perú, S.A.C.	Exploration services	Perú	**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.

The list of subsidiary undertakings presented in this note represents the Full List of Subsidiary Undertakings, required to be submitted by Section 409 of the Companies Act 2006.

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 2012 and 2011, and in accordance with the provisions of the Companies Act 2006.

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.

Notes to the Consolidated Financial Statements continued

Basis of consolidation
The consolidated financial statements set out the Group's financial position as of 31 December 2012 and 2011, 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., Minera Juanicipio, S.A. de C.V. and Exploraciones y Desarrollos Mineros Coneto, S.A. P. I. 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 2011.

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 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 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 Group is currently assessing the impact this interpretation will have on the financial position and performance.

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 (as detailed below):

– IFRS 9 Financial Instruments – Classification and Measurement: The standard 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: The standard 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 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 2014. The Group is currently assessing the impact this interpretation will have on the financial position and performance.

– 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 will also be required. This standard will become effective for annual periods beginning on or after 1 January 2014 with the adoption of IFRS 10, IFRS 11, IAS 27 (2012) and IAS 28 (2012). 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 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 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 costs as a non-current asset. It 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 currently assessing the impact this interpretation will have on the Group's financial position and performance.

The IASB has issued other amendments resulting from Improvements to IFRSs that management does not consider to have any impact on the accounting policies, financial position or performance of the Group.

(c) Significant accounting judgments, 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:

- Estimated recoverable ore reserves and mineral resources 2(e):

Estimated recoverable ore reserves and mineral resources are used to determine the depreciation of property, plant and equipment, in accounting for deferred stripping costs and in performing impairment testing. Estimates are based on information compiled by appropriately qualified persons in conformity with the Joint Ore Reserves Committee (JORC) code.

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. Changes will impact the carrying value of assets and depreciation and impairment charges recorded in the income statement.

- Determination of useful lives of assets for depreciation and amortisation purposes notes 2(e) and 12:

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 used.

- Estimation of the mine closure costs notes 2(k) and 20:

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.

- Income tax notes 2(q) and 10:

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.

Notes to the Consolidated Financial Statements continued

– Silverstream note 14:

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 estimated recoverable 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. For further detail of this arrangement, see note 14. For further detail on the inputs that have a significant effect on the fair value of this derivative, see note 29. The impact of changes in silver price assumptions, foreign exchange, inflation and the discount rate is included in note 30.

(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 other comprehensive income. On disposal of an entity, the deferred cumulative amount recognised in other comprehensive income relating to that operation is recognised in the income statement.

(e) Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and impairment in value, if any. Cost comprises the purchase price and any costs directly attributable to bringing the asset into working condition for its intended use. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads.

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

The expected useful lives are as follows:

	Years
Buildings	5–12
Plant and equipment	4–11
Mining properties and development costs	3–14
Other assets	2–14

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

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

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

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

Purchased 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 pre-operative expenses relating to mine preparation works are also capitalised as a 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, if any.

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. The cost of 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 surface mine operations, it is necessary to remove overburden and other waste material in order to gain access to the ore bodies (stripping activity). During development and pre-production phases, these costs are capitalised as part of the initial cost of development and construction of the mine and charged as depreciation to the cost of sales, in the income statement, based on the mine's units of production once commercial production begins.

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

Further development of a surface mine may occur following initial extraction of saleable material and during the production phase. Stripping activity costs associated with such development activities are capitalised as mining properties and development cost within property, plant and equipment, using a measure that considers the volume of waste extracted compared with expected volume, for a given volume of ore production. This measure is known as '*stripping ratio*'. The amount capitalised is subsequently depreciated over the expected useful life of the identified component of the ore body related to the stripping activity, by using the units of production method.

The capitalised stripping asset is carried at cost less accumulated depreciation, less impairment in value as applicable. Cost includes the accumulation of costs directly incurred to perform the stripping activity that improves access to the identified component of ore, plus an allocation of directly attributable overhead costs. The costs associated with incidental operations are excluded from in the cost of the stripping activity asset.

(f) 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.

(g) Financial assets and liabilites

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.

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

Notes to the Consolidated Financial Statements continued

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 the purpose of selling or repurchasing in the short term. Derivatives, including separated embedded derivatives are also classified as held-for-trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit or loss are carried in the balance sheet at fair value with gains or losses arising from changes in fair value, presented as finance costs or finance income 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 or 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. Loans and receivables from contractors are carried 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 other comprehensive income 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.

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.

(h) 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.

(i) 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. An 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 an 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.

(j) 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.

(k) Provisions

Mine closure cost
A provision for mine closure cost is made in respect of the estimated future costs of closure, 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 within finance costs. At the time of establishing the provision, a corresponding asset is capitalised where it gives rise to a future economic benefit and is 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. 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 as an expense. For closed sites, changes to estimated costs are recognised immediately in profit or loss.

(l) 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 until it was closed to new entrants on 1 July 2007. The plan is denominated in Mexican Pesos. 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 or 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.

Notes to the Consolidated Financial Statements continued

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

The cost of providing benefits for the seniority premium for voluntary separation is determined using the projected unit credit actuarial valuation method and prepared by an independent actuarial firm as at each year-end balance sheet date. Actuarial gains or 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.

(m) 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.

(n) 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 asset, 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.

(o) 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.

Other income
Other income 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.

(p) 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.

(q) 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, at the reporting date in the country the Group operates.

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 other comprehensive income 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.

(r) 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 or 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.

Notes to the Consolidated Financial Statements continued

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 Garmar-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 designated.

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

Cash flow hedges
For derivatives that are designated and qualify as cash flow hedges, the effective portion of changes in the fair value of derivative instruments are recorded as in other comprehensive income 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 or losses related to the hedging of foreign exchange risk these are included, 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 recognised in other comprehensive income 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 directly as finance costs, 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 other comprehensive income from the period that the hedge was effective remains separately in other comprehensive income 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 other comprehensive income 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.

(s) 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.

3. Segment reporting

For management purposes the Group is organised into operating segments based on producing mines.

At 31 December 2012 the Group has six reportable operating segments following the successful conclusion of the development of the Noche Buena mine in February 2012 and commercial production starting in March 2012. The following segments represent the Group's six producing mines as follows:

- The Fresnillo mine, located in the State of Zacatecas, the world's largest primary silver mine;
- The Saucito mine, located in the State of Zacatecas, an underground silver mine;
- The Ciénega mine, located in the State of Durango, an underground gold mine; including the San Ramón satellite mine;
- The Herradura mine, located in the State of Sonora, an open pit gold mine;
- The Soledad-Dipolos mine, located in the State of Sonora, an open pit gold mine; and
- The Noche Buena mine, located in State of Sonora, an open pit gold 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 the exploration companies listed in note 1 and projects under development have been aggregated into the Other segment below.

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

In 2012 and 2011 all revenue was derived from customers based in Mexico.

Operating segments

The following tables present revenue and profit information regarding the Group's operating segments for the year ended 31 December 2012 and 2011, respectively:

Year ended 31 December 2012

US$ thousands	Fresnillo	Herradura	Ciénega	Soledad-Dipolos	Saucito	Noche Buena	Other[10]	Adjustments and eliminations	Total
Revenues:									
Third party	817,731	526,921	303,863	177,553	223,226	108,110	–	–	2,157,404
Inter-Segment	–	–	–	–	39,062	–	80,180	(119,242)	–
Segment revenues	**817,731**	**526,921**	**303,863**	**117,553**	**262,288**	**108,110**	**80,180**	**(119,242)**	**2,157,404**
Segment Profit[9]	**656,099**	**369,551**	**217,729**	**112,226**	**206,356**	**68,345**	**75,614**	**(50,439)**	**1,655,481**
Hedging	–	–	–	–	–	–	–	–	(2,111)
Depreciation	–	–	–	–	–	–	–	–	(253,890)
Employee profit sharing	–	–	–	–	–	–	–	–	(48,776)
Gross profit as per the income statement	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1,350,704**
Capital expenditure[1]	85,529[2]	109,153[3]	81,875[4]	8,674[5]	54,387[6]	42,018[7]	138,367[8]	–	520,003

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 and raise boring equipment and land.
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 and raise boring equipment and land.
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 the construction of leaching pads, equipment such as dump trucks and tractors and a rotary drill rig and open pit mine development activities.
8 Capital expenditure relates to the acquisition of property, plant and equipment and exploration expenditures capitalised, including San Julián project.
9 Treatment and refining charges amounting to US$129.8 million are included in Segment Profit.
10 Other includes exploration services provided by the exploration companies listed in note 1 and mine equipment purchased by Minera El Bermejal.

Year ended 31 December 2011

US$ thousands	Fresnillo[10]	Herradura	Ciénega	Soledad-Dipolos	Saucito	Noche Buena[10]	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]	58,078	83,597[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 and raise boring equipment and land.
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 and raise boring equipment and land.
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 the acquisition of property, plant and equipment and exploration expenditures capitalised, including San Julián project.
8 Treatment and refining charges amounting to US$114.8 million are included in Segment Profit.
9 Other includes exploration services provided by the exploration companies listed in note 1 and mine equipment purchased by Minera El Bermejal.
10 Certain comparative information, which was previously presented in the 'Other' segment, has been disclosed to conform to current period presentation, such as capital expenditure related to the Noche Buena mine development, including construction of leaching pads, purchase of equipment and open pit mine development activities.

Notes to the Consolidated Financial Statements continued

4. Revenues

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

(a) Revenues by product sold

	Year ended 31 December	
	2012 US$ thousands	2011 US$ thousands
Lead concentrates (containing silver, gold, lead and by-products)	1,168,888	1,253,090
Doré and slag (containing gold, silver and by-products)	812,584	767,789
Zinc concentrates (containing zinc, silver and by-products)	75,601	92,027
Precipitates (containing gold and silver)	100,331	79,757
	2,157,404	**2,192,663**

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 2012 the Group has recognised a gain of US$8.3 million (2011: loss of US$20.6 million). For further detail refer to note 2(o).

(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	
	2012 US$ thousands	2011 US$ thousands
Silver	1,084,329	1,214,214
Gold	1,118,587	1,009,439
Zinc	43,501	40,791
Lead	40,823	43,008
Value of metal content in products sold	2,287,240	2,307,452
Adjustment for treatment and refining charges	(129,836)	(114,789)
Total revenues[1]	**2,157,404**	**2,192,663**

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 2012 the Group has recognised a gain of US$8.3 million (2011: loss of US$20.6 million). For further detail refer to note 2(o).

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	
	2012 US$ per ounce	2011 US$ per ounce
Gold	1,674.1	1,585.3
Silver	31.4	34.8

5. Cost of sales

	Year ended 31 December	
	2012 US$ thousands	2011 US$ thousands
Depreciation (note 12)	253,890	172,073
Personnel expenses (note 8)	109,536	122,517
Maintenance and repairs	78,158	67,685
Operating materials	117,255	84,882
Energy	92,542	79,574
Contractors	191,208	97,515
Freight	8,874	6,211
Insurance	6,070	4,435
Mining rights and contributions	7,574	7,368
Other	13,790	13,116
Cost of production	878,897	655,376
Loss/(gain) on foreign currency hedges	2,111	(5,867)
Change in work in progress and finished goods (ore inventories)	(74,308)	(20,309)
Cost of sales	**806,700**	**629,200**

6. Administrative expenses

	Year ended 31 December	
	2012 US$ thousands	2011 US$ thousands
Administrative expenses charged by Peñoles Group:		
Administrative services[1]	23,912	25,349
	23,912	**25,349**
Personnel expenses (note 8)	12,943	14,420
Other administrative expenses	16,357	16,747
	53,212	**56,516**

1 From 1 November 2009 through 31 October 2012 the Group had 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). This Service Agreement was extended to 31 December 2012, under the same conditions.

During the year ended 31 December 2012, the Company incurred expenses of US$31.3 million under the above mentioned agreement (US$31.5 million for the year ended 31 December 2011). Expenses include administrative expenses of US$23.9 million (2011: US$25.3 million), exploration expenses of US$0.4 million (2011: US$0.7 million) and US$7 million relating to engineering costs that were capitalised (2011: US$5.5 million).

7. Exploration expenses

	Year ended 31 December	
	2012 US$ thousands	2011 US$ thousands
Contractors	192,914	107,030
Administrative services	10,996	7,489
Mining rights and contributions	9,710	7,495
Personnel expenses (note 8)	3,636	3,264
Assays	8,686	3,919
Maintenance and repairs	549	490
Operating materials	2,867	2,008
Rentals	2,497	1,354
Energy	550	276
Other	1,127	669
	233,532	**133,994**

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$5.7million (2011: US$3.1 million) were incurred in the year elsewhere in Latin America.

Notes to the Consolidated Financial Statements continued

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	
	2012 US$ thousands	2011 US$ thousands
Liabilities related to exploration activities	2,674	6,568

Cash flows relating to exploration activities are as follows:

	Year ended 31 December	
	2012 US$ thousands	2011 US$ thousands
Operating cash out flows	237,426	127,429

8. Personnel expenses

	Year ended 31 December	
	2012 US$ thousands	2011 US$ thousands
Employees' profit sharing	49,856	69,957
Salaries and wages	29,037	25,065
Bonuses	9,677	10,906
Legal contributions	10,970	8,872
Other benefits	7,154	5,593
Vacations and vacations bonus	2,641	3,106
Social security	4,654	4,429
Post-employment benefits (note 21)	2,744	5,533
Other	9,382	6,740
	126,115	**140,201**

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

	Year ended 31 December	
	2012 US$ thousands	2011 US$ thousands
Cost of sales (note 5)	109,536	122,517
Administrative expenses (note 6)	12,943	14,420
Exploration expenses (note 7)	3,636	3,264
	126,115	**140,201**

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

	Year ended 31 December	
	2012 No.	2011 No.
Mining	1,394	1,276
Plant concentration	429	341
Exploration	262	201
Maintenance	606	532
Administration and other	437	389
Total	**3,128**	**2,739**

9. Other income and other expenses

	Year ended 31 December	
	2012 US$ thousands	2011 US$ thousands
Other income:		
Net insurance recovery	–	3,353
Rentals	830	1,594
Royalties	1,118	591
Other	4,964	3,360
	6,912	**8,898**

	Year ended 31 December	
	2012 US$ thousands	2011 US$ thousands
Other expenses:		
Maintenance[1]	1,285	991
Donations	654	5,530
Loss on sale of property, plant and equipment[2]	1,042	2,823
Write-off of accounts receivable	131	10
Flood costs relating to Saucito mine	11,729	–
Other	2,929	5,078
	17,770	**14,432**

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

2 Includes the disposal of assets as a result of replacing equipment due to capacity expansions.

10. Income tax expense
a) Major components of income tax expense:

	Year ended 31 December	
	2012 US$ thousands	2011 US$ thousands
Consolidated income statement:		
Current income tax:		
Current income tax charge	345,634	366,298
Amounts overprovided in previous years	(4,079)	(943)
	341,555	365,355
Deferred income tax:		
Origination and reversal of temporary differences	(56,231)	85,025
Revaluation effects of Silverstream contract	33,658	45,386
	(22,573)	130,411
Income tax expense reported in the income statement	**318,982**	**495,766**

Notes to the Consolidated Financial Statements continued

	Year ended 31 December	
	2012 US$ thousands	2011 US$ thousands
Consolidated statement of comprehensive income:		
Deferred income tax effect related to items charged or credited directly to other comprehensive income:		
Net gains reclassified to value of other assets	(289)	–
Net (gains)/losses on cash flow hedges recycled to income statement	(746)	2,147
Net unrealised (gains)/losses arising on valuation of cash flow hedges	(1,777)	1,302
Net expense arising on unrealised (losses)/gains on available-for-sale assets	(8,276)	13,137
Income tax effect reported in other comprehensive income	**(11,088)**	**16,586**

(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	
	2012 US$ thousands	2011 US$ thousands
Accounting profit before income tax	**1,164,427**	**1,534,382**
Tax at the Group's statutory income tax rate 30.0%	349,328	460,314
Expenses not deductible for tax purposes	169	202
Inflationary uplift of the tax base of assets and liabilities	(12,330)	(13,628)
Current income tax overprovided in previous years	(4,079)	(943)
Exchange rate effect on tax value of assets and liabilities	(17,773)	27,584
Non-deductible asset disposals	–	1,539
Non-deductible/non-taxable foreign exchange gains or losses	(8,108)	26,106
Inflationary uplift of tax losses	(714)	(1,520)
Deferred tax asset not recognised	3,652	977
Other	8,837	(4,865)
Tax at the effective income tax rate of 27.4% (2011: 32.3%)	**318,982**	**495,766**

(c) Movements in deferred income tax liabilities and assets:

	Year ended 31 December	
	2012 US$ thousands	2011 US$ thousands
Beginning net liability	(317,564)	(203,222)
Income statement credit/(charge)	22,573	(130,411)
Exchange difference	770	(517)
Net gains reclassified to value of other assets	(289)	–
Net (gains)/losses on cash flow hedges recycled to income statement	(746)	2,147
Net unrealised (gains)/losses arising on valuation of cash flow hedges	(1,777)	1,302
Unrealised (gains)/losses on available-for-sale financial assets	(8,276)	13,137
Ending net liability	**(305,309)**	**(317,564)**

The amounts of deferred income tax assets and liabilities as at 31 December 2012 and 2011, considering the nature of the temporary differences, are as follows:

	Consolidated balance sheet		Consolidated income statement	
	2012 US$ thousands	2011 US$ thousands	**2012 US$ thousands**	2011 US$ thousands
Related party receivables	(95,920)	(101,416)	(5,496)	35,495
Other receivables	(1,797)	(6,463)	(4,666)	5,969
Inventories	24,649	20,042	(4,607)	(9,864)
Prepayments	(917)	(5,532)	(4,615)	4,797
Derivative financial instruments including Silverstream contract	(93,178)	(83,950)	6,416	27,230
Property, plant and equipment	(190,895)	(184,699)	6,727	43,636
Operating liabilities	5,943	1,391	(4,552)	475
Other payables and provisions	29,319	14,211	(15,108)	(3,688)
Losses carried forward	18,011	17,818	(193)	34,917
Post-employment benefits	3,002	2,560	(442)	(793)
Deductible profit sharing	15,527	18,307	2,780	(6,445)
Available-for-sale financial assets	(16,386)	(8,110)	–	–
Other	(2,667)	(1,723)	1,183	(1,318)
Deferred tax (income)/expense			**(22,573)**	**130,411**
Total deferred tax liability	**(305,309)**	**(317,564)**		
Reflected in the statement of financial position as follows:				
Deferred tax assets	70,815	40,425		
Deferred tax liabilities-continuing operations	(376,124)	(357,989)		
Total deferred tax liability	**(305,309)**	**(317,564)**		

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$67.9 million (2011: US$63.6 million).

(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$1,256 million (2011: US$992.5 million).

Income Tax ('Impuesto Sobre la Renta' or 'ISR') and Business Flat Tax ('Impuesto Empresarial a Tasa Unica' or 'IETU')
In accordance with 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.

The income tax rate for 2011 and 2012 is 30%, On 17 December 2012 new temporary tax rates were published in the Official Daily of the Federal Government. Consequently, the tax rate for 2013 will be 30%, the tax rate for 2014 will be 29% and the tax rate from 2015 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 2012 and 2011 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

11. 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 2012 and 2011, earnings per share have been calculated as follows:

	Year ended 31 December	
	2012 US$ thousands	2011 US$ thousands
Earnings:		
Profit from continuing operations attributable to equity holders of the Company (in thousands of US dollars)	736,089	901,748
Adjusted profit from continuing operations attributable to equity holders of the Company (in thousands of US dollars)	652,065	787,269

Adjusted profit is profit as disclosed in the Consolidated Income Statement adjusted to exclude revaluation effects of the Silverstream contract of US$117.7 million gain (US$84.0 million net of tax) (2011: US$159.9 million gain and US$114.5 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.

	2012 thousands	2011 thousands
Number of shares:		
Weighted average number of ordinary shares in issue	717,160	717,160

	2012 US$	2011 US$
Earnings per share:		
Basic and diluted earnings per share	1.026	1.257
Adjusted basic and diluted earnings per ordinary share from continuing operations	0.909	1.098

12. Property, plant and equipment

	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**

	Land and buildings	Plant and Equipment	Mining properties and development costs	Other assets	Construction in Progress	Total
						Year ended 31 December 2012
						US$ thousands
Cost						
At 1 January 2012	97,603	624,513	606,134	83,883	289,412	**1,701,545**
Additions	3,940	66,709	50,564	52,645	397,996	**571,854**
Disposals	(4,308)	(18,993)	(7,072)	(1,314)	(25,254)	**(56,941)**
Transfers and other movements	34,091	199,457	104,629	14,367	(352,544)	**–**
At 31 December 2012	131,326	871,686	754,255	149,581	309,610	**2,216,458**
Accumulated depreciation						
At 1 January 2012	(28,382)	(157,193)	(297,603)	(23,922)	–	**(507,100)**
Depreciation for the year	(12,379)	(130,036)	(92,066)	(19,409)	–	**(253,890)**
Disposals	17	17,107	7,024	1,016	–	**25,164**
At 31 December 2012	(40,744)	(270,122)	(382,645)	(42,315)	–	**(735,826)**
Net Book amount at 31 December 2012	**90,582**	**601,564**	**371,610**	**107,266**	**309,610**	**1,480,285**

The table below details construction in progress by mine.

	Year ended 31 December	
	2012 US$ thousands	2011 US$ thousands
Saucito	38,482	30,157
Penmont	98,756	99,019
Juanicipio	35,337	30,843
Ciénega	24,852	36,816
Fresnillo	106,310	90,367
Other	5,526	2,210
	309,610	**289,412**

During the year ended 31 December 2012 and 2011, the Group has no capitalised borrowing costs within construction in progress.

13. Available-for-sale financial assets

	Year ended 31 December	
	2012 US$ thousands	2011 US$ thousands
Beginning balance	94,861	141,777
Additions	3,025	–
Fair value change	29,556	(46,916)
Ending balance	**127,442**	**94,861**

The fair value of the available-for-sale financial assets is determined by reference to published price quotations in an active market.

Notes to the Consolidated Financial Statements continued

14. 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 one to five 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 2012 total proceeds received in cash were US$110.6 million (2011: US$103.1 million) of which, US$13.6 million was in respect of proceeds receivable as at 31 December 2011 (2011: US$7.2 million). Cash received in respect of the year of US$97.0 million (2011: US$95.8 million) corresponds to 3.8 million ounces of payable silver (2011: 2.9 million ounces). As at 31 December 2012, a further US$11 million (2011: US$13.6 million) of cash corresponding to 378,345 ounces of silver is due (2011: 520,088 ounces).

The most significant drivers of the US$117.7 million unrealised gain taken to income (2011: US$159.9 million) were the updating of assumptions utilised to value the Silverstream contract, most significantly the forward price of silver, the unwinding of the discount and the difference between payments already received in 2012 and payments estimated in the valuation model as at 31 December 2011. 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:

	2012 US$ thousands	2011 US$ thousands
Balance at 1 January:	478,083	427,681
Cash received in respect of the year	(97,005)	(95,847)
Cash receivable	(10,981)	(13,616)
Remeasurement gains recognised in profit and loss	117,682	159,865
Balance at 31 December	**487,779**	**478,083**
Less – Current portion	68,290	63,241
Non-current portion	**419,489**	**414,842**

See note 29 for further information on the inputs that have a significant effect on the fair value of this derivative, see note 30 for further information relating to market and credit risks associated with the Silverstream asset, and note 2(c) for the estimates and assumptions.

15. Inventories

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

	As at 31 December	
	2012 US$ thousands	2011 US$ thousands
Finished goods[1]	1,966	3,790
Work in progress[2]	132,739	48,788
Operating materials and spare parts	65,512	49,162
	200,217	101,740
Allowance for obsolete and slow-moving inventories	(2,210)	(1,904)
Total inventories at the lower of cost and net realisable value	**198,007**	**99,836**

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. This content once processed by the smelter and refinery is sold to customers in the form of refined products.

The amount of inventories recognised as an expense in the year was US$822.2 million (2011: US$659.6 million). The amount of write down of inventories recognised as an expense was US$0.6 million (2011: US$1.8 million).

16. Trade and other receivables

	Year ended 31 December	
	2012 US$ thousands	2011 US$ thousands
Trade receivables from related parties (note 26)[1]	192,273	183,988
Value Added Tax receivable	18,860	13,645
Advances to suppliers and contractors	6,778	5,687
Other receivables from related parties (note 26)	11,000	18,419
Loans granted to contractors	7,019	9,281
Other receivables arising on the sale of fixed assets	13,924	7,204
Other receivables	14,454	11,590
	264,308	249,814
Provision for impairment of 'other receivables'	(664)	(533)
	263,644	**249,281**
Other receivables classified as non-current assets:		
Loans granted to contractors	7,914	9,349
Other receivables arising on the sale of fixed assets	13,089	3,776
	21,003	**13,125**
	284,647	**262,406**

1 'Trade receivables from related parties' includes the fair value of embedded derivatives arising due to provisional pricing in sales contracts of US$(6.1) million as at 31 December 2012 (2011: US$14.5 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 between LIBOR plus 1.5% to LIBOR plus 3% and have a maturity of two to six years.

The total receivables denominated in US$ were US$256.9 million (2011: US$236.3 million), and in Pesos US$27.7 million (2011: US$26.1 million).

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

	Year ended 31 December				
				Past due but not impaired	
	Total US$ thousands	Impaired US$ thousands	Neither past due nor impaired US$ thousands	<30 days US$ thousands	30–60 days US$ thousands
2012					
Trade receivables from related parties	192,273	–	192,273	–	–
Other receivables from related party	11,000	–	11,000	–	–
Loans granted to contractors	14,933	–	14,933	–	–
Other receivables arising on the sale of fixed assets	27,013	–	27,013	–	–
Other receivables	14,454	(664)	13,790	–	–
Total	**259,673**	**(664)**	**259,009**	–	–
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	–	–

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.

Notes to the Consolidated Financial Statements continued

17. Cash and cash equivalents

	As at 31 December	
	2012 US$ thousands	2011 US$ thousands
Cash at bank and on hand	5,121	5,485
Short-term deposits	608,652	679,437
Cash and cash equivalents	**613,773**	**684,922**

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.

18. Equity

Share capital and share premium

The authorised and issued share capital of the Company as at 31 December 2012 and 2011 is as follows:

	Authorised		Issued	
Class of share	Number	Amount	Number	Amount
Ordinary shares each of US$0.50	1,000,000,000	$500,000,000	717,160,159	$358,580,080
Sterling Deferred Ordinary Shares each of £1.00	50,000	£50,000	50,000	£50,000

At 31 December 2012 and 2011, all issued shares with a par value of US$0.50 each are fully paid. The rights and obligations attached 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 or the value of other assets.

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.

19. Dividends declared and paid

The dividends declared and paid during the years ended 31 December 2012 and 2011 are as follows:

	US cents per ordinary share	Amount US$ thousands
Year ended 31 December 2012		
Final dividend for 2011 declared and paid during the year[1]	40.0	286,864
Interim dividend for 2012 declared and paid during the year[2]	15.5	111,160
	55.5	**398,024**
Year ended 31 December 2011		
Final dividend for 2010 declared and paid during the year[3]	35.6	255,355
Interim dividend for 2011 declared and paid during the year[4]	21.0	150,603
Interim dividend for 2011 declared and paid during the year[5]	41.9	300,133
	98.5	**706,091**

1 This dividend was approved by the Board of Directors on 10 May 2012 and paid on 23 May 2012.

2 This dividend was approved by the Board of Directors on 30 July 2012 and paid on 11 September 2012.

3 This dividend was approved by the Board of Directors on 17 May 2011 and paid on 20 May 2011.

4 This dividend was approved by the Board of Directors on 1 August 2011 and paid on 13 September 2011.

5 This dividend was approved by the Board of Directors on 5 December 2011 and paid on 30 December 2011.

20. 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 2012 has been calculated using an annual real discount rate of 4.5 percent (2011: 4.33 percent). The unwinding of discount charge in 2012 has been calculated using a nominal discount rate of 7.5 percent (2011: 7.75 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, based on the reserves and resources, which ranges from 2 to 38 years from 31 December 2012 (3 to 38 years from 31 December 2011).

	As at 31 December	
	2012 US$ thousands	2011 US$ thousands
Beginning balance	**50,754**	**39,682**
Increase to existing provision	46,222	13,095
Unwinding of discount	3,912	3,154
Foreign exchange	3,824	(5,177)
Ending balance	**104,712**	**50,754**

Notes to the Consolidated Financial Statements continued

21. 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	
	2012 US$ thousands	2011 US$ thousands
Current service cost	889	718
Interest cost on benefit obligation	3,124	2,673
Expected return on plan assets	(2,409)	(2,225)
Net actuarial (gains)/losses recognised in the year	(826)	2,703
Net defined benefit expense	778	3,869
Payments to defined contribution plans	1,966	1,664
Net benefit expense (note 8)	**2,744**	**5,533**

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

	Year ended 31 December	
	2012 US$ thousands	2011 US$ thousands
Actual return on plan assets	1,168	1,076
Expected return on plan assets	(2,409)	(2,225)
Foreign exchange	89	(10)
Actuarial losses on plan assets	(1,152)	(1,159)
Actuarial gains/(losses) on obligation	1,978	(1,544)
Net actuarial gains/(losses) recognised in the year	**826**	**(2,703)**

(b) Benefit liability:

	As at 31 December	
	2012 US$ thousands	2011 US$ thousands
Defined benefit obligation	(31,500)	(38,150)
Fair value of plan assets	20,777	28,910
Benefit liability	**(10,723)**	**(9,240)**

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

	As at 31 December	
	2012 US$ thousands	2011 US$ thousands
Defined benefit obligation at 1 January	**38,150**	**38,543**
Interest cost	3,124	2,673
Current service cost	889	718
Benefits paid	(11,646)	(783)
Actuarial (gains)/losses on obligation	(1,978)	1,544
Foreign exchange	2,961	(4,545)
Defined benefit obligation at 31 December	**31,500**	**38,150**
Funded plan	24,070	32,087
Unfunded plan	7,430	6,063
Defined benefit obligation at 31 December	**31,500**	**38,150**

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

	As at 31 December	
	2012 US$ thousands	2011 US$ thousands
Fair value of plan assets at 1 January	**28,910**	**32,123**
Expected return on plan assets	2,409	2,225
Actuarial losses on plan assets	(1,152)	(1,159)
Benefits paid	(11,646)	(783)
Employer´s contributions	–	169
Foreign exchange	2,256	(3,665)
Fair value of plan assets at 31 December	**20,777**	**28,910**

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	
	2012 %	2011 %
Discount rate	7.0	7.5
Expected rate of return on plan assets	7.0	7.5
Future salary increases	5.0	5.0

The mortality assumptions are that for current and future pensioners, men and women aged 65 will live on average for a further 17.3 and 20.6 years respectively (2011 and 2010: 17.3 years for men, 20.6 for women).

The fair values of the plan assets were as follows:

	As at 31 December	
	2012 US$ thousands	2011 US$ thousands
Government debt	890	822
State owned companies	2,848	11,315
Corporate bonds	478	428
Mutual funds (fixed rates)	16,561	16,345
	20,777	**28,910**

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				
	2012 US$ thousands	2011 US$ thousands	2010 US$ thousands	2009 US$ thousands	2008 US$ thousands
Fair value of plan assets	20,777	28,910	32,123	28,198	25,352
Present value of defined benefit obligation	(31,500)	(38,150)	(38,543)	(34,009)	(28,851)
Deficit in the plan	(10,723)	(9,240)	(6,420)	(5,811)	(3,499)
Experience adjustments arising on plan liabilities	3,971	(1,544)	681	(1,469)	(169)
Experience adjustments arising on plan assets	(1,152)	(1,159)	299	189	(48 8)

The Group did not contribute to its defined pension plan in 2012 (2011 contributed US$169 thousands).

Notes to the Consolidated Financial Statements continued

22. Trade and other payables

	As at 31 December	
	2012 US$ thousands	2011 US$ thousands
Trade payables	59,928	68,477
Other payables to related parties (note 26)	1,660	926
Accrued expenses	30,259	16,690
Other taxes and contributions	3,440	2,633
	95,287	**88,726**

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 30.

23. Commitments

A summary of capital expenditure commitments is as follows:

	As at 31 December	
	2012 US$ thousands	2011 US$ thousands
Minera Saucito, S.A. de C.V.	15,883	11,936
Minera Penmont, S. de R.L. de C:V.	55,594	80,990
Minera Mexicana La Ciénega, S.A. de C.V.	9,145	15,786
Minera Fresnillo, S. A. de C.V.	102,149	165,479
Minera El Bermejal, S. de R.L. de C.V.	81,162	44,679
	263,933	**318,870**

24. 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	
	2012 US$ thousands	2011 US$ thousands
Within one year	2,514	1,183
After one year but not more than five years	3,768	–
	6,282	**1,183**

(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 two to six 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	
	2012 US$ thousands	2011 US$ thousands
Within one year	10,425	8,633
After one year but not more than five years	9,624	8,662
	20,049	**17,295**

	As at 31 December	
	2012 US$ thousands	2011 US$ thousands
Minimum lease payments expensed in the year	8,157	4,741

25. Contingencies

As of 31 December 2012, 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 Group, provided that Peñoles has confirmed that the proposed transaction will not give rise to a tax charge, or as a result of a transaction of a member of the Peñoles Group on or after Admission), the Global Offer or Admission and (ii) certain tax aspects of certain other pre-Admission transactions. Peñoles' liability under these indemnities and in respect of general tax liabilities arising pre-Admission which are not properly attributable to the precious metals business of the Fresnillo Group shall not exceed US$500 million. If a member of the Fresnillo Group forming part of Peñoles' tax consolidation pays an intra-group dividend in excess of its net income tax account ('Cuenta de Utilidad Fiscal Neta' o 'CUFIN') account after Admission and is relieved of tax as a result of the consolidation, it is required to pay Peñoles an amount in respect of that tax.

Notes to the Consolidated Financial Statements continued

- On 30 November 2012, the Mexican government enacted a new federal labour law. Management is currently evaluating the new labour law for any potential impacts on the operations and financial position of the Group but it is currently impracticable to estimate any such effects as at 31 December 2012.
- In 2009 five members of the El Bajio agrarian community in the state of Sonora (the "Claimants"), who claim rights over certain surface land in the proximity of the operations of Minera Penmont, S. de R.L. de C.V. ("Minera Penmont"), lodged a legal claim with the Unitarian Agrarian Court of Hermosillo, Sonora to have Minera Penmont vacate an area of this surface land. The land in dispute encompasses a portion of surface area where part of the operations of Soledad and Dipolos, one of Minera Penmont's three operating mines, are located. Soledad and Dipolos represents approximately 22.0 percent of the gold production of Minera Penmont and 12.7 percent of the Group's attributable gold production. Although the Claimants obtained a ruling in their favour by the Mexican Supreme Court in September 2012, certain legal proceedings are currently progressing to challenge the standing of this ruling, including a challenge by the El Bajio agrarian community as a whole as well as a collective challenge by multiple other members of said agrarian community. In parallel with this, Minera Penmont is in the process of seeking the expropriation of the disputed land in its favour, a process defined under Federal law in Mexico. It is not expected that this matter will have a significant impact on the Company's operations or financial position but it is not currently possible to determine the amount and timing of any financial impact that may arise. Minera Penmont's mining concessions are held by way of separate title to that relating to the surface land.

26. Related party balances and transactions

The Group had the following related party transactions during the years ended 31 December 2012 and 2011 and balances as at 31 December 2012 and 2011.

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	
	2012 US$ thousands	2011 US$ thousands	**2012 US$ thousands**	2011 US$ thousands
Trade:				
Met-Mex Peñoles, S.A. de C.V.	192,273	183,988	–	–
Other receivables:				
Industrias Peñoles, S.A.B. de C.V.	10,981	13,616	–	–
Grupo Nacional Provincial, S.A.B. de C.V.	–	4,779	–	–
Other	19	24	1,660	926
Sub–total	203,273	202,407	1,660	926
Less–Current portion	203,273	202,407	1,660	926
Non–current portion	–	–	–	–

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

Other balances with related parties:

	Year ended 31 December	
	2012 US$ thousands	2011 US$ thousands
Silverstream contract:		
Industrias Peñoles, S.A.B. de C.V.	487,779	478,083

The Silverstream contract can be settled in either silver or cash. Details of the Silverstream contract are provided in note 14.

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

	Year ended 31 December	
	2012 US$ thousands	2011 US$ thousands
Income:		
Sales:[1]		
Met-Mex Peñoles, S.A. de C.V.	2,152,002	2,179,064
Insurance receipts:		
Grupo Nacional Provincial, S.A.B. de C.V.	922	6,029
Other income	485	286
Total income	**2,153,409**	**2,185,379**

1 Figures do not include hedging losses.

	Year ended 31 December	
	2012 US$ thousands	2011 US$ thousands
Expenses:		
Administrative services:		
Servicios Administrativos Peñoles, S.A. de C.V.[2]	31,255	31,461
Servicios de Exploración, S.A. de C.V.	4,077	3,026
	35,332	34,487
Energy:		
Termoelectrica Peñoles, S. de R.L. de C.V.	29,079	29,566
Operating materials and spare parts:		
Wideco Inc	5,427	3,449
Met-Mex Peñoles, S.A. de C.V.	2,870	2,704
	8,297	6,153
Equipment repair and administrative services:		
Serviminas, S.A. de C.V.	3,189	3,114
Insurance premiums:		
Grupo Nacional Provincial, S.A. B. de C.V.	9,230	7,036
Other expenses:	7,168	6,272
Total expenses	**92,295**	**86,628**

2 Includes US$7.0 and US$5.5 million relating to engineering costs that was capitalised in 2012 and 2011, respectively.

Notes to the Consolidated Financial Statements continued

(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	
	2012 US$ thousands	2011 US$ thousands
Salaries and bonuses	3,695	4,035
Termination benefits	10,821	–
Post-employment benefits	88	64
Other benefits	696	666
Total compensation paid in respect of key management personnel	**15,300**	**4,766**

	Year ended 31 December	
	2012 US$ thousands	2011 US$ thousands
Accumulated accrued defined pension entitlement	4,189	14,113

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.

27. Auditor's remuneration

Fees due by the Group to its auditor during the year ended 31 December 2012 and the year ended 31 December 2011 are as follows:

	Year ended 31 December	
Class of services	**2012 US$ thousands**	2011 US$ thousands
Fees payable to the Group's auditor for the audit of the Group's annual accounts	1,201	1,154
Fees payable to the Group's auditor and its associates for other services:		
The audit of the Company's subsidiaries pursuant to legislation	252	263
Audit-related assurance services	385	374
Tax advisory services	23	61
Total	**1,861**	**1,852**

28. Notes to the consolidated cash flow statement

	Notes	2012 US$ thousands	2011 US$ thousands
Reconciliation of profit for the year to net cash generated from operating activities			
Profit for the year		**845,445**	**1,038,616**
Adjustments to reconcile profit for the period to net cash inflows from operating activities:			
Depreciation	5	253,890	172,073
Employee profit sharing	8	49,856	69,957
Deferred income tax	10	(22,573)	130,411
Current income tax expense	10	341,555	365,355
Loss on the sale of property, plant and equipment and other assets		1,042	2,823
Other gains		(3,026)	(3,019)
Net finance income		(2,466)	(4,886)
Foreign exchange loss/(gain)		11,928	(9,001)
Difference between pension contributions paid and amounts recognised in the income statement		778	3,700
Non cash movement on derivatives		(5,885)	5,950
Changes in fair value of Silverstream	14	(117,682)	(159,865)
Working capital adjustments			
Increase in trade and other receivables		(8,531)	(10,951)
Increase in prepayments and other assets		(1,127)	(946)
Increase in inventories		(98,268)	(37,682)
Increase in trade and other payables		4,709	13,487
Cash generated from operations		**1,249,645**	**1,576,022**
Income tax paid		(449,080)	(284,439)
Employee profit sharing paid		(64,185)	(42,407)
Net cash from operating activities		**736,380**	**1,249,176**

Notes to the Consolidated Financial Statements continued

29. Financial instruments

(a) Fair values

The fair value of financial assets and liabilities, together with the carrying amounts shown in the balance sheet, are as follows:

	Carrying amount		Fair value (As at 31 December)	
	2012 US$ thousands	2011 US$ thousands	2012 US$ thousands	2011 US$ thousands
Financial assets:				
Cash and cash equivalents[1]	613,773	684,922	613,773	684,922
Trade and other receivables[1,2]	259,009	243,074	259,009	243,074
Available-for-sale financial assets	127,442	94,861	127,442	94,861
Silverstream contract (note 14)	487,779	478,083	487,779	478,083
Derivative financial instruments	2,842	217	2,842	217
Financial liabilities:				
Trade and other payables[1]	61,588	69,403	61,588	69,403
Derivative financial instruments	1,128	13,762	1,128	13,762

1 The carrying value of these financial instruments is deemed to approximate fair value (as reflected in notes 16, 17 and 22).

2 "Trade and other receivables" includes the fair value of embedded derivatives arising due to provisional pricing in sales contracts of US$(6.1) million as at 31 December 2012 (2011: US$14.5 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 2012	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	–	2,842	–	2,842
Silverstream contract	–	–	487,779	487,779
	–	**2,842**	**487,779**	**490,621**
Financial investments available-for-sale:				
Quoted investments	127,442	–	–	127,442
	127,442	**2,842**	**487,779**	**618,063**
Financial liabilities:				
Derivative financial instruments:				
Embedded derivatives within sales contracts	–	–	(6,136)	(6,136)
Options and forward foreign exchange contracts	–	(1,128)	–	(1,128)
	–	**(1,128)**	**(6,136)**	**(7,264)**

	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)**

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 14) is shown below:

	2012 US$ thousands	2011 US$ thousands
Balance at 1 January:	(14,479)	6,162
Changes in fair value	4,262	6,162
Realised embedded derivatives during the year	4,081	(26,803)
Balance at 31 December	**(6,136)**	**(14,479)**

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 14). 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 30.

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 (o)). 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 2012 the fair value of embedded derivatives within sales contracts was US$(6.1) million (2011: US$(14.5) million). The revaluation effects of embedded derivatives arising from these sales contracts are recorded as an adjustment to revenues.

Notes to the Consolidated Financial Statements continued

(c) Derivative financial instruments

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 forward derivative contracts as at 31 December 2012 are as follows:

	As at 31 December 2012				
	Term	**Currency**	**Contract value (thousands)**	**Contract exchange rate**	**2012 Fair value (US$ thousands)**
Euro denominated forward contracts	**2013**	**EUR€**	**1,396**	**EUR€1.28: US$1**	**58**
Swedish Krona denominated forward contracts	**2013**	**SEK**	**54,708**	**SEK6.49:US$1 to SEK7.25:US$1**	**(237)**

The Group's Euro denominated forward derivative instruments mature on 14 June 2013 at a rate of US$1.28: €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 15 March 2013 to 14 June 2013 with a weighted average rate of SEK6.78: US$1. The Group does not apply hedge accounting for SEK:USD forward contracts, therefore, changes in fair value are recognised in the income statement in 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 7 January 2013 to 12 August 2013. The collar instruments hedge costs denominated in Mexican Peso amounting to US$115 million with a range of floor prices from MX$12.75 to MX$13.78:US$1 and a range of capped prices from MX$13.57 to MX$16.16:US$1. The fair value of the put options at 31 December 2012 was an asset of US$2.3 million, and the fair value of the call options at 31 December 2012 was a liability of US$0.4 million.

Forward derivative contracts that were outstanding as at 31 December 2011 were as follows:

	As at 31 December 2011				
	Term	Currency	Contract value (thousands)	Contract exchange rate	2012 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 matured 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 matured 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: US$1. The Group does not apply hedge accounting for SEK:USD forward contracts, therefore, changes in fair value are recognised in the income statement in 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 matured over the period from 9 April 2012 to 12 November 2012. The collar instruments hedged costs denominated in Mexican Peso 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 matured on 2 July 2012. The collar instruments hedged 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.

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

	As at 31 December 2011	
	2012 US$ thousands	2011 US$ thousands
Beginning balance	(5,881)	2,172
Gains/(losses) recycled to income statement during the year[1]	2,488	(7,158)
Deferred tax recycled	(746)	2,147
Gains recycled to the value of other assets	965	–
Deferred tax recycled	(289)	–
Unrealised gains/(losses) before tax arising during the year	5,924	(4,341)
Deferred tax on unrealised (losses)/gains arising during the year and taken directly to equity	(1,777)	1,302
Ending balance	**684**	**(5,878)**

1 Gains recycled to income are included in cost of sales.

30. 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.

Notes to the Consolidated Financial Statements continued

Foreign currency risk

The Group has financial instruments that are denominated in Mexican Peso, Euros and Swedish Krona 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 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 2013 to 2014 (see note 29 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
2012	**10%**	**(6,226)**	**366**
	(5%)	**(891)**	**5,785**
2011	15%	181	(13,414)
	(15%)	2,444	14,098

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
2012	**10%**	**(665)**
	(10%)	**433**
2011	10%	(5,359)
	(10%)	8,030

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
2012	**10%**	**184**	**–**
	(10%)	**(92)**	**–**
2011	10%	162	522
	(10%)	94	(942)

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
2012	**15%**	**(5,073)**
	(15%)	**6,864**
2011	15%	(5,438)
	(15%)	7,357

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.

The Group does not use derivative instruments to hedge against precious metals commodity price fluctuations.

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
2012	**15%**	**22,438**
	(15%)	**(22,366)**
2011	15%	24,478
	(15%)	(24,445)

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
2012	**25%**	**146,162**
	(25%)	**(146,162)**
2011	25%	142,999
	(25%)	(142,999)

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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 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
2012	**20**	**1,247**
	(10)	**(624)**
2011	25	1,745
	(10)	(698)

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
2012	**100**	**(23,881)**
	(100)	**26,340**
2011	100	(25,552)
	(100)	28,341

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
2012	**30%**	**–**	**38,233**
	(30%)	**–**	**(38,233)**
2011	20%	–	18,972
	(20%)	–	(18,972)

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
2012	**100**	**1,336**
	(100)	**(1,305)**
2011	100	1,472
	(100)	(1,412)

(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 counter party. The Group's financial assets are with counterparties with what the Group considers to have an appropriate credit rating. As disclosed in note 26, 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 16. 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 2012 and 2011. 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.

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. Accordingly 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. 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 2012 the Group had concentrations of credit risk as 53 percent of cash and cash equivalents was deposited with one financial institution and 46 percent was held in short term Mexican government paper.

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 13 for the maximum credit exposure to available-for-sale financial assets, note 17 for cash and cash equivalents and note 26 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 2012, being US$487.8 million (2011:US$478.1 million).

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(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 2012					
Trade and other payables	**61,588**	**–**	**–**	**–**	**61,588**
Derivative financial instruments – liabilities	**142,445**	**–**	**–**	**–**	**142,445**
Embedded derivatives within sales contracts – liability	**6,136**	**–**	**–**	**–**	**6,136**

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

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 2012					
Inflows	**154,375**	**–**	**–**	**–**	**154,375**
Outflows	**(142,445)**	**–**	**–**	**–**	**(142,445)**
Net	**11,930**	**–**	**–**	**–**	**11,930**

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)**

The above liquidity tables include expected inflows and outflows from currency option contracts which the Group expects to be exercised during 2013 as at 31 December 2012 and in 2012 to 2014, as at 31 December 2011, 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 or 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 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.

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 2012 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 146, 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 2012;
- 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 2012.

Nick Gomer (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London

11 March 2013

Parent Company Statement of Comprehensive Income
Year ended 31 December

		Year ended 31 December	
	Notes	**2012 US$ thousands**	2011 US$ thousands
Profit for the year	3	**434,447**	**507,537**
Fair value gains/(losses) on available-for-sale financial assets	7	29,556	(46,916)
Tax effect of fair value (losses)/gains on available-for-sale financial assets	5	(8,276)	13,137
Net effect of available-for-sale financial assets		**21,280**	**(33,779)**
Other comprehensive income for the year, net of tax		**21,280**	**(33,779)**
Total comprehensive income for the year, net of tax, attributable to equity shareholders of the Company		**455,727**	**473,758**

Parent Company Balance Sheet
As at 31 December

	Notes	As at 31 December 2012 US$ thousands	2011 US$ thousands
ASSETS			
Non-current assets			
Investments in subsidiaries	6	7,384,262	7,333,689
Available-for-sale financial assets	7	127,442	94,861
		7,511,704	**7,428,550**
Current assets			
Interest bearing loans	14	165,614	15,016
Trade and other receivables	8	1,270	3,740
Derivative financial instruments	17	2,842	217
Cash and cash equivalents	9	8,195	59,092
		177,921	**78,065**
Total assets		**7,689,625**	**7,506,615**
EQUITY AND LIABILITIES			
Capital and reserves attributable to shareholders of the Company			
Share capital	10	358,680	358,680
Share premium	10	818,597	818,597
Merger reserve	10	5,789,600	5,789,600
Net unrealised gains on available-for-sale financial assets	10	45,690	24,410
Retained earnings	10	333,643	297,220
Total equity	10	**7,346,210**	**7,288,507**
Non-current liabilities			
Deferred tax liability	5	13,127	9,706
Derivative financial instruments	17	–	693
		13,127	**10,399**
Current liabilities			
Trade and other payables	12	10,686	7,259
Derivative financial instruments	17	1,128	13,069
Income tax		7,218	9,720
Interest bearing loans	14	311,256	177,661
		330,288	**207,709**
Total liabilities		**343,415**	**218,108**
Total equity and liabilities		**7,689,625**	**7,506,615**

These financial statements were approved by the Board of Directors on 11 March 2013 and signed on its behalf by:

Mr Jaime Lomelín
Non-executive Director

11 March 2013

Parent Company Cash Flow Statement
Year ended 31 December

	Notes	Year ended 31 December 2012 US$ thousands	2011 US$ thousands
Net cash from operating activities	16	**57,251**	**73,161**
Cash flows from investing activities			
Capital contribution to subsidiaries		(50,573)	(87,120)
Purchase of available-for-sale financial assets		(3,025)	–
Loans granted to related parties		(283,518)	(83,693)
Proceeds from repayment of loans granted to related parties		133,022	129,138
Interest received		2,764	5,013
Dividends received		397,785	436,492
Settlement of derivative contracts		(2,111)	5,867
Other payments		(2,050)	(3,979)
Net cash generated from investing activities		**192,294**	**401,718**
Cash flows from financing activities			
Loans granted by related parties		3,046,434	1,699,729
Repayment of loans granted by related parties		(2,927,285)	(1,582,918)
Dividends paid		(397,610)	(705,456)
Interest paid		(22,958)	(12,500)
Net cash used in financing activities		**(301,419)**	**(601,145)**
Net decrease in cash and cash equivalents during the year		(51,874)	(126,266)
Effect of exchange rate on cash and equivalents		977	(4,038)
Cash and equivalents at 1 January		59,092	189,396
Cash and cash equivalents at 31 December	9	**8,195**	**59,092**

Parent Company Statement of Changes in Equity
Year ended 31 December

US$ thousands

	Notes	Share capital	Share premium	Merger reserve	Unrealised gains/(losses) on available-for-sale financial assets	Retained earnings	Total equity
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
Dividends declared and paid	11	–	–	–	–	(706,091)	(706,091)
Balance at 31 December 2011		**358,680**	**818,597**	**5,789,600**	**24,410**	**297,220**	**7,288,507**
Balance at 1 January 2012		**358,680**	**818,597**	**5,789,600**	**24,410**	**297,220**	**7,288,507**
Profit for the year		–	–	–	–	434,447	434,447
Other comprehensive income, net of tax		–	–	–	21,280	–	21,280
Total comprehensive income for the year		–	–	–	21,280	434,447	455,727
Dividends declared and paid	11	–	–	–	–	(398,024)	(398,024)
Balance at 31 December 2012		**358,680**	**818,597**	**5,789,600**	**45,690**	**333,643**	**7,346,210**

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. The Company is a Mexican resident for taxation purposes with tax residency in Mexico City. For further information see note 5.

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 2012 were authorised for issue by the Board of Directors of Fresnillo plc on 11 March 2013.

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 2012 and 2011, 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 2012, 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) Changes in accounting policies

The accounting policies applied are consistent with those applied in the preparation of the consolidated financial statements for the year ended 31 December 2011.

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.

The Company is currently assessing the full impact of the remaining standards and interpretations (as detailed below):

- IAS 27 Consolidated and Separate Financial Statements (as revised in 2012): 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 2014, with early adoption permitted.
- IFRS 9 Financial Instruments – Classification and Measurement: The standard 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: The standard 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 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 2014 with early adoption permitted. The Group is currently assessing the impact this interpretation will have on financial position and performance
– 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. Given 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.

The IASB has issued other amendments resulting from *Improvements to IFRSs* that management does not consider to 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 Company's financial statements in conformity with IFRS requires management to make judgements, estimations 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 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 2012, no impairment has been recognised.

– Valuation of derivative financial instruments notes 2(l) 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.

(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 valued is determined.

Notes to the Company Financial Statements continued

(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 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 profit or loss 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 and liabilities

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.

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 are offset with liabilities 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

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.

Financial liabilities

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.

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.

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.

(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 Company 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) 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.

(k) 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.

Notes to the Company Financial Statements continued

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.

(l) 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.

(m) 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.

3. Profit or loss attributable to the parent Company

The profit for the Company is US$434.4 million for the year ended 31 December 2012 (2011: US$507.5 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	
	2012 US$ thousands	2011 US$ thousands
Deferred income tax effect related to items charged or credited directly to other comprehensive income:		
Net expense arising on unrealised (losses)/gains on available-for-sale assets (note 7)	(8,276)	13,137
Income tax effect reported in other comprehensive income	**(8,276)**	**13,137**

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

	Year ended 31 December	
	2012 US$ thousands	2011 US$ thousands
Beginning net liability	**(9,706)**	**(21,129)**
Income statement credit/(charge)	4,855	(1,714)
Net expense arising on unrealised (losses)/gains on available-for-sale assets (note 7)	(8,276)	13,137
Ending net liability	**(13,127)**	**(9,706)**

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities.

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

	Year ended 31 December	
	2012 US$ thousands	2011 US$ thousands
Prepayments and other	3,774	(5,660)
Derivative financial instruments	(515)	4,064
Available-for-sale financial assets	(16,386)	(8,110)
Net deferred tax balances	**(13,127)**	**(9,706)**

(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$1,256 million (2011: US$992.5 million).

Income Tax ('ImpuestoSobre 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.

The income tax rate for 2011 and 2012 is 30%, On 17 December 2012 new temporary tax rates were published in the Official Daily of the Federal Government. Consequently, the tax rate for 2013 will be 30%, the tax rate from 2014 will be 29% and the tax rate from 2015 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.

The Company is a Mexican resident for taxation purposes. In 2012 and 2011 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.

Notes to the Company Financial Statements continued

6. Investments in subsidiaries

	Year ended 31 December 2012 US$ thousands	2011 US$ thousands
Beginning balance	**7,333,689**	**7,246,569**
Additions	50,573	87,120
Ending balance	**7,384,262**	**7,333,689**

The subsidiaries in which investments are held as at 31 December 2012 and 2011 are as follows:

Company	Country of incorporation	Equity interest 2012	2011
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
Exploraciones y Desarrollos Mineros Coneto, S.A. P.I. de C.V.	Mexico	55	–
Exploraciones Coneto, S.A. de C.V.	Mexico	100	–
Minera El Bermejal, S. de R.L. de C.V.	Mexico	56	56
Compañía Minera Las Torres, S.A. de C.V.	Mexico	100	100
Servicios Administrativos Fresnillo, S.A. de C.V.	Mexico	99	99
Fresnillo Management Services Ltd	UK	100	100
Fresbal Investments Ltd	Canada	100	100
Fresnillo Perú S.A.C.	Perú	100	100

7. Available-for-sale financial assets

	Year ended 31 December 2012 US$ thousands	2011 US$ thousands
Beginning balance	94,861	141,777
Additions	3,025	–
Fair value change	29,556	(46,916)
Ending balance	**127,442**	**94,861**

The fair value of the available-for-sale financial assets is determined by reference to published price quotations in an active market.

8. Trade and other receivables

	Year ended 31 December 2012 US$ thousands	2011 US$ thousands
Other receivables from related parties (note 14)	216	3,453
Prepayments	214	287
Other taxes and contributions	840	–
	1,270	**3,740**

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	
	2012 US$ thousands	2011 US$ thousands
Cash at bank and on hand	38	65
Short-term deposits	8,157	59,027
Cash and cash equivalents	**8,195**	**59,092**

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 2012 is as follows:

	Authorised		Issued	
Class of shares	Number	Amount	Number	Amount
Ordinary shares each of US$0.50	1,000,000,000	$500,000,000	717,160,159	$358,580,080
Sterling Deferred Ordinary Shares each of £1.00	50,000	£50,000	50,000	£50,000

At 31 December 2012, 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 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.

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 2012 and 2011 were as follows:

	US cents per ordinary share	Amount ($US thousands)
Year ended 31 December 2012		
Final dividend for 2011 declared and paid during the year[1]	40.0	286,864
Interim dividend for 2012 declared and paid during the year[2]	15.5	111,160
	55.5	**398,024**
Year ended 31 December 2011		
Final dividend for 2010 declared and paid during the year[3]	35.6	255,355
Interim dividend for 2011 declared and paid during the year[4]	21.0	150,603
Interim dividend for 2011 declared and paid during the year[5]	41.9	300,133
	98.5	**706,091**

1 This dividend was approved by the Board of Directors on 10 May 2012 and paid on 23 May 2012.
2 This dividend was approved by the Board of Directors on 30 July 2012 and paid on 11 September 2012.
3 This dividend was approved by the Board of Directors on 17 May 2011 and paid on 20 May 2011.
4 This dividend was approved by the Board of Directors on 1 August 2011 and paid on 13 September 2011.
5 This dividend was approved by the Board of Directors on 5 December 2011 and paid on 30 December 2011.

Notes to the Company Financial Statements continued

12. Trade and other payables

	Year ended 31 December	
	2012 US$ thousands	2011 US$ thousands
Other taxes and contributions	–	5,663
Other payables to related parties (note 14)	9,995	530
Accrued expenses	691	1,066
	10,686	**7,259**

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 in disclosed in note 18.

13. Contingencies

As of 31 December 2012 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') 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.
- On 30 November 2012, the Mexican government enacted a new federal labour law. Management is currently evaluating the new labour law for any potential impacts on the operations and financial position of the Group but it is currently impracticable to estimate any such effects as at 31 December 2012.
- In 2009 five members of the El Bajio agrarian community in the state of Sonora (the "Claimants"), who claim rights over certain surface land in the proximity of the operations of Minera Penmont, S. de R.L. de C.V. ("Minera Penmont"), lodged a legal claim with the Unitarian Agrarian Court of Hermosillo, Sonora to have Minera Penmont vacate an area of this surface land. The land in dispute encompasses a portion of surface area where part of the operations of Soledad and Dipolos, one of Minera Penmont's three operating mines, are located. Soledad and Dipolos represents approximately 22.0 per cent of the gold production of Minera Penmont and 12.7 per cent of the Group's attributable gold production. Although the Claimants obtained a ruling in their favour by the Mexican Supreme Court in September 2012, certain legal proceedings are currently progressing to challenge the standing of this ruling, including a challenge by the El Bajio agrarian community as a whole as well as a collective challenge by multiple other members of said agrarian community. In parallel with this, Minera Penmont is in the process of seeking the expropriation of the disputed land in its favour, a process defined under Federal law in Mexico. It is not expected that this matter will have a significant impact on the Company's operations or financial position but it is not currently possible to determine the amount and timing of any financial impact that may arise. Minera Penmont's mining concessions are held by way of separate title to that relating to the surface land.

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. 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 2012	31 December 2011	**31 December 2012**	31 December 2011
Interest bearing loans	165,614	15,016	311,256	177,661
Administrative services	216	3,453	508	530
Trademark royalty	–	–	9,487	–
Sub-total	165,830	18,469	321,251	178,191
Less-current portion	165,830	18,469	321,251	178,191
Non-current portion	–	–	–	–

Effective interest rates on loans granted to and received from related parties are as follows:

	Accounts receivable		Accounts payable	
	31 December 2012	31 December 2011	**31 December 2012**	31 December 2011
Comercializadora de Metales Fresnillo, S.A. de C.V.:				
– In Mexican Peso	–	–	9.25%	9.31%
Minera Mexicana La Ciénega, S.A. de C.V.:				
– In US dollars	5.29%	5.48%	–	–
– In Mexican Peso	9.42%	–	–	–
Minera Fresnillo, S.A. de C.V.				
– In US dollars	5.29%	5.48%	–	–
– In Mexican Peso	9.34%	–	–	–
Minera Penmont S. de R.L. de C.V. in US dollars	4.77%	–	–	–
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	
	2012 US$ thousands	2011 US$ thousands
Income:		
Trademark Royalties	100,540	130,315
Interest on loans to related parties	1,738	2,445
Other	–	29
Total income	**102,278**	**132,789**

	Year ended 31 December	
	2012 US$ thousands	2011 US$ thousands
Expenses:		
Administrative services	3,042	2,656
Interest on loans from related parties	22,957	12,424
Other	907	703
Total expenses	**26,906**	**15,783**

(c) Compensation of key management personnel of the Company

Key management personnel comprise Non-executive Directors. In 2012, their compensation was of US$0.7 million (2011: US$0.7 million). This compensation paid is disclosed in the Directors' Remuneration Report.

Notes to the Company Financial Statements continued

15. Auditor's remuneration

The auditor's remuneration for the Company was US$0.9 million (2011: US$0.8 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 include these fees on a consolidated basis.

16. Notes the cash flow statement

		Year ended 31 December	
	Notes	**2012 US$ thousands**	2011 US$ thousands
Reconciliation of profit for the year to net cash generated from operating activities			
Profit for the period		434,447	507,537
Adjustments to reconcile profit for the period to net cash inflows from operating activities:			
Income tax expense		28,707	42,139
Other income		(396,409)	(421,967)
Net finance loss		11,296	16,034
Foreign exchange loss/(gain)		13,191	(19,716)
Working capital adjustments			
Decrease in trade and other receivables		1	4
Decrease in prepayments and other assets		74	112
Increase/(decrease)in trade and other payables		2,940	(21,826)
Cash generated from operations		**94,247**	**102,317**
Income tax paid		(36,996)	(29,156)
Net cash from operating activities		**57,251**	**73,161**

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**	
	2012 US$ thousands	2011 US$ thousands	**2012 US$ thousands**	2011 US$ thousands
Financial assets:				
Cash and cash equivalents[1]	8,195	59,092	8,195	59,092
Derivative financial instruments	2,842	217	2,842	217
Interest bearing loans	165,614	15,016	165,614	15,016
Trade and other receivables[1]	216	3,453	216	3,453
Available-for-sale financial assets	127,442	94,861	127,442	94,861
Financial liabilities:				
Interest bearing loans	311,256	177,661	311,256	177,661
Trade and other payables[1]	9,995	530	9,995	530
Derivative financial instruments	1,128	13,762	1,128	13,762

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 2012 US$ thousands
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets:				
Derivative financial instruments:				
Option and forward foreign exchange contracts	–	2,842	–	2,842
Financial investments available-for-sale:				
Quoted investments	127,442	–	–	127,442
	127,442	**2,842**	**–**	**130,284**
Financial liabilities:				
Derivative financial instruments:				
Option and forward foreign exchange contracts	–	(1,128)	–	(1,128)
	–	**(1,128)**	**–**	**(1,128)**

				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)**

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 these 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 forward derivative contracts as at 31 December 2012 are as follows:

					As at 31 December 2012
	Term	**Currency**	**Contract value (thousands)**	**Contract exchange rate**	**2012 Fair value (US$ thousands)**
Euro denominated forward contracts	**2013**	**EUR€**	**1,396**	**EUR€1.28:US$1**	**58**
Swedish Krona denominated forward contracts	**2013**	**SEK**	**58,708**	**SEK6.49:US$1 to SEK7.25:US$1**	**(237)**

The Company's Euro denominated forward derivative instruments mature on 14 June 2013 at a rate of US$1.28: €1. The Company also entered into a number of SEK-US dollar forward contracts to hedge its subsidiaries' exposure to fluctuations in foreign exchange rates. These derivative instruments mature over the period from 15 March 2013 to 14 June 2013 with a weighted average rate of SEK6.78: US$1.

Notes to the Company Financial Statements continued

The Company also entered into Mexican peso-US dollar collars to hedge its subsidiaries' exposure to fluctuations in foreign exchange rates. Collar derivative instruments mature over the period from 7 January 2013 to 12 August 2013. The collar instruments hedge the Company's subsidiaries' costs denominated in Mexican peso amounting to US$115 million with a range of floor prices from MX$12.75 to MX$13.78:US$1 and a range of capped prices from MX$13.57 to MX$16.16:US$1. The fair value of the put options at 31 December 2012 was an asset of US$2.3 million, and the fair value of the call options at 31 December 2012 was a liability of US$0.4 million. All gains and losses are taken to the company income statement.

Forward derivative contracts that were outstanding as at 31 December 2011 were as follows:

				As at 31 December 2011	
	Term	Currency	Contract value (thousands)	Contract exchange rate	2012 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	2013	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 Company's Mexican peso denominated forwards derivative instruments matured 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 matured over the period from 13 June 2012 to 14 September 2012 with a weighted average rate of US$1.41:€1. The Company 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:US$1.

The Company also entered into Mexican peso-US dollar collars to hedge its subsidiaries' exposure to fluctuations in foreign exchange rates. Collar derivative instruments matured over the period from 9 April 2012 to 12 November 2012. The collar instruments hedged the Company's subsidiaries' costs denominated in Mexican peso 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 2012 was an asset of US$0.1 million, and the fair value of the call options at 31 December 2012 was a liability of US$6.2 million.

The Company also entered into Euro-US dollar collars which matured on 2 July 2012. The collar instruments hedged the Company's subsidiaries' 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 2012 was a liability of US$0.5 million, and the fair value of the call options at 31 December 2012 was an asset of US$0.1 million. All gains and losses are taken to the company income statement.

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. Transactions in foreign currencies include the purchase of services, dividends and other items. As a result, the Company has financial liabilities denominated in currencies other than functional currency, and holds cash and cash equivalents in Mexican peso.

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 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
2012	**10%**	**22,861**
	(5%)	**(17,731)**
2011	15%	9,906
	(15%)	(14,763)

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
2012	**10%**	**(665)**
	(10%)	**443**
2011	10%	(5,359)
	(10%)	8,030

The following table demonstrates the sensitivity of financial assets and financial liabilities to a reasonably possible change in the US dollar 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
2012	**10%**	**184**
	(10%)	**(92)**
2011	10%	684
	(10%)	(848)

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 and interest earned on cash balances.

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
2012	**20**	**16**
	(10)	**(8)**
2011	25	148
	(10)	(59)

Notes to the Company Financial Statements continued

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
2012	**30%**	**–**	**38,233**
	(30%)	**–**	**(38,233)**
2011	20%	–	18,972
	(20%)	–	(18,972)

(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, intercompany loans, 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 counter party. The Company's financial assets are with counterparties with what the Company considers to have an appropriate credit rating. As disclosed in note 14a, the counterparties to a significant proportion of these financial assets are related parties. At each balance sheet date, the Company's financial assets were neither impaired nor past due. The Company's policies are aimed at minimising losses from the foreign currency hedging contracts. The Company's foreign currency derivative contracts are entered into with large financial institutions with strong credit ratings

The Company's surplus funds are managed by Servicios Administrativos Fresnillo, S.A. de C.V., which manages cash and cash equivalents investing in a number of financial institutions. In order to minimise exposure to credit risk, the Company only deposits cash and cash equivalents with financial institutions with a credit rating of P-1 (Moody´s) and mxA-1+ (Standard and Poors) and above, and only for periods of less than 30 days.

The maximum credit exposure at the reporting date of each category of financial asset above is the carrying value as detailed in the relevant notes. See note 7 for the maximum credit exposure for available-for-sale investments, note 9 for cash and cash equivalents and note 14 for related party balances.

(c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company monitors its risk of a shortage of funds using projected cash flows and by monitoring the maturity of both its financial assets and liabilities.

The table below summarises the maturity profile of the Company financial liabilities based on contractual undiscounted payments.

					US$ thousands
	Within 1 year	**1–2 years**	**2–3 years**	**> 3 years**	**Total**
As at 31 December 2012					
Interest bearing loans	**311,256**	**–**	**–**	**–**	**311,256**
Trade and other payables	**9,995**	**–**	**–**	**–**	**9,995**
Derivative financial instruments – liabilities	**142,445**	**–**	**–**	**–**	**142,445**

					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

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 2012					
Inflows	**154,375**	**–**	**–**	**–**	**154,375**
Outflows	**(142,445)**	**–**	**–**	**–**	**(142,445)**
Net	**11,930**	**–**	**–**	**–**	**11,930**

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)

The above liquidity tables include expected inflows and outflows from currency option contracts which the Company expects are going to be exercised in 2013 as at 31 December 2012, and in 2012 to 2014 as at 31 December 2011, 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 2012

		Quantity	Grade				Contained Metal			
Resource Category[1]	Cut-off Grade*	Tonnes (Mt)	Gold (g/t)	Silver (g/t)	Lead (%)	Zinc (%)	Gold (Moz)	Silver (Moz)	Lead Tonnes (000's)	Zinc Tonnes (000's)
Fresnillo Underground										
Measured	64 g/t AgEq	9.64	0.75	678	0.78	1.35	0.23	210.09	74.71	129.62
Indicated		26.88	0.84	315	2.06	4.20	0.73	272.33	554.84	1,128.21
Measured & Indicated		**36.51**	**0.82**	**411**	**1.72**	**3.44**	**0.96**	**482.42**	**629.55**	**1,257.83**
Inferred		33.77	0.67	291	1.53	3.34	0.72	316.32	517.80	1,126.26
Minera Saucito Underground										
Measured	83 g/t AgEq	0.75	3.06	540	0.58	0.83	0.07	12.99	4.34	6.23
Indicated		9.13	2.14	437	2.05	3.22	0.63	128.32	187.55	293.97
Measured & Indicated		**9.88**	**2.21**	**445**	**1.94**	**3.04**	**0.70**	**141.30**	**191.90**	**300.19**
Inferred		35.39	1.18	339	1.15	1.92	1.34	386.19	406.19	679.09
Minera Ciénega Underground										
Indicated	1.18 g/t AuEq	8.08	2.47	94	0.80	1.21	0.64	24.43	64.54	97.70
Inferred		0.74	2.03	69	0.55	0.77	0.05	1.64	4.05	5.72
Measured	2.1 g/t AuEq[5]	1.13	1.82	216	0.38	0.59	0.07	7.84	4.28	6.63
Indicated		16.96	1.10	116	0.36	0.68	0.60	63.15	61.12	115.34
Measured & Indicated		**18.08**	**1.15**	**122**	**0.36**	**0.67**	**0.67**	**70.98**	**65.41**	**121.97**
Inferred		10.67	0.92	116	0.48	0.96	0.31	39.71	51.70	101.99
Minera Penmont Underground – Herradura Veins[2]										
Indicated	1.50 g/t AuEq	0.83	5.03	1	–	–	0.13	0.03	–	–
Measured & Indicated		**0.83**	**5.03**	**1**	**–**	**–**	**0.13**	**0.03**	**–**	**–**
Inferred		1.05	6.39	1	–	–	0.22	0.03	–	–
Minera Penmont Open Pit[2]										
Herradura (Disseminated)										
Measured	0.30 g/t AuEq	59.73	0.76	1	–	–	1.45	1.92	–	–
Indicated		65.08	0.73	1	–	–	1.52	2.09	–	–
Soledad & Dipolos										
Measured	0.30 g/t AuEq	18.19	0.64	1	–	–	0.37	0.58	–	–
Indicated		9.50	0.57	1	–	–	0.18	0.31	–	–
Noche Buena										
Measured	0.30 g/t AuEq	16.05	0.57	1	–	–	0.29	0.52	–	–
Indicated		20.41	0.54	1	–	–	0.35	0.66	–	–
Herradura (Disseminated)										
Inferred	0.30 g/t AuEq	26.74	0.71	1	–	–	0.61	0.86	–	–
Soledad & Dipolos										
Inferred	0.30 g/t AuEq	0.02	0.42	1	–	–	0.00	0.00	–	–
Noche Buena										
Inferred	0.30 g/t AuEq	14.60	0.51	1	–	–	0.24	0.47	–	–
Totals – Underground[3]										
Measured & Indicated		73.39	1.32	305	1.30	2.42	3.11	719.17	951.39	1,777.69
Inferred		81.61	1.01	284	1.20	2.34	2.64	743.97	979.88	1,912.56
Totals – Open Pit[4]										
Measured & Indicated		188.96	0.69	1	–	–	4.17	6.08	–	–
Inferred		41.36	0.64	1	–	–	0.85	1.33	–	–

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 Includes Fresnillo (Proaño), Saucito, Ciénega and Herradura Vein deposits.

4 Includes the open pit portion of Herradura, Soledad and Dipolos and Noche Buena deposits (Penmont).

5 Includes Las Casas-Rosario and San Ramón only.

* Cut-off grade calculations assume variable metallurgical recoveries.

** Metal price assumptions considered for the calculation of metal equivalent grades are: Gold (US$/oz 1,400), Silver (US$/oz 27.00), Lead (US$/lb 1.00) and Zinc (US$/lb 0.96).

Consolidated Audited Mineral Resource Statement of Exploration Projects and Prospects, SRK Consulting (Canada)[1]

As at 31 December 2012

Deposit		Quantity	Grade				Contained Metal			
Fresnillo Subsidiary	Cut-off Grade	Tonnes (000s)	Gold (g/t)	Silver (g/t)	Lead (%)	Zinc (%)	Gold Ounces (000s)	Silver Ounces (000s)	Lead Tonnes (000s)	Zinc Tonnes (000s)
Measured Mineral Resource										
Minera Fresnillo (veins – San Julián)	2.10 gpt AuEq	317	2.97	112	–	–	30	1,142	–	–
Minera Fresnillo (disseminated Ag – San Julián)	125 gpt AgEq	5,181	0.09	240	0.54	1.39	15	39,978	28	72
Minera Fresnillo (disseminated Au – Orisyvo)[3,4]	0.39 gpt Au	3,966	2.04	2	–	–	260	238	–	–
Minera Juanicipio[2]	200 gpt AgEq	–	–	–	–	–	–	–	–	–
Minera Parreña (breccia – Leones)[3]	60 gpt Ag	–	–	–	–	–	–	–	–	–
Minera Parreña (breccia/mantos – Lucerito)[3,4]	1.00 gpt AuEq	–	–	–	–	–	–	–	–	–
Minera Parreña (veins – San Juan)	2.70 gpt AuEq	–	–	–	–	–	–	–	–	–
Minera Parreña (veins – Opulencia)	2.10 gpt AuEq	–	–	–	–	–	–	–	–	–
Minera Parreña (disseminated Au – NBEste)	0.30 gpt AuEq	1,107	0.52	–	–	–	19	–	–	–
Minera Parreña (disseminated Au – Tajitos)	0.30 gpt AuEq	–	–	–	–	–	–	–	–	–
Minera Parreña (veins – San Nicolás)	2.10 gpt AuEq	–	–	–	–	–	–	–		
Minera Parreña (veins – Cebadillas)[5]	2.10 gpt AuEq	–	–	–	–	–	–	–	–	–
Minera Parreña (disseminated Au – Guachichil)[3,4]	0.51 gpt AuEq	–	–	–	–	–	–	–	–	–
Minera Parreña (disseminated Au – Candameña)[3,4,5]	0.53 gpt AuEq	–	–	–	–	–	–	–	–	–
Minera Ciénega (veins – Manzanillas)	2.10 gpt AuEq	74	6.75	130	–	–	16	309	–	–
Fresnillo Peru (mantos – Pilarica)	25 gpt AgEq	–	–	–	–	–	–	–	–	–
Total Measured		**10,645**	**0.99**	**122**	**0.26**	**0.68**	**340**	**41,667**	**28**	**72**
Indicated Mineral Resource										
Minera Fresnillo (veins – San Julián)	2.10 gpt AuEq	10,098	1.77	147	–	–	575	47,702	–	–
Minera Fresnillo (disseminated Ag – San Julián)	125 gpt AgEq	8,079	0.09	201	0.56	1.34	23	52,209	45	108
Minera Fresnillo (disseminated Au – Orisyvo)[3,4]	0.39 gpt Au	182,797	1.09	1	–	–	6,406	8,404	–	–
Minera Juanicipio[2]	200 gpt AgEq	3,678	1.92	657	2.16	4.04	227	77,680	79	149
Minera Parreña (breccia – Leones)[3]	60 gpt Ag	–	–	–	–	–	–	–	–	–
Minera Parreña (breccia/mantos – Lucerito)[3,4]	1.00 gpt AuEq	33,262	0.47	26	0.29	0.46	507	28,063	95	151
Minera Parreña (veins – San Juan)	2.70 gpt AuEq	1,983	1.42	160	–	–	91	10,207	–	–
Minera Parreña (veins – Opulencia)	2.10 gpt AuEq	–	–	–	–	–	–	–	–	–
Minera Parreña (disseminated Au – NBEste)	0.30 gpt AuEq	2,607	0.49	–	–	–	41	–	–	–
Minera Parreña (disseminated Au – Tajitos)	0.30 gpt AuEq	–	–	–	–	–	–	–	–	–
Minera Parreña (veins – San Nicolás)	2.10 gpt AuEq	–	–	–	–	–	–	–	–	–
Minera Parreña (veins – Cebadillas)[5]	2.10 gpt AuEq	–	–	–	–	–	–	–	–	–
Minera Parreña (disseminated Au – Guachichil)[3,4]	0.51 gpt AuEq	–	–	–	–	–	–	–	–	–
Minera Parreña (disseminated Au – Candameña)[3,4,5]	0.53 gpt AuEq	–	–	–	–	–	–	–	–	–
Minera Ciénega (veins – Manzanillas)	2.10 gpt AuEq	871	3.65	71	–	–	102	1,988	–	–
Fresnillo Peru (mantos – Pilarica)	25 gpt AgEq	–	–	–	–	–	–	–	–	–
Total Indicated		**243,375**	**1.02**	**29**	**0.09**	**0.17**	**7,972**	**226,253**	**219**	**408**

Consolidated Audited Mineral Resource Statement of Exploration Projects and Prospects, SRK Consulting (Canada)[1] continued

		Quantity	Grade				Contained Metal			
Deposit	Cut-off Grade	Tonnes (000s)	Gold (g/t)	Silver (g/t)	Lead (%)	Zinc (%)	Gold Ounces (000s)	Silver Ounces (000s)	Lead Tonnes (000s)	Zink Tonnes (000s)
Inferred Mineral Resource										
Minera Fresnillo (veins – San Julián)	2.10 gpt AuEq	3,734	1.68	137	–	–	201	16,464	–	–
Minera Fresnillo (disseminated Ag – San Julián)	125 gpt AgEq	5	0.04	56	0.72	3.14	0	9	0	0
Minera Fresnillo (disseminated Au – Orisyvo)[3,4]	0.39 gpt Au	147,659	0.69	1	–	–	3,276	5,175	–	–
Minera Juanicipio[2]	200 gpt AgEq	3,043	1.44	381	1.87	3.31	141	37,315	57	101
Minera Parreña (breccia – Leones)[3]	60 gpt Ag	7,049	0.01	113	1.46	1.27	1	25,509	103	90
Minera Parreña (breccia/mantos – Lucerito)[3,4]	1.00 gpt AuEq	106,190	0.38	25	0.26	0.43	1,299	86,419	276	457
Minera Parreña (veins – San Juan)	2.70 gpt AuEq	3,531	1.83	130	–	–	208	14,710	–	–
Minera Parreña (veins – Opulencia)	2.10 gpt AuEq	2,437	2.22	115	–	–	174	9,008	–	–
Minera Parreña (disseminated Au – NBEste)	0.30 gpt AuEq	5,900	0.46	–	–	–	87	–	–	–
Minera Parreña (disseminated Au – Tajitos)	0.30 gpt AuEq	15,800	0.43	–	–	–	218	–	–	–
Minera Parreña (veins – San Nicolás)	2.10 gpt AuEq	2,537	1.47	201	–	–	120	16,379	–	–
Minera Parreña (veins – Cebadillas)[5]	2.10 gpt AuEq	659	2.43	77	–	–	51	1,631	–	–
Minera Parreña (disseminated Au – Guachichil)[3,4]	0.51 gpt AuEq	45,959	0.67	11	0.11	0.18	993	16,301	48	82
Minera Parreña (disseminated Au – Candameña)[3,4,5]	0.53 gpt AuEq	56,244	0.63	15	–	–	1,136	26,694	–	–
Minera Ciénega (veins – Manzanillas)	2.10 gpt AuEq	278	2.13	49	–	–	19	438	–	–
Fresnillo Peru (mantos – Pilarica)	25 gpt AgEq	10,828	–	111	0.31	0.50	–	38,530	34	54
Total Inferred		**411,853**	**0.60**	**22**	**0.13**	**0.19**	**7,924**	**294,582**	**518**	**784**

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% metal recovery except for Orisyvo, Lucerito, Candameña and Guachichil where mineral resources are reported inside a conceptual pit shell based on reasonable mining and processing costs, and recoveries for all material types. Equivalent metal grades are based on US$1,400 per ounce of gold, US$27.00 per ounce of silver, US$0.96 per pound of zinc and US$1.00 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.

3 Mineral resources statement prepared independently by SRK CA.

4 Cut-off grade calculations assume variable metallurgical recoveries.

5 Minera Parreña is carrying out exploration activities in the Candameña and Cebadillas projects under option agreements with third parties. Minera Parreña has the right to purchase 100% of these projects.

Consolidated Audited Ore Reserve Statement of Fresnillo plc, SRK Consulting (US)*
As at 31 December 2012

		Quantity	Grade				Contained Metal			
Deposit	Cut-off Grade*	Tonnes (Mt)	Gold (g/t)	Silver (g/t)	Lead (%)	Zinc (%)	Gold (Moz)	Silver (Moz)	Lead Tonnes (000s)	Zinc Tonnes (000s)
Fresnillo										
Proven	92 g/t AgEq	6.74	0.44	364	0.44	0.76	0.09	78.81	29.92	50.88
Probable		27.46	0.72	260	1.80	3.70	0.64	229.65	494.54	1,017.22
Proven and Probable		**34.20**	**0.67**	**281**	**1.53**	**3.12**	**0.73**	**308.47**	**524.47**	**1,068.10**
Minera Saucito										
Proven	114 g/t AgEq	0.89	1.51	255	0.28	0.40	0.04	7.28	2.50	3.52
Probable		9.48	1.72	366	1.72	2.67	0.53	111.59	163.29	253.11
Proven and Probable		**10.37**	**1.71**	**357**	**1.60**	**2.48**	**0.57**	**118.88**	**165.79**	**256.63**
Minera Ciénega										
Probable	1.90 g/t AuEq	5.77	2.08	108	0.58	0.82	0.39	20.00	33.50	47.25
Minera Ciénega[5]										
Probable	1.90 g/t AuEq	12.82	1.07	112	0.32	0.60	0.44	46.14	40.88	76.31
Total Ciénega		**18.60**	**1.38**	**111**	**0.40**	**0.66**	**0.83**	**66.14**	**74.38**	**123.56**
Minera Penmont[2]										
Herradura (Disseminated)										
Proven	0.30 g/t AuEq	45.68	0.75	1.00	–	–	1.10	1.47	–	–
Probable		46.05	0.72	1.00	–	–	1.06	1.48	–	–
Soledad & Dipolos										
Proven	0.30 g/t AuEq	18.19	0.64	1.00	–	–	0.37	0.58	–	–
Probable		9.50	0.57	1.00	–	–	0.18	0.31	–	–
Noche Buena										
Proven	0.30 g/t AuEq	15.68	0.57	1.00	–	–	0.29	0.50	–	–
Probable		19.66	0.54	1.00	–	–	0.34	0.63	–	–
Totals – Underground[3]										
Proven		7.63	0.56	351	0.43	0.71	0.14	86.10	32.42	54.40
Probable		55.54	1.12	228	1.32	2.51	1.99	407.39	732.20	1,393.90
Proven and Probable		**63.16**	**1.05**	**243**	**1.21**	**2.29**	**2.13**	**493.49**	**764.62**	**1,448.29**
Totals – Open Pit[4]										
Proven		79.55	0.69	1.00	–	–	1.77	2.56	–	–
Probable		75.21	0.65	1.00	–	–	1.58	2.42	–	–
Proven and Probable		**154.76**	**0.67**	**1.00**	**–**	**–**	**3.35**	**4.98**	**–**	**–**

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 Includes Fresnillo (Proaño), Saucito, Ciénega and Herradura Vein deposits.

4 Includes the open pit portion of Herradura, Soledad and Dipolos and Noche Buena deposits (Penmont).

5 Includes 75% of Las Casas and San Ramón only.

* Cut-off grade calculations assume variable metallurgical recoveries.

** Metal price assumptions considered for the calculation of metal equivalent grades are: Gold (US$/oz 1,400), Silver (US$/oz 27.00), Lead (US$/lb 1.00) and Zinc (US$/lb 0.96)

Operating Statistics

	Ore Processed (tonnes) 2007	2008	2009	2010	2011	2012	Silver (grams/tonne) 2007	2008	2009	2010	2011	2012
Fresnillo	2,312,691	2,324,575	2,471,657	2,553,991	2,584,163	**2,738,307**	492.0	494.0	486.6	474.4	395.9	**327.6**
Ciénega	718,726	751,143	780,881	860,513	966,812	**1,112,850**	54.0	46.2	74.5	49.4	53.3	**105.2**
Herradura	10,869,234	13,609,318	15,617,014	16,616,247	21,020,356	**24,641,053**	1.0	0.6	0.8	1.3	1.1	**1.2**
Saucito	0	0	71,170	145,148	823,339	**905,027**	0	0	367.2	306.0	249.9	**264.9**
Soledad-Dipolos	0	0	0	9,647,939	12,264,860	**15,317,860**	0	0	0	0.6	0.7	**0.5**
Noche Buena	0	0	0	0	0	**8,447,301**	0	0	0	0	0	**0.4**

	Zinc Concentrate (tonnes) 2007	2008	2009	2010	2011	2012	Silver (grams/tonne) 2007	2008	2009	2010	2011	2012
Fresnillo	24,102	21,922	22,317	23,719	24,544	**29,212**	2,090	2,212	2,516	2,444	2,363	**1,641**
Ciénega	18,486	21,806	15,150	18,950	17,657	**16,103**	202	162	344	186	266	**540**
Herradura	0	0	0	0	0	**0**	0	0	0	0	0	**0**
Saucito	0	0	165	302	3,064	**3,706**	0	0	2,811	2,473	1,917	**1,760**
Soledad-Dipolos	0	0	0	0	0	**0**	0	0	0	0	0	**0**
Noche Buena	0	0	0	0	0	**0**	0	0	0	0	0	**0**

	Lead Concentrate (tonnes) 2007	2008	2009	2010	2011	2012	Silver (grams/tonne) 2007	2008	2009	2010	2011	2012
Fresnillo	38,406	39,608	51,699	60,526	61,050	**65,045**	25,586	25,064	19,972	17,276	14,337	**11,780**
Ciénega	19,107	21,795	16,092	17,436	17,877	**15,487**	1,382	1,123	2,567	1,734	2,084	**5,622**
Herradura	0	0	0	0	0	**0**	0	0	0	0	0	**0**
Saucito	0	0	1,250	2,869	14,419	**15,539**	0	0	17,937	12,994	12,329	**13,699**
Soledad-Dipolos	0	0	0	0	0	**0**	0	0	0	0	0	**0**
Noche Buena	0	0	0	0	0	**0**	0	0	0	0	0	**0**

	Doré and Other Products Product (tonnes) 2007	2008	2009	2010	2011	2012	Silver (grams/tonne) 2007	2008	2009	2010	2011	2012
Ciénega precipitates	16.5	18.8	24.6	25.1	36.5	**52.2**	100,543	80,665	113,635	122,745	101,662	**148,731**
Ciénega Gravimetric Concentrator	0	0	36.5	197.1	88.5	**–**	0	0	3,192	2,150	2,069	**–**
Herradura doré	13.8	13.1	17.2	21.2	24.2	**18.1**	483,722	419,249	469,606	502,980	474,514	**374,787**
Herradura slag	325.0	420.6	492.6	588.1	542.7	**929.9**	3,429	3,255	2,939	2,234	2,036	**817**
Soledad-Dipolos doré	0	0	0	5.0	7.5	**4.8**	0	0	0	174,199	208,897	**226,272**
Soledad-Dipolos slag	0	0	0	496.1	590.1	**583.2**	0	0	0	1,490	2,024	**857**
Fresnillo Concentrates from Tailings Dam	2,765.7	2,610.3	2,914.7	3,247.1	2,658.7	**2,311.7**	3,473.9	3,571.8	4,451.2	4,048.0	3,387.5	**2,787.1**
Noche Buena doré	0	0	0	0	0	**3.3**	0	0	0	0	0	**121,837.5**
Noche Buena slag	0	0	0	0	0	**206.3**	0	0	0	0	0	**288.6**

	Metal Produced – Attributable[1] Silver (ounces) 2007	2008	2009	2010	2011	2012	Gold (ounces) 2007	2008	2009	2010	2011	2012
Fresnillo	33,520,617	33,775,660	35,419,848	35,905,701	30,295,121	**26,382,793**	26,246	24,008	24,684	24,979	26,237	**29,573**
Ciénega	1,022,207	949,574	1,588,994	1,197,792	1,473,927	**3,328,574**	143,719	116,903	103,510	113,351	116,841	**125,275**
Herradura	140,318	123,656	171,303	215,686	226,626	**135,802**	110,167	122,730	145,510	162,984	183,528	**176,146**
Saucito	0	0	735,744	1,222,473	5,904,176	**7,053,780**	0	0	2,881	6,323	33,493	**45,246**
Soledad-Dipolos	0	0	0	29,086	49,777	**28,513**	0	0	0	61,358	88,767	**60,104**
Noche Buena	0	0	0	0	0	**8,262**	0	0	0	0	0	**36,690**
Fresnillo Total	34,683,142	34,848,889	37,915,889	38,570,738	37,949,626	**36,937,723**	280,132	263,640	276,584	368,995	448,866	**473,035**

[1] Including Production from Fresnillo's Tailings Dam.

Gold (grams/tonne)						Zinc (%)						Lead (%)					
2007	2008	2009	2010	2011	**2012**	2007	2008	2009	2010	2011	**2012**	2007	2008	2009	2010	2011	**2012**
0.51	0.47	0.41	0.41	0.42	**0.46**	0.83	0.76	0.79	0.85	0.87	**0.96**	0.45	0.42	0.50	0.54	0.58	**0.66**
6.55	5.14	4.33	4.27	3.89	**3.62**	2.15	2.32	1.64	1.77	1.45	**1.12**	1.39	1.46	1.00	0.95	0.82	**0.68**
0.75	0.72	0.68	0.70	0.65	**0.57**	0	0	0	0	0	**0**	0	0	0	0	0	**0**
0	0	1.53	1.67	1.43	**1.75**	0	0	0.30	0.37	0.42	**0.54**	0	0	0.15	0.22	0.23	**0.35**
0	0	0	0.61	0.57	**0.51**	0	0	0	0	0	**0**	0	0	0	0	0	**0**
0	0	0	0	0	**0.51**	0	0	0	0	0	**0**	0	0	0	0	0	**0**

Gold (grams/tonne)						Zinc (%)						Lead (%)					
2007	2008	2009	2010	2011	**2012**	2007	2008	2009	2010	2011	**2012**	2007	2008	2009	2010	2011	**2012**
3.1	2.9	2.7	2.5	2.7	**2.6**	51.2	51.5	51.6	51.5	51.4	**51.2**	0	0	0	0	0	**0**
11.4	7.9	7.1	4.7	6.2	**6.5**	51.8	51.5	52.5	53.4	52.8	**50.7**	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	**12.8**	0	0	39.7	48.8	38.2	**48.3**	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	0	0	**0**	0	0	0	0	0	**0**	0	0	0	0	0	**0**

Gold (grams/tonne)						Zinc (%)						Lead (%)					
2007	2008	2009	2010	2011	**2012**	2007	2008	2009	2010	2011	**2012**	2007	2008	2009	2010	2011	**2012**
18.9	16.9	13.3	11.5	12.0	**12.8**	0	0	0	0	0	**0**	24.0	21.9	21.4	20.2	21.9	**24.9**
192.0	134.2	149.3	117.4	111.5	**130.7**	0	0	0	0	0	**0**	41.7	41.8	38.0	37.1	35.3	**36.7**
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	**87.5**	0	0	0	0	0	**0**	0	0	7.0	9.5	12.1	**17.8**
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	0	0	**0**	0	0	0	0	0	**0**

Gold (grams/tonne)					
2007	2008	2009	2010	2011	**2012**
35,409	28,564	20,944	24,936	32,663	**33,846**
0	0	5,343	3,874	3,822	**–**
390,309	418,800	395,547	379,778	379,755	**473,042**
2,245	3,147	2,613	1,699	1,851	**1,314**
0	0	0	512,231	502,909	**539,249**
0	0	0	1,676	1,949	**1,295**
5.8	5.4	6.4	6.5	6.0	**6.8**
0	0	0	0	0	**542,429**
0	0	0	0	0	**1,260**

Zinc (tonne)						Lead (tonne)					
2007	2008	2009	2010	2011	**2012**	2007	2008	2009	2010	2011	**2012**
12,349	11,277	11,510	12,212	12,623	**14,966**	9,219	8,685	11,058	12,236	13,385	**16,190**
9,571	11,237	7,950	10,112	9,318	**8,171**	7,958	9,109	6,118	6,468	6,315	**5,676**
0	0	0	0	0	**0**	0	0	0	0	0	**0**
0	0	65	147	1,172	**1,791**	0	0	88	273	1,742	**2,773**
0	0	0	0	0	**0**	0	0	0	0	0	**0**
0	0	0	0	0	**0**	0	0	0	0	0	**0**
21,920	22,515	19,526	22,472	23,113	**24,928**	17,177	17,793	17,264	18,977	21,442	**24,639**

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
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
Capex	Capital expenditures; expenditures not classified as operating costs
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
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
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
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
Exploraciones Minera Parreña, S.A. de C.V.	A wholly-owned Fresnillo plc company that controls a number of exploration prospects
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
g/t	Grammes per tonne
GHG	Greenhouse gases
GJ	Gigajoules
Grade	The measure of concentration of metal within mineralised rock
Group (see also Fresnillo Group)	Fresnillo plc and its subsidiary undertakings
Haulage	A horizontal underground excavation which is used to transport mined ore
Hectare	A unit of area equal to 10,000 square metres, or 2.47 acres
Hoist	Equipment used in underground mining to raise and lower conveyances within the mine shaft
International Cyanide Management Code	Voluntary industry and audit-based program for the gold mining industry to promote responsible management of cyanide used in gold mining
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
Met-Mex	Met-Mex Peñoles, S.A. de C.V., the operator of a refining and smelting facility in Torréon (a 100% subsidiary of Peñoles)
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
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

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
Primary silver producer	A company generating over 50% of its revenue from silver production
Prospect	A mineral deposit with insufficient data available on the mineralisation to determine if it is economically recoverable, but warranting further investigation
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
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
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
Stope	Underground void created by mining
STPS	*Secretaría del Trabajo y Previsión Social*, Secretariat of Labour and Social Welfare
Strike	Direction of line formed by the intersection of strata surfaces with the horizontal plane, always perpendicular to the dip direction
Tailings dam	A dammed reservoir to which the slurry is transported, where the solids settle and the supernatant liquid may be withdrawn
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

Shareholder information

Financial calendar

Preliminary Statement:	12 March 2013
First Interim Management Statement:	18 April 2013
Annual General Meeting:	2 May 2013
Interim Statement:	6 August 2013
Second Interim Management Statement:	17 October 2013

Dividend payment schedule

2012 Final Dividend Record Date:	19 April 2013
2012 Final Dividend Payment Date:	8 May 2013
2013 Interim Dividend Record Date:	16 August 2013
2013 Interim Dividend Payment Date:	10 September 2013

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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 **ww.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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Forward looking statements
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