Fresnillo plc

Financial results for the year ended 31 December 2017

Fresnillo plc today announced its financial results for the full year ended 31 December 2017. Octavio Alvídrez, CEO said:

"I am pleased to report another resilient performance, built on the foundations of our consistent, conservative, sustainable long term strategy.

We celebrate 10 years as a public company in 2018. Since 2008, we have paid US$2.5 billion in dividends, never not paid an interim and final dividend throughout this period and invested over US$4 billion in both existing operations and growing our portfolio of quality assets. Our IPO target for gold production of 750koz was reached in 2015, three years ahead of plan, while the 65moz objective for silver is on track to be achieved in 2018. Our commitment to delivering shareholder value remains.

In 2017, silver production was a record 58.7 moz following the first complete year of San Julián (phase I) operating at full capacity and the start of operations at San Julián (phase II). We also achieved a solid gold production performance of 911.1 koz, exceeding our forecast range.

A strong operating performance and relatively stable precious metals prices have offset some cost inflation and we have delivered sound financial results. Adjusted revenues were up 9.2% to US$2,230 million, with a 32.0% increase in profit for the year. As a result, the Board was pleased to recommend a final dividend of 29.8 US cents per share, bringing the total paid for the year to US$297.7 million.

Core to our organic growth strategy is ensuring we deliver the potential of our existing assets while expanding our development pipeline. We made good progress in 2017. Operations at the Fresnillo mine continue to strengthen, performance has improved year-on-year and we expect an increase in ore throughput in 2018. The successful completion of San Julián (phase II) was a significant milestone and is expected to make a meaningful contribution to 2018 production now it is operating at full capacity. Construction of the Pyrites Plant project has continued and the Dynamic Leaching Plant at Herradura is on track. We expect to commission both projects in 2018. We also expect to approve the feasibility study of Juanicipio in the first half of 2018 and begin construction soon after. Juanicipio is the next major project for Fresnillo, and we are committed to ensuring that the mine fulfils its true potential.

It is with deep regret we reported one fatality in 2017. We continue to make major strides in our safety culture, but this is a reminder that we must never cease in our efforts to improve our safety performance.

Cash generation from our mines increased nearly 5% compared to 2016, reflecting the higher volumes of silver and zinc sold. This was also boosted by higher base metal prices during the year, partially offset by cost pressures and higher exploration expenses.

The cash generated from our mines, together with proceeds from the Silverstream contract and the sale of a non-strategic exploration project contributed to maintaining a solid financial position, with US$896.0 million in cash and other liquid funds[1] as of 31 December 2017. This is despite paying dividends of US$236.6 million and investing capex of US$604.8 million.

[1] Cash and other liquid funds are disclosed in Note 31 (c) to the financial statements

The Board and I are confident in our strategy and the ability of the management team to execute it. 2018 silver production is expected to rise to between 67-70 moz, whilst gold is expected to be in the range of 870-900 koz. Capital expenditure is anticipated to be approximately US$755 million with exploration expenses in the region of US$200 million.

We will continue to maintain our disciplined approach to investment, to support our strategy and deliver shareholder returns. We will remain focused on efficiency and controlling costs to underpin projects, continuing to drive performance improvements at the Fresnillo mine, increasing production at San Julián, and developing Juanicipio. A strong balance sheet, targeted investment and operating costs among the lowest in the industry remain the key differentiating characteristics of our company."

Twelve months to 31 December 2017

$ million unless stated	2017	2016	% change
Silver Production* (kOz)	58,673	50,303	16.6
Gold Production* (Oz)	911,132	935,513	(2.6)
Total Revenue	2,093.3	1,905.5	9.9
Adjusted Revenue**	2,233.2	2,045.0	9.2
Gross Profit	925.4	882.1	4.9
EBITDA	1,060.1	1,032.0	2.7
Profit Before Income Tax	741.5	718.2	3.2
Profit for the year	560.8	425.0	32.0
Basic and Diluted EPS excluding post-tax Silverstream effects (USD)***	0.653	0.453	44.2

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

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

*** The weighted average number of shares was 736,893,589 for 2017 and 2016

2017 Highlights

Operational excellence continue to deliver healthy returns

- Adjusted revenue of US$2,233.2 million, 9.2% increase vs. 2016 primarily due to record silver volumes, an increase in zinc volumes sold and higher base metal prices
- Gross profit and EBITDA of US$925.4 million and US$1,060.1million, up 4.9% and 2.7% respectively
- Profit before taxes of USD$741.5 million, up 3.2%
- Profit for the year of USD$560.8 million, up 32.0% on 2016 primarily due to the effect of the revaluation of the Mexican peso/US dollar spot exchange rate on deferred taxes
- Cost per tonne increased across all mines mainly reflecting the Group's cost inflation of 6.4%
- Cash generated by operations before changes in working capital increased by 4.9% to US$1,073.7 million (2016: US$1,023.3 million)
- Capital expenditures of US$604.8 million, up 39.3% vs 2016 but below guidance, mainly due to lower capex at pyrites plant project and Juanicipio
- Exploration spend of US$141.1 million, up 16.4%

- Maintained financial flexibility, with year-end cash and other liquid funds[2] of US$896.0 million (2016: US$912.0 million), and debt of US$800 million
- Basic and diluted EPS from continuing operations of US$0.761; adjusted EPS of US$0.653, up 31.4% and 44.2% respectively
- 2017 final dividend of US$29.8 cents per share, equivalent to approximately US$219.6 million, recommended by the Board

Maximising value of existing assets

- Record annual silver production of 58.7 moz (including Silverstream) up 16.6% vs. 2016, in line with guidance primarily as a result of the first complete year of San Julián (phase I) operating at full capacity and the start-up of operations at San Julián (phase II)
- Annual gold production of 911.1 koz exceeded guidance principally as a result of the full year operations at San Julián (phase I). Gold production slightly decreased -2.6% vs. 2016 due to the expected lower reduction of gold inventories and the anticipated lower ore grade deposited at the leaching pads at Herradura.
- Construction of the San Julián mine now finished with the completion of San Julián Phase II. We expect the mine to achieve average annual production of 14.2 moz of silver and 49.3 koz of gold. San Julián Phase II was commissioned on budget, and the project reached nameplate capacity as expected in Q3, highlighting our ability to bring new mining projects to fruition.
- Performance at the Fresnillo mine improved with full year silver production up 4.1% over 2016, but further actions taken to ensure a sustained improvement.

Disciplined investment and development of extensive growth pipeline

- Construction of the US$155 million Pyrites Plant remains on track, with commissioning of the leaching plant expected in 2Q18.
- Construction of the US$110 million second line of the Dynamic Leaching Plant at Herradura is on track to be commissioned in 2Q18.
- Progress at the Juanicipio project is on track and we expect to conclude the updated feasibility study in 1H18.
- Positive exploration results: Gold and silver resources up 22.7% and 6.9% respectively. Gold reserves remained stable, while silver reserves showed a decrease of 5.4%, with an increase at Saucito offset by falls at Fresnillo and Ciénega.
- 2018 exploration budget of approximately US$200 million (including capitalised exploration expenses)

Outlook

- Silver production expected to be in the range of 67 to 70 moz including the Silverstream, in line with our long term guidance. Gold production expected to be in the range of 870-900 koz
- Capital expenditure is anticipated to be approximately US$755 million

Analyst Presentation

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

[2] Cash and other liquid funds are disclosed in Note 31 (c) to the financial statements

The presentation will also be available via a live webcast. A link to the webcast will be made available on Fresnillo’s homepage: www.fresnilloplc.com or can be accessed directly here (https://edge.media-server.com/m6/p/eh2kneot).

If you are not attending the presentation in person, but wish to ask questions, you must also join the live conference call as questions cannot be submitted via the webcast function.

Conference Call:

To access the conference call, please use the following details:

UK: +44 (0)330 336 9411
US: +1 646 828 8156
Mexico: +52 55 4164 2298
Confirmation code: 3952244

A recording of the conference call will be available for 7 days following the presentation. The access details for the replay are as follows:

Replay dial in:
UK: +44 (0)20 7660 0134
US: +1 719 457 0820
Mexico: 001 800 514 5974

Confirmation code: 3952244

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

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About Fresnillo plc

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

Fresnillo plc has seven operating mines, all of them in Mexico - Fresnillo, Saucito, Ciénega (including the San Ramón satellite mine), Herradura, Soledad-Dipolos[1,] Noche Buena and San Julián (phase 1 and II), two development projects - the Pyrites plant, and second line of DLP at Herradura, and four advanced exploration projects - Orisyvo, Juanicipio, Las Casas Rosario & Cluster Cebollitas and Centauro Deep, as well as a number of other long-term exploration prospects. In total, Fresnillo plc has mining concessions covering approximately 1.8 million hectares in Mexico.

Fresnillo plc has a strong and long tradition of mining, a proven track record of mine development, reserve replacement, and production costs in the lowest quartile of the cost curve for silver.

Fresnillo plc's goal is to maintain the Group's position as the world's largest primary silver company, producing 65 million ounces of silver per year by 2018, having already surpassed the gold target of 750,000 ounces.

[1] Operations at Soledad-Dipolos are currently suspended.

CHAIRMAN'S STATEMENT

Ten years of creating value through growth and returns
We end our first decade of operations as we started it - firm in our commitment to growth and returns, energised by the success of our strategy and confident about our future prospects.

Although the Group has a history stretching back over a century, Fresnillo only became a listed company in 2008. Today, as we stand on the brink of our second decade, we can look back on our achievements with justifiable pride. Despite a changing market environment and pressures affecting the mining industry as a whole, we are delivering on our long-term commitments and continuing to create value through growth and returns for our stakeholders. Over the last decade, we have paid close to US$2.5 billion in dividends, invested over US$4 billion to sustain and expand our operations and develop new projects, and increased attributable silver and gold production by over 55% and 245% respectively.

While we remain confident about our future and growth potential, we do not ignore the challenges faced by the mining industry. These include lower grades, access to land, environmental demands, social pressures and growing complexities in the permitting processes, among others. Managing these pressures requires increased focus and expertise to avoid excessive delays to projects and to maintain our social licence to operate.

2017: a year of progress
2017 has again proved the importance of a consistent, conservative long-term strategy based primarily on organic growth, developed and implemented by a committed professional team and fully supported by the Board. This provided the foundation for another year of record silver production and stable gold production. The commitment to exploration across precious metals price cycles continues to be the key to our success, growth and long-term prospects.

Against a backdrop of relatively stable precious metals prices, and an upward trend of by-product base metal prices, we have delivered sound financial results.

The Group generated over US$2,230 million in adjusted revenue in 2017, a rise of 9.2% over the prior year, with a 32.0% increase in profit for the period. Cash and other liquid funds[3] at year end were US$896.0 million versus US$912.0 in 2016 and debt remained at US$800 million.

Consistent dividend policy
Fresnillo plc's dividend policy is closely aligned with our focus on creating value through growth and returns, and is based on paying out 33-50% of profit after tax each year, with certain adjustments made to exclude non-cash effects in the income statement. Dividends are paid in the approximate proportions of one-third as an interim dividend, with the balance as a final dividend.

Before declaring a dividend, the Board carries out detailed analysis of the profitability of the business, underlying earnings, capital requirements, and cash flows. Our aim is to maintain

[3] Cash and other liquid funds are disclosed in Note 31(c) to the Financial Statements.

sufficient flexibility to respond to movements in precious metals prices and other factors that could impact our business.

We declared an interim dividend of 10.6 US cents per share, with a final dividend of 29.8 US cents per share, bringing the total for the year to US$297.7 million.

Meeting our operational goals

At the time of the IPO, we set ourselves two demanding targets for our first decade of operations. Our target for gold production of 750koz was reached in 2015, three years ahead of plan, while the 65moz objective for silver is on track to be achieved in 2018.

There were a number of key operational developments during the year, but here I would like to focus on two in particular. Firstly, the second phase of our silver-gold San Julián project was commissioned. This new mine, discovered by our exploration team, is a cornerstone of our future prospects and opens a promising, remote district to further growth. Several Board members visited the site during 2017 and saw at first-hand how the plans of the Board and management have become reality.

Secondly, despite falling short of our expectations due to several operational issues, performance at the Fresnillo mine continued to improve. We have taken a number of corrective steps to address these issues, including: strengthening our operational leadership team; improving contractor efficiency; and eliminating bottlenecks caused by inefficient working practices.

We expect the construction of the new Pyrites Plant to significantly advance towards commissioning in 2018, improving the gold and silver recovery from the tailings at both the Fresnillo and Saucito mines. In addition, we started construction of the second line at the Dynamic Leaching Plant at Herradura, which will improve gold recovery, particularly as we encounter increasing quantities of higher sulphide grade ore. The Board expects to approve the development of our joint venture with Mag Silver at Juanicipio in the first half of 2018, and we anticipate the start-up of production in the first half of 2020. Juanicipio is the next major project for Fresnillo, and management is committed to ensuring that the mine fulfils its true potential.

We have a well-established record of replenishing reserves and resources, and 2017 again saw good progress in this respect. Exploration results for the year were positive. Overall, our resource base has expanded significantly. Silver resources have grown from 2,171 moz in 2016 to 2,320 moz in 2017, while gold resources remained stable at 38.5 moz. Gold reserves increased by 22.7%, mainly due to the Herradura mine, while silver reserves showed a decrease of 5.4%, with an increase at Saucito offset by falls at Fresnillo and Ciénega. Exploration remains a key pillar of our company as we move towards achieving our 2018 goals and further success in the years beyond.

Our workforce

Health and safety remain the paramount priority of our Board. I regret to report that one fatal accident occurred in early 2017. While the trend of the broader safety indicators continued to improve, supported by our drive towards a more systematic approach to incidents, this fatality is unacceptable. One fatality is one too many, and our sincere condolences and support have been conveyed to the family of the victim.

We will never sacrifice the health and safety of our people - or the long-term sustainability of our business - for short-term gain, financial or otherwise, and strive to implement best-in-class systems and practices throughout the company. However, it is clear that there remains much work to do, particularly where contractors are concerned. Contractor staff do not always display a consistent focus on safety and lack sufficient training due to frequent rotation of personnel. During the year we took decisive steps to engage them in our health and safety culture. This new approach has already borne fruit and will be extended in 2018.

The Board's Health, Safety, Environment and Community Relations (HSECR) Committee continued to review our culture and values as part of its work and will be monitoring progress in the coming year. We again increased our HSECR activities during 2017, supporting a large number of new and established programmes which underline our commitment to the wellbeing of our people and their communities.

Supporting our executive team
The Board plays an active role in setting Group strategy and supporting the Executive Committee. We regularly review progress versus plan, ensuring that the business has the required flexibility to respond to changing market conditions while at the same time fulfilling our commitment to continuous investment across price cycles.

During 2017, we again ensured that capital allocation was balanced by growth, shareholder returns, financial strength and flexibility, within the context of our commitment to sustainability and risk management.

Familiarity with the business is key for an effective Board. I encourage Board members to gain practical knowledge about our activities, and over the course of the year my colleagues visited a number of operational sites. For example, six Directors visited San Julián to gain first-hand understanding of the importance and challenges of the operation.

Strengthening our corporate governance
The most important function of the Board is to ensure strong and effective corporate governance. We have continued to identify and, where appropriate, implement best practice in line with the UK Corporate Governance Code and evolving stakeholder expectations in both the UK and Mexico.

I have set out details regarding the major developments in my introduction to the Corporate Governance section on page x. In summary, these include:

- New anti-bribery and corruption legislation in Mexico. The work we have undertaken over the past few years to ensure compliance with UK legislation enabled us to accommodate the requirements of the new Mexican legislation with ease.
- Continued support for greater gender diversity at Board level, in line with our commitment to align Fresnillo more closely with expectations relating to diversity on FTSE100 boards.
- Evolution of the independent representation on the Board.
- The continued support of over 99% of our independent shareholders for our executive remuneration policy.

As we approach the tenth anniversary of our listing on the London Stock Exchange, I am pleased to report that while our business model has remained essentially the same, we are also continuing to learn and evolve - particularly in the areas of sustainability, the application of IT and corporate governance. For example, our Code of Conduct was reviewed and benefited from updates during the year, reflecting our commitment to building and maintaining an ethical culture across all our operations. Based on our values of Responsibility, Integrity, Trust and Loyalty, this culture is the cornerstone of our past achievements and the platform for our future success. 2017 again saw us complement regular workshops and master classes with online training in order to ensure that all our people are aware of the importance we attach to our values.

Corporate culture is a key agenda item for every Board meeting, with updates on the cultural programme provided as part of the CEO's report. These regular bulletins are supported by an annual presentation by the Head of Sustainability.

Changes to the Board

In May, I was delighted to welcome Dame Judith Macgregor as an Independent Non-Executive Director. Dame Judith was the British Ambassador to Mexico from 2009 to 2013 and has been the President of the Foreign and Commonwealth Office (FCO) Women's Association since 2006, overseeing a significant increase in the number of FCO women in senior grades. Dame Judith is the third female appointment to the Board in the past five years, and is currently one of two female members. With women continuing to be under-represented on our Board and in our workforce, during the year we developed a new policy which aims to encapsulate our commitment to greater diversity and inclusion.

Outlook for 2018 and beyond

We will continue to maintain our disciplined approach to investment in order to support the key 'Explore, Develop, Operate and Sustain' elements of the business model. Our focus will once again be on efficiency and cost control to underpin projects, ongoing performance improvements at Fresnillo, increased production at San Julián, development of Juanicipio and the continued evaluation of the Orisyvo gold project.

Human capital is key to our ability to create value through growth and returns. Throughout 2017, our people again showed the skills and professionalism needed to overcome challenges as well as the commitment to deliver results. On behalf of the Board and shareholders I want to express my gratitude for their efforts.

The Board and I reiterate our confidence in the established and proven strategy and in the capacity of the Executive Committee to execute it. While volatility in exchange rates or precious metals prices may present short-term challenges, we anticipate further growth and returns over the longer term.

Alberto Baillères
Non-executive Chairman

CHIEF EXECUTIVE'S STATEMENT

Consistent strategy, consistent performance

I am delighted to report that 2017 was another good year for Fresnillo. Once again, we have managed our costs, expanded our exploration pipeline and achieved our production guidelines - all of which have combined to enable us to continue our track record of creating value through growth and returns.

At the time of our IPO in 2008, we made a commitment to double production by 2018. After nine years - a period that has seen a global financial crisis as well as volatile prices for precious metals - we are well on the way to confirming this remarkable achievement.

Our success bears testament to the expertise, commitment and sheer hard work of our people, without whom none of this would have been possible. But it is also a tribute to the original vision of the Board and the strength of a strategy that is both effective and consistent. When times are challenging, it can be tempting to switch strategy to address short-term trends, for example by making substantial cutbacks to areas such as exploration. Indeed, this is something that we have seen many of our peers do over the last decade. At Fresnillo, however, our strategy has remained constant from our first day of operation - and this consistency has been the platform for what has been a successful record of growth and returns.

Record silver production

Silver production from our mines reached a record level of 54.2 moz, due to phase I at San Julián operating at full capacity for the entire year and the start of operations of phase II at the same mine. Production at the Fresnillo mine also increased year-on-year, albeit at a slower pace than anticipated. We are continuing to implement several improvement measures at the mine, including enhanced equipment maintenance, the installation of a vertical conveyor to reduce truck haulage and increased supervision to improve the efficiency of our contractors. These measures, together with the hiring of two new contractors, will help us maintain development rates at the Fresnillo mine and improve them in the long run.

As expected, gold production slightly decreased due to the reduction in inventories at Herradura in 2016 not being repeated to the same extent in 2017, and a slower speed of recovery at Noche Buena due to a longer leaching process.

Zinc production increased as a result of the positive contribution from San Julián and increased volumes produced at the Fresnillo mine due to the higher ore grades.

Delivering results across price cycles

Fresnillo's operations are designed to deliver results across price cycles. They did so during the years when prices were falling - and they have done so again over the last 12 months, when prices for silver and gold have been largely stable. At the same time, the year saw a significant increase in prices for base metals, which are by-products of our silver and gold production processes, and this upward trend made a positive contribution towards our overall financial performance.

Our proven ability to perform in all price environments is important, given the unpredictable nature of prices. This ability is based on an effective strategy teamed with high quality execution. Operational excellence, targeted investment and disciplined cash management, as well as sustainable business practices, are the hallmarks of our decade-long reputation for achievement.

Maximising the potential of existing operations
Maximising the potential of existing operations is the first pillar of our strategy, and we recorded a number of key achievements during the year. Firstly, we continued the turnaround at our flagship Fresnillo mine, which has a history that can be traced back to the 16th Century. While the mine remains very productive, it is nonetheless a mature operation - and there is an inevitable downward trend in grade as the workable veins narrow and weaken. Put simply, we have to invest in infrastructure in order to maintain high rates of production as we go deeper and incur the increased costs associated with greater haulage distances.

I am pleased to say that despite issues with maintenance and contractors, performance at Fresnillo has improved year-on-year, with an upturn in production from 15.9 moz in 2016 to 16.5 moz in 2017

At Saucito, the relatively small investments made in previous years have consolidated the mine's position as the world's largest silver producing mine allowing throughput to increase by a third, albeit reducing recoveries in the short term.

We also maximised the efficiency of the Dynamic Leaching Plant at San Julián, where the drive and skills of our people have seen us consistently achieve 3,500 and at times over 3,800 tonnes per day from a process that has a nominal design capacity of 3,000 tonnes per day.

In last year's letter I referred to a comprehensive review of how IT can be the springboard for improved efficiency. This initiative made significant progress in 2017, with several projects now in place and delivering results. Among others, these include: Ventilation Plus, which is now providing ventilation on demand at San Julián and is being deployed at Saucito, Fresnillo and Ciénega; Track Plus, which enables our teams to know the precise locations of every resource across a mine, and which is in operation at San Julián and Saucito; and ProxAlarm, which improves safety by preventing collisions and other incidents involving vehicles and is in operation at all mines.

Delivering growth through development projects
The construction of the San Julián silver and gold mine has been a hugely important project for Fresnillo. We identified the need for this project at the time of the IPO and it finally came to fruition in 2017, with the completion of phase II. The flotation plant was commissioned in July and we expect the mine to achieve an average annual production of 14.2 moz of silver and 49.3 koz of gold. Located on the Chihuahua / Durango border, we believe that San Julián has the potential to become established as an entirely new mining district.

In addition, construction of the Pyrites Plant has continued as planned. This development project will strengthen the Company’s production profile by extracting additional quantities of silver and gold from the historical and ongoing tailings at the Fresnillo and Saucito mines.

Construction of the second line at the Dynamic Leaching Plant at Herradura also continued during the year, with commissioning expected in the first half of 2018. This plant will enable sulphides occurring deeper in the pit to be processed more efficiently.

Extending the growth pipeline
Our ability to fuel the pipeline has been one of our most notable success stories over the years. While some of our peers have neglected their exploration activities, our strategy has been to actively expand ours - and the talented team of over 100 Fresnillo geologists has enabled us to make great strides in our resources.

From just over 1boz of silver in 2008, our resources had more than doubled to 2.3boz by the end of 2017, supported by around 1.8m hectares of exploration mining concessions in Mexico. At the same time, our gold resources have increased from 12moz in 2008 to 38.5moz at the end of 2017.

We have made good progress in Peru, where 350,000 hectares of concession land have given Fresnillo the largest exploration portfolio in the country. We have identified significant opportunities at Pilarica and expect this to become our first operational mine outside Mexico in the medium term. We are also set to begin exploration in Chile, following three years of scouting the territory, and have begun a project to evaluate opportunities in Argentina, which shares some of Chile's geological potential.

Advancing and enhancing the sustainability of our operations
The last of our four strategic pillars, sustainability, lies at the heart of everything we do at Fresnillo - and nothing is more important to the sustainability of our company than the health and safety of our employees and contractors. Although the trend from 2011 to 2017 is in the right direction, we can never be complacent, and sadly we have to report that we experienced one fatality during the year.

We continued to strengthen our health and safety programmes in 2017, focusing on engaging contractors as well as our own people. Around 70% of our workforce of 16,000 are contractors, and we are working hard to align them fully with our health and safety culture and expectations. A new approach piloted at Saucito and subsequently adopted at both Fresnillo and Ciénega is already strengthening our safety culture. Under this new approach, which we plan to roll out across our other operations in the coming months, our people are encouraged to report each incident within a fixed time frame, no matter how minor and with a full description. Our safety team then analyses the incident and identifies its root cause, enabling us to more systematically put measures in place to prevent any reoccurrence.

Our promise to create value through growth and returns is not confined to our financial investors, and we were pleased to be included in the FTSE4 Good index in 2017. We work hard to ensure that the communities close to our operations also see a return on their investment of time, skills and commitments. Initiatives such as the Week of Health, Silver saves Lives and a wide range of educational programmes have proved very successful in improving the lives and prospects of those who depend on us or are impacted by our operations.

Our next set of objectives
It is cause of great satisfaction to the management team that we are on track to achieve our original production goals by the end of the next financial year.

We are currently in the process of finalising our next set of objectives, and these will be announced as part of our interim results presentation in August 2018. A proven strategy applied with consistency has been the foundation for our success to date and a key differentiating factor between ourselves and our peers.

Despite our relative youth as a standalone company, our history as a mining group stretches back 130 years - and we drew on all the experience gathered across those decades to identify and establish the principles that shaped our strategy. The business model is sound, the balance sheet robust, and the ability to deliver results across all price cycles has been ably demonstrated.

As we move into our second decade, we will continue to monitor opportunities to complement organic growth with accretive mergers and acquisitions. However, we recognise that this can be a challenge. Most operations we evaluate from geological and financial perspectives fall short of the rigorous criteria and expectations we apply to Fresnillo operations.

Outlook
While we are forecasting that all our operations will perform at their maximum levels, we nonetheless anticipate a challenging year in 2018. Inflationary pressures are likely to increase and it is unclear whether precious metals prices have already bottomed out, or may drift lower. In addition, 2018 is an election year in Mexico and this will doubtless bring an unwelcome degree of volatility to exchange rates.

However, that said, our people have worked successfully in similar market environments before and will undoubtedly do so again. We expect continued growth through exploration and development, together with increased production at San Julián, further improvements in performance at Fresnillo, completion of the new Dynamic Leaching Plant at Herradura and the commissioning of the new Pyrites Plant at Saucito.

These projects will lead to increased production with associated costs, though we will continue to seek corresponding efficiencies from other operations. A strong balance sheet, targeted investment and operating costs amongst the lowest in the industry, will again be the defining characteristics of our company. In particular, I look forward to our project at Juanicipio moving from the exploration to the development stage, subject to Board approval in April 2018.

We also expect our new approach to health and safety to be rolled out to all mines, and this should lead to an improved system that will benefit all employees and contractors.

In conclusion, I would like to thank our people, communities, suppliers, clients and shareholders for their continued support during the last year. Together, we face the future with cautious confidence.

Octavio Alvídrez
Chief Executive Officer

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 2017 figures compared to 2016, unless otherwise noted. The financial information and year-on-year variations are presented in US dollars, except where indicated.

By following strict controls on cash, costs and expenses, while adhering to our capex budgets, we have maintained a healthy cash and other liquid funds[14] and low leverage ratio enabling us to invest in profitable growth and deliver solid returns to shareholder. The following report presents how we have managed our Financial capital.

Commentary on financial performance

This has been another year of progress for Fresnillo, as we continued our long-established reputation for creating value through growth and returns. Gross profit and EBITDA increased during the year by 4.9% and 2.7% respectively. We also maintained a solid financial position, with US$896.0 million in cash and other liquid funds[4] as of 31 December 2017 despite paying dividends of US$236.6 million in accordance with our policy and investing capex of US$604.8 million to underpin our future growth.

A number of factors contributed to the increase in gross profit and EBITDA, including the increased contribution of San Julián to silver and zinc sales, together with higher gold and base metals prices, which increased Adjusted revenue. These factors were partly offset by cost pressures, higher depreciation charges and exploration expenses. These factors, together with the sale of a non-strategic exploration project and the effect of the revaluation of the Mexican peso/US dollar spot exchange rate on deferred taxes, resulted in an increase of 32.0% in Net Profit for the year.

Income statement

	2017 US$ million	2016 US$ million	Amount US$	Change %
Adjusted revenue[1]	**2,233.2**	2,045.0	188.2	9.2
Total revenue	**2,093.3**	1,905.5	187.8	9.9
Cost of sales	**(1,167.9)**	(1,023.4)	(144.5)	14.1
Gross profit	**925.4**	882.1	43.3	4.9
Exploration expenses	**141.1**	121.2	19.9	16.4
Operating profit	**709.3**	676.5	32.8	4.8
EBITDA[2]	**1,060.1**	1,032.0	28.1	2.7
Income tax expense including Mining right	**180.7**	293.3	(112.6)	(38.4)
Profit for the year	**560.8**	425.0	135.8	32.0
Profit for the year, excluding post-tax Silverstream effects	**481.2**	331.5	149.7	45.2
Basic and diluted Earnings per share (US$/share)[3]	**0.761**	0.579	0.182	31.4
Basic and diluted Earnings per share, excluding post-tax Silverstream effects (US$/share)	**0.653**	0.453	0.200	44.2

[4] Cash and other liquid funds are disclosed in Note 31(c) to the financial statements.

[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 2017 and 2016. See Note 18 in the Consolidated Financial Statements.

The Group's financial performance is largely determined by the quality of our assets, the skills of our personnel and the execution capabilities of management to achieve our strategic goals. However, there are a number of macroeconomic variables that lie beyond our control and which affect financial results. These include:

Precious metal prices

In 2017, the average realised gold and silver prices remained broadly stable at US$1,267.4 per ounce (2016: US$1,246.5) and US$17.0 per ounce (2016: US$17.2), respectively. However, the average realised lead and zinc prices increased 24.9% and 34.9% year on year, to US$1.06 and US$1.36 per pound, respectively.

We hedged a portion of our by-product lead and zinc production but, contrary to previous years, this did not have an effect on revenue.

MXN/USD exchange rate

The Mexican peso/US dollar spot exchange rate at 31 December 2017 was $19.74 per US dollar, compared to $20.66 per US dollar at 31 December 2016. The 4.5% spot revaluation had a favourable effect, primarily on deferred income taxes. This positively compared versus the 20.1% devaluation in 2016, which resulted in a significant adverse effect on deferred income taxes.

The average spot Mexican peso/US dollar exchange rate devalued by 1.5%, from $18.66 per US dollar in 2016 to $18.94 per US dollar in 2017. This resulted in a favourable effect estimated at US$4.7 million on the Group's production costs, as costs denominated in Mexican pesos (approximately 45% of total costs) were lower when converted to US dollars.

Cost inflation

In 2017, there was a net increase in the weighted average input cost over the year, of 6.4%. This inflation included the positive effect of the 1.5% average devaluation of the Mexican peso against the US dollar.

Labour

Unionised employees received on average a 5.8% 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 inflation was 3.3%.

Energy

Electricity

The Group's weighted average cost of electricity increased by 28.9% from US$5.9 cents per kW in 2016 to US$7.6 cent per kW in 2017. This increase was mainly explained by the higher average generating cost of the Comisión Federal de Electricidad (CFE), the national utility, following the increase in the prices of natural gas and fuel and, to a lesser extent, of imported coal.

Diesel

The weighted average cost of diesel in US dollars increased 22.2% to US$76.5 cents per litre in 2017, compared to US$62.6 cents per litre in 2016, reflecting the price liberalisation of fuels.

Operating materials

	Year over year change in unit price %
Other reagents	31.1
Steel balls for milling	3.0
Lubricants	1.0
Tyres	-5.2
Explosives	-6.4
Sodium cyanide	-17.3
Weighted average of all operating materials	**-1.1**

Unit prices of the majority of certain operating materials decreased in US dollar terms. However, this was mostly offset by the increase in the unit price of other reagents, particularly those linked to the price of copper and zinc, reflecting the higher metals prices. As a result, the weighted average unit prices of all operating materials decreased by 1.1% over the year. There has been no significant impact on the unit cost of operating materials from the devaluation of the MXN/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 our total production costs. In 2017, increases granted to contractors, whose agreements were due for review during the period, resulting in a weighted average increase of 4.9% in US dollars.

Maintenance

Unit prices of spare parts for maintenance remained unchanged on average in US dollar terms (0.4% increase).

Others

Other cost components include freight, which increased by an estimated 12.5% in US dollars, offset by a 10.0% decrease in insurance costs. The remaining components had an average inflation of 0.8% in US dollars over 2016.

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.

Revenue

Consolidated revenue (US$ millions)

	2017 US$ million	2016 US$ million	Amount US$	Change %
Adjusted revenue[1]	**2,233.2**	2,045.0	188.2	9.2
Gold, lead and zinc hedging	**0.0**	1.6	(1.6)	(100)
Treatment and refining charges	**(139.9)**	(141.1)	1.2	(0.9)
Total revenue	**2,093.3**	**1,905.5**	**187.8**	**9.9**

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 revenue of US$2,093.3 million increased by 9.9% over 2016. This was explained by the 9.2% increase in Adjusted revenue as a result of the increase in volumes of silver and zinc sold and higher realised metal prices, except for silver.

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

	2017		2016					
	US$ million	%	US$ million	%	Volume Variance	Price Variance	Total US$	%
Silver	**844.7**	**37.8**	724.0	35.4	126.0	(5.4)	120.7	16.7
Gold	**1,125.3**	**50.4**	1,133.0	55.4	(26.7)	19.0	(7.7)	(0.7)
Lead	**101.8**	**4.6**	82.4	4.0	(1.0)	20.5	19.4	23.5
Zinc	**161.4**	**7.2**	105.6	5.2	16.6	39.3	55.9	52.8
Total adjusted revenues	**2,233.2**	100.0	**2,045.0**	100.0	**114.8**	**73.4**	**188.2**	**9.2**

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

The higher volumes of silver and zinc sold, mainly due to the start-up of San Julián phase II and the first complete year of San Julián phase I, resulted in a positive impact on revenue of US$114.8 million, which represented 61.0% of the US$188.2 million increase in Adjusted revenue. The remaining 39.0%, or US$73.4 million, was explained by the benefit of higher gold, lead and zinc prices.

As expected, the contribution of San Julián changed the relative proportion of Adjusted revenue, with silver revenue representing 38% of total Adjusted revenue in 2017 compared to 35% in 2016. Gold contribution to Adjusted revenue decreased from 55% in 2016 to 50% in 2017 as a result of the expected decrease in volumes of gold sold. The contribution of by-product lead and zinc to the Group's Adjusted revenue increased from 9% in 2016 to 12% in 2017, due to higher lead and zinc prices and the increased volumes of zinc sold, primarily from the San Julián and Fresnillo mines.

Herradura remained the main contributor to Adjusted revenue, reflecting a further decrease in gold inventories during the year. Saucito continued to be the second largest contributor, although its contribution declined from 26% in 2016 to 23% in 2017, in line with a 4.5% decrease in Adjusted revenue. Fresnillo's contribution remained stable at 19%, notwithstanding the 10.0% increase in total Group Adjusted revenue. San Julián (phase I and phase II) contributed 13% to the Group's Adjusted revenue.

The relative contribution to silver Adjusted revenue changed over the year with San Julián (phase I and II) representing 18.6%, while the contributions of Saucito, Fresnillo and Ciénega decreased as expected, reflecting an expanded silver asset base. Similarly, contribution to gold revenue was modified with the San Julián mine representing 9.3% of total Adjusted gold revenue.

Adjusted revenue by metal

	2017	2016
Gold	**50.4%**	55.4%
Silver	**37.8%**	35.4%
Zinc	**7.2%**	5.2%
Lead	**4.6%**	4.0%
TOTAL	**100%**	100%

Adjusted revenue by mine

	2017	2016
Herradura	**606.8**	656.1
Saucito	**504.2**	528.0
Fresnillo	**421.3**	382.7
Noche Buena	**215.5**	225.8
San Julián (phase I)	**202.3**	67.4
Ciénega	**198.3**	185.0
San Julián (phase II)	**84.8**	-
TOTAL	**2,233.2**	**2,045.0**

Volumes of metal sold

	2017	**% participation of each mine**	**2016**	**% participation of each mine**	**% Change**
Silver (koz)					
Saucito	**19,608**	39.4	**20,386**	48.5	(3.8)
Fresnillo	**15,145**	30.4	**14,552**	34.6	4.1
San Julián (phase I)	**5,777**	11.6	**1,945**	4.6	197.0
San Julián (phase II)	**3,853**	7.7	**-**	-	N/A
Ciénega	**4,815**	9.7	**4,482**	10.7	7.4
Herradura	**570**	1.1	**646**	1.5	(11.8)
Noche Buena	**7**	0.0	**17**	0.0	(61.1)
TOTAL SILVER (koz)	**49,775**	100	**42,028**	100	18.4
Gold (koz)					
Herradura	**501**	56.5	**549**	60.4	(8.7)
Noche Buena	**140**	15.8	**148**	16.3	(5.0)
San Julián (phase I)	**81**	9.2	**30**	3.3	169.7
Saucito	**64**	7.2	**78**	8.6	(18.4)
Ciénega	**67**	7.5	**67**	7.4	0.3
Fresnillo	**33**	3.8	**37**	4.1	(9.7)
San Julián (phase II)	**1**	0.1	**-**	-	N/A
TOTAL GOLD (koz)	**888**	100	**909**	100	(2.3)
Lead (mt)					
Fresnillo	**18,743**	42.8	**19,618**	44.7	(4.5)
Saucito	**16,081**	36.7	**19,171**	43.6	(16.1)
Ciénega	**5,828**	13.3	**5,138**	11.7	13.4
San Julián (phase II)	**3,183**	7.3	**-**	-	N/A
TOTAL LEAD (mt)	**43,834**	100	**43,927**	100	(0.2)
Zinc (mt)					
Fresnillo	**25,442**	46.6	**21,828**	45.8	16.6
Saucito	**16,815**	30.8	**19,551**	41.0	(14.0)
San Julián (phase II)	**6,386**	11.7	**-**	-	N/A
Ciénega	**5,950**	10.9	**6,259**	13.1	(4.9)
TOTAL ZINC (mt)	**54,594**	100	**47,638**	100	14.6

Hedging

In 2017 we entered into a series of derivative contracts to hedge part of our lead and zinc by-product production through collar structures. These contracts will start to mature in 2018. As no hedging structures expired in 2017, there was no effect on revenue. The chart below illustrates the outstanding hedging structures as of 31 December 2017.

Concept	2018	
	Zinc*	Lead*
Weighted Floor (US$/tonne)	2,591	2,370
Weighted Cap (US$/tonne)	3,716	2,735
Total outstanding volume (tonne)	21,168	5,760

*Monthly settlements through December 2018

In the second half of 2014, Fresnillo plc initiated a one-off hedging programme to protect the value of the investment made in 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 table below illustrates the expired structures and the outstanding hedged position as of 31 December 2017.

Concept	2017	2016	2015	2014	As of 31 December* 2017
Weighted floor (US$/oz)	1,100	1,100	1,100	1,100	1,100
Weighted cap (US$/oz)	1,424	1,438	1,431	1,440	1,423.46
Expired volume (oz)	324,780	220,152	266,760	35,413	
Gain recognised in income	--	48,158	1,023,580	--	
Total outstanding volume (oz)					712,584

*Monthly settlements through December 2019

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

Treatment and refining charges

Treatment and refining charges[5] are reviewed annually using international benchmarks. Treatment charges per tonne of lead and zinc concentrate decreased in dollar terms by 18.8% and 17.8% respectively, compared to 2016. However, this was partly offset by the 2.0% increase in silver refining charges and the increase in volumes of zinc concentrates with high silver contents shipped from Fresnillo and San Julián (phase II) to Met-Mex, as well as the increased volumes of precipitates sold from San Julián (phase I). As a result, treatment and refining charges set out in the income statement decreased by only 0.8% over 2016.

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

Cost of sales

	2017 US$ million	2016 US$ million	Amount US$	Change %
Adjusted production costs[4]	**769.2**	**618.9**	150.3	24.3
Depreciation	**367.6**	**346.5**	21.1	6.1
Profit Sharing	**16.5**	**14.7**	1.8	12.0
Change in work in progress and others	**16.9**	**60.2**	(43.3)	(72.0)
Reversal of inventories write-down and others	**(2.3)**	**(19.8)**	17.5	(88.4)
Hedging	**0.0**	**2.8**	(2.8)	(100)
Cost of sales	**1,167.9**	**1,023.4**	**144.5**	**14.1**

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

Cost of sales increased 14.1% to US$1,167.9 million in 2017. The US$144.5 million increase is explained by the following combination of factors:

- An increase in Adjusted production costs (US$150.3 million). This was primarily due to: i) additional Adjusted production costs associated with the increased production (US$94.7 million); ii) cost inflation (US$40.2 million); iii) increases in the use of consumables, services, maintenance and others (US$17.9 million); and iv) the lower volume of ore processed from development works at Saucito (US$12.7 million). The increase was partly offset by the decrease in development works charged to production costs (US$10.5 million) and the positive effect of the 1.5% devaluation of the average Mexican peso/US dollar spot exchange rate (US$4.7 million).
- Depreciation (US$21.1 million). This is due to the additional asset base at San Julián, mitigated by lower depreciation at the other operating mines.
- Reversal of inventories write-down in 2016 and others (US$17.5 million).
- Profit sharing increased slightly by US$1.8 million.

These negative effects were partly offset by:

- Variation in change in work in progress (-US$43.3 million). This reflected the further decrease in inventories on the leaching pads at Herradura, albeit not of the same magnitude as the decrease in 2016.
- Mexican peso/US dollar hedging (-US$2.8 million). With the Mexican peso exchange rate hedging programme suspended, there was no effect in the income statement in 2017, compared to the US$2.8 million loss recorded in 2016.

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

Cost per tonne is a key indicator to measure the effects of mining inflation and cost control performance at each mine. This indicator is calculated as total production costs, plus ordinary mining rights, less depreciation, profit sharing and exchange rate hedging effects, divided by total tonnage processed. 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

		2017	2016	Change %
Fresnillo	US$/tonne milled	47.5	43.9	8.2
Saucito	US$/tonne milled	47.6	36.8	29.3
Ciénega	US$/tonne milled	66.5	55.5	19.9
San Julián (phase I)	US$/tonne milled	52.1	48.3*	7.9
San Julián (phase II)	US$/tonne milled	31.9*	-	N/A
Herradura	US$/tonne deposited	8.0	7.7	3.9
Herradura	US$/tonne hauled	2.6	2.3	13.0
Noche Buena	US$/tonne deposited	7.5	7.5	-
Noche Buena	US$/tonne hauled	1.7	1.6	6.3

*Indicator may not be representative as it corresponds to the start-up period, when a significant volume of ore from stock pile is processed.

Cash cost per ounce, calculated as total cash cost (cost of sales plus treatment and refining charges, less depreciation) less revenue 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.

Cash cost per ounce

		2017	2016	Change %
Fresnillo	US$ per silver ounce	**0.7**	2.1	(66.2)
Saucito	US$ per silver ounce	**1.5**	(0.4)	N/A
Ciénega	US$ per gold ounce	**(163.7)**	(217.2)	N/A
San Julián (phase I)	US$ per silver ounce	**(4.3)**	(7.8)*	N/A
San Julián (phase II)	US$ per silver ounce	**3.9***	-	N/A
Herradura	US$ per gold ounce	**492.9**	470.7	4.7
Noche Buena	US$ per gold ounce	**793.5**	765.9	3.6

*Indicator may not be representative as it corresponds to the start-up period, when a significant volume of ore from stock pile is processed.

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

Fresnillo: US$0.71/oz (2017) vs. US$2.09/oz (2016), (-66.3%)
The decrease in cash cost per ounce is mainly explained by: the higher by-product credits per silver ounce, due to the increase in zinc volumes sold, and higher lead and zinc prices (-US$1.60/oz); lower treatment and refining charges (-US$0.26/oz); and increase in ore grade (-US$0.07/oz). This was partly offset by higher cost per tonne (+US$0.54/oz).

Saucito: US$1.50/oz (2017) vs. -US$0.39/oz (2016), (N/A)
The increase was driven by: the higher cost per tonne (+US$1.69/oz); the expected lower silver grade (+US$0.53/oz); and lower by-product credits per ounce of silver resulting from the decrease in volume of gold sold (+US$0.08/oz). These adverse effects were partly offset by lower treatment and refining charges (-US$0.39/oz) and lower profit sharing (-US$0.03/oz).

Ciénega: -US$163.74/oz (2017) vs. -US$217.19/oz (2016), (-24.6%)

The increase in cash cost was primarily due to: the higher cost per tonne (+US$225.41/oz); and the expected decrease in gold grade (+US$23.81/oz). These unfavourable factors were partly offset by higher by-product credits per ounce of gold, due to the increased volumes of silver and lead sold, and higher lead and zinc prices (-US$179.45/oz); lower treatment and refining charges (-US$13.40/oz); and lower profit sharing (-US$2.92/oz).

Herradura: US$492.86/oz (2016) vs. US$470.72/oz (2016), (+4.7%)
The increase in cash cost resulted from: the higher cost per tonne (+US$29.81/oz); the lower gold grade (+US$25.95/oz); higher profit sharing (+US$0.66/oz); and lower by-product credits per gold ounce, due to the decreased volume of silver sold at a lower price (+US$0.61/oz). These adverse effects were offset by: a favourable inventory valuation effect, as ounces with a higher cost of production in the current period are mixed with the initial lower cost of inventory affecting cost of sales (-US$34.76/oz); and lower treatment and refining charges (-US$0.13/oz).

Noche Buena: US$793.48/oz (2017) vs. US$765.90/oz (2016), (+3.6%)
The increase in cash cost per ounce was mainly due to: the favourable effect of the reversal of the write down of gold inventories on the leaching pads in 2016, which did not occur in 2017 (+US$37.59/oz); and lower by-product credits (+US$2.22/oz). This was partly offset by the higher ore grade (-US$6.07/oz) and others (-US$6.17/oz).

San Julián phase I: as operations commenced in August 2016, AISC for 2016 is not considered representative as it corresponds to the start-up period, when a significant volume of ore from the stock pile is processed.
San Julián phase II: as operations commenced in July 2017, 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.

We consider all-in sustaining costs to be a reasonable indicator of a mine's ability to generate free cash flow when compared with the corresponding metal price. We also believe it is 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

		2017	2016	Change %
Fresnillo	US$ per silver ounce	**8.20**	**7.82**	5.0
Saucito	US$ per silver ounce	**7.09**	**4.77**	48.6
Ciénega	US$ per gold ounce	**691.43**	**428.00**	61.6
San Julián (phase I)	US$ per silver ounce	**0.83**	**(7.06)***	(111.7)
San Julián (phase II)	US$ per silver ounce	**7.88***		
Herradura	US$ per gold ounce	**807.66**	**731.69**	10.4
Noche Buena	US$ per gold ounce	**870.05**	**823.04**	5.7

*Indicator may not be representative as it corresponds to the start-up period, when a significant volume of ore from stock pile is processed.

Fresnillo: Higher, mainly due to higher sustaining capex and an increase in capitalised mine development, partially offset by a decrease in cash cost.

Saucito: Higher, as a result of the higher cash cost, an increase in sustaining capex and higher capitalised mine development.

Ciénega: Higher, primarily explained by the higher cash cost, an increase in sustaining capex and higher capitalised mine development.

Herradura: Higher, mainly due to an increase in capitalised stripping costs; and to a lesser extent, the higher cash cost detailed above, partially offset by lower sustaining capex.

Noche Buena: Higher, driven by the higher cash cost detailed above.

San Julián:
San Julián (phase I): as operations commenced in August 2016, AISC for 2016 is not considered representative as it corresponds to the start-up period, when a significant volume of ore from the stock pile is processed.
San Julián (phase II): as operations commenced in July 2017, 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

	2017		2016		Change	
	US$ million	%	US$ million	%	Amount	%
Herradura	292.8	32.0	309.3	35.7	(16.5)	(5.3)
Saucito	228.2	24.9	269.4	31.1	(41.2)	(15.3)
Fresnillo	191.6	20.9	158.6	18.3	33.0	20.8
San Julián	93.1	10.1	26.3	3.0	66.8	254.0
Noche Buena	56.9	6.2	54.1	6.2	2.8	5.2
Ciénega	53.8	5.9	48.2	5.6	5.6	11.6
Total for operating mines	**916.4**	100	**865.9**	100	**50.5**	**5.8**
MXN/USD exchange rate hedging (losses) and gains	0.0		-2.8		2.8	(100)
Metal hedging and other subsidiaries	9.0		19.0		(10.0)	(52.6)
Total Fresnillo plc	**925.4**		**882.1**		**43.3**	**4.9**

Total gross profit, net of hedging gains and losses, increased by 4.9% to US$925.4 million in 2017.

The US$43.3 million increase in gross profit was mainly explained by: i) the higher profits associated with increased production of US$142.9 million; ii) the US$72.3 million estimated benefit of the increase in metal prices; and iii) the US$4.7 million favourable effect of the Mexican peso/US dollar exchange rate devaluation. These factors were partly offset by: i) the lower ore grades mainly at Saucito and Herradura, which had an estimated adverse impact of US$88.1 million; ii) cost inflation estimated at US$40.2 million; and others of US$48.3 million.

Herradura and Saucito remained the largest contributors to the Group´s consolidated gross profit, albeit with a decrease in their gross profit when compared to 2016. Gross profit at the Fresnillo mine increased by 20.8% over 2016, while the mine's contribution to the Group's total gross profit increased to 20.9%. San Julián was the fourth largest contributor, providing 10.1% of total gross profit, while Noche Buena and Ciénega's share of the Group's total gross profit remained broadly unchanged.

Administrative expenses

Administrative expenses increased 22.9% from US$59.1 million to US$72.7 million, due mainly to additional administrative personnel hired to service a larger number of mines and projects and an increase in services provided by third parties (advisors, consultants and service providers). Furthermore, increased administrative services provided by Servicios Industriales Peñoles, S.A.B de C.V. in relation to San Julián (phase I and phase II) also contributed to the increase in administrative expenses during the year.

Exploration expenses

Business unit / project (US$ millions)	Exploration expenses 2017	Exploration expenses 2016	Capitalised expenses 2017	Capitalised expenses 2016
Ciénega	10.8	14.0		
Fresnillo	15.8	8.0		
Herradura	19.1	13.6		
Saucito	11.7	9.6		
Noche Buena	6.1	1.3		
San Ramón	4.4	4.3		
San Julián	8.4	4.4		
Orisyvo	1.9	2.2	0.0	0.2
Centauro Deep	2.7	3.2	0.1	1.0
Guanajuato	7.9	3.9	0.8	0.6
Juanicipio	0.0	0.0	2.3	14.6
Others	52.3	56.7	1.0	0.3
TOTAL	**141.1**	**121.2**	**4.2**	**16.7**

Exploration expenses increased by 16.4% to US$141.1 million in 2017, due to intensified exploration activities, mainly around our mining districts, and advanced exploration projects. An additional US$4.2 million was capitalised, mainly relating to exploration expenses at the Juanicipio project, and to a lesser extent at Guanajuato. As a result, risk capital invested in exploration totalled US$145.3 million in 2017, a 5.4% increase over 2016. In 2018, total invested in exploration is expected to be approximately US$200 million, of which US$8 million is estimated to be capitalised.

EBITDA

	2017 US$ million	2016 US$ million	Amount	Change %
Gross Profit	**925.4**	882.1	43.3	4.9
+ Depreciation	**367.6**	346.5	21.1	6.1
- Administrative expenses	**(72.7)**	(59.1)	(13.5)	22.8
- Exploration expenses	**(141.1)**	(121.2)	(19.9)	16.4
- Selling expenses	**(19.1)**	(16.3)	(2.8)	17.4
EBITDA	**1,060.1**	1,032.0	28.0	2.7
EBITDA margin	**50.6**	54.2		

EBITDA is a gauge of the Group’s financial performance and a key indicator to measure debt capacity. It is calculated as gross profit plus depreciation, less administrative, selling and exploration expenses. In 2017, EBITDA increased 2.7% to US$1,060.1 million mainly due to the higher revenue. This was partly offset by the higher adjusted production costs, exploration and administrative expenses. However, EBITDA margin expressed as a percentage of revenue decreased, from 54.2% in 2016 to 50.6% in 2017.

Other income and expenses

In 2017, other income and expenses of US$16.8 million was recognised in the income statement, mainly resulting from the sale of non-strategic mining claims to Argonaut Gold Inc around its Castillo mine. This compares favourably against the US$9.0 million expense recorded in 2016, which included disposals of fixed assets, remediation works and costs incurred in the maintenance of closed mines.

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$70.3 million non-cash gain mainly as a result of converting resources into reserves at Sabinas and the higher forward price of silver. In addition, a US$43.3 million non-cash gain was generated by: the unwinding of the discounted values; and the difference between payments (volume and price) actually received and accrued in 2017 and payments estimated in the valuation model as at 31 December 2016. The total effect recorded in the 2017 income statement was a gain of US$113.7 million, which adversely compares to the US$133.5 million gain registered in 2016.

Since the IPO, cumulative cash received has been US$593.0 million, while total non-cash revaluation gains of US$797.4 million have been taken to the income statement. The Group expects that 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 and income in 2017 rose by 3.6%, from US$32.2 million to US$34.0 million, mainly due to the decrease in borrowing costs capitalised in 2017 compared to 2016.

In addition, a US$41.1 million non-cash finance loss was generated by the mark-to-market time value of the outstanding gold hedging programme which was put in place to protect the investment made in the acquisition of the 44% stake of Newmont in Penmont in 2014.

Foreign exchange

A foreign exchange loss of US$6.4 million was recorded as a result of the realised transactions in the year and the positive effect of the 4.5% spot revaluation of the Mexican peso against the US dollar on the value of peso-denominated net monetary assets. This compared favourably against the US$18.4 million foreign exchange loss recognised in 2016.

We also enter into certain exchange rate derivative instruments as part of a programme to manage our 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 8.79 million, CAD 0.76 million and SEK 32.06 million with maturity dates from March through September 2018. The volume that expired in 2017 was EUR 9.23 million with a weighted average strike of 1.1368 USD/EUR, and SEK 15.31 million with a weighted average strike of 8.43 SEK/USD, which has generated a gain of US$6,532 and US$55,119 respectively, both being recorded in the income statement.

Taxation

Corporate income tax expense decreased from US$260.0 million in 2016 to US$153.5 million in 2017, despite the 3.2% increase in profit before income tax. This decrease resulted mainly from the effect of the 4.5% revaluation of the Mexican peso/US dollar spot exchange rate in 2017 versus the 20.1% devaluation in 2016 on the tax value of assets and liabilities; together with the impact of the higher inflation rate (6.7% in 2017 vs 3.4% in 2016) on the inflationary uplift of the tax base of assets and liabilities.

The effective tax rate, excluding the special mining rights, was 20.7%, which was below the 30% statutory tax rate. This was mainly due to the tax credit related to the special tax on diesel, the inflationary uplift of the assets, liabilities and tax losses, and the revaluation of the Mexican peso against the US dollar, which impacted the carrying amount of assets and liabilities (denominated in US dollars) and their tax bases (denominated in Mexican pesos) (see Note 10 to the Financial Statements). Including the effect of the special mining rights, the effective tax rate was 24.4% in 2017.

Profit for the year

Profit for the year increased from US$425 million to US$560.8 million, while profit attributable to equity shareholders of the Group increased to US$560.6 million, up from US$427.0 million in 2016.

Excluding the effects of the Silverstream Contract, profit for the year increased from US$331.5 million to US$481.2 million. Similarly, profit attributable to equity shareholders of the Group, excluding the Silverstream effects, increased to US$481.0 million, up from US$333.5 million.

Cash flow

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

	2017 US$ million	2016 US$ million	Amount US$	Change %
Cash generated by operations before changes in working capital	**1,073.7**	1,023.3	50.4	4.9
(Increase)/decrease in working capital	**(2.9)**	(10.6)	7.7	72.6
Taxes and employee profit sharing paid	**(309.3)**	(114.8)	(194.5)	169.4
Net cash from operating activities	**761.5**	898.0	136.5	(15.2)
Silverstream Contract	**43.3**	47.6	(4.2)	(8.9)
Purchase of property, plant & equipment	**(604.8)**	(434.1)	(170.7)	39.3
Dividends paid to shareholders of the Company	**(236.6)**	(88.2)	(148.3)	168.2
Net interest (paid)	**(21.0)**	(21.1)	0.1	(0.5)
Net increase in cash during the period after foreign exchange differences	**(16.0)**	411.8	(427.8)	N/A
Cash and other liquid funds at 31 December*	896.0	912.0	(16.0)	(1.7)

* Cash and other liquid funds are disclosed in Note 31(c) to the financial statements.

Cash generated by operations before changes in working capital increased by 4.9% to US$1,073.7 million, mainly as a result of the higher profits generated in the year. Working capital increased US$2.9 million mainly due to an increase in trade and other receivables resulting from the higher volumes sold and the higher gold, lead and zinc prices (US$44.4 million); and an increase in prepayments and other assets (US$0.7 million). This increase in working capital was partly offset by a decrease in inventories (US$5.7 million) and an increase in trade and other payables (US$36.4 million).

Taxes and employee profit sharing paid increased 169.4% over 2016 to US$309.3 million.

As a result of the above factors, net cash from operating activities decreased 15.2% from US$898.0 million in 2016 to US$761.5 million in 2017.

Other sources of cash were the proceeds of the Silverstream Contract of US$43.3 million, proceeds from the sale of non-strategic assets of US$26.1 million and capital contributions from minority shareholders in subsidiaries of US$18.9 million.

The above funds were mainly used to purchase property, plant and equipment for a total of US$604.8 million, a 39.3% increase over 2016. Capital expenditures for 2017 are further described below:

Purchase of property, plant and equipment

	2017 US$ million	
Fresnillo mine	**111.7**	Mine development and purchase of in-mine equipment and installation of a new zinc thickener and vertical conveyor band
Saucito mine	**133.7**	Development, replacement of in-mine equipment, construction of the Pyrites Plant and deepening of the Jarillas shaft
Herradura mine	**153.2**	Stripping activities, sustaining capex and construction of second line of DLP
San Julián	**79.1**	Completion of San Julián phase II
Ciénega mine	**46.5**	Development, replacement of in-mine equipment, construction of tailings dam and purchase of land
Noche Buena	**18.7**	Mining works and sustaining capex
Juanicipio project	**34.1**	Exploration expenditure and construction of ramps
Other	**27.7**	
Total purchase of property, plant and equip.	**604.8**	

Dividends paid to shareholders of the Group in 2017 totalled US$236.6 million, a 168.2% increase from 2016, in line with our dividend policy that includes a consideration of profits generated in the period. The 2017 payment included the final 2016 dividend of US$158.4 million and the 2017 interim dividend paid in September of US$78.2 million.

Net interest of US$21.0 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 a decrease in net cash of US$16.0 million (net decrease in cash and cash equivalents), which combined with the US$912.0 million balance at the beginning of the year resulted in cash, cash equivalents and short-term investments of US$896.0 million at the end of 2017.

Balance sheet

Fresnillo plc continued to maintain a solid financial position with cash and other liquid funds[6] of US$896.0 million as of 31 December 2017. This represented a 1.7% decrease versus December 2016, as explained above.

Inventories decreased 2.1% to US$271.1 million mainly as a result of the further decrease in inventories of gold deposited on the leaching pads at Herradura.

Trade and other receivables increased 40.3% to US$402.1 million as a result of the increase in income tax recoverable, higher metal volumes sold which increased receivables, and an increase in value added tax receivable.

The change in the value of the Silverstream derivative from US$467.5 million at the beginning of the year to US$538.9 million as of 31 December 2017 reflects proceeds of US$42.3 million corresponding to 2017, (US$37.4 million in cash and US$4.9 million in receivables) and the Silverstream revaluation effect in the income statement of US$113.7 million.

The net book value of property, plant and equipment was US$2,448.6 million at year end, representing a 12.3% increase over 2016. The US$268.4 million increase was mainly due to: the larger asset base following the commissioning of San Julián; capitalised development works; construction of the Pyrites Plant and the second DLP line; purchase of additional in-mine equipment; and the construction of leaching pads at Herradura and Noche Buena.

The Group's total equity was US$3,066.6 million as of 31 December 2017, a 12.9% increase over 2016. This was mainly explained by the increase in retained earnings, reflecting the 2016 profit, lower dividends paid during the year, and the net unrealised gains on cash flow hedges.

Dividends

Based on the Group's 2017 performance, the Directors have recommended a final dividend of 29.8 US cents per Ordinary Share, which will be paid on 4th June 2018 to shareholders on the register on 27th April 2018. 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 10.6 US cents per share totalling U$78.1 million.

[6] Cash and other liquid funds are disclosed in Note 31(c) to the financial statements.

RISK MANAGEMENT FRAMEWORK

Our approach to risk management is based on a framework that effectively embeds a culture of risk awareness across the Group. This framework enables us to identify, assess, prioritise and manage risks in order to deliver the value creation objectives defined in our business model.

Risk management system

Our risk management system is based on risk identification, assessment, prioritisation, mitigation and monitoring processes, which are continually evaluated, improved and enhanced in line with best practice.

In addition to our established risk management activities, our executives, operations managers, the controllership group, HSECR managers and exploration managers regularly engage in strengthening the effectiveness of our current controls. This supports the Board in its responsibilities of monitoring and reviewing risk management and the internal control systems.

2017 risk assessment

As part of our 2017 risk assessment exercise, a team of 142 people worked together to evaluate 108 risks across all our operations, advanced projects, exploration offices, and support and corporate areas. We identified and subsequently added a new risk during the year which reflected the specific circumstances related to the "Increase in the frequency of the reviews by the tax authorities with special focus on the mining industry".

We narrowed down our 108 risks into major risks which are monitored by executive management and the Audit Committee. We then further consolidated these into 12 principal risks which are closely monitored by the Board of Directors. This new risk is grouped within the "Potential actions by the Government" principal risk.

As part of our bottom-up process, each business unit head 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 to identify the Group's principal risks. We conducted the same risk analysis 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.

In 2017, cyber security risk was elevated to a principal risk due to its increased relevance within the mining industry. As the mining industry continues to go through a digital transformation, with greater reliance on automated operational systems, more sophisticated and coordinated attacks are being launched by a broad range of groups looking to exploit vulnerabilities.

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.

Signed for and on behalf of the Board

Charles Jacobs
Senior Independent Director
26 February 2018

Consolidated Income Statement
Year ended 31 December

		Year ended 31 December 2017			Year ended 31 December 2016		
	Notes	US$ thousands			US$ thousands		
		Pre-Silverstream revaluation effect	Silverstream revaluation effect	Total	Pre-Silverstream revaluation effect	Silverstream revaluation effect	Total
Continuing operations:							
Revenues	4	2,093,308		2,093,308	1,905,503		1,905,503
Cost of sales	5	(1,167,903)		(1,167,903)	(1,023,388)		(1,023,388)
Gross profit		**925,405**		**925,405**	**882,115**		**882,115**
Administrative expenses		(72,710)		(72,710)	(59,157)		(59,157)
Exploration expenses	6	(141,108)		(141,108)	(121,182)		(121,182)
Selling expenses		(19,110)		(19,110)	(16,277)		(16,277)
Other operating income	8	28,203		28,203	1,398		1,398
Other operating expenses	8	(11,371)		(11,371)	(10,442)		(10,442)
Profit from continuing operations before net finance costs and income tax		**709,309**		**709,309**	**676,455**		**676,455**
Finance income	9	14,576		14,576	6,958		6,958
Finance costs	9	(89,653)		(89,653)	(80,323)		(80,323)
Revaluation effects of Silverstream contract	14	-	113,656	113,656	-	133,528	133,528
Foreign exchange loss		(6,399)		(6,399)	(18,378)		(18,378)
Profit from continuing operations before income tax		**627,833**	**113,656**	**741,489**	**584,712**	**133,528**	**718,240**
Corporate income tax	10	(119,365)	(34,097)	(153,462)	(219,808)	(40,058)	(259,866)
Special mining right	10	(27,220)		(27,220)	(33,412)		(33,412)
Income tax expense	10	(146,585)	(34,097)	(180,682)	(253,220)	(40,058)	(293,278)
Profit for the year from continuing operations		**481,248**	**79,559**	**560,807**	**331,492**	**93,470**	**424,962**
Attributable to:							
Equity shareholders of the Company		481,019	79,559	560,578	333,516	93,470	426,986
Non-controlling interest		229		229	(2,024)		(2,024)
		481,248	**79,559**	**560,807**	**331,492**	**93,470**	**424,962**
Earnings per share: (US$)							
Basic and diluted earnings per Ordinary Share from continuing operations	11	-		0.761	-		0.579
Adjusted earnings per share: (US$)							
Adjusted basic and diluted earnings per Ordinary Share from continuing operations	11	0.653		-	0.453		-

Consolidated Statement of Comprehensive Income
Year ended 31 December

		Year ended 31 December	
	Notes	**2017** **US$ thousands**	2016 US$ thousands
Profit for the year		**560,807**	**424,962**
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
Income tax effect	10	-	(355)
Changes in the fair value of cash flow hedges		-	(52,918)
Income tax effect	10	-	15,875
Net effect of cash flow hedges		**-**	**(36,214)**
Changes in the fair value of available-for-sale financial assets	13	8,808	44,729
Income tax effect	13	(2,642)	(13,418)
Impairment of available-for-sale financial assets taken to income during the year		36	-
Income tax effect	10	(11)	-
Net effect of available-for-sale financial assets		**6,191**	**31,311**
Foreign currency translation		118	3
Net other comprehensive income/(expense) that may be reclassified subsequently to profit or loss:		**6,309**	**(4,900)**
Items that will not be reclassified to profit or loss:			
Remeasurement gains on defined benefit plans	22	933	2,443
Income tax effect	10	(148)	(388)
Net other comprehensive income that will not be reclassified to profit or loss		**785**	**2,055**
Other comprehensive income/(expense), net of tax		7,094	(2,845)
Total comprehensive income for the year, net of tax		**567,901**	**422,117**
Attributable to:			
Equity shareholders of the Company		567,672	424,141
Non-controlling interests		229	(2,024)
		567,901	**422,117**

Consolidated Balance Sheet
As at 31 December

		As at 31 December	
	Notes	**2017 US$ thousands**	2016 US$ thousands
ASSETS			
Non-current assets			
Property, plant and equipment	12	2,448,596	2,180,217
Available-for-sale financial assets	13	144,856	116,171
Silverstream contract	14	506,569	438,811
Derivative financial instruments	30	-	16,532
Deferred tax asset	10	48,950	20,023
Inventories	15	91,620	89,351
Other receivables	16	129	990
Other assets		3,389	3,385
		3,244,109	**2,865,480**
Current assets			
Inventories	15	179,485	187,499
Trade and other receivables	16	342,506	286,678
Income tax recoverable		59,588	-
Prepayments		3,543	2,839
Derivative financial instruments	30	382	6,618
Silverstream contract	14	32,318	28,718
Short-term investments	17	-	200,000
Cash and cash equivalents	17	876,034	711,954
		1,493,856	**1,424,306**
Total assets		**4,737,965**	**4,289,786**
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)
Available-for-sale financial assets reserve	18	53,799	47,608
Foreign currency translation reserve	18	(610)	(728)
Retained earnings	18	1,962,708	1,637,888
		3,011,350	2,680,221
Non-controlling interests		55,245	36,147
Total equity		**3,066,595**	**2,716,368**
Non-current liabilities			
Interest-bearing loans	20	799,046	798,027
Derivative financial instruments	30	14,224	16
Provision for mine closure cost	21	184,775	149,109
Provision for pensions and other post-employment benefit plans	22	9,217	9,095
Deferred tax liability	10	491,677	463,050
		1,498,939	**1,419,297**

Consolidated Balance Sheet
As at 31 December

		As at 31 December	
	Notes	**2017 US$ thousands**	2016 US$ thousands
Current liabilities			
Trade and other payables	23	134,949	121,633
Income tax payable		18,328	18,842
Derivative financial instruments	30	4,992	630
Employee profit sharing		14,162	13,016
		172,431	**154,121**
Total liabilities		**1,671,370**	**1,573,418**
Total equity and liabilities		**4,737,965**	**4,289,786**

These financial statements were approved by the Board of Directors on 26 February 2018 and signed on its behalf by:

Mr Arturo Fernandez
Non-executive Director
26 February 2018

Consolidated Statement of Cash Flows
Year ended 31 December

		Year ended 31 December	
	Notes	**2017 US$ thousands**	2016 US$ thousands
Net cash from operating activities	29	**761,471**	**897,958**
Cash flows from investing activities			
Purchase of property, plant and equipment		(604,751)	(434,050)
Proceeds from the sale of property, plant and equipment and other assets	8	26,078	277
Repayments of loans granted to contractors		925	2,626
Short-term investments	17	200,000	(81,282)
Silverstream contract	14	43,349	47,565
Purchase of available-for-sale financial assets		(19,877)	-
Interest received		14,535	6,958
Net cash used in investing activities		**(339,741)**	**(457,906)**
Cash flows from financing activities			
Dividends paid to shareholders of the Company	19	(236,560)	(88,219)
Capital contribution		18,869	7,361
Interest paid[1]	20	(35,503)	(28,028)
Net cash used in financing activities		**(253,194)**	**(108,886)**
Net increase in cash and cash equivalents during the year		168,536	331,166
Effect of exchange rate on cash and cash equivalents		(4,456)	(632)
Cash and cash equivalents at 1 January		711,954	381,420
Cash and cash equivalents at 31 December	17	**876,034**	**711,954**

1 Total interest paid during the year ended 31 December 2017 less amounts capitalised totalling US$11.4 million (31 December 2016: US$18.2 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									
	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
											US$ thousands
Balance at 1 January 2016		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**
Profit/(loss) for the year		-	-	-	-	-	-	560,578	560,578	229	560,807
Other comprehensive income, net of tax		-	-	-	-	6,191	118	785	7,094	-	7,094
Total comprehensive income for the year		-	-	-	-	6,191	118	561,363	567,672	229	567,901
Capital contribution		-	-	-	-	-	-	-	-	18,869	18,869
Dividends declared and paid	19	-	-	-	-	-	-	(236,543)	(236,543)	-	(236,543)
Balance at 31 December 2017		**368,546**	**1,153,817**	**(526,910)**	**-**	**53,799**	**(610)**	**1,962,708**	**3,011,350**	**55,245**	**3,066,595**

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 percent of the shares of the Company and the ultimate controlling party of the Company is the Baillères family, whose beneficial interest is held through Peñoles. The 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 2017 were authorised for issue by the Board of Directors of Fresnillo plc on 26 February 2018.

The Group's principal business is the mining and beneficiation of non-ferrous minerals, and the sale of related production. The primary contents of this production are silver, gold, lead and zinc. Further information about the Group operating mines and its principal activities is disclosed in note 3.

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

The audited financial statements will be delivered to the Registrar of Companies in due course. The financial information contained in this document does not constitute statutory accounts as defined in section 435 of the Companies Act 2006

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 2017 and 2016, 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 2017 and 2016, 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 2016. During 2017, there were no amendments to existing accounting policies.

New standards, interpretations and amendments (new standards) adopted by the Group

The Group has adopted from 1 January 2017 Amendments to IAS 7. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. The Group also has adopted Amendments to IAS 12. The amendments 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 had no impact in the financial information of the Group.

Other than the above mentioned amendments there were no significant new standards that the Group was required to adopt effective from 1 January 2017.

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

IFRS 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The Group has decided not to adopt IFRS 9 until it becomes mandatory on 1 January 2018. The Group does not expect the new guidance to have a significant impact on the classification and measurement of its financial assets for the following reasons:

Classification and measurement

The equity instruments that are currently classified as available-for-sale financial assets satisfy the conditions for classification as at fair value through other comprehensive income (FVOCI). Under IFRS 9, gains and losses accumulated in OCI are not recycled to the income statement. There are no other significant changes to the accounting for these assets. Also, embedded derivatives resulting for the sales of goods as described in note 2(p) will be no longer separated from the host contract. Instead, the entire receivable will be measured at fair value through profit or loss. Management does not expect this to result in a significant impact on the measurement of the receivable.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities.

Derecognition

The derecognition rules have been transferred from IAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

Hedge accounting

The new hedge accounting rules will align the accounting for hedging instruments more closely with the Group's risk management practices. At this stage the Group does not expect to designate any new hedge relationships except for the derivatives corresponding to purchase of property, plant and equipment. The Group's existing hedge relationships qualify as continuing hedges upon the adoption of IFRS 9. As a consequence, the Group does not expect an impact on the accounting for its hedging relationships.

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. Where the hedged item is transaction related, amounts initially recognised in OCI related to the change in the time value of options are reclassified to profit or loss or as a basis adjustment to non-financial assets or liabilities upon maturity of the hedged item, or, in the case of a hedged item that realises over time, the amounts initially recognised in OCI are amortised to profit or loss on a systematic and rational basis over the life of the hedged item. Under IAS 39, the change in time value of options is recorded in the income statement. The initial credit adjustment from retained earnings to hedging reserve as at 1 January 2017 would be US$23.0 million and the adjustment decreasing financial cost for the year ended 31 December 2017 US$42.1 million.

Impairment

IFRS 9 requires the Group to now use an expected credit loss model for its trade receivables measured at amortised cost, either on a 12-month or lifetime basis. Given the short term nature of these receivables, the Group does not expect these changes will have a significant impact.

Presentation and disclosure
The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

IFRS 15 Revenue from Contracts with Customers

The IASB has issued a new standard for the recognition of revenue arising from contracts with customers. The new revenue standard will supersede all current revenue recognition requirements under IFRS.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The Group has evaluated recognition and measurement of revenue based on the five-step model in IFRS 15 and has not identified any financial impacts, hence no adjustments are expected to result from the adoption of IFRS 15. The Group has elected to adopt the new standard from 1 January 2018 applying the modified retrospective adoption method.

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.

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 has decided to adopt the standard when it becomes effective.

IFRIC 22 Foreign currency transactions and advance consideration

IFRIC 22 clarifies 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 the case that 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.

IFRIC 23 Uncertainty over Income Tax treatments

This Interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. The interpretation is to be applied to the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments. Application of tax law can be complex and requires judgement to assess risk and estimate outcomes where the amount of tax payable or recoverable is uncertain. The Group is working to identify potential uncertainties based on previous resolutions of tax authorities. IFRIC 23 is applicable for annual periods beginning on or after 1 January 2019 and earlier adoption is permitted.

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

(c) Significant accounting judgments, estimates and assumptions

The preparation of the Group's consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. These judgements and estimates are based on management's best knowledge of the relevant facts and circumstances, with regard to prior experience, but actual results may differ from the amounts included in the consolidated financial statements. Information about such judgements and estimates is contained in the accounting policies and/or the notes to the consolidated financial statements.

Judgements
Areas of judgement, apart from those involving estimations, that have the most significant effect on the amounts recognised in the consolidated financial statements are:

Determination of functional currency (note 2(d)):

The determination of functional currency requires management judgement, particularly where there may be more than one currency 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, judgment 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.

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 balance sheet, 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. The 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 estimation by management. The term of the derivative is based on Sabinas life of mine 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, the currency in which the cost will be incurred, 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:

The recognition of 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.

(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.

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.

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 less cost of disposal 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.

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 financial 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, work in progress and ore stockpile inventories are measured at the lower of cost and net realisable value. Cost is determined using the weighted average cost method based on cost of production which excludes borrowing costs.

For this purpose, the costs of production include:

personnel expenses, which include employee profit sharing, materials and contractor expenses which are directly attributable to the extraction and processing of ore;

the depreciation of property, plant and equipment used in the extraction and processing of ore; and

related production overheads (based on normal operating capacity).

Operating materials and spare parts are valued at the lower of cost or net realisable value. An allowance for obsolete and slow-moving inventories is determined by reference to specific items of stock. A regular review is undertaken by management to determine the extent of such an allowance.

Net realisable value is the estimated selling price in the ordinary course of business less any further costs expected to be incurred to completion and disposal.

(j) 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.

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 ten percent of the taxable income of each fiscal year.

PTU is accounted for as employee benefits and is calculated based on the services rendered by employees during the year, considering their most recent salaries. The liability is recognised as it accrues and is charged to the income statement. PTU, paid in each fiscal year, is considered deductible for income tax purposes.

(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.

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 Julian 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.

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;

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. 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.

(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 2017, the Group has seven reportable operating segments 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 Ramon satellite mine;

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

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

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

The San Julian mine, located on the border of Chihuahua / Durango states, an underground silver-gold mine. Phase one of San Julian mine commenced commercial production in the third quarter of 2016 and phase two in the third quarter of 2017.

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 2017 and 2016, 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 2017 and 2016, respectively:

										Year ended 31 December 2017
US$ thousands	**Fresnillo**	**Herradura**	**Cienega**	**Soledad-Dipolos[4]**	**Saucito**	**Noche Buena**	**San Julian**	**Other[5]**	**Adjustments and eliminations**	**Total**
Revenues:										
Third party[1]	368,286	605,823	183,689	-	446,008	214,998	274,504	-	-	2,093,308
Inter-Segment								79,907	(79,907)	-
Segment revenues	**368,286**	**605,823**	**183,689**	**-**	**446,008**	**214,998**	**274,504**	**79,907**	**(79,907)**	**2,093,308**
Segment Profit[2]	**252,249**	**355,570**	**97,098**	**2,269**	**315,196**	**75,496**	**174,712**	**59,878**	**(22,966)**	**1,309,502**
Depreciation and amortisation										(367,609)
Employee profit sharing										(16,488)
Gross profit as per the income statement										**925,405**
Capital expenditure[3]	111,724	153,200	46,461	-	133,679	18,748	79,069	61,870	-	604,751

1 Total third party revenues include treatment and refining charges amounting US$139.9 million.

2 Segment profit excluding depreciation and amortisation and employee profit sharing. During 2017 there were no foreign exchange hedging losses included in Gross profit.

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 the construction of facilities at San Julian phase II, the second dynamic leaching plant at Herradura and the construction of the pyrites plant at Saucito.

4 During 2017, this segment did not operate due to the Bajio conflict (note 26). Segment profit is derived from the changes in the net realisable value allowance against inventory (note 15).

5 Other inter-segment revenue corresponds to leasing services provided by Minera Bermejal, S.A. de C.V; capital expenditure corresponds to Minera Juanicipio S.A de C.V.

										Year ended 31 December 2016
US$ thousands	Fresnillo	Herradura	Cienega	Soledad-Dipolos[4]	Saucito	Noche Buena	San Julian[5]	Other[6]	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**	**66,441**	**77,385**	**(75,799)**	**1,905,503**
Segment Profit[2]	**224,163**	**369,896**	**100,105**	**12,977**	**363,780**	**83,852**	**45,833**	**63,379**	**(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	144,468	14,200	-	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 Bajio conflict (note 26). Segment profit is derived from the changes in the net realisable value allowance against inventory (note 15).

5 Due to its size this segment was presented within Other in the financial statements for the year ended as at 31 December 2016.

6 Other includes inter-segment revenue corresponds to leasing services provided by Minera Bermejal, S.A. de C.V.; capital expenditure corresponds to Minera Juanicipio S.A de C.V. The presentation of capital expenditure has been changed by presenting San Julian separately to be consistent with the presentation in the 2017 table above.

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	
	2017 US$ thousands	2016 US$ thousands
Lead concentrates (containing silver, gold, lead and by-products)	832,039	792,770
Doré and slag (containing gold, silver and by-products)	820,821	880,447
Zinc concentrates (containing zinc, silver and by-products)	195,837	120,889
Precipitates (containing gold and silver)	244,611	111,397
	2,093,308	**1,905,503**

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	
	2017 US$ thousands	2016 US$ thousands
Silver	844,815	724,024
Gold	1,125,290	1,133,067
Zinc	161,305	106,461
Lead	101,826	83,070
Value of metal content in products sold	2,233,236	2,046,622
Adjustment for treatment and refining charges	(139,928)	(141,119)
Total revenues[1,]	**2,093,308**	**1,905,503**

1 Includes provisional price adjustments which represent changes in the fair value of embedded derivatives resulting in a gain of US$9.2 million (2016: loss of US$(2.2) million). During 2017 there were no hedging transactions impacting revenues (2016: gain of US$ 1.6 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	
	2017 US$ per ounce	2016 US$ per ounce
Gold[2]	1,267.4	1,246.5
Silver[2]	16.9	17.2

2 Realised prices do not include the results of hedging.

5. Cost of sales

	Year ended 31 December	
	2017 US$ thousands	2016 US$ thousands
Depreciation and amortisation (notes 2 (e) and 12)	367,609	346,502
Personnel expenses (note 7)	89,629	80,360
Maintenance and repairs	115,670	90,650
Operating materials	153,221	131,786
Energy	144,298	117,995
Contractors	233,909	174,167
Freight	10,545	7,921
Insurance	4,786	4,990
Mining concession rights and contributions	11,589	10,347
Other	22,043	14,721
Cost of production	1,153,299	979,439
Losses on foreign currency hedges	-	2,770
Change in work in progress and finished goods (ore inventories)	16,873	61,488
Change in net realisable value allowance against inventory (note 15)	(2,269)	(20,309)
	1,167,903	**1,023,388**

6. Exploration expenses

	Year ended 31 December	
	2017 US$ thousands	2016 US$ thousands
Contractors	105,778	88,822
Administrative services	6,818	6,243
Mining concession rights and contributions	13,872	14,027
Personnel expenses (note 7)	6,749	5,521
Assays	2,850	2,982
Rentals	2,329	1,524
Other	2,712	2,063
	141,108	**121,182**

These exploration expenses were mainly incurred in areas of the Fresnillo, Herradura, La Ciénega, Saucito and San Julian mines, the San Ramon satellite mine and Orysivo, Guanajuato, Centauro Deep and Valles projects. In addition, exploration expenses of US$8.3 million (2016: US$7.9 million) were incurred in the year on projects located in Peru.

The following table sets forth liabilities (generally trade payables) corresponding to exploration activities of the Group companies engaged only in exploration, principally Exploraciones Mineras Parreña, S.A. de C.V.

	Year ended 31 December	
	2017 US$ thousands	2016 US$ thousands
Liabilities related to exploration activities	1,947	1,643

The liabilities related to exploration activities recognised 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	
	2017 **US$ thousands**	2016 US$ thousands
Operating cash out flows related to exploration activities	140,804	120,457

7. Personnel expenses

	Year ended 31 December	
	2017 **US$ thousands**	2016 US$ thousands
Employees' profit sharing	17,150	15,145
Salaries and wages	39,448	36,296
Bonuses	12,112	10,233
Statutory healthcare and housing contributions	14,258	12,979
Other benefits	8,704	8,035
Vacations and vacations bonus	2,636	1,634
Social security	7,112	4,459
Post-employment benefits[1]	4,224	3,567
Other	10,843	8,686
	116,487	**101,034**

1 Post- employment benefits include US$0.4 million associated to benefits corresponding to the defined contribution plan (2016: US$1.5 million).

(a) Personnel expenses are reflected in the following line items:

	Year ended 31 December	
	2017 **US$ thousands**	2016 US$ thousands
Cost of sales (note 5)	89,629	80,360
Administrative expenses	20,109	15,153
Exploration expenses (note 6)	6,749	5,521
	116,487	**101,034**

(b) The monthly average number of employees during the year was as follows:

	Year ended 31 December	
	2017 **No.**	2016 No.
Mining	1,994	1,881
Plant concentration	602	550
Exploration	501	454
Maintenance	865	894
Administration and other	936	791
Total	**4,898**	**4,570**

8. Other operating income and expenses

	Year ended 31 December	
	2017 US$ thousands	2016 US$ thousands
Other income:		
Gain on sale of property, plant and equipment[1]	25,333	-
Rentals	-	3
Selling of scrap	1,444	610
Other	1,426	785
	28,203	**1,398**

	Year ended 31 December	
	2017 US$ thousands	2016 US$ thousands
Other expenses:		
Rentals	229	-
Maintenance[2]	1,858	926
Donations	2,540	317
Environmental activities	1,790	1,005
Loss on sale of property, plant and equipment	-	1,103
Consumption tax expensed	1,031	940
Write-off of property, plant and equipment	-	3,005
Impairment available-for-sale financial assets	36	-
Other	3,887	3,146
	11,371	**10,442**

1 Mainly corresponds to the sale of certain mining concession from the Fresnillo district to a third party for a consideration of US$26.0 million, resulting in a gain of US$24.8 million.

2 Costs relating to the rehabilitation of the facilities of Compañía Minera las Torres, S.A. de C.V. (closed mine).

9. Finance income and finance costs

	Year ended 31 December	
	2017 US$ thousands	2016 US$ thousands
Finance income:		
Interest on short-term deposits and investments	11,368	4,542
Other	3,208	2,416
	14,576	**6,958**

	Year ended 31 December	
	2017 US$ thousands	2016 US$ thousands
Finance costs:		
Interest on interest-bearing loans	35,808	29,006
Fair value movement on derivatives[1]	41,389	40,294
Unwinding of discount on provisions	11,703	10,476
Other	753	547
	89,653	**80,323**

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	
	2017 US$ thousands	2016 US$ thousands
Consolidated income statement:		
Corporate income tax		
Current:		
Income tax charge	155,692	167,873
Amounts under/(over) provided in previous years	8,676	(1,646)
	164,368	166,227
Deferred:		
Origination and reversal of temporary differences	(45,003)	53,581
Revaluation effects of Silverstream contract	34,097	40,058
	(10,906)	93,639
Corporate income tax	**153,462**	259,866
Special mining right		
Current:		
Special mining right charge[1]	19,415	24,502
	19,415	24,502
Deferred:		
Origination and reversal of temporary differences	7,805	8,910
Special mining right	27,220	33,412
Income tax expense reported in the income statement	**180,682**	293,278

1. 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 2017, the Group credited US$15.7 million (2016: US$12.4 million) of mining concession rights against the SMR. Total mining concessions rights paid during the year were US$16.3 million (2016: US$15.4 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$35.1 million (2016: US$36.9 million).

	Year ended 31 December	
	2017 US$ thousands	2016 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)
Changes in fair value of cash flow hedges	-	15,875
Changes in fair value of available-for-sale financial assets	(2,653)	(13,418)
Remeasurement losses on defined benefit plans	(148)	(388)
Income tax effect reported in other comprehensive income	**(2,801)**	**1,714**

(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	
	2017 US$ thousands	2016 US$ thousands
Accounting profit before income tax	**741,489**	718,240
Tax at the Group's statutory corporate income tax rate 30.0%	222,446	215,472
Expenses not deductible for tax purposes	2,562	2,016
Inflationary uplift of the tax base of assets and liabilities	(20,011)	(8,933)
Current income tax (over)/underprovided in previous years	472	(1,303)
Exchange rate effect on tax value of assets and liabilities[1]	(9,934)	90,035
Non-taxable/non-deductible foreign exchange losses	(4,242)	(2,157)
Inflationary uplift of tax losses	(5,084)	(2,891)
IEPS tax credit (note 10 (e))	(26,181)	(24,020)
Deferred tax asset not recognised	4,461	3,360
Special mining right deductible for corporate income tax	(8,165)	(10,024)
Other	(2,862)	(1,689)
Corporate income tax at the effective tax rate of 20.7% (2016: 36.2%)	**153,462**	259,866
Special mining right	27,220	33,412
Tax at the effective income tax rate of 24.4% (2016: 40.8%)	**180,682**	293,278

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	
	2017 US$ thousands	2016 US$ thousands
Opening net liability	(443,027)	(342,195)
Income statement credit/(charge) arising on corporate income tax	10,906	(93,639)
Income statement charge arising on special mining right	(7,805)	(8,910)
Exchange difference	-	3
Net (charge)/ credit related to items directly charged to other comprehensive income	(2,801)	1,714
Closing net liability	**(442,727)**	**(443,027)**

The amounts of deferred income tax assets and liabilities as at 31 December 2017 and 2016, considering the nature of the related temporary differences, are as follows:

	Consolidated balance sheet		Consolidated income statement	
	2017 **US$ thousands**	2016 US$ thousands	**2017** **US$ thousands**	2016 US$ thousands
Related party receivables	(221,451)	(199,181)	22,270	72,799
Other receivables	(2,171)	(3,725)	(1,554)	3,256
Inventories	162,842	163,113	271	(43,868)
Prepayments	(898)	(1,803)	(923)	(10,727)
Derivative financial instruments including Silverstream contract	(147,535)	(134,984)	12,551	4,469
Property, plant and equipment arising from corporate income tax	(341,774)	(351,325)	(9,551)	36,358
Exploration expenses and operating liabilities	44,121	24,303	(19,818)	4,083
Other payables and provisions	55,379	44,733	(10,646)	13,910
Losses carried forward	68,213	66,343	(1,870)	22,250
Post-employment benefits	1,465	1,685	220	364
Deductible profit sharing	4,249	3,905	(344)	(226)
Special mining right deductible for corporate income tax	30,661	29,100	(1,561)	(8,034)
Available-for-sale financial assets	(16,818)	(14,175)	2,643	13,419
Other	(3,772)	(3,581)	(2,594)	(14,414)
Net deferred tax liability related to corporate income tax	(367,489)	(375,592)		
Deferred tax credit related to corporate income tax	-	-	(10,906)	93,639
Related party receivables arising from special mining right	(21,379)	(18,764)	2,616	3,557
Inventories arising from special mining right	11,107	8,274	(2,831)	1,341
Property plant and equipment arising from special mining right	(64,966)	(56,945)	8,020	4,012
Net deferred tax liability	**(442,727)**	(443,027)		
Deferred tax (credit)/charge			**(3,101)**	102,549
Reflected in the statement of financial position as follows:				
Deferred tax assets	48,950	20,023		
Deferred tax liabilities-continuing operations	(491,677)	(463,050)		
Net deferred tax liability	**(442,727)**	(443,027)		

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$227.4 million (2016: US$221.1 million). If not utilised, US$13.7 million (2016: US$10.7 million) will expire within five years and US$213.6 million (2016: 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$37.4 million (2016: US$29.1 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$1,723 million (2016: US$1,949 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 Group'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 2017, the Group applied a credit of US$23.2 million (2016: US$19.1 million) in respect of the year and recognised a deferred tax asset of US$2.9 million (2016: US$4.8 million) in respect of the IEPS incurred in 2017 and expected to be applied during 2018. 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 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 and is considered as income tax under IFRS. 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 amortization, as defined by the new ISR. This SMR can be credited against the corporate income tax of the same fiscal year and its payment must be remitted no later than the last business day of March of the following year.

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 2017 and 2016, earnings per share have been calculated as follows:

	Year ended 31 December	
	2017 US$ thousands	2016 US$ thousands
Earnings:		
Profit from continuing operations attributable to equity holders of the Company	560,578	426,986
Adjusted profit from continuing operations attributable to equity holders of the Company	481,019	333,516

Adjusted profit is profit as disclosed in the Consolidated Income Statement adjusted to exclude revaluation effects of the Silverstream contract of US$113.6 million gain (US$79.5 million net of tax) (2016: US$133.5 million gain (US$93.5 million net of tax)).

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

	2017 thousands	2016 thousands
Number of shares:		
Weighted average number of Ordinary Shares in issue	736,894	736,894

	2017 US$	2016 US$
Earnings per share:		
Basic and diluted earnings per share	0.761	0.579
Adjusted basic and diluted earnings per Ordinary Share from continuing operations	0.653	0.453

12. Property, plant and equipment

Year ended 31 December 2016	Land and buildings	Plant and Equipment	Mining properties and development costs	Other assets	Construction in Progress	Total
						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)[2]	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**

Year ended 31 December 2017	Land and buildings	Plant and Equipment	Mining properties and development costs	Other assets	Construction in Progress	Total
						US$ thousands
Cost						
At 1 January 2017	243,975	1,635,586	1,508,016	193,905	499,285	**4,080,767**
Additions	3,079	5,464	46,558	27,187[2]	567,856	**650,144**
Disposals		(9,584)	(4,415)	(1,611)	-	**(15,610)**
Transfers and other movements	14,751	186,125	359,226	35,984	(596,086)	**-**
At 31 December 2017	261,805	1,817,591	1,909,385	255,465	471,055	**4,715,301**
Accumulated depreciation						
At 1 January 2017	(90,586)	(895,367)	(822,434)	(92,163)	-	**(1,900,550)**
Depreciation for the year[1]	(21,462)	(165,502)	(179,891)	(14,061)		**(380,916)**
Disposals		9,410	4,412	939		**14,761**
At 31 December 2017	(112,048)	(1,051,459)	(997,913)	(105,285)	-	**2,266,705**
Net Book amount at 31 December 2017	149,757	766,132	911,472	150,180	471,055	**2,448,596**

1 Depreciation for the year includes US$367.7 million (2016: US$346.5 million) recognised as an expense in the cost of sales in the income statement and US$13.3 million (2016: US$14.8 million), capitalised as part of construction in progress.

2 From the additions in "other assets category US$24.1 million (2016: US$(54.9) million) corresponds to the reassessment of mine closure rehabilitations costs, see note 21.

The table below details construction in progress by operating mine

	Year ended 31 December	
	2017 US$ thousands	2016 US$ thousands
Saucito	101,885	45,197
Herradura	98,401	37,740
Noche Buena	12,028	15,985
Ciénega	29,039	17,348
Fresnillo	30,641	32,703
San Julián	53,383	270,154
Other[1]	145,678	80,158
	471,055	**499,285**

1 Manly corresponds to Juanicipio development project and Minera Bermejal, S.A. de C.V. (2016: Juanicipio development project).

During the year ended 31 December 2017, the Group capitalised US$11.4 million of borrowing costs within construction in progress (2016: US$18.2). Borrowing costs were capitalised at the rate of 5.78% (2016: 5.78%).

Sensitivity analysis

As at 31 December 2017 and 2016, 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$1,300/ounce and US$19/ounce (2016: US$1,250/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. Management has considered a low sensitivity by decreasing gold and silver prices by 5% (2016: gold and silver 10%) and a high sensitivity by decreasing gold and silver prices by 10% (2016: gold 15% and silver 20%). As at 31 December 2017 no impairment resulted in those CGU tested (2016: San Julian US$84.3 million under high sensitivity; US$ nil under low sensitivity and Herradura US$109.6 million under high sensitivity; US$ nil under low sensitivity).

13. Available-for-sale financial assets

	Year ended 31 December	
	2017 US$ thousands	2016 US$ thousands
Beginning balance	116,171	71,442
Purchase of available-for-sale financial assets[1]	19,877	-
Fair value change	8,808	44,729
Ending balance	**144,856**	**116,171**
Of which relates to investments in funds	19,877	-

1 Corresponds to the Company's investment in an investment fund held to obtain a financial return.

At 31 December 2017, several investments in quoted shares were valued below the cost paid by the Group. This decrease has continued throughout the past 12-month period, which is considered to be prolonged, therefore an impairment of US$0.04 million was recognised as other expenses in the income statement. During 2016 no impairment arose on the investment in quoted shares.

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 that commenced from 31 December 2013) is payable to Peñoles. The cash payment per ounce for the year ended 31 December 2017 was $5.20 per ounce (2016: $5.15 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. The term of the derivative is based on Sabinas life of mine which is currently 38 years. 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 2017 total proceeds received in cash were US$43.3 million (2016: US$47.5 million) of which, US$5.9 million was in respect of proceeds receivable as at 31 December 2016 (2015: US$2.8 million). Cash received in respect of the year of US$37.3 million (2016: US$44.8 million) corresponds to 3.6 million ounces of payable silver (2016: 3.8 million ounces). As at 31 December 2017, a further US$4.9 million (2016: US$5.9 million) of cash receivable corresponding to 422,375 ounces of silver is due (2016: 538,756 ounces).

The US$113.6 million unrealised gain recorded in the income statement (2016: US$133.5 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, an increase in the forward price of silver, and the difference between the payments already received during the year ended 31 December 2017 and payments estimated in the valuation model as of 31 December 2016.

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

	2017 US$ thousands	2016 US$ thousands
Balance at 1 January:	467,529	384,771
Cash received in respect of the year	(37,373)	(44,796)
Cash receivable	(4,925)	(5,974)
Remeasurement gains recognised in profit and loss	113,656	133,528
Balance at 31 December	538,887	467,529
Less – Current portion	32,318	28,718
Non-current portion	506,569	438,811

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.

15. Inventories

	As at 31 December	
	2017 US$ thousands	2016 US$ thousands
Finished goods[1]	10,957	5,736
Work in progress[2]	175,016	189,047
Ore stockpile[3]	15,115	18,253
Operating materials and spare parts	75,331	70,348
	276,419	283,384
Accumulated write-down of work in progress inventory[4]	-	(2,269)
Allowance for obsolete and slow-moving inventories	(5,314)	(4,265)
Balance as 31 December at lower of cost and net realisable value	**271,105**	**276,850**
Less - Current portion	**179,485**	**187,499**
Non-current portion[5]	**91,620**	**89,351**

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.

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$1,170.1 million (2016: US$1,042.4 million) before changes to the net realisable value of inventory. The adjustment to the net realisable value allowance against work-in-progress inventory decreased US$2.2 million during the year (2016: US$20.3 million decrease). The adjustment to the allowance for obsolete and slow-moving inventory recognised as an expense was US$1.04 million (2016: US$0.7 million).

16. Trade and other receivables

	Year ended 31 December	
	2017 US$ thousands	2016 US$ thousands
Trade and other receivables from related parties (note 27)[1]	226,134	189,619
Value Added Tax receivable	85,979	70,426
Advances and other receivables from contractors	19,832	14,651
Other receivables from related parties (note 27)	4,925	5,973
Loans granted to contractors	1,403	1,401
Other receivables arising on the sale of fixed assets	57	386
Other receivables	4,612	4,693
	342,942	287,149
Provision for impairment of 'other receivables'	(436)	(471)
Trade and other receivables classified as current assets	**342,506**	**286,678**
Other receivables classified as non-current assets:		
Loans granted to contractors	129	990
	129	**990**
	342,635	**287,668**

1 Trade receivables from related parties includes the fair value of embedded derivatives arising due to provisional pricing in sales contracts of US$6.5 million as at 31 December 2017 (2016: US$(2.8) 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$242.3 million (2016: US$206.8 million), and in pesos US$100.3 million (2016: US$80.9 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 2017 is US$0.4 million (2016: US$0.5 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	
	2017 US$ thousands	2016 US$ thousands
Cash at bank and on hand	4,265	2,592
Short-term deposits	871,769	709,362
Cash and cash equivalents	**876,034**	**711,954**

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	
	2017 US$ thousands	2016 US$ thousands
Short-term investments	**-**	**200,000**

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 2017 there were no short-term investments (31 December 2016: US$200,000 held in fixed-term bank deposits).

18. Equity

Share capital and share premium

Authorised share capital of the Company is as follows:

	As at 31 December			
	2017		2016	
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 2016	736,893,589	$368,545,586	50,000	£50,000
At 31 December 2016	736,893,589	$368, 545,586	50,000	£50,000
At 31 December 2017	736,893,589	$368, 545,586	50,000	£50,000

As at 31 December 2017 and 2016, all issued shares with a par value of US$0.50 each are fully paid. The rights and obligations attached to these shares are governed by law and the Company's Articles of Association. Ordinary shareholders are entitled to receive notice and to attend and speak at any general meeting of the Company. There are no restrictions on the transfer of the Ordinary shares.

The Sterling Deferred Ordinary Shares only entitle the shareholder on winding up or on a return of capital to payment of the amount paid up after repayment to Ordinary Shareholders. The Sterling Deferred Ordinary Shares do not entitle the holder to payment of any dividend, or to receive notice or to attend and speak at any general meeting of the Company. The Company may also at its option redeem the Sterling Deferred Ordinary Shares at a price of £1.00 or, as custodian, purchase or cancel the Sterling Deferred Ordinary Shares or require the holder to transfer the Sterling Deferred Ordinary Shares. Except at the option of the Company, the Sterling Deferred Ordinary Shares are not transferrable.

Reserves

Share premium

This reserve records the consideration premium for shares issued at a value that exceeds their nominal value.

Capital reserve

The capital reserve arose as a consequence of the Pre-IPO Reorganisation as a result of using the pooling of interest method.

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.

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 2017 and 2016 are as follows:

	US cents per Ordinary Share	Amount US$ thousands
Year ended 31 December 2017		
Final dividend for 2016 declared and paid during the year[1]	21.5	158,432
Interim dividend for 2017 declared and paid during the year[2]	10.6	78,111
	32.1	**236,543**
Year ended 31 December 2016		
Final dividend for 2015 declared and paid during the year[3]	3.3	24,686
Interim dividend for 2016 declared and paid during the year[4]	8.6	63,373
	11.9	**88,059**

1 This dividend was approved by the Board of Directors on 23 May 2017 and paid on 26 May 2017.

2 This dividend was approved by the Board of Directors on 31 July 2017 and paid on 8 September 2017.

3 This dividend was approved by the Board of Directors on 3 May 2016 and paid on 9 May 2016.

4 This dividend was approved by the Board of Directors on 1 August 2016 and paid on 9 September 2016.

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	
	2017 US$ thousands	2016 US$ thousands
Opening balance	798,027	797,032
Accrued interest	46,267	46,267
Interest paid[1]	(46,267)	(46,267)
Amortisation of discount and transaction costs	1,019	995
Closing balance	799,046	798,027

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 earnt 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. 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.

During the year, the Group refined its estimation of costs by further analysing the currency in which costs will be incurred. The Group has performed separate calculations of the provision by currency, discounting at corresponding rates. As at 31 December 2017, the discount rates used in the calculation of the parts of the provision that relate to Mexican pesos range from 6.27% to 7.97% (2016: range of 6.61% to 7.74%). The range for the current year parts that relate to US dollars range from 1.37% to 2.22% (2016: not applicable).

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 2017 (3 to 27 years from 31 December 2016).

	As at 31 December	
	2017 US$ thousands	2016 US$ thousands
Opening balance	**149,109**	**195,476**
Increase/(decrease) to existing provision	1,024	(21,745)
Effect of change in estimation	19,678	-
Effect of changes in discount rate	(281)	(13,570)
Unwinding of discount	11,729	10,476
Payments	(131)	(472)
Foreign exchange	3,647	(21,056)
Closing balance	**184,775**	**149,109**

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.

The following tables provide information relating to changes in the defined benefit obligation and the fair value of plan assets:

	Balance at 1 January 2017	Pension cost charge to income statement: Service cost	Net Interest	Foreign Exchange	Sub-total recognised in the year	Benefits paid	Remeasurement gains/(losses) in OCI: 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 2017
															US$ thousands
Defined benefit obligation	(25,377)	(956)	(1,729)	(1,146)	(3,831)	883	-	-	515	498	-	1,013	-	(15)	(27,327)
Fair value of plan assets	16,282	-	1,031	731	1,762	(413)	(80)	-	-	-	-	(80)	422	137	18,110
Net benefit liability	(9,095)	(956)	(698)	(415)	(2,069)	470	(80)	-	515	498	-	933	422	122	(9,217)

	Balance at 1 January 2016	Pension cost charge to income statement: Service cost	Net Interest	Foreign Exchange	Sub-total recognised in the year	Benefits paid	Remeasurement gains/(losses) in OCI: 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
															US$ thousands
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)

Of the total defined benefit obligation, US$7.5 million (2016: US$6.7 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	
	2017 **%**	2016 %
Discount rate	7.67	7.52
Future salary increases (NCPI)	5.0	5.0

The life expectancy of current and future pensioners, men and women aged 65 and older will live on average for a further 23.1 and 26.3 years respectively (2016: 22.3 years for men and 25.5 for women). The weighted average duration of the defined benefit obligation is 11 years (2016: 12.1 years).

The fair values of the plan assets were as follows:

	As at 31 December	
	2017 **US$ thousands**	2016 US$ thousands
Government debt	556	746
State owned companies	4,559	3,914
Mutual funds (fixed rates)	12,995	11,622
	18,110	**16,282**

The pension plan has not invested in any of the Group's own financial instruments nor in properties or assets used by the Group.

A quantitative sensitivity analysis for significant assumptions as at 31 December 2017 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)	(1,381)	1,516	164	(158)	440

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	
	2017 **US$ thousands**	2016 US$ thousands
Trade payables	93,664	68,216
Other payables to related parties (note 27)	9,057	3,173
Accrued expenses	18,600	16,797
Other taxes and contributions	13,628	33,447
	134,949	**121,633**

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	
	2017 US$ thousands	2016 US$ thousands
Saucito	64,511	32,933
Herradura	28,813	29,544
Noche Buena	1,643	3,677
Ciénega	16,688	6,454
Fresnillo	19,570	12,079
San Julián	27,403	39,895
Other[1]	83,729	20,133
	242,357	**144,715**

1 Other includes commitments of Minera Bermejal, S. de R.L. de C.V. and Minera Juanicipio, S.A. de C.V. (2016: Minera Bermejal, S. de R.L. de C.V. and 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	
	2017 US$ thousands	2016 US$ thousands
Within one year	491	1,095
After one year but not more than five years	108	1,875
	599	2,970

(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	
	2017 US$ thousands	2016 US$ thousands
Within one year	3,424	6,790
After one year but not more than five years	1,538	3,399
	4,962	10,189

	As at 31 December	
	2017 US$ thousands	2016 US$ thousands
Minimum lease payments expensed in the year	4,916	4,142

26. Contingencies

As of 31 December 2017, 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 (SAT, by its Spanish acronym) 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.

  As such, 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.
- There are currently a number of ongoing tax inspections that have been initiated by the SAT. No findings or claims have been communicated to the Company in respect of these, other than relating to Penmont as discussed below. It is not practical to determine the amount of any potential claims or the likelihood of any unfavourable outcome arising from these or any future inspections that may be initiated. 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.
- With regards to Penmont tax audits, which commenced during 2015, the Company considers it completed the provision of all documentation required in order to demonstrate that all the 2012-2013 non-taxable income and tax deductions which are being challenged, are appropriate. Penmont formally filed a writ before the Mexican Taxpayers Ombudsman (PRODECON per its Spanish acronym) requesting a conclusive agreement in the matter. SAT's first, second and third response to the request detailed that, while the documentation provided was sufficient to demonstrate that all of non-taxable income and the majority of the tax deductions are correct, there are still two tax deductions to be approved. In this sense, discussion with the SAT continue, and as long as the conclusive agreement is still in progress, the current auditing process is suspended and the tax authorities cannot determine a tax deficiency until PRODECON issues the final agreement under the terms agreed between Penmont and the SAT.
- 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 2017 and going forward.
- New income tax and VAT legislation in respect of contractors came into effect on 1 January 2017, requiring management to ensure that contractors are compliant with their own tax obligations, including employment tax. This has created a new obligation for Fresnillo to obtain and retain sufficient evidence of contractors' fiscal compliance in order to deduct costs related to the contractors for income tax purposes and to recover input VAT. In late 2017, the 2018 Federal Revenue Law clarified that if the online portal (established by the tax authorities to facilitate compliance) is used in 2018, it would be sufficient to discharge any 2017 compliance obligations. Management considers that it is well progressed in meeting its obligations for 2017 and does not consider that any significant economic exposure will arise as a result of this new legislation with respect to the current year.
- In regard to the ejido El Bajio matter previously reported by the Company:
  - In 2009 five members of the El Bajio agrarian community in the state of Sonora, who claimed rights over certain surface land in the proximity of the operations of Minera Penmont ("Penmont"), submitted a legal claim 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 Court noted in that same year that certain remediation activities were necessary to comply with the relevant regulatory requirements and requested the guidance of the Federal Environmental Agency (SEMARNAT) in this respect. The Agrarian Court 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 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 Agrarian Court in respect of the approximately 300 hectares where Penmont conducted mining activities. The agrarian community Ejido El Bajio appealed this procedural order from the Agrarian Court and a Federal District Court denied this appeal. The agrarian community has presented in the month of August 2017 a further and last recourse against this ruling by the Federal District Court and the final result is pending.

- In addition, and as also previously reported by the Company, claimants in the El Bajio 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 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 Bajio 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 2017 and 2016 and balances as at 31 December 2017 and 2016.

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	
	2017 US$ thousands	2016 US$ thousands	**2017 US$ thousands**	2016 US$ thousands
Trade:				
Metalúrgica Met-Mex Peñoles, S.A. de C.V.	225,741	189,584	397	301
Other:				
Industrias Peñoles, S.A.B. de C.V.	4,925	5,974	-	-
Servicios Administrativos Peñoles, S.A. de C.V.	-	-	2,434	1,612
Servicios Especializados Peñoles, S.A. de C.V.	-	-	1,786	36
Termoeléctrica Peñoles, S. de R.L. de C.V.	-	-	1,650	908
Eólica de Coahuila S.A. de C.V.	-	-	1,926	-
Other	392	34	864	316
Sub–total	231,058	195,592	9,057	3,173
Less–current portion	231,058	195,592	9,057	3,173
Non-current portion	-	-	-	-

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

Other balances with related parties:

	Year ended 31 December	
	2017 **US$ thousands**	2016 US$ thousands
Silverstream contract:		
Industrias Peñoles, S.A.B. de C.V.	538,887	467,529

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	
	2017 **US$ thousands**	2016 US$ thousands
Income:		
Sales:[1]		
Metalúrgica Met-Mex Peñoles, S.A. de C.V.	2,101,579	1,905,503
Other income	3,173	2,381
Total income	**2,104,752**	**1,907,884**

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$139.9 million (2016: US$141.1million) and include sales credited to development projects of US$8.3 million (2016: US$1.6 million).

	Year ended 31 December	
	2017 **US$ thousands**	2016 US$ thousands
Expenses:		
Administrative services[2]*:*		
Servicios Administrativos Peñoles, S.A. de C.V.[3]	26,323	24,309
Servicios Especializados Peñoles, S.A. de C.V.	18,239	16,015
	44,562	40,324
Energy:		
Termoelectrica Peñoles, S. de R.L. de C.V.	20,415	16,011
Fuerza Eólica del Istmo S.A. de C.V.	1,678	1,794
Eólica de Coahuila S.A. de C.V.	13,666	-
	35,759	17,805
Operating materials and spare parts:		
Wideco Inc	4,534	5,254
Metalúrgica Met-Mex Peñoles, S.A. de C.V.	6,420	3,140
	10,954	8,394
Equipment repair and administrative services:		
Serviminas, S.A. de C.V.	8,406	8,268
Insurance premiums:		
Grupo Nacional Provincial, S.A. B. de C.V.	8,157	7,155
Other expenses:	3,795	2,085
Total expenses	**111,633**	**84,031**

2 Includes US$6.4 million (2016: US$4.7 million) corresponding to expenses reimbursed.

3 Includes US$7.5 million (2016: US$9.5 million) relating to engineering costs that were capitalised.

(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	
	2017 **US$ thousands**	2016 US$ thousands
Salaries and bonuses	2,689	2,416
Post-employment benefits	235	208
Other benefits	373	345
Total compensation paid in respect of key management personnel	**3,297**	**2,969**

	Year ended 31 December	
	2017 **US$ thousands**	2016 US$ thousands
Accumulated accrued defined pension entitlement	4,433	4,237

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 2017 and 2016 are as follows:

	Year ended 31 December	
Class of services	**2017** **US$ thousands**	2016 US$ thousands
Fees payable to the Group's auditor for the audit of the Group's annual accounts	1,187	1,149
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	226	222
Audit-related assurance services	308	350
Tax compliance services	19	21
Other non-audit services	27	-
Total	**1,767**	1,742

29. Notes to the consolidated statement of cash flows

	Notes	2017 US$ thousands	2016 US$ thousands
Reconciliation of profit for the year to net cash generated from operating activities			
Profit for the year		**560,807**	**424,962**
Adjustments to reconcile profit for the period to net cash inflows from operating activities:			
Depreciation and amortisation	5	367,609	346,502
Employee profit sharing	7	17,150	15,145
Deferred income tax	10	(3,101)	102,549
Current income tax expense	10	183,783	190,729
(Gain)/loss on the sale of property, plant and equipment and other assets	8	(25,333)	1,103
Other losses		-	981
Write-off of property, plant and equipment		-	3,005
Impairment of available-for-sale financial assets	8	36	-
Net finance costs		33,674	33,019
Foreign exchange loss/(gain)		11,434	(539)
Difference between pension contributions paid and amounts recognised in the income statement		(58)	(944)
Non cash movement on derivatives		41,389	40,345
Changes in fair value of Silverstream	14	(113,656)	(133,528)
Working capital adjustments			
(Increase) in trade and other receivables		(44,381)	(39,526)
(Increase)/decrease in prepayments and other assets		(708)	113
Decrease in inventories		5,745	23,725
Increase in trade and other payables		36,426	5,133
Cash generated from operations		**1,070,816**	**1,012,774**
Income tax paid		(292,063)	(102,255)
Employee profit sharing paid		(17,282)	(12,561)
Net cash from operating activities		**761,471**	**897,958**

30. Financial instruments
(a) Fair value category

	As at 31 December 2017			
	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)	-	-	236,859	-
Available-for-sale financial assets (note 13)	-	144,856	-	-
Silverstream contract (note 14)	538,887	-	-	-
Embedded derivatives within sales contracts[1] (note 4)	6,511	-	-	-
Derivative financial instruments (note 30(c))	311	-	-	71

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)	-	799,046	-
Trade and other payables (note 23)	-	102,721	-
Derivative financial instruments (note 30(c))	37	-	19,179

1 Trade and other receivables and embedded derivative within sales contracts are presented net in Trade and other receivables in the balance sheet.

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)
				As at 31 December 2016 US$ thousands
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(c))	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(c))		-	-	646

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:

	Carrying amount		Fair value	
	2017 US$ thousands	2016 US$ thousands	**2017 US$ thousands**	2016 US$ thousands
Financial assets:				
Available-for-sale financial assets	144,856	116,171	144,856	116,171
Silverstream contract (note 14)	538,887	467,529	538,887	467,529
Embedded derivatives within sales contracts	6,511	-	6,511	-
Derivative financial instruments	382	23,150	382	23,150
Financial liabilities:				
Interest-bearing loans[1] (note 20)	799,046	798,027	878,864	840,904
Embedded derivatives within sales contracts	-	2,750	-	2,750
Derivative financial instruments	19,216	646	19,216	646

As at 31 December

1 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 2017			
	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:				
Embedded derivatives within sales contracts	-	-	6,511	6,511
Options commodity contracts	-	71	-	71
Options and forward foreign exchange contracts	-	311	-	311
Silverstream contract	-	-	538,887	538,887
	-	**382**	**538,887**	**539,269**
Financial investments available-for-sale:				
Quoted investments	144,856	-	-	144,856
	144,856	**382**		**145,238**
Financial liabilities:				
Derivative financial instruments:				
Options commodity contracts	-	19,179	-	19,179
Options and forward foreign exchange contracts	-	37	-	37
	-	**19,216**	**6,511**	**25,727**

	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
Option 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**

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:

	2017 **US$ thousands**	2016 US$ thousands
Balance at 1 January:	(2,750)	(532)
Changes in fair value	15,068	(1,718)
Realised embedded derivatives during the year	(5,807)	(500)
Balance at 31 December	**6,511**	**(2,750)**

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:

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:
The fair value of available-for-sale financial assets is derived from quoted market prices in active markets. (Level 1)

Interest-bearing loans

The 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 2017 the fair value of embedded derivatives within sales contracts was US$6.5 million (2016: US$(2.7) 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).

The following tables summarise the fair value of derivative financial instruments held as of 31 December 2017 and 2016.

Financial assets	As at 31 December	
	2017 **US$ thousands**	2016 US$ thousands
Currency contracts		
Forward contracts:		
Euro	193	145
Swedish krona	104	-
Canadian dollar	14	-
Commodity contracts		
Option Contracts[1]:		
Gold	-	23,005
Lead	71	-
Total derivative related assets	**382**	23,150
Less – Current portion	**382**	6,618
Non-current portion[2]	**-**	16,532

Financial liabilities	As at 31 December	
	2017 **US$ thousands**	2016 US$ thousands
Currency contracts		
Forward contracts:		
Euro	12	570
Canadian dollar	-	10
Swedish krona	25	-
Commodity contracts		
Option Contracts[1]:		
Gold	18,096	16
Lead	-	2
Zinc	1,083	48
Total derivative related liabilities	**19,216**	646
Less – Current portion	**4,992**	630
Non-current portion[2]	**14,224**	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	
	2017 US$ thousands	2016 US$ thousands
Beginning balance	-	36,214
Gains recycled to revenue during the year	-	(1,586)
Losses recycled to cost of sales during the year	-	2,770
Unrealised losses before tax arising during the year	-	(52,918)
Deferred tax effect recorded in other comprehensive income during the year	-	15,520
Ending balance	**-**	**-**

During the year ended 31 December 2017 all the contracted hedging position were out of the money and therefore all the mark-to-market valuation has been taken to income within financial income/(expense).

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.

In the following tables, the effect on equity excludes the changes in retained earnings as a direct result of changes in profit before tax.

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 2018 (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
2017	20%	-
	(10%)	-
2016	15%	78
	(10%)	(67)

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.

Year ended 31 December	Strengthening/ (weakening) of US dollar	Effect on profit before tax: increase/ (decrease) US$ thousands
2017	10%	(3,783)
	(10%)	1,365
2016	10%	(63)
	(10%)	94

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
2017	10%	1058
	(10%)	(1,056)
2016	5%	459
	(10%)	(1,024)

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.

Year ended 31 December	Strengthening/ (weakening) of US dollar	Effect on profit before tax: increase/ (decrease) US$ thousands
2017	20%	(781)
	(10%)	521
2016	15%	(1,436)
	(10%)	1,223

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, zinc and lead price.

The table below reflects the aggregate sensitivity of financial assets and liabilities (excluding Silverstream) to a reasonably possible change in commodities 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				Effect on profit before tax: increase/ (decrease)	Effect on equity: increase/ (decrease)
Year ended 31 December	Gold	Silver	Zinc	Lead	US$ thousands	US$ thousands
2017	10%	10%	20%	15%	83,433	(19,164)
	(10%)	(10%)	(20%)	(15%)	5,105	1,818
2016	10%	25%	40%	40%	(28,516)	-
	(15%)	(20%)	(30%)	(15%)	(36,031)	120,715

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
2017	10%	72,779
	(10%)	(72,779)
2016	25%	157,406
	(20%)	(125,925)

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
2017	90	7,898
	(50)	(4,388)
2016	65	5,943
	(20)	(1,829)

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
2017	90	(58,798)
	(50)	37,935
2016	65	(35,908)
	(20)	12,051

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
2017	100	88
	(100)	(83)
2016	100	190
	(100)	(188)

Equity price risk

The Group has exposure to changes in the price of equity instruments that it holds as available-for-sale financial 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
2017	40%	-	28,972
	(65%)	-	(65,408)
2016	100%	-	116,171
	(50%)	-	(58,086)

(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 2017 and 2016. 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 per cent 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 2017, the Group had concentrations of credit risk as 23 percent of surplus funds were deposited with one financial institution of which 17 percent was held in short term Mexican government paper.

The maximum credit exposure at the reporting date of each category of financial asset above is the carrying value as detailed in the relevant notes. See note 13 for the maximum credit exposure to available-for-sale financial assets, note 17 for 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 2017, being US$538.9 million (2016: US$467.5 million).

(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 2017					
Interest-bearing loans (note 20)	46,267	92,534	92,534	846,267	1,077,602
Trade and other payables	102,311	-	-	-	102,311
Derivative financial instruments – liabilities	4,992	14,224	-	-	19,216
Embedded derivatives within sales contracts – liability	6,511	-	-	-	6,511

	Within 1 year	2-3 years	3-5 years	> 5 years	US$ thousands 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

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:

	Within 1 year	2-3 years	3-5 years	> 5 years	US$ thousands Total
As at 31 December 2017					
Inflows	15,174	-	-	-	15,174
Outflows	(14,884)	-	-	-	(14,884)
Net	**290**	**-**	**-**	**-**	**290**

	Within 1 year	2-3 years	3-5 years	> 5 years	US$ thousands Total
As at 31 December 2016					
Inflows	10,932	-	-	-	10,932
Outflows	(11,229)	-	-	-	(11,229)
Net	**(297)**	**-**	**-**	**-**	**(297)**

The above liquidity tables include expected inflows and outflows from currency option contracts which the Group expects to be exercised during 2018 as at 31 December 2017 and during 2017 as at 31 December 2016, 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.

In managing its capital, the Group considers its cash and other liquid asset position, as set out below:

	2017 **US$ thousands**	2016 US$ thousands
Cash and cash equivalents (note 17)	876,034	711,954
Short-term investments (note 17)	-	200,000
Available-for-sale financial instruments held in funds (note 13)	19,877	-
Cash and other liquid assets position	**895,911**	**911,954**