Dedicated to meeting our commitments

Fresnillo plc Annual Report 2016

Fresnillo plc is the world's leading silver miner and one of Mexico's largest gold producers.

Our solid track record in creating long-term value is underpinned by our strong balance sheet, high quality assets, low cost and flexible operations, disciplined approach to development and sustainable business practices.

For 2017, we are intensifying our focus on meeting near-term operational commitments, including maximising the potential of our flagship Fresnillo mine, delivering the second phase of the San Julián mine and improving our safety metrics.

Performance Highlights

Operational highlights

Silver production

50.3 moz

+7.1%

Gold production

935.5 koz

+22.8%

1 Read more about our operations
See pages 58-67

Total attributable silver resources

2,171.5 moz

+10.2%

Total attributable gold resources

38.4 moz

+8.2%

3 Read more about exploration
See pages 71-75

- Annual silver production up 7.1% in line with guidance, driven by the start-up of phase I at San Julián, higher ore grades at Fresnillo and Ciénega and an increased Silverstream contribution.
- Gold production up 22.8% exceeding the revised guidance primarily due to the reduction of gold inventories at Herradura and San Julián phase I start-up.
- San Julián phase I commissioned, production already exceeding design capacity.
- Gold and silver resources increased 8.2% and 10.2%, respectively, gold reserves remained stable and silver reserves decreased 3.2%.
- Three fatalities in 2016 and one in early 2017; renewed focus on safety culture throughout the year.

Financial highlights

Adjusted revenue[1]

$2,045.0m

+29.2%

Gross profit

$882.1m

+103.7%

EBITDA

$1,032.0m

+88.5%

Profit from continuing operations

$676.5m

+237.5%

Adjusted EPS[2]

$45.3cents

+556.5%

Total dividends paid

$11.9cents

+133.3%

- Adjusted revenue[1] of US$2,045.0 million, up 29.2% over 2015 due to higher volumes and metal prices.
- Profit for the year US$425.0 million, up 512.4%.
- Net operating cash flow of US$898.0 million, up 65.4%.
- Capex of US$434.1 million, down 8.6%; exploration expenses of US$121.2 million, down 13.6%; US$88.2 million of dividends paid, up 135.1%.
- Healthy balance sheet and low leverage ratio; cash position[3] of US$912.0 million, up 82.3%.

1. Adjusted revenues is the revenue shown in the income statement adjusted to add back treatment and refining costs and gold, lead and zinc hedging. The Company considers this a useful additional measure to help understand underlying factors driving revenue in terms of volumes sold and realised prices.
2. Adjusted basic and diluted earnings per ordinary share from continuing operations, prior to the revaluation effects of the Silverstream contract.
3. Cash position is comprised of cash, cash equivalents and short-term investments.

Who We Are

Fresnillo plc is the world's leading silver producer and one of Mexico's largest gold producers. We are a FTSE 100 company headquartered in Mexico City, with shares trading on the London and Mexican Stock Exchanges.

Strategy

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

1 Maximise the potential of existing operations

Optimise capacity, replenish reserves, continuously improve productivity and cost structure, and leverage expansion opportunities.

2 Deliver growth through development projects

Develop, build and commission projects that meet stringent criteria for mineral content and associated costs.

3 Extend the growth pipeline

Invest continuously across price cycles to ensure a pipeline of growth projects at different stages.

4 Advance and enhance the sustainability of our business

Prioritise safety and health, responsible environmental stewardship, the wellbeing of our communities, best governance practices and a strong ethical culture.

Responsible Mining Practices

The Health, Safety, Environment & Community Relations (HSECR) Committee evaluates the effectiveness of management to meet the sustainability challenge, and oversees the culture and ethics programme.

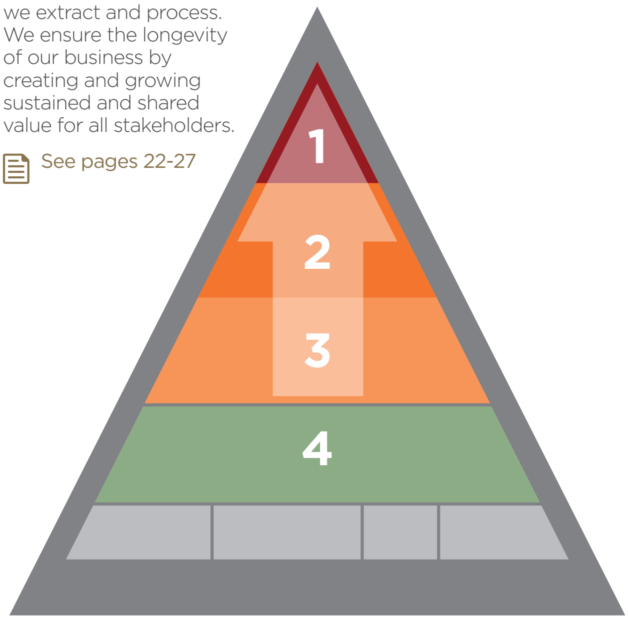
See pages 76-99

Business Model

Gold and silver mining is the heart of our business model.

We generate revenue by selling the metals contained in the ore we extract and process. We ensure the longevity of our business by creating and growing sustained and shared value for all stakeholders.

See pages 22-27



Deepening of the San Carlos shaft

Alberto Baillères, Chairman
See pages 6-9

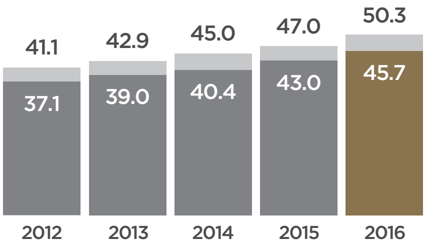
Octavio Alvídrez, CEO
See pages 16-18

Performance

Delivering on our production goals, profitably and sustainably.

Silver production

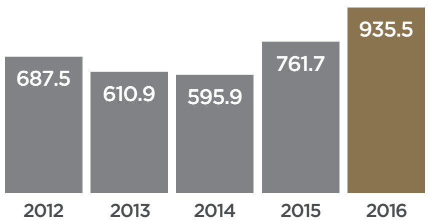
50.3 moz



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

Gold production

935.5 koz



All figures include 100% of production from the Penmont mines (Herradura, Soledad-Dipolos and Noche Buena).

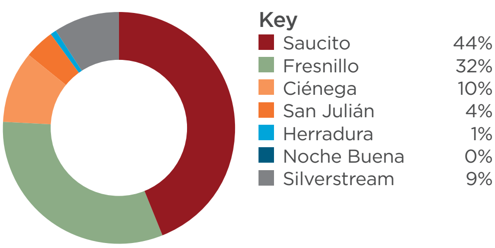
2016 EBITDA margin

54.2%

2016 EBITDA

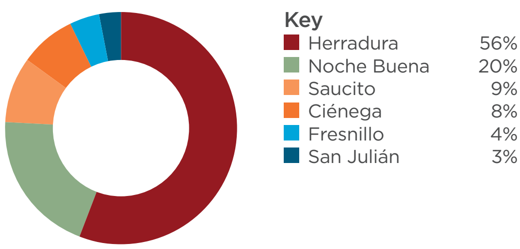
US$1,032m

2016 Silver production by mine



See pages 58-69

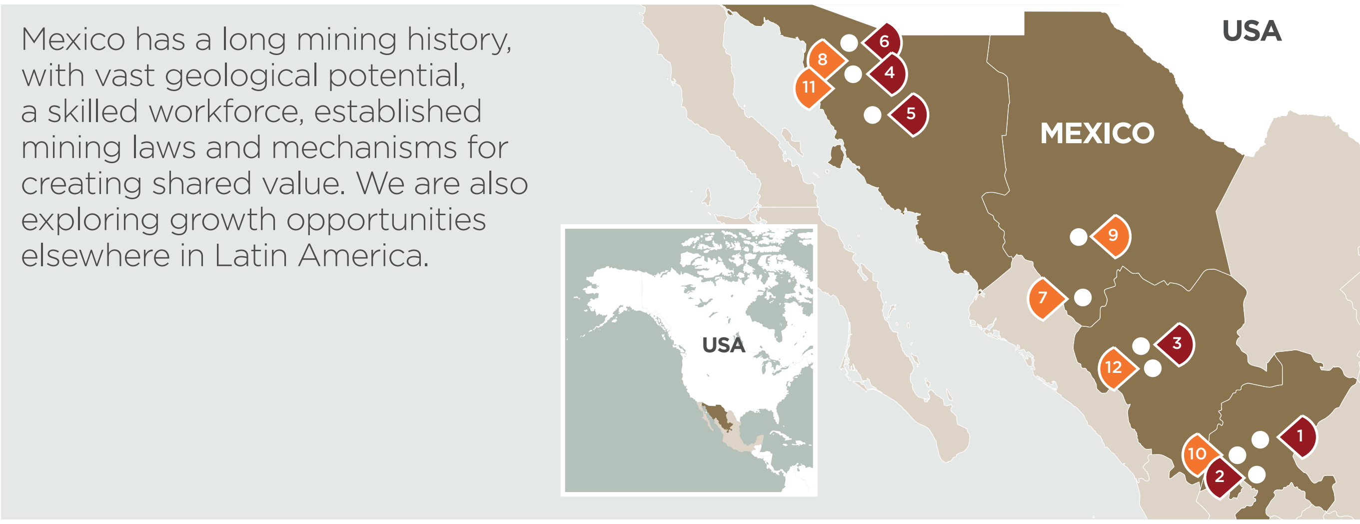
2016 Gold production by mine



See pages 58-69

Where We Operate

Mexico has a long mining history, with vast geological potential, a skilled workforce, established mining laws and mechanisms for creating shared value. We are also exploring growth opportunities elsewhere in Latin America.



1 Mines in operation

1 Fresnillo

Silver reserves	205.5 moz
Gold reserves	600 koz

See pages 58-59

2 Saucito

Silver reserves	123.2 moz
Gold reserves	860 koz

See pages 60-61

3 Ciénega & San Ramón Satellite

Silver reserves	66.3 moz
Gold reserves	820.0 koz

See pages 62-63

4 Herradura (Incl DLP)

Gold reserves	5.2 moz

See pages 64-65

5 Noche Buena

Gold reserves	0.9 moz

See pages 66-67

6 Soledad-Dipolos

Gold reserves	0.8 moz

Operations at Soledad-Dipolos are currently suspended

2 Development and advanced exploration projects

7 San Julián (Phases I & II)

Silver reserves	135.3 moz
Gold reserves	420.0 koz

See pages 68-69

10 Juanicipio

Silver resources	138.7 moz
Gold resources	772.0 koz

See page 72

8 Centauro Extension

Evolution of main pit at Herradura; resources included therein

See page 64

11 Centauro Deep

Indicated and inferred resources:

Gold	830.0 koz

See page 72

9 Orisyvo

Silver resources	12.3 moz
Gold resources	9.6 moz

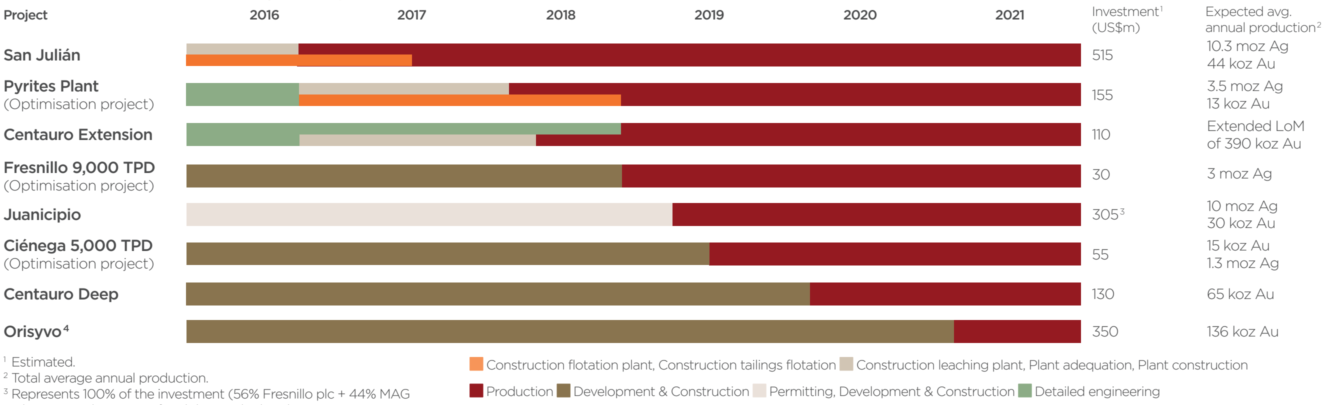
See page 74

12 Las Casas, Cebollitas Cluster

Reported as part of Ciénega

See page 73

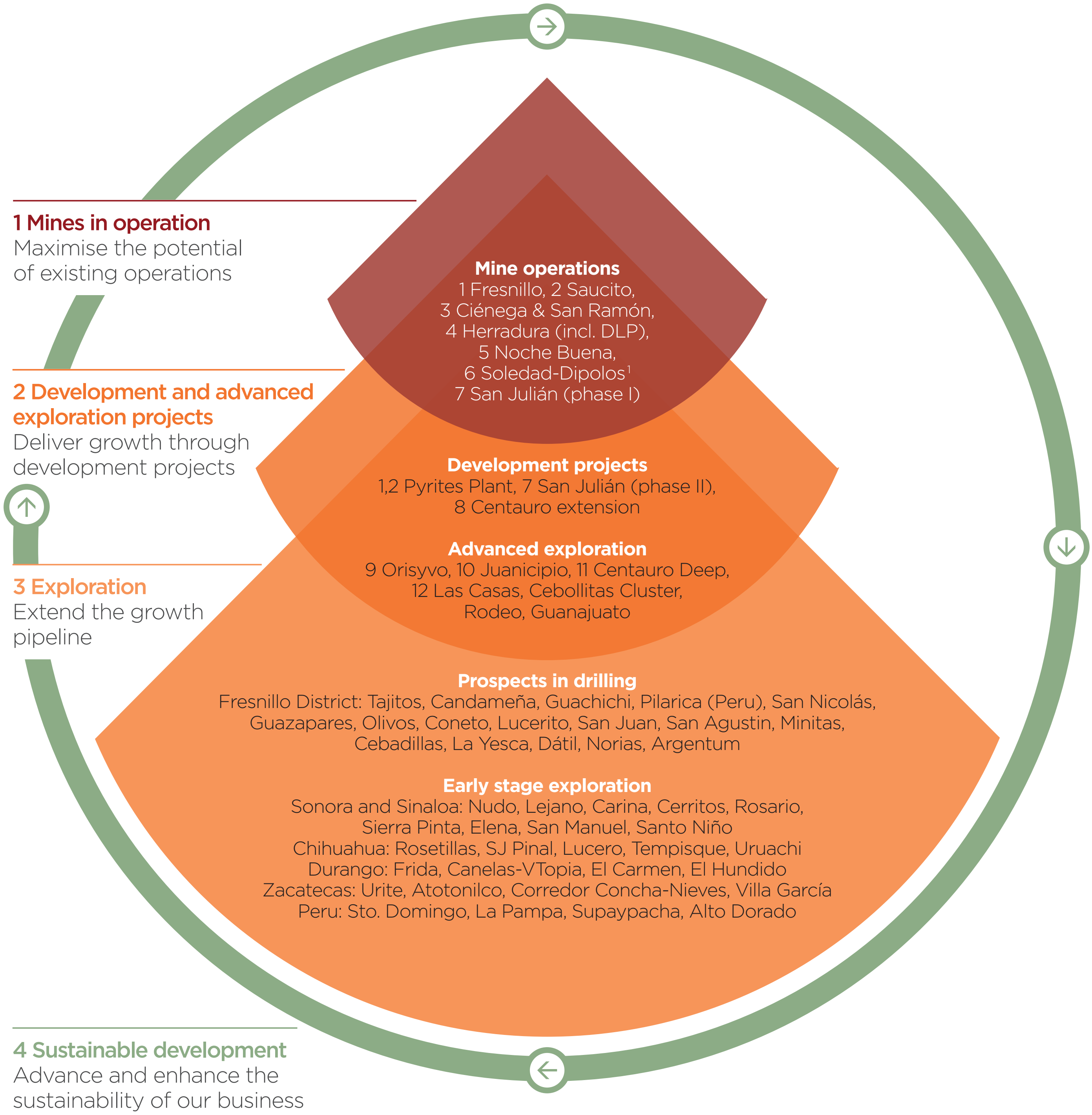
Expected delivery of growth



[1] Estimated.
[2] Total average annual production.
[3] Represents 100% of the investment (56% Fresnillo plc + 44% MAG Silver) according to pre-feasibility study dated June 2012.
[4] On hold.

A Strong Growth Pipeline

Our goal is to profitably and sustainably maintain the Group's position as the world's leading silver producer and one of Mexico's largest gold producers.



1. Operations at Soledad-Dipolos are currently suspended.

Chairman's Statement

Meeting our commitments

Over the course of Fresnillo plc's eight years as a publicly listed company, a number of trends have reshaped the global mining industry and altered the competitive landscape: pressure on profitability arising from commodity price and currency volatility, rising costs, and maturing mines with declining ore grades; lower rates of return on capital projects concurrent with increased shareholder appetite for returns; rising social and environmental awareness; and governmental initiatives to regulate and derive additional revenue from the sector, among others.

> "We seek to ensure that capital allocation balances growth, shareholder returns, financial strength and flexibility, within the context of a maturing sustainability framework."

Against this backdrop, we have remained firmly committed to creating sustained and shared value for all our stakeholders, focusing on efficient, competitive operations and high potential silver and gold projects that can be developed into low cost mines able to withstand unpredictable metal prices. We have invested consistently over the cycle, and thus have been able to grow and retain a motivated and qualified team. Our strategic direction, combined with quality assets, operational flexibility and efficiency, solid financial position and enduring commitment to responsible business practices are the pillars of long-term value creation.

The year in review

Precious metal prices, while still volatile, performed well in 2016 and reversed their downward trend spanning several years. Our average realised gold and silver prices rose 10.7% and 10.3%, respectively, over 2015. The Group's gold and silver production increased 22.8% and 7.1%, respectively, exceeding its gold production target for the year and meeting the target for silver.

Better prices and higher volumes led to robust financial results. Your Company generated US$2,045.0 million in adjusted revenues in 2016, a rise of 29.2% over the prior year, with a 505.5% increase in profit attributable to shareholders and US$12.6 million distributed to employees and workers in profit sharing. The cash, cash equivalents and short-term investments at year end were US$912.0 million and debt was US$800 million.

continued on page 08

Our Values

We aspire to demonstrate a well-established ethical culture through our actions and behaviours. Our values are the cornerstone of our Ethics and Culture programme.

Embedding best practices
Our Code of Conduct, founded upon our values, is a set of rules and principles that guide our behaviours and actions, including guidance on complying with the UK Bribery Act 2010 and the Mexican General Law of the National Anti-Corruption System. Workshops and master classes are conducted regularly to embed ethics and integrity in the culture, in combination with an online training programme and evaluation to effectively reach employees. We recognise that embedding ethics in the culture as a core competence in the organisational structure support our strategic and operating goals.

Board oversight
The Health, Safety, Environment and Community Relations Committee has been given responsibility for overseeing the ethics programme on behalf of the Board.

See pages 91-92

Vertical conveyor at the Fresnillo mine

Chairman's Statement continued

However, we also encountered operational challenges. The Fresnillo mine faced ongoing issues and failed to reach its projected production. While silver grades were slightly higher than in 2015, volumes came under pressure due to a shortage of skilled personnel, leading to insufficient mine development and preparation, as well as narrower veins. Management oversight and mine planning have been strengthened and we expect gradual and continued improvement over the coming year. Fortunately, a solid performance at Saucito and the initial contribution of San Julián compensated for the shortfall and the Group as a whole met its silver targets for the year.

The first phase of San Julián was commissioned in the year, despite a delay, and is now operating above its nominal capacity, contributing to annual silver and gold production. The second phase is expected to be commissioned in 2Q 2017, also at a delay of several months from the previous target, as the impact of certain external factors had been underestimated, including unforeseen extreme weather, delays in equipment deliveries and difficulties in obtaining permits. We remain confident that San Julián will be a successful new mine and may open up additional growth potential in the district.

The Board approved the resumption of the Pyrites project in the Fresnillo District, which will improve overall recoveries of gold and silver contents by processing historical and ongoing tailings from the Fresnillo and Saucito mines, which otherwise would have been lost. Always an attractive project from an IRR perspective, the Board's decision to resume construction was supported by better than expected cash generation in the first half of the year and a healthy balance sheet.

The Board also approved the construction of a second line at the Dynamic Leaching Plant (DLP) at Herradura to increase gold recovery from the Centauro pit, and thus higher production from this mine. We continue to evaluate a major expansion of Herradura based on the most recent exploration results below the open pit. Furthermore, Juanicipio, our joint venture with Mag Silver, will be presented to the Board for approval in 2017.

Exploration results were positive, with an 8.2% and 10.2% increase in total gold and silver resources, respectively. Gold reserves remained stable, whilst silver reserves decreased 3.2%. Our resource base remains very sound as we progress towards our 2018 goals.

I deeply regret to report that three fatal accidents occurred in the year, as well as one in early 2017, a major setback for our safety programme. Following investigations, management has taken decisive steps to prevent the type of human errors that are invariably a root cause in these accidents. Safety continues to be our highest priority, above production and profitability, yet we recognise that even with best-in-class systems and practices in place, our safety culture must be further strengthened and deeply embedded within the Company. To that end, the Board's Health, Safety, Environment and Community Relations (HSECR) Committee continued to review the culture and values as part of its work in overseeing the safety culture in 2016.

Dividends

Fresnillo plc's dividend policy takes into account the profitability of the business and underlying earnings, as well as the Group's capital requirements and cash flows. An annual dividend of between 33-50% of profit after tax is paid out each year in the approximate proportion of one-third as an interim dividend and two-thirds as a final dividend. This provides the required flexibility to consider the cyclical behaviour of precious metal prices and other factors that could affect our financial position.

For 2016, the Board declared an interim dividend of 8.6 US cents per share and a final dividend of 21.5 US cents per share, totalling US$158.4 million. We believe the Group remains well placed to meet its current and future financial requirements, including its development and exploration projects.

Our governance agenda

The Board's agenda in 2016 was focused on ensuring continued compliance with the UK Corporate Governance Code, addressing outstanding and emerging issues related to our 2014 External Board Evaluation action plan, Group culture and the composition of the Board with regards to the number of Independent Non-executive Directors.

Key Board agenda items in 2016

- Safety and fatalities.
- Corporate culture, organisational effectiveness.
- Fresnillo mine turnaround.
- San Julián Project deliverance.
- Preparation of first Viability Statement.
- Dividend policy, hedging programme, investment allocation.
- Board composition.
- Tender for 2017 external auditor appointment.

The Corporate Governance Report set out on pages 113-156 illustrates the full range of Committee activity and Board actions in pursuit of long-term shareholder value creation.

My colleagues and I take an active role in setting Group strategy, reviewing progress against plan and ensuring sufficient flexibility to respond to changing market conditions within the context of our commitment to continuous investment through metal price cycles. As part of the Board's planning process, we seek to ensure that capital allocation balances growth, shareholder returns, financial strength and flexibility, within the context of a maturing sustainability framework centred on good corporate governance, environmental stewardship and constructive community engagement.

Board changes

Charles Jacobs was appointed Senior Independent Director at the AGM in May 2016, and we welcomed Alberto Tiburcio to the Board as an Independent Non-executive Director, serving on the Audit Committee. As Chairman and CEO of Ernst & Young Mexico from 2001 until his retirement in 2013, Mr Tiburcio brings with him extensive experience as statutory auditor and advisor to many prestigious Mexican companies.

I am grateful for the service of the two members who stood down from the Board in 2016: Rafael MacGregor, Non-executive Director, whose role as Chairman of the Health, Safety, Environment and Community Relations Committee has been filled by Arturo Fernández, Non-executive Director; and María Asunción Aramburuzabala, Independent Non-executive Director who also served on the HSECR Committee. Both Directors made significant contributions to the Board and Company during their eight and four years of respective service.

Looking ahead

Despite their recovery during the year, we believe gold and silver prices will remain volatile. Indeed, renewed signs of weakness at year end 2016 due to expectations of rising interest rates in the US point to the uncertainty of any sustained recovery. Furthermore, geopolitical factors such as Brexit, the new administration in the US, ongoing tensions in the Middle East and developments in China and India make forecasting unpredictable.

We therefore maintain our disciplined approach to investment: growth projects will continue to be evaluated against a range of metrics, including operational and technical factors, pricing and market considerations, and our financial position.

For 2017, we have increased our year-on-year capital expenditures and exploration budget, by 71.1% over the 2016 spend, to US$950 million. We believe this level of investment enables us to achieve our 2018 goals while setting the groundwork for the next decade of the Company's development.

Dedicated to meeting our commitments

The goals to which we held ourselves accountable at the time of our IPO in 2008 have changed only insomuch as some targets have already been met, notably our gold production as a result of the acquisition of 44% of Penmont and continued improvements at Herradura.

For the near term, our focus will be on efficiency, cost control and meeting our operational commitments: the turnaround of the Fresnillo mine and the successful start-up of the second phase of San Julián. We will continue to set the bar higher for ourselves in other areas such as safety, governance processes and organisational effectiveness. The latter may be more difficult to quantify, but is as vital to long-term shareholder value creation as our low cost operations, project pipeline and portfolio of exploration projects that serve as key drivers of future growth.

Our ability to meet these commitments depends chiefly on our people. Together with my fellow Directors, I extend my gratitude for their dedication and hard work.

Alberto Baillères
Non-executive Chairman

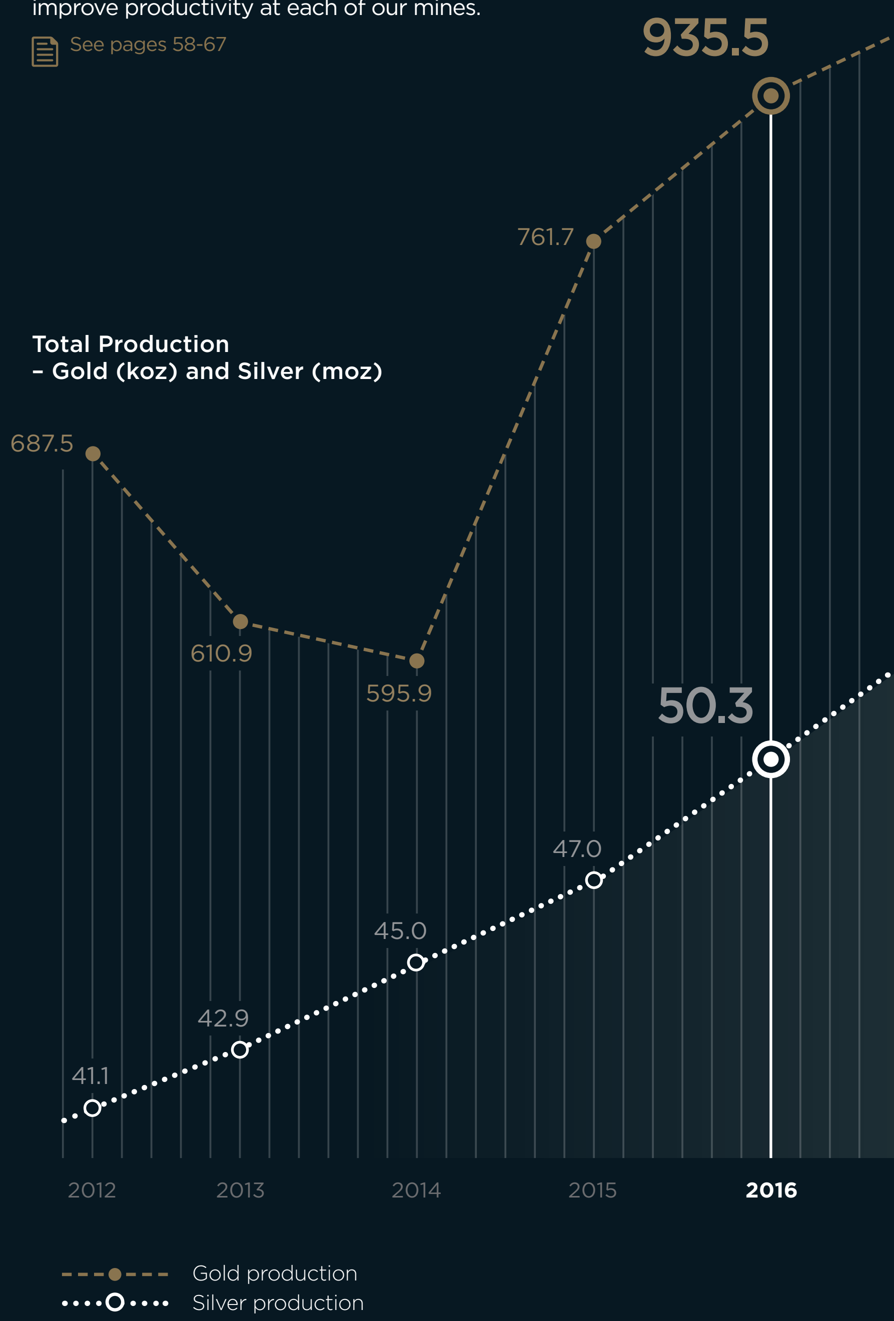
Dedicated to Meeting Our Commitments

Advancing
towards our 2018 production goals

Having already surpassed our gold production targets, we must ensure that our silver mines deliver as planned in the coming years: successfully turning around performance at Fresnillo with accelerated development rates and plant optimisation; increasing the rate of development to sustain capacity utilisation at Saucito; and delivering the second phase of San Julián. We also seek to replenish reserves and improve productivity at each of our mines.

See pages 58-67

Total Production – Gold (koz) and Silver (moz)



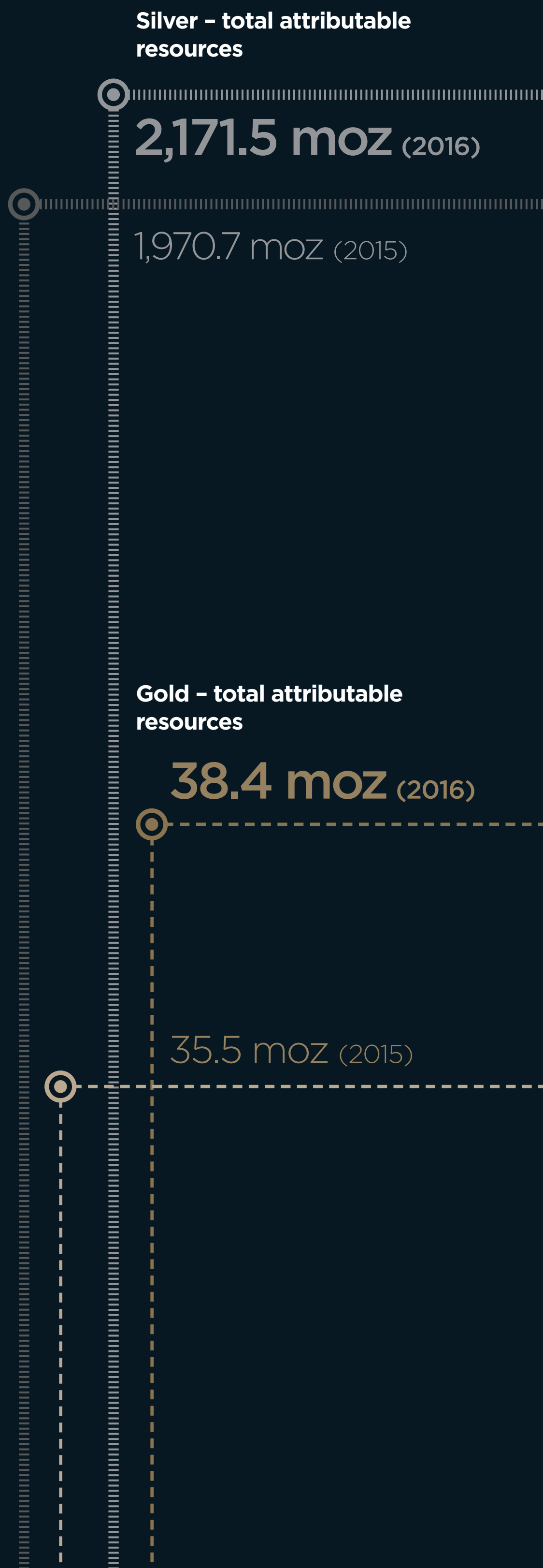
Beneficiation plant at Saucito

Dedicated to Meeting Our Commitments

Disciplined growth
through exploration and development

By investing continuously across price cycles, we have a rich pipeline of growth projects and exploration prospects that meet stringent criteria on quality and cost. Exploration efforts have yielded record silver and gold resources and replenished most reserves, and we are focused on key project delivery dates in the coming year. In 2017, we will commission the second and final phase of the San Julián silver-gold project, a cornerstone of our 2018 production goals.

See pages 68-75



Leaching pads at Noche Buena

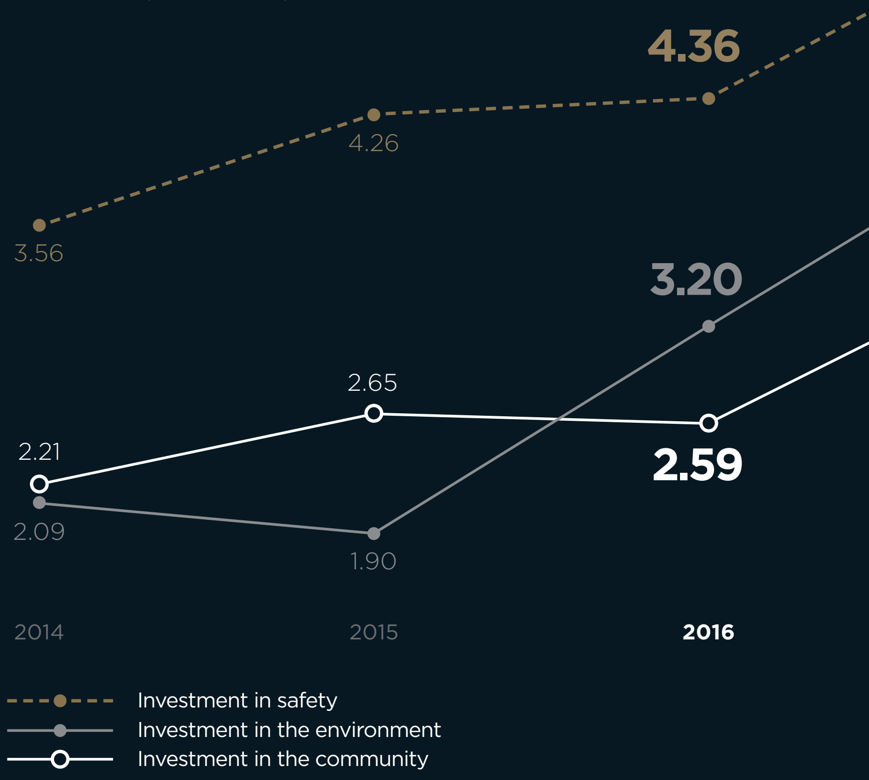
Dedicated to Meeting Our Commitments

Safety and support of the workforce

The sustainability of our Company relies first and foremost on our people: their safety, health and wellbeing, personal and professional growth, and workplace satisfaction. We recognise that we fell short of our own expectations and the needs of our people in 2016, with an unacceptable fatality rate. Our management systems and organisational effectiveness programmes are increasingly centred on personnel safety, with zero tolerance for violations. As a result, our local sustainability investments in peso terms will continue to rise.

See pages 76-99

Social & Environment Investment (US$ million)



Conveyor belt at San Julián

Chief Executive's Letter

Optimising performance

I am pleased to report a solid performance in 2016, with a rise in production, delivery of the first phase of a key growth project, expansion of our resource base and a maturing sustainability framework.

> "By design our mines are set to yield returns across the price cycle with all-in sustaining costs that are amongst the lowest in the industry."

There were challenges and setbacks, to be sure – three fatalities, which we see as unacceptable, slower than expected turnaround at our flagship Fresnillo mine and technical issues and construction delays at San Julián – but also remarkable improvements in capacity utilisation, notably at Saucito and Herradura, and cash costs across the organisation. This comes in the context of volatile but improved metal prices that boosted revenues, profits and our cash position.

My enthusiasm for improved market conditions is somewhat tempered by their current unpredictability. In years past, precious metals prices were generally driven upward by supply constraints, geopolitical tensions and investors seeking safe havens. Over the course of 2016, these fundamentals may not have impacted pricing the way we have come to expect, confounding both industry analysts and market experts.

However, at Fresnillo, we have always believed that strategy and execution are the true drivers of value creation. We look to operational excellence, targeted investment, disciplined cash management and sustainable business practices as the benchmark of success. In that regard, I remain confident that we are on the right path to meeting our commitments to profitability and sustainability across precious metal price cycles.

To support this, we are undertaking a comprehensive review of the role technology and innovation play in managing the internal variables under our control, and the extent to which our systems and data are secure. I am leading the IT Governance Committee through a digital transformation: everything from personnel management and predictive maintenance, to mine ventilation, simulator training and reactant consumption. We have implemented a number of new systems already and will continue to monitor their effectiveness in delivering results and driving our competitive advantage, while bolstering our cybersecurity protocols.

Operating performance

We produced a record 50.3 moz of silver in 2016 (including Silverstream), 7.1% over 2015 and within our range of 49-51 moz. This was primarily due to the start-up of San Julián, higher ore grades at Fresnillo and Ciénega and, to a lesser extent, higher production from Silverstream.

While we met our silver production targets, I am disappointed that the Fresnillo mine fell short of its turnaround objectives. Our aim was to stabilise the rate of development at 4,500 metres per month in order to maintain throughput at levels that would offset the natural and expected decline in ore grade. However, due to a lack of equipment availability and a shortage of skilled personnel, we were unable to prepare sufficient infrastructure to sustain that rate of development, which put pressure on volumes. The Fresnillo mine produced 15.9 moz silver in 2016, 1.6% higher than in 2015, against our target of a double-digit increase. We have already made improvements but are looking to make additional progress in 2017 to deliver our targets.

Gold production reached a record level, increasing 22.8% over 2015 to 935.5 koz, against our revised guidance of 850-870 koz. This was the result of the reductions of inventories from the leaching pads at Herradura, the start-up of phase I at San Julián and a higher speed of recovery at Noche Buena, which partially offset the expected lower ore grade and ore processed at Ciénega.

By-product lead production increased 13.5% on 2015, to 48,144 tonnes, mainly as a result of higher ore grades at Fresnillo and Ciénega. Similarly, by-product zinc production increased 23.5% to 56,845 tonnes due to higher ore grades and recovery rates at Fresnillo and Ciénega and increased ore throughput and recovery rate at Saucito.

Construction of phase I of the San Julián mine was completed at a slight delay due to the need of the contractor to do some initial rectification. The milling facility and leaching plant were commissioned in the summer, and the plant exceeded design capacity in the final quarter of the year, contributing 2.1 moz to the Group's total silver production and enhancing our productivity metrics. Start-up of the phase II flotation plant has been delayed from year end 2016 to 2Q 2017 due to unusually high rainfall, contractor turnover and delays in the delivery of certain equipment that affected the pace of construction.

Following Board approval of project resumption, we completed engineering for the new Pyrites plant, placed initial equipment orders and began construction. This US$155 million project will increase silver and gold recovery rates by processing tailings, both historical and ongoing, from the Fresnillo and Saucito mines, generating an expected 3.5 moz silver and 13 koz gold per year. The first phase leaching plant is expected to come on line in 1Q 2018, and the tailings flotation facility by year end 2018.

The Centauro Extension project at Herradura, encompassing a second line to the dynamic leaching plant, has also been approved. Progress in the year included detailed engineering, advancing the foundations of the milling area and placement of orders for various components. The US$110 million project is expected to extend the life of the mine with average gold production of 390 koz per year.

Investment in exploration totalled US$137.9 million, mainly focused on areas of influence at current operating mines and key exploration sites. Good results were achieved at Fresnillo, Saucito, San Julián, Pilarica and Guanajuato.

Resources and reserves reflect the following price assumptions: silver at US$17.50 per oz (2015: US$15.00), gold in underground mines at US$1,250.00 per oz (2015: US$1,150.00), and gold in open pit resources at US$1,400.00 per oz (2015: US$1,300.00). Our high quality asset base remains healthy. Gold and silver resources increased by 8.2% and 10.2% respectively, whilst gold reserves remained unchanged and silver reserves decreased 3.2%. (Refer to Exploration pages 71-75)

A commitment to sustainable business practices

Robust sustainability practices not only underpin our licence to operate, they also lower operating risk and ensure alignment with stakeholders. To coincide with our HSECR framework reaching maturity this year, we conducted our first materiality assessment to gauge the effectiveness of our sustainability strategy and the quality of our reporting, the results of which are set out on page 77.

continued on page 18

IT Strategy

- Ensure the security, continuity and confidentiality of our networks, systems and data.
- Optimise execution to reduce costs, increase productivity and throughput, and improve safety metrics.
- Transform processes with disruptive technologies that will evolve the business model.
- Support decision making with big data analytics and automatic generation of insights.

See pages 56-57

Top: Development at Las Casas, Ciénega District

Bottom: Water treatment Plant in the Fresnillo District

Chief Executive's Letter continued

Key commitments for 2017

Strengthen our **safety** performance with zero tolerance for non-compliance, and increased investment and support for training and oversight.

Improve and optimise performance at the **Fresnillo** mine by developing infrastructure at the lower levels sufficient to increase the development rate to 4,800 metres per month by year end; commence work on plant optimisation; and continue the deepening of the San Carlos shaft and expansion of the tailings dam.

Commission the second phase of **San Julián** on time and on budget in 2Q 2017, including installing vibrating screens at the leaching plant to achieve an average of 4,000 tpd milling capacity. Furthermore, we will deploy efficiency teams to reduce costs, with a focus on drilling methods, and identify additional long-term sources of water for industrial use.

See pages 28-29

We fell short of our safety targets this year, with three fatal injuries in 2016 and one at the beginning of 2017. We have taken a number of steps to strengthen our safety culture, including the implementation of a new Safety Information System. Our decision to terminate a Company contractor this year reflects the prioritisation of safety above all other operational considerations, notwithstanding the shortage of contractors in certain districts as well as the short-term impact on production.

However, we made important advances in other metrics of sustainability in the areas of health, environment and community relations. These include chronic illnesses and water utilisation rates.

Financial results

Our average realised gold and silver prices rose by 10.7% and 10.3%, respectively. As a result, adjusted revenues totalled US$2,045 million, 29.2% above the previous year.

Adjusted production costs[1] decreased by 2.5%, mainly explained by the favourable effect of the 17.7% average devaluation of the Mexican peso vs. the US dollar during 2016, lower energy prices and the positive impact of our cost reduction initiatives.

These factors more than compensated for the additional production costs arising from the increased ore throughput at Herradura and Saucito. However, cost of sales increased by 1.2% over 2015 mainly due to the decrease in inventories at Herradura following the increased processing capacity achieved with the commissioning of the second Merrill Crowe plant, as well as higher depreciation.

The increase in revenues more than offset the higher cost of sales, resulting in a 103.7% increase in gross profit to US$882.1 million. Gross margin was 46.3% compared to 30.0% in the previous year. The higher gross profit and lower administrative and exploration expenses resulted in an 88.5% increase in EBITDA, with an expansion in the margin from 37.9% in 2015 to 54.2% in 2016.

Profit from continuing operations before income tax increased by 238.2% to US$718.2 million. Income tax expense increased 101.4% to US$259.9 million as a result of higher profits, with an effective tax rate of 36.2% excluding the special mining right (2015: 60.7%), and 40.8% including the effects of the special mining right (2015: 67.3%). Net profit for the period was US$425.0 million, a 512.4% increase over 2015.

The 20.1% devaluation of the Mexican peso against the US dollar as of 31 December resulted in non-cash charges to the income statement and affected the monetary position and value of certain assets and liabilities, resulting in a higher deferred tax charge.

Cash flow generated by operations, before changes in working capital, increased by 90.5% to US$1,023.3 million as a result of higher profits. Capital expenditure totalled US$434.1 million, a decrease of 8.6% over 2015; key investments in the year included construction at the San Julián project, stripping activities and the construction of the leaching pads at Herradura, and development at Fresnillo, Ciénega and Saucito. Other uses of funds in the year were income tax and profit sharing paid of US$114.8 million and dividends paid of US$88.2 million. We closed the year net cash flow positive.

The Group maintained a strong balance sheet. Cash, cash equivalents and short-term investments totalled US$912.0 million, an 82.3% increase over 2015; debt remained at US$800.0 million as at 31 December 2016.

A detailed review of our performance is set out in the Financial Review.

Outlook 2017

By design, our mines are set to yield returns across the price cycle, with all-in sustaining costs that are amongst the lowest in the industry, giving us financial and operating flexibility in a range of market conditions. We aim to produce 58–61 moz of silver, including 4 moz from the Silverstream, and 870–900 koz of gold in 2017, reflecting no further production benefit from the reduction of inventories at Herradura.

Given the uncertainty of forecasting precious metals prices in the current environment, we continue to take a cautious approach and investment decisions will be evaluated on a project-by-project basis against key criteria; US$800 million has been budgeted for capital expenditures in 2017, to be allocated primarily to San Julián, the Pyrites plant, the second line of the DLP and, pending approval, initial construction at Juanicipio, as well as sustaining capex at current operations including the Fresnillo expansion. A further US$160 million has been budgeted for exploration, including capitalised expenses.

The Centauro Deep and Ciénega expansion projects are still under exploration prior to Board evaluation, while every effort will be made to improve and enhance project metrics for longer-term growth prospects such as Orisyvo.

Our strategic goals are unchanged: to profitably and sustainably maintain the Group's position as the world's largest primary silver company and a leading gold producer in Mexico. Our high quality, low cost assets, extensive growth pipeline and balance sheet strength leave us well placed to deliver on our 2018 production and reserves targets. More immediately, we are focused on meeting our commitments to improve and optimise performance at the Fresnillo mine, commission the second phase of San Julián on time and on budget, and strengthen our safety performance.

I am grateful for the continued confidence placed in us by our people, communities, suppliers, clients and shareholders, and look forward to another year together.

Octavio Alvídrez
Chief Executive Officer

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

Investment Case

Dynamic Leaching Plant at Herradura

Our key competitive advantages position us to meet near-term commitments and drive long-term value.

Strong balance sheet

Operational flexibility, investment across price cycles, shareholder returns

With a healthy cash position and low leverage ratio, we can invest in profitable growth and optimise operations, while delivering solid returns to shareholders. In 2016, capital expenditures totalled US$434.1 million, exploration US$121.2 million and we paid out US$88.2 million in dividends.

High quality assets

Long-term visibility, long life returns

We are amongst the largest concession holders in mineral-rich Mexico, holding approximately 1.8 million hectares of surface land, with a district consolidation strategy that allows us to leverage local knowledge and shared infrastructure. Our portfolio of low cost gold and silver mines, high potential development projects and advanced exploration prospects contain over 2,171.5 moz of attributable silver resources and 38.4 moz of attributable gold resources.

Low cost and flexible operations

Healthy margins, adaptability across price cycles

Our high quality assets allow us to extract mineral profitably across metal price cycles. Furthermore, we are able to tailor mine plans, leverage technology and share personnel, expertise and plant capacity within our districts to maximise the potential of each operation. A focus on continuous improvement in productivity, efficiency and consumption of operating materials and energy combined with favourable exchange rates, helped reduce cost per tonne across all our mines in 2016.

Disciplined approach to development

Long-term profitable growth

Every development project must meet stringent viability criteria, including rates of return and high environmental and social impact standards. Delivery timelines and budgets are calibrated to advance us towards production targets whilst adjusting for market conditions, with engineering and construction conducted by in-house teams. We are on track to deliver phase II of the San Julián mine in 2017 and the new pyrites plant in 2018.

Sustainable business practices

Environmental stewardship, social licence to operate, ethical culture

To drive value for all our stakeholders and ensure operational continuity, we must understand and respect the needs of local communities; prioritise local goods, services and employees for our operations; ensure the safety and health of our people; and minimise our environmental footprint. We invested over US$21.1 million in our HSECR initiatives in 2016, 10.7% higher than in 2015.

Market Overview

Our strategy arises from the context of the silver and gold mining industry and the business environment in Mexico.

As a major silver and gold mining company, we are exposed to the market dynamics common to the global precious metals industry, while our people and operations, virtually all located in Mexico, are exposed to country-specific factors that affect our operations.

The precious metals market

Our top-line performance and that of our peers is driven by precious metals prices, which reflect traditional supply and demand dynamics that arise from the industry's production capacity in relation to consumption, which in turn is driven by market sentiment. However, market sentiment has become significantly less predictable in response to geopolitical and macroeconomic variables in recent years, and rather notably so in 2016.

The two key political developments in 2016 with potential to impact our Group were the UK's decision to exit the European Union, and the election of Donald Trump as president of the US, both of which resulted in strong, albeit dissimilar, reactions by equity markets and currency exchange rates. We do not believe that Brexit will have a direct material impact on the Group, given that our operations are in Mexico. The effect of the new US administration, while still difficult to predict until political, economic and trade policies are fully implemented, has thus far only affected us in terms of the reduction of the value of the peso in relation to the US dollar.

Fresnillo plc does not take a position on where prices, demand or market sentiment are headed; however, we do monitor price movements and market dynamics, and take into consideration industry research and forecasts in order to support our financial projections and cash management strategies. We use analyst consensus as the base case scenario for our internal projections, and conduct sensitivity analyses with floor and ceiling prices of between 10-20% above and below those consensus figures. As a result, metals prices will continue to influence budget considerations in areas such as exploration and the timing of certain capital expenditures.

	2016	2015	2014
Peer group: primary silver producers production in moz			
Fresnillo plc	**50**	**47**	**45**
Polymetal International plc	29	32	29
Hochschild Mining plc	17	15	16
Hecla Mining Company	17	12	11
Coeur Mining, Inc.	15	16	17
Silver Standard Resources Inc.	10	10	9
Silver Corp Metals Inc.	6	4	5

	2016	2015	2014
Peer group: global silver producers (by-product & primary) production in moz			
Fresnillo plc	**50**	**47**	**45**
KGHM Polska Miedz S.A.	38	41	40
Goldcorp Inc.	28	40	37
Pan American Silver Corp.	25	26	26
South32 Limited	21	22	N/A
BHP Billiton	13	11	34

In gold, our peer group are medium-sized global gold miners with similar levels of annual production.

	2016	2015	2014
Peer group: medium-size gold producers production in koz			
Agnico Eagle Mines Limited	1,663	1,671	1,429
Randgold Resources Limited	1,253	1,211	1,147
Fresnillo plc	**935**	**762**	**596**
Polymetal International plc	890	861	945
OceanaGold Corporation	417	419	307
Petropavlovsk plc	416	504	625
Coeur Mining Inc.	358	328	249
Hochschild Mining plc	246	166	101

Market size and position
In silver, our peer group are other primary silver miners although much of the global silver production is derived as a by-product of gold, lead, zinc and copper mines. We have long been the top global producer of silver, both by-product and primary, and aim to maintain our leadership position amongst global producers.

Benchmarking our performance in the industry
To assess our competitiveness within our peer groups, we look primarily at the following two factors, neither of which are influenced by market dynamics:

Average cash cost per metal: We track all-in sustaining costs (AISC) in accordance with the guidelines issued by the World Gold Council, as a means to monitor current production costs and preparations for future production; however, we also continue to use the traditional cash cost[1] metric as we believe it is more representative of the production costs incurred during the period, eliminating distortions caused by non-recurring sustaining costs. Our strategic objective is to remain in the lowest quartile of the cost curves, which we achieved at most of our mines in 2016. See pages 58-67.

Quality and quantity of our mineral assets: Cash costs provide a picture of a company's current ability to extract its resources at a reasonable cost, but long-term competitiveness is dependent on the actual size of the resource base. A strong indicator of future production is the ability to convert measured, indicated and inferred resources into proven and probable reserves.

We continuously invest in exploration across price cycles to expand and strengthen our asset base; as a result, our total resources and reserves have grown steadily since our IPO, and we have a range of organic growth projects that extend across the prospecting, drilling and resource definition stages. See pages 71-75.

Key trends shaping the precious metals industry
Our industry faces a number of underlying trends that impact competitiveness and viability. As many of these coincide with our key risks, more detailed information regarding the specific implications for Fresnillo plc and our response and mitigation efforts can be found on pages 42-55.

Capital remains constrained. Although prices for many metals improved in 2016, the cumulative effect of years of depressed prices has put pressure on profits and balance sheets in recent years. Process improvements, innovation, better resource utilisation and lower energy costs have helped cut costs and improve productivity, but many miners remain vulnerable in the current environment and have insufficient cash reserves to sustain capital requirements and investments in growth. Traditional sources of external financing, including equity markets and institutional lenders, are seeking higher returns and premiums for their capital, even when allocated to high quality mining companies.

Metal supply is limited, and ore grades are declining. No new major deposits have been identified in recent years, thus mine lives will be reduced if volumes are sustained at current operations. Miners will increasingly rely on lower grade deposits or those with more complex metallurgy, while the search for new deposits may take more time, be in less hospitable and secure areas, and lack the economies of scale that bigger and richer deposits would allow. Taken together, exploration and exploitation will require significantly more capital at a time when the industry is facing the aforementioned capital constraints.

Environmental and social costs of maintaining mining operations have increased, and anti-mining activism continues to rise. Resource nationalism in many mining jurisdictions has affected regulation and taxation, while pressure from non-governmental organisations (NGOs) and communities, both organised and ad hoc, have led to work stoppages, project closures, and increased pressure for more tangible community benefits and shared value creation mechanisms.

Mexico: Country challenges specific to Fresnillo plc
Securing land access and ownership. Mining concessions in Mexico provide rights to the mineral resources in the subsoil, not the surface land, thus concession holders must negotiate private agreements with landowners. Inconsistent registration and enforcement of inherited ownership rights for communal land has led to renegotiation of land agreements in some cases, and to demands for increased rent for land, water and occupancy rights.

Continued insecurity. Some regions of the country, particularly in the states of Baja California, Durango, Sinaloa, Guerrero, Chihuahua, Michoacán, Tamaulipas and Nuevo León, face unacceptably high rates of violent crime, primarily due to drug cartel activity. Despite the escalation of military engagement and law enforcement, security remains a critical issue.

Corruption. Mexico is ranked the 123rd of 176 countries on Transparency International's 2016 Corruption Perceptions Index[2], a composite index drawing on corruption-related data from experts and business. Bribery is seen to be widespread in the country's judiciary and police, and in business registration processes, including getting construction permits and licenses. Collusion between the police, judges and criminal groups stems from complex jurisdictions and cartel pressure, which contributes to the security problem and results in impunity and weak law enforcement. While attempted bribery, extortion, abuse of office, bribery of foreign public officials and facilitation are criminalised under the Federal Penal Code (Código Penal Federal), anti-corruption laws are almost never enforced. See page 78 for the Fresnillo plc policy on Anti-Bribery.

1. We define cash cost as the total cash cost (cost of sales plus treatment and refining charges, less depreciation), less revenues from by-products, divided by ounces of silver or gold sold.
2. Published on 25 January 2017.

Business Model and Strategy

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

Business model

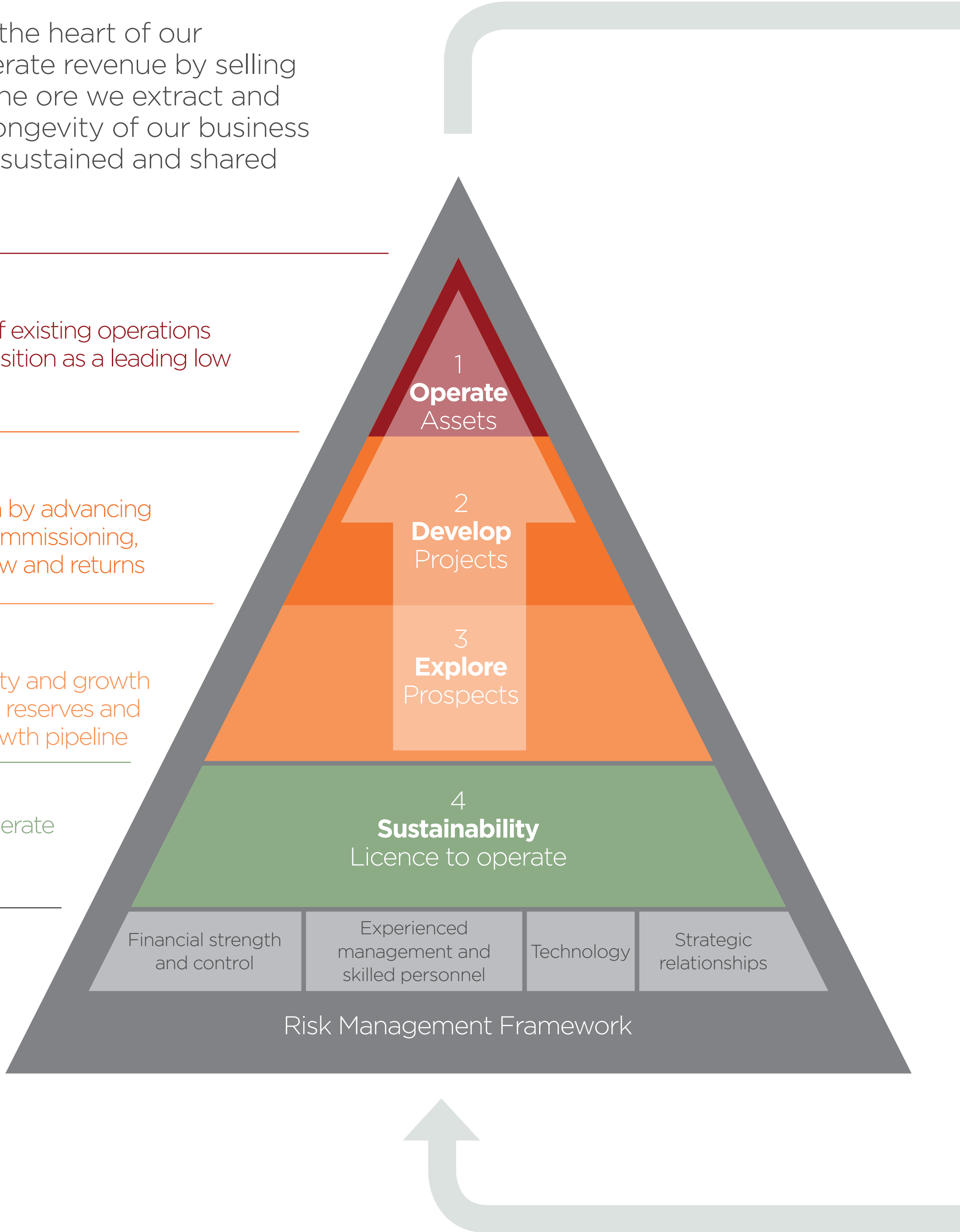
Gold and silver mining is the heart of our business model. We generate revenue by selling the metals contained in the ore we extract and process. We ensure the longevity of our business by creating and growing sustained and shared value for all stakeholders.

1 Operate
Maximise the potential of existing operations while maintaining our position as a leading low cost producer

2 Develop
Deliver profitable growth by advancing new projects towards commissioning, while optimising cash flow and returns

3 Explore
Ensure business continuity and growth by replenishing depleted reserves and maintaining a robust growth pipeline

4 Sustainability
Uphold our licence to operate



Strategic resources and relationships
Safeguard, deploy and invest in our strategic resources, and nurture and strengthen our strategic relationships

Risk management framework
Embed a culture of risk awareness through an effective risk governance structure

Precious metal value chain

Our value creation strategy is intrinsically linked to the business model

Fresnillo plc

- Exploration for mineral resources →
- Development & construction of new mines →
- Mineral extraction & beneficiation →
- Smelting & refining →
- Brokers →
- Buyers

Value creation

Job creation	Infrastructure	Payment for goods and services	Treatment and refining charges	Dividends	Tax revenue	Knowledge
Wages and benefits	Education/ healthcare	Support for local economy		Capital gains	GDP contribution	Increased influence
Profit sharing	Arts/athletics					
Professional development	Conservation					
	Quality of life					

Strategic relationships

See pages 26-27

Employees	Communities	Suppliers	Customers	Shareholders and Partners	Government	Membership organisations
Productivity	Access	Quality	Timely intake and payment	Capital	Concessions	Best practices
Commitment	Trust	Fair prices	Flexibility		Permits	Increased influence
	Respect	Technical support			Access to capital markets	

Stakeholder support

Business Model and Strategy continued
Business Model Components

1. Operate

The extraction and beneficiation of ore from our operating mines.

Strategic focus:	Maximise the potential of existing operations.
Priorities:	Optimise capacity and recovery rates by adjusting mining methods and beneficiation processes; generate continuous improvements in productivity and cost controls; leverage expansion opportunities.
KPIs:	Production by metal, cost per tonne by mine, productivity by mine (ore milled or moved per person).
Competitive advantages:	Competitive cost performance amongst our industry peers, with AISC on a life of mine basis significantly lower than current and projected market prices for gold and silver.

Key assets

Asset	Type	Main Metal	Year
Fresnillo district			
Fresnillo	Underground	Silver primary	1554
Saucito	Underground	Silver primary	2011
Ciénega district			
Ciénega	Underground	Gold/Silver	1992
San Ramón (Ciénega satellite)	Underground	Gold/Silver	2012
Herradura district			
Herradura	Open pit	Gold	1997
Soledad-Dipolos[1]	Open pit	Gold	2010
Noche Buena	Open pit	Gold	2012

1. Operations at Soledad-Dipolos are currently suspended.

Key risks:

- Impact of global macroeconomic developments
- Access to land
- Potential actions by the government
- Security
- Public perception against mining
- Union relations
- Human Resources
- Safety

See pages 58-67 for a detailed review of our mining operations.

2. Develop

The development and construction of new operating mines and facilities.

Strategic focus:	Deliver growth through development projects.
Priorities:	Adhere to strict delivery timelines and capex budgets.
KPIs:	Project delivery against budget/timeline.
Competitive advantages:	Stringent viability criteria, including rates of return and high environmental and social impact standards; synergy potential amongst our prospects and projects arising from our district consolidation strategy, that can reduce total capex requirements; in-house teams for engineering and construction.

Key assets

In progress: San Julián Underground mine in the prospective San Julián district. Phase I commissioned in 3Q16; Phase II expected 2Q17.	Annual production expected to be 11.6 moz silver and 63.7 koz gold in 2017.
Pyrites treatment plant Facility to process historical and ongoing tailings from Fresnillo and Saucito mines to increase metal recovery rates.	Annual production expected to average 3.5 moz silver and 13,000 koz gold.
Centauro extension Natural evolution of the pit. Project encompassing a second line to the dynamic leaching plant.	Life of mine at Herradura will be extended to 12 years with an average annual production of 390 koz.

Key risks:

- Impact of global macroeconomic developments
- Access to land
- Potential actions by the government
- Security
- Public perception against mining
- Projects (performance risk)
- Union relations
- Human Resources

See pages 68-70 for a detailed review of our development projects.

3. Explore

The search for ore deposits that expand our resource base and replenish reserves.

Strategic focus:	Extend the growth pipeline.
Priorities:	Allocate funding across metal price cycles; advance prospects and projects along the exploration pipeline, from early stage to drilling to advanced, as strict criteria are met; convert resources to reserves.
KPIs:	Total attributable resources by metal.
Competitive advantages:	One of the largest concession holders in Mexico; prospects must have a minimum potential of 100 moz of silver or 2 moz of gold equivalent to advance; strict criteria on ore grades, metallurgical recoveries and environmental impact.

Key assets

Asset	Main Metal
Fresnillo district	
Juanicipio	Silver
Ciénega district	
Las Casas, Cebollitas Cluster	Silver and gold
Herradura district	
Centauro Deep	Gold
Chihuahua (greenfield)	
Orisyvo	Gold
Other early stage projects and prospects, Mexico and Peru	

Key risks:

- Impact of global macroeconomic developments
- Access to land
- Potential actions by the government
- Security
- Public perception against mining
- Exploration
- Human Resources

See pages 71-75 for a detailed review of our exploration pipeline.

4. Sustainable development

The responsible operation of our business.

Strategic focus:	Advance and enhance the sustainability of our business, today and for future generations.
Priorities:	Eliminate unsafe workplace conditions and behaviours; improve and maintain the health of our people; minimise the environmental impact of our activities; engage with and support the development of our communities; secure the talent pipeline and ensure a fair and ethical workplace.
KPIs:	Fatalities and injuries, emissions, water, community investment.
Competitive advantages:	Deep understanding of home market culture and communities, enabling us to meet best practices domestically and in line with international standards.

Key pillars

Health	Safety
Environment	Community relations
People	

Key risks:

- Potential actions by the government
- Security
- Public perception against mining
- Safety
- Environmental incidents
- Human Resources
- Access to land

See pages 76-99 for a detailed review of our sustainability practices and performance.

Business Model and Strategy continued

Risk management framework

The identification and mitigation of risks that could affect the Company's ability to execute its strategy and deliver on its commitments.

Strategic focus:
Embed a culture of risk awareness with an effective risk governance structure.

Priorities:
Identify, assess, prioritise, mitigate and monitor risk at all levels of the organisation.

Competitive advantages:
Conservative approach towards risk and comprehensive risk management measures, support long-term value creation strategy.

See pages 42-53 for a detailed review of our risk management programme.

Strategic resources

The key inputs required to sustain our value creation model.

Strategic focus:
Safeguard, deploy and invest in our strategic non-mineral resources (human, technological, financial).

Experienced management and skilled personnel:
Select, recruit, train, develop, compensate and retain personnel with the requisite knowledge and experience to execute our strategy.

Technology:
Deploy systems and methods that support exploration efforts, increase productivity, reinforce sustainability, enhance accountability and support decision-making and financial planning processes. Ensure the Group's networks, systems and data are secured in accordance with best practices.

See pages 56-57

Financial strength and control:
Maintain strict control of cash, assets, costs and expenses to maintain a solid balance sheet and competitive position as a low cost producer; ensure sufficient resources to finance growth and guarantee operational continuity; deliver shareholder returns.

Strategic relationships

The key stakeholders for and with whom we create shared value.

Strategic focus:
Nurture and strengthen our strategic relationships.

Workforce, both contracted and unionised:
Provide a safe, equitable, fair and ethical work environment.

See pages 91-94

Communities:
Invest directly and through partnerships in quality of life initiatives, with a focus on environment, education, health and social integration, entrepreneurship and social infrastructure.

See pages 95-99

Suppliers:
Negotiate long-term purchase agreements to secure better pricing and ensure timely availability of key equipment, materials and services. A key supplier is Servicios Administrativos Peñoles, S.A. de C.V. (SAPSA), a subsidiary of the Company's controlling shareholder, Industrias Peñoles, S.A.B. de C.V. (Peñoles), which is contracted to supply administrative services. The relationship is regulated by a Services Agreement (NSA, or New Services Agreement), ensuring that all services are delivered at arm's length and on normal commercial terms as per the Relationship Agreement with Peñoles.

Customers:
Partner with refiners and smelters who help maximise our revenue stream. All the primary products originating from Group mines in 2016 were sold to the Met-Mex Peñoles, S.A. de C.V. refining and smelting facility in Torreón, Coahuila (Mexico) under a series of supply agreements set on an arm's length basis and in line with international benchmarks. The relationship allows us to benefit from relatively low transport costs associated with our proximity to Met-Mex operations. The Group has sold to other refiners and smelters in the past and may do so in the future if conditions warrant.

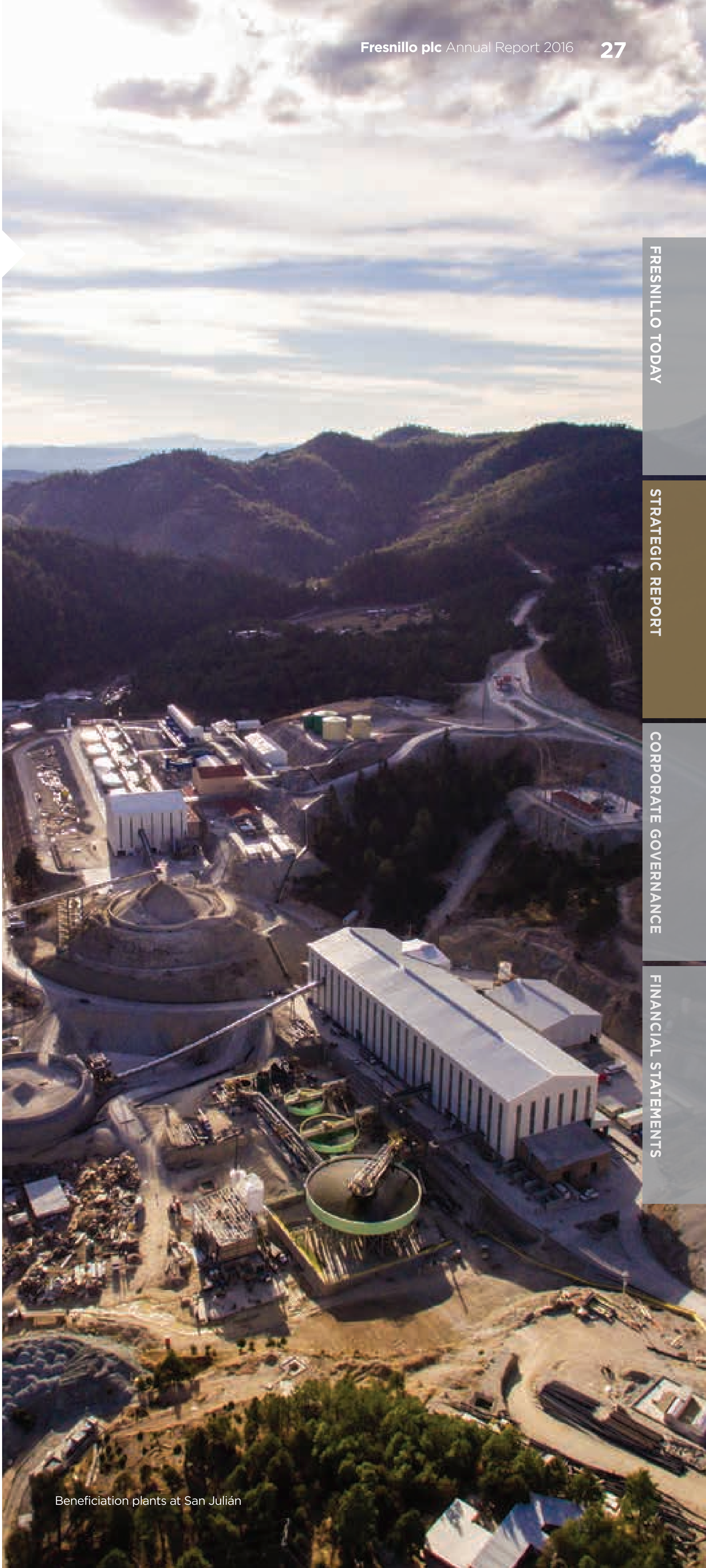
Shareholders and note holders:
Balance returns with investment in long-term growth. Peñoles holds 75% of the issued share capital of Fresnillo plc and has been the principal investor in Group assets for over 50 years, as well as a significant supplier to and customer of the Company, as described above. The remaining 25% of Fresnillo plc shares trade on the London and Mexican Stock Exchanges, and bondholders own US$800 million of Senior Secured Notes due 2023. The Group maintains a regular dialogue with its independent investors and note holders as described in the Corporate Governance Report.

See pages 124-125

Partners:
Enter into and execute mutually beneficial business agreements. This includes the Group's 56% interest in Minera Juanicipio S.A. de C.V., with MAG Silver Corporation holding 44%; the agreement was entered into for the development of the Juanicipio concession. We also partner with a number of junior exploration companies to conduct early stage prospecting.

Authorities and regulators:
In Mexico and Latin America, secure mining concessions and adhere to the laws and regulations governing natural resources and mining companies; in Mexico and the United Kingdom, adhere to issuer requirements of the Mexico and London stock exchanges, as well as financial and regulatory oversight from securities regulators.

Membership organisations:
Collaborate with peers to advocate for and advance initiatives that support shared strategic objectives. We belong to a number of industry and trade groups: CAMIMEX, the Mexican Mining Chamber, which promotes sector agreements, advocates industry positions, and sets benchmarks for the mining sector; CESPEDES (Sustainable Development Studies Commission for the Mexican Private Sector, part of the Mexican Business Coordinating Council, or CCE), which coordinates the private sector stance on key issues such as the transition towards a green economy and greenhouse gas mitigation efforts in the country; and the Mining Cluster for the State of Zacatecas, through which mining industry participants in Zacatecas state promote the development of economic, social and environmental best practices across the supply chain.


Beneficiation plants at San Julián

2016 Performance and 2017 Targets

Fresnillo has a robust strategy to meet its corporate goals and capture the significant growth opportunities in the global precious metals industry.

Maximise the potential of existing operations

Optimise capacity and recovery rates; generate continuous improvements in productivity and cost controls; leverage expansion opportunities.

What we said we would do in 2016

- Fresnillo mine: Stabilise the rate of development at 4,500 metres per month, improve ore grade and production levels; advance engineering on the capacity optimisation project.
- Produce 49-51 moz of silver, 775-790 koz of gold.
- Increase efficiency and control costs.

What we did in 2016

- Development rate peaked at 4,520 metres per month at the Fresnillo mine but averaged 3,929 metres per month on an annualised basis.
  Ore grade and production both improved while detailed engineering on the plant optimisation continued.
- Produced 50.3 moz of silver hitting our target and exceeding our gold target by 22.8% producing 935.5 koz.
- Cash costs and cost per tonne all reduced at every operating mine in the Group.

Our commitments and targets for 2017

- Produce between 58-61 moz of silver, 870-900 koz of gold.
- Fresnillo mine: Increase development rates to 4,800 metres per month by year end, with an expected 7-10% increase in silver production, while commencing work for the optimisation plant.

For more on our performance
See pages 30-33

Deliver growth through development projects

Adhere to strict delivery timelines and capex budgets.

What we said we would do in 2016

- San Julián: Commission leaching plant to process ore from the veins (phase I) in 2Q 2016, flotation plant to process ore from the disseminated ore body (phase II) in 4Q 2016.
- Pyrites plant: Complete engineering; equipment orders and construction on hold as per contingency plan.

What we did in 2016

- Phase I of San Julián commissioned with slight delay; milling capacity operating at 20% above nominal capacity. Phase II delayed until 2Q 2017.
- Completed detailed engineering works for the Pyrites plant, obtained environmental permits, commenced preparation of the site and placed orders for major equipment.

Our commitments and targets for 2017

- San Julián: Commission flotation plant to process ore from the disseminated body (phase II) in 2Q 2017.
- Pyrites plant: Complete construction of leaching plant, advance tailings flotation plant towards 1H 2018 completion.
- Continue construction of the second line to the dynamic leaching plant at Herradura, expected to be commissioned in 2018.

For more on our performance
See pages 34-35

Extend the growth pipeline

Allocate funding across metal price cycles; advance prospects along the exploration pipeline, as strict criteria are met; convert resources to reserves.

What we said we would do in 2016

- Deploy US$135-140 million in exploration investment.
- Ongoing exploration to convert resources into reserves at mines and at key projects.

What we did in 2016

- Invested US$137.9 million in exploration.
- Exploration programme focused on increasing resources at some sites.

Our commitments and targets for 2017

- Deploy US$160 million in exploration investment.
- Intensify exploration to convert resources into reserves.

For more on our performance
See pages 36-37

Advance and enhance the sustainability of our operations

Prioritise workplace safety and health; minimise our environmental impact; engage with and develop our communities; secure the talent pipeline; ensure a fair and ethical workplace.

What we said we would do in 2016

- Continue to strive for zero fatalities, continuous improvement in safety.
- Conclude advancement of HSECR system towards its 2016 targets.

What we did in 2016

- Fell short of target with three contractor fatalities.
- We achieved 100% maturity in our HSECR system.

Our commitments and targets for 2017

- Continuous improvement in safety.
- Implement the second phase of our ethics and integrity project to embed ethics in our organisational culture.

For more on our performance
See pages 38-39

Key Performance Indicators
1 Operate

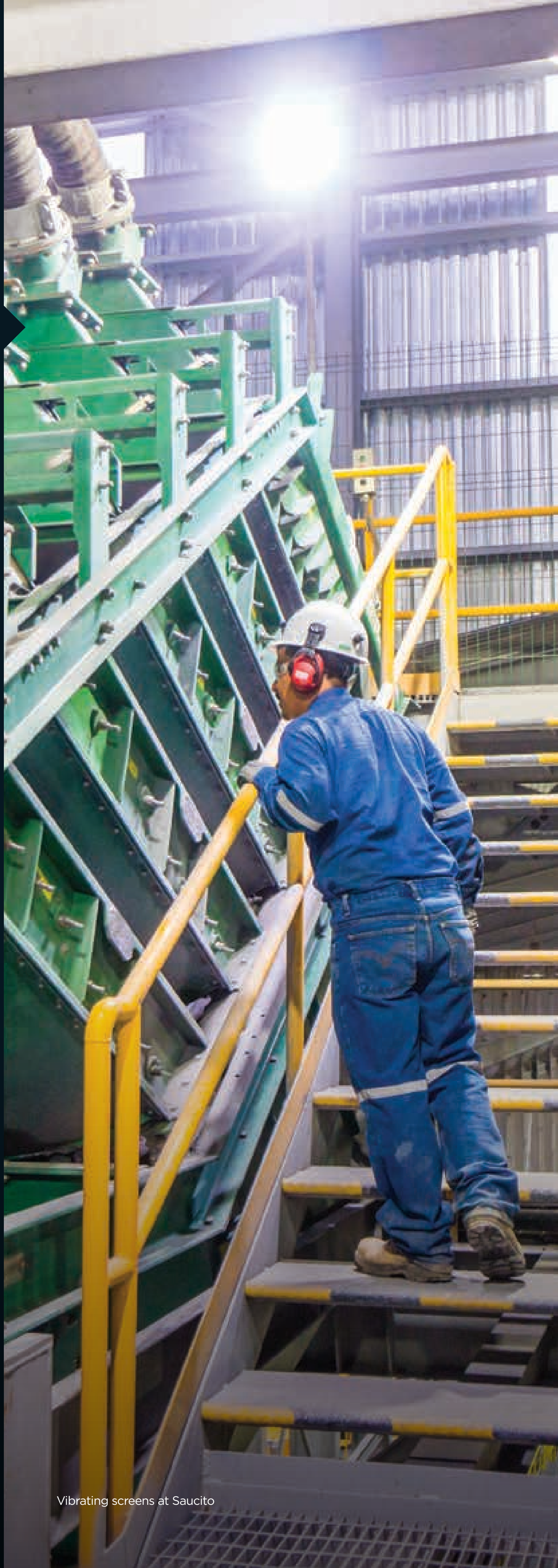
Our performance in the year

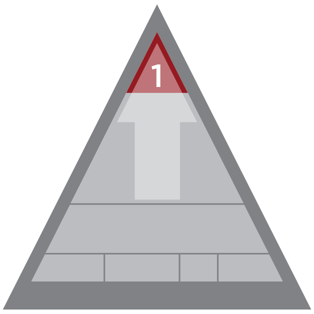
Silver and gold production both increased in the year; silver, with the start-up of San Julián, and higher ore grades at Fresnillo and Ciénega, and gold mainly as a result of the reduction in inventories from the leaching pads at Herradura. The devaluation of the Mexican peso, combined with our continued focus on efficiency and controlling costs, led to lower cost per tonne at every mine.

See pages 58-67

Silver production
50.3 moz

Gold production
935.5 koz


Vibrating screens at Saucito



2016 objectives	2016 performance	2017 objectives
Optimise capacity and recovery rates		
• Fresnillo: further increase average development rate to 4,500 metres per month.	• Development rate peaked above 4,500 metres per month but averaged 3,929 metres per month over the year.	• Develop infrastructure at the lower levels of the mine sufficient to increase the development rate to 4,800 metres per month. • Increase milling capacity of the DLP further at San Julián to 4,000 tpd.
Leverage expansion opportunities		
• Ciénega: continue exploration at areas of influence and evaluate optimal configuration of additional capacity.	• Continued exploration at Rosario and Las Casas, and began at the Taspana and Tajos veins.	• Continue evaluation of the expansion of milling capacity at the Ciénega District.
• Herradura: Evaluate construction of second milling line at the DLP.	• Obtained board approval and began construction of the second line at the DLP.	• Continue construction of the second line at the DLP.
	• Resumed construction of the Pyrites plant following Board approval.	• Continue construction of the Pyrites plant.
Increase efficiency and control costs		
• Seek continuous cost improvements through dedicated work teams at each business unit.	• Costs at all operating mines lowered with milling efficiencies seen at Saucito and San Julián.	• Ongoing.
Replenish and increase reserves		
• Ongoing.	• Replenished gold reserves, silver reserves declined.	• Ongoing.

For more on our performance
See pages 58-67

Key Performance Indicators

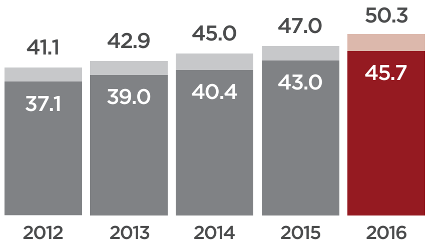
1 Operate KPIs

Production

Sum of ounces produced, plus ounces accrued through the Silverstream Contract. This indicator monitors total production levels at our mines and contributions from advanced development projects.

Silver production
Millions of ounces

50.3

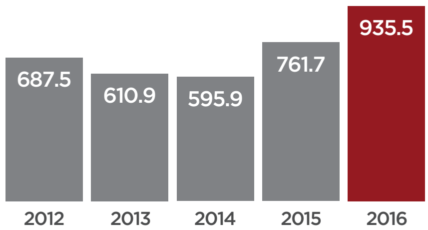


Graph illustrates silver production from our own mines, with the shaded portion representing additional ounces accrued under the Silverstream Contract.

Increased silver production due to the start-up of San Julián and higher silver grades at Ciénega and Fresnillo.

Gold production
Thousands of ounces

935.5



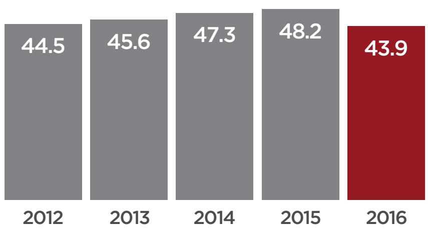
Increased gold production due to the reduction of inventories from the leaching pads at Herradura, contribution from San Julián and higher speeds of recovery at Noche Buena.

Cost per tonne

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

Fresnillo
US$/tonne milled

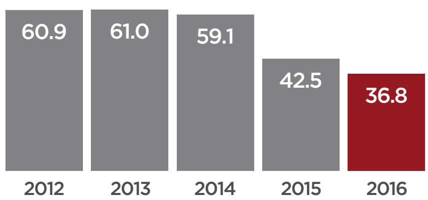
43.9



Decrease in cost per tonne due to the favourable effect of the devaluation of the Mexican peso/US dollar exchange rate and lower diesel and electricity prices partly offset by higher contractor costs to accelerate development.

Saucito
US$/tonne milled

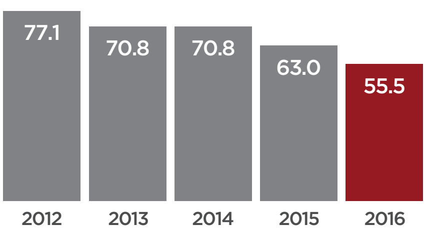
36.8



Decrease in cost per tonne due to the favourable effect of the exchange rate, economies of scale from higher throughput and lower unit energy prices.

Ciénega
US$/tonne milled

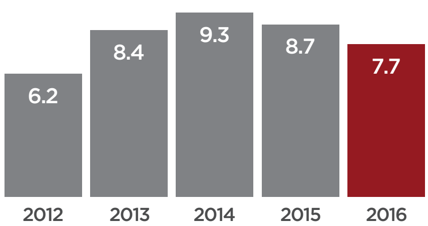
55.5



Decrease in cost per tonne as a result of foreign exchange benefits, lower unit energy prices and efficiencies achieved.

Herradura
US$/tonne deposited

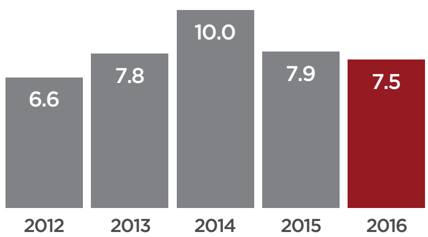
7.7



Decrease in cost per tonne due to the positive effect of the exchange rate, lower unit prices of operating materials and efficiencies achieved.

Noche Buena
US$/tonne deposited

7.5



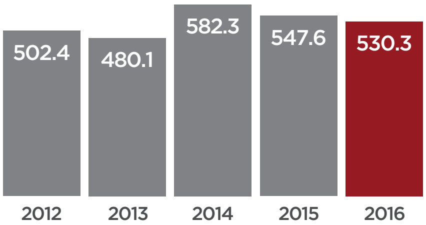
Decrease in cost per tonne as a result of foreign exchange benefits, and lower unit prices of operating materials and diesel.

Proven and probable reserves

A measure of the quality of the Group's operating assets and our ability to extend the life of operating mines at profitable levels. Our goal is to have 650 million ounces of silver and 7.5 million ounces of gold in reserves by 2018.

Silver reserves
Millions of ounces

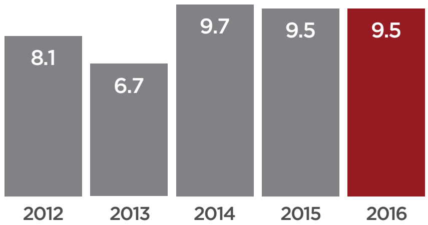
530.3



Lower due to less infill drilling to convert resources into reserves at Saucito and at San Julián.

Gold reserves
Millions of ounces

9.5



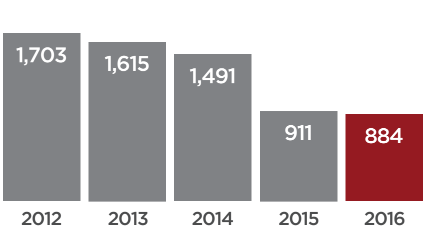
Gold reserves remained stable.

Productivity

Tonnes of ore milled per person, including contractors, at underground mines; and tonnes of ore deposited and waste material moved per person, including contractors, at open pit mines.

Fresnillo
Ore milled per person (tonnes)

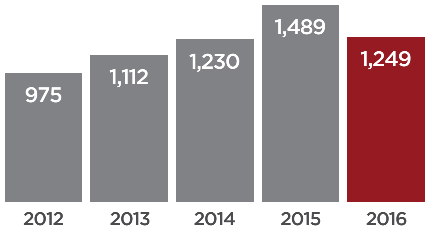
884



Lower volumes of ore processed per person due to increased number of contractors hired to increase preparation and development.

Saucito
Ore milled per person (tonnes)

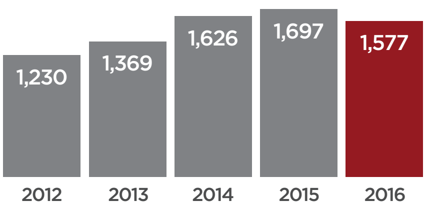
1,249



Lower due to the greater number of workers and contractors hired to increase preparation and development, which more than offset the benefit of the increased throughput.

Ciénega
Ore milled per person (tonnes)

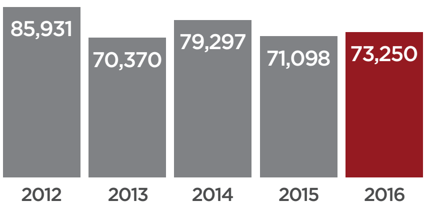
1,577



Lower volume of ore processed per person due to the increased number of contractors hired to increase preparation and development.

Herradura
Ore/waste moved per person (tonnes)

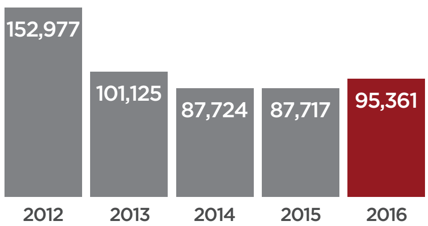
73,250



Increased volumes of ore and waste material hauled by fewer personnel.

Noche Buena
Ore/waste moved per person (tonnes)

95,361



Similar volumes of ore and waste material moved by fewer personnel.

Key Performance Indicators
2 Develop

Our performance in the year

The milling facility and leaching plant at San Julián (phase I) began processing ore in 2016, exceeding design capacity by year end notwithstanding a brief start-up delay due to a lubrication system malfunction. Commissioning of the flotation plant (phase II) has been delayed from year end 2016 to 2Q 2017 due to a combination of external factors.

Construction began on the new Pyrites facility, with the first phase leaching plant on track to come on line in 1Q 2018. The Centauro Extension project at Herradura, encompassing a second line to the dynamic leaching plant, was approved and construction began, with start-up expected in 2018.

See pages 68-70

San Julián phase II: flotation plant

2Q17

Pyrites phase I: leaching plant

1Q18

Centauro Extension: 2nd line to the DLP

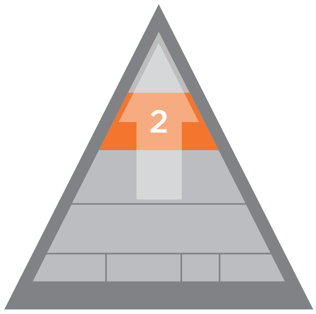
2018

Construction of the Flotation plant at San Julián

2 Develop KPIs

Project delivery

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



2016 objectives	2016 performance	2017 objectives
San Julián		
• Commission the leaching plant (phase I) in 2Q 2016; flotation plant (phase II) expected to be concluded in 4Q 2016.	• The leaching plant has been in operation since mid-August 2016 and has exceeded milling capacity. San Julián phase II was delayed due to unusually high rainfall, high rotation of contractor personnel and delays in the delivery of certain equipment.	• Commission the flotation plant (phase II) in 2Q 2017.
Pyrites Plant		
• Conclude detailed engineering. Equipment orders and construction on hold; project to resume pending Board approval as market conditions warrant.	• Project resumed, detailed engineering concluded, site preparation commenced, and major equipment orders placed.	• Initiate construction of the leaching plant.
Centauro Extension		
	• Project approved; detailed engineering continued, foundations of the milling area advanced and orders for various components placed.	• Continue construction of second line to the DLP.

For more on our performance
See pages 60-70

San Julián

Capex budget:
US$
515m
(revised upward from US$500 million in 2013)

Total capex to date:
US$
479.8m

Timeline: Revised several times since project inception in order to optimise capex allocation, ensure sufficient water supply, reinforce security and accommodate delays relating to weather, permitting and personnel retention. Commissioning of phase II is expected in 2Q 2017, rather than year end 2016.

Pyrites plant

Capex budget:
US$
155m

Total capex to date:
US$
15.1m

Timeline: The project was temporarily put on hold in early 2016 in line with the Board's contingency plan, and was approved for resumption in the second quarter; notwithstanding the brief delay, the project is on track to take less than two years to reach production, with the first phase leaching plant scheduled to come on line in 1Q 2018 and the tailing flotation facility in 2019.

Centauro extension

Capex budget:
US$
110m

Total capex to date:
US$
10.2m

Timeline: 2016-2018

Key Performance Indicators

3 Explore

Our performance in the year

The 2016 exploration programme was mainly focused on areas of influence at current operating mines and key exploration sites. **Total gold and silver resources both increased in the year.**

See pages 71-75

2016 exploration investment
US$
137.9m

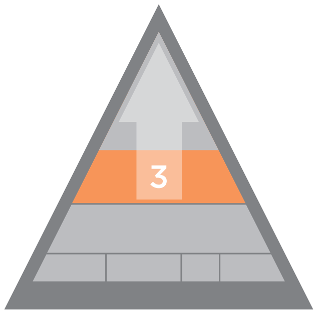
2017 exploration budget
US$
160m


Exploration at Juanicipio

3 Explore KPIs

Total resources (attributable)

Quantifies measured, indicated and inferred resources at all our assets; an indicator of the Group's growth potential and ability to discover and develop new ore bodies.

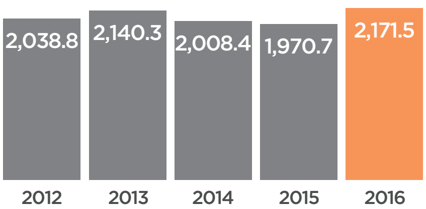


2016 objectives	2016 performance	2017 objectives
• US$135-140 million budgeted for exploration, including capitalised expenses.	• US$137.9 million invested in exploration (US$16.7 million capitalised) with good results at Fresnillo, Saucito, San Julián, Pilarica and Guanajuato.	• US$160 million budgeted for exploration, including US$8 million expected to be capitalised.
• Juanicipio: detailed engineering, further exploration.	• Drilling programme continued, with the exploration ramp extended.	• Continue exploration at depth at Juanicipio, in conjunction with new objectives through a 20,000 metre drilling programme.
• Ongoing exploration to convert resources into reserves at mines and at key projects.	• Exploration programme focused on increasing resources at some sites.	• Intensify exploration to convert resources into reserves.

For more on our performance
See pages 71-75

Attributable silver resources
Millions of ounces

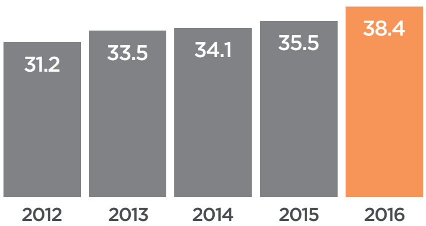
2,171.5



Higher due to positive exploration results at Fresnillo, Saucito, San Julián, Pilarica and Guanjuato, although with lower silver grades and a lower cut-off grade.

Attributable gold resources
Millions of ounces

38.4



Higher due to an increase at Herradura and Orisyvo derived from both the increase in gold price and positive exploration results.

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Key Performance Indicators
4 Sustainability

Our performance in the year

We reached our goal to have a mature HSECR management system. We aligned our HSECR strategies to contribute to the United Nations Sustainable Development Goals (SDG's) and our performance was recognised by our inclusion in the STOXX Global ESG leaders. We hold ourselves accountable to our commitment to prevent fatalities.

See pages 76-99

2015 HSECR system maturity

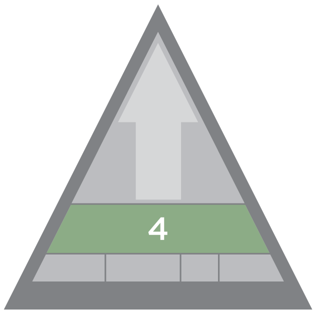
92.3%

2016 HSECR system maturity

100%

Dynamic Leaching Plant at San Julián

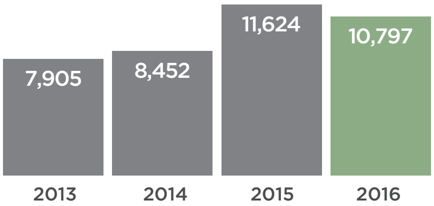
4 Sustainability KPIs



Water

Water input
Megalitres

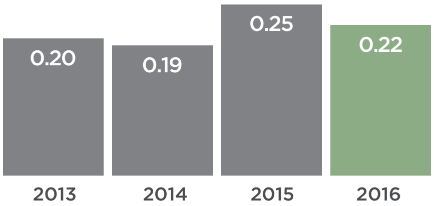
10,797



The volume of water received by a facility for operational use, including groundwater from aquifers (dewatering), bore fields, ore entrainment and third party wastewater.

Water intensity
M^3 per tonne of mineral processed

0.22



Water input per tonne of mineral processed.

2016 objectives

- Achieve full maturity of HSECR system as planned.

2016 performance

- We achieved 100% maturity of our HSECR system.

2017 objectives

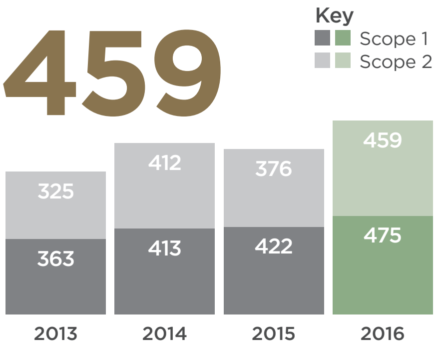
- Implement the second phase of our ethics and integrity project to embed ethics in our organisational culture.

For more on our performance
See pages 76-99

Greenhouse Gases

Greenhouse gas emissions
Kt of CO_2e

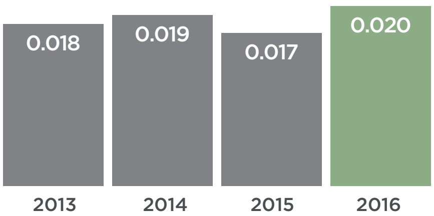
459



Measures Scope 1 (direct emissions) from combustion of fuel in mobile and stationary sources, and Scope 2 (indirect emissions) from electricity purchased from the Mexican National Grid (CFE), Thermoelectric Peñoles (TEP) and Wind Force Peñoles (FEISA), in kilotonnes of CO_2 equivalent.

Greenhouse gas intensity
Tonnes of CO_2e per tonne of mineral processed

0.020

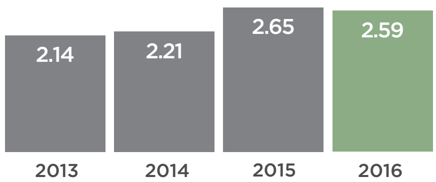


Greenhouse gas emissions per tonne of mineral processed.

Community Investment

Community investment
US$

2.59m

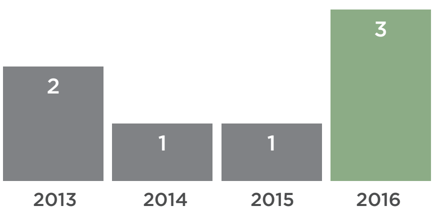


Contributions (cash, in-kind support and administration costs) to the communities where we operate, develop projects, and explore, within five strategic levers: education, social welfare (public health, social interaction and sports), environmental awareness, community capacity building and infrastructure.

Fatalities and Injuries

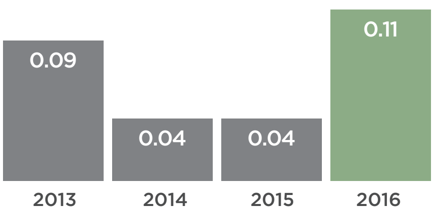
Fatal injuries
Number of fatal injuries to employees or contractors.

3



Fatal Injury Frequency Rate (FIFR)
Number of fatal injuries to employees or contractors per 1,000,000 hours worked.

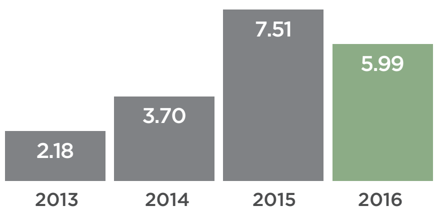
0.11



The Fatal Injury Frequency Rate (FIFR), which measures fatalities per one million hours worked and had been a KPI in previous years, is no longer considered a key indicator as it dilutes the impact of fatalities in light of rising activity levels. FFIR remains an internal performance indicator, as seen on page 84 in the Social and Sustainability Report.

Lost Time Injury Frequency Rate (LTIFR)
The number of lost-time injuries and fatalities per 1,000,000 hours worked.

5.99



Lost-time injuries are work-related injuries rendering any of the Group's employees – full or part-time, direct or subcontracted, union or non-union – unable to perform his/her regular duties for one shift or more.

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Key Performance Indicators
Financial KPIs

Our performance in the year

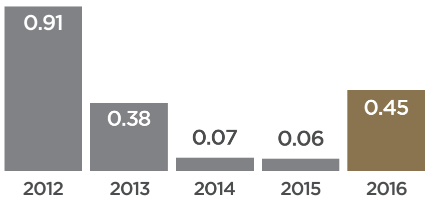
The Company achieved strong financial results with growth of 103.7% in gross profit, 88.5% in EBITDA, and 552.6% in attributable profit for the year, excluding the effect of the Silverstream revaluation.

See pages 100-111

Earnings per share excluding post-tax Silverstream revaluation effects

Attributable profit available to equity shareholders, excluding the revaluation effects of the Silverstream contract divided by the weighted average number of shares in issue during the period. Monitors net profit levels generated for equity shareholders.

Earnings per share excluding post-tax Silverstream revaluation effects
US$
0.453m



Higher profits divided across an unchanged weighted average number of shares in issue.

Cash cost per ounce

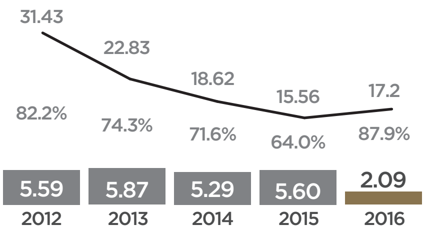
Total cash cost (cost of sales plus treatment and refining charges, less depreciation) less revenues from by-products divided by ounces of silver or gold sold. Used to compare profit margins and economic competitiveness amongst peers.

Key
— Gold/silver price ■ Cash cost

% figures represent margin between cash cost and gold/silver price

Fresnillo cash cost: silver
US$/ounce

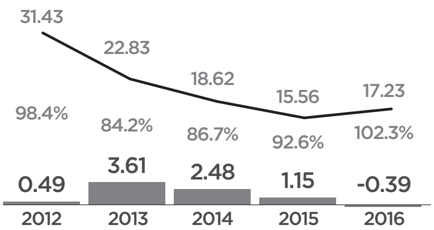
2.1



Decrease in cash cost mainly explained by higher by-product credits, lower cost per tonne and higher ore grade.

Saucito cash cost: silver
US$/ounce

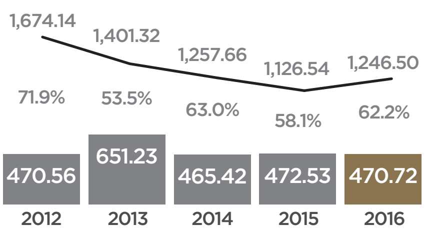
-0.4



Decrease in cash cost driven by higher by-product credits, lower cost per tonne due to economies of scale achieved; and lower treatment and refining charges.

Herradura cash cost: gold
US$/ounce

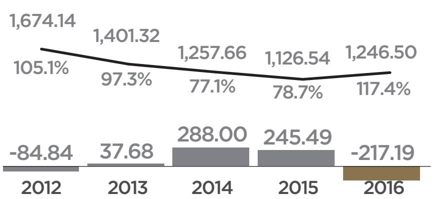
470.7



Decrease in cash cost mainly due to lower cost per tonne and higher by-product credits.

Ciénega cash cost: gold
US$/ounce

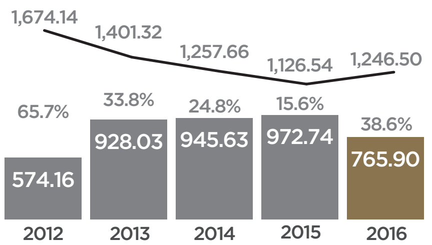
-217.2



Decrease in cash cost explained by higher by-product credits and decrease in cost per tonne, partly offset by lower ore grade.

Noche Buena cash cost: gold
US$/ounce

765.9



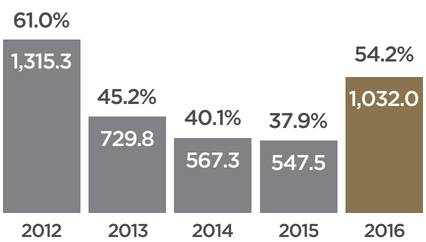
Decrease in cash cost per ounce driven by higher gold ore grade, lower cost per tonne and the reversal of an adverse inventory valuation effect.

EBITDA, EBITDA MARGIN and cash flow from operating activities before changes in working capital

EBITDA is gross profit plus depreciation included within cost of sales, less administrative, selling and exploration expenses. EBITDA margin is EBITDA divided by total revenue. Both EBITDA and cash flow from operating activities before changes in working capital measure the Group's ability to generate cash from its core business.

EBITDA and EBITDA margin
US$

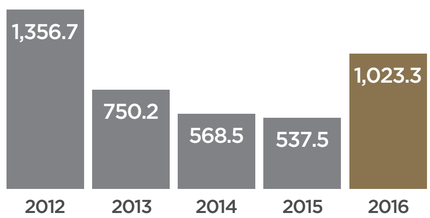
1,032.0m



Increase as a result of higher gross profit, the favourable effect of the higher depreciation and the lower exploration and administrative expenses.

Cash flow generated from operations before working capital adjustments
US$

1,023.3m



Increase due to higher profits.

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Managing Our Risks

The Company's approach to managing the risk inherent in our business activities is to ensure that our framework is able to identify, assess, prioritise and manage the most likely risks to have the greatest impact on the value creation objectives defined in our business model.

Risk management system
The annual and ongoing elements of the Group's risk management process are controlled by well-established risk identification, assessment and monitoring processes. We have continued to build on our existing risk management framework, enhancing risk management and internal control systems across the business in line with changes to the UK Corporate Governance Code.

In addition to our established risk management activities, our priority for 2016 was to promote a 'monitoring environment' which consists of validating the effectiveness of our current controls in order to support the Board in their responsibilities of monitoring and reviewing risk management and the internal control systems. For this task, over the course of 2016, operations managers, the controllership group, HSECR managers and exploration managers have all been engaged in strengthening their understanding of internal controls monitoring requirements.

2016 risk assessment
Our 2016 risk assessment exercise took place across all our operations, advanced projects, exploration offices and support and corporate areas, which identified and evaluated 107 risks, including three new risks added over the course of the year that reflect specific circumstances related to certain projects (2015: 104 risks). This universe was narrowed down into major risks monitored by Executive Management and the Audit Committee, and then further consolidated into 11 principal risks closely monitored by the Board of Directors.

Risk Governance Framework

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

Board of Directors
- Overall responsibility for risk management and internal control systems.
- Defines risk appetite.
- Monitors exposures to ensure their nature and extent are aligned with overall goals and strategic objectives.
- Sets tone on risk management culture.

Executive Committee
- Assesses level of risk related to achieving strategic objectives.
- Oversees execution and implementation of controls into strategic and operating plans.

Audit Committee
- Supports the Board in monitoring risk exposures against risk appetite.
- Reviews the effectiveness of our risk management and internal control systems.

Internal Audit
- Supports the Audit Committee in evaluating the design and effectiveness of risk mitigation strategies, internal controls implemented by management.

Bottom-up
Identification, assessment, and mitigation of risk across all operational and functional areas

Operational level
- Risk identification and assessment performed across mining operations, projects, exploration sites.
- Risk mitigation and internal controls monitoring embedded across functional areas and business units.
- Risk awareness and safety culture embedded in day-to-day operations.

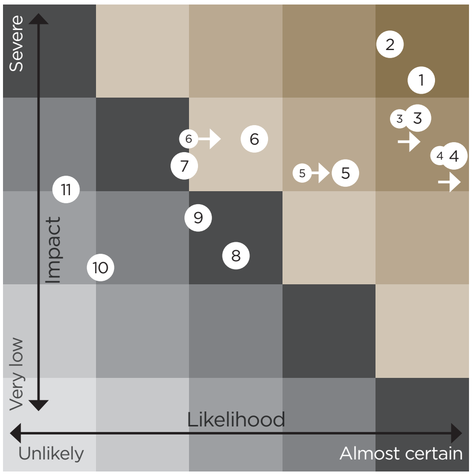
For the bottom-up process, business unit heads determined the perceived level of risk for their individual unit. Executive Management then reviewed and challenged each perceived risk level, and compared it to Fresnillo plc's risk universe as a whole. The results of this exercise were used as an additional input for the identification of the Group's principal risks. The same risk analysis was conducted on advanced projects, detailing the specific risks faced by each project according to their unique characteristics and conditions. The risk heat map for each business unit and development project is included in the Review of Operations (pages 58-70).

A number of developments have adversely impacted the entire Mexican mining industry in recent years as reflected in the Investment Attractiveness Index[1] that assesses how mineral endowments and public policy factors, such as taxation and regulatory uncertainty, affect exploration and mining investment. Specific examples that have impacted the industry in Mexico include: weak rule of law in disbanding illegal blockades to mining assets; legal uncertainty regarding certain land tenure issues; instances of community opposition to mining resulting in the cancellation of major projects; aggressive and unfavourable tax requirements that disadvantage Mexico relative to other mining countries; and the adverse security environment still facing a number of regions in the country.

Based on the aforementioned circumstances, we assessed that the risk rating levels for potential actions by the government (e.g. taxes), security, and public perception against mining have increased for 2017. In addition, while the Board has always given the highest priority to safety issues, three fatal accidents occurred in 2016 and one in early 2017; thus we also elevated the risk rating level for safety to reflect this troubling reversal of our safety record. As with all our key risks, the Board and the Executive Committee continue to closely monitor them.

1. Fraser Institute Annual Survey of Mining Companies: 2015, published June 8, 2016. www.fraserinstitute.org

Heat map



(X) 2016 (x) 2015

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

* Bold text indicates those risks which have changed during 2016.
(v) Risk that was considered for the viability assessment as detailed on page 54.

1. Impact of global macroeconomic developments

Risk description

There could be an adverse impact on our sales and profits, and potentially the economic viability of projects, from macroeconomic developments such as:

- A decrease in precious metal prices (primary driver of the risk); even though this was not the case for silver and gold in 2016, with higher annual average realised prices over the previous year of 10.3% and 10.7% respectively; the high uncertainty of economic markets still positions this risk at the top of our scale.
- Exchange rates, for the same reasons of volatility and uncertainty; while most currencies lost value vs. the US dollar in 2016, the Mexican peso suffered a devaluation of 17.7% vs. the average spot exchange rate of the US dollar.
- General inflation in Mexico which was 3.42% in Mexican pesos in 2016; the specific deflation affecting the Company was 8.08% in US dollar terms.
- A decrease in the price of the Company's by-products; this was not the case in 2016, with the average annual prices for lead and zinc rising 7.0% and 20.0%, respectively, over the previous year.

Response/mitigation

Fresnillo's hedging policy remains guided by the principle of providing shareholders with full exposure to gold and silver prices. However, following shareholder approval for the acquisition of 44% of Penmont (and associated companies) in 2014, we initiated a specific hedging programme to protect the value of the investment made in the acquisition, using a collar structure to allow partial continued exposure to gold prices. The volume associated with this phased hedging programme was strictly limited to up to the 44% of production associated with the acquired Penmont assets and will not be extended to other assets in the Group. The total volume hedged was 1,559,689 oz of which 242,000 oz matured in 2016 with a profit of US$48,158. (For more details, see Financial Review pages 102)

Fresnillo is not precluded from entering into derivatives to minimise its exposure to changes in the prices of lead and zinc by-products. As in previous years, the Group entered into a hedging structure in 2016 to mitigate the risk related to the sale of lead and zinc. See note 31 in the Financial Statements page 211.

Furthermore, we have hedging policies in place for foreign exchange risk, including those associated with capex related to projects. The Company entered into a number of foreign exchange forward contracts denominated in Canadian dollars, euros and Swedish kronas. See note 31 in the Financial Statements page 210.

A significant increase is expected in some of our main energy inputs (diesel and electricity), because of the increase in international petroleum prices and the market liberalisation of fuel prices in Mexico. We will continue to identify efficiency initiatives to improve our energy consumption.

Risk appetite

High

Risk rating (relative position)
2016: Very high (1)
2015: Very high (1)

Change in heat map:

(=)

Description of risk change

During 2016 all macroeconomic variables favoured our financial results, however volatility and uncertainty were constants in the same period (and are expected to remain as such in 2017); therefore we still consider the impact of global macroeconomic developments our principal risk driver; in addition, most industry and financial analysts who follow metal prices continue to foresee volatility in silver and gold prices for 2017, with a notable spread among forecasts, meaning continued volatility.

Link to strategy

- Mines in operation
- Development projects
- Growth pipeline

Key risk indicators

- Gross profit sensitivity to % change in metals price and to MXP/US$ exchange rate.
- EBITDA sensitivity to % change in metals price and to MXP/US$ exchange rate.

Change in heat map:

(↑) Vertical movement indicates impact (→) Horizontal movement indicates likelihood (=) No change

Managing Our Risks continued

2. Access to land

Risk description

Failure or significant delays in accessing the surface land above our mineral concessions and other land of interest is a persistent risk to our strategy, with a potentially high impact on our objectives. Possible barriers to land access include:

- Rising expectations of land owners.
- Refusal to acknowledge prior land acquisition terms and conditions by members of an agrarian community.
- Influence of multiple special interests 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.
- Litigation risk i.e. increased activism by agrarian communities and/or judicial authorities.

Furthermore, insecurity and conflicts in our exploration and operation areas increase the complexity of land access.

Response/mitigation

To maximise our opportunities for successful land access we actively manage our mining rights focusing on areas of interest or strategic value; at the end of 2016, after adding required areas and divesting areas of less interest, we held 1.8 million hectares, a 11.4% decrease vs. 2015. Other initiatives include:

- Plan well in advance for land requirements and acquisitions (e.g. anticipating any issues with a potential land purchase before intensive exploration). In certain areas of interest, leasing or occupation agreements with purchase options are negotiated.
- Foster strong community relations through investment in community programmes and infrastructure. Such investments totalled US$2.6 million in 2016.
- Always seek tri-party cooperation between the government, community and ourselves in securing access to land.
- Early involvement of our community relations teams during negotiation and acquisition processes, including the exploration stage.
- Continue working with our land negotiation teams, comprising negotiators hired directly by Fresnillo and also provided by Peñoles as part of the service agreement.

We have almost concluded a comprehensive review of the legal status of the Company's land rights in order to mitigate or eliminate litigation risk. Certain areas of opportunity were identified and we continue to implement measures to manage this risk on a case-by-case basis. Such measures include, whenever possible, negotiating with agrarian communities the outright purchase of land through mechanisms provided under agrarian law as well as utilising other legal mechanisms under mining law which afford added protection for land occupation. The Company has already closed several such agreements in the states of Sonora and Zacatecas.

Risk appetite

Medium

Risk rating (relative position)
2016: Very high (2)
2015: Very high (2)

Change in heat map:

=

Description of risk change

The mining industry continues to face legal challenges in regard to access to land by individuals and local communities who may seek to disregard previous land agreements; this has been a permanent difficulty in recent years.

Thus, despite all the strategic actions undertaken by the Company, the perceived level of this risk remains very high.

Link to strategy

- Mines in operation
- Development projects
- Growth pipeline
- Sustainable development

Key risk indicators

- Percentage of land required for advanced exploration projects which is under occupation or other agreements other than full property ownership (overall and by project).
- Total US$ and percentage of project budget spend on HSECR activities, including community relations (at projects and exploration sites).

3. Potential actions by the government, e.g. implementation of more stringent regulations for obtaining permits, etc.

Risk description

The implementation of new governmental requirements may have an adverse impact on us, as would other potential, not yet materialised, or more stringent ecological or explosives regulations, or more difficult processes to obtain permits.

On 31 December 2016, the state of Zacatecas in northern Mexico published a new tax law (the 'Tax Law') that came into effect on 1 January 2017, which includes a new set of 'environmental taxes' relating to the following activities undertaken within the state:

i. Extraction of materials other than minerals referenced in Article 4 of the Mexican Mining Law (gold, silver, lead, zinc, etc.) from the soil and sub-soil through open-pit processes;

ii. Emissions of certain substances into the atmosphere;

iii. Deposit of contaminants into the soil and water; and

iv. Storage of waste in public or private landfills.

In addition, the Tax Law also includes certain other modifications and adjustments to pre-existing taxes in Zacatecas such as the payroll tax and the tax for the University of Zacatecas.

A 2015 case brought before Mexico's Supreme Court of Justice looked at the right of indigenous communities within the overall process for granting mining concessions. While the ruling did not find in favour of the communities in this case, such matters may arise again and affect the granting of new concessions in Mexico.

Response/mitigation

The Company, together with its internal and external advisors, is conducting a full assessment of the detail of the Tax Law as well as its potential impact on the Company. As a result of this review, the Company believes that there are solid grounds to legally challenge, on a Federal level, the imposition of this Tax Law. We are currently formulating an appropriate defence strategy. Should legal challenges not prove successful, we estimate that the potential net impact of these new taxes on the Company's income statement would be in the range of US$4-7 million for the 2017 fiscal year.

We continue to collaborate with other members of the mining community via the Mexican Mining Chamber to lobby against this and any other new detrimental taxes, royalties, or regulations. We also support the industry's lobbying efforts to improve the general public's understanding of the Mining Law.

The Company remains in compliance with all applicable environmental regulations and is fully committed to operating in a sustainable way.

Indigenous consultation is an ongoing matter, thus we continue to monitor developments and work with the Mexican Mining Chamber on the issue. While no new regulation has been defined following the dismissal of the 2015 court case, a significant change to the Mining Law could take time due to the complexity of the terms and proceedings yet to be discussed.

Risk appetite

Low

Risk rating (relative position)
2016: Very high (3)
2015: Very high (3)

Change in heat map:

→

Description of risk change

We continue to perceive this risk level as very high due to the great pressure that the government could exert over the mining industry, as is the case described of the imposition of the environmental taxes contained in the new Tax Law in Zacatecas, as well as the continued perceived level of corruption across Mexico, which remains high. We share a general industry view that regrettably, local and regional governments in particular have worsened in this regard, notwithstanding the national effort to implement an anticorruption system, which is not yet fully deployed. As a result, delays in obtaining permits for certain operations and/or projects remain a risk.

Link to strategy

- Mines in operation
- Development projects
- Growth pipeline
- Sustainable development

Key risk indicators

- Number of media mentions related to mining regulations (i.e. tax/royalties/ banning of mining activities in protected areas, legal precedents) and profile of those quoted (political parties, government officials, etc.).

Managing Our Risks continued

4. Security

Risk description

Our people, contractors and suppliers 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 influence of drug cartels, other criminal elements and general lawlessness in the regions where we operate, combined with our exploration and project activities in areas of transfer or cultivation of drugs, makes working in these areas of particular risk for us.

We recognise the importance of confidentiality, continuity, integrity and security of our data and production systems. Whilst cybersecurity has not risen to the level of a key risk, it continues to merit ongoing management oversight and review.

Response/mitigation

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:

- We maintain close relations with authorities, including army encampments installed near a certain number of our operations. We also maintain a relationship with the army secretariat at the regional level in order to align and coordinate efforts in the regions where we operate.
- We designed and engineered the standard of technological and physical security measures for all of our business units. Implementation was completed at the dynamic leaching plant and other areas in Penmont during 2016, and we expect to conclude the process in the remaining Business Units (BUs) in 2017.
- All BUs have a chief of security who coordinates internal and external personnel to improve the efficiency of our security strategy. For 2017 we aim to work with security contractors to convert our personnel into professionally trained specialists in managing security risks and to reduce their turnover rate.
- We continued to utilise logistics controls in 2016 to further reduce the probability of theft of mineral concentrate, including the use of real-time tracking technology, surveillance cameras, guard services and control checkpoints in a 'safe corridor' and reduced authorised stops in order to optimise delivery times and minimise the convoys' exposure; on short-haul routes no stops are allowed. Certain new automatic and rigid truck covers are being analysed for transportation.
- We continue to invest in community programmes, infrastructure improvements and government initiatives to support development of lawful local communities and discourage criminal acts.
- In order to ensure the security of our personnel, access to the San Nicolás del Oro prospect remains suspended because of the level of insecurity in the state of Guerrero.
- We continue to promote reporting to authorities amongst our contractors.
- Our cybersecurity strategy seeks to ensure that our networks, systems and data are secured in accordance with best practices as put forth by the US National Institute of Standards and Technology Cybersecurity Framework (NIST CSF) and Control Objectives for Information and Related Technologies (COBIT).

Risk appetite

Low

Risk rating (relative position)
2016: Very high (4)
2015: Very high (4)

Change in heat map:

→

Description of risk change

We have suffered more security incidents to personnel, both in frequency and in severity, thus we believe that the perceived level of risk has increased vs the previous year. In addition, the crime rate worsened during 2016 in half of the regions and projects where we operate.

We also refer to The Global Peace Index[1] ranking, which indicates a higher likelihood of violent demonstrations and political instability. This index uses three broad themes: level of safety and security in society; the extent of domestic or international conflict; and the degree of militarisation. Mexico ranks 140 of 163 countries worldwide (from best to worst), as a country with a low state of peace.

Link to strategy

- Mines in operation
- Development projects
- Growth pipeline
- Sustainable development

Key risk indicators

- Total number of security incidents affecting our workforce (thefts, kidnapping, extortion, etc.).
- Number of sites affected and work days lost, by region and type of site.
- Number of media mentions related to security issues affecting the mining industry.

1. Global Peace Index 2016 and Mexico Peace Index 2016 prepared by the Institute for Economics & Peace, http://economicsandpeace.org/

5. Public perception against mining

Risk description

Public opinion globally is increasingly wary of the potential adverse social and environmental consequences of mining operations. This sentiment is manifested through increased regulatory obligations for mining companies and increased social activism by communities and other grassroots organisations.

Response/mitigation

Communities are our strategic partners; having their trust requires understanding and effective engagement, and being accountable for our impact. Our permanent programme for community engagement includes:

- Working with communities 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.
- Conducting regular community perception studies across all our operating units, the results of which enable each of the BUs to update their social risks and opportunities, and define action plans focused on specific areas of value for each community. For 2017 the priority will be discussing harmonious relocation of certain groups (if required) and the implementation of jointly defined and approved plans. We now utilise an information system to record community support and social investment, with logs of activities organised by the Company and requests for contributions, allowing us to better track and follow up on our work.
- Following the guidelines set out by the International Finance Corporation and the International Council of Mining and Metals.
- Continuously developing a portfolio of proposals for institutional projects and alliances with NGOs. During 2016 we started an alliance with ECOS (biodiversity), and continued working with Naturalia (biodiversity and communities), IBBY (books for children) and Innovec (science education).
- Monitoring public opinion within local and international media (newspapers, radio stations, local channels).
- Collaborating with peers in the international and Mexican mining community to pursue an industry response to this risk.

See Community Relations pages 95–99 for more information.

Risk appetite

Low

Risk rating (relative position)
2016: High (5)
2015: High (5)

Change in heat map:

Description of risk change

We have maintained the social license to operate in our communities; however, public sentiment against mining has continued to increase.

There are multiple examples of cancelled projects after years of protests and violent clashes in Latin America. Local and international NGOs are increasingly active, aiming to share experiences and tactics against extractive industry projects at periodic meetings with communities. In addition, lawyers in the north of Mexico are sharing strategies in respect of successfully cancelled or temporarily suspended projects, thus we believe likelihood in the perceived level of this risk has increased.

Link to strategy

- Mines in operation
- Development projects
- Growth pipeline
- Sustainable development

Key risk indicators

- Number of local actions by non-governmental organisations (NGOs) or other local social groups against mining by region.
- Number of actions by NGOs or other local social groups against mining in the Americas.
- Number of media mentions related to demonstrations against the mining industry.

Managing Our Risks continued

6. Safety

Risk description

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

Our people face risks such as fire, explosion, electrocution and carbon monoxide poisoning, as well as risks specific to each mine site and development projects such as rock falls caused by geological conditions, cyanide contamination, and heavy or light equipment collisions between other machinery or involving personnel.

Response/mitigation

Our safety performance regrettably deteriorated in 2016, thus we have redoubled our efforts in the pursuit of our strategic safety goals. We are committed to offering a safe workplace to our workers and contractors; and a safety culture where our personnel and contractors have the knowledge, competence and desire to work safely.

Our priorities for 2017 are:

- Continue working towards zero fatalities.
- 20% reduction in the accident rate in all our operations.

Our strategy consists of:

- Managing our knowledge of safety through identifying and analysing risks, evaluating controls, performing situational assessments and monitoring performance.
- Engaging our stakeholders through the 'No more accidents' process, which has become a permanent effort to reinforce the safety culture, and includes the following programmes and initiatives: 'Leaders for Safety', 'Behavioural Change', 'Operational Discipline', 'Rules that Save Lives,' and comprehensive accident investigation.
- Launching initiatives to embed safety in our culture. Safety culture is routinely monitored to assess the attitudes, behaviours and disciplined elimination of unsafe conditions. We have launched a new initiative called 'Safety folder' to improve compliance and monitoring of safety behaviour.

The Total Recordable Injury Frequency rate decreased to 16.93 in 2016 (vs. 26.84 in 2015) and the Lost Time Injury Frequency Rate decreased to 5.99 (vs. 7.51 in 2015).

We continue to deliver training for both employees and contractors. Personnel received an average of 89 hours of training in 2016. 50 of the 89 hours were in relation to HSECR training, of which 41 related to safety.

See Safety pages 82-84 for more on our safety strategy and programmes.

Risk appetite

Low

Risk rating (relative position)
2016: High (6)
2015: Medium high (7)

Change in heat map:

→

Description of risk change

Three fatal accidents occurred in 2016. The Board has always given the highest priority to safety issues and oversaw the investigations of these accidents, ensuring that actions were taken to improve safety systems and practices; however, the likelihood of this risk has been increased to reflect this troubling reversal of our safety record.

Link to strategy

- Mines in operation
- Sustainable development

Key risk indicators

- Safe behaviour index = percentage of work observed that is executed safely (in accordance with the Company's safety procedures).
- Unsafe conditions eliminated index = percentage of unsafe conditions observed and recorded that have been eliminated.
- Operational procedures availability index = percentage of required safety procedures that are available.

7. Projects (performance risk)

Risk description

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 metal prices and operating costs through the mine's life cycle.
- Uncertainties associated with developing and operating new mines and expansion projects: fluctuations in ore grade and recovery, unforeseen complexities in the mining process, poor rock quality, unexpected presence of underground water or lack thereof, 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 on time.

Response/mitigation

Our investment evaluation process determines how to best direct available capital using technical, financial and 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.
- 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 project controls to ensure that we deliver approved projects on time, on budget and as per the 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.

The project development pipeline in 2017 includes:

- Completion and commissioning in 2Q 2017 of phase II of the San Julián project; management will continue to closely monitor progress, paying particular attention to contractor turnover (due to the project's remote location and security incidents), as well as delays in the delivery of certain equipment that could further impact progress.
- Ongoing construction and development of the pyrites plant.
- The Centauro Extension, including a second line of the dynamic leaching plant, at Herradura.

See Development Projects on pages 68-70 for more information.

Risk appetite

Medium

Risk rating (relative position)
2016: Medium high (7)
2015: Medium high (6)

Change in heat map:

=

Description of risk change

Our strict investment governance process and system of capital project controls remain in place, safeguarding our ability to deliver growth through development projects on time and on budget. We are prepared to defer certain projects based on adverse macroeconomic conditions. For the time being, and with the available information, we do not foresee a change in the perceived level of this risk for 2017.

Link to strategy

- Development projects

Key risk indicators

- Earned value (rate of financial advancement rate vs. physical advancement).
- Percentage of major equipment ordered and received according to plan.
- Percentage of completion of mine development.

Managing Our Risks continued

8. Union relations

Risk description	Response/mitigation	Risk appetite	Link to strategy
Although the risk of union action or a deterioration in union relations at some sites may be possible, our overall union relationship continues to strengthen; nonetheless, internal union politics could impact us negatively, as could pressure from other mining unions that want to take over the Fresnillo labour contract.	Our strategy is to integrate unionised personnel into each BU team. To do so, we have clearly assigned responsibilities and programmes for maintaining close relationships with unions at mine sites and at the national level. We have maintained close communication with union leaders at various levels of the organisation to raise awareness about the economic situation the industry is facing, to share our production results and to encourage their participation in our initiatives regarding safety and other operational improvements (such as the safety guardians programme, alliances for obtaining certifications, integration of high productivity teams, family integration activities, etc.). We are proactive and timely in our responses to the needs of the unions, and experienced no labour-related work stoppages in 2016. If required, we engage experienced legal counsel, both internal and external, to support us on labour issues. We will continue to closely monitor union and labour developments.	Low **Risk rating (relative position)** 2016: Medium low (8) 2015: Medium low (8) **Change in heat map:** = **Description of risk change** During 2016 we continued to build on our good relations with unions at the national and local levels, and we do not expect an increase in this perceived level of risk. Notwithstanding the above, we remain alert to internal leadership struggles that might arise amongst certain sections of the union or between different mining unions.	• Mines in operation • Development projects **Key risk indicators** • Union members level of satisfaction. • Number of media mentions related to mining union developments.

9. Exploration

Risk description

We are highly dependent on the success of the exploration programme to meet our strategic value-creation targets and our long-term production and reserve goals.

Risk factors that may impact prospecting and converting inferred resources, apart from the growing level of insecurity and access to land detailed in previous risks, include not having a robust portfolio of prospects in our pipeline with sufficient potential in terms of indicated and inferred resources and insufficient concession coverage in target areas.

We also risk the loss of purchase opportunities due to insufficient speed in decision making.

As our production escalates and more mines approach the end of their lives, it becomes increasingly challenging to replenish reserves.

Response/mitigation

Risk capital invested in exploration in 2016 totalled US$137.9 million, below budget; this was in accordance with the Group's decision to reduce exploration expenditure in light of current market conditions. Our exploration objectives for 2017 include a budgeted risk capital invested in exploration of approximately US$160 million, with the approximate spending split of 36% for operating mines, 22% for exploration projects and the remaining 42% for prospects, regional prospecting and mining rights.

Our measures also include:

- A focus on increasing regional exploration drilling programmes to intensify efforts in the districts with high potential.
- For local exploration, aggressive in-field exploration to upgrade the resources category and convert inferred resources into reserves.
- A team of highly trained and motivated geologists, both employees and long-term contractors.
- Advisory technical reviews by international third party experts, up-to-date and integrated GIS databases, remote sensing imagery and software for identifying favourable metallogenic belts and districts to be field-checked by the team.
- Drill-ready high priority projects.

During 2016 we revised our portfolio of concessions and determined that some did not meet our criteria for continued investment; thus we voluntarily relinquished 231,266 hectares in order to focus our efforts on areas of greater potential.

See Exploration pages 71-75 for more on our exploration programmes and investment.

Risk appetite

Medium

Risk rating (relative position)
2016: Medium (9)
2015: Medium (9)

Change in heat map:

=

Description of risk change

Maintaining a reasonable investment in exploration, even when metal prices are low, puts this risk on a steady level; continuous investment has been a hallmark of the Company's exploration strategy, and we foresee no change in status based on available information.

Link to strategy

- Growth pipeline

Key risk indicators

- Drill programmes completed (overall and by project).
- Change in the number of ounces in reserves and resources.
- Rate of conversion from resources to reserves.

Managing Our Risks continued

10. Human Resources

Risk description

Our people are critical to delivering our objectives. We face risks in selecting, recruiting, training and retaining the people we need.

A lack of reliable contractors with sufficient infrastructure, machinery, track records of performance and skilled people is also a risk that might affect our ability to develop and construct mining works.

Response/mitigation

Recruitment: We assessed our hiring requirements for key positions for 2017, 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 employees on graduation).
- CETEF (Centre for Technical Studies Fresnillo) which teaches specific mining operational skills; all the 12 graduates from 2016 joined the Company as full-time employees.
- CETLAR (the Peñoles Centre for Technical Studies) which trains mechanics and electrical technicians; all seven of the 2016 graduates (designated for Fresnillo BUs) joined the Company as full-time employees.

Retention: We provide a stable labour environment, strong corporate culture committed to our people, good working conditions, competitive benefits and career development opportunities. In 2015, Fresnillo plc was recognised by the Great Place to Work® Institute, and it currently ranks 17th in Mexico among companies with more than 5,000 employees; results of the 2016 survey will be released in 2017.

Performance: We have strengthened the maturity of our performance evaluation process, reinforcing formal feedback. We promote certification of key technical skills for operational personnel and the administrative and leadership skills development programme for required positions.

Contractors: We have long-term drilling and mining contracts. We invest significantly in training contractors, particularly on safety and environmental requirements. We have supported the enrolment of 58 of our contractor companies into the Self-Management Programme on Health and Safety at Work (PASST), promoted by the Mexican Secretariat of Labour and Social Welfare (STPS), with 19% certified, 72% in the process and 9% who adhered voluntarily.

Risk appetite

Medium

Risk rating (relative position)
2016: Low (10)
2015: Low (10)

Change in heat map:

=

Description of risk change

We aim to have our human capital requirements carefully aligned to our operations and growth requirements; for the time being we believe that we have covered our requirements, which includes the benefit of our ongoing university recruitment activities and employee retention strategies.

Notwithstanding, we must be ready for changes in labour market conditions and be flexible to adapt to available staff contractors. As a result it continues to be a challenge to maintain the best available contractor personnel.

Link to strategy

- Mines in operation
- Development projects
- Growth pipeline
- Sustainable development

Key risk indicators

- Number of positions filled by area of specialty, for vacancies and new positions.
- Employee turnover rate.
- Average hours of training and professional development per employee.
- Number of contractor personnel relative to unionised personnel per BU.

11. Environmental incidents			
Risk description	**Response/mitigation**	**Risk appetite**	**Link to strategy**
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.	Our environmental management system ensures effective compliance with Mexican regulations, transparency and supports initiatives that reduce our environmental footprint. We disclose our performance in the water and climate change programmes of the Carbon Disclosure Project. See 'Environment' pages 86-88 for more results on our environmental strategy and indicators. All our mining units are certified under ISO 14001 and have Clean Industry certification except for Saucito; in this case the course of action has changed because we are pursuing an integrated certification with OSHAS:18001 (Occupational Health and Safety Series); we have advanced 90% towards obtaining both. The Herradura mine is certified in the International Cyanide Management Code while at Ciénega the process is on hold, set to resume once expansion at the processing plant is complete. Noche Buena also obtained this same certification in 2016. We rigorously adhere to the requirements established by each project's environmental permit (Environmental Impact Statement issued by the Ministry of Environment, SEMARNAT). We also continue to support contractors in their efforts to integrate environmental management systems. See Environment pages 85-90 for more on our environment strategy.	Low **Risk rating (relative position)** 2016: Low (11) 2015: Low (11) **Change in heat map:** = **Description of risk change** Our environmental management system, investment in the prevention of environmental incidents and training of personnel are key factors which reduce the risk of major environmental impact incidents. With the information available, we did not expect a change in this perceived risk level.	• Sustainable development **Key risk indicators** • Number of BUs with ISO 14001:2004 certification. • Number of BUs with Clean Industry certification. • Number of BUs with International Cyanide Code certification. • Number of environmental permits for all advanced exploration projects (according to schedule).

Viability Statement

In accordance with provision C.2.2 of the UK Corporate Governance Code, and taking into account the Group's current position and its principal risks for a period longer than the 12 months required by the going concern statement, a team appointed by the Board prepared the viability assessment. This team included two designated Directors, the CEO, the CFO, the COO, Head of Business Planning and Head of Risk, with the Audit Committee being consulted throughout the process.

The Directors reviewed the viability period and confirmed that a five-year period to December 2021 remained suitable, in line with the nature of planning in the mining industry and the Company's five-year forecast period normally used to evaluate liquidity and contingency plans which is important given that Fresnillo's business activities cover the full value chain from exploration to mine operation. It allows for modelling of capital expenditure and development programmes planned during the timeframe and reflecting cash flows generated by the projects currently under development. Due to the long business cycles in the mining industry, the Directors considered that a shorter time period would be insufficient.

Reporting on the Company's viability requires the Directors to consider those principal risks that could impair the solvency and liquidity of the Company. In order to determine those risks, the Directors robustly assessed the Group-wide principal risks and operation-specific risks by undertaking consultations with Executive Management, mine managers and other personnel across the operations. Through these conversations, the Directors also identified low probability, high loss scenarios – 'singular events' – with the potential magnitude to severely impact the solvency and/or liquidity of Fresnillo.

For the purpose of assessing the Group's viability, the Directors identified that of the final principal risks detailed on page 43, the following are the most important to the assessment of the viability of the Group:

A. 'Impact of global macroeconomic developments', specifically volatility in the prices of gold and silver over a period of time.
B. Access to land.
C. 'Potential actions by the government' which could include a delay in obtaining permits and/or new restrictive regulations.
D. Environmental incidents.

It was determined that none of the individual risks would in isolation compromise the Group's viability. The Directors therefore went on to group principal risks into the following severe but plausible scenarios, in each case determining the risk proximity (how soon could the risk occur) and velocity (the speed with which the impact of a risk will be felt):

Scenario 1
Impact of global macroeconomic developments

Over a period of a year, precious metal prices fall and then remain at a low level for the following four years of the viability period varying between US$1,108 – 1,171 per oz gold and US$15.4 – 18.0 per oz silver. To create this impartial projection for the future low metal price environment, an average of the three lowest forecasts from each year of the assessment were used, based on consensus estimates published by institutional financial analysts. This low metal price environment was deemed to be the most significant risk and pervasive across the Company. *(Principal risk A)*

Scenario 2
Bench collapse at an open pit mine

A landslide occurs covering the lower pit of one of our mines. Due to the unexpected nature of the event, fatalities occur. Production is gradually ramped back up and re-established to full capacity. *(Singular event)*

Scenario 3
Tailings dam breach at a mine

A tailings dam collapses and tailings are released into the surrounding area, causing environmental damage. A fund is created by the Company to be used to remediate and compensate for any damages caused. The investigation into the causes of the event is drawn out and further time is needed for all environmental permits to be reinstated. As a result, the mine remains closed throughout the viability assessment period. *(Principal risk D)*

Scenario 4
Flooding at a mine

An unforeseen fault containing water is cut into, with water then entering the mine in excess of pumping capacity, thereby halting production. The ramp-up to pre-event production levels commences once management determines that it is safe to do so. *(Singular event)*

Scenario 5
Action by the Government at a mine

Explosives are stolen on site causing authorities to suspend the explosives permit at the mine. Production is halted at the mine whilst an investigation into the matter is completed. Once permits have been restored, production ramps back up to pre-event levels. *(Principal risk C)*

Scenario 6
Access to land at a mine

Conflicts with local communities arise resulting in the Company having to cease operations, until negotiations can be finalised and the land can be re-occupied. *(Principal risk B)*

Scenario 7
San Julián suspension due to Government actions

Three members of the local community are poisoned due to a cyanide tank rupturing. The pressure mounted by social activism resulted in the Mexican government withdrawing all permits with no intention of re-installing them in the future. This leads to the permanent closure of the San Julián mine for the duration of the viability period, while mitigating actions can be established. *(Principal risks C and D)*

The above scenarios are hypothetical and extremely severe for the purpose of creating outcomes that have the ability to threaten the viability of the Group; however, multiple control measures are in place to prevent and mitigate any such occurrences from taking place. In the case of these scenarios arising, various options are available to the Company in order to maintain liquidity so as to continue in operation. When quantifying the expected financial impact and remediation time period for each of the risks on the viability of the Group, management performed benchmarking against its own experience and against publicly available information on relevant similar incidents in the mining industry.

All scenarios were first evaluated using average metal prices[1], and once the mitigation plans had been applied where necessary, there was no threat to the viability of the Company. To create a more stringent test and further challenge the resilience of the Group, all scenarios were then overlaid with scenario 1, (low metal prices) and then re-evaluated.

After these had been modelled, none of the scenarios foresee an extremely low or negative cash balance. The strong cash balance at the end of 2016 (US$912 million) approximately 80% higher than the previous year, positioned Fresnillo plc in a healthy financial situation. In addition, current macroeconomic conditions, higher metal prices in scenario 1 and the overlaid scenarios, and a depreciated exchange rate (MXN/USD) enhance the cash balance position across the scenarios assessed.

The lowest cash balance level was identified in scenario 2 in combination with the low metal prices scenario; notwithstanding, a positive cash balance would be maintained in this scenario throughout the viability period with a minimum level of US$278 million during the third year (2019), thereby not requiring any mitigating actions to be taken. Strong risk management and internal control systems are in place (page 42) throughout the Group. Through the internal control systems, the Directors monitor key variables that have the ability to impact the liquidity and solvency of the Group, and we are confident that management is able to sufficiently mitigate any situations as they might occur.

Certain actions for the reinforcement of controls and their monitoring that were identified last year as a result of this assessment continue to be implemented to further strengthen the control environment. A Crisis Committee is part of the risk mitigation and control measures that the Group has in place in case an event of such magnitude should occur. These measures also include the briefing and convening of the Board of Directors as necessary to respond to events as they develop. Dedicated personnel for managing media, engaging with authorities and other stakeholders are appointed at each level of the organisation depending on the magnitude of the crisis.

Based on the results from this robust analysis, and having considered the established controls for the risks and the available mitigating actions, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the five-year period of their detailed assessment. This longer-term assessment process supports the Directors' statements on both viability, as set out above, and going concern, made below.

1. Average metals price analysis derived from a range of Financial Institutions as of December 2016.

Going Concern Statement

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Review on pages 16-111. The financial position of the Group, its cash flows and liquidity position are described in the Financial Review on pages 100-111. In addition, note 31 to the financial statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

In making their assessment of the Group's ability to manage its future cash requirements, the Directors have considered the Company and Group budgets and the cash flow forecast for the period to 31 December 2018. In addition, they reviewed a more conservative cashflow scenario with reduced silver and gold prices of US$15.6/oz and US$1,111/oz respectively throughout this period, whilst maintaining current budgeted expenditure while only considering projects approved by the Executive Committee. This resulted in our current cash balances reducing over time but maintaining ample liquidity throughout the period.

The Directors have further calculated prices (US$12.2 and US$841 for silver and gold, respectively), which should they prevail to the end of 2018 would result in cash balances decreasing to minimal levels by the end of 2018, without applying mitigations.

Should metal prices remain below the stressed prices above for an extended period, management have identified specific elements of capital and exploration expenditures which could be deferred without adversely affecting production profiles throughout the period. Finally, management could amend the mining plans to concentrate on production with a higher margin in order to accelerate cash generation without affecting the integrity of the mine plans.

After reviewing all of the above considerations, the Directors have a reasonable expectation that management have sufficient flexibility in adverse circumstances to maintain adequate resources to continue in operational existence for the foreseeable future. The Directors, therefore, continue to adopt the going concern basis of accounting in preparing the annual financial statements.

If the necessity arose to employ any or all of the above mitigations for an extended period of time, it may be that these could impact the Group's ability to achieve its targets for production and/or reserves by 2018.

Information Technology

Technology and cybersecurity as a competitive advantage

Technology has changed the way every business operates, including the mining industry. Increased productivity, reduced costs, improved safety and enhanced decision-making are among the many benefits. To secure a competitive advantage, we must continuously adapt and embrace innovation and secure our networks, systems and data. Whilst cybersecurity has not risen to the level of a key risk, it continues to merit ongoing management oversight and review.

IT governance

To better prepare and help guide the Group through a process of digital transformation, we have created an IT Governance Committee, chaired by the Chief Executive Officer, to steer discussions on innovation and performance at a strategic level, provide macro-level insights into technology for mining, map out technology strategy execution and oversee cybersecurity protocols.

The main responsibilities of this Committee are to:

- Review technology options for business process innovation.
- Select the best technology, ensure alignment with business strategy and prioritise projects.
- Strengthen cybersecurity framework and protocols.
- Develop and oversee a technology implementation budget.
- Reward results not activities.

Cybersecurity

We recognise the importance of confidentiality, continuity, integrity and security of our data and production systems. Whilst cybersecurity has not risen to the level of a key risk, it continues to merit ongoing management oversight and review. A third party cybersecurity assessment in 2016 identified certain gaps and weaknesses that should be addressed, indicating the need for a formal cybersecurity strategy, now under development, with dedicated specialists being selected.

Our approach incorporates: (i) the US National Institute of Standards and Technology Cybersecurity Framework (NIST CSF) which provides a policy framework of computer security guidance for how private sector organisations can assess and improve their ability to prevent, detect and respond to cyber attacks; and (ii) Control Objectives for Information and Related Technologies (COBIT), a framework created by ISACA, the international professional association for IT management and governance that provides an implementable set of controls over IT and organises them around a logical framework of IT-related processes and enablers.

At year end 2016, we estimated our NIST rating was 0.9 out of 4.0, compared to an Expected Industry Level rating of 2.7. A work plan to achieve that rating is well underway and expected to be complete by 1Q 2018. The following areas have already been addressed:

- Disaster recovery protocols: automated backups and alternate site creation for every data room in each business unit.
- Hardening: secure access configurations to servers, databases and applications; next generation hardware and software; built-in security for all devices and systems.
- Network access: automated access policy management.
- Network perimeter security: hacker protection tools.

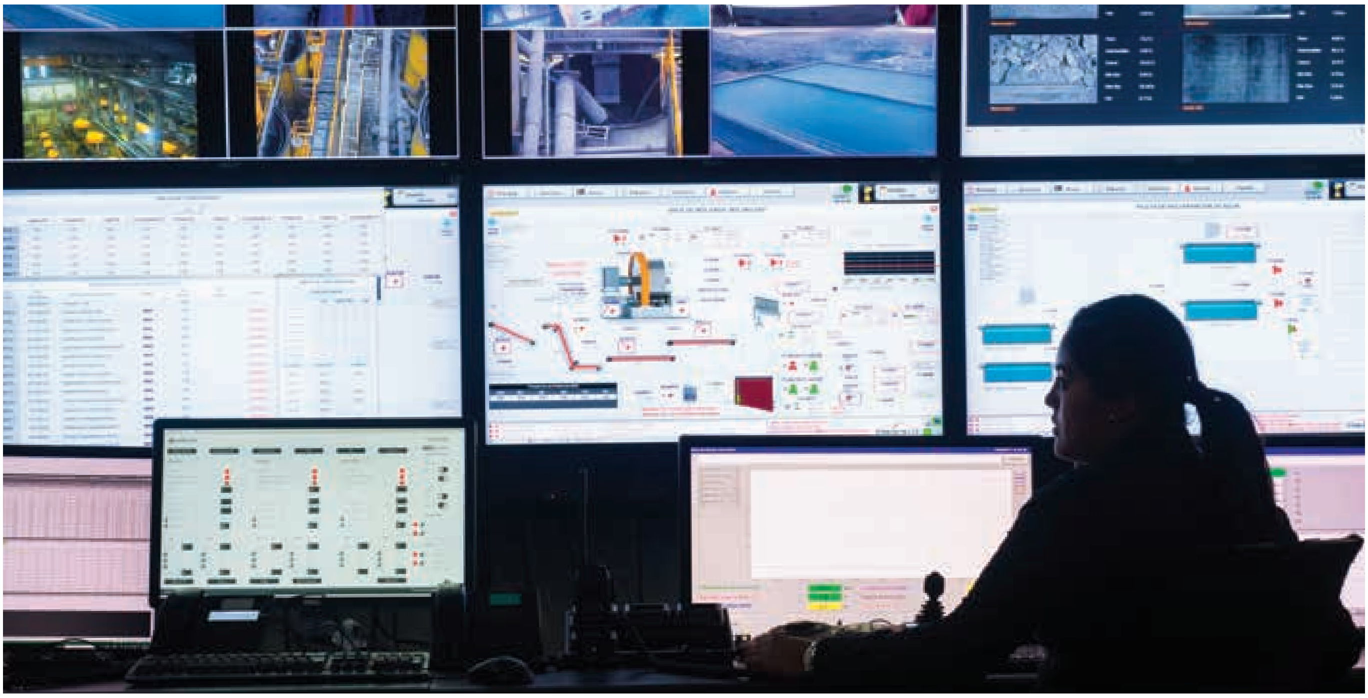
Our IT model

To support the Group's value creation model, our IT efforts are focused on three main areas:

- Execution: technologies that can reduce costs and increase productivity and throughput.
- Innovation: disruptive technologies and paradigm shifts.
- Decision-making: data analytics and automatic insight generation.

We believe that employees are best equipped to identify opportunities for improvement within their function areas or business units. Our 'Make IT happen!' initiative was created to foster ideas, innovation and communication about such opportunities; employees generated more than 120 ideas, and seven projects were ultimately selected by the IT Governance Committee for a five-year implementation roadmap (2014-2018). These related to the basic capabilities of a mining operation such as personnel and equipment tracking, proximity-warning systems and ventilation on-demand; intelligent plants (process automation and optimisation; intelligent maintenance (predictive maintenance through big data analysis); and business intelligence: single-version-of-the-truth data.

In 2016, the total investment in technology was US$16.1 million, of which US$7.8 million was related to these projects.



Saucito control room

	December 2014	December 2017	
1 **Track Plus**	Manual and intuitive solution	**100x100x100x100** 100% of mine sites 100% of miners 100% of mining vehicles 100% of stopes	Tracking
2 **ProxAlarm**	Accident provoked by lack of precaution	**100x100x100x100** 100% of mine sites 100% of miners 100% of mining vehicles 100% of stopes	Prevention of collisions and run-over's
3 **Ventilation Plus**	Bad ventilation causes: • accidents • low productivity and • more energy consumption.	Ventilation optimised all through the mine that also helps to: • Comply with NOM-023-STPS. • Better quality of life. • Save up to 20% in energy.	
4 **Intelligent Plant**	Automated plants but not optimised; no control of inherent variability of ore, causing loss of value.	Automated and optimised plants; reduction of 5% in reagent consumption; increment of +3% in recovery and metallic content.	
5 **MineOps Optimiser**	Low productivity caused by late shift results detection. Batch processes.	Real-time follow up on mining operations. Optimising task assignment and achieving a 2-5% increase in productivity.	
6 **Smart Ops**	Manual processes for daily operations. Based on multiple Excel sheets causing poor and late analysis.	Real time monitoring and productive processes analysis. Efficient multi-dimensional analysis for on-time decision making.	
7 **One View**	Manual adjustments for the strategy operation. (Based on Excel and batch processing.)	One strategic dynamic and centralised control scorecard. 'Single version of the truth' capability.	

Review of Operations
Mines in Operation

Fresnillo

Fresnillo is one of the world's oldest continuously operating mines; it produced 32% of the Group's total silver in 2016 and generated 18.7% of total adjusted revenue.

Ownership: **100% Fresnillo plc**	Location: **Zacatecas**
In operation since: **1554**	Mine life (years): **9.4 (2015: 8)**
Facilities: **Underground mine and flotation plant**	
Milling capacity (2016): **8,000 tpd/2,640,000 tpy**	
Workforce: **980 employees, 1,703 contractors**	

	2016	2015	% change
Mine production			
Ore milled (kt)	**2,373**	2,410	(1.5)
Silver (koz)	**15,865**	15,612	1.6
Gold (oz)	**42,421**	34,120	24.3
Lead (t)	**21,326**	16,248	31.3
Zinc (t)	**25,898**	19,029	36.1
Silver ore grade (g/t)	**227**	220	3.0
Total reserves			
Silver (moz)	**205.5**	201.6	1.9
Gold (koz)	**600**	525	14.3
Avg ore grade in reserves			
Silver (g/t)	**258**	296	(12.8)
Gold (g/t)	**0.75**	0.77	(2.6)
Cut-off grade (g/t AgEq)	**184**	231	(20.3)
Total resources			
Silver (moz)	**798.2**	747.0	6.9
Gold (moz)	**1.71**	1.62	5.5
Avg ore grade in resources			
Silver (g/t)	**341**	359	(5.0)
Gold (g/t)	**0.73**	0.78	(6.4)
Cut-off grade (g/t AgEq)	**95**	122	(22.1)

Key developments in the year

Silver production increased 1.6% over 2015 as a result of regained access to higher grade veins at the San Alberto and San Carlos areas, offset by lower volume of ore processed. This was due to reduced availability of equipment and a temporary shortage of skilled personnel in the second and third quarters of the year.

We continued to see an improvement in the grades and production levels compared to 2015, although at a slower pace than planned. Silver ore grade averaged 227 g/t in 2016, below the anticipated 240 g/t, due to the extraction of ore at stopes with higher zinc content but lower silver grades. This was the result of the natural increase of zinc grades at the deeper areas of the mine and the limited flexibility to mine.

Development reached a rate of 4,500 metres per month at the beginning of the year but the lack of necessary infrastructure resulted in the reallocation of resources to address this issue; thus development rates were scaled back to an annual average of 3,929 metres per month. Notwithstanding, dilution rates improved in 2016. For 2017, we expect that development rates will again increase to 4,500 metres per month and reach a sustained rate of 4,800 metres per month by year end, with an increase in ore throughput of approximately 5%, an average silver ore grade of around 230 g/t, and a 7-10% increase in silver production at this mine.

The optimisation project to increase plant capacity to 9,000 tonnes per day moved forward in the year. We continued to evaluate the optimal layout for additional flotation cells and the zinc thickener, which will process higher zinc grades found at depth and thereby maximise recovery rates. This, together with the installation of vibrating screens, is expected to result in additional annual average production of three moz of silver once commissioned in 2019.

The increase in silver contained in mineral resources was generated by positive exploration results at lower silver grades and a lower cut-off grade. Silver contained in ore reserves increased slightly, with ore grade decreasing as a reflection of lower exploration grades and cut-off grades.

Capital expenditures

Total capex allocation in 2016 was US$52.8 million, mainly for mine development, sustaining capex and hoist and conveyor equipment for the San Carlos shaft deepening. In 2017, capex will largely be allocated to mining works, sustaining capex and ongoing deepening of the San Carlos shaft, which will reduce haulage costs and increase access to ore reserves at deeper levels of the mine.

Adjusted revenue, excluding inter-segment sales, increased 20.1% to US$382.7 million due to the 10.3% increase in our realised price of silver.

Productivity decreased due to the lower volume of ore processed, combined with higher number of personnel brought in to increase preparation and development at the mine. Cost per tonne decreased 8.9% to US$43.9 in 2016 mainly as a result of the

2016 objectives

- Increase rate of development to 4,500 metres per month.
- Advance engineering for plant optimisation project, and place orders for long delivery time equipment.
- Continue deepening of San Carlos shaft.
- Move forward with tailings dam expansion by concluding land acquisition.

2016 performance

- Development rate peaked at 4,520 metres per month but averaged 3,929 metres per month on an annualised basis.
- Detailed engineering continued for plant optimisation; equipment orders not yet placed.
- Deepening of the San Carlos shaft continued.
- Expansion of tailings dam commenced following land acquisition.

2017 objectives

- Develop infrastructure at the lower levels of the mine sufficient to increase development rate to 4,800 metres per month.
- Commence work on plant optimisation.
- Continue deepening of San Carlos shaft.
- Continue tailings dam expansion.

17.7% devaluation of the Mexican peso/US dollar exchange rate and lower diesel and electricity prices, together with lower maintenance costs resulting from the maintenance delays; and a decrease in the cost of operating materials mainly due to lower consumption of steel balls and liners for the mill. This was partly offset by higher contractor costs resulting from the increased number of contractors hired to accelerate development and preparation of the mine; and higher personnel costs due to increased headcount and the 5% rise in wages in Mexican pesos to unionised personnel.

Cash cost per silver ounce decreased 62.5% to US$2.1 (2015: US$5.6). Margin per ounce increased 51.0% to US$15.1 and expressed as a percentage of silver price increased to 87.8% in 2016, from 64.0% in 2015 (see page 106).

Social and sustainability highlights

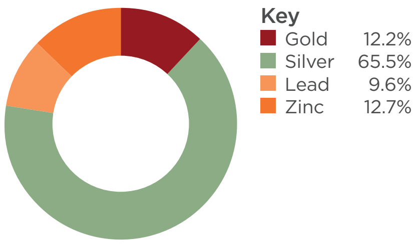
We organised our first safety festival attracting 12,000 people in the Fresnillo District to raise awareness and strengthen our safety culture. See pages 76-99 for more detail.

Financial performance

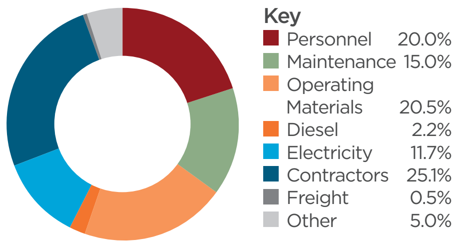
Financial highlights	2016	2015	% change
Adjusted revenue (US$m)	**382.7**	318.6	20.1
Adjusted production costs (US$m)	**104.3**	116.2	(10.2)
Segment profit (US$m)	**224.2**	150.0	49.5
Capital expenditure (US$m)*	**52.8**	205.6	(74.3)
Exploration (US$)	**14.4**	10.1	42.6
Productivity (tonnes milled/person)	**884**	911	(3.0)
Cost per tonne (US$)	**43.9**	48.2	(8.9)
Cash cost ($/oz silver)	**2.1**	5.6	(62.5)
Margin ($/oz)	**15.1**	10.0	51.0
Margin (expressed as % silver price)	**87.8%**	64.0%	

* Capex in 2015 included US$150m from San Julián.

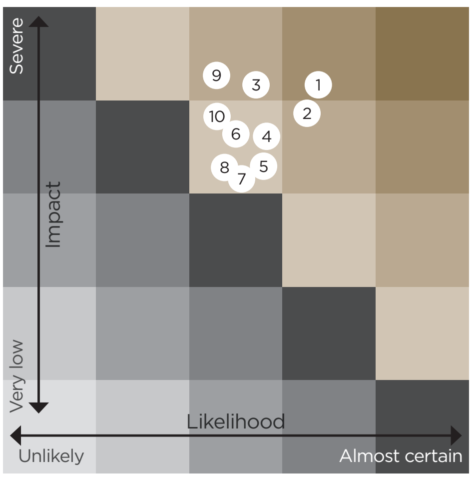
Adjusted revenue
US$
$382.7m



Adjusted production costs
US$
$104.3m



Business unit risks



Description of risks

1. Volatility in the prices of gold and silver over a period of time.
2. Actions by the union or deterioration in relations with the union.
3. Safety incident that impacts the physical integrity of employees/collaborators, including: explosion, trapping, electrocution, being struck by falling rock, insect bites, falls, etc.
4. Theft of inventory, assets, materials (including explosives) and equipment.
5. Mining development delay caused by the low efficiency of the shot or blasting for development.
6. Insufficient ventilation compromising operational continuity or causing physical damage to personnel and equipment.
7. Personnel may leave the Company or the Company may not be successful in the recruitment of personnel required.
8. Faults and failures due to lack of maintenance.
9. Environmental incidents that affect the operation of the business unit, the health of the community (directly or indirectly) and adversely impact the environment. For example: collapse or overflow of tailings dams, heap leach collapse.
10. Major mechanical failure, fire, explosion or any catastrophe resulting in operational interruption for reasons attributable to the people.

Review of Operations continued
Mines in Operation continued

Saucito

Saucito is one of the Group's most important assets, contributing 44% to total silver production in 2016 and generating 25.8% of total adjusted revenue.

Ownership: **100% Fresnillo plc**
Location: **Zacatecas**
In operation since: **2011**
Mine life (years): **5.9 (at 7,800 tpd capacity) (2015: 5.2 at 7,500 tpd capacity)**
Facilities: **Underground mine and flotation plants**
Milling capacity (2016): **7,800 tpd/2,600,000 tpy**
Workforce: **773 employees, 1,337 contractors**

	2016	2015	% change
Mine production			
Ore milled (kt)	**2,635**	2,339	12.7
Silver (koz)	**21,946**	21,984	(0.2)
Gold (oz)	**86,198**	84,884	1.5
Lead (t)	**20,935**	20,740	0.9
Zinc (t)	**23,498**	21,023	11.8
Silver ore grade (g/t)	**303**	327	(7.6)
Gold ore grade (g/t)	**1.39**	1.42	(2.7)
Total reserves			
Silver (moz)	**123.2**	130.7	(5.7)
Gold (koz)	**860**	730	17.8
Avg ore grade in reserves			
Silver (g/t)	**245**	313	(21.7)
Gold (g/t)	**1.72**	1.75	(1.7)
Cut-off grade (g/t AgEq)	**173**	224	(22.8)
Total resources			
Silver (moz)	**421.5**	373.7	12.8
Gold (moz)	**2.1**	1.8	16.7
Avg ore grade in resources			
Silver (g/t)	**267**	283	(5.7)
Gold (g/t)	**1.31**	1.36	(3.7)
Cut-off grade (g/t AgEq)	**113**	134	(15.7)

Key developments in the year

Annual silver production remained stable at 21.9 million ounces in 2016. This was mainly due to higher volumes of ore processed from the Jarillas West and Central areas, and increased milling capacity following the installation of the vibrating screens and other minor technology improvements at the Saucito II plant, allowing it to reach a processing capacity of 7,800 tonnes per day by year end, exceeding out 2016 objective of 7,500 tonnes per day. These factors more than offset the expected return to normal silver ore grades after mining extraordinarily high grade ore from the Mesquite vein and exhausting the high grade development ore during 2015.

Silver reserves decreased as a result of less infill drilling as more time was assigned to parametric drilling to increase resources. Silver grades decreased due to mineralisation containing lower silver grades and higher base metal grades. Gold reserves and resources increased due to additional gold found in the Jarillas vein.

The 2017 drilling programme is focused on a balance of further resource generation and of infill drilling aimed at upgrading the resource category into reserves.

The deepening of the Jarillas shaft from 630 metres to 1,000 metres is expected to commence in 2H 2017. This project aims to provide access to the deeper reserves in the Jarillas vein. In addition, development rates are expected to increase to 4,000 tpd so as to install additional ramps and prepare future production areas.

Capital expenditures

Capital expenditures in 2016 totalled US$102.4 million, primarily allocated to in-mine development and sustaining capex, the installation of the vibrating screens at Saucito II, construction of the Pyrites plant and deepening of the Jarillas shaft. In 2017, capex will primarily be allocated to the ongoing increase of development rates, deepening of the Jarillas shaft and the construction of the Pyrites plant (see page 70).

Adjusted revenues at Saucito increased by 12.7% to US$528.0 million mainly as a result of the higher precious metal prices. The mine's contribution in consolidated silver revenues contributed 48.5% in 2016 (2015: 51.3%), but remained as the main contributor to consolidated silver revenues. Gold remains an important revenue driver for the mine, contributing 18.5% to Saucito's revenue (2015: 18.5%) and representing 8.6% of the Group's gold revenues.

Despite the 12.7% increase in ore milled, productivity decreased in the year as a result of the greater number of workers and contractors hired to increase preparation and development rates.

Cost per tonne decreased 13.4% to US$36.8 mainly as a result of the favourable effect of the exchange rate, the economies of scale obtained from the increased ore throughput and to a lesser extent, the lower diesel and electricity prices, lower maintenance costs and a decrease in the cost of operating materials.

2016 objectives

- Technical adjustments to Saucito II to increase overall capacity to 7,500 tpd.
- Convert resources into reserves.
- Obtain ISO 14001, OHSAS 18001 & Clean Industry certifications.

2016 performance

- Concluded installation of vibrating screens and reached milling capacity of 7,800 tpd by year end.
- Drilling programme focused on generating additional mineral resources at depth (Jarillas deep).
- Changed course of action to pursue integrated certification (ISO 14001/ OSHAS 18001), with progress at 90% at year end; Clean Industry certification still in progress.

2017 objectives

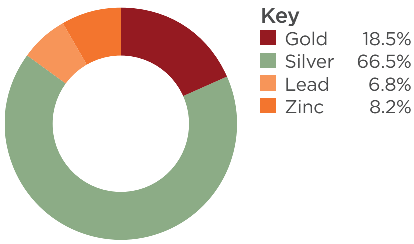
- Increase development rates to 4,000 metres per month to maintain current production levels.
- Continue construction of the Pyrites plant.
- Deepening of the Jarillas shaft.
- Convert resources into reserves.
- Obtain integrated ISO 14001/OHSAS 18001 certification and Clean Industry certification.

Financial performance

Financial highlights	2016	2015	% change
Adjusted revenue (US$m)	**528.0**	468.4	12.7
Adjusted production costs (US$m)	**96.8**	99.4	(2.6)
Segment profit (US$m)	**363.8**	295.2	23.2
Capital expenditure (US$m)	**102.4**	108.3	(5.4)
Exploration (US$)	**16.4**	8.6	90.7
Productivity (tonnes milled/person)	**1,249**	1,489	(16.1)
Cost per tonne (US$)	**36.8**	42.5	(13.4)
Cash cost ($/oz silver)	**(0.4)**	1.2	(133.4)
Margin ($/oz)	**17.6**	14.4	22.2
Margin (expressed as % silver price)	**102.2**	92.6	

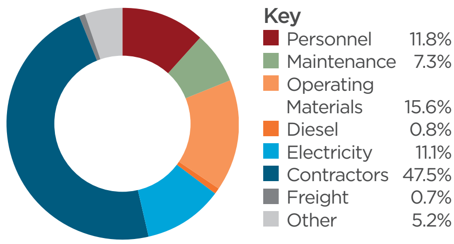
Adjusted revenue
US$

$528.0m



Adjusted production costs
US$

$96.8m



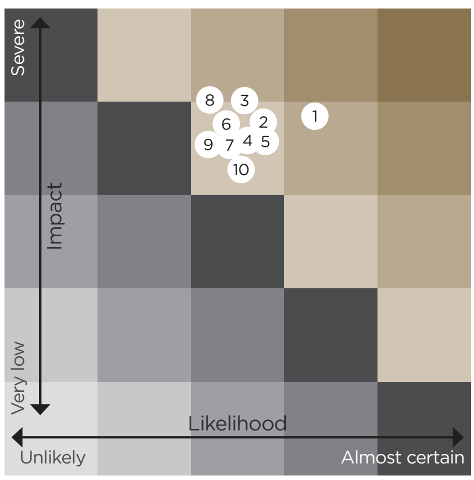
This was partly offset by increased development recorded as costs in the income statement, whereas in 2015 a greater portion was capitalised; as well as a larger number of contractors and personnel to increase development rates and volumes of ore hauled.

Cash cost per silver ounce decreased to -US$0.4 per ounce (2015: US$1.2 per silver ounce) due to the by-product credits. Margin per ounce increased to US$17.6 in 2016 (2015: US$14.4), whilst expressed as a percentage of silver price, the margin increased from 92.6% to 102.2% (see page 106).

Social and sustainability highlights

Our Saucito and Fresnillo operations were recognised with the Healthy Company award that Mexican health authorities for the implementation of best practice in occupational health and preventive care. See pages 76-99 for more detail.

Business unit risks



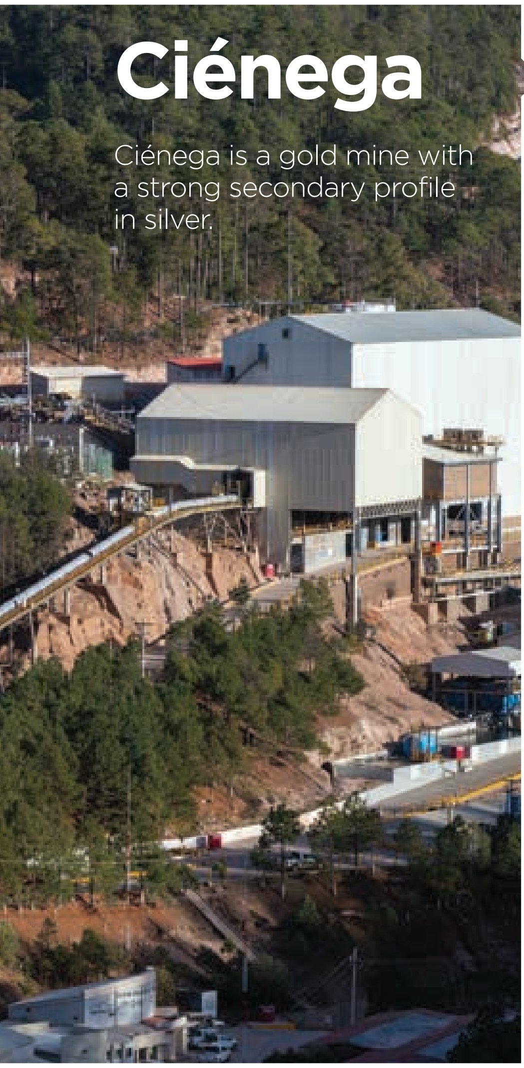
Description of risks

1. Volatility in the prices of gold and silver over a period of time.
2. Unexpected presence of water in areas of the operation.
3. Environmental incidents that affect the operation of the business unit, the health of the community (directly or indirectly) and adversely impacts the environment. For example: collapse or overflow of tailings dams, heap leach collapse.
4. Failure/lack of availability or delays in obtaining access to land (ejidos).
5. Insufficient ventilation compromising operational continuity or causing physical damage to personnel and equipment.
6. Safety incident that impacts the physical integrity of employees/collaborators, including: explosion, trapping, electrocution, being struck by falling rock, insect bites, falls, etc.
7. Actions by the union or deterioration in relations with the union.
8. Mined reserves replacement is not sufficient to maintain mining operations.
9. Theft of inventory, assets, materials (including explosives) and equipment.
10. Projects that cannot be delivered on time, on budget and according to specifications planned.

Review of Operations continued
Mines in Operation continued

Ciénega

Ciénega is a gold mine with a strong secondary profile in silver.



Ownership: **100% Fresnillo plc** | Location: **Durango**

In operation since: **1992** | Mine life (years): **10.0 (2015: 10.0)**

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

Milling capacity (2015): **4,000 tpd/1,340,000 tpy**

Workforce: **469 employees, 340 contractors**

	2016	2015	% change
Mine production			
Ore milled (kt)	**1,275**	1,329	(4.1)
Silver (koz)	**5,131**	4,828	6.3
Gold (oz)	**72,851**	85,662	(15.0)
Lead (t)	**5,883**	5,425	8.4
Zinc (t)	**7,450**	5,970	24.8
Silver ore grade (g/t)	**143**	129	11.2
Gold ore grade (g/t)	**1.84**	2.07	(11.2)
Total reserves			
Silver (moz)	**66.3**	69.2	(4.2)
Gold (koz)	**820**	810	1.2
Avg ore grade in reserves			
Silver (g/t)	**162**	162	-
Gold (g/t)	**2.00**	1.89	5.8
Cut-off grade (g/t AgEq)	**Multiple**	Multiple	-
Total resources			
Silver (moz)	**159.2**	152.3	4.5
Gold (moz)	**1.6**	1.5	6.6
Avg ore grade in resources			
Silver (g/t)	**132**	163	(19.0)
Gold (g/t)	**1.34**	1.62	(17.3)
Cut-off grade (g/t AgEq)	**Multiple**	Multiple	-

Key developments in the year

Annual gold production decreased 15.0% as a result of the anticipated depletion of higher ore grade veins at the main Ciénega mine, lower gold grades at the Rosario and Las Casas veins, increased dilution due to narrower veins, and a 4.1% decrease in ore processed. The latter was due to the extraction of harder mineral from the Rosario, Las Casas and Carmen areas, and the dismissal of a contractor at the beginning of the year following a fatal accident. Silver production increased 6.3% due to increased development ore from the Rosario and Las Casas areas, and higher silver grades in those veins.

The development programme at the Rosario and Las Casas veins was intensified with 537,000 tonnes of ore being processed at Ciénega in 2016, and an additional 88,000 tonnes from the Taspana and Tajos veins in the Cebollitas Cluster within the Ciénega District. Following positive exploration results from these veins, we intend to intensify their exploration and development in 2017 and will also initiate an exploration programme at the Manzanillas Cluster. These activities will help us to define the optimal milling capacity as well as determine the location for a possible expansion in this District (see detailed exploration results on page 73).

We expanded capacity by 2.5 million cubic metres at the second tailings dam in 2016 to support the operations for an additional two years. Construction of the third tailings dam is expected to commence in 2017 once permits have been obtained.

Gold reserves increased as a result of further drilling in the Rosario and Casas area. Gold and silver resources increased as a result of exploration efforts in the Rosario transversal and Taspana veins.

Capital expenditures

Capex in 2016 included development, sustaining capex and expansion of the tailings dam. Budgeted capex for 2017 will mainly be allocated to mining works, sustaining capex, construction of the third tailings dam, and safety and environmental spending.

Adjusted revenue increased to US$185.0 million in 2016 due mainly to higher prices of all metals, and increased volumes of silver, lead and zinc sold, offset by the lower volumes of gold sold. Ciénega is the Group's most polymetallic mine, as evidenced by the 54.7% contribution from silver, lead and zinc (2015: 47.9%).

Productivity decreased as a result of the lower volumes of ore processed and a greater number of contractors doing non-productive work. Cost per tonne at Ciénega decreased 11.9% to US$55.5,

2016 objectives

- Continue exploration at areas of influence.
- Expand second tailings dam while permits are pending for the third tailings dam.

2016 performance

- Continued exploration at Rosario and Las Casas, and began at the Taspana and Tajos veins.
- Concluded expansion of second tailings dam, providing an additional two years of operating life.

2017 objectives

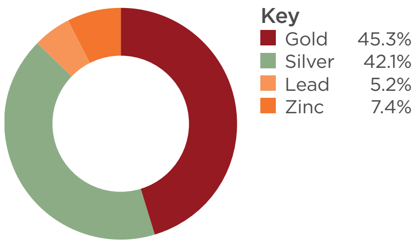
- Intensify exploration and development of the Taspana and Tajos veins.
- Construction of the third tailings dam.
- Continue exploration at depth of the Rosario vein.
- Continue evaluation of the expansion of milling capacity at the Ciénega District.
- Commence exploration at the Manzanillas Cluster.

Financial performance

Financial highlights	2016	2015	% change
Adjusted revenue (US$m)	**185.0**	169.5	9.1
Adjusted production costs (US$m)	**70.7**	83.7	(15.5)
Segment profit (US$m)	**100.1**	71.1	40.8
Capital expenditure (US$m)	**32.7**	24.6	32.9
Exploration (US$)	**20.0**	20.5	(2.4)
Productivity (tonnes milled/person)	**1,577**	1,697	(7.1)
Cost per tonne (US$)	**55.5**	63.0	(11.9)
Cash cost ($/oz gold)	**(217.2)**	245.5	(192.0)
Margin ($/oz)	**1,463.7**	881.1	(66.1)
Margin (expressed as % gold price)	**117.4**	78.2	

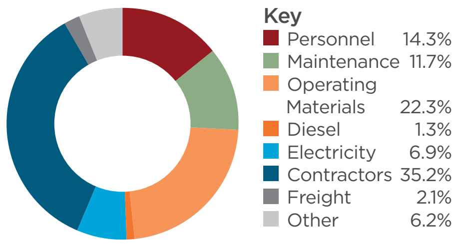
Adjusted revenue
US$

$185.0m



Adjusted production costs
US$

$70.7m



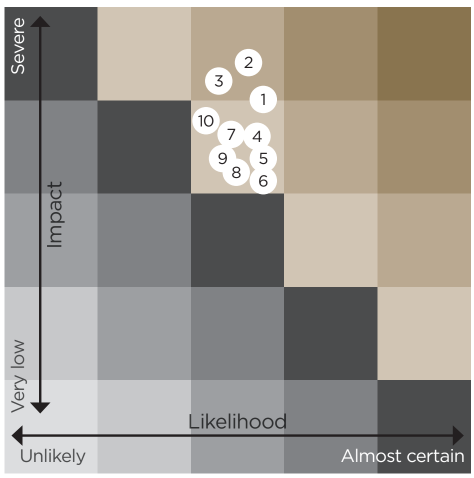
reflecting the positive impact of the devaluation of the Mexican peso/US dollar exchange rate; lower energy costs; and lower consumption of sodium cyanide. These positive effects were partly offset by an increased number of contractors and the 5% rise in wages in Mexican pesos to unionised personnel.

Cash cost per gold ounce decreased to -US$217.2 as a result of the higher by-product credits. Margin per ounce increased to US$1,463.7 per ounce in 2016 (2015: US$881.1), and expressed as a percentage of gold prices the margin rose to 117.4% (2015: 78.2%) (see page 106).

Social and sustainability highlights

We implemented the Silver Saves Lives programme with rain water harvesting systems in four public schools from our mining district. See pages 76-99 for more detail.

Business unit risks



Description of risks

1. Volatility in the prices of gold and silver over a period of time.
2. Safety incident that impacts the physical integrity of employees/collaborators, including: explosion, trapping, electrocution, being struck by falling rock, insect bites, falls, etc.
3. Electric power outages that stop or slow operations business unit.
4. Inefficient handling cycles due to bad roads, poor planning.
5. Personnel may leave the Company or the Company may not be successful in the recruitment of personnel required.
6. Theft of inventory, assets, materials (including explosives) and equipment.
7. Mined reserves replacement is not sufficient to maintain mining operations.
8. Failures in the IT environment, including communications infrastructure, servers, applications, telecommunications.
9. Information security attacks such as hacking or viruses that threaten the continuity of the business unit (which violates the security environment on a site logical business unit and take control of the systems).
10. Major mechanical failure, fire, explosion or any catastrophe resulting in operational interruption for reasons attributable to the people.

Review of Operations continued
Mines in Operation continued

Herradura

Herradura is one of Mexico's largest open pit gold mines. It produced 55.6% of the Group's total gold in 2016 and generated 32.1% of total adjusted revenue.

Ownership: **Minera Penmont (100% Fresnillo plc)**	Location: **Sonora**
In operation since: **1997**	Mine life (years): **8.6 (2015: 9.2)**
Facilities: **Open pit mine, heap leach and Merrill Crowe plants; dynamic leaching plant (DLP)**	
Workforce: **1,228 employees, 394 contractors**	

	2016	2015	% change
Mine production			
Ore deposited (kt)	**25,159**	22,875	10.0
Total volume hauled (kt)	**118,841**	117,033	1.5
Silver (koz)	**638**	526	21.3
Gold (oz)	**520,366**	398,866	30.5
Gold ore grade (g/t)	**0.71**	0.73	(2.9)
Total reserves			
Gold (moz)	**5.2**	5.3	(1.9)
Avg ore grade in reserves			
Gold (g/t)	**0.73**	0.79	(7.6)
Cut-off grade (g/t Au)	**Multiple**	Multiple	-
Total resources			
Gold (moz)	**10.8**	6.66	62.2
Avg ore grade in resources			
Gold (g/t)	**0.74**	0.82	(9.8)
Cut-off grade (g/t Au)	**Multiple**	Multiple	-

Key developments in the year

Annual gold production increased 30.5% as a result of reducing inventories at the pads to 72 koz of gold. This reduction was possible through the commissioning of the second Merrill Crowe Plant in the DLP during 4Q 2015, which enabled the elimination of the bottleneck in processing volumes of rich solution coming from the leaching pads and the DLP.

We believe the year end inventory on the pads of 72 koz of gold is the optimal level that balances efficiency of the leaching process and production costs. No further decreases are expected in 2017, thus a decrease in gold production compared to 2016 is anticipated.

The construction of the second line at the DLP was approved, with commissioning expected in 2018. This US$110 million project will increase efficiency as sulphides found deeper in the pit are processed.

Mining work continued at the Valles underground pilot mine with good results. Gold ore grades in 2017 are expected to average 0.72 g/t. This is expected to decrease in subsequent years to 0.64 g/t as a higher volume of lower ore grade material, deriving from the pit expansion, is processed, with small fluctuations expected depending on the timing of the Centauro Deep project, after which gold ore grades will gradually increase again.

Gold reserves were stable, while gold resources increased as a result of exploration and geological modelling efforts, including resources from the Centauro Deep underground project. Ongoing work continues to upgrade the larger resource base into reserves.

Capital expenditures

Capital expenditures in 2016 totalled US$78.8 million, which included mining works, sustaining capex, expansion of the second tailings dam and construction of the second line at the DLP. Capex for 2017 will mainly be focused on mining works, sustaining capex, construction of additional leaching pads, the second line at the DLP, and land acquisition.

Adjusted revenue increased 47.1% to US$656.1 million reflecting the 34.3% increase in volumes of gold sold; and to a lesser extent, the 10.7% increase in the realised gold price.

Productivity increased compared to the previous year due to increased volumes of ore and waste hauled by fewer personnel, whereas in 2015, ore was deposited at a slower pace to optimise inventory levels at the pads given the temporary processing capacity constraints.

Cost per tonne of ore deposited decreased 10.9% to US$7.7 due mainly to the favourable effect of the devaluation of the Mexican peso and the decline in unit costs of operating materials, together with the additional efficiencies achieved from the increased ore throughput, the lower maintenance costs and the lower energy costs.

Cash cost per gold ounce was US$470.7, which represented a slight decrease over 2015. Margin per ounce increased 18.6% to US$775.8, whilst margin expressed

2016 objectives

- Conduct economic evaluation for Centauro Extension; subject to Board approval, commence basic engineering and place initial orders for second milling line at DLP.

2016 performance

- Began work on a pilot stope as part of ongoing analysis of various options for the Centauro Deep project.
- Decreased inventories at the leaching pads to 72,000 gold ounces.
- Obtained approval and began construction of second line at DLP.

2017 objectives

- Continue construction of the second line at the DLP.
- Continue working on the Centauro Extension to expand the life of mine.

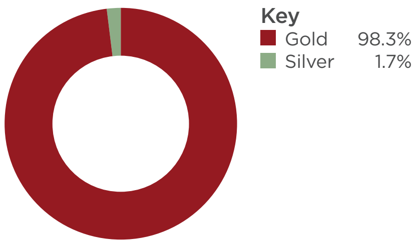
Financial performance

Financial highlights	2016	2015	% change
Adjusted revenue (US$m)	**656.1**	445.1	47.1
Adjusted production costs (US$m)	**194.2**	198.5	(2.2)
Segment profit (US$m)	**369.9**	219.0	68.9
Capital expenditure (US$m)	**78.8**	119.7	(34.3)
Exploration (US$)	**30.7**	11.9	158.0
Productivity (tonnes of ore/waste moved/person)	**73,250**	71,098	3.0
Cost per tonne (US$)	**7.7**	8.7	(10.9)
Cash cost ($/oz gold)	**470.7**	472.5	(0.4)
Margin ($/oz)	**775.8**	654.0	18.6
Margin (expressed as % gold price)	**62.2**	58.1	

Adjusted revenue

US$

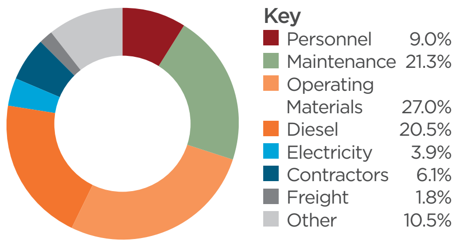
$656.1m



Adjusted production costs

US$

$194.2m

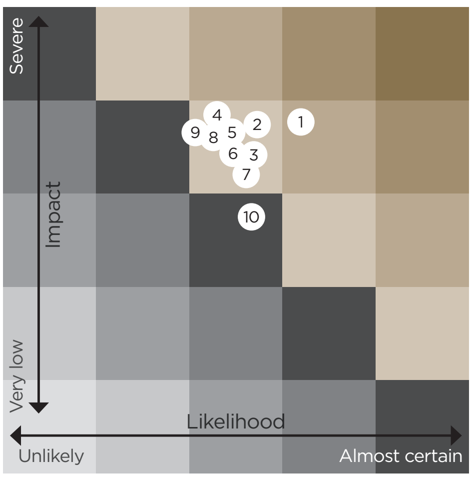


as a percentage of gold prices rose from 58.1% in 2015 to 62.2% in 2016 (see page 106).

Social and sustainability highlights

We organised our second Health week with UNAM Foundation (National University) to provide free dental care and glasses for the our communities. We also partnered with local health authorities in an indigenous health campaign to conduct bone density studies which are valuable for diagnosis and monitoring of osteoporosis. See pages 76-99 for more detail.

Business unit risks



Description of risks

1. Volatility in the prices of gold and silver over a period of time.
2. Accidents occurring while personnel are being transported.
3. Litigation with adverse outcome to the Company.
4. Delay in obtaining permission to use and store explosives or loss of license.
5. Decrease in recovery.
6. Failure/lack of availability or delays in obtaining access to land (ejidos).
7. Projects that cannot be delivered on time, on budget and according to specifications planned.
8. Inability to obtain necessary water concessions because of government control or private interests.
9. Interruption in the supply of other key operating inputs such as reagents, steel balls, diesel, steel drilling.
10. Personnel may leave the Company or the Company may not be successful in the recruitment of personnel required.

Review of Operations continued
Mines in Operation continued

Noche Buena

We acquired Noche Buena in 2008 and commenced operations as an open pit gold mine in 2012. The mine is located in the Herradura District 23 kilometres from the Herradura mine.

Ownership: **Minera Penmont (100% Fresnillo plc)**	Location: **Sonora**
In operation since: **2012**	Mine life (years): **3.2 (2015: 3.2)**
Facilities: **Open pit mine, heap leach and Merrill Crowe plant**	
Workforce: **429 employees, 424 contractors**	

	2016	2015	% change
Mine production			
Ore deposited (kt)	**17,432**	17,400	0.2
Total volume hauled (kt)	**81,423**	82,373	(1.2)
Silver (koz)	**33**	73	(54.8)
Gold (oz)	**182,280**	158,179	15.2
Gold ore grade (g/t)	**0.51**	0.50	3.8
Total reserves			
Gold (moz)	**0.9**	1.0	(10.0)
Avg ore grade in reserves			
Gold (g/t)	**0.51**	0.56	(8.9)
Cut-off grade (g/t Au)	**0.25**	0.30	(16.7)
Total resources			
Gold (moz)	**0.93**	1.05	(11.4)
Avg ore grade in resources			
Gold (g/t)	**0.51**	0.55	(7.3)
Cut-off grade (g/t Au)	**0.25**	0.30	(16.7)

Business unit risks

See Herradura for risks associated with all Penmont mines.

Key developments in the year

Annual gold production increased 15.2% over 2015 due to a higher overall speed of recovery resulting from new mineral layers at the leaching pads in conjunction with the higher ore grade.

We remained focused on improving efficiency and reducing costs, which included increasing the useful lifetime of vehicle components and tyres through enhanced monitoring and preventive measures.

In 2017, it is expected that the average gold ore grade at Noche Buena will be around 0.49 g/t. Ore grades through the life of the mine are expected to average 0.51 g/t. Gold reserves and resources decreased as a result of the natural depletion of the pit.

Capital expenditures

Capital expenditures in 2016 totalled US$8.6 million, focused on sustaining capex, including the construction of leaching pad #6 to guarantee operational continuity. Spend in 2017 will also mainly be in sustaining capex, including leaching pad #7 and the implementation of a collision-prevention technology.

Adjusted revenues at Noche Buena increased 24.3% to US$225.8 million, reflecting the higher volumes of gold sold and the higher prices in 2016.

Productivity increased as a result of similar volumes of ore and waste material moved by fewer personnel. Cost per tonne at this mine decreased 5.9% to US$7.5 mainly due to the devaluation of the Mexican peso and the decrease in unit costs of operating materials and maintenance of haulage trucks, together with the lower cost of diesel.

This was partly offset by the increased consumption of diesel and sodium cyanide; and increased contractor costs. Cash cost per gold ounce decreased 21.3% to US$765.9. Margin per ounce increased to US$480.6, and margin expressed as a percentage of gold price rose from 13.7% in 2015 to 38.6% in 2016 (see page 106).

Social and sustainability highlights

Noche Buena obtained the Cyanide Code Certification. See pages 76-99 for more detail.

2016 objectives

- Continue implementation of measures to increase efficiency and control costs.
- Commission expanded smelting capacity.
- Obtain International Cyanide Code certification.

2016 performance

- Increased the useful lifetime of vehicle components and tyres.
- Expanded smelting capacity.
- Obtained International Cyanide Code certification.
- Discovered new gold mineralisation to the east of the mine.

2017 objectives

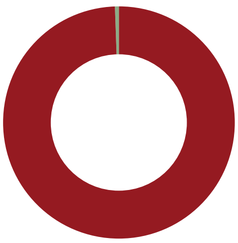
- Maintain comparative low cash cost profile.
- Continue exploration in area of influence.

Financial performance

Financial highlights	2016	2015	% change
Adjusted revenue (US$m)	**225.8**	181.7	24.3
Adjusted production costs (US$m)	**130.1**	138.0	(5.7)
Segment profit (US$m)	**83.9**	26.7	214.2
Capital expenditure (US$m)	**8.6**	2.6	230.8
Exploration (US$)	**1.6**	3.7	(56.8)
Productivity (tonnes of ore/waste moved/person)	**95,361**	87,717	8.7
Cost per tonne (US$)	**7.5**	7.9	(5.9)
Cash cost ($/oz gold)	**765.9**	972.7	(21.3)
Margin ($/oz)	**480.6**	153.8	212.5
Margin (expressed as % gold price)	**38.6**	13.7	

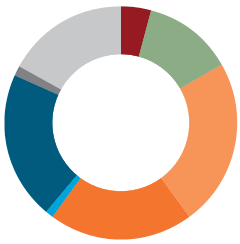
Adjusted revenue
US$

$225.8m



Adjusted production costs
US$

$130.1m



Review of Operations continued
Development projects

San Julián

In progress

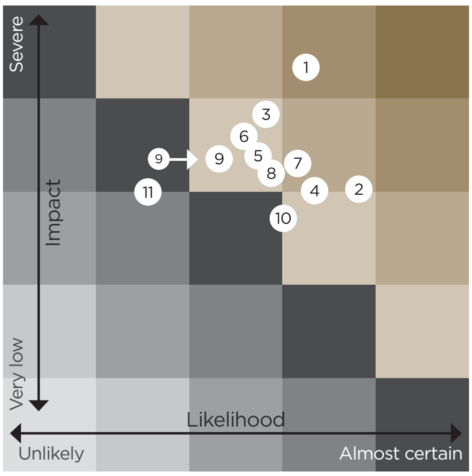
Ownership: **100% Fresnillo plc**	
Location: **Chihuahua/Durango border**	
Facilities: **Underground mine, flotation plant and a dynamic leaching plant**	
Commercial production: **2H 2016 (phase 1)/1H 2017 (phase 2)**	
Anticipated production: **Annual average of 10.3 moz silver and 44,000 oz gold**	
Capex: **US$515.0 million**	
Indicated and referred resources: **187 moz silver, 810 koz gold**	

About the project

The San Julián silver-gold project is a cornerstone of the Company's 2018 production goals. The geological potential identified in the region thus far may be sufficient to establish a new mining district in the future.

The project includes construction of two plants: i) a dynamic leaching plant to treat ore from the veins, whose design capacity of 3,000 tpd has already been met and exceeded; and ii) a flotation plant with 6,000 tpd capacity to process ore from the disseminated body. Average commercial production is estimated at 10.3 moz of silver and 44,000 oz of gold per year, once at full capacity for the life of mine, with cash costs in the lowest quartile of the international cash cost curve.

Business unit risks



Description of risks

1. Failures/delays in obtaining environmental permits.
2. Projects that cannot be delivered on time, on budget and according to planned specifications.
3. Volatility in the prices of gold and silver over a period of time.
4. Economic mineral found within narrow veins being difficult to exploit.
5. Inability to obtain necessary water concessions due to government control or private interests.
6. Sensitivity to project profitability due to changes in ore grade and metallurgical recovery that may affect the viability of the project.
7. Social behaviours or actions by a group of people taking a stance against mining in the areas of influence of the business unit.
8. The surrounding communities do not provide their support or hinder operations due to complaints regarding dust, blasting vibrations, water use.
9. Late delivery of key equipment to plant by the supplier (mills, pumps, filters).
10. Actions by the union or deterioration in relations with the union (other unions related with the transportation of concentrates).
11. Environmental incidents that affect the operation of the business unit, the health of the community (directly or indirectly) and adversely impacts the environment.

2017 priorities

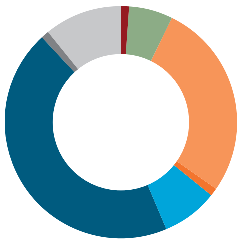
- Commission the flotation plant in 2Q 2017.
- Install vibrating screens at the leaching plant to achieve an average of 4,000 tpd milling capacity by year end.
- Deploy efficiency teams to reduce costs, with a focus on drilling methods.
- Identify long-term sources of water for industrial use.

Financial performance

Financial highlights	2016	2015	% change
Adjusted revenue (US$m)	67.4	–	–
Adjusted production costs (US$m)	20.4	–	–
Segment profit (US$m)	42.2	–	–
Capital expenditure (US$m)	134.1	–	–
Exploration (US$)	0.3	–	–
Productivity (tonnes milled/person)	499.5	–	–
Cost per tonne (US$)	48.3	–	–
Cash cost ($/oz silver)	(0.5)	–	–
Margin ($/oz)	17.7	–	–
Margin (expressed as % silver price)	102.9	–	–

Adjusted revenue
US$
$67.4m

Adjusted production costs
US$
$20.4m



Key developments in 2016

The construction of phase I at the San Julián project was completed on budget, though at a slight delay due to contractors rectifying a problem at the mill. Since ramping up, milling capacity surpassed the 3,000 tpd design and was achieving 3,600 tpd by year end. Production above planned capacity was achieved through a combination of the following factors: processing ore from production stopes and the stockpiled ore from the pre-operative phase; optimisation of the milling process with the installation of additional pumps for the SAG mill; and closing the drilling pattern for blasting, thus reducing the size of the material sent for processing.

Silver production was 2.1 moz, gold production was 31,397 oz, both above the anticipated production of 2.0 moz of silver and 30,000 oz of gold. This reflected the ramping up of production ahead of plan and the higher fourth quarter silver ore grade of 181 g/t vs. 175 g/t anticipated for 2H 2016. Cost per tonne was US$48.3 and cash cost –US$0.47 per silver ounce. Ore grades, cost per tonne and cash costs in the start-up phase of the mine are not representative of performance at full capacity.

A fatality at the beginning of the year accelerated and intensified efforts to train personnel and develop longer-term onboarding procedures for mine employees.

Commissioning of the flotation plant (phase II) was delayed from year-end 2016 to 2Q 2017 as a result of unusually high rainfall, high rotation of contractor personnel due to the project's remote location and delays in the delivery of certain equipment.

Capex spend in 2016 was US$134.1 million, with total spent as of December 2016 reaching US$479.8 million. The remaining US$35.2 million of the budget will be spent in 2017.

Social and sustainability highlights

We supported small community entrepreneurs and launched the Silver Saves Lives programme with activities to engage and raise environmental awareness.

Review of Operations continued
Development projects continued

Pyrites Plant

In progress

Ownership: **100% Fresnillo plc**
Location: **Zacatecas, Fresnillo District**
Facilities: **Leaching plant**
Commercial production: **1H 2018**
Anticipated production: **Annual average of 3.5 moz silver and 13,000 oz gold**
Capex: **US$155.0 million**

About the project

We resumed the Pyrites plant project and proceeded with equipment orders and construction. This facility is expected to improve overall recoveries of gold and silver by processing historical and ongoing tailings from the Fresnillo and Saucito mines, which would have been lost. The plant will froth float pyrite concentrates that will be leached in a 2,000 tpd dynamic leaching plant and Merrill Crowe plant to produce precipitates. Production is expected to total an average of 3.5 moz silver and 13,000 oz gold per year, and advances our objective to maximise production in the Fresnillo District.

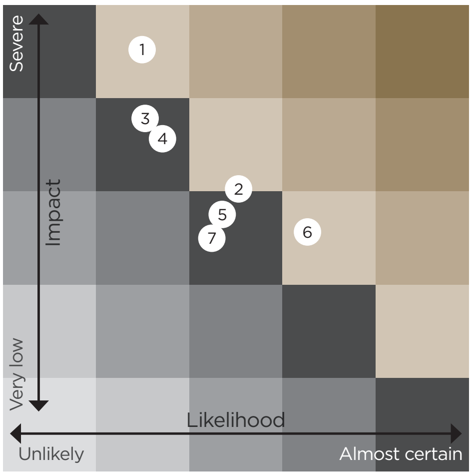
2017 priorities

- Dismantle equipment at current tailings plant.
- Continue construction of the Pyrites plant.

Key developments in 2016

We completed detailed engineering works for this project, obtained environmental permits, commenced preparation of the site and placed orders for major equipment.

Business unit risks



Description of risks

1. Event which involves a leakage or spillage of cyanide or SO_2 which as a result of its chemical properties, could generate an event of major consequence on the premises of the business unit and/or in the nearby area.
2. Inexperience in the operation of a Pyrite flotation plant as it is the first time this type of process will have been performed.
3. The surrounding communities do not provide their support or hinder operations (social license for operation) due to community complaints regarding operations e.g. dust, blasting vibrations, noise, pollution, water use.
4. Risk of incidents during transportation of iron concentrate from the Fresnillo tailings plant to the leaching plant (possible environmental impact to the local communities).
5. The challenge faced in fine grinding to such small sizes (10 to 20 microns) to ensure metallurgical recovery.
6. Failures/delays in obtaining the required environmental permits (e.g. MIA, CUS, ETJ).
7. Limited capacity of electricity supply; with this new project the Fresnillo District will reach its limit.

Exploration

Our consistent investment in exploration supports a healthy project pipeline, which is core to our growth strategy and a key element in extending mine life. We rely on an experienced team of 80 geologists and more than 300 paid local community members to carry out our exploration work. We routinely apply advanced geospatial, geochemical and geophysical technologies such as tomographic imaging, high-resolution satellite imagery, airborne and core hyperspectral technologies, and hand-held and down-hole instruments as an aid to improving the geologic interpretations that guide exploratory drilling leading to ore discovery.

Focus: Discovery and potential acquisition of large, low-cost silver and gold ore bodies in Latin America.

Criteria: Minimum potential of 100 moz of silver or two moz of gold equivalent; strict requirements regarding ore grades, metallurgical recoveries, extraction costs, environmental impact and community support. Prospects in current districts are prioritised due to known external risk factors and potential of economic benefit through shared infrastructure.

Reserves and resources

To estimate resources and calculate reserves, we again used the 2012 edition of the JORC code. The gold price used for resources and reserves was US$1,250.00 per oz (US$1,150.00 in 2015); resources in open pits were estimated at US$1,400.00 per oz (US$1,300.00 in 2015) to allow for long-term design flexibility. The silver price used for resources and reserves was US$17.50 per oz (US$15.00 in 2015). Gold and silver resources were increased due to these price considerations and drilling results at our six operations, and at the Guanajuato, Juanicipio and Pilarica projects. Reserves at the operations remained broadly stable, with exploration drilling and development replenishing the ore mined in the year.

2016 highlights

- Total risk capital invested in exploration was US$137.9 million, an 8.9% decrease compared to 2015.
- Exploration was mainly focused on areas of influence at current operating mines and key exploration sites.

2017 outlook

- Risk capital of around US$160 million was approved for 2017, of which about US$8 million is estimated to be capitalised, with 36% of the budget to be spent in operating mines, 22% in advanced exploration projects and the remaining 42% on projects and prospects.

Review of Operations continued
Exploration projects and prospects: current districts

Fresnillo District
Juanicipio

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

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

Indicated and inferred resources (attributable): **138.7 moz silver, 772,000 oz gold**

During 2016, 30,944 metres were drilled resulting in a 33.7% and 9.9% increase in gold and silver resources, respectively. This was a result of a 38.9% increase in tonnage and a 3.8% and 20.8% reduction in the grades of gold and silver, respectively. The priorities for 2017 are to continue exploration at depth in conjunction with new objectives through a 20,000 metre drilling programme. This joint venture with MAG Silver will be developed on a stand-alone basis.

Other sites
Coyotes
13,090 metres of drilling was carried out during 2016. Approval to explore on additional properties was granted, so that in 2017, we expect to expand the drilling areas to the east and south of the Coyotes vein system.

Minillas De Santa Rosa
During the year, 16,043 metres were drilled. An option contract was signed to explore a 100 hectare claim in the central zone of the project whose exploratory drilling has already delivered some interesting interceptions. The plan for 2017 is to continue drilling to determine the continuity of the mineralised structure and test its full potential at mineable depths.

Herradura District
Centauro Deep

Ownership: **Minera Penmont (100% Fresnillo plc)**

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

Indicated and inferred resources: **830 koz gold**

8,340 metres of diamond drilling was carried out in the second half of the year looking for extensions of Valles and Santa Isabel high grade ore bodies. Analysis of the Centauro deep structural model was undertaken in order to refine the characteristics of the mineralised ore bodies; re-logging and sampling were performed in order to help this process.

Other sites
Tajitos
During 2016, 17,172 metres of reverse circulation drilling was performed, 520 metres of diamond drilling and 1,000 metres using a wider (PQ) diameter for metallurgical column testing within the Centre for Research and Technological Development. Currently there is an estimated resource of 355,000 oz Au at a cut-off grade of 0.3 g/t Au, using the same mining and processing specifications used at Noche Buena. Purchasing of surface land in areas of interest has begun.

Olivos
13,823 metres of reverse circulation drilling was undertaken in the year with several interesting gold-bearing intercepts, leaving exploration potential open. A drill programme was designed to follow-up the most promising areas, which is expected to commence in 2017.

Review of Operations continued
Exploration projects and prospects: current districts

Ciénega District

Ownership: **Minera La Ciénega, S.A. de C.V. (100% Fresnillo plc)**

Location: **Durango**

Cebollitas Cluster

The development of the Taspana vein reached its western limit, showing continuity of grade at 3.1 g/t gold and 280 g/t silver, maintaining an average thickness of 1.8 metres over a strike length of 700 metres. The construction of the 2.1 kilometres long Hidalgo tunnel was completed reaching the Tajos vein, which has an average grade of 3.4 g/t gold and 475 g/t silver, average width of 0.6 metres and a length of 700 metres. Exploration continues to progress at the Taspana West, Tajos, Malinche and Portilla veins with exploration targeting deeper levels.

San Ramón Satellite Mine

The continuity of the Bandera vein at depth was confirmed through development works; 10,092 metres were drilled in 2016 indicating a small decrease in the grades of gold and silver at deeper levels. A programme of underground core drilling in 2017 will explore deeper levels of the western section of the Bandera vein.

Las Casas – Rosario Transversal

Development of the Las Casas vein is now complete at the 2180 level, exposing the vein with better grades and widths than expected; core drilling will explore in detail the vein extensions at depth. At the far eastern section of the ore body, mine development has reached the Rosario Transversal shoot, which continues to show promise. The 2017 objective is to continue the drilling programme in order to confirm the continuity of the structure at deeper levels where better grades are expected.

In 2016, a geological evaluation was completed at the Canelas and Valle de Topia districts. For 2017, parametric drilling programmes in both locations will be implemented once the social and environmental permits have been secured.

Review of Operations continued
Exploration projects and prospects: Mexico

San Julián District

Ownership: **Minera Fresnillo, S.A. de C.V. (100% Fresnillo plc)**

Location: **Chihuahua/Durango border**

Indicated and inferred resources: **367 koz gold, 28.7 moz silver (excluding reserves and resources from the mine)**

Intensive drilling is under way in the southern part of the district, with 40,142 metres collared in 2016. Good results were produced from the La Calera and Ultima Tierra veins with an additional discovery of a blind vein below Ultima Tierra. The drilling intensity will be increased at San Julián Sur in 2017, developing a programme which includes initial step-out and infill drilling in all veins in the sector. Additional exploration efforts will be initiated northeast of San Julián, in order to identify favourable locations that may lead to the discovery of additional resources, which in time could increase either the processing capacity or the mine life.

Orisyvo District

Ownership: **Minera Fresnillo, S.A. de C.V. (100% Fresnillo plc)**

Location: **Chihuahua**

Measured, indicated and inferred resources: **9.6 moz gold, 12.3 moz silver**

A new interpolation of the block model was created adding 6,000 channel samples to the database taken systematically from the exploration audits and crosscuts. Currently resources for both an open pit and underground operation are being assessed with the prefeasibility study to be updated subsequently. The Las Casas target, located east of the principal deposit, will be drilled in 2017 in an effort to further increase the resource base.

Guanajuato District

Ownership: **Minera Saucito, S.A. de C.V. (100% Fresnillo plc)**

Location: **Guanajuato**

Indicated and inferred resources: **754 koz gold, 59.3 moz silver**

The Fresnillo holdings are comprised of several gold and silver-bearing target areas currently under exploration in this historic district. The most advanced prospects are Opulencia, La Gloria and La Joya vein systems. During the year, 49,113 metres of diamond drilling was carried out to convert resources to the indicated category at Opulencia and La Gloria while exploring for new veins, as well as increase gold-silver resources at La Joya and Cerro Blanco. The drilling programme and land acquisition will continue into 2017.

Lucerito

Ownership: **55% Minera Mexicana La Ciénega, S.A. de C.V.; 45% Minera Saucito, S.A. de C.V. (100% Fresnillo plc)**

Location: **Durango**

Indicated and inferred resources: **2.1 moz gold, 154.6 moz silver**

No activity was undertaken during 2016. Looking ahead to 2017, a metallurgical study on the refractory gold and an evaluation of the optimal scenarios from the Preliminary Economic Assessment (PEA) are to be completed, while continuing to maintain good relationships with the communities.

Guachichil

Ownership: **Minera Saucito, S.A. de C.V. (100% Fresnillo plc)**

Location: **Zacatecas**

Inferred resources: **1.1 moz gold, 15.9 moz silver**

A drilling programme was designed to test the target areas located in the northern sector of the property. An environmental permit application was submitted and, once the permit is received, drilling will commence immediately.

Candameña

Ownership: **Minera Fresnillo, S.A. de C.V. (100% Fresnillo plc)**

Location: **Chihuahua**

Indicated and inferred resources: **1.3 moz gold, 32.5 moz silver**

13,218 metres of step-out and infill diamond drilling was carried out during the year. Additional gold and silver mineralisation was found in the sulphide and oxide zones in the step-out holes and good continuity of the mineralisation was confirmed with the infill. Going forward into 2017, drill-definition of the deposit will continue, with a detailed metallurgical investigation and a PEA using the updated resources will be started.

Coneto
an Association with Orex Minerals Inc.

After formalising the new joint venture company with Orex Minerals Inc., a drill campaign was completed totalling 4,913 metres for the year. The 2017 programme includes a follow-up drilling campaign aimed at defining open ore-shoots along two veins in the district, while continuing to maintain good community relations.

Review of Operations continued

Exploration projects and prospects: Mexico

San Juan

Ownership: **Minera Saucito, S.A. de C.V. (100% Fresnillo plc)**

Location: **Zacatecas**

Indicated and inferred resources: **399 koz gold, 32.0 moz silver**

Exploration resumed at San Juan in 2016 with intensive rock geochemistry and detailed core and surface geologic mapping, aimed at refining the current Lorena vein models. A number of sectors showing good exploration potential were identified along Lorena, Angeles, and other subsidiary structures. A drill programme started in 4Q 2016 collaring 1,825 metres with good results. In 2017, drilling campaigns will continue at the main Lorena-Angeles zone and elsewhere in the district to fully unlock its exploration potential.

Rodeo District

Ownership: **Exploraciones Minera Parrena, S.A. de C.V. (100% Fresnillo plc)**

Location: **Durango**

Indicated and inferred resources: **1.3 moz gold, 13.5 moz silver**

The project is currently on stand-by while negotiations with the communities for acquisition of land surface rights advance. As a result, no drilling was carried out. Instead, a district-wide prospection programme was undertaken revealing new areas containing gold anomalies. Negotiations regarding land access will continue into 2017 and when completed, a step-out, infill and condemnation drilling programme would then be implemented as well as the evaluation of these new target areas.

Guazapares District

19,302 metres were drilled in 2016, primarily focused on the Don Ese vein in the vicinity of Coeur's Palmarejo mine. During the year, the Guadalupe vein was found to extend into Fresnillo claims, and intersections of the La Verde, Nación and Portales veins were also hit. Drilling will continue during 2017 aiming to test the exploration potential of these veins and develop a resource base.

Exploration projects and prospects: Peru and Argentina

La Pampa and Santo Domingo Districts

At the La Pampa and Santo Domingo prospects, the social permits were obtained from the communities and environmental impact studies were submitted to the authorities. Drilling is expected to commence during 1H 2017 at these precious-metals bearing veins prospects.

Pilarica District

Ownership: **100% Fresnillo plc**

Location: **Ayacucho, Peru**

Indicated and inferred resources: **54.6 moz silver**

At the Pilarica prospect, 15,349 metres of drilling was completed during 2016 to successfully upgrade and increase the silver resource in the near-surface flat-lying mantos. Some drilling also tested the Santa Cruz and Machucruz veins. The 2017 programme aims at increasing resources in the district by evaluating these veins and the mineralisation at the adjacent Achalla prospect.

Argentina

A preliminary review of a number of early to advanced stage exploration projects was completed in 2016. A database of potentially available exploration projects in Argentina was developed and prioritised; a systematic review will be undertaken in 2017.

Letter from the Chairman of the Health, Safety, Environment & Community Relations Committee

Our commitment to long-term value creation is founded upon responsible mining practices. The Health, Safety, Environment & Community Relations (HSECR) Committee evaluates, on behalf of the Board, the Company's effectiveness in meeting the sustainability challenge.

In 2016, the Committee met in accordance with its terms of reference, and as part of our governance agenda we continued to monitor progress made towards reaching full maturity of the HSECR System. I am very pleased to report that the HSECR System has now reached its full maturity as planned and audited by PwC.

Additionally, our Environment, Social and Governance (ESG) performance was again recognised with the inclusion of Fresnillo plc in the STOXX ESG leaders and the Ethibel Excellence Investment Register.

Health & Safety

Although mining is considered a high-risk activity, any accidents, injuries or occupational illnesses whatsoever incurred by the Company's employees or contractors are unacceptable. The Company regrets to report three fatalities in 2016 and one in early 2017. The Committee has instructed management to take decisive action to improve safety. A comprehensive Root Cause Analysis has been conducted in each case and concrete measures have been taken in order to prevent similar accidents.

Health & Safety performance highlights include:

- Operational areas continued to develop their skills in simulated emergency response scenarios, with drills at all mining operations.
- Health & Safety departments implemented a new IT system to enhance monitoring and accountability.

Environment

Environmental stewardship is a fundamental component of the social license. The Committee monitors management's performance and responsiveness in relation to environmental challenges. Performance highlights include:

- The Noche Buena mine obtained its Cyanide Code certification.
- Penmont obtained the second level of the Clean Industry certification.

Community Relations

Community trust, based on mutually beneficial relations, is also integral to the social license. Mining brings benefits and contributes to the development of skills in local communities. We expect our personnel to engage with such communities respectfully, making certain that our business practices respect their human rights at all times.

Community relations highlights include:

- A productive second year of collaboration with the National Autonomous University of Mexico (UNAM) Foundation in the provision of free dental treatments and prescription eyeglasses for our neighbouring communities at each of our mines.
- The Company engaged the support of municipal authorities for investments into infrastructure projects to benefit local communities.

Ethical culture

In 2016 the Board assigned the HSECR Committee with the task of overseeing the Company's efforts to embed ethics and integrity into organisational culture. The Committee is following up on this area and looks forward to greater involvement in this important topic.

In the accompanying report, stakeholders are provided with a more detailed view into the Company's overall HSECR efforts and performance in 2016.

The Committee will continue to oversee, on behalf of the Board, the important mission of reaching our HSECR, culture and ethics goals, always striving towards excellence in all of these matters.

We extend our deepest condolences to the families of the four people who died in 2016 and early 2017. We will honour their memory by ensuring that safety continues to be our utmost priority.

Yours faithfully,

Arturo Fernández Pérez,
Chairman
Health, Safety, Environment and Community Relations Committee

Social and Sustainability Report
The Strategic Imperative

The fourth pillar of Fresnillo plc's strategy is sustainable development and the responsible operation of our business. The Group's business model directly incorporates sustainable business practices in the value-creation pyramid, as our license to operate requires a committed, continuous and integrated focus on our people, communities and environment. We believe that mining can and should be compatible with expectations of both economic value creation and social and environmental performance.

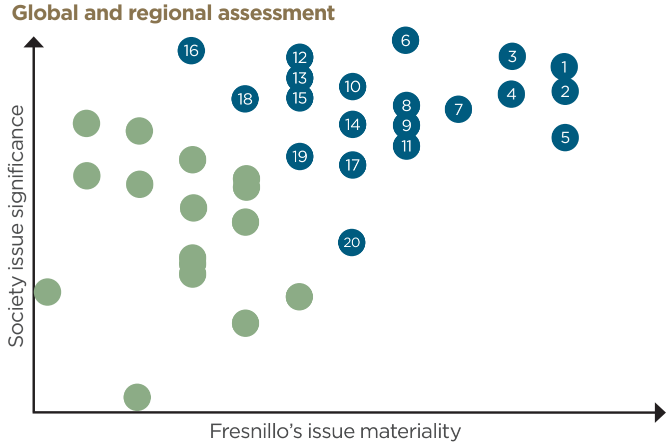
We also believe that responsible mining enhances our competitive advantages: engaging communities from the earliest stages of exploration and development reduces project risk and supports asset values; community support and environmental stewardship can minimise disruptions and ensure operating continuity; and a solid ESG risk profile influences the cost of capital, which is essential to balance sheet flexibility.

As outlined herein, our priorities are to eliminate unsafe workplace conditions and behaviours; improve and maintain the health of our people; minimise the environmental impact of our activities; engage with and support the development of our communities; and secure the talent pipeline and ensure a fair and ethical workplace.

Materiality
Our current KPIs are based on the aforementioned priorities. However, to ensure alignment with the outcomes of recent materiality assessments amongst our stakeholder groups, we are evaluating key performance and progress indicators for future reporting.

Non-financial materiality assessments help us better understand the relative importance of non-financial issues to the Company and its very diverse group of stakeholders, with local, regional and global reach. We cannot use a one-size-fits-all approach to conducting these assessments, but rather tailor them to the profile of the stakeholder considering scope, affiliation and sector (for example, local and global investors, NGOs, universities and regulators), as well as priority assessments at the local level to capture expectations of communities, local authorities, informal leaders, employees (unionised and non-unionised) and contractors. The outcomes of our materiality assessment will continue to guide our sustainability strategy and streamline our reporting. Information on matters that are considered of less significance and materiality to our stakeholders is available online at www.fresnilloplc.com

Global and regional assessment



Note: Material issues in blue, other issues in green.

Issue	Top 20 non-financial materiality issues
1	Cyanide Management
2	Mineral waste management (tailing, waste rock and heaps)
3	Ethics and Integrity
4	Land acquisitions & resettlements
5	Safety
6	Government payment transparency
7	Transparency & Accountability
8	Water stewardship
9	Occupational health
10	Soil pollution
11	Fair remuneration
12	Non-mineral waste and hazardous materials management
13	Government relations & lobbying
14	Respect the culture and heritage of local communities
15	Employee wellbeing
16	Local employment
17	Energy
18	Local procurement (Small and Medium Enterprises)
19	Acid Mine Drainage (AMD)
20	Union relation

Other issues
Equal remuneration for women and men, Community Human Rights, Biodiversity, Human Rights in the workplace, Effectiveness of the Mexican Mining Fund, Air emissions (SO_x, NO_x, PM, etc.), Protection against forced or compulsory labour, Employee recruitment, development and retention, Appropriate disclosure of information & consultation in new projects, Diversity and non-discrimination, Compliance with international labour standards, Indigenous people rights, Climate change (physical, reputational, regulatory /financial risks), Mine closure, Corruption and bribery, Number of hours in the working day and Work-Family balance.

Social and Sustainability Report continued

Local priority assessments

(Larger spheres represent greater importance)

Governance

The Board of Directors, through its Health, Safety, Environment and Community Relations (HSECR) Committee, evaluates the effectiveness of the Company's policies, action plans and systems regarding HSECR matters. The Committee meets semi-annually to review performance and monitor management's responses to key issues. In 2016, the Board assigned the Committee oversight responsibility of the initiatives to embed ethics and integrity into the organisational culture. A letter from the Chair of the Committee precedes this report and provides information on their work in the year.

Remuneration for our senior executives takes sustainability performance into consideration, specifically in the areas of stakeholder relations, teamwork and safety (see Remuneration Report on pages 138-153).

Our sustainability strategy is managed through our HSECR Management System, whose maturity is assessed semi-annually by PwC on the basis of its strategy, structure, processes, people and technology. In 2016, we reached our target of a fully-integrated management system.

Human rights

We respect and support human rights, avoid complicity with abuses, address grievances related to our business activities where relevant and we do not tolerate human rights violations committed by our employees, contractors, or public or private security providers acting on our behalf.

Along with the laws of Mexico that protect human rights, we have internal policies and practices to protect the human rights of our communities, employees and contractors, and the Fresnillo Plays Fair whistleblowing line to report any concerns. Environmental, livelihood and other community concerns can be reported through our grievance mechanism, or brought to light via our perception studies.

We are committed to further integrating human rights considerations into our business practices in line with the UN Guiding Principles on Business and Human Rights (UNGPs). Our priorities are to:

- Develop a specific Human Rights Policy that builds on our Code of Conduct and sustainability policy.
- Provide guidance to our operations and projects on identifying and addressing salient human rights risks.
- Better integrate human rights considerations into key community relations processes such as stakeholder engagement and the grievance mechanism.
- Implement human rights due diligence as part of our Social Impact Assessments (SIA) or as standalone assessments.

Corruption: Transparency in government payments

Corruption has been recognised by the United Nations as one of the obstacles to effective promotion and protection of human rights. Mexico ranked 123/176 in the 2016 Corruption Perception Index (CPI) of Transparency International. The Group implements anti-bribery and anti-corruption controls, due diligence and ethical training for our people and contractors, and government payments are reported annually on our website.

Integrated Management System

Our Integrated Management System is based on ISO 14001 and OHSAS 18001. It is the primary tool to drive continuous improvement and embed safety in our operations, incorporating key safety activities and controls such as risk management, root cause analysis of accidents, training, operating procedures, performance analysis, etc. It also includes software to support our assurance reviews and track the progress of action plans resulting from deficiencies detected.

The system also ensures effective compliance with environmental regulations and supports initiatives to reduce our environmental footprint, implement the Cyanide Code, Mexican Clean Industry certification and other best practices. Furthermore, the system includes operating procedures to safely manage and monitor tailings storage facilities and waste rock piles following best practices, and helping our sites comply with applicable regulations in Mexico, as well as policies to reduce and reuse non-mineral and hazardous waste.

Key Human Rights Issues for Businesses Operating in Mexico

Occupational Health & Safety (Health & Safety sections)	Forced labour (People section)
Working conditions (People section)	Child labour (People section)
Unions: freedom of association (People section)	Discrimination (People section)
Environment (Environment section)	Land rights (Community relations section)
Corruption: Transparency in government payments	Security

Source: Country Guide to Human Rights and Business in Mexico published by the Danish Institute for Human Rights.

United Nations Sustainable Development Goals (SDGs)

In 2015, the United Nations adopted 17 SDGs as part of the 2030 Agenda for Sustainable Development, which align the interests of governments, businesses, NGOs and communities to achieve social inclusion, environmental sustainability and economic development.

We have committed to doing our part at Fresnillo plc by identifying the SDGs most strategically aligned with our impacts, competencies and priorities, mapping them to our HSECR framework as set out below. Based on a 2x2 strategy matrix, we advance these goals as part of our core business processes, or indirectly through collaboration and leverage.

HSECR PILLAR	Most relevant SDGs
Health & Safety	**SDG 3 – Good Health and Wellbeing** Our focus: safe and healthy work environment, risk management to prevent accidents and occupational diseases, healthier lifestyles initiatives, community health.
Environment	**SDG6 – Clean Water and Sanitation; SDG7 – Energy Access and Sustainability; SDG13 – Climate Action; SDG15 – Life on Land** Our focus: mitigation and elimination of adverse impacts on land and water resources, energy efficiency and renewable energy initiatives.
Communities	**SDG1 – End Poverty; SDG2 – Zero Hunger; SDG10 – Reduced Inequalities; SDG16 – Peace, Justice and Strong Institutions** Our focus: local jobs and procurement opportunities, profit sharing mechanisms, capacity building and investment in education and entrepreneurship, human rights, anti-corruption, ethics and transparency initiatives.
Our People	**SDG5 – Gender Equality; SDG8 – Decent Work and Economic Growth** Our focus: fair hiring, fair remuneration and benefits, gender equality.

Awards and recognitions

Along with our inclusion in the STOXX Global ESG Leaders, other recognitions this year include: Ethics and Values in Industry from the Mexican Confederation of Industrial Chambers (CONCAMIN) and the Socially Responsible Company award from the Mexican Centre for Philanthropy (CEMEFI). Industry and standards certifications granted or under application in 2016 are detailed herein under their relevant categories.

Member 2016/2017
STOXX
ESG LEADERS INDICES

Social and Sustainability Report continued

Health

Strategy and objectives
To improve and maintain the health of our people.

Approach
We utilise a pre-emptive approach to identify and manage health risks. Preventive care and the promotion of healthier lifestyles can limit certain chronic diseases, enhance overall wellness and fitness for work, reduce the risk of injuries and enhance productivity. While our focus is set on prevention, emergency preparedness is a core competence of all our health teams. We work closely with local authorities and extend our health initiatives to communities as part of our support for socio-economic development.

Certifications	Fresnillo	Saucito	Ciénega	Penmont
OHSAS 18001	Certified	Certification on hold pending the upcoming release of ISO 45000	Certified	Certified
Sets out criteria for international best practice in occupational health and safety management.				
Healthy Company	Certified	Certified	Certified	Certified
Certification by Mexican health authorities for the implementation of best practice in occupational health and preventive care, including the promotion of healthier lifestyles.				
Smoke-Free Company	Certified	Certified	Certified	Certified
A prerequisite for the Healthy Company certification.				

2016 objectives

- Implement the Health & Safety Information System, including contractors.
- Adopt ICMM standard for health KPIs.
- Mature our assessment protocol for health-related risks.
- Reinforce standardisation of health practices and policies across our operations.

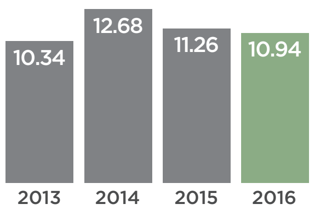
2016 performance

- Health & Safety staff were and continue to be trained in the use of the new Health & Safety Information System.
- Health KPI's suggested by the ICMM are implemented in the Health Information System.
- The Health department is currently working on action plans resulting from health related risk assessments.
- Corporate staff are supporting and monitoring the progress of business units on hygiene, ergonomic and psychosocial issues.

2017 objectives

- Increase environmental monitoring of our workspaces to proactively identify any future sources of health hazards.
- Review our operating procedures considering more information from industrial hygiene, notably exposure levels.
- Strengthen our ergonomic programme through training of our health and safety staff and reviewing workspaces, equipment and procedures.

Investment in health
US$
10.94m



Recreational park at Fresnillo

Occupational health

We seek to prevent, detect and treat work-related illnesses amongst our employees and contractors.

We have a health baseline for every employee entering the workforce, and conduct regular check-ups to help improve their health and screen for occupational diseases. Results from each health visit are securely recorded online to track and analyse the health of employees and contractors over time, and to help inform our approach to occupational health going forward.

We utilise Alert-On randomly or methodically, based on the job profile, to detect alcohol and drug usage, as well as to evaluate the fitness of workers in critical activities such as high elevation work or in mine shaft elevators, testing vital signs, vision and glucose levels among others. We also monitor blood lead levels for those working in areas with risk of exposure. We are pleased to announce that no new cases of occupational diseases were diagnosed by health authorities during the year.

Preventive health, wellness and healthier lifestyles

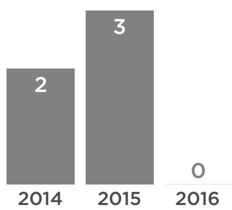
We seek to prevent health-related issues brought on by aging and lifestyle choices, such as lack of exercise, smoking and poor nutrition. Weight management, a widespread issue in Mexico, remains our top priority as obesity may trigger chronic diseases such as diabetes and high blood pressure. Our Healthy Lifestyles programme supports good dietary habits and the prevention and control of obesity-related diseases. Additionally, we offer employees the following:

- Influenza vaccinations.
- Vision tests and prescription safety glasses if required.
- Free annual health check-ups for employees over 50.
- Breast and cervical cancer screening for women.
- Access to dental and optometry care, in partnership with the National Autonomous University of Mexico (UNAM) Foundation.

We launched a campaign to raise awareness of certain diseases in 2016.

New cases of occupational diseases

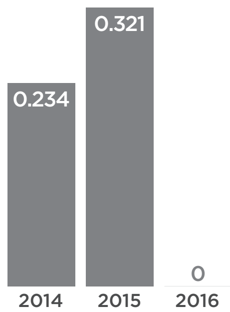
0



New cases of occupational diseases: An illness caused or aggravated by work activities or workplace conditions.

Disease rate (expressed per 1,000 persons at work)

0



Diseases rate: Occupational disease rates are expressed per 1,000 persons at work. The number of personnel at work is calculated based on the hours worked. Total personnel = hours worked per year/2000.

Social and Sustainability Report continued

Safety

Pump station at Saucito

2016 objectives

- Implement Health & Safety Information System, including for contractors.
- Complete OHSAS 18001 certification process at Saucito.
- Mature the Operational Discipline and safety assessments initiatives.

2016 performance

- Implemented a new information system to track accidents, support root cause analysis and other key controls.
- Certification on hold pending the upcoming release of ISO 45000.
- Operational discipline has reached the last stage of its maturity plan. This initiative will be supported by the Information System and it will also be part of the 'Safety Folder' initiative.

2017 objectives

- Implement our 'Safety Folder' initiative to improve compliance and behaviour monitoring across our operations and hierarchy level.
- Assign Senior Operation Managers to collaborate with our business units in the follow-up of the implementation of correction measures resulting from root cause analysis of fatal and severe accidents.
- Form a group of Safety trainees based on our 'engineers in training programme' to secure the talent pipeline.

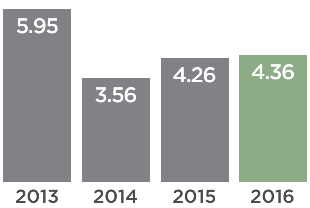
Strategic priority
To eliminate unsafe workplace conditions and behaviours.

Approach
Workplace hazards and risks in our industry include potential rock falls, excessive noise, dust, dangerous chemicals, confined spaces, high temperatures and errors of judgment with implication on safety. Yet we believe that health and safety in the workplace is a human right; moreover, a safe workplace is vital to productivity and morale, and our safety reputation is a key driver of acceptability in our communities. Our approach is to instil a safety culture where our workers and contractors have the knowledge, competence and desire to work safely.

We regret to report three fatal injuries in 2016 and one in early 2017. We are committed to implementing the measures necessary to reverse the negative trend in our safety record.

Investment in safety
US$

4.36m



Critical and fatal injuries
For each incident resulting in a critical injury or loss of life, we conduct a root cause analysis to understand the underlying factors and determine any remedial actions required. With management oversight, lessons learnt and outcomes from each accident are communicated across our business units to prevent repeats, and any critical controls are implemented in a timely manner. We are standardising our approach to accident investigation through our information system and training sessions.

Risk assessments
We proactively assess and prioritise risks in order to determine operating procedures, equipment, training and controls. Our situational assessments and legal compliance audits help us identify operational non-conformities and to develop specific action plans with clear deadlines and accountabilities. In 2016, we updated our risk analysis for fire events in underground mines.

Engaging our stakeholders: No More Accidents
Leadership and engagement
We expect our managers, union representatives and contractors to take a leadership role in our safety culture. Senior staff meet regularly to strengthen accountability and ensure sufficient funding for preventive measures. Our situational assessments evaluate, among other measures, the leadership capabilities of our senior staff.

Our entire workforce is represented by formal Health & Safety (H&S) Commissions at each business unit, who provide leadership in the field by auditing and removing unsafe conditions. H&S Commissions also investigate the causes of accidents and occupational diseases, determine preventive measures, and monitor compliance. Management, unionised employees and contractors are represented in these commissions.

We support our contractors in enrolling in the Mexican Labour Ministry's voluntary Self-Managed Safety Programme, whose main objective is to encourage a self-evaluation culture and continuous improvement. Contractors self-evaluate compliance with national regulations and develop action plans to correct deviations, while we audit their action plans. Companies participating in the programme can significantly reduce the number of mandated safety inspections and certain tax requirements.

Behavioural change
Human factors are responsible for many incidents and accidents: rushing, frustration, fatigue and complacency lead to unintentional errors that increase the risk of injuries on or off the job. We engage our workforce via two programmes:

- STOP (Stop, Think, Observe and Plan), which teaches that all accidents can be prevented, promotes risk monitoring for all processes and emphasises the responsibility of the chain of command to detect and immediately remediate unsafe conditions.
- Behavioural Change workshops, facilitated by psychologists who provide guidance and counsel on personal issues that may lead to distractions and accidents.

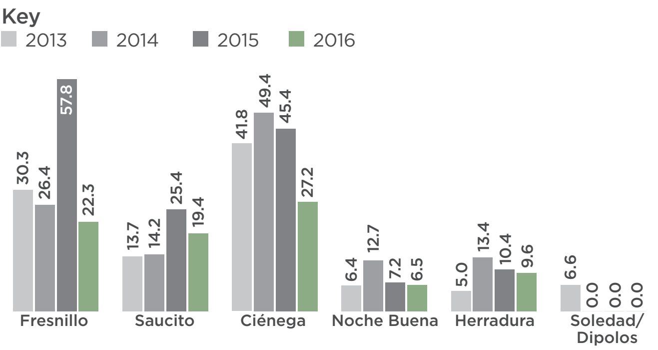
Other safety programmes and initiatives
- Operational Discipline, which is structured in phases: making sure safety procedures are available, assuring their quality, training and communication, evaluation of compliance and continuous improvement; our units are currently focusing on evaluating compliance with procedures.
- Rules that Save Lives, part of our effort to embed critical rules into our safety culture, with regular reviews, updates and reminders in training sessions and group meetings.
- Safety Folder, an initiative to reinforce controls, follow-up and commitment of supervisors and managers at every level of the Company.

Safety culture
Our safety culture is routinely monitored to assess the attitudes, behaviours and disciplined elimination of unsafe conditions.

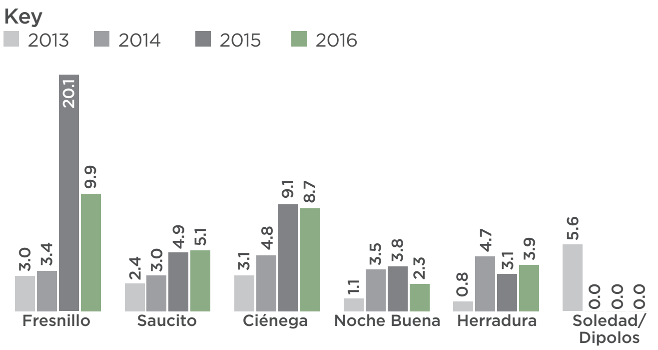
Safe cyanide management
Cyanide, widely used in our industry to dissolve gold from its ore in a process called cyanide leaching, can in high concentrations be toxic to humans and many living organisms. Responsible management of cyanide is critical to ensure the safety of our people, contractors, neighbouring communities and the environment.

We apply strict health and safety measures to prevent any spills and exposure of our workforce to cyanide, and train our response teams should any incident occur. The Herradura and Noche Buena mines are certified in the Cyanide Code, which sets out best practices for transporting, storing, using and disposing of cyanide, as developed by the International Cyanide Management Institute (ICMI). See also 'Cyanide management: environmental aspects' on page 90.

Total Recordable Injury Frequency Rate (TRIFR)
For every 1,000,000 hours



Lost Time Injury Frequency Rate (LTIFR)
For every 1,000,000 hours

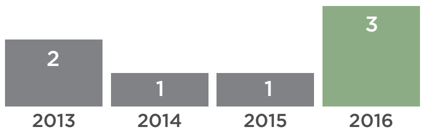


Social and Sustainability Report continued
Safety continued

Performance indicators

Fatalities

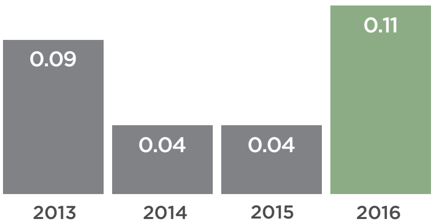
3



Number of fatal injuries to employees or contractors.

Fatal Injury Frequency Rate (FIFR)
For every 1,000,000 hours

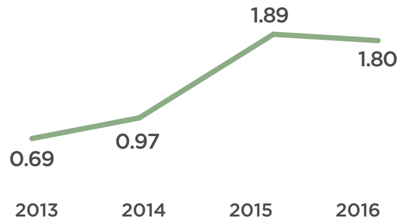
0.11



Number of fatal injuries to employees or contractors per 1,000,000 hours worked.

Accident rate

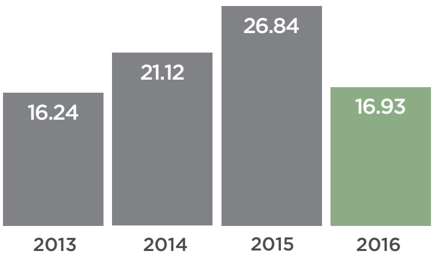
1.80



The number of accidents divided by the total number of employees and contractors.

Total Recordable Injury Frequency Rate (TRIFR)
For every 1,000,000 hours

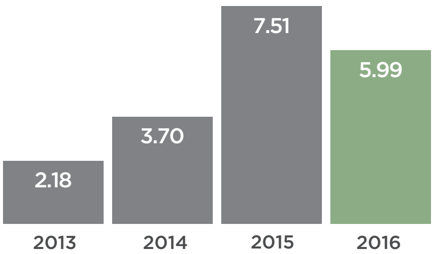
16.93



The number of fatalities + lost-time cases + restricted work cases + medical treatment + first aid cases per 1,000,000 hours worked.

Lost Time Injury Frequency Rate (LTIFR)
For every 1,000,000 hours

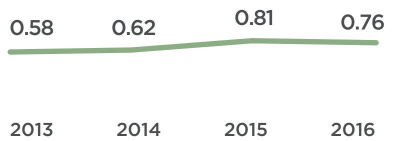
5.99



The number of lost-time injuries + fatalities per 1,000,000 hours worked.

Lost workday rate

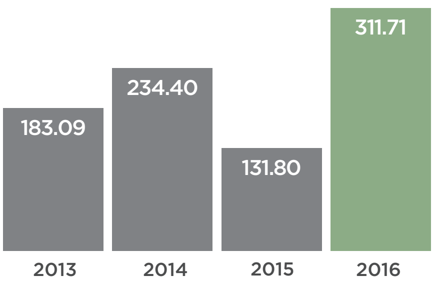
0.76



The number of days lost to accidents divided by the total number of employees and contractors.

Severity rate
For every 1,000,000 hours

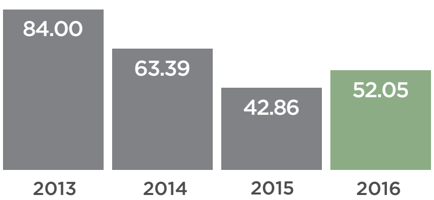
311.71



Lost work days per 1,000,000 hours worked.

Duration rate

52.05



Lost work days divided by the total number of lost-time injuries + fatalities.

Environment

Strategic priority
To minimise the environmental impact of our activities.

Approach
Mining and processing precious metals, whilst essential industries, consume water, disturb land and produce waste and greenhouse gases in the ordinary course of business. Hence, optimising our use of resources, curbing the impact of our activities, and being transparent and accountable regarding our environmental footprint are crucial to making mining sustainable and retaining our social licence to operate. We recognise that a clean and sustainable environment is integral to the full enjoyment of human rights.

Reporting boundary
The reporting boundary for environmental certifications and most KPIs includes the following business units: Ciénega, Fresnillo, Saucito and Penmont (Herradura and Noche Buena). We expect the San Julián mine will be incorporated into audited measurements in 2017.

2016 objectives

- Set carbon emissions and water targets.
- Obtain Clean Industry and ISO 14001 certification at Saucito.
- Implement an information system.
- Strengthen the mechanism for internal audits of environmental compliance.

2016 performance

- We engaged some NGOs and researched target setting approaches consistent with the United Nations Sustainable Development Goals (SDG).
- Saucito has accomplished 90% of the requirements to get the ISO 14001 and Clean Industry certifications.
- The Environment Information System is ready to be rolled-out.
- Environmental plans were evaluated considering the feedback of the internal assessments.

2017 objectives

- Collaborate with operations to forecast energy and water demand in order to set carbon emissions and water targets.
- Prepare our business units for the Environmental Excellence certification of the Mexican authorities.

					Penmont	
Certification	Fresnillo	Saucito	Ciénega	San Julián	Herradura	Noche Buena
ISO 14001	Certified	In process 90%	Certified	Starts in 2017	Certified	Certified
Framework and criteria for an effective environmental management system.						
Clean Industry	Certified	In process 90%	Certified	Starts in 2017	Certified	Certified
Certificate granted by the Mexican Environmental Authority to promote environmental audits, compliance with regulations and adoption of best practices.						
International Cyanide Management Code	N/A	N/A	On hold*	Started in 2016	Certified	Certified
Sets criteria for the global gold mining industry on cyanide management practices.						

* The process will resume once the mine's capacity optimisation plan is determined.

Environmental Impact Assessments (EIAs)

Before developing any mining project, we conduct EIAs, which identify potential impacts and actions to manage them. EIAs may address the following for potential impact: surface and groundwater resources, water quality, air quality, soils, biodiversity (including threatened or endangered species) landscape and socio-economic conditions. The EIA report, known as environmental impact statement (EIS), is presented to the environmental authorities for their evaluation.

Social and Sustainability Report continued
Environment continued

Water
Mining and processing ore require large volumes of water, and we operate in some arid regions where water is frequently a relevant issue for communities. Hence, securing access and being responsible water stewards are critical success factors. Our water management approach is based on operational excellence and cooperation with stakeholders, notably communities, authorities and NGOs. We recognise water as a human right and cooperate with communities to increase water access.

Risk assessment
Our EIAs allow us to understand water resources and their vulnerability on a local and regional scale before developing our projects. Responding to the expectations of our stakeholders, we conduct our evaluation of water risk using the Aqueduct tool from the World Resources Institute (WRI).

Water risk assessment under current conditions				
	Overall water risk	Physical risk quality	Physical risk quality	Regulatory & reputational risk
Fresnillo	Medium to high risk	No data	High risk	Low to medium risk
Saucito	Medium to high risk	No data	High risk	Low to medium risk
Penmont	Medium to high risk	Low to medium risk	High risk	Low to medium risk
Ciénega	Medium to high risk	Low to medium risk	Medium to high risk	Low to medium risk
San Julián	Medium to high risk	Medium to high risk	Medium to high risk	Low to medium risk

Physical risk quality considers return flow ratio and upstream protected land; physical risk quantity considers baseline water stress, inter-annual variability, seasonal variability, flood occurrence, drought severity, upstream storage and groundwater stress; regulatory and reputational risk considers media coverage, access to water and threatened amphibians.

Water stress considering climate change scenarios (2020 and 2030)				
	Business as usual 2020	Business as usual 2030	Pessimistic 2020	Pessimistic 2030
Fresnillo	Near normal	1.4x increase	Near normal	1.4x increase
Saucito	Near normal	1.4x increase	Near normal	1.4x increase
Penmont	1.4x increase	1.4x increase	1.4x increase	1.4x increase
Ciénega	Near normal	1.4x increase	Near normal	1.4x increase
San Julián	Near normal	Near normal	Near normal	1.4x increase

Water stress measures the ratio of total annual water withdrawal to average annual available blue water. This is a commonly used indicator also known as relative water demand.

Water quantity
We obtain water rights from authorities before using any water in mining and mineral processing. We respect our water quotas and cooperate with water authorities and other stakeholders, including communities, to increase water access. We rely primarily on groundwater (mine water and wells) and municipal wastewater to supply our operations.

Our Fresnillo and Saucito operations build resilience using municipal wastewater. Ciénega, located in the mountains upstream, relies on mine water (the ore is below the groundwater table). Penmont, located in an arid and low water use region, is supplied by wells. The proximity of Penmont to the sea offers an opportunity to explore the use of seawater.

Water quality and conservation
Mining and mineral processing is less sensitive to the quality of incoming water, allowing for the reuse of wastewater or brackish water, and thereby reducing our water footprint. Additionally our mineral processing facilities use closed water circuits, eliminating the need to discharge processed water into water streams. In regards to the majority of our underground mines, de-watering is required (draining groundwater by pumping), to allow access to the ore. Unused water is sent to settlement ponds to control suspended solids before discharging the now cleaned water downstream.

The quality of discharged water is important to downstream users and ecosystems and as a result we monitor and take action to ensure our discharges respect water quality regulations. We have not detected negative downstream impacts on ecosystems or waterbodies due to our groundwater intake or water discharges.

Public policy
We engage public policymakers and other stakeholders through the Mexican Chapter of the World Business Council for Sustainable Development (CESPEDES) and the Mexican Mining Chamber (CAMIMEX), whose positions and initiatives can be consulted on their websites. Mexico recently reactivated the process to enact a new Water Law. Our view is that water policy should foster efficiency and sustainably of the resource. Key considerations should be: governance, conservation, incentives for efficiency and reuse, long-term planning and certainty of permits, and flexibility for water transfers among users and basins.

Communities
Communities benefit from the availability of water from our dewatering operations. We believe that cooperation with communities helps limit conflicts arising from access issues. We also work with municipalities to invest in water and wastewater infrastructure, notably with their mining tax funds (see Community Relations pages 95-99). We are committed to building trust with the communities, and have launched an initiative for joint water monitoring.

Statement of water inputs and outputs in megalitres
for the period 1 January 2016 to 31 December 2016
(Reporting boundary excludes San Julián)

Category	Element	Sub-element	2016	2015
Input	Surface water	Rivers and creeks	**0**	0
	Groundwater	Mine Water	**3,512**	4,949
		Bore fields	**5,218**	5,163
		Ore Entrainment	**302**	312
	Third party	Wastewater	**1,765**	1,200
Total water inputs			**10,797**	11,624
Output	Surface water	Discharges	**90**	130
	Other	Water entrained in concentrates	**26**	24
Total water outputs			**116**	154

1 megalitre = 1,000m^3

Water deviations in megalitres
for the period 1 January 2016 to 31 December 2016
(Reporting boundary excludes San Julián)

Category	Element	Sub-element	2016	2015
Input	Surface water	Rivers and creeks	**0**	0
	Groundwater	Aquifer Interception (Dewatering)	**14,359**	14,129
Total water inputs			**14,359**	14,129
Output	Surface water	Discharges	**12,428**	13,055
		Supply to third party (Donation)	**802**	206
		Loss (evaporation, infiltration, etc.)	**1,129**	868
Total water outputs			**14,359**	14,129

1 megalitre = 1,000m^3

Statement of operational efficiency
for the period 1 January 2016 to 31 December 2016
(Reporting boundary excludes San Julián)

	Unit	2016	2015
Total volume to tasks	megalitre	**57,994**	57,197
Total volume of reused water	megalitre	**46,931**	46,537
Reuse efficiency	%	**80.9%**	81.4%
Total volume of recycled water	megalitre	**1,891**	1,210

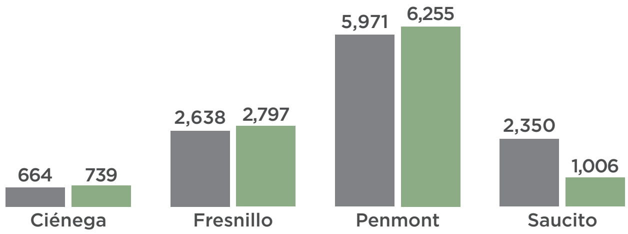
1 megalitre = 1,000m^3

Intensity
(Reporting boundary excludes San Julián)

Intensity measurement: (m^3/tonne)	2016	2015
Water input (in m^3) per tonne of mineral processed	0.22	0.25
Fresh water Input (in m^3) per tonne of mineral processed	0.18	0.22

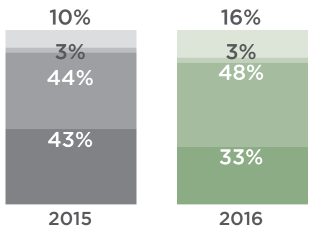
Water input
Megalitres

Key
2015 2016



Sources of water

Key
Water waste
Ore entrainment
Bore fields
Mine water



Note: We calculate our water inventory using the Water Accounting Framework for the Minerals Industry, which has been useful to standardise concepts internally and benchmark amongst our operations and with other mining companies. The quantities of water withdrawn are typically measured by flow metres, but at points of withdrawal that may not be equipped with a flow metre, quantities are estimated. (Reporting boundary excludes San Julián.)

Social and Sustainability Report continued
Environment continued

Climate change & energy
Mining is an energy intensive business. Energy is used at every stage of the value chain, representing a significant portion of our overall costs. Fossil fuels are used in extraction and hauling of ore and waste rock removal, while electricity is used in our processing plants. As ore grade decreases and mining goes deeper, we expect an increase in our energy demand. Given the relation between energy and greenhouse gas emissions, we also strive to decarbonise our process to mitigate the risks of climate change. Our strategy is based on energy efficiency and progressive integration of renewables in our energy portfolio.

Governance
The Board's HSECR Committee reviews our performance, risks and opportunities at their biannual meetings with management, who are responsible for integrating climate change into the business and operating strategy.

Operational and energy efficiency
Operational excellence and, more specifically, energy efficiency, are key to tackling the challenge of deeper mining and lower ore qualities. Our operating mines set energy efficiency targets each year; the open pit operations seek to optimise the truck fleet, use of diesel additives and waste dumps to reduce haulage distances, while in the underground operations, our initiatives are related to the optimisation of ventilation and measures to reduce ore dilution. In 2016, our mineral processing plants began to optimise consumption by reducing electricity usage at peak grid hours. We closely monitor technological developments in energy efficiency for the mines of tomorrow.

Carbon cost exposure and carbon regulation readiness
Mexico has carbon taxes embedded in the price of fossil fuels, based on a carbon price of US$3.7 per tonne of CO_2, with natural gas taxed at zero as it is considered the cleanest of fossil fuels. The carbon tax is paid by fuel producers and importers as other excise taxes and is generally passed on to consumers. In 2017, Mexico begins a transition from administered prices to market prices; prices will float following market conditions, with volatility contained to a target zone with adaptable excise taxes/subsidies. Complete price liberalisation of fuels is expected in 2018. Recently, the government of the Mexican state of Zacatecas, where our Fresnillo and Saucito operations are located, introduced an additional carbon tax of US$12.5 (MX$250) per tonne of CO_2, becoming effective in 2017.

Mexico launched a year-long simulation of a cap-and-trade system as part of a plan of Mexican authorities to introduce a national carbon market in 2018, which authorities intend to link with California and Québec. Mexico operates a mandatory emissions registry; our experience with voluntary reporting has proven valuable to compliance with this regulation.

We do not expect climate change regulations to reduce demand for gold, although there may be an increase in demand for lead, zinc and silver for applications in renewables.

Public policy and preparedness for the physical impacts
As with water stewardship, we engage public policymakers and other stakeholders through the Mexican Chapter of the World Business Council for Sustainable Development (CESPEDES), whose positions and initiatives can be consulted on their website. The most significant climate change impacts for our Company relate to water. See pages 86-87 for a more detailed discussion of our water usage and conservation efforts.

Fresnillo plc supports effective, efficient and equitable policies and prices of carbon. We consider that a policy is effective when it meets its reduction targets, efficient when it is cost effective and equitable when all jurisdictions are contributing to solutions. We believe that carbon policies must be implemented in a manner that is reasonably consistent between jurisdictions so that the risk of creating a competitive disadvantage for some emitters does not induce carbon leakage.

With regard to the introduction of a supplemental carbon tax in the state of Zacatecas, we have engaged with state authorities on the economic distortions that could be created by adding the state's carbon prices on top of the national rate.

Transparency and disclosure
We account for and monitor our greenhouse gas (GHG) emissions based on an inventory management plan (IMP), a best practice proposed by the Climate Leaders programme of the US Environmental Protection Agency (EPA). We are developing a third party evaluation of the effectiveness of our diesel additives in our open pit mines. We participate in the climate change programme of the Carbon Disclosure Project (CDP) and the Mexican GHG disclosure programme, GEI Mexico.

Carbon performance
Global GHG emissions
for the period 1 January 2016 to 31 December 2016

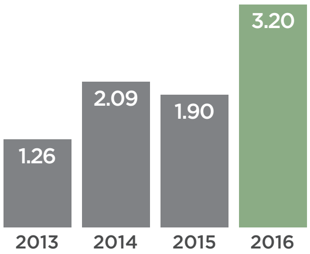
	GHG emissions (tonnes of CO_2e)		Energy (MWhe)	
	Reporting year 2016	Comparison year 2012	Reporting year 2016	Comparison year 2012
Scope 1 (direct emissions): Combustion of fuel (mobile and stationary sources)	452,497	375,121	1,673,146	1,385,448
Scope 2 (indirect emissions): Electricity purchased from the Mexican National Grid (CFE), WindForce Peñoles (FEISA) and Thermoelectric Peñoles (TEP).	458,848	329,245	705,963	420,615
Intensity measurement: Emissions and energy reported above per tonne of mineral processed.	0.019	0.013	0.049	0.034

Methodology: We have reported on all of the emission sources required under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013. These sources fall within our operational control. We do not have responsibility for any emission sources that are not included in our Consolidated Statement. We have used the WRI/WBCSD Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (Revised Edition).

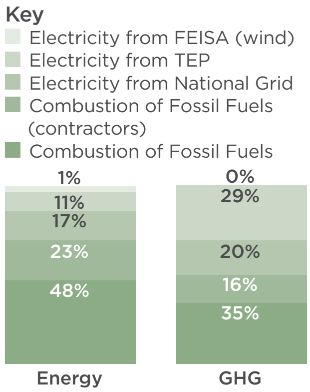
Scope 1: All direct GHG emissions.
Scope 2: Indirect GHG emissions from consumption of purchased electricity. (Reporting boundary excludes San Julián.)

Investment in environment
US$

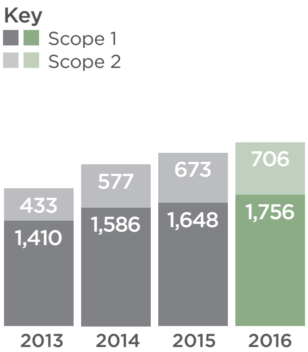
3.20m



Energy – GHG profile

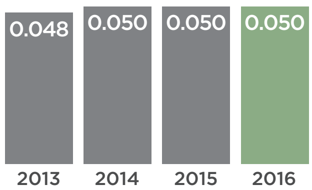


Energy use
GWhe

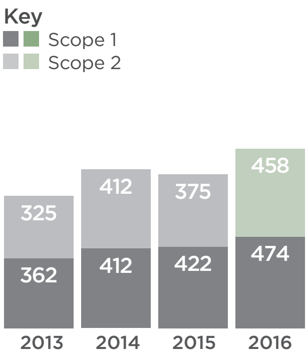


Energy intensity
MWhe per tonne of mineral processed

0.050

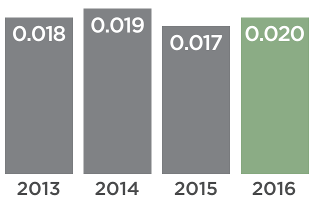


GHG emissions
Kt of CO_2e



GHG intensity
Tonnes of CO_2e per tonne of mineral processed

0.020



Waste management

Our operations produce mineral waste and, in much smaller proportion, non-mineral hazardous waste. The global trend of lower ore grades will increase mineral waste over time, especially in open pit mining. We recognise that responsible management of waste is essential to protect the health and safety of communities, the quality of the environment and our reputation. We are committed to safe management of wastes, paying great attention to the structural and chemical stability of our mineral waste storage facilities.

Mining waste

Mining operations remove waste rock to access the ore. This primarily incorporates either the overburden (rock or soil overlaying a mineral deposit) of open pit operations, or gangue (the rock or mineral occurring with the metallic ore but of no commercial value) excavated in underground works to access the ore. Most mining waste is transported and deposited in waste piles for permanent storage, though some waste rock is used in underground cut and fill operations. The majority of the Company's mineral waste is generated by the open pit operations at Penmont and deposited in waste rock piles. Reclamation usually consists of re-contouring and restoring native plants and vegetation to ensure long-term stability.

Processing waste

In our processing facilities we reduce the ore to the size of sand and silt to form a slurry, which goes through a cyanide leaching process to extract the desired metals, or a flotation process to concentrate the ore for its transportation to a metallurgic complex. Tailings, the fine ore gains that remain in the slurry at the end of the process, are generally considered a processing waste since their metal content makes further processing uneconomical; however, they may also be used as input for tailing processing plants for further recovery of metals, as is the case in our Pyrites plant under development (see page 70).

Tailings are pumped from the plants to sedimentation ponds, known as tailing dams, for safe storage. The decanted water, released by the sedimentation of tailings, is harvested and pumped back to the processing plants. We have no mining operations with riverine tailings disposal discharge tailings in nearby rivers.

Tailings Storage Facilities (TSFs)

Tailings management is a key concern for the mining industry. While very rare, recent tailings incidents in the industry have served as a reminder of how critical these structures are. We are fully committed to addressing the expectations of our stakeholders to build and operate TSFs responsibly.

Our tailings dams are designed and built following the hydrological, geotechnical and structural design requirements of the Mexican authorities to resist extreme weather and seismic events. We pay particular attention to the chemical stability of the tailings, so the quality of any seepage does not represent a danger to human health or the environment. We keep strict control of the water balance to prevent overtopping failures, and ban the use of tailings dams as water reservoirs. We have diversion channels to prevent runoff water from entering the dam reservoir and seepage collection systems to protect the environment downstream. In addition to our daily inspections and internal audits, we conduct third party stability reviews of the embankments of our operating and closed tailings dams in addition to regulatory inspections.

Facilities can be closed in a manner that is compatible with the surrounding environment. Our historical tailings facility at Fresnillo, for example, now operate as an ecological park for the community and have the environmental quality certification from the Mexican Environment Ministry.

Social and Sustainability Report continued
Environment continued

Metallurgical waste
Metallurgical waste refers to piles of spent ore and the tailings produced by heap and dynamic leaching, respectively.

Cyanide-bearing mineral waste is disposed of safely. We use impermeable membranes at the base of geo-technically engineered heaps and tailings to prevent seepage to groundwater and enhance structural stability. Geotechnical reviews are performed to ensure that the piles and embankments are safe. Channels surrounding the heaps and contingency ponds are hydraulically designed to handle flood flows caused by extreme rainfall events and monitoring up and downstream proactively detects changes in water quality. Once extraction of ore from the mine is complete, the piles are rinsed and allowed to drain down to ensure environmental protection. We consider progressive rehabilitation of mineral waste facilities is the best path for responsible mining.

Public policy
Following recent international cases of tailing dam failures, Mexican authorities launched an extensive re-assessment of the regulations for design and operation of tailings dams. A multi-stakeholder group was formed to review a proposal based on the guidelines of the Mining Association of Canada (MAC) and the Canadian Dam Association, both considered as the best available practice. Fresnillo plc participates in the process as an affiliated company of the Mexican Mining Chamber.

		Unit	2016	2015
Mine waste	Waste rock	Tonne	**161,143,531**	162,064,121
Processing waste	Tailings	Tonne	**6,030,362**	5,877,794
Metallurgical waste	Tailings	Tonne	**2,969,759**	2,925,918
	Heaps	Tonne	**39,570,603**	37,366,591

(Reporting boundary excludes San Julián.)

Non-mineral and hazardous waste
Non-mineral wastes are most commonly managed through recycling, off-site treatment and disposal. Hazardous wastes are subject to strict regulation by Mexican authorities at our own storage facilities and at hazardous waste receiving facilities.

Public policy
Separate from the aforementioned supplemental carbon tax, the state of Zacatecas introduced a US$5 (MX$100) tax for the storage of waste rock and tailings. We consider that 'revenue oriented' taxes on top of regulatory compliance reduces the ability of companies to invest in technology for mineral waste management. The Mexican Mining Chamber issued public statements urging the government of Zacatecas to reconsider such taxes that reduce the competitiveness of mining companies operating in the state.

Cyanide management: environmental aspects
Environmental protection measures are critical for cyanide leaching systems; we operate in compliance with international best practices as put forth by the International Cyanide Management Institute (ICMI) and the Mexican standard 'NOM-155 SEMARNAT-2007' that establishes environmental requirements for gold and silver leaching systems.

Once gold and silver are extracted from the cyanide solution, process water is reused in the leaching process; water is also harvested from the cyanide-bearing tailings and recirculation generates savings in cyanide, reductions to the fresh water footprint and elimination of discharges into water streams.

	2016	2015
Sodium cyanide (NaCN) (tonne)	**10,117,133**	8,451,315

(Reporting boundary excludes San Julián.)

Acid mine drainage
Acid mine drainage (AMD) is a major environmental challenge for the mining industry. Uncontrolled AMD represents a risk to surface and groundwater resources during mine operation as well as a legacy issue after closure. We analyse the mineral properties and conduct geochemical tests to screen AMD potential of ore mineral and waste rock. In our operations with AMD risk, notably at San Ramón, we implement site-specific management strategies such as capping waste rock piles with a dry cover (to reduce the entry of oxygen and water) and collecting and treating acid water. Mexico is currently reviewing the norms that regulate the chemical analysis of tailings and their AMD potential. The Mexican Mining Chamber participates in the consultation process of this regulation.

What is acid mine drainage?
Metallic ore deposits may contain abundant sulphide minerals. Weathering of sulphides initiates an oxidation process that, uncontrolled, may lead to acid mine water (low pH) and mobilisation (dissolving) of metals and metalloids. However, not all the ore deposits with sulphides generate AMD. Ore deposits may also contain other minerals such as carbonates and silicates that act as natural buffers, neutralising (consuming) acid water. Hence, AMD potential greatly depends on the relative proportion of acid vs. neutralising minerals in the ore and gangue.

Communities
We engage our neighbouring communities to raise environmental awareness through events such as World Water Day, World Environment Day and Tree Day. We conduct talks, contests, performances and reforestation campaigns with elementary schools and amongst our employees and contractors.

Our People

Strategic priority
To secure the talent pipeline and ensure a fair and ethical workplace.

Approach
We seek to attract, develop and retain the best people, and engage them over the long term. We work to develop an organisational culture based on trust, and to embed ethics and integrity into our culture in order to create a fair and respectful workplace. We respect labour rights and engage union representatives constructively. Quality employment is one of the most important benefits to the communities where we operate and a key component to our social acceptability.

Our values are the cornerstone of Ethics and Culture programme.

Maintenance Workshop at the Fresnillo mine

2016 objectives

- Train unionised workers in the ethics and integrity programme.
- Enhance readiness of crisis committees at each business unit.
- Implement information systems to manage contractor employees in our operations.

2016 performance

- The ethics programme with unionised workers will be implemented after the second phase of the non-unionised workers.
- Retrained crisis committees and performed emergency drills.
- Implemented software to better manage mining contractors in our operations.

2017 objectives

- Implement the second phase of our ethics and integrity programme.

Ethics and culture

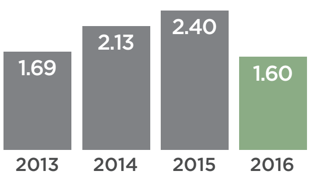
We aspire to demonstrate a well-established ethical culture through our actions and behaviours. In 2016, we updated our Code of Conduct to reflect learnings and higher expectations for ethics leadership, and joined the Business Ethics Leadership Alliance (BELA) of the Ethisphere Institute to identify and adopt ethical best practices from other companies. We also approached the Center for Leadership Ethics of the Eller Business School at the University of Arizona to develop a customised approach to embed ethics in our culture.

We aim to encourage winning behaviours to embed ethics and integrity in our culture. We engage our people to share why business ethics and integrity are key priorities for us, and provide training on how to enable and support these behaviours, including the use of our behavioural compass. This tool serves as a guide to making decisions when faced with ethical dilemmas. We communicate our policies throughout the year and in our 'Aguas' (Watch out) campaigns.

Our moral compass with four simple rules to guide ethical decision making:
Am I following the rules?
Can I make an informed decision?
Have I thought about the consequences?
Could I explain this to my family and would they be happy?

Investment in training
US$

1.60m



FRESNILLO TODAY
STRATEGIC REPORT
CORPORATE GOVERNANCE
FINANCIAL STATEMENTS

Social and Sustainability Report continued
Our People continued

Ethics and Integrity Strategy

Aspirational statement

As one of the leading precious metals companies, we aspire to have a well-established business ethics corporate culture demonstrated by our behaviours and actions.

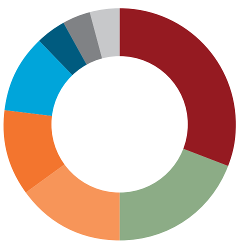
Setting the tone	Promoting ethical decision making	Managing incentives	Promoting openness
Values	Code of Conduct	Monitoring	Whistleblowing
Tone from the top	Training	Rewards	Open culture
	Advice	Discipline	

Supporting winning behaviours

Key initiatives for the second phase of our ethics and integrity programme:

- Participate in Ethisphere's Ethics Quotient to assess our current programme and practices.
- Monitoring our culture through Ethisphere's ethical work climate survey and a custom made survey designed by the Center for Leadership Ethics.
- Develop Ethics as a core competence through additional training, engagement and support mechanisms.

Honour Commission case investigations



Key	
Harassment of employees	31%
Theft	19%
Corruption (with contractors or suppliers)	15%
Other HR issues	12%
Professional malpractice	11%
Conflict of interest	4%
Corruption (with the government)	4%
Misuse of assets	4%

Human resources
We seek to strengthen the talent pipeline to satisfy our present and future business needs, ensuring we have the people with the right skill sets and development potential to execute our business strategy.

Human and labour rights in the workplace
We are strongly committed to internationally recognised human and labour rights, and take necessary measures to prevent and remedy any deviations thereof. The Honours Commission is responsible for investigating and sanctioning unethical behaviours, including infringements to human and labour rights. To raise awareness of these issues, our 'Aguas' (Watch out) campaign engages people to speak out and denounce these behaviours in conjunction with our Fresnillo Plays Fair whistleblowing programme. This allows anyone to anonymously report incidents of discrimination or harassment, whether they involve a co-worker, a supervisor or manager. Whoever is found, after an appropriate investigation, to have engaged in discrimination or harassment, is subject to appropriate disciplinary action, which, depending on the gravity, may include dismissal.

Working conditions
Our approach to compensation is externally competitive and internally equitable. We provide competitive wages and benefits matching or exceeding median wages in the countries where we operate. In Mexico, we regularly conduct market reviews to ensure that compensation remains competitive. In 2016, unionised employees received a 5.5% raise while non-unionised staff received on average a 4.5% raise.

We offer non-unionised employees life insurance, health care, disability coverage, maternity and paternity leave, retirement provision, savings fund and profit sharing (known as PTU in Mexico). Our collective agreements with unionised-employees consider compensation and working conditions, such as wages, recruitment and dismissals, shifts and working hours, national holidays, vacations, work permits, disciplinary measures, personal equipment, training, health and safety, occupational diseases, life insurance, career opportunities (rank, seniority, etc.), savings fund and early retirement compensation.

Whenever there are redundancies in a mine or a specific department, these employees are given preference over new external candidates to fill open positions in other mines or departments.

Discrimination
We are committed to ensuring that our people are treated fairly and with dignity in the workplace. Hence, we do not tolerate any form of harassment, intimidation or discrimination. We promote equal opportunity in the workplace. Employment and career development decisions must be based on performance, qualifications, skills, experience and ethical behaviour. Discriminatory practices are unacceptable.

Recognising that women are underrepresented in our workforce (see Diversity on page 94), we implement rules for compensation of non-unionised employees based on salary ranges that are gender independent. Currently, differences in the compensation of women with respect to men are due mainly to seniority in their positions.

Child labour
Child labour deprives youth of their childhood, dignity and education. Our minimum age for employment is 18, and we mandate such hiring practices for our contractors at all sites where we operate. We contribute to the eradication of child labour in our communities by supporting school infrastructure and reading and education programmes that improve educational opportunities for children.

Forced labour – UK Modern Slavery Act
Modern Slavery makes reference to two types of offense:
i) slavery, servitude and forced or compulsory labour;
and ii) human trafficking.

We require mining contractors and suppliers to comply with our Code of Conduct, with contracts that stipulate compliance with our health and safety policies and operating procedures. All contractors must register their employees with the Mexican health and pension system (IMSS), which in turn requires disclosure of compensation and working hours. This year we conducted focus groups with employees and contractors to evaluate their work experience and our corporate responsibility; no evidence of modern slavery was detected. Our employees and contractors must treat members of the community with dignity and respect. Their behaviour must not impact the wellbeing of vulnerable members of the community by engaging in activities such as compulsory labour or sexual exploitation. All employees and contractors are encouraged to report any such incident to our whistleblowing line as mentioned above.

We intend to increase our programme with risk assessments, due diligence and training tailored to the Modern Slavery Act.

Unions: freedom of association
We respect the rights of employees to freedom of association and collective bargaining as laid out in Mexican law. We are committed to building positive and productive relations with local labour unions through continuous dialogue and collaboration. To date, Fresnillo plc has not experienced a work stoppage or industrial action as a consequence of labour disputes.

Each business unit has a union committee with elected representatives. We engage newly elected representatives of our four committees with workshops to build responsible leadership skills and to raise awareness of their rights and responsibilities. Our HR superintendents are responsible for maintaining permanent dialogue with these committees. Our management teams in each operation organise results presentations several times a year to foster common understanding of the business. We have embedded Health & Safety as a key cooperation topic with unions at the local and national level as part of our strategy to develop a safety culture.

In 2016, we successfully negotiated the remuneration adjustment with the four committees. Collective bargaining covers the elements outlined in 'Working conditions' above. In 2016, the incumbent union of our Penmont operation was challenged by an opposing mining union, forcing an election specified by Mexican law. The incumbent union SNMM Frente won the election with 94% of the votes.

Difference in compensation between men and women in non-unionised and non-managerial roles

	Underground operations	Open pit operations	Support and administrative staff	Overall
First level 'Senior Engineer'	-4.05%	-3.13%	-13.58%	-7.38%
Second level 'Junior Engineer'	-6.70%	-1.20%	0.11%	-4.14%
Third level 'Assistant'	-21.10%	-0.58%	46.00%	-5.76%

Social and Sustainability Report continued
Our People continued

Diversity: women in mining
We recognise that diversity in the workforce brings a range of perspectives and skills that make companies stronger.

Our gender diversity indicators cover the full workforce; however, the Company can address the diversity gap amongst its non-unionised employees more readily. Some highlights:

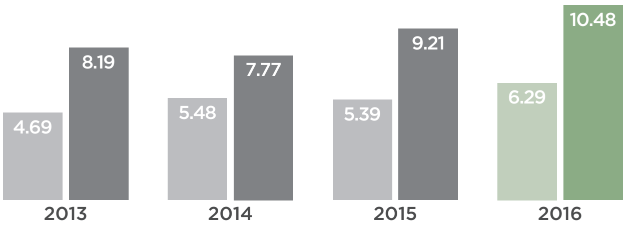
- Women represent 13.5% of our non-unionised employees with an average seniority of 6.5 years.
- 44% of women are employed in operational (engineering) roles; the remaining are in support or administrative functions (finance, accounting, community relations, etc.).
- 13% of non-unionised woman earned a promotion in 2016.

Women are underrepresented within our Company and in the mining industry in general. Attracting women to mining roles in Mexico depends on a deep change in the perceptions on the role of gender in these positions. This will take time to rectify but it has been changing, particularly in relation to unionised workers in underground operations. Although many companies have decided to set numerical targets for diversity, we consider that skills and merit must remain the key criteria for employment and career development decisions. Hence, our efforts focus on engaging unions on the role of diversity and hiring and developing women with educational training in mining engineering, geology, finance and accounting.

Great Place to Work® Trust Index©
Fresnillo plc was recognised as a Great Place to Work in Mexico in 2016, as a result of the Great Place to Work perception survey conducted to measure the quality of the workplace experience according to the level of trust, pride and camaraderie amongst employees.

Voluntary labour turnover
%

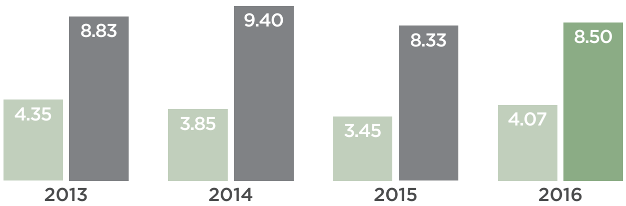
Key
Total turnover
Voluntary labour turnover



Number of permanent employee resignations as a percentage of total permanent employees.

Gender diversity
%

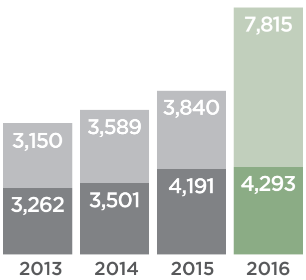
Key
Gender diversity
Gender diversity (managers)



Percentage of women, and female managers.

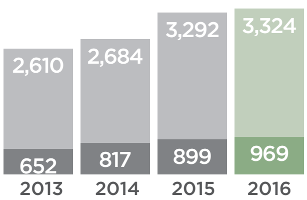
Employees and contractors

Key
Employees
Contractors



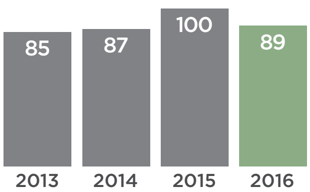
Unionised workers

Key
Non-unionised workers
Unionised workers



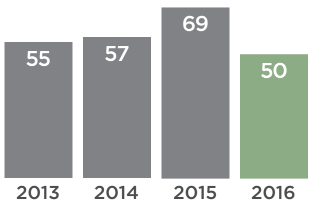
Average workforce training hours

89



Average HSECR training hours

50



Community Relations

Strategic priority
To engage with and support the development of our communities.

Approach
Our communities are strategic partners. Having their trust requires effectively engaging them and being accountable for our impacts. We recognise that building trust is the only way to obtain and preserve our social licence to operate. Our corporate strategy covers all phases of the mining cycle, and our social investments target development levers such as education, capacity building and infrastructure. We also contribute to social welfare (public health, social interaction and sports) and help raise environmental awareness within our communities.

2016 objectives

- Review results of perception studies; leverage insights to improve social investment and engagement strategies.
- Design and implement a protocol to conduct follow-up visits to the operations and projects.
- Ongoing adoption and maturity of best practices in community relations.

2016 performance

- Outcomes of perception studies of Penmont, Fresnillo, Saucito, Ciénega and San Julián were analysed and action plans are under development.
- Developed a methodology to assess and monitor stakeholder engagement efforts in the operations and projects.
- Two best practices have been identified: human rights due diligence and resettlements. Current practices will be integrated into a Social Management System.

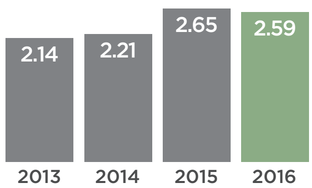
2017 objectives

- Standardise stakeholder engagement plans.
- Enhance our approach to social baseline and perception studies.
- Sponsor a reading and an entrepreneurial programme.
- Introduce the second phase of the Silver Saves Lives project.

Social Management System
We formalised our management system in 2016 to provide guidance on tools and best practices to implement our strategy. Our Management System consists of procedures distributed across the phases of mining following our approach ‘Know the community’, ‘Engage effectively’ and ‘Build with the community’. These processes are tracked in our Borealis Information System.

Community investment
US$

2.59m



Social and Sustainability Report continued
Community Relations continued

Advancing our knowledge
We build our knowledge of communities by identifying stakeholders and understanding their positions on key issues. With the support of the Borealis Information System we track our stakeholder registry, informal and formal meetings, incident and commitment registries and grievances. Continuous engagement and comprehensive social analyses help us gain further understanding of the risks and opportunities in the communities where we operate.

Baseline and social impact assessments in projects
We conduct social baseline studies to better understand the socio-economic conditions of new projects and social impact assessment to better understand how our projects might positively or negatively impact local communities. We recently conducted studies for our exploration projects at Orysivo, el Gigante and Las Torres.

Perception studies in our operations
We periodically commission comprehensive perception studies to measure the effectiveness of our strategy and to deepen our insight on the issues that matter to our communities. These aim to evaluate how we are perceived as employers, neighbours and to what extent our credibility, environmental and social commitment are recognised. The results are analysed by senior managers and community relations teams and help us evaluate the success of our engagement and social investment approaches, identify risks and opportunities, and determine how we should advance our engagement and social investment in order to improve performance.

Engaging effectively
Effective engagement improves our understanding of community expectations and builds mutually beneficial relationships throughout the life of our mines. We aim to engage early in the process to manage community expectations and develop trust through the mining lifecycle. Building a reservoir of stakeholder capital is key to resilience when challenges arise. The focus of our engagement efforts changes over the lifecycle of operations, as follows:

Exploration	Our exploration teams are the first to establish contact with the community. Our stakeholders are identified and the engagement efforts focus on obtaining temporary land access to explore and assessing social risks.
Project (feasibility – development)	The identification and relation with our stakeholders deepens in this phase of the cycle. Local hiring, contracts and social investment are part of our efforts to build trust. We conduct social risk assessments in our advanced feasibility and development projects. These studies facilitate the identification of the issues that matter to the community.
Operation	We engage the communities regularly with formal and informal meetings to manage their expectations and detect risks and opportunities. Comprehensive perception studies help to monitor the perception of the benefits and the assessment of the issues that matter to the community.

To help create a consistent approach across our operations, development projects and exploration sites, we are working to develop a standard for stakeholder engagement plans. These plans will be based on stakeholder identification, mapping and analysis, and will define the engagement approach (formal, informal meetings, consultations, etc.) and frequency.

How we engage communities in the life of a mine.

Land acquisition and resettlement
Developing a mining project involves land acquisition and in some cases, the resettlement of households. We recognise that these are complex and life-changing issues for the communities. Poorly planned and managed, land acquisition and resettlement can adversely impact the livelihoods and social structure of communities, damage our relationships, or even cause conflict. We recognise that the right to an adequate standard of living after land acquisition and resettlement projects is a basic human right. We seek to manage resettlement responsibly, respecting local laws and adopting international best practices.

No resettlement occurred at our operations during 2016. Nonetheless, we are developing guidance for resettlements, including social baseline and asset surveys, entitlement and compensation framework, negotiation, livelihood restoration programmes and ongoing monitoring and evaluation. In 2017, we will further develop our guidance, ensuring that it meets the criteria set by the International Finance Corporation (IFC) Performance Standard 5 on Land Acquisition and Involuntary Resettlement, and that it considers lessons learned by other companies, notably those operating in Mexico.

We aim to avoid resettlements by exploring alternative designs, but when unavoidable, we will work together with affected households, communities and governments to minimise adverse impacts, restoring or improving livelihoods and living conditions.

Developing with the community
We engage local authorities to fund infrastructure projects with the Mining Fund in the communities where we operate. We partner with the UNAM Foundation and local health authorities to organise health weeks that benefit communities with free health care. We continue to build on our partnership with INNOVEC and the government of the state of Zacatecas to support the teaching of science in elementary schools. Several schools in the neighbouring communities of Fresnillo and Saucito receive government funding to implement this innovative programme, which trains and equips schools to teach science in an experiential manner that piques the curiosity of children.

Strategic social investment
Health
In support of SDG 3, we seek to ensure healthy lives and promote wellbeing. We operate in some communities where access to healthcare is a stakeholder concern either due to remote geographic location or low socioeconomic levels, making access to health services difficult. Cooperation with NGOs and local health authorities is crucial to foster a preventive and self-care culture. Please refer to page 80-81 for further information.

Health Weeks
In 2016, we organised health weeks at Ciénega, the Fresnillo district and Penmont.

Water
Access to safe drinking water is a major global challenge. We are committed to SDG 6, to ensure availability and sustainable management of water and sanitation for all. We collaborate with communities through water and sanitation infrastructure funded by the Mining fund, direct social investment and raising awareness of environmental care.

Silver Saves Lives (SSL)
The objective of the SSL initiative is to support vulnerable communities to increase safe water access in public spaces, especially in public schools. SSL is designed to propose a range of solutions depending on water sources and a community's needs; we anticipate working with a variety of knowledgable partners, amongst them the communities themselves.

We implemented water harvesting systems in four schools in the Ciénega community. This pilot project was assessed by a third party to provide objective feedback that can be integrated into the next phase of the project for which planning is underway; we aim to launch this initiative in Penmont, San Julián and Saucito.

To raise awareness and foster acceptability in this first phase, we organised educational, information and training sessions; art workshops, mural paintings, and storytelling aided by photography aimed at bridging the divide between mine and community. Our aim is to create a conversation (both visual and oral) on local water needs, the surrounding environment and the possibility of collectively becoming water stewards in the region.

Education
In line with SDG 4, we seek to ensure inclusive and quality education for all and to promote lifelong learning. We collaborate with communities in programmes to engage children to read, communicate and learn science. We see education as a key lever to reduce poverty and inequality.

Along with the INNOVEC partnership for improving the teaching of science in the neighbouring communities of Fresnillo and Saucito, we also engaged technical high schools in our communities of Penmont and Fresnillo to get familiar with the FIRST (For Inspiration and Recognition of Science and Technology) Robotics Competition (FRC). We will partner with these schools to enrol teams in the next robotics competition. Engineers of Fresnillo will coach students in the FRC to build a robot that can perform certain tasks.

Children who develop solid reading skills perform better at school and improve their potential for full participation in society. Recognising the importance of reading, we have partnered with the NGO International Board on Books for Young People (IBBY) to bring books and children together in the communities where we operate. With the valuable support of IBBY Mexico, we opened some 'Bunkos' in our communities of Ciénega and close to Penmont, and one for the children of our employees at Fresnillo. Bunkos are small community libraries where volunteers read aloud to children and facilitate discussions. Unlike traditional libraries, Bunkos offer a space where children can choose their own readings and discuss their ideas with other children. In 2017, we will expand the project with a target of Bunkos in 58 schools in the communities of Ciénega, Penmont, Saucito, Fresnillo, San Julián, Orisyvo and Gigante (Guanajuato) projects. IBBY will guide us on the choice of books, the initial training of teachers, monitoring of progress and coaching of the teachers.

Social and Sustainability Report continued
Community Relations continued

Capacity building
We support SDG 8, to promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.

Local suppliers
Promoting small and medium businesses is key to social acceptability and community development. We are committed to developing and hiring local suppliers. We have more than 230 local suppliers providing services to our mines and exploration projects. We collaborate with the NGO Proempleo to train, coach and develop the skills of small businesses.

Engaging municipalities to diversify their economies
In 2017, we will collaborate with municipal governments to develop entrepreneurs in Fresnillo, Ciénega and Penmont. With the assistance of NGOs and consultants, we will engage municipalities to identify business opportunities to diversify local economies from mining. Preparing communities in advance is key to preparing for mine closure.

Infrastructure
We invest strategically in social infrastructure and collaborate with communities to engage municipalities to fund infrastructure projects in their communities with the Mining Fund.

Engaging authorities to benefit our communities with the Mining Fund
We partner with communities to engage local authorities and regional Mining Fund committees to consider funding projects in the communities where we operate. The outcomes of the perception surveys and regular engagement were used to identify the most relevant infrastructure issues for the communities. We supported the communities with the preliminary design and budgeting of project proposals for water and wastewater projects, pavement, lightning, education infrastructure, sanitation and landfills, among others.

We believe that a key success factor to raising social acceptability rests on the willingness of municipalities to allocate a reasonable part of their funds to those communities near mining operations.

	2016	2015
Mining Fund (US$ million)	**32.7**	11.4

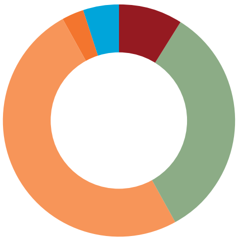
Economic impact
Our economic contribution creates value in the regions where we operate through total wages and benefits, payments to local contractors and suppliers, and municipal, state and federal taxes.

	US$ million
Wages and benefits of workers	**71.29**
Payments to suppliers (contractors)	**894.23**
Payments to local governments	**2.15**
Payments to federal government	**273.33**
	1,241.00

Rural entrepreneurs in San Julián
Our San Julián project supports farmers and other rural producers to improve their production and marketing systems by joining one of the Strategic Projects for Food Security (known in Spanish as PESA). PESA projects are implemented by Rural Development Agencies (ADRs) using strategies of the Food and Agriculture Organisation (FAO). A group of farmers from eight of our communities are currently local suppliers of vegetables, eggs and pork meat. Through technical support, their production improved to comply with the quality standards of our dining facilities. In addition, in the community of 'La Lagunita', a group of women entrepreneurs launched a bakery with the support of the community, the Mexican National Council for Culture and Arts (CONACULTA) and the San Julián Project. With their bakery they are now self-employed and have created jobs for 15 more people, preserving the tradition of making bread in wood-fired ovens. Their bread is sold to the Company, in the community and nearby communities. A similar group of entrepreneurial woman from the community of 'Las Papas' launched a tortillería (a tortilla bakery) to supply our dining facilities.

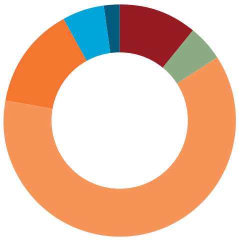
Performance indicators

Community investment by strategic lever (%)



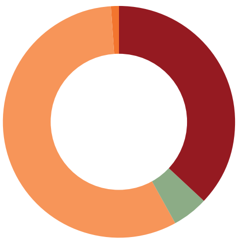
Key
- Community capacity building 9%
- Education 33%
- Social welfare 50%
- Infrastructure 3%
- Environmental awareness 5%

Community investment by business unit (%)



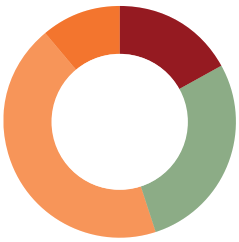
Key
- Ciénega 11%
- Explorations 5%
- Fresnillo 62%
- Penmont 14%
- Servicos Administrativos Fresnillo 6%
- Saucito 2%

Activities by strategic lever (%) – Explorations



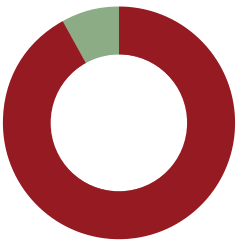
Key
- Environmental awareness 37%
- Education 5%
- Social welfare 57%
- Capacity building 1%

Activities by strategic lever (%) – Operations



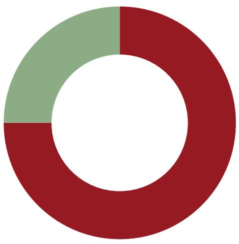
Key
- Environmental awareness 17%
- Education 28%
- Social welfare 44%
- Capacity building 11%

Contributions requested by the community (%) – Explorations



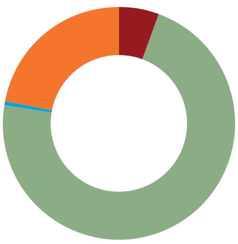
Key
- Accepted 92%
- Rejected 8%

Contributions requested by the community (%) – Operations



Key
- Accepted 75%
- Rejected 25%

Economic value distributed (%)



Key
- Wages and benefits of workers 5.7%
- Payments to suppliers (contractors) 72.1%
- Payments to local governments 0.2%
- Payments to federal government 22.0%

Economic value distributed – by state (%)

Key
- Zacatecas 21.7%
- Sonora 31.5%
- Durango 8.5%
- Chihuahua 6.1%
- Guanajuato 4.9%
- Mexico City 14.8%
- Estado de Mexico 3.0%
- Coahuila 9.5%

Financial Review

The Consolidated Financial Statements of Fresnillo plc are prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU. 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 2016 figures compared to 2015, unless otherwise noted. The financial information and year-on-year variations are presented in US dollars, except where indicated. The full financial statements and their accompanying notes can be found on pages 167-215.

Commentary on financial performance

The Company achieved strong financial results with growth of 103.7% in gross profit, 88.5% in EBITDA, and 552.6% in attributable profit for the year, excluding the effect of the Silverstream revaluation. Furthermore, cash generation from our operations more than offset the investment in capex and the payment of dividends, resulting in the Company generating net cash of US$412.5 million for the period, with a cash and short-term investment balance of US$912.0 million as of 31 December 2016. This strong financial position both reflects and extends our ability to continue generating value for our stakeholders.

Income statement

	2016 US$ million	2015 US$ million	Amount US$	Change %
Adjusted revenue[1]	**2,045.0**	1,583.3	461.7	29.2
Total revenues	**1,905.5**	1,444.4	461.1	31.9
Cost of sales	**(1,023.4)**	(1,011.3)	(12.1)	1.2
Gross profit	**882.1**	433.1	449.0	103.7
Exploration expenses	**121.2**	140.2	19.1	(13.6)
Operating profit	**676.5**	200.4	476.0	237.5
EBITDA[2]	**1,032.0**	547.5	484.5	88.5
Income tax expense including Mining right	**293.3**	143.0	150.3	105.1
Profit for the year	**425.0**	69.4	355.6	512.4
Profit for the year, excluding post-tax Silverstream effects	**331.5**	50.0	281.5	563.0
Basic and diluted earnings per share (US$/share)[3]	**0.579**	0.096	0.483	503.1
Basic and diluted earnings per share, excluding post-tax Silverstream effects (US$/share)	**0.453**	0.069	0.384	556.5

1. Adjusted revenue is revenue as disclosed in the income statement adjusted to exclude treatment and refining charges and gold, lead and zinc hedging.
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 736,893,589 for 2016 and 2015. See note 19 in the Consolidated Financial Statements.

The Group's financial performance is largely determined by the operational performance of our assets and the ability of our management and personnel to achieve our strategic goals. This year in particular, metal prices and the devaluation of the Mexican peso, which lie beyond our control, have had a favourable effect on our financial results. These include:

Precious metal prices

In 2016, the average realised gold price increased 10.7%, to US$1,246.5 per ounce and the average realised silver price increased 10.3% to $17.2 per ounce. Furthermore, the average realised lead and zinc prices increased 7.0% and 20.0% year on year, to US$85.1 and US$100.5 cents per pound, respectively.

As in previous years, the Company has structured certain hedge positions for lead and zinc to mitigate the risk of metal price volatilities, as set out in the financial statements pages 208-209.

MX$/US$ exchange rate

The average spot Mexican peso/US dollar exchange rate devalued by 17.7%, from $15.85 per US dollar in 2015 to $18.66 per US dollar in 2016. This resulted in a favourable effect estimated at US$45.2 million on the Group's production costs, as costs denominated in Mexican pesos (approximately two-thirds of total costs) were lower when converted to US dollars.

The Mexican peso/US dollar spot exchange rate at 31 December 2016 was $20.66 per US dollar, compared to $17.21 per US dollar at the beginning of the year. The 20.1% devaluation had an adverse effect on: i) monetary assets transacted in Mexican pesos; and ii) taxes and mining rights as the devaluation resulted in an increase in related deferred tax liabilities.

Cost deflation

In 2016, there was a net decrease in the weighted average input cost over the year, of 8.1%. This deflation reflected, amongst other factors, the favourable effect of the 17.7% average devaluation of the Mexican peso against the US dollar.

Labour
Employees received on average a 5.0% increase in wages in Mexican pesos, and administrative employees at the mines received a 4.5% increase; when converted to US dollars, the weighted average labour deflation was 11.1%.

Energy
Electricity
The weighted average cost of electricity decreased by 16.6% from US$7.1 cents per kW in 2015 to US$5.9 cents per kW in 2016. Electricity rates are set by the Comisión Federal de Electricidad (CFE), the national utility, based on their average generating cost, which correlates mainly to fuel oil and coal prices. In 2016, the decrease in electricity rates by CFE was mainly explained by the positive effect of the devaluation of the Mexican peso/US dollar exchange rate, and to a lesser extent, the lower average generating cost following a decrease in fuel prices.

Diesel
The weighted average cost of diesel in US dollars decreased 15.6% to US$62.6 cents per litre in 2016, compared to US$74.2 cents per litre in 2015. Diesel prices in 2016 were controlled by Petróleos Mexicanos (PEMEX), the national oil company. Complete price liberalisation of fuels is expected in 2018.

Operating materials

	Year over year change in unit price %
Steel balls for milling	(8.9)
Lubricants	(7.7)
Tyres	(5.7)
Sodium cyanide	(16.1)
Other reagents	(3.7)
Explosives	(7.7)
Steel for drilling	1.2
Weighted average of all operating materials	**(6.5)**

For the third consecutive year, unit prices of the majority of key operating materials decreased, resulting in a net weighted average decrease of 6.5%. This reflects the combined effect of price deflation and the weighting of each component in the total cost of operating materials. There has been no significant impact on the unit cost of operating materials from the devaluation of the Mexican peso/US dollar exchange rate as the majority of these items are dollar-denominated.

Contractors
Agreements are signed individually with each contractor company, and include specific terms and conditions that cover not only labour, but also operating materials, equipment and maintenance, amongst others. Contractor costs are mainly denominated in Mexican pesos and are an important component of the Company's total production costs. In 2016, increases granted to contractors, whose agreements were due for review during the period, ranged from 2.2% to 20.0% in Mexican pesos (equivalent to -13.2% to 2.0% in dollar terms), resulting in a weighted average decrease of 4.0% in US dollars.

Maintenance
Unit prices of spare parts for maintenance decreased 6.0% on average in US dollar terms.

Others
Other cost components include freight and insurance premiums, which decreased by an estimated 11.6% and 7.7% respectively on a per unit basis. The remaining components had an average deflation of 7.0% over 2015.

Treatment and refining charges
Treatment and refining charges[4] are reviewed annually using international benchmarks. Treatment charges per tonne of lead and zinc concentrate decreased in dollar terms by 11.5% and 8.7%, respectively, whilst silver refining charges decreased 4.3% year-on-year. However, this was mostly offset by the increase in volumes of zinc concentrates with high silver contents shipped from Fresnillo and Saucito to Met-Mex. As a result, treatment and refining charges set out in the income statement decreased by only 1.2% over 2015.

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.

4. Treatment and refining charges include the cost of treatment and refining as well as the margin charged by the refiner.

Financial Review continued

Revenues

Consolidated revenues (US$ million)

	2016 US$ million	2015 US$ million	Amount US$	Change %
Adjusted revenue[1]	2,045.0	1,583.3	461.7	29.2
Gold, lead and zinc hedging	1.6	3.9	(2.3)	(59.0)
Treatment and refining charges	(141.1)	(142.8)	1.7	(1.2)
Total revenues	**1,905.5**	**1,444.4**	**461.1**	**31.9**

1. Adjusted revenue is revenue as disclosed in the income statement adjusted to exclude treatment and refining charges and gold, lead and zinc hedging.

Total revenues for the full year of US$1,905.5 million increased by 31.9% over 2015. This was mainly explained by the 29.2% increase in adjusted revenue as a result of the increase in sales volumes and higher metal prices.

In 2015, we entered into derivative contracts (which extended into 2016) to hedge part of our lead and zinc by-product production through collar structures, resulting in a US$1.5 million gain recorded in this year's income statement. The chart below illustrates the total expired hedging structures for 2016; as of 31 December there were no outstanding positions.

	2016	
Concept	Zinc	Lead
Weighted floor (US$/tonne)	2,205	1,984.5
Weighted cap (US$/tonne)	2,542.50	2,258.6
Expired volume (tonne)	4,536	4,272
Gain recognised in income (US$ thousand)	877.4	660.6
Total outstanding volume (tonne)	–	–

In addition, during the second half of 2014, we initiated a one-off hedging programme to protect the value of the investment made on the Penmont acquisition. The hedging programme was executed for a total volume of 1,559,689 oz of gold with monthly maturities until December 2019, the effects of which are recorded as finance income and a small portion in revenue.

The table below illustrates the expired structures and the outstanding hedged position as of 31 December 2016.

Concept	2016	As of 31 December* 2016
Weighted floor (US$/oz)	1,100	1,100
Weighted cap (US$/oz)	1,438	1,423.76
Expired volume (oz)	220,152	–
Gain recognised in income (US$ thousand)	48.2	–
Total outstanding volume (oz)	–	1,037,364

* Monthly settlements until December 2019.

Fresnillo plc's hedging policy for metal prices remained unchanged for the remainder of the portfolio, providing shareholders with full exposure to the gold and silver prices.

The higher volumes sold, mainly due to the reduction of gold inventories in the leaching pads at Herradura, and to a lesser extent, the start-up of San Julián, resulted in a positive impact on revenues of US$292.4 million, which represented 63.3% of the US$461.7 million increase in adjusted revenues. The remaining 36.7%, or US$169.3 million, was explained by the benefit of higher metal prices.

The contribution of gold to adjusted revenues increased from 52% in 2015 to 55% in 2016, while the contribution of silver decreased from 39% to 35%. This resulted from the combination of: i) the increase in volume of gold sold (+36.9%) which was higher than that of silver (+17.3%); and ii) the 10.7% increase in the average price of gold, whilst the average silver price rose 10.3%.

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

	2016		2015					
	US$ million	%	US$ million	%	Volume Variance	Price Variance	Total US$	%
Silver	**724.0**	**35.4**	617.4	39.0	38.3	68.3	106.6	17.3
Gold	**1,133.0**	**55.4**	827.4	52.3	225.6	80	305.6	36.9
Lead	**82.4**	**4.0**	67.1	4.2	10.2	5.1	15.3	22.8
Zinc	**105.6**	**5.2**	71.3	4.5	18.3	15.9	34.3	48.1
Total adjusted revenues	**2,045.0**	**100.0**	**1,583.3**	**100.0**	**292.4**	**169.3**	**461.7**	**29.2**

1. Adjusted revenues is revenue as disclosed in the income statement adjusted to exclude treatment and refining charges and gold, lead and zinc hedging.

- Herradura was the main contributor to adjusted revenues, reflecting the decrease in gold inventories in the leaching pads which was made possible due to the commissioning of the second Merrill Crowe Plant at the dynamic leaching plant (DLP) in the last quarter of 2015, eliminating the bottleneck in processing solution coming from the leaching pads and the DLP.
- Saucito was the second contributor, although its contribution declined from 30% in 2015 to 26% in 2016, notwithstanding a 12.7% increase in adjusted revenues.
- Similarly, Fresnillo contributed a lesser share of adjusted revenues, but remained as the third most important contributor to the Group's adjusted revenues.
- Ciénega slightly decreased its contribution; whilst phase I of San Julián contributed for the first time.

Adjusted revenues by metal

	2016	2015
Gold	**55.4%**	52.3%
Silver	**35.4%**	39.0%
Zinc	**5.2%**	4.5%
Lead	**4.0%**	4.2%
Total	**100%**	100%

Adjusted revenues by mine (US$ million)

	2016 US$ million	2015 US$ million
Herradura	**656.1**	445.1
Saucito	**528.0**	468.4
Fresnillo	**382.7**	318.6
Noche Buena	**225.8**	181.7
Ciénega	**185.0**	169.5
San Julián	**67.4**	0.0
Soledad-Dipolos	**0.0**	0.0
Total	**2,045.0**	1,583.3

Financial Review continued

Volumes of metal sold

	2016	% participation of each mine	2015	% participation of each mine	% change
Silver (koz)					
Saucito	**20,386**	48.5	20,337	51.2	0.2
Fresnillo	**14,552**	34.6	14,630	36.9	(0.5)
Ciénega	**4,482**	10.7	4,129	10.4	8.5
San Julián	**1,945**	4.6	0	0.0	N/A
Herradura	**646**	1.5	535	1.3	20.7
Noche Buena	**17**	0.0	63	0.2	(73.0)
TOTAL SILVER (koz)	**42,028**	100	39,694	100	5.9
Gold (koz)					
Herradura	**549**	60.4	409	55.6	34.2
Noche Buena	**148**	16.3	143	19.5	3.5
Saucito	**78**	8.6	75	10.2	4.0
Ciénega	**67**	7.4	77	10.5	(13.0)
Fresnillo	**37**	4.1	31	4.2	19.3
San Julián	**30**	3.3	0	0.0	N/A
TOTAL GOLD (koz)	**909**	100	735	100	23.7
Lead (mt)					
Fresnillo	**19,618**	44.7	15,030	39.2	30.5
Saucito	**19,171**	43.6	18,916	49.4	1.3
Ciénega	**5,138**	11.7	4,352	11.4	18.1
TOTAL LEAD (mt)	**43,927**	100	38,298	100	14.7
Zinc (mt)					
Fresnillo	**21,828**	45.8	15,936	41.3	37.0
Saucito	**19,551**	41.0	17,358	44.9	12.6
Ciénega	**6,259**	13.1	5,324	13.8	17.6
TOTAL ZINC (mt)	**47,638**	100	38,618	100	23.3

Cost of sales

	2016 US$ million	2015 US$ million	Amount US$	Change %
Adjusted production costs[1]	**618.9**	634.5	(15.6)	(2.5)
Depreciation	**346.5**	331.2	15.3	4.6
Change in work in progress	**60.2**	6.3	53.9	855.6
Hedging	**2.8**	28.6	(25.8)	(90.3)
Reversal of inventories write-down, profit sharing and others	**(5.1)**	10.7	(15.8)	(147.7)
Cost of sales	**1,023.4**	**1,011.3**	**12.1**	**1.2**

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

Cost of sales remained fairly stable at US$1,023.4 million. The US$12.1 million increase is explained by the following combination of factors:

- A decrease in adjusted production costs (-US$15.6 million): This was mainly driven by: i) the favourable effect of the 17.7% devaluation of the Mexican peso/US dollar exchange rate when converting peso-denominated costs to US dollars (-US$45.2 million); ii) the efficiencies achieved at Fresnillo, Saucito and Ciénega resulting from some optimisation projects and cost reduction initiatives (-US$8.6 million); iii) lower energy costs, excluding foreign exchange effects, reflecting lower unit prices of electricity and diesel (-US$6.4 million); iv) lower cost of operating materials (-US$6.0 million); and v) lower maintenance costs (-US$4.0 million). These positive effects were partially offset by: i) additional production costs related to the start-up of San Julián phase I (US$20.4 million); ii) additional production costs related to increased ore throughput at Herradura and Saucito (US$24.6 million); iii) higher contractor costs as a result of a greater number of contractors used to carry out development, mainly at Saucito, and an increase in the unit fees charged by contractors in Mexican pesos (US$4.8 million); iv) an increase in the unit cost of personnel (excluding foreign exchange effects) and other items in pesos (US$4.8 million).
- Mexican peso/US dollar hedging (-US$25.8 million): During 2015 the Group entered into a combination of put and call options structured at zero cost (collars) which extended into 2016. The volume that expired during 2016 had been put in place to hedge US$198 million of costs denominated in Mexican pesos with average floor and cap exchange rates of $14.91 and $18.26 per US dollar respectively, resulting in a US$2.77 million loss recorded in the income statement; as of 31 December 2016, there were no outstanding positions.
- Reversal of inventories write-down, profit sharing and others (-US$15.8 million): The change is principally explained by the reversal of the provision recorded in December 2015 related to the forward price of gold falling below the inventory carrying cost at Soledad-Dipolos. This trend was reversed in 2016.

These positive effects were more than offset by increases in:

- Variation in change in work in progress (+US$53.9 million). This was mainly explained by the decrease in inventories at the leaching pads at Herradura.
- Depreciation (+US$15.3 million): The increase was explained by the larger asset base following the completion of San Julián phase I, and the increased depletion factor at Herradura.

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

Cost per tonne, calculated as total production costs less depreciation, profit sharing and exchange rate hedging effects, divided by total tonnage milled or deposited, is a key indicator to measure the effects of mining inflation and cost control performance at each mine and the Group as a whole. We have included cost per tonne hauled/moved as we believe it is a useful indicator to thoroughly analyse cost performance for the open pit mines.

Cost per tonne

		2016	2015	Change %
Fresnillo	US$/tonne milled	**43.93**	48.20	(8.9)
Saucito	US$/tonne milled	**36.75**	42.49	(13.5)
Ciénega	US$/tonne milled	**55.49**	62.99	(11.9)
Herradura	US$/tonne deposited	**7.72**	8.68	(11.0)
Herradura	US$/tonne hauled	**2.31**	2.66	(13.2)
Noche Buena	US$/tonne deposited	**7.48**	7.93	(5.7)
Noche Buena	US$/tonne hauled	**1.60**	1.67	(4.2)

Explanations regarding changes in cost per tonne by mine were covered in the Review of Operations section, pages 58-67.

Cash cost per ounce, 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, when compared to the corresponding metal price, is an indicator of the ability of the mine to cover its production costs.

Financial Review continued

Cash cost per ounce

		2016	2015	Change %
Fresnillo	US$ per silver ounce	**2.09**	5.60	(62.6)
Saucito	US$ per silver ounce	**(0.39)**	1.15	(133.9)
Ciénega	US$ per gold ounce	**(217.19)**	245.49	(188.5)
Herradura	US$ per gold ounce	**470.72**	472.53	(0.4)
Noche Buena	US$ per gold ounce	**765.90**	972.74	(21.3)

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

Fresnillo: US$2.09/oz (2016) vs. US$5.60/oz (2015), (-62.6%)
The decrease in cash cost per ounce is mainly explained by the higher by-product credits per silver ounce due to the increase in gold, lead and zinc volumes sold at higher prices (-US$2.88/oz); lower cost per tonne (-US$0.66/oz) (see pages 58-59); increase in ore grade (-US$0.07/oz); and others (-US$0.01/oz). This was partly offset by higher treatment and refining charges per silver ounce due to: higher zinc and lead ore grades which increased the volume of concentrates, and an increase in the participation of zinc concentrate which has a higher per unit treatment charge (+US$0.12/oz).

Saucito: -US$0.39/oz (2016) vs. US$1.15/oz (2015), (-133.9%)
The decrease was driven by the higher by-product credits per ounce of silver resulting from increased gold, lead and zinc volumes sold at higher prices (-US$1.21/oz); lower cost per tonne (-US$0.63/oz) (see pages 60-61); and lower treatment and refining charges (-US$0.23/oz). These positive effects were partly offset by the expected lower silver grade (+US$0.52/oz); and others (+US$0.01/oz).

Ciénega: -US$217.19/oz (2016) vs. US$245.49/oz (2015), (-188.5%)
The decrease in cash cost was primarily explained by higher by-product credits per ounce of gold due to the increased volumes of silver, lead and zinc sold at higher prices (-US$457.22/oz); and the decrease in cost per tonne (-US$141.54/oz) (see pages 62-63). These favourable factors were partly offset by the expected decrease in gold grade (+US$98.31/oz); higher treatment and refining charges resulting from lower gold ore grade which requires producing more concentrate per ounce of gold, and higher lead and zinc ore grades which increase the volume of concentrates (+US$33.89/oz); and others (+US$3.88/oz).

Herradura: US$470.72/oz (2016) vs. US$472.53/oz (2015), (-0.4%)
The decrease in cash cost resulted from the lower cost per tonne (-US$47.68/oz) (see page 64); higher by-product credits per gold ounce due to the increased volume of silver sold at a higher price (-US$1.09/oz); and lower treatment and refining charges (-US$0.05/oz). These favourable effects were offset by: i) the expected lower gold grade (+US$30.29/oz); ii) an adverse inventory valuation effect, as ounces with a lower cost of production in the current period are mixed with the initial higher cost of inventory affecting cost of sales (+US$16.47/oz); and others (+US$0.24/oz).

Noche Buena: US$765.90/oz (2016) vs. US$972.74/oz (2015), (-21.3%)
The decrease in cash cost per ounce was mainly explained by: i) the higher gold grade (-US$123.96/oz); ii) the lower cost per tonne (-US$46.03/oz) (see page 66); and iii) the others (-US$36.85/oz).

San Julián (phase I): commenced operations in August 2016, thus there are no comparable year-on-year figures.

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

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

Management considers all-in sustaining costs a reasonable indicator of the mine's ability to generate free cash flow when compared with the corresponding metal price, and a means to monitor not only current production costs, but also sustaining costs as it includes mine development costs incurred to prepare the mine for future production, as well as sustaining capex.

All-in sustaining cost

		2016	2015	Change %
Fresnillo	US$ per silver ounce	**7.82**	11.48	(31.9)
Saucito	US$ per silver ounce	**4.77**	7.11	(32.9)
Ciénega	US$ per gold ounce	**428.00**	710.37	(39.7)
Herradura	US$ per gold ounce	**731.69**	888.04	(17.6)
Noche Buena	US$ per gold ounce	**823.04**	1,015.40	(18.9)

Fresnillo: Lower, mainly due to the lower administrative expenses and a decrease in capitalised development and mining works reflecting the temporary decrease in development rates; and the lower cash cost as detailed on the previous page.

Saucito: Lower, as a result of the decrease in capex in 2016 compared to capex invested in expansion and efficiency projects in 2015; and the lower cash cost as detailed on the previous page.

Ciénega: Lower, primarily explained by the lower cash cost as detailed on the previous page.

Herradura: Lower, mainly due to the decrease in capitalised stripping costs; and to a lesser extent, the lower cash cost as detailed on the previous page.

Noche Buena: Lower, driven by the lower cash cost as detailed on the previous page.

San Julián (phase I): commenced operations in August 2016, thus there are no comparable year-on-year figures.

Gross profit

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

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

	2016		2015		Change	
	US$ million	%	US$ million	%	Amount	%
Herradura	**309.3**	**35.7**	163.3	35.4	146.0	89.4
Saucito	**269.4**	**31.1**	198.7	43.1	70.7	35.6
Fresnillo	**158.6**	**18.3**	83.1	18.0	75.5	90.9
Noche Buena	**54.1**	**6.3**	-1.2	-0.2	55.3	N/A
Ciénega	**48.2**	**5.6**	17.1	3.7	31.1	181.9
San Julián	**26.3**	**3.0**	0.0	0.0	26.3	N/A
Total for operating mines	**865.9**	**100**	**461.0**	**100**	**405**	**87.9**
MX$/US$ exchange rate hedging (losses) and gains	**-2.8**	**–**	-28.6	–	25.8	(90.2)
Metal hedging and other subsidiaries	**19.0**		13.6		5.4	39.7
Total Fresnillo plc	**882.1**		**433.1**		**449.0**	**103.7**

Total gross profit, net of hedging gains and losses, totalled US$882.1 million in 2016.

The US$449.0 million increase in gross profit was mainly explained by: i) the favourable effect of higher metal prices (+US$167.5 million); ii) the positive impact of increased gold production at Herradura (+US$128.9 million); iii) the start-up of San Julián phase I (+US$45.8 million); iv) the 17.7% devaluation of the Mexican peso/US dollar (+US$45.2 million); v) higher ore grade at the Fresnillo mine (+US$29.0 million); vi) higher production at Noche Buena (+US$23.4 million); vii) the reversal of the write down of inventories at Soledad-Dipolos (+US$10.7 million); viii) the positive effect of lower hedging losses and other effects (+US$24.1 million); and ix) efficiencies achieved at some of our mines through optimisation projects and cost reduction initiatives (+US$8.6 million).

The above factors were partially offset by the lower ore grades at Herradura (-US$18.9 million) and the higher depreciation (-US$15.3 million).

Herradura became the largest contributor to the Group's consolidated gross profit. Gross profit at Saucito increased by 35.6% to US$269.4 million, although its share of the Group's consolidated gross profit declined to 31.1% in 2016. Gross profit at the Fresnillo mine rose to US$158.6 million in 2016, while the mine's contribution to the Group's total gross profit slightly increased to 18.3%. Noche Buena generated a gross profit of US$54.1 million, and contributed 6.2% to the Group's consolidated gross profit. Ciénega's share of the Group's total gross profit increased to 5.6%, whilst San Julián contributed for the first time with 3.0%.

Financial Review continued

Administrative expenses

Administrative expenses decreased 5.8% from US$62.8 million to US$59.1 million due mainly to a decrease in non-recurring engineering and construction services provided by Servicios Industriales Peñoles, S.A.B. de C.V., lower cost of services provided by third parties, and the positive effect of the devaluation of the Mexican peso against the US dollar in administrative expenses denominated in pesos.

Exploration expenses

Business unit/project (US$ millions)	**Exploration expenses 2016**	Exploration expenses 2015	Capitalised expenses 2016	Capitalised expenses 2015
Ciénega	**14.0**	20.5	–	–
Fresnillo	**8.0**	10.1	–	–
Herradura	**13.6**	11.9	–	–
Soledad-Dipolos	**–**	–	–	–
Saucito	**9.6**	8.6	–	–
Noche Buena	**1.3**	3.7	–	–
San Ramón	**4.3**	4.5	–	–
San Julián	**4.4**	3.3	–	–
Orisyvo	**2.2**	13.3	0.2	0.4
Centauro Deep	**3.2**	10.0	1.0	0.4
Guanajuato	**3.9**	3.9	0.6	–
Juanicipio	**0.0**	0.0	14.6	9.9
Others	**56.7**	50.4	0.3	0.4
TOTAL	**121.2**	**140.2**	**16.7**	**11.1**

Exploration expenses decreased by 13.6% to US$121.2 million in 2016, reflecting management's decision to reduce the expenditure in volatile market conditions. Nonetheless, the resource base was expanded as detailed on pages 71-75. An additional US$16.7 million was capitalised in association with mining works at Juanicipio and minor equipment acquired at the Centauro Deep, Orisyvo and Guanajuato projects. As a result, total investment in exploration was US$137.9 million in 2016, a decrease of 8.9% over 2015. In 2017, total invested in exploration is expected to be approximately US$160 million, of which US$8 million is estimated to be capitalised.

EBITDA

	2016 US$ million	2015 US$ million	Amount	Change %
Gross Profit	**882.1**	433.1	451.3	104.2
+ Depreciation	**346.5**	331.2	15.3	4.6
- Administrative expenses	**(59.1)**	(62.8)	(3.7)	(5.8)
- Exploration expenses	**(121.2)**	(140.2)	(19.1)	(13.6)
- Selling expenses	**(16.3)**	(13.7)	(0.1)	0.7
EBITDA	**1,032.0**	547.5	484.5	88.5
EBITDA margin	**54.2**	37.9		

A gauge of the Group's financial performance and key indicator to measure debt capacity is EBITDA, which is calculated as gross profit plus depreciation, less administrative, selling and exploration expenses. In 2016, EBITDA increased 88.5% mainly due to the higher gross profit, the higher depreciation which is added back and the lower exploration and administrative expenses. EBITDA margin expressed as a percentage of revenues increased accordingly, from 37.9% in 2015 to 54.2% in 2016.

Other income and expenses

Other expenses decreased by 43.4% to US$9.0 million in 2016. This included disposals of fixed assets, remediation works and costs incurred in the maintenance of closed mines. This positively compares to the US$15.9 million recorded in the 2015 income statement.

Silverstream effects

The Silverstream contract is accounted for as a derivative financial instrument carried at fair value. The revaluation of the Silverstream contract generated a US$85.8 million non-cash gain mainly as a result of the increase in resources at the Sabinas mine and the higher forward price of silver, which were partly mitigated by the higher discount rate used. In addition, a US$47.7 million non-cash gain was generated by: i) the unwinding of the discounted values; and ii) the difference between payments (volume and price) actually received and accrued in 2016 and payments estimated in the valuation model as at 31 December 2015. The total effect recorded in the 2016 income statement was US$133.5 million, which favourably compares to the US$27.7 million registered in 2015.

Since the IPO, cumulative cash received has been US$559.6 million, while total non-cash revaluation gains of US$683.8 million have been taken to the income statement. The Group expects further unrealised gains or losses will be taken to the income statement in accordance with silver price cyclicality or changes in the variables considered in valuing this contract. Further information related to the Silverstream contract is provided in the Balance Sheet section below and in notes 14 and 30 to the Consolidated Financial Statements.

Finance costs and income

Finance costs in 2016 decreased mainly due to the decline in accrued interest payable on the US$800 million principal amount of 5.500% Senior Notes, from US$36.0 million to US$29.0 million.

In 2014 we entered into gold derivative contracts to protect the value of the Penmont acquisition (see page 102). As at 31 December 2016, outstanding collar derivative instruments mature over the period of January 2017 to December 2019 and hedge gold production of 1.04 million ounces with a floor price of US$1,100 per ounce and capped weighted average price of US$1,423.76 per ounce. In 2016, we recognised changes in the time value of the outstanding hedge position, resulting in a US$41.1 million non-cash loss recorded in the income statement.

Foreign exchange

A foreign exchange loss of US$18.4 million was recorded in 2016 as a result of the 20.1% devaluation of the spot Mexican peso/US Dollar exchange rate at 31 December. This loss positively compares to the US$36.2 million loss recognised in 2015.

The Group also enters into certain exchange rate derivative instruments as part of a programme to manage its exposure to foreign exchange risk associated with the purchase of equipment denominated in Euro (EUR), Swedish krona (SEK) and Canadian dollar (CAD). At the end of the year, the total EUR, SEK and CAD outstanding net forward position was EUR 9.35 million, CAD 0.0 and SEK 7.09 million with maturity dates from March through September 2017. Volumes that expired during 2016 were EUR 2.31 million with a weighted average strike of 1.1250 US Dollar/EUR, CAD 3.86 million with a weighted average strike of 1.2629 CAD/US Dollar and SEK 14.46 million with a weighted average strike of 8.41 SEK/US Dollar, which has generated a result of US$46,627, -US$206,810 and -US$18,970 recorded in the income statement respectively.

Taxation

Corporate income tax expense of US$259.9 million increased 101.5% over 2015 which resulted mainly from the increase in profit generated in 2016. The effective tax rate, excluding the special mining rights, was 36.2% which was above the statutory corporate tax rate of 30%. This was mainly explained by the devaluation of the Mexican peso against the US dollar, which increased deferred income taxes, generated by higher differences arising between the carrying amount of assets and liabilities (denominated in US dollars) and their tax bases (denominated in Mexican pesos). Furthermore, US$33.4 million related to the special mining rights was registered in the income statement in 2016. Including the effect of mining rights, the effective tax rate was 40.8%.

Profit for the year

Profit for the year increased from US$69.4 million to US$425.0 million, whilst profit attributable to equity shareholders of the Group increased to US$427.0 million, up from US$70.5 million in 2015.

Excluding the effects of the Silverstream Contract, profit for the year increased from US$50.0 million to US$331.5 million. Similarly, profit attributable to equity shareholders of the Group, excluding the Silverstream effects, increased to US$333.5 million, up from US$51.1 million.

Financial Review continued

Cash flow

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

	2016 US$ million	2015 US$ million	Amount US$	Change %
Cash generated by operations before changes in working capital	**1,023.3**	537.3	486.0	90.5
(Increase)/decrease in working capital	**(10.6)**	51.3	(61.9)	(120.6)
Taxes and employee profit sharing paid	**(114.8)**	(45.8)	(69.1)	150.9
Net cash from operating activities	**898.0**	542.9	355.1	65.4
Silverstream contract	**47.6**	39.4	8.1	20.6
Purchase of property, plant & equipment	**(434.1)**	(474.7)	40.6	(8.6)
Dividends paid to shareholders of the Company	**(88.2)**	(37.5)	(50.7)	135.1
Net interest (paid)	**(21.1)**	(30.5)	9.5	(31.0)
Net increase in cash during the period before foreign exchange differences	**412.5**	52.2	360.3	690.2
Cash, cash equivalents and short-term investments at 31 December*	**912.0**	500.1	411.8	82.3

* As disclosed in the Consolidated Cash Flow Statement, cash and cash equivalents at 31 December 2016 totalled US$712.0 million and short-term investment held in fixed-term bank deposits amounted US$200.0 million. In 2015, cash and cash equivalents at 31 December 2015 accounted for US$381.4 million and short-term investments amounted to US$118.7 million.

Cash generated by operations before changes in working capital increased by 90.5% to US$1,023.3 million, mainly as a result of the higher profits generated in the year. Working capital increased US$10.6 million mainly due to an increase in trade and other receivables resulting from the higher volumes sold at higher metal prices (US$39.5 million). This increase in working capital was partly offset by: i) a decrease in inventories (US$23.7 million); ii) a decrease in prepayments and other assets (US$0.1 million); and iii) an increase in trade and other payables (US$5.1 million).

Taxes and employee profit sharing paid increased 150.9% over 2015 to US$114.8 million.

As a result of the above factors, net cash from operating activities increased significantly, from US$542.9 million in 2015 to US$898.0 million in 2016.

Other sources of cash were the proceeds of the Silverstream contract of US$47.6 million and capital contributions from minority shareholders in subsidiaries of US$7.4 million.

The above funds were mainly used to purchase property, plant and equipment for a total of US$434.1 million, an 8.6% decrease over 2015. This was below the guidance of US$600 million mainly as a result of the delay in commissioning San Julián phase II. Capital expenditures for 2016 are further described below:

Purchase of property, plant and equipment

	2016 US$ million	
Fresnillo mine	**52.8**	Mine development and purchase of in-mine equipment which includes a hoist for the deepening of the shaft, raiseboring machines, pumps and other components
Saucito mine	**102.4**	Development, replacement of in-mine equipment and optimisation projects at the beneficiation plant
Herradura mine	**78.8**	Stripping activities, construction of leaching pad, and sustaining capex
San Julián	**134.1**	Completion of San Julián phase I, mine development and in-mine equipment
Ciénega mine	**32.7**	Development, replacement of in-mine equipment, purchase of components and expansion of tailings dam
Noche Buena	**8.6**	Construction of leaching pads and mine equipment
Juanicipio project	**14.6**	Exploration expenditure
Other	**10.1**	
Total purchase of property, plant and equip.	**434.1**	

Dividends paid to shareholders of the Group in 2016 totalled US$88.2 million, a 135.1% increase from 2015, in line with our dividend policy that includes a consideration of profits generated in the period. The 2016 payment included: i) the final 2015 dividend of US$24.8 million; and ii) the 2016 interim dividend paid in September of US$63.4 million.

Net interest of US$21.1 million was paid, mainly reflecting the interest paid in relation with the issuance of the US$800 million principal amount of 5.500% Senior Notes.

The sources and uses of funds described above resulted in an increase in net cash of US$412.5 million (net increase in cash and cash equivalents), which combined with the US$500.1 million balance at the beginning of the year and the US$0.6 million unfavourable effect of the exchange rate resulted in cash, cash equivalents and short-term investments of US$912.0 million at the end of 2016.

Balance Sheet
Fresnillo plc continues to prioritise and maintain a strong, flexible financial position.

Cash, cash equivalents and short-term investments increased during the year to US$912.0 million as explained above.

Inventories decreased 7.9% to US$276.9 million mainly as a result of the decreased inventories of gold deposited on the leaching pads at Herradura.

Trade and other receivables of US$286.7 million decreased 6.2% as a result of the decrease in income tax recoverable, partly offset by higher metal volumes sold at higher prices which increased receivables.

The change in the value of the Silverstream derivative from US$384.8 million at the beginning of the year to US$467.5 million as of 31 December 2016 reflects proceeds of US$50.7 million corresponding to 2016 (US$44.8 million in cash and US$5.9 million in receivables) and the Silverstream revaluation effect in the income statement of US$133.5 million.

The net book value of property, plant and equipment was US$2,180.2 million at year end, representing a 1.9% increase over 2015. The US$41.6 million increase was mainly explained by the capitalised development works; construction of San Julián; purchase of additional in-mine equipment; and construction of leaching pads at Herradura.

The Group's total equity was US$2,716.4 million as of 31 December 2016, a 14.4% increase over 2015. This was mainly explained by the increase in retained earnings, reflecting the 2015 profit, less dividends paid during the year, and the net unrealised gains on cash flow hedges.

Dividends
Based on the Group's 2016 performance, the Directors have recommended a final dividend of 21.5 US cents per Ordinary Share, which will be paid on 26 May 2017 to shareholders on the register on 28 April 2017. 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 8.6 US cents per share totalling US$63.4 million.

In This Section

Corporate Governance overview
Here we set out an at a glance summary of our governance framework. It demonstrates how the key constituents of the Board process work together.

See pages 114-115

The Board
This section introduces our individual Board members by providing details of the skills and experience that they bring to the Boardroom and the committees that they serve on.

See pages 116-117

Corporate Governance Report
The Corporate Governance Report which also includes the Nominations Committee Report and the Audit Committee Report demonstrates how the Company fulfils the requirements of the UK Corporate Governance Code. This report analyses the leadership provided by the Board, the steps taken to ensure that the Board is an effective one and the framework by which the Board manages relationships with shareholders.

See pages 114-137

Nominations Committee Report
Introduced by the Chairman of the Nominations Committee, this report outlines the Committee's philosophy on appointments and diversity and describes the activities of the Committee during the year.

See pages 126-127

Audit Committee Report
Introduced by the Chairman of the Audit Committee, this report describes the Audit Committee's work during the year by reference to the principal responsibilities of the Committee for financial reporting, external audit, risk management and internal controls, internal audit, whistleblowing procedures and related party matters.

See pages 128-137

Directors' Remuneration Report
The Directors' Remuneration Report includes an introduction from the Chairman of the Remuneration Committee summarising the Committee's overall approach to remuneration and the key discussions during the year. It also includes the new remuneration policy which will be presented for shareholder approval at the 2017 AGM and the remuneration report which describes how the policy has been applied under the existing policy.

See pages 138-153

Directors' Report
The Directors' Report is prepared in accordance with section 415 of the Companies Act 2006, and sets out information that the Directors are required to present in accordance with the Act.

See pages 154-155

Statement of Directors' Responsibilities
This statement confirms the Directors' responsibilities in relation to UK law and those International Financial Reporting Standards (IFRS) adopted by the European Union.

See pages 156

Chairman's Letter of Governance

"...our collective commitment to good governance... remains as strong as ever..."

Dear Shareholder,

In 2016, there have been changes in the composition of the Board and to our Board committees and with close to nine years having now elapsed since our IPO, we will continue to make changes over the year ahead, in order for us to continue to comply with the UK Corporate Governance Code in relation to the number of independent Non-executive Directors on our Board. We have given this matter much thought during 2016 and have been discussing the composition of the Board with some of our independent shareholders.

Our Board committees have all been very active during 2016. In the early part of the year, the Audit Committee led the work of the Board in reviewing the production of our first Viability Statement. I am pleased to note that our Statement was well-received by shareholders and other observers. The Audit Committee also fulfilled another previously stated commitment by undertaking a thorough tender exercise for the external auditor to take effect for the 2017 financial year end audit. At the conclusion of this exercise, the Audit Committee unanimously determined that Ernst & Young LLP is the best firm to provide external audit services to the Company and recommended this decision to the Board, who concurred and their re-appointment will be proposed at the 2017 AGM.

The Remuneration Committee has been equally active in preparing for the renewal of our Directors' remuneration policy at the 2017 Annual General Meeting. I am pleased that independent shareholders have always been overwhelmingly supportive of the unique Mexico-centric approach that we take to executive remuneration. Nevertheless, the Remuneration Committee has sought to ensure that emerging regulatory developments and the expectations of shareholders are taken into account as we develop the remuneration policy; but without losing sight of what the policy needs to achieve within our operational context.

The Board has taken time during 2016 to focus on the culture of the Company. This is an important topic which has been added to the responsibilities of the Health, Safety, Environmental and Community Relations Committee during the year. We know that our target of achieving zero fatalities will not be achieved without having the right organisational culture to underpin that aim and, further, the right culture supports the overall effectiveness of the organisation. We have seen encouraging signs in this regard for example in the use of our whistleblowing hotline and the completion of online anti-bribery and corruption training by virtually all our employees during the year.

As ever, I am grateful to my Board and management colleagues for continuing to dedicate themselves to meeting our collective commitment to good governance within Fresnillo plc. As we head towards the tenth anniversary of our listing on the London Stock Exchange, that commitment remains as strong as ever.

Yours faithfully

Mr Alberto Baillères
Chairman of the Board

Fresnillo and Corporate Governance

Approach

The Board takes corporate governance seriously and considers its responsibilities under the UK Corporate Governance Code with care. With nearly 75% of its share capital owned by Peñoles, it is important to consider corporate governance in the context of the Company's relationship with its Parent Company. The Board considers this to be a strength rather than a threat because it brings the shareholder perspective into the Boardroom and creates an additional level of accountability for the executive team compared to other listed companies.

The framework for Corporate Governance within Fresnillo plc therefore has three features which are relatively unusual for UK public companies; in particular:

- There are no Executive Directors on the Board; however the Fresnillo Board operates differently from the traditional UK board with non-executive and executive directors. The non-independent and independent Directors on the Board engage with the business of the Board in slightly different ways. The non-independent Directors have more regular day-to-day access to the executive management of Fresnillo plc within the Peñoles context and therefore are able to engage with proposals put forward by the Executive Committee in a more direct way. The independent Non-executive Directors bring an external perspective to bear when evaluating proposals and conducting the business of the Board. Thus the non-independent Directors, the independent Non-executive Directors and the Executive Committee have complementary roles in the business of the Board.
- It is vital that the membership of the Remuneration Committee is made up of Non-executive Directors (the majority of whom should be independent) who are able to bring the following perspectives to the working of the Remuneration Committee:
  - an understanding of shareholder expectations;
  - an understanding of the evolving remuneration expectations of investors on the London Stock Exchange; and
  - an understanding of the general approaches to remuneration within the Mexican market.
- Fresnillo plc derives synergistic benefits from services provided by Peñoles. Being a part of a group which has common requirements across a number of service areas, provides opportunities for resources to be shared efficiently from a cost point of view. The Audit Committee has therefore developed governance processes to ensure that these arrangements provide the intended benefits to the Company in a transparent and controlled manner.

UK Corporate Governance Code Compliance Statement

As a company with a premium listing on the London Stock Exchange, Fresnillo is required under the FCA Listing Rules to comply with the Code Provisions of the 2016 Corporate Governance Code (a copy of which can be found on the website of the Financial Reporting Council www.frc.org.uk) or otherwise explain its reasons for non-compliance.

The following statement is therefore made in respect of the year ended 31 December 2016 in compliance with such requirement. The following sections of this report explain how the principles of the Code were applied and provide cross-references to other sections of the report and/or the Company's website (www.fresnilloplc.com) where more detailed descriptions are available.

For the financial year ended 31 December 2016, the Company has complied with the provisions of the Code in all areas, save in respect of two instances.

- Code Provision D.1.1 provides that the remuneration committee should include provisions that would enable the Company to recover sums paid or withhold the payment of any sum to senior executives, and specify the circumstances in which it would be appropriate to do so. Further explanation of the Board's position on malus and claw-back is set out in the Directors' Remuneration Report on page 145.
- Code Provision D.2.1 provides that the Board should establish a remuneration committee of at least three independent Non-executive Directors. The composition of the Fresnillo Remuneration Committee is made up of three members including two independent Non-executive Directors one of whom, Charles Jacobs, is the Chairman of the Committee. The Chairman of the Company, Alberto Baillères, who was not independent at the time of his appointment, is also a member. The Board believes that Mr Baillères' experience and knowledge of the Group and the Mexican market and his considerable contribution to the Remuneration Committee's deliberations justifies his membership of the Remuneration Committee. Mr Baillères is not involved in matters concerning his own remuneration.

The role and interaction of the Board and its committees

The Board has delegated certain authorities to the following committees to facilitate the routine business of the Company:

Fresnillo plc Board
Implementation of both the Group's long-term activities and commercial strategy

Audit Committee
Oversees all financial reporting, external and internal audit, whistleblowing, related party transactions and risk and internal control matters

Nominations Committee
Makes recommendations on the structure, size and composition of the Board and its committees and succession planning for the Directors and other senior executives

HSECR Committee
Monitors and oversees all of the Group's health, safety, environment and community relations ('HSECR') activities and systems

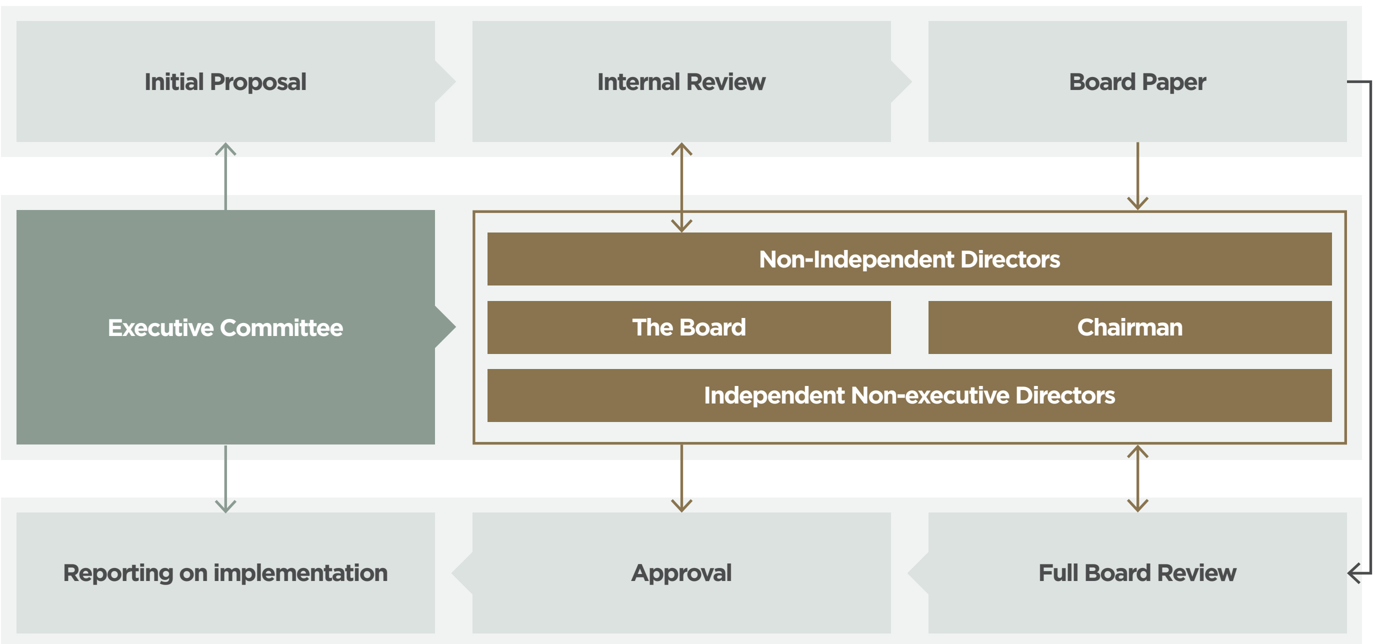
Remuneration Committee
Oversees the Group's approach to remuneration and sets key performance indicators for the Executive Committee

Executive Committee
Responsible for the executive management of the Group's operations, within the strategy and budget approved by the Board

Honour Commission
Maintains ethical business standards within the Group

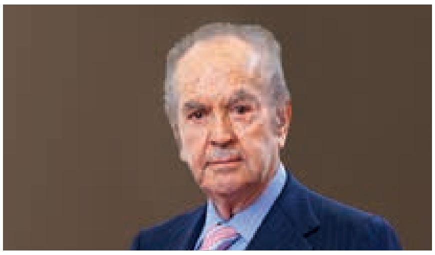
Terms of reference for each of the Audit, Remuneration, Nominations and HSECR Committees are available on the Company's website (www.fresnilloplc.com/who-we-are/corporate-governance/terms-of-reference).

The Board decision-making process



The Board of Directors

Non-independent Non-executive Directors



Alberto Baillères
Chairman

Date of appointment
15 April 2008

Committee membership
- Nominations Committee (Chairman)
- Remuneration Committee

Key strengths and experience
- Long-term knowledge and understanding of the Mexican commercial environment
- Relationships within the Mexican and international businesses communities

Over a period of 50 years, Mr Baillères has built up unprecedented experience and knowledge of both the Group and the Mexican markets in which it operates from both investor and the supervisory perspectives.

Alejandro Baillères
Non-executive Director

Date of appointment
16 April 2012

Committee membership
N/A

Key strengths and experience
- Insurance and related financial services in Mexico
- Broad board-level commercial experience in Mexico

Executive Vice-President of Grupo BAL and former Chief Executive Officer of Grupo Nacional Provincial (a leading insurance company in Mexico), Mr Baillères brings knowledge and experience of Mexican and international business to his role.

Juan Bordes
Non-executive Director

Date of appointment
10 January 2008

Committee membership
N/A

Key strengths and experience
- Senior executive (CEO-level) responsibilities over several years
- Board membership of companies spanning a broad range of sectors and industries

During his career, Mr Bordes has held both senior executive management roles and board responsibilities with companies spanning a number of different sectors, particularly within Mexico.

No. of meetings in year	Board
Alberto Baillères[1]	3/4
María Asunción Aramburuzabala[2]	–
Alejandro Baillères	4/4
Juan Bordes	4/4
Arturo Fernández	4/4
Jaime Lomelín	4/4
Charles Jacobs	4/4
Bárbara Garza Lagüera[3]	3/4
Fernando Ruiz	4/4
Rafael MacGregor[4]	–
Jaime Serra	4/4
Alberto Tiburcio[5]	2/2
Guy Wilson	4/4

1. The Chairman was unable to attend one meeting due to illness;
2. Ms Aramburuzabala left the Board in July 2016 due to other business commitments;
3. Ms Garza Lagüera was unable to attend a meeting because she was in Spain to receive the 2016 Latin American Patron award (Premio Iberoamericano de Mecenazgo) to recognise her work in promoting the arts and culture.
4. Mr MacGregor left the Board in April 2016 due to other business commitments.
5. Mr Tiburcio joined the Board on 4 May 2016 and was thus only eligible to join two Board meetings in 2016.

All Directors will seek re-election by shareholders at the forthcoming Annual General Meeting.

Arturo Fernández
Non-executive Director

Date of appointment
15 April 2008

Committee membership
- HSECR Committee (Chairman)

Key strengths and experience
- International economics and public policy
- Directorships of several Mexican companies

Mr Fernández' career brings together a solid academic economics background, many years' experience within the Mexican public policy arena and broad commercial experience (through board directorships of leading businesses in a number of sectors in Mexico).

Jaime Lomelín
Non-executive Director

Date of appointment
15 April 2008

Committee membership
HSECR Committee

Key strengths and experience
- Mining and Engineering
- Senior operational experience within Mexico

Following a career in metals and mining, Mr Lomelín was Chief Executive Officer of Fresnillo plc from April 2008 to 15 August 2012 when he became a Non-executive Director, thus he brings senior management, mining and engineering experience to the Board discussions.

Independent Non-executive Directors

Charles Jacobs
Senior Independent Non-executive Director

Date of appointment
16 May 2014

Committee membership
- Remuneration Committee (Chairman)

Key strengths and experience
- Board and governance experience
- Legal professional with a focus on capital markets, mining and metals

Through his experience as a senior partner and chairman of global law firm Linklaters LLP, his non-executive directorships at Investec and his 26 years of international boardroom advice, Mr Jacobs brings a governance, legal and regulatory perspective to the boardroom.

Bárbara Garza Lagüera
Independent Non-executive Director

Date of appointment
16 May 2014

Committee membership
- Nominations Committee

Key strengths and experience
- Mexican commercial and industrial experience
- International Board experience

As an experienced director, particularly through her career at Coca-Cola FEMSA (KOF) and Fomento Económico Mexicano (FEMSA), the largest franchise bottler of Coca-Cola products in the world, Ms Garza Lagüera brings a broad experience of Mexican commercial and international business.

Fernando Ruiz
Independent Non-executive Director

Date of appointment
15 April 2008

Committee membership
- Audit Committee
- Remuneration Committee
- Nominations Committee

Key strengths and experience
- Mexican tax and accounting experience
- International board and audit committee experience

Mr Ruiz was managing partner of Chevez, Ruiz, Zamarripa y Cia., S.C., tax advisers and consultants in Mexico and now serves on the board and audit committees of several Mexican and international companies. He has extensive knowledge of Mexican tax and accounting issues.

Jaime Serra
Independent Non-executive Director

Date of appointment
16 May 2014

Committee membership
- Audit Committee

Key strengths and experience
- Mexican government
- International trade and commerce

Following a distinguished career in Government in Mexico, with particular focus on international trade and industry, Mr Serra brings a broad range of experience of Mexican politics and international trade to the Board.

Alberto Tiburcio
Independent Non-executive Director

Date of appointment
4 May 2016

Committee membership
- Audit Committee

Key strengths and experience
- Mexican audit and accountancy
- Mexican tax

Mr Tiburcio was the Chairman and CEO from January 2001 until his retirement in June 2013 of Mancera S.C., EY's Mexican firm. He has served as statutory auditor and advisor to many prestigious Mexican companies and brings significant Mexican tax and accounting experience to the Board.

Guy Wilson
Independent Non-executive Director

Date of appointment
1 July 2008

Committee membership
- Audit Committee (Chairman)

Key strengths and experience
- International audit and accountancy
- UK Government and Capital Markets

Following a career within Ernst & Young, which included 29 years as a partner, Mr Wilson brings extensive experience of international audit and accounting practice, capital markets and transactions.

Executive Committee

The Executive Committee
The Executive Committee comprises the most senior executives within the Fresnillo Group. Over recent years it has evolved in the areas of risk, business conduct and safety performance. Within these areas the Committee is responsible for management of the Company's businesses, including the implementation of decisions which have been agreed in principle by the Board. It is also responsible for all executive management of the Group's operations, within the strategy and budget approved by the Board.
The Executive Committee has certain powers which enable it to approve smaller transactions on behalf of the Board. These transactions are reported and explained to the Board at its next scheduled meeting.

Octavio Alvídrez
Chief Executive Officer

Date of appointment
15 August 2012

Committee membership
Mr Alvídrez is invited to attend Board, Audit Committee, HSECR Committee and Remuneration Committee meetings.

Key strengths and experience
- Mine management within Mexico
- UK investor relations

Mr Alvídrez has extensive experience within the mining industry having previously held the position of General Manager of the Madero mine, one of Mexico's largest mines operated by Peñoles. Mr Alvídrez joined the Peñoles Group in August 1988, since then he has held a number of senior operational and financial positions across Peñoles and Fresnillo, including that of Treasurer, Head of Investor Relations in London and Head of Procurement.

Mario Arreguín
Chief Financial Officer

Date of appointment
15 April 2008

Committee membership
Mr Arreguín is invited to attend Board and Audit Committee Meetings

Key strengths and experience
- Accountancy and treasury
- Investment banking

Mr Arreguín was previously employed by Peñoles where he held the position of Chief Financial Officer for 11 years and Group Treasurer for six years prior to this. Mr Arreguín has a background in investment banking and project management.

David Giles
Vice President, Exploration

Date of appointment
15 April 2008

Committee membership
Mr Giles is invited to attend Board meetings

Key strengths and experience
- Senior exploration experience within Mexico
- Engineering and geology background

Following a 30 year career at Peñoles, Mr Giles held a number of senior management positions including Vice President of Exploration, prior to this he worked for AMAX, Corona Gold and Toromex. He is an officer of the Society of Economic Geologists and the Mexican Association of Mining Metallurgical and Geological Engineers.

Roberto Díaz
Chief Operating Officer

Date of appointment
1 November 2013

Committee membership
Mr Díaz is invited to attend Board meetings and to the Audit Committee on occasions

Key strengths and experience
- Senior project and operational experience
- Mining and engineering

Following a long career in the mining industry, Mr Díaz first joined Peñoles in 1977 and, following roles with other groups, re-joined Peñoles in 2007. He has previously served as Fresnillo's Vice President of Operations and Vice President of Project Development.

Board Structure

The Board considers the Directors listed as being independent on page 117, to be independent in character and judgement. For each of these Directors, their circumstances are assessed by reference to Provision B.1.1. of the Corporate Governance Code (the 'Code') and the Board remains satisfied that they are each independent when the standards set out in Code Provision B.1.1 are taken into account.

Additional disclosure on independence

Charles Jacobs is a worldwide senior partner and chairman of Linklaters LLP worldwide. Mr Jacobs is not involved in the provision of legal or any other services to the Company by Linklaters LLP.

Linklaters LLP was the Company's UK legal adviser for its London IPO in 2008 and is currently one of the Company's legal advisers where any such advice is limited to English law, provided by a different partner of Linklaters LLP. Selection of legal advisers is not a Board matter and is decided at the management level. None of the Fresnillo management sit on the Board. However, if any decision were to be made at the Board level regarding Linklaters LLP, which has not happened to date, Mr Jacobs would excuse himself in accordance with the provisions of the Companies Act 2006 relating to Directors' interests.

Mr Jacobs does not have, and has not had within the last three years, a material business relationship with the Company either directly, or as a partner, shareholder, director or senior employee of a body that has such a relationship with the Company. By way of illustration, the legal fees paid to Linklaters LLP for the last three financial years were £90k for the year ended 31 December 2014, £177k for the year ended 31 December 2015 and £148k for the year ended 31 December 2016. The Audit Committee reviews the appropriateness of all professional advisers' fees each year including legal fees as part of their review of ordinary course of business expenses.

Fernando Ruiz has, since 2008, been a retired partner and consultant in the firm Chevez, Ruiz, Zamarripa y Cia., S.C., a firm providing professional services to the Company. Mr Ruiz was not involved in the provision of such services to the Company by Chevez, Ruiz, Zamarripa y Cia., S.C., prior to his retirement.

Alberto Tiburcio retired as a Chairman and Chief Executive Officer of Mancera S.C., EY's Mexican firm, which is the Company's auditor, in 2013. Mr Tiburcio was not involved in the provision of audit or any other services to the Company by Mancera S.C. prior to his retirement.

Guy Wilson retired as a partner of Ernst & Young LLP, the Company's auditor in 2008. Mr Wilson was not involved in the provision of audit or any other services to the Company by Ernst & Young LLP prior to his retirement.

The Relationship Agreement

Peñoles has entered into a relationship agreement with the Company (the 'Relationship Agreement') to ensure that relationships between the Fresnillo Group and the Peñoles Group are conducted at arm's length and on normal commercial terms. Further information regarding the Relationship Agreement can be found on page 123. The non-independent Directors listed above have been appointed to the Board by Peñoles pursuant to the Relationship Agreement.

Chairman's independence

The Chairman, Mr Baillères, is beneficially interested in more than 50% of the share capital of the Company through his interest in Industrias Peñoles S.A.B. de C.V., the Company's controlling shareholder. Mr Baillères is also the Chairman of Peñoles and other companies within the BAL Group.

Mr Baillères was appointed to the Board by Peñoles pursuant to the Relationship Agreement, thus at the time of his appointment was not independent. Having been responsible for overseeing of the successful development of the Group over many years, the Board considers that his continued involvement as its Non-executive Chairman is very important to the continued success of the Company.

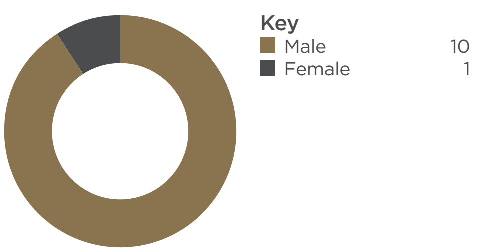
The Relationship Agreement continues to provide a transparent governance system, which ensures that the Company benefits from Mr Baillères' leadership and experience whilst being able to demonstrate to other shareholders that the Fresnillo Group is capable of carrying on its business independently. In particular, the Relationship Agreement ensures that transactions and relationships between the Fresnillo Group and its controlling shareholder are at arm's length and on competitive commercial terms.

Board roles

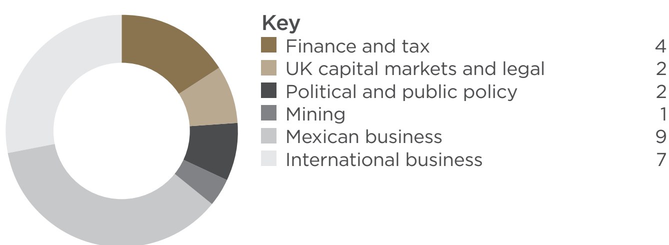
The separate roles of Chairman and of the Chief Executive Officer are recognised and the requirements for these roles have been specified in writing and agreed by the Board in the Statement of Responsibilities. Octavio Alvídrez, the Chief Executive Officer, is not currently a member of the Board.

Charles Jacobs, the Senior Independent Director is available to shareholders if they have concerns that have not been resolved through the normal channels of Chairman, Chief Executive Officer, Chief Financial Officer or Head of Investor Relations. The composition of the Board has been structured to ensure that no one individual can dominate the decision-making processes of the Board.

Board composition: gender split



Board composition: experience



Effectiveness

Board process

The Board supervises the management of the Group's activities, including the implementation of both the Group's long-term plans and commercial strategy. In addition, the Board provides leadership to the Fresnillo Group setting the key values by which the Group will continue to operate. The Board has a formal schedule of matters reserved for its approval which includes approvals of major expenditure, investments and key policies. The schedule is annually reviewed to keep it up to date with any regulatory developments. The last review and revision was in October 2016.

All meetings of the Board are held in Mexico. The Board meets a minimum of four times a year and has a well-established programme of meetings.

The Company Secretary prepares the agenda for the Chairman's approval, in consultation with the Chief Executive Officer and the Chief Financial Officer. Papers are prepared by members of the Executive Committee to be presented to the Board for discussion. When preparing such papers, the factors set out in section 172 of the Companies Act 2006 are taken into account. Any matters that only require Executive Committee approval are nevertheless reported to the Board. Members of the Executive Committee meet with non-independent Directors prior to each Board meeting to review proposals due to be submitted to the whole Board. Such review discussions are minuted and copies of the minutes are circulated to all of the Directors.

Board members usually receive Board papers five days prior to meetings in order to enable the Directors adequate time to study and consider the documents.

Members of the Executive Committee, led by the Chief Executive Officer, are present at all of the Board meetings, and present all of the papers on operational and financial matters. The only exceptions to this are discussions over management succession, and the annual Board evaluation report discussion. At every meeting, the Board considers the following items:

- Directors interests.
- Chief Executive's Report.
- Financial Report.
- Board Committee Reports.
- Risk, Internal Control and Anti Bribery and Corruption update.
- Investor Relations and Corporate Communications update.
- Legal and Company Secretarial Report (including litigation update).

Between Board meetings Directors are provided with information on important developments and issues such as:

- Reports on safety and fatalities.
- Important developments re projects/transactions.
- Distribution of relevant information on the precious metals sector.

Directors have the right to raise concerns at Board meetings, and can ask for those concerns to be recorded in the Board minutes. The advice and services of the Company Secretary (whose appointment and removal is a matter reserved for the Board) are also available to the Directors. The Group has also established a procedure which enables, in relevant circumstances, Directors to obtain independent professional advice at the Company's expense.

Corporate Code of Conduct

The Corporate Code of Conduct was updated during 2016, serving as a guideline for all Directors, executives, employees and related third parties (clients, suppliers and the community) to act in accordance with the Code. The Code helps to ensure a foundation of values, and works as a guide for behaviour that encourages an environment of ethics and responsibility for the benefit of our stakeholders. It serves to complement the internal and external regulations already in force and also to establish corrective measures for anyone who fails to comply with the provisions of the Code.

The Fresnillo Board and culture

During 2016, Fresnillo continued its focus on the organisational culture and ethics programme. The Board received a presentation on proposed management initiatives to embed strong ethics in the culture and as a core competence in the organisational structure to enable the Company to achieve its key targets, for example zero fatalities as a safety objective.

A four-pronged programme encompassing the entire workforce has been implemented, aimed at reinforcing the desired ethical behaviours through: (i) sponsorship and leadership for cultural change from senior management; (ii) promoting ethical decision making (iii) managing incentives; and (iv) developing an open culture which encourages whistleblowing.

The Board will receive regular updates on the initiatives and the metrics for monitoring of the programme.

The HSECR Committee has been given responsibility for overseeing the programme on behalf of the Board, which will review the progress of the programme in detail at one of its meetings each year.

Board process in summary

Board Process	Agenda	Paper Preparation	Internal Review of Papers	Circulation of Papers	Presentation of Papers
Responsibility	Chairman CEO CFO Company Secretary	Executive Committee	Non-independent Directors and Executive Committee	CEO CFO Company Secretary	Executive Committee

Key
Strategy
Industry Activities

2016	Board programme & strategy	Investor relations & industry activities
January		• Publication of the production report followed by investor conference calls
February	• Review of 2015 Board Evaluation Report and associated Action Plan • Report on Hedging Programme • Implementation, Culture and Values training software • Budget update • Review of Principal Risks and Uncertainties • Review of system of internal control • Review of Going Concern • Review of Annual Report	
March	• Approval of 2015 Results and Annual Report	• Roadshow following the preliminary results announcement and presentation: UK, US, Canada Nordea mining reverse roadshow • Citi Global Resources Conference
April	• Anti-Bribery and Corruption Programme • Market Abuse Regulation implementation • Board lunch and strategy discussion • Supply and Demand dynamics which determine underlying silver price	• Publication of the production report followed by investor conference calls • Canaccord Mining Forum
May	• Annual General Meeting	• BTG Pactual Latin Opportunities Conference
June		• HSBC LatAM Investor Forum
July	• Approval of interim results • Review of Going Concern • Review of Principal Risks and Uncertainties • Major Investor Analysis • Market Abuse Regulation implementation • Approach to 2016 Board evaluation	• Conference calls following the production report announcement.
August		• Roadshow following the half-yearly results announcement and presentation: UK
September		• Site visit • Denver Gold Forum • Morgan Stanley Industrials and Natural Resources Summit • Deutsche Bank Metals and Mining Conference
October	• Approval of Met-Mex rates for 2016 • Approval of 2017 business plan and budget • Board evaluation • Review of Viability Statement process and key assumptions • Long-term strategy • Organisational Culture and Ethics Programme	• Publication of the production report followed by investor conference calls
November		• UBS mining reverse roadshow • JP Morgan Best of British Conference
December		

Effectiveness continued

Board performance evaluation
In order to evaluate its own effectiveness, the Board undertakes annual appraisals using a combination of externally facilitated and internally run evaluations over a three-year cycle. The cycle of the Board's evaluations is summarised as follows:

Year 1	Year 2	Year 3
External Board evaluation (approach agreed with Chairman)	Follow-up on action plan from externally facilitated evaluation	Focus on outstanding and emerging issues arising from Action Plan

Board evaluation in 2016
During 2016, which was the third year in the cycle, the Company used an internally facilitated evaluation focusing on the emerging issues and any outstanding outcomes and subsequent actions taken in 2015 in response to the 2014 external evaluation.

The outcomes from the 2016 evaluation exercise are set out below.

Key responses initiated in 2015	2016 progress	2016 evaluation comments and any further action
The format and information contained in Board papers will be refined to help focus discussion on key issues and risks, particularly in relation to the performance and risk profile of key projects.	Further improvements and refinements to the Board papers have been made in 2016. The Board members continue to monitor the suitability and format of the papers during 2016.	A further review of key Board papers will be conducted in 2017 with assistance from four Non-executive Directors. The Audit Committee to review a protocol for post-implementation reviews on projects.
More time in Board meetings will be devoted to discussion of long-term strategic considerations (up to five years).	Long-term strategy was an agenda item at the October Board meeting. Sustainability Strategy was reviewed at the April Board meeting.	The Board recognise the importance of discussions and presentations on the long-term strategy.
Enable Directors to understand the control and culture of the organisation more easily.	A presentation on the organisational and culture and ethics programme initiated in 2013 was given at the October 2016 Board meeting and the Corporate Code of Conduct has been updated.	Continue to review and develop in 2017. Culture and ethics metrics to be further developed and included in the CEO's report to the Board.

In 2017, Fresnillo will be initiating a new three-year Board evaluation cycle, with an externally facilitated Board evaluation exercise.

Audit Committee evaluation
The Audit Committee has undertaken an internally facilitated evaluation in 2016, details of which are set out in the Audit Committee Report on page 137.

Other committee evaluations
The Nomination and Remuneration Committees undertake self-evaluation on an annual basis but given the relatively straightforward nature of their work, have not considered it necessary to use external facilitation for their reviews. Such reviews were conducted by both of these Committees in 2016.

Individual performance reviews
Non-executive Directors occasionally meet the Chairman without executives being present. The independent Non-executive Directors meet annually in order to evaluate the performance of the Chairman. On the back of this meeting, the Senior Independent Director discusses the views of the independent Directors with the Chairman. The Independent Directors held this meeting in 2016 after the February meeting and took the 2015 Board Evaluation review into account in their discussions and feedback to the Chairman.

Board development
Senior management present on the Group's strategic initiatives to provide the Non-executive Directors with more information about the broader context to the Company's activities. In addition there is a regular distribution of industry briefings on technical, market and sector issues.

Directors are encouraged to visit the Company's mines to familiarise themselves with the Fresnillo Group's operations.

Briefings were arranged for all Directors from the Company's advisers. These include presentations which were aimed at familiarising the Directors with the duties and responsibilities as Directors of a UK listed company. In addition, the Chairman meets with Directors to discuss any training or development needs. These usually take place as part of Board or committee evaluation exercises.

Relationship Agreement

The Relationship Agreement complies with the independence provisions set out in Listing Rule 6.1.4DR for controlled companies. The Company has complied with the independence provisions included in the Relationship Agreement during the financial year ended 31 December 2016. As far as the Company is aware, such provisions have been complied with during the financial year ended 31 December 2016 by Peñoles and/or any of its associates.

Peñoles has also undertaken not to exercise its voting rights to amend the Articles of Association in a way which would be inconsistent with the provisions of the agreement. It has also agreed to abstain from voting on any resolution to approve a 'related party transaction' (as defined in paragraph 11.1.5 R of the Listing Rules) involving any member of the Peñoles Group.

The following diagram summarises the approach taken to identify and manage related party transactions.

Identifying Directors' interests

Process	How this is managed	Responsibility
Monitoring of Directors' interests	If a Director is interested in a company which could potentially enter into transactions with a Fresnillo plc Group company, the Board will normally consider that interest under its arrangements for authorising conflicts of interest under s175 of Companies Act.	Directors

Managing a related party transaction

Proposed transaction	Ongoing monitoring of Directors' interests and related parties of the Company provides the information to determine if a related party approval is required for a proposed transaction.	
Process Contract negotiation and verification	**How this is managed** The Executive Committee will seek to ensure that the best possible terms are achieved for a proposed transaction and that they are verified by industry benchmarking reports or independent valuation/assessment.	**Responsibility** Fresnillo management and Executive Committee
Process Financial scrutiny	**How this is managed** The Audit Committee reviews the key terms of major transactions which are verified as to price and quality with external consultants or independent benchmarking where possible.	**Responsibility** Audit Committee
Process Independent Director approval	**How this is managed** Under the Relationship Agreement, the Independent Directors must approve any transaction with the Peñoles Group and its associates without the non-independent Directors voting.	**Responsibility** Independent Directors

Conflicts of interest

The Group requires that Directors complete a 'Director's List'. The list sets out details of situations where each Director's interest may conflict with those of the Company (situational conflicts). Each Director has re-submitted their list as at 31 December 2016 for the Board to consider and authorise any new situational conflicts identified in the re-submitted lists.

Relations with Shareholders

The Board continually monitors the interests of the Company's minority shareholders, in order to ensure that those interests are being properly respected, and that they are aligned with those of the major shareholders. As explained on page 123 procedures for dealing with transactions with related parties, as well as Directors' conflicts of interest, are repeatedly appraised and maintained by the Board.

The Company has an office in London where the Head of Investor Relations is based. During 2016, the Group implemented a strong communications and investor relations programme, as detailed in the diagram below.

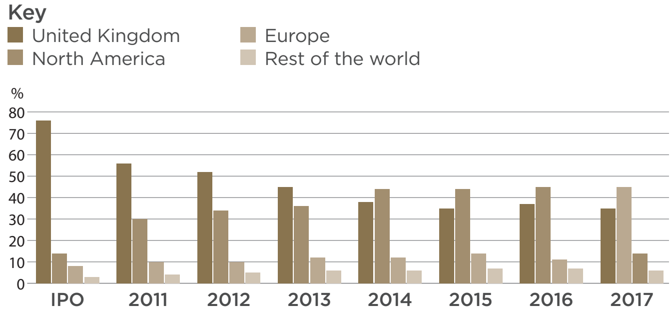
The Company plans to hold meetings with major shareholders and analysts at least twice a year. This is done to give the investors and analysts the chance to discuss the results of the Group whilst also giving them an opportunity to raise any queries or concerns they may have. The Senior Independent Director, Charles Jacobs intends to continue to attend such meetings in order to sustain good communications between shareholders and the Company. The Chief Executive Officer and Chief Financial Officer also meet with analysts, conference calls after production reports and shareholders by participating in the major roadshows after preliminary and half yearly results are announced. They are joined by other members of the Executive Committee for some of these visits. The table below outlines some examples of the discussion points at such meetings and the response from the Company.

Fresnillo mine turnaround plan progress	Clear explanation of the measures taken while outlining the reasons for progressing at a slower than anticipated pace.
San Julián	Updates on the start-up of phase I, explanations behind the delay in phase II, details of the expected ramp-up schedule and the principal statistics of the project.
Performance at Saucito and Herradura/at other operating mines	Update on the capacity optimisation at Saucito while also addressing the debottlenecking process at Herradura by increasing the processing capacity, thus decreasing gold inventories on the leaching pads.
Projects approved	Rationale for the resumption of the pyrites project in addition to the approval of the second line of the DLP at Herradura increasing efficiencies as sulphides found deeper in the pit are processed.
Exchange rate effects	Clear and detailed articulation of the different exchange rate effects on production costs in conjunction with other line items in the income statement.
Costs	Detailed breakdown of cost metrics on a year-by-year basis highlighting and clarifying variations; cost inflation/deflation by component.
Capital allocation: capex vs. dividends	Emphasising the company's unchanged Dividend policy while reiterating our aim of balancing quality growth with returns across the cycle.
Production profiles and long-term goals	Continue to highlight the long-term goals for 2018 with special emphasis on securing the reserves to maintain that level of production for ten years.

The Head of Investor Relations in London is tasked with maintaining existing relations with analysts and major shareholders, which is done by way of telephone calls and meetings. The Company also attends a full programme of mining conferences in order to meet with current and prospective investors. Contact with investors in Mexico is maintained through the Investor Relations Office in Mexico City. The Chief Financial Officer gives a report at each Board meeting on communications and shareholder activity.

Geographical shareholder base

The following graph demonstrates the Company's global appeal with a significant shift since IPO in 2008 from a predominantly UK shareholder base.



Major interests in shares

As at 27 February 2017, the Company had been advised of the following notifiable interests (whether directly or indirectly held) in its voting rights:

	Number of voting rights	%
Industrias Penoles SAB de CV	552,595,191	74.99
BlackRock Inc	39,997,160	5.42
First Eagle Investment Management LLC	34,857,166	4.73

2016 Annual General Meeting

At the 2016 Annual General Meeting, all resolutions put to shareholders were passed by a majority. As such, the Company did not deem it necessary to specifically engage with shareholders over any of the items of business of the AGM. In accordance with changes to the UK Listing Rules applicable to companies with a controlling shareholder, the resolutions relating to the re-election of the independent Non-executive Directors required approval by a majority of votes cast by independent shareholders as well as all the shareholders of the Company.

Further to the Code provisions, details of proxy voting are presented at the AGM and final figures are announced to the London Stock Exchange and uploaded to the Company's website as soon practicable after the AGM.

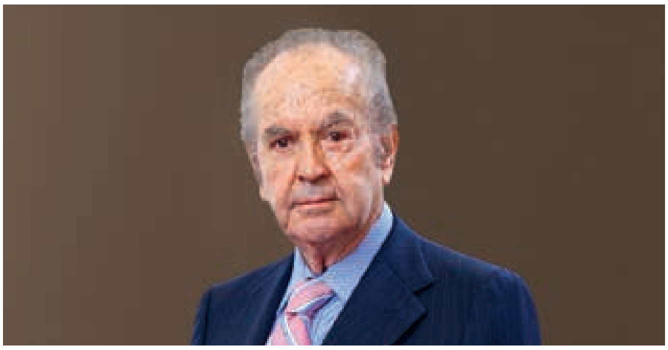
2017 Annual General Meeting

The Company's ninth Annual General Meeting will be held on 23 May 2017 at 12.00 noon. The business of the Annual General Meeting ('AGM') will be conducted in accordance with the provisions B.7.1, B.7.2, E.2.1 and E.2.2 of the Code. The Chairman of the Board and the chairmen of each of the Board committees will be available to answer questions put forward to them by shareholders of the Company. The Annual Report and Accounts and the Notice of the Annual General Meeting will be sent to shareholders at least 20 working days prior to the date of the meeting. In planning the business of each AGM, the Board takes account of institutional shareholder guidelines on pre-emption rights, share buy-backs and shareholder rights in relation to general meetings when drafting the usual resolutions dealing with those matters. In each case, resolutions are presented to the AGM to give the Board flexibility to respond to market developments.

Authority to purchase own shares

The Company was authorised by a shareholders' resolution passed at the Annual General Meeting held in May 2016 to purchase up to 10% of its issued Ordinary Share capital. Any shares which have been bought back may be held as treasury shares or, if not so held, must be cancelled immediately upon completion of the purchase, thereby reducing the amount of the Company's issued and authorised share capital. This authority will expire at the forthcoming Annual General Meeting and a resolution to renew the authority for a further year will be proposed. No shares were purchased by the Company during the year.

Nominations Committee Report



> We remain strongly committed to the principle of equality of opportunity when considering new appointments to the Board and I hope that we will be able to demonstrate that commitment when future board appointments are made.

Mr Alberto Baillères
Chairman of the Nominations Committee

Dear Shareholder,

During 2016, there were changes on the Board of Directors of Fresnillo plc with two of our Directors resigning due to other commitments. The Nominations Committee has for some time been mindful that we are in a phase during which the refreshing of the Board needs to take place, particularly as some of our independent Non-executive Directors reach the ninth anniversary of their appointment. The possible options for further appointments to the Board have therefore been the principal focus of the Committee during 2016. As part of that process, the Committee made a recommendation to the Board to appoint Alberto Tiburcio as an additional independent Non-executive Director and I am particularly pleased to welcome him to the Board and as a member of the Audit Committee. Whilst we are mindful that further new appointments to the Board will be required, our primary objective in this process will be the appointment of the right people at the right time.

During 2016, we have also considered the membership of our Board committees as a result of which Arturo Fernandez has now taken over as Chairman of the Health, Safety, Environment and Community Relations Committee. In addition, Charles Jacobs was appointed as the Senior Independent Director. I am grateful to Guy Wilson for having undertaken that role previously.

Although one of our female Directors left the Board in 2016, we remain strongly committed to the principle of equality of opportunity when considering new appointments to the Board and I hope that we will be able to demonstrate that commitment when future Board appointments are made.

Yours faithfully

Mr Alberto Baillères
Chairman of the Nominations Committee

Membership
The members of the Nominations Committee are Alberto Baillères (Chairman of the Committee), Barbara Garza Lagüera and Fernando Ruiz. The majority of the members of the Nominations Committee are, therefore, independent Non-executive Directors.

Role
The Nominations Committee is responsible for making recommendations to the Board on the structure, size and composition of the Board and its committees and succession planning for the Directors and other senior executives. Before making appointments of new Directors, the Committee is responsible for evaluating the balance of skills, knowledge and experience on the Board and identifying and nominating suitable candidates.

The Nominations Committee has approved Board Appointments and Board Diversity Policies which provide the framework for the Nominations Committee and the Board's approach to Board appointments.

Attendance	
Mr Alberto Baillères	2/2
Mr Fernando Ruiz	2/2
Ms Barbara Garza Lagüera	1/2

Ms Garza Lagüera was unable to attend one meeting of the Committee because she was presented with an international award for her cultural work in Spain on the same day as the Committee meeting.

Nominations Committee

Board Appointments Policy and Process in summary

The Nominations Committee and Board are committed to the principle of appointments to the Board being made on the basis of merit. The Committee continues to consider the composition of the Board with a focus on its continued commitment to diversity.

The criteria for determining the composition of the Board and future Board appointments continue to be based on:

- Relationship Agreement requirements for appointments to the Board by Peñoles.
- The Company's leading position as a precious metals miner in Mexico.
- The Company's inclusion in the FTSE 100 Index.
- The specific functions on Board committees which independent Directors will be required to fulfil.
- The provisions set out in the current terms of reference of the Nominations Committee.

The Nominations Committee does not use open advertising or retain any external consultants when making new appointments to the Board as it is considered unnecessary considering the Company's contacts within Mexico.

Board Diversity Policy in summary and progress

All Board appointments are made on merit. The Board recognises and embraces the benefits of having a diverse Board; particularly the value that different perspectives and experience bring to the quality of Board debate and decision-making. There are certain considerations which are taken into account in considering the composition of the Board such as: background and experience; age; gender; and shareholder perspectives.

The Board believes that setting targets for the number of people from a particular background or gender is not the most effective approach to take. The Board will therefore look to follow the principles of this policy rather than specified quotas or targets. Of the six new Directors that have been appointed to the Board since 2012, two have been women, demonstrating the Nominations Committee and the Board's commitment to gender diversity. One member of the Nominations Committee itself is female.

The Board recognises that very few women are attracted to mining engineering and geology academic programmes in Mexico and, in view of the stage of development of Mexico, the participation of women in the labour force as a whole is still relatively low. This will take time to rectify but it is changing and the Company is committed to hiring and developing women with educational training in mining engineering, geology, finance and accounting.

Full versions of the Board Appointments Policy and Process and the Board Diversity Policy, can be found on the Company's website (www.fresnilloplc.com).

Activity during 2016

The Nominations Committee met twice during the year.

Board appointments

The Nominations Committee is committed to a progressive refreshing of the Board, as recommended by Code Provision B.2.3 of the UK Corporate Governance Code.

There have been three changes to the Board during 2016, Mr Alberto Tiburcio was appointed to the board and Ms María Asunción Aramburuzabala and Mr Rafael MacGregor resigned during the year. The Nominations Committee has continued to discuss future Board appointments with emphasis being placed on the gender balance of the Board and the independence of future appointees to the Board.

Committee membership

Following some changes to the membership of the Board committees in 2016 as a result of changes to the membership of the Board itself, the Nominations Committee reviewed the composition and effectiveness of the Board committees in 2016 and was satisfied that the Committees are working well. The Nominations Committee approved the appointment of Arturo Fernandez as Chairman of the Health, Safety, Environment and Community Relations Committee, following the resignation of Rafael MacGregor, and it will appoint another member of that Committee to replace Maria Asuncion Aramburuzabala in due course.

Executive succession planning

Each year, the Nominations Committee reviews a schedule of possible successors for all the positions on the Executive Committee (Chief Executive Officer, Chief Financial Officer, Vice President of Exploration and Chief Operating Officer). This review considers both short-term emergency and long-term planning scenarios. Any actions needed to support the development of potential long-term successors are discussed. The Nominations Committee also monitors the long-term evolution of the membership of the Board as a whole. These matters were all discussed by the Nominations Committee in 2016 and it is satisfied with the actions that are being taken to support this.

Other Nominations Committee Activity

The Nominations Committee also considered the following matters:

- The appointment of Charles Jacobs as Senior Independent Director.
- Approval of the 2016 Nominations Committee Report prior to publication.
- The time commitment required from each Director.
- The proposed re-election of each of the continuing Directors at the AGM.
- A self-evaluation exercise (which concluded that the Nominations Committee is functioning well).

The terms of reference of the Nominations Committee are available on the Company's website at www.fresnilloplc.com.

The letters of appointment for the Non-executive Directors are made available for inspection at the Company's registered office, during normal business hours.

Audit Committee Report

"We are performing our core duties in relation to financial reporting, external audit, risk and internal control, internal audit, whistleblowing and related parties, albeit that we recognise the necessity to strive for continuous improvement."

Guy Wilson
Chairman of the Audit Committee

Dear Shareholder,

This year has seen further increases in the responsibilities of Audit Committees following implementation of the EU Audit Reform and UK Financial Reporting Council's guidance. In addition, a significant amount of time was involved in the conduct of an efficient and effective audit tender process, the details and outcome of which are set out later in this report.

Last year, in addition to our primary task of the oversight of financial accounting and reporting together with internal controls, concentrating on the financial judgements in the financial statements, I outlined four priorities for your Audit Committee in 2016. I now comment on progress so far in the table below.

In the light of an external evaluation of your Audit Committee in 2017, we conducted a thorough internal evaluation using a lengthy questionnaire which was completed by all of us, the Chief Financial Officer and the Financial Controller, Internal Audit and EY, our external auditor. The conclusions of this evaluation are that we are performing our core duties in relation to financial reporting, external audit, risk and internal control, internal audit, whistleblowing and related parties well, albeit that we recognise the necessity to strive for continuous improvement. We did, however, identify four activities for us to concentrate on in 2017 which are set out in detail later in this report. In addition, the Board have also asked the Audit Committee to review its post-investment review process.

I had intended to visit our new operation San Julián this year but our additional workload made that impractical. I do, however, intend to go this year with the benefit that I will be able to go once the second and final stage of the operation is complete.

In closing, we have welcomed Alberto Tiburcio as a fourth member of our Committee and together with Fernando Ruiz and Jaime Serra, I believe we are now an even more effective Audit Committee.

Yours faithfully

Guy Wilson
Chairman of the Audit Committee

2016 priorities	Progress
Continuing to encourage management to challenge the assumptions underpinning the long-term viability of the Group to ensure that the Board can remain confident about the Group's long-term viability.	The assumptions underpinning the various scenarios remain sound, but we have encouraged management to expand the statement to explain what management and the Board would do in the event of any such scenario occurring.
Continuing to encourage management to enhance the transparency of the effectiveness of the internal controls over the identified risks to enable the Board to have continued confidence in our process.	Management has achieved a satisfactory level of understanding of the risks and related controls throughout all our operations, moreover, the Board now receives a quarterly report of significant movements in the risk profile and a summary of any significant control weaknesses identified by internal audit.
Continue to challenge management's progress to implement IT improvements to underpin the corporate strategy and ensure that such enhancements are cost effective.	Good progress has been made in the management of both recurring annual maintenance expenditure and the cost of new improvements. Further work, however needs to be done to clarify the risk profiles and related internal controls in order to achieve relevant industry standards.
Conduct an effective and efficient audit tender.	See full details of the process and outcome set out later in this report.

Audit Committee

Composition

The members of the Audit Committee at 31 December 2016 were Guy Wilson (Chairman of the Committee), Fernando Ruiz, Jaime Serra and Alberto Tiburcio (appointed on 4 May 2016).

	Financial and auditing experience	Sector experience
Guy Wilson (appointed 1 July 2008)	Previously a partner at EY (UK) with international audit, accountancy and capital transaction experience.	Previously an adviser to several UK extractive industry company boards.
Fernando Ruiz (appointed 15 April 2008)	Retired Partner at Chavez, a leading Mexican tax consultancy, with many years' knowledge of the Mexican legal and tax environment.	Previously a director of Grupo Mexico (mining company in Mexico).
Jaime Serra (appointed 16 May 2014)	Previously Secretary of Finance in the Mexican Government.	Political insight through the various roles held in Government.
Alberto Tiburcio (appointed 4 May 2016)	Previously Chairman and CEO of EY (Mexico).	Previously a director of Pemex.

The Audit Committee regularly monitors its own training and development needs. Following his appointment to the Audit Committee, Alberto Tiburcio underwent an induction programme which included briefings with the Chairman of the Committee and the Company Secretary, meetings with the executive management team and briefings from the Company's legal advisers and external auditor.

The Chief Financial Officer and representatives from external and internal audit attend all meetings. The Chief Executive Officer, other members of the Executive Committee and management attend where appropriate and external advisors attend for specific matters if relevant.

The activity of the Audit Committee in 2016

The Audit Committee met five times during 2016. Its programme of activity is determined at the beginning of each year and is structured to ensure that it reviews all of the activities set out in its terms of reference.

Attendance	
Mr Guy Wilson	5/5
Mr Fernando Ruiz	4/5
Mr Jaime Serra	4/5
Mr Alberto Tiburcio	3/3

Messrs Ruiz and Serra were unable to attend one meeting each of the Audit Committee due to a clash with other business commitments. Mr Tiburcio joined the Audit Committee on 4 May 2016 and was therefore only eligible to attend three meetings of the Audit Committee.

The role of the Audit Committee

The role and duties of the Audit Committee are set out in its terms of reference, a copy of which can be found on the Company's website at www.fresnilloplc.com. The Audit Committee has six primary responsibilities:

Financial Reporting
Overseeing the Company's financial reporting to shareholders.

External Audit
Overseeing the Company's relationship with its external auditor.

Risk and Internal Control
Overseeing risk, internal control, going concern and viability.

Internal Audit
Overseeing the work and findings of the internal audit team.

Whistleblowing
Overseeing the effectiveness of the Company's whistleblower scheme.

Related Parties
Overseeing financial aspects of the relationship with related parties.

In addition, the Audit Committee is responsible for monitoring its own effectiveness and that of the internal and external audit functions in the context of the Company's overall risk management system.

Effectiveness
Monitoring the Audit Committees' effectiveness and that of the internal and external audit functions.

Audit Committee Report continued

Financial Reporting

First half of 2016	Second half of 2016
• Review of the financial statements for the year ending 31 December 2015 and Annual Report. • Review of approach to Tax and PTU. • Review of Payments to Government disclosure.	• Review of interim financial statements for 2016 and Interim Announcement. • Review of 2016 year end reporting plan. • Review of plan for preparing the financial statements and Annual Report for the year ending 31 December 2016 (early 2017).

In undertaking its review of the 2016 half-yearly report, the Audit Committee sought to ensure that there was consistency between the policies and judgements used in preparing the full-year and half-year financial statements. Prior to recommending both the half-year and the full-year financial statements to the Board for approval, the Audit Committee, with the assistance of management and EY, identified a number of areas of particular focus. These are outlined in the table below.

In 2015, the Audit Committee reported specifically on its review of hedging, impairment and going concern as judgemental areas. These are aspects of financial reporting which the Audit Committee consider to be less significant as judgemental areas in 2016 because the Company is no longer hedging Mexican peso/US dollar exchange rate differences and higher metal prices have substantially increased the level of headroom for both the impairment and going concern tests.

Significant judgement areas in 2016

Mineral reserves and resources

The estimation of mineral reserves and resources requires significant judgement not only in respect of mineral physically in place but also metal price and cost assumptions determine the cut-off grade for identifying economically viable ore bodies.

Reserves and resources are a primary driver of Fresnillo's market valuation and a significant input into assessments of depreciation and impairment. As a result, inaccuracies in the estimation of reserves and resources would lead to broad implications across the Annual Report and Accounts.

The Committee reviewed the report by SRK Consulting (the Company's independent reserves and resources auditor) on the reserves and resources (excluding Silverstream) and considered the year-on-year changes in SRK's estimation of reserves and resources quantities. The Committee also reviewed the methodology used by EY to assess the SRK reporting and the commentary on reserves and resources within the Annual Report.

The Audit Committee is satisfied that the review process itself and that the Company's disclosures are appropriate.

See pages 242 to 246

Silverstream

The Silverstream contract is a derivative financial instrument which must be reflected at fair value at each balance sheet date. The fair value is most sensitive to the timing and volume of forecast production derived from the reserves and resources and production profile of the Sabinas mine, the estimated future silver price and the discount rate.

The Silverstream contract represents a large asset on our balance sheet which can also, as a result of movements in metals prices, give rise to large, albeit non-cash, amounts in our income statement.

The Audit Committee reviewed the inputs into the estimation of the valuation at the balance sheet date and associated sensitivity analysis. It also reviewed the disclosures relating to the Silverstream contract and discussed with EY their procedures for auditing the accuracy of the model used in the valuation and the key assumptions therein.

The Audit Committee is satisfied that the related gain on the Silverstream Contract is acceptable and that the accounting treatment and disclosure in the financial statements is appropriate.

See note 14 to the financial statements

Related party transactions including revenue recognition	
Fresnillo has a controlling shareholder and as a result has very strong ties both to Peñoles and the broader BAL group. There is a risk that related party relationships could be taken advantage of to manipulate earnings or otherwise distort our financial position. Furthermore related party transaction disclosure requirements allow investors to understand the Company's exposure to inappropriate related party transactions and there is a risk that disclosures in our financial statements could be inaccurate or incomplete.	Every year, the Audit Committee scrutinises the probity of all major related party transactions to ensure that they are entered into transparently and fairly to all shareholders. (See the section of this report headed 'Transactions with Related Parties'). The Audit Committee reviews EY's procedures to ensure revenue is recognised accurately and the relevant disclosures in the Annual Report, to ensure that they are consistent with the information it is presented with during the year. **The Audit Committee was satisfied with the accounting treatment and disclosure of Related Party Transactions in the financial statements.** See note 27 to the financial statements

Taxation and PTU	
The taxation of mining companies in Mexico has been the subject of much attention and governmental action in Mexico. In accordance with the Mexican legislation, companies in Mexico are subject to pay for employee profit sharing ('PTU') equivalent to 10% of the taxable income of each fiscal year. There is a risk that deductions taken when calculating tax and PTU charges may be challenged, and that any resulting exposures to payable taxation and PTU may not have been provided for appropriately. In addition, certain tax assets and liabilities are denominated in Mexican pesos and may be revalued during the period, resulting in foreign exchange gains or losses. The Audit Committee seeks to ensure that shareholders have adequate information to conclude that the stated charges for PTU and taxation are fair and reasonable.	In reviewing both taxation and PTU, the Committee reviews all the significant judgements and adjustments applied in determining profit subject to taxation or PTU for each subsidiary which are clearly set out in papers prepared by management. The Committee challenges management's and EY's views and ascertains the degree to which such adjustments are supported by internal and/or external subject matter experts. **The Audit Committee was satisfied that the stated charges for taxation and PTU are fair and reasonable under current Mexican tax law and financial reporting standards.** See note 10 to the financial statements

Licences and land title	
The Audit Committee consider whether the Company continues to have a robust process to ensure that all required legal documentation is completed correctly on acquisition of land titles particularly in light of recent litigation and ejido activity. The specific questions arising from this are: (i) whether there are factors which may give rise to asset impairment; (ii) whether the level of legal provisions and narrative disclosures in the accounts are adequate; and (iii) whether/when the Group would be able to resume operations at Soledad-Dipolos.	The Audit Committee has oversight over the progress of the land title review and throughout the year has received verbal and written reports from the Company's Head of Legal on the process. The review is largely complete. To date, apart from the issues arising from ongoing ejido litigation (on which the Audit Committee has received regular updates from the Head of Legal), which are being addressed, nothing significant has emerged. **The Audit Committee is satisfied that the amount of the mining assets at 31 December 2016 is not overstated when taking into consideration the currently available information and that relevant disclosures throughout the Annual Report are appropriate.** See note 12 to the financial statements

Ensuring that the Annual Report is fair, balanced and understandable
Two weeks prior to the Annual Report and financial statements for the year-ended 31 December 2016 being approved by the Board, members of the Audit Committee and other Directors reviewed an earlier draft enabling them to assess whether the information was consistent with their understanding of the Company's business. Suggested changes put forward by those Directors based on knowledge obtained through Board and Audit Committee papers and discussion and their other interactions with management are also taken into account in the final version of the Annual Report. These included observations on the strategic report arising from a comparison with the disclosures in the financial statements to ensure consistency. The Board therefore considers that, taken as a whole, it is fair, balanced and understandable.

Audit Committee Report continued

External Audit

Ordinary course activity during 2016

2015 full-year	2016 interim	2016 full-year
• Review EY report following completion of the audit for the year ended 31 December 2015. • Meeting of Committee members with EY without management present. • Review of the representation letter given to EY for the 2015 full-year audit. • Review effectiveness of the 2015 full-year audit process. • Recommendation to the Board of the reappointment of EY as auditors at AGM. • Subsequent review of letter from EY to management providing their observations and opportunities arising from the 2015 audit process and management responses to same. • Review of Financial Reporting Council Report on EY as a firm in respect of 2015 Annual Reports.	• Discussion with EY of the findings from their review of interim results for the period ended 30 June 2016. • Meeting of Committee members with EY without management present. • Review 2016 half-year representation letter given to EY.	• Considering at the planning stage of the audit whether any changes were required to the existing accounting policies. • Review and approval of the external audit plan, fees and terms of audit engagement. • Consideration of the independence, objectivity and qualifications of EY as external auditor. • Review of the October hard-close audit findings. • Review of policy on the provision of non-audit services by the external auditor and approvals. • Review of external audit report on the financial statements and Annual Report for the year ending 31 December 2016.

During 2016, the members of the Audit Committee met twice with representatives from EY without management present and once with management without representatives of EY present, to ensure that there are no issues in the relationship between management and the external auditor which it should address. There were none.

External auditor tender

During 2016 a rigorous tender process for the external audit for the financial year beginning 1 January 2017 was conducted (see the section headed external audit tender, below).

Appointment of the external auditor
In February 2016, the Audit Committee considered and recommended the re-appointment of the external auditor, EY, to the Board prior to the Company's Annual General Meeting. This review took into account the results of the auditor assessment process, the quality of the work and communication by the external auditor and the level of audit fees. The Audit Partner is Daniel Trotman and he has been the Audit Partner for two years.

External audit tender
During 2016, the Audit Committee undertook an external audit tender exercise. The existing auditor, EY was invited to tender in the process as this was permitted by current legislation given that EY had only completed nine years as external auditor. Recognising that two of the members of the Audit Committee were previously employed by EY and the existing relationship which the Company has with EY, the Audit Committee designed the tender exercise to be robust, objective and transparent. Thus, the process consisted of the following steps:

March 2016	The Chairman of the Audit Committee wrote to leading institutional shareholders inviting their input into the tender process.
May 2016	Introductory meetings with all four tenderers in London to explain process and provide information about the Company and the audit.
June 2016	Data Room was opened and requests for information processed.
August 2016	Meetings with each of the tenderers: (i) In London with the Audit Committee Chairman and Company Secretary to explain the Audit Committee process and governance framework. (ii) In Mexico City with (a) the Audit Committee members; (b) the Internal Audit and Risk Management team; (c) the Chief Financial Officer, Group Financial Controller, the Head of IT and the Assistant VP, Planning and Executive Information and (d) the Chief Executive Officer, Chief Operating Officer and Head of Exploration.
September 2016	• Receipt of written proposals. • Short-list of tenderers agreed for oral presentations. • Oral presentations given in Mexico City.
October 2016	Formal decision made by Audit Committee, taking account of input from members of the Executive Committee, internal audit and the finance team, and its recommendation made to the Fresnillo plc Board.

Four firms, Deloitte, KPMG, PwC and the incumbent auditor, EY, were invited to submit tenders. In order to ensure that the process was as objective as possible, the Audit Committee involved a number of key stakeholders who work with the external auditor. These included the Chief Executive Officer, Chief Financial Officer, the Group Financial Controller, the Head of IT, Assistant Vice President, Planning and Executive Information, the Head of Risk, the Head of Internal Audit and Internal Audit Manager. All of the stakeholders involved in the process were invited to rank/score each of the tenderers against each of the following criteria. These marks were taken into account as part of the evaluation process.

- Experience in mining, with precious metals expertise preferred, in companies of a similar size and complexity.
- London team experienced with FTSE 100 companies and associated regulation and governance (preferably with some who can speak Spanish) supported by local Mexican team.
- Quality of partners in UK and Mexico and quality of their teams, evidenced by firm and external evaluations. Issues from the FRC's Audit Quality Review (AQR) of the firm relevant to audit of Fresnillo and details of internal processes used for quality assurance. Quality and experience of other technical resources that may be used on assignments.
- How the audit approach would be aligned to Fresnillo's specific circumstances.
- Communication skills.
- Expected continuity of team.
- Proposed hours and fees in detail with methodology for future years.
- Independence of firm and details of internal practices to ensure continuing compliance with independence requirements and freedom from conflicts of interest.
- Plan for transition and experience of such transitions with similar companies.
- Experience of co-ordination with Parent Company management and auditors and methodology for doing so.

Fresnillo external audit tender evaluation criteria

Following the submission of the written proposals, the Audit Committee unanimously concluded that Deloitte and EY demonstrated better the resources, expertise, quality control and audit approach to deliver a high quality audit service to Fresnillo and were invited to give oral presentations, following which, a formal recommendation to re-appoint EY as the external auditor was made to the Board and accepted in October 2016. The appointment will be presented to shareholders for confirmation at the 2017 AGM.

In making its recommendation to the Board to re-appoint EY for the 2017 year end audit, the Audit Committee and management particularly noted that EY have a strong understanding of the mining sector and its various audit-related issues and challenges. They also took into account the strength and experience of the EY team both in London and in Mexico. In addition, EY had identified ways in which the audit process could continue to evolve and innovate as part of their proposal and have committed to implement those recommendations.

Quality and independence of the external auditor and non-audit services policy

The Audit Committee is mindful of its responsibility to ensure that the external auditor maintains its independence and objectivity and is appropriately qualified with sufficient resources and expertise to fulfil the role. During the external audit tender process all of these aspects were considered. More specifically in the context of the 2016 audit, the Audit Committee specifically reviewed, and is satisfied with, the independence of EY as the external auditor based on disclosures provided by EY in accordance with UK Ethical Standards for the audit profession.

Following the implementation of the EU Audit Reform Directive, the Audit Committee reviewed its policy for the provision of non-audit services to the Fresnillo Group by the external auditor (the 'Revised Policy', which was effective from 1 January 2017). This resulted in minor changes being agreed to the Policy to ensure that it conforms to the new Ethical Standard published by the Financial Reporting Council. Under the Revised Policy the engagement of the external auditor to provide statutory audit services, certain assurance, and due diligence services with fees of less than US$5,000 is pre-approved. Any engagement of the external auditor to provide permitted services above US$5,000 is subject to the specific approval of the Audit Committee.

In October 2016, the Audit Committee reviewed the non-audit work undertaken by EY during the year. The Committee was satisfied that the level of work was appropriate and that the nature of the work would not compromise EY's objectivity in respect of future audit work. Details of the fees paid to EY during the year as shown in note 28 to the financial statements.

Risk and Internal Control

During the course of 2016, the Audit Committee undertook the following activities in relation to risk, internal control, going concern and viability:

Governance Area	Activities
Risk	• Quarterly reviews of the risk matrix and Key Risk Indicators ('KRIs') • Half-yearly reviews of the Principal Risks and Uncertainties.
Internal control	• Consideration of plan for the year-end review of the system of internal controls. • Quarterly review of internal control monitoring reports to the Board • Annual review of the system of internal controls.
Financial	• Annual treasury policy review. • Review of reserves and resources data and report from SRK.
Non-financial	• Quarterly review of Anti-Bribery and Corruption Programme (ABAC). • Quarterly report on legal matters (land titles and litigation). • Regular reviews of IT Governance, IT Strategy, Cyber-security and Data Protection. • Annual review of compliance with mining licence conditions.
Going concern	• Half-yearly reviews of the Going Concern Statement and supporting papers.
Viability	• Review of the process for preparing the Viability Statement including scenario planning assumptions and supporting paper. • Review of the draft Viability Statement prior to submission to Board for approval.

Audit Committee Report continued

Risk and Internal Control *continued*

Risk

Management will continue to build on the existing risk management framework, seeking to enhance risk governance and management across the business in line with the changes to the UK Corporate Governance Code. In order to support the Board in monitoring the normal risk management activities, the Audit Committee reviewed management's activities to:

- develop an ongoing continuous monitoring process consisting of validating the effectiveness of current controls;
- continue promoting ownership of risk mitigation and associated controls among the process owners at the business unit level (being the first line of defence) through their periodic reporting on the effectiveness of controls; and
- consider how our risk management environment is strengthened through working to ensure that the Group's corporate values and control culture are embedded throughout the organisation.

These efforts have resulted in a transparent analysis of the operational, financial and executive management controls for each of the risks that have been identified by management in its risk universe.

During 2016, the Audit Committee and Board formally reviewed the Principal Risks and Uncertainties of the Group prior to the publication of both the interim and full-year reports.

Further details of the risk management system are set out on page 42.

Financial risk management

The Company's objectives and policies on financial risk management including information on the Company's exposures to market risk, such as foreign currency, commodity price, interest rate, inflation rate and equity price risks; credit risk and liquidity risk can be found in note 31 to the financial statements.

Internal control

The Group has in place internal controls and risk management systems in relation to the Group's financial reporting process and the Group's process for preparing consolidated accounts. These systems include policies and procedures to ensure that adequate accounting records are maintained and transactions are recorded accurately and fairly to permit the preparation of financial statements in accordance with IFRS.

During 2016, the Audit Committee has overseen the implementation of a new internal control monitoring document which is prepared and submitted to the Board on a quarterly basis. This document specifically reports on internal controls and the key findings from the quarterly internal audit reports. During the year, management embarked on a communication programme across the business to explain how the internal controls framework operates. This resulted in managers at each of the Business Units better understanding how the internal control programme operates.

The process agreed by the Audit Committee to monitor the Group's system of internal controls focused on improving the understanding of how the various sources of assurance (such as operational management, financial management, executive management and internal audit) interact in the review and execution of material controls and identify and address any gaps in the control framework. To this end, the Audit Committee, with the assistance of the risk function and management, has assessed its approach to monitoring the ongoing effectiveness of the Group's system of internal controls. That review was concluded by the Audit Committee in February 2017.

Control exceptions identified in the current year include those relating to operational safety, compliance with regulations for handling hazardous materials and explosives, monitoring of electrical installations, installation of auxiliary services within the mine, monitoring and operation of tailings deposits and the oversight over contractors. These issues are not pervasive throughout the Group's operations but each issue has occurred at least at one of the Group's operating areas and plans for remediation have been approved and these are being progressed.

In the current year the Audit Committee has also received updates on the Group's IT strategy and related risks. This has included initial consideration of an external cyber-security assessment which has highlighted a number of areas for future focus. Through an ongoing dialogue with the Executive Committee and operational management, these findings are being prioritised and remediation plans to address them, including control improvements, are being developed and implemented.

The Audit Committee receives regular reports on ongoing management actions and initiatives undertaken to respond to control exceptions identified, recognising that, by their nature, these can take a period of time to take effect. The Committee reviews and closely monitors progress throughout the year. The Audit Committee is satisfied with the progress that it has seen in the year.

In the prior year, certain opportunities to improve monitoring activities were identified, which have progressed in the year. The Audit Committee and the Board will continue to closely monitor the implementation and progress of these initiatives during 2017. On the recommendation of the Audit Committee, the Board agreed that the following statement to be made about the review of the system of internal control in the 2016 Annual Report and Accounts.

> The Board has, through the Executive Committee and the Audit Committee (at its February 2017 meeting), reviewed the effectiveness of the Group's system of internal controls. As a result of this review, the Board considers that the measures that have been or are planned to be implemented complement Fresnillo's risk management framework and are appropriate to the Group's circumstances.
>
> The Board is committed to the continued development of its internal control regime with a view to achieving and maintaining best practice levels of risk management and internal control for international mining companies listed on the London Stock Exchange.

Going concern

The Directors must satisfy themselves as to the Group's ability to continue as a going concern for a minimum of 12 months from the approval of the financial statements. The Audit Committee supported the Board in this assessment by considering whether, in adverse circumstances, the Company has adequate liquid resources to meet its obligations as they fall due. In February 2017, the Audit Committee reviewed the Group budget and cash flow forecasts for the period to December 2018, taking into account the Company's anticipated production profiles at each mine, budgeted capital and exploration expenditure and the sensitivity of the cashflow forecasts to movements in metal prices.

The Audit Committee also considered EY's report on this assessment and on the reasonableness of assumptions therein, including their consistency with assumptions and estimates used elsewhere in the preparation of the financial statements. In particular, the Committee challenged management on the feasibility of the mitigating actions and the potential speed of their implementation. As a result of the procedures performed, the Audit Committee satisfied itself that the going concern basis of preparation is appropriate and the financial statements appropriately reflect the conclusions on going concern.

Longer-term viability
Having adopted a robust process for the preparation of the Viability Statement (which was described in the 2015 Audit Committee Report), the Audit Committee considered with management how the disclosures could be enhanced and further validated. This discussion concluded that the approach adopted in respect of the 2015 Annual Report should continue to be applied in 2016 but with further analysis around the actions that the Board could take (for example, contingency planning) in mitigating the impact of the types of scenarios set out in the Viability Statement.

The Board's Going Concern Statement and longer-term Viability Statement are set out in the strategic report on pages 54 and 55.

Internal Audit

The Audit Committee has continued its regular dialogue with internal audit during the year:

Frequency	Activity
Annually	• Review Internal Audit Plan and its resourcing for the following year. • Evaluation of internal audit.
Twice a year	• Meeting between the Audit Committee and internal audit without management present.
Every meeting	• Review of significant internal audit findings (including progress with red flags) based on the audits conducted during the most recent quarter.

The Head of Internal Audit attends all meetings of the Audit Committee. The Chairman of the Audit Committee met separately with the Head of Internal Audit and Internal Audit Manager six times during 2016.

The internal audit team seek to complete audits of all the operating risks across all of the Fresnillo Group's mining assets on a regular basis. During the year, the Audit Committee have worked with internal audit to focus on three particular areas:

1. **New mines:** Following the emphasis on auditing the Company's new mines which was initiated in 2015, internal audit continued to examine that proper procedures are implemented from the beginning in those new operations. This review particularly focused on the effectiveness of the processes adopted when building and commissioning the San Julián mine.
2. **Red flags:** At each meeting during the year, the Audit Committee has focussed on the progress made by management in dealing with 'red flag' items raised during internal audit visits to ensure that the management responses to remediation are appropriate and timely. Significant progress has been made during the year to reduce the number of issues requiring long-term remedial work that remained outstanding at the end of 2015.
3. **IT issues** *(including Cyber Security and Data Protection)*: During 2016, the Audit Committee has received presentations from the Head of IT setting out the Group IT Strategy for the year and demonstrating how this supports the overall Group Strategy. Within these presentations, the Audit Committee has considered the steps being taken by management to: (i) deal with cyber security threats, and (ii) ensure appropriate levels of procedural compliance with the requirements of Mexican data protection legislation. The Audit Committee understands the steps being taken by management to deal with these matters and is satisfied with the progress being made.

In addition, the Audit Committee has also monitored the quality of the dialogue between internal audit and the Executive Committee in reviewing internal audit findings and agreeing action plans with appropriate levels of operational buy-in to deal with the points raised. The Audit Committee met with the Chief Executive Officer and Chief Operating Officer during the year to review this and is satisfied with the progress achieved through this dialogue.

The members of the Audit Committee evaluate the performance of the Internal Audit team annually and in 2016 this process was facilitated by the Chairman of the Audit Committee who discussed the findings of that review with the Head of Internal Audit and Internal Audit Manager. When reviewing the Internal Audit Plan for the year, the Audit Committee also considered the personnel available within the Internal Audit team, their expertise and experience. In 2016, the Audit Committee particularly considered the specialisms within the internal audit team in key areas of risk such as IT and safety.

Audit Committee Report continued

Whistleblowing

A summary of all whistleblowing hotline cases and Honour Commission responses is presented at each Audit Committee meeting.

The 'Fresnillo Plays Fair' whistleblower hotline allows stakeholders to anonymously report (via an independent third party) violations of the Group's Code of Conduct. The results are assessed by an independent third party and processed for review by the Honour Commission, which is comprised of the Chief Executive Officer, the Chief Operating Officer, the Compliance Officer (currently the Chief Financial Officer), the Director of Internal Audit, the Vice President of Exploration and the Legal Manager. These arrangements have been established for some time and the Audit Committee is responsible for ensuring that appropriate investigation of all whistleblowing incidents is undertaken in a timely manner.

During 2016, the Audit Committee was satisfied that all matters had been properly investigated with appropriate action taken. The Audit Committee considers that current level of issues raised is good evidence that the current programme is being taken seriously across the Group and is operating satisfactorily.

Related Parties

First half, 2016 activity	Second half, 2016 activity
• Review of related parties list and payments to key external advisors.	• Review of insurance programme (including the role of related parties in the insurance programme). • Review of the related parties list. • Review of Met-Mex treatment charge and refining charge rates for 2016.

Peñoles owns just under 75% of the issued share capital of the Company (see page 125) and therefore has and will continue to have a significant level of influence over the affairs and operations of Fresnillo.

Being part of the same Group also provides an opportunity for synergistic benefits to be achieved operationally and administratively. The principal arrangements between the Company and related parties are:

The Shared Services Agreement	The Shared Services Agreement is an agreement between the Company and Peñoles under which 23 categories of services are provided to the Company by Peñoles. The Shared Services Agreement was renewed for five years with effect from 31 December 2012. In order to ensure that Fresnillo is charged appropriately for services rendered by Peñoles under the Shared Services Agreement, management have regular meetings with Peñoles to discuss its performance against the Key Performance Indicators (KPIs) for each of the different categories of service where issues of non-compliance are addressed and remediation agreed. In addition, internal audit conduct reviews of approximately one third of the services provided each year to ensure that these services are provided in accordance with the agreed KPI's. As a result, all services are reviewed by internal audit over a three-year cycle. During 2017, the Audit Committee will begin the process for renewing the Shared Service Agreement. This is expected to follow a similar process to the one used in 2012 and include benchmarking exercises across all of the service categories to ensure that the scope and pricing for each service is appropriate.
The Met-Mex Agreement	During the year, the Audit Committee considered the proposed charges in respect of the Met-Mex arrangements for 2016 comparing proposed prices to comparable prices charged by Met-Mex to independent customers and to those of other refineries taking account of ore composition and transport costs to ensure that they are reasonable. Based on the satisfactory outcome of that review, the Chairman of the Audit Committee recommended to the Board that the independent Directors approve the proposed charges for 2016 under the Met-Mex arrangements, which they did in October 2016.
Other agreements	There are other dealings with related parties in the ordinary course of business (e.g. insurance brokerage) which, although not requiring approval by independent Directors, will from time-to-time be reviewed by the Audit Committee to ensure that the arrangements are on a reasonable arm's-length basis.

The Effectiveness of the Audit Committee

In addition to the activities set out above, the Audit Committee takes various steps each year to ensure that the Committee itself and the key functions supporting its role, primarily the external auditor and internal audit continue to be effective. The key steps are:

Activity	Outcome in 2016
• Review of the training and development requirements for Audit Committee members.	• Committee members attended external briefings and seminars to keep their knowledge up-to-date in addition to briefings from the external auditors relating to changes in financial regulation.
• Annual Review of the Terms of Reference of the Audit Committee in order to ensure that they remain up-to-date.	• The Company Secretary facilitated a review of the terms of reference of the Audit Committee and changes were agreed which aligned the terms of reference with new requirements on non-audit services.

The outcomes of the Audit Committee evaluation in 2016 is discussed below.

Prior to the planned external evaluation in 2017, the Audit Committee conducted an internal evaluation in 2016. This was facilitated by the Company Secretary, using a questionnaire-based approach. This was the final step in a three-year process which commenced in 2014 when Independent Audit Limited undertook an externally-led evaluation of the Audit Committee.

The broader context for the 2016 exercise, therefore, was:

Year	Approach	Outcome
2014	• Externally-facilitated evaluation.	• The Audit Committee established five key workstreams in response to the 50 recommendations of the evaluation.
2015	• Internal Review of the Key Workstreams arising from the 2014 evaluation.	• Progress on the workstreams was monitored and reported on in the 2015 Audit Committee Report.
2016	• Internal questionnaire to key Audit Committee stakeholders evaluating progress on all of the original recommendations made by Independent Audit Limited.	• The key conclusions of this exercise are summarised below.

The conclusions of the 2016 evaluation were that the Audit Committee is satisfied that its core duties in relation to financial reporting, external audit, risk and internal control, internal audit, whistleblowing and related parties are being performed well, albeit that it recognises the necessity of continuous improvement. The Audit Committee intends, however, to consider the following aspects of its activities following its own evaluation exercise and the Board evaluation review:

- Review of the Board's post-investment review procedures.
- Oversight of management's evaluation of the Shared Services Agreement as it approaches its renewal date.
- Oversight of the IT Governance Committee in relation to the management of the IT strategy and IT-related internal controls and the liaison with internal audit.
- The interface between the Audit Committee, internal audit and the HSECR Committee in relation to internal audit findings relating to health, safety and environmental matters.
- The relationship between the Audit Committee's oversight of the Honour Commission and the wider governance of culture by the Board and the HSECR Committee.

The Corporate Governance Report has been approved by the Board of Directors of Fresnillo plc.

Signed on behalf of the Board.

Charles Jacobs
Senior Independent Director
27 February 2017

Directors' Remuneration Report
Chairman's Annual Statement

"The fundamentals of our remuneration policy remain sound and appropriate for Fresnillo and are supported by our shareholders."

Charles Jacobs
Chairman of the Remuneration Committee

Dear Shareholder,

As Chairman of the Remuneration Committee, I am pleased to present our Remuneration Report for the year ended 31 December 2016 and, within this introduction, set the context for the activities and decisions of the Remuneration Committee during the year.

Whilst much of the activity of the Remuneration Committee during 2016 may be regarded as 'business as usual', the expiry of our current Directors' remuneration policy at the 2017 AGM has presented a timely opportunity for us to reflect on our overall approach to remuneration. The firm conclusion from that review is that the fundamentals of our remuneration policy remain sound and appropriate for Fresnillo and are supported by our shareholders. Therefore, whilst we are proposing some changes (as outlined on page 140) the essential structure of the policy will remain unchanged and therefore the key features of the policy remain as follows:

Component of remuneration	Key features and rationale
Base salary and benefits	These are core elements of remuneration designed to recruit and retain Directors. Ordinarily, the same basis for change (e.g. salary increases) will be applied across the Company to senior management and employees alike.
Annual bonus	Annual bonus is capped at six months' salary and is paid on the basis of metrics set out in the remuneration policy.
Long-term incentive schemes	There are no long-term incentive schemes. The annual bonus scheme sets targets which are aligned to the long-term strategic objectives so that these priorities are embedded within the day-to-day activities of our business rather than being seen as something extra.
Shareholding guidelines	In the absence of share-based incentive schemes, there is no need to adopt shareholding guidelines for executives.
Claw-back and malus	The absence of long-term incentives makes it difficult to adopt claw-back and malus arrangements. There is scope within the bonus scheme for bonus awards to be adjusted downward at the discretion of the Remuneration Committee.

As in previous years, we have published remuneration information in respect of our Chief Executive Officer as if he were a member of the Board, even though that is not currently the case. We believe this is within the spirit of our reporting obligations, even if it is not strictly required, as it adds to the transparency of our reporting.

Remuneration Committee membership

Although the UK Corporate Governance Code emphasises the need for the Remuneration Committee to be made up of independent Non-executive Directors, we believe that it is vital that the membership of the Committee is made up of Non-executive Directors who are able to bring the following perspectives to the working of the Remuneration Committee:

- An understanding of shareholder expectations.
- An understanding of the evolving remuneration expectations of investors on the London Stock Exchange.
- An understanding of the general approaches to remuneration within the Mexican market.

When viewed against these three criteria, the current composition of the Remuneration Committee, being myself, Mr Baillères, the Chairman of the Board, and Mr Fernando Ruiz, appears to be very appropriate. Thus, although Mr Baillères was non-independent at the time of his appointment to the Board (and therefore his membership of the Remuneration Committee does not comply with Code Provision D.2.1 of the UK Corporate Governance Code), the Board continues to uphold the view that Mr Baillères' experience and knowledge of the Group and the Mexican market and his considerable contribution to the Remuneration Committee's deliberations justifies his membership of the Remuneration Committee. I am based in London and aware of the UK requirements whilst Mr Ruiz is based in Mexico and, along with the Chairman, is aware of the Mexican approach to remuneration.

Remuneration Committee activity

During the year, the Committee met four times. Its key activities during the year were:

- Monitoring of UK regulatory requirements and changing shareholder expectations and a review of potential changes to the remuneration policy.
- Receipt of reports from Willis Towers Watson concerning the benchmarking of remuneration for members of the Executive Committee and Executive Directors, by reference to the peer group.
- Consideration of information about Mexican inflation trends and internal employee salary reviews prior to setting the annual salary increases for the Chief Executive Officer and members of the Executive Committee.
- Review of the performance of the Chief Executive Officer and members of the Executive Committee compared to the KPIs set for 2015 and approval of annual bonus awards for 2015 based on achievement of KPI targets.
- Review of KPI targets for the Chief Executive Officer and members of the Executive Committee for 2016, including consideration of the effectiveness of changes to the targets to reward better performance in safety improvement and exploration efforts set the previous year.
- Other activities, e.g. Committee evaluation, as required by the Committee's terms of reference.

I am always happy to talk to our shareholders about our approach to remuneration particularly as we approach the renewal of our policy at our 2017 Annual General Meeting.

Yours faithfully

Charles Jacobs
Chairman of the Remuneration Committee

Performance highlights and remuneration outcomes in 2016

Company performance

Silver production (moz)
50.3m
(2015: 47.0m)+7.1%

Gold production (koz)
935.5m
(2015: 761.7m)+22.8%

Total silver reserves (moz)
530.3m
(2015: 547.6m)-3.2%

Total gold reserves (moz)
9.5m
(2015: 9.5m)0.0%

Profit for the year (US$ millions)
425.0m
(2015: 69.4m)+512%

Fatalities
3
(2015: 1)+300%

Components of CEO's remuneration

Total salary (MX$ millions)
14.8m
(2015: 14.1m)+5.0%

Bonus (MX$ millions)
3.6m
(2015: 1.7m)+111.8%

Directors' Remuneration Report continued
Remuneration Policy Report

Proposed changes to the Remuneration Policy

A new Directors' remuneration policy will be proposed to shareholders for approval at the 2017 Annual General Meeting on 23 May 2017. The full policy is set out on pages 142 to 146. For ease of reference, the significant changes being proposed are summarised as follows:

Proposed change	Rationale
The addition of limited discretion in the Bonus section of Remuneration Policy table to enable the Committee to adjust individual KPI weightings from year-to-year.	This provides the Remuneration Committee with limited flexibility to adjust the weighting of different elements of the bonus KPIs to ensure that the bonus remains aligned to the strategic objectives as they evolve.
Change to triennial benchmarking (rather than biennial), to be reviewed in the year prior to the renewal of the remuneration policy.	Institutional shareholders have stated that they prefer three-yearly cycles for benchmarking (which are administratively easier to manage).
Addition of a cap on the maximum level of salary increase for the Chief Executive Officer in any year to ensure that it is not more than 10% higher than the average percentage pay increase for the workforce as a whole, except in exceptional circumstances which would be fully explained in the following Annual Report on Remuneration.	To ensure that there is absolute clarity about the maximum level of pay increase for the Chief Executive Officer by reference to the workforce whilst allowing some scope for justifiable above-inflation increase e.g. where the Chief Executive Officer has been initially appointed at a below median pay level to allow scope to grow into the role.
More explicit disclosure about the peer group used to benchmark the Chief Executive Officer's remuneration to ensure that it remains within the parameters set out in the remuneration policy.	To provide clarity about the most appropriate group of companies to use for benchmarking purposes in response to comparator groups selected by third parties.
Addition of a provision to allow the Remuneration Committee to adjust a bonus outcome downward if the financial or operational performance of the Company or individual does not justify the bonus level that would otherwise have been achieved on an ordinary interpretation of the targets and metrics.	This specific discretion to reduce bonus payments where circumstances justify it is effectively a 'malus' provision.
The Remuneration Committee has previously agreed a change to the payment bandings by adding a three-month bonus payment band.	To bring the banding structure for the Chief Executive Officer's bonus arrangements into line with the changes previously agreed for the other Executive Committee members and provide more flexibility in bonus payments.
Addition of a new section describing how shareholder views on remuneration are taken into account.	As required by the Regulations.
A statement concerning the use of Shareholding Guidelines is introduced.	This had previously been included in the Annual Report on Remuneration and is now part of the remuneration policy.

Directors Remuneration Policy in summary

The retention of key senior executives and the alignment of management incentives with the creation of shareholder value are key objectives of the Group's current remuneration policy.

Setting base salary levels for Executive Directors or key management at an appropriate level is key to managerial retention in Mexico. Salaries are therefore market competitive both within the Mexican context and internationally for comparable companies. Total remuneration is benchmarked triennially against the Company's peer group within Mexico and internationally to ensure that the whole remuneration package is maintained at this level over the long-term. Salaries are positioned within the range according to experience and length of service.

The annual bonus rewards the achievement of financial and strategic business targets and the delivery of personal objectives. Although the annual bonus is set for and based on performance over a single-year period, the KPI's and targets are also designed to ensure that both short-term objectives and the long-term development of the Fresnillo Group are given broadly equal priority within variable remuneration. As a consequence, the Company does not use share-based forms of remuneration to incentivise long-term performance.

The Annual Bonus Plan aligns incentives to the short-term (one year) and long-term (multiple year) objectives in the following manner.

		Time horizon for objectives			
Strategic objective	**Key performance indicator for the bonus scheme**	**Short-term**	**Long-term**	**Measure**	**Weighting[1]**
Maximise the potential of existing operations	Increase production	X	X	Increase in equivalent ounces produced	26
	Safety	X		Fatalities	5
Deliver growth through development projects	Resources		X	Increase in total resources	10
Extend the growth pipeline			X	Increase in resources upgraded from inferred to indicated	20
Advance sustainable development	Stakeholder		X	Various (focused on community, employee and contractor relationships)	11
	Financial	X		Net adjusted profit[2]	17
All objectives	Teamwork	X	X	Various e.g. succession planning	11

Notes:
1. The Remuneration Committee may approve changes to the weightings in order to ensure that the bonus remains aligned to the strategic objectives as they evolve.
2. The 2016 net profit amount for the purposes of the 2016 annual bonus was re-based to take account of the year-on-year changes in currency, metals prices, the revaluation of the Silverstream contract.

Directors' Remuneration Report continued
Remuneration Policy Report continued

Directors' Remuneration Policy

Introduction
This part of the Directors' Remuneration Report sets out the remuneration policy of the Company and has been prepared in accordance with The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 ('the Regulations'). The policy has been developed taking into account the principles of the UK Corporate Governance Code 2016 and the views of our major shareholders. It describes the policy to be applied for the financial year ending 31 December 2017 and beyond. The remuneration policy will be put to a binding vote at the 2017 Annual General Meeting, and, subject to it receiving majority shareholder support, the Effective Date of the policy will be the date of the 2017 Annual General Meeting of the Company, 23 May 2017. This policy replaces in its entirety the remuneration policy approved by the Company's shareholders on 16 May 2014 but the Company may honour any commitment to pay an amount which was made before this policy came into effect or before the Director became a Director.

As required by UK law, the remuneration policy is binding in relation to Directors. The Company currently has no Executive Directors who would be bound by the remuneration policy. However, the Company will (as it has previously done) treat the Chief Executive Officer as if he were an Executive Director for the purposes of the remuneration policy and for reporting on his remuneration.

Remuneration policy
The Group's remuneration policy seeks to ensure that the Company is able to attract, retain and motivate its Executive Directors and members of the Executive Committee. The retention of key management and the alignment of management incentives and the creation of shareholder value being key objectives of this policy.

Setting base salaries for Executive Directors and members of the Executive Committee at an appropriate level is a key to managerial retention in Mexico. Therefore, the Remuneration Committee seeks to ensure that salaries are market competitive both within the Mexican context and internationally for comparable companies. Total compensation is set within a range around the median level for the Company's peer group within Mexico and internationally, total remuneration is benchmarked triennially to ensure that the whole remuneration package is maintained at this level over the long-term. Salaries are positioned within the range according to experience and service.

The table below sets out the key elements of Executive Directors' pay set out in the remuneration policy (the 'Policy Table'):

Base salary

Provides the core reward for the role	
Operation	Reviewed annually and fixed for 12 months starting on 1 April each year and the review is influenced by: • Role, experience and performance. • Average workforce salary adjustments. • Mexican economic factors. • Comparison with the Company's peer group in Mexico and internationally. Salaries are benchmarked triennially by reference to companies of similar size and complexity and will be positioned within a mid-range of the Company's comparator peer group in Mexico and internationally. The next review will take place in April 2017 (under the old policy) and April 2019 (under the new policy).
Maximum value	The Executive Director's salary will be reviewed taking account of the benchmarking information received by the Remuneration Committee and the maximum value of the Executive Director's base salary will be positioned within the mid-range for companies in the peer group of Mexican and international resources companies. An Executive Director's salary will be increased in line with increases applied across the whole workforce. In exceptional circumstances, the Executive Director's salary may be increased by up to but never more than 10% above the average pay increase for the whole workforce of the Company in any year. The rationale for such increases will be fully explained in the Annual Report on Remuneration.
Performance metric	The Remuneration Committee considers individual salaries at the appropriate meeting each year by reference to the factors noted under the 'Operation' heading in this table. Details of the current remuneration of the Executive Director are provided in the Annual Report on Remuneration.
Discretion	The Remuneration Committee will establish the Company's comparator peer group in Mexico and internationally as part of the triennial review which it will consider in April 2019. The peer group will be reviewed again in April 2019. The Committee will report on the outcome of these reviews within the relevant Annual Report on Remuneration.

Benefits

Help recruit and retain employees	
Operation	An Executive Director would be entitled to life insurance, the use of a company car, the payment of premiums for medical insurance covering limited expenses and check-ups. Benefits may be changed if Company policy on benefits changes.
Maximum value	The current benefits are set out in the Annual Remuneration Report. The maximum value of benefits will be determined by Company policy that is applicable to all employees.
Performance metric	None.
Discretion	The Remuneration Committee may consider changes to the benefits made available to Executive Directors in line with any changes in the policy for benefits provided to all employees.

Pension

Rewards continued employment and sustained contribution	
Operation	The Group operates a defined contribution scheme. Executive Directors are entitled to membership of the defined contribution scheme.
Maximum value	The maximum company contribution for any employee may not exceed 13% of salary.
Performance metric	None.
Discretion	Not applicable.

Annual bonus

Rewards the achievement of both short- and long-term financial and strategic business targets and delivery of personal objectives

Operation

Targets are renewed annually and relate to the strategic aims of the business as a whole. A scoring system is used for the plan. Each objective set for the executive at the beginning of the year is allocated a points-rating which represents a median performance target for that objective. Upper and lower point thresholds are set to allow for outstanding performance and to ensure that underperformance is not rewarded. For each member of the Executive Committee (including the Chief Executive Officer, the Chief Financial Officer, the Vice President of Exploration and the Chief Operating Officer), a bonus is only payable if the aggregate performance equals or exceeds 100 points. Bonus payments are paid for aggregate performance against target at or above 100 points as follows:

Points	Variable pay (month's salary)	Variable pay (% of salary)
Less than 100	Zero	Zero
100.00–103.75	Two	16.67
103.76-107.50	Three	25.00
107.51–111.00	Four	33.33
111.01–115.00	Five	41.67
115.01+	Six	50.00

Maximum value

The maximum percentage of salary is 50% (six months' salary) and is paid where Executive Directors achieve 115.01 points or more under the Annual Bonus Plan (target is 100 points).

Performance metric

The KPI targets focus set out in the previous table will apply and are intended to focus on risks that are within the control and influence of management. Thus, the management of safety, security, project, human resource, exploration and environmental risks are all currently implicitly covered within the KPIs. The KPIs and targets, which are set by reference to the reserved and resources and financial metrics at the previous year end and/or set in the budget for the forthcoming financial year are also designed to ensure that both short-term objectives and the long-term development of the Fresnillo Group are given equal priority.

Details of the measures, targets and performance which is tested on an annual basis will be provided in the Annual Report on Remuneration.

Discretion

The Remuneration Committee considers that the KPIs, upon which bonuses are based, may need to evolve from year-to-year in line with the strategy and therefore it retains the discretion to make modest adjustments to the KPIs themselves, the bonus bands within the overall maximum and the individual KPI weightings from year-to-year.

The Remuneration Committee retains the discretion to adjust bonus payments in the following circumstances:

(i) A downward adjustment where the KPI outcomes would result, in the opinion of the Remuneration Committee, in a bonus payment which cannot be justified by the Company's financial or operational performance during the year (or subsequently in respect of previous years). In this case a downward adjustment would be applied.

(ii) Where factors outside the control of Executive Directors e.g. force majeure circumstances have significantly depressed the level of points awarded. In deciding whether adjustment is merited, the Remuneration Committee will consider the appropriateness of the Executive Director's response to those circumstances; in this situation a modest upward adjustment may be considered.

(iii) Poor executive response to adverse health, safety or environmental performance during the year, in which case a downward adjustment would be considered.

The use of any such discretions will be fully explained in future Directors' Remuneration Reports.

Note: Any adjustment in individual KPI weightings will not result in their achievement being any less difficult to satisfy.

Directors' Remuneration Report continued
Remuneration Policy Report continued

Alignment of executive remuneration and the market
In setting the fixed remuneration of Executive Directors and the members of the Executive Committee, information relating to the mining company comparators is provided by various consultants. Information relating to the Mexican economic metrics and internal benchmarking is collated by management for the Remuneration Committee to consider.

Reviews are conducted by Willis Towers Watson triennially. These enable the Remuneration Committee to validate the Company's policy towards remuneration and ensure that it was globally as well as locally competitive. The analysis evaluates the elements of base salary, short-term compensation (guaranteed payments and short-term bonus) and long-term compensation (primarily stock programmes) separately. With assistance from Willis Towers Watson, the Remuneration Committee has established a peer group consisting of the following companies which will be used to benchmark any Executive Director's and any Executive Committee member's remuneration to ensure that it remains within the parameters set out in this policy.

Europe	Randgold Resources Acacia Mining Hochschild Mining
USA/Canada	Agnico Eagle Mines Ltd Goldcorp Inc. Hecla Mining Co. Newmont Mining Corporation Panamerican Silver Corp. Yamana Gold Inc.
Mexico	Goldcorp Grupo Mexico

Comparison of executive and wider Company remuneration
When setting pay and benefits for Executive Directors and members of the Executive Committee, the Remuneration Committee takes account of pay and conditions across the Group. It will consider the overall pay increase percentage negotiated with employee representatives as its starting point. Subject to the 10% limit in the Policy Table, the Remuneration Committee may agree pay increases above or below the agreed percentage in exceptional circumstances, where in its discretion it considers such variance to the norm to be justified. Other than the Willis Towers Watson report specifically commissioned by the Remuneration Committee, the same benchmark reports are used in the evaluation of executive and employee remuneration, thus providing a common approach to both.

Below Board level, a statutory profit-sharing arrangement ('PTU') is operated which in some years has enabled employees to receive significant levels of bonus in line with the increased profitability of the relevant employing company. Neither the Chief Executive Officer nor any of the Non-executive Directors participate in a PTU scheme within the Fresnillo Group. The other members of senior management group below Board level are employed by Servicios Administrativos Fresnillo SA de CV which pays annual PTU payments. However such payments are modest.

The Group operates two pension schemes: (i) a defined benefit scheme which was closed to new members on 1 July 2007 with benefits frozen at this date for existing members, subject to indexation with reference to the Mexican National Consumer Price Index; and (ii) a defined contribution scheme (which was introduced on 1 July 2007). Membership of the latter scheme is voluntary, members earning a salary of no more than 25 times the minimum wage in force from time to time may make contributions of 5% to the scheme.

On behalf of members earning a salary of no more than 25 times the minimum wage in force from time to time the employing company may make contributions of 5% to the scheme. The employing company may also make additional contributions between 5% and 8% of salary to this plan. Members may elect to match percentages between 5% to 8% of salary.

Executive Directors may participate the Group's pension schemes on the same basis as any other employee.

Engagement with shareholders on remuneration
The composition of the Remuneration Committee has been designed to ensure that the views of the controlling shareholder (through the membership of the Chairman of the Board on the Committee) and the independent shareholders (through the membership of a UK-based Director on the Committee) can be represented. The Remuneration Committee has considered the views of organisations such as Institutional Shareholder Services ('ISS') and the Investment Association both generally and as reported to the Company in relation to its own executive remuneration practices prior to each Annual General Meeting, when considering the Remuneration Policy and its application. The Chairman of the Remuneration Committee also discussed aspects of the Remuneration Policy in person with ISS, and there were no major concerns raised.

The Remuneration Committee does not consult with employees in setting Directors' remuneration.

Policy on recruitment
The Remuneration Committee will consider the remuneration of new Executive Directors by reference to the remuneration policy set out above. The Remuneration Committee does not as a default position pay sign-on payments or compensate new Directors for any variable remuneration forfeited from any employment prior to joining the Board. If it did, such payments would be fully explained in the next Annual Report on Remuneration both as to the reason for payment and the rationale for the quantum. Salary will be set so as to be market competitive both within the Mexican context and internationally for comparable companies and taking account of the experience and seniority of the appointee coming into the new role. The Remuneration Committee is likely to set base salaries below median on appointment whilst retaining discretion to award increases during the first and, possibly, subsequent years to bring salaries into the normal range expected for Executive Directors, in line with the Company's stated policy. Such increases will not exceed the maximum level set out in the Policy Table. New Executive Directors will receive benefits and pensions in line with Company's existing policy and will be able to participate in the Annual Bonus Plan on a pro-rated basis for the portion of the financial year for which they are in post. The maximum level of variable pay for new recruits will be the same as that set out in the Policy Table for existing employees (pro-rated as necessary).

Policy on loss of office
Other than in circumstances of gross misconduct, Executive Directors and members of the Executive Committee, including the Chief Executive Officer, leaving employment from the Group, will be entitled to receive salary and pro-rated annual bonus based on performance to the date of leaving. Statutory entitlements are payable according to Mexican labour law, based on length of service. Mexican labour law does not make any provision for employers and employees to give or receive notice of termination of employment. Therefore the Committee will not make payments in lieu of notice to departing executives unless required to do so by law. No contractual commitments concerning loss of office were entered into with any Director prior to 27 June 2012.

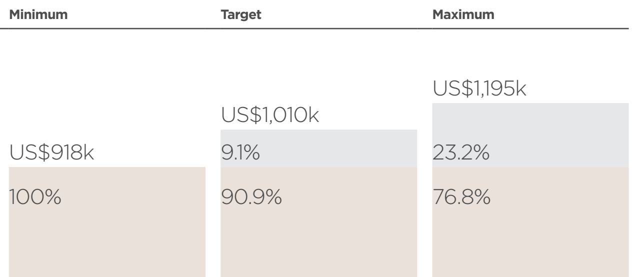
Annual bonus plan and policy on variable remuneration
It is the Company's policy not to use its equity to incentivise long-term performance. The Company's core strategy is one of long-term sustainable growth. Sustainable growth in mining requires the steady and safe expansion of the Group's operations through the discovery of new resources and construction, maintenance and/or expansion of new mines. No distinction is therefore made between short- and long-term incentives.

The Company operates a single cash-based incentive plan for Executive Directors and the members of the Executive Committee, including the Chief Executive Officer.

Malus and claw-back
The Remuneration Committee has considered whether malus and/or claw-back provisions should be incorporated into the service agreement for the Chief Executive Officer. Given that the Company does not operate any remuneration plans with a timeframe of more than one year, the Remuneration Committee does not consider that there is much value in introducing claw-back provisions into the contractual arrangements with the Chief Executive Officer at this stage. Within this remuneration policy, the Remuneration Committee reserves the right to make downward adjustment to bonus payments where the KPI outcomes would result, in the opinion of the Remuneration Committee, in a bonus payment which cannot be justified by the Company's financial or personal performance during the year (or subsequently in respect of previous years). In this case a downward adjustment would be applied.

Illustrations of the application of the remuneration policy for the Chief Executive Officer
The following table sets out the fixed and variable remuneration of the Chief Executive Officer in the different scenarios where he receives, minimum, target and maximum variable pay (based on 31 December 2016 remuneration).

Component	Max value US$k	
Share incentives[1]		
Annual bonus	277k	Annual Variable Pay[2]
Pension benefits	36k	Fixed Pay[3]
Other benefits	90k	
Base salary	792k	



1. Fresnillo plc does not operate any share option or share-based long-term incentive plans.
2. Variable pay consists only of remuneration where performance measures or targets relate only to one financial year.
3. Fixed pay includes salary, benefits and pension.

External appointments
It is the Board's policy to allow Executive Directors to accept directorships of other quoted and non-quoted companies and retain any fees or other remuneration for doing so, provided that they have obtained the consent of the Chairman of the Company. Any such directorships must be formally notified to the Board.

Chairman and Non-executive Directors
The remuneration of the Chairman of the Company and the Non-executive Directors consists of fees that are paid quarterly in arrears. The Chairman and Non-executive Directors do not participate in any long-term incentive or annual bonus schemes, nor do they accrue any pension entitlement. Neither the Chairman nor any of the Non-executive Directors has a service contract with the Company; however each has entered into a letter of appointment with the Company.

Non-executive Directors' letters of appointment
On their initial appointment, each of the Non-executive Directors signed a letter of appointment with the Company, for an initial period of three years. Since April 2011, the letters of appointment of serving Non-executive Directors have been drafted in accordance with provision B.7.1 of the UK Corporate Governance Code, thus obliging them to retire at each Annual General Meeting and be subject to annual re-election by shareholders to serve for a further term of one year. The amendments have been drafted such that renewed appointment will not necessitate a new letter of appointment.

The Chairman of the Company does not receive any fees for acting as Chairman other than his fees as a Non-executive Director.

Each Non-executive Director is expected to commit a minimum of 14 days per year in fulfilling their duties as a Director of the Company. Once this policy is approved a base fee of £35,000 per annum will be paid to each non-UK-based Non-executive Director to reflect the time commitment and level of involvement they are required to make in the activities of the Board as a whole. There are no set fees for membership of any Board committees or for the chairmanship of the Board. The UK-based Non-executive Directors receive a higher fee to reflect the additional time commitment that they make in order to travel to Board meetings in Mexico and to their responsibilities as appropriate as Senior Independent Director, Chairman of the Remuneration Committee and Chairman of the Audit Committee.

Unless otherwise determined, the Director concerned may give not less than three months' notice of termination of the appointment. Copies of the Directors' letters of appointment and service agreements are available for inspection at the Company's registered office.

Directors' Remuneration Report continued
Remuneration Policy Report continued

The key terms of the Non-executive Directors' letters of appointment for the Directors serving during the year are as follows:

Director	Date of original letter of appointment	Notice period from Director to the Company	Duration of term[1]	Fees p.a.
Alberto Baillères	15 April 2008	3 months	1 year	£30,000
Juan Bordes	15 April 2008	3 months	1 year	£30,000
Arturo Fernández	15 April 2008	3 months	1 year	£30,000
Fernando Ruiz	15 April 2008	3 months	1 year	£30,000
Guy Wilson	1 July 2008	3 months	1 year	£90,000
Alejandro Baillères	16 April 2012	3 months	1 year	£30,000
Jaime Lomelín	15 August 2012	3 months	1 year	£30,000
Bárbara Garza Lagüera	11 April 2014	3 months	1 year	£30,000
Charles Jacobs	11 April 2014	3 months	1 year	£90,000
Jaime Serra Puche	11 April 2014	3 months	1 year	£30,000
Alberto Tiburcio	4 May 2016	3 months	1 year	£30,000

1. Unexpired term: the Non-executive Directors all have rolling contracts which are subject to the annual re-election at the Annual General Meeting. The current term expires on 23 May 2016, being the date of the next Annual General Meeting but the appointment will continue after that date provided that each Director is re-elected at the AGM.
2. The fees payable to the Non-UK Non-executive Directors will, subject to this policy being approved, be increased to £35,000 with effect from the 23 May 2017.

The Board have agreed that the aggregate fees of the Non-executive Directors (excluding the reimbursement of expenses) will be £530,000 per annum. The Articles of Association of the Company require that the aggregate remuneration of Directors may not exceed £3,000,000 unless approved by an ordinary resolution of the shareholders of the Company. This is the maximum figure for the purposes of this policy.

Shareholding guidelines
Fresnillo has not introduced share ownership guidelines The Company does not operate a share-based incentive scheme given that the culture for incentives in the Mexican market does not favour share-based incentives. Consequently, there would be neither opportunity nor appetite for executives to build a shareholding in the Company and therefore the Remuneration Committee has not adopted any shareholding guidelines.

Annual Report on Remuneration 2016

Introduction
This report sets out information about the remuneration of the Directors and senior management of the Company for the year ended 31 December 2016. In accordance with the Regulations, the information provided in the section entitled 'Directors' Remuneration – 1 January 2016 to 31 December 2016 and accompanying notes has been audited by Ernst & Young LLP.

Although the Chief Executive Officer is not currently a member of the Board, the Remuneration Committee has elected to report on his remuneration in this Report as if he were a Director, in keeping with the spirit of the Regulations.

Audited information – Directors' Remuneration – 1 January 2016 to 31 December 2016

Single total figure of remuneration
The detailed emoluments received by the Executive and Non-executive Directors during the year ended 31 December 2016 are detailed below:

US$000	Salary/Fees 2016	Benefits 2016	Annual bonus 2016	Pension 2016	Total 2016	Salary/Fees 2015	Benefits 2015	Annual bonus 2015	Pension 2015	Total 2015
Chairman										
Alberto Baillères	**39**	**0**	**0**	**0**	**39**	46	0	0	0	46
Non-executive Directors										
Juan Bordes	**39**	**0**	**0**	**0**	**39**	46	0	0	0	46
Rafael MacGregor	**0**	**0**	**0**	**0**	**0**	46	0	0	0	46
Arturo Fernández	**39**	**0**	**0**	**0**	**39**	46	0	0	0	46
Jaime Lomelín[1]	**39**	**0**	**0**	**0**	**39**	46	0	0	0	46
Fernando Ruiz	**39**	**0**	**0**	**0**	**39**	46	0	0	0	46
Guy Wilson	**118**	**0**	**0**	**0**	**118**	137	0	0	0	137
Alejandro Baillères	**39**	**0**	**0**	**0**	**39**	46	0	0	0	46
Maria Asuncion Aramburuzabala	**0**	**0**	**0**	**0**	**0**	46	0	0	0	46
Bárbara Garza Lagüera	**39**	**0**	**0**	**0**	**39**	46	0	0	0	46
Charles Jacobs	**118**	**0**	**0**	**0**	**118**	137	0	0	0	137
Jaime Serra	**39**	**0**	**0**	**0**	**39**	46	0	0	0	46
Alberto Tiburcio	**26**	**0**	**0**	**0**	**26**	0	0	0	0	0
Total	**574**	**0**	**0**	**0**	**574**	734	0	0	0	734
Chief Executive Officer (not on Board during the year)										
Octavio Alvídrez[1]	**792**	**90**	**193**	**36**	**1,111**	888	80	108	90	1,166
Grand total	**1,366**	**90**	**193**	**36**	**1,685**	1,622	80	108	90	1,900

1. Benefits provided to Mr Alvídrez include the cost of life insurance premiums 2016: US$24,779 (2015: US$26,465), club memberships 2016: US$1,544 (2015: US$1,679), subsistence and other meal benefits 2016: US$9,508 (2015: US$10,517), premiums for medical insurance covering limited expenses and check-ups 2016: US$4,210 (2015: US$3,639), chauffeur 2016: US$29,507 (2015: US$25,351), car 2016: US$19,308 (2015, US$11,216) and social security costs 2016: US$977 (2015: US$1,100).
2. The basis of calculation for Mr Alvídrez' annual bonus for 2016 is set out in the table below.
3. The Company does not operate a long-term incentive plan or any share-based incentives.

Directors' Remuneration Report continued

Annual Report on Remuneration 2016 continued

The objectives, as applied to Mr Alvídrez' incentive payment, the measures associated with each objective, and the relative weighting between objectives, are detailed below:

Objective	Measure	Weighting points[1]	2016 target	2016 result	2016 points award	2015 result	2015 points award
Production	Increase in equivalent ounces produced[3] *This information is shown on page 58*	26	104.4 million equivalent ounces of silver (2015: 89.8 million equivalent ounces of silver)	**111.2**	**27.7**	92.5	26.80
Exploration/ growth	Increase in total resources[2] *This information is shown on page 71*	10	Maintain prior year total resources	**109%**	**10.9**	102%	10.20
	Increase in resources upgraded from inferred to indicated[3] *This information is shown on page 71*	20	Maintain prior year total indicated	**113%**	**22.6**	103%	20.60
Financial	Net profit adjusted[3]	17	US$111 million[4] (2015: US$141 million)	**US$337 million**	**51.7**	US$236 million	28.50
Stakeholder	Relationship with key stakeholders e.g. communities and unions[4]	5	Unmeasured	**2.00**	**2.00**	3.00	3.00
	Management of land rights[4]	3		**3.00**	**3.00**	4.25	4.25
	Controls over contractors[4]	3		**0**	**0**	3.75	3.75
Teamwork	Collective teamwork across the Group[4]	5	Unmeasured	**2.00**	**2.00**	5.00	5.00
	Progressing the Succession Plan for Executive Committee positions[4]	6		**0**	**0**	2.00	2.00
Safety	Fatal accidents[5, 6]	5	Zero	**3**	**0**	1	0
Sub-total		**100**			**119.9**		104.10
Adjustments		–			**(2.4)**		0
Sub-total		**100**			**117.5**		104.10
Discretion		**–**			**(8.0)**		–
Total		**100**			**109.5**		104.10

1. The Points Weighting is considered by the Remuneration Committee each year to ensure that it reflects an appropriate balance of priorities for management. Where a change of emphasis is considered to be necessary, the Weighting will be amended in future years.
2. Any decrease in equivalent ounces produced and/or in reserves and resources will result in points being deducted from the total points scored.
3. Net profit is adjusted to exclude currency fluctuation, the effect of year-on-year changes in metals prices and any revaluation of the Silverstream contract. The 2016 net profit amount for the purposes of the 2016 annual bonus was in line with this approach. A table setting out the reconciliation of Net Profit to the numbers reporting in the financial statements is set out below.
4. The points awarded for the Stakeholder and Teamwork objectives are subject to some discretion. The following points are awarded depending on the Remuneration Committee's assessment of the stakeholder and teamwork effort: Satisfactory performance = 100% of weighting points; outstanding performance = 140% of weighting points; and underperformance = 0 points.
5. In the event of a single fatality, zero points will be awarded for safety. For the purposes of calculating fatalities; all fatalities are included, irrespective of whether they are employees or contractors. Conversely, in the event of zero fatalities during the year, the number of points awarded would be increased to ten points.
6. In addition, to the penalty for a single fatality (see note 5), the number of points awarded will be further reduced by 1% if there are two fatalities, or by 2% if there are three fatalities, or by 3% if there are four fatalities etc.

Reconciliation of net profit targets and outcomes to the financial statements

US$ millions	2016 Result	2015 Result
Profit for year as shown in financial statements	**425.0**	69.4
Adjustments:		
Changes due to currency fluctuations	**115.5**	17.6
Changes due to year-on-year movements in metal prices (including the effects of metal hedging)	**(109.5)**	168.6
Changes due to the movement in the valuation of the Silverstream contract	**(93.5)**	(19.4)
Net profit adjusted total for bonus purposes	**337.5**	236.2

Explanation of non-financial targets and committee decision on points awarded

Relationship with stakeholders	The Remuneration Committee consider that some improvement is needed in certain aspects.
Surface tenure	Performance was in line with expectations.
Controls over contractors	Fatalities among contractor staff during the year so further work is needed.
Collective teamwork	The Remuneration Committee consider that some improvement is required in this area.
Succession plan for Exco positions	No progress was made during the year to the disappointment of the Remuneration Committee.
Committee discretion	The Committee continued to be concerned at safety performance and the areas set out above and used its discretion to deduct points so as to reduce the bonus paid to the CEO compared to what he would have received otherwise.

Pension entitlement

The pension entitlement of the Chief Executive Officer is as follows:

US$'000	Defined Contribution Scheme (DCS)	Defined Benefit Scheme (DBS)
Rights as at 31 December 2016[1]	US$396	US$898
Additional benefit in the event that the Chief Executive Officer retires early	In the event of early retirement, Mr Alvídrez is entitled to receive his accumulated contributions (both member and Company) to the DCS.	Mr Alvídrez is not currently entitled to any additional benefit on early retirement in the DBS.

	Accumulated accrued benefits		Increase in accrued benefits during the year (note 1)		Increase, before inflation and the effect of foreign exchange, in accrued benefits during the year	
US$'000	At 31 Dec 2016	At 31 Dec 2015	2016	2015	2016	2015
Octavio Alvídrez	**1,297**	1,435	**(139)**	(134)	**36**	90

Notes:
1. The decrease in accrued benefits during the year includes a revaluation effect of US$(215k) (2015: US$253k).

Mr Alvídrez is expected to retire at his normal retirement age of 60 years old.

Shares held by Directors

The number of Ordinary Shares of the Company in which the Directors were beneficially interested at 1 January 2016 and at 31 December 2016 was:

	1 January 2016	31 December 2016
Alberto Baillères[1]	552,595,191	552,595,191
Juan Bordes	15,000	15,000
Rafael MacGregor	–	N/A
Arturo Fernández	–	–
Jaime Lomelín	–	–
Fernando Ruiz	30,000	30,000
Guy Wilson	15,000	15,000
María Asunción Aramburuzabala	–	N/A
Alejandro Baillères	–	–
Bárbara Garza Lagüera	–	–
Charles Jacobs	–	–
Jaime Serra	–	–
Alberto Tiburcio	–	–

1. Alberto Baillères holds an indirect interest in the Company. Mr Baillères and companies controlled by Mr Baillères hold, in aggregate 68.9% of the issued share capital (and voting rights) of Peñoles. Peñoles holds 552,595,191 Ordinary Shares (74.99%) of the issued share capital) in the Company.

Directors' Remuneration Report continued
Annual Report on Remuneration 2016 continued

Unaudited Information

Implementation of Remuneration Policy in 2016

Chief Executive Officer salary and benefits

The Total Remuneration paid to the Chief Executive Officer, Octavio Alvídrez, during the year was US$1,110,765.

During the year, Mr Alvídrez served as Chief Executive Officer but was not a member of the Board. Mr Alvídrez is employed under a contract of employment with Servicios Administrativos Fresnillo S.A. de C.V., a subsidiary of Fresnillo plc. Mr Alvídrez' contract was entered into on 15 August 2012 and is governed by Mexican Federal Labour Law. Mr Alvídrez' service agreement does not have a fixed term and can be terminated in writing by either party with no entitlement to additional compensation for termination other than compensation payments required for termination without cause under Mexican labour laws. No benefits are payable on termination.

The salary payable under Mr Alvídrez' service agreement is MX$898,700 per month, which excludes payments for holidays, Company-paid savings contributions and other cash benefits. In 2016, his total salary payments were MX$14,780,860 (US$792,255). In 2015, his total salary payments were MX$14,078,946 (US$887,953). Mr Alvídrez was awarded a salary increase of 4.5% to reflect his development as Chief Executive Officer over the past year. Willis Towers Watson have confirmed that the salary review was in line with the remuneration policy.

Under his service agreement, Mr Alvídrez is entitled to 26 working days' paid holiday per year. He is not entitled to profit-sharing (PTU). Mr Alvídrez is also entitled to life insurance, the use of a chauffeur and company car, the payment of medical insurance premiums covering limited expenses and check-ups, meals and subsistence payments and club subscriptions.

The Remuneration Committee consider that year-on-year changes to the remuneration of the Chief Executive Officer align equitably with changes in the remuneration of the Company's workforce for the following reasons:

Salary	The Remuneration Committee ordinarily use the same percentage agreed for the whole workforce as the percentage basis for the annual salary increase for the Chief Executive Officer.
Bonus	The Chief Executive is prohibited from participating in the PTU Scheme and therefore may only receive a maximum of six months' pay. All other employees are eligible for PTU payments annually which can be as high as 200% of salary in exceptional years.
Benefits	The Chief Executive Officer participates in the Company-wide benefits scheme.
Pension	The Chief Executive Officer is a member of the Company's standard pension scheme.

Annual bonus

Mr Alvídrez achieved 109.5 points under the bonus scheme for the year ended 31 December 2016 (2015: 104.1 points) and therefore was awarded a bonus of MX$3,594,800; (US$192,681); for 2016.

Pensions

The Group operates two pension schemes: a defined benefit scheme and a defined contribution scheme (which was introduced on 1 July 2007). Further information on the Group's pension schemes is set out in the remuneration policy on page 144.

Malus and claw-back

The introduction of the 2016 Corporate Governance Code requires companies to either introduce malus and/or claw-back provisions and other forms of deferred variable pay where appropriate, or explain why they have not complied with the Code. In 2016, the Company had not introduced any malus or claw-back provisions into the contractual agreements with the Chief Executive Officer; however the 2017 remuneration policy will give the Remuneration Committee discretion to reduce bonus payments to take account of poor operational or financial performance in previous years, see page 145 in the Directors' remuneration policy section.

Year-on-year percentage change in remuneration of CEO and all employees

	Percentage change (in US dollar amounts) 2016–2017		
	Base Salary/ Fees	Benefits	Annual Bonus
Chief Executive Officer	(10.8%)	12.3%	70.0%
All employees	(0.7%)	(2.6%)	(4.5%)

Implementation of the remuneration policy in 2016 and 2017

In 2014, the Remuneration Committee asked Willis Towers Watson to recommend a framework for setting the salaries of Executive Directors and members of the Executive Committee. Following this review, the Remuneration Committee established the peer group of companies for the purposes of validating the remuneration of Executive Directors (the 'Peer Group'). The Peer Group consists of 11 resources companies from Europe (three companies), USA and Canada (six companies) and Mexico (two companies) (see page 144). The Remuneration Committee has agreed that the Chief Executive's salary should be set within a range of 25% to 75% of the Peer Group for base salary. In 2016, Willis Towers Watson advised the Remuneration Committee that the CEO's salary was well within the parameters set out in the remuneration policy.

The new 2017 remuneration policy as set out on pages 142 to 146 of this Report will be presented to shareholders for approval at the Company's 2017 Annual General Meeting.

The Remuneration Committee has considered the effectiveness of KPIs and targets that were set for 2016 and it continues to consider that the overall structure of the Incentive Plan and the targets set in 2016 remain appropriate for 2017 other than where adjusted to reflect the 2017 business plan targets. The 2017 weightings and measures are therefore set out in the table below. The 2017 targets and performance against those targets will be disclosed in this report.

Objective	Measure	Weighting Points[1]
Production	Increase in equivalent ounces produced compared to prior year production level[2]	26
Exploration/growth	Net increase in total resources compared to previous year-end total[2]	10
	Net increase in resources upgraded from inferred to indicated compared to previous year-end total[2]	20
Financial	Year-on-year increase in net profit adjusted[3]	17
Stakeholder	Relationship with key stakeholder[4]	5
	Surface tenure[4]	3
	Controls over contractors[4]	3
Teamwork	Collective teamwork across the Group[4]	5
	Succession Plan for Executive Committee positions	6
Safety	Fatal accidents[5, 6]	5
Total		**100**
Adjustments[7]		–
Total		**100**

1. The Points Weighting is considered by the Remuneration Committee each year to ensure that it reflects an appropriate balance of priorities for management. Where a change of emphasis is considered to be necessary, the weighting will be amended in future years.
2. Any decrease in equivalent ounces produced and/or in reserves and resources will result in points being deducted from the total points scored.
3. Net profit is adjusted to exclude currency fluctuation, the effect of year-on-year changes in metals prices and any revaluation of the Silverstream contract.
4. The points awarded for the stakeholder and teamwork objectives are subject to some discretion. The following points are awarded depending on the Remuneration Committee's assessment of the teamwork effort: Outstanding = 7 points; Satisfactory = 5 points; Underperformance = 0 points.
5. In the event of a single fatality, zero points will be awarded for safety. For the purposes of calculating fatalities; all fatalities are included, irrespective of whether they are employees or contractors. Conversely, in the event of zero fatalities during the year, the number of points awarded would be increased to 10 points.
6. In addition, to the penalty for a single fatality (see note 5), the number of points awarded will be further reduced by 1% if there are two fatalities. From the remaining total score, and additional 2% will be deducted if there are three fatalities. In the case of four fatal accidents, an additional 3% will be deducted from the remaining total score and so on for further fatalities.
7. In addition, in 2017, a further adjustment will be introduced for environmental incidents. In the event of an environmental incident, the total bonus score will be reduced by 2%. In the case of two incidents, a further 3% will be deducted. In the case of three incidents a further 4% will be deducted and so on.

Directors' Remuneration Report continued

Annual Report on Remuneration 2016 continued

Remuneration Committee

Membership

The Remuneration Committee consisted of the following Directors in the year ended 31 December 2016:

- Mr Charles Jacobs (Chairman), Independent Non-executive Director
- Mr Alberto Baillères, Chairman of the Board
- Mr Fernando Ruiz, Independent Non-executive Director

Mr Baillères was non-independent at the time of his appointment to the Board and therefore his membership of the Remuneration Committee does not comply with Code Provision D.2.1 of the UK Corporate Governance Code. However, the Board believes that Mr Baillères' experience and knowledge of the Group and the Mexican market and his considerable contribution to the Remuneration Committee's deliberations justifies his membership of the Remuneration Committee. Further information about the rationale for the current membership of the Remuneration Committee is set out in the Chairman's Annual Statement on pages 138 and 139.

Role

The Remuneration Committee has responsibility for making recommendations to the Board on the Group's remuneration policy for senior management (the Chief Executive Officer and other members of the Executive Committee), and for determining specific remuneration packages for senior management, including pension rights and any compensation packages, as well as remuneration of the Chairman within agreed terms of reference.

The Remuneration Committee, is responsible for setting the Chairman's remuneration; however the Chairman does not receive any remuneration other than his fee as a Non-executive Director of the Company.

Terms of reference for the Remuneration Committee have been approved by the Board and are available on the Company's website at: www.fresnilloplc.com.

Activity during 2016

During the year, the Committee met four times. A summary of its key activities during the year is set out in the Chairman's Annual Statement on pages 138 and 139.

Attendance	
Mr Charles Jacobs	3/3
Mr Alberto Baillères	3/3
Mr Fernando Ruiz	3/3

Advisors to the Remuneration Committee

Remuneration consultants are engaged by Group companies to provide benchmarking information on remuneration but not to provide guidance on the structure of remuneration. All of the consultants that the Group uses are independent of the Company. No remuneration consultants are directly engaged by the Remuneration Committee itself.

Benchmarking information on pay and employment conditions is supplied annually by Mercer, Hay Group and Data Compensation. The information provided is used across the Group in determining salaries for all employee grades including senior management. Whilst the Remuneration Committee takes such information into account when considering executive remuneration, none of these advisors are considered to materially assist the Remuneration Committee in the performance of its duties.

In addition, the Remuneration Committee receives specific reports comparing the remuneration of the members of the Executive Committee to international benchmarks. Willis Towers Watson have advised the Remuneration Committee in relation to the establishment of the Peer Group and the provision of benchmarking information showing the position of the remuneration, and particularly the salaries, of members of the Executive Committee in relation to the Peer Group. Willis Towers Watson provide general advice and benchmarking information to the Group concerning executive remuneration and during 2016, the Group paid Willis Towers Watson US$nil.

The Company Secretary ensures that the Remuneration Committee fulfils its duties under its terms of reference and provides regular updates to the Remuneration Committee on relevant regulatory developments in the UK.

The Group Human Resources Department provides information on Mexican market trends and compensation structures for the broader employee population in the Fresnillo Group.

AGM voting on the Remuneration Report

The Remuneration Committee's approach to executive remuneration has received strong support from shareholders at every Annual General Meeting since the Company's listing on the London Stock Exchange in 2008. More than 99% of independent share votes cast on the advisory vote at each AGM have been in favour of the Directors' Remuneration Report.

	All shares voted		Free float shares voted		
	For	Against	For	Against	Number of votes withheld
2011	99.98%	0.02%	99.88%	0.12%	5,125
2012	99.91%	0.09%	99.54%	0.46%	1,814,818
2013	99.97%	0.03%	99.82%	0.18%	115,987
2014: Remuneration Policy	99.72%	0.28%	98.69%	1.31%	532,589
2014: Remuneration Report	100.00%	0.00%	99.99%	0.01%	531,072
2015: Remuneration Report	99.91%	0.09%	99.55%	0.45%	814,989
2016: Remuneration Report	99.89%	0.11%	99.48%	0.52%	44,391

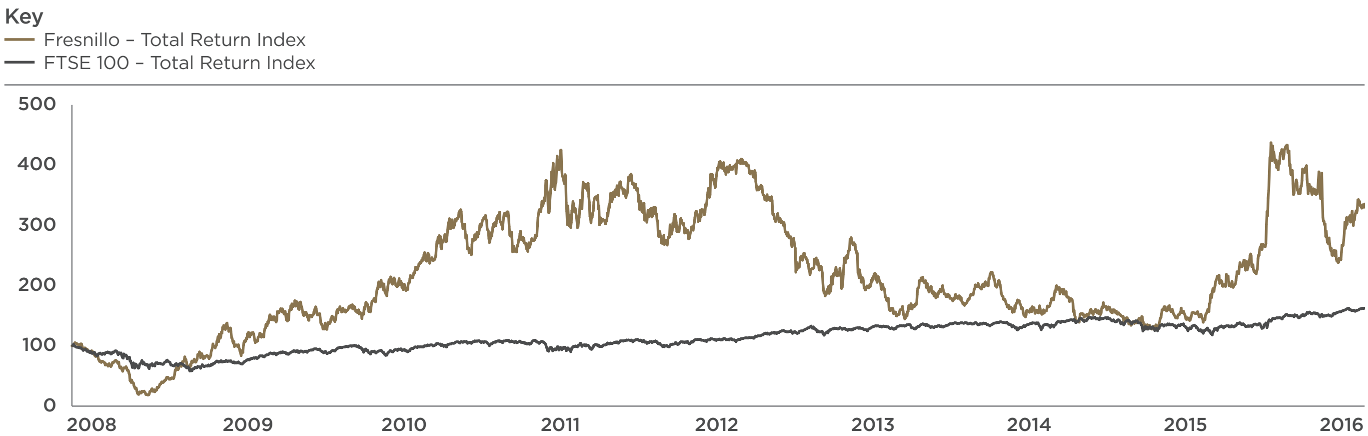
Note: Prior to 2014, there was only one vote on the Directors Remuneration Report at each annual general meeting.

Payments to departing Directors

During the year, the Company has not made any payments to past Directors; neither has it made any payments to Directors for loss of office.

Performance reviews

As required by the Regulations, the following graph sets out the performance of the Company's share price since its listing compared to the FTSE 100 Index. This is deemed to be the most appropriate indices for comparative purposes.



Total remuneration of the Chief Executive Officer

The total remuneration of the Chief Executive Officer for the past six years, in US dollars, has been as follows:

Year ending 31 December		2011	2012	2013	2014	2015	**2016**
Chief Executive Officer			**Jaime Lomelin**				**Octavio Alvídrez**
Total remuneration US$000s							
– Jaime Lomelin		1,698	1,329[1]	–	–	–	–
– Octavio Alvídrez		–	580	1,116	1,217	1,166	1,111
Total		1,698	1,909	1,116	1,217	1,166	1,111
Percentage change on previous year		(11.1%)	12.4%	(41.5%)	9.1%	(4.2%)	(4.7%)
Proportion of maximum bonus paid to CEO in year	Jaime Lomelin	33.33%	66.66%	–	–	–	–
	Octavio Alvídrez	–	66.66%	33.33%	33.33%	33.33%	66.66%

1. This figure only relates to remuneration paid to Jamie Lomelin in his capacity as Chief Executive Officer in 2012.

Relative importance of the spend on pay

	2016	2015	% Change
Staff costs (US$000s)[1]	85,889	88,593	(3.1%)
Distributions to shareholders (US$000s)	88,059	37,582	134.3%

1. Staff costs are taken without PTU in order to make a like-for-like comparison with the Chief Executive Officer who does not receive PTU.

This Report has been approved by the Board of Directors of Fresnillo plc.

Signed on behalf of the Board.

Charles Jacobs
Chairman of the Remuneration Committee
27 February 2017

Directors' Report

In accordance with section 415 of the Companies Act 2006, the Directors of Fresnillo plc present their report for the year ended 31 December 2016.

The Directors believe that the requisite components of this report are set out elsewhere in this Annual Report and/or on the Company's website, www.fresnilloplc.com. The table sets out where the necessary disclosures can be found.

Directors	Directors that have served during the year and summaries of the current Directors' key skills and experience are set out in the corporate governance report on pages 116 and 117.
Results and dividends	Results for the year ended 31 December 2016 are set out in the financial review on pages 100 to 111. and the Consolidated Income Statement on page 167. Information regarding the proposed final dividend can be found in the financial review on page 111. Dividend payments made during the year ended 31 December 2016 can be found in the notes to the financial statements on page 198.
Articles of Association	The Company's full Articles of Association can be found on the Company's website at www.fresnilloplc.com/who-we-are/corporate-governance/. Any amendments made to the Articles of Association may be made by a special resolution of shareholders. The following is a summary of the structure, rights and restrictions of the Company's share capital: The Company has two classes of share capital: 736,893,589 ordinary shares of US$0.50 (Ordinary Shares) and 50,000 deferred shares of £1.00 each (Sterling Deferred Shares). The Ordinary Shares are listed on the London Stock Exchange and the Mexican Stock Exchange. The rights and obligations attaching to these shares are governed by UK law and the Company's Articles of Association. Ordinary shareholders are entitled to receive notice and to attend and speak at any general meeting of the Company. On a show of hands every shareholder present in person or by proxy (or being a corporation represented by a duly authorised representative) shall have one vote, and on a poll every shareholder who is present in person or by proxy shall have one vote for every share held. The Notice of Annual General Meeting specifies deadlines for exercising voting rights and appointing a proxy or proxies. There are no restrictions on the transfer of the Ordinary Shares other than: • the standard restrictions for a UK-quoted company set out in article 32 of the Articles of Association; • where, from time to time, certain restrictions may become imposed by laws and regulations (for example, insider trading laws); and • pursuant to the Listing Rules of the Financial Services Authority whereby certain Directors, officers and employees of the Company require the approval of the Company to deal in the Ordinary Shares. A Director may be elected either to fill a casual vacancy or as an additional Director, but so that the total number of Directors shall not thereby exceed the maximum in accordance with the Company's Articles of Association. Any person so appointed by the Directors shall retire at the next Annual General Meeting and shall then be eligible for election. No shareholder holds securities carrying special rights as to the control of the Company. There are no limitations on the holding of securities. There are no restrictions on voting rights or any arrangements by which, with the Company's co-operation, financial rights carried by securities are held by a person other than the holder of the securities. There are no agreements between holders of securities that are known to the Company which may result in restrictions on the transfer of voting rights. The Sterling Deferred Shares only entitle the shareholder to payment of the amount paid up after repayment to Ordinary Shareholders on winding up or on a return of capital. The Sterling Deferred Shares do not entitle the holder to payment of any dividend, or to receive notice or to attend and speak at any general meeting of the Company. The Company may also at its option redeem the Sterling Deferred Shares at a price of £1.00 or, as custodian, purchase or cancel the Sterling Deferred Shares or require the holder to transfer the Sterling Deferred Shares. Except at the option of the Company, the Sterling Deferred Shares are not transferable.
Share capital	Details of the Company's share capital are set out in note 18 to the financial statements on page 197.
Authority to purchase own shares	Details on the Company's current authority to purchase its own shares and that being sought at the forthcoming Annual General Meeting are set out in the corporate governance report on page 125.
Directors' interests	Details of the Directors' beneficial interests are set out in the remuneration report on page 149.
Directors' indemnities	The Company has given indemnities to each of the Directors in respect of any liability arising against them in connection with the Company's (and any associated company's) activities in the conduct of their duties. These indemnities are subject to the conditions set out in the Companies Act 2006 and remain in place at the date of this report.
Directors' and Officers' Liability Insurance	Directors' and Officers' Liability Insurance cover is in place at the date of this report. Cover is reviewed annually and the last renewal was carried out in October 2016.
Major interests in shares	Notifiable major shares interests of which the Company has been made aware are set out on page 125 of the corporate governance report.
Change of control	Details setting out the effect of a change of control of the Company on significant agreements are set out on the Company's website at www.fresnilloplc.com/who-we-are/corporate-governance.

Political contributions	The Company did not make any donations to political organisations during the year.
Greenhouse gas emissions	Details of the Company's greenhouse gas emissions can be found in the sustainability report on page 88 of the strategic report.
Financial risk	Details of the Company's policies on financial risk management and the Company's exposure to price risk, credit risk, liquidity risk and cash flow risk are outlined in note 31 to the financial statements.
Branches outside the UK	The Company's operations are outside of the UK.
Activities in research and development	The Company does not have any Research & Development activities in the UK.
Future developments	Details about the Company's future developments can be found in the strategic review on pages 28 and 29.
Auditors	A resolution to reappoint Ernst & Young LLP as auditors will be proposed at the Annual General Meeting.
Post balance sheet events	There have been no post balance sheet events.
Audit information	Each of the Directors at the date of the approval of this report confirms that: • so far as he/she is aware, there is no relevant audit information of which the Company's auditors are unaware; and • he/she has taken all the reasonable steps that he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of the information. The confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

The Directors' Report has been approved by the Board of Directors of Fresnillo plc.

Signed on behalf of the Board.

Charles Jacobs
Senior Independent Director
27 February 2017

Fresnillo plc
Registered Office:
21 Upper Brook Street
London, W1K 7PY
United Kingdom
Company No: 6344120

Additional Listing Rule Disclosures

Disclosure requirements under Listing Rule 9.8.4 C are identified below along with cross-references indicating where the relevant information is set out in the annual report:

- Capitalised interest for the year ended 31 December 2016 and information regarding tax relief can be found on page 194;
- Details of significant contracts with controlling shareholders can be found on page 136;
- Details pertaining to services provided to the Company by Peñoles are set out on page 195;
- Statement confirming agreement has been entered into with controlling shareholder and that independence provisions are complied with can be found in the Corporate Governance Report on page 119.

Statement of Directors' Responsibilities

The Directors are responsible for preparing the annual report and the Group and parent company financial statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards (IFRS) adopted by the European Union.

The Directors are required to prepare financial statements for each financial year which present a true and fair view of the financial position of the Company and of the Group and the financial performance and cash flows of the Company and of the Group for that period. In preparing those financial statements, the Directors are required to:
- select suitable accounting policies in accordance with IAS 8: 'Accounting Policies, Changes in Accounting Estimates and Errors' and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company and of the Group's financial position and financial performance;
- state that the Company and the Group has complied with IFRS, subject to any material departures disclosed and explained in the financial statements; and
- prepare the accounts on a going concern basis unless, having assessed the ability of the Company and the Group to continue as a going concern, management either intends to liquidate the entity or to cease trading, or have no realistic alternative but to do so.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and of the Group and enable them to ensure that the financial statements comply with the Companies Acts 2006 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Under applicable UK law and regulations the Directors are responsible for the preparation of a Directors' report, Directors' remuneration report and corporate governance report that comply with that law and regulations. In addition the Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Neither the Company nor the Directors accept any liability to any person in relation to the annual financial report except to the extent that such liability could arise under English law. Accordingly, any liability to a person who has demonstrated reliance on any untrue or misleading statement or omission shall be determined in accordance with section 90A and schedule 10A of the Financial Services and Markets Act 2000.

In accordance with provision C.1.1 of the UK Corporate Governance Code, the Directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides information to enable shareholders to assess the Company's performance, business model and strategy.

Responsibility statement of the Directors in respect of the annual report and accounts

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

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

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

For and on behalf of the Board

Charles Jacobs
Senior Independent Director
27 February 2017

Independent Auditor's Report
to the Members of Fresnillo plc

Opinion on financial statements

In our opinion:

- Fresnillo plc's Group financial statements and Parent Company financial statements (the 'financial statements') give a true and fair view of the state of the Group's and the Parent Company's affairs as at 31 December 2016 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006, and, as regards the Group financial statements, Article 4 of the IAS Regulation.

What we have audited

Fresnillo plc's financial statements comprise:

Group	Parent company
Consolidated balance sheet as at 31 December 2016	Company balance sheet as at 31 December 2016
Consolidated income statement for the year then ended	Company statement of comprehensive income for the year then ended
Consolidated statement of comprehensive income for the year then ended	Company statement of changes in equity for the year then ended
Consolidated statement of changes in equity for the year then ended	Company statement of cash flows for the year then ended
Consolidated statement of cash flows for the year then ended	Related notes 1 to 18 to the financial statements
Related notes 1 to 31 to the financial statements	

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and IFRSs as adopted by the European Union.

Overview of our audit approach

Risks of material misstatement	• Recognition of related party transactions, including revenue recognition. • Valuation of the Silverstream contract. • Disclosures, provisions and asset recoverability arising from the El Bajío ejido litigation and land disputes. • Estimation of mineral reserves and resources. • Recoverability of investments in subsidiaries (Parent Company only).
Audit scope	• We performed an audit of the complete financial information of five components, being the four operating mining units and the Parent Company. These components accounted for: – 100% of revenues; – 104% of profit before tax excluding Silverstream revaluation effects; and, – 82% of total assets. • In addition, we performed specified procedures on specific balances at a further five components. These components accounted for: – 100% of the Silverstream revaluation effects; – Negative 4% of Profit before tax excluding Silverstream revaluation effects; and, – 16% of total assets.
Materiality	• We assessed overall Group materiality to be US$29.2 million which represents 5% of profit before tax excluding Silverstream revaluation effects.

Our assessment of risk of material misstatement

We identified the risks of material misstatement described below as those that had the greatest effect on our overall audit strategy, the allocation of resources in the audit and the direction of the efforts of the audit team. In addressing these risks, we have performed the procedures below which were designed in the context of the financial statements as a whole and, consequently, we do not express any opinion on these individual areas.

Independent Auditor's Report continued
to the Members of Fresnillo plc continued

Area of audit risk

Recognition of related party transactions, including revenue recognition ◆

- All of the Group's current year revenue from the sale of production, and a significant amount of its expenses incurred, arise from transactions with related parties. These related parties are principally subsidiaries of the Group's direct parent, Industrias Peñoles ('Peñoles').
- Principal transactions include the sale of production to the Met-Mex refinery, administrative services received and the Silverstream contract.
- There is a risk that, if not at arm's length or not reflecting the goods or services provided in the period, such transactions could be used to manipulate earnings or to distribute profits to the Group's parent.
- There is also a risk that revenues are inappropriately recognised as a result of incorrect cut-off or inappropriate measurement of product sold.

➲ Our judgement is that the level of risk in this area remains consistent with the prior year.

We have not made significant changes to our audit response compared to the prior year, other than extending the use of data analysis.

Related party transactions are disclosed in note 27 to the consolidated financial statements and Revenues in note 4.

Our audit response	
Identification of related parties and related party transactions	• We evaluated the appropriateness of management's process for identifying, recording and reporting related party transactions. • We read contracts and agreements with related parties to understand the nature of the transactions. • Throughout the performance of our audit procedures, we remained alert for any related party transactions outside the normal course of business.
Revenue recognition	• On a sample basis we performed testing to verify physical deliveries of product in the year. • We performed revenue cut-off testing. • We evaluated the appropriateness of the accounting for embedded derivatives arising from the provisional pricing terms in sales contracts. • We obtained an understanding of the basis of the treatment and refining charges negotiated between the Group and Peñoles for the current year, these being a deduction from revenues. • We compared actual revenues on a disaggregated basis to detailed expectations developed based on production in the year and market prices for relevant metals to identify and understand variances for further investigation.
Costs	• We utilised data analysis tools to interrogate entire data sets for potential related party transactions. • We compared actual results against detailed expectations of income statement line items impacted by related party transactions to corroborate that there was no evidence of manipulation.
Silverstream contract	• We tested a sample of cash receipts in respect of silver payable under the contract in the year. The Silverstream contract is discussed separately below.
Accuracy of disclosures	• We verified that related party disclosures in the financial statements are consistent with the results of our audit procedures.

Key observations communicated to the Audit Committee

- Our procedures did not identify issues with the identification, recording or reporting of related party transactions.
- We concluded that revenue recognition in the year is appropriate, including the treatment of related provisional pricing terms.

Area of audit risk	
Valuation of the Silverstream contract ■ • The valuation of the Silverstream contract, a derivative financial instrument, uses a discounted cash flow model. • Key assumptions are the estimation of the reserves and resources and the related production profile of the Sabinas mine (owned and operated by Peñoles), future silver prices and the discount rate applied. These assumptions require management judgement and estimation. • The resulting valuation is sensitive to changes in these assumptions which may result in material revaluation effects in the financial statements. ➲ Our judgement is that the level of risk in this area remains consistent with the prior year.	
In response to the impact that the increase in Sabinas reserves and resources had on the valuation in the current year, we increased the extent of our procedures in this respect.	Details of the revaluation of the Silverstream contract are disclosed in note 14 to the consolidated financial statements.

Our audit response	
Valuation model	• In conjunction with our valuation specialists, we evaluated the appropriateness of the valuation approach and related model used by the Company to determine the fair value of the Silverstream contract under accounting standards.
Reserves and resources and production profile of the Sabinas mine	• We issued instructions to the auditor of Peñoles to perform and report to us on the following procedures with respect to the Sabinas mine: – conducting walkthroughs to confirm our understanding of Peñoles management's processes to estimate quantities of reserves and resources and to develop the Sabinas mine plan; – testing of certain key Peñoles controls which address the risks associated with the estimation of reserves and resources quantities and accuracy of the resulting mine plan; – gaining an understanding of reasons for changes in estimates of reserves and resources in the year; – assessing the professional competence, objectivity, and capabilities of Peñoles' internal specialists involved in the estimation of reserves and resources quantities; – evaluating the reasonableness and appropriateness of inputs to the reserves and resources estimates and Sabinas mine plan as at 31 December 2016; and, – verifying that the Sabinas mine plan appropriately incorporates the reserves and resources estimate. • We discussed the results of the above procedures and reviewed key working papers. • We interviewed the Sabinas mine geologist in order to understand the assumptions used in the estimation of reserves and resources and movements in the estimation in the year.
Key economic assumptions in the valuation	• With assistance from our valuation specialists we corroborated key economic assumptions in the valuation, including future silver prices, foreign exchange rates and the discount rate applied. This included comparison to market data to consider the appropriateness of silver price and discount rate assumptions when considered together in the valuation model and analysis of the consistency of assumptions to other accounting estimates.

Key observations communicated to the Audit Committee

- The valuation model is consistent with that used in prior periods and we consider this appropriate for the nature of this long-term derivative contract.
- We concluded that the valuation of the Silverstream contract is reasonable as at 31 December 2016 and that the related gain recognised in income was appropriate.

Independent Auditor's Report continued
to the Members of Fresnillo plc continued

Area of audit risk

Disclosures, provisions and asset recoverability arising from the El Bajío ejido litigation and land disputes ●

- The El Bajío litigation and land disputes may create uncertainty around the Group's ability to freely realise the carrying values of impacted assets in the Group's balance sheet and may give rise to further asset impairment. Related assets are capitalised mining costs and inventory held in leaching pads at the impacted mine site.
- The assessment of the recoverability of impacted assets and appropriate disclosure or provisions in the financial statements requires judgement about the future legal outcome of claims and land disputes and estimates of related financial impacts.

➲ Our judgement is that there has been some reduction in the level of risk in this area as a result of rulings in favour of the Company.

This change in risk did not impact our audit response.

Contingencies in respect of the El Bajío ejido litigation and land disputes are disclosed in note 26 to the consolidated financial statements.

Our audit response

Recoverability of assets	• We assessed management's conclusion that there is sufficient likelihood of future economic benefits flowing from the use of assets impacted by the El Bajío land disputes that continue to be carried on the Group's balance sheet. • We evaluated management's assessment of related indicators of impairment in respect of those assets.
Inventory valuation	• We assessed management's estimation of the recoverable value of inventory that is impacted by land disputes, including corroborating gold price assumptions to market data.
Future legal outcome of claims	• We evaluated management's assessment of the current status of the El Bajío ejido litigation and claims against the Group and considered whether there is a requirement for any provision or related disclosures under accounting standards. • We obtained independent legal confirmation letters from the Group's external lawyers advising on these issues, and assessed these for consistency with management's conclusions. We assessed these lawyers as specialists engaged by management. • We assessed the Group's internal legal counsel as a management specialist.

Key observations communicated to the Audit Committee

- We concluded that, based on the facts and circumstances of the El Bajío ejido litigation and land disputes, management's assessment that no provision is required and that the impacted assets are recoverable at 31 December 2016 is appropriate.
- The legal confirmations we received supported management's judgements in this area.
- We consider that the disclosure in note 26 of related contingencies is also appropriate.

Area of audit risk	
Estimation of mineral reserves and resources ▲ • The estimation of mineral reserves and resources quantities of the Group's mines requires significant judgement and estimation. • The Group's reserves and resources are audited by SRK Consulting ('SRK'). • Reserves and resources, and related production profiles, are a key input to a number of areas impacting the financial statements, most significantly the recoverable value of mining assets and investments in subsidiaries (Parent Company only), the calculation of depletion, depreciation and amortisation, and the assessment of going concern and viability. • Additionally, reported reserves and resources may impact investor valuations of the Group. ➲ Our judgement is that the level of risk in this area remains consistent with the prior year.	
We have not made significant changes to our audit response compared to the prior year.	The reserves and resources tables are presented on page 242, after the Parent Company notes.

Our audit response	
Estimation process	• We walked through the process of estimation of the reserves and resources quantities. • We identified key controls in this process and obtained evidence of their implementation.
External specialists	• We assessed SRK as a specialist engaged by management. • Through discussions with SRK, we have gained an understanding of the scope of their work to verify that this was appropriate. • We read the report of the external specialist and gained an understanding of the changes in reserves and resources estimates in the year.
Use of reserves and resources in financial statement calculations	• We tested that the audited reserves and resources estimates have been appropriately applied to relevant areas of the Group's financial statements.

Key observations communicated to the Audit Committee

- We assessed SRK as an appropriate specialist engaged by management for the purposes of auditing the reserves and resources of the Group.
- We confirmed that the audited reserves and resources estimates have been appropriately used in relevant financial statement calculations.

Independent Auditor's Report continued
to the Members of Fresnillo plc continued

Area of audit risk

Recoverability of investments in subsidiaries (Parent Company only) ▽

- Investments in subsidiaries are more sensitive to changes in recoverable value than the Group's underlying mining assets because these investments were re-measured at fair value in 2008 when the Group was established ahead of the Initial Public Offering.
- Management's assessment of the recoverable amount of investments in subsidiaries requires estimation and judgement around assumptions used. The principal driver of recoverable value is the estimated value of underlying mining assets held by the Group's subsidiaries.
- The key assumptions underpinning management's assessment of the recoverable amount of mining assets are reserves and resources and related production profiles, estimated future operating and capital expenditure, future commodity prices and exchange rates and the discount rates applied.
- Changes to assumptions could lead to material changes in estimated recoverable amounts, resulting in either impairment or reversals of impairment taken in prior years.

➲ Our judgement is that the level of risk in this area remains consistent with the prior year but is now principally relating to the reversal of impairment recognised in prior years (rather than impairment) as a result of strengthening metals prices.

We have not made significant changes to our audit response compared to the prior year.

Management's assessment of the significant judgement and estimation required is set out in note 2(c) to the Parent Company financial statements and sensitivities to changes in price which may result in impairment are set out in note 6.

Our audit response

Indicators of impairment and methodology used to estimate recoverable values	• We have reviewed management's identification of indicators of impairment under accounting standards. • We have assessed the methodology used by management to estimate the recoverable value of each investment for which an impairment test was performed to ensure that this is consistent with accounting standards. This included the valuation of underlying mining assets. • We have assessed the valuation models used by management to estimate the recoverable value of each investment, in conjunction with any intra-Group balances.
Key internal assumptions used in management's estimate of the recoverable values of mining assets	• We have verified reserves and resources quantities underpinning the mine plans by comparing these to estimates audited by SRK, a specialist engaged by management. • We assessed the professional competence, objectivity and capabilities of SRK as a specialist engaged by management. • We agreed related production profiles to the current mine plans for each mine and considered their consistency with our understanding of future plans at the mines obtained through interviews with both operating and senior management. • We assessed operating and capital costs included in the cash flow forecasts for consistency with current operating costs and forecast mine production.
Key external assumptions used in management's estimate of the recoverable values of mining assets	• Working with our valuation specialists we have assessed management's assumptions relating to future metals prices and discount rates, comparing these to market data and also for consistency with other estimates used in the financial statements. • We have performed sensitivity analysis on management's calculated recoverable values for alternative assumptions around silver prices and the discount rate applied.

Key observations communicated to the Audit Committee

- We consider the approach to determining the recoverable value of each investment tested for impairment to be appropriate.
- Our procedures confirmed that the reserves and resources and related production profiles are consistent with the estimates audited by SRK and respective mine plans.
- Our procedures confirmed that the estimates of operating and capital costs are consistent with the production profiles of respective mines and related mine plans.
- We concluded that the carrying values of investments in subsidiaries, after reversals of impairments as reflected in the Parent Company financial statements, are reasonable.

Changes in our assessment of the risks of material misstatement as compared with those reported in the prior year are:

- In the prior year, our auditor's report included a risk of material misstatement in relation to the recoverability of mining assets. With the strengthening of gold and silver prices and the weakening of the Mexican peso reducing mining costs we do not consider this to be a risk of material misstatement in the current year for the Group financial statements.
- The recoverable amount of investments in subsidiaries (Parent Company only), remains a risk of material misstatement. The recoverability of underlying mining assets is a key driver of related recoverable values so remains an area of audit focus in this context.

The scope of our audit

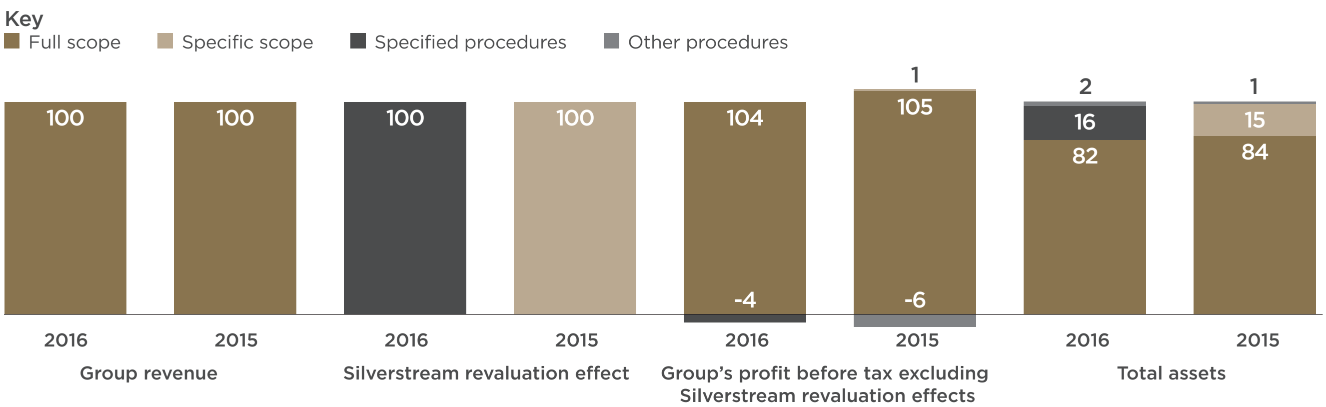
Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile and the organisation of the Group and the effectiveness of Group-wide controls and other factors such as the results of the work of Internal Audit when assessing the level of work to be performed at each entity.

We performed an audit of the complete financial information of five components (2015: five) ('full scope components') which were selected based on their size or risk characteristics. These components are the four operating mining units in Mexico and the Parent Company.

We also performed specified audit procedures on specific account balances in a further five components (2015: five classified as specific scope components). The procedures were on those account balances within those components which we deemed to be significant either because of the size of these accounts or their risk profile. These accounts included taxation, mine closure provisions, cash and cash equivalents and all balances relating to the Silverstream contract.

The reporting components where we performed audit procedures represented:



The audit scope of components at which we have performed specified procedures (2015: Specific scope components) may not have included testing of all significant accounts of the component but will have contributed to the coverage reflected above.

The remaining components together represent an effect on the Group's Profit before tax excluding Silverstream revaluation effects of less than 1% (2015: (6)%) and 2% of total assets (2015: 1%). For these components, we performed other procedures, including analytical review and testing of consolidation journals and intercompany eliminations to respond to any potential risks of material misstatement of the Group financial statements.

Changes from the prior year

There were no significant changes in our scoping as compared to the prior year. We have performed specified procedures in 2016 on the same five components that were classified as specific scope in 2015. Related audit procedures at these components have not significantly changed.

Involvement with component teams

All of the Group's significant operations are in Mexico and are audited by one local team under our direct supervision.

	Work performed by	
	Primary team	One component team under our direct supervision
Full scope components	● (Parent Company)	●●●●
Components on which specified audit procedures are performed	● (Silverstream contract*)	●●●●

* In respect of the valuation of the Silverstream contract, we perform primary procedures directly, the component team performs certain supporting procedures regarding cash receipts, and the auditor of Peñoles provides support in respect of procedures on the estimation of reserve and resource quantities and the related mine plan at the Sabinas mine.

Independent Auditor's Report continued
to the Members of Fresnillo plc continued

The primary engagement team, including the Senior Statutory Auditor, visited Mexico five times during the audit, during both the planning and execution phases, with members of the team working with and supervising the component team in Mexico for a number of weeks. These visits involved discussion and oversight of the component team audit approach, consideration of any accounting and auditing issues arising from their work, reviewing key audit working papers, meeting with management and attending closing meetings.

Senior members of the component team attended a Global Team Planning Event in the planning phase of the audit and the primary team interacted regularly with the local team between visits to Mexico as appropriate. The primary engagement team is predominantly composed of Spanish speakers in order to further enhance our interactions with both the component team and management.

The primary team was responsible for the scope and direction of the audit process. For certain procedures, in particular areas involving significant judgement and heightened audit risk, we performed work ourselves with support where required from the component team. In other cases, we reviewed key working papers including, but not limited to, the risk areas described above.

The audit work at the ten components was executed at levels of performance materiality applicable to each individual component as allocated by the primary team and discussed below.

This involvement with the local component team in Mexico, together with the additional procedures performed at Group level, gave us appropriate evidence for our opinion on the Group financial statements.

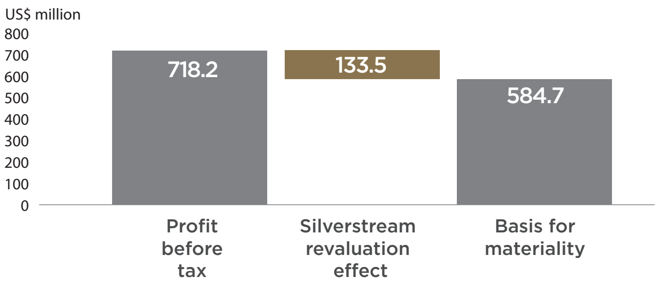
Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be US$29.2 million (2015: US$9.2 million), which is 5% (2015: 5%) of profit before tax prior to Silverstream revaluation effects. This is a consistent basis to 2015. We believe that this measure of profit represents one of the principal considerations for members of the Group, particularly as the Silverstream revaluation effects are principally non-cash in nature.



During the course of our audit, we reassessed initial planning materiality and updated its calculation for the actual financial results of the year. This resulted in planning materiality increasing by US$3.3 million.

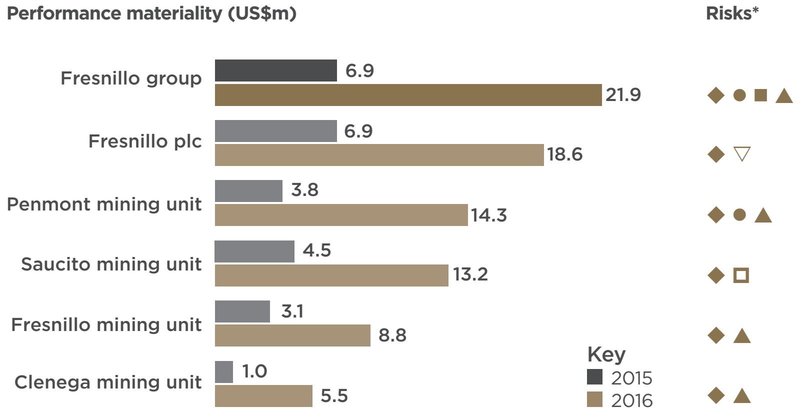
Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, it is our judgement that performance materiality is 75% (2015: 75%) of our planning materiality, namely US$21.9 million (2015: US$6.9 million). We based this judgement on factors including the past history of misstatements, our ability to assess the likelihood of misstatements and the effectiveness of the internal control environment.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. The performance materiality allocated to full-scope components in the current year is set out in the graph on page 165.

Allocated performance materiality increased in respect of all components, reflecting the overall performance of the Group and the individual contributions of the components to that performance.



* The risk icons correspond to the risks set out above. Audit procedures in respect of the recoverable amount of investments in subsidiaries are performed at the performance materiality of the standalone parent financial statements.

Reporting threshold
An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of 5% of planning materiality, being US$1.5 million (2015: US$0.5 million), as well as differences below that threshold that, in our view, warrant reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group and the Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the 2016 Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Respective responsibilities of Directors and auditor
As explained more fully in the Directors' Responsibilities Statement set out on page 156, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Opinion on other matters prescribed by the Companies Act 2006
In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the Corporate Governance Statement set out on pages 112 to 155 in the 2016 Annual Report with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

Independent Auditor’s Report continued
to the Members of Fresnillo plc continued

Matters on which we are required to report by exception

ISAs (UK and Ireland) reporting We are required to report to you if, in our opinion, financial and non-financial information in the Annual Report is: • materially inconsistent with the information in the audited financial statements; or • apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or • otherwise misleading. In particular, we are required to report whether we have identified any inconsistencies between our knowledge acquired in the course of performing the audit and the Directors’ statement that they consider the Annual Report and accounts taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the entity’s performance, business model and strategy; and whether the Annual Report appropriately addresses those matters that we communicated to the Audit Committee that we consider should have been disclosed.	We have no exceptions to report.
Companies Act 2006 reporting We are required to report to you if, in our opinion: • adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or • the Parent Company financial statements and the part of the Directors’ Remuneration Report to be audited are not in agreement with the accounting records and returns; or • certain disclosures of Directors’ remuneration specified by law are not made; or • we have not received all the information and explanations we require for our audit.	We have no exceptions to report.
Listing Rules review requirements We are required to review: • The Directors’ statement in relation to going concern, set out on page 55, and longer-term viability, set out on pages 54 and 55; and • the part of the Corporate Governance Statement relating to the Company’s compliance with the provisions of the UK Corporate Governance Code specified for our review.	We have no exceptions to report.

Statement on the Directors’ assessment of the principal risks that would threaten the solvency or liquidity of the entity

IISAs (UK and Ireland) reporting We are required to give a statement as to whether we have anything material to add or to draw attention to in relation to: • the Directors’ confirmation in the Annual Report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity; • the disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated; • the Directors’ statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity’s ability to continue to do so over a period of at least 12 months from the date of approval of the financial statements; and • the Directors’ explanation in the Annual Report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.	We have nothing material to add or to draw attention to.

Daniel Trotman (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
28 February 2017

1. The maintenance and integrity of the Fresnillo plc web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Consolidated Income Statement
Year ended 31 December

	Notes	Year ended 31 December 2016 US$ thousands Pre-Silverstream revaluation effect	Silverstream revaluation effect	Total	Year ended 31 December 2015 US$ thousands Pre-Silverstream revaluation effect	Silverstream revaluation effect	Total
Continuing operations							
Revenues	4	1,905,503		1,905,503	1,444,386		1,444,386
Cost of sales	5	(1,023,388)		(1,023,388)	(1,011,316)		(1,011,316)
Gross profit		**882,115**		**882,115**	**433,070**		**433,070**
Administrative expenses		(59,157)		(59,157)	(62,820)		(62,820)
Exploration expenses	6	(121,182)		(121,182)	(140,246)		(140,246)
Selling expenses		(16,277)		(16,277)	(13,693)		(13,693)
Other operating income	8	1,398		1,398	778		778
Other operating expenses	8	(10,442)		(10,442)	(16,650)		(16,650)
Profit from continuing operations before net finance costs and income tax		**676,455**		**676,455**	**200,439**		**200,439**
Finance income	9	6,958		6,958	65,838		65,838
Finance costs	9	(80,323)		(80,323)	(45,463)		(45,463)
Revaluation effects of Silverstream contract	14	–	133,528	133,528	–	27,720	27,720
Foreign exchange loss		(18,378)		(18,378)	(36,180)		(36,180)
Profit from continuing operations before income tax		**584,712**	**133,528**	**718,240**	**184,634**	**27,720**	**212,354**
Corporate income tax	10	(219,808)	(40,058)	(259,866)	(120,690)	(8,316)	(129,006)
Special mining right	10	(33,412)		(33,412)	(13,958)		(13,958)
Income tax expense	10	(253,220)	(40,058)	(293,278)	(134,648)	(8,316)	(142,964)
Profit for the year from continuing operations		**331,492**	**93,470**	**424,962**	**49,986**	**19,404**	**69,390**
Attributable to							
Equity shareholders of the Company		333,516	93,470	426,986	51,119	19,404	70,523
Non-controlling interest		(2,024)		(2,024)	(1,133)		(1,133)
		331,492	**93,470**	**424,962**	**49,986**	**19,404**	**69,390**
Earnings per share (US$)							
Basic and diluted earnings per Ordinary Share from continuing operations	11	–		0.579	–		0.096
Adjusted earnings per share (US$)							
Adjusted basic and diluted earnings per Ordinary Share from continuing operations	11	0.453		–	0.069		–

Consolidated Statement of Comprehensive Income
Year ended 31 December

	Notes	Year ended 31 December 2016 US$ thousands	 2015 US$ thousands
Profit for the year		**424,962**	**69,390**
Other comprehensive income/(expense)			
Items that may be reclassified subsequently to profit or loss:			
Losses on cash flow hedges recycled to income statement		1,184	26,422
Income tax effect	10	(355)	(7,927)
Changes in the fair value of cash flow hedges		(52,918)	39,521
Income tax effect	10	15,875	(11,856)
Net effect of cash flow hedges		(36,214)	46,160
Changes in the fair value of available-for-sale financial assets	13	44,729	(14,636)
Income tax effect	13	(13,418)	4,391
Impairment of available-for-sale financial assets taken to income during the year		–	2,896
Income tax effect	10	–	(869)
Net effect of available-for-sale financial assets		31,311	(8,218)
Foreign currency translation		3	(134)
Net other comprehensive (expense)/income that may be reclassified subsequently to profit or loss:		**(4,900)**	**37,808**
Items that will not be reclassified to profit or loss:			
Remeasurement gains/(losses) on defined benefit plans	22	2,443	(2,273)
Income tax effect	10	(388)	361
Net other comprehensive income/(expense) that will not be reclassified to profit or loss		**2,055**	**(1,912)**
Other comprehensive (expense)/income, net of tax		**(2,845)**	**35,896**
Total comprehensive income for the year, net of tax		**422,117**	**105,286**
Attributable to:			
Equity shareholders of the Company		424,141	106,419
Non-controlling interests		(2,024)	(1,133)
		422,117	**105,286**

Consolidated Balance Sheet
As at 31 December

	Notes	2016 US$ thousands	2015 restated US$ thousands
		As at 31 December	
ASSETS			
Non-current assets			
Property, plant and equipment	12	2,180,217	2,138,588
Available-for-sale financial assets	13	116,171	71,442
Silverstream contract	14	438,811	358,164
Derivative financial instruments	30	16,532	97,473
Deferred tax asset	10	20,023	30,814
Inventories	15	89,351	76,375
Other receivables	16	990	2,289
Other assets		3,385	3,372
		2,865,480	**2,778,517**
Current assets			
Inventories	15	187,499	224,200
Trade and other receivables	16	286,678	237,992
Income tax recoverable		–	67,690
Prepayments		2,839	2,966
Derivative financial instruments	30	6,618	19,602
Silverstream contract	14	28,718	26,607
Short-term investments	17	200,000	118,718
Cash and cash equivalents	17	711,954	381,420
		1,424,306	**1,079,195**
Total assets		**4,289,786**	**3,857,712**
EQUITY AND LIABILITIES			
Capital and reserves attributable to shareholders of the Company			
Share capital	18	368,546	368,546
Share premium	18	1,153,817	1,153,817
Capital reserve	18	(526,910)	(526,910)
Hedging reserve	18	–	36,214
Available-for-sale financial assets reserve	18	47,608	16,297
Foreign currency translation reserve	18	(728)	(731)
Retained earnings	18	1,637,888	1,296,906
		2,680,221	2,344,139
Non-controlling interests		36,147	30,202
Total equity		**2,716,368**	**2,374,341**
Non-current liabilities			
Interest-bearing loans	20	798,027	797,032
Derivative financial instruments	30	16	–
Provision for mine closure cost	21	149,109	195,476
Provision for pensions and other post-employment benefit plans	22	9,095	14,534
Deferred tax liability	10	463,050	373,009
		1,419,297	**1,380,051**
Current liabilities			
Trade and other payables	23	121,633	89,630
Income tax payable		18,842	–
Derivative financial instruments	30	630	1,427
Employee profit sharing		13,016	12,263
		154,121	**103,320**
Total liabilities		**1,573,418**	**1,483,371**
Total equity and liabilities		**4,289,786**	**3,857,712**

These financial statements were approved by the Board of Directors on 27 February 2017 and signed on its behalf by:

Mr Arturo Fernandez
Non-executive Director
27 February 2017

Consolidated Statement of Cash Flows
Year ended 31 December

	Notes	Year ended 31 December 2016 US$ thousands	2015 US$ thousands
Net cash from operating activities	29	**897,958**	**542,894**
Cash flows from investing activities			
Purchase of property, plant and equipment		(434,050)	(474,692)
Proceeds from the sale of property, plant and equipment and other assets		277	6,077
Repayments of loans granted to contractors		2,626	1,567
Short-term investments	17	(81,282)	176,475
Silverstream contract	14	47,565	39,430
Interest received		6,958	4,614
Net cash used in investing activities		**(457,906)**	**(246,529)**
Cash flows from financing activities			
Dividends paid to shareholders of the Company	19	(88,219)	(37,529)
Capital contribution		7,361	4,796
Interest paid[1]	20	(28,028)	(35,144)
Net cash used in financing activities		**(108,886)**	**(67,877)**
Net increase in cash and cash equivalents during the year		331,166	228,488
Effect of exchange rate on cash and cash equivalents		(632)	(1,408)
Cash and cash equivalents at 1 January		381,420	154,340
Cash and cash equivalents at 31 December	17	**711,954**	**381,420**

1. Total interest paid during the year ended 31 December 2016 less amounts capitalised totalling US$18.2 million (31 December 2015: US$11.1 million) which were included within the caption Purchase of property, plant and equipment.

Consolidated Statement of Changes in Equity
Year ended 31 December

Attributable to the equity holders of the Company

US$ thousands

	Notes	Share capital	Share premium	Capital reserve	Hedging reserve	Available-for-sale financial assets reserve	Foreign currency translation reserve	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 1 January 2015		368,546	1,153,817	(526,910)	(9,946)	24,515	(597)	1,265,877	2,275,302	26,539	2,301,841
Profit/(Loss) for the year		–	–	–	–	–	–	70,523	70,523	(1,133)	69,390
Other comprehensive income, net of tax		–	–	–	46,160	(8,218)	(134)	(1,912)	35,896	–	35,896
Total comprehensive income for the year		–	–	–	46,160	(8,218)	(134)	68,611	106,419	(1,133)	105,286
Capital contribution		–	–	–	–	–	–	–	–	4,796	4,796
Dividends declared and paid	19	–	–	–	–	–	–	(37,582)	(37,582)	–	(37,582)
Balance at 31 December 2015		**368,546**	**1,153,817**	**(526,910)**	**36,214**	**16,297**	**(731)**	**1,296,906**	**2,344,139**	**30,202**	**2,374,341**
Profit/(Loss) for the year		–	–	–	–	–	–	426,986	426,986	(2,024)	424,962
Other comprehensive income, net of tax		–	–	–	(36,214)	31,311	3	2,055	(2,845)	–	(2,845)
Total comprehensive income for the year		–	–	–	(36,214)	31,311	3	429,041	424,141	(2,024)	422,117
Capital contribution		–	–	–	–	–	–	–	–	7,969	7,969
Dividends declared and paid	19	–	–	–	–	–	–	(88,059)	(88,059)	–	(88,059)
Balance at 31 December 2016		**368,546**	**1,153,817**	**(526,910)**	**–**	**47,608**	**(728)**	**1,637,888**	**2,680,221**	**36,147**	**2,716,368**

Notes to the Consolidated Financial Statements

1. Corporate information

Fresnillo plc. ('the Company') is a public limited company and registered in England and Wales with registered number 6344120 and is the holding company for the Fresnillo subsidiaries detailed in note 5 of the Parent Company accounts ('the Group').

Industrias Peñoles S.A.B. de C.V. ('Peñoles') currently owns 75% of the shares of the Company and the ultimate controlling party of the Company is the Baillères family, whose beneficial interest is held through Peñoles. The registered address of Peñoles is Calzada Legaria 549, Mexico City 11250. Copies of Peñoles' accounts can be obtained from www.penoles.com.mx. Further information on related party balances and transactions with Peñoles' group companies is disclosed in note 27.

The consolidated financial statements of the Group for the year ended 31 December 2016 were authorised for issue by the Board of Directors of Fresnillo plc on 27 February 2017.

The Group's principal business is the mining and beneficiation of non-ferrous minerals, and the sale of related production. The primary contents of this production are silver, gold, lead and zinc. Further information about the Group operating mines and its principal activities is disclosed in note 3.

2. Significant accounting policies

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

Basis of preparation and statement of compliance

The Group's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union as they apply to the financial statements of the Group for the years ended 31 December 2016 and 2015, 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 assets 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 2016 and 2015, 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. The Group controls an entity when the Group is exposed to, or has the right to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. 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 Group applies the acquisition method to account for business combinations in accordance with IFRS 3.

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. 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.

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, a transaction with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interest are also recorded in equity.

(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 2015. During 2016, there were no amendments to existing accounting policies.

As at 31 December 2015, derivatives relating to the gold hedging programme initiated in 2014 that mature after one year had been presented as current assets. During 2016, the Group restated the prior year comparatives and reclassified these derivatives to non-current assets. The reclassification resulted in an increase in non-current assets and a corresponding reduction in current assets by US$97.5 million as at 31 December 2015, with no impact on previously reported profit, other comprehensive income, liabilities, equity, cash flow or earnings per share. In addition, there is no tax effect and no impact on segmental disclosures.

New standards, interpretations and amendments (new standards) adopted by the Group

The Group has adopted 'IAS 1 Disclosure Initiative – Amendments to IAS 1'. The amendments clarify existing requirements on materiality, aggregation and disaggregation in the preparation of financial statements and presentation of the notes. This amendment had no impact in the financial information of the Group.

2. Significant accounting policies continued

Other than the above mentioned amendment there were no significant new standards that the Group was required to adopt effective from 1 January 2016.

Standards, interpretations and amendments issued but not yet effective

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

IFRS 9 Financial Instruments: In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which concludes all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. The Group plans to adopt IFRS 9 Financial instruments from the mandatory effective date. The Group has completed a preliminary assessment of the expected major impacts of this standard, the most relevant are set out below.

Nature of change	IFRS 9 addresses the classification and measurement of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The derecognition rules are consistent with those under IAS 39.
Main impact	IFRS 9 makes significant changes in the classification of financial assets. Whereas under IAS 39, the default classification for financial assets was available-for-sale financial assets, under IFRS 9 the residual category is to recognise fair value through profit or loss (FVTPL). Generally under IFRS 9, investments in equity instruments are recognised as FVTPL unless the Group makes an election, in respect of investments that are not held for trading, to measure the instruments at fair value through OCI (FVOCI). The Group expects to designate all investments currently recognised in available-for-sale financial assets as FVOCI. In accordance with IFRS 9, this means that all movements relating to such assets are recognised in OCI. Neither gains nor losses on disposal or significant or prolonged declines in the value of these investments are recognised in profit or loss. **Hedge accounting** The new hedge accounting rules will align the accounting for hedging instruments more closely with the Group's risk management practices. IFRS 9 changes the accounting requirements for the time value of purchased options where only the intrinsic value of such options has been designated as the hedging instrument. In such cases, changes in the time value of options are initially recognised in OCI. Amounts related to the time value of options are reclassified to profit or loss or as a basis adjustment to assets or liabilities upon maturity of the hedged item, or, in the case of a hedged item that realises over time, over the life of the hedged item. Under IAS 39, the change in time value of options is recorded in the income statement. **Impairment model** The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than on the basis of credit losses incurred as is the case under IAS 39. It will apply to Group's financial assets classified at amortised cost and debt instruments measured at FVOCI. IFRS 9 also sets out a simplified approach for traded and lease receivables that do not contain a significant financing component in accordance with IFRS 15.
Expected date of adoption by Group and considerations	The Group plans to adopt IFRS 9 effective 1 January 2018 and plans to apply the limited exemption relating to transition for classification and measurement and impairment, and accordingly will not restate comparative periods in the year of initial application. Generally, the change in hedge requirements are accounted for prospectively; however, in the case of the recognition of time value of options in OCI, this is adjusted for retrospectively. The Group expects the adjustment from retained earnings to hedging reserve as at 1 January 2017, the beginning of the comparative period for the year of implementation, to be US$23.0 million, reflecting the time value of the open positions as at 1 January 2017. In the year ended 31 December 2016, this amount was recognised in finance cost, in accordance with IAS 39.

Notes to the Consolidated Financial Statements continued

2. Significant accounting policies continued

IFRS 15 Revenue from Contracts with Customers: IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. The new revenue standard will supersede all current revenue recognition requirements under IFRS. Early adoption is permitted. IFRS 15 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. The Group plans to adopt IFRS 15 Revenue from Contracts with Customers from the mandatory effective date. The Group has completed a preliminary assessment of the expected major impacts of this standard, the most relevant are set out below.

Nature of change	IFRS 15 establishes a comprehensive framework for recognition of revenue from contracts with customers based on a core principle that an entity should recognise revenue representing the transfer of promised goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.
Main impact	As described in the accounting policies section, The Group's revenue is derived from one revenue stream that corresponds to the sale of goods (concentrates, precipitates and doré bars). The Group has evaluated recognition and measurement of revenue based on the five-step model in IFRS 15 and has not identified any material expected financial impacts. IFRS 15 includes disclosure requirements to enable users of the financial statements to understand the amount, timing, risk and judgements related to revenue recognition and related cash flows. Certain disclosures will change as a result of the requirements of IFRS 15. The Group expects this to include a breakdown of revenue from customers and revenue from other sources, including the movement in the value of embedded derivatives in sales contracts.
Expected date of adoption by Group and considerations	The Group plans to adopt IFRS 15 effective 1 January 2018 and to apply the simplified transition method, hence the cumulative effect of adoption, if any, will be recognised in retained earnings. The Group currently expects the cumulative effect to be nil.

IFRS 16 Leases

IFRS 16 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. These amendments are effective for annual periods beginning on or after 1 January 2019 and earlier application is permitted. However, as there are several interactions between IFRS 16 and IFRS 15 Revenue from contracts with customers, early application is restricted to entities that also early adopt IFRS 15. The Group is currently assessing the impact of IFRS 16 and is considering early adoption in 2018 to align with the adoption of IFRS 9 and IFRS 15.

Amendments to IAS 7 Disclosure Initiative

The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments do not prescribe a specific format to disclose financing activities; however, an entity may fulfil the disclosure objective by providing reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities.

The amendments apply prospectively for annual periods beginning on or after 1 January 2017 with earlier application permitted. Entities are not required to present comparative information for earlier periods. The amendments to this standard are not expected to have any impact in the financial information of the Group.

Amendments to IAS 12 Income Taxes

The amendments to IAS 12 clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. They also clarify certain other aspects of accounting for deferred tax assets. These amendments are effective for annual periods beginning on or after 1 January 2017 with early adoption permitted. The amendments to this standard are not expected to have any impact in the financial information of the Group.

IFRIC 22 Foreign currency transactions and advance consideration

IFRIC 22 provides requirements about which exchange rate to use in reporting foreign currency transactions when payment is made or received in advance. The interpretation requires the Company to determine a 'date of transaction' for the purposes of selecting an exchange rate to use on initial recognition of the related asset, expense or income. In case there are multiple payments or receipts in advance, the entity should determine a date of the transaction for each flow of advance consideration. IFRIC 22 is applicable for annual periods beginning on or after 1 January 2018 and earlier adoption is permitted. The interpretation is not expected to have any impact in the financial information of the Group.

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

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

2. Significant accounting policies continued

(c) Significant accounting judgements, estimates and assumptions

The preparation of the Group's consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. These judgements and estimates are based on management's best knowledge of the relevant facts and circumstances, with regard to prior experience, but actual results may differ from the amounts included in the consolidated financial statements. Information about such judgements and estimates is contained in the accounting policies and/or the notes to the consolidated financial statements.

Judgements

Areas of judgement, apart from those involving estimations, that have the most significant effect on the amounts recognised in the consolidated financial statements are:

- Determination of functional currency (note 2 (d)):
  The determination of functional currency requires management judgement, particularly where there may be several currencies in which transactions are undertaken and which impact the economic environment in which the entity operates.
- Evaluation of the status of projects (note 2 (e)):
  The evaluation of project status impacts the accounting for costs incurred and requires management judgement. This includes the assessment of whether there is sufficient evidence of the probability of the existence of economically recoverable minerals to justify the commencement of capitalisation of costs, the timing of the end of the exploration phase and the start of the development phase and the commencement of the production phase. These judgements directly impact the treatment of costs incurred and proceeds from the sale of metals from ore produced.
- Stripping costs (note 2 (e)):
  The Group incurs waste removal costs (stripping costs) during the development and production phases of its surface mining operations. During the production phase, stripping costs (production stripping costs) can be incurred both in relation to the production of inventory in that period and the creation of improved access and mining flexibility in relation to ore to be mined in the future. The former are included as part of the costs of inventory, while the latter are capitalised as a stripping activity asset, where certain criteria are met.

  Once the Group has identified production stripping for a surface mining operation, judgement is required in identifying the separate components of the ore bodies for that operation, to which stripping costs should be allocated. Generally a component is a specific volume of the ore body that is made more accessible by the stripping activity. In identifying components of the ore body, the Group works closely with the mining operations personnel to analyse each of the mine plans. The mine plans and, therefore, the identification of components, will vary between mines for a number of reasons. These include, but are not limited to, the type of commodity, the geological characteristics of the ore body, the geographical location and/or financial considerations. The Group reassesses the components of ore bodies annually in line with the preparation of mine plans. In the current year, this reassessment did not give rise to any changes in the identification of components.

  Once production stripping costs have been identified, judgement is also required to identify a suitable production measure to be used to allocate production stripping costs between inventory and any stripping activity asset(s) for each component. The Group considers that the ratio of the expected tonnes of waste to be stripped for an expected tonnes of ore to be mined for a specific component of the ore body is the most suitable production measure.

  Furthermore, judgements and estimates are also used to apply the units of production method in determining the depreciable lives of the stripping activity asset(s).
- Qualifying assets (note 2 (e)):
  All interest-bearing loans are held by the parent company and were not obtained for any specific asset's acquisition, construction, or production. Funds from these loans are transferred to subsidiaries to meet the strategic objectives of the Group or are otherwise held centrally. Due to this financing structure, judgement is required in determining whether those borrowings are attributable to the acquisition, construction or production of a qualifying asset. Therefore, management determines whether borrowings are attributable to an asset or group of assets based on whether the investment in an operating or development stage project is classified as contributing to achieving the strategic growth of the Group.
- Contingencies (note 26):
  By their nature, contingencies will be resolved only when one or more uncertain future events occur or fail to occur. The assessment of the existence and potential quantum of contingencies inherently involves the exercise of significant judgement and the use of estimates regarding the outcome of future events.

Notes to the Consolidated Financial Statements continued

2. Significant accounting policies continued

Estimates and assumptions

Significant areas of estimation uncertainty considered by management in preparing the consolidated financial statements include:

- Estimated recoverable ore reserves and mineral resources, note 2(e):
  Ore reserves are estimates of the amount of ore that can be economically and legally extracted from the Group's mining properties; mineral resources are an identified mineral occurrence with reasonable prospects for eventual economic extraction. The Group estimates its ore reserves and mineral resources based on information compiled by appropriately qualified persons relating to the geological and technical data on the size, depth, shape and grade of the ore body and suitable production techniques and recovery rates, in conformity with the Joint Ore Reserves Committee (JORC) code 2012. Such an analysis requires complex geological judgements to interpret the data. The estimation of recoverable ore reserves and mineral resources is based upon factors such as geological assumptions and judgements made in estimating the size and grade of the ore body, estimates of commodity prices, foreign exchange rates, future capital requirements and production costs.

  As additional geological information is produced during the operation of a mine, the economic assumptions used and the estimates of ore reserves and mineral resources may change. Such changes may impact the Group's reported balance sheet and income statement including:
  - The carrying value of property, plant and equipment and mining properties may be affected due to changes in estimated future cash flows, which consider both ore reserves and mineral resources.
  - Depreciation and amortisation charges in the income statement may change where such charges are determined using the unit-of-production method based on ore reserves.
  - Stripping costs capitalised in the statement of financial position, either as part of mine properties or inventory, or charged to profit or loss may change due to changes in stripping ratios.
  - Provisions for mine closure costs may change where changes to the ore reserve and resources estimates affect expectations about when such activities will occur.
  - The recognition and carrying value of deferred income tax assets may change due to changes regarding the existence of such assets and in estimates of the likely recovery of such assets.

- Determination of useful lives of assets for depreciation and amortisation purposes, notes 2 (e) and 12:
  Estimates are required to be made by management as to the useful lives of assets. For depreciation calculated under the unit-of-production method, estimated recoverable reserves are used in determining the depreciation and/or amortisation of mine specific assets. Depreciation/amortisation charge is proportional to the depletion of the estimated remaining life of mine of production. Estimated useful lives of other assets are based on the expected usage of the asset. Each item's life, which is assessed annually, has regard to both its physical life limitations and to expectations of the use of the asset by the Group, including with reference to present assessments of economically recoverable reserves of the mine property at which the asset is used.

- Silverstream, note 14:
  The valuation of the Silverstream contract as a derivative financial instrument requires significant estimation by management. The term of the derivative is based on Sabinas life of mine which is currently 20 years and the value of this derivative is determined using a number of estimates, including the estimated recoverable ore reserves and mineral resources and future production profile of the Sabinas mine, the estimated recoveries of silver from ore mined, estimates of the future price of silver and the discount rate used to discount future cash flows. For further detail on the inputs that have a significant effect on the fair value of this derivative, see note 30. The impact of changes in silver price assumptions, foreign exchange, inflation and the discount rate is included in note 31.

- Assessment of recoverability of property plant and equipment and impairment charges, note 2 (f):
  The recoverability of an asset requires the use of estimates and assumptions such as long-term commodity prices, reserves and resources and the associated production profiles, discount rates, future capital requirements, exploration potential and operating performance. Changes in these assumptions will affect the recoverable amount of the property, plant and equipment.

- Estimation of the mine closure costs, notes 2 (l) and 21:
  Significant estimates and assumptions are made in determining the provision for mine closure cost as there are numerous factors that will affect the ultimate liability payable. These factors include estimates of the extent and costs of rehabilitation activities, technological changes, regulatory changes, cost increases, mine life and changes in discount rates. Those uncertainties may result in future actual expenditure differing from the amounts currently provided. The provision at the balance sheet date represents management's best estimate of the present value of the future closure costs required.

- Income tax, notes 2 (r) and 10:
  Deferred tax assets, including those arising from un-utilised tax losses require management to assess the likelihood that the Group will generate taxable earnings in future periods, in order to utilise recognised deferred tax assets. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Group to realise the net deferred tax assets recorded at the balance sheet date could be impacted.

2. Significant accounting policies continued

(d) Foreign currency translation

The Group's consolidated financial statements are presented in US dollars, which is the Parent Company's functional currency. The functional currency for each entity in the Group is determined by the currency of the primary economic environment in which it operates. For all operating entities, this is US dollars.

Transactions denominated in currencies other than the functional currency of the entity are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rate of exchange ruling at the balance sheet date. All differences that arise are recorded in the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated into US dollars using the exchange rate at the date when the fair value is determined.

For entities with functional currencies other than US dollars as at the reporting date, assets and liabilities are translated into the reporting currency of the Group by applying the exchange rate at the balance sheet date and the income statement is translated at the average exchange rate for the year. The resulting difference on exchange is included as a cumulative translation adjustment in other comprehensive income. On disposal of an entity, the deferred cumulative amount recognised in other comprehensive income relating to that operation is recognised in the income statement.

(e) Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and impairment, if any. Cost comprises the purchase price and any costs directly attributable to bringing the asset into working condition for its intended use. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads.

The cost less the residual value of each item of property, plant and equipment is depreciated over its useful life. Each item's estimated useful life has been assessed with regard to both its own physical life limitations and the present assessment of economically recoverable reserves of the mine property at which the item is located. Estimates of remaining useful lives are made on a regular basis for all mine buildings, machinery and equipment, with annual reassessments for major items. Depreciation is charged to cost of sales on a unit-of-production (UOP) basis for mine buildings and installations, plant and equipment used in the mine production process or on a straight line basis over the estimated useful life of the individual asset when not related to the mine production process. Changes in estimates, which mainly affect unit-of-production calculations, are accounted for prospectively. Depreciation commences when assets are available for use. Land is not depreciated.

The expected useful lives are as follows:

	Years
Buildings	6
Plant and equipment	4
Mining properties and development costs[1]	16
Other assets	3

1. Depreciation of mining properties and development cost are determined using the unit-of-production method.

An item of property, plant and equipment is de-recognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising at de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year that the asset is de-recognised.

Non-current assets or disposal groups are classified as held for sale when it is expected that the carrying amount of the asset will be recovered principally through sale rather than through continuing use. Assets are not depreciated when classified as held for sale.

Disposal of assets

Gains or losses from the disposal of assets are recognised in the income statement when all significant risks and rewards of ownership are transferred to the customer, usually when title has been passed.

Mining properties and development costs

Payments for mining concessions are expensed during the exploration phase of a prospect and capitalised during the development of the project when incurred.

Purchased rights to ore reserves and mineral resources are recognised as assets at their cost of acquisition or at fair value if purchased as part of a business combination.

Mining concessions, when capitalised, are amortised on a straight line basis over the period of time in which benefits are expected to be obtained from that specific concession.

Mine development costs are capitalised as part of property, plant and equipment. Mine development activities commence once a feasibility study has been performed for the specific project. When an exploration prospect has entered into the advanced exploration phase and sufficient evidence of the probability of the existence of economically recoverable minerals has been obtained pre-operative expenses relating to mine preparation works are also capitalised as a mine development cost.

Notes to the Consolidated Financial Statements continued

2. Significant accounting policies continued

The initial cost of a mining property comprises its construction cost, any costs directly attributable to bringing the mining property into operation, the initial estimate of the provision for mine closure cost, and, for qualifying assets, borrowing costs. The Group cease the capitalisation of borrowing cost when the physical construction of the asset is complete and is ready for its intended use.

Revenues from metals recovered from ore mined in the mine development phase, prior to commercial production, are credited to mining properties and development costs. Upon commencement of production, capitalised expenditure is depreciated using the unit-of-production method based on the estimated economically proven and probable reserves to which they relate.

Mining properties and mine development are stated at cost, less accumulated depreciation and impairment in value, if any.

Construction in progress

Assets in the course of construction are capitalised as a separate component of property, plant and equipment. On completion, the cost of construction is transferred to the appropriate category of property, plant and equipment. The cost of construction in progress is not depreciated.

Subsequent expenditures

All subsequent expenditure on property, plant and equipment is capitalised if it meets the recognition criteria, and the carrying amount of those parts that are replaced, is de-recognised. All other expenditure including repairs and maintenance expenditure is recognised in the income statement as incurred.

Stripping costs

In a surface mine operation, it is necessary to remove overburden and other waste material in order to gain access to the ore bodies (stripping activity). During development and pre-production phases, the stripping activity costs are capitalised as part of the initial cost of development and construction of the mine (the stripping activity asset) and charged as depreciation or depletion to cost of sales, in the income statement, based on the mine's units of production once commercial operations begin.

Removal of waste material normally continues throughout the life of a surface mine. At the time that saleable material begins to be extracted from the surface mine the activity is referred to as production stripping.

Production stripping cost is capitalised only if the following criteria is met:
- it is probable that the future economic benefits (improved access to an ore body) associated with the stripping activity will flow to the Group;
- the Group can identify the component of an ore body for which access has been improved; and
- the costs relating to the improved access to that component can be measured reliably.

If not all of the criteria are met, the production stripping costs are charged to the income statement as operating costs as they are incurred.

Stripping activity costs associated with such development activities are capitalised into existing mining development assets, as mining properties and development cost, within property, plant and equipment, using a measure that considers the volume of waste extracted compared with expected volume, for a given volume of ore production. This measure is known as 'component stripping ratio', which is revised annually in accordance with the mine plan. The amount capitalised is subsequently depreciated over the expected useful life of the identified component of the ore body related to the stripping activity asset, by using the units of production method. The identification of components and the expected useful lives of those components are evaluated annually. Depreciation is recognised as cost of sales in the income statement.

The capitalised stripping activity asset is carried at cost less accumulated depletion/depreciation, less impairment, if any. Cost includes the accumulation of costs directly incurred to perform the stripping activity that improves access to the identified component of ore, plus an allocation of directly attributable overhead costs. The costs associated with incidental operations are excluded from the cost of the stripping activity asset.

In identifying components of the ore body, the Group works closely with the mining operations personnel for each mining operation to analyse each of the mine plans. Generally, a component will be a subset of the total ore body and a mine may have several components that are identified based on the mine plan. The mine plans and therefore the identification of components can vary between mines for a number of reasons including but not limited to, the type of commodity, the geological characteristics of the ore body, the geographical location and/or financial considerations.

(f) Impairment of non-financial assets

The carrying amounts of non-financial assets are reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable. At each reporting date, an assessment is made to determine whether there are any indications of impairment. If there are indicators of impairment, an exercise is undertaken to determine whether carrying values are in excess of their recoverable amount. Such reviews are undertaken on an asset by asset basis, except where such assets do not generate cash flows independent of those from other assets or groups of assets, and then the review is undertaken at the cash generating unit level.

If the carrying amount of an asset or its cash generating unit exceeds the recoverable amount, a provision is recorded to reflect the asset at the recoverable amount in the balance sheet. Impairment losses are recognised in the income statement.

2. Significant accounting policies continued

The recoverable amount of an asset

The recoverable amount of an asset is the greater of its value in use and fair value less costs of disposal. In assessing value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Fair value is based on an estimate of the amount that the Group may obtain in an orderly sale transaction between market participants. For an asset that does not generate cash inflows largely independently of those from other assets, or groups of assets, the recoverable amount is determined for the cash generating unit to which the asset belongs. The Group's cash generating units are the smallest identifiable groups of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Reversal of impairment

An assessment is made each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the Group makes an estimate of the recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in estimates used to determine the asset's recoverable amount since the impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to the recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised in previous years. Such impairment loss reversal is recognised in the income statement.

(g) Financial assets and liabilities

Financial assets are recognised when the Group becomes party to contracts that give rise to them and are classified as financial assets at fair value through profit or loss; held to maturity investments; available-for-sale financial assets; or loans and receivables or derivatives designated as hedging instruments, as appropriate. The Group determines the classification of its financial assets at initial recognition and re-evaluates this designation at each balance sheet date. When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

The Group recognises financial liabilities on its balance sheet when, and only when, it becomes a party to the contractual provisions of the instrument. Financial liabilities are classified at fair value through profit or loss, loans and borrowings payables or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial liabilities are initially recognised at the fair value of the consideration received, including any transaction costs incurred.

Financial assets and liabilities at fair value through profit or loss

Financial assets and liabilities classified as held-for-trading and other assets or liabilities designated as fair value through profit or loss at inception are included in this category. Financial assets or liabilities are classified as held-for-trading if they are acquired or incurred for the purpose of selling or repurchasing in the short term. Derivatives, including separated embedded derivatives are also classified as held-for-trading unless they are designated as effective hedging instruments as defined by IAS 39. Financial assets or liabilities at fair value through profit or loss are carried in the balance sheet at fair value with gains or losses arising from changes in fair value, presented as finance costs or finance income in the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, do not qualify as trading assets and have not been designated as either fair value through profit and loss or available-for-sale.

After initial measurement, such assets are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Gains or losses are recognised in income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Current trade receivables are carried at the original invoice amount less provision made for impairment of these receivables. Non-current receivables are stated at amortised cost. Loans and receivables from contractors are carried at amortised cost.

Loans and borrowings

After initial recognition at fair value, net of directly attributable transaction costs, interest-bearing loans are subsequently measured at amortised cost using the effective interest rate (EIR) method. The EIR amortisation is included as finance costs in the income statement. Gains and losses are recognised in profit or loss, in the income statement, when the liabilities are derecognised as well as through the EIR amortisation process.

The Group adjusts the carrying amount of the financial liability to reflect actual and revised estimated cash flows. The carrying amount is recalculated by computing the present value of estimated future cash flows at the financial instrument's original effective interest rate or, when applicable, the revised effective interest rate. Any adjustment is recognised in profit or loss as income or expense.

This category generally applies to interest-bearing loans and borrowings. For more information, refer to note 20.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as such or are not classified in any of the preceding categories and are not held to maturity investments.

Notes to the Consolidated Financial Statements continued

2. Significant accounting policies continued

Available-for-sale financial assets represent equity investments that have a quoted market price in an active market; therefore, a fair value can be reliably measured. After initial measurement, available-for-sale financial assets are measured at fair value with mark-to-market unrealised gains or losses recognised as other comprehensive income in the available-for-sale reserve until the financial asset is de-recognised.

Financial assets classified as available-for-sale are de-recognised when they are sold, and all the risks and rewards of ownership have been transferred. When financial assets are sold, the accumulated fair value adjustments recognised in other comprehensive income are included in the income statement within other operating income or expense.

De-recognition of financial assets and liabilities

A financial asset or liability is generally de-recognised when the contract that gives rise to it is settled, sold, cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, such that the difference in the respective carrying amounts together with any costs or fees incurred are recognised in profit or loss.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in the income statement.

(h) Impairment of financial assets

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss is recognised in profit or loss.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired receivables are de recognised when they are assessed as uncollectible.

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. In assessing whether there is an impairment, the Group considers whether a decline in fair value is either significant or prolonged, by considering the size of the decline in this value, the historic volatility in changes in fair value and the duration of the sustained decline. Reversals in respect of equity instruments classified as available-for-sale are not recognised in the income statement.

(i) Inventories

Finished goods and work in progress inventories are measured at the lower of cost and net realisable value. Cost is determined using the weighted average cost method based on cost of production which excludes borrowing costs.

For this purpose, the costs of production include:
- personnel expenses, which include employee profit sharing, materials and contractor expenses which are directly attributable to the extraction and processing of ore;
- the depreciation of property, plant and equipment used in the extraction and processing of ore; and
- related production overheads (based on normal operating capacity).

2. Significant accounting policies continued

Operating materials and spare parts are valued at the lower of cost or net realisable value. An allowance for obsolete and slow-moving inventories is determined by reference to specific items of stock. A regular review is undertaken by management to determine the extent of such an allowance.

Net realisable value is the estimated selling price in the ordinary course of business less any further costs expected to be incurred to completion and disposal.

(j) Short-term investments

Where the Group invests in short-term instruments which are either not readily convertible into known amounts of cash or are subject to risk of changes in value that are not insignificant, these instruments are classified as short-term investments. Short-term investments are classified as loans and receivables.

(k) Cash and cash equivalents

For the purposes of the balance sheet, cash and cash equivalents comprise cash at bank, cash on hand and short-term deposits held with banks that are readily convertible into known amounts of cash and which are subject to insignificant risk of changes in value. Short-term deposits earn interest at the respective short-term deposit rates between one day and four months. For the purposes of the cash flow statement, cash and cash equivalents as defined above are shown net of outstanding bank overdrafts.

(l) Provisions

Mine closure cost

A provision for mine closure cost is made in respect of the estimated future costs of closure, restoration and for environmental rehabilitation costs (which include the dismantling and demolition of infrastructure, removal of residual materials and remediation of disturbed areas) based on a mine closure plan, in the accounting period when the related environmental disturbance occurs. The provision is discounted and the unwinding of the discount is included within finance costs. At the time of establishing the provision, a corresponding asset is capitalised where it gives rise to a future economic benefit and is depreciated over future production from the mine to which it relates. The provision is reviewed on an annual basis by the Group for changes in cost estimates, discount rates or life of operations. Changes to estimated future costs are recognised in the balance sheet by adjusting the mine closure cost liability and the related asset originally recognised. If, for mature mines, the revised mine assets net of mine closure cost provisions exceed the recoverable value, the portion of the increase is charged directly as an expense. For closed sites, changes to estimated costs are recognised immediately in profit or loss.

(m) Employee benefits

The Group operates the following plans:

Defined benefit pension plan

This funded plan is based on each employee's earnings and years of service. This plan was open to all employees in Mexico until it was closed to new entrants on 1 July 2007. The plan is denominated in Mexican pesos. For members as at 30 June 2007, benefits were frozen at that date subject to indexation with reference to the Mexican National Consumer Price Index (NCPI).

The cost of providing benefits under the defined benefit plan is determined using the projected unit credit actuarial valuation method and prepared by an external actuarial firm as at each year-end balance sheet date. The discount rate is the yield on bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid. Actuarial gains or losses are recognised in OCI and permanently excluded from profit or loss.

Past service costs are recognised as an expense on a straight line basis over the average period until the benefits become vested. If the benefits have already vested following the introduction of, or changes to, a pension plan, the past service cost is recognised immediately.

The defined benefit asset or liability comprises the present value of the defined benefit obligation less the fair value of plan assets out of which the obligations are to be settled directly. The value of any asset is restricted to the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

Net interest cost is recognised in finance cost and return on plan assets (other than amounts reflected in net interest cost) is recognised in OCI and permanently excluded from profit or loss.

Defined contribution pension plan

A defined contribution plan is a post-employment benefit plan under which the Group pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in profit or loss when they are due. The contributions are based on the employee's salary.

This plan started on 1 July 2007 and it is voluntary for all employees to join this scheme.

Seniority premium for voluntary separation

This unfunded plan corresponds to an additional payment over the legal seniority premium equivalent to approximately 12 days of salary per year for those unionised workers who have more than 15 years of service. Non-unionised employees with more than 15 years of service have the right to a payment equivalent to 12 days for each year of service. For both cases, the payment is based on the legal current minimum salary.

Notes to the Consolidated Financial Statements continued

2. Significant accounting policies continued

The cost of providing benefits for the seniority premium for voluntary separation is determined using the projected unit credit actuarial valuation method and prepared by an external actuarial firm as at each year-end balance sheet date. Actuarial gains or losses are recognised as income or expense in the period in which they occur.

Other

Benefits for death and disability are covered through insurance policies.

Termination payments for involuntary retirement (dismissals) are charged to the income statement, when incurred.

(n) Employee profit sharing

In accordance with the Mexican legislation, companies in Mexico are subject to pay for employee profit sharing ('PTU') equivalent to 10% of the taxable income of each fiscal year.

PTU is accounted for as employee benefits and is calculated based on the services rendered by employees during the year, considering their most recent salaries. The liability is recognised as it accrues and is charged to the income statement. PTU, paid in each fiscal year, is considered deductible for income tax purposes.

(o) Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date including whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

a) there is a change in contractual terms, other than a renewal or extension of the arrangement;
b) a renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
c) there is a change in the determination of whether fulfilment is dependent on a specified asset; or
d) there is a substantial change to the asset.

Group as a lessee

Finance leases which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset, or if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are reflected in the income statement.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expense in the income statement on a straight line basis over the lease term.

Group as a lessor

Leases where the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Where a reassessment is made, lease accounting commences or ceases from the date when the change in circumstances gave rise to the reassessment for scenarios a), c) or d) and at the date of renewal or extension period for scenario b) above.

For arrangements entered into prior to 1 January 2005, the date of inception is deemed to be 1 January 2007, in accordance with the transitional requirements of IFRIC 4.

(p) Revenue recognition

Revenue is recognised to the extent that it is probable that economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of consideration received excluding discounts, rebates, and other sales taxes.

Sale of goods

Revenue is recognised in the income statement when all significant risks and rewards of ownership are transferred to the customer, usually when title has been passed. Revenue excludes any applicable sales taxes.

The Group recognises revenue on a provisional basis at the time concentrates, precipitates and doré bars are delivered to the customer's smelter or refinery, using the Group's best estimate of contained metal. Revenue is subject to adjustment once the analysis of the product samples is completed, contract conditions have been fulfilled and final settlement terms are agreed. Any subsequent adjustments to the initial estimate of metal content are recorded in revenue once they have been determined.

In addition, sales of concentrates and precipitates throughout each calendar month, as well as doré bars that are delivered after the 20th day of each month, are 'provisionally priced' subject to a final adjustment based on the average price for the month following the delivery to the customer, based on the market price at the relevant quotation point stipulated in the contract. Doré bars that are delivered in the first 20 days of each month are finally priced in the month of delivery.

2. Significant accounting policies continued

For sales of goods that are subject to provisional pricing, revenue is initially recognised when the conditions set out above have been met using the provisional price. The price exposure is considered to be an embedded derivative and hence separated from the sales contract. At each reporting date, the provisionally priced metal is revalued based on the forward selling price for the quotation period stipulated in the contract until the quotation period ends. The selling price of the metals can be reliably measured as these are actively traded on international exchanges. The revaluing of provisionally priced contracts is recorded as an adjustment to revenue.

The customer deducts treatment and refining charges before settlement. Therefore, the fair value of consideration received for the sale of goods is net of those charges.

The Group recognises in selling expenses a levy in respect of the Extraordinary Mining Right as sales of gold and silver are recognised. The Extraordinary Mining Right consists of a 0.5% rate, applicable to the owners of mining titles. The payment must be calculated over the total sales of all mining concessions. The payment of this mining right must be remitted no later than the last business day of March of the following year and can be credited against corporate income tax.

The Group also recognises in selling expenses a discovery premium royalty equivalent to 1% of the value of the mineral extracted and sold during the year from certain mining titles granted by the Mexican Geological Survey (SGM) in the San Julián mine. The premium is settled to SGM on a quarterly basis.

Other income

Other income is recognised in the income statement when all significant risks and rewards of ownership are transferred to the customer, usually when title has been passed.

(q) Exploration expenses

Exploration activity involves the search for mineral resources, the determination of technical feasibility and the assessment of commercial viability of an identified resource.

Exploration expenses are charged to the income statement as incurred and are recorded in the following captions:

- cost of sales: costs relating to in-mine exploration, that ensure continuous extraction quality and extend mine life; and
- exploration expenses:
  - costs incurred in geographical proximity to existing mines in order to replenish or increase reserves; and
  - costs incurred in regional exploration with the objective of locating new ore deposits in Mexico and Latin America and which are identified by project. Costs incurred are charged to the income statement until there is sufficient probability of the existence of economically recoverable minerals and a feasibility study has been performed for the specific project.

(r) Taxation

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the country the Group operates.

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of transaction, affects neither the accounting profit nor taxable profit loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- where the deferred income tax asset relating to deductible temporary differences arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Notes to the Consolidated Financial Statements continued

2. Significant accounting policies continued

Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax relating to items recognised directly in other comprehensive income is recognised in equity and not in the income statement.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Mining rights

The Special Mining Right is considered an income tax under IFRS and states that the owners of mining titles and concessions are subject to pay an annual mining right of 7.5% of the profit derived from the extractive activities. The Group recognises deferred tax assets and liabilities on temporary differences arising in the determination of the Special Mining Right (see note 10).

Sales tax

Expenses and assets are recognised net of the amount of sales tax, except:

- when the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable; and
- when receivables and payables are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

(s) Derivative financial instruments and hedging

The Group uses derivatives to reduce certain market risks derived from changes in foreign exchange and commodities price which impact its financial and business transactions. Hedges are designed to protect the value of expected production against the dynamic market conditions.

Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. The full fair value of a derivative is classified as non-current asset or liability if the remaining maturity of the item is more than 12 months.

Any gains or losses arising from changes in fair value on derivatives during the year that do not qualify for hedge accounting are taken directly to the income statement.

Derivatives are valued using valuation approaches and methodologies (such as Black Scholes and Net Present Value) applicable to the specific type of derivative instrument. The fair value of forward currency and commodity contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles, European foreign exchange options are valued using the Black Scholes model. The Silverstream contract is valued using a Net Present Value valuation approach.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for the undertaken hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

Cash flow hedges

For derivatives that are designated and qualify as cash flow hedges, the effective portion of changes in the fair value of derivative instruments are recorded as in other comprehensive income and are transferred to the income statement when the hedged transaction affects profit or loss, such as when a forecast sale or purchase occurs. For gains or losses related to the hedging of foreign exchange risk these are included, in the line item in which the hedged costs are reflected. Where the hedged item is the cost of a non-financial asset or liability, the amounts recognised in other comprehensive income are transferred to the initial carrying amount of the non-financial asset or liability. The ineffective portion of changes in the fair value of cash flow hedges is recognised directly as finance costs, in the income statement of the related period.

If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, any cumulative gain or loss recognised directly in other comprehensive income from the period that the hedge was effective remains separately in other comprehensive income until the forecast transaction occurs, when it is recognised in the income statement.

2. Significant accounting policies continued

When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the income statement.

When hedging with options, the Group designates only the intrinsic value movement of the hedging option within the hedge relationship. The time value of the option contracts is therefore excluded from the hedge designation. Changes in fair value of time value is recognised in the income statement in finance costs.

Embedded derivatives

Contracts are assessed for the existence of embedded derivatives at the date that the Group first becomes party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. Embedded derivatives which are not clearly and closely related to the underlying asset, liability or transaction are separated and accounted for as stand-alone derivatives.

(t) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes 12 or more months to get ready for its intended use or sale (a qualifying asset) are capitalised as part of the cost of the respective asset. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Where funds are borrowed specifically to finance a project, the amount capitalised represents the actual borrowing costs incurred. Where surplus funds are available for a short term from funds borrowed specifically to finance a project, the income generated from the temporary investment of such amounts is also capitalised and deducted from the total capitalised borrowing cost. Where the funds used to finance a project form part of general borrowings, the amount capitalised is calculated using a weighted average of rates applicable to relevant general borrowings of the Group during the period.

All other borrowing costs are recognised in the income statement in the period in which they are incurred.

(u) Fair value measurement

The Group measures financial instruments at fair value at each balance sheet date. Fair values of financial instruments measured at amortised cost are disclosed in notes 30 and 31.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability, or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above. Further information on fair values is described in note 30.

Notes to the Consolidated Financial Statements continued

2. Significant accounting policies continued

(v) Dividend distribution

Dividends payable to the Company's shareholders are recognised as a liability when these are approved by the Company's shareholders or Board as appropriate. Dividends payable to minority shareholders are recognised as a liability when these are approved by the Company's subsidiaries.

3. Segment reporting

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

At 31 December 2016, the Group has six reportable operating segments[1] as follows:

- the Fresnillo mine, located in the state of Zacatecas, an underground silver mine;
- the Saucito mine, located in the state of Zacatecas, an underground silver mine;
- the Ciénega mine, located in the state of Durango, an underground gold mine; including the San Ramón satellite mine;
- the Herradura mine, located in the state of Sonora, a surface gold mine;
- the Soledad-Dipolos mine, located in the state of Sonora, a surface gold mine; and
- the Noche Buena mine, located in state of Sonora, a surface gold mine.

1. Due to its size in the current year, the operations at San Julián located on the border between the states of Chihuahua and Durango, are reported within Other segments.

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

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

In 2016 and 2015, substantially all revenue was derived from customers based in Mexico.

Operating segments

The following tables present revenue and profit information regarding the Group's operating segments for the year ended 31 December 2016 and 2015, respectively:

	Year ended 31 December 2016								
US$ thousands	Fresnillo	Herradura	Ciénega	Soledad-Dipolos[4]	Saucito	Noche Buena	Other[5]	Adjustments and eliminations	Total
Revenues:									
Third party[1]	327,957	655,025	169,530	–	459,590	225,374	66,441	1,586	1,905,503
Inter-segment							77,385	(77,385)	–
Segment revenues	**327,957**	**655,025**	**169,530**	**–**	**459,590**	**225,374**	**143,826**	**(75,799)**	**1,905,503**
Segment profit[2]	**224,163**	**369,896**	**100,105**	**12,977**	**363,780**	**83,852**	**109,212**	**(17,854)**	**1,246,131**
Foreign exchange hedging losses									(2,770)
Depreciation and amortisation									(346,502)
Employee profit sharing									(14,744)
Gross profit as per the income statement									**882,115**
Capital expenditure[3]	52,794	78,825	32,745	–	102,398	8,620	158,668	–	434,050

1. Total third party revenues include treatment and refining charges amounting US$141.1 million.
2. Segment profit excluding foreign exchange hedging losses, depreciation and amortisation and employee profit sharing.
3. Capital expenditure represents the cash outflow in respect of additions to property, plant and equipment, including mine development, construction of leaching pads, purchase of mine equipment and capitalised stripping activity, excluding additions relating to changes in the mine closure provision. Significant additions include the construction of second beneficiation plant (Merrill Crowe) at Herradura and the expansion of the flotation plant and the construction of the pyrites plant at Saucito.
4. During 2016, this segment did not operate due to the Bajío conflict (note 26). Segment profit is derived from the changes in the net realisable value allowance against inventory (note 15).
5. Other includes San Julián, the Juanicipio project and inter-segment leasing services provided by Minera Bermejal, S.A. de C.V.

3. Segment reporting continued

Year ended 31 December 2015

US$ thousands	Fresnillo	Herradura	Ciénega	Soledad-Dipolos[4]	Saucito	Noche Buena	Other[5]	Adjustments and eliminations	Total
Revenues:									
Third party[1]	265,347	459,904	154,334	–	395,417	165,518		3,866	1,444,386
Inter-segment							78,622	(78,622)	–
Segment revenues	**265,347**	**459,904**	**154,334**	**–**	**395,417**	**165,518**	**78,622**	**(74,756)**	**1,444,386**
Segment profit[2]	**149,986**	**219,045**	**71,094**	**(7,995)**	**295,219**	**26,706**	**65,925**	**(14,322)**	**805,659**
Foreign exchange hedging losses									(28,589)
Depreciation and amortisation									(331,209)
Employee profit sharing									(12,791)
Gross profit as per the income statement									**433,070**
Capital expenditure[3]	50,610	119,743	24,632	–	108,276	2,649	168,782	–	474,692

1. Total third party revenues include treatment and refining charges amounting US$142.8 million.
2. Segment profit excluding foreign exchange hedging losses, depreciation and amortisation and employee profit sharing.
3. Capital expenditure represents the cash outflow in respect of additions to property, plant and equipment – including mine development, construction of leaching pads, purchase of mine equipment and stripping activity asset – excluding additions relating to changes in the mine closure provision. Significant additions include construction of finalisation of the dynamic leaching plant and purchase of land at Herradura, construction of employees' facilities at Ciénega, expansion of the flotation plant at Saucito and the purchase of land at Noche Buena.
4. During 2015 this segment did not operate due to the Bajío conflict (note 26).
5. Other includes San Julián, the Juanicipio project and inter-segment leasing services provided by Minera Bermejal, S.A. de C.V. The operations of San Julián have been reclassified from the Fresnillo segment to other to align to the presentation in the current year.

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.

(a) Revenues by product sold

	Year ended 31 December 2016 US$ thousands	2015 US$ thousands
Lead concentrates (containing silver, gold, lead and by-products)	792,770	691,096
Doré and slag (containing gold, silver and by-products)	880,447	626,446
Zinc concentrates (containing zinc, silver and by-products)	120,889	81,184
Precipitates (containing gold and silver)	111,397	45,660
	1,905,503	**1,444,386**

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

(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 2016 US$ thousands	2015 US$ thousands
Silver	724,024	617,434
Gold	1,133,067	828,476
Zinc	106,461	73,018
Lead	83,070	68,277
Value of metal content in products sold	2,046,622	1,587,205
Adjustment for treatment and refining charges	(141,119)	(142,819)
Total revenues[1]	**1,905,503**	**1,444,386**

1. Include provisional price adjustments which represent changes in the fair value of embedded derivatives resulting in a gain of US$2.2 million (2015: gain of US$2.3 million) and hedging gain of US$1.6 million (2015: gain of US$3.9 million). For further detail, refer to note 2(p).

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 2016 US$ per ounce	2015 US$ per ounce
Gold[2]	1,246.5	1,126.5
Silver[2]	17.2	15.6

2. Reported revenue does not include the results of hedging.

Notes to the Consolidated Financial Statements continued

5. Cost of sales

	Year ended 31 December 2016 US$ thousands	2015 US$ thousands
Depreciation and amortisation (notes 2 (e) and 12)	346,502	331,209
Personnel expenses (note 7)	80,360	80,567
Maintenance and repairs	90,650	94,837
Operating materials	131,786	135,059
Energy	117,995	117,908
Contractors	174,167	175,898
Freight	7,921	9,821
Insurance	4,990	5,042
Mining concession rights and contributions	10,347	10,853
Other	14,721	15,211
Cost of production	979,439	976,405
Losses on foreign currency hedges	2,770	28,589
Change in work in progress and finished goods (ore inventories)	61,488	1,309
Change in net realisable value allowance against inventory (note 15)	(20,309)	5,013
	1,023,388	**1,011,316**

6. Exploration expenses

	Year ended 31 December 2016 US$ thousands	2015 US$ thousands
Contractors	88,822	105,161
Administrative services	6,243	6,907
Mining concession rights and contributions	14,027	15,684
Personnel expenses (note 7)	5,521	5,748
Assays	2,982	2,788
Maintenance and repairs	329	384
Operating materials	449	416
Rentals	1,524	1,874
Energy	407	454
Other	878	830
	121,182	**140,246**

These exploration expenses were mainly incurred in areas of the Fresnillo, Herradura, La Ciénega, Saucito and San Julián mines, the San Ramón satellite mine and Orysivo, Rodeo, Guanajuato and Centauro Deep projects. In addition, exploration expenses of US$7.9 million (2015: US$8.4 million) were incurred in the year on projects located in Peru.

The following table sets forth liabilities (generally trade payables) incurred in the exploration activities of the Group companies engaged only in exploration, principally Exploraciones Mineras Parreña, S.A. de C.V.

	Year ended 31 December 2016 US$ thousands	2015 US$ thousands
Liabilities related to exploration activities	1,643	917

Liabilities related to exploration activities incurred by the Group operating companies are not included since it is not possible to separate the liabilities related to exploration activities of these companies from their operating liabilities.

Cash flows relating to exploration activities are as follows:

	Year ended 31 December 2016 US$ thousands	2015 US$ thousands
Operating cash out flows related to exploration activities	120,457	142,874

7. Personnel expenses

	Year ended 31 December	
	2016 US$ thousands	2015 US$ thousands
Employees' profit sharing	15,145	12,791
Salaries and wages	36,296	36,544
Bonuses	10,233	10,713
Legal contributions	12,979	12,644
Other benefits	8,035	8,084
Vacations and vacations bonus	1,634	2,464
Social security	4,459	5,310
Post-employment benefits[1]	3,567	4,572
Other	8,686	8,262
	101,034	**101,384**

1. Post-employment benefits include US$1.5 million associated to benefits corresponding to the defined contribution plan (2015: US$1.6 million).

(a) Personnel expenses are reflected in the following line items:

	Year ended 31 December	
	2016 US$ thousands	2015 US$ thousands
Cost of sales (note 5)	80,360	80,567
Administrative expenses	15,153	15,069
Exploration expenses (note 6)	5,521	5,748
	101,034	**101,384**

(b) The monthly average number of employees during the year was as follows:

	Year ended 31 December	
	2016 No.	2015 No.
Mining	1,881	1,812
Plant concentration	550	552
Exploration	454	519
Maintenance	894	755
Administration and other	791	725
Total	**4,570**	**4,362**

8. Other operating income and expenses

	Year ended 31 December	
	2016 US$ thousands	2015 US$ thousands
Other income:		
Rentals	3	166
Selling of scrap	610	5
Other	785	607
	1,398	**778**

	Year ended 31 December	
	2016 US$ thousands	2015 US$ thousands
Other expenses:		
Maintenance[1]	926	1,098
Donations	317	714
Environmental activities	1,005	4,022
Loss on sale of property, plant and equipment	1,103	3,757
Impairment on available-for-sale financial assets	–	2,896
Engineering and design studies	–	974
Consumption tax expensed	940	635
Write-off of property, plant and equipment	3,005	–
Other	3,146	2,554
	10,442	**16,650**

1. Costs relating to Compañía Minera las Torres, S.A. de C.V.

Notes to the Consolidated Financial Statements continued

9. Finance income and finance costs

	Year ended 31 December	
	2016 US$ thousands	2015 US$ thousands
Finance income:		
Interest on short-term deposits and investments	4,542	1,779
Fair value movement on derivatives[1]	–	61,224
Other	2,416	2,835
	6,958	**65,838**

	Year ended 31 December	
	2016 US$ thousands	2015 US$ thousands
Finance costs:		
Interest on interest-bearing loans	29,006	35,969
Fair value movement on derivatives[1]	40,294	–
Unwinding of discount on provisions	10,476	8,586
Other	547	908
	80,323	**45,463**

1. Principally relates to the time value associated with gold commodity options see note 30 for further detail.

10. Income tax expense

a) Major components of income tax expense:

	Year ended 31 December	
	2016 US$ thousands	2015 US$ thousands
Consolidated income statement:		
Corporate income tax		
Current:		
Income tax charge	167,873	118,410
Amounts over provided in previous years[1]	(1,646)	(29,093)
	166,227	89,317
Deferred:		
Origination and reversal of temporary differences	53,581	31,373
Revaluation effects of Silverstream contract	40,058	8,316
	93,639	39,689
Corporate income tax	**259,866**	**129,006**
Special mining right		
Current:		
Special mining right charge[2]	24,502	6,384
	24,502	6,384
Deferred:		
Origination and reversal of temporary differences	8,910	7,574
Special mining right	33,412	13,958
Income tax expense reported in the income statement	**293,278**	**142,964**

1. During 2015, the Group clarified the treatment applied in the computation of the 2014 tax provision regarding the deduction of certain mining-related expenditures. This resulted in an adjustment of US$29.9 million to the 2015 current tax expense with an equal and opposite effect to the deferred tax expense.
2. The Special Mining Right 'SMR' allows the deduction of payments of mining concessions rights up to the amount of SMR payable within the same legal entity. During the fiscal year ended 31 December 2016, the Group credited US$12.4 million (2015: US$8.2 million) of mining concession rights against the SMR. Total mining concessions rights paid during the year were US$15.4 million (2015: US$17 million) and have been recognised in the income statement within cost of sales and exploration expenses. Mining concessions rights paid in excess of the SMR cannot be credited to SMR in future fiscal periods, and therefore no deferred tax asset has been recognised in relation to the excess. Without regards to credits permitted under the SMR regime, the current special mining right charge would have been US$36.9 million (2015: US$14.6 million).

10. Income tax expense continued

	Year ended 31 December	
	2016 US$ thousands	2015 US$ thousands
Consolidated statement of comprehensive income:		
Deferred income tax credit/(charge) related to items recognised directly in other comprehensive income:		
Losses on cash flow hedges recycled to income statement	(355)	(7,927)
Changes in fair value of cash flow hedges	15,875	(11,856)
Changes in fair value of available-for-sale financial assets	(13,418)	3,522
Remeasurement losses on defined benefit plans	(388)	361
Income tax effect reported in other comprehensive income	**1,714**	**(15,900)**

(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	
	2016 US$ thousands	2015 US$ thousands
Accounting profit before income tax	**718,240**	**212,354**
Tax at the Group's statutory corporate income tax rate 30.0%	215,472	63,706
Expenses not deductible for tax purposes	2,016	2,983
Inflationary uplift of the tax base of assets and liabilities	(8,933)	(2,626)
Current income tax (over)/underprovided in previous years	(1,303)	(1,142)
Exchange rate effect on tax value of assets and liabilities[1]	90,035	77,473
Non-taxable/Non-deductible foreign exchange losses	(2,157)	(5,437)
Inflationary uplift of tax losses	(2,891)	(3,250)
IEPS tax credit (note 10 (e))	(24,020)	–
Deferred tax asset not recognised	3,360	3,025
Special mining right deductible for corporate income tax	(10,024)	(4,187)
Other	(1,689)	(1,539)
Corporate income tax at the effective tax rate of 36.2% (2015: 60.7%)	**259,866**	**129,006**
Special mining right	33,412	13,958
Tax at the effective income tax rate of 40.8% (2015: 67.3%)	**293,278**	**142,964**

1. Mainly derived from the tax value of property, plant and equipment.

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

	Year ended 31 December	
	2016 US$ thousands	2015 US$ thousands
Opening net liability	(342,195)	(279,046)
Income statement charge arising on corporate income tax	(93,639)	(39,689)
Income statement charge arising on special mining right	(8,910)	(7,574)
Exchange difference	3	14
Net credit/(charge) related to items directly charged to other comprehensive income	1,714	(15,900)
Closing net liability	**(443,027)**	**(342,195)**

Notes to the Consolidated Financial Statements continued

10. Income tax expense continued

The amounts of deferred income tax assets and liabilities as at 31 December 2016 and 2015, considering the nature of the related temporary differences, are as follows:

	Consolidated balance sheet		Consolidated income statement	
	2016 US$ thousands	2015 US$ thousands	**2016 US$ thousands**	2015 US$ thousands
Related party receivables	(199,181)	(124,719)	72,799	(23,393)
Other receivables	(3,725)	(469)	3,256	(2,245)
Inventories	163,113	121,668	(43,868)	21,602
Prepayments	(1,803)	(830)	(10,727)	(17,551)
Derivative financial instruments including Silverstream contract	(134,984)	(137,396)	4,469	44,468
Property, plant and equipment arising from corporate income tax	(351,325)	(330,939)	36,358	38,313
Operating liabilities	24,303	19,871	4,083	35,674
Other payables and provisions	44,733	58,643	13,910	(12,502)
Losses carried forward	66,343	88,593	22,250	(37,857)
Post-employment benefits	1,685	2,049	364	(98)
Deductible profit sharing	3,905	3,740	(226)	(312)
Special mining right deductible for corporate income tax	29,100	21,065	(8,034)	(1,965)
Available-for-sale financial assets	(14,175)	(756)	13,419	(4,391)
Other	(3,581)	(4,192)	(14,414)	(365)
Net deferred tax liability related to corporate income tax	(375,592)	(283,672)	–	–
Deferred tax credit related to corporate income tax	–	–	93,639	39,378
Related party receivables arising from special mining right	(18,764)	(15,207)	3,557	(1,571)
Inventories arising from special mining right	8,274	9,616	1,341	2,280
Property plant and equipment arising from special mining right	(56,945)	(52,932)	4,012	6,865
Net deferred tax liability	**(443,027)**	**(342,195)**	–	–
Deferred tax credit	–	–	**102,549**	**46,952**
Reflected in the statement of financial position as follows:				
Deferred tax assets	20,023	30,814	–	–
Deferred tax liabilities-continuing operations	(463,050)	(373,009)	–	–
Net deferred tax liability	**(443,027)**	**(342,195)**	–	–

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.

On the basis of management's internal forecast, a deferred tax asset has been recognised in respect of tax losses amounting to US$221.1 million (2015: US$295.3 million). If not unutilised, US$10.7 million will expire within five years and US$210.4 million will expire between six and ten years.

The Group has further tax losses and other similar attributes carried forward of US$29.1 million (2015: US$23.0 million) on which no deferred tax is recognised due to insufficient certainty regarding the availability of appropriate future taxable profits.

(d) Unrecognised deferred tax on investments in subsidiaries

The Group has not recognised all of the deferred tax liability in respect of distributable reserves of its subsidiaries because it controls them and only part of the temporary differences are expected to reverse in the foreseeable future. The temporary differences for which a deferred tax liability has not been recognised aggregate to US$1,949 million (2015: US$1,449 million).

(e) Corporate Income Tax ('Impuesto Sobre la Renta' or 'ISR') and Special Mining Right ('SMR')

The Group's principal operating subsidiaries are Mexican residents for taxation purposes. The rate of current corporate income tax is 30%.

During 2016 the Mexican Internal Revenue Law granted to taxpayers a credit in respect of an excise tax (Special Tax on Production and Services, or IEPS for its acronym in Spanish) paid when purchasing diesel used for general machinery and certain mining vehicles. The credit can be applied against either the Company's own corporate income tax or the income tax withheld from third parties. The credit is calculated on an entity-by-entity basis and expires one year after the purchase of the diesel. In the year ended 31 December 2016, the Group applied a credit of US$19.1 in respect of the year and recognised a deferred tax asset of US$4.8 in respect of the IEPS incurred in 2016 and expected to be applied during 2017. As the IEPS deduction is itself taxable, the deferred tax asset is recognised at 70% of the IEPS carried forward. The net amount applied by the Group is presented in the reconciliation of the effective tax rate in note 10 (b).

The SMR is considered as income tax under IFRS, and states that the owners of mining titles and concessions are subject to pay an annual mining right of 7.5% of the profit derived from the extractive activities. The SMR allows as a credit the payment of mining concessions rights up to the amount of SMR payable The 7.5% tax apply to a base of income before interest, annual inflation adjustment, taxes paid on the regular activity, depreciation and amortisation, as defined by the new ISR. This SMR can be credited against the corporate income tax of the same fiscal year and its payment must be remitted no later than the last business day of March of the following year.

11. Earnings per share

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

The Company has no dilutive potential Ordinary Shares.

As of 31 December 2016 and 2015, earnings per share have been calculated as follows:

	Year ended 31 December	
	2016 US$ thousands	2015 US$ thousands
Earnings:		
Profit from continuing operations attributable to equity holders of the Company	426,986	70,523
Adjusted profit from continuing operations attributable to equity holders of the Company	333,516	51,119

Adjusted profit is profit as disclosed in the Consolidated Income Statement adjusted to exclude revaluation effects of the Silverstream contract of US$133.5 million gain (US$93.5 million net of tax) (2015: US$27.7 million loss (US$19.4 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.

	2016 thousands	2015 thousands
Number of shares:		
Weighted average number of Ordinary Shares in issue	736,894	736,894

	2016 US$	2015 US$
Earnings per share:		
Basic and diluted earnings per share	0.579	0.096
Adjusted basic and diluted earnings per Ordinary Share from continuing operations	0.453	0.069

12. Property, plant and equipment

	Year ended 31 December 2015					
	US$ thousands					
	Land and buildings	Plant and Equipment	Mining properties and development costs	Other assets	Construction in Progress	Total
Cost						
At 1 January 2015	153,346	1,343,062	1,094,124	179,031	432,319	**3,201,882**
Additions	2,432	10,518	33,236	36,290	442,384	**524,860**
Disposals	(518)	(23,028)	(11,493)	(1,555)	–	**(36,594)**
Transfers and other movements	17,941	117,387	173,539	4,213	(313,080)	**–**
At 31 December 2015	173,201	1,447,939	1,289,406	217,979	561,623	**3,690,148**
Accumulated depreciation						
At 1 January 2015	(60,988)	(551,707)	(558,883)	(60,886)	–	**(1,232,464)**
Depreciation for the year[1]	(13,347)	(188,647)	(129,586)	(13,693)	–	**(345,273)**
Disposals	165	14,592	10,052	1,368	–	**26,177**
At 31 December 2015	(74,170)	(725,762)	(678,417)	(73,211)	–	**(1,551,560)**
Net Book amount at 31 December 2015	**99,031**	**722,177**	**610,989**	**144,768**	**561,623**	**2,138,588**

1. Depreciation for the year includes US$346.5 million (2015: US$331.2 million) recognised as an expense in the cost of sales in the income statement and US$14.8 million (2015: US$14 million), capitalised as part of construction in progress.

Notes to the Consolidated Financial Statements continued

12. Property, plant and equipment continued

	Land and buildings	Plant and Equipment	Mining properties and development costs	Other assets	Construction in Progress	Total
						Year ended 31 December 2016
						US$ thousands
Cost						
At 1 January 2016	173,201	1,447,939	1,289,406	217,979	561,623	**3,690,148**
Additions	459	11,423	4,168	(50,304)	441,649	**407,395**
Disposals	–	(12,409)	(4,206)	(161)	–	**(16,776)**
Transfers and other movements	70,315	188,633	218,648	26,391	(503,987)	**–**
At 31 December 2016	243,975	1,635,586	1,508,016	193,905	499,285	**4,080,767**
Accumulated depreciation						
At 1 January 2016	(74,170)	(725,762)	(678,417)	(73,211)	–	**(1,551,560)**
Depreciation for the year[1]	(16,412)	(177,744)	(148,223)	(18,961)	–	**(361,340)**
Write-off of property, plant and equipment	(4)	(2,909)	–	(92)	–	**(3,005)**
Disposals	–	11,048	4,206	101	–	**15,355**
At 31 December 2016	(90,586)	(895,367)	(822,434)	(92,163)	–	**(1,900,550)**
Net Book amount at 31 December 2016	**153,389**	**740,219**	**685,582**	**101,742**	**499,285**	**2,180,217**

The table below details construction in progress by operating mine

	Year ended 31 December 2016 US$ thousands	2015 US$ thousands
Saucito	45,197	2,312
Herradura	37,740	36,868
Noche Buena	15,985	3,354
Ciénega	17,348	13,280
Fresnillo	32,703	7,109
San Julián	270,154	431,864
Other	80,158	66,836
	499,285	**561,623**

During the year ended 31 December 2016, the Group capitalised US$18.2 million of borrowing costs within construction in progress (2015: US$11.1). Borrowing costs were capitalised at the rate of 5.78% (2015: 5.78%).

Sensitivity analysis

As at 31 December 2016 and 2015, the carrying amount of mining assets was fully supported by the higher of value in use and fair value less cost of disposal (FVLCD) computation of their recoverable amount. Value in use and FVLCD was determined based on the net present value of the future estimated cash flows expected to be generated from the continued use of the CGUs. For both valuation approaches management used price assumptions of US$1,250/ounce and US$18/ounce (2015: US$1,200/ounce and US$18/ounce) for gold and silver, respectively. Management considers that the models supporting the carrying amounts are most sensitive to commodity price assumptions and have therefore performed a sensitivity analysis for those CGUs, where a reasonable possible change in prices could lead to impairment. As at 31 December 2016 the carrying amount of the Herradura mine is US$624.6 million, the Noche Buena mine is US$88.1 million (2015: Herradura mine US$654.2 million and Noche Buena mine US$118.8 million) and the San Julián mine US$559.2 which commenced commercial production in the third quarter of 2016.

The following table sets out the approximate expected impairment that would be recognised in 2016 and 2015 at hypothetical decreases in commodity prices:

Year ended 31 December		Decrease in commodity prices Gold	Silver	Herradura US$ thousands	Noche Buena US$ thousands	San Julián US$ thousands
2016	Low sensitivity	10%	10%	–	–	–
	High sensitivity	15%	20%	109,603	–	84,310
2015	Low sensitivity	5%	10%	–	–	–
	High sensitivity	10%	20%	131,625	4,738	–

13. Available-for-sale financial assets

	Year ended 31 December	
	2016 US$ thousands	2015 US$ thousands
Beginning balance	71,442	86,078
Fair value change	44,729	(14,636)
Ending balance	**116,171**	**71,442**

In 2016 no impairment has arisen based on the investment in quoted shares. During 2015, several investments in quoted shares decreased below the cost paid by the Group therefore an impairment of US$2.9 million was recognised as other expenses in the income statement.

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

14. Silverstream contract

On 31 December 2007, the Group entered into an agreement with Peñoles through which it is entitled to receive the proceeds received by the Peñoles Group in respect of the refined silver sold from the Sabinas Mine ('Sabinas'), a base metals mine owned and operated by the Peñoles Group, for an upfront payment of US$350 million. In addition, a per ounce cash payment of $2.00 in years one to five and $5.00 thereafter (subject to an inflationary adjustment commencing on 31 December 2013) is payable to Peñoles. The cash payment per ounce for the year ended 31 December 2016 was $5.15 per ounce (2015: $5.10 per ounce). 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 2016 total proceeds received in cash were US$47.5 million (2015: US$39.4 million) of which, US$2.8 million was in respect of proceeds receivable as at 31 December 2015 (2014: US$6.9 million). Cash received in respect of the year of US$44.8 million (2015: US$32.5 million) corresponds to 3.8 million ounces of payable silver (2015: 3.6 million ounces). As at 31 December 2016, a further US$5.9 million (2015: US$2.8 million) of cash corresponding to 538,756 ounces of silver is due (2015: 317,521 ounces).

The US$133.5 million unrealised gain recorded in the income statement (2015: US$27.7 million gain) resulted from the updating of assumptions used to value the Silverstream contract. The most significant of these were the increase in the Sabinas mine silver reserves and resources, the unwinding of the discount and the difference between the payments already received in 2016 and payments estimated in the valuation model as of 31 December 2015.

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

	2016 US$ thousands	2015 US$ thousands
Balance at 1 January:	384,771	392,276
Cash received in respect of the year	(44,796)	(32,456)
Cash receivable	(5,974)	(2,769)
Remeasurement gains recognised in profit and loss	133,528	27,720
Balance at 31 December	**467,529**	**384,771**
Less – Current portion	28,718	26,607
Non-current portion	**438,811**	**358,164**

See note 30 for further information on the inputs that have a significant effect on the fair value of this derivative, see note 31 for further information relating to market and credit risks associated with the Silverstream asset.

Notes to the Consolidated Financial Statements continued

15. Inventories

	As at 31 December	
	2016 US$ thousands	2015 US$ thousands
Finished goods[1]	5,736	1,711
Work in progress[2]	189,047	251,900
Ore stockpile[3]	18,253	–
Operating materials and spare parts	70,348	73,104
	283,384	326,715
Accumulated write-down of work in progress inventory[4]	(2,269)	(22,578)
Allowance for obsolete and slow-moving inventories	(4,265)	(3,562)
Balance as 31 December at lower of cost and net realisable value	**276,850**	**300,575**
Less – Current portion	187,499	224,200
Non-current portion[5]	**89,351**	**76,375**

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 on leaching pads.
3. Ore stockpile includes ore mineral obtained during the development phase at San Julián.
4. Corresponds to ore inventory of the Soledad-Dipolos mine resulting from net realisable value calculations (31 December 2015: Corresponds to ore inventory at Noche Buena and Soledad-Dipolos).
5. The non-current inventories are expected to be processed more than 12 months from the reporting date.

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$1,042.4 million (2015: US$1,001.0 million). The adjustment to the net realisable value allowance against work-in-progress inventory decreased US$20.3 million during the year (2015: US$5.0 million increase). The adjustment to the allowance for obsolete and slow-moving inventory recognised as an expense was US$0.7 million (2015: US$0.9 million).

16. Trade and other receivables

	Year ended 31 December	
	2016 US$ thousands	2015 US$ thousands
Trade and other receivables from related parties (note 27)[1]	189,619	115,805
Value Added Tax receivable	70,426	99,948
Advances and other receivable from contractors	14,651	13,641
Other receivables from related parties (note 27)	5,973	2,769
Loans granted to contractors	1,401	2,595
Other receivables arising on the sale of fixed assets	386	759
Other receivables	4,693	2,775
	287,149	238,292
Provision for impairment of 'other receivables'	(471)	(300)
Trade and other receivables classified as current assets	**286,678**	**237,992**
Other receivables classified as non-current assets:		
Loans granted to contractors	990	2,289
	990	**2,289**
	287,668	**240,281**

1. Trade receivables from related parties' includes the fair value of embedded derivatives arising due to provisional pricing in sales contracts of US$(2.8) million as at 31 December 2016 (2015: US$(0.5) million).

Trade receivables are shown net of any corresponding advances, are non-interest bearing and generally have payment terms of 46 to 60 days.

Loans granted to contractors bear interest of between LIBOR plus 1.5% to LIBOR plus 3% and mature over two years.

The total receivables denominated in US$ were US$206.8 million (2015: US$127 million), and in pesos US$80.9 million (2015: US$113.3 million).

As of 31 December for each year presented, with the exception of 'other receivables' in the table above, all trade and other receivables were neither past due nor impaired. The amount past due and considered as impaired as of 31 December 2016 is US$0.5 million (2015: US$0.3 million).

In determining the recoverability of receivables, the Group performs a risk analysis considering the type and age of the outstanding receivable and the credit worthiness of the counterparty, see note 31 (b).

17. Cash and cash equivalents and short-term investments

The Group considers cash and cash equivalents and short term investments when planning its operations and in order to achieve its treasury objectives.

	As at 31 December	
	2016 US$ thousands	2015 US$ thousands
Cash at bank and on hand	2,592	4,104
Short-term deposits	709,362	377,316
Cash and cash equivalents	**711,954**	**381,420**

Cash at bank earns interest at floating rates based on daily bank deposits. Short-term deposits are made for varying periods of between one day and four months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates. Short-term deposits can be withdrawn at short notice without any penalty or loss in value.

	As at 31 December	
	2016 US$ thousands	2015 US$ thousands
Short-term investments	**200,000**	**118,718**

Short-term investments are made for fixed periods no longer than four months and earn interest at fixed rates without an option for early withdrawal. As at 31 December 2016 short-term investments are held in fixed-term bank deposits of US$200,000 (31 December 2015: US$118,718).

18. Equity

Share capital and share premium

Authorised share capital of the Company is as follows:

	As at 31 December			
	2016		2015	
Class of share	Number	Amount	Number	Amount
Ordinary Shares each of US$0.50	1,000,000,000	$500,000,000	1,000,000,000	$500,000,000
Sterling Deferred Ordinary Shares each of £1.00	50,000	£50,000	50,000	£50,000

Issued share capital of the Company is as follows:

	Ordinary Shares		Sterling Deferred Ordinary Shares	
	Number	US$	Number	£
At 1 January 2015	736,893,589	$368,545,586	50,000	£50,000
At 31 December 2015	736,893,589	$368,545,586	50,000	£50,000
At 31 December 2016	736,893,589	$368,545,586	50,000	£50,000

As at 31 December 2016 and 2015, all issued shares with a par value of US$0.50 each are fully paid. The rights and obligations attached to these shares are governed by law and the Company's Articles of Association. Ordinary shareholders are entitled to receive notice and to attend and speak at any general meeting of the Company. There are no restrictions on the transfer of the Ordinary Shares.

The Sterling Deferred Ordinary Shares only entitle the shareholder on winding up or on a return of capital to payment of the amount paid up after repayment to Ordinary Shareholders. The Sterling Deferred Ordinary Shares do not entitle the holder to payment of any dividend, or to receive notice or to attend and speak at any general meeting of the Company. The Company may also at its option redeem the Sterling Deferred Ordinary Shares at a price of £1.00 or, as custodian, purchase or cancel the Sterling Deferred Ordinary Shares or require the holder to transfer the Sterling Deferred Ordinary Shares. Except at the option of the Company, the Sterling Deferred Ordinary Shares are not transferable.

Reserves

Share premium

This reserve records the consideration premium for shares issued at a value that exceeds their nominal value.

Capital reserve

The capital reserve arose as a consequence of the Pre-IPO Reorganisation as a result of using the pooling of interest method.

Hedging reserve

This reserve records the portion of the gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge, net of tax. When the hedged transaction occurs, the gain or the loss is transferred out of equity to the income statement or the value of other assets.

Notes to the Consolidated Financial Statements continued

18. Equity continued

Available-for-sale financial assets reserve

This reserve records fair value changes on available-for-sale investments, net of tax. On disposal or on impairment, the cumulative changes in fair value are recycled to the income statement.

Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial information of entities with a functional currency different to that of the presentational currency of the Group.

Retained earnings/accumulated losses

This reserve records the accumulated results of the Group, less any distributions and dividends paid.

19. Dividends declared and paid

The dividends declared and paid during the years ended 31 December 2016 and 2015 are as follows:

	US cents per Ordinary Share	Amount US$ thousands
Year ended 31 December 2016		
Final dividend for 2015 declared and paid during the year[1]	3.3	24,686
Interim dividend for 2016 declared and paid during the year[2]	8.6	63,373
	11.9	**88,059**
Year ended 31 December 2015		
Final dividend for 2014 declared and paid during the year[3]	3.0	22,107
Interim dividend for 2015 declared and paid during the year[4]	2.1	15,475
	5.1	**37,582**

1. This dividend was approved by the Board of Directors on 3 May 2016 and paid on 9 May 2016.
2. This dividend was approved by the Board of Directors on 1 August 2016 and paid on 9 September 2016.
3. This dividend was approved by the Board of Directors on 18 May 2015 and paid on 22 May 2015.
4. This dividend was approved by the Board of Directors on 3 August 2015 and paid on 10 September 2015.

20. Interest-bearing loans

Senior Notes

On 13 November 2013, the Group completed its offering of US$800 million aggregate principal amount of 5.500% Senior Notes due 2023 (the 'notes').

Movements in the year in the debt recognised in the balance sheet are as follows:

	As at 31 December	
	2016 US$ thousands	2015 US$ thousands
Opening balance	797,032	796,160
Accrued interest	46,267	46,267
Interest paid[1]	(46,267)	(46,267)
Amortisation of discount and transaction costs	995	872
Closing balance	**798,027**	**797,032**

1. Accrued interest is payable semi-annually on 13 May and 13 November.

The Group has the following restrictions derived from the issuance of the Senior notes (the Notes):

Change of control:
Should the rating of the Senior Notes be downgraded as a result of a change of control (defined as the sale or transfer of 35% or more of the common shares; the transfer of all or substantially all the assets of the Group; starting a dissolution or liquidation process; or the loss of the majority in the Board of Directors) the Group is obligated to repurchase the notes at an equivalent price of 101% of their nominal value plus the interest earned at the repurchase date, if requested to do so by any creditor.

Pledge on assets:
The Group shall not pledge or allow a pledge on any property that may have a material impact on business performance (key assets). Nevertheless, the Group may pledge the aforementioned properties provided that the repayment of the Notes keeps the same level of priority as the pledge on those assets.

21. 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 discount rate used in the calculation of the provision as at 31 December 2016 is in a range of 6.61% to 7.74% (2015: range of 4.65% to 7.13%). Uncertainties in estimating these costs include potential changes in regulatory requirements, decommissioning, dismantling, reclamation alternatives, timing and the discount, foreign exchange and inflation rates applied.

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

The provision is expected to become payable at the end of the production life of each mine, based on the reserves and resources, which ranges from 3 to 27 years from 31 December 2016 (4 to 21 years from 31 December 2015).

	As at 31 December	
	2016 US$ thousands	2015 US$ thousands
Opening balance	195,476	153,802
Increase to existing provision	(21,745)	48,680
Effect of changes in discount rate	(13,570)	7,341
Unwinding of discount	10,476	8,586
Payments	(472)	–
Foreign exchange	(21,056)	(22,933)
Closing balance	**149,109**	**195,476**

22. Pensions and other post-employment benefit plans

The Group has a defined contribution plan and a defined benefit plan.

The defined contribution plan was established as from 1 July 2007 and consists of periodic contributions made by each non-unionised worker and contributions made by the Group to the fund matching workers' contributions, capped at 8% of the employee's annual salary.

The defined benefit plan provides pension benefits based on each worker's earnings and years of services provided by personnel hired through 30 June 2007 as well as statutory seniority premiums for both unionised and non-unionised workers.

The overall investment policy and strategy for the Group's defined benefit plan is guided by the objective of achieving an investment return which, together with contributions, ensures that there will be sufficient assets to pay pension benefits and statutory seniority premiums for non-unionised workers as they fall due while also mitigating the various risks of the plan. However, the portion of the plan related to statutory seniority premiums for unionised workers is not funded. The investment strategies for the plan are generally managed under local laws and regulations. The actual asset allocation is determined by current and expected economic and market conditions and in consideration of specific asset class risk in the risk profile. Within this framework, the Group ensures that the trustees consider how the asset investment strategy correlates with the maturity profile of the plan liabilities and the respective potential impact on the funded status of the plan, including potential short-term liquidity requirements.

Death and disability benefits are covered through insurance policies.

Notes to the Consolidated Financial Statements continued

22. Pensions and other post-employment benefit plans continued

The following tables provide information relating to changes in the defined benefit obligation and the fair value of plan assets:

		Pension cost charge to income statement					Remeasurement gains/(losses) in OCI								
															US$ thousands
	Balance at 1 January 2016	Service cost	Net interest	Foreign exchange	Sub-total recognised in the year	Benefits paid	Return on plan assets (excluding amounts included in net interest	Actuarial changes arising from changes in demographic assumptions	Actuarial changes arising from changes in financial assumptions	Experience adjustments	Foreign exchange	Sub-total included in OCI	Contributions by employer	Defined benefit increase due to personnel transfer	Balance at 31 December 2016
Defined benefit obligation	(32,165)	(649)	(1,803)	5,573	3,121	816	–	(744)	2,636	1,103	–	2,995	–	(144)	(25,377)
Fair value of plan assets	17,631	–	927	(3,003)	(2,076)	(432)	(552)	–	–	–	–	(552)	1,570	141	16,282
Net benefit liability	(14,534)	(649)	(876)	2,570	1,045	384	(552)	(744)	2,636	1,103	–	2,443	1,570	(3)	(9,095)

		Pension cost charge to income statement					Remeasurement gains/(losses) in OCI								
															US$ thousands
	Balance at 1 January 2015	Service cost	Net interest	Foreign exchange	Sub-total recognised in the year	Benefits paid	Return on plan assets (excluding amounts included in net interest	Actuarial changes arising from changes in demographic assumptions	Actuarial changes arising from changes in financial assumptions	Experience adjustments	Foreign exchange	Sub-total included in OCI	Contributions by employer	Defined benefit increase due to personnel transfer	Balance at 31 December 2015
Defined benefit obligation	(33,664)	(1,024)	(1,981)	5,085	2,080	1,031	–	(577)	(1,160)	170	–	(1,567)	–	(45)	(32,165)
Fair value of plan assets	19,826	–	1,121	(2,954)	(1,833)	(758)	(706)	–	–	–	–	(706)	1,065	37	17,631
Net benefit liability	(13,838)	(1,024)	(860)	2,131	247	273	(706)	(577)	(1,160)	170	–	(2,273)	1,065	(8)	(14,534)

Of the total defined benefit obligation, US$6.7 million (2015: US$8.6 million) relates to statutory seniority premiums for unionised workers which are not funded. The expected contributions to the plan for the next annual reporting period are nil.

The principal assumptions used in determining pension and other post-employment benefit obligations for the Group's plans are shown below:

	As at 31 December	
	2016 %	2015 %
Discount rate	7.52	6.79
Future salary increases (NCPI)	5.0	5.0

The mortality assumptions are that for current and future pensioners, men and women aged 65 will live on average for a further 22.3 and 25.5 years respectively (2015: 20.2 years for men and 23.4 for women). The weighted average duration of the defined benefit obligation is 12.1 years (2015: 11.7 years).

The fair values of the plan assets were as follows:

	As at 31 December	
	2016 US$ thousands	2015 US$ thousands
Government debt	746	1,084
State-owned companies	3,914	3,017
Mutual funds (fixed rates)	11,622	13,530
	16,282	**17,631**

The pension plan has not invested in any of the Group's own financial instruments nor in properties or assets used by the Group.

22. Pensions and other post-employment benefit plans continued

A quantitative sensitivity analysis for significant assumptions as at 31 December 2016 is as shown below:

Assumptions	Discount rate		Future salary increases (NCPI)		Life expectancy of pensioners
Sensitivity Level	0.5% Increase	0.5% Decrease	0.5% increase	0.5% decrease	+ 1 Increase
(Decrease)/Increase to the net defined benefit obligation (US$ thousands)	(1,352)	1,491	552	239	186

The sensitivity analysis above has been determined based on a method that extrapolates the impact on net defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period. The pension plan is not sensitive to future changes in salaries other than in respect of inflation.

23. Trade and other payables

	As at 31 December	
	2016 US$ thousands	2015 US$ thousands
Trade payables	68,216	53,303
Other payables to related parties (note 27)	3,173	4,137
Accrued expenses	16,797	15,988
Other taxes and contributions	33,447	16,202
	121,633	**89,630**

Trade payables are mainly for the acquisition of materials, supplies and contractor services. These payables do not accrue interest and no guarantees have been granted. The fair value of trade and other payables approximate their book values.

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 31.

24. Commitments

A summary of capital expenditure commitments by operating mine is as follows:

	As at 31 December	
	2016 US$ thousands	2015 US$ thousands
Saucito	32,933	29,131
Herradura	29,544	13,897
Noche Buena	3,677	285
Ciénega	6,454	7,685
Fresnillo	12,079	6,181
San Julián	39,895	86,301
Other[1]	20,133	2,029
	144,715	**145,509**

1. Other includes commitments from Minera Bermejal, S. de R.L. de C.V. and Minera Juanicipio, S.A. de C.V. (2015: Minera Juanicipio, S.A. de C.V.)

25. Operating leases

(a) Operating leases as lessor

Future minimum rentals receivable under non-cancellable operating leases are as follows:

	As at 31 December	
	2016 US$ thousands	2015 US$ thousands
Within one year	1,095	1,984
After one year but not more than five years	1,875	487
	2,970	**2,471**

Notes to the Consolidated Financial Statements continued

25. Operating leases continued

(b) Operating leases as lessee

The Group has financial commitments in respect of non-cancellable operating leases for land, offices and equipment. These leases have renewal terms at the option of the lessee with future lease payments based on market prices at the time of renewal. There are no restrictions placed upon the Group by entering into these leases.

The Group has put in place several arrangements to finance mine equipment through loans and the sale of mine equipment to contractors. In both cases, contractors are obligated to use these assets in rendering services to the Group as part of the mining work contract, during the term of financing or credit, which ranges from two to six years. The Group considers that the related mining work contracts contain embedded operating leases.

The future minimum rental commitments under these leases are as follows:

	As at 31 December	
	2016 US$ thousands	2015 US$ thousands
Within one year	6,790	2,720
After one year but not more than five years	3,399	3,115
	10,189	**5,835**

	As at 31 December	
	2016 US$ thousands	2015 US$ thousands
Minimum lease payments expensed in the year	4,142	8,008

26. Contingencies

As of 31 December 2016, 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.

  During 2015 the Mexican tax authorities (SAT) commenced a tax audit at Minera Penmont relating to the fiscal years 2012 and 2013. The Group considers that it has provided all documentation required to demonstrate that all non-taxable income and tax deductions taken over these years are appropriate. SAT is currently evaluating the information provided by the Company. The Company has formally filed a writ before the Mexican Taxpayers Ombudsman (PRODECON per its acronym in Spanish) in order to request a conclusive agreement in this matter.
- 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. During 2014 management implemented certain actions as a part of an ongoing process in order to manage the exposure resulting from the issuance of the new labour law including any potential impacts on the operations and financial position of the Group, however management does not expect any potential contingency or significant effect on the Group's financial statements as at 31 December 2016 and going forward.

26. Contingencies continued

- In regard to the ejido El Bajío matter previously reported by the Company:
  In 2009 five members of the El Bajío agrarian community in the state of Sonora, who claimed rights over certain surface land in the proximity of the operations of Minera Penmont ('Penmont'), submitted a legal claim before the Unitarian Agrarian Court (Tribunal Unitario Agrario) of Hermosillo, Sonora, to have Penmont vacate an area of this surface land. The land in dispute encompassed a portion of surface area where part of the operations of the Soledad-Dipolos mine are located. The litigation resulted in a definitive court order, pursuant to which Penmont was ordered to vacate 1,824 hectares of land. The disputed land was returned in July 2013, resulting in the suspension of operations at Soledad-Dipolos.

  The Agrarian Magistrate noted in 2013 that certain remediation activities were necessary and requested the guidance of the Federal Environmental Agency (SEMARNAT) in this respect. The Agrarian Magistrate further issued a procedural order in execution of his ruling determining, amongst other aspects, that Penmont must remediate the lands to the state they were in before Penmont's occupation.

  In the opinion of the Company, this procedural order was excessive since this level of remediation was not part of the original agrarian ruling and also because the procedural order appeared not to consider the fact that Penmont conducted its activities pursuant to valid mining concessions and environmental impact permits. In December 2016, the Unitarian Agrarian Court issued a subsequent procedural order in which the Court recognised that Penmont complied with the agrarian ruling by having returned the land in dispute and, furthermore, that remediation activities are to be conducted in accordance with Federal environmental guidelines and regulations, as supervised by the competent Federal authorities. Remediation activities in this respect are pending as the agrarian members have not yet permitted Penmont physical access to the lands. Penmont has already presented a conceptual mine closure and remediation plan before the Unitarian Agrarian Court in respect of the approximately 300 hectares where Penmont conducted mining activities. The agrarian community Ejido El Bajío has appealed this procedural order from December 2016 and the final result of the appeal is pending.

  In connection with the foregoing matters, and as previously reported by the Company in prior years, members of the El Bajío agrarian community presented a separate claim before the Unitarian Agrarian Court, alleging US$65 million in damages as well as requesting the cancellation of Penmont's mining concessions and environmental permits within the El Bajío lands. In April 2016, the Unitarian Agrarian Court issued a final and definitive ruling on the matter rejecting the claim, which is consistent with the Company's view, as previously reported, that this lawsuit had no merit.

  In addition, and as also previously reported by the Company, claimants in the El Bajío matter presented other claims against occupation agreements they entered into with Penmont, covering land parcels separate from the land described above. Penmont has no significant mining operations or specific geological interest in the affected parcels and these lands are therefore not considered strategic for Penmont. As previously reported, the Unitarian Agrarian Court issued rulings declaring such occupation agreements over those land parcels to be null and void and that Penmont must remediate such lands to the state that they were in before Penmont's occupation as well as returning any minerals extracted from this area. Given that Penmont has not conducted significant mining operations or has specific geological interest in these land parcels, any contingency relating to such land parcels is not considered material by the Company. The case relating to the claims over these land parcels remains subject to finalisation.

  Various claims and counterclaims have been made between the relevant parties in the El Bajío matter. There remains significant uncertainty as to the finalisation and ultimate outcome of these legal proceedings.

27. Related party balances and transactions

The Group had the following related party transactions during the years ended 31 December 2016 and 2015 and balances as at 31 December 2016 and 2015.

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

(a) Related party balances

	Accounts receivable		Accounts payable	
	As at 31 December		As at 31 December	
	2016 US$ thousands	2015 US$ thousands	**2016 US$ thousands**	2015 US$ thousands
Trade:				
Metalúrgica Met-Mex Peñoles, S.A. de C.V.	189,584	115,786	301	130
Other:				
Industrias Peñoles, S.A.B. de C.V.	5,974	2,769	–	–
Servicios Administrativos Peñoles, S.A. de C.V.	–	–	1,612	366
Servicios Especializados Peñoles, S.A. de C.V.	–	–	36	1,804
Fuerza Eólica del Istmo S.A. de C.V.	–	–	–	916
Other	34	19	1,224	921
Sub-total	**195,592**	**118,574**	**3,173**	**4,137**
Less-current portion	**195,592**	**118,574**	**3,173**	**4,137**
Non-current portion	**–**	**–**	**–**	**–**

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

Notes to the Consolidated Financial Statements continued

27. Related party balances and transactions continued

Other balances with related parties:

	Year ended 31 December	
	2016 US$ thousands	2015 US$ thousands
Silverstream contract:		
Industrias Peñoles, S.A.B. de C.V.	467,529	384,771

The Silverstream contract can be settled in either silver or cash. Details of the Silverstream contract are provided in note 14.

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

	Year ended 31 December	
	2016 US$ thousands	2015 US$ thousands
Income:		
Sales:[1]		
Metalúrgica Met-Mex Peñoles, S.A. de C.V.	1,905,503	1,458,413
Other income	2,381	982
Total income	**1,907,884**	**1,459,395**

1. Figures do not include hedging gains as the derivative transactions are not undertaken with related parties. Figures are net of the adjustment for treatment and refining charges of US$141.1 million (2015: US$142.48 million) and include sales credited to development projects of US$1.6 million (2015: US$17.9 million).

	Year ended 31 December	
	2016 US$ thousands	2015 US$ thousands
Expenses:		
Administrative services[2]:		
Servicios Administrativos Peñoles, S.A. de C.V.[3]	24,309	23,655
Servicios Especializados Peñoles, S.A. de C.V.	16,015	17,701
	40,324	41,356
Energy:		
Termoelectrica Peñoles, S. de R.L. de C.V.	16,011	20,332
Fuerza Eólica del Istmo S.A. de C.V.	1,794	6,713
	17,805	27,045
Operating materials and spare parts:		
Wideco Inc	5,254	6,368
Metalúrgica Met-Mex Peñoles, S.A. de C.V.	3,140	3,320
	8,394	9,688
Equipment repair and administrative services:		
Serviminas, S.A. de C.V.	8,268	3,860
Property, plant and equipment:		
Equipos Industriales Naica, S.A. de C.V.	–	1,065
Insurance premiums:		
Grupo Nacional Provincial, S.A. B. de C.V.	7,155	8,382
Other expenses:	2,085	2,693
Total expenses	**84,031**	**94,089**

2. Includes US$4.7 million (2015: US$4.1 million) corresponding to expenses reimbursed.
3. Includes US$9.5 million (2015: US$8.2 million) relating to engineering costs that were capitalised.

27. Related party balances and transactions continued

(c) Compensation of key management personnel of the Group

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

	Year ended 31 December	
	2016 US$ thousands	2015 US$ thousands
Salaries and bonuses	2,416	3,311
Post-employment benefits	208	257
Other benefits	345	379
Total compensation paid in respect of key management personnel	**2,969**	**3,947**

	Year ended 31 December	
	2016 US$ thousands	2015 US$ thousands
Accumulated accrued defined pension entitlement	4,237	4,859

This compensation includes amounts paid to directors disclosed in the Directors' Remuneration Report.

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

28. Auditor's remuneration

Fees due by the Group to its auditor during the year ended 31 December 2016 and 2015 are as follows:

	Year ended 31 December	
Class of services	**2016 US$ thousands**	2015 US$ thousands
Fees payable to the Group's auditor for the audit of the Group's annual accounts	1,149	1,274
Fees payable to the Group's auditor and its associates for other services as follows:		
The audit of the Company's subsidiaries pursuant to legislation	222	338
Audit-related assurance services	350	328
Tax compliance services	21	24
Tax advisory services	–	16
Other assurance services	–	–
Total	**1,742**	**1,980**

29. Notes to the consolidated statement of cash flows

	Notes	**2016 US$ thousands**	2015 US$ thousands
Reconciliation of profit for the year to net cash generated from operating activities			
Profit for the year		**424,962**	**69,390**
Adjustments to reconcile profit for the period to net cash inflows from operating activities:			
Depreciation and amortisation	5	346,502	331,209
Employee profit sharing	7	15,145	13,170
Deferred income tax	10	102,549	47,263
Current income tax expense	10	190,729	95,701
Loss on the sale of property, plant and equipment and other assets	8	1,103	3,757
Other losses		981	3,353
Write-off of property, plant and equipment		3,005	–
Impairment of available-for-sale financial assets	8	–	2,896
Net finance costs		33,019	41,913
Foreign exchange (gain)/loss		(539)	18,991
Difference between pension contributions paid and amounts recognised in the income statement		(944)	(314)
Non-cash movement on derivatives		40,345	(62,288)
Changes in fair value of Silverstream	14	(133,528)	(27,720)
Working capital adjustments			
(Increase)/decrease in trade and other receivables		(39,526)	58,219
Decrease in prepayments and other assets		113	891
Decrease in inventories		23,725	5,037
Increase/(decrease) in trade and other payables		5,133	(12,820)
Cash generated from operations		**1,012,774**	**588,648**
Income tax paid		(102,255)	(34,517)
Employee profit sharing paid		(12,561)	(11,237)
Net cash from operating activities		**897,958**	**542,894**

Notes to the Consolidated Financial Statements continued

30. Financial instruments

(a) Fair value category

As at 31 December 2016

US$ thousands

Financial assets:	At fair value through profit or loss	Available-for-sale investments at fair value through OCI	Loans and receivables	At fair value through OCI (cash flow hedges)
Trade and other receivables[1] (note 16)	–	–	213,750	–
Available-for-sale financial assets (note 13)	–	116,171	–	–
Silverstream contract (note 14)	467,529	–	–	–
Derivative financial instruments (note 30)	145	–	–	23,005

Financial liabilities:	At fair value through profit or loss	At amortised Cost	At fair value through OCI (cash flow hedges)
Interest-bearing loans (note 20)	–	798,027	–
Trade and other payables (note 23)	–	70,442	–
Embedded derivatives within sales contracts[1] (note 4)	2,750	–	–
Derivative financial instruments (note 30)	–	–	646

1. Trade and other receivables and embedded derivative within sales contracts are presented net in Trade and other receivables in the balance sheet.

As at 31 December 2015

US$ thousands

Financial assets:	At fair value through profit or loss	Available-for-sale investments at fair value through OCI	Loans and receivables	At fair value through OCI (cash flow hedges)
Trade and other receivables[1] (note 16)	–	–	127,224	–
Available-for-sale financial assets (note 13)	–	71,442	–	–
Silverstream contract (note 14)	384,771	–	–	–
Derivative financial instruments (note 30)	1	–	–	117,074

Financial liabilities:	At fair value through profit or loss	At amortised Cost	At fair value through OCI (cash flow hedges)
Interest-bearing loans (note 20)	–	797,032	–
Trade and other payables (note 23)	–	97,440	–
Embedded derivatives within sales contracts[1] (note 4)	532	–	–
Derivative financial instruments (note 30)	–	–	1,427

1. Trade and other receivables and embedded derivative within sales contracts are presented net in Trade and other receivables in the balance sheet.

(b) Fair value measurement

The fair value of financial assets and liabilities, together with the carrying amounts shown in the balance sheet are as follows:

As at 31 December

	Carrying amount		Fair value	
	2016 US$ thousands	2015 US$ thousands	**2016 US$ thousands**	2015 US$ thousands
Financial assets:				
Available-for-sale financial assets	116,171	71,442	116,171	71,442
Silverstream contract (note 14)	467,529	384,771	467,529	384,771
Derivative financial instruments	23,150	117,075	23,150	117,075
Financial liabilities:				
Interest-bearing loans[1] (note 20)	798,027	797,032	840,904	805,352
Embedded derivatives within sales contracts	2,750	532	2,750	532
Derivative financial instruments	646	1,427	646	1,427

1. Interest-bearing loans are categorised in Level 1 of the fair value hierarchy.

30. Financial instruments continued

The financial assets and liabilities measured at fair value are categorised into the fair value hierarchy as at 31 December as follows:

	As of 31 December 2016			
	Fair value measure using			
	Quoted prices in active markets Level 1 US$ thousands	Significant observable Level 2 US$ thousands	Significant unobservable Level 3 US$ thousands	Total US$ thousands
Financial assets:				
Derivative financial instruments:				
Options commodity contracts	–	23,005	–	23,005
Options and forward foreign exchange contracts	–	145	–	145
Silverstream contract	–	–	467,529	467,529
	–	**23,150**	**467,529**	**490,679**
Financial investments available-for-sale:				
Quoted investments	116,171	–	–	116,171
	116,171	**23,150**	**467,529**	**606,850**
Financial liabilities:				
Derivative financial instruments:				
Embedded derivatives within sales contracts	–	–	2,750	2,750
Options commodity contracts	–	66	–	66
Options and forward foreign exchange contracts	–	580	–	580
	–	**646**	**2,750**	**3,396**

	As of 31 December 2015			
	Fair value measure using			
	Quoted prices in active markets Level 1 US$ thousands	Significant observable Level 2 US$ thousands	Significant unobservable Level 3 US$ thousands	Total US$ thousands
Financial assets:				
Derivative financial instruments:				
Options commodity contracts	–	116,995	–	116,995
Option and forward foreign exchange contracts	–	80	–	80
Silverstream contract	–	–	384,771	384,771
	–	117,075	384,771	501,846
Financial investments available-for-sale:				
Quoted investments	71,442	–	–	71,442
	71,442	117,075	384,771	573,288
Financial liabilities:				
Derivative financial instruments:				
Embedded derivatives within sales contracts	–	–	532	532
Options commodity contracts	–	–	–	–
Options and forward foreign exchange contracts	–	1,427	–	1,427
	–	1,427	532	1,959

There have been no significant transfers between Level 1 and Level 2 of the fair value hierarchy, and no transfers into and out of Level 3 fair value measurements.

A reconciliation of the opening balance to the closing balance for Level 3 financial instruments other than Silverstream (which is disclosed in note 14) is shown below:

	2016 US$ thousands	2015 US$ thousands
Balance at 1 January:	(532)	(2,911)
Changes in fair value	(1,718)	(11,511)
Realised embedded derivatives during the year	(500)	13,890
Balance at 31 December	**(2,750)**	**(532)**

The fair value of the financial assets and liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Notes to the Consolidated Financial Statements continued

30. Financial instruments continued

The following valuation techniques were used to estimate the fair values:

Option and forward foreign exchange contracts

The Group enters into derivative financial instruments with various counterparties, principally financial institutions with investment grade credit ratings. The foreign currency forward (Level 2) contracts are measured based on observable spot exchange rates, the yield curves of the respective currencies as well as the currency basis spreads between the respective currencies. The foreign currency option contracts are valued using the Black Scholes model, the significant inputs to which include observable spot exchange rates, interest rates and the volatility of the currency.

Option commodity contracts

The Group enters into derivative financial instruments with various counterparties, principally financial institutions with investment grade credit ratings. The option commodity (Level 2) contracts are measured based on observable spot commodity prices, the yield curves of the respective commodity as well as the commodity basis spreads between the respective commodities. The option contracts are valued using the Black Scholes model, the significant inputs to which include observable spot commodities price, interest rates and the volatility of the commodity.

Silverstream contract

The fair value of the Silverstream contract is determined using a valuation model including unobservable inputs (Level 3). This derivative has a term of over 20 years and the valuation model utilises a number of inputs that are not based on observable market data due to the nature of these inputs and/or the duration of the contract. Inputs that have a significant effect on the recorded fair value are the volume of silver that will be produced and sold from the Sabinas mine over the contract life, the future price of silver, future foreign exchange rates between the Mexican peso and US dollar, future inflation and the discount rate used to discount future cash flows.

The estimate of the volume of silver that will be produced and sold from the Sabinas mine requires estimates of the recoverable silver reserves and resources, the related production profile based on the Sabinas mine plan and the expected recovery of silver from ore mined. The estimation of these inputs is subject to a range of operating assumptions and may change over time. Estimates of reserves and resources are updated annually by Peñoles, the operator and sole interest holder in the Sabinas mine and provided to the Company. The production profile and estimated payable silver that will be recovered from ore mined is based on the latest plan and estimates, also provided to the Company by Peñoles. The inputs assume no interruption in production over the life of the Silverstream contract and production levels which are consistent with those achieved in recent years.

Management regularly assesses a range of reasonably possible alternatives for those significant unobservable inputs described above, and determines their impact on the total fair value. The significant unobservable inputs are not interrelated. The fair value of the Silverstream is not significantly sensitive to a reasonable change in future exchange rates, however, it is to a reasonable change in future silver price, future inflation and the discount rate used to discount future cash flows.

For further information relating to the Silverstream contract see note 14. The sensitivity of the valuation to the inputs relating to market risks, being the price of silver, foreign exchange rates, inflation and the discount rate is disclosed in note 31.

Quoted investments:

Fair value of available-for-sale financial assets is derived from quoted market prices in active markets (Level 1).

Interest-bearing loans

Fair value of the Group's interest-bearing loan, is derived from quoted market prices in active markets (Level 1).

Embedded derivatives within sales contracts:

Sales of concentrates, precipitates and doré bars are 'provisionally priced' and revenue is initially recognised using this provisional price and the Group's best estimate of the contained metal. Revenue is subject to final price and metal content adjustments subsequent to the date of delivery (see note 2 (p)). This price exposure is considered to be an embedded derivative and is separated from the sales contract.

At each reporting date, the provisionally priced metal content is revalued based on the forward selling price for the quotational period stipulated in the relevant sales contract. The selling price of metals can be reliably measured as these metals are actively traded on international exchanges but the estimated metal content is a non-observable input to this valuation (Level 3).

At 31 December 2016 the fair value of embedded derivatives within sales contracts was US$(2.7) million (2015: US$(0.5) million). The revaluation effects of embedded derivatives arising from these sales contracts are recorded as an adjustment to revenues.

(c) Derivative financial instruments

The Group enters into certain forward and option contracts in order to manage its exposure to foreign exchange risk associated with costs incurred in Mexican pesos and other currencies. The Group also enters into option contracts to manage its exposure to commodity price risk as described in note 2 (s).

30. Financial instruments continued

The following tables summarise the fair value of derivative financial instruments held as of 31 December 2016 and 2015.

Financial assets	As at 31 December 2016 US$ thousands	As at 31 December 2015 US$ thousands
Currency contracts		
Forward contracts:		
Euro	145	1
Swedish krona	–	1
Option contracts[1]:		
US dollar	–	78
Commodity contracts		
Option contracts[1]:		
Gold	23,005	113,000
Lead	–	1,060
Zinc	–	2,935
Total derivative related assets	**23,150**	**117,075**
Less – Current portion	**6,618**	**19,602**
Non-current portion[2]	**16,532**	**97,473**

Financial liabilities	As at 31 December 2016 US$ thousands	As at 31 December 2015 US$ thousands
Currency contracts		
Forward contracts:		
Euro	570	–
Canadian dollar	10	–
Option contracts[1]:		
US dollar	–	1,427
Commodity contracts		
Option contracts[1]:		
Gold	16	–
Lead	2	–
Zinc	48	–
Total derivative related liabilities	**646**	**1,427**
Less – Current portion	**630**	**1,427**
Non-current portion[2]	**16**	**–**

1. Option contracts operate as zero cost collars.
2. Non-current portion corresponds to Gold option contracts that mature in a period over one year from the reporting date until 30 December 2019.

The following table summarises the movements in deferred gains or losses on foreign exchange and price commodity derivative instruments qualifying for hedge accounting, net of tax effects, recorded in other comprehensive income for the year:

	As at 31 December 2016 US$ thousands	As at 31 December 2015 US$ thousands
Beginning balance	36,214	(9,946)
Gains recycled to revenue during the year	(1,586)	(2,167)
Losses recycled to cost of sales during the year	2,770	28,589
Unrealised (losses)/gains before tax arising during the year	(52,918)	39,521
Deferred tax effect recorded in other comprehensive income during the year	15,520	(19,783)
Ending balance	**–**	**36,214**

FRESNILLO TODAY STRATEGIC REPORT CORPORATE GOVERNANCE FINANCIAL STATEMENTS

Notes to the Consolidated Financial Statements continued

31. Financial risk management

Overview

The Group's principal financial assets and liabilities, other than derivatives, comprise trade receivables, cash, available-for-sale financial assets, interest-bearing loans and trade payables.

The Group has exposure to the following risks from its use of financial instruments:
- Market risk, including foreign currency, commodity price, interest rate, inflation rate and equity price risks
- Credit risk
- Liquidity risk

This note presents information about the Group's exposure to each of the above risks and the Group's objectives, policies and processes for assessing and managing risk. Further quantitative disclosures are included throughout the financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Fresnillo Audit Committee has responsibility for overseeing how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Audit Committee is assisted in its oversight role by Internal Audit, which undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

(a) Market risk

Market risk is the risk that changes in market factors, such as foreign exchange rates, commodity prices or interest rates will affect the Group's income or the value of its financial instruments.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Foreign currency risk

The Group has financial instruments that are denominated in Mexican peso, euro and Swedish krona which are exposed to foreign currency risk. Transactions in currencies other than the US dollar include the purchase of services, fixed assets, spare parts and the payment of dividends. As a result, the Group has financial assets and liabilities denominated in currencies other than functional currency, and holds cash and cash equivalents in Mexican peso.

In order to manage the Group's exposure to foreign currency risk on expenditure denominated in currencies other than the US dollar, the Group has entered into certain forward and option derivative contracts with maturity dates from 2017 (see note 30 for additional detail).

The following table demonstrates the sensitivity of financial assets and financial liabilities (excluding Silverstream) to a reasonably possible change in the US dollar exchange rate compared to the Mexican peso, reflecting the impact on the Group's profit before tax and equity, with all other variables held constant. It is assumed that the same percentage change in exchange rates is applied to all applicable periods for the purposes of calculating the sensitivity with relation to derivative financial instruments.

Year ended 31 December	Strengthening/ (weakening) of US dollar	Effect on profit before tax: increase/ (decrease) US$ thousands	Effect on equity: increase/ (decrease) US$ thousands
2016	**15%**	**78**	**–**
	(10%)	**(67)**	**–**
2015	10%	(4,235)	7,809
	(10%)	5,192	(2,213)

31. Financial risk management continued

The following table demonstrates the sensitivity of financial assets and financial liabilities to a reasonably possible change in the US dollar exchange rate compared to the Swedish krona on the Group's profit before tax and equity, with all other variables held constant. It is assumed that the same percentage change in exchange rates is applied to all applicable periods. There is no impact on the Group's equity, other than the equivalent change in retained earnings.

Year ended 31 December	Strengthening/ (weakening) of US dollar	Effect on profit before tax: increase/ (decrease) US$ thousands
2016	**10%**	**(63)**
	(10%)	**94**
2015	5%	213
	(10%)	(78)

The following table demonstrates the sensitivity of financial assets and financial liabilities (excluding Silverstream) to a reasonably possible change in the US dollar exchange rate compared to the euro on the Group's profit before tax and equity, with all other variables held constant. It is assumed that the same percentage change in exchange rates is applied to all applicable periods.

Year ended 31 December	Strengthening/ (weakening) of US dollar	Effect on profit before tax: increase/ (decrease) US$ thousands	Effect on equity: increase/ (decrease) US$ thousands
2016	**5%**	**459**	**–**
	(10%)	**(1,024)**	**–**
2015	10%	–	–
	(10%)	–	–

Foreign currency risk – Silverstream

Future foreign exchange rates are one of the inputs to the Silverstream valuation model. The following table demonstrates the sensitivity of the Silverstream contract valuation to a reasonably possible change in the Mexican peso as compared to the US dollar, with all other inputs to the Silverstream valuation model held constant. It is assumed that the same percentage change in exchange rates is applied to all applicable periods in the valuation model. There is no impact on the Group's equity, other than the equivalent change in retained earnings.

Year ended 31 December	Strengthening/ (weakening) of US dollar	Effect on profit before tax: increase/ (decrease) US$ thousands
2016	**15%**	**(1,436)**
	(10%)	**1,223**
2015	10%	(1,622)
	(10%)	1,982

Commodity risk

The Group has exposure to changes in metals prices (specifically silver, gold, lead and zinc) which have a significant effect on the Group's results. These prices are subject to global economic conditions and industry-related cycles.

The Group uses derivative instruments to hedge against an element of gold price.

The table below reflects the aggregate sensitivity of financial assets and liabilities (excluding Silverstream) to a reasonably possible change in gold and silver prices, reflecting the impact on the Group's profit before tax with all other variables held constant.

The sensitivity shown in the table below relates to changes in fair value of commodity derivatives financial instruments contracts and embedded derivatives in sales.

	Increase/(decrease) in commodity prices					
Year ended 31 December	Gold	Silver	Zinc	Lead	Effect on profit before tax: increase/ (decrease) US$ thousands	Effect on equity: increase/ (decrease) US$ thousands
2016	**10%**	**25%**	**40%**	**40%**	**(28,516)**	**–**
	(15%)	**(20%)**	**(30%)**	**(15%)**	**(36,031)**	**120,715**
2015	15%	20%	25%	20%	(51,326)	50,764
	(10%)	(15%)	(25%)	(15%)	52,915	136,469

Notes to the Consolidated Financial Statements continued

31. Financial risk management continued

Commodity price risk – Silverstream

Future silver price is one of the inputs to the Silverstream valuation model. The following table demonstrates the sensitivity of the Silverstream contract valuation to a reasonably possible change in future silver prices, with all other inputs to the Silverstream valuation model held constant. It is assumed that the same percentage change in silver price is applied to all applicable periods in the valuation model. There is no impact on the Group's equity, other than the equivalent change in retained earnings.

Year ended 31 December	Increase/ (decrease) in silver price	Effect on profit before tax: increase/ (decrease) US$ thousands
2016	**25%**	**157,406**
	(20%)	**(125,925)**
2015	20%	104,659
	(15%)	(78,494)

Interest rate risk

The Group is exposed to interest rate risk from the possibility that changes in interest rates will affect future cash flows or the fair values of its financial instruments, principally relating to the cash balances and the Silverstream contract held at the balance sheet date. Interest-bearing loans are at a fixed rate, therefore the possibility of a change in interest rate only impacts its fair value but not its carrying amount. Therefore, interest-bearing loans and loans from related parties are excluded from the table below.

The following table demonstrates the sensitivity of financial assets and financial liabilities (excluding Silverstream) to a reasonably possible change in interest rate applied to a full year from the balance sheet date. There is no impact on the Group's equity other than the equivalent change in retained earnings.

Year ended 31 December	Basis point increase/ (decrease) in interest rate	Effect on profit before tax: increase/ (decrease) US$ thousands
2016	**65**	**5,943**
	(20)	**(1,829)**
2015	50	2,525
	(10)	(505)

The sensitivity shown in the table above primarily relates to the full year of interest on cash balances held as at the year end.

Interest rate risk – Silverstream

Future interest rates are one of the inputs to the Silverstream valuation model. The following table demonstrates the sensitivity of the Silverstream contract valuation to a reasonably possible change in interest rates, with all other inputs to the Silverstream valuation model held constant. It is assumed that the same change in interest rate is applied to all applicable periods in the valuation model. There is no impact on the Group's equity, other than the equivalent change in retained earnings.

Year ended 31 December	Basis point increase/ (decrease) in interest rate	Effect on profit before tax: increase/ (decrease) US$ thousands
2016	**65**	**(35,908)**
	(20)	**12,051**
2015	50	(17,853)
	(10)	3,729

31. Financial risk management continued

Inflation rate risk

Inflation rate risk-Silverstream

Future inflation rates are one of the inputs to the Silverstream valuation model. The following table demonstrates the sensitivity of the Silverstream contract to a reasonably possible change in the inflation rate, with all other inputs to the Silverstream valuation model held constant. It is assumed that the same change in inflation is applied to all applicable periods in the valuation model. There is no impact on the Group's equity, other than the equivalent change in retained earnings.

Year ended 31 December	Basis point (increase/ (decrease) in inflation rate	Effect on profit before tax: increase/ (decrease) US$ thousands
2016	**100** **(100)**	**190** **(188)**
2015	100 (100)	389 (382)

Equity price risk

The Group has exposure to changes in the price of equity instruments that it holds as available-for-sale assets.

The following table demonstrates the sensitivity of available-for-sale financial assets to a reasonably possible change in market price of these equity instruments, reflecting the effect on the Group's profit before tax and equity:

Year ended 31 December	Increase/ (decrease) in equity price	Effect on profit before tax: increase/ (decrease) (US$ thousands)	Effect on equity: increase/ (decrease) US$ thousands
2016	**100%** **(50%)**	**–** **–**	**116,171** **(58,086)**
2015	50% (30%)	– (5,135)	35,721 (16,297)

(b) Credit risk

Exposure to credit risk arises as a result of transactions in the Group's ordinary course of business and is applicable to all financial assets and derivative financial instruments. The financial assets are trade and other receivables, cash and cash equivalents, short-term investments, the Silverstream contract and available-for-sale financial assets.

The Group's policies are aimed at minimising losses as a result of counterparties' failure to honour their obligations. Individual exposures are monitored with customers subject to credit limits to ensure that the Group's exposure to bad debts is not significant. The Group's exposure to credit risk is influenced mainly by the individual characteristics of each counter party. The Group's financial assets are with counterparties with what the Group considers to have an appropriate credit rating. As disclosed in note 27, the counterparties to a significant proportion of these financial assets are related parties. At each balance sheet date, the Group's financial assets were neither impaired nor past due, other than 'Other receivables' as disclosed in note 16. The Group's policies are aimed at minimising losses from foreign currency hedging contracts. The Company's foreign currency hedging contracts are entered into with large financial institutions with strong credit ratings.

The Group has a high concentration of trade receivables with one counterparty Met-Mex Peñoles, the Group's primary customer throughout 2016 and 2015. A further concentration of credit risk arises from the Silverstream contract. Both Met-Mex and the counterparty to the Silverstream contract are subsidiaries in the Peñoles group which currently owns 75% of the shares of the Company and is considered by management to be of appropriate credit rating.

The Group's surplus funds are managed by Servicios Administrativos Fresnillo, S.A. de C.V., which manages cash and cash equivalents, including short-term investments investing in a number of financial institutions. Accordingly, on an ongoing basis the Group deposits surplus funds with a range of financial institutions, depending on market conditions. In order to minimise exposure to credit risk, the Group only deposits surplus funds with financial institutions with a credit rating of MX-1 (Moody's) and mxA-1+ (Standard and Poor's) and above. As at 31 December 2016, the Group had concentrations of credit risk as 24% of surplus funds were deposited with one financial institution of which 47% was held in short-term Mexican government paper.

The maximum credit exposure at the reporting date of each category of financial asset above is the carrying value as detailed in the relevant notes. See note 13 for the maximum credit exposure to available-for-sale financial assets, note 17 for short-term investments and cash and cash equivalents and note 27 for related party balances with Met-Mex. The maximum credit exposure with relation to the Silverstream contract is the value of the derivative as at 31 December 2016, being US$467.5 million (2015: US$384.8 million).

Notes to the Consolidated Financial Statements continued

31. Financial risk management continued

(c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

The Group monitors its risk of a shortage of funds using projected cash flows from operations and by monitoring the maturity of both its financial assets and liabilities.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments.

US$ thousands

	Within 1 year	2-3 years	3-5 years	> 5 years	Total
As at 31 December 2016					
Interest-bearing loans (note 20)	46,267	92,534	92,534	892,534	1,123,869
Trade and other payables	71,389	–	–	–	71,389
Derivative financial instruments – liabilities	630	16	–	–	646
Embedded derivatives within sales contracts – liability	2,750	–	–	–	2,750

US$ thousands

	Within 1 year	2-3 years	3-5 years	> 5 years	Total
As at 31 December 2015					
Interest-bearing loans (note 20)	46,267	92,534	92,534	938,801	1,170,137
Trade and other payables	57,440	–	–	–	57,440
Derivative financial instruments – liabilities	342,108	730,303	317,359	–	1,389,770
Embedded derivatives within sales contracts – liability	532	–	–	–	532

The payments disclosed for financial derivative instruments in the above table are the gross undiscounted cash flows. However, those amounts may be settled gross or net. The following table shows the corresponding estimated inflows based on the contractual terms:

US$ thousands

	Within 1 year	2-3 years	3-5 years	> 5 years	Total
As at 31 December 2016					
Inflows	10,932	–	–	–	10,932
Outflows	(11,229)	–	–	–	(11,229)
Net	**(297)**	**–**	**–**	**–**	**(297)**

US$ thousands

	Within 1 year	2-3 years	3-5 years	> 5 years	Total
As at 31 December 2015					
Inflows	347,301	746,924	319,165	–	1,413,390
Outflows	(342,108)	(730,303)	(317,359)	–	(1,389,770)
Net	**5,193**	**16,621**	**1,806**	**–**	**23,620**

The above liquidity tables include expected inflows and outflows from currency option contracts which the Group expects to be exercised during 2017 as at 31 December 2016 and from 2016 to 2019 as at 31 December 2015, either by the Group or counterparty.

Management considers that the Group has adequate current assets and forecast cash from operations to manage liquidity risks arising from current liabilities and non-current liabilities.

Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios that support its business and maximise shareholder value. Management considers capital to consist of equity and certain interest-bearing loans, including loans from related parties, as disclosed in the balance sheet, excluding net unrealised gains or losses on revaluation of cash flow hedges and available-for-sale financial assets. In order to ensure an appropriate return for shareholder's capital invested in the Group management thoroughly evaluates all material projects and potential acquisitions and approves them at its Executive Committee before submission to the Board for ultimate approval, where applicable. The Group's dividend policy is based on the profitability of the business and underlying growth in earnings of the Group, as well as its capital requirements and cash flows, including cash flows from the Silverstream.

Parent Company Statement of Comprehensive Income
Year ended 31 December

	Notes	Year ended 31 December 2016 US$ thousands	2015 US$ thousands
Profit/(Loss) for the year	3	**997,088**	**(894,822)**
Other comprehensive income/(expense)			
Items that may be reclassified subsequently to profit or loss:			
Changes in the fair value of available-for-sale financial assets	7	44,729	(14,636)
Income tax effect	5	(13,418)	4,391
Impairment of available for sale financial assets taken to income during the year		–	2,896
Income tax effect	5	–	(869)
Net effect of available-for-sale financial assets		31,311	(8,218)
Net other comprehensive income/(expense) that may be reclassified to profit or loss in subsequent periods		**31,311**	**(8,218)**
Total comprehensive income/(loss) for the year, net of tax		**1,028,399**	**(903,040)**

Parent Company Balance Sheet
As at 31 December

	Notes	2016 US$ thousands	As at 31 December 2015 Restated US$ thousands	As at 1 January 2015 Restated US$ thousands
ASSETS				
Non-current assets				
Investments in subsidiaries	5	6,957,858	5,943,889	6,873,015
Available-for-sale financial assets	6	116,171	71,442	86,078
Derivative financial instruments	17	16,532	97,473	–
Deferred tax asset	4	9,691	–	3,138
		7,100,252	**6,112,804**	**6,962,231**
Current assets				
Loans to related parties	14	480,508	706,989	772,102
Income tax recoverable		906	7,909	16,037
Trade and other receivables	7	484	3,766	12,507
Derivative financial instruments	17	6,618	19,602	14,551
Cash and cash equivalents	8	287,736	110,217	116,023
		776,252	**848,483**	**931,220**
Total assets		**7,876,504**	**6,961,287**	**7,893,451**
EQUITY AND LIABILITIES				
Capital and reserves attributable to shareholders of the Company				
Share capital	9	368,546	368,546	368,546
Share premium	9	1,153,817	1,153,817	1,153,817
Merger reserve	9	5,250,357	4,252,442	5,197,726
Available-for-sale financial assets reserve	9	40,725	9,414	17,632
Retained earnings	9	247,665	336,551	323,671
Total equity		**7,061,110**	**6,120,770**	**7,061,392**
Non-current liabilities				
Interest-bearing loans	11	798,027	797,032	796,160
Derivative financial instruments	17	16	–	–
Deferred tax liability	4	–	20,490	–
		798,043	**817,522**	**796,160**
Current liabilities				
Trade and other payables	12	16,721	21,568	8,866
Derivative financial instruments	17	630	1,427	27,033
		17,351	**22,995**	**35,899**
Total liabilities		**815,394**	**840,517**	**832,059**
Total equity and liabilities		**7,876,504**	**6,961,287**	**7,893,451**

These financial statements were approved by the Board of Directors on 27 February 2017 and signed on its behalf by:

The profit for the Company is US$997.1 million for the year ended 31 December 2016 (2015: loss of US$894.8 million). In accordance with the exemption granted under section 408 of the Companies Act 2006 a separate income statement for the Company has not been presented.

Mr Arturo Fernandez
Non-executive Director
27 February 2017

Parent Company Statement of Cash Flows
Year ended 31 December

	Notes	Year ended 31 December 2016 US$ thousands	2015 US$ thousands
Net cash from operating activities	16	**(34,665)**	**7,916**
Cash flows from investing activities			
Capital contribution to subsidiaries		(20,582)	(16,158)
Capital reimbursement from subsidiaries		4,528	–
Loans granted to related parties		(1,713,084)	(1,841,293)
Proceeds from repayment of loans granted to related parties		1,937,610	1,904,794
Interest received		33,240	22,138
Dividends received		108,889	–
Settlement of derivative contracts		1,637	3,133
Other payments		(5,457)	(1,584)
Net cash generated from investing activities		**346,781**	**71,030**
Cash flows from financing activities			
Loans granted by related parties		–	67,000
Repayment of loans granted by related parties		–	(67,000)
Dividends paid		(88,219)	(37,529)
Interest paid		(46,267)	(47,607)
Net cash used in financing activities		**(134,486)**	**(85,136)**
Net increase in cash and cash equivalents during the year		177,630	(6,190)
Effect of exchange rate on cash and equivalents		(111)	384
Cash and cash equivalents at 1 January		110,217	116,023
Cash and cash equivalents at 31 December	8	**287,736**	**110,217**

Parent Company Statement of Changes in Equity
Year ended 31 December

	Notes	Share capital	Share premium	Merger reserve	Available-for-sale financial assets reserve	Retained earnings	Total equity
							US$ thousands
Balance at 1 January 2015 (restated)	2(b)	**368,546**	**1,153,817**	**5,197,726**	**17,632**	**323,671**	**7,061,392**
Loss for the year		–	–	–	–	(894,822)	(894,822)
Other comprehensive expense net of tax		–	–	–	(8,218)	–	(8,218)
Total comprehensive loss for the year		–	–	–	(8,218)	(894,822)	(903,040)
Transfer of reserves		–	–	(945,284)	–	945,284	–
Dividends declared and paid	10	–	–	–	–	(37,582)	(37,582)
Balance at 31 December 2015		**368,546**	**1,153,817**	**4,252,442**	**9,414**	**336,551**	**6,120,770**
Profit for the year		–	–	–	–	997,088	997,088
Other comprehensive income net of tax		–	–	–	31,311	–	31,311
Total comprehensive income for the year		–	–	–	31,311	997,088	1,028,399
Transfer of reserves		–	–	997,915	–	(997,915)	–
Dividends declared and paid	10	–	–	–	–	(88,059)	(88,059)
Balance at 31 December 2016		**368,546**	**1,153,817**	**5,250,357**	**40,725**	**247,665**	**7,061,110**

Notes to the Parent Company Financial Statements

1. Corporate information

Fresnillo plc ('the Company') is a public limited company and registered in England and Wales with registered number 6344120 and is the holding company for the Fresnillo subsidiaries detailed in note 5. The Company is a Mexican resident for taxation purposes with tax residency in Mexico City. For further information see note 4.

Industrias Peñoles S.A.B. de C.V. ('Peñoles') currently owns 75% of the shares of the Company and the ultimate controlling party of the Company is the Baillères family, whose beneficial interest is held through Peñoles. The country of incorporation of Peñoles is Mexico. Copies of Peñoles' accounts can be obtained from www.penoles.com.mx.

The primary activity of the Company is as holding company for the Fresnillo Group of companies. See note 5.

The financial statements of the Company for the year ended 31 December 2016 were authorised for issue by the Board of Directors of Fresnillo plc on 27 February 2017.

2. Significant accounting policies

(a) Basis of preparation and statement of compliance

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union as they apply to the financial statements of the Company for the years ended 31 December 2016 and 2015, and in accordance with the provisions of the Companies Act 2006.

The financial statements of the Company have been prepared on a historical cost basis, except for certain derivative financial instruments and available-for-sale financial instruments which have been measured at fair value.

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

The basis of preparation and accounting policies used in preparing the financial statements are set out below. These accounting policies have been consistently applied to all the periods presented unless otherwise stated.

(b) Changes in accounting policies

The accounting policies applied are consistent with those applied in the preparation of the separate financial statements for the year ended 31 December 2015.

Restatements

As at 31 December 2015, derivatives relating to the gold hedging programme initiated in 2014 that mature after one year had been presented as current assets. During 2016, the Company restated the prior year comparatives and reclassified these derivatives to non-current assets. The reclassification resulted in an increase in non-current assets and a corresponding reduction in current assets by US$97.5 million as at 31 December 2015, with no impact on previously reported profit, other comprehensive income, liabilities, equity or cash flow. In addition, there is no tax effect.

In the current year, the Company identified that a reversal of a previously recognised impairment loss on its investment in Exploraciones Mineras Parreña, S.A. de C.V., amounting to US$142.9 million which existed at 31 December 2014 had not been recognised. During 2016, the Company restated the prior year comparatives to recognise this reversal. This adjustment resulted in an increase in both non-current assets and equity by US$142.9 million as at 1 January 2015, with no impact in liabilities or the previously reported profit, other comprehensive income or cash flow for the year ended 31 December 2015. In addition, there is no tax effect.

New standards, interpretations and amendments (new standards) adopted by the Company

During 2016 there were no new standards adopted by the Company. New standards issued by the IASB effective as of 1 January 2016 had no impact in the financial information of the Company.

Standards, interpretations and amendments issued but not yet effective

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

Notes to the Parent Company Financial Statements continued

2. Significant accounting policies continued

IFRS 9 Financial Instruments: In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which concludes all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. The Company plans to adopt IFRS 9 Financial instruments from the mandatory effective date. The Company's assessment of the expected major impacts of this standard is set out below.

Nature of change	IFRS 9 addresses the classification and measurement of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The derecognition rules are consistent with those under IAS 39.
Main impact	IFRS 9 makes significant changes in the classification of financial assets. Whereas under IAS 39, the default classification for financial assets was available-for-sale financial assets, under IFRS 9 the residual category is to recognise fair value through profit or loss (FVTPL). Generally under IFRS 9, investments in equity instruments are recognised as FVTPL unless the Group makes an election, in respect of investments that are not held for trading, to measure the instruments at fair value through OCI (FVOCI). The Group expects to designate all investments currently recognised in available-for-sale financial assets as FVOCI. In accordance with IFRS 9, this means that all movements relating to such assets are recognised in OCI. Neither gains nor losses on disposal or significant or prolonged declines in the value of these investments are recognised in profit or loss. **Impairment model** The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than on the basis of credit losses incurred as is the case under IAS 39. It will apply to Company's financial assets classified at amortised cost and debt instruments measured at FVOCI. IFRS 9 also sets out a simplified approach for traded and lease receivables that do not contain a significant financing component in accordance with IFRS 15.
Expected date of adoption by Company and considerations	The Company plans to adopt IFRS 9 effective 1 January 2018 and plans to apply the limited exemption relating to transition for classification and measurement and impairment, and accordingly will not restate comparative periods in the year of initial application. The Company does not currently expect the impact of adopting IFRS 9 to be material to the standalone financial information.

IFRS 15 Revenue from Contracts with Customers: IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. The new revenue standard will supersede all current revenue recognition requirements under IFRS. Early adoption is permitted. IFRS 15 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. The Company plans to adopt IFRS 15 Revenue from Contracts with Customers from the mandatory effective date. The Company has completed a preliminary assessment of the expected major impacts of this standard, the most relevant one set out below.

Nature of change	IFRS 15 establishes a comprehensive framework for recognition of revenue from contracts with customers based on a core principle that an entity should recognise revenue representing the transfer of promised goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.
Main impact	As described in the accounting policies section, The Company's revenue is derived from one revenue stream that corresponds to trademark royalties. The Company has evaluated recognition and measurement of revenue based on the five-step model in IFRS 15 and has not identified any material expected financial impacts. IFRS 15 includes disclosure requirements to enable users of the financial statements to understand the amount, timing, risk and judgements related to revenue recognition and related cash flows. Certain disclosures will change as a result of the requirements of IFRS 15, however the Company does not expect major changes as revenue is derived from one revenue stream an all the transactions are carried out with related parties.
Expected date of adoption by Company and considerations	The Company plans to adopt IFRS 15 effective 1 January 2018 and to apply the simplified transition method, hence the cumulative effect of adoption, if any, will be recognised in retained earnings. The Company currently expects the cumulative effect to be nil.

2. Significant accounting policies continued

IFRS 16 Leases

IFRS 16 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. These amendments are effective for annual periods beginning on or after 1 January 2019, earlier application is permitted. However, as there are several interactions between IFRS 16 and IFRS 15 Revenue from contracts with customers, early application is restricted to entities that also early apply IFRS 15. The Company is currently assessing the impact of IFRS 16 and is considering early adoption in 2018 to align with the adoption of IFRS 9 and IFRS 15.

Amendments to IAS 7 Disclosure Initiative

The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments do not prescribe a specific format to disclose financing activities; however, an entity may fulfil the disclosure objective by providing reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities.

The amendments apply prospectively for annual periods beginning on or after 1 January 2017 with earlier application permitted. Entities are not required to present comparative information for earlier periods. The amendments to this standard are not expected to have any impact in the financial information of the Company.

Amendments to IAS 12 Income Taxes

The amendments to IAS 12 clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. They also clarify certain other aspects of accounting for deferred tax assets. These amendments are effective for annual periods beginning on or after 1 January 2017 with early adoption permitted. The amendments to this standard are not expected to have any impact in the financial information of the Company.

IFRIC 22 Foreign currency transactions and advance consideration

IFRIC 22 provides requirements about which exchange rate to use in reporting foreign currency transactions when payment is made or received in advance. The interpretation requires the Company to determine a 'date of transaction' for the purposes of selecting an exchange rate to use on initial recognition of the related asset, expense or income. In case there are multiple payments or receipts in advance, the entity should determine a date of the transaction for each flow of advance consideration. IFRIC 22 is applicable for annual periods beginning on or after 1 January 2018 and earlier adoption is permitted. The interpretation is not expected to have any impact in the financial information of the Company.

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

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

(c) Significant accounting judgements, estimates and assumptions

The preparation of the Company's financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the financial statements. These judgements and estimates are based on management's knowledge of the relevant facts and circumstances, with regard to prior experience, but actual results may differ from the amounts included in the financial statements. Information about such judgements and estimates is in the accounting policies and the notes to the financial statements.

Judgements

Areas of judgement, apart from those involving estimations, that have the most significant effect on the amounts recognised in the financial statements are:

- Determination of functional currency (note 2 (d)):
  The determination of functional currency requires management judgement, particularly where there may be several currencies in which transactions are undertaken and which impact the economic environment in which the entity operates.
- Contingencies (note 13):
  By their nature, contingencies will be resolved only when one or more uncertain future events occur or fail to occur. The assessment of the existence and potential quantum of contingencies inherently involves the exercise of significant judgement and the use of estimates regarding the outcome of future events.

Notes to the Parent Company Financial Statements continued

2. Significant accounting policies continued

Estimates and assumptions

Significant areas of estimation uncertainty made by management in preparing the financial information statements include:

- Impairment of available-for-sale financial assets (note 2 (g) and 6):
  The Company classifies certain financial asset as available-for-sale and recognises movements in their fair value in equity. When the fair value declines, management makes an assessment of the decline in value to determine whether it is an impairment that should be recognised in profit or loss.
- Impairment and subsequent reversal of impairment of investments in subsidiaries (notes 2 (e) and 5):
  The Company assesses investments in subsidiaries annually to determine whether any indication of impairment exists. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs of disposal (FVLCD) and the value in use. Due to the nature of the subsidiaries, the assessment of the recoverable amount is generally determined based on the net present value of future cash flows related to the subsidiaries requiring the use of estimates and assumptions such as long-term commodity prices, reserves and resources and the associate production profiles, discount rates, future capital requirements, exploration potential and operating performance. These cash flows are discounted using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The determination of that rate requires certain judgements.

  Where an impairment charge has previously been recognised, the Company assesses at the end of each reporting period whether there is any indication that the impairment loss may no longer exist or may have decreased. If any such indication exists, the Company estimates the recoverable amount of that investment, requiring similar estimates and assumptions as those for determining an impairment charge. At 31 December 2016 the Company reversed impairment losses of US$997.9 million (2015: US$nil) to recognise a cumulative impairment relating to subsidiaries of US$506.2 million (2015: US$1,537.2 million).

(d) Foreign currency translation

The Company's financial statements are presented in US dollars, which is the functional currency of the Company. The functional currency for the Company is determined by the currency of the primary economic environment in which it operates.

Transactions denominated in currencies other than the functional currency of the Company are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rate of exchange ruling at the balance sheet date. All differences that arise are recorded in the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated into US dollars using the exchange rate at the date when the fair valued is determined.

(e) Investments in subsidiaries

Subsidiaries are entities which the Company due to it being exposed to, or has the right to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Investments in subsidiaries are recognised at acquisition cost less any provision for impairment. Impairment charges and reversals, up to the value of the merger reserve, are reclassified from retained earnings to the merger reserve.

When the Company increases its capital investment in or where there is a return of share capital from its subsidiaries, such movements are recognised as an addition to, or return of the original cost recognised in investment in subsidiaries.

At each reporting date, an assessment is made to determine whether there are any indicators of impairment. Where an indicator of impairment exists, an estimate of the recoverable amount of the investment in subsidiary is made, which is considered to be the higher of the fair value less costs of disposal and the value in use. The Company usually determines fair value based on the net present value of the future cash flows related to its subsidiaries. If the carrying amount of an investment exceeds the recoverable amount, a provision is recorded in the income statement to reflect the investment at the recoverable amount.

Where an impairment charge has previously been recognised, an assessment is made at the end of each reporting period whether there is any indication that the impairment loss may no longer exist or may have decreased. If any such indication exists, an estimate of the recoverable amount is made. An impairment loss is reversed to profit or loss to the extent that the increased carrying value of the investment in subsidiary does not exceed that that would have been determined had no impairment loss been recognised for the asset in prior years.

2. Significant accounting policies continued

(f) Financial assets and liabilities

Financial assets are recognised when the Company becomes party to contracts that give rise to them and are classified as financial assets at fair value through profit or loss; loans and receivables; held to maturity investments; or available-for-sale financial assets, as appropriate. The Company determines the classification of its financial assets at initial recognition and re-evaluates this designation at each balance sheet date. When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

The Company recognises financial liabilities on its balance sheet when, and only when, it becomes a party to the contractual provisions of the instrument. Financial liabilities are classified at fair value through profit or loss, loans and borrowings, payables or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial liabilities are initially recognised at the fair value of the consideration received, including any transaction costs incurred.

Financial assets are offset with liabilities and the net amount is reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Financial assets and liabilities at fair value through profit or loss

Financial assets and liabilities classified as held-for-trading and other assets or liabilities designated as fair value transactions through profit and loss at inception are included in this category. Financial assets or liabilities are classified as held-for-trading if they are acquired or incurred for the purpose of selling in the short term. Derivatives are also classified as held-for-trading unless they are designated as hedging instruments, as defined by IAS 39. Financial assets and liabilities at fair value through profit or loss are carried in the balance sheet at fair value with gains or losses recognised in the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, do not qualify as trading assets and have not been designated as either fair value through profit and loss or available-for-sale.

After initial measurement such assets are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Gains and losses are recognised in income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Current trade receivables are carried at the original invoice amount less provision made for impairment of these receivables. Non-current receivables are stated at amortised cost.

Loans and borrowings

After initial recognition, interest-bearing loans are subsequently measured at amortised cost using the effective interest rate (EIR) method. The EIR amortisation is included as finance costs in the income statement. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the EIR amortisation process.

The Company adjusts the carrying amount of the financial liability to reflect actual and revised estimated cash flows. The carrying amount is recalculated by computing the present value of estimated future cash flows at the financial instrument's original effective interest rate or, when applicable, the revised effective interest rate. Any adjustment is recognised in profit or loss as income or expense.

This category generally applies to interest-bearing loans. For more information refer note 11.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as such or are not classified in any of the preceding categories and are not held-to-maturity investments.

Available-for-sale financial assets represent equity investments that have a quoted market price in an active market; therefore a fair value can be reliably measured. After initial measurement, available-for-sale financial assets are measured at fair value with mark-to-market unrealised gains or losses being recognised as other comprehensive income in the available-for-sale reserve until the financial asset is derecognised.

Financial assets classified as available-for-sale are de-recognised when they are sold, and all the risks and rewards of ownership have been transferred. When financial assets are sold, the accumulated fair value adjustments recognised in equity are included in the income statement within other operating income or expense.

Notes to the Parent Company Financial Statements continued

2. Significant accounting policies continued

De-recognition of financial assets and liabilities

A financial asset or liability is generally de-recognised when the contract that gives rise to it is settled, sold, cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, such that the difference in the respective carrying amounts together with any costs or fees incurred are recognised in profit or loss.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in the income statement.

(g) Impairment of financial assets

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss is recognised in profit or loss.

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Company will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired receivables are derecognised when they are assessed as uncollectible.

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. In assessing whether there is an impairment, the Company considers whether a decline in fair value is either significant or prolonged by considering the size of the decline in this value, the historic volatility in changes in fair value and the duration of the sustained decline. Reversals in respect of equity instruments classified as available-for-sale are not recognised in the income statement.

(h) Cash and cash equivalents

For the purposes of the balance sheet, cash and cash equivalents comprise cash at bank, cash on hand and short-term deposits held with banks that are readily convertible into known amounts of cash and which are subject to insignificant risk of changes in value. Short-term deposits earn interest at the respective short-term deposit rates between one day and four months.

For the purposes of the cash flow statement, cash and cash equivalents as defined above are shown net of outstanding bank overdrafts.

2. Significant accounting policies continued

(i) Share capital

Ordinary Shares issued by the Company are recorded at the net proceeds received, which is the fair value of the consideration received less costs that are incurred in connection with the share issue. The nominal par value of the shares issued is taken to the share capital account and any excess is recorded in the share premium account, including the costs that were incurred with the share issue.

(j) Revenue recognition

Revenue is recognised to the extent that it is probable that economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of consideration received excluding discounts, rebates, and other sales taxes.

Trademark royalties

Trademark royalty income is recognised only at the time when it is probable that the amounts related to certain rights will be received.

Interest income

Interest income is recognised as interest accrues (using the effective interest method; i.e. the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset).

Dividend income

Dividend income is recognised when the Company's right to receive the payment is established.

(k) Income tax

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences, except:
- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of transaction, affects neither the accounting profit nor taxable profit loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:
- where the deferred income tax asset relating to deductible temporary differences arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Notes to the Parent Company Financial Statements continued

2. Significant accounting policies continued

(l) Derivative financial instruments and hedging

The Company enters into derivative contracts in order to manage certain market risks derived from changes in foreign exchange and commodity prices which impact the financial and business transactions of its subsidiaries. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

In the Group's consolidated financial statements certain of these derivative instruments are designated as cash flow hedges but for the purposes of the Company's stand-alone financial statements the related hedged items are not held by the Company, so do not qualify as cash flow hedges.

Any gains and losses arising from changes in fair value on derivatives during the year that do not qualify for hedge accounting are taken directly to the income statement.

Derivatives are valued using valuation approaches and methodologies (such as Black Scholes and Net Present Value) applicable to the specific type of derivative instrument. The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

Embedded derivatives

Contracts are assessed for the existence of embedded derivatives at the date that the Company first becomes party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. Embedded derivatives which are not clearly and closely related to the underlying asset, liability or transaction are separated and accounted for as stand-alone derivatives.

(m) Fair value measurement

The Company measures financial instruments at fair value at each balance sheet date. Fair values of financial instruments measured at amortised cost are disclosed in notes 17 and 18.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability, or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above. Further information on fair values is described in note 17.

2. Significant accounting policies continued

(n) Dividend distribution

Dividends payable to the Company's shareholders are recognised as a liability in the financial statements in the period in which the dividends are approved by the Company's shareholders.

Mexican Income Tax Law establishes a 10% tax rate on earnings from 2014 and thereafter, for dividends paid to foreign residents and Mexican individuals.

Dividends paid are not subject to income tax if paid from the Net Tax Profit Account (CUFIN). Dividends paid that exceed CUFIN are subject to an income tax payable at a rate of 30% if paid in 2017. The tax is payable by the Company and may be credited against the normal income tax payable by the Company in the year in which the dividends are paid or in the following two years. Dividends paid from earnings previously taxed are not subject to any withholding or additional tax payment.

3. Segment reporting

Segmental information is not presented in the Company's stand-alone financial statements as this is presented in the Group's consolidated financial statements.

4. Income tax

(a) Income tax reported in other comprehensive income

	Year ended 31 December	
	2016 US$ thousands	2015 US$ thousands
Deferred income tax (charge)/credit related to items recognised directly in other comprehensive income:		
Change in fair value on available-for-sale financial assets (note 6)	(13,418)	3,522
Income tax effect reported in other comprehensive income	**(13,418)**	**3,522**

(b) The movements in the deferred income tax liability are as follows:

	Year ended 31 December	
	2016 US$ thousands	2015 US$ thousands
Opening net (liability)/asset	(20,490)	3,138
Income statement credit/(charge)	43,599	(27,150)
Net (charge)/credit arising on change in fair value on available-for-sale assets (note 6)	(13,418)	3,522
Closing net asset/(liability)	**9,691**	**(20,490)**

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities.

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

	Year ended 31 December	
	2016 US$ thousands	2015 US$ thousands
Prepayments and other assets	(1,152)	(363)
Derivative financial instruments	(7,660)	(41,255)
Losses carried forward	32,678	21,884
Available-for-sale financial assets	(14,175)	(756)
Net deferred tax asset/(liability)	**9,691**	**(20,490)**

(c) Unrecognised deferred tax on investments in subsidiaries

The Company has not recognised all of the deferred tax liability in respect of distributable reserves of its subsidiaries because it controls them and only part of the temporary differences are expected to reverse in the foreseeable future. The temporary differences for which a deferred tax liability has not been recognised aggregate to US$1,949 million (2015: US$1,450 million).

(d) Corporate Income Tax ('Impuesto Sobre la Renta' or 'ISR')

The Company is a Mexican resident for taxation purposes. The rate of current corporate income tax is 30%.

Notes to the Parent Company Financial Statements continued

5. Investments in subsidiaries

	Year ended 31 December	
	2016 US$ thousands	2015 restated US$ thousands
Opening balance	5,943,889	6,873,015
Impairment	–	(945,284)
Reversal of impairment	997,915	–
Additions	20,582	16,158
Return of share capital	(4,528)	–
Closing balance[1]	**6,957,858**	**5,943,889**

1. The El Bajío land dispute could have an impact on the Company's investment in Minera Penmont (Soledad-Dipolos mine unit) (note 13).

As described in note 2 (b), the balance at 1 January 2015 has been restated.

During 2016 the Company has identified the recovery of gold and silver prices as an indicator of reversal of previously recognised impairment losses on its investments in subsidiaries. The Company has calculated the recoverable amount of its investments in subsidiaries as at 31 December 2016 and as a result has recognised a reversal of previously recognised impairment loss amounting to US$997,915. The recoverable amount was estimated based on the Fair Value Less Cost of Disposal (FVLCD) model (2015: FVLCD).

The following tables provide relevant information in respect of each impaired subsidiary:

	Year ended 31 December 2016				
	Current year Impairment reversal US$ thousands	Cumulative Impairment US$ thousand	Recoverable amount US$ thousands		Discount rate
Minera Fresnillo, S.A. de C.V.	(608,736)	94,747	4,208,200	Post-tax	5.38%
Minera Mexicana la Ciénega, S.A. de C.V.	(109,979)	360,791	570,338	Post-tax	5.28%
Minera Saucito, S.A. de C.V.	(141,738)	–	1,451,845	Post-tax	5.34%
Minera Penmont, S. de R.L. de C.V.	(137,462)	–	810,877	Post-tax	5.28%
Exploraciones Mineras Parreña, S.A. de C.V.	–	83,705	138,628	Post-tax	6.06%
	(997,915)	**506,257**			

In determining FVLCD it is necessary to make a series of assumptions to estimate future cash flows including reserves and resources volumes and related production profile, price assumptions, cost estimates and discount rate. Accordingly, the fair value is categorised as Level 3 in the fair value hierarchy. The price assumptions used to determine FVLCD are based on analysts' consensus of long-term prices. As at 31 December 2016, the Company used price assumptions of US$1,250/ounce and US$18/ounce for gold and silver, respectively.

	Year ended 31 December 2015				
	Current year Impairment US$ thousand	Cumulative Impairment US$ thousand	Recoverable amount US$ thousand		Discount rate
Minera Fresnillo, S.A. de C.V.	703,483	703,483	3,561,388	Post-tax	6.21%
Minera Mexicana la Ciénega, S.A. de C.V.	–	470,770	481,878	Post-tax	6.09%
Minera Saucito, S.A. de C.V.	104,339	141,738	1,133,900	Post-tax	6.02%
Minera Penmont, S. de R.L. de C.V.	137,462	137,462	671,488	Post-tax	6.02%
Exploraciones Mineras Parreña, S.A. de C.V.	–	83,705	139,400	Post-tax	6.43%
	945,284	**1,537,158**			

As at 31 December 2015 management calculated the recoverable amount using FVLCD methodology. Management considers that the model supporting the determination of FVLCD is most sensitive to commodity price assumptions. The price assumptions used to determine FVLCD are based on analysts' consensus of long-term prices. As at 31 December 2015, the Company used price assumptions of US$1,200/ounce and US$18/ounce for gold and silver, respectively.

Sensitivity analysis

As at 31 December 2016 Management has performed a sensitivity analysis for those subsidiaries where cumulative impairment may be affected by a significant decrease in silver and gold prices. Management has considered a decrease in silver of 20% and 15% for gold (2015: 20% and 10%, respectively). The sensitivity resulted in an additional impairment on Minera Fresnillo, S.A. de C.V. of US$622.3 million (2015: US$1,335.8 million) and Minera Mexicana la Ciénega, S.A. de C.V. US$85.7 million (2015; US$ nil).

5. Investments in subsidiaries continued

The subsidiaries in which investments are directly held as at 31 December 2016 and 2015 are as follows:

Legal company	Principal activity	Country of incorporation	Equity interest % Year ended 31 December 2016	2015
Minera Fresnillo, S.A. de C.V.	Production of lead/silver and zinc concentrates	Mexico[4]	**100**	100
Minera Penmont, S. de R.L. de C.V.[1]	Production of doré bars (gold/silver)	Mexico[4]	**56**	56
Minera Mexicana La Ciénega, S.A. de C.V.	Production of lead and zinc concentrates and silver precipitates	Mexico[4]	**100**	100
Minera Saucito, S.A. de C.V.	Production of lead and zinc concentrates	Mexico[4]	**100**	100
Desarrollos Mineros Canelas, S.A. de C.V.	Extraction and sale of mineral ore	Mexico[4]	**100**	100
Desarrollos Mineros Fresne, S. de R.L. de C.V.[1]	Extraction and sale of mineral ore	Mexico[4]	**56**	56
Desarrollos Mineros el Aguila, S.A. de C.V.	Extraction and sale of mineral ore	Mexico[4]	**100**	100
Metalúrgica Reyna, S.A. de C.V.	Extraction and sale of mineral ore	Mexico[4]	**100**	100
Equipos Mineros Nazas, S.A. de C.V.	Leasing of mining equipment	Mexico[4]	**100**	100
Proveedora de Equipos Fresne, S de R.L. de C.V.[1]	Leasing of mining equipment	Mexico[4]	**56**	56
Equipos Mineros la Hacienda, S.A. de C.V.	Leasing of mining equipment	Mexico[4]	**100**	100
Proveedora de Equipos Jerez, S.A. de C.V.	Leasing of mining equipment	Mexico[4]	**100**	100
Minera Juanicipio, S.A. de C.V.	Mining project	Mexico[4]	**56**	56
Comercializadora de Metales Fresnillo, S.A. de C.V.	Holds rights over silver production from Peñoles' polymetallic Sabinas mine through the Silverstream contract	Mexico[4]	**100**	100
Exploraciones Mineras Parreña, S.A. de C.V.	Exploration services	Mexico[4]	**100**	100
Exploraciones y Desarrollos Mineros Coneto, S.A. P. I. de C.V.	Exploration services	Mexico[4]	**55**	55
Exploraciones Coneto, S.A. de C.V.[2]	Exploration services	Mexico[4]	**–**	100
Minera El Bermejal, S. de R.L. de C.V.	Mining equipment leasing	Mexico[4]	**100**	100
Compañía Minera Las Torres, S.A. de C.V.	Mine project	Mexico[4]	**100**	100
Servicios Administrativos Fresnillo, S.A. de C.V.	Administrative services	Mexico[4]	**100**	100
Operaciones Fresnillo, S.A. de C.V.	Administrative services	Mexico[4]	**100**	100
Servicios de Exploración Fresnillo, S.A. de C.V.	Administrative services	Mexico[4]	**100**	100
Fresnillo Management Services, Ltd	Administrative services	UK[5]	**100**	100
Fresbal Investments, Ltd	Holding company for mining Investments	Canada[6]	**100**	100
Fresnillo Peru, S.A.C.	Exploration services	Peru[7]	**100**	100
Fresnillo Chile, SpA	Exploration services	Chile[8]	**100**	–
Caja de Ahorros Fresnillo, S.C.[3]	Administrative services	Mexico[4]	**–**	–

The list of subsidiary undertakings presented in this note represents the full list of subsidiary undertakings, required to be submitted by Section 409 of the Companies Act 2006.

1. The remaining 44% interest in these companies are held by Comercializadora de Metales Fresnillo, S.A. de C.V a wholly-owned subsidiary of the Company.
2. Effective 1 July 2016, the Company merged Exploraciones Coneto, S.A. de C.V. into Exploraciones y Desarrollos Mineros Coneto S.A.P.I. de C.V. There was no change in the equity interest in Coneto as a result of the merger.
3. Whilst Fresnillo plc holds no direct ownership in Caja de Ahorros Fresnillo, S.C. the entire share capital of the company is held through its subsidiaries.
4. The registered address for all Mexican subsidiaries is: Calzada Saltillo 400 No. 989, Torreón, Coahuila 27250.
5. Registered address: Second Floor, 21 Upper Brook Street, London W1.
6. Registered address: 355 Burrard Street, Suite 1800, Vancouver, BC, V6C 2G8.
7. Registered address: Avenida República de Colombia 643, Piso 9, Distrito San Isidro, Lima 27.
8. Registered address: Av. Apoquindo 4775 oficina 1002 – Las Condes, Santiago de Chile.

6. Available-for-sale financial assets

	Year ended 31 December 2016 US$ thousands	2015 US$ thousands
Beginning balance	71,442	86,078
Fair value change	44,729	(14,636)
Ending balance	**116,171**	**71,442**

At 31 December 2016, no impairment has been recorded based on the valuation of the investment in quoted shares. During 2015, several investments in quoted shares decreased below the cost paid by the Company therefore an impairment of US$2.9 million was recognised as other expenses in the income statement.

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

Notes to the Parent Company Financial Statements continued

7. Trade and other receivables

	Year ended 31 December	
	2016 US$ thousands	2015 US$ thousands
Other receivables from related parties (note 14)	480	3,764
Other	4	2
	484	**3,766**

As of 31 December for each year presented, other receivables from related parties were neither past due nor impaired. In determining the recoverability of a receivable, the Company performs a risk analysis considering the type and age of the outstanding receivable and the credit worthiness of the counterparty.

8. Cash and cash equivalents

	Year ended 31 December	
	2016 US$ thousands	2015 US$ thousands
Cash at bank and on hand	24	16
Short-term deposits	287,712	110,201
Cash and cash equivalents	**287,736**	**110,217**

Cash at bank earns interest at floating rates based on daily bank deposits. Short-term deposits are made for varying periods of between one day and four months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates. Short-term deposits can be withdrawn at short notice without any penalty or loss in value.

9. Equity

Share capital and share premium

	As at 31 December			
	2016		2015	
Class of share	**Number**	**Amount**	Number	Amount
Ordinary Shares each of US$0.50	1,000,000,000	$500,000,000	1,000,000,000	$500,000,000
Sterling Deferred Ordinary Shares each of £1.00	50,000	£50,000	50,000	£50,000

Issued share capital of the Company is as follows:

	Ordinary Shares		Sterling Deferred Ordinary Shares	
	Number	US$	Number	£
At 1 January 2015	736,893,589	$368,545,586	50,000	£50,000
At 31 December 2015	736,893,589	$368,545,586	50,000	£50,000
At 31 December 2016	736,893,589	$368,545,586	50,000	£50,000

As at 31 December 2016 and 2015, all issued shares with a par value of $0.50 each are fully paid. The rights and obligations attaching to these shares are governed by law and the Company's Articles of Association. Ordinary shareholders are entitled to receive notice and to attend and speak at any general meeting of the Company. There are no restrictions on the transfer of the Ordinary Shares.

The Sterling Deferred Ordinary Shares only entitle the shareholder on winding up or on a return of capital to payment of the amount paid up after repayment to ordinary shareholders. The Sterling Deferred Ordinary Shares do not entitle the holder to payment of any dividend, or to receive notice or to attend and speak at any general meeting of the Company. The Company may also at its option redeem the Sterling Deferred Ordinary Shares at a price of £1.00 or, as custodian, purchase or cancel the Sterling Deferred Ordinary Shares or require the holder to transfer the Sterling Deferred Ordinary Shares. Except at the option of the Company the Sterling Deferred Ordinary shares are not transferable.

Reserves

Share premium

This reserve records the consideration premium for shares issued at a value that exceeds their nominal value.

Merger reserve

The merger reserve represents the difference between the value of the net assets acquired as part of the Pre-IPO reorganisation and the nominal value of the shares issued pursuant to the Merger Agreement. Movements in this reserve during 2016 and 2015 represent the impairment losses and reversals of the carrying value of Fresnillo's investments in subsidiaries transferred from retained earnings.

Available-for-sale financial assets reserve

This reserve records fair value changes on available-for-sale investments, net of tax. On disposal or on impairment, the cumulative changes in fair value are recycled to the income statement.

Retained earnings

This reserve records the accumulated results of the Company, less any distributions and dividends paid.

10. Dividends declared and paid

The dividends declared and paid during the years ended 31 December 2016 and 2015 are as follows:

	US cents per Ordinary Share	Amount US$ thousands
Year ended 31 December 2016		
Final dividend for 2015 declared and paid during the year[1]	3.3	24,686
Interim dividend for 2016 declared and paid during the year[2]	8.6	63,373
	11.9	**88,059**
Year ended 31 December 2015		
Final dividend for 2014 declared and paid during the year[3]	3.0	22,107
Interim dividend for 2015 declared and paid during the year[4]	2.1	15,475
	5.1	**37,582**

1. This dividend was approved by the Board of Directors on 3 May 2016 and paid on 9 May 2016.
2. This dividend was approved by the Board of Directors on 1 August 2016 and paid on 9 September 2016.
3. This dividend was approved by the Board of Directors on 18 May 2015 and paid on 22 May 2015.
4. This dividend was approved by the Board of Directors on 3 August 2015 and paid on 10 September 2015.

11. Interest-bearing loans

Senior Notes

On 13 November 2013, the Group completed its offering of an aggregate principal amount of US$800 million of 5.500% Senior Notes due 2023 (the 'notes').

An analysis of the debt recognised in the balance sheet is as follows:

	As at 31 December	
	2016 US$ thousands	2015 US$ thousands
Opening balance	797,032	796,160
Accrued interest	46,267	46,267
Interest paid[1]	(46,267)	(46,267)
Amortisation of discount and transaction costs	995	872
Closing balance	**798,027**	**797,032**

1. Accrued interest is payable semi-annually on 13 May and 13 November.

The Group has the following restrictions derived from the issuance of the senior notes (the Notes):

Change of control:
Should the rating of the senior notes be downgraded as a result of a change of control (defined as the sale or transfer of 35% or more of the common shares; the transfer of all or substantially all the assets of the Group; starting a dissolution or liquidation process; or the loss of the majority in the Board of Directors) the Group is obligated to repurchase the notes at an equivalent price of 101% of their nominal value plus the interest earned at the repurchase date, if requested to do so by any creditor.

Pledge on assets:
The Group shall not pledge or allow a pledge on any property that may have a material impact on business performance (key assets). Nevertheless, the Group may pledge the aforementioned properties provided that the repayment of the Notes keeps the same level of priority as the pledge on those assets.

12. Trade and other payables

	Year ended 31 December	
	2016 US$ thousands	2015 US$ thousands
Other payables to related parties (note 14)	7,400	16,819
Other taxes and contributions	8,561	3,768
Accrued expenses	760	981
	16,721	**21,568**

The fair value of trade and other payables approximates their book values. The Company's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 18.

Notes to the Parent Company Financial Statements continued

13. Contingencies

As of 31 December 2016 the Company has the following contingencies:

- The Company is subject to various laws and regulations which, if not observed, could give rise to penalties.
- Tax periods remain open to review by the Mexican tax authorities in respect of income taxes for five years following the date of the filing of the corporate income tax return, during which time the authorities have the right to raise additional tax assessments including penalties and interest. Under certain circumstances the reviews may cover longer periods.
  In addition, because a number of tax periods remain open to review by the tax authorities, there is a risk that transactions, and in particular related party transactions that have not been challenged in the past by the authorities, may be challenged by them in the future, and this may result in the raising of additional tax assessments plus penalties and interest. It is not practical to determine the amount of any such potential claims or the likelihood of any unfavourable outcome. However, management believes that its interpretation of the relevant legislation is appropriate and that the Company has complied with all regulations and paid or accrued all taxes and withholdings that are applicable.
- On 8 May 2008, the Company and Peñoles entered into the Separation Agreement (the 'Separation Agreement'). This agreement relates to the separation of the Fresnillo Group ('the Group') and the Peñoles Group and governs certain aspects of the relationship between the Fresnillo Group and the Peñoles Group following the initial public offering in May 2008 ('Admission'). The Separation Agreement provides for cross-indemnities between the Company and Peñoles so that, in the case of Peñoles, it is held harmless against losses, claims and liabilities (including tax liabilities) properly attributable to the precious metals business of the Group and, in the case of the Company, it is held harmless by Peñoles against losses, claims and liabilities which are not properly attributable to the precious metals business. Save for any liability arising in connection with tax, the aggregate liability of either party under the indemnities shall not exceed US$250 million in aggregate.
- Peñoles has agreed to indemnify the Fresnillo Group in relation to: (i) any tax charge, subject to certain exceptions, the Company may incur as a result of the Pre-IPO Reorganisation (including as a result of a transaction following Admission of a member of the Fresnillo Group, provided that Peñoles has confirmed that the proposed transaction will not give rise to a tax charge, or as a result of a transaction of a member of the Peñoles Group on or after Admission), the Global Offer or Admission, and (ii) certain tax aspects of certain other pre-Admission transactions. Peñoles' liability under these indemnities and in respect of general tax liabilities arising pre-Admission which are not properly attributable to the precious metals business of the Fresnillo Group shall not exceed US$500 million. If a member of the Fresnillo Group forming part of Peñoles' tax consolidation pays an intra-Group dividend in excess of its net income tax account ('Cuenta de Utilidad Fiscal Neta' or 'CUFIN') account after Admission and is relieved of tax as a result of the consolidation, it is required to pay Peñoles an amount in respect of that tax.

- In regard to the ejido El Bajío matter previously reported by the Company:
  In 2009 five members of the El Bajío agrarian community in the state of Sonora, who claimed rights over certain surface land in the proximity of the operations of Minera Penmont ('Penmont'), submitted a legal claim before the Unitarian Agrarian Court (Tribunal Unitario Agrario) of Hermosillo, Sonora, to have Penmont vacate an area of this surface land. The land in dispute encompassed a portion of surface area where part of the operations of the Soledad-Dipolos mine are located. The litigation resulted in a definitive court order, pursuant to which Penmont was ordered to vacate 1,824 hectares of land. The disputed land was returned in July 2013, resulting in the suspension of operations at Soledad-Dipolos.

  The Agrarian Magistrate noted in 2013 that certain remediation activities were necessary and requested the guidance of the Federal Environmental Agency (SEMARNAT) in this respect. The Agrarian Magistrate further issued a procedural order in execution of his ruling determining, amongst other aspects, that Penmont must remediate the lands to the state they were in before Penmont's occupation.

  In the opinion of the Company, this procedural order was excessive since this level of remediation was not part of the original agrarian ruling and also because the procedural order appeared not to consider the fact that Penmont conducted its activities pursuant to valid mining concessions and environmental impact permits. In December 2016, the Unitarian Agrarian Court issued a subsequent procedural order in which the Court recognised that Penmont complied with the agrarian ruling by having returned the land in dispute and, furthermore, that remediation activities are to be conducted in accordance with Federal environmental guidelines and regulations, as supervised by the competent Federal authorities. Remediation activities in this respect are pending as the agrarian members have not yet permitted Penmont physical access to the lands. Penmont has already presented a conceptual mine closure and remediation plan before the Unitarian Agrarian Court in respect of the approximately 300 hectares where Penmont conducted mining activities. The agrarian community Ejido El Bajío has appealed this procedural order from December 2016 and the final result of the appeal is pending.

  In connection with the foregoing matters, and as previously reported by the Company in prior years, members of the El Bajío agrarian community presented a separate claim before the Unitarian Agrarian Court, alleging US$65 million in damages as well as requesting the cancellation of Penmont's mining concessions and environmental permits within the El Bajío lands. In April 2016, the Unitarian Agrarian Court issued a final and definitive ruling on the matter rejecting the claim, which is consistent with the Company's view, as previously reported, that this lawsuit had no merit.

  In addition, and as also previously reported by the Company, claimants in the El Bajío matter presented other claims against occupation agreements they entered into with Penmont, covering land parcels separate from the land described above. Penmont has no significant mining operations or specific geological interest in the affected parcels and these lands are therefore not considered strategic for Penmont. As previously reported, the Unitarian Agrarian Court issued rulings declaring such occupation agreements over those land parcels to be null and void and that Penmont must remediate such lands to the state that they were in before Penmont's occupation as well as returning any minerals extracted from this area. Given that Penmont has not conducted significant mining operations or has specific geological interest in these land parcels, any contingency relating to such land parcels is not considered material by the Company. The case relating to the claims over these land parcels remains subject to finalisation.

  Various claims and counterclaims have been made between the relevant parties in the El Bajío matter. There remains significant uncertainty as to the finalisation and ultimate outcome of these legal proceedings.

14. Related party balances and transactions

Related parties are those entities owned or controlled by the ultimate controlling party and include the Company's subsidiaries disclosed in note 5, as well as those entities who have a minority participation in Fresnillo Group companies. Related party balances will be settled in cash. All the balances as at 31 December 2016 and 2015 and the transactions carried-out with related parties for the years then ended correspond to subsidiaries.

(a) Related party accounts receivable and payable

	Accounts receivable		Accounts payable	
	US$ thousands		US$ thousands	
	31 December 2016	31 December 2015	**31 December 2016**	31 December 2015
Loans with related parties	**480,508**	706,989	**–**	–
Administrative services	**–**	–	**808**	7,963
Trademark royalty	**–**	3,717	**6,592**	8,855
Other	**480**	47	**–**	1
Sub-total	**480,988**	710,753	**7,400**	16,819
Less-current portion	**480,988**	710,753	**7,400**	16,819
Non-current portion	**–**	–	**–**	–

Effective interest rates on loans granted to related parties in US dollar range between 2.73% to 7.60% (2015: 2.3% to 2.41%); in Mexican peso range 5.31% to 5.34% (2015: 5.31% to 5.34%).

(b) Principal transactions with related parties (apart from dividends, additional investments and returns of capital) are as follows:

	Year ended 31 December	
	2016 US$ thousands	2015 US$ thousands
Income:		
Trademark royalties	55,171	34,679
Interest on loans to related parties	32,834	21,824
Other	363	–
Total income	**88,368**	**56,503**

	Year ended 31 December	
	2016 US$ thousands	2015 US$ thousands
Expenses:		
Administrative services	4,550	9,399
Interest on loans from related parties	–	1,339
Reimbursement of expenses	4,518	–
Other	–	455
Total expenses	**9,068**	**11,193**

(c) Compensation of key management personnel of the Company

Key management personnel comprise Non-executive Directors. In 2016, their compensation was US$0.6 million (2015: US$0.7 million). This compensation paid is disclosed in the Directors' Remuneration Report.

15. Auditor's remuneration

The auditor's remuneration for the Company was US$1.1 million (2015: US$1.1 million) in respect of the audit of its financial statements together with a proportion of the fees in relation to Fresnillo Group audit.

Fees paid to Ernst & Young LLP and its associates for non-audit services to the Company itself are not disclosed in the stand alone financial statements because Group financial statements are prepared which include these fees on a consolidated basis.

Notes to the Parent Company Financial Statements continued

16. Notes to the statement of cash flows

	Notes	Year ended 31 December 2016 US$ thousands	2015 US$ thousands
Reconciliation of profit for the year to net cash generated from operating activities			
Profit/(loss) for the year		997,088	(894,822)
Adjustments to reconcile profit for the period to net cash inflows from operating activities:			
Impairment (reversal)/loss	5	(997,915)	945,284
Dividends income		(108,889)	–
Income tax expense		(43,599)	27,150
Other expenses		5,468	1,584
Impairment of available-for-sale financial assets		–	2,896
Net finance loss/(income)		103,370	(104,722)
Foreign exchange loss		3,942	2,689
Working capital adjustments			
Decrease in trade and other receivables		3,876	8,656
Decrease in prepayments and other assets		–	143
Increase in trade and other payables		2,617	15,656
Cash generated from operations		**(34,042)**	**4,514**
Income tax (paid)/received		(623)	3,402
Net cash from operating activities		**(34,665)**	**7,916**

17. Financial instruments

(a) Fair value category

As at 31 December 2016

US$ thousands

Financial assets:	**At fair value through profit or loss**	**Available-for-sale investments at fair value through OCI**	**Loans and receivables**
Trade and other receivables	**–**	**–**	**484**
Loans to related parties	**–**	**–**	**480,508**
Available-for-sale financial assets	**–**	**116,171**	**–**
Derivative financial instruments	**23,150**	**–**	**–**

Financial liabilities:	**At fair value through profit or loss**	**At amortised cost**
Interest-bearing loans	**–**	**798,027**
Trade and other payables	**–**	**808**
Derivative financial instruments	**646**	**–**

As at 31 December 2015

US$ thousands

Financial assets:	At fair value through profit or loss	Available-for-sale investments at fair value through OCI	Loans and receivables
Trade and other receivables	–	–	3,766
Loans to related parties	–	–	706,989
Available-for-sale financial assets	–	71,442	–
Derivative financial instruments	117,075	–	–

Financial liabilities:	At fair value through profit or loss	At amortised cost
Interest-bearing loans	–	797,032
Trade and other payables	–	16,721
Derivative financial instruments	1,427	–

17. Financial instruments continued

(b) Fair values

The fair value of financial assets and liabilities, together with the carrying amounts shown in the balance sheet, other than those with carrying amounts that are a reasonable approximation of their fair values are as follows:

	Carrying Amount		Fair Value	
As at 31 December	2016 US$ thousands	2015 US$ thousands	2016 US$ thousands	2015 US$ thousands
Financial assets:				
Derivative financial instruments	23,150	117,075	23,150	117,075
Loans to related parties[1]	480,508	706,989	480,508	706,989
Available-for-sale financial assets	116,171	71,442	116,171	71,442
Financial liabilities:				
Interest-bearing loans[2]	798,027	797,032	840,904	805,352
Derivative financial instruments	646	1,427	646	1,427

1. Loans with related party are categorised in Level 3 of the fair value hierarchy.
2. Interest-bearing loans are categorised in Level 1 of the fair value hierarchy.

The financial assets and liabilities measured at fair value are categorised into the fair value hierarchy as at 31 December as follows:

As of 31 December 2016/US$ thousands	Fair value measure using			
	Quoted prices in active markets Level 1 US$ thousands	Significant observable Level 2 US$ thousands	Significant unobservable Level 3 US$ thousands	Total US$ thousands
Financial assets:				
Derivative financial instruments:				
Option commodity contracts	–	23,005	–	23,005
Option and forward foreign exchange contracts	–	145	–	145
	–	**23,150**	**–**	**23,150**
Financial investments available-for-sale:				
Quoted investments	116,171	–	–	116,171
	116,171	**23,150**	**–**	**139,321**
Financial liabilities:				
Derivative financial instruments:				
Option commodity contracts	–	66	–	66
Option and forward foreign exchange contracts	–	580	–	580
	–	**646**	**–**	**646**

As of 31 December 2015/US$ thousands	Fair value measure using			
	Quoted prices in active markets Level 1 US$ thousands	Significant observable Level 2 US$ thousands	Significant unobservable Level 3 US$ thousands	Total US$ thousands
Financial assets:				
Derivative financial instruments:				
Option commodity contracts	–	116,995	–	116,995
Option and forward foreign exchange contracts	–	80	–	80
	–	**117,075**	**–**	**117,075**
Financial investments available-for-sale:				
Quoted investments	71,442	–	–	71,442
	71,442	**117,075**	**–**	**188,517**
Financial liabilities:				
Derivative financial instruments:				
Option commodity contracts	–	–	–	–
Option and forward foreign exchange contracts	–	1,427	–	1,427
	–	**1,427**	**–**	**1,427**

There have been no significant transfers between Level 1 and Level 2 of the fair value hierarchy, and no transfers into and out of Level 3 fair value measurements.

Notes to the Parent Company Financial Statements continued

17. Financial instruments continued

The fair value of the financial assets and liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following valuation techniques were used to estimate the fair values:

Options and forwards foreign exchange contracts

The Company enters into derivative financial instruments with various counterparties, principally financial institutions with investment grade credit ratings. The foreign currency forward (Level 2) contracts are measured based on observable spot exchange rates, the yield curves of the respective currencies as well as the currency basis spreads between the respective currencies. The foreign currency option contracts are valued using the Black Scholes model, the significant inputs to which include observable spot exchange rates, interest rates and the volatility of the currency.

Option commodity contracts

The Company enters into derivative financial instruments with various counterparties, principally financial institutions with investment grade credit ratings. The option commodity (Level 2) contracts are measured based on observable spot commodity prices, the yield curves of the respective commodity as well as the commodity basis spreads between the respective commodities. The option contracts are valued using the Black Scholes model, the significant inputs to which include observable spot commodities price, interest rates and the volatility of the commodity.

Quoted investments

Fair value of available-for-sale financial assets is derived from quoted market prices in active markets.

Interest-bearing loans

Fair value of the Company's interest-bearing loan, is derived from quoted market prices in active markets.

Loans with related parties

Fair value of the Company's loan to related party is determined using a discounted cash flow method based on market interest rates at each reporting date.

(c) Derivative financial instruments

The Company enters into certain forward and option contracts in order to manage its subsidiaries' exposure to foreign exchange risk arising from the activities of these subsidiaries. Also the Company enters into option contracts to manage its subsidiaries' exposure to commodity price risk associated with the sales of gold. In the Group's consolidated financial statements certain of these derivatives are designated as cash flow hedges but for the purposes of the Company's stand alone financial statements the related hedged items are not held by the Company, so do not qualify as cash flow hedges.

The following tables summarize the fair value of derivative financial instruments held as of 31 December 2016 and 2015.

Financial assets

	As at 31 December	
	2016 US$ thousands	2015 US$ thousands
Currency contracts		
Forward contracts:		
Euro	145	1
Swedish krona	–	1
Option contracts[1]:		
US dollar	–	78
Commodity contracts		
Option contracts[1]:		
Gold	23,005	113,000
Lead	–	1,060
Zinc	–	2,935
Total derivative related assets	**23,150**	**117,075**
Less – Current portion	**6,618**	**19,602**
Non-current portion[2]	**16,532**	**97,473**

17. Financial instruments continued

Financial liabilities

	As at 31 December	
	2016 US$ thousands	2015 US$ thousands
Currency contracts		
Forward contracts:		
Euro	570	–
Canadian dollar	10	–
Option contracts[1]:		
US dollar	–	1,427
Commodity contracts		
Option contracts[1]:		
Gold	16	–
Lead	2	–
Zinc	48	–
Total derivative related liabilities	**646**	**1,427**
Less – Current portion	**630**	**1,427**
Non-current portion[2]	**16**	**–**

1. Option contracts operate as zero cost collars.
2. Non-current portion corresponds to Gold option contracts that mature in a period over one year from the reporting date until 30 December 2019.

18. Financial risk management

Overview

The Company's principal financial assets and liabilities, other than derivatives, are comprised of trade receivables, cash, available-for-sale financial assets, loans to and from related parties, interest-bearing loans and trade payables.

The Company enters into certain derivative transactions with the purpose of managing foreign exchange risk arising on the activity and transactions of its subsidiaries.

The Company has exposure to the following risks from its use of financial instruments:
- Market risk, including foreign currency, interest rate and equity price risks
- Credit risk
- Liquidity risk

This note presents information about the Company's exposure to each of the above risks and the Company's objectives, policies and processes for assessing and managing risk. Further quantitative disclosures are included throughout the financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Company risk management framework.

The Company's risk management policies have been established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Fresnillo Audit Committee has responsibility for overseeing how management monitors compliance with the Company risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Company. The Audit Committee is assisted in its oversight role by Internal Audit, which undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

Notes to the Parent Company Financial Statements continued

18. Financial risk management continued

(a) Market risk

Market risk is the risk that changes in market factors, such as foreign exchange rates, or interest rates will affect the Company income or the value of its financial instruments.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Foreign currency risk

The Company is exposed to foreign currency risk on transactions and balances that are denominated in currencies other than the US dollar. Transactions in foreign currencies include the purchase of services, payment or receipt of dividends and other items. As a result, the Company has financial liabilities denominated in currencies other than functional currency, and holds cash and cash equivalents in Mexican peso.

The following table demonstrates the sensitivity of financial assets and financial liabilities to a reasonably possible change in the US dollar exchange rate compared to the Mexican peso, reflecting the impact on the Company's profit before tax with all other variables held constant. It is assumed that the same percentage change in exchange rates is applied to all applicable periods. There is no impact on the Company's equity other than the equivalent change in retained earnings.

Year ended 31 December	Strengthening/ (weakening) of US dollar	Effect on profit before tax: increase/ (decrease) US$ thousands
2016	**15%**	**(388)**
	(10%)	**330**
2015	10%	(11,349)
	(10%)	6,556

The following table demonstrates the sensitivity of financial assets and financial liabilities to a reasonably possible change in the US dollar exchange rate compared to the Swedish krona, reflecting the impact on the Company's profit before tax, with all other variables held constant. It is assumed that the same percentage change in exchange rates is applied to all applicable periods. There is no impact on the Company's equity other than the equivalent change in retained earnings.

Year ended 31 December	Strengthening/ (weakening) of US dollar	Effect on profit before tax: increase/ (decrease) US$ thousands
2016	**10%**	**(63)**
	(10%)	**94**
2015	5%	213
	(10%)	(78)

The following table demonstrates the sensitivity of financial assets and financial liabilities to a reasonably possible change in the US dollar compared to the euro, reflecting the impact on the Company's profit before tax, with all other variables held constant. It is assumed that the same percentage change in exchange rates is applied to all applicable periods. There is no impact on the Company's equity other than the equivalent change in retained earnings.

Year ended 31 December	Strengthening/ (weakening) of US dollar	Effect on profit before tax: increase/ (decrease) US$ thousands
2016	**5%**	**459**
	(10%)	**(1,024)**
2015	10%	–
	(10%)	–

18. Financial risk management continued

Commodity risk

The Company's subsidiaries have exposure to changes in metals prices (specifically gold, lead and zinc) which have a significant effect on the Company's results. These prices are subject to global economic conditions and industry-related cycles.

The Company uses derivative instruments to hedge against precious metals commodity price exposure in its subsidiaries, see mentioned in note 17 (c).

The table below reflects the aggregate sensitivity relating to changes in the fair value of commodity derivative contracts of financial assets and liabilities, reflecting the impact on the Company's profit before tax with all other variables held constant. There is no impact on the Company's equity other than the effect on profit before tax.

	Increase/(decrease) in commodity prices				Effect on profit before tax: increase/ (decrease)
Year ended 31 December	Gold	Silver	Zinc	Lead	US$ thousands
2016	**10%**	**25%**	**40%**	**40%**	**(112,583)**
	(15%)	**(20%)**	**(30%)**	**(15%)**	**59,589**
2015	15%	20%	25%	20%	(98,118)
	(10%)	(15%)	(25%)	(15%)	121,716

Interest rate risk

The Company is exposed to interest rate risk from the possibility that changes in interest rates will affect future cash flows or the fair values of its financial instruments. The Company's earnings are sensitive to changes in interest rates on any floating element of the loans with related parties and interest earned on cash balances. Interest-bearing loans are at a fixed rate, therefore the possibility of a change in interest rate only impacts its fair value but not its carrying amount. Therefore, interest-bearing loans and loans from related parties are excluded from the table below.

The following table demonstrates the sensitivity of all financial assets and financial liabilities to a reasonably possible change in interest rate applied to a full year from the balance sheet date. There is no impact on the Company's equity other than the equivalent change in retained earnings.

Year ended 31 December	Basis point increase/ (decrease) in interest rate	Effect on profit before tax: increase/ (decrease) US$ thousands
2016	**65**	**1,870**
	(20)	**(575)**
2015	50	551
	(10)	(110)

Equity price risk

The Company has exposure to changes in the price of equity instruments that it holds as available-for-sale assets.

The following table demonstrates the sensitivity of available-for-sale assets to a reasonably possible change in market price of these equity instruments, reflecting the effect on the Company's profit before tax and equity.

Year ended 31 December	Increase/ (decrease) in equity price	Effect on profit before tax: increase/ (decrease)	Effect on equity: increase/ (decrease) US$ thousands
2016	**100%**	**–**	**116,172**
	(50%)	**–**	**(58,086)**
2015	50%	–	35,721
	(30%)	(5,135)	(16,297)

Notes to the Parent Company Financial Statements continued

18. Financial risk management continued

(b) Credit risk

Exposure to credit risk arises as a result of transactions in the Company's ordinary course of business and is applicable to all financial assets and derivative financial instruments. The financial assets are trade and other receivables, intercompany loans, cash and cash equivalents and available-for-sale financial assets.

The Company's policies are aimed at minimising losses as a result of counterparties' failure to honour their obligations. Individual exposures are monitored with customers subject to credit limits to ensure that the Company's exposure to bad debts is not significant. The Company's exposure to credit risk is influenced mainly by the individual characteristics of each counter party. The Company's financial assets are with counterparties that the Company considers to have an appropriate credit rating. As disclosed in note 14, the counterparties to a significant proportion of these financial assets are related parties. At each balance sheet date, the Company's financial assets were neither impaired nor past due. The Company's policies are aimed at minimising losses from the foreign currency and commodity hedging contracts. The Company's foreign currency and commodity derivative contracts are entered into with large financial institutions with strong credit ratings.

The Company's surplus funds are managed by Servicios Administrativos Fresnillo, S.A. de C.V., which manages cash and cash equivalents investing in a number of financial institutions. In order to minimise exposure to credit risk, the Company only deposits cash and cash equivalents with financial institutions with a credit rating of M-1 (Moody's) and mxA-1+ (Standard and Poors) and above, and only for periods of less than four months.

The maximum credit exposure at the reporting date of each category of financial asset above is the carrying value as detailed in the relevant notes. See note 6 for the maximum credit exposure for available-for-sale investments, note 8 for cash and cash equivalents and note 14 for related party balances.

(c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company monitors its risk of a shortage of funds using projected cash flows and by monitoring the maturity of both its financial assets and liabilities.

The table below summarises the maturity profile of the Company financial liabilities based on contractual undiscounted payments.

					US$ thousands
	Within 1 year	2–3 years	3-5 years	> 5 years	Total
As at 31 December 2016					
Interest-bearing loans	46,267	92,534	92,534	892,534	1,123,869
Derivatives financial instruments – liabilities	630	16	–	–	646
Trade and other payables	7,400	–	–	–	7,400

					US$ thousands
	Within 1 year	2–3 years	3-5 years	> 5 years	Total
As at 31 December 2015					
Interest-bearing loans	46,267	92,534	92,534	938,801	1,170,136
Derivatives financial instruments – liabilities	342,108	730,303	317,359	–	1,389,770
Trade and other payables	16,819	–	–	–	16,819

The disclosed financial derivative instruments in the above table are the gross undiscounted cash flows. However, those amounts may be settled gross or net. The following table shows the corresponding estimated inflows based on the contractual terms.

					US$ thousands
	Within 1 year	2–3 years	3-5 years	> 5 years	Total
As at 31 December 2016					
Inflows	10,932	–	–	–	10,932
Outflows	(11,229)	–	–	–	(11,229)
Net	**(297)**	**–**	**–**	**–**	**(297)**

					US$ thousands
	Within 1 year	2–3 years	3-5 years	> 5 years	Total
As at 31 December 2015					
Inflows	347,301	746,924	319,165	–	1,413,390
Outflows	(342,108)	(730,303)	(317,359)	–	(1,389,770)
Net	**5,193**	**16,621**	**1,806**	**–**	**23,620**

The above liquidity tables include expected inflows and outflows from derivative financial instruments which the Company expects are going to be exercised from 2017 to 2019 as at 31 December 2016, and from 2016 to 2019 as at 31 December 2015, either by the Company or counterparty.

18. Financial risk management continued

Management considers that the Company has adequate current assets and forecast cash from operations to manage liquidity risks arising from current liabilities and non-current liabilities.

Capital management

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios that support its business and maximise shareholder value. Management considers capital to consist of equity and certain interest-bearing loans, as disclosed in the balance sheet, excluding net unrealised gains and losses on revaluation of cash flow hedges and available-for-sale financial assets. In order to ensure an appropriate return for shareholder's capital invested in the Company, management thoroughly evaluates all material projects and potential acquisitions and approves them at its Executive Committee before submission to the Board for ultimate approval, where applicable. The Company's dividend policy is based on the profitability of the business and underlying growth in earnings of the Group, as well as its capital requirements and cash flows.

Operating Statistics

	ORE PROCESSED (tonnes)						SILVER (grams/tonne)					
	2011	2012	2013	2014	2015	**2016**	2011	2012	2013	2014	2015	**2016**
Fresnillo	2,584,163	2,738,307	2,703,395	2,625,511	2,410,033	**2,373,092**	395.9	327.6	285.3	258.5	220.0	**226.7**
Ciénega	966,812	1,112,850	1,242,168	1,341,569	1,329,364	**1,274,939**	53.3	105.2	121.6	108.5	129.0	**143.5**
Herradura	21,020,356	24,641,053	14,363,315	22,305,133	22,875,421	**25,158,600**	1.1	1.2	1.1	1.2	1.2	**1.2**
Saucito	823,339	905,027	1,181,737	1,534,579	2,339,096	**2,635,093**	249.9	264.9	329.6	338.9	327.5	**302.7**
Soledad-Dipolos	12,264,860	15,317,860	6,701,841	–	–	**–**	0.7	0.5	0.4	–	–	**–**
Noche Buena	–	8,447,301	12,283,709	15,607,230	17,399,931	**17,431,718**	–	0.4	0.2	0.4	0.2	**0.1**
San Julián	–	–	–	–	–	**423,069**	–	–	–	–	–	**172.5**

	ZINC CONCENTRATE (tonnes)						SILVER (grams/tonne)					
	2011	2012	2013	2014	2015	**2016**	2011	2012	2013	2014	2015	**2016**
Fresnillo	24,544	29,212	29,325	29,196	36,595	**50,682**	2,363	1,641	1,356	1,221	1,036	**868**
Ciénega	17,657	16,103	11,625	11,850	11,694	**14,265**	266	540	1,266	1,172	1,770	**1,692**
Herradura	–	–	–	–	–	**–**	–	–	–	–	–	**–**
Saucito	3,064	3,706	8,758	20,794	42,643	**50,409**	1,917	1,760	1,087	789	788	**842**
Soledad-Dipolos	–	–	–	–	–	**–**	–	–	–	–	–	**–**
Noche Buena	–	–	–	–	–	**–**	–	–	–	–	–	**–**

	LEAD CONCENTRATE (tonnes)						SILVER (grams/tonne)					
	2011	2012	2013	2014	2015	**2016**	2011	2012	2013	2014	2015	**2016**
Fresnillo	61,050	65,045	63,256	57,263	50,787	**58,584**	14,337	11,780	10,469	10,180	8,737	**7,653**
Ciénega	17,877	15,487	13,380	12,627	13,721	**15,600**	2,084	5,622	7,974	8,004	8,418	**7,607**
Herradura	–	–	–	–	–	**–**	–	–	–	–	–	**–**
Saucito	14,419	15,539	26,055	40,415	69,128	**61,321**	12,329	13,699	13,460	11,443	9,405	**10,440**
Soledad-Dipolos	–	–	–	–	–	**–**	–	–	–	–	–	**–**
Noche Buena	–	–	–	–	–	**–**	–	–	–	–	–	**–**

Doré And Other Products

	PRODUCT (tonnes)						SILVER (grams/tonne)					
	2011	2012	2013	2014	2015	**2016**	2011	2012	2013	2014	2015	**2016**
Ciénega precipitates	36.5	52.2	55.7	67.4	68.2	**59.4**	101,662	148,731	187,928	175,026	204,790	**282,650**
Ciénega Gravimetric Concentrator	88.5	–	–	–	–	**–**	2,069	–	–	–	–	**–**
Herradura doré	24.2	18.1	18.2	31.1	33.6	**46.8**	474,514	374,787	474,052	650,999	480,633	**417,271**
Herradura slag	542.7	929.9	711.3	716.9	779.1	**807.1**	2,036	817	930	1,198	578	**965**
Soledad-Dipolos doré	7.5	4.8	2.3	–	–	**–**	208,897	226,272	292,473	–	–	**–**
Soledad-Dipolos slag	590.1	583.2	301.5	–	–	**–**	2,024	857	972	–	–	**–**
Fresnillo Concentrates from Tailings Dam	2,658.7	2,311.7	1,990.0	2,277.5	1,544.2	**433.9**	3,387.5	2,787.1	3,031.9	2,872.0	2,565.5	**2,573.1**
Noche Buena doré	–	3.3	4.8	7.6	8.0	**7.1**	–	121,837.5	261,005.1	333,260.8	213,687.2	**69,443.6**
Noche Buena slag	–	206.3	548.6	564.2	452.1	**229.0**	–	288.6	495.0	1,125.6	707.2	**263.4**

Metal Produced [1, 2]

	SILVER (ounces)						GOLD (ounces)					
	2011	2012	2013	2014	2015	**2016**	2011	2012	2013	2014	2015	**2016**
Fresnillo	30,295,121	26,382,793	22,764,018	20,098,245	15,612,175	**15,864,614**	26,237	29,573	33,079	35,676	34,120	**42,421**
Ciénega	1,473,927	3,328,574	4,240,245	4,075,181	4,827,864	**5,130,870**	116,841	125,275	112,053	108,211	85,662	**72,851**
Herradura	404,689	242,503	298,984	679,073	525,757	**637,775**	327,729	314,547	264,562	265,564	398,866	**520,366**
Saucito	5,904,176	7,053,780	11,581,014	15,396,754	21,983,852	**21,946,059**	33,493	45,246	45,177	57,227	84,884	**86,198**
Soledad-Dipolos	88,888	50,915	31,124	–	–	**–**	158,513	107,329	47,285	–	–	**–**
Noche Buena	–	14,754	49,217	102,357	72,868	**32,631**	–	65,518	108,729	129,242	158,179	**182,280**
San Julián	–	–	–	–	–	**2,065,536**	–	–	–	–	–	**31,397**
Fresnillo Total	38,166,800	37,073,319	38,964,601	40,351,611	43,022,515	**45,677,485**	662,813	687,488	610,884	595,920	761,712	**935,513**

1. Including Production from Fresnillo's Tailings Dam.
2. All figures include 100% of production from the Penmont mines (Herradura, Soledad-Dipolos and Noche Buena).

GOLD (grams/tonne)						ZINC (%)						LEAD (%)					
2011	2012	2013	2014	2015	**2016**	2011	2012	2013	2014	2015	**2016**	2011	2012	2013	2014	2015	**2016**
0.42	0.46	0.50	0.53	0.57	0.73	0.87	0.96	0.94	0.97	1.18	1.56	0.58	0.66	0.63	0.59	0.75	0.99
3.89	3.62	2.90	2.59	2.07	1.84	1.45	1.12	0.75	0.73	0.80	1.00	0.82	0.68	0.56	0.53	0.61	0.68
0.65	0.57	0.61	0.72	0.73	0.71	–	–	–	–	–	–	–	–	–	–	–	–
1.43	1.75	1.41	1.40	1.42	1.39	0.42	0.54	0.87	1.32	1.70	1.49	0.23	0.35	0.55	0.75	1.01	0.93
0.57	0.51	0.54	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
–	0.51	0.54	0.51	0.50	0.51	–	–	–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	2.47	–	–	–	–	–	–	–	–	–	–	–	–

GOLD (grams/tonne)						ZINC (%)						LEAD (%)					
2011	2012	2013	2014	2015	**2016**	2011	2012	2013	2014	2015	**2016**	2011	2012	2013	2014	2015	**2016**
2.7	2.6	2.7	3.0	2.6	2.8	51.4	51.2	50.9	52.1	52.0	51.1	–	–	–	–	–	–
6.2	6.5	13.6	11.8	11.2	10.1	52.8	50.7	47.0	50.6	51.1	52.2	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
14.0	12.8	5.4	3.5	3.0	3.8	38.2	48.3	51.5	50.5	49.3	46.6	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–

GOLD (grams/tonne)						ZINC (%)						LEAD (%)					
2011	2012	2013	2014	2015	**2016**	2011	2012	2013	2014	2015	**2016**	2011	2012	2013	2014	2015	**2016**
12.0	12.8	14.7	17.4	18.7	20.0	–	–	–	–	–	–	21.9	24.9	24.6	24.3	32.0	36.4
111.5	130.7	138.4	146.9	105.0	76.5	–	–	–	–	–	–	35.3	36.7	36.0	37.5	39.5	37.7
–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
69.3	87.5	52.1	42.3	36.3	40.6	–	–	–	–	–	–	12.1	17.8	21.5	24.7	30.0	34.1
–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–

GOLD (grams/tonne)					
2011	2012	2013	2014	2015	2016
32,663	33,846	26,459	20,327	16,008	15,660
3,822	–	–	–	–	–
379,755	473,042	411,210	247,967	369,321	351,900
1,851	1,314	1,035	756	541	942
502,909	539,249	507,822	–	–	–
1,949	1,295	991	–	–	–
6.0	6.8	9.1	10.8	10.4	14.5
–	542,429	516,359	465,538	533,408	611,567
–	1,260	1,623	815	506	1,225

ZINC (tonne)						LEAD (tonne)					
2011	2012	2013	2014	2015	**2016**	2011	2012	2013	2014	2015	**2016**
12,623	14,966	14,914	15,199	19,029	25,898	13,385	16,190	15,552	13,888	16,248	21,326
9,318	8,171	5,459	6,000	5,970	7,450	6,315	5,676	4,811	4,736	5,425	5,883
–	–	–	–	–	–	–	–	–	–	–	–
1,172	1,791	4,509	10,501	21,023	23,498	1,742	2,773	5,605	9,967	20,740	20,935
–	–	–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–	–	–
23,113	24,928	24,881	31,700	46,022	56,845	21,442	24,639	25,968	28,591	42,413	48,144

Fresnillo Plc Consolidated Audited Mineral Resource Statement[1]

As at 31 December 2016

		Quantity	Grade				Contained Metal			
Resource Category	Cut-off Grade[2]	Tonnes (Mt)	Au (g/t)	Ag (g/t)	Pb (%)	Zn (%)	Au (Moz)	Ag (Moz)	Pb (kt)	Zn (kt)
Minera Fresnillo – Fresnillo/Proaño Mine – Underground										
Measured	95 g/t AgEq	11.59	0.86	581	0.99	1.65	0.32	216.40	114.71	191.37
Indicated		25.09	0.83	274	1.80	3.83	0.67	220.85	452.35	961.95
Measured & Indicated		36.68	0.84	371	1.55	3.14	0.99	437.25	567.06	1,153.32
Inferred		36.07	0.63	311	1.04	2.22	0.73	360.90	375.48	800.79
Minera Saucito – Saucito Mine – Underground										
Measured	113 g/t AgEq	3.70	2.54	415	1.21	1.95	0.30	49.33	44.60	72.00
Indicated		12.61	1.99	262	1.67	3.13	0.81	106.30	210.49	395.12
Measured & Indicated		16.31	2.12	297	1.56	2.86	1.11	155.63	255.09	467.12
Inferred		32.75	0.91	253	1.21	2.26	0.96	265.85	394.91	739.00
Minera Ciénega – Ciénega Complex – Underground										
Measured	Multiple[3]	8.80	2.08	133	0.72	1.23	0.59	37.48	63.41	108.03
Indicated		18.05	1.21	132	0.42	0.71	0.70	76.35	76.13	128.41
Measured & Indicated		26.84	1.49	132	0.52	0.88	1.29	113.83	139.54	236.45
Inferred		10.62	0.95	133	0.41	0.81	0.33	45.32	43.45	85.62
Minera Fresnillo – San Julián Mine Underground: Veins										
Measured	90 g/t AgEq	0.91	2.40	174	–	–	0.07	5.08	–	–
Indicated		10.97	1.49	134	–	–	0.53	47.37	–	–
Measured & Indicated		11.87	1.56	137	–	–	0.60	52.45	–	–
Inferred		4.67	1.16	102	–	–	0.17	15.25	–	–
Minera Fresnillo – San Julián Mine Underground: Disseminated										
Measured	129 g/t AgEq	7.66	0.10	290	0.72	1.71	0.02	71.48	55.12	131.15
Indicated		9.16	0.07	162	0.54	1.43	0.02	47.74	49.08	130.58
Measured & Indicated		16.82	0.08	220	0.62	1.56	0.04	119.22	104.20	261.73
Inferred		0.02	0.05	46	0.08	2.17	0.00	0.04	0.02	0.53
Minera Penmont Underground: Centauro Profundo										
Measured	1.7 g/t Au	–	–	–	–	–	–	–	–	–
Indicated		1.27	3.65	–	–	–	0.15	–	–	–
Measured & Indicated		1.27	3.65	–	–	–	0.15	–	–	–
Inferred		6.28	3.40	–	–	–	0.69	–	–	–
Minera Penmont Open Pit: Mega Centauro[4, 5]										
Measured	Multiple[6]	272.26	0.74	–	–	–	6.48	–	–	–
Indicated		160.50	0.75	–	–	–	3.88	–	–	–
Measured & Indicated		432.77	0.74	–	–	–	10.36	–	–	–
Inferred		17.26	0.72	–	–	–	0.40	–	–	–
Minera Penmont Open Pit: Soledad-Dipolos[4, 5, 7]										
Measured	0.25 g/t Au	39.19	0.57	–	–	–	0.72	–	–	–
Indicated		19.63	0.52	–	–	–	0.33	–	–	–
Measured & Indicated		58.82	0.55	–	–	–	1.05	–	–	–
Inferred		0.03	0.34	–	–	–	0.00	–	–	–

Resource Category	Cut-off Grade[2]	Quantity Tonnes (Mt)	Grade Au (g/t)	Ag (g/t)	Pb (%)	Zn (%)	Contained Metal Au (Moz)	Ag (Moz)	Pb (kt)	Zn (kt)
Minera Penmont Open Pit: Noche Buena [4, 5]										
Measured	0.25 g/t Au	33.79	0.52	–	–	–	0.56	–	–	–
Indicated		20.79	0.49	–	–	–	0.33	–	–	–
Measured & Indicated		54.58	0.51	–	–	–	0.89	–	–	–
Inferred		2.84	0.44	–	–	–	0.04	–	–	–
Totals – Underground										
Measured & Indicated	Multiple	109.79	1.18	249	0.97	1.93	4.17	878.38	1,065.89	2,118.62
Inferred		90.42	0.99	236	0.90	1.80	2.87	687.36	813.86	1,625.95
Totals – Open Pit										
Measured & Indicated	Multiple	546.17	0.70	–	–	–	12.30	–	–	–
Inferred		20.13	0.68	–	–	–	0.44	–	–	–

1. Mineral resources are reported inclusive of ore reserves. Mineral resources are not ore reserves and do not have demonstrated economic viability. All figures rounded to reflect the relative accuracy of the estimates. Gold, silver, lead and zinc assays were capped where appropriate.
2. Mineral resources are reported at metal equivalent cut-off grades based on metal price assumptions*, variable metallurgical recovery assumptions (variable metallurgical recoveries as a function of grade and relative metal distribution), mining costs, processing costs, general and administrative (G&A) costs, and variable NSR factors (NSR factors include smelting and transportation costs). The AgEq is calculated by dividing the cost by the Ag net value factor which includes prices, recoveries, and payabilities.
3. The cut-off grade for Ciénega's mineral resources varies between 95 and 132 gpt AgEq.
4. The Mega Centauro, Soledad/Dipolos, and Noche Buena resources are reported within pit shells run at a US$1,250/oz Au price.
5. The Mega Centauro, Soledad/Dipolos, Noche Buena open pit mines has produced silver at an average concentration of 0.3 gpt to 1.1 gpt. Silver is not assayed for and is not estimated in the resource model. Based on past production, projected in situ silver in the open pit M & I & I resource is approximately in the range of 16 to 17 Moz.
6. Mega Centauro mineral resources are reported at varied cut-offs dependent on material types and grade. Oxide material above 0.25 gpt Au reports to the heap leach, transitional and sulfide material above 0.30 gpt Au reports to the heap leach, oxide material above 0.82 gpt Au reports to the mill, transitional and sulfide material above 0.44 gpt Au reports to the mill.
7. The Soledad/Dipolos mine has been subject to legal action regarding surface access. SRK has been provided with reassurances that Fresnillo has a reasonable chance to reacquire surface rights to these areas.

* Metal price assumptions considered for the calculation of metal equivalent grades are: Gold (US$/oz 1,250.00), Silver (US$/oz 17.50), Lead (US$/lb 0.85) and Zinc (US$/lb 0.95)

· The resources were estimated by Fresnillo. Dr. Bart Stryhas, CPG #11034, a Qualified Person, reviewed and audited the resource calculations for Minera Penmont and San Julián. Matthew Hastings, M.Sc, P.Geo, MAusIMM #314693 of SRK, a Qualified Person, reviewed and audited the resource calculations for Ciénega. Benjamin Parsons, BSc, MSc Geology, MAusIMM (CP) #222568 of SRK, a Qualified Person, reviewed and audited the resource calculations for Fresnillo and Saucito.

Consolidated Audited Mineral Resource Statement of Exploration Projects and Prospects[1]

As at 31 December 2016

		Quantity	Grade				Contained Metal			
Deposit/Fresnillo Subsidiary	Cut-off Grade[2]	Tonnes (kt)	Au (g/t)	Ag (g/t)	Pb (%)	Zn (%)	Au (koz)	Ag (koz)	Pb (kt)	Zn (kt)
Measured Mineral Resource										
Orisyvo – disseminated Au[4]	0.34 g/t Au	41,455	1.43	2	–	–	1,902	2,047	–	–
Candameña – disseminated Au[4]		–	–	–	–	–	–	–	–	–
San Julián Sur – veins		–	–	–	–	–	–	–	–	–
Leones – breccia[4]		–	–	–	–	–	–	–	–	–
Tajitos – disseminated Au		–	–	–	–	–	–	–	–	–
Lucerito – breecia/mantos[4]		–	–	–	–	–	–	–	–	–
Rodeo – disseminated Au		–	–	–	–	–	–	–	–	–
Manzanillas – veins	US$58.30/t	75	6.76	130	–	–	16	316	–	–
San Juan – veins		–	–	–	–	–	–	–	–	–
Juanicipio – veins[3]		–	–	–	–	–	–	–	–	–
Huizache – veins		–	–	–	–	–	–	–	–	–
Guachichil – disseminated Au[4]		–	–	–	–	–	–	–	–	–
Opulencia – veins		–	–	–	–	–	–	–	–	–
La Gloria – veins		–	–	–	–	–	–	–	–	–
La Joya – veins		–	–	–	–	–	–	–	–	–
Cebadillas – veins		–	–	–	–	–	–	–	–	–
La Yesca – veins		–	–	–	–	–	–	–	–	–
San Nicolas – veins		–	–	–	–	–	–	–	–	–
Pilarica – mantos		–	–	–	–	–	–	–	–	–
Total Measured		**41,530**	**1.44**	**2**	**–**	**–**	**1,919**	**2,363**	**–**	**–**
Indicated Mineral Resource										
Orisyvo – disseminated Au[4]	0.36 g/t Au	201,152	1.05	1	–	–	6,793	8,666	–	–
Candameña – disseminated Au[4]	0.57 g/t Au-Eq	43,424	0.81	17	0.06	0.07	1,126	24,079	24	29
San Julián Sur – veins		–	–	–	–	–	–	–	–	–
Leones – breccia[4]		–	–	–	–	–	–	–	–	–
Tajitos – disseminated Au	0.3 g/t Au	7,982	0.50	–	–	–	128	–	–	–
Lucerito – breecia/mantos[4]	1.00 g/t Au-Eq	108,246	0.40	27	0.29	0.47	1,398	92,276	314	506
Rodeo – disseminated Au	0.30 g/t Au	5,504	0.57	3	–	–	101	589	–	–
Manzanillas – veins	US$58.30/t	919	3.53	69	–	–	104	2,034	–	–
San Juan – veins	US$58.30/t	3,105	1.25	127	–	–	125	12,643	–	–
Juanicipio – veins[3]	US$55.10/t	5,087	1.90	502	2.07	3.92	311	82,176	105	199
Huizache – veins		–	–	–	–	–	–	–	–	–
Guachichil – disseminated Au[4]		–	–	–	–	–	–	–	–	–
Opulencia – veins	2.10 g/t Au-Eq	1,350	2.48	142	–	–	108	6,145	–	–
La Gloria – veins	2.10 g/t Au-Eq	980	3.02	76	–	–	95	2,389	–	–
La Joya – veins		–	–	–	–	–	–	–	–	–
Cebadillas – veins		–	–	–	–	–	–	–	–	–
La Yesca – veins		–	–	–	–	–	–	–	–	–
San Nicolas – veins		–	–	–	–	–	–	–	–	–
Pilarica – mantos	21 g/t Ag-Eq	9,133	–	109	0.29	0.42	–	32,027	26	38
Total Indicated		**386,881**	**0.83**	**21**	**0.12**	**0.20**	**10,290**	**263,024**	**470**	**773**

Deposit/Fresnillo Subsidiary	Cut-off Grade[2]	Quantity Tonnes (kt)	Grade Au (g/t)	Ag (g/t)	Pb (%)	Zn (%)	Contained Metal Au (koz)	Ag (koz)	Pb (kt)	Zn (kt)
Inferred Mineral Resource										
Orisyvo – disseminated Au[4]	0.35 g/t Au	46,682	0.61	1	–	–	914	1,625	–	–
Candameña – disseminated Au[4]	0.48 g/t Au-Eq	12,158	0.56	21	0.05	0.12	221	8,396	6	14
San Julián Sur – veins	US$36.94/t	9,515	1.20	94	–	–	367	28,726	–	–
Leones – breccia[4]	60 g/t Ag	7,049	0.01	113	1.46	1.27	1	25,509	103	90
Tajitos – disseminated Au	0.3 g/t Au	13,622	0.52	–	–	–	227	–	–	–
Lucerito – breecia/mantos[4]	1.00 g/t Au-Eq	52,990	0.43	37	0.23	0.40	730	62,293	125	213
Rodeo – disseminated Au	0.30 g/t Au	78,519	0.47	5	–	–	1,196	12,865	–	–
Manzanillas – veins	US$58.30/t	317	2.03	46	–	–	21	474	–	–
San Juan – veins	US$58.30/t	5,694	1.49	106	–	–	274	19,401	–	–
Juanicipio – veins[3]	US$55.10/t	8,538	1.68	206	2.42	4.65	461	56,511	207	397
Huizache – veins	US$75/t	1,038	2.55	319	0.04	0.09	85	10,640	–	1
Guachichil – disseminated Au[4]	0.48 g/t Au-Eq	46,708	0.70	11	0.11	0.17	1,057	15,862	50	81
Opulencia – veins	2.10 g/t Au-Eq	1,703	2.56	169	–	–	140	9,250	–	–
La Gloria – veins	2.10 g/t Au-Eq	2,614	2.61	103	–	–	220	8,657	–	–
La Joya – veins	2.10 g/t Au-Eq	2,495	2.39	409	–	–	192	32,812	–	–
Cebadillas – veins	2.10 g/t Au-Eq	1,999	2.58	64	–	–	166	4,142	–	–
La Yesca – veins	159 g/t Ag-Eq	1,091	0.77	142	–	–	27	4,988	–	–
San Nicolas – veins	2.10 g/t Au-Eq	2,167	1.61	225	–	–	112	15,684	–	–
Pilarica – mantos	33 g/t Ag-Eq	11,033	–	64	0.70	0.78	–	22,539	78	86
Total Inferred		**305,933**	**0.65**	**35**	**0.19**	**0.29**	**6,410**	**340,373**	**569**	**884**

1. Mineral resources are not ore reserves and do not have demonstrated economic viability. All figures rounded to reflect the relative accuracy of the estimates. Metal assays were capped where appropriate. Mineral resources are reported at variable metal, metal equivalent or NSR cut-off grades and assuming reasonable metal recoveries. Orisyvo, Lucerito, Candameña, Rodeo and Guachichil mineral resources are reported inside a conceptual pit shell based on appropriate mining and processing costs and metal recoveries for oxide and sulfide material. Equivalent metal grades (and conceptual pit optimization) are based on US$1,250/US$1,400 per ounce of gold for underground or open pit projects, respectively, US$17.50 per ounce of silver, US$0.95 per pound of zinc and US$0.85 per pound of lead. For Pilarica, equivalent metal grades are based on US$21.00 per ounce of silver, US$1.14 per pound of zinc and US$1.02 per pound of lead.
2. Cut-off grade calculations assume variable metallurgical recoveries.
3. Portions of the Valdecañas deposit within the Minera Juanicipio property where Fresnillo plc holds a 56% interest. Mineral resources quoted reflect Fresnillo plc's attributable 56% ownership.
4. Mineral resources statement prepared independently by SRK CA.

Consolidated Audited Ore Reserve Statement[1]

As at 31 December 2016

Deposit	Cut-off Grade[1]	Quantity Tonnes (Mt)	Grade Au (g/t)	Grade Ag (g/t)	Grade Pb (%)	Grade Zn (%)	Contained Metal Au (Moz)	Contained Metal Ag (Moz)	Contained Metal Pb (kt)	Contained Metal Zn (kt)
Minera Fresnillo – Fresnillo/Proaño Mine – Underground (2)										
Proven	184 g/t AgEq	4.49	0.61	353	0.71	1.20	0.09	50.93	31.80	53.95
Probable		20.29	0.78	237	1.76	3.71	0.51	154.55	357.02	752.37
Proven and Probable		24.78	0.75	258	1.57	3.25	0.60	205.48	388.82	806.32
Minera Saucito – Saucito Mine – Underground (2)										
Proven	173 g/t AgEq	3.28	1.57	290	0.81	1.33	0.17	30.59	26.59	43.61
Probable		12.35	1.76	233	1.52	2.81	0.70	92.63	187.19	347.38
Proven and Probable		15.63	1.72	245	1.37	2.50	0.86	123.22	213.78	390.99
Minera Ciénega – Ciénega Complex – Underground (2)										
Proven	Multiple (3)	5.19	2.56	163	0.87	1.43	0.43	27.12	45.19	73.99
Probable		7.51	1.61	162	0.49	0.75	0.39	39.15	36.55	56.65
Proven and Probable		12.70	2.00	162	0.64	1.03	0.82	66.27	81.74	130.64
Minera Fresnillo – San Julián Mine Underground: Veins (2)										
Proven	162 g/t AgEq	0.67	2.34	159	–	–	0.05	3.41	–	–
Probable		5.77	1.76	162	–	–	0.33	29.95	–	–
Proven and Probable		6.43	1.82	161	–	–	0.38	33.36	–	–
Minera Fresnillo – San Julián Underground: Disseminated (2)										
Proven	180 g/t AgEq	0.37	0.10	162	0.47	1.38	0.00	1.90	1.72	5.04
Probable		13.52	0.08	230	0.61	1.45	0.03	100.07	82.73	195.41
Proven and Probable		13.88	0.08	228	0.61	1.44	0.04	101.97	84.45	200.45
Minera Penmont Open Pit: Mega Centauro (4)										
Proven	Multiple (5)	143.55	0.74	–	–	–	3.41	–	–	–
Probable		77.69	0.71	–	–	–	1.78	–	–	–
Proven and Probable		221.24	0.73	–	–	–	5.19	–	–	–
Minera Penmont Open Pit: Soledad-Dipolos (4, 6)										
Proven	0.25 g/t Au	26.81	0.61	–	–	–	0.53	–	–	–
Probable		14.05	0.54	–	–	–	0.24	–	–	–
Proven and Probable		40.85	0.59	–	–	–	0.77	–	–	–
Minera Penmont Open Pit: Noche Buena (4)										
Proven	0.25 g/t Au	33.79	0.52	–	–	–	0.56	–	–	–
Probable		20.79	0.49	–	–	–	0.33	–	–	–
Proven and Probable		54.58	0.51	–	–	–	0.89	–	–	–
Totals – Underground										
Proven	Multiple	13.99	1.63	253	0.75	1.26	0.73	113.96	105.30	176.60
Probable		59.44	1.02	218	1.12	2.27	1.96	416.34	663.48	1,351.81
Proven and Probable		73.43	1.14	225	1.05	2.08	2.69	530.29	768.78	1,528.40
Totals – Open Pit										
Proven	Multiple	204.14	0.69	–	–	–	4.50	–	–	–
Probable		112.53	0.65	–	–	–	2.35	–	–	–
Proven and Probable		316.68	0.67	–	–	–	6.85	–	–	–

1. All figures rounded to reflect the relative accuracy of the estimates. Mineral reserves are reported at metal equivalent cut-off grades based on metal price assumptions*, variable metallurgical recovery assumptions (variable metallurgical recoveries as a function of grade and relative metal distribution), mining costs, processing costs, general and administrative (G&A) costs, and variable NSR factors (NSR factors include smelting and transportation costs). The AgEq is calculated by dividing the cost by the Ag net value factor which includes prices, recoveries, and payabilities.
2. Reserves include planned dilution to a minimum mining width and to minable outlines.
3. The cut-off grades for the Ciénega reserve vary between 183 and 243 gpt Ag equivalent.
4. Reserves have no additional dilution added to that inherent in the Selective Mining Unit (SMU) of 15m x 15m x 8m. Reserves are converted from resources through the process of pit optimisation, pit design, production schedule and supported by a Minera Penmont cash flow model.
5. Mega Centauro mineral reserves are reported at varied cut-offs dependent on material types and grade. Oxide material above 0.25 gpt Au reports to the heap leach, transitional and sulfide material above 0.30 gpt Au reports to the heap leach, oxide material above 0.82 gpt Au reports to the mill, transitional and sulfide material above 0.44 gpt Au reports to the mill.
6. The Soledad/Dipolos mine has been subject to legal action regarding surface access. SRK has been provided with documents indicating a reasonable chance that these actions will be settled in favour of the mine.

* Metal price assumptions considered for the calculation of metal equivalent grades are: Gold (US$/oz 1,250.00), Silver (US$/oz 17.50), Lead (US$/lb 0.85) and Zinc (US$/lb 0.95)

· Full mining recovery assumed with a factor applied for pillars where appropriate.
· The reserves are valid as of December 31, 2016. All topography is valid as of October 31, 2016.
· For the next audit, Increased reserves are expected at Herradura-Centauro following estimated resource growth. Further work is required to estimate the growth of reserves.

The ore reserves were estimated by Fresnillo. Bret C Swanson, BE (Min) MMSAQP #04418QP, a Qualified Person, reviewed and audited the open pit reserve calculations. Fernando Rodrigues, BS Mining, MBA, MMSAQP #01405, MAusIMM #304726 of SRK, a Qualified Person, reviewed and audited the underground reserve calculations.

Shareholder Information

Financial calendar

Preliminary Statement	28 February 2017
First Quarter Production Report	26 April 2017
Annual General Meeting	23 May 2017
Second Quarter Production Report	26 July 2017
Interim Statement	1 August 2017
Third Quarter Production Report	25 October 2017

Dividend payment schedule

2016 Final Dividend Record Date	28 April 2017
2016 Final Dividend Payment Date	26 May 2017
2017 Interim Dividend Record Date	11 August 2017
2017 Interim Dividend Payment Date	8 September 2017

Registrar
Equiniti Ltd
Aspect House
Spencer Road, Lancing
West Sussex BN99 6DA
United Kingdom

Joint Corporate Broker
Merrill Lynch International
2 King Edward Street
London EC1A 1HQ
United Kingdom

Registered office
21 Upper Brook Street
London W1K 7PY
United Kingdom

Auditor
Ernst & Young LLP
1 More London Place
London SE1 2AF
United Kingdom

Corporate headquarters
Calzada Legaria No. 549
Torre 2, Piso 11
Delegación Miguel Hidalgo
11250 Mexico, D.F.
Mexico

Solicitor
Linklaters LLP
One Silk Street
London EC2Y 8HQ
United Kingdom

Sponsor and Corporate Broker
JPMorgan Cazenove Limited
25 Bank Street
London E14 5JP
United Kingdom

Share fraud warning

Share fraud includes scams where investors are called out of the blue and offered shares that turn out to be worthless or non-existent, or an inflated price for shares they own. These calls come from fraudsters operating in 'boiler rooms', mostly based abroad. While high profits are promised, those who buy or sell shares in this way usually lose their money. Most victims are experienced investors, losing on average £20,000.

Protect yourself

If you are offered unsolicited investment advice, discounted shares, inflated prices for shares you own, or free company or research reports, take these steps before handing over any money:

1. Get the name of the person and organisation.
2. Check the Financial Services Register at www.fca.org.uk/register to ensure they are authorised.
3. Use the details on the Financial Services Register to contact the firm.
4. Call the FCA Consumer Helpline on 0800 111 6768 if there are no contact details on the Register or you are told they are out of date.
5. Search the list of unauthorised firms and individuals to avoid doing business with.
6. **REMEMBER: if it sounds too good to be true, it probably is!**

If you use an unauthorised firm to buy or sell shares, you will not have access to the Financial Ombudsman Service or Financial Services Compensation Scheme (FSCS) if things go wrong.

Report a scam

If you are approached about a share scam you should tell the FCA using the form at www.fca.org.uk/scams (where you can also review the latest scams) or call the Consumer Helpline on 0800 111 6768.

If you have already paid money to share fraudsters then contact Action Fraud on 0300 123 2040.

For further information, please visit our website:
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Fresnillo plc
Tel: +44(0)20 7399 2470
Gabriela Mayor, Head of Investor Relations

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.

Notes

Notes

Notes

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