Fresnillo plc

Financial results for the year ended 31 December 2012

Fresnillo plc today announced the financial results for the full year to 31 December 2012 and Octavio Alvídrez, CEO said:

"Our performance over a year of volatile silver prices has illustrated how strong our business model is. Operationally we met our guidance for 2012 and we are pleased that EBITDA margins have remained amongst the strongest in the industry at 60%. Our model is structured to deliver a balance between growth and returns, and our track record of delivering profitable growth, investing in our future and returning cash to shareholders, has continued over the year under review.

We are focused on low cost, high return operations and continue to invest throughout the cycles to ensure the sustainability of our business. Looking ahead, we are excited about the strength of the growth pipeline, and the four exploration projects we have highlighted today illustrate some of the many opportunities for future growth."

2012 Highlights

Maintaining operational excellence

- Record gold and stable silver production reflect positive impact of project delivery and debottlenecking mining district consolidation
- Focus on efficiency gains and cost control reinforce company position in lower quartile of production cost curve
- Noche Buena brought on stream on time and on budget

Managing the portfolio to maximise value

- Short-term mine plans adopted to reflect a changing metal price environment
- We reacted to the anticipated declining grades at Fresnillo by increasing ore volumes and ramping-up production from Saucito.
- Initiated new production at Noche Buena and increased ore volume processed at from Ciénega and Herradura
- Margins lower but remain best in class

Focus on capital discipline

- Capital is allocated in a disciplined manner based on low cost and high return projects that follow our strategy of consolidating districts
- Construction commenced at San Julián silver mine
- US$318.9m capital invested in exploration in 2012 which resulted in a double digit increase in both resources and reserves
- US$434.7m in CAPEX mainly invested in new projects with high rates of return

Financial results

2012 financial results for Fresnillo plc reflect the operational excellence of the company producing record amounts of gold and keeping silver production steady. However, against this strong operating environment, revenue was flat and profit for the year decreased by 19% to US$845 million including the effects of the Silverstream. The impact on profit was mostly due to four things: lower silver price, anticipated lower ore grades at the Fresnillo mine, higher depreciation together with higher exploration expenses.

Fresnillo's balance sheet remains strong with no debt. The Board of Directors has declared a final dividend of 42.4 US cents per ordinary share which is in addition to the interim dividend of 15.5 US cents per share which was paid on 11 September 2012.

Twelve months to 31 December 2012

$ million unless stated	2011	2011	% change
Silver Production* (kOz)	40,973	41,873	(2.1)
Gold Production* (Oz)	473,034	448,866	5.4
Total Revenue	2,157.4	2,192.7	(1.6)
Adjusted Revenue**	2,287.2	2,307.4	(0.9)
Gross Profit	1,350.7	1,563.5	(13.6)
EBITDA	1,311.5	1,538.5	(14.8)
Profit Before Income Tax	1,164.4	1,534.4	(24.1)
Profit for the year	845.4	1,038.6	(18.6)
Basic and Diluted EPS (USD)***	1.026	1.257	(18.4)

* Fresnillo attributable production, plus ounces registered in production through the Silverstream Contract
** Adjusted Revenue is revenue as disclosed in the income statement adjusted to exclude treatment and refining charges
*** The weighted average number of shares was 717,160,159

Analyst Presentation

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

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

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

Dial in number: +44 (0) 1452 555566
Access Code: 15516781

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

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About Fresnillo plc

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

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

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

Forward looking statements

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

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

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

CHAIRMAN'S STATEMENT

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

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

Market environment

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

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

After five months of continuous decline, the silver price hit a low of US$27.34 in July, from where it recovered some lost ground and closed the year at US$30.0. Physical purchases by investment funds provided support for silver prices, whilst lower industrial demand, the debt crisis in the euro zone and weak economic growth in the United States limited the recovery. The average realised price of silver was US$31.4 per ounce, 9.8% lower than in 2011.

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

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

Performance

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

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

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

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

Strategy and Governance

My Board colleagues and I remain committed to prudent financial policies that ensure sufficient cash on hand to invest in optimising existing operations, pursuing organic growth and early stage acquisition opportunities, as well as maintaining a healthy dividend stream. The approach of our Board is to take the long view, with a value creation strategy that does not change with unpredictable short-term shifts in market dynamics. We conduct regular reviews of the Group's financial liquidity and future cash requirements, and will continue to make our capital allocation decisions accordingly.

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

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

Since our UK listing and inclusion in the FTSE100 index in 2008, we have also sought to build on the governance structures and processes that were put in place at that time. As our externally-facilitated Board Evaluation review demonstrated a year ago, we have a Board structure and processes which are working effectively, although we have continued to seek ways to improve them during the past year. We have made significant strides in recent years in areas such as risk governance and anti-corruption policies and procedures, whilst making more measured but nevertheless significant progress in other areas such as succession planning.

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

Sustainable development

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

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

Outlook

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

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

I am confident that Fresnillo plc will continue to advance its proven strategy in precious metals in 2013. The dynamic leaching plant at Herradura will be commissioned during the year; construction has commenced at San

Julián, opening up a significant new mining district, and is expected to remain on track; the expansion of Saucito has been approved and we will analyse the best way to further optimise production, including the potential construction of a plant to treat pyrites which would improve gold and silver recoveries.

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

The Directors have recommended a final dividend of 42.4 US cents per Ordinary Share, which will be paid on 8 May 2013 to shareholders on the register on 19 April 2012. The dividend will be paid in UK pounds sterling unless shareholders elect to be paid in US dollars.

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

Alberto Baillères
Non-executive Chairman

CHIEF EXECUTIVE'S STATEMENT

"Fresnillo delivered a robust operational and financial performance in 2012 amid volatile precious metals prices. While profits declined in line with weaker silver prices and higher costs, we continue to manage the business for the long term in the interests of all stakeholders.

We successfully brought the Noche Buena gold mine on stream on budget and within our timetable, helping us to achieve record gold production in 2011. And we continue to invest in our future growth, with a record $319m invested in exploration in 2013 as we continue on our path to our long term targets. Notably we remain debt free and hold US$614m on the balance sheet which gives us further flexibility.

We expect silver production to remain at similar levels in 2013, with gold production rising further as Noche Buena continues to ramp up. However with further progress in the construction of San Julian, and the expansion of Saucito throughout the year, we are confident in expanding our operational capability further, while we continue to expand our resource base.

The macro-economic environment is expected to remain challenging in 2013, but we will continue to focus on costs, on operational delivery, disciplined capital allocation, and on building a long-term business that will create sustainable growth and positive returns for all stakeholders."

Performance

REVIEW OF OPERATIONS

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

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

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

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

Production

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

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

Development

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

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

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

We are currently evaluating an integrated growth and optimisation plan for the Fresnillo District that includes i) additional 2,000 tpd processing capacity at the Fresnillo mine with the construction of a ball mill and new flotation cells adjacent to the current facility; ii) increased development of the vein branches in the western zone of the mine to feed the new capacity; and iii) a pyrites plant at Saucito to process tailings from Fresnillo and Saucito that will increase recoveries by producing a silver-gold precipitate. These potential developments, along with the planned flotation plant at Saucito II, will have the capability to process ore with higher lead and zinc grades in line with the District's expected resource profile.

Exploration

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

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

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

Safety

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

Costs

Cost per tonne rose across the Group due to several factors: i) higher contractor costs; ii) greater consumption per tonne of operating materials resulting from increased development and longer haulage distances; iii) an 8.1% increase in the weighted average unit cost of operating materials; and iv) the 6.5% rise in wages in Mexican pesos for unionised workers. These adverse effects were mitigated by: i) benefits obtained from greater productivity and improved economies of scale generated by the increased volumes of ore processed at all our operating mines; and ii) the 6.0% devaluation of the Mexican peso against the US dollar.

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

Outlook

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

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

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

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

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

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 2012 figures compared to 2011, unless otherwise noted. The financial information is presented in US dollars, and all values in this commentary are expressed in millions except where indicated.

Commentary on financial performance

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

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

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

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

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

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

Income statement

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

[1] Adjusted revenue is revenue as disclosed in the income statement adjusted to exclude treatment and refining charges.
[2] Earnings before interest, taxes, depreciation and amortisation (EBITDA) is calculated as gross profit plus depreciation less administrative, selling and exploration expenses.
[3] The weighted average number of ordinary shares was 717,160,159.

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

Precious metal prices

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

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

Foreign exchange rates

The average spot Mexican peso/US dollar exchange rate devalued by 6.0%, from $12.42 per US dollar in 2011 to $13.17 per US dollar in 2012. This devaluation generated a favourable effect estimated at US$16.1 million on the Group's production costs, as costs denominated in Mexican pesos (approximately 2/3 of total costs) were lower when converted to US dollars.

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

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

Cost Inflation

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

Labour

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

Energy

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

Electricity

The Group's weighted average cost of electricity declined slightly to US$10.2 cents per kw (-2.3%), compared to US$10.6 in 2011. Electricity rates are set by the Comisión Federal de Electricidad (CFE), the national utility, based on their average generating cost, which correlates to fuel oil and coal prices.

Diesel

The weighted average cost of diesel in US dollars was US$65.7 cents per litre, a 2.3% increase over the US$64.2 cents in 2011. The Mexican Government continued adjusting fuel and diesel prices to international rates. However, the devaluation of the Mexican peso/US dollar exchange rate benefited the unit cost of diesel when converted to US dollars.

Operating Materials

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

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

Contractors

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

Maintenance

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

Treatment and Refining charges

Treatment and refining charges, which are deducted from adjusted revenue for the purposes of revenues as disclosed in the income statement, are reviewed annually in accordance with international benchmarks. The treatment charge per tonne of lead concentrate, including the escalator, decreased by 5.9%, whilst the treatment charge per tonne of zinc concentrate decreased by 15.2%. However, silver refining charges for lead concentrates increased by 22.1% year-on-year due to limited refining capacity for lead concentrates such as ours with high silver content.

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

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

Revenues

Consolidated revenues (US$ millions)

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

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

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

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

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

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

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

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

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

Adjusted revenues by metal

	2012	2011
Gold	**49%**	52%
Silver	**47%**	44%
Zinc	**2%**	2%
Lead	**2%**	2%
TOTAL	**100%**	100%

Adjusted revenues by mine

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

Volumes of metal sold

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

Cost of sales

	2012 US$ million	2011 US$ million	Amount US$	Change %
Adjusted production costs[4]	**576.23**	419.39	156.83	37.4
Depreciation	**253.89**	172.07	81.82	47.5
Change in work in progress	**(74.31)**	(25.49)	(48.82)	191.6
Profit sharing	**48.78**	69.08	(20.31)	(29.4)
Hedging	**2.11**	(5.87)	7.98	(136.0)
Cost of sales	**806.70**	**629.20**	177.50	28.2

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

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

- Adjusted production costs (+US$156.8 million): Of the increase, nearly half (US$73.8 million) was related to new operations, namely adjusted production costs incurred at the new Noche Buena mine in its first year of commercial production and three additional months of production at Saucito in 2012. Of the remaining US$83.0 million increase in adjusted production cost, we estimate that US$51.0 million is related to the increase in volume of ore processed at all our operations, US$13.0 million to cost inflation, US$15.2 million to operating factors, and US$3.8 million to other factors. By production cost component, this US$83.0 million is is a result of:

  - Contractor costs (US$68.5) million as a result of: i) an increase of ore and waste material hauled over longer distances at the open pit and underground mines; ii) an increase in the share of haulage carried out by contractors compared to unionised labour, in contrast to the labour mix in previous years; iii) backfilling, shotcreting and rock bolting to secure safety conditions at the underground mines; and iv) an increase in the unit fees charged by contractors, which included the annual rise in labour cost, depreciation of contractors’ equipment and operating materials.

  - Cost of operating materials (US$18.0) million, mainly explained by: i) the 8.1% weighted average increase in the unit price of operating materials; ii) higher consumption of explosives and reagents at Herradura and Soledad-Dipolos related to the increased volumes deposited and to increase recovery speed; iii) higher consumption of steel for drilling at Fresnillo and Ciénega; and iv) higher consumption of anchors and tyres associated with the additional rock bolting and shotcreting activities.

  - Cost of maintenance (US$6.5 million) due to: i) at Fresnillo, additional maintenance on the fire detection systems and electric spare parts for in-mine equipment; ii) at Saucito, increase in spare parts for the additional equipment; and iii) at Herradura, replacement of Terex shovel components.

  - Personnel costs, excluding profit sharing, (US$5.8) million mainly due to: i) a 6.5% increase in wages in Mexican pesos; ii) the additional personnel hired at Herradura, Soledad-Dipolos and Ciénega to increase volumes of ore processed; and iii) additional hours of training to improve safety.

- The cost of energy (electricity and diesel) (US$5.1) million mainly due to longer haulage distances and deeper pits at Herradura and Soledad-Dipolos. The higher production volumes also increased energy consumption.

- The above factors were partially mitigated by the 6.0% devaluation of the average Mexican peso/US dollar spot exchange rate, which resulted in a US$16.1 million favourable effect when converting peso-denominated costs to US dollars, and by a US$4.8 million decrease in other costs.

- Depreciation (+US$81.8 million): The increase was mainly due to the increased asset base with Noche Buena and a full year of depreciation for Saucito, as compared to nine months in 2011. Furthermore, the depletion factors for these mines were higher than those expected in the future as these utilised proven and probable reserves prior to increases reflected in the audited reserves figures obtained in early 2013, which will be utilised prospectively. In addition, the depreciation for other mines was impacted by the higher depreciable capital base as a result of additional mine work and higher production volumes.

- Change in work in progress (-US$48.8 million): The higher change in work in progress resulted principally from the increase in ore inventories at Noche Buena related to the construction of pads and at Soledad-Dipolos due to the slower recovery speed.

- Profit sharing (-US$20.3 million): Lower profit sharing reflected lower profits mainly at the Fresnillo mine.

- Hedging (+US$8.0): The Group enters into certain exchange rate derivative instruments as part of a programme to manage its exposure to foreign exchange risk associated with costs incurred in Mexican pesos. In 2012, forward dollar sales for US$50.0 million at an average rate of $12.65 matured, resulting in a narrow loss (US$0.7 million) recognised in the income statement (versus a profit of US$3.2 million last year). There was no outstanding net forward position as of 31 December 2012.

  Additionally, the Group entered into a combination of put and call options structured at zero cost (collars). In 2012, these derivatives were used to hedge US$121.5 million of costs denominated in Mexican pesos with average floor and cap exchange rates of $12.58 and $13.77 per US dollar respectively, resulting in a US$1.4 million loss recorded in the income statement (versus a profit of US$2.7 million in 2011). The total outstanding position using collar structures as of 31 December 2012 was US$115.0 million with maturity dates throughout 2013. These instruments guarantee a minimum exchange rate should the market fall below the floor exchange rate. Between the floor and cap exchange rates the Group sells US dollars at the market rate, and when the Mexican peso per US dollar exchange rate goes above the cap rate, the Company is obliged to sell US dollars at the contract rate.

Cost per tonne and cash cost per ounce

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

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

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

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

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

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

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

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

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

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

Cash cost per ounce[7]

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

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

* Cash cost at Saucito is not comparable as an important part of the ore process in 2011 was sourced from stockpiled material during the construction of the mine

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Administrative expenses

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

Exploration expenses

Business unit / project (US$ millions)	Exploration expenses	Capitalised expenses
Ciénega	15.4	-
Fresnillo	9.4	-
Herradura	13.5	-
Soledad-Dipolos	10.6	-
Saucito	3.7	-
Noche Buena	22.2	-
San Ramón	10.8	-
San Julián	22.7	62.3
Orisyvo	19.5	1.2
New Herradura Corridor	5.8	-
Centauro Deep	33.1	8.1
San Juan	3.7	-
Lucerito	5.5	-
Candameña	4.6	-

Guachichil	7.4	-
Guanajuato	5.9	-
Peru	3.8	-
Manzanillas	2.8	-
Juanicipio	0.0	5.7
Others	33.1	8.1
TOTAL	**233.5**	**85.4**

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

EBITDA

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

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

Silverstream effects

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

Since the IPO, cumulative cash received totalled US$350 million, while total non-cash revaluation gains of US$488.8 million have been taken to income. However, it was anticipated that the Group would expect further unrealised gains or losses taken to the income statement in accordance with the cyclical behaviour of the silver price or changes in the variables considered in valuing this contract.

Foreign exchange

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

Taxation

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

Profit for the year

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

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

Cash Flow

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

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

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

- A US$98.3 million increase in ore inventories resulting from ore deposited at the leaching pads of Herradura and Noche Buena and slower recovery at Soledad-Dipolos.

- Trade and other receivables which rose by US$13.0 million due to: i) higher receivables resulting from the increased volumes of ore sold and higher gold prices; ii) increased recoverable value added tax; and iii) equipment sold to contractors on credit.

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

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

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

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

Purchase of property, plant and equipment

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

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

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

Balance Sheet

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

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

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

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

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

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

Dividends

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

Statement of Directors´ responsibilities

I confirm on behalf of the Board that to the best of its knowledge:

a) the financial information, prepared in accordance with International Financial Reporting Standards as adopted by the European Commission, give a true and fair view of the assets, liabilities, financial position and profit and loss of the Company and the undertakings included in the consolidation taken as a whole; and

b) the management report (encompassed within the “Overview” and "Performance" sections) includes a fair review of the development and performance of the business, and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

For and on behalf of the Board

Lord Cairns
Senior Independent Director
11 March 2013

Consolidated Income Statement

		Year ended 31 December 2012			Year ended 31 December 2011		
	Notes	US$ thousands			US$ thousands		
		Pre-Silverstream revaluation effect	**Silverstream revaluation effect**	**Total**	Pre-Silverstream revaluation effect	Silverstream revaluation effect	Total
Continuing operations:							
Revenues	4	2,157,404		2,157,404	2,192,663		2,192,663
Cost of sales	5	(806,700)		(806,700)	(629,200)		(629,200)
Gross profit		**1,350,704**		**1,350,704**	**1,563,463**		**1,563,463**
Administrative expenses		(53,212)		(53,212)	(56,516)		(56,516)
Exploration expenses	6	(233,532)		(233,532)	(133,994)		(133,994)
Selling expenses		(6,306)		(6,306)	(6,532)		(6,532)
Other operating income		6,912		6,912	8,898		8,898
Other operating expenses		(17,770)		(17,770)	(14,432)		(14,432)
Profit from continuing operations before net finance costs and income tax		**1,046,796**		**1,046,796**	**1,360,887**		**1,360,887**
Finance income		12,273		12,273	8,172		8,172
Finance costs		(3,922)		(3,922)	(9,236)		(9,236)
Revaluation effects of Silverstream contract	11	–	117,682	117,682	–	159,865	159,865
Foreign exchange (loss)/gain		(8,402)		(8,402)	14,694		14,694
Profit from continuing operations before income tax		**1,046,745**	**117,682**	**1,164,427**	**1,374,517**	**159,865**	**1,534,382**
Income tax expense	7	(285,324)	(33,658)	318,982	(450,380)	(45,386)	(495,766)
Profit for the year from continuing operations		**761,421**	**84,024**	**845,445**	**924,137**	**114,479**	**1,038,616**
Attributable to:							
Equity shareholders of the Company		652,065	84,024	736,089	787,269	114,479	901,748
Non-controlling interest		109,356		109,356	136,868		136,868
		761,421	**84,024**	**845,445**	**924,137**	**114,479**	**1,038,616**
Earnings per share: (US$)							
Basic and diluted earnings per ordinary share from continuing operations **Adjusted earnings per share: (US$)**	8	–		1.026	–		1.257
Adjusted basic and diluted earnings per Ordinary Share from continuing operations	8	0.909		–	1.098		–

Consolidated Statement of Comprehensive Income

		Year ended 31 December	
	Notes	**2012 US$ thousands**	2011 US$ thousands
Profit for the year		**845,445**	**1,038,616**
Net gains/(losses) on cash flow hedges recycled to income statement		2,488	(7,158)
Tax effect of cash flow hedges (gains)/losses recycled to income statement	7	(746)	2,147
Gains on cash flow hedge reclassified to the value of other assets		965	–
Tax effect on cash flow hedge gains reclassified to the value of other assets		(289)	–
Net unrealised gains/(losses) on cash flow hedges		5,924	(4,341)
Tax effect of net unrealised (gains)/losses on cash flow hedges	7	(1,777)	1,302
Net effect of cash flow hedges		**6,565**	**(8,050)**
Fair value gains/(losses) on available-for-sale financial assets	10	29,556	(46,916)
Tax effect of fair value (gains)/losses on available-for-sale financial assets	7	(8,276)	13,137
Net effect of available-for-sale financial assets		**21,280**	**(33,779)**
Foreign currency translation		**(60)**	**73**
Other comprehensive gain (loss) for the year, net of tax		**27,785**	**(41,756)**
Total comprehensive income for the year, net of tax		**873,320**	**996,860**
Attributable to:			
Equity shareholders of the Company		763,665	860,198
Non-controlling interest		109,565	136,662
		873,230	**996,860**

Consolidated Balance Sheet

		As at 31 December	
	Notes	**2012 US$ thousands**	2011 US$ thousands
ASSETS			
Non-current assets			
Property, plant and equipment	9	1,480,285	1,194,445
Available-for-sale financial assets	10	127,442	94,861
Silverstream contract	11	419,489	414,842
Deferred tax asset	7	70,815	40,425
Other receivables		21,003	13,125
Other assets		2,171	963
		2,121,205	**1,758,661**
Current assets			
Inventories	12	198,007	99,836
Trade and other receivables		263,644	249,281
Prepayments		3,103	3,226
Derivative financial instruments		2,842	217
Silverstream contract	11	68,290	63,241
Cash and cash equivalents		613,773	684,922
		1,149,659	**1,100,723**
Total assets		**3,270,864**	**2,859,384**
EQUITY AND LIABILITIES			
Capital and reserves attributable to shareholders of the Company			
Share capital		358,680	358,680
Share premium		818,597	818,597
Capital reserve		(526,910)	(526,910)
Net unrealised gains (losses) on cash flow hedges		684	(5,672)
Net unrealised gains on available-for-sale financial assets		52,573	31,293
Foreign currency translation reserve		(542)	(482)
Retained earnings		1,530,380	1,192,315
		2,233,462	1,867,821
Non-controlling interest		368,608	281,562
Total equity		**2,602,070**	**2,149,383**
Non-current liabilities			
Provision for mine closure cost	13	104,712	50,754
Provision for pensions and other post-employment benefit plans		10,723	9,240
Derivative financial instruments		–	693
Deferred tax liability	7	376,124	357,989
		491,559	**418,676**

		As at 31 December	
	Notes	**2012 US$ thousands**	2011 US$ thousands
Current liabilities			
Trade and other payables		95,287	88,726
Derivative financial instruments		1,128	13,069
Income tax		28,994	128,441
Employee profit sharing		51,826	61,089
		177,235	**291,325**
Total liabilities		**668,794**	**710,001**
Total equity and liabilities		**3,270,864**	**2,859,384**

These financial statements were approved by the Board of Directors on 11 March 2013 and signed on its behalf by:

Jaime Lomelín
Non-Executive Director

11 March 2013

Consolidated Cash Flow Statement

		Year ended 31 December	
	Notes	**2012 US$ thousands**	2011 US$ thousands
Net cash from operating activities	16	**736,380**	**1,249,176**
Cash flows from investing activities			
Purchase of property, plant and equipment		(520,002)	(467,742)
Proceeds from the sale of property, plant and equipment and other assets		13,807	4,144
Proceeds from mines under development		–	3,941
Purchase of available for sale financial assets		(3,025)	–
Loans granted to contractors		(6,428)	(15,051)
Repayments of loans granted to contractors		10,125	9,564
Silverstream contract	11	110,621	103,042
Interest received		6,365	7,326
Other proceeds		–	2,414
Net cash used in investing activities		**(388,537)**	**(352,362)**
Cash flows from financing activities			
Capital contribution		3,694	20,806
Dividends paid to shareholders of the Company		(397,610)	(705,456)
Dividends paid to non-controlling interest		(26,213)	(81,460)
Interest paid		(1)	(132)
Net cash used in financing activities		**(420,130)**	**(766,242)**
Net (decrease) increase in cash and cash equivalents during the year		(72,287)	130,572
Effect of exchange rate on cash and cash equivalents		1,138	(5,187)
Cash and cash equivalents at 1 January		684,922	559,537
Cash and cash equivalents at 31 December		**613,773**	**684,922**

Consolidated Statement of Changes in Equity

	Attributable to equity holders of the Company									
	Share capital	Share premium	Capital reserve	Net unrealised gains/ (losses) on revaluation of cash flow hedges	Net unrealised gains/ (losses) on available-for-sale financial assets	Foreign currency translation reserve	Retained earnings	Total	Non-controlling interest	Total equity
								US$ thousands		
Balance at 1 January 2011	358,680	818,597	(526,910)	2,172	65,072	(555)	996,658	1,713,714	205,554	1,919,268
Profit for the year							901,748	901,748	136,868	1,038,616
Other comprehensive income, net of tax				(7,844)	(33,779)	73	–	(41,550)	(206)	(41,756)
Total comprehensive income for the year				(7,844)	(33,779)	73	901,748	860,198	136,662	996,860
Capital contribution									20,806	20,806
Dividends declared and paid							(706,091)	(706,091)	(81,460)	(787,551)
Balance at 31 December 2011	**358,680**	**818,597**	**(526,910)**	**(5,672)**	**31,293**	**(482)**	**1,192,315**	**1,867,821**	**281,562**	**2,149,383**
Balance at 1 January 2012	**358,680**	**818,597**	**(526,910)**	**(5,672)**	**31,293**	**(482)**	**1,192,315**	**1,867,821**	**281,562**	**2,149,383**
Profit for the year							736,089	736,089	109,356	845,445
Other comprehensive income, net of tax				6,356	21,280	(60)	–	27,576	209	27,785
Total comprehensive income for the year				6,356	21,280	(60)	736,089	736,665	109,565	873,230
Capital contribution									3,694	3,694
Dividends declared and paid							(398,024)	(398,024)	(26,213)	(424,237)
Balance at 31 December 2012	**358,680**	**818,597**	**(526,910)**	**684**	**52,273**	**(542)**	**1,530,380**	**2,233,462**	**368,608**	**2,602,070**

Notes to the 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 per cent 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 consolidated financial statements of the Group for the year ended 31 December 2012 were authorised, and this preliminary announcement approved, for issue by the Board of Directors of Fresnillo plc on 11 March 2013.

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 six fully developed operating mines: Fresnillo, Herradura, Ciénega, Soledad-Dipolos, Saucito and Noche Buena, the latter having started production in March 2012. Further information about segments is disclosed in Note 3.

2. Significant accounting policies

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

Basis of preparation and statement of compliance

The Group's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union as they apply to the financial statements of the Group for the years ended 31 December 2012 and 2011, and in accordance with the provisions of the Companies Act 2006.

The consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments, available-for-sale financial instruments and defined benefit pension scheme assets which have been measured at fair value.

The consolidated financial statements are presented in dollars of the United States of America (US dollars or US$) and all values are rounded to the nearest thousand ($000) except when otherwise indicated.

Basis of consolidation

The consolidated financial statements set out the Group's financial position as of 31 December 2012 and 2011, and the results of operations and cash flows for the years then ended.

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

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

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

(b) Changes in accounting policies and disclosures

The accounting policies applied are consistent with those applied in the preparation of the consolidated financial statements for the year ended 31 December 2011.

New and amended standards and interpretations

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

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

– IAS 19 Employee Benefits (Amendment): The IASB has issued numerous amendments to IAS 19. The amendment becomes effective for annual periods beginning on or after 1 January 2013 and is applicable retrospectively from the beginning of the earliest period presented. The Group is currently assessing the impact this interpretation will have on the financial position and performance.

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

– Presentation changes to the statement of comprehensive income: the net actuarial gain recognised in the year will be presented within OCI, instead of being recognised in the income statement; and

– Financial performance change: due to presentation changes, the profit/(loss) of the year and earning per shares will be impacted.

The Group is currently assessing the full impact of the remaining standards and interpretations (as detailed below):

– IFRS 9 Financial Instruments – Classification and Measurement: The standard reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The Group is in the process of identifying the potential impacts of the current changes to IFRS 9 and will quantify the effects on its consolidated financial position and results of operations in conjunction with the other phases, when issued, to present a comprehensive picture of such impacts on its consolidated financial statements.

– IFRS 10 Consolidated Financial Statements: The standard replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation – Special Purpose Entities. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 require management to exercise significant judgement to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. This standard becomes effective for annual periods beginning on or after 1 January 2014. The Group is currently assessing the impact this interpretation will have on the financial position and performance.

IFRS 12 Disclosure of Involvement with Other Entities: IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures will also be required. This standard will become effective for annual periods beginning on or after 1 January 2014 with the adoption of IFRS 10, IFRS 11, IAS 27 (2012) and IAS 28 (2012). The Group will include the relevant disclosures required by IFRS 12 upon adoption.

– IFRS 13 Fair Value Measurement: IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value when fair value is required or permitted. The Group is currently assessing the impact that this standard will have on its financial position and performance. This standard becomes effective for annual periods beginning on or after 1 January 2013. Given the Group does not currently have non-monetary assets measured at fair value, the potential impacts of this new standard would be in relation to its financial instruments measured at fair value.

– IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine (New interpretation): This interpretation provides guidance for the recognition of production stripping costs as a non-current asset. It establishes that stripping costs are recognised as a non-current asset, to the extent the benefit is improved access to ore and only if it is probable that the future economic benefit associated with the stripping activity will flow to the entity, the component of the ore body for which access has been improved can be clearly identified and the costs relating to the stripping activity associated with that component can be measured reliably. This standard becomes effective for annual periods beginning on or after 1 January 2013. The Group is currently assessing the impact this interpretation will have on the Group's financial position and performance.

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

3. Segment reporting

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

At 31 December 2012 the Group has six reportable operating segments following the successful conclusion of the development of the Noche Buena mine in February 2012 and commercial production starting in March 2012. The following segments represent the Group's six producing mines as follows:

– The Fresnillo mine, located in the State of Zacatecas, the world's largest primary silver mine;

– The Saucito mine, located in the State of Zacatecas, an underground silver mine;

– The Cienega mine, located in the State of Durango, an underground gold mine; including the San Ramon satellite mine;

– The Herradura mine, located in the State of Sonora, an open pit gold mine;

– The Soledad-Dipolos mine, located in the State of Sonora, an open pit gold mine; and

– The Noche Buena mine, located in State of Sonora, an open pit gold mine.

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

The exploration services provided by 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 2012 and 2011 all revenue was derived from customers based in Mexico.

Operating segments

The following tables present revenue and profit information regarding the Group's operating segments for the year ended 31 December 2012 and 2011, respectively:

	Year ended 31 December 2012								
US$ thousands	**Fresnillo**	**Herradura**	**Cienega**	**Soledad-Dipolos**	**Saucito**	**Noche Buena**	**Other[10]**	**Adjustments and eliminations**	**Total**
Revenues:									
Third party	817,731	526,921	303,863	177,553	223,226	108,110	–	–	2,157,404
Inter-Segment	–	–	–	–	39,062	–	80,180	(119,242)	–
Segment revenues	**817,731**	**526,921**	**303,863**	**117,553**	**262,288**	**108,110**	**80,180**	**(119,242)**	**2,157,404**
Segment Profit[9]	**656,099**	**369,551**	**217,729**	**112,226**	**206,356**	**68,345**	**75,614**	**(50,439)**	**1,655,481**
Hedging	–	–	–	–	–	–	–	–	(2,111)
Depreciation	–	–	–	–	–	–	–	–	(253,890)
Employee profit sharing	–	–	–	–	–	–	–	–	(48,776)
Gross profit as per the income statement	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1,350,704**
Capital expenditure[1]	85,529[2]	109,153[3]	81,875[4]	8,674[5]	54,387[6]	42,018[7]	138,367[8]	–	520,003

1 Capital expenditure consists of additions to property, plant and equipment, excluding additions relating to changes in the mine closure provision.
2 Capital expenditure relates to mine development work, scoop and raise boring equipment and land.
3 Capital expenditure relates to the construction of leaching pads, equipment such as rotary drill rig tractors and dump trucks, construction of an electrical station and open pit mine development activities.
4 Capital expenditure relates to mine development work, scoop and raise boring equipment and land.
5 Capital expenditure relates to the construction of leaching pads, equipment such as dump trucks and tractors and a rotary drill rig and open pit mine development activities.
6 Capital expenditure relates to mine development work, including hoisting equipment and ramp and shaft developments and scoop equipment.
7 Capital expenditure relates to the construction of leaching pads, equipment such as dump trucks and tractors and a rotary drill rig and open pit mine development activities.
8 Capital expenditure relates to the acquisition of property, plant and equipment and exploration expenditures capitalised, including San Julian project.
9 Treatment and refining charges amounting to US$129.8 million are included in Segment Profit.
10 Other includes exploration services provided by Exploraciones Mineras Parreña, S.A. de C.V. and mine equipment purchased by Minera El Bermejal.

	Year ended 31 December 2011								
US$ thousands	Fresnillo[10]	Herradura	Cienega	Soledad-Dipolos	Saucito	Noche Buena[10]	Other[9]	Adjustments and eliminations	Total
Revenues:									
Third party	989,443	520,749	236,462	247,040	198,969	–	–	–	2,192,663
Inter-Segment	–	–	–	–	19,401	–	63,067	(82,468)	–
Segment revenues	**989,443**	**520,749**	**236,462**	**247,040**	**218,370**	**–**	**63,067**	**(82,468)**	**2,192,663**
Segment Profit[8]	**859,924**	**404,791**	**165,738**	**180,440**	**177,513**	**–**	**63,045**	**(52,698)**	**1,798,753**
Hedging	–	–	–	–	–	–	–	–	5,867
Depreciation	–	–	–	–	–	–	–	–	(172,073)
Employee profit sharing	–	–	–	–	–	–	–	–	(69,084)
Gross profit as per the income statement	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1,563,463**
Capital expenditure[1]	71,269[2]	72,666[3]	79,768[4]	37,084[5]	65,280[6]	58,078	83,597[7]	–	467,742

1 Capital expenditure consists of additions to property, plant and equipment, excluding additions relating to changes in the mine closure provision.
2 Capital expenditure relates to mine development work, scoop and raise boring equipment and land.

[3] Capital expenditure relates to the construction of leaching pads, equipment such as rotary drill rig tractors and dump trucks, construction of an electrical station and open pit mine development activities.
[4] Capital expenditure relates to mine development work, scoop and raise boring equipment and land.
[5] Capital expenditure relates to the construction of leaching pads, equipment such as dump trucks and tractors and a rotary drill rig and open pit mine development activities.
[6] Capital expenditure relates to mine development work, including hoisting equipment and ramp and shaft developments and scoop equipment.
[7] Capital expenditure relates to the acquisition of property, plant and equipment and exploration expenditures capitalised, including San Julian project.
[8] Treatment and refining charges amounting to US$114.8 million are included in Segment Profit.
[9] Other includes exploration services provided Exploraciones Mineras Parreña, S.A. de C.V. and mine equipment purchased by Minera El Bermejal.
[10] Certain comparative information, which was previously presented in the 'Other' segment, has been disclosed to conform to current period presentation, such as capital expenditure related to the Noche Buena mine development, including construction of leaching pads, purchase of equipment and open pit mine development activities.

4. Revenues

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

(a) Revenues by product sold

	Year ended 31 December	
	2012 US$ thousands	2011 US$ thousands
Lead concentrates (containing silver, gold, lead and by-products)	1,168,888	1,253,090
Doré and slag (containing gold, silver and by-products)	812,584	767,789
Zinc concentrates (containing zinc, silver and by-products)	75,601	92,027
Precipitates (containing gold and silver)	100,331	79,757
	2,157,404	**2,192,663**

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

[1] Included in the value of lead and zinc concentrates, precipitates and doré are provisional price adjustments which represent changes in the fair value of embedded derivatives. In 2012 the Group has recognised a gain of US$8.3 million (2011: loss of US$20.6 million).

(b) Value of metal content in products sold

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

	Year ended 31 December	
	2012 US$ thousands	2011 US$ thousands
Silver	1,084,329	1,214,214
Gold	1,118,587	1,009,439
Zinc	43,501	40,791
Lead	40,823	43,008
Value of metal content in products sold	2,287,240	2,307,452
Adjustment for treatment and refining charges	(129,836)	(114,789)
Total revenues[1]	**2,157,404**	**2,192,663**

[1] Included in the value of lead and zinc concentrates, precipitates and doré are provisional price adjustments which represent changes in the fair value of embedded derivatives. In 2012 the Group has recognised a gain of US$8.3 million (2011: loss of US$20.6 million).

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

	Year ended 31 December	
	2012 US$ per ounce	2012 US$ per ounce
Gold	1,674.1	1,585.3
Silver	31.4	34.8

5. Cost of sales

	Year ended 31 December	
	2012 US$ thousands	2011 US$ thousands
Depreciation	253,890	172,073
Personnel expenses	109,536	122,517
Maintenance and repairs	78,158	67,685
Operating materials	117,255	84,882
Energy	92,542	79,574
Contractors	191,208	97,515
Freight	8,874	6,211
Insurance	6,070	4,435
Mining rights and contributions	7,574	7,368
Other	13,790	13,116
Cost of production	878,897	655,376
Loss (gain) on foreign currency hedges	2,111	(5,867)
Change in work in progress and finished goods (ore inventories)	(74,308)	(20,309)
Cost of sales	**806,700**	**629,200**

6. Exploration expenses

	Year ended 31 December	
	2012 US$ thousands	2011 US$ thousands
Contractors	192,914	107,030
Administrative services	10,996	7,489
Mining rights and contributions	9,710	7,495
Personnel expenses (note 8)	3,636	3,264
Assays	8,686	3,919
Maintenance and repairs	549	490
Operating materials	2,867	2,008
Rentals	2,497	1,354
Energy	550	276
Other	1,127	669
	233,532	**133,994**

These exploration expenses were mainly incurred in increasing the reserves and resources of the Fresnillo, Penmont, La Ciénega, Saucito and Juanicipio legal entities. Minor exploration expenses of US$5.7 million (2011: US$3.1 million) were incurred in the year elsewhere in Latin America.

7. Income tax expense

a) Major components of income tax expense:

	Year ended 31 December	
	2012 US$ thousands	2011 US$ thousands
Consolidated income statement:		
Current income tax:		
Current income tax charge	345,634	366,298
Amounts overprovided in previous years	(4,079)	(943)
	341,555	365,355
Deferred income tax:		
Origination and reversal of temporary differences	(56,231)	85,025
Revaluation effects of Silverstream contract	33,658	45,386
	(22,573)	130,411
Income tax expense reported in the income statement	**318,982**	**495,766**

	Year ended 31 December	
	2012 US$ thousands	2011 US$ thousands
Consolidated statement of comprehensive income:		
Deferred income tax effect related to items charged or credited directly to other comprehensive income:		
Net gains reclassified to value of other assets	(289)	–
Net (gains)/losses on cash flow hedges recycled to income statement	(746)	2,147
Net unrealised (gains)/losses arising on valuation of cash flow hedges	(1,777)	1,302
Net expense arising on unrealised gains/(losses) on available-for-sale assets	(8,276)	13,137
Income tax effect reported in other comprehensive income	**(11,088)**	**16,586**

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

	Year ended 31 December	
	2012 US$ thousands	2011 US$ thousands
Accounting profit before income tax	**1,164,427**	1,534,382
Tax at the Group's statutory income tax rate 30.0%	349,328	460,314
Expenses not deductible for tax purposes	169	202
Inflationary uplift of the tax base of assets and liabilities	(12,330)	(13,628)
Current income tax overprovided in previous years	(4,079)	(943)

Exchange rate effect on tax value of assets and liabilities	(17,773)	27,584
Non-deductible asset disposals	-	1,539
Non-deductible/non-taxable foreign exchange gains or losses	(8,108)	26,106
Inflationary uplift of tax losses	(714)	(1,520)
Deferred tax asset not recognised	3,652	977
Other	8,837	(4,865)
Tax at the effective income tax rate of 27.4% (2011: 32.3%)	**318,982**	**495,766**

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

	Year ended 31 December	
	2012 US$ thousands	2011 US$ thousands
Beginning net liability	(317,564)	(203,222)
Income statement credit/(charge)	22,573	(130,411)
Exchange difference	770	(517)
Net gains reclassified to value of other assets	(289)	–
Net (gains)/losses on cash flow hedges recycled to income statement	(746)	2,147
Net unrealised gains/(losses) arising on valuation of cash flow hedges	(1,777)	1,302
Unrealised (gains)/losses on available-for-sale financial assets	(8,276)	13,137
Ending net liability	**(305,309)**	**(317,564)**

The amounts of deferred income tax assets and liabilities as at 31 December 2012 and 2011, considering the nature of the temporary differences, are as follows:

	Consolidated balance sheet			Consolidated income statement	
	2012 US$ thousands	2011 US$ thousands		**2012 US$ thousands**	2011 US$ thousands
Related party receivables	(95,920)	(101,416)		(5,496)	35,495
Other receivables	(1,797)	(6,463)		(4,666)	5,969
Inventories	24,649	20,042		(4,607)	(9,864)
Prepayments	(917)	(5,532)		(4,615)	4,797
Derivative financial instruments including Silverstream contract	(93,178)	(83,950)		6,416	27,230
Property, plant and equipment	(190,895)	(184,699)		6,727	43,636
Operating liabilities	5,943	1,391		(4,552)	475
Other payables and provisions	29,319	14,211		(15,108)	(3,688)
Losses carried forward	18,011	17,818		(193)	34,917
Post-employment benefits	3,002	2,560		(442)	(793)
Deductible profit sharing	15,527	18,307		2,780	(6,445)
Available-for-sale financial assets	(16,386)	(8,110)		–	–
Other	(2,667)	(1,723)		1,183	(1,318)
Deferred tax expense/(income)				**(22,573)**	**130,411**
Total deferred tax liability	**(305,309)**	**(317,564)**			
Reflected in the statement of financial position as follows:					
Deferred tax assets	70,815	40,425			
Deferred tax liabilities-continuining operations	(376,124)	(357,989)			
Total deferred tax liability	(305,309)	**(317,564)**			

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to the same fiscal authority. A deferred tax asset has been recognised in respect of tax losses amounting to US$67.9 million (2011: US$63.6 million).

(d) Unrecognised deferred tax on investments in subsidiaries

The Group has not recognised all of the deferred tax liability in respect of distributable reserves of its subsidiaries because it controls them and only part of the temporary differences are expected to reverse in the foreseeable future. The temporary differences for which a deferred tax liability has not been recognised aggregate to US$1,256 million (2011: US$992.5 million).

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

In accordance with the Mexican tax law, the Group companies in Mexico are subject to Income Tax ('ISR') and Business Flat Tax ('IETU'). IETU is an alternative minimum corporate income tax, effective in January 1, 2008 which replaced the business asset tax as a minimum tax. Companies are required to pay the greater of their mainstream corporate income tax liability for the year or their liability to IETU.
The income tax rate for 2011 and 2012 is 30%, On 17 December 2012 new temporary tax rates were published in the Official Daily of the Federal Government. Consequently, the tax rate for 2013 will be 30%, the tax rate for 2014 will be 29% and the tax rate from 2015 will be 28%. Deferred taxes have been calculated at the rate applicable to the year the amounts are expected to materialise. IETU is calculated at the rate of 17.5% and applies to the sale of goods, rendering of

independent services and temporary use or enjoyment of goods. In calculating the charge to IETU, deductions are allowed for certain expenses incurred in generating income.

In respect of the Group, in 2012 and 2011 management undertook calculations to determine the impact of the IETU provisions on the Group. As a result of such analysis, management concluded that there was no material impact on the Group, since the mainstream corporate income tax liability for each Group company was forecast to be greater than the future potential IETU charge, accordingly, no IETU liability was recognised in either year.

8. Earnings per share

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

The Company has no dilutive potential ordinary shares.

As of 31 December 2012 and 2011, earnings per share have been calculated as follows:

	Year ended 31 December	
	2012 US$ thousands	2011 US$ thousands
Earnings:		
Profit from continuing operations attributable to equity holders of the Company (in thousands of US dollars)	736,089	901,748
Adjusted profit from continuing operations attributable to equity holders of the Company (in thousands of US dollars)	652,065	787,269

Adjusted profit is profit as disclosed in the Consolidated Income Statement adjusted to exclude revaluation effects of the Silverstream contract of US$117.7 million gain (US$84.0 million net of tax) (2011: US$159.9 million gain (US$114.5 million net of tax)).

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

	2012 thousands	2011 thousands
Number of shares:		
Weighted average number of ordinary shares in issue	717,160	717,160

	2012 US$	2011 US$
Earnings per share:		
Basic and diluted earnings per share	1.026	1.257
Adjusted basic and diluted earnings per ordinary share from continuing operations	0.909	1.098

9. Property, plant and equipment

	Land and buildings	Plant and Equipment	Mining properties and development costs	Other assets	Construction in Progress	Total
	Year ended 31 December 2011					
	US$ thousands					
Cost						
At 1 January 2011	81,290	415,487	463,351	49,283	229,350	**1,238,761**
Additions	2,549	55,659	26,332	12,144	380,698	**477,382**
Disposals	(115)	(8,859)	–	(1,199)	(4,425)	**(14,598)**
Transfers and other movements	13,879	162,226	116,451	23,655	(316,211)	**–**
At 31 December 2011	97,603	624,513	606,134	83,883	289,412	**1,701,545**
Accumulated depreciation						
At 1 January 2011	(20,123)	(73,723)	(236,224)	(12,908)	–	**(342,978)**
Depreciation for the year	(8,307)	(90,442)	(61,379)	(11,945)	–	**(172,073)**
Disposals	48	6,972	–	931	–	**7,951**
At 31 December 2011	(28,382)	(157,193)	(297,603)	(23,922)	–	**(507,100)**
Net Book amount at 31 December 2011	**69,221**	**467,320**	**308,531**	**59,961**	**289,412**	**1,194,445**

	Land and buildings	Plant and Equipment	Mining properties and development costs	Other assets	Construction in Progress	Total
	Year ended 31 December 2012					
	US$ thousands					
Cost						
At 1 January 2012	97,603	624,513	606,134	83,883	289,412	**1,701,545**
Additions	3,940	66,709	50,564	52,645	397,996	**571,854**
Disposals	(4,308)	(18,993)	(7,072)	(1,314)	(25,254)	**(56,941)**
Transfers and other movements	34,091	199,457	104,629	14,367	(352,544)	**–**
At 31 December 2012	131,326	871,686	754,255	149,581	309,610	**2,216,458**
Accumulated depreciation						
At 1 January 2012	(28,382)	(157,193)	(297,603)	(23,922)	–	**(507,100)**
Depreciation for the year	(12,379)	(130,036)	(92,066)	(19,409)	–	**(253,890)**
Disposals	17	17,107	7,024	1,016	–	**25,164**
At 31 December 2012	(40,744)	(270,122)	(382,645)	(42,315)	–	**(735,826)**
Net Book amount at 31 December 2012	**90,582**	**601,564**	**371,610**	**107,266**	**309,610**	**1,480,285**

The table below details construction in progress by mine.

	Year ended 31 December	
	2012 US$ thousands	2011 US$ thousands
Saucito	38,482	30,157
Penmont	98,756	99,019
Juanicipio	35,337	30,843
Cienega	24,852	36,816
Fresnillo	106,310	90,367
Other	5,526	2,210
	309,610	**289,412**

During the year ended 31 December 2012 and 2011, the Group has no capitalised borrowing costs within construction in progress.

10. Available-for-sale financial assets

	Year ended 31 December	
	2012 US$ thousands	2011 US$ thousands
Beginning balance	94,861	141,777
Additions	3,025	–
Fair value change	29,556	(46,916)
Ending balance	**127,442**	**94,861**

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

11. Silverstream contract

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

The Silverstream contract represents a derivative financial instrument which has been recorded at fair value and classified within non-current and current assets as appropriate. Changes in the contract's fair value, other than those represented by the realisation of the asset through the receipt of either cash or refined silver, are charged or credited to the income statement. In the year ended 31 December 2012 total proceeds received in cash were US$110.6 million (2011: US$103.1 million) of which, US$13.6 million was in respect of proceeds receivable as at 31 December 2011 (2011: US$7.2 million). Cash received in respect of the year of US$97.0 million (2011: US$95.8 million) corresponds to 3.8 million ounces of payable silver (2011: 2.9 million ounces). As at 31 December 2012, a further US$11 million (2011: US$13.6 million) of cash corresponding to 378,345 ounces of silver is due (2011: 520,088 ounces).

The most significant drivers of the US$117.7 million unrealised gain taken to income (2011: US$159.9 million) were the updating of assumptions utilised to value the Silverstream contract, most significantly the forward price of silver, the unwinding of the discount and the difference between payments already received in 2012 and payments estimated in the valuation model as at 31 December 2011. A future downturn in the forward price of silver, which may happen given the cyclical nature of prices, would result in recognising an unrealised loss in the income statement.

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

	2012 US$ thousands	2011 US$ thousands
Balance at 1 January:	478,083	427,681
Cash received in respect of the year	(97,005)	(95,847)
Cash receivable	(10,981)	(13,616)
Remeasurement gains recognised in profit and loss	117,682	159,865
Balance at 31 December	**487,779**	**478,083**
Less – Current portion	68,290	63,241
Non-current portion	**419,489**	**414,842**

12. Inventories

At the date of the balance sheet this item is comprised of the following:

	As at 31 December	
	2012 US$ thousands	2011 US$ thousands
Finished goods[1]	1,966	3,790
Work in progress[2]	132,739	48,788
Operating materials and spare parts	65,512	49,162
	200,217	101,740
Allowance for obsolete and slow-moving inventories	(2,210)	(1,904)
Total inventories at the lower of cost and net realisable value	**198,007**	**99,836**

1 Finished goods include metals contained in concentrates and doré bars, and concentrates on hand or in transit to a smelter or refinery.

2 Work in progress includes metals contained in ores in leaching pads.

Concentrates are a product containing sulphides with variable content of precious and base metals and are sold to smelters and/or refineries. Doré is an alloy containing a variable mixture of gold and silver that is delivered in bar form to refineries. This content once processed by the smelter and refinery is sold to customers in the form of refined products.

The amount of inventories recognised as an expense in the year was US$822.2 million (2011: US$659.6 million). The amount of write down of inventories recognised as an expense was US$0.6 million (2011: US$1.8 million).

13. Provision for mine closure cost

The provision represents the discounted values of the estimated cost to decommission and rehabilitate the mines at the estimated date of depletion of mine deposits. The present value of the provision at 31 December 2012 has been calculated using an annual real discount rate of 4.5 per cent (2011: 4.33 per cent). The unwinding of discount charge in 2012 has been calculated using a nominal discount rate of 7.00 per cent (2011: 7.50 per cent). Uncertainties in estimating these costs include potential changes in regulatory requirements, decommissioning, dismantling, and reclamation alternatives and timing and the levels of discount and inflation rates.

Mexican regulations regarding the decommissioning and rehabilitation of mines are limited and less developed in comparison to regulations in many other jurisdictions. It is the Group's intention to rehabilitate the mines beyond the requirements of Mexican law, and estimated costs reflect this level of expense. The Group intends to fully rehabilitate the affected areas at the end of the life of the mines.

The provision is expected to become payable at the end of the production life of each mine, based on the reserves and resources, which ranges from 2 to 38 years from 31 December 2012 (3 to 38 years from 31 December 2011).

	As at 31 December	
	2012 US$ thousands	2011 US$ thousands
Beginning balance	**50,754**	**39,682**
Increase to existing provision	46,222	13,095
Unwinding of discount	3,912	3,154
Foreign exchange	3,824	(5,177)
Ending balance	**104,712**	**50,754**

14. Contingencies

As of 31 December 2012, the Group has the following contingencies:

– The Group is subject to various laws and regulations which, if not observed, could give rise to penalties.

– Tax periods remain open to review by the Mexican tax authorities in respect of income taxes for five years following the date of the filing of corporate income tax returns, during which time the authorities have the right to raise additional tax assessments including penalties and interest. Under certain circumstances the reviews may cover longer periods.

  In addition, because a number of tax periods remain open to review by the tax authorities, there is a risk that transactions, and in particular related party transactions, that have not been challenged in the past by the authorities, may be challenged by them in the future, and this may result in the raising of additional tax assessments plus penalties and interest. It is not practical to determine the amount of any such potential claims or the likelihood of any unfavourable outcome. However, management believes that its interpretation of the relevant legislation is appropriate and that the Group has complied with all regulations and paid or accrued all taxes and withholdings that are applicable.

– On 8 May 2008, the Company and Peñoles entered into the Separation Agreement (the 'Separation Agreement'). This agreement relates to the separation of the Group and the Peñoles Group and governs certain aspects of the relationship between the Fresnillo Group and the Peñoles Group following the initial public offering in May 2008 ('Admission'). The Separation Agreement provides for cross-indemnities between the Company and Peñoles so that, in the case of Peñoles, it is held harmless against losses, claims and liabilities (including tax liabilities) properly attributable to the precious metals business of the Group and, in the case of the Company, it is held harmless by Peñoles against losses, claims and liabilities which are not properly attributable to the precious metals business. Save for any liability arising in connection with tax, the aggregate liability of either party under the indemnities shall not exceed US$250 million in aggregate.

– Peñoles has agreed to indemnify the Fresnillo Group in relation to (i) any tax charge, subject to certain exceptions, the Company may incur as a result of the Pre-IPO Reorganisation (including as a result of a transaction following Admission of a member of the Fresnillo Group, provided that Peñoles has confirmed that the proposed transaction will not give rise to a tax charge, or as a result of a transaction of a member of the Peñoles Group on or after

Admission), the Global Offer or Admission and (ii) certain tax aspects of certain other pre-Admission transactions. Peñoles' liability under these indemnities and in respect of general tax liabilities arising pre-Admission which are not properly attributable to the precious metals business of the Fresnillo Group shall not exceed US$500 million. If a member of the Fresnillo Group forming part of Peñoles' tax consolidation pays an intra-group dividend in excess of its net income tax account ('Cuenta de Utilidad Fiscal Neta' o 'CUFIN') account after Admission and is relieved of tax as a result of the consolidation, it is required to pay Peñoles an amount in respect of that tax.

– On 30 November 2012, the Mexican government enacted a new federal labour law. Management is currently evaluating the new labour law for any potential impacts on the operations and financial position of the Group but it is currently impracticable to estimate any such effects as at 31 December 2012.

In 2009 five members of the El Bajio agrarian community in the state of Sonora (the "Claimants"), who claim rights over certain surface land in the proximity of the operations of Minera Penmont, S. de R.L. de C.V. ("Minera Penmont"), lodged a legal claim with the Unitarian Agrarian Court of Hermosillo, Sonora to have Minera Penmont vacate an area of this surface land. The land in dispute encompasses a portion of surface area where part of the operations of Soledad and Dipolos, one of Minera Penmont's three operating mines, are located. Soledad and Dipolos represents approximately 22.0 per cent of the gold production of Minera Penmont and 12.7 per cent of the Group's attributable gold production. Although the Claimants obtained a ruling in their favour by the Mexican Supreme Court in September 2012, certain legal proceedings are currently progressing to challenge the standing of this ruling, including a challenge by the El Bajio agrarain comunity as a whole as well as a collective challenge by multiple other members of said agrarian community. In parallel with this, Minera Penmont is in the process of seeking the expropriation of the disputed land in its favour, a process defined under Federal law in Mexico. It is not expected that this matter will have a significant impact on the Company's operations or financial position but it is not currently possible to determine the amount and timing of any financial impact that may arise. Minera Penmont's mining concessions are held by way of separate title to that relating to the surface land.

15. Related party balances and transactions

The Group had the following related party transactions during the years ended 31 December 2012 and 2011 and balances as at 31 December 2012 and 2011.

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

(a) Related party accounts receivable and payable

	Accounts receivable		**Accounts payable**	
	As at 31 December		As at 31 December	
	2012 US$ thousands	2011 US$ thousands	**2012 US$ thousands**	2011 US$ thousands
Trade:				
Met-Mex Peñoles, S.A. de C.V.	192,273	183,988	–	–
Other receivables:				
Industrias Peñoles, S.A.B. de C.V.	10,981	13,616	–	–
Grupo Nacional Provincial, S.A.B. de C.V.	–	4,779	–	–
Other	19	24	1,660	926
Sub–total	203,273	202,407	1,660	926
Less–Current portion	203,273	202,407	1,660	926

Non–current portion	–	–	–	–

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

Other balances with related parties:

	Year ended 31 December	
	2012 US$ thousands	2011 US$ thousands
Silverstream contract:		
Industrias Peñoles, S.A.B. de C.V.	487,779	478,083

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

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

	Year ended 31 December	
	2012 US$ thousands	2011 US$ thousands
Income:		
Sales:[1]		
Met-Mex Peñoles, S.A. de C.V.	2,152,002	2,179,064
Insurance receipts:		
Grupo Nacional Provincial, S.A.B. de C.V.	922	6,029
Other income	485	286
Total income	**2,153,409**	**2,185,379**

[1] Figures do not include hedging losses.

	Year ended 31 December	
	2012 US$ thousands	2011 US$ thousands
Expenses:		
Administrative services:		
Servicios Administrativos Peñoles, S.A. de C.V.[2]	31,255	31,461
Servicios de Exploración, S.A. de C.V.	4,077	3,026
	35,332	34,487
Energy:		
Termoelectrica Peñoles, S. de R.L. de C.V.	29,079	29,566
Operating materials and spare parts:		
Wideco Inc	5,427	3,449
Met-Mex Peñoles, S.A. de C.V.	2,870	2,704
	8,297	6,153
Equipment repair and administrative services:		
Serviminas, S.A. de C.V.	3,189	3,114
Insurance premiums:		
Grupo Nacional Provincial, S.A. B. de C.V.	9,230	7,036

Other expenses:	7,168	6,272
Total expenses	**92,295**	**86,628**

[2] Includes US$7.0 million and US$5.5 million relating to engineering costs that was capitalised in 2012 and 2011, respectively.

(c) Compensation of key management personnel of the Group

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

	Year ended 31 December	
	2012 US$ thousands	2011 US$ thousands
Salaries and bonuses	3,695	4,035
Termination benefits	10,821	–
Post-employment benefits	88	64
Other benefits	696	666
Total compensation paid in respect of key management personnel	**15,300**	**4,766**

	Year ended 31 December	
	2012 US$ thousands	2011 US$ thousands
Accumulated accrued defined pension entitlement	4,189	14,113

The accumulated accrued defined pension entitlement represents benefits accrued at the time the benefits were frozen. There are no further benefits accruing under the defined benefit scheme in respect of current services.

16. Notes to the consolidated cash flow statement

	Notes	**2012 US$ thousands**	2011 US$ thousands
Reconciliation of profit for the year to net cash generated from operating activities			
Profit for the year		**845,445**	**1,038,616**
Adjustments to reconcile profit for the period to net cash inflows from operating activities:			
Depreciation		253,890	172,073
Employee profit sharing		49,856	69,957
Deferred income tax	7	(22,573)	130,411
Current income tax expense	7	341,555	365,355
Loss on the sale of property, plant and equipment and other assets		1,042	2,823
Other (gains)		(3,026)	(3,019)
Net finance (income)		(2,466)	(4,886)
Foreign exchange loss/(gain)		11,928	(9,001)
Difference between pension contributions paid and amounts recognised in the income statement		778	3,700
Non cash movement on derivatives		(5,885)	5,950
Changes in fair value of Silverstream	11	(117,682)	(159,865)
Working capital adjustments			
Increase in trade and other receivables		(8,531)	(10,951)
Increase in prepayments and other assets		(1,127)	(946)
Increase in inventories		(98,268)	(37,682)
Increase in trade and other payables		4,709	13,487
Cash generated from operations		**1,249,645**	**1,576,022**
Income tax paid		(449,080)	(284,439)
Employee profit sharing paid		(64,185)	(42,407)
Net cash from operating activities		**736,380**	**1,249,176**

OUR RISK MANAGEMENT FRAMEWORK

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

Overview

The Board of Directors is responsible for maintaining the Company's risk management and internal control systems. The Board's mandate includes defining risk appetite and monitoring risk exposures to ensure that the nature and extent of significant risks taken by the Company are aligned with our overall goals and strategic objectives.

The Audit Committee supports the Board of Directors in monitoring our risk exposures and is responsible for reviewing the effectiveness of our risk management and internal control systems.

Internal Audit supports the Audit Committee in evaluating the design and operating effectiveness of our risk mitigation strategies and the internal controls implemented by management.

Risk management and internal control procedures are largely embedded within our business practices across functional areas including finance, HSECR, human resources, procurement, IT, legal, security and insurance management. Risk management processes and internal controls operate across our mine sites, exploration and development projects and corporate offices.

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

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

What we said we would do in 2012

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

What we did in 2012

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

Looking ahead: what we plan to do 2013-2018

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

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

FRESNILLO PLC RISK MANAGEMENT

Risk assessment

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

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

Risk	Risk appetite	Risk rating 2011	Risk rating 2012	Risk change during 2012	Description of risk change
A. Security	Low	High	Very high	↗	The state of insecurity in regions of Mexico where we operate has continued to increase, with a number of incidents in areas closer to our operations and exploration projects.
B. Impact of global macro-economic developments	High	High	High	↗	Among industry and financial analysts who follow metals prices, some see cyclicality in the industry and predict a downward trend for long-term average silver prices.
C. Projects	Medium	High	High	↗	The change in risk reflects two factors: higher exposure due to the level of committed risk capital for the San Julián project that was approved in 2012; and, helping offset that factor, greater certainty about the mineral resources at our advanced exploration projects, which increased over the past year, as well as

Risk	Risk appetite	Risk rating 2011	Risk rating 2012	Risk change during 2012	Description of risk change
					enhancements in our investment governance process and system of capital project controls that improve our ability to deliver growth through development projects in time and on budget.
D. Access to land	Medium	High	High	↗	Negotiations for land in Mexico, combined with an increase in land requirements, remain a challenge. Foreign mining companies in general and Canadian ones in particular have set certain precedents for future negotiations in their agreements with indigenous community (*ejido*) leaders.
E. Potential actions by the government	Low	Medium	High	↗	In December 2012 the Mexican Government enacted an amendment to the Labour Law; we have retained advisors to help ascertain and analyse any possible impact. Pressure for a mining tax/royalty in Mexico continues to increase. Mexican legislators have taken steps to move in this direction. The Company, through the Mining Chamber and directly through our high ranking executives and Chairman, will continue to lobby against any mining royalty and to ensure that fiscal regulations do not curtail growth or investment.
F. Public perception against mining	Low	N/A	High	↗	The potential for social activism is a growing global phenomenon within the mining sector with the potential to impact all strategic areas; there have been recent examples impacting other mining companies in Mexico.
G. Safety	Low	High	High	=	Accident rates have declined due to our strict application of procedures and greater supervision of safety for personnel and contractors, however the risk remains high and we have still not met our safety goals.
H. Environmental incidents	Low	Low	Low	↙	Our mature environmental management programme continues to reduce the likelihood of a significant environmental incident.
I. Exploration	Medium	Medium	Medium	=	Continued investment in the exploration programme has stabilised this risk and we foresee no change in risk status based on available information.

Risk		Risk appetite	Risk rating 2011	Risk rating 2012	Risk change during 2012	Description of risk change
J.	Human resources	Medium	Medium	Medium	↙	Competition for skilled personnel remains a challenge, however we have begun to see results from our recruitment and retention strategies.

Principal risks and controls

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

Risk description	Link to strategy	Risk response / mitigation
(C) Projects		
Pursuing advanced exploration and development opportunities, which are core to meeting our strategic goals, carry certain project-related risks: – **Economic viability:** impact of capital cost to develop and maintain the mine, future metals prices and operating costs through the mine's life cycle. – **Uncertainties associated with developing and operating new mines:** fluctuations in ore grade and recovery, unforeseen complexities in the mining process, poor rock quality, unexpected presence of water, lack of community support, and inability to obtain and maintain required operating permits. – **Delivery risk:** projects may go over budget in terms of cost and time, or may not be constructed in accordance with the required specifications, or major mining equipment may not be delivered in time. Our other principal risk areas have an impact too, such as lack of reliable contractors, failure or delays in gaining access to land, inability to replace mined reserves, and uncertainty relating to global economic condition.	Development projects	Our investment evaluation process determines how to best direct available capital using technical, financial and other qualitative criteria. **Technical:** we assess the resource estimate and confirmed resources, metallurgy of the mineral bodies, investment required in general infrastructure (e.g. roads, power, general services, housing) and infrastructure required for the mine and plant. **Financial:** we look at risk relative to return for proposed investments of capital. We set expected internal rates of return (IRR) per project as thresholds for approving the allocation of capital based on the present value of expected cash flows from the invested capital. **Other qualitative factors:** e.g. alignment of the investment with our strategic plan and business model; synergies with other investments and operating assets; implications for safety, security, people, resourcing and community relations. We closely monitor our project controls to ensure we deliver approved projects on time, on budget and as per defined specifications. The Executive Management Team and Board of Directors are regularly updated on progress. Each advanced exploration project and major capital development project has a risk register containing the identified and assessed risks specific to the project. In 2012, the Board approved the San Julián project with an investment of US$500 million; at the time of this report, the engineering and construction group is updating the plan which will be used to monitor progress versus budget. Included in the plan will be project specifications such as fly in–fly out schedules, geo-hydrological and geo-physical studies for water supply, power supply negotiations, land acquisition, mining models, contractor selection and human resources availability. At the Centauro Deep project we must identify an adequate and profitable mining system, thus we plan to continue exploration to confirm the nature of the mineral and mechanical and hydrological characteristics. The major risk driver at the Orisyvo project is metallurgical recovery. We continue investigating and performing tests on mineral processing options.

Risk description	Link to strategy	Risk response / mitigation
(D) Access to land		
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	Mines in operation Development projects Growth pipeline	Fresnillo plc acquired 34,468 hectares of surface land in 2012. To maximise our opportunities for successful land access we: – Invest in **hiring and training** negotiators and provide Executive Management support for our negotiation teams; in 2012 we contracted 5 negotiators in the exploration group for land acquisitions in Peru and Mexico. – In addition, we have negotiators dedicated to acquiring land required for infrastructure for advanced projects. – **Plan well in advance** for land requirements and acquisitions (e.g. anticipating potential land purchase before intensive exploration). – Foster strong **community relations** through investment in community programmes and infrastructure. – Always **seek tri-party cooperation** between the government, community and ourselves in securing access to land.
(E) Potential actions by the Government		
We face the risk of potential implementation of new governmental requirements that would have an adverse impact on us, such as a tax/royalty on mining companies in Mexico, or new or more stringent ecological or explosives regulations (e.g. banning open pit mining, the use of cyanide, etc.). The current risk level is very difficult to measure as there is lack of certainty on the likelihood, structure and magnitude of any potential mining tax/royalty. The potential likelihood of new ecological regulation is currently highly uncertain. However, stricter regulation on explosives is likely due to their interconnection with security risk. We are currently analysing what, if any, potential impact we may face with the amendment to the Mexico Labour Law that was enacted in December 2012.	Mines in operation Development projects Growth pipeline Sustainable development	We participate in industry and government meetings and events to continuously monitor the political and regulatory environment, including tax and labour reforms. We collaborate with other members of the mining community via the Mexican Mining Chamber to lobby against new detrimental taxes/royalties or regulations. At the same time we strive for maximum resilience by maintaining low cost of production and a strong capital position. We maintain strict control in receiving, handling, storing and dispatching explosives in each of our operations and projects.

Risk description	Link to strategy	Risk response / mitigation
(F) Public Perception Against Mining		
Public opinion globally is increasingly concerned with the potential adverse social and environmental consequences of opening and developing mining operations. This growing sentiment manifests itself through increased regulatory obligations for mining companies and increased social activism by communities and other grass roots organizations.	Mines in operation Development projects Growth pipeline Sustainable development	The Company collaborates with peers in the international and Mexican mining community to pursue an industry response to this risk. Our formal programme for community engagement includes: – Conducting community perception surveys and monitoring public opinion within the local media (newspapers, radio stations, local channels). – Tracking and following up on concerns reported by the community, maintaining open and transparent communications, and clarifying any miscommunications that could be used to target the Company's reputation). – Working with communities, *ejido* representatives and land owners at an early exploration stage to understand their needs and communicate the benefits of developing and operating a mine in terms of social welfare and quality of life.
(G) Safety		
Inherent to our industry is the risk of incidents due to unsafe acts or conditions causing injuries or fatalities to our people. Our people face risks of fire, explosion, electrocution and carbon monoxide poisoning, as well as risks specific to each mine site and development project, for example rock falls caused by geological conditions, collisions of equipment in large operations, cyanide contamination, collisions between equipment and people and smaller vehicles.	Sustainable development	We have **zero tolerance** for safety incidents at every level of the operation, with rules incorporated into operational procedures, safety manuals and all aspects of communication on safety. In 4Q 2012 we launched a “No more accidents” process led by all senior management and the Executive Committee. The programme includes mandatory participation in monthly safety meetings by all personnel (including contractors) at the business units. In 2012 the Executive Committee approved a US$5.3 million project to minimize operational safety risks, which includes location-based sensors for people and equipment, an anti-collision system and real-time communication inside the mine. Other mitigating activities include: – **Ownership of safety risk by management of business units** (mines, projects and exploration), with oversight from our comprehensive HSECR system and people who coordinate consistent and complete responses to safety risks, supplemented by safety guides, operational manuals and detailed procedures; in 2012 we increased the number of onsite safety supervisors by an average of 50%. – **Training**, including reinforcing employee and contractor instruction and emphasis on Leadership in Safety. In 2012 all supervisors participated in a 2-week training on the importance of observing safety guidelines; we conducted 252,000 hours of safety

Risk description	Link to strategy	Risk response / mitigation
		training in 2012, a 32% increase over 2011.
(H) Environmental incidents		
Inherent to our industry is the risk of environmental incidents such as overflow/collapse of tailings dams, cyanide spills and dust emissions, among others, any of which could have a high potential impact on our people, communities and business.	Sustainable development	We have strong environmental systems, procedures and controls in place and, as with Safety risks, Environmental risks are owned by the Business Units with oversight provided by the HSECR team. Our environmental management system supports compliance with all required regulations. Our operations are certified under ISO 14001 and the Clean Industry programme and we rigorously adhere to the requirements established by each project's environmental permit (Environmental Impact Manifest). We also support contractors in their efforts to integrate environmental management systems. In 2012 we conducted an inventory of greenhouse gas emissions as part of GHG Mexico.
(I) Exploration		
We are highly dependent on the success of the exploration programme to meet our targets, and maintain our strategic value-creation, production and reserves goals. Risks that may impact prospecting and converting inferred resources include: the growing level of insecurity, lack of qualified personnel, available land and sufficient concession and surface right coverage in target areas. As our production escalates and more mines approach the end of their lives, it becomes increasingly challenging to replenish their reserves.	Growth pipeline	We invest heavily in our exploration programme, aiming to maintain a consistent exploration budget across metals cycles. The budgeted risk capital invested in exploration for 2013 is US$279.6million, with 41% of the budget allocated to exploration around major projects and the remainder to a combination of mine site exploration, prospects and regional prospecting. We also ensure we have: – A focus on increasing the **regional exploration** programme to locate new districts with high potential – A team of highly **trained and motivated geologists**, both employees and long-term contractors; we expanded this segment of the workforce by 20% in 2012. – A **broad and robust portfolio of prospects and projects** with sufficient potential in terms of indicated and inferred resources; we added an additional 219,757 hectares of mining concessions to our portfolio in 2012. – Advisory **technical reviews** by international third party experts – up-to-date and integrated **GIS databases and software** for identifying favourable metallurgical belts and districts – **Drill-ready projects** – **Identified opportunities and openness** to partnerships, mergers and early stage projects acquisitions, such as the Orex agreement signed in 2012. Acquisitions increased our concession area by 42,292 hectares in 2012.

Risk description	Link to strategy	Risk response / mitigation
(J) Human resources		
Our people are critical to delivering our objectives. We face risks in selecting, recruiting, training and retaining the people we need, particularly as the current mining boom has created a global shortage of skilled and experienced earth sciences professionals. Although we have a risk of union action or degradation of union relations at some sites, our overall relationship continues to strengthen and this risk has decreased. There is a lack of reliable contractors with adequate infrastructure, machinery, performance and skilled people, as demand in the industry has limited the availability of competent contractors available for the development and construction of mining works. Our growth plans make this a significant risk for us.	Mines in operation Development projects Growth pipeline Sustainable development	**Recruitment:** We assessed our hiring requirements for key positions in the 2012-2018 period, and aim to meet openings through internal training and promotion, and by recruitment through: – Our close relationships with universities offering earth sciences programmes (we have dedicated programmes to identify potential candidates based on performance who may be hired as interns and/or residents on graduation) – CETEF (Centre for Technical Studies Fresnillo) which teaches specific mining operational skills; 20 of the 2012 graduates joined the company as full-time employees. We welcomed the second cohort of mining technicians with 20 new students who will graduate in 2014. – CETLAR (the Peñoles Centre for Technical Studies) which trains mechanics and electrical technicians; 8 of the 2012 graduates joined the company as full-time employees. 14 new students registered for the 2012–2014 programme. **Retention:** We provide a stable labour environment, strong corporate culture committed to our people, good working conditions, competitive benefits and career development opportunities. Two of our business units were recognized with *Great Place to Work* certification in 2012. **Contractors:** We have long-term drilling and mining contracts and provide financial resources to contractors for purchasing supplies and equipment. We invest significantly in training contractors, particularly on safety and environmental requirements. We support 12 of our major contractor companies in their integration into the Self-Management Programme on Safety and Health at Work (PASST), promoted by the Mexican Secretariat of Labour and Social Welfare (STPS). **Unions:** We have clearly assigned responsibilities and programmes for maintaining close relationships with unions at mine site and at the national level. We engage experienced legal counsel, both internal and external, to support to us. We are proactive and timely in our responses to the needs of the union, and experienced no labour-related work stoppages in 2012.

Annual Report and Accounts 2012

Fresnillo plc will publish on or around 2 April 2013 its Annual Report and Accounts for the year ended 31 December 2012 on its corporate website www.fresnilloplc.com and intends to distribute copies to shareholders at the same time.