Fresnillo plc

Financial results for the year ended 31 December 2013

Fresnillo plc today announced the financial results for the full year to 31 December 2013. Octavio Alvídrez, CEO said:

"Fresnillo continued to deliver on its strategic priorities in 2013, despite a challenging external environment for the mining industry and disrupted operations at Minera Penmont. We achieved silver production that was ahead of our targets and made significant progress on a number of our development projects, with the dynamic leaching plant at Herradura being concluded and construction continuing at Saucito II and San Julian.

"Gold production declined as a result of the legal proceedings which halted operations at Soledad-Dipolos and, triggered the suspension of the use of explosives at Herradura. This, combined with lower precious metals prices, impacted our financial results. Nevertheless, our cost reduction initiatives, extensive exploration efforts and focus on operational excellence means we remain well placed to continue to create value for our stakeholders through the cycle as evidenced by today's recommendation of the special dividend. We look forward to making further progress towards our long-term goals in 2014."

2013 Highlights

Maintaining operational excellence

- Silver production, including the Silverstream contract, increased 4.3 per cent reflecting continued ramp up of Saucito and increased production at Ciénega
- Attributable gold production decreased by 10.0% to 425,831 ounces as a result of disrupted operations at Herradura District
- Successful ramp-up of production at Noche Buena, despite being temporarily affected by the suspension of explosives permits in 2H 2013
- Optimised milling capacity at Ciénega and increased ore processed by 11.6%, mitigating the adverse effect of the lower gold ore grade
- Focus on efficiency gains (US$27.4 million) and cost control reinforced company position as a low cost producer of precious metals with world class margins
- Appointment of Roberto Díaz as Chief Operating Officer

Investing in growth through the cycle

- Completion of Dynamic Leaching Plant on time and on budget
- Investment in exploration totalled US$233.3 million resulting in 5.0 and 5.2 per cent increase in total silver and gold resources mainly at San Julián, Centauro Deep, Noche Buena and in the Ciénega District.

- Gold and silver reserves declined by 14.5 and 4.3 per cent due to: i) lower prices used (Ag:US$19.5/oz, -27.8%; Au:US$1,250/oz, -10.7%); ii) change to more conservative open pit mine designs; and iii) use of 2012 Edition of the JORC code, a more prudent methodology
- Acceleration of Saucito II in favour of San Julián to maximise returns and favour net positive cash flows while maintaining growth profile

Focus on capital discipline

- Maintain appropriate exploration budget to increase reserves and resources, continue the development of a profitable growth pipeline while balancing returns to our shareholders
- Focused on projects with highest rates of return and favouring those which generate cash quicker
- Maintained a strong balance sheet from cash flow generated from operating mines, US$800 million bond and US$346.1 million placement of shares, demonstrating market confidence in our long-term strategy

Managing non-financial risk

- Initiated a comprehensive review of the status of our land rights and fostering strong community relations through investment in community programmes in light of the increased industry focus on this matter
- Advancing the maturity of our HSECR system; positive trends for several indicators, including a range of safety metrics; however, two fatalities in the year indicate more work is required

Financial results

Fresnillo's 2013 results were impacted primarily by a combination of lower precious metals prices, the lower gold production which arose from the legal dispute surrounding explosives permits at the Minera Penmont operations, and the non-cash loss generated by the Silverstream revaluation. As a result, revenues, EBITDA and net profits were lower than in 2012.

Against that backdrop we continue to be focused on operational efficiency and seeking the best performance and returns from our quality assets. We remain confident in our ability to deliver on our strategy now and in the future.

Further to the Company's announcement of 24 October 2013, Fresnillo paid an extraordinary dividend of US$165.0 million, equivalent to 22.39 US cents per share on 11 November 2013, which included dividend payments that shareholders may otherwise have expected to receive from dividends payable in 2014. In addition to this, Fresnillo paid an interim dividend of US$36.1 million, equivalent to 4.90 US cents per share on 10 September 2013. Today Fresnillo is pleased to recommend a special and one-off dividend of US$50.1 million, equivalent to 6.8 US cents per share.

This has been recommended by the Board of Fresnillo reflecting their confidence in the strength of the balance sheet and in the company's capital expenditure plans for its development and exploration projects. As a consequence the Board believes that it is appropriate to make a one-off distribution.

This distribution is incremental to Fresnillo's existing dividend policy which remains in place, and takes into account the profitability of the business and underlying growth in earnings of the Fresnillo Group, as well as its capital requirements and cash flows.

Twelve months to 31 December 2013

$ million unless stated	2013	2012	% change
Silver Production* (kOz)	42,743	40,973	4.3
Gold Production* (Oz)	425,831	473,034	(10.0)
Total Revenue	1,615.2	2,157.4	(25.1)
Adjusted Revenue**	1,761.9	2,287.2	(23.0)
Gross Profit	767.4	1,364.6	(43.8)
EBITDA	729.8	1,315.3	(44.5)
Profit Before Income Tax	418.7	1,177.6	(64.4)
Profit for the year	261.0	855.0	(69.5)
Basic and Diluted EPS (USD)***	0.381	0.916	(58.4)

* Fresnillo attributable production, plus ounces registered in production through the Silverstream Contract

** Adjusted Revenue is revenue as disclosed in the income statement adjusted to exclude treatment and refining charges and lead and zinc hedging

*** The weighted average number of shares was 730,244,000 in 2013 and 717,160,159 in 2012

Analyst Presentation

Fresnillo plc will be hosting a presentation for analysts and investors today at 09.00 (GMT) at Bank of America Merrill Lynch Financial Centre, 2 King Edward St., EC1A 1HQ, London, United Kingdom.

For those unable to attend the presentation, it will be available via a live webcast. A link to the webcast can be found on Fresnillo’s homepage, www.fresnilloplc.com. The webcast will include audio from the conference call and synchronised power point slides. Please note that you will not be able to post questions through the webcast.

If you would like to ask questions, you may do so through the conference call dial-in facility, details below:

Dial in number: +44 (0) 1452 555566
Access Code: 5438575

For further information, please visit our website: www.fresnilloplc.com or contact:

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About Fresnillo plc

Fresnillo plc is the world's largest primary silver producer and Mexico's second largest gold producer, listed on the London Stock Exchange under the symbol FRES.

Fresnillo plc has six operating mines, all of them in Mexico - Fresnillo, Saucito, Ciénega (including the San Ramón satellite mine), Herradura, Soledad and Noche Buena; three development projects - a dynamic leaching plant to treat high grade gold ore from the Herradura and Soledad mines; San Julián and Saucito II and four advanced exploration prospects - Centauro Deep, Juanicipio, Orisyvo and Las Casas Rosario as well as a number of other long term exploration prospects. In total, Fresnillo plc has mining concessions covering approximately 2.1 million hectares in Mexico.

Fresnillo plc has a strong and long tradition of mining, a proven track record of mine development, reserve replacement, and production costs in the lowest quartile of the cost curve for both silver and gold. Fresnillo plc's goal is to maintain the Group's position as the world's largest primary silver company, producing 65 million ounces of silver and 500,000 ounces of gold by 2018.

Forward looking statements

This document includes statements that are, or may be deemed to be, "forward-looking statements". These forward-looking statements can be identified by the use of forward-looking terminology, including the terms "believes", "estimates", "plans", "projects", "anticipates", "expects", "intends", "may", "will", or "should" or, in each case, their negative or other variations or comparable terminology, or by discussions of strategy, plans, objectives, goals, future events or intentions. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this document and include, but are not limited to, statements regarding the Group's intentions, beliefs or current expectations concerning, among other things, the Group's results of operations, financial position, liquidity, prospects, growth, strategies and the silver and gold industries. By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances.

Forward-looking statements are not guarantees of future performance and the actual results of the Group's operations, financial position and liquidity, and the development of the markets and the industry in which the Group operates, may differ materially from those described in, or suggested by, the forward-looking statements contained in this document. In addition, even if the results of operations, financial position and liquidity, and the development of the markets and the industry in which the Group operates are consistent with the forward-looking statements contained in this document, those results or developments may not be indicative of results or developments in subsequent periods. A number of factors could cause results and developments to differ materially from those expressed or implied by the forward-looking statements including, without limitation, general economic and business conditions, industry trends, competition, commodity prices, changes in regulation, currency fluctuations (including the US dollar and Mexican peso exchange rates), the Group's ability to recover its reserves or develop new reserves, including its ability to convert its resources into reserves and its mineral potential into resources or reserves, changes in its business strategy, political and economic uncertainty.

Forward-looking statements may, and often do, differ materially from actual results. Any forward-looking statements in this document speak only as of the date of this document, reflect the Group's current view with respect to future events and are subject to risks relating to future events and other risks, uncertainties and assumptions relating to the Group's operations, results of operations, growth strategy and liquidity. Investors should specifically consider the factors identified in this document which could cause actual results to differ before making an investment decision. Subject to the requirements of the Prospectus Rules, the Disclosure and Transparency Rules and the Listing Rules or applicable law, the Group explicitly disclaims any obligation or undertaking publicly to release the result of any revisions to any forward-looking statements in this document that may occur due to any change in the Group's expectations or to reflect events or circumstances after the date of this document.

CHAIRMAN'S STATEMENT

The changing dynamics of the precious metals industry in 2013 proved to be challenging for most mining companies. Falling metal prices, rising operating costs, lower ore grades, increased governmental and community actions, and greater demand from investors for short-term returns had important implications for the strategy, performance and long-term viability of many in our industry.

Fresnillo plc was not immune to these pressures, yet we remain well positioned to weather cyclical challenges thanks to a value creation strategy that accounts for such shifts in market dynamics. Furthermore, while some in our industry were burdened with expensive acquisitions made during the commodity boom, we continued to generate solid profit margins in 2013, albeit below those of the previous year.

The Group's portfolio of profitable mines and development projects is expected to yield returns even in a low metal price environment. This reflects our long-term strategy of conservative organic growth based on a strong commitment to exploration and the development of efficient, low cost, world-class operations located in mining districts we know well. Notwithstanding our commitment to this strategy, external circumstances and our own aspirations demand that we adapt to our environment in a process of continuous improvement and work to enhance our role as a corporate citizen.

Responding to a changed market environment

The most significant impact on performance in 2013 was the decline in precious metal prices. This was neither unforeseen nor remarkable, for us or to those who follow the industry closely. The Group's long experience in mining – more than a century, in fact, under the Peñoles umbrella – has taught us to expect, plan for and manage through such cycles.

Gold started the year at a high of over US$1,600 per ounce and closed below US$1,300. Our average realised gold price was approximately US$1,400 per ounce, 16.3% less than in 2012. Silver declined from its starting price of US$30.33 per ounce to US$19.47 at year-end, with our average realised silver price at $22.83 per ounce, 27.3% lower than in 2012.

This fall in precious metal prices over the course of the year necessitated a review of exploration and capital expenditures, as part of our regular assessment of the Group's financial resources and requirements.

On management's recommendation, total investment in exploration for 2013 was reduced by 16.6% from the original budget, to US$233.3 million. Priority was given to projects within our current mining districts and to those with the best mineral potential. Those same strict parameters will continue in 2014, for which US$225.0 million has been allocated to exploration and early project development, in line with our growth strategy and commitment to maintaining the strongest exploration team in Mexico.

Development projects, designed to be low cost from inception, saw no material change in total budget allocation, but as I outline below, management has modified the timing of certain projects in response to operational and market developments.

At our operating mines, further efficiencies were sought in order to offset higher unit costs for labour, refining charges, electricity and fuel, an effort that must certainly remain in place going forward.

New challenges

Beyond the impact of metal prices, the mining industry in Mexico faced its own unique set of challenges in 2013, most notably the marked escalation in land access issues. In response, we elevated the ranking of this risk from fourth place in terms of severity and likelihood, to second place, behind the precious metal price risk.

Under Mexican law, mineral rights belong to the State and only the federal government may issue concessions to explore and mine. Concession holders are required to negotiate with landowners, often agrarian cooperatives known as *ejidos*, to access the land on which the concessions are located. In 2013 the mining industry in Mexico saw a trend in *ejidos* disavowing their previously signed agreements and blocking access to mine sites.

The legal issue that arose for our subsidiary Minera Penmont, in which ownership of the surface land of the Dipolos pit and the beneficiation plant of the Soledad-Dipolos mine was contested and ultimately returned to the Ejido El Bajío, must be seen in this broader context.

The operational implications for us were material, having suspended all mining and beneficiation activity at Soledad-Dipolos as well as mining activity at the larger Herradura mine nearby, due to the temporary suspension of the explosives permit it shared with Soledad-Dipolos. The permitting matter was resolved in early 2014 and we expect gold production to gradually pick up at Herradura as the leaching process stabilises over two to three months and the new dynamic leaching plant commences production. In the meanwhile, Noche Buena will help bolster the Group's gold production as it continues to ramp up to full capacity.

From a strategic perspective, the elevated risk of access to land brings with it new oversight and control requirements. While we are not immune to opportunistic demands, we continue to believe that fair and transparent land negotiations and productive relationships with local communities and landowners are the basis for lasting agreements. It is my hope that the Mexican authorities will also take action to enforce land agreements and guarantee access to concession holders who take significant operating and financial risk.

The country's current administration must be recognised for the comprehensive structural reforms presented to Congress in 2013 and subsequently approved. This is arguably Mexico's most important legislation in recent memory, with numerous new laws governing education, social security, energy, telecoms and banking, among others. The country stands to benefit from job growth, increased foreign investment and more cost-effective energy generation. However, with fiscal reforms that include new charges for mining companies on the basis of 7.5% of a base similar to EBITDA and 0.5% of gold and silver sales, it seems our industry bears a disproportionate share of the burden, which may slow the industry's growth and the ability of some companies to operate their mines at a profit.

Performance

Against this backdrop, Fresnillo plc continued to move forward in executing its value creation strategy. Attributable silver production was above plan at 42.7 moz, compared to 41.0 moz in 2012. Gold production of 425.8 koz represented a 10.0% decline when compared to 2012, reflecting the halt of operations at Soledad-Dipolos following the aforementioned court order to vacate certain areas of the surface land, as well as the temporary suspension of the explosives permit at Herradura that prevented new material from being deposited on the leaching pads.

Two new mines are under construction: Saucito II, a silver project expected to be highly profitable, whose commissioning has been advanced by six months; and San Julián, a silver/gold project whose start-up date has been deferred for 12 months in light of the need to construct a water reservoir to complement underground water resources for the plant; delays, now resolved, in obtaining environmental and construction permits; and the need to ensure the security of our people and assets. The diversity and quality of our portfolio allows for such flexibility in terms of adapting to changing economic and technical circumstances without affecting the Group's growth profile.

Extensive exploration efforts in 2013 increased total resources, with encouraging contributions from the San Julián and Centauro Deep projects. Silver and gold reserves declined somewhat, primarily due to the lower metal prices used to calculate cut-off grades as well as conservative mine designs.

Fresnillo plc reported adjusted revenue of US$1,761.9 million in 2013, down 23.0% from 2012, and EBITDA of US$729.8 million, 44.5% lower than in the previous year. Attributable net profit, excluding Silverstream effects, was US$298.8 million, down 61.2%. These figures reflect the decline in average realised silver and gold prices, lower gold volumes and the unproductive costs related to the suspension at Soledad-Dipolos and limited operations at Herradura. Notwithstanding, cost control measures and efficiency gains contributed to our profit margins and helped maintain our position in the lower quartile of the production cost curve.

We paid US$505.2 million in dividends in 2013, including US$304.1 million in May as the final dividend based on 2012 performance, US$36.1 million in September as an interim dividend for 2013, and US$165.0 million as an extraordinary dividend in November for payments that shareholders may otherwise have expected to receive from dividends payable in 2014.

Rethinking our balance sheet

We place great value on our participation in international financial markets, not only for access to capital but also to enhance our exposure to international regulations and best practices that strengthen our business model and strategy.

We recognise that remaining on the FTSE-100 would also be in the best interests of our current investor base. Thus, to comply with changes to the Rules of the FTSE UK Index Series regarding minimum flotation requirements, the Company issued 19,733,430 new ordinary shares in 2013 for US$346.1 million, representing a capital increase of 2.74% to provide a free float of 25% of the Company's shares.

Whilst the proceeds from that issuance and healthy free cash flow provided us with a strong cash balance, we saw a reason and opportunity to access the debt markets for the first time since our IPO. First, the Group has taken on medium-term capex commitments to fund its planned growth projects at a time when no near-term catalyst can be seen for a return to higher metal prices; second, the low interest rate environment was seen as nearing its end; third; fixed income investors still had appetite for mining debt; and fourth, the Board recognised that taking on modest debt would offer shareholders the potential for greater returns. My colleagues and I thus approved the issue of US$800.0 million in 5.500% Senior Notes due in 2023.

Following a comprehensive review of the Company's current and future financial requirements, we believe our current balance sheet is well placed to meet the Company's capital expenditure plans and positions us favourably to take advantage of potential accretive acquisition opportunities. We remain committed to prudent financial policies that ensure sufficient cash on hand to invest in existing operations, pursue growth, and maintain a healthy dividend stream.

Sustainable business strategy

We will continue to pursue operational excellence and the disciplined development of new projects by investing across price cycles, and I remain personally focused on ensuring the Group adheres to responsible and sustainable business practices.

It is therefore with deep regret that I report the two fatalities that occurred during the year. We have reviewed each of these incidents as well as the actions taken by management to bolster safety policies, training procedures and supervision. Furthermore, management's remuneration is tied to safety performance.

An area in which we continue to evolve and advance is the diversity and development of our workforce, as well as the range of measures on which we report in our Social and Sustainability Performance.

I am grateful to my Board colleagues for their continued insight and engagement, and extend my deepest appreciation to the people of Fresnillo plc for their dedication and focus. As we set our sights beyond the current horizon, I am confident in the capacity of this team and our Group to create continued value for all stakeholders.

Alberto Baillères
Non-executive Chairman

Summary of the Ejido El Bajío legal proceedings

As disclosed in the Company's 2012 annual report as well as in its various market updates since then, the Company faced a dispute originally presented by five members (the "Claimants") of the Ejido El Bajío (the "Ejido") agrarian community located in Sonora, northern Mexico, against Minera Penmont ("Penmont").

As a result of this dispute, Penmont's occupation agreements over 1,824 hectares of agrarian land located within the Ejido were declared null and void by an Agrarian Magistrate, who ordered Penmont to vacate the land in mid-2013. Penmont complied with this ruling and placed the entirety of the disputed lands at the disposition of the Magistrate, who in turn placed them in deposit before a joint commission comprised of both the Claimants and the Ejido assembly, pending regulatory remediation activities by Penmont over approximately 300 hectares of the land. Penmont's Dipolos pit is located within these lands, and operations at Dipolos were suspended.

These proceedings also resulted in a temporary suspension by the Mexican Ministry of Defence (MOD) of two explosives permits held by Penmont: (i) the single permit covering the Noche Buena mine; and (ii) the single permit covering the Herradura and Soledad-Dipolos mines. Given that Noche Buena is more than 20 kms away from the Ejido, its permit was reactivated by the MOD.

Various proceedings have since occurred. On 11 February 2014, a district court issued a ruling denying the Ejido the relief it was seeking, namely cease and desist proceedings in an attempt to judicially impede an uplifting of the suspended explosives permit at Herradura and Soledad. On 24 February 2014, the MOD granted a new explosives permit for the Herradura mining unit, thereby allowing Penmont to resume the use of explosives at this mine. Normal mining operations at Herradura resumed in March 2014 as preparations had been made in 2H 2013 for the lifting of the suspension of explosives, with holes for blasting having been pre-drilled at the mine.

As part of the on-going dispute with the Ejido, various claims and counterclaims have been made between the relevant parties. Penmont will continue to evaluate these issues and the Company will make such updates as is necessary to the market in relation to this ongoing dispute in the same way it has during the course of 2013. The Company has no intention of reactivating explosives within the Ejido land affected by the ruling. Furthermore, given that Soledad is not currently economically viable as a stand-alone mine independent of Dipolos, the Company has also suspended operations at that site whilst legal proceedings continue.

Performance

REVIEW OF OPERATIONS

Our operating trajectory changed in mid-year 2013 when the Ejido El Bajío legal proceedings ultimately led to a suspension of mining and beneficiation activities at Soledad-Dipolos and temporarily halted mining activity at Herradura, thereby impacting annual gold production at our Penmont mines. Notwithstanding, silver production rose in the year; we advanced our strategic objectives of maximising capacity and increasing efficiency; maintained our position in the silver cost curve; completed construction of a new facility on plan; advanced the development and construction of two new mines; and increased our total resources through on-going exploration.

A full review of our projects confirmed their economic viability even under stressed metal prices; however, we adjusted our investment budget downward slightly and deferred some minor capex allocations in order to focus expenditures across this capital-intensive phase of development in current market conditions. We remain confident that the size and profile of our growth pipeline will enable us to meet 2018 production targets and deliver continued value to stakeholders beyond the current cycle.

As our social and sustainability system matures, we have gained greater visibility into the effectiveness of our programmes, policies and practices, and where we must continue to adapt and advance. Performance this year improved across a range of indicators, and we have enhanced the transparency and assurance of our results.

Production

Annual attributable silver production increased 4.3% from 2012 to 42.7 moz, including 3.9 moz from the Silverstream Contract. This primarily reflected the successful ramp-up of production at Saucito, now operating at full capacity, as well as increased production at Ciénega resulting from to higher silver ore grade at the San Ramón satellite mine; fully offsetting lower silver ore grade at the Fresnillo mine.

Annual attributable gold production decreased by 10.0% to 425,831 oz due to the suspension of operations at Soledad-Dipolos in the second half of the year and the temporary suspension of the explosives permit at Herradura. These factors were mitigated by the continued ramp-up of production at Noche Buena.

Development

The company completed construction of the dynamic leaching plant on time and on budget (December 2013, with total capex of US$115.6 million). The facility will process high-grade ore from Herradura once the resumption of blasting activity yields sufficient mineral for processing, and is expected to increase attributable gold production in the District by an average of 28,000 oz per year.

Two additional development projects are underway. Saucito II, a new expansion mine in the Fresnillo District, advanced rapidly as a result of efficient execution and infrastructure synergies; this, combined with its high profit margin projections, has warranted a prioritisation of its development. The beneficiation plant is expected to be completed by year-end 2014, rather than the original schedule of 2015.

Development of the new San Julián mine, a greenfield project in a new mining district, also advanced but we have deferred its commissioning to 2H 2015 (from 4Q 2014) and slightly revised capex to US$515 million from US$500 million. Expected production volumes of 10.3 moz silver and 44,000 oz gold at full capacity remained unchanged.

These projects play a critical role in achieving our long-term production goals.

Exploration

Exploration remains core to our organic growth strategy and a key element in extending mine life. Risk capital invested in exploration totalled US$233.3 million in 2013, a 26.8% decrease from 2012 but in line with our strategic aim of consistent investment; of the total, US$25.6 million was capitalised, mainly at the Juanicipio, Centauro Deep and Orisyvo projects.

Resources increased through an aggressive exploration programme that included almost 530,458 metres of drilling at 25 projects and prospects. Resources and reserves were estimated using the new JORC 2012 standards, at lower gold and silver prices.

Even under this more conservative calculation, gold resources increased by 5.2% to 28.4 moz gold and silver resources by 5.0% to 2,134.5 moz. Gold reserves, however, declined by 14.5% to 4.7 moz gold, due mainly to the revised criteria, while silver reserves declined 4.3% to 477.2 moz, related both to the change in price as well as to development delays at Fresnillo that were only partially compensated by increased reserves at Saucito.

Safety and sustainability

Our continued focus on safety training and behavioural changes resulted in strong improvements across a range of indicators. Regrettably, however, we did not achieve our zero fatalities target and reported two fatal accidents during the year. The work continues to strengthen our safety culture.

Other sustainability metrics showed improvement in the year: a decline in the withdrawal of fresh groundwater, increase in gender diversity, and higher average number of hours of HSECR training, for example.

Costs

Costs per tonne for those mines in operation during the full year were affected by several factors

- The 3.0% revaluation of the MXP/USD exchange rate, which increased costs denominated in Mexican pesos when converted to US dollars
- A 19.5% and 7.2% increase in the unit prices of diesel and electricity respectively

- The 6.0% rise in wages in Mexican pesos for unionised workers
- Higher contractor costs due to the average 5.4% rise in unit fees in Mexican pesos

Many of these factors were mitigated by operational efficiencies achieved.

2014 Outlook

We expect attributable silver production to remain stable at 43 moz, including Silverstream. Attributable gold production is expected to rise to 450,000 oz as a result of resumed operations at Herradura, the continued ramp-up of production at Noche Buena, and the start up of operations at the dynamic leaching plant.

Our development projects will advance in the year with the completion of Saucito II and further progress at San Julián. Once approved, we expect to begin construction on the expansion of the Ciénega mill and the pyrites treatment plant at Fresnillo, whilst additional exploration will determine whether Mega Centauro and Centauro Deep will be submitted as new projects for Board approval.

The Group's exploration budget for 2014 has been set at US$225.0 million (including capitalised exploration expenses), 3.6% below 2013. Capex, including capitalised exploration expenses of US$30.0m, is budgeted to rise to US$642.0 million.

We expect continued cost pressures, mainly in energy, operating materials and labour, although less than in recent years. In addition, costs will be impacted by new mining duties that will be levied in 2014 and payable in early 2015.

We will continue to invest in cost control initiatives aimed at preserving healthy margins. At underground mines, this includes optimising blasting techniques in the development phase, monitoring and reducing dilution, more effective usage of mining equipment, and accelerating maintenance programmes to increase uptime and mechanical availability in the beneficiation plants. In our open pit mines, we aim to optimise haulage and increase the efficiency of load-haul-dump cycles.

FINANCIAL REVIEW

The Consolidated Financial Statements of Fresnillo plc are prepared in accordance with International Financial Reporting Standards (IFRS). This Financial Review is intended to convey the main factors affecting performance and to provide a detailed analysis of the financial results in order to enhance understanding of the Group's financial statements. All comparisons refer to 2013 figures compared to 2012, unless otherwise noted. The financial information is presented in US dollars, except where indicated.

Commentary on financial performance

Financial performance in 2013 reflects the challenges that arose in the precious metals market during the year and the disrupted operations at Minera Penmont in 2H 2013. Gross profit, EBITDA and profit from continuing operations before net finance costs and income tax decreased by 43.8%, 44.5% and 54.0%, respectively.

Adjusted revenues decreased by 23.0% to US$1,761.9 million. The US$525.3 million decline reflected the adverse effect of lower gold and silver prices and reduced sales volumes of gold from Minera Penmont. These factors were partially mitigated by increased volumes of silver sold, mainly from Saucito.

The main factors that impacted adjusted production costs were: the increase in volume of ore processed at Saucito, Ciénega and Noche Buena; the Group's cost inflation in US dollars, estimated at 7.3%; and the 3.0% revaluation of the Mexican peso/US dollar exchange rate. These adverse effects were offset by a decrease in adjusted production costs resulting from efficiencies achieved at our operating mines through optimisation and cost reduction initiatives, as well as lower variable production costs at Minera Penmont due to stoppages.

Despite the slight decrease in adjusted production costs, cost of sales increased by 6.9% due to the unproductive costs recorded at Minera Penmont (US$26.1 million); and the fact that in 2013 there was no significant variation in change in work in process (US$1.3 million), whilst there was an increase in 2012 (US$74.3 million). These adverse factors were mitigated by the lower depreciation and profit sharing, as well as favourable results from MXP/USD hedging.

As a result, gross profit decreased from US$1,364.6 million to US$767.4 million.

Exploration expenses recorded in the income statement of US$207.8 million decreased by 11.0% compared to 2012. Total risk capital invested in exploration was US$233.3 million, a decrease of 26.8% compared to 2012 and below the revised budgeted figure of US$242.8 million. This decrease reflected our continued commitment to investing through cycles albeit with a more conservative approach.

The Silverstream contract was another factor that negatively affected the Group's profit levels, with a US$54.0 million non-cash loss registered during the period (comprised of a non-cash loss of US$65.7

million related to the revaluation of the Silverstream and an US$11.7 million gain resulting from amortisation effects during the period); this compares to a US$117.7 million gain recorded in 2012.

We engage in some hedging activities to mitigate the impact of risks related to variables that are beyond our control such as prices, exchange rates and interest rates. These include hedging of a portion of lead and zinc production as these are the Group's by-products; Mexican peso-US dollar exchange rates, which affect our cost of sales; and other currencies, such as euros and Swedish krona related to the purchase of equipment. In addition, we entered into a rate lock agreement in November 2013 in connection with the debt issuance due to the extreme volatility and the upward trend of interest rates at that time. Detailed information about hedging activities and derivative positions is explained going forward in each component of the income statement it affects.

All the above factors resulted in a 69.5% decrease in profit for the year and a 67.6% decline in profit attributable to equity shareholders of the Group, to US$240.4 million.

The Group ended the year with a cash position of US$1,251.7 million. This resulted mainly from: net cash from operating activities of US$446.0 million, the issuance of US$789.0 million Senior Notes, net of transaction costs, the US$346.1 million placement of new shares and US$63.8 million proceeds from the Silverstream.

A portion of these funds, US$572.1 million, were allocated to the purchase of property, plant and equipment, which was higher than the US$527.3 million spent in 2012. Capex for 2014 is estimated at US$642.0 million, a 12.2% increase reflecting the on-going investments in Saucito II and San Julián and the construction of other lesser projects scheduled to begin this year subject to Board approval.

In accordance with our efforts to balance growth with returns to shareholders, we paid US$505.2 million in dividends, which included anticipated dividends from 2014.

Taking into consideration the current financial position of the Company, the quality of the Group's mines and projects and our commitment to operate in a profitable and sustainable way, management remains confident that Fresnillo plc will continue to generate positive returns throughout the cycles.

Income statement

Key line items	2013 US$ million	2012 US$ million	Amount US$	Change %
Adjusted revenue[1]	**1,761.9**	2,287.2	(525.3)	(23.0)
Lead and zinc hedging	**0.3**	0.0	0.3	N/A
Treatment and refining charges	**(147.0)**	(129.8)	(17.2)	13.2
Total revenues	**1,615.2**	2,157.4	(542.2)	(25.1)
Cost of sales	**(847.7)**	(792.8)	(54.9)	6.9
Gross profit	**767.4**	1,364.6	(597.2)	(43.8)
Exploration expenses	**207.8**	233.5	25.8	(11.0)
EBITDA[2]	**729.8**	1,315.3	(585.5)	(44.5)
Profit before income tax	**418.7**	1,177.6	(758.9)	(64.4)
Mining right	**36.2**	0	36.2	100.0
Income tax expense	**121.5**	322.6	(201.0)	(62.3)
Profit for the year	**261.0**	855.0	(594.0)	(69.5)
Profit for the year, excluding post-tax Silverstream effects	**298.8**	771.0	(472.2)	(61.2)
Attributable profit	**240.4**	741.2	(500.8)	(67.6)
Attributable profit, excluding post-tax Silverstream effects	**278.2**	657.2	(379.0)	(57.7)
Basic and diluted Earnings per share (US$/share)[3]	**0.329**	1.034	(0.705)	(68.2)
Basic and diluted Earnings per share, excluding post-tax Silverstream effects (US$/share)	**0.381**	0.916	(0.535)	(58.4)

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

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

[3] The weighted average number of ordinary shares was 730,244,000 for 2013 and 717,160,159 for 2012. See Note 8 in the Consolidated Financial Statements.

Financial results are, to a great extent, dependent on the Group's operational performance, asset quality, skilled personnel and management execution towards our strategic goals. Notwithstanding, there are certain macroeconomic variables affecting the financial results, which are beyond our control. A description of these variables is provided below:

Precious metal prices

In 2013, gold and silver markets were affected by the announcement made by the U.S. Federal Reserve with regards to the reduction of the monetary stimulus programme in light of more positive macro-economic data. A selling trend took hold among central banks and investors, including ETF's, which affected precious metals prices. The average realised gold price decreased by 16.3%, to US$1,401.3 per ounce and the average realised silver price decreased by 27.3% to $22.8 per ounce. Furthermore, the average zinc price decreased by 3.0%, whilst the average lead price increased slightly by 2.1% over 2012.

The Group remains fully exposed to volatility in precious metal prices in accordance with its policy of not hedging silver and gold production. However, in 2013 the Group entered into derivative contracts to mitigate the risks associated with the sale of by-product lead, hedging 2,450 metric tonnes of lead through collar structures with floor and cap prices of US$2,205 per tonne (US$100.02 cents/lb) and US$2,670 per tonne (121.11 cents/lb) respectively, resulting in a US$0.3 million gain recorded in the income statement. The total outstanding position as of 31 December was 1,800 metric tonnes with monthly settlements until December 2014, with floor and cap prices of US$2,100 per tonne (US$95.25 cents/lb) and US$2,450 per tonne (US$111.13 cents/lb) respectively.

Additionally, Fresnillo plc entered into a zinc derivative contract and as of 31 December 2013 the total outstanding position totalled 1,920 metric tonnes with floor and cap prices of US$1,900 per tonne (US$86.18 cents/lb) and US$2,200 per tonne (US$99.79 cents/lb) respectively, with monthly settlements from January to December 2014.

Foreign exchange rates

The average spot Mexican peso/US dollar exchange rate revalued by 3.0%, from $13.17 per US dollar in 2012 to $12.77 per US dollar in 2013. This resulted in an adverse effect estimated at US$7.6 million on the Group's production costs, as costs denominated in Mexican pesos (approximately 2/3 of total costs) were higher when converted to US dollars.

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

Cost Inflation

To calculate cost inflation for the year, we considered all components of adjusted production costs: labour, energy, operating materials, contractors, maintenance, freights, insurance and other costs, then estimated the unit price increase for each and calculated the weighted average. The resulting cost inflation estimate for 2013 was 7.3%, which included the 3.0% revaluation of the Mexican peso against the US dollar. All figures and year on year variations are provided in US dollar terms unless otherwise noted. We conduct the same exercise for each individual mine operation, whose basket components may carry different weightings.

Labour

Employees received a 6.0% increase in wages in Mexican pesos and administrative employees at the mines received a 5.0% increase; when converted to US dollars the inflation factor was 9.1%.

Energy

The Group uses mainly two sources of energy, electricity and diesel.

Electricity

The Group's weighted average cost of electricity increased by 7.8% to US$11.0 cents per kw, compared to US$10.2 in 2012. 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 increased by 19.5% to US$78.5 cents per litre in 2013. Diesel prices are controlled by Petróleos Mexicanos (PEMEX), the national oil company, which is aiming to gradually align fuel and diesel prices over the medium term with prevailing international prices.

Operating Materials

	Year over year change in USD %
Sodium cyanide	2.7
Tyres	3.7
Explosives	0.7
Steel for drilling	1.4
Lubricants	4.1
Steel balls for milling	-2.5
Weighted average of all operating materials	**1.5**

In 2013, unit prices of key operating materials in US dollars began to stabilise as a result of lower demand for some inputs in a challenged mining industry. The net weighted average increase in unit prices of operating materials was estimated at 1.5%. This reflects the combined effect of price inflation and the weighting of each component in the total cost of operating materials.

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 4.8% to 40.3% resulting in a weighted average of 8.6%.

Maintenance

Unit prices of spare parts to provide maintenance increased by an estimated 4.0% in US dollars.

Others

Other costs components include freight of which the unit cost increased by an estimated 10.7%, and the insurance premium per unit rose by 16.2%; the remaining components had an average inflation of 3.8% over 2012.

Treatment and Refining charges

Treatment and refining charges[1], 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. Treatment charge per tonne of lead concentrate decreased by 10.4%. However, treatment charge per tonne of zinc concentrate, including the escalator, increased by 10.3% and silver refining charges continued to increase by 9.1% year-on-year due to limited refining capacity for lead concentrates such as ours that have high silver content. These increases, together with greater volumes of lead concentrates shipped mainly from Saucito to Met-Mex, resulted in a 13.2% aggregate increase in treatment 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

Consolidated revenues (US$ millions)

	2013 US$ million	2012 US$ million	Amount US$	Change %
Adjusted revenue[1]	**1,761.9**	2,287.2	(525.3)	(23.0)
Lead hedging	**0.3**	0.0	0.3	N/A
Treatment and refining charges	**(147.0)**	(129.8)	(17.2)	13.2
Total revenues	**1,615.2**	2,157.4	(542.2)	(25.1)

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

Adjusted revenues decreased by 23.0% to US$1,761.9 million in 2013 mainly as a result of the lower gold and silver prices and the decrease in sales volumes of gold due mainly to stoppages at Minera Penmont in 2H 2013.

In 2013, we entered into derivative contracts to hedge 2,450 metric tonnes of lead through collar structures, resulting in a US$0.3 million gain recorded in the income statement.

The total metal price effect (lower prices of gold, silver and zinc mitigated by an increase in lead price), resulted in an adverse impact on revenues of US$479.3 million. The total volume effect (31.1% decrease in ore deposited at open pit mines, affecting sales volumes of gold; mitigated by a 7.8% increase in ore milled at underground mines, which resulted in higher volumes of silver sold), resulted in an unfavourable impact of US$46.0 million.

[1] Treatment and refining charges include the cost of treatment and refining as well as the margin charged by the customer.

Adjusted revenues[1] by metal (US$ millions)

	2013		2012		Volume Variance	Price Variance	Total US$	%
	US$ million	%	US$ million	%				
Silver	**842.9**	**48**	1,084.3	47	65.5	(306.9)	(241.4)	(22.3)
Gold	**831.7**	**47**	1,118.6	49	(114.8)	(172.1)	(286.9)	(25.6)
Lead	**47.6**	**3**	43.5	2	3.2	0.9	4.1	9.4
Zinc	**39.7**	**2**	40.8	2	0.2	(1.2)	(1.1)	(2.7)
Total adjusted revenues	**1,761.9**	**100**	2,287.2	100	(46.0)	(479.3)	(525.3)	(23.0)

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

The Group's silver-gold profile reverted to silver as the main contributor to adjusted revenues. This was the result of: i) the 7.0% increase in volumes of silver sold mainly from Saucito and Ciénega; ii) the lower volumes of gold sold primarily at the Herradura District; and iii) the decrease in silver and gold prices, although in different magnitudes.

In terms of adjusted revenues by mine, Fresnillo contributed a lesser share of adjusted revenues, however remained the main contributor. Saucito and Noche Buena increased their contributions as a result of their successful ramp-up of production. In contrast, the disrupted operations at Herradura and Soledad-Dipolos adversely affected their respective shares of consolidated adjusted revenues.

Volumes of metal sold

	2013	2012	% Change
Silver (koz)			
Fresnillo	**21,709**	24,536	(11.5)
Saucito	**11,073**	6,659	66.3
Ciénega	**3,760**	3,003	25.2
Herradura	**295**	238	23.9
Noche Buena	**47**	14	231.6
Soledad-Dipolos	**30**	49	(38.5)
TOTAL SILVER (koz)	**36,914**	34,499	7.0
Gold (koz)			
Fresnillo	**29**	24	18.9
Saucito	**42**	41	1.1
Ciénega	**107**	121	(11.4)
Herradura	**262**	311	(15.8)
Noche Buena	**107**	65	64.9
Soledad-Dipolos	**47**	106	(55.9)
TOTAL GOLD (koz)	**594**	668	(11.1)
Lead (mt)			
Fresnillo	**13,821**	13,875	(0.4)
Saucito	**4,835**	2,220	117.8
Ciénega	**3,934**	4,978	(21.0)
TOTAL LEAD (mt)	**22,591**	21,073	7.2
Zinc (mt)			
Fresnillo	**12,385**	12,290	0.8
Saucito	**3,772**	1,406	168.3
Ciénega	**4,694**	7,071	(33.6)
TOTAL ZINC (mt)	**20,851**	20,767	0.4

Cost of sales

	2013 US$ million	2012 US$ million	Amount US$	Change %
Adjusted production costs[4]	**567.7**	569.1	(1.4)	(0.2)
Depreciation	**239.3**	243.8	(4.4)	(1.8)
Change in work in progress	**(1.3)**	(70.9)	69.6	(98.1)
Profit sharing	**20.2**	48.8	(28.6)	(58.6)
Hedging	**(4.3)**	2.1	(6.4)	N/A
Unproductive costs	**26.1**	0.0	26.1	N/A
Cost of sales	**847.7**	792.8	54.9	6.9

4 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$847.7 million, an increase of 6.9% over 2012. The US$54.9 million increase is mainly explained by the variation in change in work in progress (+US$69.6 million). In 2013, this item reflected the consumption of inventories at Herradura, offset by the increase in ore inventories at Noche Buena; whereas in

2012 change in work in progress resulted from the increase in inventories at Noche Buena related to the construction of pads.

A key factor affecting cost of sales was the unproductive costs recorded in 2H 2013 at Minera Penmont, primarily in labour costs for workers we maintained on payroll under the assumption that the suspension of the explosives permit would be short-lived and operations would resume to normal. The share of those costs that would have been related to the mining process – blasting, haulage and ore deposit at the pads - were registered as a separate line within the costs of sales rather than in adjusted production costs as there was no direct production linked to them.

The above adverse effects were partially mitigated by decreases in:

- Profit sharing (-US$28.6 million): Lower profit sharing as a result of the decline in precious metals prices and lower profits at all the mines, except for Saucito which exclusively employs contractors who are not entitled to profit sharing.

- Adjusted production costs (-US$1.4 million): The decrease was mainly driven by the lower variable costs recorded as a result of the stoppage of operations at Penmont mines, which were estimated at US$47.6 million; and unproductive costs of US$26.1 million reclassified to a separate line within cost of sales. In addition, efficiencies achieved at the operating mines, estimated at US$27.4 million, further contributed to the decline in adjusted production costs. These included: i) increased ore throughput at Saucito and Ciénega; ii) optimised shotcreting as a result of the increased use of wire mesh and improved control in production areas; iii) reduced consumption of balls for mills and spare parts at Fresnillo by enhancing operating controls; iv) lower maintenance costs related to mechanical and electric repairs at Ciénega; and v) optimised consumption of reagents at the beneficiation process with the use of expert systems. The above favourable effects were partially offset by higher production costs related to the two additional months of operation at Noche Buena and increased volumes of ore processed at Ciénega, Saucito and Noche Buena, which combined were estimated at US$55.9 million. In addition, each production cost component had the following cost inflation and underlying operational pressures:

    - Contractor costs increased by US$14.3 million as a result of: i) increase in the unit fees charged by contractors; ii) greater number of contractors to carry out scaling activities mainly at the Fresnillo mine; iii) increased volumes of ore and waste material hauled over longer distances mainly at Saucito and Ciénega; and iv) increased development at Saucito, Noche Buena and Herradura.

    - The cost of energy rose by US$9.9 million mainly due to higher unit prices of diesel (+19.5%) and electricity (+7.2%).

    - Personnel costs, excluding profit sharing, increased by US$3.5 million mainly due to: i) a 6.0% increase in wages in Mexican pesos as a result of the annual review; ii) additional personnel hired for the dynamic leaching plant at Herradura; and iii) increase in training to reinforce behavioural change and improve safety indices at the mines.

- Cost of maintenance increased by US$2.7 million as a result of the increase in the unit costs of spare parts

- Cost of operating materials rose by US$1.2 million due to the slight weighted average increase in unit prices of operating materials and higher consumption of explosives and anchors to reinforce safety conditions at Fresnillo.

- The 3.0% revaluation of the average Mexican peso/US dollar spot exchange rate, which resulted in an estimated US$7.6 million unfavourable effect when converting peso-denominated costs to US dollars.

- Depreciation (-US$4.4 million): The decrease was explained by the lower depletion factors at Saucito due to the increased reserve base. The lower depreciation registered at Soledad-Dipolos in 2H 2013, further minimised the Group's depreciation. This was mitigated by higher depreciation at Ciénega as a result of higher production volumes, which increased the depletion factor.

- Hedging (-US$6.4): 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 2013, forward dollar sales for US$1.5 million at an average rate of $12.54 matured, resulting in a narrow loss (US$36,878) recognised in the income statement. As of 31 December, the total outstanding volume was US$8.0 million with settlement in 15 January 2014.

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$182.0 million of costs denominated in Mexican pesos with average floor and cap exchange rates of $12.91 and $14.14 per US dollar respectively, resulting in a US$4.3 million gain recorded in the income statement. The total outstanding position using collar structures as of 31 December 2013 was US$228.5 million with maturity dates throughout 2014. These instruments guarantee a minimum exchange rate should the market fall below the floor exchange rate. Between the floor and cap exchange rates the Group sells US dollars at the market rate, and when the Mexican peso per US dollar exchange rate goes above the cap rate, the Company is obliged to sell US dollars at the contract rate.

Cost per tonne, cash cost per ounce and all-in sustaining cost

Cost per tonne, calculated as total production costs less depreciation, profit sharing and exchange rate hedging effects, divided by total tonnage milled or deposited, is a key indicator to measure the effects of mining inflation and cost control performance at each mine and the Group as a whole. In 2013, this indicator was distorted at the Minera Penmont mines as a result of the stoppage of production at Soledad-Dipolos and the limited operations at Herradura.

Cost per tonne				
		2013	2012	Change %
Fresnillo	US$/tonne milled	45.60	44.52	2.4
Saucito	US$/tonne milled	61.00	60.93	0.1
Ciénega	US$/tonne milled	70.81	77.05	(8.1)
Herradura	US$/tonne deposited	8.38	6.23	34.6
Noche Buena	US$/tonne deposited	7.84	6.64*	18.1
Soledad-Dipolos	US$/tonne deposited	9.90	6.32	56.6

* An important part of the ore processed in 2012 was sourced from stockpiled material during the construction of the mine

Fresnillo

Cost per tonne milled at this mine increased a slight 2.4% over 2012, to US$45.6. This reflects the 6.4% estimated total cost inflation at this mine, which was partially offset by efficiencies and costs reduction initiatives such as the use of wire mesh to optimise shotcreting activities, better operating controls that reduced consumption of materials such as steel balls for milling, and the optimised use of reagents. In addition, consequential insurance fees declined with the price of silver, and surface rights were reclassified to exploration expenses.

Saucito

Cost per tonne remained unchanged at US$61.0. This resulted from the 30.6% increase in ore throughput and efficiencies generated in the year. These include lower consumption per tonne of electricity and explosives, the latter due to wider veins being mined, as well as optimised shotcreting activities and reduced reagent usage. Offsetting these benefits was the estimated cost inflation of 5.9% at this mine, which primarily impacted contractor, energy and operating materials.

Ciénega

Cost per tonne milled at Ciénega decreased 8.1% to US$70.8 reflecting the positive impact of the 11.6% increase in ore milled and other efficiencies achieved, such as optimised shotcreting, lower consumption of anchors, reduced unit consumption of electricity resulting from the optimised milling process, and reduction in diesel consumption due to shorter haulage distances from upper levels of the mine, as well as lower medical expenses. These benefits were offset by an estimated cost inflation of 5.4%.

Herradura

Cost per tonne for the full year of US$8.4 was distorted as a result of the halted operations. In 1H 2013 it was affected by longer haulage distances and the deeper pit, which affected all cost components, particularly labour and energy; as well as the increase in the number of contractors and unionised workers hired; and higher consumption of sodium cyanide and lime to improve recovery rates. However, in 2H 2013 this indicator was further impacted by the lower volumes deposited on the leaching pads and the costs from the beneficiation plant applied to this reduced volume.

Soledad-Dipolos

Cost per tonne calculations were affected completely by factors from the first half of the year when the mine was operational, and rose to US$9.90/tonne from US$6.32/tonne in 2012. As a result of the increase in the stripping ratio from 3.0 in 2012 to 5.2 in 2013, all cost components rose: additional contractors hired to haul increased volumes of waste material; inefficient scale resulting from the decrease in volumes of ore deposited at the leaching pads; increased maintenance costs due to more intensive use of equipment; higher diesel consumption per tonne as a result of longer distances; and higher consumption of sodium cyanide to accelerate recovery at the leaching pads.

Noche Buena

cost per tonne at this mine was US$7.84/tonne, a 18.1% increase due to the inefficiencies caused by stopping and initiating operations several times when the explosives permits were suspended, an increase in the stripping ratio from 3.5 to 3.9 and the fact that an important part of the ore processed in 2012 was sourced from material stockpiled during construction of the mine.

Cash cost per ounce[7]

		2013	2012	Change %
Fresnillo	US$ per silver ounce	**5.87**	5.59	5.0
Saucito	US$ per silver ounce	**3.61**	0.49	636.7
Ciénega	US$ per gold ounce	**37.68**	(84.84)	144.4
Herradura	US$ per gold ounce	**651.23**	470.56	38.4
Noche Buena	US$ per gold ounce	**928.03**	574.16*	61.6
Soledad-Dipolos	US$ per gold ounce	**820.28**	618.76	32.6

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

* 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$5.87/oz (2013) vs US$5.59/oz (2012), (+US$0.28/oz; + 5.0%)

The increase in cash cost per ounce is mainly a result of the lower volumes of silver sold, reflecting the decline in ore grade during the period (+US$0.58/oz). To a lesser extent, higher silver refining charges (+US$0.39/oz) and an increase in cost per tonne also contributed (+US$0.09/oz). This was partially mitigated by i) higher by-product credits per silver ounce as a result of the combined effect of lower silver ounces sold and the increase in gold production (-US$0.41/oz); and ii) lower profit sharing resulting from the decrease in silver price (-US$0.37/oz).

Saucito: US$3.61/oz (2013) vs US$0.49/oz (2012), (+US$3.12/oz; +636.7%)

Despite the higher ore grades, which lowered cash cost (-US$1.82/oz), this indicator increased mainly due to lower by-product credits per ounce of silver, which resulted from the combined effect of lower gold and zinc prices divided by an increased volume of silver ounces (+US$4.74/oz). Higher treatment and refining charges also contributed (+US$0.2/oz). Despite all the above, Saucito continues to be one of the lowest cash cost silver mines in the world.

Ciénega: US$37.68/oz (2013) vs -US$84.84/oz (2012), (+US$122.52/oz; +144.4%)
The difference in cash cost reflects the adverse effects of the expected lower gold ore grade during the period (+US$168.60/oz), higher treatment charges of zinc concentrates and silver refining charges (+US$27.11/oz), and a decrease in by-product credits per ounce of gold due to lower silver and zinc prices (+US$9.35/oz). These increases were mitigated by the decrease in cost per tonne (-US$65.76/oz) and lower profit sharing (-US$16.78/oz). Due to the polymetallic nature of this mine (58.7% gold, 34.4% silver and 6.9% base metals); we also calculated cash cost in a gold equivalent basis (US$590.98/oz in 2013 vs US$564.10/oz in 2012; +4.8%)

Herradura: US$651.23/oz (2013) vs US$481.31/oz (2012), (+US$169.92/oz; +35.3%)
The higher cash cost per ounce resulted mainly from the increase in cost per tonne, including the effects from the variations in the changes in work in progress (+US$180.75/oz); and the unproductive costs due to stoppage (+US$64.06/oz). These negative effects were partially compensated by higher ore grades (-US$44.53/oz); lower profit sharing (-US$27.18/oz); and others (-US$3.18/oz).

Noche Buena: US$928.03/oz (2013) vs US$574.16/oz (2012), (+US$353.87/oz; +61.6%)
The increase in cash cost per ounce primarily reflected the increase in cost per tonne, including the effects from the variations in the changes in work in progress (+US$313.6/oz); unproductive costs due to stoppage (+US$63.7/oz); and others (+US$8.4/oz). These negative effects were partially mitigated by higher ore grades (-US$22.9/oz) and lower profit sharing (-US$8.9/oz).

Soledad-Dipolos: US$820.28/oz (2013) vs US$618.76/oz (2012), (+US$201.52/oz; +32.6%)
Higher cash cost per ounce due to the increase in cost per tonne including effects from variations in the changes in work in progress (+US$268.01/oz); unproductive costs due to stoppage (+US$49.11/oz) and others (+US$0.16/oz). Higher ore grade (-US$77.63/oz) and lower profit sharing (-US38.13/oz) partially compensated for these adverse effects.

In addition to the traditional cash cost described above, the Group is reporting all-in sustaining costs (AISC), in accordance with the guidelines issued by the World Gold Council.

This cost metric is calculated as traditional cash cost plus on-site general, corporate and administrative costs, community costs related to current operations, capitalised stripping & underground mine development, sustaining capital expenditures and remediation expenses.

Management considers all-in sustaining costs a reasonable measure to monitor current production costs and sustaining costs as it includes stripping costs incurred to prepare the mine for future production.

All-in sustaining cost

		2013	2012	Change %
Fresnillo	US$ per silver ounce	**9.06**	9.72	-6.8
Saucito	US$ per silver ounce	**6.66**	7.57	-12.0
Ciénega	US$ per gold ounce	**547.95**	520.35	5.3
Herradura	US$ per gold ounce	**1,029.25**	711.21	44.7
Noche Buena	US$ per gold ounce	**1,362.73**	1,083.57	25.8
Soledad-Dipolos	US$ per gold ounce	**922.06**	730.28	26.3

Fresnillo: Despite the 5.0% increase in cash cost, all-in sustaining cost decreased due to lower sustaining capex incurred in 2013 as a result of lesser in-mine equipment replaced.

Saucito: Despite the increase in cash cost, all-in sustaining cost declined as a result of: i) lower sustaining capex due to reduced purchases of equipment for contractors and water pumps; ii) a decrease in capitalised mining works and iii) lower corporate expenses.

Ciénega: Increase in cash cost, partially offset by a decrease in sustaining capex resulting from reduced purchase of equipment for contractors and a decrease in mining works at Ciénega and San Ramón compared to 2012.

Herradura: Higher cash cost and increased stripping carried out as a result of the additional personnel and equipment transferred from Soledad-Dipolos.

Noche Buena: Higher cash cost in 2013 compared to 2012, the first year of operations; mitigated by a decrease in sustaining capex per ounce, the lower amortization of the ecological reserve for mine closure and lower administrative expenses related to engineering and construction.

Soledad-Dipolos: Mainly due to higher cash cost, as explained previously.

Gross profit

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

Total gross profit, excluding hedging gains and losses, decreased by 43.8% to US$767.4 million in 2013.

The main factors contributing to the US$597.2 million decline in gross profit were: i) the adverse effect of the lower silver, gold and zinc prices estimated at -US$477.2 million; ii) profit not incurred at the Penmont mines net of changes in inventory movements (-US$215.1 million); iii) a 13.7% decrease in silver production at the Fresnillo mine due to lower ore grade (-US$69.6 million); iv) the lower ore grade at Ciénega (-US$37.1 million); v) the 7.3% cost inflation (-US$31.6 million); and vi) the 3.0% revaluation of the Mexican peso/US dollar exchange rate (-US$7.6 million) and others (-US$13.9 million).

These factors were partially offset by: i) increased ore volumes processed at Saucito, Ciénega and Noche Buena (+US$161.7 million); ii) higher ore grades at Herradura and Soledad Dipolos in 1H 2013 (+US$35.2 million); iii) the favourable effect of the efficiencies achieved at the operating mines (+US$27.4 million); iv) lower profit sharing (+US$28.8 million); and v) others (+US$1.8 million).

Saucito's contribution to the Group's gross profit, excluding hedging effects, increased from 11.1% in 2012 to 24.2% in 2013, reflecting the ramp-up of silver production to full capacity at this mine. Gross profit at the Fresnillo mine decreased by 46.4% to US$316.6 million in 2013, but remained as the main contributor to the Group's consolidated gross profit with 42.3%. The Herradura and Soledad-Dipolos mines decreased their contributions considerably as a result of the disrupted operations in 2H 2013. Gross profit at Noche Buena decreased reflecting the lower gold prices and the more representative cost performance in the first full year of operations. Finally, gross profit at Ciénega decreased by 44.4% to US$94.7 million due to the decrease in precious metal prices and lower gold ore grade; however, its contribution to the consolidated gross profit remained unchanged year-over-year at 12.7%.

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

	2013		2012		Change	
	US$ million	%	US$ million	%	Amount	%
Fresnillo	316.6	42.3	590.3	43.8	(273.8)	(46.4)
Saucito	181.3	24.2	148.8	11.0	32.6	21.8
Herradura	126.9	17.0	316.2	23.5	(189.3)	(59.9)
Ciénega	94.7	12.7	170.4	12.6	(75.7)	(44.4)
Noche Buena	18.7	2.5	41.7	3.1	(23.0)	(55.2)
Soledad-Dipolos	10.1	1.4	80.8	6.0	(70.7)	(87.5)
Total for operating mines	**748.3**	100.0	**1,348.3**	100	**(599.9)**	**(43.7)**
MXP/USD exchange rate hedging (losses) and gains	4.3		(2.1)		6.4	N/A
Other subsidiaries	14.8		18.4		(3.7)	(19.6)
Total Fresnillo plc	**767.4**		**1,364.6**		**(597.2)**	**(43.8)**

Administrative expenses

Administrative expenses of US$62.2 million increased by 16.9% over 2012 due mainly to increased non-recurring engineering and construction services provided by Servicios Industriales Peñoles, S.A.B. de C.V. On-going administrative expenses remained relatively stable and were only affected by the 5.1% increase in salaries granted to employees and the additional administrative personnel hired to service the new mines and projects.

Exploration expenses

Business unit / project (US$ millions)	Exploration expenses 2013	Exploration expenses 2012	Capitalised expenses 2013	Capitalised expenses 2012
Ciénega	14.6	15.4		
Fresnillo	10.7	9.4		
Herradura	25.4	13.5		
Soledad-Dipolos	4.9	10.6		
Saucito	4.2	3.7		
Noche Buena	21.5	22.2		
San Ramón	10.0	10.8		
San Julián	7.5	22.7		62.3
Orisyvo	15.5	19.5	3.6	1.2
New Herradura Corridor	4.2	5.8		
Centauro Deep	37,4	33.1	7.7	8.1
San Juan	1.5	3.7		
Lucerito	4.8	5.5		
Candameña	2.5	4.6		
Guachichil	4.3	7.4		
Guanajuato	5.1	5.9		
Peru	3.9	3.8		
Manzanillas	0.1	2.8		
Juanicipio	0.0	0.0	10.6	5.7
Others	29.6	33.1	3.6	8.0
TOTAL	**207.7**	**233.5**	**25.6**	**85.3**

Exploration expenses in 2013 totalled US$207.8 million, an 11.0% decrease compared to 2012, which reflects our commitment to balancing investment throughout the cycle with our commitment to stakeholder returns. As anticipated, we continued to explore in the areas surrounding our operating mining districts and in advanced exploration projects, but reduced drilling costs in several early stage projects. An additional US$25.6 million was capitalised associated with Centauro Deep, Juanicipio and Orisyvo projects. As a result, total investment in exploration of US$233.3 million in 2013 decreased by 26.8% compared to 2012 and was just below the revised budgeted figure of US$242.8 million.

EBITDA

	2013 US$ million	2012 US$ million	Amount	Change %
Gross Profit	**767.4**	1,364.6	(597.2)	(43.8)
+ Depreciation	**239.3**	243.8	(4.4)	(1.8)
- Administrative Expenses	**(62.2)**	(53.2)	(9.0)	16.9
- Exploration Expenses	**(207.8)**	(233.5)	25.8	(11.0)
- Selling Expenses	**(7.0)**	(6.3)	(0.6)	10.3
EBITDA	**729.8**	1,315.3	(585.5)	(44.5)
EBITDA Margin	**45.2**	61.0		

EBITDA is another key indicator of the Group's financial performance, which is calculated as gross profit plus depreciation, less administrative, selling and exploration expenses. EBITDA decreased by 44.5% in 2013 to US$729.8 million mainly due to the adverse effect of lower gross profit. EBITDA margin declined accordingly, from 61.0% in 2012 to 45.2% in 2013.

Silverstream effects

The Silverstream contract is accounted for as a derivative financial instrument carried at fair value. The revaluation of the Silverstream contract generated a US$65.7 million non-cash loss as a result of updating the assumptions utilised to value the Silverstream Contract, most significantly the lower forward price of silver. In addition, an US$11.7 million non-cash gain was generated by: i) the unwinding of the discount rate; and ii) the difference between payments actually received in 2013 and payments estimated in the valuation model as at 31 December 2012. The net effect recorded in the 2013 income statement was US$54.0 million.

Since the IPO, cumulative cash received totalled US$363.8 million, while total non-cash revaluation gains of US$434.8 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 note 11 to the Consolidated Financial Statements.

Finance expense

Finance expense in the year totalled US$8.9 million, compared with the US$7.6 million finance income recorded in 2012. The main differential was the accrued interest payable of US$6.1 million registered in the income statement as a result of the issuance of US$800 million principal amount of 5.500% Senior Notes.

Following the US$800 million debt issuance on 7 November, Fresnillo plc entered into a rate lock agreement hedging US$340 million at rate of 2.6272% fixing the base rate of the 5.50% coupon. As a result, the Group incurred a narrow loss of US$701,314 that will be recorded in the income statement throughout the life of the issuance.

Foreign exchange

A foreign exchange loss of US$6.5 million was recorded in 2013 mainly as a result of realised exchange losses during the year of US$5.0 million related to accounts receivables denominated in pesos. This loss positively compared to the US$8.4 million loss recognised in 2012.

To hedge the purchase of equipment in currencies other than the US dollar, the Group carried out derivative transactions in euros and Swedish krona. In 2013, we purchased EUR 7.23 million at an average forward rate of US$1.3181/EUR with a result of US$0.05 million recognised in the income statement. The total purchased volume in Swedish krona was SEK 143.66 million at an average forward rate of 6.5065 sek/usd generating a

US$0.05 million gain recognised in the income statement. As of 31 December 2013 the outstanding position in euros was EUR 3.24 million and no position in Swedish krona.

Taxation

The corporate income tax expense decreased by 62.3% to US$121.5 million as a result of the lower profits earned in 2013. However, the Group's effective tax rate, excluding mining rights, was 29.0%, which is slightly below the statutory 30% tax rate. Deferred special mining rights of US$36.2 million were recorded in 2013, reflecting the fact that depreciation of assets cannot be deducted from earnings subject to these new duties.

Profit for the year

Profit for the year decreased by 69.5% to US$261.0 million due to the factors discussed above. Profits due to non-controlling interests of US$20.6 million decreased by 81.9% compared to 2012, due to the lower profits generated at Minera Penmont, where Newmont owns 44% of the outstanding shares. Accordingly, profit attributable to equity shareholders of the Group declined by 67.6% from US$741.2 million to US$240.4 million in 2013.

Excluding the adverse effects of the Silverstream Contract, profit for the year decreased by 61.2% from US$771.0 million to US$298.8 million. Similarly, profit attributable to equity shareholders of the Group, excluding the Silverstream effects, declined by 57.7% to US$278.2 million.

Cash Flow

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

Key line items	2013 US$ million	2012 US$ million	Amount US$	Change %
Cash generated by operations before changes in working capital	**750.2**	1,356.7	(606.6)	(44.7)
(Increase)/decrease in working capital	**34.5**	(99.8)	134.3	N/A
Taxes and Employee Profit Sharing paid	**(338.6)**	(513.3)	174.6	(34.0)
Net cash from operating activities	**446.0**	743.7	(297.6)	(40.0)
Senior notes, net of transaction costs	**789.0**	0.0	789.0	100.0
Placement of new ordinary shares (net of costs)	**346.1**	0.0	346.1	100.0
Silverstream contract	**63.8**	110.6	(46.8)	(42.3)
Loans from partners	**40.9**	0.0	40.9	100.0
Capital contribution	**4.9**	3.7	1.2	33.5
Purchase of property, plant & equipment	**(572.1)**	(527.3)	(44.9)	8.5
Dividends paid to shareholders of the Company	**(505.2)**	(397.6)	107.6	27.1
Dividends paid to non-controlling interest	**0.0**	(26.2)	(26.2)	N/A
Net increase/(decrease) in cash during the period before foreign exchange differences	**637.0**	(72.3)	709.3	N/A
Cash at 31 December	**1,251.7**	**613.8**	**637.9**	**103.9**

Cash generated by operations before changes in working capital decreased by 44.7% to US$750.2 million, mainly as a result of the lower profits generated at our mines, except for Saucito. Working capital decreased by US$34.5

million mainly due to a US$66.6 million decrease in trade and other receivables reflecting the lower precious metals prices and volumes of gold sold to Met-Mex. This was mitigated by: i) a US$13.5 million increase in inventories resulting mainly from operating materials and spare parts; ii) an increase in accounts payable mainly to suppliers of US$13.6 million; and iii) others mainly insurance premium prepayments US$4.9 million.

Taxes and employee profit sharing paid decreased by 34.0% over 2012 to US$338.6 million, as a result of the lower profits generated.

As a result of the above factors, net cash from operating activities of US$446.0 million decreased by 40.0% when compared to 2012.

In addition to cash generated by operations, the Group received proceeds totalling US$1,268.0 million, of which the most significant were: i) the issuance of US$800.0 million senior notes, (US$789 million net of transaction costs); ii) the placement of 19,733,430 new ordinary shares equivalent to US$346.1 million to comply with the Listing Rules and remain in the FTSE100; iii) the proceeds from the Silverstream Contract of US$63.8 million; and iv) loans totalling US$40.9 million granted by Newmont to Minera Penmont to cover fixed costs and compensate for cash not being generated by the operations whilst production was disrupted.

The Group purchased property plant and equipment for a total of US$572.1 million, which represented an 8.5% increase over 2012. Capital expenditures for 2013 are further described below:

Purchase of property, plant and equipment

	2013 US$ million	
Herradura mine	**129.7**	Construction of dynamic leaching plant and leaching pads and stripping activities
Fresnillo mine	**61.3**	Mine development and acquisition and replacement of in-mine equipment
Ciénega mine	**59.3**	Development, replacement of in-mine equipment and purchase of equipment to optimise the milling process
Noche Buena	**52.2**	Construction of leaching pads, stripping and improvements to the maintenance workshop
Saucito mine	**71.2**	Development, mine work, construction of ramps and the Jarillas shaft and purchase of additional equipment
Soledad-Dipolos mine	**1.7**	Construction of leaching pads, purchase of equipment and development activities
Bermejal	**83.8**	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.
San Julián	**98.4**	Construction of ramps and mine work, purchase of equipment and acquisition of land
Juanicipio project	**9.5**	Exploration expenses
Other	**5.0**	Exploraciones Mineras Parreña and SAFSA
Total purchase of property, plant and equip.	**572.1**	

Dividends paid to shareholders of the Group in 2013 totalled US$505.2 million, a 27.1% increase from 2012 mainly due to the early payment of a portion of the dividends anticipated to be payable in 2014. The total dividend payment in 2013 was as follows: i) the final 2012 dividend of US$304.1 million; ii) interim dividend of

2013 of US$36.1 million; and iii) the extraordinary dividend of US$165.0 million in anticipation of a portion of 2014 dividends.

The sources and uses of funds described above resulted in a net increase of US$637.0 million in cash and cash equivalents, which combined with the US$613.8 million balance at the beginning of the year and the US$0.9 million favourable effect of the exchange rate resulted in a cash position of US$1,251.7 million at the end of 2013.

Balance Sheet
Fresnillo plc continued to maintain a solid financial position and gained a more balanced capital structure following the bond issuance completed in November 2013.

Cash and cash equivalents as of 31 December 2013 of US$1,251.7 million doubled compared to the cash position at year-end 2012.

The change in the value of the Silverstream derivative from US$487.8 million at the beginning of the year to US$372.8 million as of 31 December 2013 reflects proceeds of US$60.9 million corresponding to 2013, (US$52.8 million in cash and US$8.1 million receivable) and the Silverstream effect in the income statement of US$54.0 million.

The net book value of property, plant and equipment was US$1,838.1 million at 31 December 2013, representing a 22.7% increase over 2012. The US$340.4 million increase was mainly explained by the purchase of additional in-mine equipment, the construction of the dynamic leaching plant, intensified stripping at the Herradura and Noche Buena mines and development works at the underground mines and at the San Julián project.

On November 2013, the Group completed the offering of US$800 million aggregate principal amount of 5.500% Senior Notes due 2023, which were recorded as long-term liability in the balance sheet.

The Group's total equity was US$2,672.0 million as of 31 December 2013, a 2.3% increase compared to 2012 as a result of the placement of new shares, which was offset by the lower retained earnings.

Dividends
Further to the Company's announcement of 24 October 2013, Fresnillo paid an extraordinary dividend of US$165.0 million, equivalent to 22.39 US cents per share on 11 November 2013, which included dividend payments that shareholders may otherwise have expected to receive from dividends payable in 2014. In addition to this, Fresnillo paid an interim dividend of US$36.1 million, equivalent to 4.90 US cents per share on 10 September 2013. Today Fresnillo is pleased to recommend a special and one-off dividend of US$50.1 million, equivalent to 6.8 US cents per share.

This has been recommended by the Board of Fresnillo reflecting their confidence in the strength of the balance sheet and in the company's capital expenditure plans for its development and exploration projects. As a consequence the Board believes that it is appropriate to make a one-off distribution.

This distribution is incremental to Fresnillo's existing dividend policy which remains in place, and takes into account the profitability of the business and underlying growth in earnings of the Fresnillo Group, as well as its capital requirements and cash flows.

Managing our Risks

The dynamic management of risk is critical to Fresnillo plc's business model and value creation capabilities.

Governance

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.

During the annual risk identification and assessment process, Executive Management reviews strategic objectives and risk appetite, assesses the level of risk attendant to achieving these objectives, and incorporates controls into the strategic and operating plans to mitigate them. This top down risk identification and assessment process helps to ensure that the bottom up process is aligned with and focused on current strategy and objectives.

Maturity of the risk management system

The annual and on-going elements of the enterprise risk management programme have been formalised, including the definition of risk appetite and risk identification and assessment processes. We are working towards embedding a risk management culture amongst all employees, who are demonstrating increasingly greater awareness.

Key developments in 2013 included: extending the scope of our anti-bribery and corruption programme to include prevention of money laundering and fraud, utilising the Company's established compliance infrastructure; defining risk management activities and responsibilities for staff performance assessments; and beginning to formally gather and report on key risk indicators (KRIs) for our principal risks in order to detect and analyse trends and take mitigating actions on a timely basis. The KRIs monitored, included in the table on the following pages, are now presented quarterly to the Executive Committee and Audit Committee.

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 priorities through 2018 include:

- Periodically reporting on KRI metrics and the status of action plans for each principal risk
- Incorporating appraisal of risk management performance in annual employee performance reviews
- Developing a formalised and documented methodology to evaluate and address project risks
- Utilising software to automate the identification, assessment and response to risk in order to enhance timeliness and efficiency

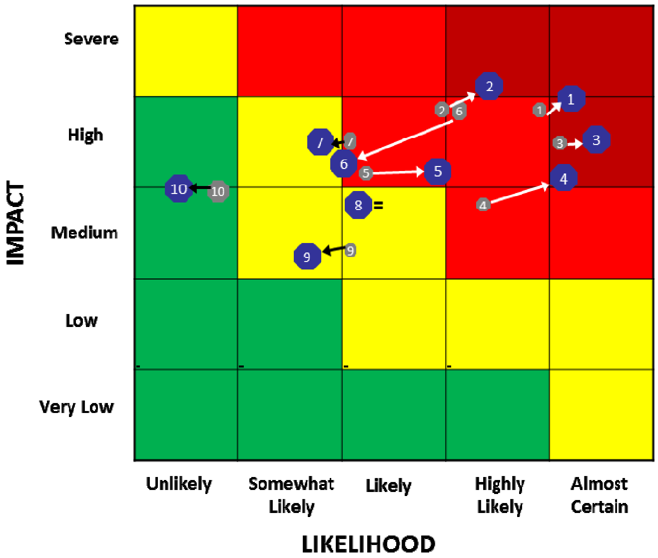
2013 risk assessment

The annual risk assessment exercise across all our operations, advanced projects, exploration offices, support and corporate areas identified and evaluated 104 risks. This universe was narrowed down into major risks monitored by Executive Management and the Audit Committee, and then further refined into the principal risks monitored by Executive Management and the Board of Directors.

A formal risk analysis was also conducted of our advanced projects, detailing the specific risks faced by each project according to the characteristics and conditions of each site.

The most notable movement among our risk register was access to land, which increased substantially in 2013 both in Mexico and globally. Large mining projects have suffered major delays and even closure due to this risk. In Mexico specifically, demands from members of agrarian communities (*ejidos*) increased from the previous year; discontent with previous land negotiations has been exacerbated by influencers who may even disavow such agreements. The Board and the Executive Committee continue to follow this risk closely.

HEAT MAP



	Risk
1	Impact of global macroeconomic developments (silver & gold prices)
2	Access to Land
3	Security
4	Potential actions by the government (e.g. taxes/more stringent regulations)
5	Public perception against mining
6	Projects (performance risk)
7	Safety
8	Exploration
9	Human resources
10	Environmental Incidents

2012 2013

CURRENT ORDER **(change from 2012)**	RISK	RISK APPETITE	RISK RATING 2012	RISK RATING 2013	RISK CHANGE DURING 2013	DESCRIPTION OF RISK CHANGE
1 **(was 2)**	Impact of global macro-economic developments	High	High	Very high	↑	Most industry and financial analysts who follow metal prices predict lower average silver and gold prices, with continued high volatility. The sharp fall in precious metal prices in 2013 has put the industry under more pressure than it has known for almost a decade.
2 **(was 4)**	Access to land	Medium	High	Very high	↑	Negotiations for land, in Mexico and globally, 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 members of agrarian communities (*ejidos*). A number of *ejidos* have disavowed previous agreements, seeking to renegotiate agreed upon terms and conditions; such actions are often driven by special interests. Their demands have increased significantly compared to previous years and this trend is expected to continue.

3 **(was 1)**	Security	Low	Very high	Very high	↑	Although we have not experienced a material negative impact on our operations this year, the number of security incidents in areas near our operations and exploration projects increased in 2013.
4 **(was 5)**	Potential actions by the government, e.g. implementation of a tax on mining companies in Mexico, more stringent regulations for obtaining permits, etc.	Low	High	Very high	↑	As part of the Tax Reform approved by the Mexican Congress, the tax burden that mining companies will face includes reduced deductions of exploration costs and social benefits, and new mining duties (7.5% of a base similar to EBITDA and 0.5% of gold and silver sales). Detailed rules on the implementation of these new mining duties are yet to be defined. Additionally it is expected that a new more restrictive mining law with higher burdens will be discussed and approved in 2014. Another potential government action that may impact us is the increase in regulations on the use and handling of explosives, driven by the new administration and the increased concern about misuse of explosives by drug cartels; the length of time to obtain permits is longer and the requirements more stringent.
5 **(was 6)**	Public perception against mining	Low	High	High	↑	Social activism continues to be a growing global phenomenon within the mining sector with the potential to impact all strategic areas; there have been several examples impacting other mining companies in Mexico. In particular, the growth of social activism could negatively impact our ability to obtain and maintain the social license to operate by the communities near our operations and projects.
6 **(was 3)**	Projects	Medium	High	Medium high	↓	As we continue to develop our advanced projects, we obtain greater certainty about the mineral resources and face lower performance and delivery risks because of lower construction risk and greater certainty about the availability of key equipment. In addition, our strict investment governance process and system of capital project controls supports our ability to deliver development projects on time and on budget.

7 **(was 7)**	Safety	Low	High	Medium high	↓	Accident indicators continue to decline due to our strict application of procedures and greater supervision of safety for personnel and contractors; however the risk remains at a medium high level and we have still not met our safety goals.
8 **(was 9)**	Exploration	Medium	Medium	Medium	=	Continued investment in the exploration programme has decreased this risk and we foresee no change in risk status based on available information.
9 **(was 10)**	Human resources	Medium	Medium	Medium low	↓	Competition for skilled personnel remains a challenge; however we continue to see results from our proactive recruitment actions with universities and our diverse retention strategies.
10 **(was 8)**	Environmental incidents	Low	Low	Low	↓	Our mature environmental management programme continues to reduce the likelihood of a significant environmental incident.

Statement of Directors´ responsibilities

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 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
3 March 2013

Consolidated Income Statement

	Notes	Year ended 31 December 2013			Year ended 31 December 2012 – Restated [1]		
				US$ thousands			US$ thousands
		Pre-Silverstream revaluation effect	**Silverstream revaluation effect**	**Total**	Pre-Silverstream revaluation effect	Silverstream revaluation effect	Total
Continuing operations:							
Revenues	4	1,615,166		1,615,166	2,157,404		2,157,404
Cost of sales	5	(847,726)		(847,726)	(792,805)		(792,805)
Gross profit		**767,440**		**767,440**	**1,364,599**		**1,364,599**
Administrative expenses		(62,243)		(62,243)	(53,212)		(53,212)
Exploration expenses	6	(207,782)		(207,782)	(233,532)		(233,532)
Selling expenses		(6,952)		(6,952)	(6,306)		(6,306)
Other operating income		6,048		6,048	6,912		6,912
Other operating expenses		(8,414)		(8,414)	(17,770)		(17,770)
Profit from continuing operations before net finance costs and income tax		**488,097**		**488,097**	**1,060,691**		**1,060,691**
Finance income		6,121		6,121	12,273		12,273
Finance costs		(15,068)		(15,068)	(4,637)		(4,637)
Revaluation effects of Silverstream contract	11	–	(53,976)	(53,976)	–	117,682	117,682
Foreign exchange loss		(6,465)		(6,465)	(8,402)		(8,402)
Profit from continuing operations before income tax		**472,685**	**(53,976)**	**418,709**	**1,059,925**	**117,682**	**1,177,607**
Corporate income tax	7	(137,722)	16,192	(121,530)	(288,913)	(33,658)	(322,571)
Special mining right	7	(36,161)	–	(36,161)	–	–	–
Income tax expense	7	(173,883)	16,192	(157,691)	(288,913)	(33,658)	(322,571)
Profit for the year from continuing operations		**298,802**	**(37,784)**	**261,018**	**771,012**	**84,024**	**855,036**
Attributable to:							
Equity shareholders of the Company		278,232	(37,784)	240,448	657,198	84,024	741,222
Non-controlling interest		20,570		20,570	113,814		113,814
		298,802	**(37,784)**	**261,018**	**771,012**	**84,024**	**855,036**
Earnings per share: (US$)							
Basic and diluted earnings per ordinary share from continuing operations	8	–		0.329	–		1.034
Adjusted earnings per share: (US$)							
Adjusted basic and diluted earnings per Ordinary Share from continuing operations	8	0.381		–	0.916		–

[1] Certain amounts shown here reflect the adoption of new and revised standards as detailed in note 2 (b) and 17, and therefore do not correspond to the consolidated income statement for the year ended 31 December 2012.

Consolidated Statement of Comprehensive Income

	Notes	Year ended 31 December 2013 US$ thousands	2012 – Restated [1] US$ thousands
Profit for the year		**261,018**	**855,036**
Other comprehensive (expense)/income			
Items to be reclassified to profit or loss in subsequent periods:			
Net (losses)/gains on cash flow hedges recycled to income statement		(3,959)	2,488
Income tax effect	7	1,188	(746)
Net unrealised gains on cash flow hedges		3,792	5,924
Income tax effect	7	(1,138)	(1,777)
Net effect of cash flow hedges		(117)	5,889
Fair value (losses)/gains on available-for-sale financial assets	10	(64,197)	29,556
Income tax effect	7	17,975	(8,276)
Impairment of available-for-sale financial assets		2,053	-
Income tax effect	7	(559)	-
Net effect of available-for-sale financial assets		(44,728)	21,280
Foreign currency translation		179	(60)
Net other comprehensive (expense)/income to be reclassified to profit or loss in subsequent periods		**(44,666)**	**27,109**
Items not to be reclassified to profit or loss in subsequent periods:			
Gains on cash flow hedges reclassified to the value of other assets		219	965
Income tax effect	7	(65)	(289)
Remeasurement (losses)/gains on defined benefit plans		(1,725)	826
Income tax effect	7	109	(248)
Net other comprehensive (expense)/income not to be reclassified to profit or loss in subsequent periods		**(1,462)**	**1,254**
Other comprehensive (expense)/income, net of tax		**(46,128)**	**28,363**
Total comprehensive income for the year, net of tax		**214,890**	**883,399**
Attributable to:			
Equity shareholders of the Company		194,368	769,360
Non-controlling interest		20,522	114,039
		214,890	**883,399**

[1] Certain amounts shown here reflect the adoption of new and revised standards as detailed in note 2 (b) and 17, and therefore do not correspond to the consolidated statement of comprehensive income for the year ended 31 December 2012.

Consolidated Balance Sheet

	Notes	As at 31 December 2013 US$ thousands	2012 – Restated [1] US$ thousands

			As at 31 December
	Notes	**2013 US$ thousands**	2012 – Restated [1] US$ thousands
ASSETS			
Non-current assets			
Property, plant and equipment	9	1,838,124	1,497,684
Available-for-sale financial assets	10	63,245	127,442
Silverstream contract	11	334,083	419,489
Deferred tax asset	7	56,209	70,815
Other receivables		14,910	21,003
Other assets		4,031	2,171
		2,,310,602	**2,138,604**
Current assets			
Inventories	12	208,141	194,614
Trade and other receivables		188,057	263,644
Income tax recoverable		79,410	-
Prepayments		5,330	3,103
Derivative financial instruments		2,057	2,842
Silverstream contract	11	38,763	68,290
Cash and cash equivalents		1,251,694	613,773
		1,773,452	**1,146,266**
Total assets		**4,084,054**	**3,284,870**
EQUITY AND LIABILITIES			
Capital and reserves attributable to shareholders of the Company			
Share capital		368,546	358,680
Share premium		1,153,817	818,597
Capital reserve		(526,910)	(526,910)
Net unrealised gains on cash flow hedges		721	684
Net unrealised gains on available-for-sale financial assets		7,845	52,573
Foreign currency translation reserve		(363)	(542)
Retained earnings		1,269,781	1,536,075
		2,273,437	2,239,157
Non-controlling interest		398,534	373,082
Total equity		**2,671,971**	**2,612,239**
Non-current liabilities			
Interest-bearing loans		795,306	-
Provision for mine closure cost	13	127,008	104,712
Provision for pensions and other post-employment benefit plans		11,475	10,723
Deferred tax liability	7	334,181	379,961
		1,267,970	**495,396**

As at 31 December

	Notes	2013 US$ thousands	2012 – Restated [1] US$ thousands
Current liabilities			
Trade and other payables		81,905	95,287
Loans from related party	15	40,920	-
Derivative financial instruments		848	1,128
Income tax	7	-	28,994
Employee profit sharing		20,440	51,826
		144,113	**177,235**
Total liabilities		**1,412,083**	**672,631**
Total equity and liabilities		**4,084,054**	**3,284,870**

[1] Certain amounts shown here reflect the adoption of new and revised standards as detailed in notes 2 (b) and 17, and therefore do not correspond to the consolidated balance sheet as at 31 December 2012.

These financial statements were approved by the Board of Directors on 3 March 2014 and signed on its behalf by:

Mr Juan Bordes
Non-executive Director

3 March 2014

Consolidated Cash Flow Statement

	Notes	2013 US$ thousands	2012 - Restated US$ thousands
		Year ended 31 December	
Net cash from operating activities	16	**446,029**	**743,655**
Cash flows from investing activities			
Purchase of property, plant and equipment		(572,140)	(527,277)
Proceeds from the sale of property, plant and equipment and other assets		12,164	13,807
Purchase of available for sale financial assets		-	(3,025)
Loans granted to contractors		(3,000)	(6,428)
Repayments of loans granted to contractors		8,282	10,125
Silverstream contract	11	63,811	110,621
Interest received		6,215	6,365
Net cash used in investing activities		**(484,668)**	**(395,812)**
Cash flows from financing activities			
Dividends paid to shareholders of the Company		(505,237)	(397,610)
Dividends paid to non-controlling interest		-	(26,213)
Issue of share capital		346,397	-
Transaction cost associated with the issue of share capital		(272)	-
Interest-bearing loans		793,936	-
Transaction cost associated with interest-bearing loans		(4,904)	-
Capital contribution		4,930	3,694
Loans from a related party	15	40,920	-
Interest paid		(133)	(1)
Net cash used in financing activities		**675,637**	**(420,130)**
Net increase in cash and cash equivalents during the year		636,998	(72,287)
Effect of exchange rate on cash and cash equivalents		923	1,138
Cash and cash equivalents at 1 January		613,773	684,922
Cash and cash equivalents at 31 December		**1,251,694**	**613,773**

[1] Certain amounts shown here reflect the adoption of new and revised standards as detailed in note 2 (b) and 17, and therefore do not correspond to the consolidated cash flow statement for the year ended 31 December 2012.

Consolidated Statement of Changes in Equity

	Attributable to the equity holders of the Company									
	Share capital	Share premium	Capital reserve	Net unrealised (losses)/gains 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 2012	**358,680**	**818,597**	**(526,910)**	**(5,672)**	**31,293**	**(482)**	**1,192,315**	**1,867,821**	**281,562**	**2,149,383**
Restated[1] profit for the year	-	-	-	-	-	-	741,222	741,222	113,814	855,036
Restated[1] other comprehensive income, net of tax	-	-	-	6,356	21,280	(60)	562	28,138	225	28,363
Restated[1] total comprehensive income for the year	-	-	-	6,356	21,280	(60)	741,784	769,360	114,039	883,399
Capital contribution									3,694	3,694
Dividends declared and paid	-	-	-	-	-	-	(398,024)	(398,024)	(26,213)	(424,237)
Balance at 31 December 2012 Restated[1]	**358,680**	**818,597**	**(526,910)**	**684**	**52,573**	**(542)**	**1,536,075**	**2,239,157**	**373,082**	**2,612,239**
Profit for the year							240,448	240,448	20,570	261,018
Other comprehensive income, net of tax	-	-	-	37	(44,728)	179	(1,568)	(46,080)	(48)	(46,128)
Total comprehensive income for the year	-	-	-	37	(44,728)	179	238,880	194,368	20,522	214,890
Capital contribution	-	-	-	-	-	-	-	-	4,930	4,930
Issue of share capital, net of transaction cost	9,866	335,220	-	-	-	-	-	345,086	-	345,086

Dividends declared and paid	-	-	-	-	-	-	(505,174)	(505,174)	-	(505,174)
Balance at 31 December 2013	**368,546**	**1,153,817**	**(526,910)**	**721**	**7,845**	**(363)**	**1,269,781**	**2,273,437**	**398,534**	**2,671,971**

[1] Certain amounts shown here reflect the adoption of new and revised standards as detailed in note 2 (b) and 17, and therefore do not correspond to the consolidated statement of changes in equity as at 31 December 2012.

Notes to the Financial Information

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 75 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 15.

The consolidated financial statements of the Group for the year ended 31 December 2013 were authorised for issue by the Board of Directors of Fresnillo plc. on 3 March 2014.

The auditor's report on those financial statements was unqualified and did not contain a statement under section 498 of the Companies Act 2006.

The audited financial statements will be delivered to the Registrar of Companies in due course.

The financial information contained in this document does not constitute statutory accounts as defined in section 435 of the Companies Act 2006.

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.

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 2013 and 2012, 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.

The comparative information for the year ended 31 December 2012 has been restated due to the retrospective application of certain accounting policies; refer to note 2 (b) and 17.

Basis of consolidation

The consolidated financial statements set out the Group's financial position as of 31 December 2013 and 2012, 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 2012 except for the adoption of new standards and interpretations effective as of 1 January 2013.

New standards, interpretations and amendments adopted by the Group

The Group has applied, for the first time, certain standards, interpretations and amendments that require restatement of previous financial statements. These include amendments to IAS 1 Presentation of Financial Statements and to IAS 19 Employee Benefits, and the new IFRIC 20 Stripping cost during the production phase of a surface mine. In addition, the adoption of the IFRS 13 Fair Value Measurement resulted in additional disclosures. The nature and the effect of these changes are disclosed below.

IAS 1 Presentation of Items of Other Comprehensive Income (OCI) – Amendments to IAS 1: The amendments to IAS 1 introduce a grouping of items presented in OCI. Items that could be reclassified or recycled to profit or loss at a future point in time are presented separately from items that will never be reclassified. The amendment affected presentation only and had no impact on the Group's financial position or performance.

IAS 19 Employee Benefits (Revised 2011) (IAS 19R): IAS 19R includes a number of amendments to the accounting for defined benefit plans, including actuarial gains and losses that are now recognised in OCI and permanently excluded from profit and loss; expected returns on plan assets that are no longer recognised in profit or loss, instead, there is a requirement to recognise interest on the net defined benefit liability (asset) in profit or loss, calculated using the discount rate used to measure the defined benefit obligation, and; unvested past service costs are now recognised in profit or loss at the earlier of when the amendment occurs or when the related restructuring or termination costs are recognised. Other amendments include new disclosures, such as, quantitative sensitivity disclosures. Refer to note 17 for details of the financial effect of adopting this interpretation.

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 as well as a requirement for enhanced disclosures.

Application of IFRS 13 has not impacted the fair value measurements of the Group. Additional disclosures where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined.

IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine (New interpretation): IFRIC 20 now clarifies when an entity should recognise production phase waste removal (stripping) costs (production stripping costs) incurred in relation to a surface mining operation as an asset. Such an asset will be referred to as a stripping activity asset. The Group has adopted this new interpretation at 1 January 2013 with restatement of the comparative period of 2012. Refer to note 17 for details of the financial effect of adopting this interpretation.

Standards, interpretations and amendments issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

IFRS 9 Financial Instruments:

- **Classification and Measurement:** IFRS 9, as issued, 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 was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date to 1 January 2015. In November 2013, the Board amended the standard to remove the mandatory effective date.
- **Hedge accounting**: In November 2013, the IASB completed amendments to hedge accounting, which bring into effect a substantial overhaul of hedge accounting that will allow entities to better reflect their risk management activities in the financial statements; allow the changes to address the so-called 'own credit' issue that were already included in IFRS 9 *Financial Instruments* to be applied in isolation without the need to change any other accounting for financial instruments; and remove the 1 January 2015 mandatory effective date of IFRS 9, to provide sufficient time for preparers of financial statements to make the transition to the new requirements.

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, as adopted by the European Union. The Group does not expect this standard to have a significant impact on its 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.

The IASB and IFRIC have issued other amendments resulting from Improvements to IFRSs that management considers do not have any impact on the accounting policies, financial position or performance of the Group.

The Group has not early adopted any standard, interpretation or amendment that was issued but is not yet effective.

3. Segment reporting

For management purposes the Group is organised into operating segments based on producing mines.

At 31 December 2013 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 Cienega mine, located in the State of Durango, an underground gold mine; including the San Ramon satellite mine;

The Herradura mine, located in the State of Sonora, a surface gold mine;

The Soledad-Dipolos mine, located in the State of Sonora, a surface gold mine; and

The Noche Buena mine, located in State of Sonora, a surface 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.

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 2013 and 2012 substantially 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 2013 and 2012, respectively:

									Year ended 31 December 2013
US$ thousands	Fresnillo	Herradura	Cienega	Soledad-Dipolos	Saucito	Noche Buena	Other[10]	Adjustments and eliminations	Total
Revenues:									
Third party	502,699	378,151	233,433	68,366	284,739	147,518	260	-	1,615,166
Inter-Segment							51,616	(51,616)	-
Segment revenues	**502,699**	**378,151**	**233,433**	**68,366**	**284,739**	**147,518**	**51,876**	**(51,616)**	**1,615,166**
Segment Profit[9]	**379,472**	**180,543**	**146,142**	**30,034**	**211,890**	**45,117**	**40,660**	**(11,221)**	**1,022,637**
Hedging									4,323
Depreciation									(239,347)

Employee profit sharing									(20,173)
Gross profit as per the income statement									**767,440**
Capital expenditure[1]	61,331[2]	129,742[3]	59,275[4]	1,701[5]	71,197[6]	52,167[7]	196,727[8]	–	572,140

[1] Capital expenditure consists of additions to property, plant and equipment, including mine development and stripping activity asset but excluding additions relating to changes in the mine closure provision.
[2] Capital expenditure relates to mine development work and purchase of mine equipment.
[3] Capital expenditure relates to the construction of leaching pads, surface mine stripping activity and the construction of the dynamic leaching plant..
[4] Capital expenditure relates to mine development work, purchase of mine equipment, construction of employee facilities and equipment for the optimisation of milling process.
[5] Capital expenditure relates to the construction of leaching pads, equipment such as dump trucks and acquisition of land.
[6] Capital expenditure relates to mine development work, including hoisting equipment and ramp and shaft developments and scoop equipment.
[7] Capital expenditures relates to the construction of leaching pads, surface mine stripping activity and workshop improvements.
[8] Capital expenditure relates to the acquisition of property, plant and equipment and exploration expenditures capitalised, including San Julian project and mine equipment purchased by Minera El Bermejal.
[9] Treatment and refining charges amounting to US$147.0 million are included in Segment Profit.
[10] Other includes exploration services provided by the exploration companies.

	Year ended 31 December 2012 - Restated								
US$ thousands	Fresnillo	Herradura	Cienega	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]	**656,050**	**372,891**	**217,719**	**112,226**	**206,356**	**68,880**	**75,569**	**(50,439)**	**1,659,232**
Hedging	–	–	–	–	–	–	–	–	(2,111)
Depreciation	–	–	–	–	–	–	–	–	(243,766)
Employee profit sharing	–	–	–	–	–	–	–	–	(48,776)
Gross profit as per the income statement	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1,364,599**
Capital expenditure[1]	85,529[2]	114,735[3]	81,875[4]	8,674[5]	54,387[6]	43,711[7]	138,366[8]	–	527,277

[1] Capital expenditure consists of additions to property, plant and equipment, including mine development and stripping activity asset but 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 surface mine stripping activity.
[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 surface mine stripping activity.
[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 surface mine stripping activity.
[8] Capital expenditure relates to the acquisition of property, plant and equipment and exploration expenditures capitalised, including San Julian project and mine equipment purchased by Minera El Bermejal.
[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.

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	
	2013 US$ thousands	2012 US$ thousands
Lead concentrates (containing silver, gold, lead and by-products)	885,083	1,168,888
Doré and slag (containing gold, silver and by-products)	594,036	812,584
Zinc concentrates (containing zinc, silver and by-products)	62,962	75,601
Precipitates (containing gold and silver)	73,085	100,331
	1,615,166	**2,157,404**

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 2013 the Group has recognised a gain of US$5 million (2012: gain of US$8.3 million).

(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	
	2013 US$ thousands	2012 US$ thousands
Silver	842,932	1,084,329
Gold	831,653	1,118,587
Zinc	39,749	40,823
Lead	47,870	43,501
Value of metal content in products sold	1,762,204	2,287,240
Adjustment for treatment and refining charges	(147,038)	(129,836)
Total revenues[1,]	**1,615,166**	**2,157,404**

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 2013 the Group has recognised a gain of US$5 million (2012: gain of US$8.3 million)

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	
	2013 US$ per ounce	2012 US$ per ounce
Gold	1,401.3	1,674.1
Silver	22.8	31.4

5. Cost of sales

	Year ended 31 December	
	2013 US$ thousands	2012 - Restated US$ thousands
Depreciation (notes 2 (b), and 17)	239,347	243,766
Personnel expenses	86,697	109,647
Maintenance and repairs	78,540	75,973
Operating materials	118,394	115,890
Energy	100,222	91,464
Contractors	190,063	188,982
Freight	9,856	8,771
Insurance	5,376	6,000
Mining rights and contributions	6,997	7,485
Other	17,876	13,631
Cost of production	853,368	861,609
(Gain)/loss on foreign currency hedges	(4,323)	2,111
Change in work in progress and finished goods (ore inventories)	(1,319)	(70,915)
Cost of sales (note 2 (b) and 17)	**847,726**	**792,805**

6. Exploration expenses

	Year ended 31 December	
	2013 US$ thousands	2012 US$ thousands
Contractors	158,970	192,914
Administrative services	12,791	10,996
Mining rights and contributions	16,423	9,710
Personnel expenses	4,013	3,636
Assays	6,566	8,686
Maintenance and repairs	801	549
Operating materials	2,989	2,867
Rentals	2,369	2,497
Energy	1,777	550
Other	1,083	1,127
	207,782	**233,532**

These exploration expenses were mainly incurred in areas of the Fresnillo, Herradura, Noche Buena, La Ciénega and Saucito mines, the San Ramon satellite mine and the San Julian, Orysivo and Deep Centauro projects. Minor exploration expenses of US$3.4million (2012: US$5.7 million) were incurred in the year in projects located in Peru.

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	
	2013 US$ thousands	2012 US$ thousands
Liabilities related to exploration activities	222	2,674

Cash flows relating to exploration activities are as follows:

	Year ended 31 December	
	2013 US$ thousands	2012 US$ thousands
Operating cash out flows	210,234	237,426

7. Income tax expense

a) Major components of income tax expense:

	Year ended 31 December	
	2013 US$ thousands	2012 - Restated US$ thousands
Consolidated income statement:		
Current income tax:		
Current income tax charge	168,867	345,634
Amounts underprovided/(overprovided) in previous years	1,756	(4,079)
	170,623	341,555
Deferred income tax related to corporate income tax:		
Origination and reversal of temporary differences	(47,446)	(52,642)
Effect of changes in future income tax rates	14,545	-
Revaluation effects of Silverstream contract	(16,192)	33,658
	(49,093)	(18,984)
Corporate income tax	**121,530**	**322,571**
Deferred income tax related to special mining right:		
Origination of temporary differences	36,161	**-**
Income tax expense reported in the income statement	**157,691**	**-**

	Year ended 31 December	
	2013 US$ thousands	2012 US$ thousands
Consolidated statement of comprehensive income:		
Deferred income tax effect related to items charged or credited directly to other comprehensive income:		
Net credit/(charge) arising on (losses)/gains on cash flow hedges recycled to income statement	1,188	(746)

Net charge arising on unrealised gains arising on valuation of cash flow hedges	(1,138)	(1,777)
Net credit/(charge) arising on unrealised (losses)/gains on available-for-sale financial assets	17,416	(8,276)
Net charge arising on cash flow gains reclassified to value of other assets	(65)	(289)
Net credit/(charge) arising on remeasurement (losses)/gains on defined benefit plans	109	(248)
Income tax effect reported in other comprehensive income/(expense)	**17,510**	**(11,336)**

(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	
	2013 US$ thousands	2012 - Restated US$ thousands
Accounting profit before income tax	**418,709**	**1,177,607**
Tax at the Group's statutory income tax rate 30.0%	125,612	353,282
Expenses not deductible for tax purposes	1,537	169
Inflationary uplift of the tax base of assets and liabilities	(17,553)	(12,330)
Current income tax overprovided in previous years	1,756	(4,079)
Exchange rate effect on tax value of assets and liabilities	1,131	(17,773)
Non-deductible/non-taxable foreign exchange gains or losses	3,958	(8,108)
Inflationary uplift of tax losses	(1,854)	(714)
Deferred tax asset not recognised	2,022	3,652
Changes to future income tax rates	14,545	-
Deferred special mining right deductible for corporate income tax	(10,848)	-
Other	1,224	8,472
Corporate income tax at the effective tax rate of 29.0% (2012: 27.4%)	**121,530**	**322,571**
Deferred special mining right	36,161	-
Tax at the effective income tax rate of 37.7% (2012: 27.4%)	**157,691**	**322,571**

(c) Movements in deferred income tax liabilities and assets:

	Year ended 31 December	
	2013 US$ thousands	2012 - Restated US$ thousands
Beginning net liability	(309,146)	(317,564)
Income statement credit arising on corporate income tax	49,093	18,736
Income statement charge arising on special mining right	(36,161)	-

Exchange difference	732	770
Net charge arising on cash flow gains reclassified to value of other assets	(65)	(289)
Net credit/(charge) arising on (losses)/gains on cash flow hedges recycled to income statement	1,188	(746)
Net charge arising on unrealised gains arising on valuation of cash flow hedges	(1,138)	(1,777)
Net credit/(charge) arising on unrealised (losses)/gains on available-for-sale financial assets	17,416	(8,276)
Net credit/(charge) arising on remeasurement (losses)/gains on defined benefit plans	109	-
Ending net liability	**(277,972)**	**(309,146)**

The amounts of deferred income tax assets and liabilities as at 31 December 2013 and 2012, considering the nature of the temporary differences, are as follows:

	Consolidated balance sheet		Consolidated income statement	
	2013 US$ thousands	2012 - Restated US$ thousands	**2013 US$ thousands**	2012 - Restated US$ thousands
Related party receivables	(57,152)	(95,920)	(38,768)	(5,496)
Other receivables	(1,197)	(1,797)	(600)	(4,666)
Inventories	19,802	25,578	5,776	(5,536)
Prepayments	1,050	(917)	(1,967)	(4,615)
Derivative financial instruments including Silverstream contract	(76,549)	(93,178)	(16,629)	6,416
Property, plant and equipment arising from corporate income tax	(235,300)	(195,661)	39,639	11,492
Operating liabilities	4,930	5,943	1,013	(4,552)
Other payables and provisions	38,102	29,319	(8,783)	(15,108)
Losses carried forward	47,769	18,011	(29,758)	(193)
Post-employment benefits	1,824	3,002	1,178	(690)
Deductible profit sharing	6,068	15,527	9,459	2,780
Special mining right deductible for corporate income tax	10,848	–	(10,848)	
Available-for-sale financial assets	1,703	(16,386)	–	–
Other	(3,709)	(2,667)	1,195	1,184
Net deferred tax liability related to corporate income tax	(241,811)	(309,146)		
Deferred tax credit related to corporate income tax			(49,093)	(18,984)
Property plant and equipment arising from special mining right	(36,161)	–	36,161	-
Net deferred tax liability	**(277,972)**	**(309,146)**		
Deferred tax credit			**(12,932)**	**(18,984)**
Reflected in the statement of financial position as follows:				
Deferred tax assets	56,209	70,815		
Deferred tax liabilities-continuing operations	(334,181)	(379,961)		
Net deferred tax liability	**(277,972)**	**(309,146)**		

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$159.2 million (2012: US$67.9 million).

The Group has further tax losses and other similar attributes carried forward of US$5.6 million (2012: US$3.6 million) on which no
deferred tax is recognised due to insufficient certainty regarding the availability of appropriate future taxable profits.

(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$1,271 million (2012: US$1,256 million).

Corporate Income Tax ('Impuesto Sobre la Renta' or 'ISR'), Special Mining Right ("SMR") and Business Flat Tax ('Impuesto Empresarial a Tasa Unica' or 'IETU')

The Group's principal operating subsidiaries are Mexican residents for taxation purposes. In December 2013, a new Tax Reform was enacted, effective as from 1 January 2014. As a result of such Tax Reform, a new Income Tax Law (ISR) was enacted and the IETU Law was abolished.

The new ISR includes:

– new criteria and limits for certain tax deductions, that among others are; payroll-related expenses, including contributions to pension funds that are considered exempt income for employees will be considered non-deductible;
– certain payments to related parties, that do not comply with specific legal requirements would be considered as non-deductible.
– the requirement to calculate the mandatory profit sharing (PTU) that is paid to Mexican employees on the same base as the Income tax, before deduction for profit sharing and before the use of net operating losses. Differences between the profit sharing and income tax base historically relate to inflation accounting, which is not included in profit sharing, the recognition of exchange gains and losses, and the recognition of income for dividends.
– a dividend withholding tax of 10% tax on distributions of dividends paid to Mexican individuals as well as foreign residents. Dividends between Mexican resident entities are not subject to tax at the shareholder level.

The corporate income tax rate for 2013, under the new ISR, will remain at 30%. Previously enacted reductions of the tax rate over the next two years to 28% have been repealed. Deferred tax assets and liabilities have been remeasured to reflect these changes, the remeasurement increased income tax expense by US$14.5 million.

As part of the new Tax Reform, the Federal Rights Law was amended on certain mining matters with the new SMR added as from 1 January 2014. The SMR is considered as income tax under IFRS, and states that the owners of mining titles and concessions will be subject to pay an annual mining right of 7.5% of the profit derived the extractive activities. The 7.5% tax will apply to a base of income before interest, annual inflation adjustment, taxes paid on the regular activity, depreciation and amortization, as defined by the new ISR. This SMR can be credited against the corporate income tax of the same fiscal year and its payment must be remitted no later than the last business day of March of the following year. Depreciation expense relating to property, plant and equipment will not be deductible for this SMR, consequently, the Group has recognised at 31 December 2013, a deferred tax liability of US$36.1 million in the income statement for the year.

IETU was an alternative minimum corporate income tax, effective from 1 January 2008 through 31 December 2013. Companies were required to pay the greater of their mainstream corporate income tax liability for the year or their liability to IETU which was calculated at the rate of 17.5% and applied to the sale of goods, rendering of independent services and temporary use or enjoyment of goods. In calculating the charge to IETU, deductions were allowed for certain expenses incurred in generating income.

Other mining rights

In addition to the SMR, the following new mining rights were added to the Federal Right Law, as part of the Tax Reform, which will be effective 1 January 2014. These rights are not considered as an income tax.

– *Additional Mining Right* which consists of a 50% increase in the duties per hectare for concessions not explored nor exploited during two continuous years during the first 11 years of obtaining the concession. Furthermore, there is a 100% increase in the right per hectare for concessions not being explored or exploited during a continuous 2 year period starting on year 12 of the concession. This right is payable semi-annually in January and July of each year.

– *Extraordinary Mining Right* consists of a 0.5% rate, applicable to the owners of mining titles, over its sales of gold, silver or platinum obtained during a fiscal year. The payment must be calculated over the total sales of all mining concessions. It is explicitly required that the taxpayers must maintain separate accounting to identify the specific sales of gold, silver and platinum. The compliance with this Extraordinary Mining Duty is independent from other mining rights. The payment of this mining right must be remitted no later than the last business day of March of the following year and can be credited against corporate income tax.

8. 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 2013 and 2012, earnings per share have been calculated as follows:

	Year ended 31 December	
	2013 US$ thousands	2012 - Restated US$ thousands
Earnings:		
Profit from continuing operations attributable to equity holders of the Company (in thousands of US dollars)	240,448	741,222
Adjusted profit from continuing operations attributable to equity holders of the Company (in thousands of US dollars)	278,232	657,198

Adjusted profit is profit as disclosed in the Consolidated Income Statement adjusted to exclude revaluation effects of the Silverstream contract of US$54.0 million loss (US$37.8 million net of tax) (2012: US$117.7 million gain (US$84.0 million net of tax)).
Adjusted earnings per share have been provided in order to provide a measure of the underlying performance of the Group, prior to the revaluation effects of the Silverstream contract, a derivative financial instrument.

	2013 thousands	2012 thousands
Number of shares:		
Weighted average number of ordinary shares in issue	730,244	717,160
	2013 US$	2012 - Restated US$
Earnings per share:		
Basic and diluted earnings per share	0.329	1.034
Adjusted basic and diluted earnings per ordinary share from continuing operations	0.381	0.916

9. Property, plant and equipment

	Year ended 31 December 2012 - Restated					
	Land and buildings	Plant and Equipment	Mining properties and development costs	Other assets	Construction in Progress	Total
						US$ thousands
Cost						
At 1 January 2012	97,603	624,513	606,134	83,883	289,412	**1,701,545**
Additions – Restated	3,940	66,709	57,839	52,298	397,996	**578,782**
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 – Restated	131,326	871,686	761,530	149,234	309,610	**2,223,386**
Accumulated depreciation						
At 1 January 2012	(28,382)	(157,193)	(297,603)	(23,922)	–	**(507,100)**
Depreciation for the year[1] – Restated	(12,379)	(130,036)	(81,942)	(19,409)	–	**(243,766)**
Disposals	17	17,107	7,024	1,016	–	**25,164**
At 31 December 2012 – Restated	(40,744)	(270,122)	(372,521)	(42,315)	–	**(725,702)**
Net Book amount at 31 December 2012 - Restated	**90,582**	**601,564**	**389,009**	**106,919**	**309,610**	**1,497,684**

	Year ended 31 December 2013					
	Land and buildings	Plant and Equipment	Mining properties and development costs	Other assets	Construction in Progress	Total
						US$ thousands
Cost						
At 1 January 2013	131,326	871,686	761,530	149,234	309,610	**2,223,386**
Additions	569	17,771	13,212	15,737	546,805	**594,094**
Disposals	(923)	(16,106)	(6,555)	(2,048)	(10)	**(25,642)**
Transfers and other movements	8,656	340,430	171,864	346	(521,296)	**-**
At 31 December 2013	139,628	1,213,781	940,051	163,269	335,109	**2,791,838**

Accumulated depreciation							
At 1 January 2013	(40,744)	(270,122)	(372,521)	(42,315)	–	**(725,702)**
Depreciation for the year[1]	(11,609)	(136,359)	(83,807)	(15,136)	–	**(246,911)**
Disposals	401	10,612	6,876	1,010	–	**18,899**
At 31 December 2013	(51,952)	(395,869)	(449,452)	(56,441)	–	**(953,714)**
Net Book amount at 31 December 2013	**87,676**	**817,912**	**490,559**	**106,828**	**335,109**	**1,838,12 4**

1 Depreciation for the year includes US$239.3 million (2012: 243.8 million) recognised as an expense in the cost of sales in the income statement, and US$7.7 million (2012: Nil), capitalised as part of construction in progress.

The table below details construction in progress by mine.

	Year ended 31 December	
	2013 US$ thousands	2012 US$ thousands
Saucito	42,653	38,482
Penmont	26,442	69,267
Juanicipio	44,952	35,337
Cienega	24,370	24,852
Fresnillo	171,943	106,310
El Bermejal	17,133	29,490
Other	7,616	5,872
	335,109	**309,610**

During the year ended 31 December 2013 and 2012, the Group has no capitalised borrowing costs within construction in progress.

10. Available-for-sale financial assets

	Year ended 31 December	
	2013 US$ thousands	2012 US$ thousands
Beginning balance	127,442	94,861
Additions	-	3,025
Fair value change	(64,197)	29,556
Ending balance	**63,245**	**127,442**

At 31 December 2013, the published quoted price of the Orex Minerals' share decreased below the cost paid by the Group. This decrease has been consistent during the past 12-month period, which is considered to be prolonged; therefore, an impairment of US$2.1 million, of the US$64.2 million fair value change, was recognised as other expenses, in the income statement.

The fair value of the available-for-sale financial assets is determined by reference to published price quotations in an active market.

11. 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 2013 total proceeds received in cash were US$63.8 million (2012: US$110.6 million) of which, US$11.0 million was in respect of proceeds receivable as at 31 December 2012 (2012: US$13.6 million). Cash received in respect of the year of US$52.8 million (2012: US$97.0 million) corresponds to 3.5 million ounces of payable silver (2012: 3.8 million ounces). As at 31 December 2013, a further US$8.1 million (2012: US$11 million) of cash corresponding to 560,465 ounces of silver is due (2012: 378,345 ounces).

The most significant drivers of the US$54.0 million unrealised loss taken to income statement (2012: US$117.7 million gain) were the updating of assumptions utilised to value of Silverstream contract, most significantly the forward price of silver which was lower than expected given the cyclical nature of prices, the increase of the reference discount rate (LIBOR) and the difference between payments already received in 2013 and payments estimated in the valuation model as at 31 December 2012. These were partially offset by an increase in the Sabinas mine reserves and resources.

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

	2013 US$ thousands	2012 US$ thousands
Balance at 1 January:	487,779	478,083
Cash received in respect of the year	(52,830)	(97,005)
Cash receivable	(8,127)	(10,981)
Remeasurement (losses)/gains recognised in profit and loss	(53,976)	117,682
Balance at 31 December	**372,846**	**487,779**

Less – Current portion	38,763	68,290
Non-current portion	**334,083**	**419,489**

12. Inventories

	As at 31 December	
	2013 US$ thousands	2012 - Restated US$ thousands
Finished goods[1]	2,180	1,966
Work in progress[2]	130,451	129,346
Operating materials and spare parts	77,854	65,512
	210,485	196,824
Allowance for obsolete and slow-moving inventories	(2,344)	(2,210)
Total inventories at the lower of cost and net realisable value	**208,141**	**194,614**

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$777.8 million (2012: US$822.2 million). The amount of write down of inventories recognised as an expense was US$0.9 million (2012: US$0.6 million).

13. 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 2013 has been calculated using an annual real discount rate of 4.5 per cent (2012: 4.5 percent). The unwinding of discount charge in 2013 has been calculated using a nominal discount rate of 7.00 per cent (2012: 7.00 percent). Uncertainties in estimating these costs include potential changes in regulatory requirements, decommissioning, dismantling, and reclamation alternatives and timing, the levels of discount foreign exchange 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 3 to 30 years from 31 December 2013 (3 to 38 years from 31 December 2012).

	As at 31 December	
	2013 US$ thousands	2012 US$ thousands
Beginning balance	**104,712**	**50,754**
Increase to existing provision	15,341	46,222
Unwinding of discount	7,507	3,912

Foreign exchange	(552)	3,824
Ending balance	**127,008**	**104,712**

14. Contingencies

As of 31 December 2013, 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.
- 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, however management does not expect any significant effect on the Group's financial statements as at 31 December 2013 and going forward.
- In 2009 five members of the El Bajio agrarian community in the state of Sonora, who claimed rights over certain surface land in the proximity of the operations of Minera Penmont ("Penmont"), submitted a legal claim with the

Unitarian Agrarian Court (Tribunal Unitario Agrario) of Hermosillo Sonora, to have Penmont vacate an area of this surface land. The land in dispute encompassed a portion of surface area where part of the operations of Soledad-Dipolos is located. Minera Penmont's mining concessions are held by way of separate title to that relating to the surface land. The litigation resulted in a definitive court order pursuant to which the Magistrate of the Unitarian Agrarian Court of Hermosillo, Sonora, ordered Penmont to vacate 1,824 hectares of land in July 2013, resulting in the suspension of operations at Soledad-Dipolos.

To date the disputed land has been returned by Penmont, with remediation activities pending in approximately 300 hectares. The Magistrate has noted that remediation activities are necessary to comply with relevant regulatory requirements and requested the guidance of the Federal Environmental Agency (SEMARNAT) regarding the same.

The execution of the court ruling also resulted in the temporary suspension by the Mexican Ministry of Defense (Secretaría de la Defensa Nacional or MOD) of the single explosives permit which covered the Dipolos pit as well as its adjacent Soledad pit and Herradura. The Soledad pit and Herradura are outside of the area affected by the court ruling, which was confirmed by a court-appointed topographer. The Company filed a request to lift the explosives suspension at the Soledad pit and Herradura. In connection with the foregoing matter, the El Bajio agrarian community entered cease and desist proceedings before a Federal district court in Sonora, requesting relief against the potential lifting of the suspension on the use of explosives and originally obtained a temporary stay order, which was subsequently not upheld by the district court.

Following a hearing on 24 January, the district court denied the request by the Ejido El Bajío to prevent the lifting of the explosives permit covering Herradura and Soledad. The Company received no indication that the Ejido has filed an ultimate appeal regarding the foregoing and the time frame for filing such an appeal has expired.

On 24 February 2014 the MOD granted a new explosives permit for the Herradura mining unit, thereby allowing the use of explosives at this mine.

In connection with the foregoing matters, members of the El Bajio agrarian community have also presented additional claims, including a separate legal suit before the Unitarian Agrarian Court of Hermosillo, Sonora, claiming US$65 million for damages alleging that the Group improperly used the land affected by the court ruling, as well as cancellation of Penmont's mining concessions and environmental permits within the El Bajio lands. Such concessions and permits are held by way of separate title to that relating to the surface land. The members have not yet presented substantial evidence to support their claim and the Group believes that these claims are without merit. Any initial ruling in this case would be subject to the appeals process in Mexico before judicial authorities other than the Unitarian Agrarian Court of Hermosillo, Sonora. Given the lack of evidence in support of the damages claim, the Company believes that an adverse and definitive ruling for the Group in respect of this law suit is not probable. Various claims and counterclaims have been made between the relevant parties. There is significant uncertainty relating to the finalization and ultimate result relating to these legal proceedings.

15. Related party balances and transactions

The Group had the following related party transactions during the years ended 31 December 2013 and 2012 and balances as at 31 December 2013 and 2012.

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 balances

	Accounts receivable			Accounts payable			Loans	
	As at 31 December			As at 31 December			As at 31 December	
	2013 US$ thousands	2012 US$ thousands		**2013 US$ thousands**	2012 US$ thousands		**2013 US$ thousands**	2012 US$ thousands
Trade:								
Met-Mex Peñoles, S.A. de C.V.	96,641	192,273		–	–		–	–
Loans*:*								
Newmont Mining Corporation. [1]	–	–		–	–		40,920	–
Other*:*								
Industrias Peñoles, S.A.B. de C.V.	8,127	10,981		–	–		–	–
Other	25	19		2,542	1,660		–	–
Sub–total	104,793	203,273		2,542	1,660		40,920	–
Less–Current portion	104,793	203,273		2,542	1,660		40,920	–
Non–current portion	–	–		–	–		–	–

[1] Loan received from Newmont bears interest at a fixed rate of 2.58% and has a maturity of one year.

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

The Silverstream contract can be settled in either silver or cash.

(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	
	2013 US$ thousands	2012 US$ thousands
Income:		
Sales:[1]		
Met-Mex Peñoles, S.A. de C.V.	1,614,906	2,152,002
Insurance receipts:		
Grupo Nacional Provincial, S.A.B. de C.V.	768	922
Other income	2,453	485
Total income	**1,618,127**	**2,153,409**

[1] Figures do not include hedging losses.

	Year ended 31 December	
	2013 US$ thousands	2012 US$ thousands
Expenses:		
Administrative services:		
Servicios Administrativos Peñoles, S.A. de C.V.[2]	40,705	31,255
Servicios de Exploración, S.A. de C.V.	4,884	4,077
	45,589	35,332
Energy:		

Termoelectrica Peñoles, S. de R.L. de C.V.	30,678	29,079
Operating materials and spare parts:		
Wideco Inc	5,753	5,427
Met-Mex Peñoles, S.A. de C.V.	4,056	2,870
	9,809	8,297
Equipment repair and administrative services:		
Serviminas, S.A. de C.V.	4,096	3,189
Insurance premiums:		
Grupo Nacional Provincial, S.A. B. de C.V.	9,484	9,230
Other expenses:	8,098	7,168
Total expenses	**107,754**	**92,295**

[2] Includes US$7.4 and US$7.0 million relating to engineering costs that was capitalised in 2013 and 2012, respectively.

(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	
	2013 US$ thousands	2012 US$ thousands
Salaries and bonuses	2,965	3,695
Termination benefits	-	10,821
Post-employment benefits	138	88
Other benefits	687	696
Total compensation paid in respect of key management personnel	**3,790**	**15,300**

	Year ended 31 December	
	2013 US$ thousands	2012 US$ thousands
Accumulated accrued defined pension entitlement	4,849	4,189

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.

16. Notes to the consolidated cash flow statement

	Notes	2013 US$ thousands	2012 - Restated US$ thousands
Reconciliation of profit for the year to net cash generated from operating activities			
Profit for the year		**261,018**	**855,036**
Adjustments to reconcile profit for the period to net cash inflows from operating activities:			
Depreciation		239,347	243,766
Employee profit sharing		20,910	49,856
Deferred income tax	7	(12,931)	(18,984)
Current income tax expense	7	170,623	341,555
Loss on the sale of property, plant and equipment and other assets		1,491	1,042
Other losses/(gains)		801	(3,026)
Impairment of available for sale financial assets		2,053	-
Net finance costs		8,389	(1,751)
Foreign exchange loss		5,557	11,213
Difference between pension contributions paid and amounts recognised in the income statement		(1,607)	1,604
Non cash movement on derivatives		558	(5,885)
Changes in fair value of Silverstream	11	53,976	(117,682)
Working capital adjustments			
Decrease/(increase) in trade and other receivables		66,593	(8,531)
Increase in prepayments and other assets		(4,933)	(1,127)
Increase in inventories		(13,527)	(94,875)
(Increase) decrease in trade and other payables		(13,649)	4,709
Cash generated from operations		**784,669**	**1,256,920**
Income tax paid		(283,269)	(449,080)
Employee profit sharing paid		(55,371)	(64,185)
Net cash from operating activities		**446,029**	**743,655**

17. Effect of changes in accounting policies

a) Amendments to IAS 19R

In the case of the Group, the transition to IAS 19R had an impact on the recognition of the actuarial gains and losses that are now recognised in OCI and permanently excluded from profit and loss. Such a change did not have an impact on the pension liability balance. Upon adoption of this amendment the Group reclassified actuarial gains and losses from cost of sales to OCI and net interest cost related to the pension liability of from cost of sales to finance cost, for the year ended 31 December 2012. The amendment did not have an impact on retained earnings. See details in table below.

b) IFRIC 20 “Stripping cost in the production phase of a surface mine”

The IFRS Interpretations Committee issued IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine (IFRIC 20), effective 1 January 2013. Prior to the issuance of IFRIC 20, the accounting for production stripping costs had been based on general IFRS principles and the Framework, as IFRS had no specific guidance.

Previously, the Group deferred production stripping costs for those operations where this was considered to be the most appropriate basis for matching the cost against the related economic benefits and the effect was material. This was generally the case where there were fluctuations in stripping ratios over the life of the mine. The amount of stripping costs deferred was based on the life of mine average strip ratio that was obtained by dividing the total tonnage of waste expected to be mined over the life of the mine by the quantity (e.g., tonnes) of economically recoverable reserves expected to be mined across the life of the mine expected to be contained in the economically recoverable reserves. Production stripping costs incurred in the period were deferred to the extent that the current period actual strip ratio exceeded the life of the mine average strip ratio. The amount capitalised was 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 life of mine ratio was based on economically recoverable reserves of the mine.

IFRIC 20 now provides specific guidance on how to account for production stripping costs. It requires such costs to be capitalised where the recognition criteria set out in IFRIC 20 are met. IFRIC 20 differs from the life of mine average strip ratio approach in a number of ways – these include:

- The level at which production stripping costs are to be assessed i.e., at a component level rather than a life of mine level.
- The way in which any stripping activity assets are to be depreciated

In addition, specific transitional rules are provided to deal with any opening deferred stripping balances an entity may have recognised under its previous accounting policy.

Identification of stripping activity assets

The first difference in the new guidance is the requirement to identify the components of each ore body. This will determine whether any stripping activity assets should be recognised and if so, the level at which such assets is initially recognised. IFRIC 20 defines a component as a specific volume of the ore body that is made more accessible by the stripping activity. An identified component of the ore body is considered to typically be a subset (“phases of production”) of the total ore body of the mine. This suggests a lower unit of account than the entire life of mine, which is used in the current life of mine average strip ratio approach. It is considered that a mine may have several components, which are to be identified based on the mine plan. As well as providing a basis for measuring the costs reliably at recognition stage, the identification of components is necessary for the subsequent depreciation or amortisation of the stripping activity asset(s), which will take place as each identified component is mined.

Depreciation of the stripping activity asset(s)

The second difference in the new guidance relates to the way in which the stripping activity asset(s) are depreciated. Under the life of mine average strip ratio approach, the deferred stripping balance was released to profit or loss (or effectively depreciated) when the actual ratio fell below the average expected ratio. Under IFRIC 20, any stripping activity asset(s) will be depreciated or amortised over the expected useful life of the identified component of the ore body that is made more accessible by the activity, on a basis that best reflects the consumption of economic benefits. IFRIC 20 requires the units of production method to be applied unless another method is more appropriate.

In accordance with the transitional provisions of IFRIC 20, this new policy has been applied prospectively from the start of the comparative period, being 1 January 2012.

As a result of the adoption of the IAS 19R and IFRIC 20, the adjustments outlined below were made to the financial statements.

Adjustments to the consolidated income statement: For the year ended 31 December 2012	**Previously presented**	**Adjustments for changes in accounting policies**		**Restated**
		IAS 19	**IFRIC 20**	
		US$ thousands		
Cost of production	878,897	111	(17,399)	861,609
Loss on foreign currency hedges	2,111	-	-	2,111
Change in work in progress and finished goods (ore inventories)	(74,308)	-	3,393	(70,915)
Cost of sales	806,700	111	(14,006)	792,805
Profit from continuing operations before net finance cost and income tax	1,046,796	(111)	14,006	1,060,691
Finance cost	(3,922)	(715)	-	(4,637)
Profit from continuing operations before income tax	1,164,427	(826)	14,006	1,177,607
Income tax expense	(318,982)	248	(3,837)	(322,571)
Increase in profit for the period from continuing operations		(578)	10,169	
Attributable to:				
Equity shareholders of the Company	736,089	(562)	5,695	741,222
Non-controlling interest	109,356	(17)	4,474	113,813

Adjustments to earnings per share: For the year ended 31 December 2012	**Previously presented**	**Adjustments for changes in accounting policies**		**Restated**
		IAS 19	**IFRIC 20**	
		US$ thousands		
Earnings:				
Profit from continuing operations attributable to equity holders of the Company	736,089	(562)	5,695	741,222
Adjusted profit from continuing operations attributable to equity holders of the Company	652,065	(562)	5,695	657,198
Earnings per share:				
Basic and diluted earnings per ordinary share from continuing operations (US$)	1.026	(0.001)	0.008	1.034
Adjusted basic and diluted earnings per ordinary share from continuing operations (US$)	0.909	(0.001)	0.008	0.916

Adjustments to comprehensive income: For the year ended 31 December 2012	**Previously presented**	**Adjustments for changes in accounting policies**	**Restated**

		IAS 19	IFRIC 20	
		US$ thousands		
Profit for the year	**845,445**	**(578)**	**10,169**	**855,036**
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	27,109	-	-	27,109
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods	676	578	-	1,254
Other comprehensive income, net of tax	27,785	578	-	28,363
Total comprehensive income for the year, net of tax	**873,230**	**-**	**10,169**	**883,399**
Attributable to:				
Equity shareholders of the Company	763,665	-	5,695	769,360
Non-controlling interest	109,565	-	4,474	114,039
	873,230	**-**	**10,169**	**883,399**

Adjustments to the consolidated balance sheet: **For the year ended 31 December 2012**[1]	**Previously presented**	**Adjustments for change in accounting policy**		**Restated**
		IAS 19	**IFRIC 20**	
		US$ thousands		
Property, plant and equipment	1,480,285	-	17,399	1,497,684
Inventory	198,007	-	(3,393)	194,614
Deferred tax liability	376,124	-	3,837	379,961
Retained earnings	1,530,380	-	5,695	1,536,075
Non-controlling interest	368,608	-	4,474	373,082
Increase in net assets		-	10,169	

[1] The effect of adjustments for changes in accounting policies did not have a significant impact on the balance sheet as at 1 January 2012, and therefore a balance sheet at that date is not presented.

Adjustments to the consolidated cash flow: **For the year ended 31 December 2012**	**Previously presented**	**Adjustments for change in accounting policy**		**Restated**
		IAS 19	**IFRIC 20**	
		US$ thousands		
Profit for the period	845,445	(578)	10,169	855,036
Adjusted for the following items:				
Depreciation	253,890	-	(10,124)	243,766
Deferred income tax	(22,573)	(248)	3,837	(18,984)
Difference between pension contributions paid and amounts recognised in the income statement	778	826	-	1,604
Working capital adjustments - inventory	(98,268)	-	3,393	(94,785)
Net cash from operating activities	736,380	-	7,275	743,655
Purchase of property, plant and equipment	(520,002)	-	(7,275)	(527,277)
Net cash used in investing activities	(388,537)	-	(7,275)	(395,812)

Annual Report and Accounts 2013

Fresnillo plc will publish on or around 15 April 2014 its Annual Report and Accounts for the year ended 31 December 2013 on its corporate website www.fresnilloplc.com and intends to distribute copies to shareholders at the same time.