Fresnillo plc

2011 Preliminary Announcement

2011 Highlights

Operational highlights

- Record attributable gold production of 448.9 koz (up 21.6%) due to ramp-up at Soledad-Dipolos and higher throughput at Herradura
- Stable silver production of 41.87Moz (including Silverstream) benefited from the start-up of Saucito
- Noche Buena to commence production in March 2012
- Very strong exploration results, 23% increase in silver resources (1.8 billion oz) and 17% in gold resources (23.5Moz).
- Implementation of the Safety Action Plan in response to fatalities in the year
- On track to produce 65 million ounces of silver and a new target of 500,000 attributable ounces of gold annually by 2018

Financial highlights

- Adjusted revenue[1] up 56.6% to US$2,307.5 million
- EBITDA[2] up 62.8% to US$1,538.5 million (EBITDA margin of 70.2%)
- Fresnillo remains in the lowest quartile of the cost curve
- Profit from continuing operations up 63.3% to US$1,360.9million
- Profit before interest and tax for the year of US$1,038.6 million up 39% (including a US$114.5 million of Silverstream revaluation effects)
- EPS up 35.6% to US$1.257
- Robust balance sheet with no debt and a strong cash position of US$685 million
- US$ 179m capital invested in exploration[3]
- US$423m invested in CAPEX[4]
- Final dividend of 40.0 US cents per ordinary share declared, bringing total dividends for 2011 to 102.85 US cents per share (2010: 44.8 US cents)

---

[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 amortization (EBITDA) is calculated as gross profit plus depreciation less administrative, selling and exploration expenses

[3] Including US$45 million which was capitalised

[4] Not including capitalised investments in exploration of US$45 million

Highlights for 2011

$ million unless stated	2011	2010	% change
Silver Production* (kOz)	41,873	42,113	(0.6)
Gold Production* (Oz)	448,866	368,995	21.6
Total Revenue	2,192.7	1,409.6	55.6
Adjusted Revenue**	2,307.4	1,473.9	56.6
Gross Profit***	1,563.5	979.4	59.6
EBITDA	1,538.5	945.0	62.8
Profit Before Income Tax	1,534.4	1,022.4	50.1
Profit for the year	1,038.6	749.4	38.6
Basic and Diluted EPS (USD)****	1.257	0.927	35.6

* 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

*** 2010 gross profit does not include freight cost as this is now presented as selling expenses

****The weighted average number of shares for 2011 was 717,160,159

Chief executive Jaime Lomelín said: "We delivered exceptional financial performance in 2011 on the back of strong precious metal prices and record gold production. EBITDA was up 63% to US$1.5 billion with EBITDA margin for the year increasing to over 70% and EPS up 36% despite cost pressures. We are delighted to declare a final dividend of 40 US cents per share bringing our total dividend for the year to 103 US cents per share.

"We also made significant progress towards our long-term goals, with development projects on track, significant expansion of the resource base, and a robust pipeline of growth projects. We are now a significant gold producer in our own right and have increased our 2018 target to produce 500,000 ounces per year.

"However, we are disappointed with our safety performance as 2011 saw a reversal of our strong track record. A comprehensive review of our safety and health programme was undertaken, and we will continue to implement rigorous initiatives to achieve our zero fatality target.

"For 2012, the economic outlook may be uncertain, but our commitment to continuous investment in exploration, productivity improvements, bringing a new mine or expansion on line every year for the next five years, cost controls and the enhanced safety culture remains unchanged, supporting long-term value creation for all stakeholders."

Analyst Presentation

Fresnillo plc will be hosting a presentation for analysts and investors today at 09.00 (GMT) at JP Morgan Cazenove at Level 6, Board Room, 20 Moorgate London EC2R 6DA.

For those unable to attend the presentation, dial-in details are set out below:

Dial in number: +44 (0) 1452 541 076

Access Code: 52885754

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

Fresnillo plc

<u>London</u>

Arturo Espínola Head of Investor Relations	Tel: +44(0)20 7339 2470
Mexico Gabriela Mayor	Tel: +52 55 52 79 3203
Brunswick Group Carole Cable (Partner) David Litterick (Director)	Tel: +44(0)20 7404 5959

About Fresnillo plc

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

Fresnillo has five producing mines, all of them in Mexico - Fresnillo, Ciénega, Herradura, Soledad-Dipolos and Saucito; four development projects –Noche Buena (new gold mine at Herradura District), San Ramón mine (a satellite of the Ciénega gold mine), Saucito II, and Dynamic leaching to treat high grade gold ore from Herradura and Soledad-Dipolos mine; and five advanced exploration prospects – San Julián, Centauro Deep, Juanicipio, Orysivo and Las Casas as well as a number of other long term exploration prospects. In total, has mining concessions covering approximately 2.1 million hectares in Mexico.

Fresnillo 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'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.

Chairman's Statement

Dear Shareholders,

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

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

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

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

Fresnillo plc achieved adjusted revenue of US$2,307.4 million, up 56.6% over 2010, and EBITDA of US$1,538.5 million, up 62.8%. Net profit, including US$ 114.5 million of the Silverstream revaluation effects, was US$1,038.6 million, up 38.6%.

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

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

As Chairman I see my greatest responsibilities to be ensuring that Fresnillo plc is governed with transparency and in the interest of all shareholders, and that the Group's strategy is aligned with our values of responsible and sustainable business practices. I focused on a number of governance issues this year, as laid out in this Report, but none more important than in the areas of safety and risk management.

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

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

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

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

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

The Directors have recommended a final dividend of 40 US cents per Ordinary Share, which will be paid on 23 May 2012 to shareholders on the register on 27 April 2012. The dividend will be paid in UK pounds sterling unless shareholders elect to be paid in US dollars. This is in addition to the US$300 million second interim dividend, equivalent to 41.85 US cents per Ordinary Share, declared in December 2011 following a close review of the Group's financial liquidity and future cash requirements.

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

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

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

Alberto Baillères
Non-executive Chairman

Chief Executive's Report

Dear Shareholders,

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

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

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

Our growth strategy

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

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

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

Maximising the potential of our operations

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

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

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

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

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

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

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

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

Silver continues to account for a majority of Group revenues, but the share of gold rose from 36.1% in 2008 to 43.7% in 2011. Given that 3 of our 5 operating mines, the new mine coming on line next year, and 3 of our 5 advanced exploration prospects are all in gold, our profile as a gold producer will strengthen over time while we maintain our position as the world's largest primary silver miner. By-product metals, lead and zinc, comprised only 3.7% of 2011 revenues.

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

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

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

A robust growth profile in precious metals

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

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

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

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

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

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

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

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

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

Strengthening the sustainability framework

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

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

As a result of our safety performance in 2011 we undertook a major review of our safety and health programme. We solicited an independent audit by a third party safety consultancy and asked Industrias Peñoles, S.A.B. de C.V to carry out an audit as part of the services provided to us[5]. We also recruited a rock mechanics specialist to identify safety risks and recommend corrective measures. Based on these findings, actions were immediately taken including backfilling of long-hole stopes and improved ground control by wider use of rock bolts and shotcreting. In addition, inspections were conducted in collaboration with the Mexican Secretariat of Labour at all our mines and contractors.

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

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

I am personally committed to turning around our performance in this area and see it as an important corollary to the work we are doing in enterprise risk management and enhancing the overall sustainability framework.

Strong financial results

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

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

---

[5] We contract Peñoles to supply administrative services as regulated by a Services Agreement. This Agreement was put in place after the IPO and listing of Fresnillo plc on the London Stock Exchange in 2008, which resulted from the restructuring of Peñoles that separated the precious metals business into Fresnillo plc.

Total revenues increased to US$2,192.7 million, 55.6% higher than in 2010. EBITDA rose to US$1,538.5 million, with a corresponding increase in EBITDA margin from 67.0% in 2010 to 70.1% in 2011. Net profit, including US$ 114.5 million of the Silverstream revaluation effects, was US$1,038.6 million, up 38.6%.

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

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

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

Achievements and outlook

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

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

What we said we would do in 2011

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

What we did in 2011

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

What we plan to do in 2012

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

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

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

Jaime Lomelín
Chief Executive Officer

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 2011 figures compared to 2010, unless otherwise noted.

Commentary on financial performance

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

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

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

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

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

Income Statement

Key items of the Income Statement are shown below:

INCOME STATEMENT KEY ITEMS
(US$ millions)

			Change	
	2011	**2010**	**Amount**	**%**
Adjusted revenue[6]	2,307.45	1,473.92	833.53	56.6
Treatment and refining charges	(114.79)	(64.37)	(50.42)	78.3
Revenues	2,192.66	1,409.55	783.11	55.6
Cost of sales	(629.20)	(430.18)	(199.02)	46.3
Gross profit	1,563.46	979.37	584.09	59.6
Exploration expenses	133.99	82.11	51.88	63.2
EBITDA[7]	1,538.49	944.99	593.51	62.8
Profit before income tax	1,534.38	1,022.37	512.02	50.1
Income tax expense	495.77	272.97	222.80	81.6
Profit for the year	1,038.62	749.40	289.22	38.6
Profit for the year, excluding post-tax Silverstream revaluation effects	924.14	615.11	309.03	50.2
Attributable profit	901.75	665.13	236.62	35.6
Attributable profit, excluding post-tax Silverstream revaluation effects	787.27	530.84	256.43	48.3
Basic and diluted earnings per share (US$/share)[8]	1.257	0.927	0.330	35.6
Basic and diluted earnings per share excluding post-tax Silverstream revaluation effects (US$/share)	1.098	0.740	0.358	48.4

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

Precious metal prices

In 2011, demand for precious metals as safe haven instruments gained further momentum as a result of geopolitical tensions arising in the Middle East and North Africa, increased sovereign risk in Europe and uncertainty surrounding global economic recovery. These factors also fostered volatility in the financial markets and gold and silver prices reached record levels in the year. The average realised price of silver increased by 62.6% over 2010 to US$34.75 per ounce,

---

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

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

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

while the average realised gold price rose by 26.6% to US$1,585.33. These increases drove the Group's financial results, as 96.4% of our adjusted revenue come from these metals.

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

Foreign exchange rates

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

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

Inflation of key operating materials

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

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

Electricity

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

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

Diesel

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

Treatment and refining charges

Treatment and refining charges, which are deducted from adjusted revenue for the purposes of revenues as disclosed in the income statement, are reviewed annually in accordance with international benchmarks. The treatment charge per tonne of lead concentrate, including the escalator, remained stable, while the treatment charge per tonne of zinc concentrate decreased by 9.0%. However, silver refining charges for lead concentrates increased by 193.8% year-on-year due to the shortage of global refining capacity to process lead concentrates with high silver content.

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

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

Revenues

CONSOLIDATED REVENUES
(US$ millions)

			Change	
	2011	**2010**	**Amount**	**%**
Adjusted revenue[9]	2,307.45	1,473.92	833.53	56.6
Treatment and refining charges	(114.79)	(64.37)	(50.42)	78.3
Revenues	2,192.66	1,409.55	783.11	55.6

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

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

accounted for 20.5%, with the rise in gold sales volume being the main contributor to this increase.

ADJUSTED REVENUE[10] BY METAL
(Year ended 31 December, US$ millions)

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

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

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

VOLUMES OF METAL SOLD
(Year ended 31 December)

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

Cost of sales

			Change	
	2011	**2010**	**Amount**	**%**
Adjusted production cost[11]	419.39	307.07	112.32	36.6

[10] Adjusted revenue is revenue as disclosed in the Income Statement adjusted to exclude treatment and refining charges.

[11] Calculated as total production costs less depreciation and profit sharing. In 2011, freight costs associated with ore transported from Fresnillo plc's mines to Met-Mex facilities are included as selling expenses in the income statement. These were previously reported as part of Cost of sales and

Depreciation	172.07	105.22	66.86	63.5
Change in work in progress	(25.49)	(16.77)	(8.72)	52.0
Profit sharing	69.08	37.68	31.40	83.3
Hedging (of exchange rate)	(5.87)	(3.02)	(2.85)	94.3
Cost of sales	**629.20**	**430.18**	**199.02**	**46.3**

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

- Adjusted production costs accounted for US$419.4 million, a 36.6% increase over 2010. However, of the total US$112.3 increase, 37.7% or US$42.3 million, was related to the adjusted production costs incurred at Saucito in its first year of commercial production. In addition the revaluation of the average spot exchange rate resulted in a US$3.4 million adverse effect when converting peso-denominated costs to US dollars. By factoring out the new Saucito mine and the impact of the exchange rate on the peso-denominated components for each category, the factors explained below reflect the underlying operational and dollar-denominated cost changes:

  - Contractor costs rose by US$22.5 million as a result of: i) higher production volumes which required a greater number of contractors particularly at San Ramón and Soledad-Dipolos, contributing to an estimated 55% of the total increase in contractor costs; ii) higher unit fees charged by contractors, which include the annual rise in labour costs, depreciation of contractors' equipment, and higher costs for their operating materials, fuel and lubricants; iii) backfilling, shotcreting and rock bolting activities carried out mainly at the Fresnillo mine to secure safety conditions for our personnel; iv) increased mine services which are typically conducted by contractors, such as road maintenance, personnel transportation and surveillance; and v) haulage of ore and waste material across longer distances at all our mines

  - Operating materials increased by US$14.4 million, of which a 30% is estimated to be linked to the additional volumes of ore produced at the mines. The remaining US$10.1 million was explained by the 11.7% weighted average increase in the unit price of operating materials and higher consumption of several inputs such as explosives and drilling steel related to the stripping of waste material, development activities and shotcreting, rock bolting and backfilling to enhance mine safety.

  - The cost of energy rose by US$12.6 million as a result of higher electricity and diesel prices (15.4% and 15.2% respectively). Additional consumption of electricity and diesel

---

therefore also as part of Adjusted production costs. Comparative information for 2010 has been amended to reflect this reclassification to Selling expenses in order to facilitate comparison with current year figures.

directly associated with higher production volumes was estimated at US$3.0 million. However, diesel consumption was further increased due to longer haulage distances and backfilling and rock bolting activities.

- The cost of personnel increased by US$5.8 million as a result of i) additional personnel hired mainly at Soledad-Dipolos, Fresnillo and Ciénega to increase production levels, which contributed an estimated 30% of the increase in cost of personnel; ii) a 6.5% increase in wages plus a 1.5% increase in fringe benefits in Mexican pesos; iii) a minor adjustment to the pension plan in accordance with annual actuarial studies; iv) training to improve the safety of our personnel; and v) acquisition of safety equipment for the additional employees.

- The cost of maintenance rose by US$5.5 million due to i) the intensified use of equipment to haul waste at Herradura; ii) consumption of additional spare parts at higher prices; and iii) the programmed maintenance of hydraulic shovels at Herradura which did not take place last year. It is estimated that 50% of the increase in the cost of maintenance was related to the higher volumes of ore milled/deposited at the mines.

- Other costs increased by US$5.8 million as a result of additional rights paid related to mining concessions to consolidate the Group's growth strategy, equipment insurance, freight and IT expenses.

- Profit sharing rose by US$31.4 million due to increased profits at our operating mines.

- Depreciation increased by US$66.9 million mainly due to the larger asset base following the completion of Saucito, expanded capacity at Soledad-Dipolos and Ciénega, and higher production volumes which affected the depletion factor.

- The increase in work in progress, which had a favourable effect of US$8.7 million in the income statement. The higher inventories of ore deposited on the leaching pads at Herradura and Soledad-Dipolos were the main factor explaining this benefit.

- The Fresnillo Group enters into certain exchange rate derivative instruments as part of a programme to mitigate its exposure to foreign exchange risk associated with costs incurred in Mexican pesos. In 2011, Fresnillo plc sold forward US$77.0 million at an average rate of MXN12.87 per US dollar, which matured throughout the year and resulted in a US$3.2 million gain recognised in the income statement. The outstanding net forward position of these derivatives as of 31 December 2011 was US$38.5 million with maturity dates throughout 2012.

  Additionally, the Group entered into a combination of exchange rate put and call options structured at zero cost. In 2011, US$44 million of costs denominated in Mexican pesos were hedged using these collars, with an average floor exchange rates of MXN13.02 per US dollar and cap of MXN14.17 per US dollar, which resulted in a US$2.7 million gain recognised in the income statement. The total outstanding position using collar structures as of 31 December 2011 was US$82 million with maturity dates throughout 2012. These instruments guarantee a minimum exchange rate should the market fall below the floor exchange rate. Between the floor and cap the Group sells US dollars at the market rate, and when the Mexican peso per US dollar exchange rate goes above the cap rate, the Company is obliged to sell US dollars at the contract rate.

Cost per tonne and cash cost per ounce

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

COST PER TONNE[12]
(Year ended 31 December)

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

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

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

- Fresnillo: changes in the pension plan resulting from changes in the actuarial assumptions that had greater impact at this mine due to the age, seniority and wage profile of employees; higher insurance fees; and additional shotcreting, rock bolting and backfilling activities.

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

- Ciénega: mine development and the new San Ramón satellite whose distance from the mill incurred additional haulage costs.

- Herradura: maintenance of trucks and loaders; higher haulage distances and deeper pits; and productivity bonuses paid to workers for reaching efficiency goals.

- Soledad-Dipolos: mine development.

CASH COST PER OUNCE[13]
(Year ended 31 December)

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

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

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

- Fresnillo +US$1.97 per silver ounce (+60.2%)

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

- Ciénega -US$51.04 per gold ounce (-29.7%)

Increased mining costs (+US$82.50), lower gold ore grades (+US$49.2) and higher profit sharing (+US$5.14), more than offset by higher by-product credits, primarily reflecting the 23% increase

[13] 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.

in silver production and 65% rise in silver price, as well as lead and zinc by-product credits; the combined effect of these credits (-US$187.88) reflected the mine's strong polymetallic profile

- Herradura +US$39.87 per gold ounce (+12.4%)

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

- Soledad-Dipolos +US$96.0 per gold ounce (+25.1%)

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

- Saucito N/A

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

Gross profit

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

CONTRIBUTION BY MINE TO THE GROUP'S GROSS PROFIT EXCLUDING HEDGING GAINS AND LOSSES

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

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

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

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

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

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

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

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

Administrative expenses

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

Exploration expenses

BUSINESS UNIT / PROJECT (US$ millions)	**Exploration expenses**	**Capitalised expenses**
Herradura	10.7	0.0
Soledad –Dipolos	5.3	0.0
Fresnillo	7.3	0.0
Ciénega	11.5	0.0
Saucito	3.6	0.0
Noche Buena	10.2	0.0
Herradura corridor	6.9	0.0
San Ramón	12.2	0.0
Juanicipio	0.0	5.5

San Julián	11.4	33.2
Orisyvo	11.0	0.6
San Juan	3.0	0.0
Centauro Deep	8.2	0.0
Lucerito	5.2	0.0
Manzanillas	4.3	0.0
Candameña	3.2	0.0
Guanajuato	2.1	0.0
Cairo	1.0	0.0
Others	16.9	5.7
TOTAL	**134.0**	**45.0**

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

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

EBITDA

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

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

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

Silverstream revaluation effects

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

Since the IPO, unrealised, non-cash profits associated with the Silverstream Contract have totalled US$371.1 million. The cyclical behaviour of the silver price may generate unrealised losses in the future, which would also be recognised in the income statement. For example, the Group estimates that a 25% increase/decrease in the expected future prices of silver as used in the valuation at 31 December 2011, would result in an unrealised gain/loss respectively of US$143.0 million recognised in the income statement. Further information related to the Silverstream Contract is provided in the Balance Sheet section below and note 8 of the financial information included in this Preliminary Announcement.

Foreign exchange

The foreign exchange result is caused by the conversion of monetary assets and liabilities denominated in foreign currencies to US dollars. In 2011, a US$14.7 million foreign exchange gain was recorded in the income statement mainly as a result of the devaluation of the MXN/ US dollar exchange rate which affected the value of peso-denominated net liabilities when converted to US dollars. This gain favourably compared with the US$3.3 million loss recognised in 2010.

Taxation

Income tax expense of US$495.8 million increased by 81.6% compared to 2010 as a result of the higher profits levels achieved. The effective tax rate during the year was 32.3%, which is higher than the statutory 30% tax rate. The difference is explained by: a) the devaluation of the MXN/US dollar exchange rate generating i) a taxable foreign exchange gain when taxable profit is determined in MXN for the purpose of current tax calculations, which does not arise in the Group's USD denominated IFRS results; and ii) movements in the tax values of assets and liabilities, which are fixed in MXN for tax purposes, but are translated into USD for the purposes of the calculation of deferred tax under IFRS; and b) certain inflation adjustments for Mexican tax purposes that have no accounting effect.

Profit for the year

Profit for the year increased by 38.6% from US$749.4 million in 2010 to $1,038.6 million in 2011. Profits attributable to non-controlling interests (minority shareholders) rose to US$136.9 million in 2011, a 62.4% increase, as a result of the higher profits recorded at Herradura and Soledad-

Dipolos. Both mines are owned by Penmont, a company jointly held by Fresnillo plc (56%) and Newmont (44%). Profit attributable to Group shareholders increased by 35.6% to US$901.7 million in 2011.

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

Cash flow

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

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

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

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

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

- Trade and other receivables rose by US$10.9 million, most significantly as a result of insurance claims pending.

- A US$37.7 million increase in ore inventories at Herradura and Soledad-Dipolos pads and the additional inventory of spare parts, including tyres, to secure critical inputs subject to scarcity.

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

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

The Group invested US$467.7 million in the purchase of property, plant and equipment, a 37.5% increase compared to 2010. Capital expenditure in 2011 is further described below:

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

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

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

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

Balance sheet

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

Cash and cash equivalents as of 31 December 2011 totalled US$684.9 million, a 22.4% increase compared to year-end 2010. The main factors driving the significant increase in cash and cash equivalents were described in the cash flow section.

Trade and other receivables of US$249.3 million rose as a result of the an insurance claim pending and increase in value added tax refunds due. Additionally, loans granted to contractors to purchase equipment and receivables on the sale of fixed assets to contractors further increased other accounts receivables.

The change in the value of the Silverstream derivative from US$427.7 million at the beginning of the year to US$478.1 million at the year-end reflects proceeds of US$95.9 million received in cash and US$13.6 million receivable as at 31 of December and a revaluation effect of $159.9 million which is a non-cash gain reflected in the Group income statement. Given the cyclical movements of silver prices, the value of the Silverstream asset could increase or decline in line with the movements of the silver price.

The net book value of property, plant and equipment was US$1,194.4 million at 31 December 2011, an increase of 33.3% over 2010, reflecting investment during the year on new development projects, replacement of equipment and ongoing capital expenditures related to cost control initiatives. The main additions underlying the US$298.6 increase were the construction of the Saucito project, the expansion of production capacity at Soledad-Dipolos, construction of the Noche Buena gold mine, the sinking of the shaft and expansion of milling capacity at Ciénega, acquisition of new equipment mainly at Minera Penmont, construction of the San Carlos shaft at Fresnillo and purchase of surface land.

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

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

The increase in retained earnings reflects the profit from 2011 less dividends paid during the period. Dividends were declared in line with Fresnillo plc's dividend policy that takes into account the profitability of the business, underlying growth in earnings and the capital and cash flow requirements to support future production and expansions.

Dividend

In September 2011 an interim dividend of 21.0 US cents per Ordinary Share was paid for a total of US$150.6 million. However, the prevailing strength of the precious metal prices during 2011 and the solid operating performance of the Group generated additional cash flow. As a result, a second interim dividend of 41.85 US cents per Ordinary Share was declared and paid in December, accounting for US$300.0 million. Based on the Group’s 2011 performance, the Directors have recommended a final dividend of 40.0 US cents per Ordinary Share, which will be paid on 23 May 2012 to shareholders on the register on 27 April 2012. The dividend will be paid in UK pounds sterling unless shareholders elect to be paid in US dollars.

Responsibility Statement of the Directors

I confirm on behalf of the Board that to the best of my knowledge;

a) the financial information presented in this preliminary announcement, prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, gives a true and fair view of the assets, liabilities, financial position and profit and loss of the Company and the Group; and

b) the Management Report includes a fair review of the development and performance of the business, and the principal risks and uncertainties that they face.

For and on behalf of the Board

Jaime Lomelín

Chief Executive Officer

29 February 2012

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.

Consolidated Income Statement

	Notes	Year ended 31 December 2011 Pre-Silverstream revaluation effect	Silverstream revaluation effect	Total	Year ended 31 December 2010 Pre-Silverstream revaluation effect	Silverstream revaluation effect	Total
				US$ thousands			US$ thousands
Continuing operations:							
Revenues	4	2,192,663		2,192,663	1,409,554		1,409,554
Cost of sales	5	(629,200)		(629,200)	(430,183)		(430,183)
Gross profit		**1,563,463**		**1,563,463**	**979,371**		**979,371**
Administrative expenses		(56,516)		(56,516)	(52,594)		(52,594)
Exploration expenses		(133,994)		(133,994)	(82,113)		(82,113)
Selling expenses		(6,532)		(6,532)	(4,893)		(4,893)
Other income		8,898		8,898	4,983		4,983
Other expenses		(14,432)		(14,432)	(11,299)		(11,299)
Profit from continuing operations before net finance costs and income tax		**1,360,887**		**1,360,887**	**833,455**		**833,455**
Finance income		8,172		8,172	3,887		3,887
Finance costs		(9,236)		(9,236)	(3,483)		(3,483)
Revaluation effects of Silverstream contract	8	-	159,865	159,865	–	191,840	191,840
Foreign exchange gain/(loss)		14,694		14,694	(3,332)		(3,332)
Profit from continuing operations before income tax		**1,374,517**	**159,865**	**1,534,382**	**830,527**	**191,840**	**1,022,367**
Income tax expense	6	(450,380)	(45,386)	(495,766)	(215,417)	(57,552)	(272,969)
Profit for the year from continuing operations		**924,137**	**114,479**	**1,038,616**	**615,110**	**134,288**	**749,398**
Attributable to:							
Equity shareholders of the Company		787,269	114,479	901,748	530,838	134,288	665,126
Non-controlling interest		136,868		136,868	84,272	–	84,272
		924,137	**114,479**	**1,038,616**	**615,110**	**134,288**	**749,398**
Earnings per share: (US$)							
Basic and diluted earnings per ordinary share from continuing operations	7	-		1.257	–		0.927
Adjusted earnings per share: (US$)							
Adjusted basic and diluted earnings per Ordinary Share from continuing operations	7	1.098		-	0.740		–

Consolidated Statement of Comprehensive Income

	Notes	Year ended 31 December 2011 US$ thousands	2010 US$ thousands
Profit for the year		**1,038,616**	**749,398**
Net gain on cash flow hedges recycled to income statement		(7,158)	(2,102)
Tax effect of net gain on cash flow hedges recycled to income statement	6	2,147	631
Net unrealised (loss)/gain on cash flow hedges		(4,341)	3,927
Tax effect of net unrealised (loss)/gain on cash flow hedges	6	1,302	(1,179)
Net effect of cash flow hedges		**(8,050)**	**1,277**
Fair value (loss)/gain on available-for-sale financial assets		(46,916)	73,342
Tax effect of fair value (loss)/gain on available-for-sale financial assets	6	13,137	(20,536)
Net effect of available-for-sale financial assets		**(33,779)**	**52,806**
Foreign currency translation		**73**	**540**
Other comprehensive (loss)/income for the period, net of tax		**(41,756)**	**54,623**
Total comprehensive income for the period, net of tax		**996,860**	**804,021**
Attributable to:			
Equity shareholders of the Company		860,198	719,749
Non-controlling interest		136,662	84,272
		996,860	**804,021**

Consolidated Balance Sheet

	Notes	2011 US$ thousands	2010 US$ thousands
		As at 31 December	
ASSETS			
Non-current assets			
Property, plant and equipment		1,194,445	895,783
Available-for-sale financial assets		94,861	141,777
Silverstream contract	8	414,842	351,530
Deferred tax asset	6	40,425	14,226
Other receivables		13,125	11,687
Other assets		963	2,503
		1,758,661	**1,417, 506**
Current assets			
Inventories		99,836	63,092
Trade and other receivables		249,281	224,984
Prepayments		3,226	2,532
Derivative financial instruments		217	4,056
Silverstream contract	8	63,241	76,151
Cash and cash equivalents		684,922	559,537
		1,100,723	**930,352**
Total assets		**2,859,384**	**2,347,858**
EQUITY AND LIABILITIES			
Capital and reserves attributable to shareholders of the Company			
Share capital		358,680	358,680
Share premium		818,597	818,597
Capital reserve		(526,910)	(526,910)
Net unrealised (losses)/gains on cash flow hedges		(5,672)	2,172
Net unrealised gains on available-for-sale financial assets		31,293	65,072
Foreign currency translation reserve		(482)	(555)
Retained earnings		1,192,315	996,658
		1,867,821	1,713,714
Non-controlling interest		281,562	205,554
Total equity		**2,149,383**	**1,919,268**
Non-current liabilities			
Provision for mine closure cost		50,754	39,682
Provision for pensions and other post-employment benefit plans		9,240	6,420
Derivative financial instruments		693	–
Deferred tax liability	6	357,989	217,448
		418,676	**263,550**

Consolidated Balance Sheet
Continued

		As at 31 December	
	Notes	**2011 US$ thousands**	2010 US$ thousands
Current liabilities			
Trade and other payables		88,726	70,789
Derivative financial instruments		13,069	152
Income tax		128,441	54,480
Employee profit sharing		61,089	39,619
		291,325	**165,040**
Total liabilities		**710,001**	**428,590**
Total equity and liabilities		**2,859,384**	**2,347,858**

Consolidated Cash Flow Statement

	Notes	Year ended 31 December **2011** **US$ thousands**	2010 US$ thousands
Net cash from operating activities	10	**1,249,176**	**700,699**
Cash flows from investing activities			
Purchase of property, plant and equipment		(467,742)	(340,297)
Proceeds from the sale of property, plant and equipment and other assets		4,144	72
Proceeds from mines under development		3,941	25,563
Loans granted to contractors		(15,051)	(14,504)
Repayments of loans granted to contractors		9,564	1,363
Silverstream contract	8	103,042	55,623
Interest received		7,326	2,859
Other proceeds		2,414	7,231
Net cash used in investing activities		**(352,362)**	**(262,090)**
Cash flows from financing activities			
Capital contribution		20,806	2,807
Dividends paid to shareholders of the Company		(705,456)	(182,590)
Dividends paid to non-controlling interest		(81,460)	(8,504)
Interest paid		(132)	(251)
Net cash used in financing activities		**(766,242)**	**(188,538)**
Net increase in cash and cash equivalents during the year		130,572	250,071
Effect of exchange rate on cash and cash equivalents		(5,187)	(2,726)
Cash and cash equivalents at 1 January		559,537	312,192
Cash and cash equivalents at 31 December		**684,922**	**559,537**

Consolidated Statement of Changes in Equity

											Attributable to equity holders of the Company
	Notes	**Share capital**	**Share premium**	**Capital reserve**	**Net unrealised (losses)/ gains on revaluation of cash flow hedges**	**Net unrealised (losses)/ gains on available-for-sale financial assets**	**Foreign currency translation reserve**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
											US$ thousands
Balance at 1 January 2010		358,680	818,597	(526,910)	895	12,266	(1,095)	513,691	1,176,124	126,979	1,303,103
Profit for the year		–	–	–	–	–	–	665,126	665,126	84,272	749,398
Other comprehensive income, net of tax		–	–	–	1,277	52,806	540	–	54,623	–	54,623
Total comprehensive income for the year		–	–	–	1,277	52,806	540	665,126	719,749	84,272	804,021
Capital contribution		–	–	–	–	–	–	–	–	2,807	2,807
Dividends paid		–	–	–	–	–	–	(182,159)	(182,159)	(8,504)	(190,663)
Balance at 31 December 2010		**358,680**	**818,597**	**(526,910)**	**2,172**	**65,072**	**(555)**	**996,658**	**1,713,714**	**205,554**	**1,919,268**
Balance at 1 January 2011		**358,680**	**818,597**	**(526,910)**	**2,172**	**65,072**	**(555)**	**996,658**	**1,713,714**	**205,554**	**1,919,268**
Profit for the year		-	-	-	-	-	-	901,748	901,748	136,868	1,038,616
Other comprehensive income, net of tax		-	-	-	(7,844)	(33,779)	73	-	(41,550)	(206)	(41,756)
Total comprehensive income for the year		-	-	-	(7,844)	(33,779)	73	901,748	860,198	136,662	996,860
Capital contribution										20,806	20,806
Dividends declared and paid		-	-	-	-	-	-	(706,091)	(706,091)	(81,460)	(787,551)
Balance at 31 December 2011		**358,680**	**818,597**	**(526,910)**	**(5,672)**	**31,293**	**(482)**	**1,192,315**	**1,867,821**	**281,562**	**2,149,383**

Notes to the 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 77 percent of the shares of the Company and the ultimate controlling party of the Company is the Baillères family, whose beneficial interest is held through Peñoles. Copies of Peñoles' accounts can be obtained from www.penoles.com.mx.

The financial information presented in this preliminary announcement was authorised for issue by the Board of Directors of Fresnillo plc on 5 March 2012

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. The Group has five fully developed operating mines: Fresnillo, Herradura, Ciénega, Soledad-Dipolos and Saucito, the latter having started production in April 2011.

2 Significant Accounting Policies

(a) Basis of preparation and consolidation, and statement of compliance

The financial information presented in this preliminary announcement has been prepared in accordance with the Disclosure and Transparency Rules of the UK Financial Services Authority, International Financial Reporting Standards (IFRS) as adopted by the European Union and in accordance with the provisions of the Companies Act 2006. The financial information presented in this preliminary announcement is also consistent with IFRS as issued by the International Accounting Standards Board.

The financial information presented in this preliminary announcement has 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 financial information is 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.

In 2011, freight costs associated with ore transported from Fresnillo plc's mines to Met-Mex facilities have been presented as selling expenses in the income statement in order to be consistent with the information reviewed by the Executive Committee and the Board of Directors. These were previously presented as part of cost of sales. Comparative information has been amended to reflect this reclassification in order to be comparable with the presentation in 2011. As a result cost of sales as at 31 December 2010 has decreased by USD$4.9 million.

Basis of consolidation

The financial information presented in this preliminary announcement sets out the Group's financial position as of 31 December 2011 and 2010, and the results of operations and cash flows for the years then ended.

Entities that constitute the Group are those enterprises controlled by the Group regardless of the number of shares owned by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Entities are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group.

All intra-group balances, transactions, income and expenses and profits and losses, including unrealised profits arising from intra-group transactions, have been eliminated on consolidation. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. These interests primarily represent the interests in Minera Penmont, S. de R.L. de C.V., Minera El Bermejal, S. de R.L. de C.V. and Minera Juanicipio, S.A. de C.V. not held by the Group. The interest of non-controlling shareholders may be initially measured either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. The choice of measurement basis is made on an acquisition by-acquisition basis. Subsequent to acquisition, non-controlling interests consist of the amount attributed to such interests at initial recognition and the non-controlling interest's share of changes in equity since the date of the combination. Any losses of a subsidiary are attributed to the non-controlling interests even if that results in a deficit balance.

(b) Changes in accounting policies and disclosures

The accounting policies applied are consistent with those applied in the preparation of the consolidated financial statements for the year ended 31 December 2010, except for the reclassifications of freight cost from cost of sales to selling expenses described in note 2 (a) and for the adoption of certain amendments to existing standards effective as of 1 January 2011. Those that are applicable or relevant to the Group, resulting in changes to accounting policies, but with no impact on its financial position or performance are as follows:

Amendments for IFRSs

- IAS 24 Related Party Transactions (Amendment): It clarifies the definitions of a related party. The new definitions emphasise a symmetrical view of related party relationships as well as clarifying in which circumstances persons and key management personnel affect related party relationships of an entity. Also, the amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity.

Other amendments to existing interpretations that are effective but not applicable to the Group are as follows:

- IFRIC 14 Prepayments of a Minimum Funding Requirement (Amendment): The amendment removes an unintended consequence when an entity is subject to minimum funding requirements (MFR) and makes an early payment of contributions to cover such requirements. The amendment permits a prepayment of future service cost by the entity to be recognised as a pension asset.

Improvements to IFRSs

In May 2010, the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position, performance or disclosures of the Group.

- IFRS 3 Business Combinations: The measurement options available for a non-controlling interest (NCI) have been amended. Only components of NCI that constitute a present ownership interest that entitles their holder to a proportionate share of the entity's net assets in the event of liquidation shall be measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components are to be measured at their acquisition date fair value. The improvements to IFRS 3 will have an impact on the Group's future acquisitions.
- IFRS 7 Financial Instruments – Disclosures: The amendment was intended to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context.

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

New and amended standards and interpretations

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

- IAS 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income ("OCI"): The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified.
  The amendment affects presentation only and has no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012. The Group currently does not have items in OCI that will never be recycled through earnings and therefore, the adoption of this revised standard would not impact the current presentation of the statement of comprehensive income except for the potential impacts of IAS 19 (2011) described below, which requires that actuarial gains or losses arising from employee benefits that are currently recognised in the income statement would have to be presented in OCI as items that would never be recycled to the income statement.
- IAS 19 Employee Benefits (Amendment): The IASB has issued numerous amendments to IAS 19. The amendment becomes effective for annual periods beginning on or after 1 January 2013 and is applicable retrospectively from the beginning of the earliest period presented.

The most significant impacts of this standard as it relates to the Group's consolidated financial position and results of operations are expected to be as follows:

- Presentation changes to the statement of comprehensive income: the net actuarial gain recognised in the year will be presented within OCI, instead of being recognised in the income statement; and
- Financial performance change: due to presentation changes, the profit/(loss) of the year and earning per shares will be impacted.

The Group is currently assessing the full impact of the remaining standards and interpretations.

- IAS 27 Consolidated and Separate Financial Statements (as revised in 2011): As a consequence of the new IFRS 10 and IFRS 12 (see below), what remains of IAS 27 does not change the recognition and presentation requirements as it relates to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements (cost method or fair value) and as a result the adoption of this revised standard is not expected to impact the separate financial statements of the Group. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

- IAS 28 Investments in Associates and Joint Ventures (as revised in 2011): As a consequence of the new IFRS 11 and IFRS 12. IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The other provisions within IAS 28 remain consistent as it relates to accounting for investments in associates under the equity method. The amendment becomes effective for annual periods beginning on or after 1 January 2013.
- IFRS 9 Financial Instruments – Classification and Measurement IFRS 9: It reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The Group is in the process of identifying the potential impacts of the current changes to IFRS 9 and will quantify the effects on its consolidated financial position and results of operations in conjunction with the other phases, when issued, to present a comprehensive picture of such impacts on its consolidated financial statements.
- IFRS 10 Consolidated Financial Statements IFRS 10: It replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation – Special Purpose Entities. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. This standard becomes effective for annual periods beginning on or after 1 January 2013. The Group’s management does not expect impacts on its consolidated financial statements with the adoption of this new standard when it becomes effective.
- IFRS 12 Disclosure of Involvement with Other Entities IFRS 12: It includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity’s interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard will become effective for annual periods beginning on or after 1 January 2013 with the adoption of IFRS 10, IFRS 11, IAS 27 (2011) and IAS 28 (2011). The Group will include the relevant disclosures required by IFRS 12 upon adoption.
- IFRS 13 Fair Value Measurement: IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Group is currently assessing the impact that this standard will have on its financial position and performance. This standard becomes effective for annual periods beginning on or after 1 January 2013. Given that the Group does not currently have non-monetary assets measured at fair value, the potential impacts of this new standard would be in relation to its financial instruments measured at fair value.
- IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine (New interpretation): This interpretation provides guidance for the recognition of production stripping cost as a non-current asset. This interpretation establishes that stripping costs are recognised as a non-current asset, to the extent the benefit is improved access to ore and only if it is probable that the future economic benefit associated with the stripping activity will flow to the entity, the component of the ore body for which access has been improved can be clearly identified and the costs relating to the stripping activity associated with that component can be measured reliably. This standard becomes effective for annual periods beginning on or after 1 January 2013. The Group is in the process of analysing the impacts of IFRIC 20.

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

3 Segment Reporting

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

At 31 December 2011 the Group has five reportable operating segments following the successful conclusion of the development of the Saucito mine in March 2011 and commercial production starting in April 2011. These represent the Group's five producing mines as follows:

- The Fresnillo mine, located in the State of Zacatecas, the world's largest primary silver mine;
- The Herradura mine, located in the State of Sonora, an open pit gold mine;
- The Cienega mine, located in the State of Durango, an underground gold mine;
- The Soledad-Dipolos mine, located in the State of Sonora, an open pit gold mine; and
- The Saucito mine, located in the State of Zacatecas, an underground silver mine.

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

The exploration services provided by Exploraciones Mineras Parreña, S.A. de C.V and projects under development have been aggregated into the Other segment below.

Management monitors the results of its operating segments separately for the purpose of performance assessment and making decisions about resource allocation. Segment performance is evaluated without taking into account certain adjustments included in Revenue as reported in the consolidated income statement, and certain costs included within Cost of Sales and Gross Profit which are considered to be outside of the control of the operating management of the mines. The table below provides a reconciliation from segment profit to Gross Profit as per the consolidated income statement. Other income and expenses included in the consolidated income statement are not allocated to operating segments. Transactions between reportable segments are accounted for on an arm's length basis similar to transactions with third parties.

In 2011 and 2010 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 2011 and 2010, respectively.

Year ended 31 December 2011

US$ thousands	Fresnillo	Herradura	Cienega	Soledad y Dipolos	Saucito	Other[9]	Adjustments and eliminations	Total
Revenues:								
Third party	989,443	520,749	236,462	247,040	198,969	–	–	2,192,663
Inter-Segment	–	–	–	–	19,401	63,067	(82,468)	–
Segment revenues	**989,443**	**520,749**	**236,462**	**247,040**	**218,370**	**63,067**	**(82,468)**	**2,192,663**
Segment Profit[8]	**859,924**	**404,791**	**165,738**	**180,440**	**177,513**	**63,045**	**(52,698)**	**1,798,753**
Hedging								5,867
Depreciation								(172,073)
Employee profit sharing								(69,084)
Gross profit as per the income statement								**1,563,463**
Capital expenditure[1]	71,269[2]	72,666 [3]	79,768 [4]	37,084 [5]	65,280 [6]	141,675[7]		467,742

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

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

[3] Capital expenditure relates to the construction of leaching pads, equipment such as rotary drill rig tractors and dump trucks, construction of an electrical station and open pit mine development activities

[4] Capital expenditure relates to mine development work, scoop equipment, land and raise boring equipment.

[5] Capital expenditure relates to the construction of leaching pads, equipment such as dump trucks and tractors and a rotary drill rig and open pit mine development activities.

[6] Capital expenditure relates to mine development work, including hoisting equipment and ramp and shaft developments and scoop equipment.

[7] Capital expenditure relates to mine development and acquisition of property, plant and equipment for the Noche Buena and San Julian projects

[8] Treatment and refining charges amounting to US$114.8 million thousand are included in Segment Profit.

[9] Exploration services provided by Exploraciones Mineras Parreña, S.A. de C.V.

Year ended 31 December 2010

US$ thousands	Fresnillo	Herradura	Cienega	Soledad y Dipolos	Saucito[6]	Other[9]	Adjustments and eliminations	Total
Revenues:								
Third party	733,537	366,047	173,200	136,770	–	–	–	1,409,554
Inter-Segment	–	–	–	–	–	35,613	(35,613)	–
Segment revenues	733,537	366,047	173,200	136,770	–	35,613	(35,613)	1,409,554
Segment Profit[7,8]	629,029	269,367	118,923	97,774	–	35,613	(31,457)	1,119,249
Hedging								3,020
Depreciation								(105,216)
Employee profit sharing								(37,682)
Gross profit as per the income statement								979,371
Capital expenditure[1]	60,716[2]	54,411[3]	65,083[4]	36,790[5]	125,021[6]		(1,813)	340,208

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

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

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

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

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

6 Certain comparative information has been disclosed to conform to current period presentation, such as capital expenditure related to the Saucito mine development, including hoisting equipment and ramp and shaft developments, which was previously presented in the "Other" line.

7 Treatment and refining charges amounting to US$64.4 million are included in Segment Profit.

8 Freight costs relating to sales, amounting to US$4.9 milliion are excluded from Segment Profit. In the prior year, these costs were presented within cost of sales.

9 Exploration services provided by Exploraciones Mineras Parreña, S.A. de C.V.

4 Revenues

Revenues reflect the sale of goods, being concentrates, doré, slag, and precipitates of which the primary contents are silver, gold, lead and zinc[1].

a) Revenues by product sold

	Year ended 31 December	
	2011 US$ thousands	2010 US$ thousands
Lead concentrates (containing silver, gold, lead and by-products)	**1,253,090**	797,887
Doré and slag (containing gold, silver and by-products)	**767,789**	502,820
Zinc concentrates (containing zinc, silver and by-products)	**92,027**	53,566
Precipitates (containing gold and silver)	**79,757**	55,281
	2,192,663	**1,409,554**

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

(1) Included in the value of lead and zinc concentrates, precipitates and doré are provisional price adjustments which represent changes in the fair value of embedded derivatives. In 2011 the Group has recognised a loss of US$20.6 million (2010: profit of US$35.6 million).

b) Value of metal content in products sold

For products other than refined silver and gold, invoiced revenues are derived from the value of metal content adjusted by treatment and refining charges incurred by the metallurgical complex of the customer. The value of the metal content of the products sold, before treatment and refining charges is as follows:

	Year ended 31 December	
	2011 US$ thousands	2010 US$ thousands
Silver	1,214,214	746,176
Gold	1,009,439	653,294
Zinc	40,791	40,073
Lead	43,008	34,377
Value of metal content in products sold	2,307,452	1,473,920
Adjustment for treatment and refining charges	(114,789)	(64,366)
Total revenues[1]	**2,192,663**	**1,409,554**

(1) Included in the value of lead and zinc concentrates, precipitates and doré are provisional price adjustments which represent changes in the fair value of embedded derivatives. In 2011 the Group has recognised a loss of US$20.6 million (2010: profit of US$35.6 million).

The average realised prices for the gold and silver content of products sold, prior to the deduction of treatment and refining charges, were:

	Year ended 31 December	
	2011 US$ per ounce	**2010 US$ per ounce**
Gold	**1,585.3**	**1,252.1**
Silver	**34.8**	**21.4**

5 Cost of sales

	Year ended 31 December	
	2011 US$ thousands	2010 US$ thousands
Depreciation	172,073	105,216
Personnel expenses	122,517	82,932
Maintenance and repairs	67,685	56,494
Operating materials	84,882	65,177
Energy	79,574	57,856
Contractors	97,515	59,801
Freight	6,211	4,134
Insurance	4,435	2,922
Mining rights and contributions	7,368	4,775
Gain on foreign currency hedges	(5,867)	(3,020)
Change in work in progress and finished goods (ore inventories)	(20,309)	(16,892)
Other	13,116	10,788
	629,200	**430,183**

In 2011, the classification of freight costs relating to sales was modified, (as detailed in note 2(a)) and as a result the December 2010 disclosure was modified for comparative purposes. In addition to this, insurance cost has been reclassified from other cost of sales to be disclosed separately in 2011, consequently 2010 figures have been modified for comparative purposes.

6 Income tax expense

a) Major components of income tax expense:

	Year ended 31 December	
	2011 US$ thousands	2010 US$ thousands
Consolidated income statement:		
Current income tax:		
Current income tax charge	366,298	196,332
Amounts overprovided in previous years	(943)	(1,308)
	365,355	195,024
Deferred income tax:		
Origination and reversal of temporary differences	85,025	20,393
Revaluation effects of Silverstream contract	45,386	57,552
	130,411	77,945
Income tax expense reported in the income statement	**495,766**	**272,969**

	Year ended 31 December	
	2011 US$ thousands	2010 US$ thousands
Consolidated statement of comprehensive income:		
Deferred income tax related to items charged or credited directly to other comprehensive income:		
Net gain on cash flow hedges recycled to income statement	1,302	631
Net unrealised loss/(gain) arising on valuation of cash flow hedges	2,147	(1,179)
Net expense arising on unrealised loss/(gain) on available-for-sale assets	13,137	(20,536)
Income tax expense reported in other comprehensive income	**16,586**	**(21,084)**

(b) Reconciliation of the income tax expense at the Group's statutory income rate to income tax expense at the Group's effective income tax rate:

	Year ended 31 December	
	2011 US$ thousands	2010 US$ thousands
Accounting profit before income tax	**1,534,382**	**1,022,367**
Tax at the Group's statutory income tax rate 30.0%	460,314	306,710
Expenses not deductible for tax purposes	202	760
Inflationary uplift of the tax base of assets and liabilities	(13,628)	(13,802)
Current income tax overprovided in previous years	(943)	(1,308)
Restatement on tax value of fixed assets	-	(1,208)
Exchange rate effect on tax value of assets and liabilities	27,584	(6,574)
Non-deductible asset disposals	1,539	1,688
Non-deductible/non-taxable foreign exchange gains or losses	26,106	(9,402)
Inflationary uplift of tax losses	(1,520)	(1,337)
Other	(3,888)	(2,558)
Tax at the effective income tax rate of 32.3% (2010: 26.7%)	**495,766**	**272,969**

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

	Year ended 31 December	
	2011 US$ thousands	**2010 US$ thousands**
Beginning balance	**(203,222)**	**(110,581)**
Income statement charge	**(130,411)**	**(77,945)**
Exchange difference	**(517)**	**3,835**
Others	**-**	**2,453**
Net gain on cash flow hedges recycled to income statement	**1,302**	**631**
Net unrealised loss/(gain) arising on valuation of cash flow hedges	**2,147**	**(1,179)**
Unrealised gain on available-for-sale financial assets	**13,137**	**(20,536)**
Ending balance	**(317,564)**	(203,222)

The amounts of deferred income tax assets and liabilities as at 31 December 2011 and 2010, considering the nature of the temporary differences, are as follows:

	Consolidated balance sheet		Consolidated income statement	
	2011 US$ thousands	2010 US$ thousands	**2011 US$ thousands**	2010 US$ thousands
Related party receivables	(101,416)	(65,921)	35,495	28,303
Other receivables	(6,463)	(494)	5,969	1,949
Inventories	20,042	10,178	(9,864)	(2,080)
Prepayments	(5,532)	(735)	4,797	146
Derivative financial instruments including Silverstream contract	(83,950)	(58,544)	27,230	41,562
Property, plant and equipment	(184,699)	(143,934)	43,636	19,547
Operating liabilities	1,391	1,866	475	-
Other payables and provisions	14,211	10,523	(3,688)	(315)
Losses carried forward	17,818	52,735	34,917	(6,119)
Post-employment benefits	2,560	1,767	(793)	(140)
Deductible profit sharing	18,307	11,862	(6,445)	(4,102)
Available-for-sale financial assets	(8,109)	(21,246)		
Other	(1,724)	(1,279)	(1,318)	(806)
Deferred tax expense/(income)			**130,411**	**77,945**
Total deferred tax liability	**(317,564)**	**(203,222)**		
Reflected in the statement of financial position as follows:				
Deferred tax assets	40,425	14,226		
Deferred tax liabilities-continuining operations	(357,989)	(217,448)		
Total deferred tax liability	**(317,564)**	**(203,222)**		

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to the same fiscal authority.

A deferred tax asset has been recognised in respect of tax losses amounting to US$63.6 million (2010: US$188.3 million). There are no unrecognised tax assets in either year.

(d) Unrecognised deferred tax on investments in subsidiaries

The Group has not recognised all of the deferred tax liability in respect of distributable reserves of its subsidiaries because it controls them and only part of the temporary differences are expected to reverse in the foreseeable future. The temporary differences for which a deferred tax liability has not been recognised aggregate to US$992.5 million (2010: US$503.5 million).

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

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

On 7 December 2009 new temporary tax rates were published in the Official Daily of the Federal Government. The income tax rate for 2010 and 2011 is 30% and will continue in effect for 2012, the tax rate for 2013 will be 29% and the tax rate from 2014 will be 28%. Deferred taxes have been calculated at the rate applicable to the year the amounts are expected to materialise. IETU is calculated at the rate of 17.5% and applies to the sale of goods, rendering of independent services and temporary use or enjoyment of goods. In calculating the charge to IETU, deductions are allowed for certain expenses incurred in generating income.

In respect of the Group, in 2011 and 2010 management undertook calculations to determine the impact of the IETU provisions on the Group. As a result of such analysis, management concluded that there was no material impact on the Group, since the mainstream corporate income tax liability for each Group company was forecast to be greater than the future potential IETU charge, accordingly, no IETU liability was recognised in either year.

7 Earnings per share

Earnings per share ('EPS') is calculated by dividing profit for the year attributable to equity shareholders of the Company by the weighted average number of ordinary shares in issue during the period.

The company has no dilutive potential ordinary shares.

As of 31 December 2011 and 2010, earnings per share have been calculated as follows:

	Year ended 31 December	
	2011 **US$ thousands**	2010 US$ thousands
Earnings:		
Profit from continuing operations attributable to equity holders of the Company (in thousands of US dollars)	901,748	665,126

	2011	2010
Adjusted profit from continuing operations attributable to equity holders of the Company (in thousands of US dollars)	787,269	530,838

Adjusted profit is profit as disclosed in the Consolidated Income Statement adjusted to exclude revaluation effects of the Silverstream contract of US$159.9 million gain (US$114.5 million net of tax) (2010: US$191.8 million and US$134.3 million net of tax).

Adjusted earnings per share have been provided in order to provide a measure of the underlying performance of the Group, prior to the revaluation effects of the Silverstream contract, a derivative financial instrument.

	2011 thousands	2010 thousands
Number of shares:		
Weighted average number of ordinary shares in issue	717,160	717,160

	2011 US$	2010 US$
Earnings per share:		
Basic and diluted earnings per share	1.257	0.927
Adjusted basic and diluted earnings per ordinary share from continuing operations	1.098	0.740

8 Silverstream contract

On 31 December 2007, the Group entered into an agreement with Peñoles through which it is entitled to receive the proceeds received by the Peñoles Group in respect of the refined silver sold from the Sabinas Mine ("Sabinas"), a base metals mine owned and operated by the Peñoles Group, for an upfront payment of US$350 million. In addition, a per ounce cash payment of $2.00 in years 1 to 5 and $5.00 thereafter (subject to an inflationary adjustment commencing on 31 December 2013) is payable to Peñoles. Under the contract, the Group has the option to receive a net cash settlement from Peñoles attributable to the silver produced and sold from Sabinas, to take delivery of an equivalent amount of refined silver or to receive settlement in the form of both cash and silver. If, by 31 December 2032, the amount of silver produced by Sabinas is less than 60 million ounces, a further payment is due from Peñoles of US$1 per ounce of shortfall.

The Silverstream contract represents a derivative financial instrument which has been recorded at fair value and classified within non-current and current assets as appropriate. Changes in the contract's fair value, other than those represented by the realisation of the asset through the receipt of either cash or refined silver, are charged or credited to the income statement. In the year ended 31 December 2011 total proceeds received in cash were US$103.1 million of which, US$7.2 million was in respect of proceeds receivable as at 31 December 2010 (2010: US$ nil as there were not proceeds receivable from the prior year). Cash received in respect of the year of US$95.9 million corresponds to 2.9 million ounces of payable silver (2010: 3.1 million ounces). As at 31 December 2011, a further US$13.6 million (2010: US$7.2 million) of cash corresponding to 520,088 ounces of silver is due (2010: 265,331 ounces).

The most significant driver of the US$159.9 million unrealised gain taken to income (2010: US$191.8 million) was the strengthening of expectations of the forward price of silver during the year. A future downturn in the forward price of silver, which may happen given the cyclical nature of prices, would result in recognising an unrealised loss in the income statement.

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

	2011 US$ thousands	2010 US$ thousands
Balance at 1 January:	427,681	298,659
Cash received in respect of the year	(95,847)	(55,623)
Cash receivable	(13,616)	(7,195)
Remeasurement gains recognised in profit and loss	159,865	191,840
Balance at 31 December	**478,083**	**427,681**
Less – Current portion	63,241	76,151
Non-current portion	**414,842**	**351,530**

9 Related party balances and transactions

The Group had the following related party transactions during the years ended 31 December 2011 and 2010 and balances as at 31 December 2011 and 2010.

Related parties are those entities owned or controlled by the ultimate controlling party, as well as those who have a minority participation in Group companies and key management personnel of the Group.

(a) Related party accounts receivable and payable

	Accounts receivable As at 31 December		**Accounts payable** As at 31 December	
	2011 US$ thousands	2010 US$ thousands	**2011 US$ thousands**	2010 US$ thousands
Trade:				
Met-Mex Peñoles, S.A. de C.V.	183,988	188,548	-	-
Other receivables:				
Industrias Peñoles, S.A.B. de C.V.	13,616	7,195	-	2,323
Grupo Nacional Provincial, S.A. B. de C.V.	4,779	-	-	-
Other	24	-	926	-
Sub-total	202,407	195,743	926	2,323
Less-Current portion	202,407	195,743	926	2,323
Non-current portion	-	–	-	–

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

Other balances with related parties:

	Year ended 31 December	
	2011	2010

	US$ thousands	US$ thousands
Silverstream contract:		
Industrias Peñoles, S.A.B. de C.V.	478,083	427,681

The Silverstream contract can be settled in either silver or cash. Details of the Silverstream contract are provided in note 8.

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

	Year ended 31 December	
	2011 US$ thousands	2010 US$ thousands
Income:		
Sales:[1]		
Met-Mex Peñoles, S.A. de C.V.	2,179,064	1,397,399
Insurance receipts:		
Grupo Nacional Provincial, S.A. B. de C.V.	6,029	-
Other income	286	860
Total income	**2,185,379**	**1,398,259**

(1) Figures do not include hedging losses.

	Year ended 31 December	
	2011 US$ thousands	2010 US$ thousands
Expenses:		
Administrative services:		
Servicios Administrativos Peñoles, S.A. de C.V.[2]	31,461	29,832
Servicios de Exploración, S.A. de C.V.	3,026	2,781
	34,487	32,613
Energy:		
Termoelectrica Peñoles, S. de R.L. de C.V.	29,566	26,074
Operating materials and spare parts:		
Wideco Inc	3,449	3,747
Equipment repair and administrative services:		
Serviminas, S.A. de C.V.	3,114	3,538
Met-Mex Peñoles, S.A. de C.V.	2,704	2,223
	5,818	5,761
Insurance premiums:		
Grupo Nacional Provincial, S.A. B. de C.V.	7,036	-
Other expenses:	6,272	11,485
Total expenses	**86,628**	**79,680**

(c) Compensation of key management personnel of the Group

Key management personnel include the members of the Board of Directors and the Executive Committee who receive remuneration.

	Year ended 31 December	
	2011 US$ thousands	2010 US$ thousands
Salaries and bonuses	4,035	3,716
Post-employment pension	64	59
Other benefits	666	615
Total compensation paid in respect of key management personnel	4,766	**4,390**

	Year ended 31 December	
	2011 US$ thousands	2010 US$ thousands
Accumulated accrued defined pension entitlement	14,113	14,528

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.

10 Notes to the Consolidated Cash Flow Statement

	Notes	**2011 US$ thousands**	2010 US$ thousands
Reconciliation of profit for the year to net cash generated from operating activities			
Profit for the year		**1,038,616**	**749,398**
Adjustments to reconcile profit for the period to net cash inflows from operating activities:			
Depreciation	5	172,073	105,216
Employee profit sharing		69,957	38,404
Deferred income tax	6	130,411	77,945
Current income tax expense	6	365,355	195,024
Loss on the sale of property, plant and equipment and other assets		2,823	754
Other (gains)/losses		(3,019)	10,695
Net finance (income)/costs		(4,886)	397
Foreign exchange gain		(9,001)	(1,801)
Difference between pension contributions paid and amounts recognised in the income statement		3,700	254
Non cash movement on derivatives		5,950	(801)
Changes in fair value of Silverstream	8	(159,865)	(191,840)
Working capital adjustments			
Increase in trade and other receivables		(10,951)	(147,220)
Increase in prepayments and other assets		(946)	(3,303)

Increase in inventories	(37,682)	(29,309)
Increase in trade and other payables	13,487	13,865
Cash generated from operations	**1,576,022**	**817,678**
Income tax paid	(284,439)	(90,380)
Employee profit sharing paid	(42,407)	(26,599)
Net cash from operating activities	**1,249,176**	**700,699**

Our Risk Management Framework

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

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

What we did in 2011

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

- *Formalise the definition of risk appetite for our principal risks*

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

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

- *Augment our risk identification and assessment process throughout the business*

We implemented a more structured approach for risk identification and assessment incorporating a "top-down" and "bottom-up" perspective on risk. The "top-down" process involved the identification and assessment of risks by the Board, Executive Management and other management at the Corporate level.

The “bottom‑up” process involved a more comprehensive and operationally focused identification and assessment of risks provided by senior and line management at the Business Unit level and across functional areas. Each risk identified through these processes was assessed and scored based on both quantitative and qualitative criteria for likelihood of occurrence and the degree of impact on the achievement of our objectives.

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

- *Implement an anti bribery and corruption programme*

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

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

What we plan to do in 2012

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

- Continue to embed risk management processes within the business. Formalise our practices for defining, implementing and monitoring risk management action plans for the principal risk areas, particularly where the current level of risk exceeds our risk appetite.

- Continue to refine our risk monitoring processes. Define and implement Key Risk Indicator metrics in alignment with our Key Performance Indicators to allow management to identify changes to our risk exposures and to highlight new and emerging risks.

- Managers across the business will undergo refresher training so that we may continue to integrate risk management processes, giving us a consistent risk management approach, risk language and risk culture.

Our risk profile

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

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

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

Risk	Risk Rating	Risk Appetite	Risk Change During 2011	Description of Risk Change
Impact of global macroeconomic developments	High	High	Increase	Considering the cyclical nature of metals prices the likelihood of a drop in the price of gold and silver has increased
Access to land	High	Medium	Increase	More challenging negotiations for land in Mexico combined with an increase in requirement for land
Safety	High	Low	Increase	Increased reliance on contractors, not all of whom are initially familiar or in compliance with our safety policies and procedures
Security	High	Low	Increase	Increased state of insecurity in Mexico
Projects	High	Medium	Stable	We continue to mitigate project risk through our investment

				governance process and system of capital project controls
Human resources	Medium	Medium	Increase	Greater competition for skilled personnel
Exploration	Medium	Medium	Stable	Continued investment in the exploration programme has stabilised this risk
Environmental incidents	Low	Low	Decrease	Mature environmental management programme continues to reduce the likelihood of a significant environmental incident
Potential actions by the government	Medium	Low	Increase	Pressure for a mining tax in Mexico has increased. Mining taxes have recently been implemented in other Latin American countries (Chile and Peru), and Mexican legislators continue to take steps to move in this direction.

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

Our Principal risks

Ref #	Strategic Objective
1	Maximise the potential of existing operations
2	Deliver growth through development projects
3	Extend the growth pipeline
4	Advance our sustainable development

Risk Description and Context		Risk Response / Mitigation
Impact of Global Macroeconomic Developments		
1,2,3	There could be an adverse impact on our sales and profit, and potentially the economic viability of projects, from macroeconomic developments such as: - a decrease in gold and silver prices after a prolonged period of increase (primary driver of the risk) - adverse fluctuations in MXN/USD exchange rates or other foreign currencies	Prices of gold and silver – we have full exposure to fluctuations and currently no hedging as per our investors' mandate Prices of by-products and foreign exchange movements, including currencies impacting equipment purchase commitments – we have hedging policies in place Inflationary pressures – we engage suppliers in long-term contracts to maintain our position as a low cost producer

	- inflation and - a decrease in the price of by‐products (zinc and lead) -	and control the impact of the rising cost of mining inputs
Access to land		
1,2,3	Given our growth strategy and aggressive exploration plan, failure or significant delays in accessing the surface over our mineral concessions and other land of interest is a persistent risk with a potentially high impact on our objectives. Potential barriers to land access include: - Rising expectations of land owners - Influence of multiple interest groups in land negotiations - Conflicts in land boundaries with an often arduous resolution process - Succession issues among land owners resulting in a lack of clarity about the legal entitlement to possess and sell land - Insecurity and conflicts in our exploration/operation areas increases land access complexity	To maximise our opportunities for successful land access we: - Invest in hiring and training negotiators and provide Executive Management support for our negotiation teams - Plan well in advance for land requirements and acquisitions (e.g. anticipating potential land purchase before intensive exploration) - Foster strong community relations through investment in community programmes and infrastructure - Always seek tri-party cooperation between the government, community and ourselves in securing access to land
Safety		
4	Inherent to our industry is the risk of incidents due to unsafe acts or conditions causing injuries or fatalities to our people. Increased operational and project activity, combined with increased reliance on contractors who may not initially comply with our safety policies and procedures, has increased this risk during 2011, evidenced sadly by the fatalities from such incidents during 2011. Our people face risks of fires, explosions, electrocution and monoxide poisoning, as well as risks specific to each mine site and development project, for example rock falls caused by the geological conditions, collisions of equipment in large operations, cyanide contamination, collisions between equipment and people and smaller	Mitigating activities include: - Ownership of safety risk by management of business units (mines, projects and exploration), supported with safety guides, operational manuals and detailed procedures, with oversight through our comprehensive HSECR system and people, who coordinate consistent and complete responses to safety risks - Training including reinforcing employee and contractor instruction and emphasis on Leadership in Safety - Zero tolerance attitude for safety incidents at all levels of operations, with rules incorporated into operational procedures, safety manuals and all aspects of communication on safety. Contractors must sign up to specific requirements, standards and procedures to align

	vehicles.	with our safety policies
Security		
1,2,3,4	Our people face the risk of kidnapping, extortion or harm due to violence and insecurity prevailing in Mexico. In regions of particular insecurity we also face the risk of restricted access to operations/projects or theft of assets. The growing influence of drug cartels, other criminal elements and general lawlessness in the north of Mexico, combined with our aggressive exploration and project activity in areas of transfer or cultivation of drugs, makes working in these areas particularly risky for us.	As well as closely monitoring the security situation, clear internal communications and coordination of work in areas of higher insecurity, we have a number of practices in place to manage our security risks and prevent possible incidents: - Travel management e.g. reroute to avoid risky areas, travel in convoy, use aircraft versus land travel and avoid known insecure areas - Enhanced on-site security measures (cameras, barriers, delayed access) - Theft prevention e.g. alternating frequency of shipments, minimum inventory, minimum people informed about shipment logistics and facilities management - Invest in community programmes, infrastructure improvements, and government initiatives to support development of lawful local communities and discourage criminal acts
Projects		
2	Core to our strategic objectives is pursuing advanced exploration and significant development opportunities, which carry project related risks: - Economic viability - impact of capital cost to develop and maintain the mine, future metals prices and operating costs through the mine's production life cycle. - Uncertainties associated with developing and operating new mines - such as fluctuations in ore grade and recovery, unforeseen complexities in the mining process, poor rock quality, unexpected presence of water, lack of community support, and inability to obtain and maintain required operating permits. - Delivery risk - projects may go over budget in terms of cost and time, or may not be constructed in accordance with the required specifications.	Our investment evaluation process determines how to best direct available capital using technical, financial and other qualitative criteria. Technical: we assess the resource estimate and confirmed resources, metallurgy of the mineral bodies, investment required in general infrastructure (e.g. roads, power, general services, housing) and infrastructure required for the mine and plant. Financial: we look at risk relative to return for proposed investments of capital. We set expected internal rates of return (IRR) per project as thresholds for approving the allocation of capital based on the present value of expected cash flows from the invested capital. Other qualitative factors: e.g. strategic alignment of investment with our business model and value chain; synergies with other investments and operating assets; and implications for safety, security, people and

Our other principal risk areas have an impact too, such as lack of reliable contractors, failure or delays in gaining access to land, inability to replace mined reserves, and uncertainty relating to global economic condition.

Some projects are riskier than others. For example, Orisyvo and San Julián currently represent significant risks to the Company as both are in areas of significant insecurity impacting the movement of people and supplies. Orisyvo is very sensitive to metals prices and exposed to operational complexities which increase risk.

resourcing and community relations.

We closely monitor our project controls to ensure we deliver approved projects on time, on budget and as per defined specifications. The Executive Management Team and Board of Directors is regularly updated on progress.

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

For example at the Orisyvo project, we are looking at various potential models for the mine and alternative mining techniques to mitigate economic viability and project delivery risks.

Human resources

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

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

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

Recruitment:

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

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

Retention:

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

Contractors:

We have long-term drilling and mining contracts and provide financial resources to contractors for purchasing

		supplies and equipment. We invest significantly in training contractors, particularly on safety and environmental requirements. Unions: We have clearly assigned responsibilities and programmes for maintaining close relationships with unions at mine site and national levels. Our very experienced legal team, specifically at Peñoles, provide legal support to us. We are proactive and timely in our responses to the needs of the union.
Exploration		
3	We are highly dependent on the success of our exploration plan in meeting our targets (2011 to 2018) and through them our strategic value-creation, production and reserves goals Risks that might impact prospecting and converting inferred resources include the growing level of insecurity, lack of qualified personnel, available land and sufficient coverage of target areas. As our production escalates and more mines come close to the end of their lives, it becomes increasingly challenging to replenish their reserves.	We invest heavily in our exploration programme, aiming to maintain a sufficient exploration budget across metals cycles. We also ensure we have: - a team of highly trained and motivated geologists, both employees and longer-term contractors - a broad and robust portfolio of prospects and projects with sufficient potential in terms of indicated and inferred resources - advisory technical reviews by international third party experts - up-to-date and integrated GIS databases and software for identifying favourable metallurgical belts and districts - drill-ready projects - a focus on increasing the regional district exploration programme - strong links with government to promote better conditions for mining - identified opportunities and openness to partnerships, mergers and early stage projects acquisitions.
Environmental incidents		
4	Inherent to our industry is the risk of environmental incidents such as a tailings dam overflow or collapse, cyanide spill and dust emissions, among others, any of which could have a high potential	We have strong environmental systems, procedures and controls in place and, as for Safety risks, Environmental risks are owned by the Business Units with oversight provided by the HSECR team. Our environmental management system supports our compliance with all

	impact on our people, communities and business.	required regulations. Our operations are certified under ISO 14001 and the Clean Industry programme and we rigorously adhere to the requirements established by each project's environmental permit (Environmental Impact Manifest).
Potential actions by the Government		
1,2,3,4	We face the risk of potential implementation of new requirements from the government with an adverse impact on us, such as a tax/royalty on mining companies in Mexico or new or more stringent ecological or explosives regulations (e.g. banning open pit mining, the use of cyanide, etc.). The current risk level is very difficult to measure as there is lack of certainty on the likelihood, structure and magnitude of any potential mining tax/royalty. The potential likelihood of new ecological regulation is currently highly uncertain. However, stricter regulation on explosives is likely due to their interconnection with security risk.	Our Executive Team are members of the Mexican Mining Chamber. We participate in industry and government meetings and events to continuously monitor the political and regulatory environment. We collaborate with other members of the mining community to lobby against new detrimental taxes/royalties or regulations. We also aim for resilience against potential impact by maintaining a low cost of production and a strong capital position. We maintain strict control in receiving, handling, storing and dispatching explosives in each of our operations.

Annual Report and Accounts 2011

Fresnillo plc will publish on or around 12 April 2012 its Annual Report and Accounts for the year ended 31 December 2011 on its corporate website www.fresnilloplc.com and intends to distribute copies to shareholders at the same time.