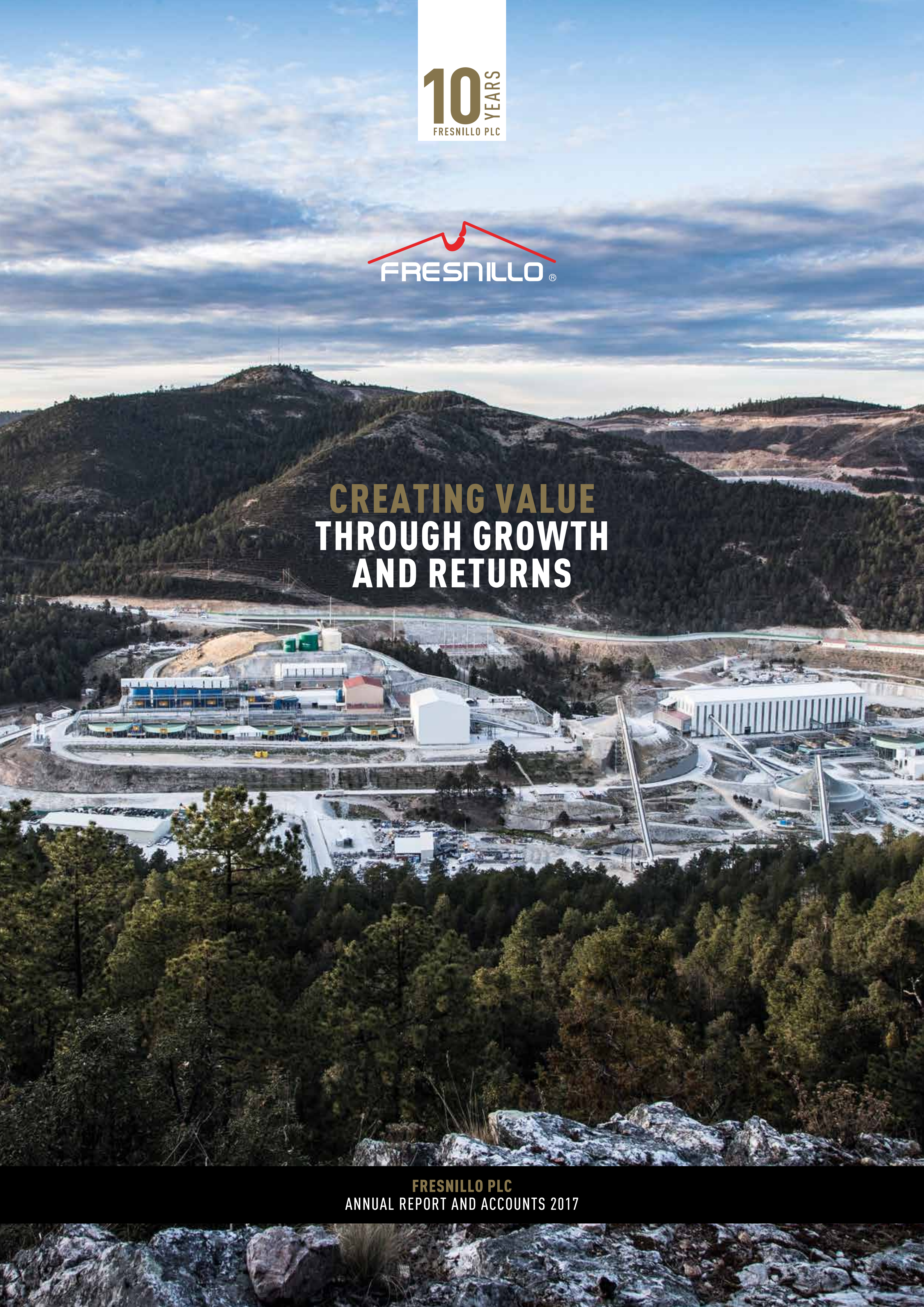


10 YEARS
FRESNILLO PLC

CREATING VALUE THROUGH GROWTH AND RETURNS

FRESNILLO PLC
ANNUAL REPORT AND ACCOUNTS 2017

FRESNILLO PLC IS THE WORLD'S LEADING SILVER MINER AND ONE OF MEXICO'S LARGEST GOLD PRODUCERS

The dynamic leaching plants at Herradura – one in operation and one under construction.

FRESNILLO TODAY

STRATEGIC REPORT

CORPORATE GOVERNANCE

FINANCIAL STATEMENTS

Front Cover: Overview of the San Julián mine.

PERFORMANCE HIGHLIGHTS

2017 WAS ANOTHER YEAR OF SIGNIFICANT ACHIEVEMENT FOR FRESNILLO. WE INCREASED PRODUCTION, MANAGED COSTS AND EXPANDED OUR PIPELINE, ONCE AGAIN UNDERLINING OUR LONG-ESTABLISHED COMMITMENT TO CREATE VALUE THROUGH GROWTH AND RETURNS.

SILVER PRODUCTION
58.7MOZ
+16.6%

GOLD PRODUCTION
911.1KOZ
-2.6%

TOTAL ATTRIBUTABLE SILVER RESOURCES
2,320.5MOZ

TOTAL ATTRIBUTABLE GOLD RESOURCES
38.5MOZ

FOR MORE ABOUT OUR OPERATIONS
SEE PAGES 54-65

FOR MORE ABOUT EXPLORATION
SEE PAGES 67-71

ADJUSTED REVENUE [1]
$2,233.2M
+9.2%

GROSS PROFIT
$925.4M
+4.9%

EBITDA
$1,060.1M
+2.7%

PROFIT FROM CONTINUING OPERATIONS
$709.3M
+4.9%

OPERATIONAL HIGHLIGHTS

- Annual silver production up 16.6% in line with guidance, driven by the first complete year of San Julián phase I operating at full capacity and the start-up of operations at San Julián phase II, now operating at nameplate capacity.
- Gold production exceeded guidance principally as a result of the full year of operations at San Julián phase I, although it reduced by 2.6% year-on-year due to the expected reduction of gold inventories at Herradura.
- Gold resources remained stable and gold reserves increased 22.7%. Silver resources increased 6.9% while silver reserves decreased 5.4%.
- One fatality occurred in early 2017.

FINANCIAL HIGHLIGHTS

- Adjusted revenue [1] of US$2,233.2 million, up 9.2% over 2016 due to higher silver and zinc volumes sold and increased gold, lead and zinc metal prices.
- Gross profit and EBITDA up 4.9% and 2.7%, to US$925.4 million and US$1,060.1 million respectively.
- Profit from continuing operations of US$709.3 million, up 4.9%.
- Capex of US$604.8 million, up 39.3% and US$236.6 million of dividends paid, up 168.2%.
- Healthy balance sheet and low leverage ratio; cash and other liquid funds [2] of US$896.0 million, down 1.8%.

1 Adjusted revenue is the revenue shown in the income statement adjusted to add back treatment and refining costs and gold, lead and zinc hedging. The Company considers this a useful additional measure to help understand underlying factors driving revenue in terms of volumes sold and realised prices.
2 Cash and other liquid funds are disclosed in note 31(c) to the Financial Statements.

TO FIND OUT MORE, VISIT US ONLINE
WWW.FRESNILLOPLC.COM

FRESNILLO AT A GLANCE

WHO WE ARE

HEADQUARTERED IN MEXICO CITY, **FRESNILLO PLC** IS THE WORLD'S LEADING SILVER PRODUCER AND ONE OF MEXICO'S LARGEST GOLD PRODUCERS. WE ARE A FTSE 100 COMPANY, WITH SHARES TRADING ON THE LONDON AND MEXICAN STOCK EXCHANGES.

Our business is characterised by a strong balance sheet, high quality assets, low cost and flexible operations, a disciplined approach to development and sustainable business practices. Together, these strengths have combined to support a long-established track record of creating value through growth and returns.

FOR MORE ON OUR INVESTMENT CASE
SEE PAGE 11

2018 marks the tenth anniversary of our IPO. It has been a decade of consistent and successful progress and we remain on track to achieve the demanding targets set at the time of the IPO. Our continuing success is a tribute to the long-term nature of our strategy, the skills and dedication of our people and the ongoing support of our stakeholders.

FOR MORE ON OUR STRATEGY AND PERFORMANCE SEE PAGES 24-33

WHAT WE DO

WE SEEK TO CREATE VALUE FOR STAKEHOLDERS ACROSS PRECIOUS METAL CYCLES, FOCUSING ON HIGH-POTENTIAL SILVER AND GOLD PROJECTS THAT CAN BE DEVELOPED INTO LOW COST, WORLD-CLASS MINES.

1 EXPLORE

Our pipeline is the lifeblood of our business, and we invest continuously across price cycles in order to expand our resource base and replenish reserves.

FOR MORE ABOUT OUR EXPLORATION
SEE PAGES 67-71

2 DEVELOP

We follow strict criteria for mineral content and associated costs to ensure that we only develop, construct and commission projects that create value across precious metal cycles.

FOR MORE ABOUT OUR DEVELOPMENT
SEE PAGE 66

3 OPERATE

We work hard to maximise the potential of our existing silver and gold mining operations at seven locations across Mexico, all of which extract and process ore.

FOR MORE ABOUT OUR MINES IN OPERATION
SEE PAGES 54-65

4 SUSTAIN

We are committed to the responsible operation of our business, doing all we can to ensure the highest standards of health and safety, environmental stewardship and governance, while supporting our local communities and maintaining a strong culture of ethical behaviour.

FOR MORE ABOUT OUR SUSTAINABILITY
SEE PAGES 74-103

WHERE WE OPERATE

MEXICO HAS A LONG-ESTABLISHED HISTORY OF MINING TRADITION, UNDERPINNED BY ITS VAST GEOLOGICAL POTENTIAL, SKILLED WORKFORCE, ESTABLISHED MINING LAWS AND MECHANISMS FOR CREATING SHARED VALUE. WE ARE NOW EXPLORING OPPORTUNITIES TO APPLY THE EXPERTISE AND KNOWLEDGE GAINED IN MEXICO TO LOCATIONS ELSEWHERE IN LATIN AMERICA.

3 MINES IN OPERATION

1. FRESNILLO
SILVER RESERVES
179.7MOZ
GOLD RESERVES
590KOZ

2. SAUCITO
SILVER RESERVES
133.2MOZ
GOLD RESERVES
708KOZ

3. CIÉNEGA & SAN RAMÓN SATELLITE
SILVER RESERVES
54.1MOZ
GOLD RESERVES
635KOZ

4. SAN JULIÁN (PHASES I & II)
SILVER RESERVES
134.7MOZ
GOLD RESERVES
417KOZ

5. NOCHE BUENA
GOLD RESERVES
819KOZ

6. SOLEDAD-DIPOLOS
GOLD RESERVES
808KOZ

7.HERRADURA (INCL DLP)
GOLD RESERVES
7.7MOZ

2 DEVELOPMENT AND ADVANCED EXPLORATION PROJECTS

8. CENTAURO EXTENSION
Evolution of the main pit at Herradura; resources reported as part of Herradura

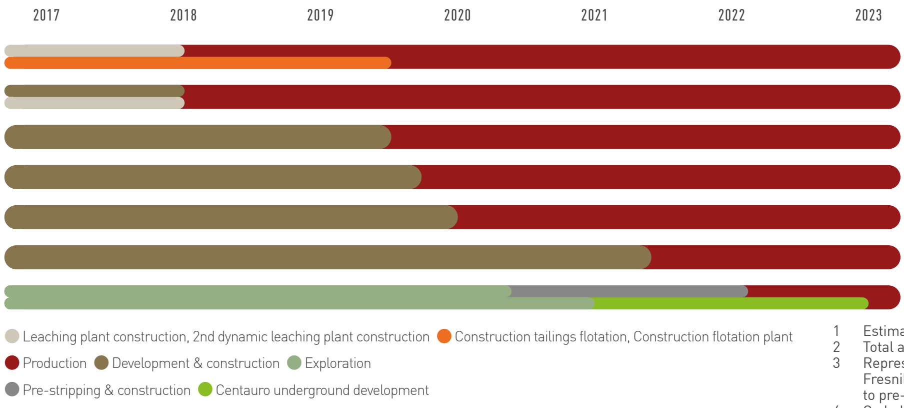
9. JUANICIPIO
SILVER RESOURCES
139.1MOZ
GOLD RESOURCES
776KOZ

10. ORISYVO
SILVER RESOURCES
12.3MOZ
GOLD RESOURCES
9.6MOZ

11. CENTAURO DEEP
GOLD RESOURCES
664KOZ
Indicated, measured & inferred gold resources

12. LAS CASAS, CEBOLLITAS CLUSTER
Reported as part of Ciénega

EXPECTED DELIVERY OF GROWTH



PROJECT	Investment[1] (US$m)	Expected avg. annual production[2]
Pyrites plant (Optimisation project)	155	3.5 moz Ag 13 koz Au
Centauro extension	110	Extended LoM of 390 koz Au
Fresnillo 9,000 tpd (Optimisation project)	30	3 moz Ag
Ciénega 5,000 tpd (Optimisation project)	55	15 koz Au 1.3 moz Ag
Juanicipio	305[3]	10 moz Ag 30 koz Au
Orisyvo	350[4]	136 koz Au
Centauro pit expansion/ Centauro underground	360 130	Extended Pit LoM of 470 koz Au & UG 65 koz Au

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

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.

ALBERTO BAILLÈRES
NON-EXECUTIVE CHAIRMAN

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.

FOR MORE DETAILS ON OUR ACHIEVEMENTS – IN BOTH FINANCIAL AND NON-FINANCIAL TERMS – SINCE THE IPO IN 2008
SEE PAGES 12, 26, 52, 72

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.

KEY POINTS

- Adjusted revenue +9.2%
- Increased profitability (gross profit +4.9%, profit for the period +32.0%)
- Dividends paid in 2017 of US$236.6 million, up 168.2%
- Strong corporate governance
- Increased gender diversity at Board level
- Further growth and returns anticipated

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[1] at year end were US$896.0 million versus US$912.0 in 2016 and debt remained at US$800 million.

FOR OUR MARKETS
SEE PAGES 14-17

FOR THE FINANCIAL REVIEW
SEE PAGES 104-115

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 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 750 koz was reached in 2015, three years ahead of plan, while the 65 moz 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.

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

CHAIRMAN'S STATEMENT
CONTINUED

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. Please see the Social and Sustainability Report on pages 74-103 for more details.

> THROUGHOUT 2017, OUR PEOPLE AGAIN SHOWED THE SKILLS AND PROFESSIONALISM NEEDED TO OVERCOME CHALLENGES.

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 117. 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 FTSE 100 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

Q&A WITH THE CHIEF EXECUTIVE

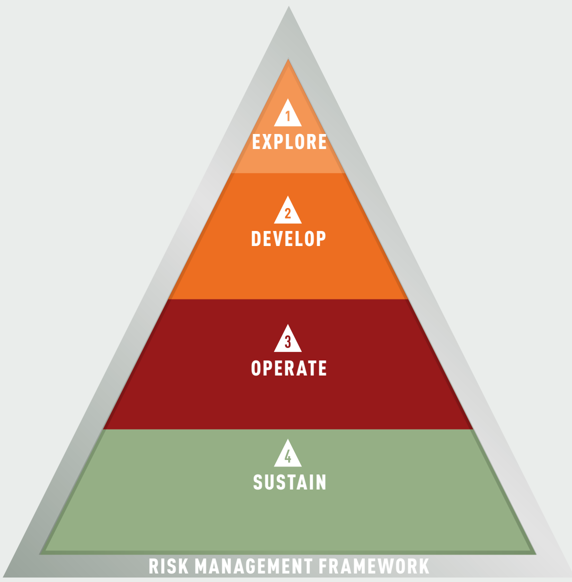
ONE PROJECT, FOUR STRATEGIC PILLARS

QUICKLY IDENTIFIED AS A MAJOR OPPORTUNITY FOLLOWING THE IPO IN 2008, OUR SAN JULIÁN MINE IS A FINE DEMONSTRATION OF OUR STRATEGY IN ACTION.

OVER THE LAST DECADE, THIS MINE HAS MOVED THROUGH ALL FOUR PILLARS OF THE BUSINESS MODEL – FROM EXPLORE, THROUGH DEVELOP AND INTO THE OPERATING PHASE, WHILE BEING SUPPORTED BY OUR COMMITMENT TO SUSTAINABILITY THROUGHOUT. OUR CASE STUDIES ON PAGES 13, 27, 53 AND 73 EXPLAIN IN MORE DETAIL HOW SAN JULIÁN HAS EVOLVED FROM IDEA TO REALITY... FROM A POSSIBILITY BASED ON GEOLOGICAL EXPERTISE INTO A KEY PROJECT THAT WILL CONTRIBUTE TO THE FUTURE PERFORMANCE OF FRESNILLO.

OCTAVIO ALVÍDREZ,
CHIEF EXECUTIVE OFFICER

CEO Q&A OVERLEAF



FOR OUR BUSINESS MODEL
SEE PAGES 18-19

Q&A WITH THE CHIEF EXECUTIVE

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.

KEY POINTS

- On track to deliver commitments made at time of IPO
- New objectives due to be announced in summer 2018
- Silver production up 16.6%, gold production down 2.6%
- Improved performance at Fresnillo
- Phase II at San Julián commissioned as planned
- Silver resources up by 6.9%, gold resources remained stable
- Silver reserves down by 5.4%, gold reserves up by 22.7%
- Improvement in health and safety
- A challenging year ahead but we face the future with confidence

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.

Q – WHAT WERE THE PRODUCTION HEADLINES FOR THE YEAR?

A – 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.

Q – HOW DID PRECIOUS METALS' PRICES IMPACT PERFORMANCE DURING THE YEAR?

A – 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.

Q – LOOKING AT THE STRATEGY IN DETAIL, HOW DID YOU MAXIMISE THE POTENTIAL OF EXISTING OPERATIONS IN 2017?

A – 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 report 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 is in operation at San Julián and Saucito; and ProxAlarm, which improves safety by preventing collisions and other incidents involving vehicles and is in the process of being installed at all mines.

FOR OUR OPERATIONAL KPIS
SEE PAGES 28-29

Q – HOW HAVE YOU DELIVERED GROWTH THROUGH DEVELOPMENT PROJECTS?

A – 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.

FOR OUR DEVELOPMENT KPIS
SEE PAGE 30

Q – HOW HAVE YOU EXTENDED THE GROWTH PIPELINE?

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

We have made good progress in Peru, where 350,000 hectares of concessions 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.

FOR OUR EXPLORATION KPIS
SEE PAGE 30

Q – AND HOW HAVE YOU ADVANCED AND ENHANCED THE SUSTAINABILITY OF YOUR OPERATIONS?

A – 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 at the beginning of 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.

Q&A WITH THE CHIEF EXECUTIVE
CONTINUED

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.

FOR OUR SUSTAINABILITY KPIS
SEE PAGE 31

Q – THE GOALS SET AT THE TIME OF THE IPO ARE ALMOST ALL NOW ACHIEVED – HAVE YOU SET A NEW TARGET?

A – 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.

Q – WILL THE STRATEGY CHANGE IN ORDER TO ACHIEVE YOUR FUTURE GOALS?

A – No, absolutely not. 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.

Q – WHAT DO YOU EXPECT IN 2018?

A – 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 exploration to the development stage, subject to Board approval in April 2018.

Our new approach to health and safety is set 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

OUR INVESTMENT CASE

Employees at the Fresnillo mine.

STRONG BALANCE SHEET

OPERATIONAL FLEXIBILITY, INVESTMENT ACROSS PRICE CYCLES, SHAREHOLDER RETURNS

Our healthy cash position and low leverage ratio enable us to invest in profitable growth, optimise operations and deliver solid returns to shareholders. Our capital expenditures in 2017 totalled US$604.8 million, while we invested US$141.1 million in exploration activities and paid dividends of US$236.6 million.

HIGH QUALITY ASSETS

LONG-TERM VISIBILITY, LONG LIFE RETURNS

We are one of Mexico's largest concession holders, with approximately 1.8 million hectares of surface land. Our district consolidation strategy enables us to leverage local knowledge and shared infrastructure. Our portfolio of low cost gold and silver mines, high potential development projects and advanced exploration prospects contain over 2,320 moz of attributable silver resources and 38.5 moz of gold resources.

LOW COST AND FLEXIBLE OPERATIONS

HEALTHY MARGINS, ADAPTABILITY ACROSS PRICE CYCLES

The quality of our assets means that we are able to extract mineral profitably across metal price cycles. We maximise the potential of each operation by customising mine plans, leveraging technology and sharing personnel, expertise and plant capacity across our districts. We continue to seek and implement new ways to improve efficiency, optimise our consumption of materials and energy, and maintain our position as a low cost producer.

DISCIPLINED APPROACH TO DEVELOPMENT

LONG-TERM PROFITABLE GROWTH

Before we embark on a development project, we apply stringent viability criteria covering areas such as rates of return and high environmental and social impact standards. We set delivery timelines and budgets to meet production targets in the context of market conditions, and maintain control by carrying out engineering and construction activities. Having successfully implemented the second phase of the San Julián mine in 2017, we are on track to deliver the new Pyrites plant at Saucito and the second line of the dynamic leaching plant at Herradura, both in 2018.

SUSTAINABLE BUSINESS PRACTICES

ENVIRONMENTAL STEWARDSHIP, SOCIAL LICENCE TO OPERATE, ETHICAL CULTURE

Our ability to create value for all our stakeholders and ensure operational continuity is built on a series of commitments to sustainability: to understand and respect the needs of local communities; to prioritise local goods, services and employees; to ensure the health and safety of our people; and to minimise our impact on the environment. During 2017, we invested over US$30.9 million in our HSECR initiatives, up 41% compared with the previous year.

10 YEARS
FRESNILLO PLC

CREATING VALUE THROUGH GROWTH+RETURNS

EXPLORE

Our approach to exploration is one of the factors that marks Fresnillo as different to our peers in the mining industry. While others react to market pressures by pulling back on their efforts, we maintain a strategic commitment to continuous exploration across all precious metals price cycles.

The result? A steady pipeline of reserves and resources that fuels our ability to deliver growth and returns not just this year or next year, but in the decades ahead.

GROWTH

- Around US$1.5 billion invested in exploration since 2008.
- Number of full-time geologists almost doubled, from 55 in 2009 to 100 in 2017.
- Close to 900 kilometres drilled at our operations and projects by the exploration teams in 2017.

RETURNS

- Around 300 local community personnel employed as assistants to our geologists.
- Increase in silver resources from 1.1 bnoz in 2008 to 2.3 bnoz in 2017.
- Increase in gold resources from 12 moz in 2008 to 38.5 moz in 2017.

FOR MORE ABOUT EXPLORATION
SEE PAGES 67-71

Entrance to the Centauro Deep project at Herradura.

CASE STUDY SAN JULIÁN

ONE PROJECT, FOUR STRATEGIC PILLARS

#1 EXPLORE (2004-2012)

BY THE TIME OF THE IPO, OUR TEAM OF GEOLOGISTS HAD ALREADY IDENTIFIED SIGNIFICANT GOLD AND SILVER POTENTIAL AT SAN JULIÁN, A GREENFIELD PROJECT ON THE CHIHUAHUA/DURANGO BORDER. WE DRILLED THE FIRST TEST HOLE IN 2006 AND, SINCE 2008, HAVE INVESTED APPROXIMATELY US$81.5 M IN EXPLORATION.

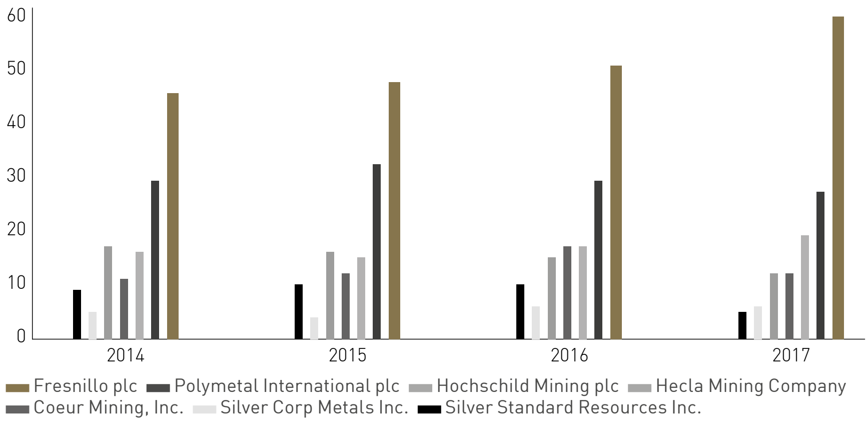
THIS ACTIVITY HAS SIGNIFICANTLY INCREASED THE RESERVES AND RESOURCES AT SAN JULIÁN – AND WE BELIEVE THERE IS STILL FURTHER POTENTIAL IN THE DISTRICT. IN 2017, FOR EXAMPLE, WE CONTINUED OUR INTENSIVE EXPLORATION PROGRAMME, DRILLING 73,995 METRES, PRIMARILY ON THE SOUTHERN PART OF THE DISTRICT WHERE NUMEROUS TARGETS ARE YET TO BE TESTED.

David Giles,
Vice President, Exploration

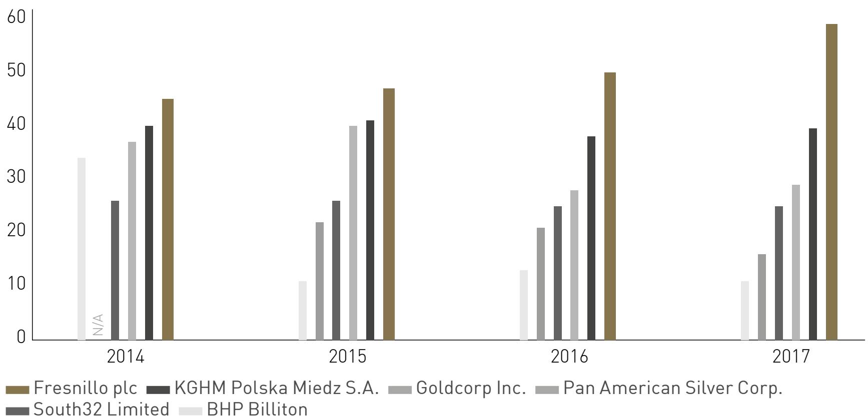
OUR MARKETS

AS A MAJOR PLAYER IN THE GLOBAL PRECIOUS METALS INDUSTRY, WE ARE IMPACTED BY THE DYNAMICS OF THE SILVER AND GOLD MARKETS.

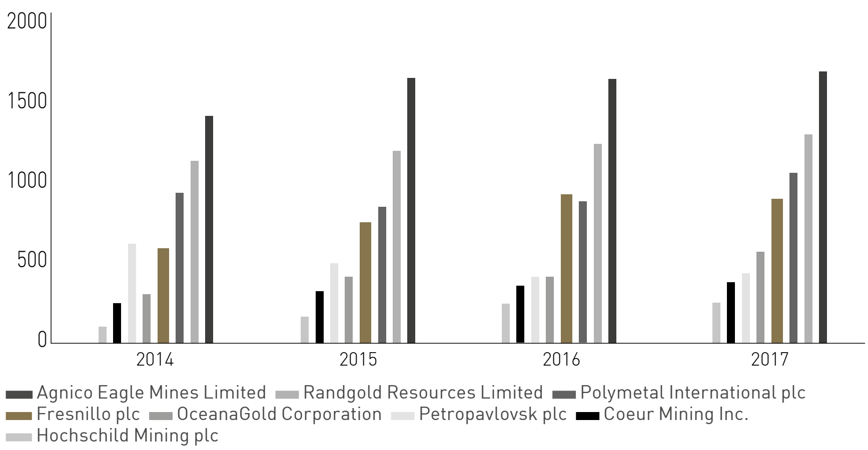
PEER GROUP: PRIMARY SILVER PRODUCERS PRODUCTION IN MOZ



PEER GROUP: GLOBAL SILVER PRODUCERS (BY-PRODUCT & PRIMARY) PRODUCTION IN MOZ



PEER GROUP: MEDIUM-SIZE GOLD PRODUCERS PRODUCTION IN KOZ



FRESNILLO IN CONTEXT

We are also affected by factors common to the mining industry in general as well as by those more specific to the business environment in Mexico.

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

We are also one of Mexico's largest gold producers with peers being other medium-size producers.

THE PRECIOUS METALS MARKET

Silver prices traded in the range of US$15.62/oz to US$18.54/oz during 2017, ending the year up 6.3% versus the previous year which suggests a fairly balanced market. Prices were driven in part by investors seeking a safe haven in the face of global uncertainties.

Gold ended 2017 13.5% higher versus 2016, supported by a weakening US dollar, continued geopolitical instability and increased equity valuations which saw investors adding gold to their portfolios in order to manage risk exposure. The price of gold fluctuated between US$1,158/oz and US$1,349/oz over the 12 months.

Fresnillo plc does not take a position on where prices, demand or sentiment are headed; however, we do monitor price movements and market dynamics in order to support our financial projections and cash management strategies, and prices will continue to colour budget considerations in areas such as exploration and the timing of certain capital expenditures.

ESTIMATED GLOBAL SILVER PRODUCTION IN 2017

870MOZ

GLOBAL GOLD PRODUCTION IN 2017

3,268T

SUPPLY AND DEMAND

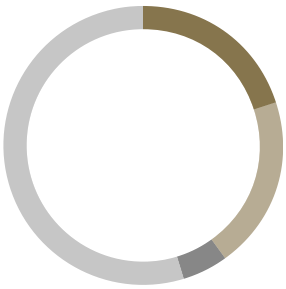
SILVER

The price of silver has been supported by a year-on-year decline in production since the 2015 peak, with the latest reports estimating that annual production for 2017 will fall to 870 moz, a reduction of 2%[1]. To a significant extent, this continuing downward trend is a result of the industry's ongoing under investment in capex, as miners attempt to protect margins. Most analysts expect global production to again fall in the coming years.

However, silver production as a by-product of base metal mining is likely to grow, as producers increase activity in response to recent hikes in the prices of lead and zinc (up 22.4% and 30.5%, respectively, for the 12 months ending 31 December 2017). Given the time and resources required to bring a new mine on stream, our expectations are that any negative impact of such additional supply will be felt in the medium rather than the short term.

As the chart shows, demand for silver is predominantly generated by industry and also by investors, who prize it as a safe haven. The exceptionally high electrical and thermal conductivity of silver make it ideal for use in the electrical and electronic industries, in particular the solar energy sector.

SILVER DEMAND BY SECTOR[2] MOZ



- Jewellery 20% (207.0)
- Coins & Bars 20% (206.8)
- Silverware 5% (52.1)
- Industrial Fabrication 55% (561.9)

Looking ahead, we see both positive and negative factors influencing demand. Global economic growth and innovation will increase demand for technologies associated with solar energy, mobile telephony, the internet of things and autonomous vehicles, among other sectors. This will in turn drive demand for silver. On the other hand, this increase in demand will to an extent be offset by the practice of thrifting, as manufacturers seek to control their costs by reducing silver content in their products.

GOLD

Global gold production continues to grow, with 3,268 tonnes being produced in 2017, according to the World Gold Council.

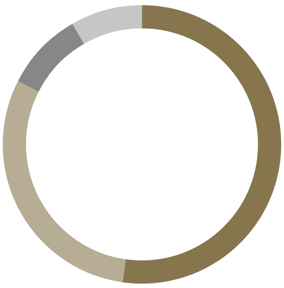
Demand for gold is primarily due to its value as a hedge against inflation. It has long been regarded as a reliable safe haven asset and a highly regarded store of wealth. In addition, gold is sought after by societies across the world for its appearance and has been fashioned into jewellery and works of art for centuries. Gold also plays a role in industry, where properties such as conductivity mean it is the metal of choice for a huge range of high-end electronic products.

The outlook for gold is heavily influenced by developments in the US. Potential headwinds for gold prices include a stronger US dollar and the new US tax reform. In addition, with the dollar ceasing to fall, the Federal Reserve has confirmed its intentions to further tighten monetary policy.

1 Thomson Reuters Interim Silver Market Review, 15 November 2017.
2 Source: https://www.silverinstitute.org/silver-supply-demand/ Data from 2016.

OUR MARKETS
CONTINUED

GOLD DEMAND BY SECTOR[1] (TONNES)



On the upside, increased global economic prosperity is likely to breathe some life back into the depressed jewellery market, while continued geopolitical uncertainties continue to have an impact on demand.

KEY INDUSTRY TRENDS
Several trends affect the mining industry and therefore our performance and prospects. As many of these trends are aligned with our key risks, we include detailed analysis of their implications as well as our response and mitigating actions on pages 34-47.

CAPITAL INVESTMENT AND BALANCE SHEET STRENGTH
From 2012 into 2016, weakening commodity prices introduced a sense of urgency among heavily leveraged mining companies to strengthen their balance sheets. Today and in the near term, the focus for many is on sustaining current production levels rather than investing for growth. As existing mines move towards the end of their lives, miners will increasingly rely on lower grade deposits or those with more complex metallurgy. The search for new deposits is time-consuming and demands significant capital at a time when access to such funds is constrained and many miners appear unwilling to invest. Only when balance sheets have been strengthened are miners likely to look to increase production and re-leverage.

THE OPPORTUNITY FOR FRESNILLO
Our strategy has always been to invest across all price cycles, while maintaining a strong balance sheet. This dual focus is a key differentiator for Fresnillo – it has enabled us to build a solid business that provides consistently high returns for investors and, at the same time, increase our mineral resources and production profiles. So while some of our peers look to stand still, we are continuing to create a platform and a pipeline for sustained growth.

TECHNOLOGY IMPLEMENTATION
Cost inflation continues to be a major factor for our industry – particularly in Mexico, which has recorded average inflation of over 5% per year for the last two years – and miners are seeking to establish themselves at the lower end of the cost curve in a bid to gain competitive advantage. Technology has a major role to play, not only in improving health, safety and working conditions, but also in boosting productivity.

THE OPPORTUNITY FOR FRESNILLO
Our continued investment in digital technology – including the optimisation of processes – is a significant factor in our drive to reduce costs while improving performance. We provide greater detail on technology initiatives launched or developed during 2017 on pages 50-51.

SUSTAINABILITY AND LICENCE TO OPERATE
Miners must navigate complex issues and regulations in order to maintain a licence to operate and grow sustainable businesses. Environmental and social factors are increasingly important issues, with resource nationalism in many jurisdictions affecting regulation and taxation. In addition, pressure from non-governmental organisations (NGOs) and communities, both organised and ad hoc, can lead to work stoppages, project closures and increased pressure for more tangible community benefits and shared value creation mechanisms.

THE OPPORTUNITY FOR FRESNILLO
We strive to ensure that the communities close to our operations benefit from the success of our business. Initiatives such as the Week of Health, Silver Saves Lives, a wide range of educational programmes and shared activities have proved very successful in improving the lives and prospects of those who depend on us or are impacted by our operations.

1 World Gold Council – Data from 2017.

THE BUSINESS ENVIRONMENT IN MEXICO

Mexico has the second largest economy in Latin America and is characterised by a mature and relatively stable tax and legal framework. The country's resources are significant and diverse, offering opportunities for many types of companies. In addition, energy reforms are increasing foreign direct investment and supporting the drive towards cleaner, cheaper and more sustainable sources of energy.

The country has a mining history extending almost 500 years. It is the largest producer of silver in the world and a top global producer of gold, copper and zinc, amongst other minerals. All our current operations are located in Mexico, where the mining sector accounts for 4%[2] of GDP. We take a broadly positive view of the long-term opportunities in Mexico. That said, with the presidential election scheduled for 2018 and NAFTA negotiations ongoing, we expect market volatility in the short term to continue.

COUNTRY CHALLENGES SPECIFIC TO FRESNILLO PLC

- Securing land access – Principal risk number 2

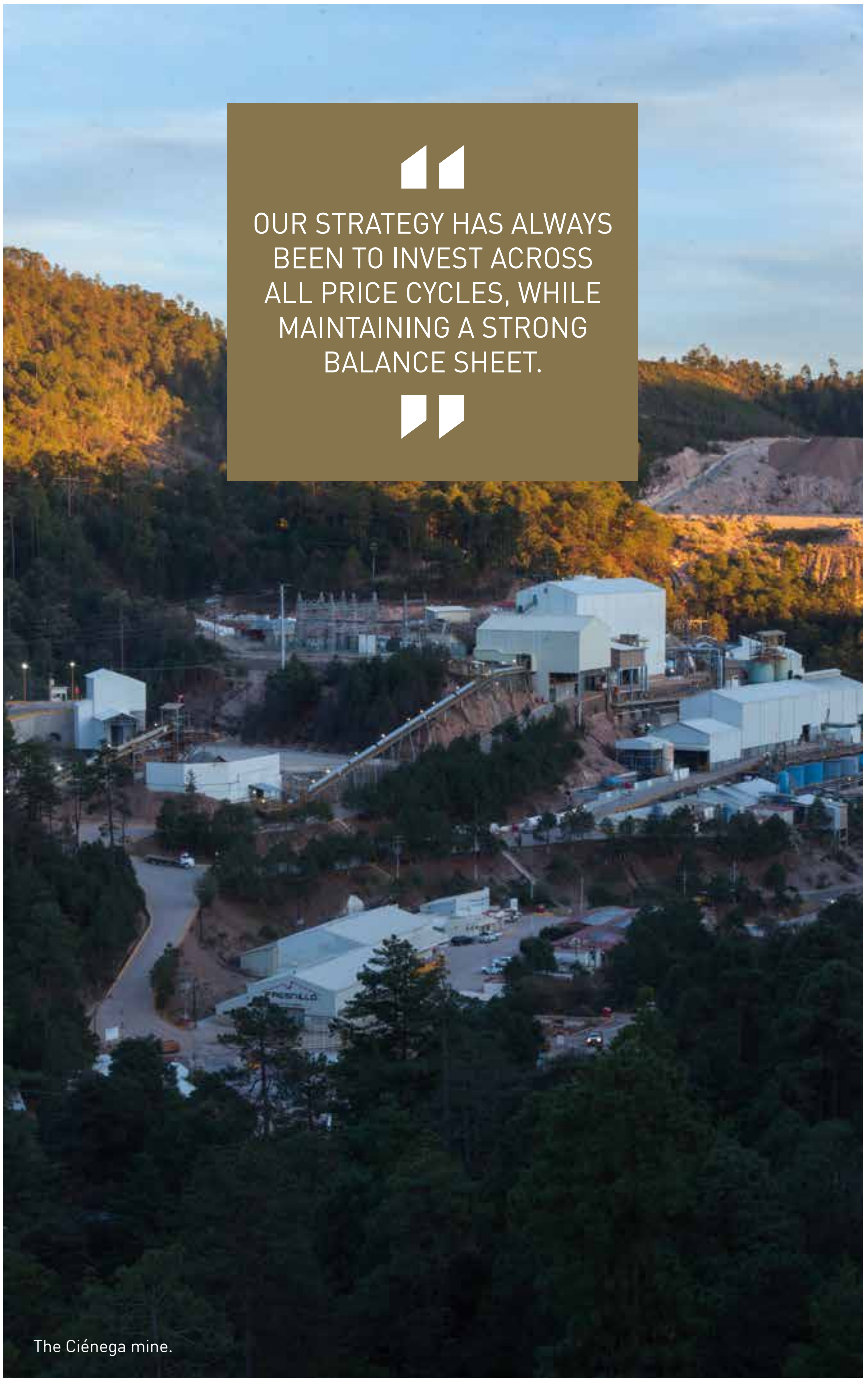
SEE PAGE 37

- Corruption, part of Potential actions by the Government – Principal risk number 3

SEE PAGE 38

- Security – Principal risk number 4

SEE PAGE 39



> OUR STRATEGY HAS ALWAYS BEEN TO INVEST ACROSS ALL PRICE CYCLES, WHILE MAINTAINING A STRONG BALANCE SHEET.

The Ciénega mine.

2 Source: https://www.export.gov/article?id=mexico-mining-and-minerals

BUSINESS MODEL AND STRATEGY

WE SEEK TO CREATE SUSTAINED VALUE FOR STAKEHOLDERS ACROSS PRECIOUS METAL CYCLES, FOCUSING ON HIGH POTENTIAL SILVER AND GOLD PROJECTS THAT CAN BE DEVELOPED INTO LOW COST, WORLD-CLASS MINES.

OUR SIX CAPITALS

We have linked our resources and relationships to the Capitals outlined in the International Integrated Reporting Council's (IIRC's) framework.

IIRC CAPITALS

H HUMAN
N NATURAL
S SOCIAL
F FINANCIAL
M MANUFACTURED
I INTELLECTUAL

RESOURCES & RELATIONSHIPS

The key resources and relationships that underpin our business model.

H SKILLED WORKFORCE AND EXPERIENCED MANAGEMENT TEAM

We rely on the skills, experience and commitment of a diverse workforce to create sustainable value.

N NATURAL RESOURCES

Our operations rely on a range of natural resources including land, water and energy.

S RELATIONSHIPS WITH KEY STAKEHOLDERS

Purposeful engagement and accountability are essential to gaining trust and maintaining our licence to operate.

F FINANCIAL STRENGTH AND CONTROL

Our operations generate extensive cash flows and we maintain strict control of cash and expenses.

M PROPERTY AND EQUIPMENT

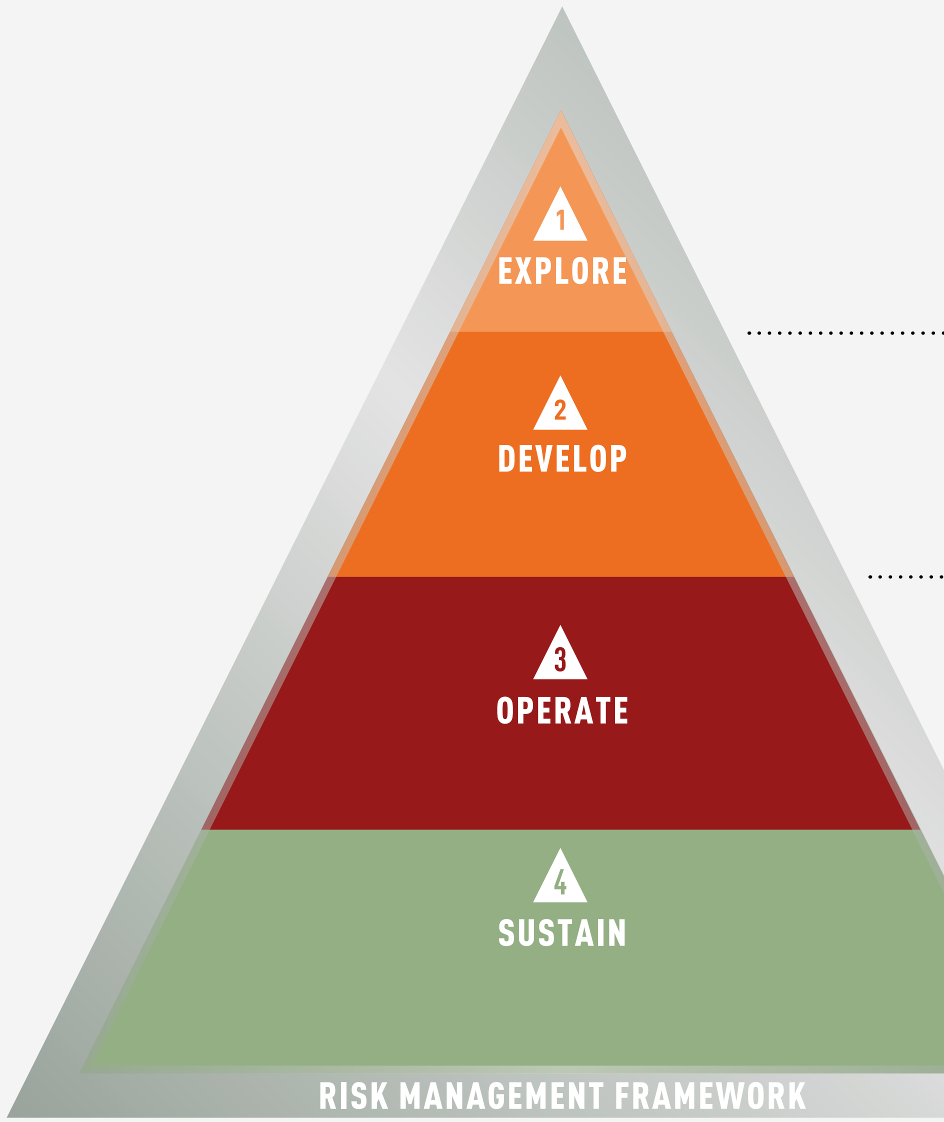
Our high quality assets include properties, infrastructure, processing plants and mining equipment. Together, they provide us with the capacity to meet our production targets.

I TECHNOLOGY

We leverage the knowledge of our employees to identify and implement innovative and effective technological solutions that can improve performance within their business units.

For more information on our resources and relationships and the link to the IIRC's Capitals, see pages 22-23.

WHAT WE DO



UNDERPINNED BY OUR VALUES: INTEGRITY, TRUST, RESPONSIBILITY

GOLD AND SILVER MINING IS THE HEART OF OUR BUSINESS MODEL. WE GENERATE REVENUE BY SELLING THE METALS CONTAINED IN THE ORE WE EXTRACT AND PROCESS. WE ENSURE THE LONGEVITY OF OUR BUSINESS BY EXPLORING AND DEVELOPING NEW PROJECTS.

ENSURE BUSINESS CONTINUITY AND GROWTH BY REPLENISHING DEPLETED RESERVES AND MAINTAINING A ROBUST GROWTH PIPELINE

FOR MORE ABOUT OUR EXPLORATION
SEE PAGES 67-71

DELIVER PROFITABLE GROWTH BY ADVANCING NEW PROJECTS TOWARDS COMMISSIONING, WHILE OPTIMISING CASH FLOW AND RETURNS

FOR MORE ABOUT OUR DEVELOPMENT
SEE PAGE 66

MAXIMISE THE POTENTIAL OF EXISTING OPERATIONS WHILE MAINTAINING OUR POSITION AS A LEADING LOW COST PRODUCER

FOR MORE ABOUT OUR MINES IN OPERATION
SEE PAGES 54-65

UPHOLD OUR LICENCE TO OPERATE

FOR MORE ABOUT OUR SUSTAINABILITY
SEE PAGES 74-103

VALUE CREATION

Metrics that we consider when measuring value creation, identified by key stakeholder groups.

EMPLOYEES

We provide a safe working environment with training and development opportunities.

- US$4.58 million invested in employee training and development.
- US$82.9 million in benefits and payments to employees.

COMMUNITIES

We invest in the local communities where we operate and aim to minimise our environmental impacts.

- Social investment through direct contributions to local communities: US$2.0 million.
- Reading and health programmes benefitting 9,800 people in 64 communities.
- 47,304 megalitres of water reused in our processes (efficiency of 83.1%).

GOVERNMENT

We comply with all applicable laws and generate economic value through our operations.

- Payments to local governments: US$2.9 million.
- Payments to federal government: US$240.3 million.
- Obtain exploration, mining rights and environmental permits.

SHAREHOLDERS

We generate sustainable long-term financial returns.

- EBITDA US$1,060.1 million.
- Profit for the year US$560.8 million.
- Earnings per share 0.76 (US$/share).
- US$236.6 million paid in dividends.

SUPPLIERS

We offer fair prices and provide technical support to our suppliers.

- Payments to suppliers (contractors): US$1,112.6 million.

CUSTOMERS

- Treatment and refining charges: US$140 million in 2017.

MEMBERSHIP ORGANISATIONS

- We are active members of several mining organisations and associations, where we use our influence to promote greater recognition of the advantages that mining brings to society.

See page 23 for more information.

AND LOYALTY DEMONSTRATE OUR ETHICAL CULTURE AND ARE EMBEDDED IN OUR BEHAVIOURS

BUSINESS MODEL
CONTINUED

WHAT WE DO

1 EXPLORE

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

OUR COMPETITIVE ADVANTAGE
One of the largest concession holders in Mexico; a team of talented, dedicated geologists; only those prospects with a minimum potential of 100 moz of silver or 2 moz of gold equivalent can advance; strict criteria on ore grades, metallurgical recoveries and environmental impact.

STRATEGIC PRIORITY
Allocate funding across metal price cycles; advance prospects and projects along the exploration pipeline, from early stage to drilling to advanced exploration, as strict criteria are met; convert resources to reserves.

KEY ASSETS

ASSET	MAIN METAL
FRESNILLO DISTRICT	
Juanicipio	Silver
CIÉNEGA DISTRICT	
Las Casas, Cebollitas Cluster	Silver and gold
HERRADURA DISTRICT	
Centauro Deep	Gold
Centauro Pit Expansion	Gold
CHIHUAHUA (GREENFIELD)	
Orisyvo	Gold
OTHER EARLY STAGE PROJECTS AND PROSPECTS, MEXICO AND PERU	

FOR MORE ON OUR REVIEW OF EXPLORATION PROJECTS
SEE PAGES 67-71

2 DEVELOP

WHAT WE DO
The development and construction of new operating mines and facilities.

OUR COMPETITIVE ADVANTAGE
Strictly applied viability criteria, including rates of return and high environmental and social impact standards; a district consolidation strategy that can create synergies across our prospects and projects, reducing capex requirements; in-house teams for engineering and construction.

STRATEGIC PRIORITY
Adhere to strict delivery timelines and capex budgets.

KEY ASSETS

PYRITES TREATMENT PLANT	
Facility to process historical and ongoing tailings from Fresnillo and Saucito mines to increase metal recovery rates.	Annual production expected to average 3.5 moz silver and 13,000 koz gold.
CENTAURO EXTENSION	
Natural evolution of the pit. Project encompassing a second line to the dynamic leaching plant.	At the time of analysis, this project was expected to extend the life of mine at Herradura to 12 years with an average annual production of 390 koz of gold.

FOR MORE ON OUR REVIEW OF DEVELOPMENT PROJECTS
SEE PAGE 66

3 OPERATE

WHAT WE DO
The extraction and beneficiation of ore from our operating mines.

OUR COMPETITIVE ADVANTAGE
Competitive cost performance against our industry peers, with all-in sustaining cost on a life-of-mine basis significantly lower than current and projected market prices for gold and silver.

STRATEGIC PRIORITY
Optimise capacity and recovery rates by adjusting mining methods and beneficiation processes; generate continuous improvements in productivity and cost controls; leverage expansion opportunities.

KEY ASSETS

ASSET	TYPE	MAIN METAL	YEAR
FRESNILLO DISTRICT			
Fresnillo	Underground	Silver primary	1554
Saucito	Underground	Silver primary	2011
CIÉNEGA DISTRICT			
Ciénega	Underground	Gold/Silver	1992
San Ramón (Ciénega satellite)	Underground	Gold/Silver	2012
HERRADURA DISTRICT			
Herradura	Open pit	Gold	1997
Soledad-Dipolos[1]	Open pit	Gold	2010
Noche Buena	Open pit	Gold	2012
SAN JULIÁN DISTRICT			
San Julián	Underground	Silver primary	2016

1 Operations at Soledad-Dipolos are currently suspended.

FOR MORE ON OUR REVIEW OF OPERATIONS
SEE PAGES 54-65

4 SUSTAINABLE DEVELOPMENT

WHAT WE DO
The responsible operation of our business.

OUR COMPETITIVE ADVANTAGE
Deep understanding of home market culture and communities, enabling us to adopt best practices domestically and in line with international standards.

STRATEGIC PRIORITY
Eliminate unsafe workplace conditions and behaviours; improve and maintain the health of our people; minimise the environmental impact of our activities; engage with and support the development of our communities; secure the talent pipeline and ensure a fair and ethical workplace.

KEY PILLARS

HEALTH	SAFETY
ENVIRONMENT	COMMUNITY RELATIONS
PEOPLE	

FOR MORE ON OUR REVIEW OF OUR SUSTAINABLE DEVELOPMENT PROGRAMME SEE PAGES 74-103

RISK MANAGEMENT FRAMEWORK
We identify, monitor and mitigate the principal risks that could affect the Company's ability to deliver on its business model and strategic priorities.

FOR MORE ON PRINCIPAL RISKS
SEE PAGES 34-47

OUR STRATEGIC RESOURCES AND RELATIONSHIPS

OUR KEY RESOURCES AND RELATIONSHIPS UNDERPIN OUR BUSINESS MODEL ALONG WITH OUR VALUES; INTEGRITY, TRUST, RESPONSIBILITY AND LOYALTY.

OUR RESOURCES

H SKILLED WORKFORCE AND EXPERIENCED MANAGEMENT TEAM

We recruit, train and develop our people to ensure we have the knowledge and experience to execute our strategy – at all levels of our organisation, from mine to Boardroom. As of December 2017, the Group's personnel included just under 5,000 unionised workers and employees and approximately 11,188 contractors.

FOR MORE INFORMATION
SEE PAGES 79-85

N NATURAL RESOURCES

Our business makes use of a wide range of natural resources, including surface land, water, energy and fuel. Optimising our use of these resources, minimising the impact of our activities and being transparent and accountable regarding our environmental footprint are essential to maintaining our licence to operate.

FOR MORE INFORMATION
SEE PAGES 86-95

F FINANCIAL STRENGTH AND CONTROL

We maintain strict control of cash, costs and expenses and adhere rigidly to capex budgets. Our healthy cash and other liquid funds[1], cash flow from our operations and low leverage ratio ensure sufficient resources to invest in growth projects and deliver returns to shareholders.

FOR MORE INFORMATION
SEE PAGES 104-115

M PROPERTY AND EQUIPMENT

Our assets, which include properties, infrastructure, processing plants and mining equipment, give us the capacity to meet our production targets. We operate these assets with a focus on continuous improvement in productivity and greater efficiency in the consumption of materials and energy.

FOR MORE INFORMATION
SEE PAGES 54-65

I TECHNOLOGY

We leverage the knowledge of our employees to identify and implement innovative and effective technological solutions to support decision making and meet the challenges associated with new projects, maturing mines with declining ore grades and rising social and environmental expectations. We ensure that our networks, systems and data are secure, in accordance with best practice.

FOR MORE INFORMATION
SEE PAGES 50-51

S RELATIONSHIPS WITH KEY STAKEHOLDERS

We rely on strong relationships with our key stakeholders in order to gain trust and social acceptance for our operations, to maintain our licence to operate and to create shared value. To this end, we engage with the communities where we operate, as well as with unions, contractors, partners and suppliers. We also work closely with government and regulators and ensure open communications with investors.

FOR MORE INFORMATION
SEE PAGES 96-103

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

RELATIONSHIPS

EMPLOYEES

We are committed to upholding labour standards, respecting human rights and demonstrating an ethical culture across our operations. Our top priority is to guarantee a working environment that protects the health and safety of our employees and contractors. Training and talent management initiatives help us enhance and retain our Human Capital.

COMMUNITIES

We engage with local communities to address their concerns and ensure social acceptance for all our projects. We invest directly and through partnerships in a range of initiatives that aim to minimise our impacts and enhance the quality of life and long-term wellbeing of the communities where we operate. These include programmes that focus on the environment, education, health and social integration, entrepreneurship and infrastructure.

SUPPLIERS

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

CUSTOMERS

We maximise revenue by working closely with refiners and smelters. All the primary products originating from our mines in 2017 were sold to the Met-Mex Peñoles, S.A. de C.V. refining and smelting facility in Torreón, Coahuila (Mexico) under a series of supply agreements set on an arm's length basis and in line with international benchmarks. The relationship allows us to benefit from relatively low transport costs associated with our proximity to Met-Mex operations. We have sold to other refiners and smelters in the past and may do so in the future if conditions warrant.

SHAREHOLDERS

We balance shareholder returns with investment in growth projects in order to generate long-term sustainable value for our stakeholders. Peñoles holds 75% of our shares and has been the principal investor in the Group's assets for over 50 years, focusing on supporting our long-term success. Peñoles is also a significant supplier and customer. The remaining shares are traded on the London and Mexican Stock Exchanges and we maintain regular dialogue with our independent investors.

GOVERNMENTS AND REGULATORS

In Mexico and throughout Latin America we adhere to and respect all the laws and regulations governing natural resources and mining companies, particularly environmental, construction and labour laws. We cooperate with the authorities on security and regulatory matters. This approach helps to ensure ongoing access to the necessary exploration, mining rights and environmental permits across our operations.

MEMBERSHIP ORGANISATIONS

We collaborate with and belong to a number of organisations to advocate and advance strategic initiatives that support shared objectives including:

- CAMIMEX (the Mexican Mining Chamber) which advocates industry positions and sets benchmarks for the mining sector.
- CESPEDES (Sustainable Development Studies Commission for the Mexican Private Sector) which coordinates the private sector stance on issues such as the transition towards a green economy and greenhouse gas mitigation efforts.
- Mining Cluster for the State of Zacatecas which promotes the development of economic, social and environmental best practices across the supply chain.

OUR STRATEGY

OUR STRATEGY IS DESIGNED TO ENSURE THAT WE MEET OUR STRATEGIC GOALS ACROSS EACH ELEMENT OF THE BUSINESS MODEL.

	2017 GOALS	2017 PROGRESS
1 EXTEND THE GROWTH PIPELINE	• Deploy US$160 million in exploration investment. • Intensify exploration to convert resources into reserves.	• Invested US$141.1 million in exploration with 494,000 metres and 398,000 metres drilled at our operating mines and exploration projects, respectively. • Gold reserves were increased 22.7% during the year and silver reserves decreased 5.4%.
2 DELIVER PROFITABLE GROWTH BY ADVANCING NEW PROJECTS	• San Julián: Commission flotation plant to process ore from the disseminated body (phase II) in 2Q 2017. • Pyrites plant: Complete construction of leaching plant, advance tailings flotation plant towards 1H 2018 completion. • Continue construction of the second line to the dynamic leaching plant at Herradura, expected to be commissioned in 2018.	• Construction of San Julián (phase II) was completed on budget with commercial production delivered in mid-July. • Construction of the Pyrites plant at Saucito progressed as expected. • Construction of the second line of the Dynamic Leaching plant at Herradura is on budget and on track, due for commissioning in 2Q 2018.
3 MAXIMISE THE POTENTIAL OF EXISTING OPERATIONS	• Produce between 58-61 moz of silver and 870-900 koz of gold. • Fresnillo mine: Increase development rates to 4,800 metres per month by year end, with an expected 7-10% increase in silver production, while commencing work for the optimisation plant.	• Produced 58.7 moz silver, in line with guidance, and exceeded gold guidance by producing 911.1 koz. • Developed infrastructure but development rates declined due to lower productivity from contractors and equipment failures. However, silver production increased 4.1% over 2016 and a new zinc thickener was installed at the beneficiation plant.
4 ADVANCE AND ENHANCE THE SUSTAINABILITY OF OUR OPERATIONS	• Continuous improvement in safety. • Implement the second phase of our ethics and integrity project to embed ethics in our organisational culture.	• Though there was an improvement on last year, we continue to strive towards zero fatalities. Lost time injury frequency rate (LTIFR) did not improve in 2017 as we are encouraging our people to report every incident, no matter how minor, to identify its root causes and prevent any reoccurrence. • The second phase of our ethics and integrity project was launched during the year. For more information, please refer to page 83.

2018 TARGETS	2017 GROUP KPIS/PERFORMANCE	RISKS
• Effectively deploy US$200 million in exploration investment.	**ATTRIBUTABLE SILVER RESOURCES** 2,320.5MOZ **ATTRIBUTABLE GOLD RESOURCES** 38.5MOZ	• Impact of metal prices & global macroeconomic developments. • Access to land. • Potential actions by government. • Security. • Public perception against mining. • Exploration. • Human resources.
• Pyrites plant: Commission leaching plant to process tailings from the Saucito mine in 1H 2018. Continue construction of tailings flotation plant at Fresnillo to process historical and ongoing tailings, due to be commissioned by the end of 2019. • Commission the Second line of the Dynamic Leaching plant at Herradura in 2Q 2018. • Conclude feasibility study of Juanicipio and initiate construction subject to Board approval.	**CAPEX BUDGET & TOTAL CAPEX TO DATE: CENTAURO EXTENSION** US$110m & US$63M **CAPEX BUDGET & TOTAL CAPEX TO DATE: PYRITES PLANT** US$155m & US$42M	• Impact of metal prices & global macroeconomic developments. • Access to land. • Potential actions by government. • Security. • Public perception against mining. • Projects (performance risk). • Union relations. • Human resources. • Cyber security.
• Produce between 67-70 moz silver, 870-900 koz of gold. • Continue stabilising ore grades and ore throughput at the Fresnillo mine. • Maintain development rates at our underground mines, with the aim of gradually increasing them in the long term.	**SILVER PRODUCTION** 58.7MOZ +16.6% **GOLD PRODUCTION** 911.1KOZ -2.6%	• Impact of metal prices & global macroeconomic developments. • Access to land. • Potential actions by government. • Security. • Union relations. • Human resources. • Cyber security. • Public perception against mining.
• Launch a programme to engage our organisation in defining KPIs in respect of outcomes that are significant to our stakeholders and material to the business.	**WATER INTENSITY** M^3 PER TONNE OF MINERAL PROCESSED 0.23 **LOST TIME INJURY FREQUENCY RATE** (LTIFR) 8.14 **GREENHOUSE GAS INTENSITY** TONNES OF CO_2E PER TONNE OF MINERAL PROCESSED 0.02 **FATALITIES** 1	• Potential actions by government. • Security. • Public perception against mining. • Safety. • Environmental incidents. • Human resources.

CREATING VALUE THROUGH GROWTH+RETURNS

DEVELOP

The knowledge and skills of our development team help transform potential projects identified by their colleagues in exploration into viable operations. We have established a proud track record of adhering to strict delivery timelines and capex budgets, investing in and delivering a succession of important projects that are driving our growth.

The ongoing construction of the Pyrites plant and the second line of the Dynamic Leaching Plant are examples of our development expertise in action during 2017, in addition to the continuing work at San Julián.

GROWTH

- Total capital expenditure of US$4.3 billion since 2008.

RETURNS

- Number of operating mines up from three in 2008 to seven in 2017.

FOR MORE ABOUT OUR DEVELOPMENT
SEE PAGE 66

Rosario-Las Casas at Ciénega.

CASE STUDY SAN JULIÁN

ONE PROJECT, FOUR STRATEGIC PILLARS

#2 DEVELOP (2012–2017)

"COMPREHENSIVE RISK AND SENSITIVITY ANALYSIS PLAYS A MAJOR ROLE IN THE DECISION TO MOVE A PROJECT FROM EXPLORATION TO THE DEVELOPMENT PHASE. FOLLOWING EXTENSIVE EXPLORATION WORK AT SAN JULIÁN TO LOWER THE RISK PROFILE, THE PROJECT WAS APPROVED FOR DEVELOPMENT IN LINE WITH OUR STRICT CRITERIA.

A TWO-PHASE DEVELOPMENT PROCESS WAS STARTED IN 2012, SUPPORTED BY US$515 M OF CAPITAL EXPENDITURE. PHASE I, A LEACHING PLANT, WAS COMMISSIONED IN 2016, WITH PHASE II, A FLOTATION PLANT, FOLLOWING IN 2017."

Roberto Díaz,
Chief Operating Officer

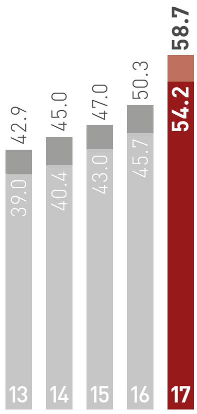
KEY PERFORMANCE INDICATORS

3 OPERATE KPIs

PRODUCTION

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

SILVER PRODUCTION
MILLIONS OF OUNCES

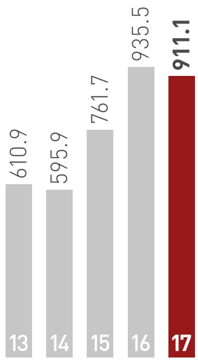


58.7

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

Increased silver production due to first complete year of San Julián phase I operating at full capacity and the start-up of operations at San Julián phase II.

GOLD PRODUCTION
THOUSANDS OF OUNCES



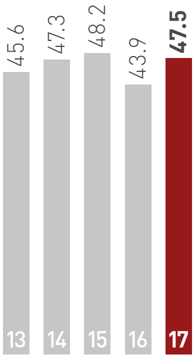
911.1

Decreased gold production due to the expected reduction in inventories at Herradura in 2016 not being repeated to the same extent during 2017.

COST PER TONNE

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

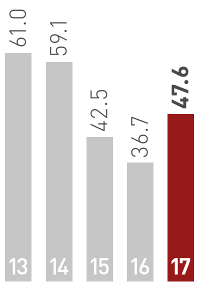
FRESNILLO
US$/TONNE MILLED



47.5

Increase in cost per tonne due to cost inflation and higher contractor and personnel unit costs.

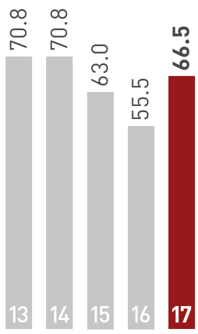
SAUCITO
US$/TONNE MILLED



47.6

Increase in cost per tonne mainly due to lower volume of development ore processed; increases in the use of consumables, services and maintenance; and cost inflation.

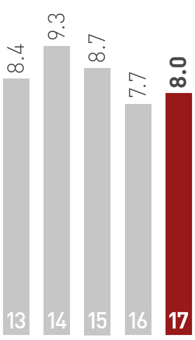
CIÉNEGA
US$/TONNE MILLED



66.5

Increase in cost per tonne due to the increase in development works recognised in the income statement; increases in the use of consumables, services and maintenance; and cost inflation.

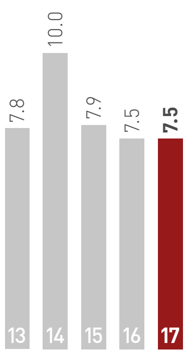
HERRADURA
US$/TONNE DEPOSITED



8.0

Increase in cost per tonne due to cost inflation, which was partly offset by the lower stripping costs charged to production costs.

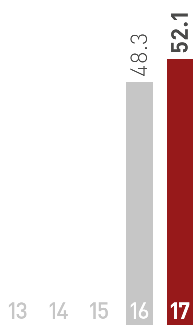
NOCHE BUENA
US$/TONNE DEPOSITED



7.5

Cost per tonne remained constant due to cost inflation, offset by the lower stripping costs charged to production costs.

SAN JULIÁN (PHASE I)
US$/TONNE MILLED



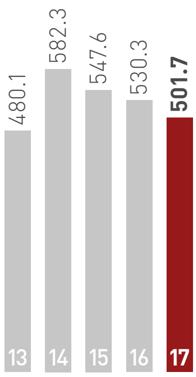
52.1

Cost per tonne in 2016 corresponds to the start-up period, when significant volume of mineral from the stock pile was processed, thus not providing a reliable comparison to 2017.

PROVEN AND PROBABLE RESERVES

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

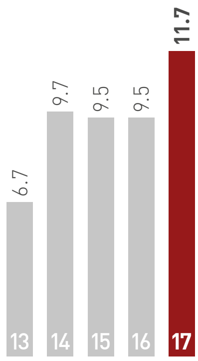
SILVER RESERVES
MILLIONS OF OUNCES



501.7

Lower due mainly to depletion at Fresnillo and higher cut-off grades resulting from the increase in all-in sustaining costs.

GOLD RESERVES
MILLIONS OF OUNCES



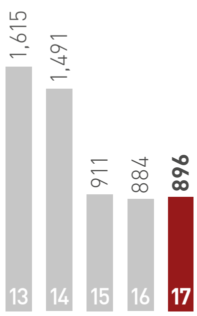
11.7

Higher due to the conversion of resources into reserves at the Herradura mine.

PRODUCTIVITY

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

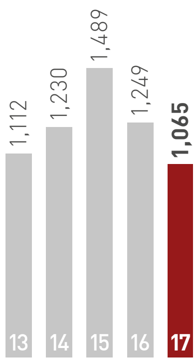
FRESNILLO
ORE MILLED PER PERSON – TONNES



896

Broadly stable due to increased volumes of ore processed divided by a greater number of workers.

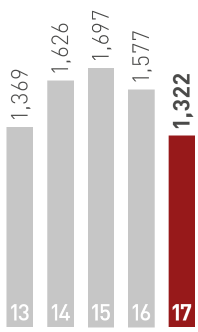
SAUCITO
ORE MILLED PER PERSON – TONNES



1,065

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

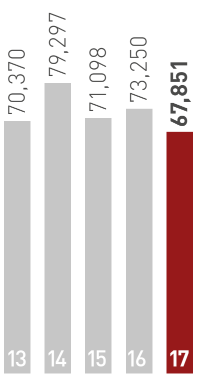
CIÉNEGA
ORE MILLED PER PERSON – TONNES



1,322

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

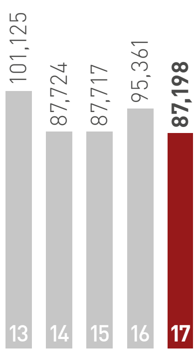
HERRADURA
ORE/WASTE MOVED PER PERSON – TONNES



67,851

Lower due to increased volumes of ore and waste material hauled by a greater number of personnel.

NOCHE BUENA
ORE/WASTE MOVED PER PERSON – TONNES



87,198

Lower due to increased volumes of ore and waste material moved divided by a greater number of workers and contractors.

SAN JULIÁN

We do not consider productivity at San Julián to be representative. This is due to the first phase commencing operations in August 2016 and the second phase being commissioned in July 2017, plus the ramping up of operations over the proceeding months and both phases processing significant volumes of mineral from the stock piles.

FRESNILLO TODAY
STRATEGIC REPORT
CORPORATE GOVERNANCE
FINANCIAL STATEMENTS

KEY PERFORMANCE INDICATORS
CONTINUED

2 DEVELOP KPIs

Project delivery: Ability to adhere to forecasted schedules and budgets. This measures management's forecast accuracy and execution capabilities.

SAN JULIÁN
CAPEX BUDGET: US$
515M

TOTAL CAPEX TO DATE: US$
498M

Timeline: The second phase was successfully commissioned in July 2017 concluding the development phase of this mine on budget. Both phases I & II are now in operation and expected to produce 16.6 moz silver and 64 koz gold in 2018.

PYRITES PLANT
CAPEX BUDGET: US$
155M

2017 BUDGETED CAPEX: US$
58M

TOTAL CAPEX TO DATE: US$
42M

Timeline: Construction of the Pyrites plant in the Fresnillo district remains on track and on budget. The leaching plant is expected to be commissioned in 2Q 2018 and will process tailings from the Saucito mine while the historical and ongoing tailings from Fresnillo are expected to start being processed in 2019.

CENTAURO EXTENSION
CAPEX BUDGET: US$
110M

2017 BUDGETED CAPEX: US$
53M

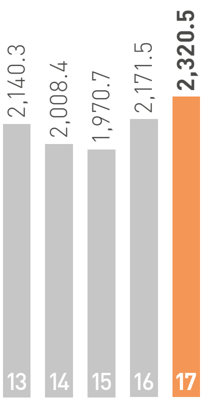
TOTAL CAPEX TO DATE: US$
63M

Timeline: Construction of the second line of the Dynamic Leaching plant at Herradura is on track and on budget and is expected to be commissioned in 2Q 2018. This will extend the life of mine at Herradura to 12 years with an average life of mine annual gold production of 390 koz. The project will enable sulphides occurring deeper in the pit to be processed more efficiently.

1 EXPLORE KPIs

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

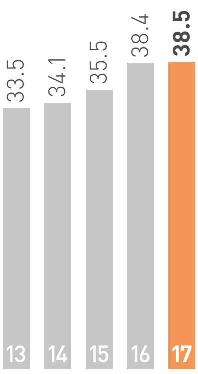
ATTRIBUTABLE SILVER RESOURCES
MILLIONS OF OUNCES



2,320.5

Higher due to positive exploration results at Fresnillo, Saucito, San Julián and Guanajuato.

ATTRIBUTABLE GOLD RESOURCES
MILLIONS OF OUNCES



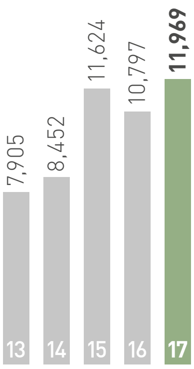
38.5

Higher due to an increase at Guanajuato and San Julián.

4 SUSTAINABILITY KPIs

WATER

WATER INPUT
MEGALITRES

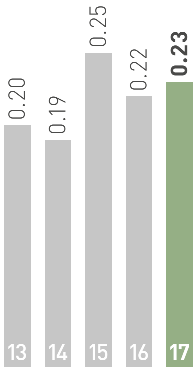


11,969

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

The increase is due to the footprint of San Julián (It was out of the reporting scope in 2016).

WATER INTENSITY
M^3 PER TONNE OF MINERAL PROCESSED



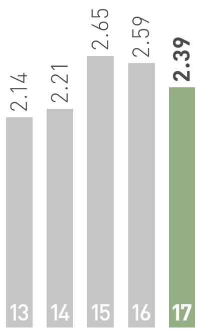
0.23

Water input per tonne of mineral processed.

The increase is due to the footprint of San Julián (It was out of the reporting scope in 2016).

COMMUNITY INVESTMENT

COMMUNITY INVESTMENT
US$



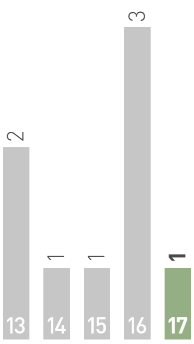
2.39M

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

Reduced due to an optimisation of the portfolio of social investment. While some business units reduced their contributions to the community, we increased the amount of social investment in our institutional portfolio, primarily relating to reading, science, robotics and capacity building, among others.

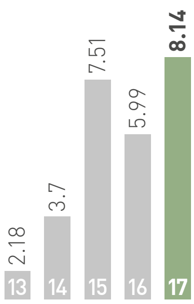
FATALITIES AND INJURIES

FATAL INJURIES
NUMBER OF FATAL INJURIES TO EMPLOYEEES OR CONTRACTORS



1

LOST TIME INJURY FREQUENCY RATE (LTIFR)
FOR EVERY 1,000,000 HOURS WORKED



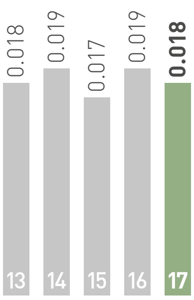
8.14

The number of lost time injuries and fatalities per 1,000,000 hours worked. Lost time injuries are work-related injuries rendering any of the Group's employees – full or part-time, direct or subcontracted, union or non-union – unable to perform his/her regular duties for one shift or more.

Increased as a consequence of growth of the workforce and high turnover of contractors.

GREENHOUSE GASES

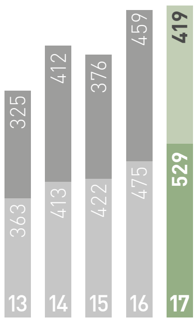
GREENHOUSE GAS INTENSITY
TONNES OF CO_2E PER TONNE OF MINERAL PROCESSED



0.018

A reduction in our carbon footprint was driven by offsetting our increased energy demands through the use of renewable energy sources.

GREENHOUSE GAS EMISSIONS
KT OF CO_2E



529 SCOPE 1

419 SCOPE 2

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

The increase is due to the footprint of San Julián (It was out of the reporting scope in 2016).

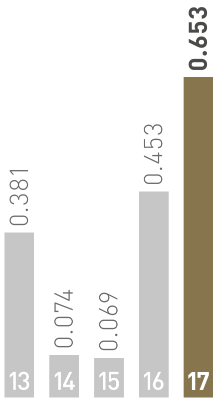
KEY PERFORMANCE INDICATORS
CONTINUED

FINANCIAL KPIs

EARNINGS PER SHARE EXCLUDING POST-TAX SILVERSTREAM REVALUATION EFFECTS

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

EARNINGS PER SHARE EXCLUDING POST-TAX SILVERSTREAM REVALUATION EFFECTS
US$/SHARE



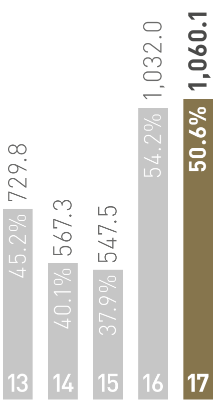
0.653

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

EBITDA, EBITDA MARGIN AND CASH FLOW FROM OPERATING ACTIVITIES BEFORE CHANGES IN WORKING CAPITAL

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

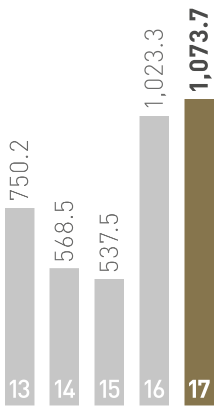
EBITDA AND EBITDA MARGIN
US$



1,060.1M

Increase as a result of higher revenues partly offset by higher adjusted production costs, exploration and administrative expenses.

CASH FLOW GENERATED FROM OPERATIONS BEFORE WORKING CAPITAL ADJUSTMENTS US$



1,073.7M

Increase due to higher profits.

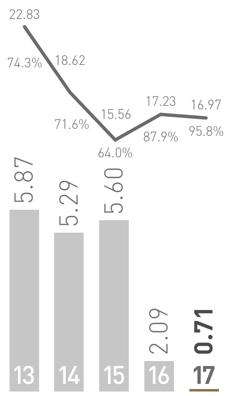
CASH COST PER OUNCE

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

- Gold/Silver price
- Cash cost
- % Figures represent margin between cash cost and gold/silver price

FRESNILLO CASH COST: SILVER

US$/OUNCE

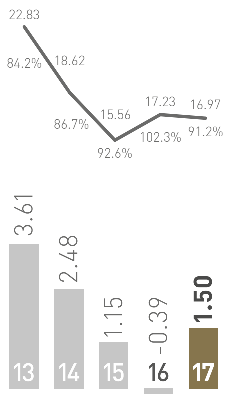


0.71

Decrease in cash cost due to higher by-product credits, lower treatment and refining charges and higher silver ore grade.

SAUCITO CASH COST: SILVER

US$/OUNCE

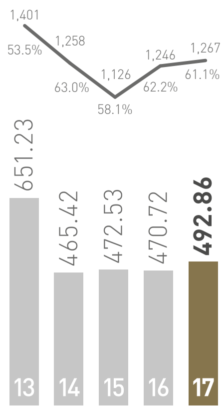


1.50

Increase in cash cost driven by higher cost per tonne, lower ore grade and lower by-product credits.

HERRADURA CASH COST: GOLD

US$/OUNCE

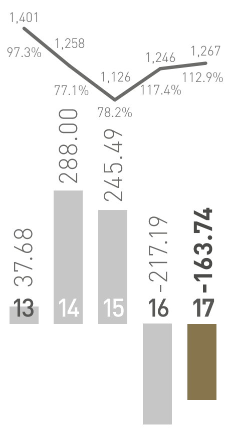


492.86

Increase in cash cost mainly due to lower gold ore grade and higher cost per tonne and profit sharing.

CIÉNEGA CASH COST: GOLD

US$/OUNCE

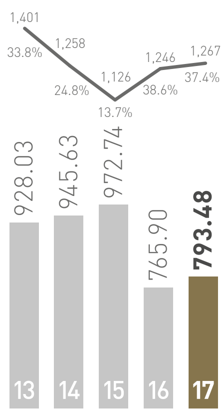


-163.74

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

NOCHE BUENA CASH COST: GOLD

US$/OUNCE



793.48

Increase in cash cost per ounce driven by the reversal of the write down of gold inventories on the leaching pads, offset by the higher ore grade.

MANAGING OUR RISKS

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.

RISK GOVERNANCE FRAMEWORK

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

The Board

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

Executive Committee

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

Audit Committee

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

Internal Audit

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

Operational level

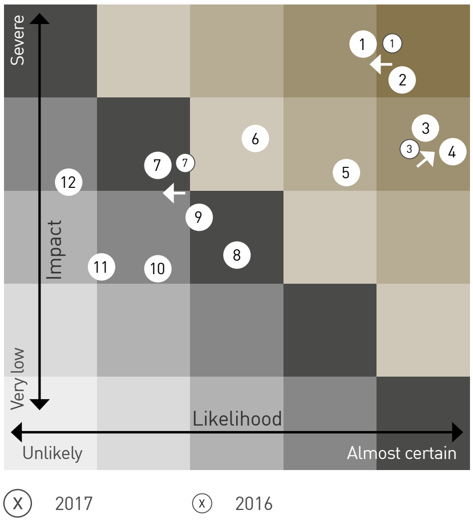
- Risk identification and assessment performed across mining operations, projects and exploration sites.
- Risk mitigation and internal controls monitoring embedded across functional areas and business units.
- Risk awareness and safety culture embedded in day-to-day operations.

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

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 (pages 54-71).

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.

HEAT MAP



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

* Bold text indicates those risks which have changed during 2017.
(v) Risk that was considered for the viability assessment as detailed on pages 48-49.
† New risk considered as principal risk.

Note for risk table: Change in risk level: vertical movement indicates impact ↑ and horizontal → movement indicates likelihood.

MANAGING OUR RISKS
CONTINUED

1. IMPACT OF METAL PRICES AND GLOBAL MACROECONOMIC DEVELOPMENTS

RISK DESCRIPTION

Certain events could create an adverse impact on our sales and profits, and potentially the economic viability of projects. These events include:

- A decrease in precious metal prices, which is the primary driver for this risk. For the second consecutive year, gold achieved a higher annual average realised price over the previous year (+1.7% versus 2016). Silver prices experienced a slight decrease of 1.7%.
- Revaluation of the Mexican peso. In 2017, the peso was revalued by 4.5% versus the average spot exchange rate of US dollars.
- General inflation in Mexico. This was 6.7% in Mexican pesos in 2017. The specific inflation affecting the Company was 6.4% in US dollar terms.
- A decrease in the price of our by-products, which is a relatively minor risk. In 2017, prices rose for the second consecutive year, with the average annual prices for lead and zinc rising 24.9% and 34.9%, respectively, over the previous year.

RESPONSE/MITIGATION

Our hedging policy remains guided by the principle of providing shareholders with full exposure to gold and silver prices. However, following shareholder approval for the acquisition of 44% of Penmont (and associated companies) in 2014, we initiated a specific hedging programme to protect the value of the investment made in the acquisition, using a collar structure to allow partial continued exposure to gold prices. The volume associated with this phased hedging programme was strictly limited to up to 44% of production associated with the acquired Penmont assets and will not be extended to other assets in the Group. The total volume hedged was 1,559,689 oz of which 324,780 oz expired in 2017 with no corresponding cash impact. The only impact on the income statement was a loss of US$41 million related to the time value associated with gold commodity options.

FOR THE FINANCIAL REVIEW
SEE PAGES 104-115

We are not precluded from entering into derivatives to minimise our exposure to changes in the prices of lead and zinc by-products. The Group entered into a collar hedging structure in 2017, with maturities starting in 2018 so no results were recorded in the income statement. This structure aims to mitigate the risk related to the sale of lead and zinc. See note 31 in the financial statements page 239.

Furthermore, we have hedging policies in place for foreign exchange risk, including those associated with capex related to projects. In 2017, we entered into a number of foreign exchange forward contracts denominated in euros, Swedish krona and Canadian dollars. See note 31 in the financial statements page 238.

We suffered significant increases in our main energy inputs over the previous year, with the average cost of diesel (USC$/lt.) rising by 22.2% and the KWH weighted average (USC$) increasing by 28.8%. This was due to the increase in international petroleum prices and the market liberalisation of fuel prices in Mexico. We will continue to identify and maintain efficiency initiatives to reduce our energy consumption.

RISK APPETITE

HIGH

Risk rating (relative position)

2017: Very high (1)

2016: Very high (1)

LINK TO STRATEGY

1 2 3

CHANGE IN HEAT MAP

DESCRIPTION OF RISK LEVEL

According to the majority of silver and gold price analysts, the expected volatility of metal prices is lower than in recent times. Medium-term projections indicate stronger prices due to unpredictable global political and economic issues, including: the US administration's ability to drive through changes to fiscal policy; very low or negative real rates; and improvement in the Eurozone's economic position due to recent centrist political successes.

KEY RISK INDICATORS

- Gross profit sensitivity to percentage change in precious metals price and to the Mexican peso/US dollar exchange rate.
- EBITDA sensitivity to percentage change in metals price and to Mexican peso/US dollar exchange rate.

2. ACCESS TO LAND

RISK DESCRIPTION

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

- Rising expectations of land owners.
- Refusal to acknowledge prior land acquisition terms and conditions by members of an agrarian community.
- Influence of multiple special interests in land negotiations.
- Conflicts in land boundaries with an often arduous resolution process.
- Succession issues among land owners resulting in a lack of clarity about the legal entitlement to possess and sell land.
- Litigation risk i.e. increased activism by agrarian communities and/or judicial authorities.
- Presence of indigenous communities in the proximity of land that is of interest, where prior and informed consultation and consent of such communities may be required.

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

RESPONSE/MITIGATION

We actively manage our mining rights in order to maximise our opportunities for successful land access, focusing on areas of interest or strategic value. At the end of 2017, after adding required areas and divesting areas of less interest, we held 1.8 million hectares, the same area as the previous year. Other initiatives include:

- Careful advanced planning for land requirements and acquisitions (e.g. anticipating any issues with a potential land purchase before intensive exploration). In certain areas of interest, we negotiate leasing or occupation agreements with purchase options, in compliance with legal and regulatory requirements.
- The fostering of strong community relations through investment in community programmes and infrastructure. Such investments totalled US$2.4 million in 2017.
- Always seeking tri-party cooperation between the government, community and ourselves in securing access to land.
- Early involvement of our community relations teams during the negotiation and acquisition processes, including the exploration stage.
- Working with our land negotiation teams, which comprise specialists hired directly by Fresnillo and also provided by Peñoles as part of the service agreement.

As part of an ongoing review of the legal status of our land rights, we identified certain areas of opportunity and continue to implement measures to manage this risk on a case-by-case basis. Such measures include, whenever possible, negotiating with agrarian communities for the outright purchase of land. We use mechanisms provided under agrarian law and also utilise other legal mechanisms under mining law which afford added protection for land occupation. We have already closed several such agreements in the states of Sonora and Zacatecas. These activities form part of our ongoing drive to reduce exposure to risk regarding surface rights.

RISK APPETITE

MEDIUM

Risk rating (relative position)

2017: Very high (2)

2016: Very high (2)

LINK TO STRATEGY

1 2 3

CHANGE IN HEAT MAP

=

DESCRIPTION OF RISK LEVEL

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

In addition, in areas close to land of interest, prior and informed consultation and consent of indigenous communities may be required on a case-by-case basis.

The outcome is that, despite our many strategic actions, the perceived level of this risk remains very high.

KEY RISK INDICATORS

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

MANAGING OUR RISKS
CONTINUED

3. POTENTIAL ACTIONS BY THE GOVERNMENT
E.G. IMPLEMENTATION OF MORE STRINGENT REGULATIONS FOR OBTAINING PERMITS, ETC.

RISK DESCRIPTION

Government actions may have an adverse impact on us. These could include stringent regulations relating to the environment or explosives, or more challenging processes for obtaining permits or more onerous tax compliance obligations as well as more frequent reviews by tax authorities; refer to financial statement notes for more detail, pages 192-243.

On 1 January 2017, a new tax law (the 'Tax Law') came into effect in the state of Zacatecas in northern Mexico. It includes a new set of 'environmental taxes' relating to the following activities undertaken within the state:

i. Extraction of materials other than minerals referenced in Article 4 of the Mexican Mining Law (gold, silver, lead, zinc, etc.) from the soil and sub-soil through open-pit processes;
ii. Emissions of certain substances into the atmosphere;
iii. Deposit of contaminants into the soil and water; and
iv. Storage of waste in public or private landfills.

The right of indigenous communities to be consulted and grant their prior and informed consent regarding mining concessions may affect the granting of new concessions in Mexico.

RESPONSE/MITIGATION

Together with our internal and external advisors, we filed an appeal in the form of a legal injunction before Federal Courts in Mexico. This challenged the validity of the Tax Law on the basis that in our opinion, extractive activities are regulated at a federal level. A ruling was issued in our favour and the state of Zacatecas has filed a last appeal which is under review. Although we believe that the initial ruling will be upheld, if this is not the case, we estimate that the potential net impact of these new taxes on our income statement would be in the range of US$4-7 million for the 2017 fiscal year and subsequent years.

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

We remain compliant with all applicable environmental regulations and are fully committed to operating in a sustainable way.

We seek to maintain full compliance with tax authority requirements. In doing so we continue to cooperate with any ongoing tax inspections.

Although Mexico's Mining Law does not yet incorporate indigenous consultation, it remains an ongoing issue. Some local state governments have begun to legislate on this matter as a prior requirement for mining projects to proceed in specific areas where indigenous populations may be present.

RISK APPETITE

LOW

Risk rating (relative position)

2017: Very high (3)

2016: Very high (3)

LINK TO STRATEGY

1 2 3 4

CHANGE IN HEAT MAP

DESCRIPTION OF RISK LEVEL

We continue to perceive this risk level as very high due to the pressure that the government or government officials (in either case, both at the federal and local levels) could exert over the mining industry. Evidence of this influence on our industry can be seen in the increase in the frequency of reviews by the tax authorities, the new legislation requiring management to ensure that contractors are compliant with their own tax obligations and the imposition of the environmental taxes contained in the new Tax Law in Zacatecas. In addition, it is evident in the continued perceived level of corruption across Mexico, which remains high[1] and worsened versus the previous year. We share a general industry view that, regrettably, local and regional governments in particular have worsened in this regard, notwithstanding the national effort to implement an anticorruption system, which is not yet fully deployed. As a result, delays in obtaining permits for certain operations and/or projects remain a risk.

President, senate and representative chambers elections, together with other local positions, will be held in 2018. As a result, an increase in the level of this risk is likely, depending on the candidates' stance towards mining.

KEY RISK INDICATORS

- Number of media mentions related to mining regulations. These could include mentions of tax, royalties, the banning of mining activities in protected areas and legal precedents. The indicator also provides detail on the media itself, such as speaker profile and political alignment.

1 Corruption Perception Index 2017, issued by Transparency International ranks Mexico as 135th of 180 countries by perceived levels of public sector corruption.

4. SECURITY

RISK DESCRIPTION

Our people, contractors and suppliers face the risk of kidnapping, extortion or harm due to security conditions in the regions where we operate. We face the risk of restricted access to operations/projects and theft of assets.

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

RESPONSE/MITIGATION

We closely monitor the security situation, maintaining clear internal communications and coordinating work in areas of higher insecurity. We have adopted the following practices to manage our security risks and prevent and deal with possible incidents:

- We maintain close relations with authorities at federal, state and local levels, including army encampments located near the majority of our operations.
- We have finalised a new standard for the technological and physical security of all our business units. Implementation has taken more time than expected due to the extent of the new arrangements and the increased scope. However, we are planning to complete implementation for all business units during 2018.
- In 2017 we launched an initiative to professionalise our security contractors. The aim is to ensure that we only work with those who can meet our requirement to employ trained security experts. This process will continue in 2018.
- We have continued to improve our logistics controls in order to reduce the probability of theft of mineral concentrate. These controls include: the use of real-time tracking technology; surveillance cameras; tests to identify alterations in transported material; guard services; and control checkpoints in a 'safe corridor'. We have also reduced the number of authorised stops in order to optimise delivery times and minimise the exposure of convoys. For example, no stops are allowed on short-haul routes.
- We continue to invest in community programmes, infrastructure improvements and government initiatives to support the development of lawful local communities and discourage criminal acts.
- In order to ensure the security of our personnel, access to the San Nicolas del Oro prospect remains suspended because of the level of insecurity in the state of Guerrero. We plan to work together with key actors in the community to promote the benefits of mining as an alternative source of work and as a generator of improved social and educational infrastructure.
- Both internally and among our contractors, we continue to promote the reporting of criminal acts to the authorities.
- We are evaluating the option of increasing the number of housing units close to certain business units, in order to reduce the risk exposure during transportation.

RISK APPETITE

LOW

Risk rating (relative position)

2017: Very high (4)

2016: Very high (4)

LINK TO STRATEGY

1 2 3 4

CHANGE IN HEAT MAP

=

DESCRIPTION OF RISK LEVEL

We have continued to experience a high level of security incidents, both in frequency and severity. The perceived level of risk has therefore remained very high. In the regions and projects where we operate, we did not observe an improvement in the crime rate during 2017.

We also refer to The Global Peace Index[2] ranking, which indicates a higher likelihood of violent demonstrations and political instability. This index uses three broad themes: level of safety and security in society; the extent of domestic or international conflict; and the degree of militarisation. Mexico ranks 142 of 163 countries worldwide (from best to worst), as a country with a low state of peace and has fallen by two places in the ranking. In addition, we use the Mexico Peace Index[2] ranking as a reference. This is a comprehensive index of the following indicators (adjusted with non-compliant rates): homicides; violent crimes; firearms crimes; non-convicted prisoners; and drug trafficking crimes. The index ranks states from 1 to 5, where 1 represents the most peaceful. Guerrero, Zacatecas and Chihuahua tend to rank among the less peaceful states in Mexico, while Sonora and Durango are located in the medium range.

KEY RISK INDICATORS

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

2 Global Peace Index 2017 and Mexico Peace Index 2017 prepared by the Institute for Economics & Peace, http://economicsandpeace.org/.

MANAGING OUR RISKS
CONTINUED

5. PUBLIC PERCEPTION AGAINST MINING

RISK DESCRIPTION

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

RESPONSE/MITIGATION

Communities are our strategic partners. To win and maintain their trust, we must show understanding and effective engagement, and be accountable for our impact. Our well-established programme for community engagement includes:

- Increase our understanding and accountability:
  - Monitoring public opinion within local and international media.
  - Holding continuous dialogue with our key local stakeholders through formal and informal meetings.
  - Carrying out social baseline, human rights and perception studies to better understand our positive and negative impacts. In 2017 we conducted such studies in all of our operations.
  - Operating a grievance mechanism to address stakeholder concerns.
- Purposeful and aspirational engagement with local communities:
  - Maintaining a Social Investment Portfolio to create long-term value, aligned with the UN Global Goals for sustainable development. We have identified four pillars where we can make a real difference: Education, Water, Health and Capacity building.
  - Partnering with NGOs in these four pillars of social investment: Education (IBBY, INNOVEC & First Robotics), Water (Captar AC), Health (National University Foundation) and Capacity Building (ProEmpleo).
  - Engaging with municipal authorities to invest the resources of the Mining Tax Fund in infrastructure projects that benefit our neighbour communities.
- Collaborating with peers in the international and Mexican mining community to promote the benefits of the mining industry and responsible mining practices.

FOR MORE ON OUR COMMUNITY RELATIONS
SEE PAGES 96-103

RISK APPETITE

LOW

Risk rating (relative position)

2017: High (5)

2016: High (5)

LINK TO STRATEGY

1 2 3 4

CHANGE IN HEAT MAP

=

DESCRIPTION OF RISK CHANGE

We have maintained our social licence to operate in our communities. Continuing to maintain and protect this licence demands strong collaboration with the local community and stakeholders.

There are multiple examples of how years of protests and demands have led to the cancellation of projects. Objections are not only from local communities, but also from local and international NGOs as well as regulators working to meet high expectations and pressure from governments. We continue to perceive this complex issue as a high risk.

KEY RISK INDICATORS

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

6. SAFETY

RISK DESCRIPTION

It is an inherent risk in our industry that incidents due to unsafe acts or conditions could lead to injuries or fatalities.

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

RESPONSE/MITIGATION

Regrettably, a fatal injury in the first half of 2017 meant that we did not reach our goal of zero fatalities.

Management has since taken decisive steps to address and prevent the root causes of fatal injuries and strengthened our safety initiatives. These include:

- A permanent effort to reinforce our safety culture, comprising the following programmes: 'Rules that Save Lives', 'Operational Discipline' and 'Behavioural Change', supported by comprehensive accident investigation.
- A pilot project at our Saucito mine to improve safety performance and develop competences in our supervisors. The project involves training a group of trainers to subsequently lead the programme for the rest of the business units.

The Total Recordable Injury Frequency Rate increased to 23.22 in 2017 (versus 16.93 in 2016) and the Lost Time Injury Frequency Rate increased to 8.14 (versus 5.99 in 2016).

We continue to deliver training for both employees and contractors. Personnel received an average of 87 hours of training in 2017. 35 of these 87 hours involved HSECR training, of which 33 related to safety.

FOR MORE ON OUR SAFETY STRATEGY
SEE PAGES 80-81

RISK APPETITE

LOW

Risk rating (relative position)

2017: High (6)

2016: High (6)

LINK TO STRATEGY

4

CHANGE IN HEAT MAP

=

DESCRIPTION OF RISK LEVEL

Safety is continually monitored by the Board, which has always given it the highest priority. The Board oversees all accident investigations, ensuring that the appropriate actions are taken to improve safety systems and practices.

KEY RISK INDICATORS

- Accident rate.
- Days lost rate.
- Accidents frequency:
  - Without lost time.
  - With lost time.
  - Fatalities.

FRESNILLO TODAY
STRATEGIC REPORT
CORPORATE GOVERNANCE
FINANCIAL STATEMENTS

MANAGING OUR RISKS
CONTINUED

7. PROJECTS (PERFORMANCE RISK)

RISK DESCRIPTION

The pursuit of advanced exploration and development opportunities are core to meeting our strategic goals. However, they carry certain project-related risks:

- Economic viability: The impact of capital cost to develop and maintain the mine; future metal prices; and operating costs through the mine's life cycle.
- Uncertainties associated with developing and operating new mines and expansion projects: Fluctuations in ore grade and recovery; unforeseen complexities in the mining process; poor rock quality; unexpected presence of underground water or lack thereof; lack of community support; and inability to obtain and maintain required operating permits.
- Delivery risk: Projects may go over budget in terms of cost and time; they may not be constructed in accordance with the required specifications; and major mining equipment may not be delivered on time.

RESPONSE/MITIGATION

Our investment evaluation process determines how to best direct available capital using technical, financial and qualitative criteria.

- Technical: We assess the resource estimate and confirmed resources, the metallurgy of the mineral bodies, the investment required in general infrastructure (e.g. roads, power, general services, housing) and the infrastructure required for the mine and plant.
- Financial: We look at risk relative to return for proposed investments of capital. We set expected internal rates of return (IRR) per project as thresholds for approving the allocation of capital based on the present value of expected cash flows from the invested capital.
- Qualitative factors: The alignment of the investment with our strategic plan and business model; synergies with other investments and operating assets; and the implications for safety, security, people, resourcing and community relations.

We closely monitor project controls to ensure that we deliver approved projects on time, on budget and in line with the defined specifications. The executive management team and Board of Directors are regularly updated on progress. Each advanced exploration project and major capital development project has a risk register containing the identified and assessed risks specific to the project.

The project development pipeline in 2018 includes:

- Ongoing construction and development of the Pyrites plant.
- The Centauro Extension, including a second line of the dynamic leaching plant, at Herradura.
- Project optimisation of Fresnillo's plant.
- Feasibility study and start of construction of Juanicipio.

FOR MORE ON OUR DEVELOPMENT PROJECTS
SEE PAGE 66

RISK APPETITE

MEDIUM

Risk rating (relative position)

2017: Medium (7)

2016: Medium high (7)

LINK TO STRATEGY

2

CHANGE IN HEAT MAP

DESCRIPTION OF RISK LEVEL

Our strict investment governance process and system of capital project controls remain in place, safeguarding our ability to deliver growth through development projects on time and on budget. During 2017, we successfully completed the commissioning of San Julián, which had the effect of reducing our project perceived risk level. We plan to start construction at Juanicipio in 2018. Several factors have led us to perceive a lower level of risk for Juanicipio than for previous projects. These include a lower level of investment, easier access to infrastructure and the site's proximity to current operations.

KEY RISK INDICATORS

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

8. UNION RELATIONS

RISK DESCRIPTION

Although the risk of union action or a deterioration in union relations at some sites may be possible, overall our relationship with the unions continues to strengthen.

Nonetheless, internal union politics could impact us negatively, as could pressure from other mining unions that want to take over the Fresnillo labour contract.

RESPONSE/MITIGATION

Our strategy is to integrate unionised personnel into each business unit (BU) team. We achieve this by clearly assigning responsibilities and programmes for maintaining close relationships with unions at mine sites and at national level. We maintain close communication with union leaders at various levels of the organisation in order to: raise awareness about the economic situation the industry is facing; share our production results; and to encourage union participation in our initiatives regarding safety and other operational improvements. These initiatives include the safety guardians programme, alliances for obtaining certifications, integration of high productivity teams and family activities. During the year, we held six leadership workshops which were attended by 150 key union leaders at our business units.

We are proactive and timely in our responses to the needs of the unions, and experienced no labour-related work stoppages in 2017. If required, we engage experienced legal counsel, both internal and external, to support us on labour issues. We will continue to closely monitor union and labour developments.

RISK APPETITE

LOW

Risk rating (relative position)

2017: Medium low (8)

2016: Medium low (8)

LINK TO STRATEGY

2 3

CHANGE IN HEAT MAP

=

DESCRIPTION OF RISK LEVEL

During 2017, we continued to build on our good relations with unions at national and local levels, and we do not expect an increase in this perceived level of risk. Our executive management and the Board recognise the importance of union relations and follow any developments with interest.

KEY RISK INDICATORS

- Union members level of satisfaction.
- Number of media mentions related to mining union developments.

MANAGING OUR RISKS
CONTINUED

9. EXPLORATION

RISK DESCRIPTION

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

In addition to the growing level of insecurity and access to land detailed in previous risks, other risks that may impact prospecting and converting inferred resources include: the lack of a robust portfolio of prospects in our pipeline with sufficient potential in terms of indicated and inferred resources; and insufficient concession coverage in target areas.

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

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

RESPONSE/MITIGATION

During 2017, we invested a total of US$145.3 million in exploration activities. Our objectives for 2018 include a budgeted risk capital investment in exploration of approximately US$200 million. The approximate spending split is 42% for operating mines, 33% for exploration projects and the remaining 25% for prospects, regional prospecting and mining rights.

Our exploration strategy also includes:

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

During 2017 we slightly increased our land concessions by 13,133 hectares, which are located in areas of interest to Fresnillo.

FOR MORE ON OUR EXPLORATION PROGRAMME
SEE PAGES 67-71

RISK APPETITE

MEDIUM

Risk rating (relative position)

2017: Medium (9)

2016: Medium (9)

LINK TO STRATEGY

1

CHANGE IN HEAT MAP

=

DESCRIPTION OF RISK LEVEL

Maintaining a reasonable investment in exploration, even when metal prices are low, means that the level of this risk remains steady. While continuous investment has always been a hallmark of our exploration strategy, replenishing exploited reserves and increasing our total amount of resources could be a challenge in the future.

KEY RISK INDICATORS

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

10. CYBER SECURITY

RISK DESCRIPTION

We recognise the importance of the confidentiality, continuity, integrity and security of our data and production systems.

As a mining company, we may be under threat of cyber attacks from a broad set of attacker groups, from 'hacktivists' and hostile regimes to organised criminals. Their goals include a desire to take advantage of the role that mining plays in regional and global supply chains as well as in national economies.

Certain groups may also attempt to exploit vulnerabilities created by the industry's heavy reliance on operational automated systems and IT[1]. In our case, this could include initiatives such as Operations Technology and Information Technology (OTIT) Integration and Digital Mine (pages 50-51).

RESPONSE/MITIGATION

Our cyber security strategy seeks to ensure that our networks, systems and data are secured in accordance with best practices as promoted by the US National Institute of Standards and Technology Cyber security Framework (NIST CSF) and Control Objectives for Information and Related Technologies (COBIT).

During 2017, we created a committee tasked with establishing a uniform and effective protocol for how we respond to cyber security incidents.

RISK APPETITE

LOW

Risk rating (relative position)

2017: Medium (10)

2016: N/A

LINK TO STRATEGY

2 3

CHANGE IN HEAT MAP

Change in risk level: not applicable as this risk was first identified as a principal risk in 2017. It had previously been included in our risk register universe.

DESCRIPTION OF RISK LEVEL

In 2016, a major Canadian gold mining company suffered a data breach impacting private corporate and employee information. Over the last six years, the mining sector has faced 17[2] cyber incidents. As this risk is an increasing threat to the industry, we have decided that it should be monitored and overseen by the Audit Committee.

KEY RISK INDICATORS

We are currently developing KRIs to monitor this new principal risk and we are considering the following:

- Total number of cyber security incidents affecting our industry/ our Company.
- Number of media mentions related to cyber security issues affecting the mining industry.

FRESNILLO TODAY
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1 Trend Micro, Cyber Threats to the Mining Industry, Trend Labs, 2016.
2 http://news.softpedia.com/news/mining-sector-faced-17-major-cyber-incidents-in-the-past-six-years-505783.shtml.

MANAGING OUR RISKS
CONTINUED

11. HUMAN RESOURCES

RISK DESCRIPTION

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

A lack of reliable contractors with sufficient infrastructure, machinery, performance track record and skilled personnel is also a risk that could impact our ability to develop and construct mining works.

RESPONSE/MITIGATION

Recruitment: we have assessed our hiring requirements for key positions for 2018, and aim to meet them by internal training and promotion, and by recruitment through:

- Our close relationships with universities offering earth science programmes. We have dedicated programmes to identify potential candidates based on performance who may be hired as interns and/or employees on graduation.
- CETEF (Centre for Technical Studies Fresnillo) which teaches specific mining operational skills. All 13 graduates hired in 2017 joined as full-time employees.
- CETLAR (the Peñoles Centre for Technical Studies) which trains mechanics and electrical technicians. All eight graduates hired in 2017 for Fresnillo BUs joined as full-time employees.

Retention: our aim is to be the employer of choice, and we recognise that in order to be a profitable and sustainable company, we have to generate value for our employees and their families. We do this by providing a healthy, safe, productive and team-oriented working environment that not only encourages our people to fulfil their potential but also supports process improvements. Our focus is on continuous improvement driven by training, development and personal growth opportunities; in summary our focus is on fair hiring, fair remuneration and benefits and gender equality as described in our Human Capital section on pages 79 and 85. In 2017 we were once again recognised as a Great Place to Work, and were ranked in 22nd place among companies with more than 5,000 employees.

Performance: we have continued our performance evaluation process, reinforcing formal feedback.
We promote the certification of key technical skills for operational personnel, and provide an administrative and leadership skills development programme where appropriate. We develop our high potential middle managers through the Leaders with Vision programme.

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

RISK APPETITE

MEDIUM

Risk rating (relative position)

2017: Low (11)

2016: Low (10)

LINK TO STRATEGY

1 2 3 4

CHANGE IN HEAT MAP

=

DESCRIPTION OF RISK LEVEL

We aim to carefully align our Human Capital with our operational and growth requirements. We believe that we have currently achieved this alignment, due to the success of activities including our ongoing university recruitment and employee retention strategies.

Contractor resourcing continues to be a major challenge. We maintain a broad base of contractors in order to provide us with operational flexibility, and aim to professionalise them to the same level as our own employees.

KEY RISK INDICATORS

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

12. ENVIRONMENTAL INCIDENTS

RISK DESCRIPTION

Environmental incidents are an inherent risk in our industry. These incidents include the possible overflow or collapse of tailing dams, cyanide spills and dust emissions, any of which could have a high impact on our people, communities and business.

RESPONSE/MITIGATION

Our environmental management system ensures compliance with Mexican regulations, provides transparency and supports initiatives that reduce our environmental footprint. We disclose our performance regarding our Natural Capital on pages 86-95 of this report.

All our mining units are certified under ISO 14001 and have Clean Industry certification.

Our leaching operations in Herradura and Noche Buena operate in compliance with the Cyanide Code issued by the International Cyanide Management Institute.

We rigorously adhere to the requirements established by each project's environmental permit (Environmental Impact Statement issued by the Ministry of Environment, SEMARNAT). We also continue to support contractors in their efforts to integrate environmental management systems.

RISK APPETITE

LOW

Risk rating (relative position)

2017: Low (12)

2016: Low (11)

LINK TO STRATEGY

4

CHANGE IN HEAT MAP

=

DESCRIPTION OF RISK LEVEL

Our environmental management system, together with our investment in preventative measures and training, are key factors which reduce the risk of major environmental incidents. Based on available information, we did not see a change in this perceived risk level.

KEY RISK INDICATORS

- Number of BUs with ISO 14001:2004 certification.
- Number of BUs with Clean Industry certification.
- Number of BUs with International Cyanide Code certification.
- Number of environmental permits for all advanced exploration projects (according to schedule).

VIABILITY STATEMENT & GOING CONCERN STATEMENT

IN ACCORDANCE WITH PROVISION C.2.2 OF THE UK CORPORATE GOVERNANCE CODE, AND TAKING INTO ACCOUNT THE GROUP'S CURRENT POSITION AND ITS PRINCIPAL RISKS FOR A PERIOD LONGER THAN THE 12 MONTHS REQUIRED BY THE GOING CONCERN STATEMENT, MANAGEMENT PREPARED A VIABILITY ANALYSIS WHICH WAS ASSESSED BY THE BOARD FOR APPROVAL.

The Directors reviewed the viability period and confirmed that a five-year period to December 2022 remained suitable, in line with the nature of planning in the mining industry and the Company's five-year forecast period normally used to evaluate liquidity and contingency plans. This is important, given that our business activities cover the full value chain from exploration to mine operation. It allows us to model capital expenditure and development programmes planned during the timeframe, and reflects cash flows generated by the projects currently under development. Due to the long business cycles in our industry, the Directors considered that a shorter time period would be insufficient.

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

For the purpose of assessing the Group's viability, the Directors identified that of the principal risks detailed on page 35, the following are the most important:

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

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

Scenario 1: Impact of metal prices and global macroeconomic developments. Over a period of a year, precious metal prices fall and then remain at a low level for the following four years of the viability period, varying between US$1,130-1,225 per gold oz. and US$15.4-17.0 per silver oz. To create this impartial projection for the future low metal price environment, the Directors used an average of the three lowest forecasts from each year of the assessment, based on consensus estimates published by institutional financial analysts. This low metal price environment was deemed to be the most significant risk and pervasive across the Company. (Principal risk)

Scenario 2: Bench collapse at an open pit mine. A landslide occurs covering the lower pit of one of our mines. Due to the unexpected nature of the event, fatalities occur. Production is gradually ramped back up and re-established to full capacity. (Singular event)

Scenario 3: Tailings dam breach at a mine. A tailings dam collapses and tailings are released into the surrounding area, causing environmental damage. A fund is created by the Company to be used to remediate and compensate for any damages caused. The investigation into the causes of the event is drawn out and further time is needed for all environmental permits to be reinstated. As a result, the mine remains closed throughout the viability assessment period. (Principal risk)

Scenario 4: Flooding at a mine. An unforeseen fault containing water is cut into, with water then entering the mine in excess of pumping capacity, thereby halting production of one of the main areas in the mine. The ramp-up to pre-event production levels commences once management determines that it is safe to do so. (Singular event)

Scenario 5: Action by the government at a mine. Explosives are stolen on site causing the authorities to suspend the mine's explosives permit. Production is halted while an investigation into the matter is completed. Once permits have been restored, production ramps back up to pre-event levels. (Principal risk)

Scenario 6: Access to land at a mine. Conflicts with local communities arise resulting in the Company having to cease operations, until negotiations can be finalised and the land can be re-occupied. (Principal risk)

Scenario 7: San Julián suspension due to government actions. Members of the local community are poisoned due to the rupturing of a cyanide tank. Pressure from social activists results in the Mexican government withdrawing all permits, with no intention of reinstating them in the future. This leads to the permanent closure of the San Julián mine for the duration of the viability period, while mitigating actions are executed. (Principal risk)

The hypothetical scenarios above are extremely severe in order to create outcomes that have the ability to threaten the viability of the Group. However, multiple control measures are in place to prevent and mitigate any such occurrences. Should any of these scenarios take place, various options are available to the Company in order to maintain sufficient liquidity to continue in operation. When quantifying the expected financial impact and remediation time required for each of these risks, management performed benchmarking against the Group's own experience and against publicly available information on relevant, similar incidents in the mining industry.

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

When these scenarios were re-modelled, none led to an extremely low or negative cash balance because the strong cash balance at the end of 2017 (US$896 million comprising cash and cash equivalents of US$876 million and investment fund available for sale of US$20 million) positions Fresnillo plc in a healthy financial situation. In addition, the current macroeconomic circumstances, metal prices and exchange rates (MXN/USD), contribute to the preservation of a positive cash balance position through the scenarios assessed.

The lowest cash balance level was identified in scenario number seven, in combination with the low metal prices scenario. However, even in this scenario a positive cash balance would be maintained throughout the viability period, with a minimum level of US$197 million during the third year (2020), meaning that mitigating actions would not be required. Risk management and internal control systems are in place (page 34) throughout the Group. Through the internal control systems, the Directors monitor key variables that have the ability to impact the liquidity and solvency of the Group, and we are confident that management is able to sufficiently mitigate any situations as they might occur.

Risk mitigation and control measures that are in place include a Crisis Committee, while the Board would also be briefed and convened as necessary, in order to respond to events as they develop. Dedicated personnel for managing media, engaging with authorities and other stakeholders are appointed at each level of the organisation, depending on the magnitude of the crisis.

In connection with longer-term viability, the US$800 million Senior Notes issued in 2013 are due for repayment in 2023, one year after the end of the viability review period. It is currently anticipated that all or part of these US$800 million will be refinanced. If, however, market conditions then will not permit refinancing on acceptable terms, under all the scenarios outlined above with depressed metal prices, the Company would have adequate resources to repay the US$800 million in full.

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

GOING CONCERN STATEMENT

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out above in the Strategic Review on pages 8-115. The financial position of the Group, its cash flows and liquidity position are described in the Financial Review in pages 104-115. In addition, note 31 to the financial statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

In making their assessment of the Group's ability to manage its future cash requirements, the Directors have considered the Company and Group budgets and the cash flow forecasts for the period to 31 December 2019. In addition, they reviewed a more conservative cash flow scenario with reduced silver and gold prices of US$15.6 and US$1,133, respectively, throughout this period, while maintaining current budgeted expenditure approved by the Executive Committee. This resulted in our current cash balances reducing over time but maintaining ample liquidity throughout the period.

The Directors have further calculated prices (US$12.5 and US$865 for silver and gold, respectively), which should they prevail to the end of 2019, would result in cash balances decreasing to minimal levels by the end of 2019, without applying mitigations.

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

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

1 The average metals price derived from a range of Financial Institutions analysis as of December 2017.

INFORMATION TECHNOLOGY AND CYBER SECURITY

CREATING COMPETITIVE ADVANTAGE THROUGH INTELLIGENT MINING

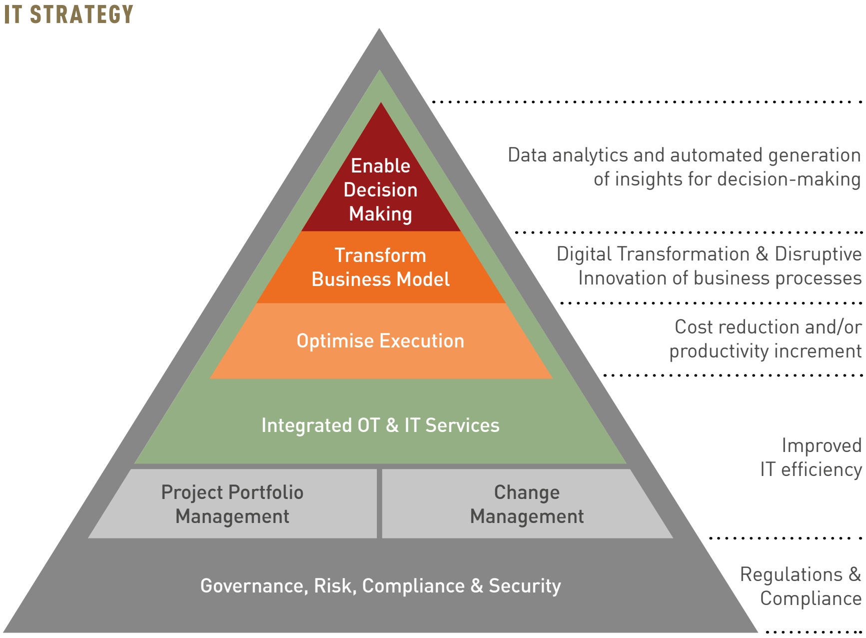
TECHNOLOGY IS TRANSFORMING THE WAY THAT MINERS OPERATE.

At Fresnillo, we have continued to invest in the latest intelligent solutions in order to improve safety, productivity and decision-making. At the same time, we have identified and are addressing our gaps in cyber security. This report highlights how the Company leverages Intellectual Capital to identify and implement innovative and effective technological solutions to support decision making and meet the challenges that lie ahead.

During 2017, we invested a total of US$18.6 million in technology. Our strategy is guided by the IT Governance Committee, chaired by the CEO. The Committee's main responsibilities are to:

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

IT STRATEGY



CONTINUED INVESTMENT IN 2017

The implementation of key technologies has helped us take great strides towards safer and more productive operations.

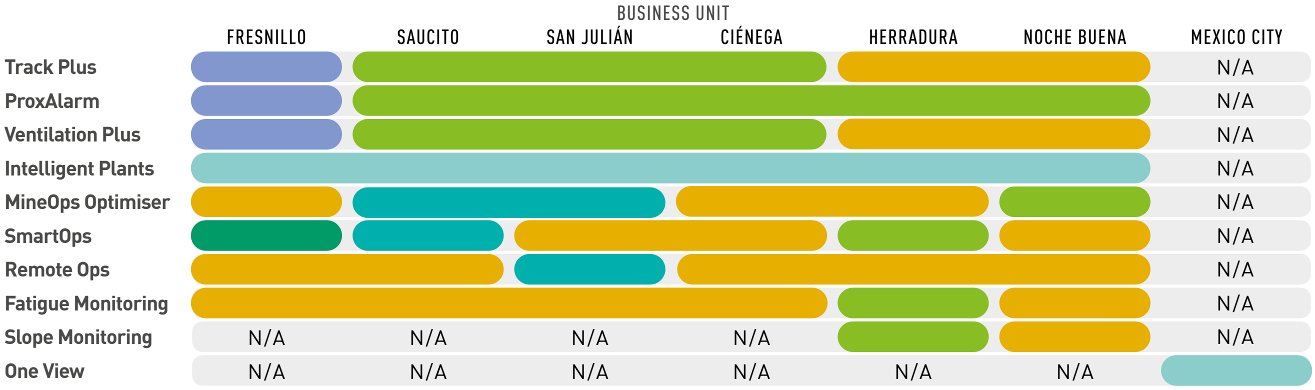
During the last year, we made significant progress on extending the benefits of these solutions across our mine portfolio. This included further implementation of three key programmes: Ventilation Plus at San Julián, Ciénega, Saucito and Fresnillo; Track Plus at Saucito, San Julián and Ciénega; and ProxAlarm at San Julián, Ciénega and Herradura.

2017 also saw the initial implementation of several projects, including ProxAlarm and MineOps Optimiser, at Noche Buena. In addition, at Herradura we have started work to introduce a Fatigue Monitoring project aimed at reducing operator error, and a Slope Monitoring project that will help optimise the pit wall slope angles as well as creating a safer place to work. We expect full implementation of all these programmes to be completed by the third quarter of 2018.

Looking further ahead, by 2023 we expect to have implemented the One View project at our corporate office in Mexico City and the Intelligent Plants projects at all our plants. Additional technology projects will be prioritised and evaluated for implementation by the IT Governance Committee going forward.

The table below provides greater detail on the progress achieved to date for the implementation of our technology projects:

STATUS OF TECHNOLOGICAL PROJECTS



Finished In Process Provisioning Approved Under Review Implemented by 2023*

* Projects were commenced in 2014 and will continue to be evaluated, constructed and implemented through to 2023.

Track Plus: Efficiently tracks personnel and mining equipment in real time from the Mine Operations Centre located above ground.

ProxAlarm: Prevents collisions between vehicles – and between people and vehicles – in underground mines.

Ventilation Plus: Ventilation optimised all through the underground mines, while maintaining gas levels within international standards.

Intelligent Plants: Automated and optimised plants. Looks to reduce reagent consumption while increasing recoveries and metallic content.

MineOps Optimiser: Monitors and optimises tasks carried out in our mines, and enables us to make accurate decisions in real time from a control room.

SmartOps: Real time monitoring and productive processes analysis. Efficient multi-dimensional analysis for on-time decision-making.

Remote Ops: Capacity to monitor signals from all applications running across our operations while running analysis to predict and avoid anomalous situations that could reduce productivity.

Fatigue Monitoring: Reduces operator error and improving safety caused by operator fatigue.

Slope Monitoring: Optimises the pit wall slope angles at our open pit mines while also creating a safer place to work.

One View: One strategic dynamic and centralised control scorecard. 'Single version of the truth' capability.

THE CHALLENGE OF CYBER SECURITY

The issue of cyber security continues to climb up boardroom agendas worldwide, and is one of our key risks.

FOR MORE ON CYBER SECURITY RISKS
SEE PAGE 45

We value the confidentiality, continuity, integrity and security of our data and systems and during 2017 we made progress in further developing and implementing our cyber security strategy.

In line with best practice, our approach is based on two key frameworks:

- The US National Institute of Standards and Technology Cyber security Framework (NIST CSF) which outlines how companies can assess and improve their ability to prevent, detect and respond to cyber attacks.
- Control Objectives for Information and Related Technologies (COBIT), which was created by ISACA, the international professional association for IT management and governance, to provide an implementable set of IT-related controls, processes and enablers.

IMPROVING HOW WE RESPOND TO POTENTIAL INCIDENTS

A timely and targeted response can play a major role in minimising any potential damage resulting from a cyber security incident.

During 2017, we collaborated with Peñoles in a joint project aimed at developing clear and consistent processes to guide our stakeholders in their response to any information security incidents. A key aspect of the challenge is to ensure that our culture supports our people in their ability to adapt behaviours and follow new policies and procedures. We have already made significant headway with this project and anticipate full completion by April 2019.

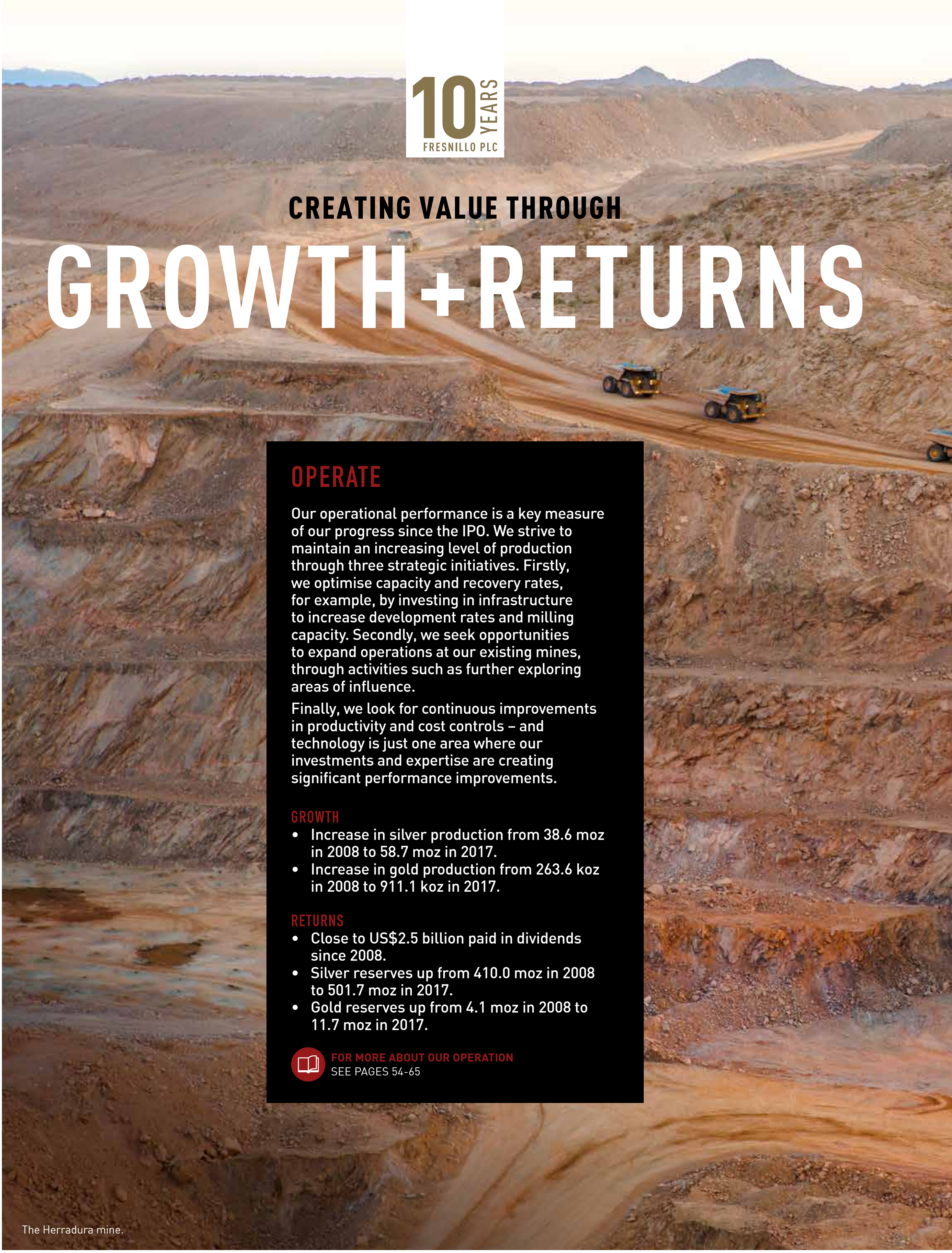
Towards the end of the year we also commissioned consultants Deloitte to support our cyber security initiatives by:

- Defining a formal cyber security strategy and governance.
- Reviewing and assessing risks present on our core business processes.
- Recommending initiatives and projects to help us maintain security at recommended levels.

10 YEARS
FRESNILLO PLC

CREATING VALUE THROUGH

GROWTH+RETURNS



The Herradura mine.

OPERATE

Our operational performance is a key measure of our progress since the IPO. We strive to maintain an increasing level of production through three strategic initiatives. Firstly, we optimise capacity and recovery rates, for example, by investing in infrastructure to increase development rates and milling capacity. Secondly, we seek opportunities to expand operations at our existing mines, through activities such as further exploring areas of influence.

Finally, we look for continuous improvements in productivity and cost controls – and technology is just one area where our investments and expertise are creating significant performance improvements.

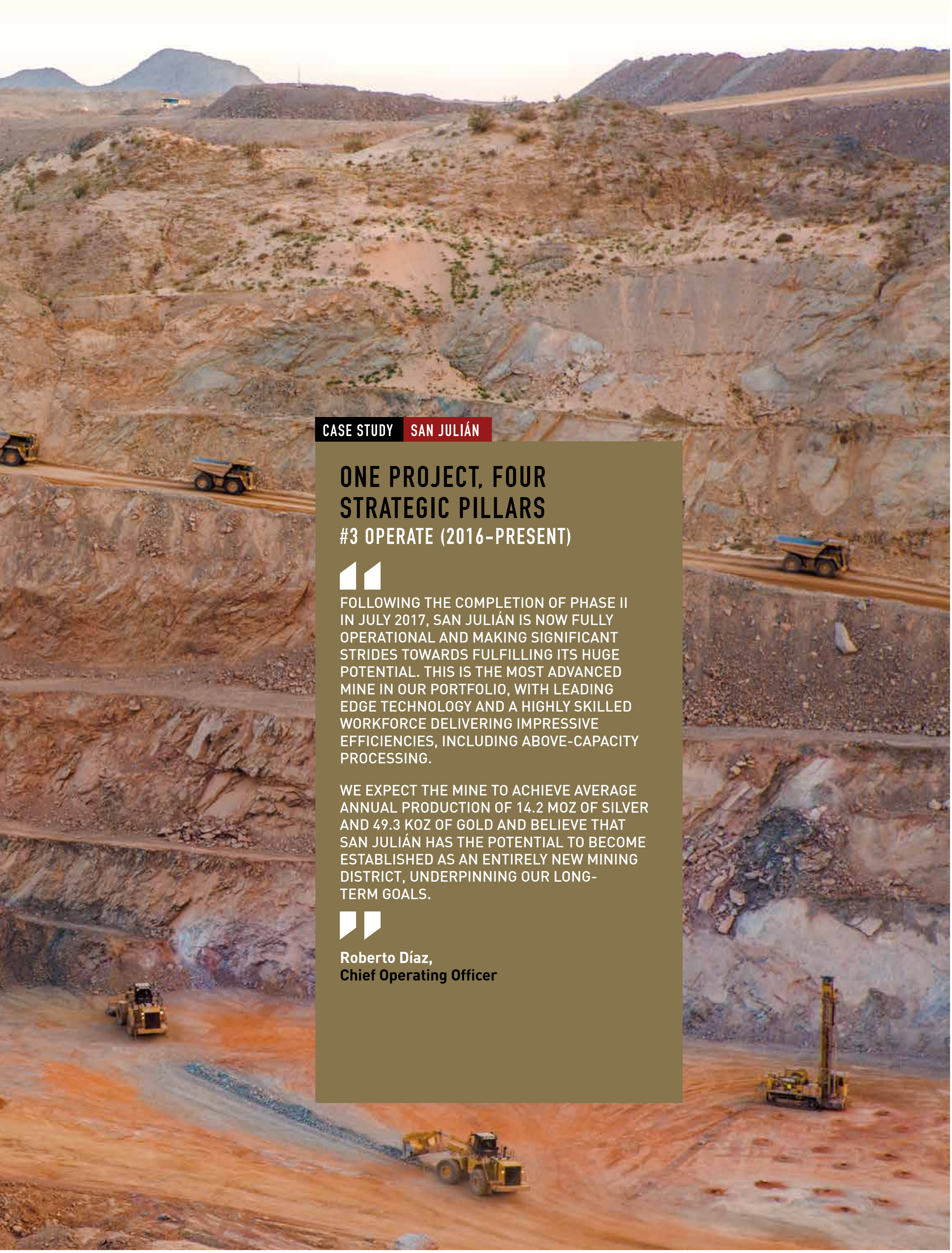
GROWTH

- Increase in silver production from 38.6 moz in 2008 to 58.7 moz in 2017.
- Increase in gold production from 263.6 koz in 2008 to 911.1 koz in 2017.

RETURNS

- Close to US$2.5 billion paid in dividends since 2008.
- Silver reserves up from 410.0 moz in 2008 to 501.7 moz in 2017.
- Gold reserves up from 4.1 moz in 2008 to 11.7 moz in 2017.

FOR MORE ABOUT OUR OPERATION
SEE PAGES 54-65



CASE STUDY SAN JULIÁN

ONE PROJECT, FOUR STRATEGIC PILLARS

#3 OPERATE (2016-PRESENT)

FOLLOWING THE COMPLETION OF PHASE II IN JULY 2017, SAN JULIÁN IS NOW FULLY OPERATIONAL AND MAKING SIGNIFICANT STRIDES TOWARDS FULFILLING ITS HUGE POTENTIAL. THIS IS THE MOST ADVANCED MINE IN OUR PORTFOLIO, WITH LEADING EDGE TECHNOLOGY AND A HIGHLY SKILLED WORKFORCE DELIVERING IMPRESSIVE EFFICIENCIES, INCLUDING ABOVE-CAPACITY PROCESSING.

WE EXPECT THE MINE TO ACHIEVE AVERAGE ANNUAL PRODUCTION OF 14.2 MOZ OF SILVER AND 49.3 KOZ OF GOLD AND BELIEVE THAT SAN JULIÁN HAS THE POTENTIAL TO BECOME ESTABLISHED AS AN ENTIRELY NEW MINING DISTRICT, UNDERPINNING OUR LONG-TERM GOALS.

Roberto Díaz,
Chief Operating Officer

REVIEW OF OPERATIONS

3 MINES IN OPERATION: FRESNILLO

CONTINUED FOCUS ON IMPROVEMENT IN PRODUCTIVITY AND EFFICIENCIES ACROSS OUR ASSETS ALLOWS US TO MEET PRODUCTION TARGETS. THE FOLLOWING SECTION REVIEWS THE GROUP'S MANUFACTURED CAPITAL.

FRESNILLO ONE OF THE WORLD'S OLDEST CONTINUOUSLY OPERATED MINES, FRESNILLO PRODUCED 28% OF THE GROUP'S TOTAL SILVER IN 2017 AND GENERATED 18.9% OF TOTAL ADJUSTED REVENUE.

Ownership: **100% Fresnillo plc**	Location: **Zacatecas**
In operation since: **1554**	Mine life (years): **8.8 (2016: 9.4)**
Facilities: **Underground mine and flotation plant**	
Milling capacity (2016): **8,000 tpd/2,640,000 tpy**	
Workforce: **1,056 employees, 1,676 contractors**	

	2017	2016	% change
MINE PRODUCTION			
Ore milled (kt)	**2,447**	2,373	3.1
Silver (koz)	**16,512**	15,865	4.1
Gold (oz)	**38,784**	42,421	(8.6)
Lead (t)	**20,514**	21,326	(3.8)
Zinc (t)	**30,021**	25,898	15.9
Silver ore grade (g/t)	**229**	227	1.3
TOTAL RESERVES			
Silver (moz)	**179.7**	205.5	(12.6)
Gold (koz)	**590**	600	(1.7)
AVG ORE GRADE IN RESERVES			
Silver (g/t)	**240**	258	(7.0)
Gold (g/t)	**0.79**	0.75	5.3
Cut-off grade (g/t AgEq)	**196**	184	6.5
TOTAL RESOURCES			
Silver (moz)	**812.8**	798.2	1.8
Gold (moz)	**1.85**	1.71	8.2
AVG ORE GRADE IN RESOURCES			
Silver (g/t)	**320**	341	(6.2)
Gold (g/t)	**0.73**	0.73	0.0
Cut-off grade (g/t AgEq)	**93**	95	(2.1)

KEY DEVELOPMENTS IN THE YEAR

Silver production increased 4.1% over 2016 due to the higher volumes of ore processed and the higher ore grade resulting from access to certain high grade veins at San Alberto and San Carlos.

Despite the increase in silver production, we continued experiencing delays in development. The average development rate for the year was 3,366 metres per month as a result of lower productivity from contractors and mining equipment failures which impeded long-hole drilling activities.

To address this situation, we are implementing a plan that includes hiring additional contractors, working with existing contractors to improve their performance and improving equipment maintenance. We expect these measures to maintain current development rates in the short term, while increasing them in the long term.

We continued investing in optimisation projects during the year. For example, we installed a vertical conveyor to reduce truck haulage at the deeper levels of the mine. We also made progress with the project to increase plant capacity to 9,000 tonnes per day, with the installation of the zinc thickener. The second stage of this project will be to install additional flotation cells, with the final stage being the installation of the vibrating screens. We expect these stages to be completed in the next couple of years and anticipate that the project will result in an additional average annual production of three million ounces of silver once commissioned by the end of 2019.

For 2018, we expect the silver ore grade to be around 235 g/t, while lead and zinc ore grades are expected to be in the region of 0.96% and 1.77% respectively. For the following five years, the silver ore grade is expected to remain around 230-250 g/t.

Silver resources remained broadly unchanged as a result of the addition of inferred resources, offset by a decrease in measured and indicated resources due to depletion and lower grade infill drilling results.

Silver reserves decreased due to depletion, lower grade infill drilling and a higher cut-off grade resulting from the increase in all-in sustaining costs.

CAPITAL EXPENDITURES

Total capex allocation in 2017 was US$111.7 million, mainly for mine development, sustaining capex, the deepening of the San Carlos shaft and

FINANCIAL PERFORMANCE

Financial highlights	2017	2016	% change
Adjusted revenue (US$m)	**421.3**	382.7	10.1
Adjusted production costs (US$m)	**116.2**	104.3	11.4
Segment profit (US$m)	**252.2**	224.2	12.5
Capital expenditure (US$m)	**111.7**	52.8	111.6
Exploration (US$m)	**17.9**	14.4	24.3
Cost per tonne (US$)	**47.5**	43.9	8.2
Cash cost ($/oz silver)	**0.7**	2.1	(66.7)
Margin ($/oz)	**16.3**	15.1	7.9
Margin (expressed as % of silver price)	**95.8%**	87.8%	

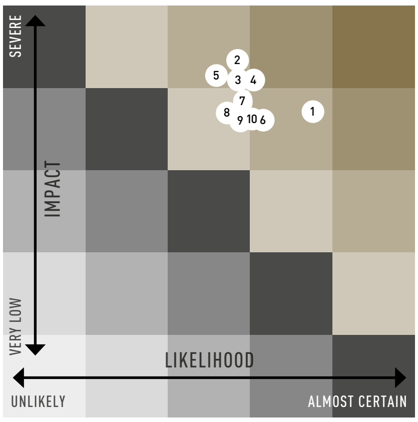
the installation of the vertical conveyor band and zinc thickener. In 2018, capex will largely be allocated to mining works, sustaining capex, the ongoing deepening of the San Carlos shaft and a tunnel boring machine to support the continued development of the mine. Investments in technology will include setting up Track Plus and ProxAlarm systems and monitoring Ventilation on Demand (see pages 50-51).

Adjusted revenue, excluding inter-segment sales, increased by 10.1% to US$421.3 million due to the 4.1% increase in volumes of silver sold.

Cost per tonne increased 8.2% to US$47.5 in 2017 in line with the increase in cost inflation for this mine of 7.2% (net of the devaluation of the exchange rate) mainly associated with the increase in diesel and electricity prices and higher contractor and personnel unit costs.

Cash cost per silver ounce decreased 66.7% to US$0.7 (2016: US$2.1). Margin per ounce increased 8.6% to US$16.4 and, expressed as a percentage of silver price, increased from 87.8% in 2016 to 95.8% in 2017 (see page 110).

BUSINESS UNIT RISKS

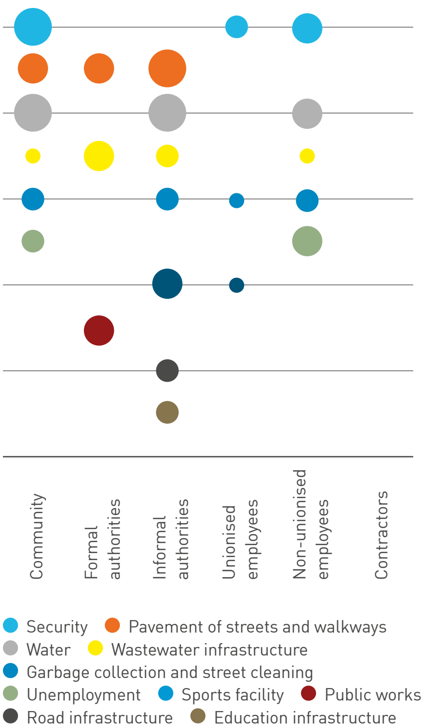


DESCRIPTION OF RISKS

1. Theft of inventory, assets, materials (including explosives) and equipment.
2. Actions by the union or deterioration in relations with the union.
3. Safety incident that impacts the physical integrity of employees/collaborators, including: explosion, trapping, electrocution, being struck by falling rock, insect bites, falls, etc.
4. Volatility in the prices of gold and silver over a period of time.
5. Major mechanical failure, fire, explosion or any catastrophe resulting in operational interruption for reasons attributable to the people.
6. Personnel may leave the Company or the Company may not be successful in the recruitment of personnel required.
7. Mining development delay caused by the low efficiency of the shot or blasting for development.
8. Failure/Lack of availability or delays in obtaining access to land (ejidos).
9. Security risks including damage to staff or contractors/or restrict access to projects/operations (extortion).
10. The surrounding communities do not provide their support or hinder operations (social license for operation) due to complaints from community regarding operations e.g. dust, blasting vibrations, noise, pollution, water use.

SOCIAL AND SUSTAINABILITY PRIORITY ASSESSMENT

Larger spheres represent greater importance to the individual stakeholder groups at Fresnillo.



2017 OBJECTIVES

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

2017 PERFORMANCE

- Developed infrastructure, although development rates declined due to lower productivity from contractors and equipment mechanical failures.
- Installed a new zinc thickener at the beneficiation plant.
- Continued to prepare for the deepening of the San Carlos shaft.
- Concluded expansion of tailings dam.

2018 OBJECTIVES

- Continue stabilising ore grades and ore throughput.
- Maintain development rates at current levels in the short term, while increasing them in the long term.
- Carry out intensive in-fill deep drilling to increase certainty in operational planning.
- Expand flotation area at the beneficiation plant.
- Continue deepening the San Carlos shaft.

REVIEW OF OPERATIONS
CONTINUED

3 MINES IN OPERATION: SAUCITO

SAUCITO ONE OF OUR MOST IMPORTANT ASSETS, SAUCITO CONTRIBUTED 36% TO TOTAL SILVER PRODUCTION IN 2017 AND GENERATED 22.6% OF TOTAL ADJUSTED REVENUE.

Ownership: **100% Fresnillo plc**	Location: **Zacatecas**
In operation since: **2011**	Mine life (years): **5.8 (2016: 5.9)**
Facilities: **Underground mine and flotation plant**	
Milling capacity (2016): **7,800 tpd/2,600,000 tpy**	
Workforce: **763 employees, 1,824 contractors**	

	2017	2016	% change
MINE PRODUCTION			
Ore milled (kt)	**2,754**	2,635	4.5
Silver (koz)	**21,215**	21,946	(3.3)
Gold (oz)	**69,948**	86,198	(18.9)
Lead (t)	**17,714**	20,935	(15.4)
Zinc (t)	**20,348**	23,498	(13.4)
Silver ore grade (g/t)	**280**	303	(7.6)
Gold ore grade (g/t)	**1.09**	1.39	(21.2)
TOTAL RESERVES			
Silver (moz)	**133.2**	123.2	8.1
Gold (koz)	**708**	860	(17.7)
AVG ORE GRADE IN RESERVES			
Silver (g/t)	**261**	245	6.5
Gold (g/t)	**1.39**	1.72	(19.2)
Cut-off grade (g/t AgEq)	**215**	173	24.3
TOTAL RESOURCES			
Silver (moz)	**513.6**	421.5	21.9
Gold (moz)	**2.1**	2.1	(0.7)
AVG ORE GRADE IN RESOURCES			
Silver (g/t)	**280**	267	4.9
Gold (g/t)	**1.12**	1.31	(14.5)
Cut-off grade (g/t AgEq)	**117**	113	3.5

KEY DEVELOPMENTS IN THE YEAR

Annual silver production decreased slightly to 21.2 million ounces in 2017 as a result of the expected lower ore grade. This was mainly due to the higher grade development ore processed in 2016 and the restricted access to high grade areas resulting from the anchoring activities to avoid rock instability. These factors more than offset the higher volume of ore processed.

In 2018, the expected silver ore grade will be around 285 g/t due to regaining access to higher ore grade areas. The Silver ore grade is expected to remain stable at this level in the next three years. However, the gold ore grade is expected to increase gradually, reaching c. 1.3 g/t by 2020.

The 2017 drilling programme was focused on further resource generation and infill drilling aimed at upgrading the resource category into reserves. This was achieved, with increases in both silver resources and reserves, though this campaign will continue into 2018.

The preparation of ramps and infrastructure for the hoist and equipment to deepen the Jarillas shaft continued, and in 2018 we will initiate the deepening of the shaft from 630 metres to 1,000 metres. This project aims to provide access to the deeper reserves in the Jarillas vein.

CAPITAL EXPENDITURES

Capital expenditures in 2017 totalled US$133.7 million, primarily allocated to in-mine development and sustaining capex, the construction of the Pyrites plant and the deepening of the Jarillas shaft project. In 2018, capex will primarily be allocated to maintaining development rates, the deepening of the Jarillas shaft and the construction of the Pyrites plant (see page 66). Other minor investments will include continuing the implementation of Ventilation Plus and ProxAlarm systems (see pages 50-51).

Adjusted revenue at Saucito decreased by 4.5%, mainly as a result of the lower volumes sold and lower precious metal prices. The mine's contribution to consolidated silver revenue decreased to 39.7% in 2017 (2016: 48.5%), although Saucito remained the main contributor to consolidated silver revenues. Gold contributed 16.1% to Saucito's revenue (2016: 18.5%), representing 7.2% of the Group's gold revenue.

Cost per tonne increased 29.3% to US$47.6, mainly due to: i) lower volume of ore processed from development works; ii) increases in the use of consumables, services and maintenance; and iii) cost inflation (7.7%).

ADJUSTED REVENUE
$504.2M

ADJUSTED PRODUCTION COSTS
$131.1M

SEGMENT PROFIT
$315.2M

CAPITAL EXPENDITURE
$133.7M

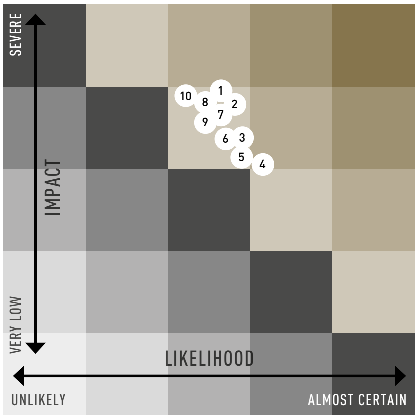
FINANCIAL PERFORMANCE

Financial highlights	2017	2016	% change
Adjusted revenue (US$m)	**504.2**	528.0	(4.5)
Adjusted production costs (US$m)	**131.1**	96.8	35.4
Segment profit (US$m)	**315.2**	363.8	(13.4)
Capital expenditure (US$m)	**133.7**	102.4	30.6
Exploration (US$m)	**26.1**	16.4	59.1
Cost per tonne (US$)	**47.6**	36.8	29.3
Cash cost ($/oz silver)	**1.5**	(0.4)	N/A
Margin ($/oz)	**15.5**	17.6	(11.9)
Margin (expressed as % of silver price)	**91.1**	102.2	

Cash cost per silver ounce increased to US$1.5 per ounce (2016: US$-0.4 per silver ounce) mainly as a result of the higher cost per tonne and lower silver ore grade. Margin per ounce decreased to US$15.5 in 2017 (2016: US$17.6).

Expressed as a percentage of silver price, the margin decreased from 102.2% to 91.1% (see page 110).

BUSINESS UNIT RISKS

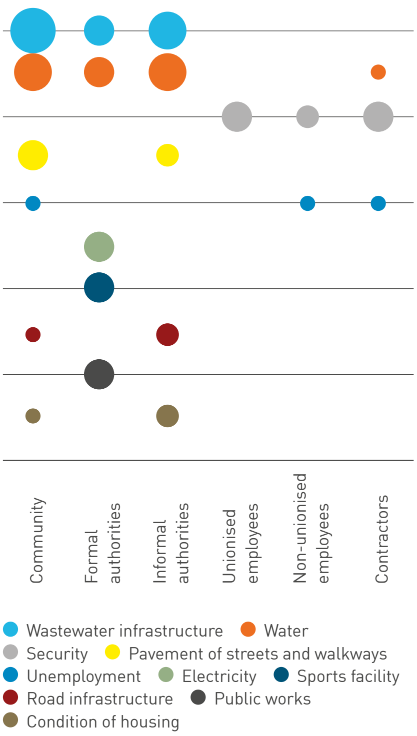


DESCRIPTION OF RISKS

1. Safety incident that impacts the physical integrity of employees/collaborators, including: explosion, trapping, electrocution, being struck by falling rock, insect bites, falls, etc.
2. Volatility in the prices of gold and silver over a period of time.
3. Personnel is not trained to meet the operational needs due to lack of resources/competing priorities.
4. Theft of inventory, assets, materials (including explosives) and equipment.
5. Personnel may leave the Company or the Company may not be successful in the recruitment of personnel required.
6. Failure/Lack of availability or delays in obtaining access to land (ejidos).
7. Unexpected presence of water in areas of the operation.
8. Actions by the union or deterioration in relations with the union.
9. Electric power outages that stop or slow operations business unit.
10. Delay in obtaining permission to use and store explosives or loss of license.

SOCIAL AND SUSTAINABILITY PRIORITY ASSESSMENT

Larger spheres represent greater importance to the individual stakeholder groups at Saucito.



2017 OBJECTIVES

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

2017 PERFORMANCE

- Failed to increase the development rate due to poor contractor performance.
- Continued to make progress with the construction of the Pyrites plant.
- Continued to carry out complex preparation work for the deepening of the Jarillas shaft.
- The infill drilling programme continues, converting resources into reserves and expanding the resource base.
- Certification process on hold pending the upcoming release of ISO 45000.

2018 OBJECTIVES

- Maintain development rates.
- Conclude construction of the Pyrites plant.
- Initiate deepening of the Jarillas shaft.
- Intensify exploration to the south.

REVIEW OF OPERATIONS
CONTINUED

3 MINES IN OPERATION: CIÉNEGA

CIÉNEGA IS A GOLD MINE WITH A STRONG SECONDARY PROFILE IN SILVER.

Ownership: **100% Fresnillo plc**	Location: **Durango**
In operation since: **1992**	Mine life (years): **6.9 (2016: 10.0)**
Facilities: **Underground mine, flotation and leaching plant**	
Milling capacity (2016): **4,000 tpd/1,340,000 tpy**	
Workforce: **496 employees, 489 contractors**	

	2017	2016	% change
MINE PRODUCTION			
Ore milled (kt)	**1,302**	1,275	2.2
Silver (koz)	**5,394**	5,131	5.1
Gold (oz)	**71,947**	72,851	(1.2)
Lead (t)	**6,328**	5,883	7.6
Zinc (t)	**7,048**	7,450	(5.4)
Silver ore grade (g/t)	**151**	143	5.6
Gold ore grade (g/t)	**1.82**	1.84	(1.1)
TOTAL RESERVES			
Silver (moz)	**54.1**	66.3	(18.4)
Gold (koz)	**635**	820	(22.4)
AVG ORE GRADE IN RESERVES			
Silver (g/t)	**189**	162	16.7
Gold (g/t)	**2.22**	2.00	11.0
Cut-off grade (g/t AgEq)	**Multiple**	Multiple	–
TOTAL RESOURCES			
Silver (moz)	**167.3**	159.2	5.1
Gold (moz)	**1.7**	1.6	6.3
AVG ORE GRADE IN RESOURCES			
Silver (g/t)	**152**	132	15.1
Gold (g/t)	**1.56**	1.34	16.4
Cut-off grade (g/t AgEq)	**Multiple**	Multiple	–

KEY DEVELOPMENTS IN THE YEAR

Annual gold production remained stable as the expected lower ore grade was offset by the increase in ore processed resulting from improved equipment availability. This followed on from efficiencies achieved in the maintenance programme. Silver production increased 5.1% year-on-year due to the higher ore grade at the Taspana and San Ramón veins.

Taspana is an area located 30 kilometres away from the main Ciénega mine. We expect its contribution to continue rising in the future, and for Taspana to become another satellite mine.

In 2018, the average gold ore grade is expected to remain stable at 1.8 g/t and silver ore grade is expected to average 160 g/t. From 2019 to 2021, the gold ore grade is expected to average 2.0 g/t and silver ore grade to be around 160-170 g/t.

Construction of the third tailings dam commenced in 2017 and is expected to be concluded in 2019.

Our exploration programme confirmed a continuation of the ore body at the Rosario-Las Casas veins, which would justify an expansion of the beneficiation plant to 5,000 tpd at the Ciénega mine. We expect to commence basic engineering for this expansion in 2018.

Gold and silver resources increased as a result of exploration efforts in the Rosario-Las Casas and Taspana veins. Inferred resources increased, while measured and indicated resources decreased due to depletion and a higher cut-off grade. Gold and silver reserves decreased as a result of the increased cut-off grade resulting from the higher all-in sustaining costs.

CAPITAL EXPENDITURES

Capex in 2017 totalled US$46.5 million and was allocated to mine development, sustaining capex, construction of the third tailings dam and land acquisition. Budgeted capex for 2018 will mainly be allocated to mining works, sustaining capex and construction of the third tailings dam.

Adjusted revenue increased to US$198.3 million in 2017 due mainly to increased volumes of silver and zinc sold and higher gold, lead and zinc prices. Ciénega is the Group's most polymetallic mine, a fact demonstrated by the increased contribution from silver, lead and zinc from 54.7% in 2016 to 57.2% in 2017.

Cost per tonne at Ciénega increased 19.9% to US$66.5 due to: i) the increase in development works recognised in the income statement; ii) increases in the use of consumables, services and maintenance; and iii) cost inflation (6.3%).

Cash cost per gold ounce was -US$163.7, an increase compared to -US$217.2 in 2016 as a result of the higher cost per tonne and lower gold ore grade, partly offset by higher by-product credits. Margin per ounce decreased to US$1,431.1 in 2017 (2016: US$1,463.66). Expressed as a percentage of gold prices, the margin declined slightly to 112.9% (2016: 117.4%) (see page 110).

ADJUSTED REVENUE
$198.3M

ADJUSTED PRODUCTION COSTS
$86.7M

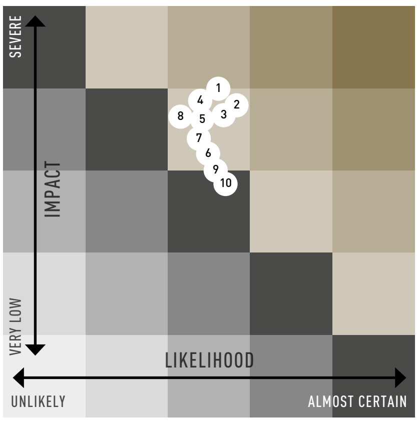
SEGMENT PROFIT
$97.1M

CAPITAL EXPENDITURE
$46.5M

FINANCIAL PERFORMANCE

Financial highlights	2017	2016	% change
Adjusted revenue (US$m)	**198.3**	185.0	7.2
Adjusted production costs (US$m)	**86.7**	70.7	22.6
Segment profit (US$m)	**97.1**	100.1	(3.0)
Capital expenditure (US$m)	**46.5**	32.7	42.2
Exploration (US$m)	**16.5**	20.0	(17.5)
Cost per tonne (US$)	**66.5**	55.5	19.9
Cash cost ($/oz gold)	**(163.7)**	(217.2)	N/A
Margin ($/oz)	**1,431.1**	1,463.7	(2.2)
Margin (expressed as % of gold price)	**112.9**	117.4	

BUSINESS UNIT RISKS

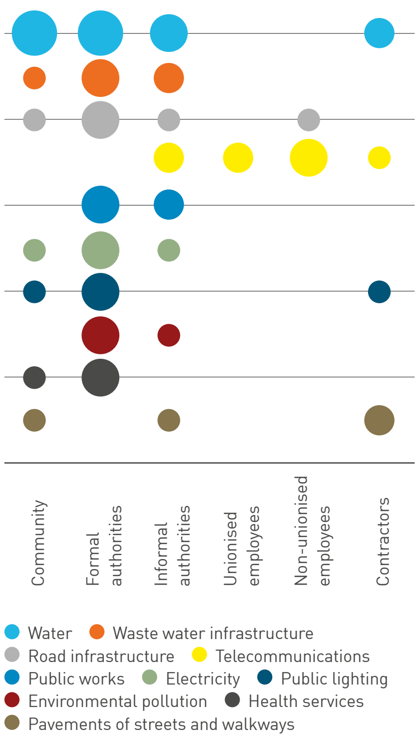


DESCRIPTION OF RISKS

1. Disruption in the supply of cyanide.
2. Volatility in the prices of gold and silver over a period of time.
3. Safety incident that impacts the physical integrity of employees/collaborators, including: explosion, trapping, electrocution, being struck by falling rock, insect bites, falls, etc.
4. Mined reserves replacement is not sufficient to maintain mining operations.
5. Decrease in recovery.
6. Electric power outages that stop or slow operations business unit.
7. Insufficient reliable contractors with infrastructure, equipment, personnel and adequate performance according to the needs of the business unit or project.
8. Accidents occurring while personnel is being transported.
9. Failures in the IT environment, including communications infrastructure, servers, applications and telecommunications.
10. Faults and failures due to lack of maintenance.

SOCIAL AND SUSTAINABILITY PRIORITY ASSESSMENT

Larger spheres represent greater importance to the individual stakeholder groups at Ciénega.



2017 OBJECTIVES

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

2017 PERFORMANCE

- Continued exploration and commenced development of the Taspana vein.
- Commenced construction of third tailings dam.
- Continued to explore the Rosario-Las Casas vein, with interesting results.
- Postponed the evaluation of milling capacity expansion due to positive exploration results at the Rosario-Las Casas vein.
- Postponed exploration at the Manzanillas cluster due to the prioritisation of the Rosario-Las Casas area.

2018 OBJECTIVES

- Continue developing the Taspana vein.
- Intensify exploration at the Rosario vein and develop access ramp.
- Continue construction of the third tailings dam.
- Commence basic engineering for the plant expansion to 5,000 tpd at Ciénega.

REVIEW OF OPERATIONS
CONTINUED

3 MINES IN OPERATION: HERRADURA

HERRADURA IS ONE OF MEXICO'S LARGEST OPEN PIT GOLD MINES, HERRADURA PRODUCED 52.0% OF THE GROUP'S TOTAL GOLD IN 2017 AND GENERATED 27.2% OF TOTAL ADJUSTED REVENUE.

Ownership: **Minera Penmont (100% Fresnillo plc)**	Location: **Sonora**
In operation since: **1997**	Mine life (years): **11.6 (2016: 8.6)**
Facilities: **Open pit mine, heap leach and Merrill Crowe plants; dynamic leaching plant (DLP)**	
Workforce: **1,335 employees, 458 contractors**	

	2017	2016	% change
MINE PRODUCTION			
Ore deposited (kt)	**26,027**	25,159	3.5
Total volume hauled (kt)	**130,025**	118,841	9.4
Gold (oz)	**473,638**	520,366	(9.0)
Silver (koz)	**551**	638	(13.6)
Gold ore grade (g/t)	**0.68**	0.71	(4.4)
TOTAL RESERVES			
Gold (moz)	**7.7**	5.2	48.1
AVG ORE GRADE IN RESERVES			
Gold (g/t)	**0.79**	0.73	8.2
Cut-off grade (g/t Au)	**Multiple**	Multiple	–
TOTAL RESOURCES			
Gold (moz)	**10.3**	10.8	(4.6)
AVG ORE GRADE IN RESOURCES			
Gold (g/t)	**0.80**	0.74	8.1
Cut-off grade (g/t Au)	**Multiple**	Multiple	–

KEY DEVELOPMENTS IN THE YEAR

Annual gold production decreased 9.0% as a result of: the expected reduction in inventories at Herradura in 2016 not being repeated to the same extent during 2017; and the lower ore grade of mineral deposited at Herradura. These factors were partly offset by the higher volume of ore processed.

Following further optimisation of the inventory levels at the leaching pads, no additional decreases are expected in 2018.

Gold ore grades in 2018 are expected to average 0.75 g/t. This is expected to increase to 0.80 g/t in subsequent years, with minor fluctuations anticipated depending on the mine plan.

The construction of the second line at the DLP continued, with commissioning expected in the second quarter of 2018. This US$110 million project will increase efficiency as we process sulphides found deeper in the pit.

We continued to evaluate a possible expansion of the Centauro pit during the year. We have now decided to carry out an additional 130,000 metres of drilling in 2018 to further optimise the pit shell and improve the financial metrics of this project.

Gold reserves increased as a result of the ongoing effort to upgrade the increased resources reported in 2016 into reserves. However, gold resources decreased as result of an estimated higher life of mine all-in sustaining cost and stricter geotechnical parameters required for the expanded open pit.

CAPITAL EXPENDITURES

Capital expenditures in 2017 totalled US$153.2 million, which included mine preparation, sustaining capex and the construction of the second line at the DLP. Capex for 2018 will mainly be focused on mining works, sustaining capex, the construction of additional leaching pads, the second line at the DLP and land acquisition. Minor investments will include the implementation of the Fatigue Monitoring system and SmartOps system (see pages 50-51).

Adjusted revenue decreased 7.5% to US$606.8 million, reflecting the lower volumes of gold sold.

Cost per tonne of ore deposited increased 3.9% to US$8.0. This was lower than the estimated cost inflation at this mine of 6.7%, mainly due to the lower stripping costs charged to production costs.

Cash cost per gold ounce increased 4.7% to US$492.9, as a result of the higher cost per tonne and lower gold ore grade. Margin per ounce and margin expressed as a percentage of gold prices remained broadly stable at US$774.6 and 61.1%, respectively (see page 110).

ADJUSTED REVENUE
$606.8M

ADJUSTED PRODUCTION COSTS
$207.4M

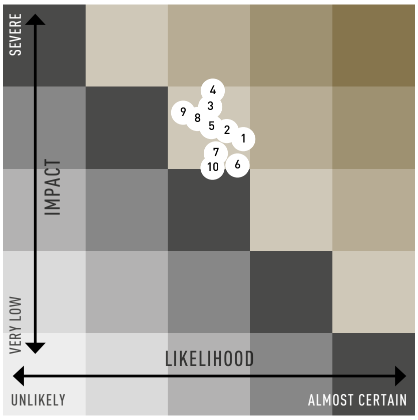
SEGMENT PROFIT
$355.6M

CAPITAL EXPENDITURE
$153.2M

FINANCIAL PERFORMANCE

Financial highlights	2017	2016	% change
Adjusted revenue (US$m)	**606.8**	656.1	(7.5)
Adjusted production costs (US$m)	**207.4**	194.2	6.8
Segment profit (US$m)	**355.6**	369.9	(3.9)
Capital expenditure (US$m)	**153.2**	78.8	94.4
Exploration (US$m)	**27.1**	30.7	(11.7)
Cost per tonne (US$)	**8.0**	7.7	3.9
Cash cost ($/oz gold)	**492.9**	470.7	4.7
Margin ($/oz)	**774.5**	775.8	(0.2)
Margin (expressed as % of gold price)	**61.1**	62.2	

BUSINESS UNIT RISKS

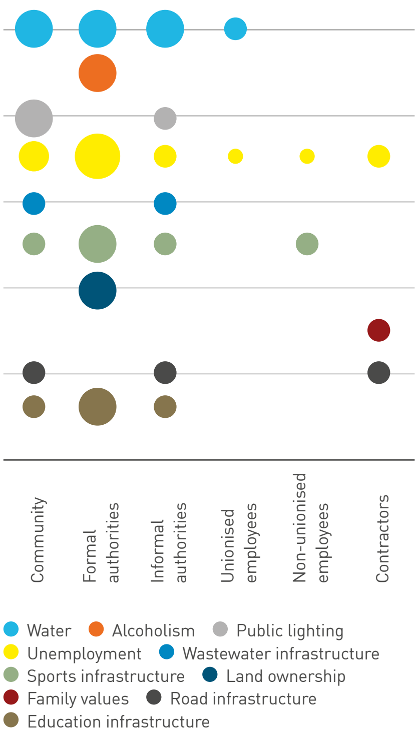


DESCRIPTION OF RISKS

1. Theft of inventory, assets, materials (including explosives) and equipment.
2. Accidents occurring while personnel is being transported.
3. Delay in obtaining permission to use and store explosives or loss of license.
4. Inability to obtain necessary water concessions because of government control or private interests.
5. Volatility in the prices of gold and silver over a period of time.
6. Event that generates dust contamination or bearing wastes spilled or leaked hazardous facilities business unit or nearby area.
7. Faults and failures due to lack of maintenance.
8. Interruption in the supply of other key operating inputs such as reagents, steel balls, diesel and steel drilling.
9. Event which involves a leak or spill of cyanide or SO_2, which by its chemical properties could generate an event of major consequence on the premises of the business unit and/or in the nearby area.
10. Personnel may leave the Company or the Company may not be successful in the recruitment of personnel required.

SOCIAL AND SUSTAINABILITY PRIORITY ASSESSMENT FOR PENMONT

Larger spheres represent greater importance to the individual stakeholder groups at Penmont.



2017 OBJECTIVES

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

2017 PERFORMANCE

- Continued construction of the second line at the DLP, as expected.
- Expanded the life of the mine by increasing the reserve base.

2018 OBJECTIVES

- Commission the second line at the DLP.
- Continue exploration to strengthen the Centauro expansion project.

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3 MINES IN OPERATION: NOCHE BUENA

NOCHE BUENA FOLLOWING ITS ACQUISITION IN 2008, WE COMMENCED OPERATING NOCHE BUENA AS AN OPEN PIT GOLD MINE IN 2012. THE MINE IS LOCATED IN THE HERRADURA DISTRICT, 23 KILOMETRES FROM THE HERRADURA MINE.

Ownership: **Minera Penmont (100% Fresnillo plc)**	Location: **Sonora**
In operation since: **2012**	Mine life (years): **2.8 (2016: 3.2)**
Facilities: **Open pit mine, heap leach and Merrill Crowe plant**	
Workforce: **441 employees, 504 contractors**	

	2017	2016	% change
MINE PRODUCTION			
Ore deposited (kt)	**17,821**	17,432	2.2
Total volume hauled (kt)	**85,233**	81,423	4.7
Gold (oz)	**172,282**	182,280	(5.5)
Silver (koz)	**31**	33	(6.1)
Gold ore grade (g/t)	**0.52**	0.51	2.5
TOTAL RESERVES			
Gold (koz)	**819**	894	(8.4)
AVG ORE GRADE IN RESERVES			
Gold (g/t)	**0.51**	0.51	–
Cut-off grade (g/t Au)	**0.25**	0.25	–
TOTAL RESOURCES			
Gold (koz)	**837**	934	(10.4)
AVG ORE GRADE IN RESOURCES			
Gold (g/t)	**0.51**	0.51	–
Cut-off grade (g/t Au)	**0.25**	0.25	–

KEY DEVELOPMENTS IN THE YEAR

Annual gold production decreased 5.5% due to the lower overall speed of recovery resulting from the ore's kinetic characteristics. This was partly offset by: the higher volume of ore processed resulting from the optimisation of the haulage routes, which led to shorter distances; and a higher ore grade.

We remained focused on improving efficiency and reducing costs, which included the ongoing relocation of waste dumps to reduce haulage distance and increasing the useful lifetime of vehicle components and tyres.

In 2018, the average ore grade is expected to be around 0.48 g/t. Ore grades through the life of the mine are expected to be in the range of 0.45 g/t-0.51 g/t.

Two new areas with mineralisation were identified in 2017. Despite the limited upside potential, the Navidad pit contributed to this year's gold production, while ore from the Año Nuevo pit helped to replace reserves at this mine.

Gold reserves and resources continued to decrease as a result of the natural depletion of the pits.

CAPITAL EXPENDITURES

Capital expenditures in 2017 totalled US$18.7 million, focused on mining works and sustaining capex, including the construction of leaching pads to guarantee operational continuity. Spend in 2018 will again primarily be in sustaining capex, including leaching pad number 7 and the implementation of the ProxAlarm system (see pages 50-51).

Adjusted revenue at Noche Buena decreased 4.6% to US$215.5 million, reflecting the lower volumes of gold sold.

Cost per tonne at this mine remained stable at US$7.5. This was lower than the estimated cost inflation at this mine of 5.1%, mainly due to the lower stripping costs charged to production costs.

Cash cost per gold ounce increased 3.6% to US$793.5. Margin per ounce decreased to US$474.0, while margin expressed as a percentage of the gold price decreased to 37.4% in 2017 (see page 110).

ADJUSTED REVENUE
$215.5M

ADJUSTED PRODUCTION COSTS
$132.7M

SEGMENT PROFIT
$75.5M

CAPITAL EXPENDITURE
$18.7M

FINANCIAL PERFORMANCE

Financial highlights	2017	2016	% change
Adjusted revenue (US$m)	**215.5**	225.8	(4.6)
Adjusted production costs (US$m)	**132.7**	130.1	2.0
Segment profit (US$m)	**75.5**	83.9	(10.0)
Capital expenditure (US$m)	**18.7**	8.6	117.4
Exploration (US$m)	**5.7**	1.6	256.3
Cost per tonne (US$)	**7.5**	7.5	–
Cash cost ($/oz gold)	**793.5**	765.9	3.6
Margin ($/oz)	**474.0**	480.6	(1.4)
Margin (expressed as % of gold price)	**37.4**	38.6	

BUSINESS UNIT RISKS

See Herradura for risks associated with all Penmont mines.

SOCIAL AND SUSTAINABILITY HIGHLIGHTS

See Herradura for social and sustainability highlights associated with all Penmont mines.

> WE REMAINED FOCUSED ON IMPROVING EFFICIENCY AND REDUCING COSTS.

2017 OBJECTIVES

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

2017 PERFORMANCE

- Contained costs.
- Explored adjacent areas, which revealed limited upside potential despite some positive results.

2018 OBJECTIVES

- Maintain comparative low cash cost profile.
- Maximise production by extracting ore from the new areas.

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3 MINES IN OPERATION: SAN JULIÁN

THE SAN JULIÁN SILVER-GOLD PROJECT IS A CORNERSTONE OF OUR 2018 PRODUCTION GOALS. IN 2017 IT CONTRIBUTED 18% TO TOTAL SILVER PRODUCTION AND GENERATED 6.9% OF TOTAL ADJUSTED REVENUE.

Ownership: **100% Fresnillo plc**	Location: **Chihuahua/Durango border**
In operation since: **2H 2016 (phase I)/2Q 2017 (phase II)**	Mine life (years): 9.0
Facilities: **Underground mine, flotation plant and a dynamic leaching plant**	
Workforce: **125 employees, 1,411 contractors**	

	2017	2016	% change
MINE PRODUCTION			
Ore milled (phase I) (kt)	**1,273**	423	200.9
Silver (koz) (phase I)	**5,936**	2,066	187.3
Gold (oz) (phase I)	**82,782**	31,397	163.7
Silver ore grade (g/t) (phase I)	**157.2**	172.5	(8.8)
Gold ore grade (g/t) (phase I)	**2.1**	2.5	(14.9)
Ore milled (phase II) (kt)	**945**	–	N/A
Silver (koz) (phase II)	**4,598**	–	N/A
Gold (oz) (phase II)	**1,750**	–	N/A
Lead (t)	**3,598**	–	N/A
Zinc (t)	**7,849**	–	N/A
Silver ore grade (g/t) (phase II)	**180.3**	–	N/A
Gold ore grade (g/t) (phase II)	**0.1**	–	N/A
Lead ore grade (%)	**0.5**	–	N/A
Zinc ore grade (%)	**1.2**	–	N/A
TOTAL RESERVES (PHASE I)			
Silver (moz)	**30.3**	33.4	(9.3)
Gold (koz)	**362**	380	(4.7)
AVG ORE GRADE IN RESERVES			
Silver (g/t)	**151**	161	(6.2)
Gold (g/t)	**1.79**	1.82	(1.6)
Cut-off grade (g/t AgEq)	**171**	162	5.6
TOTAL RESERVES (PHASE II)			
Silver (moz)	**104.5**	102.0	2.5
Gold (koz)	**54**	36	50
AVG ORE GRADE IN RESERVES			
Silver (g/t)	**199**	228	(12.7)
Gold (g/t)	**0.1**	0.1	–
Cut-off grade (g/t AgEq)	**156**	180	(13.3)
TOTAL RESOURCES (PHASE I)			
Silver (moz)	**69.5**	67.7	2.7
Gold (koz)	**871**	770	13.1
AVG ORE GRADE IN RESOURCES			
Silver (g/t)	**118**	127	(7.1)
Gold (g/t)	**1.47**	1.45	1.4
Cut-off grade (g/t AgEq)	**95**	90	5.6
TOTAL RESOURCES (PHASE II)			
Silver (moz)	**121.8**	119.3	2.1
Gold (koz)	**68**	44	54.5
AVG ORE GRADE IN RESOURCES			
Silver (g/t)	**188**	220	(14.5)
Gold (g/t)	**0.1**	0.1	–
Cut-off grade (g/t AgEq)	**117**	129	(9.3)

KEY DEVELOPMENTS IN THE YEAR

Silver and gold production at San Julián Veins (phase I) was 5.9 million ounces and 82.8 thousand ounces, respectively, reflecting the first complete year of operating at full capacity and the achievement of reaching a milling capacity of over 3,800 tonnes per day.

In 2018, the silver ore grade is expected to average around 150 g/t and gold ore grade to average 1.7 g/t. Both grades are expected to remain broadly stable in the following three years.

We completed the construction of San Julián phase II-flotation plant on budget in mid-July. The milling facility achieved processing nameplate capacity of 6,000 tonnes per day in the third quarter of the year and has produced five million ounces of silver since its commission. In 2018, the San Julián JM (phase II) silver ore grade is expected to be around 185 g/t with the gold ore grade averaging around 0.10 g/t. The silver ore grade is expected to increase in the next three years and to fluctuate within a range of 160-210 g/t.

Capex spend in 2017 was US$79.1 million, mainly related to the completion of the construction of the flotation plant at San Julián JM (phase II). Budgeted capex for 2018 will mainly be allocated to mining works, sustaining capex, construction of the third tailings dam, and implementation of the Track Plus, ProxAlarm and Mine Optimiser systems (see pages 50-51).

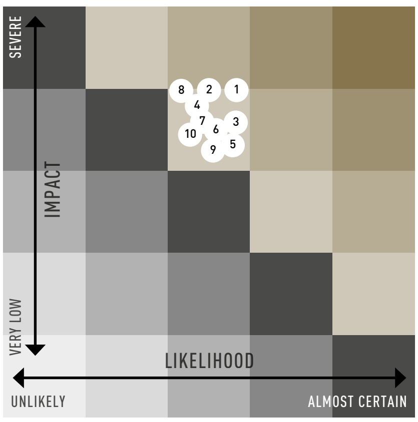
Adjusted revenue and adjusted production costs increased, reflecting the first complete year of operations at San Julián phase I and the start of commercial production at San Julián phase II.

Cost per tonne and cash cost are not considered to be representative as they correspond to the start-up period and, in addition, a significant volume of the stock pile was processed during this period.

FINANCIAL PERFORMANCE

Financial highlights	2017	2016	% change
Adjusted revenue (US$m)	**287.2**	67.4	326.1
Adjusted production costs (US$m)	**96.5**	20.4	373.0
Segment profit (US$m)	**174.7**	45.8	281.4
Capital expenditure (US$m)	**79.1**	134.1	(41.0)
Exploration (US$m)	**2.5**	0.3	N/A
Cost per tonne (US$) (phase I)	**52.1**	48.3	7.9
Cash cost ($/oz silver) (phase I)	**(4.3)**	(7.8)	N/A
Margin ($/oz) (phase I)	**21.3**	25.0	(14.8)
Margin (expressed as % silver price)	**125.3**	145.3	(13.8)
Cost per tonne (US$) (phase II)	**31.9**	–	N/A
Cash cost ($/oz silver) (phase II)	**3.9**	–	N/A
Margin ($/oz) (phase II)	**13.1**	–	N/A
Margin (expressed as % silver price)	**77.0**	–	N/A

BUSINESS UNIT RISKS



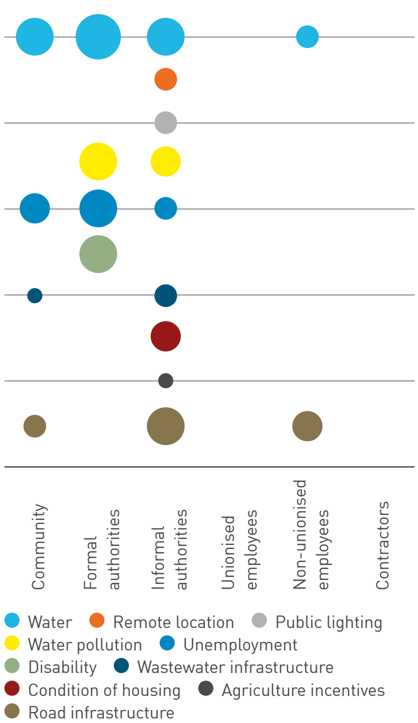
DESCRIPTION OF RISKS

1. Volatility in the prices of gold and silver over a period of time.
2. Inability to obtain necessary water concessions because of government control or private interests.
3. Accidents occurring while personnel is being transported.
4. Failures/Delays in obtaining the required environmental permits (e.g. MIA, CUS, ETJ).
5. Failure to complete the exploration programme locally or be unable to reach the drilling programme for each project in terms of metres.
6. Electric power outages that stop or slow operations business unit.
7. Mined reserves replacement is not sufficient to maintain mining operations.
8. Delay in obtaining permission to use and store explosives or loss of license.
9. Safety incident that impacts the physical integrity of employees/collaborators, including: explosion, trapping, electrocution, being struck by falling rock, insect bites, falls, etc.
10. Theft of inventory, assets, materials (including explosives) and equipment.

2017 was the first year San Julián was evaluated by the leader team as an operating mining unit, previous evaluation was as a project.

SOCIAL AND SUSTAINABILITY PRIORITY ASSESSMENT

Larger spheres represent greater importance to the individual stakeholder groups at San Julián.



2017 PRIORITIES

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

2017 PERFORMANCE

- Completed the flotation plant and commenced commercial production in mid-July.
- Cancelled the installation of the vibrating screens, focusing instead on optimising milling capacity by implementing expert systems.
- Deployed efficiency teams to optimise operations, including the calibration of expert systems at the beneficiation and flotation plants.
- Optimised the usage of water found in-mine through the water circulation system at the tailings dam.

2018 OBJECTIVES

- Obtain permits to construct a water reservoir.
- Intensify exploration.
- Expand tailings dam.

REVIEW OF OPERATIONS
CONTINUED

2 DEVELOPMENT PROJECTS: PYRITES PLANT

THE CONSTRUCTION OF THE PYRITES PLANT PROJECT PROGRESSED AS EXPECTED DURING THE YEAR.

Ownership: **100% Fresnillo plc** Location: **Zacatecas, Fresnillo District**

Facilities: **Leaching plant**

Commercial production: **2Q 2018 (phase I), 2019 (phase II)**

Anticipated production: **Annual average of 3.5 moz silver and 13 koz gold**

Capex: **US$155.0 million**

ABOUT THE PROJECT

The construction of the Pyrites plant project progressed as expected during the year. In the second quarter of 2018, we anticipate commissioning the leaching plant which will process tailings from the Saucito mine. We also commenced construction of a 14,000 tpd tailings flotation plant to process the historical and ongoing tailings from the Fresnillo mine in 2017, and this is expected to be concluded by 2019.

This Pyrites plant is expected to improve overall recoveries of gold and silver to maximise production in the Fresnillo district. The plant will froth float pyrite concentrates that will be leached in a 2,000 tpd dynamic leaching plant, with a Merrill Crowe plant producing precipitates. Production is expected to total an average of 3.5 moz silver and 13 koz gold per year once operating at full capacity.

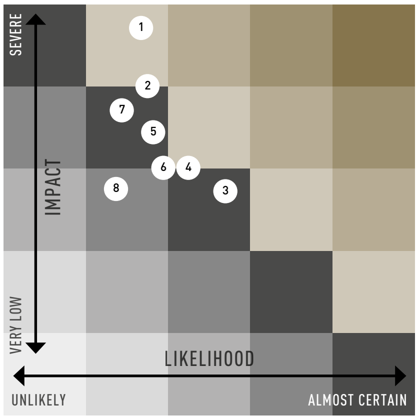
KEY DEVELOPMENTS IN THE YEAR

Continued progress including construction of the vertical mills, assembly of agitation tanks and the installation of equipment at the Merrill Crowe plant.

2018 PRIORITIES

- Commission Pyrites plant at Saucito.
- Continue construction of the tailings flotation plant at Fresnillo.

PROJECT RISKS



DESCRIPTION OF RISKS

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

1 EXPLORATION

EXPLORATION IS THE LIFEBLOOD OF FRESNILLO – IT IS A KEY COMPETITIVE ADVANTAGE AND BOTH THE FOUNDATION OF OUR PAST ACHIEVEMENTS AND THE PLATFORM FOR OUR FUTURE.

Delivered by a team of talented, dedicated geologists, our strategic commitment to continuous exploration across all precious metals price cycles is in marked contrast to the approaches adopted by many of our peers. While they have tended to cut back their efforts in the face of challenging market conditions, we have maintained our focus and continued to invest in order to build a robust pipeline of reserves and resources.

A TALENTED TEAM...

Around 100 geologists form the backbone of our exploration activities. Many members of this team have extensive experience, including detailed knowledge of our existing assets and associated mineralisation clues, backed by a track record of finding new projects and turning them into operating mines. They are supported by younger geologists in training as well as by some 300 assistants drawn from local communities.

...BACKED BY TECHNOLOGY AND GUIDED BY STRICT CRITERIA

We ensure that our team is provided with the tools to do their job at all times by investing in training and technology across price cycles. The latest geospatial, geological, geochemical and geophysical technologies, including satellite imagery and hyperspectral techniques, among others, constitute the foundations that increase the probability that our geologists will make the next discovery.

Our approach is to evaluate opportunities within existing mines and at new locations against a set of strict criteria – including a minimum potential of 100 moz of silver or 2 moz of gold equivalent – to ensure they meet our operational and revenue objectives. We also evaluate further factors before commencing activities, such as ore grades, metallurgical recoveries, extraction costs, environmental impact and community costs. Only those projects that score well against these requirements receive a green light.

2017 PERFORMANCE

During 2017, our exploration activities were focused on our existing mines, notably Herradura, Fresnillo, Saucito, Ciénega and San Julián. These mines are under-explored and offer a great deal of potential. For example, at both the Ciénega and the Fresnillo mines, the main systems were extended to the East and West, respectively.

In terms of projects, we prioritised those that are more advanced – and one of the highlights of the year was the conversion of resources from inferred to indicated at Guanajuato. This is an important step towards opening a mine in the district, and although we will continue to carry out studies in 2018, we can envisage Guanajuato becoming an important part of the Fresnillo operational portfolio in future years.

At Juanicipio, we deployed a directional drill to improve accuracy and, while delays in setting up the equipment resulted in a shortfall in our planned drilling programme for the year, this will have no adverse impact on project delivery dates.

The main challenge for our exploration team during the year was again access to land – and we continue to work closely with communities across our portfolio. For example, in Chile we have now evaluated over 100 properties and are currently negotiating access to our preferred locations.

RESERVES AND RESOURCES

To estimate resources and calculate reserves, we use the 2012 edition of the JORC code. We used a gold price of US$1,250/oz across our operations, which for our open pit resources represents a decrease of US$150. The change brings us into line with our peers and more accurately reflects our conservative standpoint. The price used for silver resources and reserves was reduced to US$17.0/oz, with an immaterial effect in resources (-146 ounces).

Silver reserves fell by 5.4% as we did not replace reserves at Fresnillo while those of gold rose by 22.7% due to good results at Herradura.

Our silver resources grew by 6.9% in 2017, largely due to intensive exploration at Saucito, and gold resources remained stable. Total resources for the Group currently stand at 2,320.5 moz of silver and 38.5 moz of gold.

Highlights of 2017

- 5.4% decrease in silver reserves.
- 22.7% increase in gold reserves.
- 6.9% increase in silver resources.
- 0.3% increase in gold resources.

Priorities for 2018

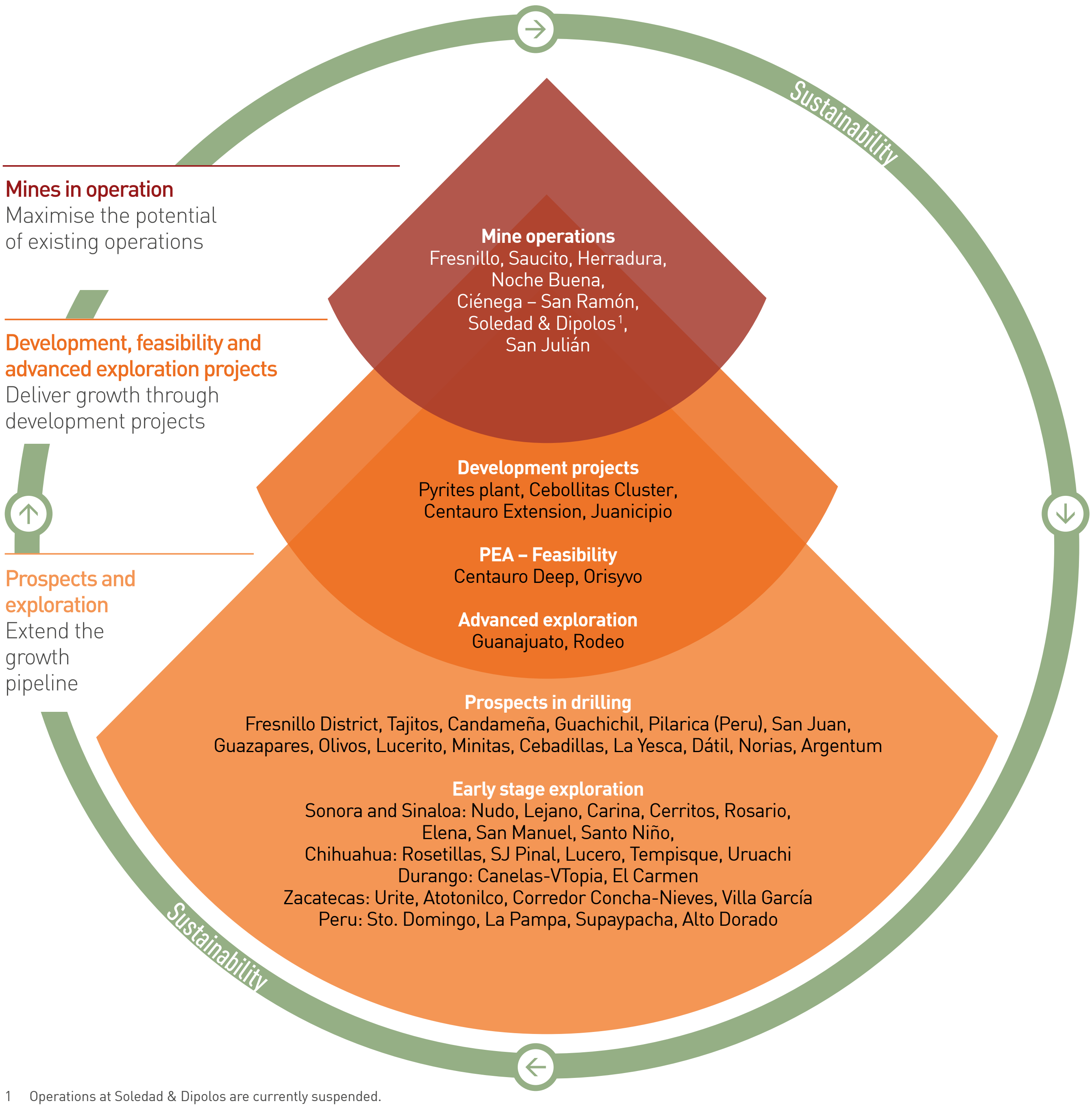
- Continue exploration activities at all existing mines.
- Continue negotiations for access to land at advanced projects.
- Roll out communication programmes to explain the benefits of mining, across all of our operations.
- Continue deep drilling at Juanicipio.
- Conclude the feasibility study at Juanicipio and carry out a feasibility study at Centauro Deep.
- Undertake a preliminary economic assessment at Orisyvo and Guanajuato.

REVIEW OF OPERATIONS
CONTINUED

1 EXPLORATION

A STRONG GROWTH PIPELINE

Our growth pipeline is key to our ongoing strategy of organic growth.
The graphic below shows all our projects and prospects across all stages.



1 Operations at Soledad & Dipolos are currently suspended.

Exploration drill at Juanicipio.

> DURING 2017, OUR EXPLORATION ACTIVITIES WERE FOCUSED ON HERRADURA, FRESNILLO, SAUCITO, CIÉNEGA AND SAN JULIÁN.

The consolidation of mining districts is one of our key strategies, and allows us to leverage local knowledge and shared infrastructure. The following section examines the exploration potential of each of our four principal districts, as well as key development projects in our pipeline.

FRESNILLO DISTRICT

As a preeminent silver mining district located in the heart of Mexico, this region is largely responsible for making Fresnillo plc the largest producer of silver in the world. The district's strengths include a long history of mining activities, a skilled workforce and good infrastructure. Our team of geologists have harnessed these advantages, while leveraging their own local and regional knowledge, in order to maximise the district's long-term potential. During 2017, 87,208 metres of drilling was carried out in the area.

Juanicipio, a joint venture project with MAG Silver where Fresnillo owns 56%, is a standalone project, located just eight kilometres from the Fresnillo mine. Exploration in 2017 was focused on the depth extension of the Valdecañas vein, and we are currently in the process of concluding a feasibility study.

HERRADURA DISTRICT

Located in the north west of Mexico, the Herradura district is home to the Herradura, Noche Buena and Soledad-Dipolos mines as well as Centauro Deep, a strategically important project located below the existing Centauro pit. The district accounted for 70% of our total gold production in 2017.

Exploration continues to focus on brownfield targets, particularly on the Centauro Deep extension.

CIÉNEGA DISTRICT

Situated in the Sierra Madre mountain range, this district contains our most polymetallic mine, Ciénega, in addition to the San Ramón satellite mine and the Taspana development works. We have carried out several comprehensive brownfield exploration programmes in the district, and these have identified a number of targets. The projects that have shown the greatest potential are now undergoing further analysis.

Last year, the exploration campaign was intensified at the Taspana and Tajos veins, where mining and preparation works are advancing at a good pace. In 2018, our plans include to drill-test extensions of the veins along strike and at depth, and to evaluate other opportunities in the district.

SAN JULIÁN DISTRICT

Located on the Chihuahua and Durango border, San Julián began life as a greenfield project ten years ago. The mine's second phase was fully commissioned in July 2017 following a US$515m capital investment programme.

Our exploration team continues to explore and identify new targets in the area through our district consolidation strategy. The team's findings – supported by the significant investment already in place – endorse our view that San Julián has the potential to become established as an entirely new mining district, underpinning our long-term goals.

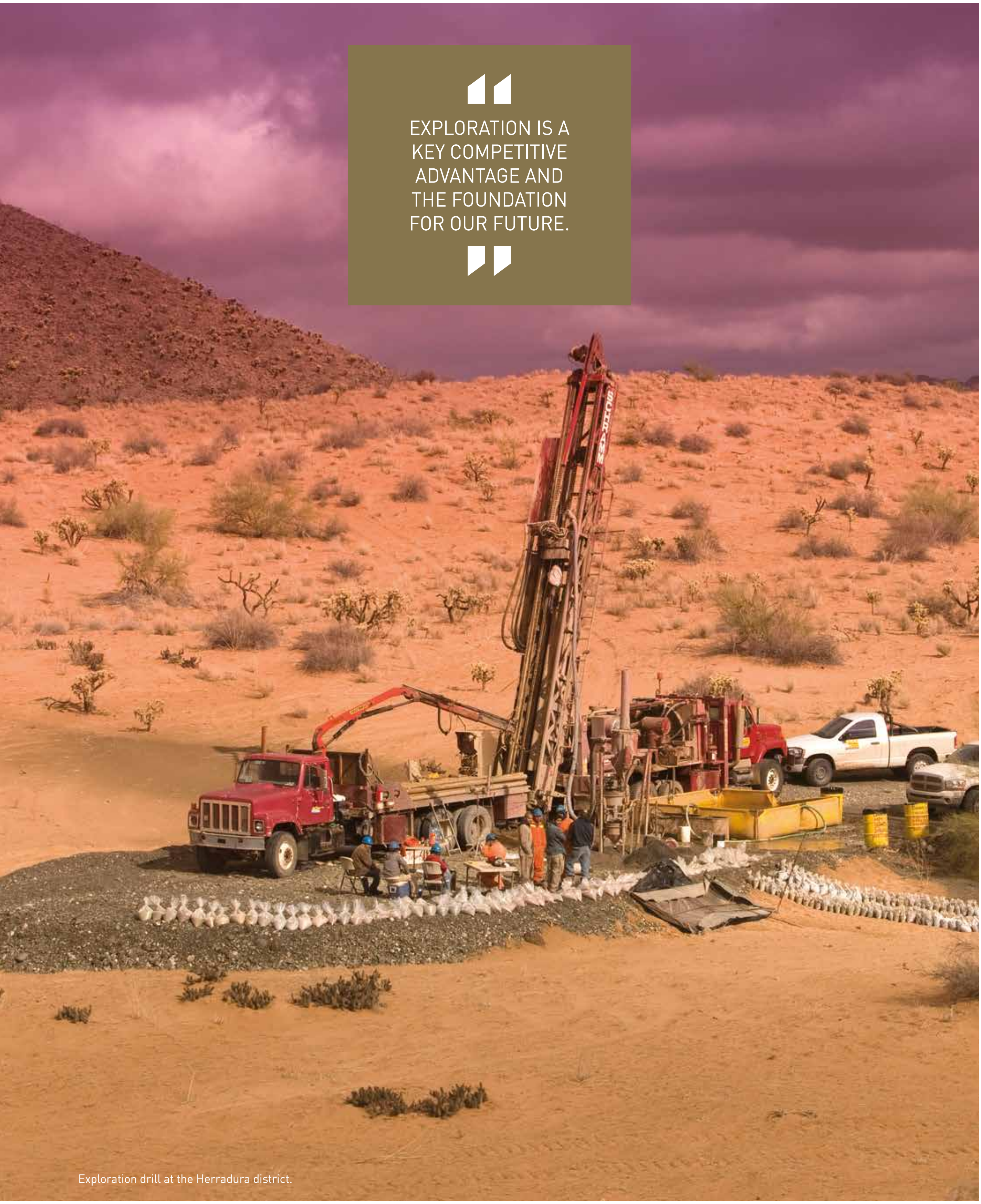
During 2017, our intensive drilling programme continued, totalling 73,995 metres. By deploying an integrated approach that combines geophysics, geochemistry, geology and drilling, we were able to increase gold resources by 63 koz and silver resources by 5 moz in the southern part of the district, where numerous exploration targets remain untested. The 2018 programme includes intensified drilling in this sector and definition of drill targets in the northern part of the district, where surface exploration work is commencing.

REVIEW OF OPERATIONS
CONTINUED

1 EXPLORATION

Project	Location	2017 Drilling (metres)	Mineral Resources (attributable)	Status
Guanajuato	Guanajuato	61,326	2017: **991 koz Au and 69 moz Ag** Change versus 2016: ↑ **236 koz Au;** ↑ **10 moz Ag**	In drilling, PEA
San Julián Sur	Chihuahua/ Durango	73,995	2017: **430 koz Au and 34 moz Ag** Change versus 2016: ↑ **63 koz Au;** ↑ **5 moz Ag**	In drilling, integrated exploration: geophysics, geochemistry and geology
San Juan	Durango	11,269	2017: **479 koz Au and 38 moz Ag** Change versus 2016: ↑ **80 koz Au;** ↑ **6 moz Ag**	In drilling
Candameña	Chihuahua	21,248	2017: **1,301 koz Au and 32 moz Ag** Change versus 2016: ↓ **46 koz Au;** ↓ **0.7 moz Ag**	In drilling, metallurgical studies and PEA
Tajitos	Sonora	24,880	2017: **416 koz Au** Change versus 2016: ↑ **61 koz Au**	In drilling, PEA
Fresnillo District	Zacatecas	87,208	2017 (only Huizache vein): **85 koz Au; 11 moz Ag** Change versus 2016: **nil**	In drilling, Saucito resource expansion
Centauro Profundo	Sonora	1,056	2017: **664 koz Au** Change versus 2016: ↓ **171 koz Au**	In drilling, model update
Orisyvo	Chihuahua	2,428	2017: **9,609 koz Au and 12 moz Ag** Change versus 2016: **nil**	In drilling, exploring areas near the main resource
Lucerito	Durango	–	2017: **2,299 koz Au and 163 moz Ag** Change versus 2016: ↑ **171 koz Au;** ↑ **9 moz Ag**	Standby
Rodeo	Durango	–	2017: **1,215 koz Au and 11 moz Ag** Change versus 2016: ↓ **82 koz Au;** ↓ **2 moz Ag**	Land acquisition
Juanicipio	Zacatecas	9,191	2017: **776 koz Au and 139 moz Ag** Change versus 2016: ↑ **4 koz Au;** ↑ **0.4 moz Ag**	In drilling, feasibility study
Guachichil	Zacatecas	–	2017: **1,187 koz Au and 18 moz Ag** Change versus 2016: ↑ **130 koz Au;** ↑ **2 moz Ag**	Access permit in process
Pilarica	Peru	12,608	2017: **91 koz Au and 54 moz Ag** Change versus 2016: ↑ **91 koz Au;** ↓ **0.5 moz Ag**	In drilling, PEA
Leones	Chihuahua	–	2017: **26 moz Ag** Change versus 2016: ↑ **0.7 moz Ag**	Standby
Manzanillas	Durango	–	2017: **141 koz Au and 3 moz Ag** Change versus 2016: **nil**	Standby
Cebadillas	Nayarit	–	2017: **165 koz Au and 4 moz Ag** Change versus 2016: **nil**	Standby
La Yesca	Jalisco	–	2017: **27 koz Au and 5 moz Ag** Change versus 2016: **nil**	Standby
San Nicolás	Guerrero	–	2017: **112 koz Au and 16 moz Ag** Change versus 2016: **nil**	Standby
Guazaparez	Chihuahua	28,369	–	In drilling
Uruachic	Chihuahua	9,710	–	In drilling
Olivos	Sonora	5,436	–	In drilling
Las Pampas	Peru	4,776	–	In drilling
Others	Mexico & Peru	44,500	–	–

> EXPLORATION IS A KEY COMPETITIVE ADVANTAGE AND THE FOUNDATION FOR OUR FUTURE.



Exploration drill at the Herradura district.

CREATING VALUE THROUGH

GROWTH+RETURNS

SUSTAIN

In our experience, responsible mining is compatible with the highest stakeholder expectations in terms of both social and environmental performance. Our licence to operate depends on meeting those expectations at all times.

That is why our promise to create value through growth and returns is not confined to our financial investors. We work hard to ensure the health and safety of our people and also that their communities see a return on their investment of time, skills and commitments.

GROWTH

- Total number of workers up from under 3,000 in 2008 to over 16,000 in 2017, an increase of more than 500%.

RETURNS

- Close to US$140 million invested in health, safety and environmental initiatives since 2008.
- Around US$16 million invested in training since 2008.
- Over US$32 million invested in local communities since 2008.
- Inclusion in the FTSE4Good scheme during 2017.

FOR MORE ABOUT OUR SUSTAINABILITY
SEE PAGES 74-103

Vertical conveyor at the Fresnillo mine.

CASE STUDY SAN JULIÁN

ONE PROJECT, FOUR STRATEGIC PILLARS

#4 SUSTAIN (2004-PRESENT)

AT SAN JULIÁN, OUR PRESENCE HAS BROUGHT NEW INFRASTRUCTURE TO A REMOTE AREA, GIVING LOCAL PEOPLE ACCESS TO TRANSPORT, EDUCATION, HEALTH AND SPORTS FACILITIES. THE MINE CURRENTLY EMPLOYS 2,363 WORKERS, ENSURING THAT THE FINANCIAL BENEFITS OF MINING ARE ENJOYED THROUGHOUT THE LOCAL COMMUNITY AND THE WIDER AREA.

AT THE SAME TIME, WE CONTINUE TO SUPPORT COMMUNITY INITIATIVES, INCLUDING OUR WORK WITH THE NGO INTERNATIONAL BOARD ON BOOKS FOR YOUNG PEOPLE (IBBY) TO BRING BOOKS AND CHILDREN TOGETHER. PLEASE SEE PAGE 100 FOR MORE DETAILS.

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

LETTER FROM THE CHAIRMAN OF THE HEALTH, SAFETY, ENVIRONMENT & COMMUNITY RELATIONS (HSECR) COMMITTEE

MEETING OUR COMMITMENTS

WE REMAIN STRONGLY COMMITTED TO PROMOTING THE LONG-TERM SUSTAINABILITY OF THE COMPANY BY MONITORING AND REINFORCING MANAGEMENT IN THEIR DUTY TO UPHOLD RESPONSIBLE MINING PRACTICES.

ARTURO FERNÁNDEZ PÉREZ
CHAIRMAN, HEALTH, SAFETY, ENVIRONMENT AND COMMUNITY RELATIONS COMMITTEE

Dear Shareholder,

A key aspect of our Directors' duty to promote the success of the Company is to consider the wider interests of all stakeholders. As Chairman of the HSECR Committee, I am pleased to present the activities of the HSECR Committee during the year.

In the light of regulatory developments and evolving shareholder expectations, we evaluated management strategy in order to engage our stakeholders on issues that are significant to society and relevant to the business. The Committee is mindful of its responsibility to ensure that management has effective policies, due diligence processes and management systems in place to proactively address material issues. As part of our governance agenda, we continued to monitor initiatives to embed ethics and integrity into the organisational culture.

In addition to our primary task of overseeing health, safety, environment and community relations matters, this year has seen an increase in the responsibilities of the Committee following the implementation of the Modern Slavery Act. On behalf of the Board, the Committee evaluated the effectiveness of management in preventing modern slavery. Following this evaluation, Fresnillo plc released its first Modern Slavery Statement, which sets out the steps taken to prevent any involvement in slavery and human trafficking.

We instructed management to enhance the Company's reporting practices, following the implementation of the EU Directive on non-financial and diversity information and the UK Financial Reporting Council's guidance on non-financial reporting. Consequently, this year's strategic report emphasises the inputs that Fresnillo uses to create long-term value and the associated linkages to the six Capitals: Human, Natural, Social & Relationship, Financial, Manufactured and Intellectual.

I deeply regret to report that one fatal accident occurred in the year. Safety continues to be our highest priority, above production and profitability, and our safety culture must be further strengthened and deeply embedded within the Company. To this end, we monitored a pilot project launched at Saucito in conjunction with Real Safety, which uses positive incentives to recognise and reward extraordinary safety behaviour. Please see the case study on page 81 for details. We again carried out safety drills in 2017 to further improve our emergency response capabilities and I am pleased to report that our business units continue to be certified to OHSAS 18001.

We work hard to ensure that we provide our people with a healthy workplace, and continued to monitor their exposure to physical and chemical risks during the year. Our safety and operations teams also collaborated closely, developing joint initiatives such as training and redesigned operating procedures to help eliminate unhealthy workplace conditions.

ROLE OF THE COMMITTEE

The role and duties of the HSECR Committee are set out in its terms of reference, a copy of which can be found on the Company's website at www.fresnilloplc.com. The Committee has responsibility over the following HSECR matters:

- Policies and systems.
- Performance and impacts.
- External reporting.
- Ethical culture.

HSECR COMMITTEE MEMBERSHIP

In 2017, we welcomed Fernando Ruiz as a member of our Committee and I am sure that he will make valuable contributions going forward.

HSECR COMMITTEE ACTIVITY

During the year, the Committee met in accordance with its terms of reference. Our key activities during the year were:

POLICIES AND SYSTEMS

- Reviewed the strategy to manage key issues around Health & Safety.
- Evaluated the community relations strategy, the social investment strategy and the methodology for social baseline and perception studies.
- Reviewed the HSECR Manual.
- Reviewed Health, Safety and Environmental certifications (International: ISO 14001, OHSAS 18001, cyanide management code. National: clean industry, safe industry and healthy company).
- Evaluated the maturity assessment report conducted by PWC.

PERFORMANCE EVALUATION

- Reviewed safety performance using KPIs from the International Council of Mining and Metals (ICMM).
- Evaluated the report of the fatal injury, its Root Cause Analysis and measures to prevent similar accidents.
- Monitored occupational diseases.

EXTERNAL REPORTING

- Released the Modern Slavery Statement 2016.
- Reviewed the new requirements of the EU Non-financial Reporting Directive for the Strategic Report.
- Introduced the six Capital model of the International Integrated Reporting Framework.

ETHICAL CULTURE

- Evaluated the ethics culture programme using the Ethisphere® Institute 'Ethical Culture & Perceptions Assessment'.
- Reviewed KPIs associated with the ethics culture.

We remain strongly committed to promoting the long-term sustainability of the Company by monitoring and supporting management in their duty to uphold responsible mining practices. I am very pleased to report that our Environment, Social and Governance (ESG) performance was recognised by the inclusion of Fresnillo plc in the FTSE4Good Index. However, there is no room for complacency, and we continue to be fully committed to making further improvements wherever and whenever possible.

Yours faithfully,

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

SOCIAL AND SUSTAINABILITY REPORT

Mining is an essential activity that creates value both locally and globally. We believe that mining can be compatible with high stakeholder expectations in terms of social and environmental performance – and we recognise that our social licence to operate depends on meeting those expectations.

Responsible business practices are embedded in our business model, ensuring that we take factors affecting stakeholders into consideration before every critical decision. This report presents how we manage the Human, Natural and Social & Relationship Capitals to create value for all our stakeholders.

MATERIALITY

Our non-financial materiality assessment helps us better understand the relative importance of non-financial issues to our business and our diverse group of stakeholders, at local, regional and global levels. The outcomes of the materiality assessment continue to guide our sustainability strategy and streamline our reporting.

		Relevance and risk in the lifecycle of mining				
Capital	Issue	Exploration	Development	Operation	Closure	Relevant stakeholders
Human Capital	Safety	Medium	High	High	Medium	Employees, Unions, Contractors, Communities, NGOs and Regulators-Authorities
	Occupational health	Medium	Medium	High	Low	
	Ethics and integrity	High	High	High	High	
	Employee wellbeing	Medium	Medium	Medium	Medium	
	Fair remuneration	Medium	Medium	Medium	Low	
Natural Capital	Cyanide management	Low	High	High	High	Communities, NGOs, Regulators-Authorities
	Mineral waste management (tailing, waste rock and heaps)	Low	Medium	High	High	
	Water stewardship	Medium	High	High	High	
	Soil pollution	Medium	High	High	High	
	Non-mineral waste and hazardous materials management	Medium	High	High	Medium	
	Energy & climate	Low	High	High	Low	
	Acid mine drainage (AMD)	Medium	High	High	High	
Social & Relationship Capital	Community Relations	High	High	High	High	Employees, Unions, Contractors, Communities, NGOs and Regulators-Authorities
	Land acquisitions & resettlements	Medium	High	Medium	Low	
	Respect the culture and heritage of local communities	High	High	High	Medium	
	Local employment	High	High	High	High	
	Local procurement (Small and Medium Enterprises)	High	High	High	High	
	Union relation	Low	Low	High	High	
	Government payment transparency	High	High	High	High	
	Government relations & lobbying	Medium	Medium	Medium	Medium	
	Transparency & accountability	High	High	High	High	

Risk: High Medium Low

Fresnillo rescue teams in Mexico City offering their support in the aftermath of the 19 September earthquake.

The graphic below shows how we indicate the relevance and risk of our material issues across the mining lifecycle.

MATERIAL ISSUE

	EXPLORATION	DEVELOPMENT	OPERATION	CLOSURE
Relevance and risk in the lifecycle of mining	Medium	High	High	Medium

Risk: High Medium Low

METHODOLOGY FOR MATERIALITY ASSESSMENT

1. Identification of stakeholders: Stakeholders are identified by two criteria:
   – **Impact**: Who is directly or indirectly affected or benefited by our operations or projects?
   – **Influence**: Who is currently involved or likely to get involved in issues related to our operations or projects?

The list of stakeholders is identified and validated by the people in Fresnillo who have the most frequent interactions with a given stakeholder.

2. Identification of the sustainability issues: Our Issue identification follows AccountAbility's five-part materiality test.

   The sources of sustainability issues are: Issues with a direct financial impact, industry best practices (ICMM, DJSI, FTSE4Good, STOXX ESG, SASB, etc.), stakeholder concerns (engagement activities: perception surveys, meetings, etc.), issues reflected in our policies and government regulations.

3. Evaluation of sustainability issues:
   – **Stakeholders**: The significance of an issue is evaluated by stakeholders.
   – **Management**: The materiality of an issue to the business and their risk and relevance in the lifecycle of mining is evaluated by management.

NEXT STEPS

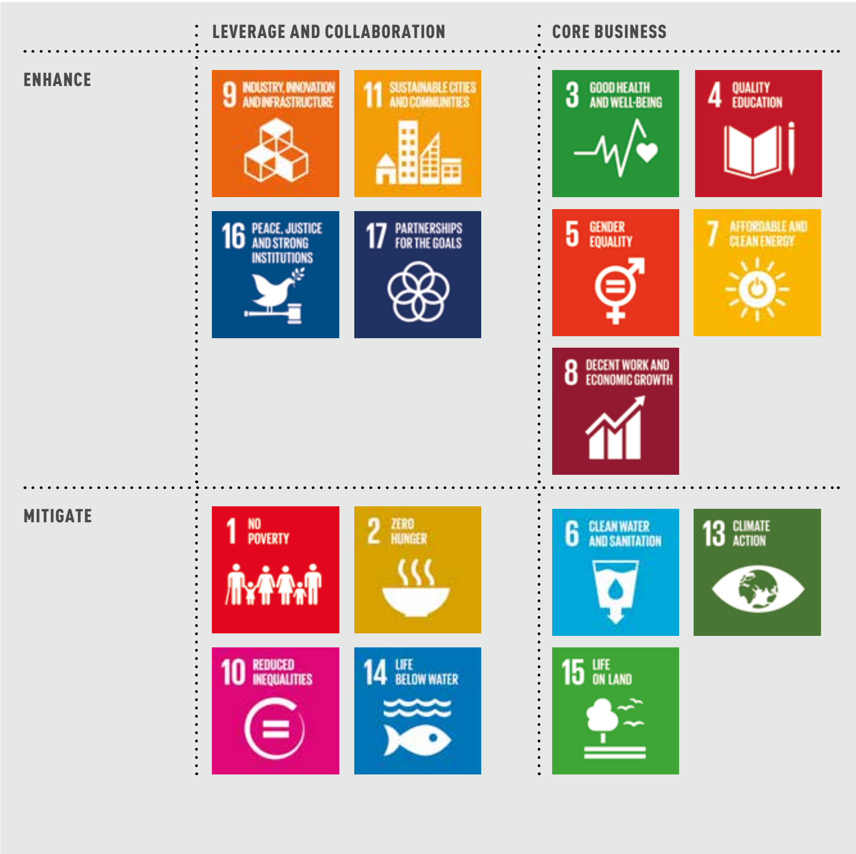
Launch a programme to engage our organisation in defining KPIs in respect of outcomes that are significant to our stakeholders and material to the business.

SOCIAL AND SUSTAINABILITY REPORT
CONTINUED

UNITED NATIONS SUSTAINABLE DEVELOPMENT GOALS (SDGS)

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

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



MOST RELEVANT SDGS

SDG 3 – GOOD HEALTH AND WELLBEING
Our focus: Safe and healthy work environment, risk management to prevent accidents and occupational diseases, healthier lifestyles initiatives and community health.

SDG1 – END POVERTY; SDG2 – ZERO HUNGER; SDG4 – QUALITY EDUCATION; SDG10 – REDUCED INEQUALITIES; SDG16 – PEACE,JUSTICE AND STRONG INSTITUTIONS
Our focus: Local jobs and procurement opportunities, profit sharing mechanisms, capacity building and investment in education and entrepreneurship, human rights, anti-corruption, ethics and transparency initiatives.

SDG6 – CLEAN WATER AND SANITATION; SDG7 – ENERGY ACCESS AND SUSTAINABILITY; SDG13 – CLIMATE ACTION; SDG15 – LIFE ON LAND
Our focus: Mitigation and elimination of adverse impacts on land and water resources, energy efficiency and renewable energy initiatives.

SDG5 – GENDER EQUALITY; SDG8 – DECENT WORK AND ECONOMIC GROWTH
Our focus: Fair hiring, fair remuneration and benefits and gender equality.

HUMAN RIGHTS

We respect and support human rights, and will never be complicit in their abuse. We address grievances related to our business activities where relevant and do not tolerate human rights violations committed by our employees, contractors, or public or private security providers acting on our behalf.

KEY HUMAN RIGHTS ISSUES FOR BUSINESSES OPERATING IN MEXICO

Occupational Health & Safety (Human Capital section)	Forced labour (Human Capital section)
Working conditions (Human Capital section)	Child labour (Human Capital section)
Unions: Freedom of association (Social & relationship section)	Discrimination (Human Capital section)
Environment (Natural Capital section)	Land rights (Social & relationship section)
Corruption: Transparency in government payments (Social & relationship section)	Security (Social & relationship section)

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

AWARDS AND RECOGNITIONS

During 2017, we were proud to be included in the FTSE4Good Index. We were also recognised by a number of other bodies this year, including: Ethics and Values in Industry from the Mexican Confederation of Industrial Chambers (CONCAMIN); and the Socially Responsible Company award from the Mexican Centre for Philanthropy (CEMEFI). Industry and standards certifications granted or under application in 2017 are detailed in the relevant sections of this report.

HUMAN CAPITAL

We seek to attract, develop and retain the best people, and engage them over the long term. We are committed to eliminating unsafe workplace conditions and behaviours, and to keeping our people healthy. We continue to work hard to develop an organisational culture based on trust, and to embed ethics and integrity into that culture in order to create a fair and respectful workplace. We respect labour rights and engage union representatives constructively.

TALENT MANAGEMENT

Our Centre for Technical Studies (CETEF) trains mining technicians to meet our specific needs. CETEF candidates are chosen from the communities surrounding our operations, thus securing talent and strengthening our social licence to operate. We regularly assess the potential of our people to take on supervisory roles in order to create career and succession plans.

We collaborate with leading educational institutions in Mexico to attract young talent in geology, metallurgy and mining engineering, offering students internships of varying lengths. We recruit graduates from our pool of interns through the 'Engineers in Training' programme. These graduates are assigned a coach from our operations team who supervises their development and provides performance appraisals – and those with good appraisals receive permanent job offers.

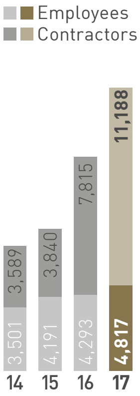
We develop our high potential middle managers via the Leaders with Vision programme. This involves senior executives delivering seminars throughout the year as a mechanism to engage and mobilise our people. The executives participate in a training programme organised by the Mexico Autonomous Institute of Technology (ITAM), a leading business school.

PERFORMANCE

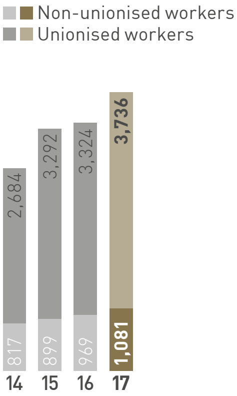
The growth of the workforce and the use of more international training providers led to an increase in total training investment. We improved the quality of training while keeping the training hours per person at similar levels.

OUR PEOPLE IN FIGURES

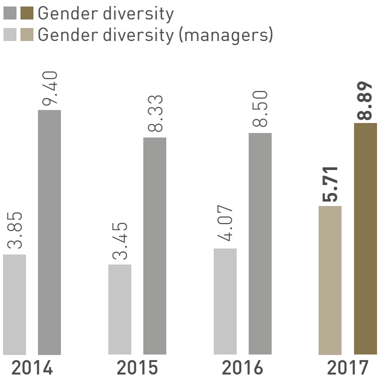
EMPLOYEES AND CONTRACTORS



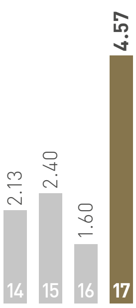
UNIONISED WORKERS



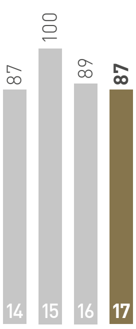
GENDER DIVERSITY %



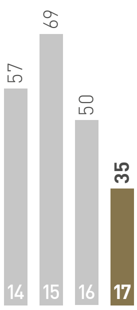
INVESTMENT IN TRAINING
US$M



AVERAGE WORKFORCE TRAINING HOURS



AVERAGE HSECR TRAINING HOURS



Top: Entrance to the Taspana development works in the Ciénega district.
Middle: Contractors in the Herradura district.
Bottom: Employees at the San Julián mine.

SOCIAL AND SUSTAINABILITY REPORT
CONTINUED

SAFETY

	EXPLORATION	DEVELOPMENT	OPERATION	CLOSURE
Relevance and risk in the lifecycle of mining	Medium	High	High	Medium

Risk: High Medium Low

OUR GOAL
To instil a safety culture where our workers and contractors have the knowledge, competence and desire to work safely.

HOW WE WILL WIN
Enabler – Eliminate unsafe workplace conditions and behaviours.

Key activities:
- Proactively assess and prioritise risks in order to determine operating procedures, equipment, training and controls.
- Perform situational assessments and legal compliance audits to identify operational non-conformities and to develop specific action plans with clear deadlines and accountabilities.
- Use a five-phase process to ensure operational discipline: Making sure safety procedures are available; assuring their quality; training and communication; evaluation of compliance; and continuous improvement.
- Promote the STOP (Stop, Think, Observe and Plan) programme, which teaches that all accidents can be prevented, promotes risk monitoring for all processes and emphasises the responsibility of the chain of command to detect and immediately remediate unsafe conditions.
- Conduct root cause analysis of accidents resulting in a critical injury or loss of life, in order to understand the underlying factors and determine any remedial actions required.

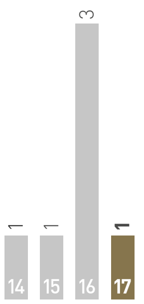
Enabler – Instil a safety culture where our workers and contractors have the knowledge, competence and desire to work safely.

Key activities:
- Engage our managers, union representatives and contractors, encouraging them to take a leadership role in our safety culture.
- Hold behavioural change workshops, facilitated by psychologists who provide guidance and counsel on personal issues that may lead to distractions and accidents.
- Continue to deliver Rules that Save Lives, part of our effort to embed critical rules into our safety culture, with regular reviews, updates and reminders in training sessions and group meetings.
- Support our contractors in enrolling in the Mexican Labour Ministry's voluntary Self-Managed Safety Programme, where the main objective is to encourage a self-evaluation culture and continuous improvement.

PERFORMANCE
We regret to report one fatal injury in 2017, additionally the Total and Lost Time Injury Frequency Rates increased during the year due to the increase in the workforce, new contractors and high turnover rates of contractors' employees. We are committed to implementing the measures required to reverse the negative trend in our safety record. For example, in 2017 we piloted our 'I care, we care' programme at Saucito, which uses positive incentives to foster good habits in risk identification and management. We also performed safety drills to further develop our emergency response capabilities and our business units continue to be certified to OHSAS 18001.

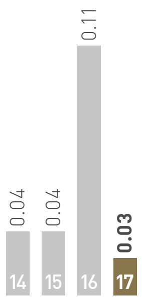
	Fresnillo	Saucito	Ciénega	Penmont	San Julián
OHSAS 18001 Sets out criteria for international best practice in occupational health and safety management.	Certified	Certification process on hold pending the upcoming release of ISO 45000	Certified	Certified	Certification process on hold pending the upcoming release of ISO 45000

FATALITIES
NUMBER OF FATALITIES PER YEAR



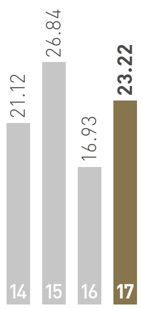
Number of fatal injuries to employees or contractors.

FATAL INJURY FREQUENCY RATE (FIFR)
FOR EVERY 1,000,000 HOURS



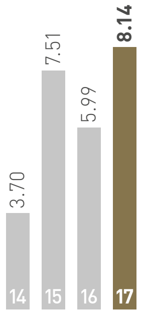
Number of fatal injuries to employees or contractors per 1,000,000 hours worked.

TOTAL RECORDABLE INJURY FREQUENCY RATE (TRIFR)
FOR EVERY 1,000,000 HOURS



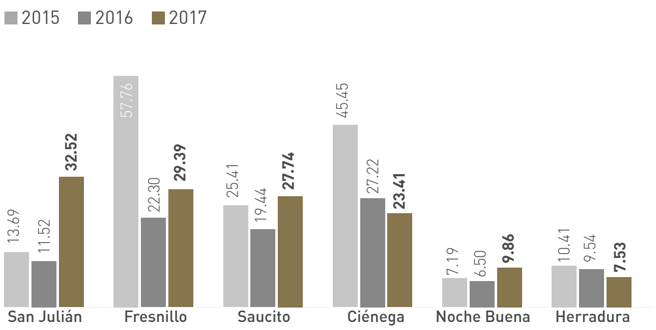
The number of fatalities + lost-time cases + restricted work cases + medical treatment + first aid cases per 1,000,000 hours worked.

LOST TIME INJURY FREQUENCY RATE (LTIFR)
FOR EVERY 1,000,000 HOURS

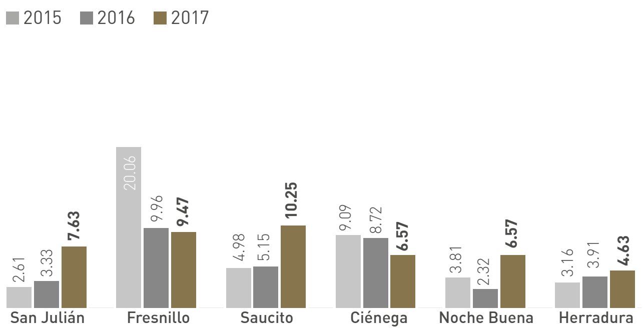


The number of lost-time injuries + fatalities per 1,000,000 hours worked.

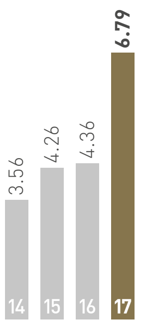
TOTAL RECORDABLE INJURY FREQUENCY RATE (TRIFR)
FOR EVERY 1,000,000 HOURS



LOST TIME INJURY FREQUENCY RATE (LTIFR)
FOR EVERY 1,000,000 HOURS



INVESTMENT IN SAFETY
US$M



CASE STUDY:

EMBEDDING SAFETY IN OUR CULTURE

The safety of our people is always the top priority for our executive team. However, while management can establish and promote safety-led processes, the everyday behaviour of workers themselves remains a key factor in reducing incidents.

During the year we launched a new initiative at our Saucito mine, aimed at reinforcing the importance of safety in our corporate culture. The 'I care, we care' programme recognises and rewards extraordinary safety behaviour to emphasise the role that individual actions and attitudes play in building a safe working environment.

Employees and contractors have been trained to recognise desired safety behaviours, with the programme using a card-based system to reward teams and individuals who exhibit best practices. Poor examples of safety behaviours are also highlighted by the programme and used by supervisors to demonstrate areas for improvement.

SOCIAL AND SUSTAINABILITY REPORT
CONTINUED

OCCUPATIONAL HEALTH

	EXPLORATION	DEVELOPMENT	OPERATION	CLOSURE
Relevance and risk in the lifecycle of mining	Medium	Medium	High	Low

Risk: High Medium Low

OUR GOAL
To prevent, detect and treat work-related illnesses amongst our employees and contractors.

HOW WE WILL WIN
Enabler – Eliminate unhealthy workplace conditions.

Key activities:
- Monitor level of exposure to physical and chemical risks to the health of our people (noise, vibration, heavy metal contamination, extreme temperatures, etc).
- Determine operating procedures, equipment, training and controls.
- Engage Safety and Operations teams to eliminate unhealthy conditions.

Enabler – Monitor employee health & accident rehabilitation.

Key activities:
- Ensure that every employee entering the workforce has a health check, including physical and psychosocial evaluations.
- Perform regular check-ups to screen for occupational diseases and advise on preventive care.
- Manage our own rehabilitation facilities to accelerate recovery from injuries.

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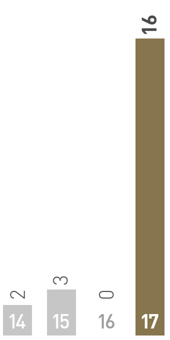
PERFORMANCE
The increase in occupational diseases is due to more stringent criteria used by the Mexican health authorities to assess chronic health effects on retirees.

	Fresnillo	Saucito	Ciénega	Penmont	San Julián
Healthy Company Certification by Mexican health authorities for the implementation of best practice in occupational health and preventive care, including the promotion of healthier lifestyles.	Certified	Certified	Certified	Certified	–
Smoke-Free Company A prerequisite for Healthy Company certification.	Certified	Certified	Certified	Certified	–

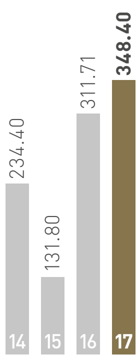
Check-up at the Ciénega clinic.

NEW CASES OF OCCUPATIONAL DISEASES



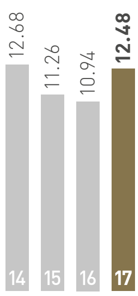
Occupational diseases of the unionised and non-unionised workforce (contractors are excluded).

SEVERITY RATE
FOR EVERY 1,000,000 HOURS

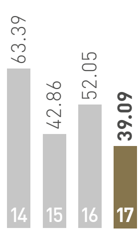


Lost work days per 1,000,000 hours worked.

INVESTMENT IN HEALTH
US$M



DURATION RATE



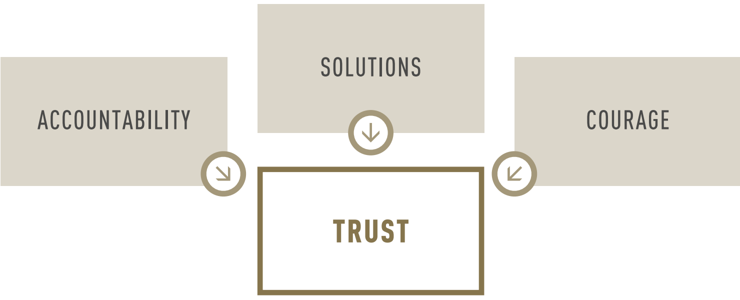
Lost work days/number of lost-time injuries + fatalities.

ETHICS & INTEGRITY

Ethics and Integrity are essential to ensuring that our relationships with stakeholders are built on trust. Setting the tone, promoting ethical decision-making, managing incentives and promoting openness will help us maintain our well-established ethical culture.

OUR GOAL

As one of the leading precious metals companies, our behaviours and actions should always reflect our well-established ethical culture. We encourage our people to be accountable, find solutions to their ethical dilemmas and have the courage to implement them.



This framework was developed by Dr Paul Melendez, Department of Management and Organizations, The University of Arizona. August, 2013.

HOW WE WILL WIN

Enabler – Embed a step-up ethics culture.

Key activities:

- Evaluation: Benchmark our ethics & compliance practices with Ethisphere's Ethics Quotient; monitor our culture through Ethisphere's ethical work climate survey; and further support our ethical culture by developing an ad hoc survey designed by the Centre for Leadership Ethics of the University of Arizona.
- Training: Develop ethics as a core competence through training in ethical leadership and step-up culture, with the support of the Centre for Leadership Ethics.
- Support: Use the 'moral compass' tool and the 'step-up culture' model to enhance ethical decision-making; learn and share best practices by participating in Ethisphere's Business Ethics Leadership Alliance (BELA); and raise awareness of key elements of our code of conduct through e-learning.

Enabler – Anti-bribery – Anti-corruption programme.

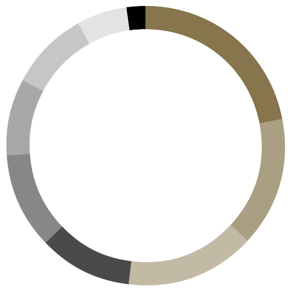
Key activities:

- See the Audit Committee Section (pages 140 and 143)

PERFORMANCE

Working alongside Ethisphere, in November 2017 we organised the first round table of the Business Ethics Leadership Alliance (BELA) in Mexico City. This event brought together leading organisations to share best practices on ethics and compliance programmes.

HONOUR COMMISSION CASE INVESTIGATIONS



Alleged inappropriate arrangements with suppliers	22%
Alleged professional negligence	15%
Alleged theft	15%
Alleged harassment	11%
Other	11%
Alleged abuse of authority	9%
Other – Contractors	9%
Alleged misuse of assets	6%
Alleged fraud	2%

CASE STUDY:

SHARING OUR ETHICAL APPROACH

We are committed to upholding the highest standards of ethical behaviour and compliance in everything we do. Towards the end of 2017, we took the opportunity to bring together leading industry figures and share our knowledge by hosting the first Business Ethics Leadership Alliance (BELA) roundtable in Mexico City.

Professionals with lead responsibility for the ethics and compliance programmes and culture of integrity from across the mining industry attended the event. They were welcomed by our CEO, Octavio Alvídrez, who opened the discussion with comments on the importance of responsibility, transparency and commitment. The roundtable covered topics including ethical culture transformation, ethics and compliance risk assessment and driving innovation through compliance.

SOCIAL AND SUSTAINABILITY REPORT
CONTINUED

EMPLOYEE WELLBEING

	EXPLORATION	DEVELOPMENT	OPERATION	CLOSURE
Relevance and risk in the lifecycle of mining				

Risk: High Medium Low

Employee wellbeing drives workplace productivity, safety and the profitability of the business.

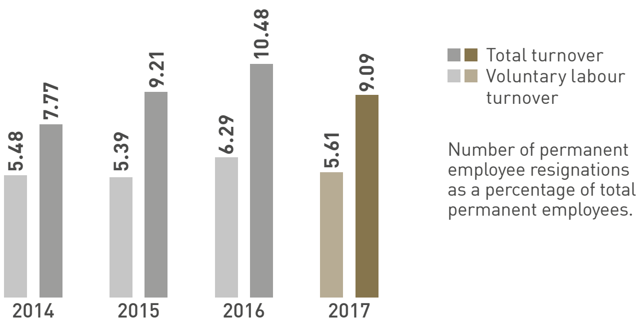
OUR GOAL
To be recognised as a great place to work, in order to attract and retain talent, and to drive the productivity and safety of our operations.

HOW WE WILL WIN
Enabler – Promote employee wellbeing.

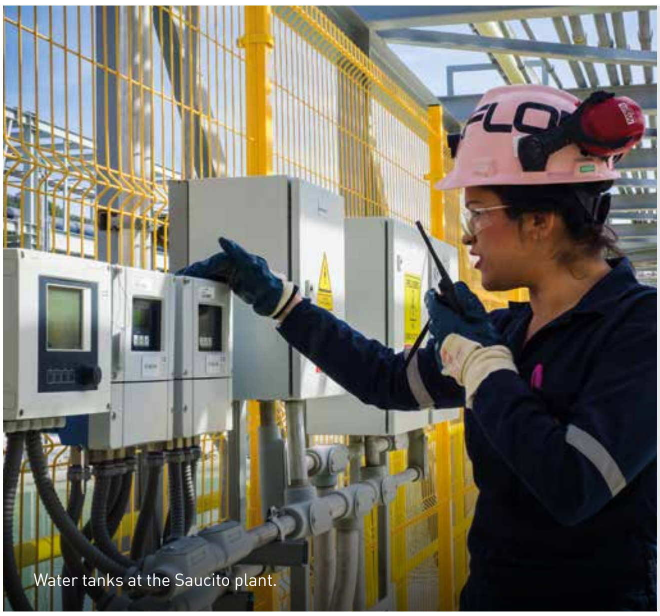
Key activities:
- Promote healthy lifestyles by supporting good dietary habits, and the prevention and control of obesity-related diseases.
- Support preventive healthcare (complete vaccination schemes, screening for breast and cervical cancer, hypertension, diabetes, etc).
- Promote sport and recreational activities in our facilities.
- Monitor the psychosocial health of our employees as part of their annual health check-ups.

PERFORMANCE
In 2017 we were once again ranked by Great Place to Work Mexico. In addition, at Saucito we introduced our first breastfeeding room to provide a family-friendly environment.

VOLUNTARY LABOUR TURNOVER %



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



Water tanks at the Saucito plant.

CASE STUDY:
SUPPORTING OUR FEMALE WORKERS

Recognising the value that diversity brings to our business, we aim to be an inclusive employer and to help our people in whatever way we can. For example, in the summer of 2017, we were proud to establish our first breastfeeding room, which will help support our ambition to gain Family Responsible Certification.

Nursing mothers working at Saucito now have the option of feeding their children in the breastfeeding room or going home to do so for one hour during working hours. In cooperation with the breastfeeding team from Fresnillo General Hospital, we also held a workshop to raise awareness and encourage nursing mothers to breastfeed their children.

FAIR REMUNERATION

	EXPLORATION	DEVELOPMENT	OPERATION	CLOSURE
Relevance and risk in the lifecycle of mining	Medium	Medium	Medium	Low

Risk: High Medium Low

Fair remuneration, recognition and development opportunities combine to motivate our people to strive for excellence. We offer non-unionised employees life insurance, health care, disability coverage, maternity and paternity leave, retirement provision, and a savings fund as well as profit sharing (known as PTU in Mexico). Our collective agreements with unionised-employees consider a wide range of issues around compensation and working conditions. These include wages, recruitment and dismissals, shifts and working hours, national holidays, vacations, work permits, disciplinary measures, personal equipment, training, health and safety, occupational diseases, life insurance, career opportunities (rank, seniority, etc.), savings fund and early retirement compensation.

OUR GOAL

To attract, retain and incentivise our workforce with a value proposition that balances remuneration with opportunities for career development.

HOW WE WILL WIN

Enabler – Remunerate fairly with salaries and benefits that are externally competitive and internally equitable.

Key activities:

- Monitor the competitiveness of our remuneration and benefits by benchmarking against our peers in the Mexican Mining Chamber (CAMIMEX).
- Maintain constructive collective bargaining with union representatives.
- Engage our non-unionised people to encourage career development over short-term rewards.
- Implement rules for compensation based on salary ranges that are gender independent.

PERFORMANCE

During 2017, we successfully negotiated a remuneration adjustment with the four union committees. Collective bargaining covers the elements outlined in 'Working conditions' above.

Recognising that women are under-represented in our workforce (see Diversity below), we implement rules for the compensation of non-unionised employees based on gender-independent salary ranges. Currently, any differences in the compensation of men and women are primarily due to different seniorities.

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

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

CHILD LABOUR

Child labour deprives young people of their childhood, dignity and education. Our minimum age for employment is 18, and we require contractors at all our sites to adhere to this rule. We contribute to the eradication of child labour in our communities by supporting school infrastructure, as well as reading and other programmes that improve educational opportunities for children.

MODERN SLAVERY

Modern slavery is a grave violation of human rights. It comprises all forms of contemporary slavery such as forced labour, servitude, human trafficking and the worst forms of child labour. We have a zero-tolerance approach to modern slavery and expect our employees, suppliers and contractors to reject any and all of its forms. For more details, please see our Modern Slavery Statement on our website.

DISCRIMINATION

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

DIVERSITY & INCLUSION

Fresnillo plc values and respects all people from diverse backgrounds. We aspire to develop an inclusive culture where our people feel valued and are inspired to contribute to their fullest potential. Women are under-represented in our workforce and in the Mexican mining industry in general. During the year, we developed a new policy to encapsulate and express how we will drive a positive improvement in diversity and inclusion. With the support of the University of Arizona, we also trained managers and executives on how to manage a diverse workforce, raising awareness of unconscious bias. In addition to fostering women in mining, our diversity programme will also focus on attracting, retaining and engaging millennials.

SOCIAL AND SUSTAINABILITY REPORT
CONTINUED

NATURAL CAPITAL

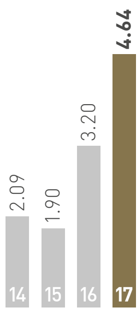
While the mining and processing of precious metals are essential industries, we recognise that our business has the potential to consume water, disturb land and produce waste and greenhouse gases. Optimising our use of resources, curbing any negative impact of our activities and being transparent and accountable regarding our environmental footprint are crucial elements of sustainable mining and help us to retain our social licence to operate.

ENVIRONMENTAL IMPACT ASSESSMENTS (EIAS)

Before developing any mining project, we conduct EIAs, which identify potential impacts and actions to manage them. EIAs address many issues, such as surface and groundwater resources, water quality, air quality, soils, biodiversity (including threatened or endangered species), landscape and socio-economic conditions. We present our EIA report, known as an Environmental Impact Statement (EIS), to the environmental authorities for evaluation.

INVESTMENT IN ENVIRONMENT

US$M



Certification	Explorations	San Julián	Fresnillo	Saucito	Ciénega	Penmont Herradura	Penmont Noche Buena
ISO 14001 Framework and criteria for an effective environmental management system.	Certified	Started in 2017	Certified	Certified	Certified	Certified	Certified
Clean Industry Certificate granted by the Mexican Environmental Authority to promote environmental audits, compliance with regulations and adoption of best practices.	N/A	Started in 2017	Certified Level 1	Certified Level 2	Certified Level 1	Certified Level 2	Certified Level 1
International Cyanide Management Code Sets criteria for the global gold mining industry on cyanide management practices.	N/A	Started in 2016	N/A	N/A	On hold*	Certified	Certified

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

Clean technologies play an essential role in improving environmental performance and reinforcing the social acceptability of the mining industry. We support the Colorado Cleantech Challenge, an innovation showcase that connects mining companies with clean technology solution providers, with the mutually beneficial goal of meeting our industry's environmental challenges. In addition, our CEO, Octavio Alvídrez, is a member of the Lowel Institute of Mineral Resources of the University of Arizona. This leading research institute has the depth of expertise necessary to tackle the challenges that are critically important to modern mining.

In 2017, we joined the World Environment Center (WEC) as part of our commitment to learn from sustainability leaders. The WEC advances sustainable development through the business practices of member companies and in partnership with governments, non-governmental organisations, and other stakeholders. The WEC promotes an affordable, stable and environmentally-sensitive energy system that can deliver benefits to all. We also report our water and climate change performance to the Carbon Disclosure Project (CDP), and our greenhouse gas emissions to the GEI México programme.

CYANIDE MANAGEMENT

	EXPLORATION	DEVELOPMENT	OPERATION	CLOSURE
Relevance and risk in the lifecycle of mining	Low	High	High	High

Risk: High Medium Low

Environmental protection measures are critical for cyanide leaching systems. We comply with international best practices as promoted by the International Cyanide Management Institute (ICMI) and the Mexican standard NOM-155 SEMARNAT-2007, which establishes environmental requirements for gold and silver leaching systems. As part of our commitment to safe cyanide management, we engage with local authorities and collaborate with fire departments and hospitals to build emergency response capabilities. We make operational and environmental information regarding cyanide management available to our stakeholders.

Protective equipment used when handling cyanide.

OUR GOAL

To protect human health and the environment by responsibly managing sodium cyanide solutions and waste (tailings and spent heaps).

HOW WE WILL WIN

Enabler – Design and operate facilities in compliance with the International Cyanide Management Institute (ICMI).

Key activities:

- Purchase sodium cyanide from certified manufacturers.
- Protect the environment and communities during transport to our facilities.
- Protect our people and the environment during handling and storage.
- Follow working practices that prevent impacts on health or ecosystems.
- Optimise mineral processing to minimise the residual cyanide in tailings.
- Manage and monitor seepage to prevent impacts on groundwater.
- Provide our people with training on emergency response and how to engage authorities and communities.
- Decommission facilities responsibly to prevent legacy issues.

PERFORMANCE

Our operations of Herradura and Noche Buena are certified by the Cyanide Code. During 2017, we reported no incidents related to cyanide management.

	2017	2016
Sodium cyanide (NaCN) (tonne)	**11,610,753**	10,117,133

SOCIAL AND SUSTAINABILITY REPORT
CONTINUED

MINERAL WASTE MANAGEMENT

	EXPLORATION	DEVELOPMENT	OPERATION	CLOSURE
Relevance and risk in the lifecycle of mining	Low	Medium	High	High

Risk: High Medium Low

Our operations produce mineral waste and, in much smaller quantities, non-mineral hazardous waste. The global trend towards lower ore grades will increase mineral waste over time, especially in open pit mining. Mineral waste includes waste rock, spent heaps and tailings, with the management of the latter being a key concern for the industry. While very rare, recent tailings incidents in the industry have served as a reminder of the critical nature of these structures.

OUR GOAL
To protect local communities and the environment by managing mineral waste responsibly.

HOW TO WIN
Enabler – Manage our waste responsibly to protect the health and safety of communities, the quality of the environment and our reputation.

Key activities:
- Obtain permits to build and operate tailing storage facilities.
- Design and build our tailings dams following the hydrological, geotechnical and structural design requirements of the Mexican authorities, in order to resist extreme weather and seismic events.
- Use diversion channels to prevent run-off water from entering the dam reservoir and seepage collection systems, in order to protect the environment downstream.
- Strictly control the water balance to prevent overtopping failures and ban the use of tailings dams as water reservoirs.
- Conduct daily inspections, periodic internal audits and third party stability reviews of the embankments of our operational and closed tailings dams.
- Regularly monitor the structural and chemical stability of our mineral waste storage facilities.

All: Recreational park at the Fresnillo mine.

"WE AIM TO PROTECT LOCAL COMMUNITIES AND THE ENVIRONMENT BY MANAGING MINERAL WASTE RESPONSIBLY."

Haulage trucks on their way to the waste dumps at Herradura.

Enabler – Manage closure responsibly to prevent legacy issues.

Key activities:
- Close waste storage facilities in a manner that is compatible with the surrounding environment.
- Include the closure of such facilities as part of our overall project closure plans.

PERFORMANCE

Our historical tailings facility at Fresnillo which operates as an ecological park for the community, had its environmental quality certified by the Mexican Environment Ministry.

		Unit	2017	2016
Mine waste	Waste rock	Tonne	**164,431,521**	161,143,531
Processing waste	Tailings	Tonne	**8,062,207**	6,030,362
Metallurgical waste	Tailings	Tonne	**3,049,216**	2,969,759
	Heaps	Tonne	**42,448,200**	39,570,603

Recreational park at the Fresnillo mine.

CASE STUDY:

RECLAIMING LAND FOR COMMUNITY ENJOYMENT

We understand the environmental impact of our operations and strive to ensure that when our activities cease the land continues to benefit local people.

The site that was once the location for the Fresnillo mine's historical tailings facilities is now an ecological park. This park is a valuable open space for local people and includes areas for sports and family gatherings. Operated responsibly, the park is a fine example of engaging with stakeholders to ensure that land is reclaimed in a manner that is compatible with the surrounding environment in order to deliver real benefits to communities. The park has also been recognised nationally, through a prestigious environmental quality certification by the Mexican authorities.

SOCIAL AND SUSTAINABILITY REPORT
CONTINUED

WATER STEWARDSHIP

	EXPLORATION	DEVELOPMENT	OPERATION	CLOSURE
Relevance and risk in the lifecycle of mining	Medium	High	High	High

Risk: High Medium Low

OUR GOAL
To increase access to safe water by minimising our water footprint and cooperating with our stakeholders, notably communities, authorities and NGOs.

Although we operate in a number of arid regions, the mining and processing of ore requires large volumes of water – and this is often a relevant issue for local communities. We recognise that water is a human right and cooperate with communities to increase water access.

Securing access and being responsible water stewards are critical success factors, and the prevention of environmental impacts on water resources and related ecosystems is fundamental to our social and environmental licences to operate. Before we commence any project, we carry out EIAs to gain knowledge of water resources and their vulnerability on a local and regional scale. Responding to the expectations of our stakeholders, we conduct our evaluation of water risk using the Aqueduct tool from the World Resources Institute (WRI).

WATER RISK ASSESSMENT UNDER CURRENT CONDITIONS

	Overall water risk	Physical risk quality	Physical risk quantity	Regulatory & reputational risk
Fresnillo	Medium to high risk	No data	High risk	Low to medium risk
Saucito	Medium to high risk	No data	High risk	Low to medium risk
Penmont	Medium to high risk	Low to medium risk	High risk	Low to medium risk
Ciénega	Medium to high risk	Low to medium risk	Medium to high risk	Low to medium risk
San Julián	Medium to high risk	Medium to high risk	Medium to high risk	Low to medium risk

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

WATER STRESS CONSIDERING CLIMATE CHANGE SCENARIOS (2020 AND 2030)

	Business as usual 2020	Business as usual 2030	Pessimistic 2020	Pessimistic 2030
Fresnillo	Near normal	1.4x increase	Near normal	1.4x increase
Saucito	Near normal	1.4x increase	Near normal	1.4x increase
Penmont	1.4x increase	1.4x increase	1.4x increase	1.4x increase
Ciénega	Near normal	1.4x increase	Near normal	1.4x increase
San Julián	Near normal	Near normal	Near normal	1.4x increase

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

HOW WE WILL WIN
Enabler – Operational excellence to reduce our water footprint.

Key activities:
- Implement closed water circuits, eliminating the need to discharge processed water into water streams.
- Reuse wastewater from municipalities and our own operations and camps.

Enabler – Environmental compliance and cooperation with local stakeholders.

Key activities:
- Secure water rights from authorities before using any water in mining and mineral processing.
- Send unused water from dewatering to settlement ponds to control suspended solids, before discharging the cleaned water downstream.
- Respect our water quotas, monitoring our discharges and taking action to ensure that they adhere to water quality regulations.
- Cooperate with water authorities and other stakeholders, including communities, to increase water access. See the community relations section (pages 96-103).

PERFORMANCE

During the year, we detected no negative downstream impacts on ecosystems or waterbodies due to our groundwater intake or water discharges.

STATEMENT OF WATER INPUTS AND OUTPUTS IN MEGALITRES

for the period 1 January 2017 to 31 December 2017

Category	Element	Sub-element	2017	2016
Input	Surface water	Rivers and creeks	**0**	0
	Groundwater	Mine water	**3,220**	3,512
		Bore fields	**6,527**	5,218
		Ore entrainment	**379**	302
	Third party	Wastewater	**1,843**	1,765
		Total water inputs	**11,969**	10,797
Output	Surface water	Discharges	**47**	90
	Other	Water entrained in concentrates	**27**	26
		Total water outputs	**74**	116

1 megalitre = 1,000 m^3.

WATER DEVIATIONS IN MEGALITRES

for the period 1 January 2017 to 31 December 2017

Category	Element	Sub-element	2017	2016
Input	Surface water	Rivers and creeks	**0**	0
	Groundwater	Aquifer interception (dewatering)	**11,539**	14,359
		Total water inputs	**11,539**	14,359
Output	Surface water	Discharges	**10,123**	12,428
		Supply to third party (donation)	**376**	802
		Loss (evaporation, infiltration, etc.)	**1,040**	1,129
		Total water outputs	**11,539**	14,359

1 megalitre = 1,000 m^3.

STATEMENT OF OPERATIONAL EFFICIENCY

efficiency for the period 1 January 2017 to 31 December 2017

	Unit	2017	2016
Total volume to tasks	megalitre	**56,902**	57,994
Total volume of reused water	megalitre	**47,304**	46,931
Reuse efficiency	%	**83.13%**	80.92%
Total volume of recycled water	megalitre	**3,033**	1,891

1 megalitre = 1,000 m^3.

INTENSITY MEASUREMENT

(m3/tonne)

	2017	2016
Water input (m^3) per tonne of mineral processed	**0.23**	0.22
Fresh water input (m^3) per tonne of mineral processed	**0.19**	0.18

Top: Water treatment plant in the Fresnillo district.
Middle: Community engagement at San Julián.
Bottom: Water tank in the Fresnillo district.

SOCIAL AND SUSTAINABILITY REPORT
CONTINUED

SOIL POLLUTION

	EXPLORATION	DEVELOPMENT	OPERATION	CLOSURE
Relevance and risk in the lifecycle of mining	Medium	High	High	High

Risk: High Medium Low

Mining operations require the use of engine oils, fuels and chemical compounds as well as the management of tailings that may contaminate the soil if accidently spilled. Soil can also be polluted by air-blown dust from tailing storage facilities. Our management system has procedures in place to prevent soil contamination.

OUR GOAL
To prevent soil contamination by managing our operations responsibly, thereby protecting the environment and the health of local communities.

HOW WE WILL WIN
Enabler – Manage our processes responsibly to prevent impacts on the soil.

Key activities:
- Responsibly manage engine oils, fuels, chemicals and hazardous wastes.
- Remediate spills and report them to environmental authorities, complying with Mexican regulations.
- Regularly monitor the chemical characteristics of the soil at our operations to verify compliance with Mexican regulations.
- Manage our tailings facilities to prevent air-blown dust.

NON-MINERAL WASTE & HAZARDOUS MATERIALS MANAGEMENT

	EXPLORATION	DEVELOPMENT	OPERATION	CLOSURE
Relevance and risk in the lifecycle of mining	Medium	High	High	Medium

Risk: High Medium Low

In addition to mineral waste, our mining operations produce non-mineral and hazardous wastes. Our management systems include procedures which ensure the safe management of these wastes, preventing health and environmental impacts.

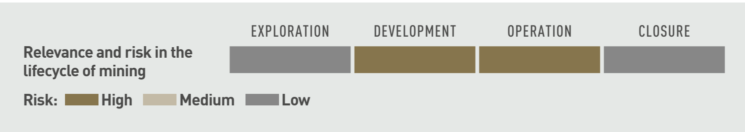
OUR GOAL
To prevent impacts on the environment and the health of staff and communities caused by inappropriate handling of non-mineral and hazardous waste.

HOW WE WILL WIN
Enabler – Safely manage non-mineral and hazardous wastes.

Key activities:
- Reduce production of non-mineral waste and recycle and dispose of it safely in on-site landfills.
- Reduce the production of hazardous waste, and manage it by recycling (engine oil, for example) or off-site treatment and disposal.
- Ensure that our storage facilities and hazardous waste receiving facilities fully comply with Mexican regulations.

PERFORMANCE
2017 saw no pollution incidents or fines imposed due to the improper handling of hazardous waste.

ENERGY & CLIMATE CHANGE



> WE HAVE IDENTIFIED THE SDGS MOST STRATEGICALLY ALIGNED WITH OUR IMPACTS AND ARE MAPPING THEM TO OUR HSECR SYSTEM.

Mining is energy intensive. We use energy at every stage of the value chain and this accounts for a significant portion of our overall costs. We use fossil fuels in the extraction and haulage of ore and waste rock removal, while electricity is used in our processing plants. As mining operations go deeper in response to decreasing ore grades, we expect our energy demand to increase.

OUR GOAL

To improve energy efficiency and progressively integrate renewables and clean technologies into our energy mix, in order to mitigate the physical, regulatory and reputational risks of climate change.

HOW WE WILL WIN

Enabler – Integrate renewables and clean technologies.

Key activities:

- Increase the use of renewables in our electricity supply mix.
- Monitor the development of clean technologies such as ventilation systems and electric underground vehicles.

Enabler – Operational excellence and energy efficiency.

Key activities:

- Increase the energy efficiency of our processing plants and set targets for our mines.
- Optimise truck fleet performance and test diesel additives to improve fuel combustion at our open pit operations and locate waste dumps to reduce haulage distances.
- Optimise ventilation, dewatering and ore dilution at our underground operations.

Enabler – Public policy and preparedness for the physical impact of climate change.

Key activities:

- Engage public policymakers and other stakeholders through the Mexican Chapter of the World Business Council for Sustainable Development (CESPEDES). See pages 98-99 and our website for a more detailed discussion.
- Recognise that the most significant physical impacts of climate change for our company relate to water. See page 103 and our website for a more detailed discussion.

SOCIAL AND SUSTAINABILITY REPORT
CONTINUED

ENERGY & CLIMATE CHANGE CONTINUED

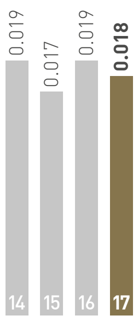
PERFORMANCE

GLOBAL GHG EMISSIONS for the period 1 January 2017 to 31 December 2017

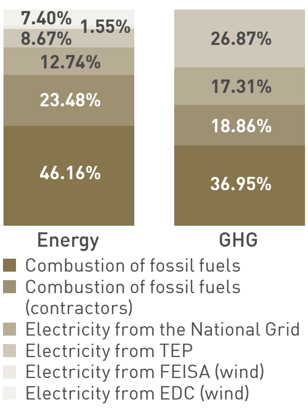
	GHG emissions (tonnes of CO_2E)		Energy (MWhe)	
	Reporting year 2017	Comparison year 2012	**Reporting year 2017**	Comparison year 2012
Scope 1 (direct emissions): Combustion of fuel (mobile and stationary sources).	**528,847**	375,121	**1,957,637**	1,385,448
Scope 2 (indirect emissions): Electricity purchased from the Mexican National Grid (CFE), WindForce Peñoles (FEISA) and Thermoelectric Peñoles (TEP).	**418,572**	329,245	**853,324**	420,615
Intensity measurement: Emissions and energy reported above per tonne of mineral processed.	**0.018**	0.013	**0.053**	0.034

Methodology: We have reported on all of the emission sources required under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013. These sources fall within our operational control. We do not have responsibility for any emission sources that are not included in our Consolidated Statement. We have used The WRI/WBCSD Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (Revised Edition).
Scope 1: All direct GHG emissions.
Scope 2: Indirect GHG emissions from consumption of purchased electricity.

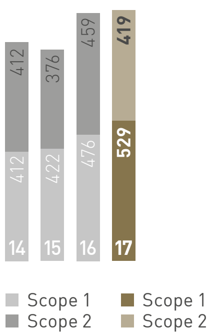
GHG INTENSITY
TONNES OF CO_2E PER TONNE OF MINERAL PROCESSED



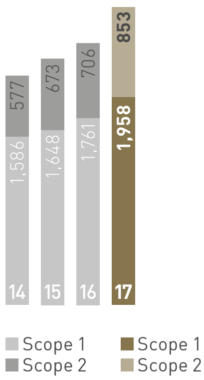
ENERGY – GHG PROFILE



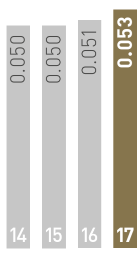
GHG EMISSIONS
KT OF CO_2E



ENERGY USE
GWHE



ENERGY INTENSITY
MWHE PER TONNE OF MINERAL PROCESSED



ACID MINE DRAINAGE

	EXPLORATION	DEVELOPMENT	OPERATION	CLOSURE
Relevance and risk in the lifecycle of mining	Medium	High	High	High

Risk: High Medium Low

Acid mine drainage (AMD) is a major environmental challenge for the mining industry. Uncontrolled AMD represents a risk to surface and groundwater resources during mine operation as well as a legacy issue after closure.

OUR GOAL

To prevent impacts on the environment and the health of local communities caused by uncontrolled acid mine drainage.

HOW WE WILL WIN

Enabler – Manage mineral waste facilities and waste streams responsibly.

Key activities:

- Screen AMD potential by analysing the mineral properties and conducting geochemical tests of ore mineral and waste rock.
- Implement site-specific water management strategies to prevent or treat AMD waters.

PERFORMANCE

Where we have identified AMD risk – notably at San Ramón – we have implemented site-specific management strategies. These include capping waste rock piles with a dry cover to reduce the oxygen and water ingress, and collecting and treating acid water.

Tailings dam at Herradura.

SOCIAL AND SUSTAINABILITY REPORT
CONTINUED

SOCIAL & RELATIONSHIP CAPITAL

Our social licence to operate is our most valuable intangible asset. Our strategic stakeholders include unions, communities and governments – and to earn and maintain their trust, we must effectively engage with them and be accountable to them. We recognise that building trust in this manner is the only way to preserve and grow our Social Capital.

ECONOMIC IMPACT

Our activities create economic value in the regions where we operate through wages and benefits, payments to local contractors and suppliers, and municipal, state and federal taxes.

ECONOMIC VALUE DISTRIBUTION

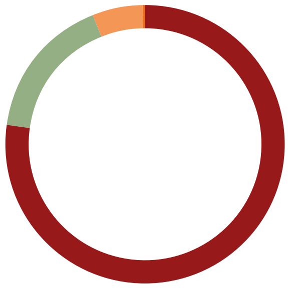
	US$ million
Wages and benefits to workers	82.91
Payments to suppliers (contractors)	1,112.61
Payments to local governments	2.94
Payments to federal government	240.28
	1,438.74

In 2014, Mexico introduced a special tax to create a fund for the Sustainable Development of Mining States and Municipalities, with the aim of enhancing the economic impact of mining on local communities.

FUND FOR SUSTAINABLE DEVELOPMENT OF MINING STATES AND MUNICIPALITIES
(US$ Million)

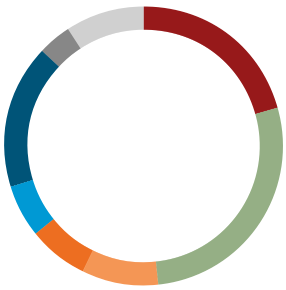
	2017	2016
	26.5	32.6

ECONOMIC VALUE DISTRIBUTED



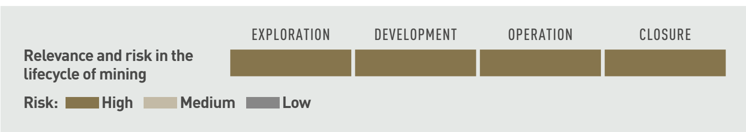
Payments to suppliers (contractors)	77.3%
Payments to federal government	16.7%
Wages and benefits to workers	5.8%
Payments to local governments	0.2%

ECONOMIC VALUE DISTRIBUTED BY STATE



Zacatecas	21%
Sonora	28%
Durango	9%
Chihuahua	7%
Guanajuato	6%
Mexico City	17%
Estado de Mexico	4%
Coahuila	9%

COMMUNITY RELATIONS



Our communities are our strategic partners. We earn and maintain their trust through effective engagement and by being accountable for our impacts – and we recognise that this is the only way to obtain and preserve our social licence to operate. Our community strategy, which embraces all phases of the mining lifecycle, aims to build mutual understanding between our operations and local communities, ensuring that we engage, develop and grow together. We began the optimisation of our social investment to increase project alignment with Sustainable Development Goals while reducing contributions to less strategic causes.

OUR GOAL

To create mutually beneficial relationships with our neighbouring communities.

COMMUNITY ENGAGEMENT STRATEGY

EXPLORATION → PROJECT → OPERATION → CLOSURE

KNOWLEDGE
- Stakeholder analysis/Information system
- Media monitoring
- Studies (baseline, perception and social risk)
- Evaluation of partnerships with NGOs

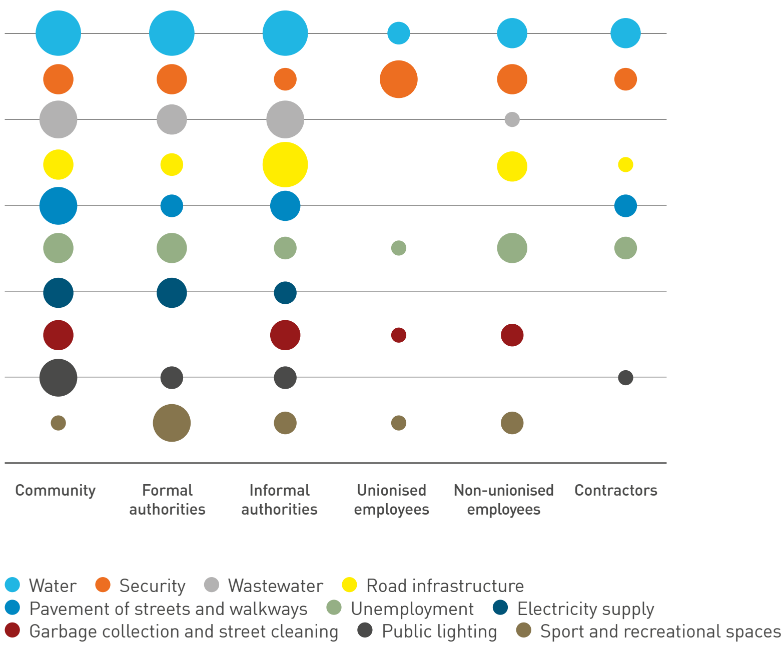
EFFECTIVE ENGAGEMENT
- Community activities
- Formal meetings/Informal meetings/Consultation/Communication
- Registry of incidents/Registry of commitments/Grievances

DEVELOP
- Social investment/Social Investment Committee
- Community requests
- Capacity building
- Local employment and local contractor

HOW WE WILL WIN

Enabler – Advancing our knowledge of local communities.

Key activities:
- Identify stakeholders and understand their positions on key issues.
- Conduct social baseline studies to better understand the socio-economic conditions of our projects and how they evolve over time.
- Perform social impact assessments to evaluate positive and negative impacts on local communities.
- Commission comprehensive perception studies to measure the effectiveness of our strategy and to deepen our insight into the issues that matter to our communities.
- Conduct local priority assessments to capture the expectations of communities, local authorities, informal leaders, employees (unionised and non-unionised) and contractors.



Local priority assessment (larger spheres represent greater importance).

SOCIAL AND SUSTAINABILITY REPORT
CONTINUED

HOW WE WILL WIN

Enabler – Engaging communities effectively in the lifecycle of mining.

Key activities:

- **Exploration**: Our exploration teams are the first to establish contact with a local community. We identify the relevant stakeholders and focus our engagement efforts on obtaining temporary land access to explore and assess social risks.
- **Development**: Our stakeholder relationships deepen in this phase of the cycle, as we build trust through activities including local hiring, contracts and social investment. For our advanced feasibility and development projects, we conduct social risk assessments to help us identify the issues that matter most to the community.
- **Operation**: We regularly engage with the community via formal and informal meetings in order to manage expectations and detect risks and opportunities. We also carry out comprehensive perception studies which help us monitor how benefits are perceived and assess our impact on the key issues facing the community.

Enabler – Working with communities to develop a purposeful social investment portfolio aligned with the UN Sustainable Development Goals.

Key activities:

- **Education**: In line with SDG 4, we seek to support inclusive and quality education as a key lever to reduce poverty and inequality. We collaborate with NGOs and communities to deliver programmes which encourage children to read, communicate, and learn science and robotics.
- **Health**: In line with SDG 3, we seek to ensure healthy lives and promote wellbeing. We work closely with NGOs, authorities and communities to provide healthcare and promote healthy lifestyles.
- **Water**: In line with SDG 6, we are committed to ensuring the availability and sustainable management of water and sanitation for all. We collaborate with communities to develop water and sanitation infrastructure funded by the Mining Fund, to ensure that our direct social investment is well-targeted and to raise awareness of environmental care.
- **Capacity building**: In line with SDG 8, we promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all. We support suppliers from local communities and collaborate with regional mining clusters to develop skills in the areas where we operate.

EDUCATION
Enjoy reading and making the learning of a science a rewarding experience

HEALTH
Partner with communities to improve their health

CREATE LONG-TERM VALUE
Aligned with the UN Global Goals for sustainable development

WATER
Partner with communities to increase safe water access

BUILD CAPACITIES
Develop entrepreneurs to diversify local economies making them more resilient and less dependent on mining

PERFORMANCE
2017 HIGHLIGHTS

Education

- We continued to partner the NGO International Board on Books for Young People (IBBY), bringing books and children together through our Picando Letras programme. This programme currently benefits 8,186 children in 66 schools – from kindergartens to high schools – in local communities close to our Ciénega, Penmont, Saucito, Fresnillo, San Julián, Rodeo and Gigante (Guanajuato) mines and projects.
- Together with the NGO INNOVEC and the Zacatecas State government, we supported a programme to teach science in an experiential and engaging manner. A total of 3,776 children in the Fresnillo area are currently benefiting from this programme.
- We partnered with local schools in Fresnillo, Caborca (Penmont) and Turuachi (San Julián) and entered three teams in the FIRST (For Inspiration and Recognition of Science and Technology) Robotics competition. With the support of mentors from the Company, children aged from 15 to 18 learnt how to develop their expertise in robotics, as well as the importance of teamwork and volunteering.

Capacity building

- We continued to promote the development of regional value chains by participating in the established mining clusters of Zacatecas and Sonora, and also joined the Chihuahua mining cluster during 2017. The Zacatecas cluster brings together 16 mining operations, 73 local suppliers, five universities, five local government agencies and three company research centres. The Sonora cluster comprises 102 suppliers, 19 mining operations, eight universities and six chambers and associations.
- To diversify local economies, we provided training for entrepreneurs in the communities of Fresnillo and Uruachi (one of our exploration areas).

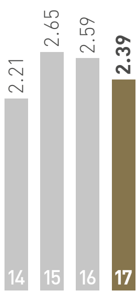
Health

- In partnership with the National University Foundation we organised Health Weeks in Fresnillo, Ciénega, Penmont, San Julián and at our Rodeo project, benefiting a total of 11,400 people during the year.

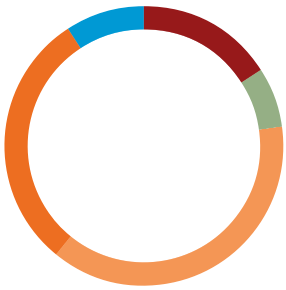
Water & infrastructure

- We piloted a project in partnership with Captar AC to implement rainwater collection in the community of Las Papas in San Julián.
- We continued to engage with the municipalities, campaigning for higher levels of investment by the Mining Fund in the communities neighbouring our operations.

COMMUNITY INVESTMENT
US$M

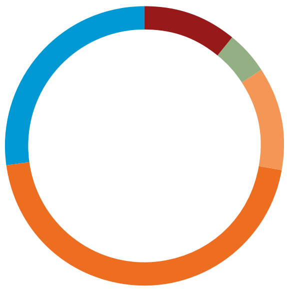


COMMUNITY INVESTMENT BY STRATEGIC LEVER %



Environmental awareness	16%
Community capacity building	7%
Education	38%
Social welfare	30%
Infrastructure	9%

COMMUNITY INVESTMENT BY BUSINESS UNIT %



Ciénega	11%
Exploration	5%
Penmont	12%
Fresnillo district	45%
Corporate	27%

SOCIAL AND SUSTAINABILITY REPORT
CONTINUED

CASE STUDY

BRINGING BOOKS AND CHILDREN TOGETHER

Our activities bring employment and financial benefits to local workers – and we also work hard to support their families through a wide range of community initiatives.

During 2017, we again continued to work with the NGO International Board on Books for Young People (IBBY) to bring books and children together through its respected Picando Letras programme. The aim of the programme is to create a space where teachers, parents, youngsters and children interact, raise awareness and reflect as a result of reading; in an enjoyable, free and meaningful manner. This strengthens community bonds, educates people so they can self-reflect, express their feelings and thoughts and really listen to others in a tolerant and respectful environment.

The team from IBBY guided us on the choice of books and initial teacher training as well as on how to monitor progress and coach the teachers. With their valuable support, we expanded the project in 2017 and opened more 'bunkos' (small community libraries where volunteers read aloud to children and facilitate discussions). Over the course of the year, we helped a total of 8,186 children from 66 schools – from kindergartens to high schools – in the communities of Ciénega, Penmont, Saucito, Fresnillo, San Julián, Rodeo and Gigante (Guanajuato).

CASE STUDY

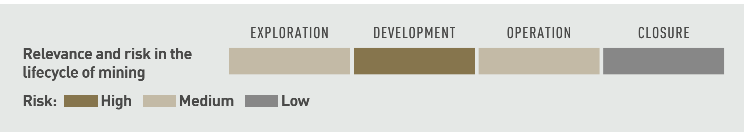
ENSURING HEALTHY LIVES AND PROMOTING WELLBEING

Nothing is more important to us than our people, which is why we use our expertise and resources to help ensure they lead healthy lives. This is particularly important in some of our local communities, where access to healthcare is a stakeholder concern either due to remote location or low socio-economic levels.

In 2017 we worked closely with the UNAM Foundation, NGOs and local health authorities to foster a preventive and self-care culture. The programme benefited more than 11,435 people from over 100 communities from Penmont, Fresnillo District, Ciénega and San Julián. These benefits included free eye care, dental care, vaccination and diabetes detection and also raised awareness of issues such as the importance of good eating habits.

Units	People	Communities
Penmont	4,784	25
Ciénega	2,304	12
San Julián	1,144	27
Fresnillo District	1,600	19
Rodeo	1,603	37
Total	11,435	120

LAND ACQUISITIONS & RESETTLEMENTS



Developing a mining project involves land acquisition and in some cases, the resettlement of households. We recognise that these are complex and life-changing issues for communities. When poorly planned and managed, land acquisition and resettlement can adversely impact the livelihoods and social structure of communities, damage our relationships or even cause conflict. We recognise that the right to an adequate standard of living after land acquisition and resettlement projects is a basic human right.

OUR GOAL

To manage resettlement responsibly, respecting local laws and following international best practices.

HOW WE WILL WIN

Enabler – Manage resettlements responsibly.

Key activities:

- Avoid resettlements whenever possible, by exploring alternative options.
- If resettlements are unavoidable, work together with affected households, communities and governments to minimise adverse impacts, restoring or improving livelihoods and living conditions.
- Further develop our competences and internal processes to manage resettlements, including social baseline and asset surveys, an entitlement and compensation framework, negotiation, livelihood restoration programmes and ongoing monitoring and evaluation.

PERFORMANCE

No community resettlements occurred at our operations or development projects during 2017.

RESPECT THE CULTURE & HERITAGE OF LOCAL COMMUNITIES

	EXPLORATION	DEVELOPMENT	OPERATION	CLOSURE
Relevance and risk in the lifecycle of mining	High	High	High	Medium

Risk: High, Medium, Low

By understanding and respecting the culture and heritage of communities, we can build trust and prevent social conflicts. We engage respectfully with communities in the early stages of mining – ensuring that we gain a better understanding and that we consider the social impacts and mitigation strategies in our development projects. We embrace and respect the Mexican regulations regarding consultation with indigenous communities.

OUR GOAL

To make our exploration, development and mining operations compatible with the culture and heritage of local communities.

HOW WE WILL WIN

Enabler – Avoid or mitigate negative impacts on the culture and heritage of communities.

Key activities:

- Conduct social baseline studies at our development projects in order to build greater understanding of local culture and traditions.
- Collaborate with communities in local celebrations.
- Conduct regular perception studies to monitor positive and negative impacts and perceptions.
- Respect the regulatory framework for consultation with indigenous communities.

PERFORMANCE

During the year we experienced no conflicts with communities due to negative impacts on their culture and heritage.

LOCAL EMPLOYMENT COMMUNITIES

	EXPLORATION	DEVELOPMENT	OPERATION	CLOSURE
Relevance and risk in the lifecycle of mining	High	High	High	High

Risk: High, Medium, Low

Local employment is a key driver of social acceptability and community development. We promote local employment from the early days of the exploration phase onwards. In the development and operational phases, for example, we offer employment opportunities directly or through our mining contractors. Our participation in mining clusters helps encourage international suppliers to locate in the regions where we operate and this creates additional jobs.

OUR GOAL

To share the social and economic benefits of our value chain with the communities where we operate.

HOW WE WILL WIN

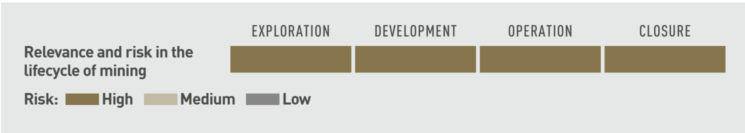
Enabler – Openness to local employment opportunities in our value chain.

Key activities:

- Offer employment opportunities compatible with the competences of local communities, directly or through our contractors.
- Develop the Human Capital in the regions where we operate through the mining clusters.

SOCIAL AND SUSTAINABILITY REPORT
CONTINUED

LOCAL PROCUREMENT (SMALL AND MEDIUM ENTERPRISES – SMEs)



Promoting local SMEs is key to social acceptability and community development. We are committed to developing and hiring local suppliers and service providers. By participating in mining clusters, we promote the development of local suppliers and the Human Capital of the regions where we operate.

OUR GOAL
To share the social and economic benefits of our value chain with the communities where we operate.

HOW WE WILL WIN
Enabler – Inclusion and development of local SMEs.

Key activities:
- Integrate SMEs into our value chain in the early stages of the mining lifecycle.
- Monitor the performance and perceptions of SMEs.
- Develop the competences of SMEs.
- Support the mining clusters in the states of Zacatecas, Chihuahua and Sonora in their efforts to strengthen local supply chains in the regions where we operate.

PERFORMANCE
We currently work with more than 230 local suppliers that provide services to our mines and exploration projects. We also collaborate with the NGOs and consultants to train, coach and develop the skills of SMEs.

UNION RELATIONS

Unions are our strategic partners and key players in our drive to foster productivity and develop a safety culture. We respect the rights of employees to freedom of expression, association and collective bargaining.

OUR GOAL
To build positive and productive relations with unions through continuous dialogue and collaboration.

HOW WE WILL WIN
Enabler – Constructive engagement to build trust.

Key activities:
- Hold workshops to engage newly-elected union representatives, build responsible leadership skills and raise awareness of their rights and responsibilities.
- Meet regularly with union representatives and present our operational results in order to foster common understanding of the business.
- Continually focus on safety as a key area where working closely together can deliver improvement.

PERFORMANCE
During 2017 we did not experience any work stoppage or industrial action as a consequence of labour disputes. We have collective agreements in place at our Fresnillo, Saucito, Ciénega and Penmont mines.

GOVERNMENT PAYMENT TRANSPARENCY

	EXPLORATION	DEVELOPMENT	OPERATION	CLOSURE
Relevance and risk in the lifecycle of mining	High	High	High	High

Risk: High Medium Low

Responsible mining can be a driver of economic and social development. However, corruption and poor governance diminish the benefits that society should gain from the revenues of mining resources. We support transparency and public scrutiny of the payments we make to governments.

OUR GOAL

To disclose transparently our payments to governments.

HOW WE WILL WIN

Enabler – Disclose payments to governments.

Key activities:

- Evaluate our tax position and publish a statement on our website to clarify our approach to risk management and governance arrangements in relation to UK taxation, in accordance with Schedule 19 of the Finance Act 2016.

PERFORMANCE

Please see the Government Payment Report on our website.
http://www.fresnilloplc.com/investor-relations/regulatory-announcements/

GOVERNMENT RELATIONS & LOBBYING

	EXPLORATION	DEVELOPMENT	OPERATION	CLOSURE
Relevance and risk in the lifecycle of mining	Medium	Medium	Medium	Medium

Risk: High Medium Low

We develop and maintain constructive relations with governments in order to address key issues such as permits and security in the regions where we operate. With regard to new environmental regulations, our approach is to engage policymakers through the Mexican Chapter of the World Business Council for Sustainable Development (CESPEDES) and the Mexican Mining Chamber (CAMIMEX). Information about the positions and initiatives of these organisations can be found on their websites.

OUR GOAL

To cooperate with authorities and regulators on issues that are strategic to our business, and to participate constructively in consultation processes in order to ensure that regulations are effective, efficient and equitable.

HOW WE WILL WIN

Enabler – Ethical and constructive engagement on issues that are key to the business.

Key activities:

- Obtain key permits regarding exploration and mining rights, water concessions, environmental issues and explosives.
- Cooperate on security issues in the regions where we operate.
- Work closely with communities to engage with municipalities, in order to encourage them to consider funding infrastructure projects in the areas where we operate.

PERFORMANCE

	2017	2016
Mining Fund (US$ million)	26.5	32.6

TRANSPARENCY & ACCOUNTABILITY

	EXPLORATION	DEVELOPMENT	OPERATION	CLOSURE
Relevance and risk in the lifecycle of mining	High	High	High	High

Risk: High Medium Low

Being transparent and accountable for our social and environmental performance are essential factors in building trust. By disclosing material non-financial information, we are able to help our investors make more effective investment decisions. Managing our negative impacts is the key to ensuring that our business model is socially acceptable.

OUR GOAL

To provide access to non-financial information in order to facilitate the decision-making processes of our investors and stakeholders.

HOW WE WILL WIN

Enabler – Disclosure of Environmental, Social and Governance (ESG) information using the appropriate channels.

Key activities and reports:

- Annual Report.
- Website.
- Dow Jones Sustainability Index (DJSI).
- Carbon Disclosure Project.
- Modern Slavery Report.
- Meetings and traditional media to inform our local stakeholders.

Enabler – Accountability and sensibility regarding our positive and negative impacts.

Key activities and reports:

- Conduct perception studies in the communities where we operate to identify positive and negative perceptions and impacts.
- Monitor media.
- Hold regular meetings with our stakeholders.
- Operate grievance mechanisms to engage people that may be adversely affected by our activities.

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. THE FULL FINANCIAL STATEMENTS AND THEIR ACCOMPANYING NOTES CAN BE FOUND ON PAGES 186-243.

By following strict controls on cash, costs and expenses and while adhering to our capex budgets, we have maintained a healthy cash and other liquid funds[1] position and a low leverage ratio. This has enabled us to invest in profitable growth and deliver solid returns to shareholders.

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[1] 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 and, these 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$ million	Change %
Adjusted revenue[2]	**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[3]	**1,060.1**	1,032.0	28.1	2.7
Income tax expense including mining rights	**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$/share)[4]	**0.761**	0.579	0.182	31.4
Basic and diluted earnings per share, excluding post-tax Silverstream effects (US$/share)	**0.653**	0.453	0.200	44.2

1 Cash and other liquid funds are disclosed in note 31(c) to the financial statements.
2 Adjusted revenue is revenue as disclosed in the income statement adjusted to exclude treatment and refining charges and gold, lead and zinc hedging.
3 Earnings before interest, taxes, depreciation and amortisation (EBITDA) is calculated as gross profit plus depreciation less administrative, selling and exploration expenses.
4 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.

MX$/US$ 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 peso/US dollar exchange rate as the majority of these items are dollar-denominated.

CONTRACTORS

Agreements are signed individually with each contractor company, and include specific terms and conditions that cover not only labour, but also operating materials, equipment and maintenance, amongst others. Contractor costs are mainly denominated in Mexican pesos and are an important component of 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).

FINANCIAL REVIEW
CONTINUED

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$ million	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**

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$ MILLION)

	2017		2016					
	US$ million	%	US$ million	%	Volume variance	Price variance	Total US$ million	%
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**

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%**

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

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 (t)					
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 (t)	**43,834**	100	43,927	100	(0.2)
Zinc (t)					
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 (t)	**54,594**	100	47,638	100	14.6

FINANCIAL REVIEW
CONTINUED

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.

	2018	
Concept	**Zinc**[1]	Lead[1]
Weighted floor (US$/tonne)	**2,591**	2,370
Weighted cap (US$/tonne)	**3,716**	2,735
Total outstanding volume (tonne)	**21,168**	**5,760**

1 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[2] 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
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**

2 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[3] 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.

COST OF SALES

Concept	**2017 US$ million**	2016 US$ million	Amount US$ million	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

3 Treatment and refining charges include the cost of treatment and refining as well as the margin charged by the refiner.
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[5]	7.9
San Julián (phase II)	US$/tonne milled	**31.9**[5]	–	N/A
Herradura	US$/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

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

Explanations regarding changes in cost per tonne by mine are covered in the Review of Operations section, on pages 54-65.

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)[6]	N/A
San Julián (phase II)	US$ per silver ounce	**3.9**[6]	–	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

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.

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

FRESNILLO: US$0.71/OZ (2017) VERSUS US$2.09/OZ (2016), (-66.2%)
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) (see page 55).

SAUCITO: US$1.50/OZ (2017) VERSUS – US$0.39/OZ (2016), (N/A)
The increase was driven by: the higher cost per tonne (+US$1.69/oz) (see page 56); 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) VERSUS – US$217.19/OZ (2016), (N/A)
The increase in cash cost was primarily due to: the higher cost per tonne (+US$225.41/oz) (see page 58); 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 (2017) VERSUS US$470.72/OZ (2016), (+4.7%)
The increase in cash cost resulted from: the higher cost per tonne (+US$29.81/oz) (see page 60); 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) VERSUS 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) (see page 62) 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 was 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

Cash cost per ounce		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)[1]	N/A
San Julián (phase II)	US$ per silver ounce	**7.88**[1]		
Herradura	US$ per gold ounce	**807.66**	731.69	10.4
Noche Buena	US$ per gold ounce	**870.05**	823.04	5.7

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

					Change	
	2017 US$ million	**%**	2016 US$ million	%	Amount US$ million	%
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**
MX$N/US$D 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.

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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 (see pages 67-71). 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 US$ million	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 on page 115 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 US$/EUR, and SEK 15.31 million with a weighted average strike of 8.43 SEK/US$, 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 versus 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$ million	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 [1]	**896.0**	912.0	(16.0)	(1.7)

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

FINANCIAL REVIEW
CONTINUED

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 equipment	**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[1] of US$896.0 million as of 31 December 2017. This represented a 1.7% decrease versus December 2016, as explained on the previous page.

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 US$29.8 cents per Ordinary Share, which will be paid on 4 June 2018 to shareholders on the register on 27 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 US$10.6 cents per share totalling US$78.1 million.

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

IN THIS SECTION

CORPORATE GOVERNANCE OVERVIEW

Here we set out an at a glance summary of our governance framework. It demonstrates how the key constituents of the Board process work together.

FOR MORE INFO
SEE PAGES 122-123

CORPORATE GOVERNANCE REPORT

The Corporate Governance Report demonstrates how the Company fulfils the requirements of the UK Corporate Governance Code. This report analyses the leadership provided by the Board, the steps taken to ensure that the Board is an effective one and the framework by which the Board manages relationships with shareholders.

FOR MORE INFO
SEE PAGES 122-149

NOMINATIONS COMMITTEE REPORT

Introduced by the Chairman of the Nominations Committee, this report outlines the Committee's philosophy on appointments and diversity and describes the activities of the Committee during the year.

FOR MORE INFO
SEE PAGES 131-133

AUDIT COMMITTEE REPORT

Introduced by the Chairman of the Audit Committee, this report describes the Audit Committee's work during the year by reference to the principal responsibilities of the Committee for financial reporting, external audit, risk management and internal controls, internal audit, whistleblowing procedures and related party matters.

FOR MORE INFO
SEE PAGES 134-146

DIRECTORS' REMUNERATION REPORT

The Directors' Remuneration Report includes an introduction from the Chairman of the Remuneration Committee summarising the Committee's overall approach to remuneration and the key discussions during the year. It also includes the Remuneration Report which describes how the Remuneration Policy has been applied during 2017.

FOR MORE INFO
SEE PAGES 150-166

DEAR SHAREHOLDER

During 2017, stakeholder expectations for good corporate governance have continued to evolve both in the UK and Mexico. My Board colleagues and I have sought to understand the implications of those developments for Fresnillo plc and respond to them accordingly.

In Mexico, there was a significant development in anti-bribery and corruption legislation during the year. It was pleasing, from the Board's perspective, to see that the work we have undertaken over the past few years to ensure compliance with the UK Bribery Act enabled us to accommodate the requirements of the new Mexican legislation very easily. Nevertheless, this provided us, as a Board, with the opportunity to review and update our Group Code of Ethics and Anti-Bribery and Corruption policy. We have also continued to monitor the work being undertaken by the management team to understand and develop our corporate culture which will help us as we engage with our employees and the communities in which we operate.

In 2017, we were required to re-submit our executive remuneration policy to shareholders for approval at the AGM. I am delighted that, again, over 99% of our independent shareholders supported the remuneration policy. We note that our policy is unusual in some respects compared to many companies in the FTSE 100 index because our approach to executive remuneration seeks to align with Mexican market practice. The Remuneration Committee continues to review investor expectations and will continue to provide good explanations for those aspects where we differ from the norm in our Remuneration Report (see pages 152-161).

Ahead of the 2017 Annual General Meeting, we engaged in a number of conversations with institutional investors and their representative bodies about our Board composition and membership, recognising the need to evolve the independent representation on the Board and ensure that our Directors have sufficient time to be able to commit to the work of the Board. During the second half of 2017, we continued to consider the evolution of the Board and as a result, we recently announced some further changes to the Board which will take effect from the 2018 AGM.

I am delighted that Dame Judith Macgregor joined the Board as an independent Non-executive Director following the AGM. Dame Judith brings a range of perspectives to the Board, and we will benefit from her diplomatic experience particularly gained during her four years as the British Ambassador to Mexico. It is also proposed that Georgina Kessel will join our Board after the 2018 AGM. These two appointments mean that 50% of the new appointments to the Fresnillo plc Board in the past six years will have been female, demonstrating our commitment to broaden the diversity of our Board. The Nominations Committee continues to be mindful that Fresnillo plc does not yet meet the current expectations for gender diversity on FTSE 100 boards and will continue its efforts to address this in its future Board appointments.

Guy Wilson, the Chairman of our Audit Committee, has now served on the Board for nine years. In keeping with the UK Corporate Governance Code requirements on director independence, it will no longer be possible for Guy to remain on the Board as an independent Non-executive Director and Audit Committee Chairman. It is therefore with great regret that Guy will step down from the Board after the 2018 AGM.

We will continue to speak to our institutional investors and other counterparties concerning our approach to corporate governance in order to ensure that we communicate our perspective on governance within our Mexican context, while at the same time responding to any questions or concerns that shareholders may have about our governance standards.

As we approach the tenth anniversary of our listing on the London Stock Exchange, we remain committed to the standards of good governance set out in the UK Corporate Governance Code which we will endeavour to apply in the way that we believe best serves the interests of all of our stakeholders.

Mr Alberto Baillères
Chairman of the Board

THE BOARD OF DIRECTORS

NON-INDEPENDENT NON-EXECUTIVE DIRECTORS

ALBERTO BAILLÈRES
CHAIRMAN

DATE OF APPOINTMENT
15 April 2008

COMMITTEE MEMBERSHIP
- Nominations Committee (Chairman)
- Remuneration Committee

EXTERNAL LISTED COMPANY DIRECTORSHIPS
The BAL Listed Entities (as defined below), Fomento Económico Mexicano S.A.B. de C.V., Grupo Televisa S.A.B., Grupo Kuo S.A.B. de C.V. and Dine S.A.B. de C.V.

Mr Baillères is a director of Industrias Peñoles S.A.B. de C.V., Grupo Palacio de Hierro S.A.B. de C.V., Grupo Nacional Provincial S.A.B., and Grupo Profuturo S.A.B. de C.V.

OTHER KEY EXTERNAL INTERESTS
Mr Baillères is President of Grupo BAL. He is also a member of the board of Grupo Financiera BBVA Bancomer S.A. de C.V. and BBVA Bancomer, S.A., as well as being member of the board of trustees of Instituto Tecnológico Autónomo de México, A.C.

KEY STRENGTHS AND EXPERIENCE
- Long-term knowledge and understanding of the Mexican commercial environment.
- Relationships within the Mexican and international businesses communities.

Over a period of 50 years, Mr Baillères has built up unprecedented experience and knowledge of both the Group and the Mexican markets in which it operates from both investor and supervisory perspectives.

ALEJANDRO BAILLÈRES
NON-EXECUTIVE DIRECTOR AND DEPUTY CHAIRMAN

DATE OF APPOINTMENT
16 April 2012

COMMITTEE MEMBERSHIP
None

EXTERNAL LISTED COMPANY DIRECTORSHIPS
The BAL Listed Entities, Coca-Cola FEMSA S.A.B. de C.V. (Alternate Director).

Mr Baillères is a director of the following BAL Listed Entities: Industrias Peñoles S.A.B. de C.V., Grupo Palacio de Hierro S.A.B. de C.V., Grupo Nacional Provincial S.A.B. and Grupo Profuturo S.A.B. de C.V.

OTHER KEY EXTERNAL INTERESTS
Mr Baillères is Executive Vice-President of Grupo BAL. and a member of the board of trustees of Instituto Tecnológico Autónomo de México, A.C. He is a member of the international council of the World Economic Forum.

KEY STRENGTHS AND EXPERIENCE
- Insurance and related financial services in Mexico.
- Broad board-level commercial experience in Mexico.

As Executive Vice-President of Grupo BAL and former Chief Executive Officer of Grupo Nacional Provincial (a leading insurance company in Mexico), Mr Baillères brings knowledge and experience of Mexican and international business to his role.

ARTURO FERNÁNDEZ
NON-EXECUTIVE DIRECTOR

DATE OF APPOINTMENT
15 April 2008

COMMITTEE MEMBERSHIP
- HSECR Committee (Chairman)

EXTERNAL LISTED COMPANY DIRECTORSHIPS
The BAL Listed Entities, Grupo Bimbo S.A.B. de C.V. and Fomento Económico Mexicano S.A.B. de C.V. (Alternate Director).

Mr Fernández is a director of the following BAL Listed Entities: Industrias Peñoles S.A.B. de C.V., Grupo Palacio de Hierro S.A.B. de C.V., Grupo Nacional Provincial S.A.B. and Grupo Profuturo S.A.B. de C.V.

OTHER KEY EXTERNAL INTERESTS
Mr Fernández is rector and a member of the board of trustees of Instituto Tecnológico Autónomo de México, A.C and a member of the board Grupo BBVA Bancomer S.A. de C.V. and BBVA Bancomer, S.A.

KEY STRENGTHS AND EXPERIENCE
- International economics and public policy.
- Directorships of several Mexican companies.

Mr Fernández' career brings together a solid academic economics background, many years' experience within the Mexican public policy arena and broad commercial experience (through board directorships of leading businesses in a number of sectors in Mexico).

JUAN BORDES
NON-EXECUTIVE DIRECTOR

DATE OF APPOINTMENT
10 January 2008

COMMITTEE MEMBERSHIP
None

EXTERNAL LISTED COMPANY DIRECTORSHIPS
The BAL Listed Entities and Bolsa Mexicana de Valores S.A.B. de C.V.

Mr Bordes is a director of the following BAL Listed Entities: Industrias Peñoles S.A.B. de C.V., Grupo Palacio de Hierro S.A.B. de C.V., Grupo Nacional Provincial S.A.B. and Grupo Profuturo S.A.B. de C.V.

OTHER KEY EXTERNAL INTERESTS
Mr Bordes is a member of the board of trustees of Instituto Tecnológico Autónomo de México, A.C.

KEY STRENGTHS AND EXPERIENCE
- Senior executive (CEO-level) responsibilities over several years.
- Board membership of companies spanning a broad range of sectors and industries.

During his career, Mr Bordes has held both senior executive management roles and board responsibilities with companies spanning a number of different sectors, particularly within Mexico.

The BAL Listed Entities: Industrias Peñoles S.A.B. de C.V., Grupo Palacio de Hierro S.A.B. de C.V., Grupo Nacional Provincial S.A.B. and Grupo Profuturo S.A.B. de C.V., are, in addition to Fresnillo plc (jointly or individually referred to as the BAL Listed Entities) all part of the consortium known as Grupo BAL (see also page 156).

INDEPENDENT NON-EXECUTIVE DIRECTORS

JAIME LOMELÍN
NON-EXECUTIVE DIRECTOR

DATE OF APPOINTMENT
15 April 2008

COMMITTEE MEMBERSHIP
- HSECR Committee

EXTERNAL LISTED COMPANY DIRECTORSHIPS
BAL Listed Entities.

Mr Lomelín is a director of the following BAL Listed Entities: Industrias Peñoles S.A.B. de C.V., Grupo Nacional Provincial S.A.B., Grupo Palacio de Hierro, S.A.B. de C.V. (Alternate Director) and Grupo Profuturo, S.A.B. de C.V. (Alternate Director).

OTHER KEY EXTERNAL INTERESTS
Mr Lomelín is a member of the board of the Cámara Minera de México (the Mexican Mining Chamber) and a member of the board of trustees of Instituto Tecnológico Autónomo de México, A.C.

KEY STRENGTHS AND EXPERIENCE
- Mining and engineering.
- Senior operational experience within Mexico.

Following a career in metals and mining, Mr Lomelín was Chief Executive Officer of Fresnillo plc from April 2008 to 15 August 2012 when he became a Non-executive Director, thus he brings senior management, mining and engineering experience to the Board discussions.

CHARLES JACOBS
SENIOR INDEPENDENT NON-EXECUTIVE DIRECTOR

DATE OF APPOINTMENT
16 May 2014

COMMITTEE MEMBERSHIP
- Remuneration Committee (Chairman)

EXTERNAL LISTED COMPANY DIRECTORSHIPS
Investec Plc/Investec Limited.

OTHER KEY EXTERNAL INTERESTS
Mr Jacobs is senior partner and chairman of global law firm Linklaters LLP.

KEY STRENGTHS AND EXPERIENCE
- Board and governance experience.
- Legal professional with a focus on capital markets, mining and metals.

Through his experience as a senior partner and chairman of Linklaters LLP, his non-executive directorships at Investec and his 27 years of international boardroom advice, Mr Jacobs brings a governance, legal and regulatory perspective to the boardroom.

BÁRBARA GARZA LAGÜERA
INDEPENDENT NON-EXECUTIVE DIRECTOR

DATE OF APPOINTMENT
16 May 2014

COMMITTEE MEMBERSHIP
- Nominations Committee

EXTERNAL LISTED COMPANY DIRECTORSHIPS
Coca-Cola FEMSA S.A.B. de C.V., Fomento Económico Mexicano S.A.B. de C.V.

OTHER KEY EXTERNAL INTERESTS
Ms Garza Lagüera is a Non-executive Director of Soluciones Financieras SOLFI.

KEY STRENGTHS AND EXPERIENCE
- Mexican commercial and industrial experience.
- International Board experience.

As an experienced director, particularly through her career at Coca-Cola FEMSA and Fomento Económico Mexicano, the largest franchise bottler of Coca-Cola products in the world, Ms Garza Lagüera brings a broad experience of Mexican commercial and international business.

DAME JUDITH MACGREGOR, DCMG LVO
INDEPENDENT NON-EXECUTIVE DIRECTOR

DATE OF APPOINTMENT
23 May 2017

COMMITTEE MEMBERSHIP
None

EXTERNAL LISTED COMPANY DIRECTORSHIPS
None

OTHER KEY EXTERNAL INTERESTS
Dame Judith is a member of the Governing Council of the University of Southampton and the Board of VisitBritain.

KEY STRENGTHS AND EXPERIENCE
- International diplomatic experience.
- Government relations in resource-rich countries.

Dame Judith's distinguished career as a British diplomat brings a range of international experience to her role. She has worked closely with and promoted the interests and profile of UK companies across a wide range of sectors, including the mining sector, in a number of countries including Mexico.

THE BOARD OF DIRECTORS
CONTINUED

INDEPENDENT NON-EXECUTIVE DIRECTORS

FERNANDO RUIZ
INDEPENDENT NON-EXECUTIVE DIRECTOR

DATE OF APPOINTMENT
15 April 2008

COMMITTEE MEMBERSHIP
- HSECR Committee

EXTERNAL LISTED COMPANY DIRECTORSHIPS
Kimberly Clark de México S.A.B. de C.V., Mexichem S.A.B. de C.V., Grupo Cementos de Chihuahua S.A.B. de C.V., Grupo Mexico S.A.B. de C.V., Rassini S.A.B. de C.V., Grupo Financiero Santander Mexico S.A.B. de C.V., Grupo Pochteca S.A.B. de C.V., Bolsa Mexicana de Valores S.A.B. de C.V. and some BAL Listed Entities.

Mr Ruiz is an independent non-executive director of the following BAL Listed Entities: Grupo Nacional Provincial S.A.B. and Grupo Palacio de Hierro S.A.B. de C.V.

OTHER KEY EXTERNAL INTERESTS
None

KEY STRENGTHS AND EXPERIENCE
- Mexican tax and accounting experience.
- International board and audit committee experience.

Mr Ruiz was, until 2006, managing partner of Chevez, Ruiz, Zamarripa y Cia., S.C., tax advisers and consultants in Mexico and now serves on the board and audit committees of several Mexican and international companies. He has extensive knowledge of Mexican tax and accounting issues.

JAIME SERRA
INDEPENDENT NON-EXECUTIVE DIRECTOR

DATE OF APPOINTMENT
16 May 2014

COMMITTEE MEMBERSHIP
- Audit Committee
- Remuneration Committee

EXTERNAL LISTED COMPANY DIRECTORSHIPS
Vitro, S.A. de C.V., Tenaris S.A. Alpek, S.A.B. de C.V., The Mexico Fund, Inc and Grupo Rotoplas S.A.B. de C.V.

OTHER KEY EXTERNAL INTERESTS
Mr Serra is Chairman of Serra and Associates International (SAI) and also an alternate non-executive director of Grupo Financiero BBVA Bancomer S.A. de C.V. and BBVA Bancomer, S.A.

KEY STRENGTHS AND EXPERIENCE
- Mexican government.
- International trade and commerce.

Following a distinguished career in government in Mexico, with particular focus on international trade and industry, Mr Serra brings a broad range of experience of Mexican politics and international trade to the Board.

ALBERTO TIBURCIO
INDEPENDENT NON-EXECUTIVE DIRECTOR

DATE OF APPOINTMENT
4 May 2016

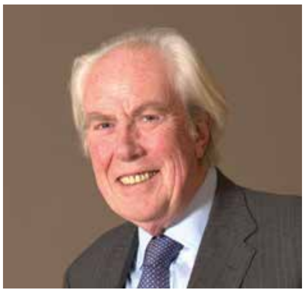
COMMITTEE MEMBERSHIP
- Audit Committee
- Nominations Committee

EXTERNAL LISTED COMPANY DIRECTORSHIPS
Mr Tiburcio is an independent non-executive director of Grupo Nacional Provincial S.A.B., a BAL Listed Entity.

Mr Tiburcio is a member of the boards of Grupo Financiero Scotia Inverlat, S.A. de C.V. (a subsidiary of The Bank of Nova Scotia), Transparencia Mexicana and Instituto Tecnológico Autónomo de México, A.C.

KEY STRENGTHS AND EXPERIENCE
- International and Mexican audit, accountancy and tax board and audit committee experience.
- Mexican board and audit committee experience.

Mr Tiburcio was the Chairman and CEO of Mancera S.C. (the Mexican firm of Ernst & Young LLP) from January 2001 until his retirement in June 2013 having been a partner for more than 30 years. He has served as statutory auditor and advisor to many prestigious Mexican companies and now sits on the boards and audit committees of important Mexican companies and institutions thus bringing significant Mexican tax as well as Mexican and international audit and accounting experience to the Board.



GUY WILSON
INDEPENDENT NON-EXECUTIVE DIRECTOR

DATE OF APPOINTMENT
1 July 2008

COMMITTEE MEMBERSHIP
- Audit Committee (Chairman)

EXTERNAL LISTED COMPANY DIRECTORSHIPS
None

OTHER KEY EXTERNAL INTERESTS
None

KEY STRENGTHS AND EXPERIENCE
- International audit and accountancy.
- UK government and capital markets.

Following a career with Ernst & Young LLP, which included 29 years as a partner, Mr Wilson brings extensive experience of international audit and accounting practice, capital markets and transactions.

EXECUTIVE COMMITTEE

The Executive Committee comprises the most senior executives within the Fresnillo Group.

OCTAVIO ALVÍDREZ
CHIEF EXECUTIVE OFFICER

DATE OF APPOINTMENT
15 August 2012

COMMITTEE MEMBERSHIP
Mr Alvídrez is invited to attend Board, Audit Committee, HSECR Committee and Remuneration Committee meetings.

KEY STRENGTHS AND EXPERIENCE
- Mine management within Mexico.
- UK investor relations.

Mr Alvídrez has extensive experience within the mining industry having previously held the position of General Manager of the Madero mine operated by Peñoles, which is one of Mexico's largest mines. Mr Alvídrez joined the Peñoles Group in August 1988, since then he has held a number of senior operational and financial positions across Peñoles and Fresnillo, including that of Treasurer, Head of Investor Relations in London and Head of Procurement.

Mr Alvídrez is the current President of The Silver Institute, a director of the Lowell Institute for Mineral Resources of the University of Arizona, a member of the Mexican Mining Chamber and a Vice-president of the Advisory Board of the School of Mines of the University of Guanajuato, Mexico.

MARIO ARREGUÍN
CHIEF FINANCIAL OFFICER

DATE OF APPOINTMENT
15 April 2008

COMMITTEE MEMBERSHIP
Mr Arreguín is invited to attend Board and Audit Committee meetings.

KEY STRENGTHS AND EXPERIENCE
- Accountancy and treasury.
- Investment banking.

Mr Arreguín was previously employed by Peñoles where he held the position of Chief Financial Officer for 11 years and Group Treasurer for six years prior to this. Mr Arreguín has a background in investment banking and project management.

DAVID GILES
VICE PRESIDENT, EXPLORATION

DATE OF APPOINTMENT
15 April 2008

COMMITTEE MEMBERSHIP
Mr Giles is invited to attend Board meetings.

KEY STRENGTHS AND EXPERIENCE
- Senior exploration experience within Mexico.
- Engineering and geology background.

During a 30-year career at Peñoles, Mr Giles held a number of senior management positions including Vice President of Exploration. Prior to this he worked for AMAX Inc., Corona Gold Corp. and Toromex. He is an officer of the Society of Economic Geologists and the Mexican Association of Mining Metallurgical and Geological Engineers.

ROBERTO DÍAZ
CHIEF OPERATING OFFICER

DATE OF APPOINTMENT
1 November 2013

COMMITTEE MEMBERSHIP
Mr Díaz is invited to attend Board meetings and to the Audit Committee on occasions.

KEY STRENGTHS AND EXPERIENCE
- Senior project and operational experience.
- Mining and engineering.

Following a long career in the mining industry, Mr Díaz first joined Peñoles in 1977 and, following roles with other groups, re-joined Peñoles in 2007. He has previously served as Fresnillo's Vice President of Operations and Vice President of Project Development.

FRESNILLO AND CORPORATE GOVERNANCE

APPROACH

The Board takes corporate governance seriously and considers its responsibilities under the UK Corporate Governance Code (the 'Code') with care. With nearly 75% of its share capital owned by Peñoles, it is important to consider corporate governance in the context of the Company's relationship with its parent company. The Board considers this to be a strength rather than a threat because it brings the shareholder perspective into the boardroom and creates an additional level of accountability for the executive team compared to other listed companies.

The framework for corporate governance within Fresnillo plc therefore has three features which are relatively unusual for UK public companies; in particular:

- There are no Executive Directors on the Board; however, the Fresnillo Board operates differently from the traditional UK board with Non-executive and Executive Directors. The non-independent and independent Directors on the Board engage with the business of the Board in slightly different ways. The non-independent Directors have more regular day-to-day access to the executive management of Fresnillo plc within the Peñoles context and therefore are able to engage with proposals put forward by the Executive Committee in a more direct manner. The independent Non-executive Directors bring an external perspective to bear when evaluating proposals and conducting the business of the Board. Thus the non-independent Directors, the independent Non-executive Directors and the Executive Committee have complementary roles in the business of the Board.
- The membership of the Remuneration Committee is made up of Non-executive Directors (the majority of whom are independent) who are able to bring the following perspectives to the working of the Remuneration Committee:
  - an understanding of shareholder expectations;
  - an understanding of the evolving remuneration expectations of investors on the London Stock Exchange; and
  - an understanding of the general approaches to remuneration within the Mexican market.

  In addition, given the Company's London premium listing and most of the remuneration requirements being internationally driven, the Nomination Committee and Board are of the view that Charles Jacobs, based in London, is the most appropriate chairman of the Remuneration Committee.
- Having the Chairman, who is non-executive but not independent, as a member of the Remuneration Committee, enhances the Committee's collective ability to take these perspectives into account in its discussions.
- Fresnillo plc derives synergistic benefits from services provided by Peñoles. Being a part of a group which has common requirements across a number of service areas, provides opportunities for resources to be shared efficiently from a cost point of view. The Audit Committee has therefore developed governance processes to ensure that these arrangements provide the intended benefits to the Company in a transparent and controlled manner. The key elements of the Board's approach to ensuring that the Company's commercial relationship with its parent company and other related parties are independent and maintained on an arms length basis are described later in this section.

UK CORPORATE GOVERNANCE CODE COMPLIANCE STATEMENT

As a company with a premium listing on the London Stock Exchange, Fresnillo is required under the FCA Listing Rules to comply with the Code Provisions of the Code (a copy of which can be found on the website of the Financial Reporting Council www.frc.org.uk) or otherwise explain its reasons for non-compliance.

The following statement is therefore made in respect of the year ended 31 December 2017 in compliance with such requirement.

For the financial year ended 31 December 2017, the Company has complied with the provisions of the Code in all areas, save in respect of two instances.

- Code Provision D.1.1 provides that the Remuneration Committee should include provisions that would enable the Company to recover sums paid or withhold the payment of any sum to senior executives, and specify the circumstances in which it would be appropriate to do so. Following the approval by shareholders of the Company's Remuneration Policy at the 2017 AGM on 23 May 2017, the Remuneration Committee now has discretion to reduce annual bonus payments where circumstances justify it. Thus, the Board considers that the Company was in compliance with Code Provision D.1.1 with effect from the date of approval of the new Directors' Remuneration Policy. Further explanation is set out in the Directors' Remuneration Report on page 165.
- Code Provision D.2.1 provides that the Board should establish a Remuneration Committee of at least three independent Non-executive Directors. The composition of the Fresnillo Remuneration Committee is made up of three members including two independent Non-executive Directors one of whom, Charles Jacobs, is the Chairman of the Committee. The Chairman of the Company, Alberto Baillères, who was not independent at the time of his appointment, is also a member. The Board believes that Mr Baillères' experience and knowledge of the Group and the Mexican market and his considerable contribution to the Remuneration Committee's deliberations justifies his membership of the Remuneration Committee. Mr Baillères is not involved in matters concerning his own remuneration.

The following sections of this report explain how the principles of the Code were applied and provide cross-references to other sections of the report and/or the Company's website (www.fresnilloplc.com) where more detailed descriptions are available.

THE GOVERNANCE OF FRESNILLO'S RELATED PARTY ARRANGEMENTS

RELATIONSHIP AGREEMENT

Peñoles has entered into a relationship agreement with the Company (the 'Relationship Agreement') to ensure that relationships between the Fresnillo Group and the Peñoles Group are conducted at arm's length and on normal commercial terms. The non-independent Directors listed previously have been appointed to the Board by Peñoles pursuant to the Relationship Agreement.

The Relationship Agreement complies with the independence provisions set out in Listing Rule 6.1.4DR for controlled companies. The Company has complied with the independence provisions included in the Relationship Agreement during the financial year ended 31 December 2017. As far as the Company is aware, such provisions have been complied with during the financial year ended 31 December 2017 by Peñoles and/or any of its associates.

Peñoles has also undertaken not to exercise its voting rights to amend the Articles of Association in a way which would be inconsistent with the provisions of the agreement. It has also agreed to abstain from voting on any resolution to approve a 'related party transaction' (as defined in paragraph 11.1.5 R of the Listing Rules) involving any member of the Peñoles Group.

The following diagram summarises the approach taken to identify and manage related party transactions.

IDENTIFYING DIRECTORS' INTERESTS

PROCESS	HOW THIS IS MANAGED	RESPONSIBILITY
Monitoring of Directors' interests	If a Director is interested in a company which could potentially enter into transactions with a Fresnillo plc Group company, the Board will normally consider that interest under its arrangements for authorising conflicts of interest under s175 of Companies Act.	Directors

MANAGING A RELATED PARTY TRANSACTION

PROCESS	HOW THIS IS MANAGED	RESPONSIBILITY
PROPOSED TRANSACTION	Ongoing monitoring of Directors' interests and related parties of the Company provides the information to determine if a related party approval is required for a proposed transaction, where possible.	
Contract negotiation and verification	The Executive Committee will seek to ensure that the best possible terms are achieved for a proposed transaction and that they are verified by industry benchmarking reports or independent valuation/assessment, where possible.	Fresnillo management and Executive Committee
Financial scrutiny	The Audit Committee reviews the key terms of major transactions which are verified as to price and quality with external consultants or independent benchmarking, where possible.	Audit Committee
Independent Director approval	Under the Relationship Agreement and the Listing Rules, the Independent Directors must approve any transaction with the Peñoles Group and its associates without the non-independent Directors voting.	Independent Directors

CONFLICTS OF INTEREST

The Group requires that Directors complete a 'Director's List'. The list sets out details of situations where each Director's interest may conflict with those of the Company (situational conflicts). Each Director has re-submitted their list as at 31 December 2017 for the Board to consider and authorise any new situational conflicts identified in the re-submitted lists.

At the beginning of each Board meeting, the Company Secretary reminds the Directors of their duties under sections 175, 177 and 182 of the Companies Act which relate to the disclosure of any conflicts of interest prior to any matter that may be discussed by the Board. Further information about related party matters considered by the Board during the year are set out in the Audit Committee Report on page 144.

FRESNILLO TODAY
STRATEGIC REPORT
CORPORATE GOVERNANCE
FINANCIAL STATEMENTS

BOARD LEADERSHIP AND EFFECTIVENESS

BOARD COMPOSITION

As at the date of this Report, the Board consists of a Non-executive Chairman, seven Non-executive Directors that it considers to be independent and four Non-executive Directors not considered to be independent. There are no Directors who have executive responsibilities within the Company.

BOARD ROLES

The requirements of the roles of Chairman and of the Chief Executive Officer have been agreed by the Board and are set out in a written Statement of Responsibilities. Octavio Alvídrez, the Chief Executive Officer, is not currently a member of the Board.

Charles Jacobs, the Senior Independent Director is available to shareholders if they have concerns that have not been resolved through the normal channels of Chairman, Chief Executive Officer, Chief Financial Officer or Head of Investor Relations. The composition of the Board has been structured to ensure that no one individual can dominate the decision-making processes of the Board.

CHAIRMAN'S INDEPENDENCE

The Chairman, Mr Baillères, is beneficially interested in more than 50% of the share capital of the Company through his interest in Industrias Peñoles S.A.B. de C.V., the Company's controlling shareholder. Mr Baillères is also the Chairman of Peñoles and other companies within the BAL Group.

Mr Baillères was appointed to the Board by Peñoles pursuant to the Relationship Agreement, thus at the time of his appointment was not independent. Having been responsible for overseeing the successful development of the Group over many years, the Board considers that his continued involvement as its Non-executive Chairman is very important to the continued success of the Company.

The Relationship Agreement continues to provide a transparent governance system, which ensures that the Company benefits from Mr Baillères' leadership and experience while being able to demonstrate to other shareholders that the Fresnillo Group is capable of carrying on its business independently. In particular, the Relationship Agreement ensures that transactions and relationships between the Fresnillo Group and its controlling shareholder are at arm's length and on competitive commercial terms. Further information regarding the Relationship Agreement can be found on pages 123 and 144.

INDEPENDENCE

The Board considers the Directors listed as being independent on pages 119 and 120, to be independent in character and judgement. For each of these Directors, their circumstances are assessed by reference to Provision B.1.1. of the Code and the Board remains satisfied that they are each independent when the standards set out in Code Provision B.1.1 are taken into account. In making this assessment, the Board has taken the following considerations into account:

Charles Jacobs	Charles Jacobs is the worldwide senior partner and chairman of Linklaters LLP. Mr Jacobs is not involved in the provision of legal or any other services to the Company by Linklaters LLP. Linklaters LLP is currently one of the Company's legal advisers where any such advice is limited to English law and is provided by a different partner of Linklaters LLP. Selection of legal advisers is not a Board matter and is decided at the management level. None of the Fresnillo management sit on the Board. However, if any decision were to be made at the Board level regarding Linklaters LLP, which has not happened to date, Mr Jacobs would excuse himself in accordance with the provisions of the Companies Act 2006 relating to Directors' interests. Mr Jacobs does not have, and has not had within the last three years, a material business relationship with the Company either directly, or as a partner, shareholder, director or senior employee of a body that has such a relationship with the Company. By way of illustration, the legal fees paid to Linklaters LLP for the last three financial years were £177k for the year ended 31 December 2015, £148k for the year ended 31 December 2016 and £117k for the year ended 31 December 2017. Thus, in each year, the fees paid to Linklaters represented less than 0.01% of Linklaters global earnings and less than 0.01% of the Company's global revenues. The Audit Committee reviews the appropriateness of all professional advisers' fees each year including legal fees as part of their review of ordinary course of business expenses.
Bárbara Garza Lagüera	No issues to consider.
Dame Judith Macgregor	No issues to consider.

Fernando Ruiz	Fernando Ruiz has, since 2008, been a retired partner and consultant in the firm Chevez, Ruiz, Zamarripa y Cia., S.C., a firm providing professional services to the Company. Mr Ruiz was not involved in the provision of such services to the Company by Chevez, Ruiz, Zamarripa y Cia., S.C. prior to his retirement. Mr Ruiz is an independent non-executive director of Grupo Nacional Provincial, S.A.B. and Grupo Palacio de Hierro S.A.B. de C.V., which are companies within the BAL Group. Given that he is not involved in executive duties in any of those companies and has a similar obligation to be independent for those two companies as for Fresnillo, the Board does not consider that Mr Ruiz' position as an independent Non-executive Director of the Company is adversely impacted by those two appointments. Fernando Ruiz' breadth of knowledge and experience across a wide range of Mexican businesses, together with the invaluable audit and tax experience he brings to the role, are highly regarded by the Board. Notwithstanding his length of service on the Board, the Board is satisfied that he continues to demonstrate the qualities of independence and objectivity in carrying out his role as a Non-executive Director.
Jaime Serra	No issues to consider.
Alberto Tiburcio	Alberto Tiburcio retired as Chairman and Chief Executive Officer of Mancera S.C., the Mexican firm of EY, the Company's auditors, in June 2013. Mr Tiburcio was not involved in the provision of audit or any other services to the Company by Ernst & Young LLP prior to his retirement. Mr Tiburcio is an independent non-executive director of Grupo Nacional Provincial, S.A.B. and Profuturo Afore, S.A. de C.V., which are companies within the BAL Group. Given that he is not involved in executive duties in any of those companies and has a similar obligation to be independent for those two companies as for Fresnillo, the Board does not consider that Mr Tiburcio's position as an independent Non-executive Director of the Company is adversely impacted by those two appointments.
Guy Wilson	Guy Wilson retired as a partner of Ernst & Young LLP, the Company's auditor, in 2008. Mr Wilson was not involved in the provision of audit or any other services to the Company by Ernst & Young LLP prior to his retirement.

COMMITMENT

The Nominations Committee annually reviews the time commitments of the Non-executive Directors to the Fresnillo plc Board. Its philosophy in doing so, is that the total workload of the Non-executive Director should be taken into consideration. For those Directors who do not have a fulltime job elsewhere the availability of time is different to those that do. The Board benefits from the experience of those Directors as well as from their other interests. This is considered to be a strength. Furthermore, public companies vary considerably in the expectations that they place on their non-executive directors. A global company with various lines of business operating in many countries, should not count the same as a single-product company with operations primarily in just one country. Fresnillo plc falls into the latter category and because of the relative simplicity of its activities, the Board does not consider that it needs more than four scheduled Board meetings a year, a factor which is reflected in the relatively low fees that the Company pays its Non-executive Directors. This relatively low number of meetings is further justified by the degree of governance oversight of the Company which comes by virtue of it being also a member of the BAL Group of which five of its Non-executive Directors are also members. The Non-executive Directors are required, by their letters of appointment, to spend 14 days per annum on Company business. The BAL Group Directors usually meet with management prior to each Board meeting to extensively review the agenda and papers for the forthcoming meeting with them. They also oversee management responses to actions arising from the Board meetings. This time commitment, as well as the time required in travelling to the UK for the annual general meeting each year, significantly exceeds the time commitment specified in their letters of appointment. The independent Directors have committee responsibilities which, in conjunction with their Board duties, take up more time than their letters or appointment require. In addition, the UK-based Directors also travel to and from Mexico for Board and Committee meetings which also significantly increases the time that they spend on their Board duties.

OVERBOARDING

During the year, the Company engaged specifically with shareholders and voting agencies on the subject of perceived overboarding on the part of some of the Board members. Board members have discussed this issue both formally and informally during the year and their perspective on this matter is underpinned by two generic factors which may not always be apparent to shareholders:

(1) A number of directors hold non-executive roles within companies listed in Mexico. Mexican listed companies generally operate with large boards with the option for alternate directors to be appointed and generally lower expectations on the time and commitment required from their non-executive directors. The Board estimates that the time commitment for board and committee meetings at a Mexican company is between a third and a quarter of the time required at a UK plc.

BOARD LEADERSHIP AND EFFECTIVENESS
CONTINUED

(2) The calendar for Board and Committee meetings is scheduled to align with all of the other meetings of companies, including listed companies within the BAL Group ownership structure. This ensures that Fresnillo plc Directors who are appointed to the boards of other companies within the BAL Group do not have any time conflicts with their other commitments on BAL Listed Entity boards. The near full attendance record of the non-independent Non-executive Directors over the ten years since the Company's IPO bears this out.

The other listed company directorships of the Fresnillo plc directors is set out on pages 118 to 120 of this report.

ATTENDANCE IN 2017

Attendance in 2017	Board	Audit Committee	Nominations Committee	Remuneration Committee	Comments
Alberto Baillères	4/4	–	2/2	3/3	
Alejandro Baillères	4/4	–	–	–	
Juan Bordes	4/4	–	–	–	
Arturo Fernández	4/4	–	–	–	
Jaime Lomelín	4/4	–	–	–	
Charles Jacobs	4/4	–	–	3/3	
Bárbara Garza Lagüera	3/4	–	2/2	–	Bárbara Garza Lagüera missed one Board meeting due to a conflict in the timing of a Fresnillo Board meeting and a FEMSA board meeting. In 2018, the programming of FEMSA board meetings will be changed so that their board meetings do not coincide with Fresnillo meetings.
Fernando Ruiz	3/4	2/2	2/2	2/2	Fernando Ruiz missed a Board meeting due to a family commitment in Europe.
Dame Judith MacGregor	2/2	–	–	–	
Jaime Serra	3/4	3/5	–	1/1	Jaime Serra missed a board meeting due to a business commitment in the USA. He also missed two Audit Committee meetings; one because he was required to attend a meeting on the North American Free Trade Agreement (NAFTA) a subject in which he has particular expertise by virtue of his role in originally negotiating NAFTA; and one due to having emergency treatment for a minor injury.
Alberto Tiburcio	4/4	5/5	0/0	–	
Guy Wilson	4/4	5/5	–	–	

All Directors, with the exception of Mr Guy Wilson, will seek re-election by shareholders at the forthcoming Annual General Meeting. Mr Wilson will be standing down as an independent Non-executive Director at the 2018 AGM. It is proposed that Ms Georgina Kessel will be appointed as an independent Non-executive Director, subject to shareholder approval at the 2018 AGM.

BOARD PROCESS

The Board supervises the management of the Group's activities, including the implementation of both the Group's long-term plans and commercial strategy. In addition, the Board provides leadership to the Fresnillo Group setting the key values by which the Group will continue to operate. The Board has a formal schedule of matters reserved for its approval which includes approvals of major expenditure, investments and key policies. The schedule is annually reviewed to keep it up to date with any regulatory developments. The last review and revision was undertaken in October 2017.

All meetings of the Board are held in Mexico. The Board has a well-established programme of meetings. Board members usually receive Board papers five days prior to meetings in order to enable the Directors adequate time to study and consider the documents. Members of the Executive Committee, led by the Chief Executive Officer, are present at all of the Board meetings and present all of the papers on operational and financial matters.

Directors have the right to raise concerns at Board meetings, and can ask for those concerns to be recorded in the Board minutes. The advice and services of the Company Secretary (whose appointment and removal is a matter reserved for the Board) are also available to the Directors. The Group has also established a procedure which enables, in relevant circumstances, Directors to obtain independent professional advice at the Company's expense.

FRESNILLO BOARD BUSINESS DURING 2017.

STRATEGIC UPDATES

- Exploration strategy
- Update on San Julián development
- CSR Strategy update
- Annual strategy lunch

GOVERNANCE AND ETHICS

- Receipt of Board evaluation reports and action plan
- Meeting of independent Directors
- Board and Committee appointments
- Approval of 2017 Met-Mex Contract rates
- Approval of Code of Conduct

REPORTING

- Approval of 2016 report
- Approval of Preliminary Announcement
- Review and approval of Viability Statement
- Approval of Interim Report
- Approval of Modern Slavery Statement

FINANCIAL AND CONTROLS

- Approval of budget and business plan 2018
- Review and approval of dividend policy and dividend proposals
- Review and approval of Principal Risks & Uncertainties
- Annual review of the system of internal controls

REGULAR QUARTERLY REPORTS

- Chief Executive's Report (including project updates and HSECR Reports)
- Financial Report
- Board Committee Reports
- Risk and Internal Control Report
- Anti-Bribery and Corruption update
- Investor Relations and Corporate Communications update
- Legal and Company Secretarial Report (including litigation update)

SETTING THE TONE FROM THE TOP

CORPORATE CODE OF CONDUCT

The Corporate Code of Conduct is approved by the Board as a guideline for all Directors, executives, employees and related third parties (including clients, suppliers and the community) to act in accordance with the Code. The Code helps to ensure a foundation of values and works as a guide for behaviour that encourages an environment of ethics and responsibility for the benefit of our stakeholders. It serves to complement the internal and external regulations already in force and also to establish corrective measures for anyone who fails to comply with the provisions of the Code. It also provides the framework for the Company's compliance with the UK Bribery Act and the Mexican anti-bribery and corruption legislation. Changes to the Code of Conduct were ratified by the Board in February 2017, the objective of these changes was to:

- incorporate a 'behavioural compass' establishing basic questions that personnel should ask themselves before making decisions;
- highlight the corporate values;
- address topics such as money laundering and industrial espionage;
- emphasise that safety is a top priority; and
- give greater clarity on sanctions in the case of violations.

CULTURE

During 2017, the Board received regular reports on the organisational culture and ethics programme, including a presentation at its July meeting. The programme consists of three main elements: evaluation, support activities and training. Reports are received on the three cultural KPIs, the number of whistleblowing line cases, reports on management (the tone from the top) and disciplinary cases. The Group undertook an Ethisphere ethical, culture and perceptions assessment to benchmark its culture and these findings were reviewed by the Board.

The HSECR Committee has been given responsibility for overseeing the programme on behalf of the Board, and has reviewed the progress of the programme in detail during its meetings in 2017.

BOARD LEADERSHIP AND EFFECTIVENESS
CONTINUED

GOVERNANCE ROLES AND RESPONSIBILITIES

THE BOARD

COMPOSITION:
- Non-executive Chairman
- Independent Non-executive Directors
- Non-independent Non-executive Directors

KEY CONTRIBUTORS:

Executive Committee →
- Chief Executive Officer
- Chief Financial Officer
- VP of Exploration
- Chief Operating Officer

AUDIT COMMITTEE

COMPOSITION:
- All independent Non-executive Directors

KEY CONTRIBUTORS: Chief Financial Officer, External Auditor, Internal Audit, Risk Manager, Company Secretary

REMUNERATION COMMITTEE

COMPOSITION:
- Majority independent Non-executive Directors

KEY CONTRIBUTORS: Chief Executive Officer, Remuneration Consultants, Company Secretary

NOMINATIONS COMMITTEE

COMPOSITION:
- Majority independent Non-executive Directors

KEY CONTRIBUTORS: Chairman, Chief Executive Officer, Company Secretary

HSECR COMMITTEE

COMPOSITION:
- Majority Non-independent Non-executive Directors

KEY CONTRIBUTORS: Chief Executive Officer, Head of Sustainability, Line Managers, Chief Legal Officer

CULTURE AND VALUES

THE BOARD	Sets the tone from the top through review and approval of Code of Ethics, key policies and receipt of reports on cultural performance.
EXECUTIVE COMMITTEE	Day-to-day responsibility for the management of the Group's health & safety, community relations and organisational culture programmes.
HSECR COMMITTEE	Oversees the health & safety system and the cultural programme.
AUDIT COMMITTEE	Oversees the effectiveness of the whistleblowing arrangements.

BOARD MEETING PROCESS

PRE-MEETING

PREPARATION OF AGENDA
- CEO/CFO/Company Secretary

PREPARATION OF PAPERS
- Executive Committee members

INTERNAL REVIEW
- Executive Committee members
- Non-independent Non-executive Directors

CIRCULATION
- CEO/CFO (five days before meeting)

DURING MEETINGS

PRESENTATION OF PAPERS
- Executive Committee members

APPROVALS
(Schedule of matters reserved to Board)
- Full Board

APPROVALS
(Relationship Agreement)
- Independent Non-executive Directors

POST-MEETING

PRESENTATION OF MINUTES
- Company Secretary

IMPLEMENTATION OF BOARD DECISIONS
- Executive Committee members

REPORTING ON POST-MEETING ACTIONS
- Executive Committee members

Regular reports on the following are provided to Board members by the CEO and/or CFO between meetings: (i) Safety and fatalities; (ii), project developments and (ii) relevant industry and sector updates. Terms of reference for each of the Audit, Remuneration, Nominations and HSECR Committees are available on the Company's website (www.fresnilloplc.com/who-we-are corporate-governance/terms-of-reference).

BOARD PERFORMANCE EVALUATION

In order to evaluate its own effectiveness, the Board undertakes annual appraisals using a combination of externally facilitated and internally-run evaluations over a three-year cycle. The cycle of the Board's evaluations is summarised as follows:

YEAR 1	YEAR 2	YEAR 3
Externally facilitated Board evaluation using questionnaires and/or interviews	Follow-up on action plan prepared in response to year 1 evaluation using internally-facilitated questionnaires	Focus on outstanding and emerging issues arising from the action plan using internally-facilitated questionnaires

BOARD EVALUATION IN 2017

At the beginning of 2017 the Board considered an action plan in response to the findings of the internally-facilitated evaluation undertaken in 2016, being the final step in the previous three-year cycle.

In 2017, Fresnillo engaged Lintstock to facilitate an evaluation of the performance of the Board of Directors. Lintstock is an advisory firm that specialises in Board performance reviews and has no other connection with the Company.

The first stage of the review involved Lintstock engaging with the key project sponsors, including Executive Committee and Non-executive Board members, to set the context for the evaluation and to tailor survey content to the specific circumstances of Fresnillo. All Board members were then requested to complete an online survey addressing the performance of the Board and its Committees. The anonymity of the respondents was ensured throughout the process in order to promote an open and frank exchange of views.

Lintstock subsequently produced a report addressing the following areas of Board performance:

- The appropriateness of the Board's composition was assessed and respondents were asked to identify any additional competencies from which the Board would benefit.
- The Board's understanding of the views of key stakeholders and the markets in which the Company operates was considered. The Board's oversight of the culture and behaviours throughout the organisation was also reviewed.
- The relationships between Board members and management, and the atmosphere in and management of meetings, were assessed, as was the quality of the Board packs and management presentations at meetings.
- The effectiveness of the Board in reviewing the Company's current performance, and influencing future performance, was considered and respondents were asked to identify areas upon which they feel the Board should spend more or less time focusing.
- The Board's oversight of strategy and the Company's progress against its strategic pillars was considered, as was the Board's understanding of the capacity of the organisation to deliver the strategy. Respondents' views as to the top strategic issues facing the Company were also identified.
- The Board's oversight of risk management was assessed, as was the Board's effectiveness in monitoring the Company's health and safety performance.
- The appropriateness of the structure of the Company at senior levels was reviewed and the level of interaction between the Board and top management in various settings was considered.

As a result of the review, among other things the Board agreed to the following key actions:

KEY FINDINGS FROM 2017 EVALUATION	PROPOSED ACTIONS
More time should be devoted to strategy	In future there will be one general strategy discussion a year and specific strategy discussions e.g. in relation to health & safety or exploration, at each other meeting during the year.
More time should be allocated to succession planning	A formal Board discussion of the succession plan will be scheduled once a year.

INDIVIDUAL PERFORMANCE REVIEWS

Non-executive Directors occasionally meet the Chairman without executives being present. The independent Non-executive Directors meet annually in order to evaluate the performance of the Chairman. On the back of this meeting, the Senior Independent Director discusses the views of the independent Directors with the Chairman. The Independent Directors held this meeting in 2017 after the February meeting and took the 2016 Board Evaluation review into account in their discussions and feedback to the Chairman.

BOARD LEADERSHIP AND EFFECTIVENESS
CONTINUED

BOARD DEVELOPMENT AND INDUCTION
Senior management present on the Group's strategic initiatives to provide the Non-executive Directors with more information about the broader context to the Company's activities. In addition, there is a regular distribution of industry briefings on technical, market and sector issues.

Directors are encouraged to visit the Company's mines to familiarise themselves with the Fresnillo Group's operations building on mine visits in recent years. During 2017, there were two visits by members of the Board to the new San Julián development. Mr Alejandro Bailléres and Mr Arturo Fernández, along with members of the Executive Committee visited San Julián in September 2017 and Messrs Wilson, Jacobs and Dame Judith Macgregor visited the same mine in October 2017. Mr Jacobs and Dame Judith Macgregor also visited the Fresnillo mine in October 2017.

Briefings were arranged for all Directors from the Company's legal advisers. These include presentations which were aimed at familiarising the Directors with the duties and responsibilities as Directors of a UK listed company. In addition, the Chairman meets with Directors to discuss any training or development needs.

Following her appointment to the Board in May 2017, a series of briefings were arranged for Dame Judith Macgregor, including meetings with the Company's key advisers and a presentation about the duties of a director of a UK listed public company. Meetings were also arranged with members of the Executive Committee to enable Dame Judith to discuss the Company's strategy and business plans in more detail. Dame Judith also attended a meeting of the Audit Committee as an observer as part of her induction.

THE GOVERNANCE OF THE SIX CAPITALS
The following table shows how the Board oversees the six Capitals of the Group within its governance activities:

TYPE OF CAPITAL	GOVERNANCE RESPONSIBILITY	GOVERNANCE ACTIVITIES DURING 2017
Human	Board, Audit and HSECR Committees	• Review of culture and organisational ethics strategy and reports on metrics. • Approval of Modern Slavery Statement. • Oversight of whistleblower arrangements. • Succession planning.
Natural	Board and HSECR Committee	• Review of the Exploration Strategy. • Regular review of exploration and environmental KPIs.
Social and relationship	Board, Audit and HSECR Committees	• Annual review of Payments to Governments reporting and monitoring taxation strategies. • Review of communities initiatives. • Regular review of anti-bribery and corruption programme.
Financial	Board and Audit Committee	• Approval of business plan and capex strategies. • Going concern reviews. • Viability Statement analysis.
Manufactured	Board and Audit Committee	• Development of project monitoring methodologies and reporting for Board review. • Review of Internal Audit reports on new projects.
Intellectual	Board and Audit Committee	• Reviews of IT Strategy. • Monitoring activity of the IT Governance Committee.

The Executive Committee is responsible for the day-to-day stewardship of all classes of capital and its members report to the Board on the key metrics and initiatives.

Indirectly, the Remuneration Committee supports the governance of the six types of capital by setting remuneration targets which incentivise value creation across all six types of capital.

NOMINATIONS COMMITTEE REPORT

DEAR SHAREHOLDER

In my letter as Chairman of the Nominations Committee in the 2016 Annual Report, I stated that we remain strongly committed to the principle of equality of opportunity when considering new appointments to the Board. Shortly after the publication of that report, we were delighted to announce that Dame Judith Macgregor would be joining the Board with effect from the 2017 AGM. Dame Judith has now joined the Board and is adding useful counsel and insight to our discussions. I am equally delighted that we propose to appoint Georgina Kessel to the Board following the 2018 AGM bringing the proportion of women on our Board to 25% compared to less than 10% just over a year ago. Our policy is to make appointments to the Board on the basis of merit and there can be no doubt that we have kept to our policy in making both of these appointments.

The Nominations Committee remains mindful that we are in a phase during which careful consideration of the composition of the Board is required, particularly as some of our independent Non-executive Directors reach the ninth anniversary of their appointment. We have therefore made changes to the composition of the Board and its Committees to retain the right number of independent Non-executive Directors on our Board and meet the standards set by the UK Corporate Governance Code.

As a Committee, we are also keen to ensure that our current Board members are committing appropriate amounts of time and effort to the Board's work and have scrutinised the other commitments and attendance record of our Directors very carefully. We are aware that two of our Board members hold more external directorships than some of our stakeholders would prefer and levels of attendance at Board and Committee meetings also come under scrutiny. We are delighted that our Board is made up of very talented and expert Directors and the contribution of each one both in and outside of Board meetings is valued. Each year we monitor the contribution of our Directors and, in 2017, we had the additional assurance provided by our externally facilitated Board and Committee evaluation exercise to support our views on this point. At present, the North America Free Trade Agreement, which is of critical importance to Mexico, is coming under increasing scrutiny and one of our Directors, Jaime Serra, who was key to its original introduction, is for a while, in demand because of his expertise in this area. We are pleased that he is actively contributing to this important development for Mexico and are happy to accept that this meant that he just missed one Board meeting as a consequence.

During the year, the membership of the Nominations Committee changed with Fernando Ruiz standing down from the Committee following the Company's AGM in May and being replaced by Alberto Tiburcio, an independent Non-executive Director. I would like to place on record my thanks to Fernando for his contribution to the Committee since its formation in 2008 and I am pleased to welcome Alberto to the Committee in his place.

Yours faithfully

Mr Alberto Baillères
Chairman of the Nominations Committee

NOMINATIONS COMMITTEE REPORT
CONTINUED

MEMBERSHIP
The members of the Nominations Committee are Alberto Baillères (Chairman of the Committee), Bárbara Garza Lagüera and Alberto Tiburcio. Mr Tiburcio was appointed as a member of the Nominations Committee on 23 May 2017, replacing Fernando Ruiz. The majority of the members of the Nominations Committee are, therefore, independent Non-executive Directors.

ROLE
The Nominations Committee is responsible for making recommendations to the Board on the structure, size and composition of the Board and its committees and succession planning for the Directors and other senior executives. Before making appointments of new Directors, the Committee is responsible for evaluating the balance of skills, knowledge and experience on the Board and identifying and nominating suitable candidates.

The Nominations Committee has approved Board Appointments and Board Diversity Policies which provide the framework for the Nominations Committee and the Board's approach to Board appointments.

Attendance	
Mr Alberto Baillères	2/2
Mr Fernando Ruiz	2/2
Ms Bárbara Garza Lagüera	2/2
Mr Alberto Tiburcio (both meetings were held prior to Mr Tibucio being appointed to the Committee)	0/0

Board composition: gender split	2017	Post-2018 AGM
Male	10/12	9/12
Female	2/12	3/12

Board composition: experience	
Finance and tax	4
UK capital markets and legal	2
Political and public policy	3
Mining/mining sector	3
Mexican business	9
International business	8

NOMINATIONS COMMITTEE

BOARD APPOINTMENTS POLICY AND PROCESS IN SUMMARY
The Nominations Committee and Board are strongly committed to the principle of equality of opportunity when making new appointments to the Board while ensuing that appointments are made on the basis of merit. The Nominations Committee continues to consider the composition of the Board with a focus on its continued commitment to diversity.

The criteria for determining the composition of the Board and future Board appointments continue to be based on:
- Relationship Agreement requirements for appointments to the Board by Peñoles.
- The Company's leading position as a precious metals miner in Mexico.
- The Company's inclusion in the FTSE 100 Index.
- The specific functions on Board committees which independent Directors will be required to fulfil.
- The provisions set out in the current terms of reference of the Nominations Committee.

The Nominations Committee does not use open advertising or retain any external consultants when making new appointments to the Board as it is considered unnecessary considering the Company's contacts within Mexico and further afield.

BOARD DIVERSITY POLICY IN SUMMARY AND PROGRESS
All Board appointments are made on merit. The Board recognises and embraces the benefits of having a diverse Board; particularly the value that different perspectives and experience bring to the quality of Board debate and decision-making. There are certain considerations which are taken into account in considering the composition of the Board such as: background and experience; age; gender; and shareholder perspectives.

The Board believes that setting targets for the number of people from a particular background or gender is not the most effective approach to take. The Board will therefore look to follow the principles of this policy rather than specified quotas or targets. Following the appointment of Dame Judith Macgregor as an independent Non-executive Director during the year, three of the seven new Directors that have been appointed to the Board since 2012 have been women. This demonstrates the Board's commitment to gender diversity. With 16.6% of the current Board composition being female, the Nominations Committee recognises that this does not meet the 33% target for representation of women on the board set by the Hampton-

Alexander Review. Nevertheless, it will continue to keep the gender balance of the Board as a key factor in considering future Board appointments, which at all times will be based on merit.

The Board recognises that very few women are attracted to mining engineering and geology academic programmes in Mexico and, in view of the stage of development of Mexico, the participation of women in the labour force as a whole is still relatively low. This will take time to rectify but it is changing and the Company is committed to hiring and developing women with educational training in mining engineering, geology, finance and accounting.

With nine Mexican and three British directors on the Board, the Nominations Committee is satisfied with the ethnic diversity of the Board.

Full versions of the Board Appointments Policy and Process and the Board Diversity Policy and the Group Diversity Policy, can be found on the Company's website (www.fresnilloplc.com).

ACTIVITY DURING 2017

The Nominations Committee met twice during the year.

BOARD APPOINTMENTS

The Nominations Committee is committed to a progressive refreshing of the Board, as recommended by Code Provision B.2.3 of the UK Corporate Governance Code.

Following departures from the Board in 2016, the Nominations Committee, led by the Chairman, considered options for the appointment of a new independent Non-executive Director at its meetings in February and April 2017. In making its recommendation that Dame Judith Macgregor be appointed to the Board, the Nominations Committee recognised that Dame Judith's impressive credentials as a diplomat, including four years as the British Ambassador to Mexico, would bring a new and valuable perspective to the Board's work. The Nominations Committee recognises that further independent Non-executive Director appointments are necessary as some of the current independent Directors reach the nine-year deadline for independence set by the UK Corporate Governance Code. Consequently, Mr Guy Wilson will step down from the Board at the 2018 AGM and, subject to shareholder approval at the same meeting, be replaced as an independent Non-executive Director by Georgina Kessel.

COMMITTEE MEMBERSHIP

The Nominations Committee reviewed the composition and effectiveness of the Board Committees in 2017 and, while it was satisfied that the Committees are working well, it also considered that the membership of the Committees would need to be refreshed in order to ensure that they clearly reflect the appropriate representation of independent Non-executive Directors on each Committee. The Nominations Committee therefore approved the following changes to the Board Committees in April 2017:

- Alberto Tiburcio was appointed to the Nominations Committee in place of Fernando Ruiz;
- Jaime Serra Puche was appointed to the Remuneration Committee in place of Mr Ruiz; and
- Mr Ruiz left the Audit Committee and was appointed a member of the HSECR Committee.

EXECUTIVE SUCCESSION PLANNING

Each year, the Nominations Committee reviews a schedule of possible successors for all the positions on the Executive Committee (Chief Executive Officer, Chief Financial Officer, Vice President of Exploration and Chief Operating Officer). This review considers both short-term emergency and long-term planning scenarios. Any actions needed to support the development of potential long-term successors are discussed. The Nominations Committee also monitors the long-term evolution of the membership of the Board as a whole. These matters were all discussed by the Nominations Committee in 2017 and it is satisfied with the actions that are being taken to support this.

OTHER NOMINATIONS COMMITTEE ACTIVITY

The Nominations Committee also considered the following matters:

- Approval of the Nominations Committee Report prior to publication.
- Review of the time commitment required from each Director.
- The proposed re-election of each of the continuing Directors at the AGM.
- A self-evaluation exercise (which concluded that the Nominations Committee is functioning well).

The terms of reference of the Nominations Committee are available on the Company's website at www.fresnilloplc.com.

The letters of appointment for the Non-executive Directors are made available for inspection at the Company's registered office, during normal business hours.

AUDIT COMMITTEE REPORT

DEAR SHAREHOLDER

In additional to our normal duties, which are set out in the following Report, we have been addressing three issues which arose in 2017, namely new accounting standards, the Non-Financial Reporting Directive and the increasing activities of the Mexican tax authorities.

NEW ACCOUNTING STANDARDS

Management has modelled the effects of IFRS 9 – Financial Instruments and IFRS 15 – Revenue from contracts with customers. The results indicate that the financial effects on our Group financial statements of IFRS 15 are likely to be minimal. The effect of IFRS 9 is estimated to be an initial adjustment from retained earnings to hedging reserves as at 1 January 2017 of US$23.0 million and an adjustment decreasing financial costs for the year ended 31 December 2017 of US$42.1 million.

THE NON-FINANCIAL REPORTING DIRECTIVE

We have been monitoring management's actions to assemble the information required, using Internal Audit to validate the data extracted from our operational records. We have also taken into consideration section 172 of the Companies Act 2006 to ensure that the resulting information is properly presented.

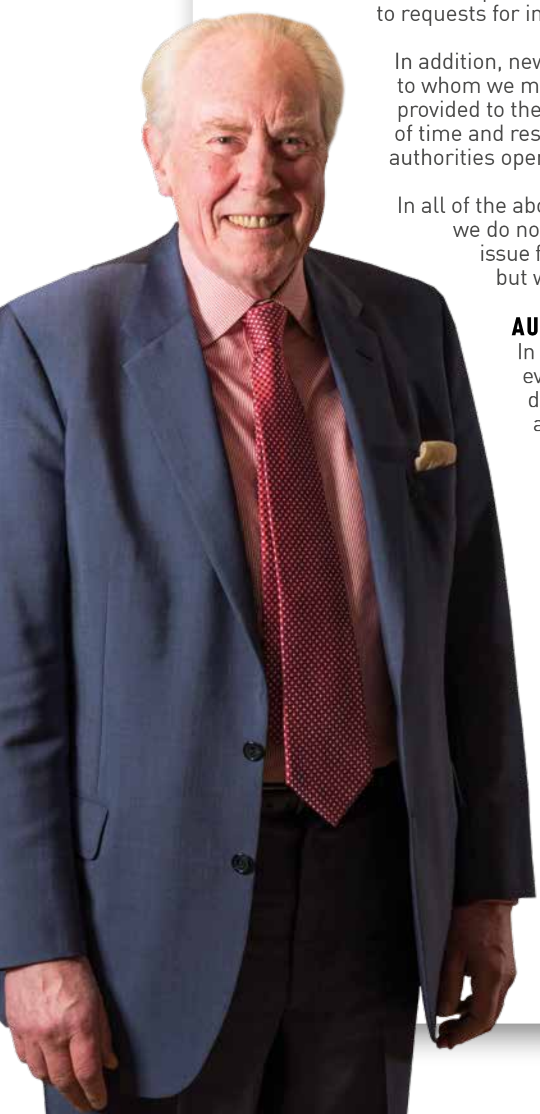
TAXATION

During 2017, the Mexican tax authorities have opened a number of investigations into the tax returns of our subsidiaries, some of them going back several years. These investigations are considered to be routine but the level of activity appears to have increased. These investigations cover three main areas.

- The normal reviews instigated by our recognised trade union seeking to ensure that PTU (the statutory employee profit-sharing arrangement which is available to all Mexican employees) has been correctly calculated.
- Reviews looking at certain of our subsidiaries' tax returns for the year 2013 which reflect the corporate reconstruction of our mining operations.
- The tax inspections have been relatively straightforward so far in that activity has been limited to requests for information which we have promptly supplied by the due dates.

In addition, new legislation required us to obtain details of the tax compliance of certain contractors to whom we made payments. We are working with our suppliers to ensure that full information is provided to the tax authorities. So far, this is working well but it did consume a significant amount of time and resources in 2017 prior to the online portal to input this information to the tax authorities opening in 2018.

In all of the above, we are confident that no material tax costs or penalties will arise and therefore we do not consider that potential tax exposure in relation to the above matters is a significant issue for the financial statements for 2017, as reflected in note 10 to the financial statements, but we will continue to monitor the situation closely.



AUDIT COMMITTEE EVALUATION

In the latter part of 2017, Lintstock, an independent advisory firm, carried out an evaluation of us, using a questionnaire-based approach which indicated that we were doing an effective job. Nevertheless, we have done our own evaluation to identify a few areas of focus for 2018 which are set out in the Effectiveness section of this Report.

SAN JULIÁN

During the year, I and two of my fellow Directors had the opportunity to visit San Julián which is the first time I have visited a new mine. It is an amazing sight to see when, after flying over an impressive mountain range for some time, you see a transformed valley below. As it is a new mine, you can see how the mine commenced and from the plans you can see its logical development over time. The accommodation, community centre and recreational facilities are excellent and we also had a chance to see how the Company works positively with the local community. All in all, it is a visit that I will remember for a long time as the whole operation is a credit to the hard work of the development team to have completed such a large project in a remote location in a relatively short time and on budget.

Yours faithfully

Guy Wilson
Chairman of the Audit Committee

AUDIT COMMITTEE

COMPOSITION

The members of the Audit Committee at 31 December 2017 were Guy Wilson (Chairman of the Committee), Jaime Serra and Alberto Tiburcio.

	Financial and auditing experience	Sector experience
Guy Wilson (appointed 1 July 2008)	Previously a partner at EY (UK) with international audit, accountancy and capital transaction experience.	Previously an adviser to several UK natural resources company boards.
Jaime Serra (appointed 16 May 2014)	Previously Secretary of Finance in the Mexican government.	Political insight through the various roles held in government.
Alberto Tiburcio (appointed 4 May 2016)	Previously Chairman and CEO of EY (Mexico).	Previously a director of Pemex.

The Chief Financial Officer and representatives from external and Internal Audit attend all meetings. The Chief Executive Officer, other members of the Executive Committee and management attend where appropriate and external advisors attend for specific matters if relevant.

THE ROLE AND ACTIVITY OF THE AUDIT COMMITTEE

The role and duties of the Audit Committee are set out in its terms of reference, a copy of which can be found on the Company's website at www.fresnilloplc.com. The Audit Committee met five times during 2017. Its programme of activity is determined at the beginning of each year and is structured to ensure that it reviews all of the activities set out in its terms of reference. The Audit Committee has six primary responsibilities and a secondary one for monitoring its own effectiveness. This report is, therefore, presented under the following headings:

FINANCIAL REPORTING
Overseeing the Company's financial reporting to shareholders.

EXTERNAL AUDIT
Overseeing the Company's relationship with its external auditor.

RISK AND INTERNAL CONTROL
Overseeing risk, internal control, going concern and viability.

EFFECTIVENESS
Monitoring the Audit Committee's effectiveness and that of the internal and external audit functions.

INTERNAL AUDIT
Overseeing the work and findings of the Internal Audit team.

WHISTLEBLOWING
Overseeing the effectiveness of the Company's whistleblower scheme.

RELATED PARTIES
Overseeing financial aspects of the relationship with related parties.

AUDIT COMMITTEE REPORT
CONTINUED

FINANCIAL REPORTING

KEY ACTIVITIES IN 2017

- Review of the financial statements and Annual Report for the year ending 31 December 2016.
- Review of the computations for Tax and PTU.
- Review of Payments to Government disclosure.
- Review of interim financial statements for 2017 and Interim Announcement.
- Review of plan for preparing the financial statements and Annual Report for the year ending 31 December 2017.
- Consideration of new accounting standards and their implications for the Company's financial reporting.
- Consideration of whether any changes were required to the existing accounting policies.

SIGNIFICANT JUDGEMENT AREAS

The Audit Committee spends time ensuring that there is consistency between the policies and judgements used in preparing both the full-year and half-year financial statements prior to respectively recommending those financial statements to the Board for approval. In conjunction with management and the external auditor, the Audit Committee considers the principal areas of audit risk and judgements made in relation to the financial statements which should be considered during its review of the financial statements and the external auditors report thereon. In many cases, these significant judgement areas will be the same as those considered in previous years; however, as the mining cycle progresses these judgement areas will evolve and new ones will need to be considered while others may become less important. This process may be summarised in the following way:

SIGNIFICANT JUDGEMENT PROCESS BY CATEGORY OF RISK

ANNUAL ASSESSMENT OF KEY AUDIT RISKS → IDENTIFICATION OF KEY VARIABLES TO CONSIDER → REVIEW OF SOURCES OF ASSURANCE → DISCUSSIONS WITH MANAGEMENT AND EY → COMMITTEE'S CONCLUSION ON SUITABILITY OF DISCLOSURE

SIGNIFICANT JUDGEMENT AREAS IN 2017

The significant judgement areas prioritised in 2017 are set out below. In each case, the Audit Committee concluded that the accounting treatment and disclosure in the financial statements is appropriate.

MINERAL RESERVES AND RESOURCES (SEE PAGES 274 TO 278)	
ASSESSMENT OF THE RISK	Reserves and resources are a primary driver of Fresnillo's market valuation and a significant input into calculations of depreciation and assessments of impairment. Inaccuracies in the estimation of reserves and resources would lead to broad implications across the Annual Report and Accounts.
VARIABLES CONSIDERED	The estimation of mineral reserves and resources requires significant judgement, not only in respect of mineral physically in place but also metal price and cost assumptions used to determine the cut-off grade for identifying economically viable ore bodies. There is also judgment in developing and maintaining the mine plans which estimate the timing and quantities of related production.
SOURCES OF ASSURANCE	The Audit Committee reviewed the report by SRK Consulting (the Company's independent reserves and resources auditor) on the reserves and resources (excluding Silverstream) and considered the year-on-year changes in SRK's estimation of reserves and resources quantities. The Audit Committee also considered EY's evaluation of the competence and objectivity of SRK, in the context of financial reporting.

SILVERSTREAM CONTRACT (SEE NOTE 14 TO THE FINANCIAL STATEMENTS)	
ASSESSMENT OF THE RISK	The Silverstream contract represents a large asset on our balance sheet which can, as a result of movements in variables discussed below, give rise to large, albeit non-cash, income or expense amounts in our income statement.
VARIABLES CONSIDERED	The Silverstream contract is a derivative financial instrument which must be reflected at fair value at each balance sheet date. The fair value is most sensitive to the timing and volume of forecast production derived from the reserves and resources and production profile of the Sabinas mine, estimated future silver price and the discount rate applied in the valuation.
SOURCES OF ASSURANCE	The Audit Committee reviewed the inputs into the estimation of the valuation at the balance sheet date and associated sensitivity analysis. This included management's consideration of a review of the Peñoles reserve and resource estimation process performed by SRK in the year (that had been commissioned by Peñoles) and the disclosures relating to the Silverstream contract. It discussed with EY their procedures for their audit of the valuation and the key assumptions therein.

RELATED PARTY TRANSACTIONS INCLUDING REVENUE RECOGNITION (SEE NOTE 27 TO THE FINANCIAL STATEMENTS)	
ASSESSMENT OF THE RISK	Fresnillo has a controlling shareholder and as a result has very strong ties both to Peñoles and the broader BAL group. There is a risk that related party relationships could be taken advantage of to manipulate earnings or otherwise distort our financial position. Furthermore, related party transaction disclosure requirements allow investors to understand the Company's exposure to inappropriate related party transactions and there is a risk that disclosures in our financial statements could be inaccurate or incomplete.
VARIABLES CONSIDERED	Every year, the Audit Committee scrutinises the probity of all major related party transactions to ensure that they are entered into transparently and fairly to all shareholders (see the section of this report headed 'Transactions with Related Parties'). The Audit Committee has also considered transfer pricing assessments completed by the Group's external adviser, PricewaterhouseCoopers.
SOURCES OF ASSURANCE	The Audit Committee reviewed EY's procedures to ensure that related party transactions are recognised accurately and correctly reported in the relevant disclosures in the Annual Report, to ensure that they are consistent with the information it is presented with during the year.

TAXATION AND PTU (SEE NOTE 10 TO THE FINANCIAL STATEMENTS)	
ASSESSMENT OF THE RISK	The taxation of mining companies in Mexico has been the subject of much attention and governmental action in Mexico. In accordance with the Mexican legislation, local companies also pay employee profit sharing ('PTU') equivalent to approximately 10% of the taxable income of each fiscal year. There is a risk that deductions taken when calculating tax and PTU charges may be challenged, and that any resulting exposures to payable taxation and PTU may not have been provided for appropriately. In addition, certain tax assets and liabilities are denominated in Mexican pesos and may be revalued during the period, resulting in foreign exchange gains or losses which need to be taken into account when assessing the tax charge for the period.
VARIABLES CONSIDERED	The Audit Committee seeks to conclude that the stated charges for PTU and taxation are fair and reasonable. It reviews all the significant judgements and adjustments applied to accounting profit in determining profit subject to taxation or PTU for each subsidiary which are clearly set out in papers prepared by management.
SOURCES OF ASSURANCE	Throughout the year the Audit Committee received updates on the status of tax inspections and the Company's progress in meeting the new legislation with respect to contractors' tax compliance. The Audit Committee also challenged management's detailed memorandum and sought EY's views and ascertained the degree to which such judgements and adjustments are supported by internal and/or external subject matter experts and ensured that these explanations correspond with information it was presented with during the year prior to approving the relevant disclosures in the Annual Report.

AUDIT COMMITTEE REPORT
CONTINUED

FINANCIAL REPORTING CONTINUED

LICENCES AND LAND TITLE (SEE NOTE 12 TO THE FINANCIAL STATEMENTS)	
ASSESSMENT OF THE RISK	Without good title to land and licences to operate, the Company would be unable to operate its mines. Defective title or failure to comply with operating conditions set out in the mine licences would give rise to impairment risk.
VARIABLES CONSIDERED	The Audit Committee considers whether the Company continues to have a robust process to ensure that all required legal documentation is completed correctly on acquisition of land titles particularly in light of litigation and ejido activity. The specific questions arising from this are: (i) whether there are factors which may give rise to asset impairment; (ii) whether the level of legal provisions and narrative disclosures in the accounts are adequate; and (iii) whether/when the Group would be able to resume operations at Soledad-Dipolos.
SOURCES OF ASSURANCE	The Audit Committee has oversight over the progress of the land title review and throughout the year has received verbal and written reports from the Company's Head of Legal based on assessments by the Company's external legal counsel.

ENSURING THAT THE ANNUAL REPORT IS FAIR, BALANCED AND UNDERSTANDABLE
There are a number of steps that the Board undertakes to ensure that the Annual Report is fair, balanced and understandable:
- Management prepares drafts of the Annual Report and financial statements for the year ended 31 December 2017.
- Two weeks prior to the Annual Report being approved by the Board, members of the Audit Committee and other Directors review a current draft enabling them to assess whether the information was consistent with their understanding of the Company's business.
- Suggested changes put forward by the Directors, based on knowledge obtained through Board and Audit Committee papers and discussion and other interactions with management are taken into account by management in preparing the final version of the Annual Report.
- Any Alternative Performance Measures ('APM') used in the Annual Report are reviewed by the Audit Committee.
- Internal Audit undertake a review exercise of the non-financial numbers in the Annual Report which are extracted from the Company's operational records.
- The Audit Committee reviews the Annual Report and financial statements and then recommends them to the Board for approval.

As a result of the above procedures, the Board considers that, taken as a whole, the Annual Report is fair, balanced and understandable.

EXTERNAL AUDIT

KEY ACTIVITIES IN 2017
- Review EY report following completion of the audit for the year ended 31 December 2016.
- Review of the representation letter given to EY for the 2016 full-year audit.
- Review effectiveness of the 2016 full-year audit process.
- Recommendation to the Board of the reappointment of EY as auditors at AGM.
- Review of letter from EY providing their observations and opportunities arising from the 2016 audit process and management responses to same.
- Discussion with EY of the findings from their review of interim results for the period ended 30 June 2017.
- Review 2017 half-year representation letter given to EY.
- Review and approval of the external audit plan, fees and terms of audit engagement.
- Review of Financial Reporting Council ('FRC') Report on EY as a firm in respect of 2016 Annual Reports.
- Consideration of the independence, objectivity and qualifications of EY as external auditor.
- Review of policy on the provision of non-audit services by the external auditor and approvals.
- Review of the results of the 'hard close audit' for the ten months to 31 October 2017.

EXTERNAL AUDIT CONTINUED

During 2017, the members of the Audit Committee met twice with representatives from EY without management present and once with management without representatives of EY present, to ensure that there are no issues in the relationship between management and the external auditor which it should address. There were none.

APPOINTMENT OF THE EXTERNAL AUDITOR

In February 2017, the Audit Committee considered and recommended the re-appointment of the external auditor, EY, to the Board prior to the Company's Annual General Meeting. This recommendation was made following a robust tender exercise which had been conducted during 2016 (and was outlined in the Audit Committee Report for 2016). EY's tender in 2016 made certain commitments to enhance the quality of the external audit and the Committee have monitored how EY has fulfilled the commitments made at that time.

The Audit Partner is Daniel Trotman and he has been the Audit Partner for three years.

EVALUATION OF THE EXTERNAL AUDITOR

The key criteria against which the external audit tenderers were assessed in 2016, and which remain appropriate for the assessment of EY, are as follows:
- Experience in mining, with precious metals expertise preferred, in companies of a similar size and complexity.
- London team experienced with FTSE 100 companies and associated regulation and governance supported by local Mexican team.
- Quality of partners in UK and Mexico and quality of their teams, evidenced by firm and external evaluations. Issues from the FRC's Audit Quality Review (AQR) of the firm relevant to audit of Fresnillo and details of internal processes used for quality assurance. Quality and experience of other technical resources that may be used on assignments.
- How the audit approach is aligned to Fresnillo's specific circumstances as set down in detail in their audit plan for the year.
- Communication skills in both written documentation and meetings.
- Expected continuity of team.
- Proposed hours and fees.
- Independence of firm and details of internal practices to ensure continuing compliance with independence requirements and freedom from conflicts of interest.
- Co-ordination with parent company management and auditors.

The Audit Committee also reviewed the FRC's Audit Quality Review on EY as a firm, the FRC having not selected Fresnillo for review, and ensured that no findings concerning EYs audit quality were relevant to the audit of Fresnillo plc.

In February 2018, based on the above criteria, and following detailed discussions with management, the Audit Committee evaluated the performance of EY in 2017 and concluded that it was appropriate to recommend the re-appointment of EY as external auditor at the 2018 Annual General Meeting.

QUALITY AND INDEPENDENCE OF THE EXTERNAL AUDITOR AND NON-AUDIT SERVICES POLICY

The Audit Committee is mindful of its responsibility to ensure that the external auditor maintains its independence and objectivity and is appropriately qualified with sufficient resources and expertise to fulfil the role. The Audit Committee specifically reviewed, and is satisfied with, the independence of EY as the external auditor based on disclosures provided by EY in accordance with UK Ethical Standards for the audit profession.

The Audit Committee reviewed its policy for the provision of non-audit services to the Fresnillo Group by the external auditor (the 'Policy') during the year having updated it in 2016. No further changes were made to the Policy in 2017. The current policy permits the engagement of the external auditor to provide statutory audit services, certain assurance, and due diligence services where fees are less than US$5,000 to be pre-approved. Any engagement of the external auditor to provide permitted services above US$5,000 is subject to the specific approval of the Audit Committee. During 2017, the Audit Committee authorised EY to provide the following services under the Policy on the basis that neither piece of work was deemed by the Audit Committee to compromise EY's independence:
(i) A short deferred tax training session for the Fresnillo financial reporting team in Torréon (US$4,200).
(ii) Accounting support for the finance team in relation to the application of IFRS 9 and IFRS 15 (US$23,500).
(iii) A review of the calculations underpinning the tax methodology in Péru (US$7,000).

In February 2017, EY informed the Audit Committee that there had been a minor breach of the Ethical Standards on non-audit services as a result of EY undertaking less than two hours work on tax compliance services in the UK in January 2017. Such work was permitted prior to 31 December 2016 and the services had been provided in error. The Audit Committee was satisfied that there was no threat to EY's independence as a result of this matter.

Details of the fees paid to EY during the year as shown in note 28 to the financial statements.

AUDIT COMMITTEE REPORT
CONTINUED

RISK AND INTERNAL CONTROL

KEY ACTIVITIES IN 2017

RISK	• Quarterly reviews of the risk matrix and Key Risk Indicators ('KRIs'). • Half-yearly reviews of the Principal Risks and Uncertainties.
INTERNAL CONTROL	• Quarterly review of internal control monitoring reports to the Board. • Consideration of plan for the year-end review of the system of internal controls. • Annual review of the system of internal controls.
FINANCIAL	• Annual treasury policy review and investment of cash balances.
NON-FINANCIAL	• Review of reserves and resources data and report from SRK. • Quarterly review of Anti-Bribery and Corruption Programme ('ABAC'). • Quarterly report on legal matters (including land titles and litigation). • Regular reviews of IT governance, IT strategy, cyber security and data protection. • Annual review of compliance with mining licence conditions.
GOING CONCERN	• Half-yearly reviews of the Going Concern Statement and supporting papers.
VIABILITY	• Review of the process for preparing the Viability Statement including scenario planning assumptions and supporting paper. • Review of the draft Viability Statement prior to submission to Board for approval.

RISK
Management continues to build on the existing risk management framework, seeking to enhance risk governance and management across the business in line with the changes to the UK Corporate Governance Code. In order to support the Board in monitoring the normal risk management activities, the Audit Committee reviewed management's activities to:
- develop a continuous monitoring process consisting of validating the effectiveness of current controls;
- continue promoting ownership of risk mitigation and associated controls among the process owners at the business unit level (being the first line of defence) through their periodic reporting on the effectiveness of controls; and
- ensure that the Group's corporate values and control culture are embedded throughout the organisation.

These efforts have resulted in a transparent analysis of the operational, financial and executive management controls for each of the risks that have been identified by management in its risk universe. A quarterly report is prepared for the Board which explains any significant variations in the KRIs and management's conclusion on the likely effect on the relevant risk ratings and/or any modifications in the related controls. This is reviewed by the Audit Committee prior to its submission to the Board.

During 2017, the Audit Committee and Board formally reviewed the Principal Risks and Uncertainties of the Group prior to the publication of both the interim and full-year reports.

Further details of the risk management system are set out on page 34.

FINANCIAL RISK MANAGEMENT
The Company's objectives and policies on financial risk management including information on the Company's exposures to market risk, such as foreign currency, commodity price, interest rate, inflation rate and equity price risks; credit risk and liquidity risk can be found in note 31 to the financial statements.

INFORMATION TECHNOLOGY
In the current year the Audit Committee continued to receive updates on the Group's IT strategy, its linkage to the Group's overall business strategy and the financial implications of that strategy for the business plan. The Audit Committee has also focused on the related risks of cyber security. The Audit Committee was satisfied that progress has been made during the year in each of these areas. Further information about the Group's approach to IT is set out on pages 50 and 51 of the Strategic Report.

INTERNAL CONTROL
The Group has in place internal controls and risk management systems in relation to the Group's financial reporting process and the Group's process for preparing consolidated accounts. These systems include policies and procedures to ensure that adequate accounting records are maintained and transactions are recorded accurately and fairly to permit the preparation of financial statements in accordance with IFRS.

During 2017, the Audit Committee has continued to review the quarterly internal control monitoring document which was introduced in 2016 and which is prepared and submitted to the Board at each of its regular meetings. This document specifically reports on internal controls and the key findings from the quarterly Internal Audit reports.

The process agreed by the Audit Committee to monitor the Group's system of internal controls is focused on improving the understanding of how the various sources of assurance (such as operational management, financial management, executive management and Internal Audit) interact in the review and execution of material controls identifying and addressing any gaps in the control framework. To this end, the Audit Committee, with the assistance of the risk function and management, has assessed its approach to monitoring the ongoing effectiveness of the Group's system of internal controls. The progress to date was reviewed by the Audit Committee in February 2018.

Further control exceptions identified in the current year include those relating to operational safety, compliance with regulations for handling hazardous materials and explosives, monitoring of electrical installations, installation of auxiliary services within the mine, monitoring and operation of tailings deposits and the oversight over contractors. These issues are not pervasive throughout the Group's operations but each issue has occurred at least at one of the Group's operating areas and plans for remediation have been approved and these are being progressed.

On the recommendation of the Audit Committee, the Board agreed that the following statement be made about the review of the system of internal control in the 2017 Annual Report and Accounts.

The Board has, through the Executive Committee and the Audit Committee (at its February 2018 meeting), reviewed the effectiveness of the Group's system of internal controls. As a result of this review, the Board considers that the measures that have been or are planned to be implemented complement Fresnillo's risk management framework and are appropriate to the Group's circumstances.

The Board is committed to the continued development of its internal control regime with a view to achieving and maintaining best practice levels of risk management and internal control for international mining companies listed on the London Stock Exchange.

GOING CONCERN

The Directors must satisfy themselves as to the Group's ability to continue as a going concern for a minimum of 12 months from the approval of the financial statements. The Audit Committee supported the Board in this assessment by considering whether, in adverse circumstances, the Company has adequate liquid resources to meet its obligations as they fall due. In February 2018, the Audit Committee reviewed the Group budget and cash flow forecasts for the period to December 2019, taking into account the Company's anticipated production profiles at each mine, budgeted capital and exploration expenditure and the sensitivity of the cashflow forecasts to movements in metal prices.

The Audit Committee also considered EY's report on this assessment and on the reasonableness of assumptions therein, including their consistency with assumptions and estimates used elsewhere in the preparation of the financial statements. In particular, the Committee challenged management on the feasibility of the mitigating actions and the potential speed of their implementation. As a result of the procedures performed, the Audit Committee satisfied itself that the going concern basis of preparation is appropriate and the financial statements appropriately reflect the conclusions on going concern.

LONGER-TERM VIABILITY

Having adopted a robust process in 2015 for the preparation of the initial Viability Statement (which was described in the 2015 Audit Committee Report), in 2016 the Audit Committee considered with management ways of further enhancing the disclosures by including references to contingency planning. The Audit Committee agreed with management that no further changes were required in 2017.

The Board's Going Concern Statement and longer-term Viability Statement are set out in the Strategic Report on pages 48 and 49.

AUDIT COMMITTEE REPORT
CONTINUED

INTERNAL AUDIT

KEY ACTIVITIES IN 2017

ANNUALLY	• Review Internal Audit Plan and its resourcing for the following year. • Evaluation of Internal Audit.
TWICE A YEAR	• Meeting between the Audit Committee and Internal Audit without management present.
EVERY MEETING	• Review of significant Internal Audit findings (including progress on red flags) based on the audits conducted during the most recent quarter.

The Head of Internal Audit and Internal Audit Manager attend all meetings of the Audit Committee. The Chairman of the Audit Committee met separately with them five times during 2017 around the time of each Audit Committee meeting.

The Internal Audit team seeks to complete audits of all the operating risks across all of the Fresnillo Group's mining assets on a regular basis. During the year, the Audit Committee received specific input from Internal Audit to focus on four particular areas:

1. **New mines:** Following the emphasis on auditing the Company's new mines which was initiated in 2016, Internal Audit completed its examination to ensure that proper procedures were implemented from the beginning in those new operations and to ascertain whether there were any lessons to be learned. This work was fundamental to refine methodologies and working arrangements between multiple disciplines to provide enhanced transparency to management about operational and financial performance throughout the process of building and commissioning new mines.
2. **Red flags:** At each meeting during the year, the Audit Committee has focused on the progress made by management in dealing with 'red flag' items raised during internal audit visits to ensure that the management responses to remediation are appropriate and timely. Significant progress, which has been monitored by Internal Audit, has been made during the year to reduce the number of issues requiring long-term remedial work that remained outstanding at the end of 2017.
3. **IT issues:** (including cyber security): During 2017, the Audit Committee received presentations from the Head of IT setting out the Group IT Strategy for the year and demonstrating how this supports the overall Group Strategy. Within these presentations, the Audit Committee considered the steps being taken by management to deal with cyber security threats, liaised with Internal Audit to ensure that appropriate controls are, or are planned to be, in place and reviewed the extent to which awareness has been raised internally.
4. **Data protection:** Internal audit monitored the steps being taken to ensure that appropriate levels of procedural compliance with the requirements of Mexican data protection legislation are in place. Human Resources has taken over day-to-day responsibility for the implementation of the relevant procedures. The Audit Committee understands the steps being taken by management to deal with these matters and is satisfied with the progress being made.

In addition, the Audit Committee also monitored the quality of the dialogue between Internal Audit and the Executive Committee in reviewing internal audit findings and agreeing action plans with appropriate levels of operational buy-in to deal with the points raised. The Audit Committee met with the Chief Executive Officer and Chief Operating Officer several times during the year to review the outstanding points and is satisfied with the progress achieved through this dialogue.

The members of the Audit Committee evaluate the performance of the Internal Audit team annually and in 2017 this process was facilitated by the Chairman of the Audit Committee who discussed the findings of that review with the Head of Internal Audit and Internal Audit Manager and consulted with his colleagues on the Audit Committee before finalising the review. When reviewing the Internal Audit Plan for the year, the Audit Committee also considered the personnel available within the Internal Audit team, their expertise and experience, to resource their increasing workload.

WHISTLEBLOWING

KEY ACTIVITY IN 2017

- Review of whistleblowing cases considered by Honour Commission at each meeting of the Audit Committee.

The 'Fresnillo Plays Fair' whistleblower hotline allows stakeholders to anonymously report (via an independent third party) violations of the Group's Code of Conduct. The results are assessed by an independent third party and processed for review by the Honour Commission, which comprises the Chief Executive Officer, the Chief Operating Officer, the Compliance Officer (currently the Chief Financial Officer), the Director of Internal Audit, the Vice President of Exploration and the Legal Manager. These arrangements have been established for some time and the Audit Committee is responsible for ensuring that appropriate investigation of all whistleblowing incidents is undertaken in a timely manner.

In 2017, there were a total of 46 reports, a 10% decrease over 2016. The Audit Committee continues to view this level as encouraging for our efforts to promote a greater understanding of the benefits of reporting issues. The Audit Committee considers that this indicates that employees recognise that such reports are valued and investigations are rigorously evaluated. 68% of the 2017 reports were actioned in the year with the remainder, having been raised in the latter part of the year, still being under investigation.

Fresnillo plc has a whistleblowing line available for all stakeholders, including employees, third parties and the general public. Information regarding this whistleblowing mechanism is widely circulated with access available via our website in the Ethics and Culture/Code of Conduct section.

The whistleblowing reports are reviewed on a quarterly basis by the Honour Commission and then presented to the Audit Committee. The purpose of the whistleblowing line is to encourage employees and others to raise good faith concerns about misconduct that goes or appears to go against the Company's internal Code of Conduct and our institutional values.

The following table provides a summary of the cases that were received in 2016/2017:

	2017	2016
Alleged inappropriate arrangements with suppliers	**10**	9
Alleged professional negligence	**7**	4
Alleged theft	**7**	6
Alleged harassment	**5**	16
Alleged abuse of authority	**4**	2
Other – contractors	**4**	–
Alleged misuse of assets	**3**	4
Alleged fraud	**1**	–
Alleged conflict of interest	**–**	1
Alleged unethical arrangements with other third parties	**–**	1
Other	**5**	8
	46	51

Reports received can be anonymous; all are investigated as to their merits and addressed by the designated area assigned by the Compliance Officer in coordination with the Honour Commission. Once an investigation is concluded, results are presented to the Honour Commission which decides if any particular necessary action or sanction is required. A summary of such actions are presented below:

Status		2017	2016
Concluded	Disciplinary steps taken	**8**	8
	No disciplinary action was taken but steps were taken to reinforce current control procedures	**12**	23
	Dismissed for lack of grounds	**11**	18
In progress of investigation		**15**	2
		46	51

During 2017, the Audit Committee was satisfied that all matters had been or are being properly investigated with appropriate action taken. The Audit Committee considers that current level of issues raised is good evidence that the programme is being taken seriously across the Group and is operating satisfactorily, albeit that it was noticed in 2017 that the process of investigating issues raised in the cases reported took more time to arrive at the appropriate solution which was the reason behind the increased number of cases in progress of investigation over 2016.

AUDIT COMMITTEE REPORT
CONTINUED

RELATED PARTIES

KEY ACTIVITIES IN 2017

- Review of related parties list and payments to key external advisors.
- Review of insurance programme (including the role of related parties in the insurance programme).
- Review of Met-Mex treatment charge and refining charge rates for 2017.
- Review of preparations for the renewal of the Shared Services Agreement in 2018.

Peñoles owns just under 75% of the issued share capital of the Company (see page 148) and therefore has and will continue to have a significant level of influence over the affairs and operations of Fresnillo.

Being part of the same Group also provides an opportunity for synergistic benefits to be achieved operationally and administratively by combining the resourcing of common services that can be shared between Peñoles and Fresnillo. The principal arrangements between the Company and related parties are:

THE SHARED SERVICES AGREEMENT

The Shared Services Agreement is an agreement between the Company and Peñoles under which 23 categories of services are provided to the Company by Peñoles. The Shared Services Agreement was renewed for five years with effect from 31 December 2012. In order to ensure that Fresnillo is charged appropriately for services rendered by Peñoles under the Shared Services Agreement, management has regular meetings with Peñoles to discuss its performance against the Key Performance Indicators ('KPIs') for each of the different categories of service where issues of non-compliance are addressed and remediation agreed. In addition, Internal Audit conducts reviews of approximately one third of the services provided each year to ensure that these services are provided in accordance with the agreed KPIs. As a result, all services are reviewed by Internal Audit over a three-year cycle.

During 2017, the Audit Committee reviewed the planning for the renewal of the Shared Service Agreement in early 2018. Supported by KPMG, this process seeks to use third party benchmarking across all of the service categories covered by the Share Services Agreement to ensure that the scope and pricing for each service is appropriate.

The Audit Committee also reviewed the performance of Peñoles in meeting the KPIs for the different service categories over the current term of the Shared Services Agreement. The Audit Committee is satisfied that appropriate services have been achieved.

The Audit Committee discussed with KPMG their methodology for benchmarking prices for each of the 24 separate services now required and their evaluation of all of the prices tendered. Their resulting conclusion was a price for 2018, the first year of the new five-year Shared Services Agreement, which represented an increase of less than 10% over 2017, made up from inflation and additional service levels required offset by operational efficiencies.

The Audit Committee concluded that the new five-year Shared Services Agreement was reasonable in all respects and recommended that the independent Non-executive Directors approve its signing by the Company, which they did at the Board meeting in February 2018.

THE MET-MEX AGREEMENT

During the year, the Audit Committee considered the proposed charges in respect of the Met-Mex arrangements for 2017 comparing proposed prices to comparable prices charged by Met-Mex to independent customers and to those of other refineries taking account of ore composition and transport costs to ensure that they are reasonable. Based on the satisfactory outcome of that review, the Chairman of the Audit Committee recommended to the Board that the independent Directors approve the proposed charges for 2017 under the Met-Mex arrangements, which they did at the Board meeting in October 2017.

OTHER AGREEMENTS

There are other dealings with related parties in the ordinary course of business (e.g. insurance brokerage) which, although not requiring approval by independent Directors, will from time-to-time be reviewed by the Audit Committee to ensure that the arrangements are on a reasonable arm's-length basis.

EFFECTIVENESS

KEY ACTIVITIES IN 2017

- Review of the training and development activities for Audit Committee members and briefings from the external auditors relating to changes in financial regulation.
- Audit Committee evaluation activities.
- Annual review of the terms of reference of the Audit Committee in order to ensure that they remain up-to-date.

Since the inception of the Audit Committee, there has been a continuing programme of evaluation which has embraced the activities of the Committee itself as well as the performances respectively of the external auditor and the Internal Audit function. At least once every three years, these reviews have been externally facilitated with internal evaluation exercises undertaken during the intervening years. During 2017, there were two key workstreams to this activity: (i) follow-up to the internally-facilitated evaluation of the Audit Committee undertaken in 2016; and (ii) an externally facilitated review of the Audit Committee undertaken by Lintstock as part of its review of the effectiveness of the Board and its Committees.

2016 evaluation follow-up: The internal evaluation in 2016 was facilitated by the Company Secretary, using a questionnaire-based approach. This was the final step in a three-year process which commenced with the previous external evaluation in 2014. The conclusions of the 2016 evaluation were that the Audit Committee was satisfied that its core duties were being performed well; however, it identified five further areas for review during 2017. The following table shows the progress made on those five areas of review during the year:

ACTION	PROGRESS
• Review of the Board's post-investment review procedures.	• A new format for reporting to the Board on post-investment appraisal was presented to the Board at its July meeting.
• Oversight of management's evaluation of the Shared Services Agreement as it approaches its renewal date.	• A presentation on the process and metrics for the renewal of the Shared Services Agreement was presented at the February 2018 meeting of the Committee with the Agreement being presented to the Board for approval by the Independent Non-executive Directors in February 2018.
• Oversight of the IT Governance Committee in relation to the management of the IT strategy and IT-related internal controls and the liaison with Internal Audit.	• The Audit Committee has received presentations from the Head of IT on the IT Strategy and its interface with the Company's Business Plan and Strategy. The Audit Committee Chairman has attended numerous meetings with IT personnel to oversee the production of detailed plans and timelines to deliver the IT requirements of the Company's Business Plan. The role of the IT Governance Committee in overseeing the IT Strategy was reviewed and progress noted.
• The interface between the Audit Committee, Internal Audit and the HSECR Committee in relation to internal audit findings relating to health, safety and environmental matters.	• Early in 2017, we decided to combine these two actions to better reflect management's efforts to rationalise the various elements of non-financial information into a more coherent structure. The Audit Committee has overseen this work and liaised with Internal Audit to ensure that any data required from operational records is sourced appropriately.
• The relationship between the Audit Committee's oversight of the Honour Commission and the wider governance of culture by the Board and the HSECR Committee.	

AUDIT COMMITTEE REPORT
CONTINUED

EFFECTIVENESS CONTINUED

2017 external evaluation follow-up: The 2017 evaluation of the Committee by Lintstock used a questionnaire-based approach. Lintstock concluded from the completed questionnaires that the management of Audit Committee meetings, in terms of the annual cycle of work, the meeting agendas and supporting documentation and the time and input during meetings, was highly rated, and that the Committee functioned effectively and no areas for improvement were noted. Nevertheless, the Audit Committee, from its own evaluation, identified that there were areas which warranted further review in 2018.

- Oversight to ensure that the lessons learnt from the post-investment appraisal exercise in 2017 are correctly reflected in management's methodologies for new projects.
- Continued liaison with the IT Governance Committee over the development of IT-related internal controls and the interaction with Internal Audit.
- Oversight of the development of performance indicators on non-financial information and the related work by Internal Audit.
- Continued liaison with management over progress on the various outstanding matters with the Mexican tax authorities.

NEXT STEPS

The Audit Committee intends to undertake an externally-facilitated evaluation of the Internal Audit function during 2018. It will conduct an internal review of its own effectiveness in 2018.

RELATIONS WITH SHAREHOLDERS

The Board continually monitors the interests of the Company's minority shareholders in order to ensure that those interests are being properly respected, and that they are aligned as far as possible with those of the majority shareholders.

The Company has an office in London where the Head of Investor Relations is based. During 2017, the Group maintained a strong communications and investor relations programme, as detailed in the table below.

2017	INVESTOR RELATIONS AND INDUSTRY ACTIVITIES
January	• Publication of the 4Q 2016 production report
February	
March	• Roadshow following the preliminary results announcement and presentation: UK, USA and France • Nordea Mining Reverse Roadshow • Citi Global Resources Conference • Canaccord Mining Forum
April	• Publication of the 1Q 2017 Production Report followed by investor conference calls • UBS Reverse Roadshow
May	• Annual General Meeting • BAML Global Metals and Mining Conference
June	
July	• Publication of the 2Q 2017 Production Report
August	• Publication of the half-year results and UK roadshow
September	• Denver Gold Forum • HSBC EEMEA and LATAM Conference
October	• Publication of the 3Q 2017 Production Report followed by investor conference calls
November	• JP Morgan Best of British Conference
December	

The Chief Executive Officer and Chief Financial Officer also meet with analysts, hold conference calls after production reports and engage with shareholders by participating in the major roadshows after preliminary and half-yearly results are announced. They are joined by other members of the Executive Committee for some of these visits. This is done to give the investors and analysts the chance to discuss the results of the Group while also giving them an opportunity to raise any queries or concerns they may have. The table below outlines some examples of the discussion points at such meetings and the response from the Company.

Progress at the Fresnillo mine	Clear explanation of the decisive plan to stabilise the mine's ore grade and throughput while outlining the reasons for progressing at a slower than anticipated pace.
Delivery of San Julián	Updates on the commissioning and ramp up of phase II in addition to principal statistics of both phases.
Performance at our operating mines	Provide a clear update on the performance of all operating mines including the reduction of inventories at Herradura.
Projects progress	Keep the market up to date with progress at the Pyrites Plant project and the second line of the DLP at Herradura, both due to be commissioned in 2018.
Juanicipio	Updates on the progress of this joint venture project including principal statistics where available, timing for the completion of the feasibility study and its subsequent approval.
Exchange rate effects	Clear and detailed articulation of the different exchange rate effects on production costs in conjunction with other line items in the income statement, including the charge for taxation.

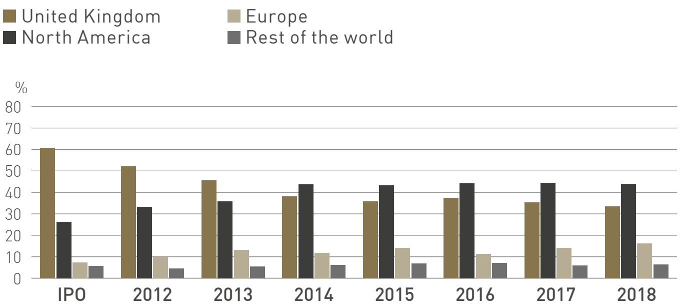
RELATIONS WITH SHAREHOLDERS
CONTINUED

Costs	Detailed breakdown of cost metrics on a year-by-year basis highlighting and clarifying variations; cost inflation/deflation by component.
Capital allocation: Capex versus dividends	Reiteration of the Company's unchanged dividend policy of balancing quality growth with returns across the cycle.
Production profiles and long-term goals	Reaffirm Fresnillo's long-term targets set in 2008 during the Company's IPO, set to be achieved by the end of 2018.
Economic outlook for the mining industry in Mexico	Articulate the market conditions seen in Mexico with special emphasis on the mining industry. Additionally provide relevant updates of the ongoing NAFTA negotiations and upcoming presidential elections.

The Head of Investor Relations in London is tasked with maintaining existing relations with analysts and major shareholders on a day-to-day basis, which is done by way of telephone calls and meetings. The Company also attends a full programme of mining conferences in order to meet with current and prospective investors. Contact with investors in Mexico is maintained through the Investor Relations Office in Mexico City. The Chief Financial Officer gives a report at each Board meeting on communications and shareholder activity.

GEOGRAPHICAL SHAREHOLDER BASE

The following graph (IPO in 2008 until January 2018) demonstrates the Company's global appeal to investors with a significant shift from a predominantly UK shareholder base to a much more globally diverse shareholder base.



MAJOR INTERESTS IN SHARES

As at 23 February 2018, the Company had been advised of the following notifiable interests (whether directly or indirectly held) in its voting rights:

	Number of voting rights	%
Industrias Peñoles S.A.B. de C.V.	552,595,191	74.99
First Eagle Investment Management LLC	34,958,545	4.74
BlackRock Inc.	34,614,063	4.70

2017 ANNUAL GENERAL MEETING

At the 2017 Annual General Meeting, all resolutions put to shareholders were passed by a majority. Prior to the AGM, the Company consulted with a number of shareholders in relation to the resolutions to re-elect the Directors. In accordance with UK Listing Rules applicable to companies with a controlling shareholder, the resolutions relating to the re-election of the independent Non-executive Directors required approval by a majority of votes cast by independent shareholders as well as all the shareholders of the Company.

Further to the Code provisions, details of proxy voting are presented at the AGM and final figures are announced to the London Stock Exchange and uploaded to the Company's website as soon practicable after the AGM.

2018 ANNUAL GENERAL MEETING

The Company's tenth Annual General Meeting will be held on Wednesday 30 May 2018 at 12.00 noon. The business of the Annual General Meeting ('AGM') will be conducted in accordance with the provisions B.7.1, B.7.2, E.2.1 and E.2.2 of the Code. The Chairman of the Board and the chairmen of each of the Board Committees will be available to answer questions put forward to them by shareholders of the Company. The Annual Report and Accounts and the Notice of the Annual General Meeting will be sent to shareholders at least 20 working days prior to the date of the meeting. In planning the business of each AGM, the Board takes account of institutional shareholder guidelines on pre-emption rights, share buy-backs and shareholder rights in relation to general meetings when drafting the usual resolutions dealing with those matters. In each case, resolutions are presented to the AGM to give the Board flexibility to respond to market developments.

AUTHORITY TO PURCHASE OWN SHARES

The Company was authorised by a shareholders' resolution passed at the Annual General Meeting held in May 2017 to purchase up to 10% of its issued Ordinary Share capital. Any shares which have been bought back may be held as treasury shares or, if not so held, must be cancelled immediately upon completion of the purchase, thereby reducing the amount of the Company's issued and authorised share capital. This authority will expire at the forthcoming Annual General Meeting and a resolution to renew the authority for a further year will be proposed. No shares were purchased by the Company during the year.

The Corporate Governance Report has been approved by the Board of Directors of Fresnillo plc

Signed on behalf of the Board

Charles Jacobs
Senior Independent Director
26 February 2018

REMUNERATION AT A GLANCE

REMUNERATION POLICY IN SUMMARY

REMUNERATION POLICY OBJECTIVE
WHAT DOES THE POLICY SEEK TO ACHIEVE?

The Group's remuneration policy seeks to ensure that the Company is able to attract, retain and motivate its Executive Directors and members of the Executive Committee. The retention of key management and the alignment of management incentives to the creation of shareholder value being key objectives of this policy.

COMPONENTS OF DIRECTORS' REMUNERATION
HOW IS THE REMUNERATION POLICY ACHIEVED?

COMPONENT	RATIONALE
SALARY	Setting base salary levels for Executive Directors or key management at an appropriate level is key to managerial retention in Mexico. Salaries are positioned within the range according to experience and length of service. Ordinarily, the same basis for change (e.g. salary increases) will be applied across the Company to senior management and employees alike.
BONUS	The annual bonus rewards the achievement of financial and strategic business targets and the delivery of personal objectives. Annual bonus is capped at six months' salary and is paid on the basis of metrics set out in the remuneration policy.
LONG-TERM INCENTIVES	The annual bonus scheme sets targets which are aligned to the long-term strategic objectives so that these priorities are embedded within the day-to-day activities of our business rather than being seen as something extra.
BENEFITS	Benefits are provided in line with the Group's policy on employee benefits.
PENSION	The Group operates a defined contribution scheme. Executive Directors and key management are entitled to membership of the defined contribution scheme.
SHARES	The Company does not use share-based forms of remuneration because this continues not to be a common form of remuneration in Mexico.

Additional features of Fresnillo's Remuneration Policy

SHAREHOLDING GUIDELINES	In the absence of share-based incentive schemes, there is no need to adopt shareholding guidelines for executives.
RECOVERY OF BONUS (MALUS/CLAW-BACK)	The absence of long-term incentives makes it difficult to adopt claw-back and malus arrangements. There is however scope within the bonus scheme for bonus awards to be adjusted downward at the discretion of the Remuneration Committee.

WHAT WAS ACHIEVED? PERFORMANCE HIGHLIGHTS AND REMUNERATION OUTCOMES IN 2017

SILVER PRODUCTION (MOZ)	GOLD PRODUCTION (KOZ)	TOTAL SILVER RESERVES (MOZ)	TOTAL GOLD RESERVES (MOZ)	PROFIT FOR THE YEAR (US$M)
58.7 +16.6%	911.1 -2.6%	501.7 -5.4%	11.7 +22.7%	560.8 +32.0%
(2016: 50.3)	(2016: 935.5)	(2016: 530.3)	(2016: 9.5)	(2016: 425.0)

OBJECTIVE OF THE ANNUAL BONUS
WHAT DOES THE ANNUAL BONUS SEEK TO ACHIEVE?

The annual bonus is set for and based on performance over a single-year period but the KPIs and targets are also designed to ensure that both short-term objectives and the long-term development of the Fresnillo Group are given broadly equal priority within variable remuneration.

BALANCING LONG-TERM AND SHORT-TERM OBJECTIVES
HOW IS THE ANNUAL BONUS STRUCTURED?

LINK TO STRATEGY

1. EXTEND THE GROWTH PIPELINE
2. DELIVER GROWTH THROUGH DEVELOPMENT PROJECTS
3. MAXIMISE THE POTENTIAL OF EXISTING OPERATIONS
4. ADVANCE SUSTAINABLE DEVELOPMENT

BONUS CATEGORY	LINK TO STRATEGY	WEIGHTING (%)	MEASURE	IMPACT (Short-term vs Long-term)
PRODUCTION	3	26	Increase in equivalent ounces produced	Drives annual results; Supports long-term financial sustainability
SAFETY	3, 4	5+/-5	0 fatalities (+5)/ 1 fatality (-5)	Ensures a safe working environment; Creates a positive culture
RESOURCES	1, 2, 3	30	1) Increase in total resources 2) Increase in resources upgraded	Ensures that the long-term prospects are enhanced
STAKEHOLDERS	1, 2	11	Various linked to employee, supplier and community relations	Maintains the business model over the long term
FINANCIAL	1, 2, 3	17	Adjusted net profit[1]	Drives annual results; Supports long-term financial sustainability
TEAMWORK	1, 2, 4	11	1) Co-ordination 2) Succession planning	Improves short-term performance; Sustainable management team
SAFETY & ENVIRONMENT	3, 4	PENALTIES[2]	1) Number of fatalities greater than one 2) Environmental incidents	Ensures a safe working environment; Reduces risk of long-term environmental damage

1 Net profit is adjusted to exclude currency fluctuation, the effect of year-on-year changes in metals prices and any revaluation of the Silverstream contract.
2 In addition to Penalties based on the metrics, the Remuneration Committee also has discretion to reduce bonus payments in the event of poor operational and financial performance, see Remuneration Policy on page 163.

TOTAL ENVIRONMENTAL INCIDENTS	FATALITIES
0	1 -67%
(2016: 0)	(2016: 3)

CEO'S 2017 REMUNERATION

TOTAL SALARY (US$'000)	BONUS (US$'000)
809 +2.1%	98 -49.2%
(2016: 792)	(2016: 193)

DIRECTORS' REMUNERATION REPORT
CHAIRMAN'S ANNUAL STATEMENT

DEAR SHAREHOLDER

I am pleased to take this opportunity to give you an overview of the work of the Remuneration Committee during 2017.

The most important job for the Remuneration Committee in 2017 was the renewal of our Directors' Remuneration Policy at the Annual General Meeting in May. We proposed a few minor amendments to the Policy which were favourably received and I am delighted that our independent shareholders overwhelmingly supported the renewal of the Policy. My Remuneration Committee colleagues and I welcome shareholders' endorsement of the Policy. Having received such strong support for our approach to executive remuneration, we will continue to work hard to ensure that our approach remains the most appropriate one to serve the long-term interests of the Company.

During the year Fernando Ruiz, who had served on the Committee from its inception in 2008, stepped down from the Committee. Fernando's contribution to the Committee over the past nine years has been greatly appreciated by his colleagues and we thank him wholeheartedly for his commitment and support during that time. I am delighted to welcome Jaime Serra, an independent Non-executive Director, to the Committee and look forward to working with him.

In commenting on the activities of the Remuneration Committee during the year, I would like to highlight the time and attention that the Committee devoted to first, ensuring that executive remuneration is aligned to remuneration trends across the Group and second, ensuring that remuneration promotes the long-term interests of the Company. In reviewing the Chief Executive Officer's salary each year, the Remuneration Committee takes account of the salary increases agreed for the whole workforce as well as other actuarial benchmark data on salaries. In 2017, the CEO was awarded a 3.5% increase in salary compared to an average benchmark increase of 4.61%. In determining this level of increase, the Remuneration Committee took account of previous increases in salary awarded to the Chief Executive Officer. The Committee also received periodic benchmarking data from Willis Towers Watson, as required by the Remuneration Policy, which confirmed that the CEO's total remuneration remains well inside the parameters set in the Policy. While the CEO participates in a bonus scheme which is modest by any FTSE 100-listed company standard, he is not permitted by Mexican law to participate in the PTU scheme, the statutory employee profit-sharing arrangement which is available to all other Mexican employees and which has the potential to pay annual bonuses which are a significantly higher proportion of salary than the annual bonus scheme for the CEO. The CEO also participates in the same pension scheme arrangements as all other employees. The Remuneration Committee therefore believes that the CEO's remuneration is well aligned to that of the workforce as a whole.

Prior to the 2017 AGM, the Remuneration Committee spent time considering whether any changes were needed to the Remuneration Policy and concluded that while some minor amendments would be appropriate, for example, in relation to the exercise of discretion, the overall approach was correct. Nevertheless, the Remuneration Committee revisited the question of whether long-term incentives should be introduced into the Policy. This requirement was discussed with advisers and it was concluded that there was no need to introduce longer-term incentives at this time. The reasons for this are twofold. Firstly the Committee is satisfied that the annual cash bonus scheme contains sufficient elements and incentives to ensure that the Group is sustainable over the long-term. In particular, the high proportion of bonus paid for replenishment of reserves and resources and delivery of growth projects as well as the penalties in place for unhealthy, unsafe and environmentally unfriendly practices are designed to focus executive attention on the long-term viability of the Company as well as short-term performance. Second, we have always maintained that long-term incentives are not a key feature of remuneration within the Mexican market and we have been consistent on that since we listed in London back in 2008. During the year, we asked Willis Towers Watson to evaluate that assumption and while there is some anecdotal evidence that long-term incentives are beginning to emerge as a feature of remuneration in Mexico, we are yet to be convinced that our Remuneration Policy needs to be changed. We will continue to monitor this aspect between now and the next renewal of our Policy in 2020.

The activities of the Remuneration Committee are described in more detail in the following sections of this Report. Staying in line with our previous approach to remuneration reporting, we have published remuneration information in respect of our Chief Executive Officer as if he were a member of the Board, even though that is not currently the case. We believe this is within the spirit of our reporting obligations, even if it is not strictly required, as it adds to the transparency of our reporting. As ever, I am always interested to hear the views of shareholders on our approach to executive remuneration.

Yours faithfully

Charles Jacobs
Chairman of the Remuneration Committee

ANNUAL REPORT ON REMUNERATION 2017

INTRODUCTION

This Report sets out information about the remuneration of the Directors and Chief Executive Officer of the Company for the year ended 31 December 2017. In accordance with the Regulations, the information provided in the section entitled 'Directors' Remuneration – 1 January 2017 to 31 December 2017' and accompanying notes, has been audited by Ernst & Young LLP.

Although the Chief Executive Officer is not currently a member of the Board, the Remuneration Committee has elected to report on his remuneration in this Report as if he were a Director, in keeping with the spirit of the Regulations.

AUDITED INFORMATION – DIRECTORS' REMUNERATION – 1 JANUARY 2017 TO 31 DECEMBER 2017

SINGLE TOTAL FIGURE OF REMUNERATION

The detailed emoluments received by the Executive and Non-executive Directors during the year ended 31 December 2017 are detailed below:

US$'000	Salary/Fees 2017	Benefits 2017	Annual bonus 2017	Pension 2017	Total 2017	Salary/Fees 2016	Benefits 2016	Annual bonus 2016	Pension 2016	Total 2016
Chairman										
Alberto Baillères	**43**	**0**	**0**	**0**	**43**	39	0	0	0	39
Non-executive Directors										
Juan Bordes	**43**	**0**	**0**	**0**	**43**	39	0	0	0	39
Arturo Fernández	**43**	**0**	**0**	**0**	**43**	39	0	0	0	39
Jaime Lomelín	**43**	**0**	**0**	**0**	**43**	39	0	0	0	39
Fernando Ruiz	**43**	**0**	**0**	**0**	**43**	39	0	0	0	39
Guy Wilson	**118**	**0**	**0**	**0**	**118**	118	0	0	0	118
Alejandro Baillères	**43**	**0**	**0**	**0**	**43**	39	0	0	0	39
Bárbara Garza Lagüera	**43**	**0**	**0**	**0**	**43**	39	0	0	0	39
Charles Jacobs	**118**	**0**	**0**	**0**	**118**	118	0	0	0	118
Jaime Serra	**43**	**0**	**0**	**0**	**43**	39	0	0	0	39
Alberto Tiburcio	**43**	**0**	**0**	**0**	**43**	26	0	0	0	26
Dame Judith Macgregor[1]	**72**	**0**	**0**	**0**	**72**	–	–	–	–	–
Total	**695**	**0**	**0**	**0**	**695**	574	0	0	0	574
Chief Executive Officer (not on the Board during the year)										
Octavio Alvídrez[2, 3]	**810**	**81**	**98**	**83**	**1,072**	792	90	193	36	1,111
Grand total	**1,505**	**81**	**98**	**83**	**1,767**	1,366	90	193	36	1,685

1 Dame Judith Macgregor was appointed to the Board on 23 May 2017.
2 Benefits provided to Mr Alvídrez include the cost of life insurance premiums 2017: US$26,536 (2016: US$24,779), club memberships 2017: US$1,748 (2016: US$1,544), subsistence and other meal benefits 2017: US$13,613 (2016: US$9,508), premiums for medical insurance covering limited expenses and check-ups 2017: US$5,045 (2016: US$4,210), chauffeur 2017: US$29,780 (2016: US$29,507), car 2017: US$3,957 (2016: US$19,308) and social security costs 2017: US$993 (2016: US$935).
3 The basis of calculation for Mr Alvídrez' annual bonus for 2017 is set out in the following table.

The Company does not operate a long-term incentive plan or any share-based incentives.

DIRECTORS' REMUNERATION REPORT CONTINUED

ANNUAL REPORT ON REMUNERATION 2017 (CONTINUED)

The objectives, as applied to Mr Alvídrez' incentive payment, the measures associated with each objective, and the relative weighting between objectives, are detailed below:

Objective	Measure	Weighting points[1]	2017 KPI target	2017 result	2017 points award	2016 result	2016 points award
Production	Increase in equivalent ounces produced[2] *This information is shown on pages 272-273*	26	118.8 million equivalent ounces of silver (2016: 104.4 million equivalent	118.0	25.9	111.2	27.7
Exploration/ Growth	Increase in total resources[2] *This information is shown on pages 276-277*	10	At least maintain prior year total resources	103%	10.3	109%	10.9
	Increase in resources upgraded from inferred to measured/indicated[2] *This information is shown on pages 274-275*	20	At least maintain prior year total indicated	101%	20.2	113%	22.6
Financial	Adjusted net profit[3]	17	US$384 million[4] (2016: US$111 million)	US$442 million	19.6	US$337 million	51.7
Stakeholder	Relationship with key stakeholders e.g. communities and unions[4]	5	Unmeasured	5	5	2.00	2.00
	Management of land rights[4]	3		4	4	3.00	3.00
	Controls over contractors[4]	3		4	4	0	0
Teamwork	Collective teamwork across the Group[4]	5	Unmeasured	7	7	2.00	2.00
	Progressing the Succession Plan for Executive Committee positions[4]	6		5	5	0	0
Safety	Fatal accidents[5]	5	Zero	1	0	3	0
Sub-total		**100**			101.0		119.9
Penalties:	Safety[6]:	–	Fatal accidents in excess of one		0		(2.4)
	Environment[7]:	–	Number of serious incidents		0		N/A
Sub-total		**100**			101.0		117.5
Discretion[8]		**100**			–		(8.0)
Total		**100**			101.0		109.5

1 The points weighting is considered by the Remuneration Committee each year to ensure that it reflects an appropriate balance of priorities for management. Where a change of emphasis is considered to be necessary, the weighting will be amended in future years.
2 Any decrease in equivalent ounces produced and/or in reserves and resources will result in points being deducted from the total points scored in proportion to the level of the shortfall compared to the previous year. Production excludes amounts from the Silverstream contract and is compared against budget for the year. Total resources includes 100% of all of the resource estimates at the Group's controlled mines, irrespective of ownership.
3 Net profit is adjusted to exclude currency fluctuation, the effect of year-on-year changes in metals prices and any revaluation of the Silverstream contract. The 2017 net profit amount for the purposes of the 2017 annual bonus was in line with this approach. A table setting out the reconciliation of net profit to the numbers reported in the financial statements is set out on page 155. The target is set as the prior year profit, excluding the revaluation of the Silverstream contract, the mark-to-market revaluation of derivatives and foreign exchange gains/losses in the prior year.
4 The points awarded for the stakeholder and teamwork objectives are subject to some discretion. The following points are awarded depending on the Remuneration Committee's assessment of the stakeholder and teamwork effort: Satisfactory performance = 100% of weighting points; outstanding performance = 140% of weighting points; and underperformance = 0 points.
5 In the event of a single fatality, zero points will be awarded for safety. For the purposes of calculating fatalities; all fatalities are included, irrespective of whether they are employees or contractors. Conversely, in the event of zero fatalities during the year, the number of points awarded would be increased to ten points.
6 In addition to the penalty for a single fatality (see note 5), the number of points awarded will be further reduced by 1% if there are two fatalities, or by 2% if there are three fatalities, or by 3% if there are four fatalities etc.
7 In the event of an environmental incident, the total bonus score will be reduced by 2%, in the case of two incidents, a further 3% will be deducted. In the case of three incidents, a further 4% and so on.
8 Under the current Remuneration Policy, the Remuneration Committee has discretion to make adjustments to bonus payments (see section headed Discretion in the table on page 163).

RECONCILIATION OF ADJUSTED NET PROFIT TARGETS AND OUTCOMES TO THE FINANCIAL STATEMENTS

US$ millions	2017 Result	2016 Result
Profit for year as shown in financial statements	**560.8**	425.0
Adjustments:		
Changes due to currency fluctuations	**30.3**	115.5
Changes due to year-on-year movements in metal prices (including the effects of metal hedging)	**(69.3)**	(109.5)
Changes due to the movement in the valuation of the Silverstream contract	**(79.6)**	(93.5)
Adjusted net profit total for bonus purposes	**442.2**	337.5

EXPLANATION OF NON-FINANCIAL TARGETS AND COMMITTEE DECISION ON POINTS AWARDED

Relationship with stakeholders	The Remuneration Committee consider that progress has been made but with some scope for further development.
Surface tenure	Performance continued in line with expectations.
Controls over contractors	Improvements have been made this year.
Collective teamwork	The Remuneration Committee consider that improvement has been made this year but see scope for further development.
Succession plan for Executive Committee positions	Progress has been made during the year.

PENSION ENTITLEMENT

The pension entitlement of the Chief Executive Officer is as follows:

US$'000	Defined Contribution Scheme ('DCS')	Defined Benefit Scheme ('DBS')
Rights as at 31 December 2017[1]	501	946
Additional benefit in the event that the Chief Executive Officer retires early.	In the event of early retirement, Mr Alvídrez is entitled to receive his accumulated contributions (both member and Company) to the DCS.	Mr Alvídrez is not currently entitled to any additional benefit on early retirement in the DBS.

	Accumulated accrued benefits		Increase in accrued benefits during the year (note 1)		Increase, before inflation and the effect of foreign exchange, in accrued benefits during the year	
US$'000	At 31 December 2017	At 31 December 2016	2017	2016	2017	2016
Octavio Alvídrez	**1,447**	1,297	**150**	(139)	**83**	36

1 The increase in accrued benefits during the year includes a revaluation effect of US$(19k) (2016: US$215k).

Mr Alvídrez is expected to retire at his normal retirement age of 60 years old.

DIRECTORS' REMUNERATION REPORT CONTINUED
ANNUAL REPORT ON REMUNERATION 2017 (CONTINUED)

SHARES HELD BY DIRECTORS
The number of Ordinary Shares of the Company in which the Directors were beneficially interested at 1 January 2017 and at 31 December 2017 was:

	1 January 2017	31 December 2017
Alberto Baillères[1]	552,595,191	552,595,191
Juan Bordes	15,000	15,000
Arturo Fernández	–	–
Jaime Lomelín	–	–
Fernando Ruiz	30,000	30,000
Guy Wilson	15,000	15,000
Alejandro Baillères	–	–
Bárbara Garza Lagüera	–	–
Charles Jacobs	–	–
Jaime Serra	–	–
Alberto Tiburcio	–	–
Dame Judith Macgregor[2]	N/A	–

1 Alberto Baillères holds an indirect interest in the Company. Mr Baillères and companies controlled by Mr Baillères hold, in aggregate 68.9% of the issued share capital (and voting rights) of Peñoles. Peñoles holds 552,595,191 Ordinary Shares (74.99%) of the issued share capital) in the Company. Fresnillo plc and Peñoles are part of the consortium known as Grupo BAL which is controlled and directly or indirectly majority-owned by Mr Baillères.
2 Dame Judith Macgregor was appointed to the Board on 23 May 2017.

UNAUDITED INFORMATION

IMPLEMENTATION OF REMUNERATION POLICY IN 2017
CHIEF EXECUTIVE OFFICER SALARY AND BENEFITS
The total remuneration paid to the Chief Executive Officer, Octavio Alvídrez, during the year was US$1,072,113.

During the year, Mr Alvídrez served as Chief Executive Officer but was not a member of the Board. Mr Alvídrez is employed under a contract of employment with Servicios Administrativos Fresnillo S.A. de C.V., a subsidiary of Fresnillo plc. Mr Alvídrez' contract was entered into on 15 August 2012 and is governed by Mexican Federal Labour Law. Mr Alvídrez' service agreement does not have a fixed term and can be terminated in writing by either party. There is no provision in Mr Alvídrez' service agreement entitling him to additional compensation for termination other than those required by Mexican labour laws for termination without cause. No benefits are payable on termination.

The salary payable under Mr Alvídrez' service agreement is MX$930,154 per month, which excludes payments for holidays, Company-paid savings contributions and other cash benefits. In 2017, his total salary payments were MX$15,322,731 (US$809,480). In 2016, his total salary payments were MX$14,780,860 (US$792,255). In 2017, Mr Alvídrez was awarded a salary increase of 3.5%. The percentage level of salary increases for employees during the year was an average of 5.75%. As required by the Directors' Remuneration Policy, Willis Towers Watson have confirmed that the Chief Executive Officer's remuneration remains in line with the remuneration policy.

Under his service agreement, Mr Alvídrez is entitled to 26 working days' paid holiday per year. He is not entitled to profit-sharing ('PTU'). Mr Alvídrez is also entitled to life insurance, the use of a chauffeur and company car, the payment of medical insurance premiums covering limited expenses and check-ups, meals and subsistence payments and club subscriptions.

The Remuneration Committee consider that year-on-year changes to the remuneration of the Chief Executive Officer align equitably with changes in the remuneration of the Company's workforce for the following reasons:

Salary	The Remuneration Committee ordinarily use the same percentage agreed for the whole workforce as the percentage basis for the annual salary increase for the Chief Executive Officer.
Bonus	The Chief Executive is prohibited from participating in the PTU scheme and therefore may only receive a maximum of six months' pay. All other employees are eligible for PTU payments annually which can be as high as 200% of salary in exceptional years.
Benefits	The Chief Executive Officer participates in the Company-wide benefits scheme.
Pension	The Chief Executive Officer is a member of the Company's standard pension scheme.

ANNUAL BONUS
Mr Alvídrez achieved 101.0 points under the bonus scheme for the year ended 31 December 2017 (2016: 109.5 points) and therefore was awarded a bonus of MX$1,860,308; (US$98,278) for 2017.

PENSIONS
The Group operates two pension schemes: a defined benefit scheme and a defined contribution scheme (which was introduced on 1 July 2007). Further information on the Group's pension schemes is set out in the Remuneration Policy on page 164.

MALUS AND CLAW-BACK
The introduction of the 2016 UK Corporate Governance Code requires companies to either introduce malus and/or claw-back provisions and other forms of deferred variable pay where appropriate, or explain why they have not complied with the Code. The Remuneration Policy approved at the 2017 AGM gives the Remuneration Committee discretion to reduce bonus payments to take account of poor operational or financial performance during the year or in relation to previous years. Downward adjustment would also be considered where the executive response to adverse health, safety or environmental performance during the year was considered to be poor. Such discretion would be applied after any adjustments in relation to safety and environmental performance had already been deducted under the annual bonus plan see page 165 in the Directors' remuneration policy section.

YEAR-ON-YEAR PERCENTAGE CHANGE IN REMUNERATION OF CEO AND ALL EMPLOYEES

	Percentage change (in US dollar amounts) 2017–2018		
	Base salary/Fees	Benefits	Annual bonus
Chief Executive Officer	2.2	(9.1)	(49.0)
All employees	8.7	21.7	18.4

IMPLEMENTATION OF THE REMUNERATION POLICY IN 2017 AND 2018
The Remuneration Committee established the peer group of companies for the purposes of validating the remuneration of Executive Directors and senior management (the 'Peer Group'). The Peer Group consists of 11 resources companies from Europe (three companies), USA and Canada (six companies) and Mexico (two companies) as follows:

Europe	Randgold Resources
	Acacia Mining
	Hochschild Mining
USA/Canada	Agnico Eagle Mines Ltd
	Goldcorp Inc.
	Hecla Mining Co.
	Newmont Mining Corporation
	Panamerican Silver Corp.
	Yamana Gold Inc.
Mexico	Goldcorp
	Grupo Mexico

The Remuneration Committee has agreed that the Chief Executive's salary should be set within a range of 25-75% of the Peer Group for base salary. In 2017, Willis Towers Watson advised the Remuneration Committee that the CEO's salary remains well within the parameters set out in the remuneration policy.

The Remuneration Committee has considered the effectiveness of key performance indicators ('KPIs') and targets that were set for 2017 and it continues to consider that the overall structure of the Incentive Plan and the targets set in 2017 remain appropriate for 2018 other than where adjusted to reflect the 2018 business plan targets. The Remuneration Committee has also, with effect from 2018, introduced a cap on each of the KPIs (other than the Safety KPI) such that the points awarded on any KPI (other than Safety) cannot exceed 135% of the target set for that KPI at the beginning of the year. Under the Remuneration Policy approved by shareholders in 2017, the Remuneration Committee has discretion to amend bonuses in certain circumstances (as set out in the Policy). Such discretion is unaffected by this cap. The 2018 weightings and measures are therefore set out in the table below. The 2018 targets and performance against those targets will be disclosed in next year's report.

DIRECTORS' REMUNERATION REPORT CONTINUED
ANNUAL REPORT ON REMUNERATION 2017 (CONTINUED)

Objective	Measure	Weighting points[1]
Production	Increase in equivalent ounces produced compared to prior year production level[2]	26
Exploration/Growth	Net increase in total resources compared to previous year-end total[2]	10
	Net increase in resources upgraded from inferred to indicated compared to previous year-end total[2]	20
Financial	Year-on-year increase in net profit adjusted[3]	17
Stakeholder	Relationship with key stakeholder[4]	5
	Surface tenure[4]	3
	Controls over contractors[4]	3
Teamwork	Collective teamwork across the Group[4]	5
	Succession Plan for Executive Committee positions	6
Safety	Fatal accidents[5]	5
Total		**100**
Adjustments[6, 7, 8]		–
Total[8]		**100**

1 The points weighting is considered by the Remuneration Committee each year to ensure that it reflects an appropriate balance of priorities for management. Where a change of emphasis is considered to be necessary, the weighting will be amended in future years.
2 Any decrease in equivalent ounces produced and/or in reserves and resources will result in points being deducted from the total points scored.
3 Net profit is adjusted to exclude currency fluctuation, the effect of year-on-year changes in metals prices and any revaluation of the Silverstream contract.
4 The points awarded for the stakeholder and teamwork objectives are subject to some discretion. The following points are awarded depending on the Remuneration Committee's assessment of the teamwork effort: Outstanding = 7 points; Satisfactory = 5 points; Underperformance = 0 points.
5 In the event of a single fatality, zero points will be awarded for safety. For the purposes of calculating fatalities; all fatalities are included, irrespective of whether they are employees or contractors. Conversely, in the event of zero fatalities during the year, the number of points awarded would be increased to ten points.
6 In addition, to the penalty for a single fatality (see note 5), the number of points awarded will be further reduced by 1% if there are two fatalities. From the remaining total score, an additional 2% will be deducted if there are three fatalities. In the case of four fatal accidents, an additional 3% will be deducted from the remaining total score and so on for further fatalities.
7 A further adjustment was introduced in 2017 for environmental incidents. In the event of an environmental incident, the total bonus score will be reduced by 2%. In the case of two incidents, a further 3% will be deducted. In the case of three incidents a further 4% will be deducted and so on.
8 Under the Remuneration Policy approved at the 2017 AGM, the Remuneration Committee has discretion to make adjustments to bonus payments in circumstances set out in the section headed Discretion in the table on page 163.

REMUNERATION COMMITTEE

ROLE
The Remuneration Committee has responsibility for making recommendations to the Board on the Group's remuneration policy for Executive Directors and senior management (the Chief Executive Officer and other members of the Executive Committee), and for determining specific remuneration packages for senior management, including pension rights and any compensation packages, as well as remuneration of the Chairman within agreed terms of reference.

MEMBERSHIP
The Remuneration Committee consisted of the following Directors as at 31 December 2017:
- Mr Charles Jacobs (Chairman), independent Non-executive Director
- Mr Alberto Baillères, Chairman of the Board
- Mr Jaime Serra, independent Non-executive Director

Mr Serra was appointed a member of the Remuneration Committee on 23 May 2017. Mr Fernando Ruiz, independent Non-executive Director, was a member of the Remuneration Committee until he stepped down on 23 May 2017.

Although the UK Corporate Governance Code states the need for the Remuneration Committee to be made up of independent Non-executive Directors, the Board believe that it is vital that the membership of the Committee is made up of Non-executive Directors who are able to bring the following perspectives to the working of the Remuneration Committee:
- An understanding of shareholder expectations.
- An understanding of the evolving remuneration expectations of investors on the London Stock Exchange.
- An understanding of the general approaches to remuneration within the Mexican market.

The current composition of the Remuneration Committee is considered to be appropriate. Although Mr Baillères was non-independent at the time of his appointment to the Board (and therefore his membership of the Remuneration Committee does not comply with Code Provision D.2.1 of the UK Corporate Governance Code), the Board continues to uphold the view that Mr Baillères' experience and knowledge of the Group and the Mexican market and his considerable contribution to the Remuneration Committee's deliberations justifies his membership of the Remuneration Committee.

Attendance	
Mr Charles Jacobs	3/3
Mr Alberto Baillères	3/3
Mr Fernando Ruiz (a member of the Remuneration Committee until 23 May 2017)	2/2
Mr Jaime Serra (a member of the Remuneration Committee from 23 May 2017)	1/1

REMUNERATION COMMITTEE ACTIVITY DURING 2017

During the year, the Committee met three times. Its key activities during the year were:

- Approval of and recommendation of changes to the Remuneration Policy to the Board for approval prior to inclusion in the business of the 2017 for shareholder approval.
- Receipt of reports from Willis Towers Watson concerning the benchmarking of remuneration for members of the Executive Committee and Executive Directors, by reference to the peer group.
- Consideration of information about Mexican inflation trends and internal employee salary reviews prior to setting the annual salary increases for the Chief Executive Officer and members of the Executive Committee.
- Receipt of a report from Willis Towers Watson concerning developments in market practice in Mexico in relation to long-term/share-based incentives.
- Review of the Non-executive Directors' fees.
- Review of the performance of the Chief Executive Officer and members of the Executive Committee compared to the KPIs set for 2016 and approval of annual bonus awards for 2016 based on achievement of KPI targets.
- Review of KPI targets for the Chief Executive Officer and members of the Executive Committee for 2017, including consideration of the effectiveness of changes to the targets to reward better performance in safety improvement and exploration efforts set the previous year.
- Receipt of reports from the Company Secretary on UK regulatory developments in relation to executive remuneration.
- Other activities, e.g. Committee evaluation, as required by the Committee's terms of reference and review of the terms of reference of the Committee.

The terms of reference for the Remuneration Committee have been approved by the Board and are available on the Company's website at www.fresnilloplc.com.

ADVISORS TO THE REMUNERATION COMMITTEE

Remuneration consultants are engaged by Group companies to provide benchmarking information on remuneration but not to provide guidance on the structure of remuneration. All of the consultants that the Group uses are independent of the Company. No remuneration consultants are directly engaged by the Remuneration Committee itself.

Benchmarking information on pay and employment conditions is supplied annually by Mercer, Hay Group and Data Compensation. The information provided is used across the Group in determining salaries for all employee grades including senior management. While the Remuneration Committee takes such information into account when considering executive remuneration, none of these advisors are considered to materially assist the Remuneration Committee in the performance of its duties.

In addition, the Remuneration Committee receives specific reports comparing the remuneration of the members of the Executive Committee to international benchmarks. Willis Towers Watson have advised the Remuneration Committee in relation to the establishment of the peer group and the provision of benchmarking information showing the position of the remuneration, and particularly the salaries, of members of the Executive Committee in relation to the peer group. Willis Towers Watson provide general advice and benchmarking information to the Group concerning executive remuneration and during 2017, the Group paid Willis Towers Watson US$20,735 (2016: US$nil).

The Company Secretary ensures that the Remuneration Committee fulfils its duties under its terms of reference and provides regular updates to the Remuneration Committee on relevant regulatory developments in the UK.

The Group Human Resources Department provides information on Mexican market trends and compensation structures for the broader employee population in the Fresnillo Group.

DIRECTORS' REMUNERATION REPORT CONTINUED
ANNUAL REPORT ON REMUNERATION 2017 (CONTINUED)

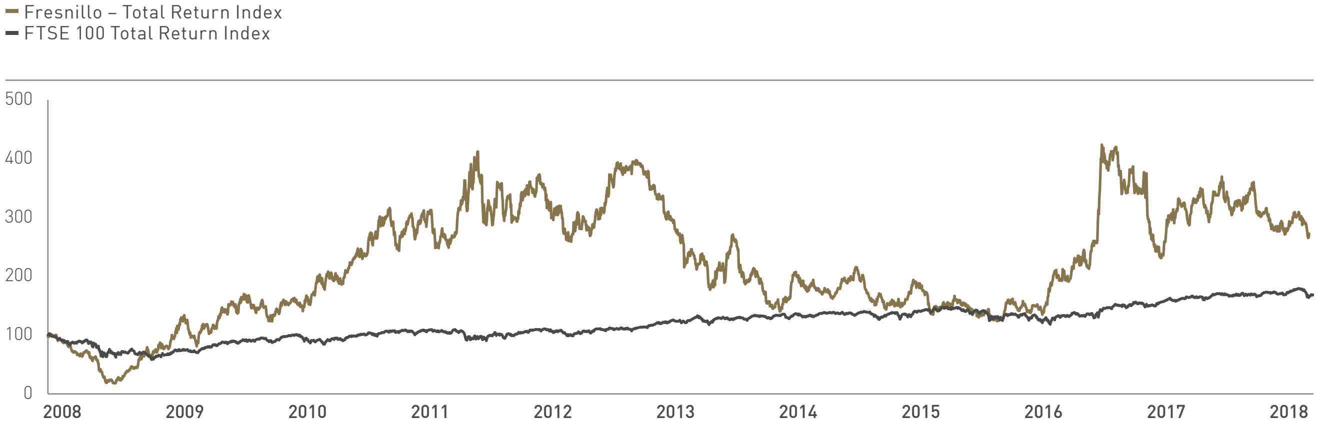
AGM VOTING ON THE REMUNERATION REPORT
The Remuneration Committee's approach to executive remuneration has received strong support from shareholders at every Annual General Meeting since the Company's listing on the London Stock Exchange in 2008. More than 99% of independent share votes cast on the advisory vote at each AGM have been in favour of the Directors' Remuneration Report.

	All shares voted		Free float shares voted		
	For	Against	For	Against	Number of votes withheld
2011	99.98%	0.02%	99.88%	0.12%	5,125
2012	99.91%	0.09%	99.54%	0.46%	1,814,818
2013	99.97%	0.03%	99.82%	0.18%	115,987
2014: Remuneration Policy	99.72%	0.28%	98.69%	1.31%	532,589
2014: Remuneration Report	100.00%	0.00%	99.99%	0.01%	531,072
2015: Remuneration Report	99.91%	0.09%	99.55%	0.45%	814,989
2016: Remuneration Report	99.89%	0.11%	99.48%	0.52%	44,391
2017: Remuneration Policy	99.87%	0.13%	99.42%	0.58%	43,901
2017: Remuneration Report	99.86%	0.14%	99.34%	0.66%	43,901

Note: Prior to 2014, there was only one vote on the Directors Remuneration Report at each Annual General Meeting.

PAYMENTS TO DEPARTING DIRECTORS
During the year, the Company has not made any payments to past Directors; nor has it made any payments to Directors for loss of office.

PERFORMANCE REVIEWS
As required by the Regulations, the following graph sets out the performance of the Company's share price since its listing compared to the FTSE 100 Index. This is deemed to be the most appropriate indices for comparative purposes.



TOTAL REMUNERATION OF THE CHIEF EXECUTIVE OFFICER

The total remuneration of the Chief Executive Officer for the past six years, in US dollars, has been as follows:

Year ending 31 December	2012	2013	2014	2015	2016	2017
Chief Executive Officer						
Total remuneration US$'000s						
– Jaime Lomelín	1,329 [1]	–	–	–	–	–
– Octavio Alvídrez	580 [2]	1,116	1,217	1,166	1,111	1,072
Total	1,909	1,116	1,217	1,166	1,111	1,072
Percentage change on previous year	12.4%	(41.5%)	9.1%	(4.2%)	(4.7%)	(3.5%)
Proportion of maximum bonus paid to CEO in year						
Jaime Lomelín	66.66%	–	–	–	–	–
Octavio Alvídrez	66.66%	33.33%	33.33%	33.33%	66.66%	33.33%

1 This figure reflects remuneration paid to Jamie Lomelín in his capacity as Chief Executive Officer from 1 January to 15 August 2012.
2 This figure reflects remuneration paid to Octavio Alvídrez from his appointment as Chief Executive Officer on 15 August 2012 until 31 December 2012.

RELATIVE IMPORTANCE OF THE SPEND ON PAY

	2017	2016	% change
Staff costs (US$'000s) [1]	**99,337**	85,889	15.7%
Distributions to shareholders (US$'000s)	**236,543**	88,059	168.6%

1 Staff costs are taken without PTU in order to make a like-for-like comparison with the Chief Executive Officer who does not receive PTU.

This Report has been approved by the Board of Directors of Fresnillo plc.

Signed on behalf of the Board.

Charles Jacobs
Chairman of the Remuneration Committee
26 February 2018

DIRECTORS' REMUNERATION REPORT CONTINUED

APPENDIX: DIRECTORS' REMUNERATION POLICY

INTRODUCTION

This part of the Directors' Remuneration Report sets out the remuneration policy of the Company and has been prepared in accordance with The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 ('the Regulations'). The policy has been developed taking into account the principles of the UK Corporate Governance Code 2016 and the views of our major shareholders. It describes the policy to be applied for the financial year ending 31 December 2017 and beyond. The remuneration policy was put to a vote at the 2017 Annual General Meeting and overwhelmingly approved. The effective date of the policy is therefore the date of the 2017 Annual General Meeting of the Company, 23 May 2017. As required by UK law, the remuneration policy is binding in relation to Directors. The Company currently has no Executive Directors who would be bound by the remuneration policy. However, the Company will (as it has previously done) treat the Chief Executive Officer as if he were an Executive Director for the purposes of the remuneration policy and for reporting on his remuneration.

REMUNERATION POLICY

The Group's remuneration policy seeks to ensure that the Company is able to attract, retain and motivate its Executive Directors and members of the Executive Committee. The retention of key management and the alignment of management incentives and the creation of shareholder value being key objectives of this policy.

Setting base salaries for Executive Directors and members of the Executive Committee at an appropriate level is a key to managerial retention in Mexico. Therefore, the Remuneration Committee seeks to ensure that salaries are market competitive both within the Mexican context and internationally for comparable companies. Total compensation is set within a range around the median level for the Company's peer group within Mexico and internationally, total remuneration is benchmarked triennially to ensure that the whole remuneration package is maintained at this level over the long term. Salaries are positioned within the range according to experience and service.

The table below sets out the key elements of Executive Directors' pay set out in the remuneration policy (the 'Policy Table'):

BASE SALARY

PROVIDES THE CORE REWARD FOR THE ROLE	
Operation	Reviewed annually and fixed for 12 months starting on 1 April each year and the review is influenced by: • Role, experience and performance. • Average workforce salary adjustments. • Mexican economic factors. • Comparison with the Company's peer group in Mexico and internationally. Salaries are benchmarked triennially by reference to companies of similar size and complexity and will be positioned within a mid-range of the Company's comparator peer group in Mexico and internationally. The next review will take place in April 2019.
Maximum value	The Executive Director's salary will be reviewed taking account of the benchmarking information received by the Remuneration Committee and the maximum value of the Executive Director's base salary will be positioned within the mid-range for companies in the peer group of Mexican and international resources companies. An Executive Director's salary will be increased in line with increases applied across the whole workforce. In exceptional circumstances, the Executive Director's salary may be increased by up to but never more than 10% above the average pay increase for the whole workforce of the Company in any year. The rationale for such increases will be fully explained in the Annual Report on Remuneration.
Performance metric	The Remuneration Committee considers individual salaries at the appropriate meeting each year by reference to the factors noted under the 'Operation' heading in this table. Details of the current remuneration of the Executive Director are provided in the Annual Report on Remuneration.
Discretion	The Remuneration Committee will establish the Company's comparator peer group in Mexico and internationally as part of the triennial review which it will consider in April 2019. The peer group will be reviewed again in April 2019. The Committee will report on the outcome of these reviews within the relevant Annual Report on Remuneration.

ANNUAL BONUS

REWARDS THE ACHIEVEMENT OF BOTH SHORT AND LONG-TERM FINANCIAL AND STRATEGIC BUSINESS TARGETS AND DELIVERY OF PERSONAL OBJECTIVES

Operation

Targets are renewed annually and relate to the strategic aims of the business as a whole. A scoring system is used for the plan. Each objective set for the executive at the beginning of the year is allocated a points-rating which represents a median performance target for that objective. Upper and lower point thresholds are set to allow for outstanding performance and to ensure that underperformance is not rewarded. For each member of the Executive Committee (including the Chief Executive Officer, the Chief Financial Officer, the Vice President of Exploration and the Chief Operating Officer), a bonus is only payable if the aggregate performance equals or exceeds 100 points. Bonus payments are paid for aggregate performance against target at or above 100 points as follows:

Points	Variable pay (month's salary)	Variable pay (% of salary)
Less than 100	Zero	Zero
100.00–103.75	Two	16.67
103.76–107.50	Three	25.00
107.51–111.00	Four	33.33
111.01–115.00	Five	41.67
115.01+	Six	50.00

Maximum value

The maximum percentage of salary is 50% (six months' salary) and is paid where Executive Directors achieve 115.01 points or more under the Annual Bonus Plan (the target is 100 points).

Performance metric

The KPI targets set out in the previous table will apply and are intended to focus on risks that are within the control and influence of management. Thus, the management of safety, security, project, human resource, exploration and environmental risks are all currently implicitly covered within the KPIs. The KPIs and targets, which are set by reference to the reserved and resources and financial metrics at the previous year end and/or set in the budget for the forthcoming financial year are also designed to ensure that both short-term objectives and the long-term development of the Fresnillo Group are given equal priority.

Details of the measures, targets and performance which is tested on an annual basis will be provided in the Annual Report on Remuneration.

Discretion

The Remuneration Committee considers that the KPIs, upon which bonuses are based, may need to evolve from year-to-year in line with the strategy and therefore it retains the discretion to make modest adjustments to the KPIs themselves, the bonus bands within the overall maximum and the individual KPI weightings from year-to-year.

The Remuneration Committee retains the discretion to adjust bonus payments in the following circumstances:

(i) A downward adjustment where the KPI outcomes would result, in the opinion of the Remuneration Committee, in a bonus payment which cannot be justified by the Company's financial or operational performance during the year (or subsequently in respect of previous years). In this case a downward adjustment would be applied.

(ii) Where factors outside the control of Executive Directors e.g. force majeure circumstances have significantly depressed the level of points awarded. In deciding whether adjustment is merited, the Remuneration Committee will consider the appropriateness of the Executive Director's response to those circumstances; in this situation a modest upward adjustment may be considered.

(iii) Poor executive response to adverse health, safety or environmental performance during the year, in which case a downward adjustment would be considered.

The use of any such discretions will be fully explained in future Directors' Remuneration Reports.

Note: Any adjustment in individual KPI weightings will not result in their achievement being any less difficult to satisfy.

DIRECTORS' REMUNERATION REPORT CONTINUED

APPENDIX: DIRECTORS' REMUNERATION POLICY (CONTINUED)

BENEFITS

HELP RECRUIT AND RETAIN EMPLOYEES	
Operation	An Executive Director would be entitled to life insurance, the use of a company car, the payment of premiums for medical insurance covering limited expenses and check-ups. Benefits may be changed if Company policy on benefits changes.
Maximum value	The current benefits are set out in the Annual Remuneration Report. The maximum value of benefits will be determined by Company policy that is applicable to all employees.
Performance metric	None.
Discretion	The Remuneration Committee may consider changes to the benefits made available to Executive Directors in line with any changes in the policy for benefits provided to all employees.

PENSION

REWARDS CONTINUED EMPLOYMENT AND SUSTAINED CONTRIBUTION	
Operation	The Group operates a defined contribution scheme. Executive Directors are entitled to membership of the defined contribution scheme.
Maximum value	The maximum Company contribution for any employee may not exceed 13% of salary.
Performance metric	None.
Discretion	Not applicable.

ALIGNMENT OF EXECUTIVE REMUNERATION AND THE MARKET

In setting the fixed remuneration of Executive Directors and the members of the Executive Committee, information relating to the mining company comparators is provided by various consultants. Information relating to the Mexican economic metrics and internal benchmarking is collated by management for the Remuneration Committee to consider.

Reviews are conducted by Willis Towers Watson triennially. These enable the Remuneration Committee to validate the Company's policy towards remuneration and ensure that it is globally as well as locally competitive. The analysis evaluates the elements of base salary, short-term compensation (guaranteed payments and short-term bonus) and long-term compensation (primarily stock programmes) separately. With assistance from Willis Towers Watson, the Remuneration Committee has established a peer group which will be used to benchmark any Executive Director's and any Executive Committee member's remuneration to ensure that it remains within the parameters set out in this policy (see page 157 of the Annual Report on Remuneration).

COMPARISON OF EXECUTIVE AND WIDER COMPANY REMUNERATION

When setting pay and benefits for Executive Directors and members of the Executive Committee, the Remuneration Committee takes account of pay and conditions across the Group. It will consider the overall pay increase percentage negotiated with employee representatives as its starting point. Subject to the 10% limit in the Policy Table, the Remuneration Committee may agree pay increases above or below the agreed percentage in exceptional circumstances, where in its discretion it considers such variance to the norm to be justified. Other than the Willis Towers Watson report specifically commissioned by the Remuneration Committee, the same benchmark reports are used in the evaluation of executive and employee remuneration, thus providing a common approach to both.

Below Board level, a statutory profit-sharing arrangement ('PTU') is operated which in some years has enabled employees to receive significant levels of bonus in line with the increased profitability of the relevant employing company. Neither the Chief Executive Officer nor any of the Non-executive Directors participate in a PTU scheme within the Fresnillo Group. The other members of senior management group below Board level are employed by Servicios Administrativos Fresnillo S.A. de C.V., which pays annual PTU payments. However, such payments are modest.

The Group operates two pension schemes: (i) a defined benefit scheme which was closed to new members on 1 July 2007 with benefits frozen at this date for existing members, subject to indexation with reference to the Mexican National Consumer Price Index; and (ii) a defined contribution scheme (which was introduced on 1 July 2007). Membership of the latter scheme is voluntary, members earning a salary of no more than 25 times the minimum wage in force from time to time may make contributions of 5% to the scheme.

On behalf of members earning a salary of no more than 25 times the minimum wage in force from time to time the employing company may make contributions of 5% to the scheme. The employing company may also make additional contributions between 5-8% of salary to this plan. Members may elect to match percentages between 5% to 8% of salary.

Executive Directors may participate the Group's pension schemes on the same basis as any other employee.

ENGAGEMENT WITH SHAREHOLDERS ON REMUNERATION

The composition of the Remuneration Committee has been designed to ensure that the views of the controlling shareholder (through the membership of the Chairman of the Board on the Committee) and the independent shareholders (through the membership of a UK-based Director on the Committee) can be represented. The Remuneration Committee has considered the views of organisations such as Institutional Shareholder Services ('ISS') and the Investment Association both generally and as reported to the Company in relation to its own executive remuneration practices prior to each Annual General Meeting, when considering the Remuneration Policy and its application. The Chairman of the Remuneration Committee also discussed aspects of the Remuneration Policy in person with ISS, and there were no major concerns raised.

The Remuneration Committee does not consult with employees in setting Directors' remuneration.

POLICY ON RECRUITMENT

The Remuneration Committee will consider the remuneration of new Executive Directors by reference to the remuneration policy set out previously. The Remuneration Committee does not as a default position pay sign-on payments or compensate new Directors for any variable remuneration forfeited from any employment prior to joining the Board. If it did, such payments would be fully explained in the next Annual Report on Remuneration both as to the reason for payment and the rationale for the quantum. Salary will be set so as to be market competitive both within the Mexican context and internationally for comparable companies and taking account of the experience and seniority of the appointee coming into the new role. The Remuneration Committee is likely to set base salaries below median on appointment while retaining discretion to award increases during the first and, possibly, subsequent years to bring salaries into the normal range expected for Executive Directors, in line with the Company's stated policy. Such increases will not exceed the maximum level set out in the Policy Table. New Executive Directors will receive benefits and pensions in line with the Company's existing policy and will be able to participate in the Annual Bonus Plan on a pro-rated basis for the portion of the financial year for which they are in post. The maximum level of variable pay for new recruits will be the same as that set out in the Policy Table for existing employees (pro-rated as necessary).

POLICY ON LOSS OF OFFICE

Other than in circumstances of gross misconduct, Executive Directors and members of the Executive Committee, including the Chief Executive Officer, leaving employment from the Group, will be entitled to receive salary and pro-rated annual bonus based on performance to the date of leaving. Statutory entitlements are payable according to Mexican labour law, based on length of service. Mexican labour law does not make any provision for employers and employees to give or receive notice of termination of employment. Therefore the Committee will not make payments in lieu of notice to departing executives unless required to do so by law. No contractual commitments concerning loss of office were entered into with any Director prior to 27 June 2012.

ANNUAL BONUS PLAN AND POLICY ON VARIABLE REMUNERATION

It is the Company's policy not to use its equity to incentivise long-term performance. The Company's core strategy is one of long-term sustainable growth. Sustainable growth in mining requires the steady and safe expansion of the Group's operations through the discovery of new resources and construction, maintenance and/or expansion of new mines. No distinction is therefore made between short and long-term incentives.

The Company operates a single cash-based incentive plan for Executive Directors and the members of the Executive Committee, including the Chief Executive Officer.

MALUS AND CLAW-BACK

The Remuneration Committee has considered whether malus and/or claw-back provisions should be incorporated into the service agreement for the Chief Executive Officer. Given that the Company does not operate any remuneration plans with a timeframe of more than one year, the Remuneration Committee does not consider that there is much value in introducing claw-back provisions into the contractual arrangements with the Chief Executive Officer at this stage. Within this remuneration policy, the Remuneration Committee reserves the right to make downward adjustment to bonus payments where the KPI outcomes would result, in the opinion of the Remuneration Committee, in a bonus payment which cannot be justified by the Company's financial or personal performance during the year (or subsequently in respect of previous years). In this case a downward adjustment would be applied.

DIRECTORS' REMUNERATION REPORT CONTINUED

APPENDIX: DIRECTORS' REMUNERATION POLICY (CONTINUED)

ILLUSTRATIONS OF THE APPLICATION OF THE REMUNERATION POLICY FOR THE CHIEF EXECUTIVE OFFICER

The following table sets out the fixed and variable remuneration of the Chief Executive Officer in the different scenarios where he receives, minimum, target and maximum variable pay (based on 31 December 2016 remuneration).

Component	Max value US$'000s		Minimum	Target	Maximum
Share incentives[1]					
Annual bonus	277	Annual variable pay[2]			
			US$918k	US$1,010k	US$1,195k
				9.1%	23.2%
Pension benefits	36	Fixed pay[3]	100%	90.9%	76.8%
Other benefits	90				
Base salary	792				

1 Fresnillo plc does not operate any share option or share-based long-term incentive plans.
2 Variable pay consists only of remuneration where performance measures or targets relate only to one financial year.
3 Fixed pay includes salary, benefits and pension.

EXTERNAL APPOINTMENTS

It is the Board's policy to allow Executive Directors to accept directorships of other quoted and non-quoted companies and retain any fees or other remuneration for doing so, provided that they have obtained the consent of the Chairman of the Company. Any such directorships must be formally notified to the Board.

CHAIRMAN AND NON-EXECUTIVE DIRECTORS

The remuneration of the Chairman of the Company and the Non-executive Directors consists of fees that are paid quarterly in arrears. The Chairman and Non-executive Directors do not participate in any long-term incentive or annual bonus schemes, nor do they accrue any pension entitlement. Neither the Chairman nor any of the Non-executive Directors has a service contract with the Company; however each has entered into a letter of appointment with the Company.

NON-EXECUTIVE DIRECTORS' LETTERS OF APPOINTMENT

On their initial appointment, each of the Non-executive Directors signed a letter of appointment with the Company, for an initial period of three years. Since April 2011, the letters of appointment of serving Non-executive Directors have been drafted in accordance with provision B.7.1 of the UK Corporate Governance Code, thus obliging them to retire at each Annual General Meeting and be subject to annual re-election by shareholders to serve for a further term of one year. The amendments have been drafted such that renewed appointment will not necessitate a new letter of appointment.

The Chairman of the Company does not receive any fees for acting as Chairman other than his fees as a Non-executive Director.

Each Non-executive Director is expected to commit a minimum of 14 days per year in fulfilling their duties as a Director of the Company. Once this policy is approved a base fee of £35,000 per annum will be paid to each non-UK-based Non-executive Director to reflect the time commitment and level of involvement they are required to make in the activities of the Board as a whole. There are no set fees for membership of any Board committees or for the chairmanship of the Board. The UK-based Non-executive Directors receive a higher fee to reflect the additional time commitment that they make in order to travel to Board meetings in Mexico and to their responsibilities as appropriate as Senior Independent Director, Chairman of the Remuneration Committee and Chairman of the Audit Committee.

Unless otherwise determined, the Director concerned may give not less than three months' notice of termination of the appointment. Copies of the Directors' letters of appointment and service agreements are available for inspection at the Company's registered office.

DIRECTORS' REPORT

In accordance with section 415 of the Companies Act 2006, the Directors of Fresnillo plc present their report for the year ended 31 December 2017.

The Directors believe that the requisite components of this report are set out elsewhere in this Annual Report and/or on the Company's website www.fresnilloplc.com. The table sets out where the necessary disclosures can be found.

Directors	Directors that have served during the year and summaries of the current Directors' key skills and experience are set out in the Corporate Governance Report on pages 118 to 120.
Results and dividends	Results for the year ended 31 December 2017 are set out in the Financial Review on pages 104 to 115 and the Consolidated Income Statement on page 186. Information regarding the proposed final dividend can be found in the Financial Review on page 115. Dividend payments made during the year ended 31 December 2017 can be found in the notes to the Financial Statements on page 222.
Articles of Association	The Company's full Articles of Association can be found on the Company's website at www.fresnilloplc.com/who-we-are/corporate-governance/. Any amendments made to the Articles of Association may be made by a special resolution of shareholders. The following is a summary of the structure, rights and restrictions of the Company's share capital: The Company has two classes of share capital: 736,893,589 ordinary shares of US$0.50 ('Ordinary Shares') and 50,000 deferred shares of £1.00 each ('Sterling Deferred Shares'). The Ordinary Shares are listed on the London Stock Exchange and the Mexican Stock Exchange. The rights and obligations attaching to these shares are governed by UK law and the Company's Articles of Association. Ordinary shareholders are entitled to receive notice and to attend and speak at any general meeting of the Company. On a show of hands every shareholder present in person or by proxy (or being a corporation represented by a duly authorised representative) shall have one vote, and on a poll every shareholder who is present in person or by proxy shall have one vote for every share held. The Notice of Annual General Meeting specifies deadlines for exercising voting rights and appointing a proxy or proxies. There are no restrictions on the transfer of the Ordinary Shares other than: • the standard restrictions for a UK-quoted company set out in article 32 of the Articles of Association; • where, from time to time, certain restrictions may become imposed by laws and regulations (for example, insider trading laws); and • pursuant to the Listing Rules of the Financial Services Authority whereby certain Directors, officers and employees of the Company require the approval of the Company to deal in the Ordinary Shares. A Director may be elected either to fill a casual vacancy or as an additional Director, but so that the total number of Directors shall not thereby exceed the maximum in accordance with the Company's Articles of Association. Any person so appointed by the Directors shall retire at the next Annual General Meeting and shall then be eligible for election. No shareholder holds securities carrying special rights as to the control of the Company. There are no limitations on the holding of securities. There are no restrictions on voting rights or any arrangements by which, with the Company's co-operation, financial rights carried by securities are held by a person other than the holder of the securities. There are no agreements between holders of securities that are known to the Company which may result in restrictions on the transfer of voting rights. The Sterling Deferred Shares only entitle the shareholder to payment of the amount paid up after repayment to Ordinary Shareholders on winding up or on a return of capital. The Sterling Deferred Shares do not entitle the holder to payment of any dividend, or to receive notice or to attend and speak at any general meeting of the Company. The Company may also at its option redeem the Sterling Deferred Shares at a price of £1.00 or, as custodian, purchase or cancel the Sterling Deferred Shares or require the holder to transfer the Sterling Deferred Shares. Except at the option of the Company, the Sterling Deferred Shares are not transferable.
Share capital	Details of the Company's share capital are set out in note 18 to the financial statements on page 221.
Authority to purchase own shares	Details on the Company's current authority to purchase its own shares and that being sought at the forthcoming Annual General Meeting are set out in the Corporate Governance Report on page 149.
Directors' interests	Details of the Directors' beneficial interests are set out in the Remuneration Report on page 156.
Directors' indemnities	The Company has given indemnities to each of the Directors in respect of any liability arising against them in connection with the Company's (and any associated company's) activities in the conduct of their duties. These indemnities are subject to the conditions set out in the Companies Act 2006 and remain in place at the date of this report.
Directors' and Officers' Liability Insurance	Directors' and Officers' Liability Insurance cover is in place at the date of this report. Cover is reviewed annually and the last renewal was carried out in October 2017.
Major interests in shares	Notifiable major shares interests of which the Company has been made aware are set out on page 148 of the Corporate Governance Report.

DIRECTORS' REPORT
CONTINUED

Change of control	Details setting out the effect of a change of control of the Company on significant agreements are set out on the Company's website at http://www.fresnilloplc.com/who-we-are/corporate-governance.
Political contributions	The Company did not make any donations to political organisations during the year.
Payments to governments	In June 2017, the Company approved and published a report disclosing payments made to governments. The report can be found on the Company's website at http://www.fresnilloplc.com/investor-relations/regulatory-announcements.
Modern Slavery Statement	The Company has approved and published on its website its Modern Slavery Statement in accordance with the Modern Slavery Act 2015 at http://www.fresnilloplc.com/corporate-responsibility/modern-slavery/.
Diversity policy	In February 2018 the Company approved and published on its website its policy on diversity at http://www.fresnilloplc.com/corporate-responsibility/our-policies/.
UK tax strategy	The Company's UK tax strategy for the financial year ending 31 December 2017 is published on its website at http://www.fresnilloplc.com/corporate-responsibility/tax-strategy/.
Greenhouse gas emissions	Details of the Company's greenhouse gas emissions can be found in the Social and Sustainability Report on page 94 of the Strategic Report.
Financial risk	Details of the Company's policies on financial risk management and the Company's exposure to price risk, credit risk, liquidity risk and cash flow risk are outlined in note 31 to the Financial Statements.
Branches outside the UK	The Company's operations are outside the UK.
Activities in research and development	The Company does not have any research and development activities.
Future developments	Details about the Company's future developments can be found in the Strategic Report on pages 24 and 25.
Auditors	A resolution to reappoint Ernst & Young LLP as auditors will be proposed at the Annual General Meeting.
Post-balance sheet events	There have been no post-balance sheet events.
Audit information	Each of the Directors at the date of the approval of this report confirms that: • so far as he/she is aware, there is no relevant audit information of which the Company's auditors are unaware; and • he/she has taken all the reasonable steps that he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of the information. The confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.
Additional Listing Rule disclosures	Disclosure requirements under Listing Rule 9.8.4 C are identified below along with cross-references indicating where the relevant information is set out in the Annual Report: • Capitalised interest for the year ended 31 December 2017 and information regarding tax relief can be found on page 218. • Details of significant contracts with controlling shareholders can be found on page 144. • Details pertaining to services provided to the Company by Peñoles are set out on page 229. • Statement confirming agreement has been entered into with controlling shareholder and that independence provisions are complied with can be found in the Corporate Governance Report on page 123.

The Directors' Report has been approved by the Board of Directors of Fresnillo plc.

Signed on behalf of the Board.

Charles Jacobs
Senior Independent Director
26 February 2018

Fresnillo plc
Registered Office:
21 Upper Brook Street
London, W1K 7PY
United Kingdom
Company No: 6344120

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report and the Group and parent company financial statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards ('IFRS') adopted by the European Union.

The Directors are required to prepare financial statements for each financial year which present a true and fair view of the financial position of the Company and of the Group and the financial performance and cash flows of the Company and of the Group for that period. In preparing those financial statements, the Directors are required to:
- select suitable accounting policies in accordance with IAS 8: 'Accounting Policies, Changes in Accounting Estimates and Errors' and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company and of the Group's financial position and financial performance;
- state that the Company and the Group has complied with IFRS, subject to any material departures disclosed and explained in the financial statements; and
- prepare the accounts on a going concern basis unless, having assessed the ability of the Company and the Group to continue as a going concern, management either intends to liquidate the entity or to cease trading, or have no realistic alternative but to do so.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and of the Group and enable them to ensure that the financial statements comply with the Companies Acts 2006 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Under applicable UK law and regulations, the Directors are responsible for the preparation of a Directors' Report, Directors' Remuneration Report and Corporate Governance Report that comply with that law and regulations. In addition the Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Neither the Company nor the Directors accept any liability to any person in relation to the annual financial report except to the extent that such liability could arise under English law. Accordingly, any liability to a person who has demonstrated reliance on any untrue or misleading statement or omission shall be determined in accordance with section 90A and schedule 10A of the Financial Services and Markets Act 2000.

In accordance with provision C.1.1 of the UK Corporate Governance Code, the Directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides information to enable shareholders to assess the Company's performance, business model and strategy.

RESPONSIBILITY STATEMENT OF THE DIRECTORS IN RESPECT OF THE ANNUAL REPORT AND ACCOUNTS

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

a) the financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit and loss of the Company and the undertakings included in the consolidation taken as a whole; and
b) the management report (encompassed within the 'Overview', 'Strategic Report', 'Performance' and 'Governance' sections) includes a fair review of the development and performance of the business, and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

For and on behalf of the Board

Charles Jacobs
Senior Independent Director
26 February 2018

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF FRESNILLO PLC

OPINION
In our opinion:
- Fresnillo plc's Group financial statements and Parent Company financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2017 and of the Group's profit for the year then ended;
- the financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006, and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements of Fresnillo plc which comprise:

Group	Parent company
Consolidated balance sheet as at 31 December 2017	Parent Company balance sheet as at 31 December 2017
Consolidated income statement for the year then ended	Parent Company statement of changes in equity for the year then ended
Consolidated statement of comprehensive income for the year then ended	Parent Company statement of cash flows for the year then ended
Consolidated statement of changes in equity for the year then ended	Related notes 1 to 18 to the financial statements including a summary of significant accounting policies
Consolidated statement of cash flows for the year then ended	
Related notes 1 to 31 to the financial statements, including a summary of significant accounting policies	

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

BASIS FOR OPINION
We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements (we include our consideration of a prohibited non-audit service provided to the Company below).

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

USE OF OUR REPORT
This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

CONCLUSIONS RELATING TO PRINCIPAL RISKS, GOING CONCERN AND VIABILITY STATEMENT

We have nothing to report in respect of the following information in the annual report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the annual report set out on pages 34-47 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation set out on pages 140 and 141 in the annual report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- the directors' statement set out on page 49 in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- whether the directors' statement in relation to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the directors' explanation set out on page 48 and 49 in the annual report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

OVERVIEW OF OUR AUDIT APPROACH

Key audit matters	• Recognition of related party transactions, including revenue recognition • Valuation of the Silverstream contract • Disclosures, provisions and asset recoverability arising from the El Bajío ejido litigation and land disputes • Recoverable amount of mining assets • Potential tax uncertainties arising from tax authority inspections and changes in legislation • Recoverable amount of investments in subsidiaries (Parent Company Only)
Audit scope	• We performed an audit of the complete financial information of 5 components, being the 4 operating mining units and the Parent Company. These components accounted for: – 100% of Revenues; – 96% of Profit before tax, excluding Silverstream revaluation effects and gain on the sale of concessions; and, – 82% of Total assets. • In addition, we performed specified procedures on specific balances at a further 5 components. These components accounted for: – 100% of the Silverstream revaluation effects and gain on the sale of concessions; – 4% of Profit before tax excluding Silverstream revaluation effects and gain on the sale of concessions; and, – 16% of Total assets.
Materiality	• Overall Group materiality of US$31.0m which represents 5% of forecast profit before tax, before Silverstream revaluation effects and gain on the sale of concessions.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

INDEPENDENT AUDITOR'S REPORT
CONTINUED

In the table below, each key audit matter is attributed an icon which is used to map these to our components in scope in the subsequent section below.

KEY AUDIT MATTER

RECOGNITION OF RELATED PARTY TRANSACTIONS, INCLUDING REVENUE RECOGNITION ◆

- All of the Group's current year revenue from the sale of goods, being concentrates, doré, slag and precipitates (US$2,101.6 million; 2016: US$1,905.5 million), and a significant amount of its expenses incurred (US$111.6 million; 2016: US$84.0 million), arise from transactions with related parties. These related parties are principally subsidiaries of the Group's direct parent, Industrias Peñoles ("Peñoles").
- Principal transactions include the sale of goods to the Met-Mex Peñoles refinery, administrative services received and the Silverstream contract.
- There is a risk that, if not at arm's length or not reflecting the goods or services provided in the period, such transactions could be used to manipulate earnings or to distribute profits to the Group's parent.
- There is also a risk that revenues are inappropriately recognised as a result of incorrect cut-off or inappropriate measurement of product sold.
- There is an ongoing focus by the Mexican tax authorities on transfer pricing as reflected by the current tax inspections. There is therefore the potential risk of tax exposures arising from related party transactions.

➲ Our judgment is that the level of risk in this area remains consistent with the prior year.

We have not made significant changes to our audit response compared to the prior year.

Related party transactions are disclosed in note 27 to the consolidated financial statements, Revenues in note 4 and relevant accounting policies in note 2.

OUR AUDIT RESPONSE

We performed full scope audit procedures over this risk area in 5 components, which covered 100% of the aggregate risk amount relating to revenue and 61% relating to related party expenses. In addition we performed specified procedures in 1 component which covered 38% of the aggregate risk amount relating to related party expenses. We also performed specified procedures over the Silverstream contract, which covered 100% of the risk amount.

Identification of related parties and related party transactions	• We evaluated the appropriateness of management's process for identifying, recording and reporting related party transactions. • We read contracts and agreements with related parties to understand the nature of the transactions. • Throughout the performance of our audit procedures, we remained alert for any related party transactions outside the normal course of business.
Revenue recognition	• On a sample basis we performed testing to verify physical deliveries of product in the year. • We performed revenue cut-off testing, by reference to shipment dates. • We evaluated the appropriateness of the accounting for embedded derivatives arising from the provisional pricing terms in sales contracts. • We obtained an understanding of the basis of the treatment and refining charges negotiated between the Group and Peñoles for the current year, these being deducted from revenue. • We compared actual revenues on a disaggregated basis to detailed expectations developed based on production in the year and market prices for relevant metals to identify and understand variances for further investigation.
Related party expenses	• On a sample basis we tested related party expenses against underlying contractual terms. • We utilised data analysis tools to interrogate entire data sets for potential related party transactions. • We compared actual results against detailed expectations of income statement line items impacted by related party transactions to corroborate that there was no evidence of manipulation.
Silverstream contract	• We tested a sample of cash receipts in respect of silver that is payable under the contract in the year. • The valuation of the Silverstream contract is discussed separately below.
Accuracy of disclosures	• We verified that related party disclosures in the financial statements are consistent with the results of our audit procedures.

KEY AUDIT MATTER	
Identification of related parties and related party transactions	• We, along with our internal transfer pricing specialist, obtained and reviewed the most recent report (for 2016) to management from its transfer pricing specialists. • We reviewed a letter provided by the specialist to management in February 2018 providing an update with respect to transfer pricing applied in 2017. We met with the specialist to further understand the content of the letter and to assess the conclusions reached. • We assessed the specialist as a specialist engaged by management.
Revenue recognition	• We developed detailed expectations for production volumes based on our interviews with management, published production reports and internal reporting to the Executive Committee. • We performed analytical review procedures applying a low variance threshold, comparing revenue and production costs against the expectations we developed. • We used EY's bespoke data analysis tools to search for terms indicating related parties and prepare a summary of transactions related to known related-party vendors and customers, which we compared to the schedule provided by management to the Audit Committee.

KEY OBSERVATIONS COMMUNICATED TO THE AUDIT COMMITTEE

- Our procedures did not identify issues with the identification, recording or reporting of related party transactions.
- We concluded that revenue recognition in the year is appropriate, including the treatment of related provisional pricing terms.
- In respect of transfer pricing in transactions with related parties, we consider that the work undertaken by management's transfer pricing specialist is appropriate for Mexican tax law and also to support the appropriateness of the pricing applied to these transactions for financial reporting considerations.

KEY AUDIT MATTER

VALUATION OF THE SILVERSTREAM CONTRACT ■

- The valuation of the Silverstream contract (US$538.9 million at 31 December 2017; 2016: US$467.5 million), a derivative financial instrument, is estimated by management using a discounted cash flow model.
- Key assumptions are the estimation of the reserves and resources and the related production profile of the Sabinas mine (owned and operated by Peñoles), future silver prices and the discount rate applied. These assumptions require management judgment and estimation.
- The resulting valuation is sensitive to changes in these assumptions which may result in material revaluation effects in the financial statements (US$113.7 million pre-tax gain in 2017; 2016: US$133.5 million pre-tax gain).

➲ Our judgment is that the level of risk in this area remains consistent with the prior year.

We adapted our procedures to consider the findings of a specialist engaged by Peñoles to assess its estimation process of the mineral reserves and resources of the Sabinas mine in the current year.

The nature of the Silverstream contract and related valuation considerations are disclosed in note 14 to the consolidated financial statements and the relevant accounting policies in note 2.

INDEPENDENT AUDITOR'S REPORT
CONTINUED

OUR AUDIT RESPONSE
We performed specified procedures over the valuation of the Silverstream contract at 31 December 2017 and related income statement revaluation effects. These procedures covered 100% of the risk amount.

Valuation model	• In conjunction with our valuation specialists, we evaluated the appropriateness of the valuation approach and related model used by the Company to determine the fair value of the Silverstream contract under accounting standards.
Reserves and resources and production profile of the Sabinas mine	• We interviewed the Sabinas mine geologist in order to understand the assumptions used in the estimation of reserves and resources and movements in the estimation in the year. • We issued instructions to the auditor of Peñoles to perform procedures and report to us in respect of the reserves and resources estimate and mine plan of the Sabinas mine. These procedures included: – conducting walkthroughs to confirm our understanding of Peñoles management's processes to estimate quantities of reserves and resources and to develop the Sabinas mine plan; – testing of certain key Peñoles controls which address the risks associated with the estimation of reserves and resources quantities and accuracy of the resulting mine plan; – gaining an understanding of reasons for changes in estimates of reserves and resources in the year; – assessing the professional competence, objectivity, and capabilities of Peñoles' internal specialists involved in the estimation of reserves and resources quantities; and – evaluating the reasonableness and appropriateness of inputs to the reserves and resources estimates and Sabinas mine plan as at 31 December 2017. • In the current year Peñoles has engaged SRK Consulting ("SRK"), to perform certain procedures over its reserve and resource estimation process. We have therefore also instructed the auditor of Peñoles to: – gain an understanding of the scope of these procedures; – review the conclusions reached by the external specialist and assess whether there are any implications for the estimate of Sabinas reserves and resources and related mine plan as at 31 December 2017; and – assess the professional competence, objectivity, and capabilities of the specialist. • We discussed the results of the above procedures and reviewed key working papers. • We performed sensitivity analysis on inferred resources included in the mine plan.
Key economic assumptions in the valuation	• With assistance from our valuation specialists we corroborated key economic assumptions in the valuation, including future silver prices, foreign exchange rates and the discount rate applied. • This included comparison to market data to consider the appropriateness of silver price and discount rate assumptions when considered together in the valuation model and analysis of the consistency of assumptions to other accounting estimates. • We performed sensitivity analysis on the combination of silver price assumptions and discount rate.

KEY OBSERVATIONS COMMUNICATED TO THE AUDIT COMMITTEE
- The valuation model is consistent with that used in prior periods and we consider this appropriate for the nature of this long term derivative contract.
- We highlighted the sensitivity of the valuation to economic input assumptions, most significantly silver price and discount rate. We consider that both management's long term silver price and discount rate assumptions are at the lower end of respective ranges considered appropriate by EY valuation specialists. We reported sensitivity analysis to demonstrate the financial impact of changing these assumptions.

KEY AUDIT MATTER

DISCLOSURES, PROVISIONS AND ASSET RECOVERABILITY ARISING FROM THE EL BAJÍO EJIDO LITIGATION AND LAND DISPUTES ●

- The El Bajío litigation and land disputes may create uncertainty around the Group's ability to realise the carrying values of impacted assets in the Group's balance sheet and may give rise to further asset impairment.
- Related assets are capitalised mining costs and inventory held in leaching pads at the impacted mine site.
- The assessment of the recoverability of impacted assets and appropriate disclosure or provisions in the financial statements requires judgement about the future legal outcome of claims and land disputes and estimates of any related financial impacts.

➲ Our judgment is that the level of risk in this area remains consistent with the prior year.

We have not made significant changes to our audit response compared to the prior year.

Contingencies in respect of the El Bajío ejido litigation and land disputes are disclosed in note 26 to the consolidated financial statements and the relevant accounting policies in note 2.

KEY AUDIT MATTER

OUR AUDIT RESPONSE

We performed full scope audit procedures over this risk area in 1 component, which covered 100% of the risk amount.

Recoverability of non-current assets	• We assessed management's conclusion that there is sufficient likelihood of future economic benefits flowing from the use of assets impacted by the El Bajío land disputes that continue to be carried on the Group's balance sheet. • We evaluated management's assessment of related indicators of impairment in respect of those assets.
Inventory valuation	• We assessed management's estimation of the recoverable value of inventory that is impacted by land disputes, including corroborating gold price assumptions to market data.
Future legal outcome of claims	• We evaluated management's assessment of the current status of the El Bajío ejido litigation and claims against the Group and considered whether there is a requirement for any provision or related disclosures under accounting standards. • We obtained and read independent legal confirmation letters from the Group's external lawyers advising on these issues, and assessed these for consistency with management's conclusions. We assessed these lawyers as specialists engaged by management. • We assessed the Group's internal legal counsel as a management specialist. • We reviewed related disclosures in the Annual Report and Accounts to consider their appropriateness and completeness.
Management override	• As the evaluation of related controls requires the evaluation of the assumptions used in, and the output of, that process, we do not seek to rely on these controls. As such, we did not specifically address the risk of management override of controls in this area but rather increased the level of challenge when performing our substantive procedures.

KEY OBSERVATIONS COMMUNICATED TO THE AUDIT COMMITTEE

- We concluded that, based on the facts and circumstances of the El Bajío ejido litigation and land disputes, management's assessment that no provision is required and that the impacted assets are recoverable at 31 December 2017 is appropriate.
- The legal confirmations we received supported management's judgements in this area.
- We concluded that the carrying value of related assets is appropriate.
- We consider that the disclosure in note 26, Contingencies, is appropriate.

INDEPENDENT AUDITOR'S REPORT

CONTINUED

KEY AUDIT MATTER

RECOVERABLE AMOUNT OF MINING ASSETS ▲

- The identification of indicators of impairment is judgmental.
- When an impairment test is performed, the key assumptions underpinning management's assessment of the recoverable amount of mining assets are reserves and resources and related mine plans and production profiles, estimated future operating and capital expenditure, future commodity prices, exchange rates and the discount rates applied.
- The estimation of mineral reserves and resources quantities of the Group's mines requires significant judgment and estimation.
- The Group's reserves and resources are audited by SRK, a specialist engaged by management.
- Changes to assumptions could lead to material changes in estimated recoverable amounts, resulting in impairment of property plant and equipment (US$2,448.6 million, 2016 US$2,180.2 million). There is however no impairment taken prior years that may be reversed.

➲ Our judgment is that the level of risk in this area remains consistent with the prior year.

We have not made significant changes to our audit response compared to the prior year.

Management's assessment of the judgement and estimation required is set out in note 2 to the consolidated financial statements, with results of management's assessment for impairment in note 12. The reserves and resources tables are presented on pages 274-278, after the Parent Company notes.

OUR AUDIT RESPONSE

We performed full scope audit procedures over this risk area in 4 components, which covered 100% of the risk amount.

Indicators of impairment and methodology used to estimate recoverable values	• We reviewed management's identification of indicators of impairment under accounting standards. • We assessed the methodology used by management to estimate the recoverable value of each mining asset for which an impairment test was performed to ensure that this is consistent with accounting standards. • We have assessed the valuation models used by management to estimate the recoverable value of each asset.
Estimation process for reserves and resources	• We walked through the process of the estimation of the reserves and resources quantities. • We identified key controls in this process and obtained evidence of their implementation.
External specialists engaged by management	• We assessed SRK as a specialist engaged by management. • Through discussions with SRK, we have gained an understanding of the scope of their work to verify that this was appropriate. • We read the report of the external specialist and gained an understanding of the changes in reserves and resources estimates in the year.
Use of reserves and resources in financial statement calculations	• We tested that the audited reserves and resources estimates have been appropriately applied to relevant areas of the Group's financial statements, including in assessing the recoverable value of mining assets.
Key internal assumptions used in management's estimate of the recoverable values of mining assets	• We agreed related production profiles to the current mine plans for each mine and considered their consistency with our understanding of future plans at the mines obtained through interviews with both operating and senior management. • We assessed operating and capital costs included in the cash flow forecasts for consistency with current operating costs and forecast mine production.
Key external assumptions used in management's estimate of the recoverable values of mining assets	• Working with our valuation specialists we have assessed management's assumptions relating to future metals prices and discount rates, comparing these to market data and also for consistency with other estimates used in the financial statements. • We have performed sensitivity analysis on management's calculated recoverable values for alternative assumptions around silver and gold prices and the discount rate applied.

KEY AUDIT MATTER

KEY OBSERVATIONS COMMUNICATED TO THE AUDIT COMMITTEE

- We assessed SRK as an appropriate specialist engaged by management for the purposes of auditing the reserves and resources of the Group.
- We confirmed that the audited reserves and resources estimates have been appropriately used in relevant financial statement calculations.
- We consider the approach to determining the recoverable value of mining assets tested for impairment to be appropriate.
- Our procedures confirmed that the reserves and resources and related production profiles used in the impairment testing are consistent with the estimates audited by SRK and respective mine plans.
- Our procedures confirmed that the estimates of operating and capital costs are consistent with the production profiles of respective mines and related mine plans.
- We concluded that the carrying values of mining assets are recoverable at 31 December 2017.

KEY AUDIT MATTER

POTENTIAL TAX UNCERTAINTIES ARISING FROM TAX AUTHORITY INSPECTIONS AND CHANGES IN LEGISLATION ➤

This is an area on which the audit team, including senior members thereof, has spent considerable time during the year as these areas have developed. Constituent areas discussed below have not resulted in provisions at 31 December 2017 but are disclosed as contingent liabilities.

Tax authority inspections

- As disclosed in note 26, Contingencies, in the consolidated financial statements, in 2015 the tax authorities (SAT) initiated inspections of Minera Penmont for 2012 and 2013 which are ongoing.
- During the current year SAT initiated a number of further inspections at certain of the Group's subsidiaries.
- The Company has provided information to SAT with respect to the inspections initiated in the year. However, to date no findings have been raised by SAT.

Changes in legislation

- Effective 1 January 2017 there were changes in Mexican income tax and VAT requirements relating to contractors, a significant area of expenditure for Fresnillo. Fresnillo now has an obligation to ensure that contractors are compliant with their own tax obligations, including employment tax.
- If Fresnillo does not obtain and retain sufficient evidence of a contractors' compliance, the Company is at risk of not being permitted to deduct costs related to the contractor for income tax purposes or recover the related input VAT.
- The tax authorities committed to establish an online portal to facilitate compliance. This was only made available in December 2017. As such there has been a lack of clarity around the implementation of the requirements for 2017 until late in the year. In late 2017 the related legislation was updated, to clarify that registration by a contractor on the online portal by the end of 2018 was sufficient to discharge any 2017 compliance obligations for Fresnillo.

➲ Our judgment is that the level of risk in this area has increased compared with the prior year.

We have designed and executed specific audit responses to address the risk in the current year.

Contingencies in respect of taxation are disclosed in note 26 to the consolidated financial statements and the relevant accounting policies in note 2.

INDEPENDENT AUDITOR'S REPORT

CONTINUED

KEY AUDIT MATTER

OUR AUDIT RESPONSE

We performed full scope audit procedures over this risk area in all impacted components, which covered 100% of the risk amount.

Tax inspections	• Throughout the year we maintained an understanding of the progress of inspections in order to understand the status of inspections started in 2015 as well as areas of information requested for new inspections and the status of subsequent correspondence with the tax authorities. • We read the correspondence with tax authorities relating to the tax inspections and, where relevant, legal opinions supporting tax treatments. • For elements of inspections that were progressed during the year, we critically inspected correspondence with the SAT to substantiate management's views on any remaining exposure at 31 December 2017. • We evaluated management's process to determine any remaining exposure and likelihood of tax treatments being accepted by the tax authorities. • We read the related disclosures in the financial statements assessing whether they accurately reflect our understanding of the status of the investigations and management's assessment of potential exposure.
Contractors' fiscal compliance	• Using our tax specialists we assessed the implications of the new legislation and its implementation as this evolved during the year. • We understood the Company's process for seeking compliance with the regulation and assessed its adequacy. • We held meetings with management to understand its progress in obtaining evidence of contractor compliance throughout the year. • On a sample basis we checked the evidence obtained by management in support of contractors' compliance during 2017. • Following the clarification of legislation in late 2017 we assessed management's process to achieve contractor registration on the portal, and the subsequent extent of actual registration.
Management override	• As the evaluation of related controls requires the evaluation of the assumptions used in, and the output of, that process, we do not seek to rely on these controls. As such, we did not specifically address the risk of management override of controls in this area but rather increased the level of challenge when performing our substantive procedures.

KEY OBSERVATIONS COMMUNICATED TO THE AUDIT COMMITTEE

- We conclude that management's process for evaluating tax exposures is appropriate and that the conclusions reached are supportable.
- We conclude that the disclosure of contingent liabilities is appropriate at 31 December 2017.

KEY AUDIT MATTER

RECOVERABLE AMOUNT OF INVESTMENT IN SUBSIDIARIES (PARENT COMPANY ONLY) ▼

- Investments in subsidiaries (US$7,094 million, 2016 US$6,958 million) are more sensitive to changes in recoverable value than the Group's underlying mining assets because these investments were re-measured at fair value in 2008 when the Group was established ahead of its Initial Public Offering.
- The principal driver of the recoverable amount of investments in subsidiaries is the estimated value of underlying mining assets held by the Group's subsidiaries. Refer to related considerations in the related key audit matter above.
- In addition, management estimates the recoverable value of exploration projects in considering the recoverable value of subsidiaries.
- Changes to assumptions could lead to material changes in estimated recoverable amounts, resulting in either impairment or reversals of impairment taken in prior years.

➲ Our judgment is that the level of risk in this area remains consistent with the prior year.

We have not made significant changes to our audit response compared to the prior year.

Management's assessment of the judgement and estimation required is set out in note 2 to the Parent Company financial statements, with management's assessment of investments in subsidiaries included in note 5.

OUR AUDIT RESPONSE

We performed full scope audit procedures over this risk area in 1 component, which covered 100% of the risk amount.

Key internal assumptions used in management's estimate of the recoverable value	• We have assessed the methodology used by management to estimate the recoverable value of each investment for which an impairment test was performed to ensure that this is consistent with accounting standards. • Refer to the key audit matter above with respect to procedures performed relating to the recoverable value of mining assets. • We have evaluated management's approach to valuing exploration prospects.
Key external assumptions used in management's estimate of the recoverable value	• Refer to the key audit matter above with respect to procedures performed relating to the recoverable value of mining assets. • We have performed sensitivity analysis on management's calculated recoverable values for alternative assumptions around silver and gold prices and the discount rate applied.

KEY OBSERVATIONS COMMUNICATED TO THE AUDIT COMMITTEE

- We concluded that the carrying values of mining assets, the principal driver of the recoverable amount of investments in subsidiaries, are reasonable.
- We agree with management's assessment of the recoverable value of investments in subsidiaries and related income statement effects in the year.

INDEPENDENT AUDITOR'S REPORT
CONTINUED

PRINCIPAL CHANGES AS COMPARED TO THE PRIOR YEAR ARE DETAILED BELOW:
In the prior year we identified "Reserves and resources" as a separate key audit matter. In the current year we consider this as a component of a new Key Audit Matter: "The recoverable amount of mining assets" and as a component of "Recoverability of investment in subsidiaries."

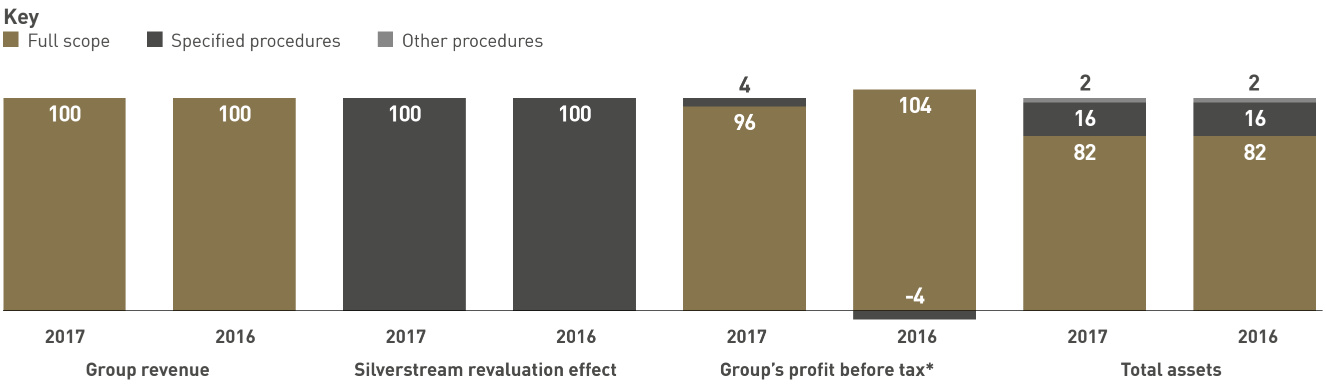
In response to an increased number of tax inspections and changes to income tax and VAT in respect of contractors we identified a new Key Audit Matter: "Potential tax uncertainties arising from tax authority inspections and changes in legislation."

AN OVERVIEW OF THE SCOPE OF OUR AUDIT
TAILORING THE SCOPE
Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile and the organisation of the Group and the effectiveness of group-wide controls and other factors such as the results of the work of Internal Audit when assessing the level of work to be performed at each entity.

We performed an audit of the complete financial information of 5 components (2016: 5) ("full scope components") which were selected based on their size or risk characteristics. These components are the 4 operating mining units in Mexico and the Parent Company. In some instances operating mining units include more than one operating mine; the Fresnillo mining unit includes the Fresnillo and the San Julián mines and the Penmont mining unit includes the Herradura, Noche Buena and Soldeda & Dipolos mines.

We also performed specified audit procedures on specific account balances in a further 5 components (2016: 5). The procedures were on those account balances within those components which we deemed to be significant either because of the size of these accounts or their risk profile. These accounts included taxation, mine closure provisions, property, plant and equipment and cash and cash equivalents and all balances relating to the Silverstream contract.

The reporting components where we performed audit procedures represented:



* Excludes sales, Silverstream revaluation effects and gain on sale of concessions.

The audit scope of components at which we perform specified procedures may not include testing of all significant accounts of the component but will have contributed to the coverage reflected above.

The remaining components together represent an effect on the Group's Profit before tax excluding Silverstream revaluation effects and gain on disposal of concessions of less than 1% (2016: (1)%) and 2% of total assets (2016: 2%). For these components, we perform other procedures, including analytical review and testing of consolidation journals and intercompany eliminations to respond to any potential risks of material misstatement in the Group financial statements.

CHANGES FROM THE PRIOR YEAR
There were no significant changes in our scoping as compared to the prior year.

INVOLVEMENT WITH COMPONENT TEAMS
All of the Group's significant operations are in Mexico and are audited by one local team under our direct supervision.

	Work performed by	
	Primary team	One component team under our direct supervision
Full scope components	● (Parent Company)	●●●●
Components on which specified audit procedures are performed	● (Silverstream contract*)	●●●●

* In respect of the valuation of the Silverstream contract, we perform primary procedures directly. The component team performs certain supporting procedures regarding cash receipts, and the auditor of Peñoles provides support in respect of procedures on the estimation of reserve and resource quantities and the related mine plan at the Sabinas mine.

In establishing our overall approach to the Group audit, we determined the type of work that needed to be undertaken at each of the components by us, as the primary audit engagement team, or by the component auditor operating under our instruction. Of the 5 full scope components, audit procedures were performed on 1 of these directly by the primary audit team. For the 5 components at which specified procedures were performed, where the work was performed by component auditors, we determined the appropriate level of involvement to enable us to determine that sufficient audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole.

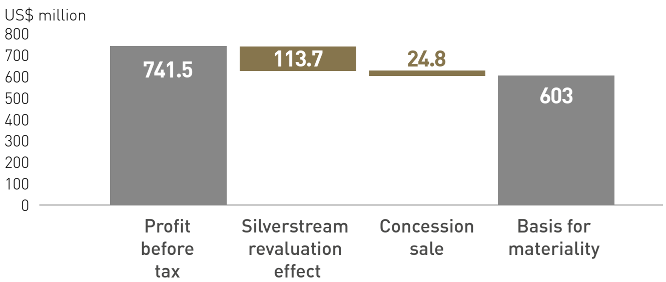
The primary engagement team, including the Senior Statutory Auditor, visited Mexico four times during the audit, during both the planning and execution phases, with members of the team working with and supervising the component team in Mexico for a number of weeks over several visits. These visits involved discussion and oversight of the component team audit approach, consideration of any accounting and auditing issues arising from their work, reviewing key audit working papers, meeting with management and attending closing meetings. In addition, in the current year members of the primary engagement team, including the Senior Statutory Auditor, visited three of the group's mining operations. This, together with the additional procedures performed at Group level, gave us appropriate evidence for our opinion on the Group financial statements.

Senior members of the component team attended a Global Team Planning Event in the planning phase of the audit, the Post Interim Event after hard close procedures and interacted regularly with the local team between visits to Mexico as appropriate. The primary engagement team is predominantly composed of Spanish speakers in order to further enhance our interactions with both the component team and management.

The primary team was responsible for the scope and direction of the audit process. For certain procedures, in particular areas involving significant judgement and heightened audit risk, we performed work ourselves with support where required from the component team. In other cases, we reviewed key working papers including, but not limited to, the risk areas described above.

OUR APPLICATION OF MATERIALITY
We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

MATERIALITY
The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.



INDEPENDENT AUDITOR'S REPORT
CONTINUED

We determined materiality for the Group to be US$31.0 million (2016: US$29.2 million), which is 5% (2016: 5%) of profit before tax prior to Silverstream revaluation effects and gain on sale of concessions, a one-off material item (subject to roundings). This is a consistent basis to 2016 (there being no gain on sale of concessions in 2016). We believe that this measure of profit represents one of the principal considerations for members of the Group, particularly as the Silverstream revaluation effects are principally non-cash in nature and the gain on sale of concession is a one off transaction.

During the course of our audit, we reassessed initial materiality and updated its calculation for the actual financial results of the year. This did not result in any changes to materiality.

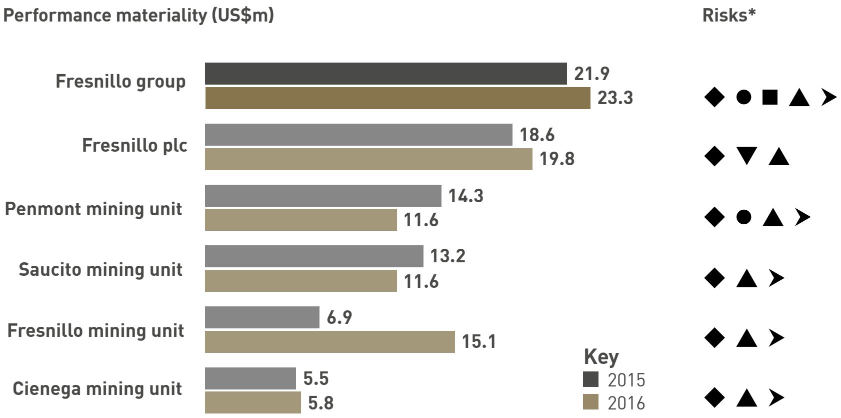
We determined materiality for the Parent Company to be US$70.5 million (2016: US59.3 million), which is 1% of equity. The materiality of the Parent Company is higher than that of the Group, reflective of the Parent Company's primary role being that of a holding company.

PERFORMANCE MATERIALITY
The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 75% (2016: 75%) of our planning materiality, namely US$23.2 million (2016: US$21.9 million). We based this judgement on factors including the past history of misstatements, our ability to assess the likelihood of misstatements and the effectiveness of the internal control environment.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. The performance materiality allocated to full-scope components in the current year is set out in the graph to the right.

Allocated performance materiality increased in respect of all components, reflecting the overall performance of the Group and the individual contributions of the components to that performance. Specifically in respect of the Fresnillo mining unit, we note that the increase in performance materiality reflects the San Julián mine becoming fully operational during 2017.



* The icons correspond to the key audit matters set out above. Audit procedures in respect of the recoverable amount of investments in subsidiaries are performed at the performance materiality of the standalone parent financial statements.

REPORTING THRESHOLD
An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of US$1.5m (2016: US$1.5m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

OTHER INFORMATION

The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- **Fair, balanced and understandable set out on page 169** – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit committee reporting set out on pages 134-146** – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code set out on page 122** – the parts of the directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R (2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

OPINIONS ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion, the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

INDEPENDENT AUDITOR'S REPORT

CONTINUED

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

RESPONSIBILITIES OF DIRECTORS

As explained more fully in the directors' responsibilities statement set out on page 169, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
The objectives of our audit, in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the group. We determined that the most significant which are directly relevant to specific assertions in the financial statements are those related to the reporting framework (IFRS, the Companies Act 2006 and UK Corporate Governance Code), regulations impacting mining operations including mining laws, environmental and labour regulations and tax and employee profit sharing requirements in Mexico.
- We understood how Fresnillo plc is complying with those legal and regulatory frameworks by making enquiries to management, internal audit, those responsible for legal and compliance procedures and the company secretary. We corroborated our enquiries through our review of board minutes and papers provided to the Audit Committee.
- We assessed the susceptibility of the group's financial statements to material misstatement, including how fraud might occur by meeting with management from various parts of the business to understand where it is considered there was a susceptibility of fraud. We also considered performance targets and their propensity to influence on efforts made by management to manage earnings. We considered the programs and controls that the group has established to address risks identified, or that otherwise prevent, deter and detect fraud; and how senior management monitors those programs and controls. Where the risk was considered to be higher, we performed audit procedures to address each identified fraud risk. These procedures included testing manual journals and were designed to provide reasonable assurance that the financial statements were free of fraud or error.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

OTHER MATTERS WE ARE REQUIRED TO ADDRESS

- Following a competitive tender process and the recommendation of the audit committee, we were appointed as auditors by the shareholders and signed an engagement letter on 28 July 2017. We were appointed by the company at the AGM on 4 May 2016 to audit the financial statements for the year ending 31 December 2017 and subsequent financial periods.
- The period of total uninterrupted engagement including previous renewals and reappointments is 10 years, covering periods from our initial appointment in 2008 through to the year ended 31 December 2017.
- In January 2017, we identified that non-audit services related to December 2016 prohibited under the new FRC Ethical Standard had been undertaken. These related to less than 10 hours of tax services related to payroll tax for an immaterial subsidiary of the group. No amounts related to these services have been recognised in the financial statements for the year ended 31 December 2017. We, therefore, consider this to be a minor breach of the Ethical Standard and we do not consider our independence to be impaired. We notified the Audit Committee of this breach in February 2017. The Audit Committee agreed with our conclusion that the breach is minor and that our independence is not impaired. The Committee's discussion of this breach is set out on page 139. The evaluation of whether our independence was impaired included consideration of the safeguards to independence in connection with the service specifically that the work was undertaken by a separate team from the audit team and responsibility for the related tax calculation was taken by a competent member of the group's management.
- The audit opinion is consistent with the additional report to the Audit Committee.

Daniel Trotman (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London

27 February 2018

Notes:
1 The maintenance and integrity of the Fresnillo plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
2 Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

CONSOLIDATED INCOME STATEMENT

YEAR ENDED 31 DECEMBER

		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

	Notes	Year ended 31 December 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

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CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER

	Notes	As at 31 December 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
CONTINUED

	Notes	As at 31 December 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 Fernández
Non-executive Director
26 February 2018

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED 31 DECEMBER

	Notes	Year ended 31 December **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									
											US$ thousands
	Notes	Share capital	Share premium	Capital reserve	Hedging reserve	Available-for-sale financial assets reserve	Foreign currency translation reserve	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 1 January 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**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

Fresnillo plc. (the 'Company') is a public limited company and registered in England and Wales with registered number 6344120 and is the holding company for the Fresnillo subsidiaries detailed in note 5 of the Parent Company accounts (the 'Group').

Industrias Peñoles S.A.B. de C.V. ('Peñoles') currently owns 75% of the shares of the Company and the ultimate controlling party of the Company is the Baillères family, whose beneficial interest is held through Peñoles. The registered address of Peñoles is Calzada Legaria 549, Mexico City 11250. Copies of Peñoles' accounts can be obtained from www.penoles.com.mx. Further information on related party balances and transactions with Peñoles' group companies is disclosed in note 27.

The consolidated financial statements of the Group for the year ended 31 December 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(B) CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES CONTINUED

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, judgement is required in identifying the separate components of the ore bodies for that operation, to which stripping costs should be allocated. Generally a component is a specific volume of the ore body that is made more accessible by the stripping activity. In identifying components of the ore body, the Group works closely with the mining operations personnel to analyse each of the mine plans. The mine plans and, therefore, the identification of components, will vary between mines for a number of reasons. These include, but are not limited to, the type of commodity, the geological characteristics of the ore body, the geographical location and/or financial considerations. The Group reassesses the components of ore bodies annually in line with the preparation of mine plans. In the current year, this reassessment did not give rise to any changes in the identification of components.

  Once production stripping costs have been identified, judgement is also required to identify a suitable production measure to be used to allocate production stripping costs between inventory and any stripping activity asset(s) for each component. The Group considers that the ratio of the expected tonnes of waste to be stripped for an expected tonnes of ore to be mined for a specific component of the ore body is the most suitable production measure.

  Furthermore, judgements and estimates are also used to apply the units of production method in determining the depreciable lives of the stripping activity asset(s).

- Qualifying assets (note 2(e)):
  All interest-bearing loans are held by the parent company and were not obtained for any specific asset's acquisition, construction, or production. Funds from these loans are transferred to subsidiaries to meet the strategic objectives of the Group or are otherwise held centrally. Due to this financing structure, judgement is required in determining whether those borrowings are attributable to the acquisition, construction or production of a qualifying asset. Therefore, management determines whether borrowings are attributable to an asset or group of assets based on whether the investment in an operating or development stage project is classified as contributing to achieving the strategic growth of the Group.
- Contingencies (note 26).
  By their nature, contingencies will be resolved only when one or more uncertain future events occur or fail to occur. The assessment of the existence and potential quantum of contingencies inherently involves the exercise of significant judgement and the use of estimates regarding the outcome of future events.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(C) SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS CONTINUED

ESTIMATES AND ASSUMPTIONS

Significant areas of estimation uncertainty considered by management in preparing the consolidated financial statements include:

- Estimated recoverable ore reserves and mineral resources, note 2(e):
  Ore reserves are estimates of the amount of ore that can be economically and legally extracted from the Group's mining properties; mineral resources are an identified mineral occurrence with reasonable prospects for eventual economic extraction. The Group estimates its ore reserves and mineral resources based on information compiled by appropriately qualified persons relating to the geological and technical data on the size, depth, shape and grade of the ore body and suitable production techniques and recovery rates, in conformity with the Joint Ore Reserves Committee (JORC) code 2012. Such an analysis requires complex geological judgements to interpret the data. The estimation of recoverable ore reserves and mineral resources is based upon factors such as geological assumptions and judgements made in estimating the size and grade of the ore body, estimates of commodity prices, foreign exchange rates, future capital requirements and production costs.

  As additional geological information is produced during the operation of a mine, the economic assumptions used and the estimates of ore reserves and mineral resources may change. Such changes may impact the Group's reported balance sheet and income statement including:
  - The carrying value of property, plant and equipment and mining properties may be affected due to changes in estimated future cash flows, which consider both ore reserves and mineral resources;
  - Depreciation and amortisation charges in the income statement may change where such charges are determined using the unit-of-production method based on ore reserves;
  - Stripping costs capitalised in the 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; and
  - 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 details 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED
(D) FOREIGN CURRENCY TRANSLATION CONTINUED
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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(G) FINANCIAL ASSETS AND LIABILITIES CONTINUED

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(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 10% of the taxable income of each fiscal year.

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

(O) LEASES

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date including whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

a) There is a change in contractual terms, other than a renewal or extension of the arrangement;
b) A renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
c) There is a change in the determination of whether fulfilment is dependent on a specified asset; or
d) There is a substantial change to the asset.

GROUP AS A LESSEE

Finance leases which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset, or if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are reflected in the income statement.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expense in the income statement on a straight line basis over the lease term.

GROUP AS A LESSOR

Leases where the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Where a reassessment is made, lease accounting commences or ceases from the date when the change in circumstances gave rise to the reassessment for scenarios a), c) or d) and at the date of renewal or extension period for scenario b) above.

For arrangements entered into prior to 1 January 2005, the date of inception is deemed to be 1 January 2007, in accordance with the transitional requirements of IFRIC 4.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(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 Julián mine. The premium is settled to SGM on a quarterly basis.

OTHER INCOME

Other income is recognised in the income statement when all significant risks and rewards of ownership are transferred to the customer, usually when title has been passed.

(Q) EXPLORATION EXPENSES

Exploration activity involves the search for mineral resources, the determination of technical feasibility and the assessment of commercial viability of an identified resource.

Exploration expenses are charged to the income statement as incurred and are recorded in the following captions:
- Cost of sales: costs relating to in-mine exploration, that ensure continuous extraction quality and extend mine life; and
- Exploration expenses:
  - Costs incurred in geographical proximity to existing mines in order to replenish or increase reserves; and
  - Costs incurred in regional exploration with the objective of locating new ore deposits in Mexico and Latin America and which are identified by project. Costs incurred are charged to the income statement until there is sufficient probability of the existence of economically recoverable minerals and a feasibility study has been performed for the specific project.

(R) TAXATION

CURRENT INCOME TAX

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the country the Group operates.

DEFERRED INCOME TAX

Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences, except:
- Where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of transaction, affects neither the accounting profit nor taxable profit loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:
- Where the deferred income tax asset relating to deductible temporary differences arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax relating to items recognised directly in other comprehensive income is recognised in equity and not in the income statement.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

MINING RIGHTS

The Special Mining Right is considered an income tax under IFRS and states that the owners of mining titles and concessions are subject to pay an annual mining right of 7.5% of the profit derived from the extractive activities. The Group recognises deferred tax assets and liabilities on temporary differences arising in the determination of the Special Mining Right (see note 10).

SALES TAX

Expenses and assets are recognised net of the amount of sales tax, except:
- When the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable; and
- When receivables and payables are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(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.

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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 Ramón satellite mine;
- The Herradura mine, located in the state of Sonora, a surface gold mine;
- The Soledad-Dipolos mine, located in the state of Sonora, a surface gold mine;
- The Noche Buena mine, located in state of Sonora, a surface gold mine; and
- The San Julián mine, located on the border of Chihuahua/Durango states, an underground silver-gold mine. Phase one of San Julián 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	Ciénega	Soledad-Dipolos[4]	Saucito	Noche Buena	San Julián	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 Julián 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 Bajío 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	Ciénega	Soledad-Dipolos[4]	Saucito	Noche Buena	San Julián[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 Bajío 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 Julián 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.

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4. REVENUES CONTINUED

(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 Julián mines, the San Ramón 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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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7. PERSONNEL EXPENSES CONTINUED

(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 details).

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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

10. INCOME TAX EXPENSE CONTINUED
(A) MAJOR COMPONENTS OF INCOME TAX EXPENSE: CONTINUED

	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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

10. INCOME TAX EXPENSE CONTINUED

(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 amortisation, as defined by the new ISR. This SMR can be credited against the corporate income tax of the same fiscal year and its payment must be remitted no later than the last business day of March of the following year.

11. EARNINGS PER SHARE

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

The Company has no dilutive potential Ordinary Shares.

As of 31 December 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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

12. PROPERTY, PLANT AND EQUIPMENT CONTINUED
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 million). 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 Julián 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 US$2.00 in years one to five and US$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 US$5.20 per ounce (2016: US$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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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15. INVENTORIES CONTINUED

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 dollars 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

18. EQUITY CONTINUED

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

21. PROVISION FOR MINE CLOSURE COST CONTINUED

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 three to 27 years from 31 December 2017 (three 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:

		Pension cost charge to income statement				Remeasurement gains/(losses) in OCI								
	Balance at 1 January 2017	Service cost	Net Interest	Foreign exchange	Sub-total recognised in the year	Benefits paid	Return on plan assets (excluding amounts included in net interest)	Actuarial changes arising from changes in demographic assumptions	Actuarial changes arising from changes in financial assumptions	Experience adjustments	Foreign exchange	Sub-total included in OCI	Contributions by employer	Defined benefit increase due to personnel transfer	Balance at 31 December 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)**

		Pension cost charge to income statement				Remeasurement gains/(losses) in OCI								
	Balance at 1 January 2016	Service cost	Net Interest	Foreign exchange	Sub-total recognised in the year	Benefits paid	Return on plan assets (excluding amounts included in net interest)	Actuarial changes arising from changes in demographic assumptions	Actuarial changes arising from changes in financial assumptions	Experience adjustments	Foreign exchange	Sub-total included in OCI	Contributions by employer	Defined benefit increase due to personnel transfer	Balance at 31 December 2016
															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$6.7 million) relates to statutory seniority premiums for unionised workers which are not funded. The expected contributions to the plan for the next annual reporting period are US$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

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22. PENSIONS AND OTHER POST-EMPLOYMENT BENEFIT PLANS CONTINUED
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.

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26. CONTINGENCIES CONTINUED

- 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' or 'CUFIN') account after Admission and is relieved of tax as a result of the consolidation, it is required to pay Peñoles an amount in respect of that tax.
- 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 Bajío matter previously reported by the Company:
  - In 2009 five members of the El Bajío agrarian community in the state of Sonora, who claimed rights over certain surface land in the proximity of the operations of Minera Penmont ('Penmont'), submitted a legal claim before the Unitarian Agrarian Court (Tribunal Unitario Agrario) of Hermosillo, Sonora, to have Penmont vacate an area of this surface land. The land in dispute encompassed a portion of surface area where part of the operations of the Soledad-Dipolos mine are located. The litigation resulted in a definitive court order, pursuant to which Penmont was ordered to vacate 1,824 hectares of land. The disputed land was returned in July 2013, resulting in the suspension of operations at Soledad-Dipolos.
  - The Agrarian 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 Bajío 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 Bajío matter presented other claims against occupation agreements they entered into with Penmont, covering land parcels separate from the land described above. Penmont has no significant mining operations or specific geological interest in the affected parcels and these lands are therefore not considered strategic for Penmont. As previously reported, the Agrarian Court issued rulings declaring such occupation agreements over those land parcels to be null and void and that Penmont must remediate such lands to the state that they were in before Penmont's occupation as well as returning any minerals extracted from this area. Given that Penmont has not conducted significant mining operations or has specific geological interest in these land parcels, any contingency relating to such land parcels is not considered material by the Company. The case relating to the claims over these land parcels remains subject to finalisation.
- Various claims and counterclaims have been made between the relevant parties in the El Bajío matter. There remains significant uncertainty as to the finalisation and ultimate outcome of these legal proceedings.

27. RELATED PARTY BALANCES AND TRANSACTIONS

The Group had the following related party transactions during the years ended 31 December 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.

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27. RELATED PARTY BALANCES AND TRANSACTIONS CONTINUED

(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$141.1 million) 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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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		As at 31 December 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[2] (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

2 Interest-bearing loans are categorised in Level 1 of the fair value hierarchy.

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30. FINANCIAL INSTRUMENTS CONTINUED

(B) FAIR VALUE MEASUREMENT CONTINUED

The financial assets and liabilities measured at fair value are categorised into the fair value hierarchy as at 31 December as follows:

	As of 31 December 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.

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30. FINANCIAL INSTRUMENTS CONTINUED

(B) FAIR VALUE MEASUREMENT CONTINUED

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.

	As at 31 December	
Financial assets	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

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.

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; and
- 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

31. FINANCIAL RISK MANAGEMENT CONTINUED

OVERVIEW CONTINUED

(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%**	**1,058**
	(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) US$ thousands	Effect on equity: increase/ (decrease) US$ thousands
Year ended 31 December	Gold	Silver	Zinc	Lead		
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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

31. FINANCIAL RISK MANAGEMENT CONTINUED

OVERVIEW CONTINUED

COMMODITY PRICE RISK – SILVERSTREAM

Future silver price is one of the inputs to the Silverstream valuation model. The following table demonstrates the sensitivity of the Silverstream contract valuation to a reasonably possible change in future silver prices, with all other inputs to the Silverstream valuation model held constant. It is assumed that the same percentage change in silver price is applied to all applicable periods in the valuation model. There is no impact on the Group's equity, other than the equivalent change in retained earnings.

Year ended 31 December	Increase/ (Decrease) in silver price	Effect on profit before tax: increase/ (decrease) US$ thousands
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% of the shares of the Company and is considered by management to be of appropriate credit rating.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

31. FINANCIAL RISK MANAGEMENT CONTINUED

OVERVIEW CONTINUED

(B) CREDIT RISK CONTINUED

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% of surplus funds were deposited with one financial institution of which 17% 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**

					US$ thousands
	Within 1 year	2-3 years	3-5 years	> 5 years	Total
As at 31 December 2016					
Interest-bearing loans (note 20)	46,267	92,534	92,534	892,534	1,123,869
Trade and other payables	71,389	–	–	–	71,389
Derivative financial instruments – liabilities	630	16	–	–	646
Embedded derivatives within sales contracts – liability	2,750	–	–	–	2,750

The payments disclosed for financial derivative instruments in the above table are the gross undiscounted cash flows. However, those amounts may be settled gross or net. The following table shows the corresponding estimated inflows based on the contractual terms:

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

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

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

PARENT COMPANY STATEMENT OF COMPREHENSIVE INCOME

YEAR ENDED 31 DECEMBER

	Notes	Year ended 31 December 2017 US$ thousands	 2016 US$ thousands
Profit for the year	3	**323,122**	997,088
Other comprehensive income/(expense)			
Items that may be reclassified subsequently to profit or loss:			
Changes in the fair value of available-for-sale financial assets	6	**8,808**	44,729
Income tax effect	4	**(2,642)**	(13,418)
Impairment of available-for-sale financial assets taken to income during the year		**36**	–
Income tax effect	4	**(11)**	–
Net effect of available-for-sale financial assets		**6,191**	31,311
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods		**6,191**	31,311
Total comprehensive income for the year, net of tax		**329,313**	1,028,399

PARENT COMPANY BALANCE SHEET
AS AT 31 DECEMBER

	Notes	2017 US$ thousands	2016 US$ thousands
		As at 31 December	
ASSETS			
Non-current assets			
Investments in subsidiaries	5	**7,094,131**	6,957,858
Available-for-sale financial assets	6	**144,856**	116,171
Derivative financial instruments	17	**–**	16,532
Deferred tax asset	4	**10,169**	9,691
		7,249,156	7,100,252
Current assets			
Loans to related parties	14	**590,286**	480,508
Income tax recoverable		**632**	906
Trade and other receivables	7	**8,139**	484
Derivative financial instruments	17	**382**	6,618
Cash and cash equivalents	8	**133,370**	287,736
		732,809	776,252
Total assets		**7,981,965**	7,876,504
EQUITY AND LIABILITIES			
Capital and reserves attributable to shareholders of the Company			
Share capital	9	**368,546**	368,546
Share premium	9	**1,153,817**	1,153,817
Merger reserve	9	**5,353,146**	5,250,357
Available-for-sale financial assets reserve	9	**46,916**	40,725
Retained earnings	9	**231,455**	247,665
Total equity		**7,153,880**	7,061,110
Non-current liabilities			
Interest-bearing loans	11	**799,046**	798,027
Derivative financial instruments	17	**14,224**	16
		813,270	798,043
Current liabilities			
Trade and other payables	12	**9,823**	16,721
Derivative financial instruments	17	**4,992**	630
		14,815	17,351
Total liabilities		**828,085**	815,394
Total equity and liabilities		**7,981,965**	7,876,504

The profit for the Company is US$323.1 million for the year ended 31 December 2017 (2016: profit of US$997.1 million). In accordance with the exemption granted under section 408 of the Companies Act 2006 a separate income statement for the Company has not been presented.

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

Mr Arturo Fernández
Non-executive Director
26 February 2018

PARENT COMPANY STATEMENT OF CASH FLOWS

YEAR ENDED 31 DECEMBER

	Notes	Year ended 31 December 2017 US$ thousands	 2016 US$ thousands
Net cash generated from (used in) operating activities	16	**20,063**	(34,665)
Cash flows from investing activities			
Capital contribution to subsidiaries		**(33,484)**	(20,582)
Capital reimbursement from subsidiaries		**–**	4,528
Loans granted to related parties		**(1,546,749)**	(1,713,084)
Proceeds from repayment of loans granted to related parties		**1,437,453**	1,937,610
Interest received		**53,685**	33,240
Dividends received		**218,593**	108,889
Settlement of derivative contracts		**–**	1,637
Purchase of available-for-sale financial assets		**(19,877)**	–
Other payments		**(1,526)**	(5,457)
Net cash generated from investing activities		**108,095**	346,781
Cash flows from financing activities			
Loans granted by related parties		**31,366**	–
Repayment of loans granted by related parties		**(31,366)**	–
Dividends paid		**(236,560)**	(88,219)
Interest paid		**(47,720)**	(46,267)
Net cash used in financing activities		**(284,280)**	(134,486)
Net (decrease)/increase in cash and cash equivalents during the year		**(156,122)**	177,630
Effect of exchange rate on cash and equivalents		**1,756**	(111)
Cash and cash equivalents at 1 January		**287,736**	110,217
Cash and cash equivalents at 31 December	8	**133,370**	287,736

PARENT COMPANY STATEMENT OF CHANGES IN EQUITY

YEAR ENDED 31 DECEMBER

	Notes	Share capital	Share premium	Merger reserve	Available-for-sale financial assets reserve	Retained earnings	Total equity
							US$ thousands
Balance at 1 January 2016		368,546	1,153,817	4,252,442	9,414	336,551	6,120,770
Profit for the year		–	–	–	–	997,088	997,088
Other comprehensive expense net of tax		–	–	–	31,311	–	31,311
Total comprehensive loss for the year		–	–	–	31,311	997,088	1,028,399
Transfer of reserves		–	–	997,915	–	(997,915)	–
Dividends declared and paid	10	–	–	–	–	(88,059)	(88,059)
Balance at 31 December 2016		368,546	1,153,817	5,250,357	40,725	247,665	7,061,110
Profit for the year		**–**	**–**	**–**	**–**	**323,122**	**323,122**
Other comprehensive income net of tax		**–**	**–**	**–**	**6,191**	**–**	**6,191**
Total comprehensive income for the year		**–**	**–**	**–**	**6,191**	**323,122**	**329,313**
Transfer of reserves		**–**	**–**	**102,789**	**–**	**(102,789)**	**–**
Dividends declared and paid	10	**–**	**–**	**–**	**–**	**(236,543)**	**(236,543)**
Balance at 31 December 2017		**368,546**	**1,153,817**	**5,353,146**	**46,916**	**231,455**	**7,153,880**

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

Fresnillo plc (the 'Company') is a public limited company and registered in England and Wales with registered number 6344120 and is the holding company for the Fresnillo subsidiaries detailed in note 5. The Company is a Mexican resident for taxation purposes with tax residency in Mexico City. For further information see note 4.

Industrias Peñoles S.A.B. de C.V. ('Peñoles') currently owns 75% of the shares of the Company and the ultimate controlling party of the Company is the Baillères family, whose beneficial interest is held through Peñoles. The country of incorporation of Peñoles is Mexico. Copies of Peñoles' accounts can be obtained from www.penoles.com.mx.

The primary activity of the Company is as holding company for the Fresnillo Group of companies, see note 5.

The financial statements of the Company for the year ended 31 December 2017 were authorised for issue by the Board of Directors of Fresnillo plc on 26 February 2018.

2. SIGNIFICANT ACCOUNTING POLICIES

(A) BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union as they apply to the financial statements of the Company for the years ended 31 December 2017 and 2016, and in accordance with the provisions of the Companies Act 2006.

The financial statements of the Company have been prepared on a historical cost basis, except for certain derivative financial instruments and available-for-sale financial instruments which have been measured at fair value.

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

The basis of preparation and accounting policies used in preparing the financial statements are set out below. These accounting policies have been consistently applied to all the periods presented unless otherwise stated.

(B) CHANGES IN ACCOUNTING POLICIES

The accounting policies applied are consistent with those applied in the preparation of the separate financial statements for the year ended 31 December 2016.

NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS (NEW STANDARDS) ADOPTED BY THE COMPANY

The Company 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 Company 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. This amendment had no impact in the financial information of the Company.

Other than the above mentioned amendment there were no significant new standards that the Company 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 Company's financial statements are disclosed below. The Company intends to adopt these standards, as applicable to the Company'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 Company has decided not to adopt IFRS 9 until it becomes mandatory on 1 January 2018. The Company 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.

There will be no impact on the Company'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.

IMPAIRMENT
IFRS 9 requires the Company 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 Company does not expect these changes will have a significant impact. Regarding loans receivables the Company has evaluated the expect credit loss on a 12-month basis. No material loss has been determined.

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 Company'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. In the case of royalties the revenue is recognised based on the sales-or usage-based royalties criteria. The Company 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 Company has elected to adopt the new standard from 1 January 2018 applying the modified retrospective adoption method.

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 Company has decided to adopt the standard when it became 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 case there are multiple payments or receipts in advance, the entity should determine a date of the transaction for each flow of advance consideration. IFRIC 22 is applicable for annual periods beginning on or after 1 January 2018 and earlier adoption is permitted. The interpretation is not expected to have any impact in the financial information of the Company.

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 Company 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 IASB has issued other amendments to standards, including those resulting from improvements to IFRSs that management considers do not have any impact on the accounting policies, financial position or performance of the Company.

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

(C) SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS
The preparation of the Company's financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the financial statements. These judgements and estimates are based on management's knowledge of the relevant facts and circumstances, with regard to prior experience, but actual results may differ from the amounts included in the financial statements. Information about such judgements and estimates is in the accounting policies and the notes to the financial statements.

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS
CONTINUED

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(C) SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS CONTINUED

JUDGEMENTS

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

- Determination of functional currency (note 2(d)):
  The determination of functional currency requires management judgement, particularly where there may be more than one currency in which transactions are undertaken and which impact the economic environment in which the entity operates.
- Contingencies (note 13):
  By their nature, contingencies will be resolved only when one or more uncertain future events occur or fail to occur. The assessment of the existence and potential quantum of contingencies inherently involves the exercise of significant judgement and the use of estimates regarding the outcome of future events.

ESTIMATES AND ASSUMPTIONS

Significant areas of estimation uncertainty made by management in preparing the financial information statements include:

- Impairment of available-for-sale financial assets (notes 2(g) and 6):
  The Company classifies certain financial asset as available-for-sale and recognises movements in their fair value in equity. When the fair value declines, management makes an assessment of the decline in value to determine whether it is an impairment that should be recognised in profit or loss.
- Impairment and subsequent reversal of impairment of investments in subsidiaries (notes 2(e) and 5):
  The Company assesses investments in subsidiaries annually to determine whether any indication of impairment exists. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs of disposal (FVLCD) and the value in use. Due to the nature of the subsidiaries, the assessment of the recoverable amount is generally determined based on the net present value of future cash flows related to the subsidiaries requiring the use of estimates and assumptions such as long-term commodity prices, reserves and resources and the associate production profiles, discount rates, future capital requirements, exploration potential and operating performance. These cash flows are discounted using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The determination of that rate requires certain judgements.

  Where an impairment charge has previously been recognised, the Company assesses at the end of each reporting period whether there is any indication that the impairment loss may no longer exist or may have decreased. If any such indication exists, the Company estimates the recoverable amount of that investment, requiring similar estimates and assumptions as those for determining an impairment charge. At 31 December 2017 the Company reversed impairment losses of US$102.8 million (2016: US$997.9 million) to recognised a cumulative impairment relating to subsidiaries of US$436.4 million (2016: US$539.2 million).

(D) FOREIGN CURRENCY TRANSLATION

The Company's financial statements are presented in US dollars, which is the functional currency of the Company. The functional currency for the Company is determined by the currency of the primary economic environment in which it operates.

Transactions denominated in currencies other than the functional currency of the Company are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rate of exchange ruling at the balance sheet date. All differences that arise are recorded in the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated into US dollars using the exchange rate at the date when the fair valued is determined.

(E) INVESTMENTS IN SUBSIDIARIES

Subsidiaries are entities which the Company controls due to it being exposed to, or has the right to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Investments in subsidiaries are recognised at acquisition cost less any provision for impairment. Impairment charges and reversals, up to the value of the merger reserve, are reclassified from retained earnings to the merger reserve.

When the Company increases its capital investment in or where there is a return of share capital from its subsidiaries, such movements are recognised as an addition to, or return of the original cost recognised in investment in subsidiaries.

At each reporting date, an assessment is made to determine whether there are any indicators of impairment. Where an indicator of impairment exists, an estimate of the recoverable amount of the investment in subsidiary is made, which is considered to be the higher of the fair value less costs of disposal and the value in use. The Company usually determines fair value based on the net present value of the future cash flows related to its subsidiaries. If the carrying amount of an investment exceeds the recoverable amount, a provision is recorded in the income statement to reflect the investment at the recoverable amount.

Where an impairment charge has previously been recognised, an assessment is made at the end of each reporting period whether there is any indication that the impairment loss may no longer exist or may have decreased. If any such indication exists, an estimate of the recoverable amount is made. An impairment loss is reversed to profit or loss to the extent that the increased carrying value of the investment in subsidiary does not exceed that that would have been determined had no impairment loss been recognised for the asset in prior years.

(F) FINANCIAL ASSETS AND LIABILITIES

Financial assets are recognised when the Company becomes party to contracts that give rise to them and are classified as financial assets at fair value through profit or loss; loans and receivables; held to maturity investments; or available-for-sale financial assets, as appropriate. The Company determines the classification of its financial assets at initial recognition and re-evaluates this designation at each balance sheet date. When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

The Company recognises financial liabilities on its balance sheet when, and only when, it becomes a party to the contractual provisions of the instrument. Financial liabilities are classified at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial liabilities are initially recognised at the fair value of the consideration received, including any transaction costs incurred.

Financial assets are offset with liabilities and the net amount is reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets and liabilities classified as held-for-trading and other assets or liabilities designated as fair value transactions through profit and loss at inception are included in this category. Financial assets or liabilities are classified as held-for-trading if they are acquired or incurred for the purpose of selling in the short term. Derivatives are also classified as held-for-trading unless they are designated as hedging instruments, as defined by IAS 39. Financial assets and liabilities at fair value through profit or loss are carried in the balance sheet at fair value with gains or losses recognised in the income statement.

LOANS AND RECEIVABLES

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, do not qualify as trading assets and have not been designated as either fair value through profit and loss or available-for-sale.

After initial measurement such assets are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Gains and losses are recognised in income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Current trade receivables are carried at the original invoice amount less provision made for impairment of these receivables. Non-current receivables are stated at amortised cost.

LOANS AND BORROWINGS

After initial recognition, interest-bearing loans are subsequently measured at amortised cost using the effective interest rate (EIR) method. The EIR amortisation is included as finance costs in the income statement. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the EIR amortisation process.

The Company adjusts the carrying amount of the financial liability to reflect actual and revised estimated cash flows. The carrying amount is recalculated by computing the present value of estimated future cash flows at the financial instrument's original effective interest rate or, when applicable, the revised effective interest rate. Any adjustment is recognised in profit or loss as income or expense.

This category generally applies to interest-bearing loans. For more information refer note 11.

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS
CONTINUED

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED
(F) FINANCIAL ASSETS AND LIABILITIES CONTINUED
AVAILABLE-FOR-SALE FINANCIAL ASSETS
Available-for-sale financial assets are those non-derivative financial assets that are designated as such or are not classified in any of the preceding categories and are not held-to-maturity investments.

Available-for-sale financial assets represent equity investments that have a quoted market price in an active market; therefore a fair value can be reliably measured. After initial measurement, available-for-sale financial assets are measured at fair value with mark-to-market unrealised gains or losses being recognised as other comprehensive income in the available-for-sale reserve until the financial asset is derecognised.

Financial assets classified as available-for-sale are de-recognised when they are sold, and all the risks and rewards of ownership have been transferred. When financial assets are sold, the accumulated fair value adjustments recognised in equity are included in the income statement within other operating income or expense.

DE-RECOGNITION OF FINANCIAL ASSETS AND LIABILITIES
A financial asset or liability is generally de-recognised when the contract that gives rise to it is settled, sold, cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, such that the difference in the respective carrying amounts together with any costs or fees incurred are recognised in profit or loss.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in the income statement.

(G) IMPAIRMENT OF FINANCIAL ASSETS
The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired.

ASSETS CARRIED AT AMORTISED COST
If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss is recognised in profit or loss.

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Company will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired receivables are derecognised when they are assessed as uncollectible.

AVAILABLE-FOR-SALE FINANCIAL ASSETS
If an available-for-sale 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 Company considers whether a decline in fair value is either significant or prolonged by considering the size of the decline in this value, the historic volatility in changes in fair value and the duration of the sustained decline. Reversals in respect of equity instruments classified as available-for-sale are not recognised in the income statement.

(H) CASH AND CASH EQUIVALENTS
For the purposes of the balance sheet, cash and cash equivalents comprise cash at bank, cash on hand and short-term deposits held with banks that are readily convertible into known amounts of cash and which are subject to insignificant risk of changes in value. Short-term deposits earn interest at the respective short-term deposit rates between one day and four months. For the purposes of the cash flow statement, cash and cash equivalents as defined above are shown net of outstanding bank overdrafts.

(I) SHARE CAPITAL
Ordinary shares issued by the Company are recorded at the net proceeds received, which is the fair value of the consideration received less costs that are incurred in connection with the share issue. The nominal par value of the shares issued is taken to the share capital account and any excess is recorded in the share premium account, including the costs that were incurred with the share issue.

(J) REVENUE RECOGNITION
Revenue is recognised to the extent that it is probable that economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of consideration received excluding discounts, rebates, and other sales taxes.

TRADEMARK ROYALTIES
Trademark royalty income is recognised only at the time when it is probable that the amounts related to certain rights will be received

INTEREST INCOME
Interest income is recognised as interest accrues (using the effective interest method; i.e. the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset).

DIVIDEND INCOME
Dividend income is recognised when the Company's right to receive the payment is established.

(K) INCOME TAX
CURRENT INCOME TAX
Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

DEFERRED INCOME TAX
Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences, except:
- Where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of transaction, affects neither the accounting profit nor taxable profit loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:
- Where the deferred income tax asset relating to deductible temporary differences arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS
CONTINUED

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(K) INCOME TAX CONTINUED

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

(L) DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING

The Company enters into derivative contracts in order to manage certain market risks derived from changes in foreign exchange and commodity prices which impact the financial and business transactions of its subsidiaries. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

In the Group's consolidated financial statements certain of these derivative instruments are designated as cash flow hedges but for the purposes of the Company's stand-alone financial statements the related hedged items are not held by the Company, so do not qualify as cash flow hedges.

Any gains and losses arising from changes in fair value on derivatives during the year that do not qualify for hedge accounting are taken directly to the income statement.

Derivatives are valued using valuation approaches and methodologies (such as Black Scholes and Net Present Value) applicable to the specific type of derivative instrument. The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

EMBEDDED DERIVATIVES

Contracts are assessed for the existence of embedded derivatives at the date that the Company first becomes party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. Embedded derivatives which are not clearly and closely related to the underlying asset, liability or transaction are separated and accounted for as stand-alone derivatives.

(M) FAIR VALUE MEASUREMENT

The Company measures financial instruments at fair value at each balance sheet date. Fair values of financial instruments measured at amortised cost are disclosed in notes 17 and 18.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:
- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above. Further information on fair values is described in note 17.

(N) DIVIDEND DISTRIBUTION

Dividends payable to the Company's shareholders are recognised as a liability in the financial statements in the period in which the dividends are approved by the Company's shareholders.

Mexican Income Tax Law establishes a 10% withholding on earnings from 2014 and thereafter, for dividends paid to foreign residents and Mexican individuals.

Dividends paid are not subject to income tax if paid from the Net Tax Profit Account (CUFIN). Dividends paid that exceed CUFIN are subject to an income tax payable at a rate of 30%. The tax is payable by the Company and may be credited against the normal income tax payable by the Company in the year in which the dividends are paid or in the following two years. Dividends paid from earnings previously taxed are not subject to any withholding or additional tax payment.

3. SEGMENT REPORTING

Segmental information is not presented in the Company's stand-alone financial statements as this is presented in the Group's consolidated financial statements.

4. INCOME TAX

(A) INCOME TAX REPORTED IN OTHER COMPREHENSIVE INCOME

	Year ended 31 December	
	2017 US$ thousands	2016 US$ thousands
Deferred income tax (charge)/credit related to items recognised directly in other comprehensive income:		
Change in fair value on available-for-sale financial assets (note 6)	**(2,642)**	(13,418)
Impairment of available-for-sale financial assets taken to income during the year	**(11)**	–
Income tax effect reported in other comprehensive income	**(2,653)**	(13,418)

(B) THE MOVEMENTS IN THE DEFERRED INCOME TAX LIABILITY ARE AS FOLLOWS:

	Year ended 31 December	
	2017 US$ thousands	2016 US$ thousands
Opening net asset/(liability)	**9,691**	(20,490)
Income statement credit	**3,131**	43,599
Net charge arising on change in fair value on available-for-sale assets (note 6)	**(2,653)**	(13,418)
Closing net asset	**10,169**	9,691

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS
CONTINUED

4. INCOME TAX CONTINUED

(B) THE MOVEMENTS IN THE DEFERRED INCOME TAX LIABILITY ARE AS FOLLOWS: CONTINUED

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities.

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

	Year ended 31 December	
	2017 US$ thousands	2016 US$ thousands
Prepayments and other assets	**(614)**	(1,152)
Derivative financial instruments	**5,603**	(7,660)
Losses carried forward	**21,998**	32,678
Available-for-sale financial assets	**(16,818)**	(14,175)
Net deferred tax asset	**10,169**	9,691

(C) UNRECOGNISED DEFERRED TAX ON INVESTMENTS IN SUBSIDIARIES

The Company has not recognised all of the deferred tax liability in respect of distributable reserves of its subsidiaries because it controls them and only part of the temporary differences are expected to reverse in the foreseeable future. The temporary differences for which a deferred tax liability has not been recognised aggregate to US$1,723 million (2016: US$1,949 million).

(D) CORPORATE INCOME TAX ('IMPUESTO SOBRE LA RENTA' OR 'ISR')

The Company is a Mexican resident for taxation purposes. The rate of current corporate income tax is 30%.

5. INVESTMENTS IN SUBSIDIARIES

	Year ended 31 December	
	2017 US$ thousands	2016 US$ thousands
Opening balance	**6,957,858**	5,943,889
Reversal of impairment	**102,789**	997,915
Additions	**33,484**	20,582
Return of share capital	**–**	(4,528)
Closing balance	**7,094,131**	6,957,858

During 2017 and 2016 the Company has identified some indicators which have caused management to reverse previously recognised impairment losses on its investments in subsidiaries. The Company has calculated the recoverable amount of its investments in subsidiaries as at 31 December 2017 and as a result has recognised a reversal of previously recognised impairment loss amounting to US$102.8 million (2016: US$997.9 million). The recoverable amount was estimated based on the Fair Value Less Cost of Disposal (FVLCD) model (2016: FVLCD).

The following tables provide relevant information in respect of each impaired subsidiary:

	Year ended 31 December 2017			
	Current year Impairment reversal US$ thousand	**Cumulative Impairment US$ thousand**	**Recoverable amount US$ thousands**	**Discount rate**
Minera Fresnillo, S.A. de C.V.	**(94,747)**	**–**	**4,440,269**	**Post-tax 5.13%**
Minera Mexicana La Ciénega, S.A. de C.V.	**–**	**360,791**	**571,439**	**Post-tax 5.13%**
Exploraciones Mineras Parreña, S.A. de C.V.	**(8,042)**	**75,663**	**146,670**	**Post-tax 5.02%**
	(102,789)	**436,454**		

In determining FVLCD it is necessary to make a series of assumptions to estimate future cash flows including reserves and resources volumes and related production profile, price assumptions, cost estimates and discount rate. Accordingly, the fair value is categorised as Level 3 in the fair value hierarchy. The price assumptions used to calculate FVLCD are determined with reference analysts' consensus of long-term prices. As at 31 December 2017, the Company used price assumptions of US$1,300/ounce and US$19/ounce for gold and silver, respectively.

	Year ended 31 December 2016			
	Current year impairment reversal US$ thousand	Cumulative impairment US$ thousand	Recoverable amount US$ thousands	Discount rate
Minera Fresnillo, S.A. de C.V.	(608,736)	94,747	4,208,200	Post-tax 5.38%
Minera Mexicana la Ciénega, S.A. de C.V.	(109,979)	360,791	570,338	Post-tax 5.28%
Minera Saucito, S.A. de C.V.	(141,738)	–	1,451,845	Post-tax 5.34%
Minera Penmont, S. de R.L. de C.V.	(137,462)	–	810,877	Post-tax 5.28%
Exploraciones Mineras Parreña, S.A. de C.V.	–	83,705	138,628	Post-tax 6.06%
	(997,915)	539,243		

As at 31 December 2016 management calculated the recoverable amount using FVLCD methodology. Management considers that the model supporting the determination of FVLCD is most sensitive to commodity price assumptions. The price assumptions used to calculate FVLCD are determined with reference analysts' consensus of long-term prices. As at 31 December 2016, the Company used price assumptions of US$1,250/ounce and US$18/ounce for gold and silver, respectively.

SENSITIVITY ANALYSIS

As at 31 December 2017 management has performed a sensitivity analysis for those subsidiaries where cumulative impairment may be affected by a reasonably possible change in silver and gold prices. Management has considered a decrease in silver and gold of 10% (2016: 20% and 15%, respectively). The sensitivity resulted in an additional impairment on Minera Fresnillo, S.A. de C.V. of US$448.2 million (2016: US$622.3 million), Minera Mexicana la Ciénega, S.A. de C.V. US$110.6 million (2016: US$85.7 million) and Minera Saucito, S.A. de C.V. US$49.5 million (2016: US$nil).

The subsidiaries in which investments are directly held as at 31 December 2017 and 2016 are as follows:

Legal company	**Principal activity**	**Country of incorporation**	**Equity interest % Year ended 31 December**	
			2017	2016
Minera Fresnillo, S.A. de C.V.	Production of lead/silver and zinc concentrates	Mexico [3]	**100**	100
Minera Penmont, S. de R.L. de C.V. [1]	Production of doré bars (gold/silver)	Mexico [3]	**56**	56
Minera Mexicana La Ciénega, S.A. de C.V.	Production of lead and zinc concentrates and silver precipitates	Mexico [3]	**100**	100
Minera Saucito, S.A. de C.V.	Production of lead and zinc concentrates	Mexico [3]	**100**	100
Desarrollos Mineros Canelas, S.A. de C.V.	Extraction and sale of mineral ore	Mexico [3]	**100**	100
Desarrollos Mineros Fresne, S. de R.L. de C.V. [1]	Extraction and sale of mineral ore	Mexico [3]	**56**	56
Desarrollos Mineros el Aguila, S.A. de C.V.	Extraction and sale of mineral ore	Mexico [3]	**100**	100
Metalúrgica Reyna, S.A. de C.V.	Extraction and sale of mineral ore	Mexico [3]	**100**	100
Equipos Mineros Nazas, S.A. de C.V.	Leasing of mining equipment	Mexico [3]	**100**	100
Proveedora de Equipos Fresne, S de R.L. de C.V. [1]	Leasing of mining equipment	Mexico [3]	**56**	56
Equipos Mineros la Hacienda, S.A. de C.V.	Leasing of mining equipment	Mexico [3]	**100**	100
Proveedora de Equipos Jerez, S.A. de C.V.	Leasing of mining equipment	Mexico [3]	**100**	100
Minera Juanicipio, S.A. de C.V.	Mining project	Mexico [3]	**56**	56
Comercializadora de Metales Fresnillo, S.A. de C.V.	Holds rights over silver production from Peñoles' polymetallic Sabinas mine through the Silverstream contract	Mexico [3]	**100**	100
Exploraciones Mineras Parreña, S.A. de C.V.	Exploration services	Mexico [3]	**100**	100
Exploraciones y Desarrollos Mineros Coneto, S.A. P. I. de C.V.	Exploration services	Mexico [3]	**55**	55
Minera El Bermejal, S. de R.L. de C.V.	Mining equipment leasing	Mexico [3]	**100**	100
Compañía Minera Las Torres, S.A. de C.V.	Mine project	Mexico [3]	**100**	100
Servicios Administrativos Fresnillo, S.A. de C.V.	Administrative services	Mexico [3]	**100**	100
Operaciones Fresnillo, S.A. de C.V.	Administrative services	Mexico [3]	**100**	100
Servicios de Exploración Fresnillo, S.A. de C.V.	Administrative services	Mexico [3]	**100**	100
Fresnillo Management Services, Ltd	Administrative services	UK [4]	**100**	100
Fresbal Investments, Ltd	Holding company for mining Investments	Canada [5]	**100**	100
Fresnillo Peru, S.A.C.	Exploration services	Peru [6]	**100**	100
Fresnillo Chile, SpA	Exploration services	Chile [7]	**100**	100
Caja de Ahorros Fresnillo, S.C. [2]	Administrative services	Mexico [3]	**–**	–

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS
CONTINUED

5. INVESTMENTS IN SUBSIDIARIES CONTINUED

The list of subsidiary undertakings presented in this note represents the full list of subsidiary undertakings, required to be submitted by Section 409 of the Companies Act 2006.

1 The remaining 44% interest in these companies are held by Comercializadora de Metales Fresnillo, S.A. de C.V. a wholly-owned subsidiary of the Company.
2 Whilst Fresnillo plc holds no direct ownership in Caja de Ahorros Fresnillo, S.C. the entire share capital of the company is held through its subsidiaries.
3 The registered address for all Mexican subsidiaries is: Calzada Saltillo 400 No. 989, Torreón, Coahuila 27250.
4 Registered address is: Second Floor, 21 Upper Brook Street, London W1.
5 Registered address is: 355 Burrard Street, Suite 1800, Vancouver, BC, V6C 2G8.
6 Registered address is: Avenida República de Colombia 643, Piso 9, Distrito San Isidro, Lima 27.
7 Registered address is: Av. Apoquindo 4775 oficina 1002 – Las Condes, Santiago de Chile.

6. 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[8]	**19,877**	–
Fair value change	**8,808**	44,729
Ending balance	**144,856**	116,171

8 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 been 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 based 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.

7. TRADE AND OTHER RECEIVABLES

	Year ended 31 December	
	2017 US$ thousands	2016 US$ thousands
Other receivables from related parties (note 14)	**7,958**	480
Prepayments	**159**	–
Other	**22**	4
	8,139	484

As of 31 December for each year presented, other receivables from related parties were neither past due nor impaired. In determining the recoverability of a receivable, the Company performs a risk analysis considering the type and age of the outstanding receivable and the credit worthiness of the counterparty.

8. CASH AND CASH EQUIVALENTS

	Year ended 31 December	
	2017 US$ thousands	2016 US$ thousands
Cash at bank and on hand	**6**	24
Short-term deposits	**133,364**	287,712
Cash and cash equivalents	**133,370**	287,736

Cash at bank earns interest at floating rates based on daily bank deposits. Short-term deposits are made for varying periods of between one day and four months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates. Short-term deposits can be withdrawn at short notice without any penalty or loss in value.

9. EQUITY

SHARE CAPITAL AND SHARE PREMIUM

				As at 31 December
		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 attaching to these shares are governed by law and the Company's Articles of Association. Ordinary shareholders are entitled to receive notice and to attend and speak at any general meeting of the Company. There are no restrictions on the transfer of the Ordinary Shares.

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

RESERVES

SHARE PREMIUM

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

MERGER RESERVE

The merger reserve represents the difference between the value of the net assets acquired as part of the pre-IPO reorganisation and the nominal value of the shares issued pursuant to the Merger Agreement. Movements in this reserve during 2017 and 2016 represent the impairment losses and reversals of the carrying value of Fresnillo's investments in subsidiaries transferred from retained earnings.

AVAILABLE-FOR-SALE FINANCIAL ASSETS RESERVE

This reserve records fair value changes on available-for-sale investments, net of tax. On disposal or on impairment, the cumulative changes in fair value are recycled to the income statement.

RETAINED EARNINGS

This reserve records the accumulated results of the Company, less any distributions and dividends paid.

10. DIVIDENDS DECLARED AND PAID

The dividends declared and paid during the years ended 31 December 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.

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS
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11. INTEREST-BEARING LOANS

SENIOR NOTES

On 13 November 2013, the Group completed its offering of an aggregate principal amount of US$800 million of 5.500% Senior Notes due 2023 (the 'Notes').

An analysis of the debt recognised in the balance sheet is as follows:

	As at 31 December	
	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.

12. TRADE AND OTHER PAYABLES

	Year ended 31 December	
	2017 US$ thousands	2016 US$ thousands
Other payables to related parties (note 14)	**3,895**	7,400
Other taxes and contributions	**5,332**	8,561
Accrued expenses	**596**	760
	9,823	16,721

The fair value of trade and other payables approximates their book values. The Company's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 18.

13. CONTINGENCIES

As of 31 December 2017 the Company has the following contingencies:

- The Company is subject to various laws and regulations which, if not observed, could give rise to penalties.
- Tax periods remain open to review by the Mexican tax authorities in respect of income taxes for five years following the date of the filing of the corporate income tax return, during which time the authorities have the right to raise additional tax assessments including penalties and interest. Under certain circumstances the reviews may cover longer periods. 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 in respect of certain subsidiaries of the Company. 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 Fresnillo Group (the 'Group') and the Peñoles Group and governs certain aspects of the relationship between the Fresnillo Group and the Peñoles Group following the initial public offering in May 2008 ('Admission'). The Separation Agreement provides for cross-indemnities between the Company and Peñoles so that, in the case of Peñoles, it is held harmless against losses, claims and liabilities (including tax liabilities) properly attributable to the precious metals business of the Group and, in the case of the Company, it is held harmless by Peñoles against losses, claims and liabilities which are not properly attributable to the precious metals business. Save for any liability arising in connection with tax, the aggregate liability of either party under the indemnities shall not exceed US$250 million in aggregate.
- Peñoles has agreed to indemnify the Fresnillo Group in relation to: (i) any tax charge, subject to certain exceptions, the Company may incur as a result of the Pre-IPO Reorganisation (including as a result of a transaction following Admission of a member of the Fresnillo Group, provided that Peñoles has confirmed that the proposed transaction will not give rise to a tax charge, or as a result of a transaction of a member of the Peñoles Group on or after Admission), the Global Offer or Admission; and (ii) certain tax aspects of certain other pre-Admission transactions. Peñoles' liability under these indemnities and in respect of general tax liabilities arising pre-Admission which are not properly attributable to the precious metals business of the Fresnillo Group shall not exceed US$500 million. If a member of the Fresnillo Group forming part of Peñoles' tax consolidation pays an intra-Group dividend in excess of its net income tax account ('Cuenta de Utilidad Fiscal Neta' or 'CUFIN') account after Admission and is relieved of tax as a result of the consolidation, it is required to pay Peñoles an amount in respect of that tax.
- 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 Bajío matter previously reported by the Company:
  - In 2009 five members of the El Bajío agrarian community in the state of Sonora, who claimed rights over certain surface land in the proximity of the operations of Minera Penmont ('Penmont'), submitted a legal claim before the Unitarian Agrarian Court (Tribunal Unitario Agrario) of Hermosillo, Sonora, to have Penmont vacate an area of this surface land. The land in dispute encompassed a portion of surface area where part of the operations of the Soledad-Dipolos mine are located. The litigation resulted in a definitive court order, pursuant to which Penmont was ordered to vacate 1,824 hectares of land. The disputed land was returned in July 2013, resulting in the suspension of operations at Soledad-Dipolos.

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS
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13. CONTINGENCIES CONTINUED

- 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 Bajío 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 Bajío matter presented other claims against occupation agreements they entered into with Penmont, covering land parcels separate from the land described above. Penmont has no significant mining operations or specific geological interest in the affected parcels and these lands are therefore not considered strategic for Penmont. As previously reported, the Agrarian Court issued rulings declaring such occupation agreements over those land parcels to be null and void and that Penmont must remediate such lands to the state that they were in before Penmont's occupation as well as returning any minerals extracted from this area. Given that Penmont has not conducted significant mining operations or has specific geological interest in these land parcels, any contingency relating to such land parcels is not considered material by the Company. The case relating to the claims over these land parcels remains subject to finalisation.
- Various claims and counterclaims have been made between the relevant parties in the El Bajío matter. There remains significant uncertainty as to the finalisation and ultimate outcome of these legal proceedings.

14. RELATED PARTY BALANCES AND TRANSACTIONS

Related parties are those entities owned or controlled by the ultimate controlling party and include the Company's subsidiaries disclosed in note 5, as well as those entities who have a minority participation in Fresnillo Group companies. Related party balances will be settled in cash. All the balances as at 31 December 2017 and 2016 and the transactions carried-out with related parties for the years then ended correspond to subsidiaries.

(A) RELATED PARTY ACCOUNTS RECEIVABLE AND PAYABLE

	Accounts receivable		Accounts payable	
	US$ thousands		US$ thousands	
	31 December 2017	31 December 2016	**31 December 2017**	31 December 2016
Loans with related parties	**590,286**	480,508	**–**	–
Administrative services	**7,911**	–	**2,888**	808
Trademark royalty	**–**	–	**733**	6,592
Other	**47**	480	**274**	–
Sub-total	**598,244**	480,988	**3,895**	7,400
Less-current portion	**598,244**	480,988	**3,895**	7,400
Non-current portion	**–**	–	**–**	–

Effective interest rates on loans granted to related parties in US dollar range between 3.23% to 3.43% (2016: 2.73% to 7.60%); in Mexican peso range 9.04% to 9.44% (2016: 5.31% to 5.34%).

(B) PRINCIPAL TRANSACTIONS WITH RELATED PARTIES (APART FROM DIVIDENDS, ADDITIONAL INVESTMENTS AND RETURNS OF CAPITAL) ARE AS FOLLOWS:

	Year ended 31 December	
	2017 US$ thousands	2016 US$ thousands
Income:		
Trademark royalties	**32,111**	55,171
Interest on loans to related parties	**52,163**	32,834
Other	**–**	363
Total income	**84,274**	88,368

	Year ended 31 December	
	2017 US$ thousands	2016 US$ thousands
Expenses:		
Administrative services	**8,517**	4,550
Interest on loans from related parties	**1,451**	–
Reimbursement of expenses	**–**	4,518
Total expenses	**9,968**	9,068

(C) COMPENSATION OF KEY MANAGEMENT PERSONNEL OF THE COMPANY

Key management personnel comprise Non-executive Directors. In 2017, their compensation was US$0.7 million (2016: US$0.6 million). This compensation paid is disclosed in the Directors' Remuneration Report.

15. AUDITOR'S REMUNERATION

The auditor's remuneration for the Company was US$1.2 million (2016: US$1.1 million) in respect of the audit of its financial statements together with a proportion of the fees in relation to Fresnillo Group audit.

Fees paid to Ernst & Young LLP and its associates for non-audit services to the Company itself are not disclosed in the stand-alone financial statements because Group financial statements are prepared which include these fees on a consolidated basis.

16. NOTES TO THE STATEMENT OF CASH FLOWS

		Year ended 31 December	
	Notes	**2017 US$ thousands**	2016 US$ thousands
Reconciliation of profit for the year to net cash generated from operating activities			
Profit for the year		**323,122**	997,088
Adjustments to reconcile profit for the period to net cash inflows from operating activities:			
Impairment reversal of investment in subsidiaries	5	**(102,789)**	(997,915)
Dividend income		**(218,593)**	(108,889)
Income tax expense		**(3,131)**	(43,599)
Other expenses		**1,526**	5,468
Impairment of available-for-sale financial assets		**36**	–
Net finance loss		**36,668**	103,370
Foreign exchange loss		**(852)**	3,942
Working capital adjustments			
(Increase)/Decrease in trade and other receivables		**(7,930)**	3,876
Increase in prepayments and other assets		**(159)**	–
(Decrease)Increase in trade and other payables		**(7,241)**	2,617
Cash generated from (used in) operations		**20,657**	(34,042)
Income tax paid		**(594)**	(623)
Net cash generated from (used in) operating activities		**20,063**	(34,665)

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS
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17. 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**
Trade and other receivables	**–**	**–**	**8,138**
Loans to related parties	**–**	**–**	**590,286**
Available-for-sale financial assets	**–**	**144,856**	**–**
Derivative financial instruments	**382**	**–**	**–**

Financial liabilities:		**At fair value through profit or loss**	**At amortised cost**
Interest-bearing loans	**–**	**–**	**799,046**
Trade and other payables	**–**	**–**	**2,888**
Derivative financial instruments	**–**	**19,216**	**–**

			As at 31 December 2016
			US$ thousands
Financial assets:	At fair value through profit or loss	Available-for-sale investments at fair value through OCI	Loans and receivables
Trade and other receivables	–	–	484
Loans to related parties	–	–	480,508
Available-for-sale financial assets	–	116,171	–
Derivative financial instruments	23,150	–	–

Financial liabilities:	At fair value through profit or loss	At amortised cost
Interest-bearing loans	–	798,027
Trade and other payables	–	808
Derivative financial instruments	646	–

(B) FAIR VALUES

The fair value of financial assets and liabilities, together with the carrying amounts shown in the balance sheet, other than those with carrying amounts that are a reasonable approximation of their fair values are as follows:

				As at 31 December
		Carrying amount		Fair value
	2017 US$ thousands	2016 US$ thousands	**2017 US$ thousands**	2016 US$ thousands
Financial assets:				
Derivative financial instruments	**382**	23,150	**382**	23,150
Loans to related parties [1]	**590,286**	480,508	**590,286**	480,508
Available-for-sale financial assets	**144,856**	116,171	**144,856**	116,171
Financial liabilities:				
Interest-bearing loans [2]	**799,046**	798,027	**878,864**	840,904
Derivative financial instruments	**19,216**	646	**19,216**	646

1 Loans with related party are categorised in Level 3 of the fair value hierarchy.
2 Interest-bearing loans are categorised in Level 1 of the fair value hierarchy.

The financial assets and liabilities measured at fair value are categorised into the fair value hierarchy as at 31 December as follows:

				As of 31 December 2017 US$ thousands
				Fair value measure using
	Quoted prices in active markets Level 1 US$ thousands	Significant observable Level 2 US$ thousands	Significant unobservable Level 3 US$ thousands	Total US$ thousands
Financial assets:				
Derivative financial instruments:				
Option commodity contracts	–	71	–	71
Option and forward foreign exchange contracts	–	311	–	311
	–	382	–	382
Financial investments available-for-sale:				
Quoted investments	144,856	–	–	144,856
	144,856	382	–	145,238
Financial liabilities:				
Derivative financial instruments:				
Option commodity contracts	–	19,179	–	19,179
Option and forward foreign exchange contracts	–	37	–	37
	–	19,216	–	19,216

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17. FINANCIAL INSTRUMENTS CONTINUED

As of 31 December 2016
US$ thousands

	Fair value measure using			
	Quoted prices in active markets Level 1 US$ thousands	Significant observable Level 2 US$ thousands	Significant unobservable Level 3 US$ thousands	Total US$ thousands
Financial assets:				
Derivative financial instruments:				
Option commodity contracts	–	23,005	–	23,005
Option and forward foreign exchange contracts	–	145	–	145
	–	23,150	–	23,150
Financial investments available-for-sale:				
Quoted investments	116,171	–	–	116,171
	116,171	23,150	–	139,321
Financial liabilities:				
Derivative financial instruments:				
Option commodity contracts	–	66	–	66
Option and forward foreign exchange contracts	–	580	–	580
	–	646	–	646

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.

The fair value of the financial assets and liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following valuation techniques were used to estimate the fair values:

OPTIONS AND FORWARDS FOREIGN EXCHANGE CONTRACTS
The Company enters into derivative financial instruments with various counterparties, principally financial institutions with investment grade credit ratings. The foreign currency forward (Level 2) contracts are measured based on observable spot exchange rates, the yield curves of the respective currencies as well as the currency basis spreads between the respective currencies. The foreign currency option contracts are valued using the Black Scholes model, the significant inputs to which include observable spot exchange rates, interest rates and the volatility of the currency.

OPTION COMMODITY CONTRACTS
The Company enters into derivative financial instruments with various counterparties, principally financial institutions with investment grade credit ratings. The option commodity (Level 2) contracts are measured based on observable spot commodity prices, the yield curves of the respective commodity as well as the commodity basis spreads between the respective commodities. The option contracts are valued using the Black Scholes model, the significant inputs to which include observable spot commodities price, interest rates and the volatility of the commodity.

QUOTED INVESTMENTS:
Fair value of available-for-sale financial assets is derived from quoted market prices in active markets.

INTEREST-BEARING LOANS
Fair value of the Company's interest-bearing loan, is derived from quoted market prices in active markets.

LOANS WITH RELATED PARTIES
Fair value of the Company's loan to related party is determined using a discounted cash flow method based on market interest rates at each reporting date.

(C) DERIVATIVE FINANCIAL INSTRUMENTS

The Company enters into certain forward and option contracts in order to manage its subsidiaries' exposure to foreign exchange risk arising from the activities of these subsidiaries. Also the Company enters into option contracts to manage its subsidiaries' exposure to commodity price risk associated with the sales of gold. In the Group's consolidated financial statements certain of these derivatives are designated as cash flow hedges but for the purposes of the Company's stand-alone financial statements the related hedged items are not held by the Company, so do not qualify as cash flow hedges.

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

	As at 31 December	
Financial assets	**2017 US$ thousands**	2016 US$ thousands
Currency contracts		
Forward contracts:		
Euro	**193**	145
Swedish krona	**104**	–
CAD 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

	As at 31 December	
Financial liabilities	**2017 US$ thousands**	2016 US$ thousands
Currency contracts		
Forward contracts:		
Euro	**12**	570
Canadian dollar	**25**	10
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.

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS
CONTINUED

18. FINANCIAL RISK MANAGEMENT

OVERVIEW

The Company's principal financial assets and liabilities, other than derivatives, are comprised of trade receivables, cash, available-for-sale financial assets, loans to and from related parties, interest-bearing loans and trade payables.

The Company enters into certain derivative transactions with the purpose of managing foreign exchange risk arising on the activity and transactions of its subsidiaries.

The Company has exposure to the following risks from its use of financial instruments:
- Market risk, including foreign currency, interest rate and equity price risks;
- Credit risk; and
- Liquidity risk.

This note presents information about the Company's exposure to each of the above risks and the Company's objectives, policies and processes for assessing and managing risk. Further quantitative disclosures are included throughout the financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Company risk management framework.

The Company's risk management policies have been established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Fresnillo Audit Committee has responsibility for overseeing how management monitors compliance with the Company risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Company. The Audit Committee is assisted in its oversight role by Internal Audit, which undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

(A) MARKET RISK

Market risk is the risk that changes in market factors, such as foreign exchange rates, or interest rates will affect the Company income or the value of its financial instruments.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

FOREIGN CURRENCY RISK

The Company is exposed to foreign currency risk on transactions and balances that are denominated in currencies other than the US dollar. Transactions in foreign currencies include the purchase of services, payment or receipt of dividends and other items. As a result, the Company has financial liabilities denominated in currencies other than functional currency, and holds cash and cash equivalents in Mexican peso.

The following table demonstrates the sensitivity of financial assets and financial liabilities to a reasonably possible change in the US dollar exchange rate compared to the Mexican peso, reflecting the impact on the Company's profit before tax with all other variables held constant. It is assumed that the same percentage change in exchange rates is applied to all applicable periods. There is no impact on the Company's equity other than the equivalent change in retained earnings.

Year ended 31 December	Strengthening/ (Weakening) of US dollar	Effect on profit before tax: increase/(decrease) US$ thousands
2017	**20%**	**(88)**
	(10%)	**59**
2016	15%	(388)
	(10%)	330

The following table demonstrates the sensitivity of financial assets and financial liabilities to a reasonably possible change in the US dollar exchange rate compared to the Swedish krona, reflecting the impact on the Company's profit before tax, with all other variables held constant. It is assumed that the same percentage change in exchange rates is applied to all applicable periods. There is no impact on the Company's equity other than the equivalent change in retained earnings.

Year ended 31 December	Strengthening/ (Weakening) of US dollar	Effect on profit before tax: increase/(decrease) US$ thousands
2017	**10%**	**(335)**
	(10%)	**500**
2016	10%	(63)
	(10%)	94

The following table demonstrates the sensitivity of financial assets and financial liabilities to a reasonably possible change in the US dollar compared to the euro, reflecting the impact on the Company's profit before tax, with all other variables held constant. It is assumed that the same percentage change in exchange rates is applied to all applicable periods. There is no impact on the Company's equity other than the equivalent change in retained earnings.

Year ended 31 December	Strengthening/ (Weakening) of US dollar	Effect on profit before tax: increase/(decrease) US$ thousands
2017	**10%**	**1,058**
	(10%)	**(1,056)**
2016	5%	459
	(10%)	(1,024)

COMMODITY RISK

The Company's subsidiaries have exposure to changes in metals prices (specifically gold, lead and zinc) which have a significant effect on the Company's results. These prices are subject to global economic conditions and industry-related cycles.

The Company uses derivative instruments to hedge against precious metals commodity price exposure in its subsidiaries, see mentioned in note 17(c).

The table below reflects the aggregate sensitivity relating to changes in the fair value of commodity derivative contracts of financial assets and liabilities, reflecting the impact on the Company's profit before tax with all other variables held constant. There is no impact on the Company's equity other than the effect on profit before tax.

	Increase/(Decrease) in commodity prices				Effect on profit before tax: increase/ (decrease)
Year ended 31 December	Gold	Silver	Zinc	Lead	US$ thousands
2017	**10%**	**10%**	**20%**	**15%**	**(50,854)**
	(10%)	**(10%)**	**(20%)**	**(15%)**	**31,725**
2016	10%	25%	40%	40%	(112,583)
	(15%)	(20%)	(30%)	(15%)	59,589

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS
CONTINUED

18. FINANCIAL RISK MANAGEMENT CONTINUED

INTEREST RATE RISK

The Company is exposed to interest rate risk from the possibility that changes in interest rates will affect future cash flows or the fair values of its financial instruments. The Company's earnings are sensitive to changes in interest rates on any floating element of the loans with related parties and interest earned on cash balances. Interest-bearing loans are at a fixed rate, therefore the possibility of a change in interest rate only impacts its fair value but not its carrying amount. Therefore, interest-bearing loans and loans from related parties are excluded from the table below.

The following table demonstrates the sensitivity of all financial assets and financial liabilities to a reasonably possible change in interest rate applied to a full year from the balance sheet date. There is no impact on the Company's equity other than the equivalent change in retained earnings.

Year ended 31 December	Basis point increase/(decrease) in interest rate	Effect on profit before tax: increase/(decrease) US$ thousands
2017	**90**	**1,200**
	(50)	**(667)**
2016	65	1,870
	(20)	(575)

EQUITY PRICE RISK

The Company 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 assets to a reasonably possible change in market price of these equity instruments, reflecting the effect on the Company's profit before tax and equity.

Year ended 31 December	Increase/ (Decrease) in equity price	Effect on profit before tax: increase/(decrease)	Effect on equity: increase/(decrease) US$ thousands
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 Company's ordinary course of business and is applicable to all financial assets and derivative financial instruments. The financial assets are trade and other receivables, intercompany loans, cash and cash equivalents and available-for-sale financial assets.

The Company's policies are aimed at minimising losses as a result of counterparties' failure to honour their obligations. Individual exposures are monitored with customers subject to credit limits to ensure that the Company's exposure to bad debts is not significant. The Company's exposure to credit risk is influenced mainly by the individual characteristics of each counterparty. The Company's financial assets are with counterparties that the Company considers to have an appropriate credit rating. As disclosed in note 14, the counterparties to a significant proportion of these financial assets are related parties. At each balance sheet date, the Company's financial assets were neither impaired nor past due. The Company's policies are aimed at minimising losses from the foreign currency and commodity hedging contracts. The Company's foreign currency and commodity derivative contracts are entered into with large financial institutions with strong credit ratings.

The Company's surplus funds are managed by Servicios Administrativos Fresnillo, S.A. de C.V., which manages cash and cash equivalents investing in a number of financial institutions. In order to minimise exposure to credit risk, the Company only deposits cash and cash equivalents with financial institutions with a credit rating of M-1 (Moody's) and mxA-1+ (Standard and Poors) and above, and only for periods of less than four months.

The maximum credit exposure at the reporting date of each category of financial asset above is the carrying value as detailed in the relevant notes. See note 6 for the maximum credit exposure for available-for-sale investments, note 8 for cash and cash equivalents and note 14 for related party balances.

(C) LIQUIDITY RISK
Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company monitors its risk of a shortage of funds using projected cash flows and by monitoring the maturity of both its financial assets and liabilities.

The table below summarises the maturity profile of the Company financial liabilities based on contractual undiscounted payments.

					US$ thousands
	Within 1 year	**2–3 years**	**3-5 years**	**> 5 years**	**Total**
As at 31 December 2017					
Interest-bearing loans	**46,267**	**92,534**	**92,534**	**846,267**	**1,077,602**
Derivatives financial instruments – liabilities	**4,992**	**14,224**	**–**	**–**	**19,216**
Trade and other payables	**2,888**	**–**	**–**	**–**	**2,888**

					US$ thousands
	Within 1 year	2–3 years	3-5 years	> 5 years	Total
As at 31 December 2016					
Interest-bearing loans	46,267	92,534	92,534	892,534	1,123,869
Derivatives financial instruments – liabilities	630	16	–	–	646
Trade and other payables	7,400	–	–	–	7,400

The disclosed financial derivative instruments in the above table are the gross undiscounted cash flows. However those amounts may be settled gross or net. The following table shows the corresponding estimated inflows based on the contractual terms:

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

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

The above liquidity tables include expected inflows and outflows from derivative financial instruments which the Company expects are going to be exercised during 2017 as at 31 December 2016, and from 2016 to 2019 as at 31 December 2015, either by the Company or counterparty.

Management considers that the Company has adequate current assets and forecast cash from operations to manage liquidity risks arising from current liabilities and non-current liabilities.

CAPITAL MANAGEMENT
The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios that support its business and maximise shareholder value. Management considers capital to consist of equity and certain interest-bearing loans, as disclosed in the balance sheet, excluding net unrealised gains and losses on revaluation of cash flow hedges and available-for-sale financial assets. In order to ensure an appropriate return for shareholder's capital invested in the Company, management thoroughly evaluates all material projects and potential acquisitions and approves them at its Executive Committee before submission to the Board for ultimate approval, where applicable. The Company's dividend policy is based on the profitability of the business and underlying growth in earnings of the Group, as well as its capital requirements and cash flows.

OPERATING STATISTICS

	ORE PROCESSED (tonnes)						SILVER (grams/tonne)					
	2012	2013	2014	2015	2016	**2017**	2012	2013	2014	2015	2016	**2017**
Fresnillo	2,738,307	2,703,395	2,625,511	2,410,033	2,373,092	**2,447,394**	327.6	285.3	258.5	220.0	226.7	**229.6**
Ciénega	1,112,850	1,242,168	1,341,569	1,329,364	1,274,939	**1,302,409**	105.2	121.6	108.5	129.0	143.5	**151.5**
Herradura	24,641,053	14,363,315	22,305,133	22,875,421	25,158,600	**26,027,466**	1.2	1.1	1.2	1.2	1.2	**1.1**
Saucito	905,027	1,181,737	1,534,579	2,339,096	2,635,093	**2,753,876**	264.9	329.6	338.9	327.5	302.7	**279.8**
Soledad-Dipolos	15,317,860	6,701,841	–	–	–	**–**	0.5	0.4	–	–	–	**–**
Noche Buena	8,447,301	12,283,709	15,607,230	17,399,931	17,431,718	**17,820,817**	0.4	0.2	0.4	0.2	0.1	**0.1**
San Julián – Veins	–	–	–	–	423,069	**1,273,129**	–	–	–	–	172.5	**157.2**
San Julián – JM	–	–	–	–	–	**945,057**	–	–	–	–	–	**180.3**

	ZINC CONCENTRATE (tonnes)						SILVER (grams/tonne)					
	2012	2013	2014	2015	2016	**2017**	2012	2013	2014	2015	2016	**2017**
Fresnillo	29,212	29,325	29,196	36,595	50,682	**57,686**	1,641	1,356	1,221	1,036	868	**816**
Ciénega	16,103	11,625	11,850	11,694	14,265	**14,108**	540	1,266	1,172	1,770	1,692	**2,413**
Herradura	–	–	–	–	–	**–**	–	–	–	–	–	**–**
Saucito	3,706	8,758	20,794	42,643	50,409	**41,768**	1,760	1,087	789	788	842	**889**
Soledad-Dipolos	–	–	–	–	–	**–**	–	–	–	–	–	**–**
Noche Buena	–	–	–	–	–	**–**	–	–	–	–	–	**–**
San Julián – JM	–	–	–	–	–	**15,827**	–	–	–	–	–	**2,750**

	LEAD CONCENTRATE (tonnes)						SILVER (grams/tonne)					
	2012	2013	2014	2015	2016	**2017**	2012	2013	2014	2015	2016	**2017**
Fresnillo	65,045	63,256	57,263	50,787	58,584	**58,675**	11,780	10,469	10,180	8,737	7,653	**7,950**
Ciénega	15,487	13,380	12,627	13,721	15,600	**16,508**	5,622	7,974	8,004	8,418	7,607	**6,966**
Herradura	–	–	–	–	–	**–**	–	–	–	–	–	**–**
Saucito	15,539	26,055	40,415	69,128	61,321	**53,082**	13,699	13,460	11,443	9,405	10,440	**11,731**
Soledad-Dipolos	–	–	–	–	–	**–**	–	–	–	–	–	**–**
Noche Buena	–	–	–	–	–	**–**	–	–	–	–	–	**–**
San Julián – JM	–	–	–	–	–	**8,634**	–	–	–	–	–	**11,524**

Doré and other products

	PRODUCT (tonnes)						SILVER (grams/tonne)					
	2012	2013	2014	2015	2016	**2017**	2012	2013	2014	2015	2016	**2017**
Ciénega precipitates	52.2	55.7	67.4	68.2	59.4	**67.5**	148,731	187,928	175,026	204,790	282,650	**277,557**
Ciénega Gravimetric Concentrator	–	–	–	–	–	**–**	–	–	–	–	–	**–**
Herradura doré	18.1	18.2	31.1	33.6	46.8	**44.3**	374,787	474,052	650,999	480,633	417,271	**393,103**
Herradura slag	929.9	711.3	716.9	779.1	807.1	**669.9**	817	930	1,198	578	965	**738**
Soledad-Dipolos doré	4.8	2.3	–	–	–	**–**	226,272	292,473	–	–	–	**–**
Soledad-Dipolos slag	583.2	301.5	–	–	–	**–**	857	972	–	–	–	**–**
Fresnillo Concentrates from Tailings Dam	2,311.7	1,990.0	2,277.5	1,544.2	433.9	**–**	2,787.1	3,031.9	2,872.0	2,565.5	2,573.1	**0.0**
Noche Buena doré	3.3	4.8	7.6	8.0	7.1	**6.7**	121,837.5	261,005.1	333,260.8	213,687.2	69,443.6	**31,252.3**
Noche Buena slag	206.3	548.6	564.2	452.1	229.0	**371.2**	288.6	495.0	1,125.6	707.2	263.4	**61.2**
San Julián – Veins precipitates	–	–	–	–	84.6	**218.4**	–	–	–	–	759,300	**845,230**

Metal produced [1,2]

	SILVER (ounces)						GOLD (ounces)					
	2012	2013	2014	2015	2016	**2017**	2012	2013	2014	2015	2016	**2017**
Fresnillo	26,382,793	22,764,018	20,098,245	15,612,175	15,864,614	**16,511,937**	29,573	33,079	35,676	34,120	42,421	**38,784**
Ciénega	3,328,574	4,240,245	4,075,181	4,827,864	5,130,870	**5,394,037**	125,275	112,053	108,211	85,662	72,851	**71,947**
Herradura	242,503	298,984	679,073	525,757	637,775	**551,476**	314,547	264,562	265,564	398,866	520,366	**473,638**
Saucito	7,053,780	11,581,014	15,396,754	21,983,852	21,946,059	**21,215,072**	45,246	45,177	57,227	84,884	86,198	**69,948**
Soledad-Dipolos	50,915	31,124	–	–	–	**–**	107,329	47,285	–	–	–	**–**
Noche Buena	14,754	49,217	102,357	72,868	32,631	**31,324**	65,518	108,729	129,242	158,179	182,280	**172,282**
San Julián – Veins	–	–	–	–	2,065,536	**5,935,507**	–	–	–	–	31,397	**82,782**
San Julián – JM	–	–	–	–	–	**4,598,421**	–	–	–	–	–	**1,750**
Fresnillo Total	37,073,319	38,964,601	40,351,611	43,022,515	45,677,485	**54,237,774**	687,488	610,884	595,920	761,712	935,513	**911,132**

1 Including production from Fresnillo's tailings dam.
2 All figures include 100% of production from the Penmont mines (Herradura, Soledad-Dipolos and Noche Buena).

GOLD (grams/tonne)						ZINC (%)						LEAD (%)					
2012	2013	2014	2015	2016	**2017**	2012	2013	2014	2015	2016	**2017**	2012	2013	2014	2015	2016	**2017**
0.46	0.50	0.53	0.57	0.73	**0.64**	0.96	0.94	0.97	1.18	1.56	**1.72**	0.66	0.63	0.59	0.75	0.99	**0.92**
3.62	2.90	2.59	2.07	1.84	**1.82**	1.12	0.75	0.73	0.80	1.00	**0.98**	0.68	0.56	0.53	0.61	0.68	**0.74**
0.57	0.61	0.72	0.73	0.71	**0.68**	–	–	–	–	–	**–**	–	–	–	–	–	**–**
1.75	1.41	1.40	1.42	1.39	**1.09**	0.54	0.87	1.32	1.70	1.49	**1.21**	0.35	0.55	0.75	1.01	0.93	**0.77**
0.51	0.54	–	–	–	**–**	–	–	–	–	–	**–**	–	–	–	–	–	**–**
0.51	0.54	0.51	0.50	0.51	**0.52**	–	–	–	–	–	**–**	–	–	–	–	–	**–**
–	–	–	–	2.47	**2.10**	–	–	–	–	–	**–**	–	–	–	–	–	**–**
–	–	–	–	–	**0.12**	–	–	–	–	–	**1.18**	–	–	–	–	–	**0.52**

GOLD (grams/tonne)						ZINC (%)						LEAD (%)					
2012	2013	2014	2015	2016	**2017**	2012	2013	2014	2015	2016	**2017**	2012	2013	2014	2015	2016	**2017**
2.6	2.7	3.0	2.6	2.8	**2.3**	51.2	50.9	52.1	52.0	51.1	**52.0**	–	–	–	–	–	**–**
6.5	13.6	11.8	11.2	10.1	**13.9**	50.7	47.0	50.6	51.1	52.2	**50.0**	–	–	–	–	–	**–**
–	–	–	–	–	**–**	–	–	–	–	–	**–**	–	–	–	–	–	**–**
12.8	5.4	3.5	3.0	3.8	**3.8**	48.3	51.5	50.5	49.3	46.6	**48.7**	–	–	–	–	–	**–**
–	–	–	–	–	**–**	–	–	–	–	–	**–**	–	–	–	–	–	**–**
–	–	–	–	–	**–**	–	–	–	–	–	**–**	–	–	–	–	–	**–**
–	–	–	–	–	**0.9**	–	–	–	–	–	**49.6**	–	–	–	–	–	**–**

GOLD (grams/tonne)						ZINC (%)						LEAD (%)					
2012	2013	2014	2015	2016	**2017**	2012	2013	2014	2015	2016	**2017**	2012	2013	2014	2015	2016	**2017**
12.8	14.7	17.4	18.7	20.0	**18.3**	–	–	–	–	–	**–**	24.9	24.6	24.3	32.0	36.4	**35.0**
130.7	138.4	146.9	105.0	76.5	**69.5**	–	–	–	–	–	**–**	36.7	36.0	37.5	39.5	37.7	**38.3**
–	–	–	–	–	**–**	–	–	–	–	–	**–**	–	–	–	–	–	**–**
87.5	52.1	42.3	36.3	40.6	**38.0**	–	–	–	–	–	**–**	17.8	21.5	24.7	30.0	34.1	**33.4**
–	–	–	–	–	**–**	–	–	–	–	–	**–**	–	–	–	–	–	**–**
–	–	–	–	–	**–**	–	–	–	–	–	**–**	–	–	–	–	–	**–**
–	–	–	–	–	**4.6**	–	–	–	–	–	**–**	–	–	–	–	–	**41.7**

GOLD (grams/tonne)					
2012	2013	2014	2015	2016	**2017**
33,846	26,459	20,327	16,008	15,660	**13,252**
–	–	–	–	–	**–**
473,042	411,210	247,967	369,321	351,900	**344,604**
1,314	1,035	756	541	942	**647**
539,249	507,822	–	–	–	**–**
1,295	991	–	–	–	**–**
6.8	9.1	10.8	10.4	14.5	**0.0**
542,429	516,359	465,538	533,408	611,567	**602,221**
1,260	1,623	815	506	1,225	**979**
–	–	–	–	11,542	**11,788**

ZINC (tonne)						LEAD (tonne)					
2012	2013	2014	2015	2016	**2017**	2012	2013	2014	2015	2016	**2017**
14,966	14,914	15,199	19,029	25,898	**30,021**	16,190	15,552	13,888	16,248	21,326	**20,514**
8,171	5,459	6,000	5,970	7,450	**7,048**	5,676	4,811	4,736	5,425	5,883	**6,328**
–	–	–	–	–	**–**	–	–	–	–	–	**–**
1,791	4,509	10,501	21,023	23,498	**20,348**	2,773	5,605	9,967	20,740	20,935	**17,714**
–	–	–	–	–	**–**	–	–	–	–	–	**–**
–	–	–	–	–	**–**	–	–	–	–	–	**–**
–	–	–	–	–	**–**	–	–	–	–	–	**–**
–	–	–	–	–	**7,849**	–	–	–	–	–	**3,598**
24,928	24,881	31,700	46,022	56,845	**65,266**	24,639	25,968	28,591	42,413	48,144	**48,153**

FRESNILLO PLC CONSOLIDATED AUDITED MINERAL RESOURCE STATEMENT [1]

AS AT 31 DECEMBER 2017

		Quantity	Grade				Contained Metal			
Resource Category	Cut-off Grade [2]	Tonnes (kt)	Au (g/t)	Ag (g/t)	Pb (%)	Zn (%)	Au (koz)	Ag (koz)	Pb (kt)	Zn (kt)
Minera Fresnillo – Fresnillo/Proaño Mine – Underground										
Measured	93 g/t AgEq	12,595	0.88	556	1.06	1.83	354	224,972	133	230
Indicated		25,270	0.84	250	1.68	3.64	685	203,103	426	920
Measured & Indicated		37,865	0.85	352	1.48	3.04	1,039	428,075	559	1,151
Inferred		41,075	0.62	291	1.08	2.72	813.7	384,744	445	1,117
Minera Saucito – Saucito Mine – Underground										
Measured	117 g/t AgEq	4,160	2.32	366	1.23	2.00	310	48,932	51	83
Indicated		16,889	1.62	267	1.47	2.75	878	145,242	249	464
Measured & Indicated		21,049	1.75	287	1.43	2.60	1,187	194,175	300	547
Inferred		35,983	0.75	276	1.18	2.07	867	319,392	426	746
Minera Ciénega – Ciénega Complex – Underground										
Measured	Multiple [3]	7,778	2.32	133	0.77	1.27	580	33,294	60	99
Indicated		13,501	1.52	154	0.59	1.07	661	66,952	80	144
Measured & Indicated		21,279	1.81	147	0.66	1.14	1,241	100,245	140	243
Inferred		12,887	1.15	162	0.47	0.89	477	67,066	61	114
Minera Fresnillo – San Julián Mine Underground: Veins										
Measured	95 g/t AgEq	1,412	2.39	184	–	–	109	8,334	–	–
Indicated		10,690	1.47	119	–	–	504	41,059	–	–
Measured & Indicated		12,102	1.57	127	–	–	612	49,393	–	–
Inferred		6,536	1.23	96	–	–	259	20,116	–	–
Minera Fresnillo – San Julián Mine Underground: Disseminated										
Measured	117 g/t AgEq	16,143	0.12	212	0.64	1.68	60	110,279	103	271
Indicated		3,972	0.06	89	0.43	1.34	7	11,408	17	53
Measured & Indicated		20,115	0.10	188	0.60	1.61	68	121,687	120	325
Inferred		69	0.04	37	0.08	1.97	0	83	0	1
Minera Penmont Underground: Centauro Profundo										
Measured	2.0 g/t Au	2,528	3.99	–	–	–	324	–	–	–
Indicated		2,143	3.72	–	–	–	256	–	–	–
Measured & Indicated		4,671	3.87	–	–	–	581	–	–	–
Inferred		673	3.84	–	–	–	83	–	–	–
Minera Penmont Open Pit: Mega Centauro [4, 5]										
Measured	Multiple [6]	216,458	0.80	–	–	–	5,567	–	–	–
Indicated		163,586	0.79	–	–	–	4,129	–	–	–
Measured & Indicated		380,044	0.79	–	–	–	9,695	–	–	–
Inferred		20,115	0.97	–	–	–	629	–	–	–

		Quantity	Grade				Contained Metal			
Resource Category	Cut-off Grade [2]	Tonnes (kt)	Au (g/t)	Ag (g/t)	Pb (%)	Zn (%)	Au (koz)	Ag (koz)	Pb (kt)	Zn (kt)
Minera Penmont Open Pit: Soledad-Dipolos [4, 5, 7]										
Measured	0.25 g/t Au	28,223	0.61	–	–	–	552	–	–	–
Indicated		14,762	0.54	–	–	–	256	–	–	–
Measured & Indicated		42,985	0.58	–	–	–	808	–	–	–
Inferred		15	0.35	–	–	–	0	–	–	–
Minera Penmont Open Pit: Noche Buena [4, 5]										
Measured	0.25 g/t Au	33,151	0.52	–	–	–	554	–	–	–
Indicated		16,507	0.50	–	–	–	264	–	–	–
Measured & Indicated		49,657	0.51	–	–	–	819	–	–	–
Inferred		1,173	0.48	–	–	–	18	–	–	–
Totals – Underground										
Measured & Indicated	Multiple	117,081	1.26	237	0.96	1.93	4,729	893,576	1,120	2,265
Inferred		97,222	0.80	253	0.96	2.04	2,499	791,401	932	1,979
Totals – Open Pit										
Measured & Indicated	Multiple	472,686	0.75	–	–	–	11,322	–	–	–
Inferred		21,303	0.94	–	–	–	647	–	–	–

1 Mineral resources are reported inclusive of ore reserves. Mineral resources are not ore reserves and do not have demonstrated economic viability. All figures rounded to reflect the relative accuracy of the estimates. Gold, silver, lead and zinc assays were capped where appropriate.
2 Mineral resources are reported at metal equivalent cut-off grades based on metal price assumptions*, variable metallurgical recovery assumptions (variable metallurgical recoveries as a function of grade and relative metal distribution), mining costs, processing costs, general and administrative (G&A) costs, and variable NSR factors (NSR factors include smelting and transportation costs). The AgEq is calculated by dividing the cost by the Ag net value factor which includes prices, recoveries, and payabilities.
3 The cut-off grade for Ciénega's mineral resources varies between 117 and 162 gpt AgEq.
4 The Mega Centauro, Soledad/Dipolos, and Noche Buena resources are reported within pit shells run at a US$1,250/oz Au price.
5 The Mega Centauro, Soledad/Dipolos, Noche Buena open pit mines has produced silver at an average concentration of 0.3 gpt to 1.1 gpt. Silver is not assayed for and is not estimated in the resource model. Based on past production, factored in situ silver in the open pit M & I & I resources is approximately in the range of 14 to 15 moz.
6 Mega Centauro mineral reserves are reported at varied cut-offs dependent on material types and grade. Oxide material above 0.25 gpt Au reports to the heap leach, transitional and sulfide material above 0.30 gpt Au reports to the heap leach, oxide material above 0.93 gpt Au reports to the mill, transitional and sulfide material above 0.48 gpt Au reports to the mill.
7 The Soledad/Dipolos mine has been subject to legal action regarding surface access. SRK has been provided with reassurances that Fresnillo has a reasonable chance to reacquire surface rights to these areas.
* Metal price assumptions considered for the calculation of metal equivalent grades are: Gold (US$/oz 1,250.00), Silver (US$/oz 17.00), Lead (US$/lb 1.00) and Zinc (US$/lb 1.20).
• The resources were estimated by Fresnillo. Dr Bart Stryhas,CPG #11034, a Qualified Person, reviewed and audited the resource calculations for Minera Penmont. Matthew Hastings, M.Sc, P.Geo, MAusIMM #314693 of SRK, a Qualified Person, reviewed and audited the resource calculations for Ciénega. Benjamin Parsons, BSc, MSc Geology, MAusIMM (CP) #222568 of SRK, a Qualified Person, reviewed and audited the resource calculations for Fresnillo and Saucito. Erik Ronald, MEng, PG, MAusIMM #306480 of SRK, a Qualified Person, reviewed and audited the resource calculations for San Julián.

CONSOLIDATED AUDITED MINERAL RESOURCE STATEMENT OF EXPLORATION PROJECTS AND PROSPECTS[1]

AS AT 31 DECEMBER 2017

		Quantity	Grade				Contained Metal			
Deposit/Fresnillo Subsidiary	Cut-off Grade[2]	Tonnes (kt)	Au (g/t)	Ag (g/t)	Pb (%)	Zn (%)	Au (koz)	Ag (koz)	Pb (kt)	Zn (kt)
Measured Mineral Resource										
Orisyvo – disseminated Au[4]	0.37 g/t Au	41,455	1.43	2	–	–	1,902	2,047	–	–
Candameña – disseminated Au[4]		–	–	–	–	–	–	–	–	–
San Julián Sur – veins		–	–	–	–	–	–	–	–	–
Leones – breccia[4]		–	–	–	–	–	–	–	–	–
Tajitos – disseminated Au	0.25 g/t Au	15,401	0.41	–	–	–	203	–	–	–
Lucerito – breecia/mantos[4]		–	–	–	–	–	–	–	–	–
Rodeo – disseminated Au		–	–	–	–	–	–	–	–	–
Manzanillas – veins	US$58.30/t	75	6.76	130	–	–	16	316	–	–
San Juan – veins		–	–	–	–	–	–	–	–	–
Juanicipio – veins[3]		–	–	–	–	–	–	–	–	–
Huizache – veins		–	–	–	–	–	–	–	–	–
Guachichil – disseminated Au[4]		–	–	–	–	–	–	–	–	–
Opulencia – veins		–	–	–	–	–	–	–	–	–
La Gloria – veins		–	–	–	–	–	–	–	–	–
La Joya – veins		–	–	–	–	–	–	–	–	–
Cebadillas – veins		–	–	–	–	–	–	–	–	–
La Yesca – veins		–	–	–	–	–	–	–	–	–
San Nicolas – veins		–	–	–	–	–	–	–	–	–
Pilarica – mantos		–	–	–	–	–	–	–	–	–
Total Measured		**56,931**	**1.16**	**1**	**–**	**–**	**2,122**	**2,363**	**–**	**–**
Indicated Mineral Resource										
Orisyvo – disseminated Au[4]	0.37 g/t Au	201,152	1.05	1	–	–	6,793	8,666	–	–
Candameña – disseminated Au[4]	0.59 g/t Au-Eq	50,007	0.75	17	0.04	0.11	1,200	27,919	19	53
San Julián Sur – veins	US$45.17/t	669	1.13	129	–	–	24	2,781	–	–
Leones – breccia[4]		–	–	–	–	–	–	–	–	–
Tajitos – disseminated Au	0.25 g/t Au	8,665	0.39	–	–	–	108	–	–	–
Lucerito – breecia/mantos[4]	1.00 g/t Au-Eq	130,359	0.38	24	0.26	0.43	1,572	102,388	345	560
Rodeo – disseminated Au	0.30 g/t Au	5,180	0.58	3	–	–	96	565	–	–
Manzanillas – veins	US$58.30/t	919	3.53	69	–	–	104	2,034	–	–
San Juan – veins	US$58.30/t	2,459	1.50	175	–	–	118	13,845	–	–
Juanicipio – veins[3]	US$55.10/t	5,114	1.90	500	2.06	3.90	312	82,200	105	199
Huizache – veins		–	–	–	–	–	–	–	–	–
Guachichil – disseminated Au[4]		–	–	–	–	–	–	–	–	–
Opulencia – veins	2.10 g/t Au-Eq	1,296	2.45	137	–	–	102	5,701	–	–
La Gloria – veins	2.10 g/t Au-Eq	1,433	4.80	95	–	–	221	4,377	–	–
La Joya – veins		–	–	–	–	–	–	–	–	–
Cebadillas – veins		–	–	–	–	–	–	–	–	–
La Yesca – veins		–	–	–	–	–	–	–	–	–
San Nicolas – veins		–	–	–	–	–	–	–	–	–
Pilarica – mantos	20 g/t Ag-Eq	10,327	–	104	0.32	0.47	–	34,591	33	48
Total Indicated		**417,578**	**0.79**	**21**	**0.12**	**0.21**	**10,652**	**285,066**	**502**	**861**

Deposit/Fresnillo Subsidiary	Cut-off Grade[2]	Quantity Tonnes (kt)	Grade Au (g/t)	Ag (g/t)	Pb (%)	Zn (%)	Contained Metal Au (koz)	Ag (koz)	Pb (kt)	Zn (kt)
Inferred Mineral Resource										
Orisyvo – disseminated Au[4]	0.31 g/t Au	46,682	0.61	1	–	–	914	1,625	–	–
Candameña – disseminated Au[4]	0.38 g/t Au-Eq	7,589	0.42	16	0.01	0.04	101	3,893	1	3
San Julián Sur – veins	US$45.17/t	10,256	1.23	94	–	–	406	30,924	–	–
Leones – breccia[4]	60 g/t Ag	7,268	0.01	112	1.44	1.25	1	26,234	105	91
Tajitos – disseminated Au	0.25 g/t Au	7,987	0.41	–	–	–	104	–	–	–
Lucerito – breecia/mantos[4]	1.00 g/t Au-Eq	58,369	0.39	32	0.22	0.38	727	60,708	127	219
Rodeo – disseminated Au	0.30 g/t Au	72,353	0.48	5	–	–	1,118	10,900	–	–
Manzanillas – veins	US$58.30/t	317	2.03	46	–	–	21	474	–	–
San Juan – veins	US$58.30/t	5,362	2.09	141	–	–	362	24,241	–	–
Juanicipio – veins[3]	US$55.10/t	8,819	1.64	201	2.36	4.57	464	56,860	208	403
Huizache – veins	US$75/t	1,038	2.55	319	0.04	0.09	85	10,640	0	1
Guachichil – disseminated Au[4]	0.46 g/t Au-Eq	56,640	0.65	10	0.10	0.16	1,187	18,255	56	89
Opulencia – veins	2.10 g/t Au-Eq	1,640	2.59	162	–	–	136	8,560	–	–
La Gloria – veins	2.10 g/t Au-Eq	3,444	2.71	96	–	–	300	10,604	–	–
La Joya – veins	2.10 g/t Au-Eq	2,688	2.67	461	–	–	230	39,854	–	–
Cebadillas – veins	2.10 g/t Au-Eq	1,980	2.59	65	–	–	165	4,109	–	–
La Yesca – veins	159 g/t Ag-Eq	1,115	0.76	141	–	–	27	5,058	–	–
San Nicolas – veins	2.10 g/t Au-Eq	2,167	1.61	225	–	–	112	15,684	–	–
Pilarica – mantos	20 g/t Ag-Eq OP,125g/t Ag-Eq UG	5,323	0.53	114	1.75	1.75	91	19,468	93	93
Total Inferred		**301,038**	**0.68**	**36**	**0.20**	**0.30**	**6,555**	**348,090**	**590**	**900**

1 Mineral resources are not ore reserves and do not have demonstrated economic viability. All figures rounded to reflect the relative accuracy of the estimates. Metal assays were capped where appropriate. Mineral resources are reported at variable metal, metal equivalent or NSR cut-off grades and assuming reasonable metal recoveries. Orisyvo, Lucerito, Candameña, Rodeo and Guachichil mineral resources are reported inside a conceptual pit shell based on appropriate mining and processing costs and metal recoveries for oxide and sulfide material. Equivalent metal grades (and conceptual pit optimization) are based on US$1,250 per ounce of gold, US$17.00 per ounce of silver (US$1,400 per ounce of gold, US$17.50 per ounce of silver for the Orisyvo project), US$1.20 per pound of zinc and US$1.00 per pound of lead.
2 Cut-off grade calculations assume variable metallurgical recoveries.
3 Portions of the Valdecañas deposit within the Minera Juanicipio property where Fresnillo plc holds a 56% interest. Mineral resources quoted reflect Fresnillo plc's attributable 56% ownership.
4 Mineral resources statement prepared independently by SRK CA.

CONSOLIDATED AUDITED ORE RESERVE STATEMENT[1]

AS AT 31 DECEMBER 2017

		Quantity	Grade				Contained Metal			
Deposit	Cut-off Grade[1]	Tonnes (Mt)	Au (g/t)	Ag (g/t)	Pb (%)	Zn (%)	Au (koz)	Ag (koz)	Pb (kt)	Zn (kt)
Minera Fresnillo – Fresnillo/Proaño Mine – Underground[2]										
Proven	196 g/t AgEq	4,611	0.64	335	0.83	1.48	94	49,619	38	68
Probable		18,717	0.82	216	1.72	3.68	495	130,031	322	688
Proven and Probable		23,327	0.79	240	1.54	3.24	590	179,650	360	757
Minera Saucito – Saucito Mine – Underground[2]										
Proven	215 g/t AgEq	2,892	1.41	298	1.00	1.64	131	27,725	29	47
Probable		12,963	1.39	253	1.42	2.60	578	105,473	185	337
Proven and Probable		15,855	1.39	261	1.35	2.43	708	133,197	213	385
Minera Ciénega – Ciénega Complex – Underground[2]										
Proven	Multiple[3]	3,077	2.62	174	0.74	1.16	259	17,234	23	36
Probable		5,844	2.00	196	0.62	1.02	376	36,858	36	60
Proven and Probable		8,922	2.21	189	0.66	1.07	635.3	54,091	59	96
Minera Fresnillo – San Julián Mine Underground: Veins[2]										
Proven	171 g/t AgEq	1,132	2.19	170	–	–	80	6,169	–	–
Probable		5,147	1.71	146	–	–	283	24,101	–	–
Proven and Probable		6,279	1.79	150	–	–	362	30,270	–	–
Minera Fresnillo – San Julián Underground: Disseminated[2]										
Proven	156 g/t AgEq	15,116	0.11	206	0.60	1.53	52	99,880	91	231
Probable		1,196	0.05	119	0.39	1.00	2	4,573	5	12
Proven and Probable		16,312	0.10	199	0.59	1.49	54	104,454	96	243
Minera Penmont Open Pit: Mega Centauro[4]										
Proven	Multiple[5]	179,608	0.80	–	–	–	4,616	–	–	–
Probable		126,022	0.77	–	–	–	3,117	–	–	–
Proven and Probable		305,630	0.79	–	–	–	7,733	–	–	–
Minera Penmont Open Pit: Soledad-Dipolos[4, 6]										
Proven	0.25 g/t Au	28,223	0.61	–	–	–	552	–	–	–
Probable		14,762	0.54	–	–	–	256	–	–	–
Proven and Probable		42,985	0.58	–	–	–	808	–	–	–
Minera Penmont Open Pit: Noche Buena[4]										
Proven	0.25 g/t Au	33,151	0.52	–	–	–	554	–	–	–
Probable		16,507	0.50	–	–	–	264	–	–	–
Proven and Probable		49,657	0.51	–	–	–	819	–	–	–
Totals – Underground										
Proven	Multiple	26,827	0.71	233	0.67	1.43	616	200,627	180	383
Probable		43,868	1.23	213	1.25	2.50	1,734	301,036	547	1,097
Proven and Probable		70,695	1.03	221	1.03	2.09	2,350	501,662	727	1,480
Totals – Open Pit										
Proven	Multiple	240,982	0.74	–	–	–	5,722	–	–	–
Probable		157,291	0.72	–	–	–	3,638	–	–	–
Proven and Probable		398,272	0.73	–	–	–	9,360	–	–	–

1 All figures rounded to reflect the relative accuracy of the estimates. Mineral reserves are reported at metal equivalent cut-off grades based on metal price assumptions*, variable metallurgical recovery assumptions (variable metallurgical recoveries as a function of grade and relative metal distribution), mining costs, processing costs, general and administrative (G&A) costs, sustaining capital costs, and variable NSR factors (NSR factors include smelting and transportation costs). The AgEq is calculated by dividing the cost by the Ag net value factor which includes prices, recoveries, and payabilities.
2 Reserves include planned dilution to a minimum mining width and to minable outlines.
3 The cut-off grades for the Ciénega reserve vary between 224 and 319 gpt Ag equivalent.
4 Reserves have no additional dilution added to that inherent in the Selective Mining Unit (SMU) of 15m x 15m x 8m. Reserves are converted from resources through the process of pit optimization, pit design, production schedule and supported by a Minera Penmont cash flow model.
5 Mega Centauro mineral reserves are reported at varied cut-offs dependent on material types and grade. Oxide material above 0.25 gpt Au reports to the heap leach, transitional and sulfide material above 0.30 gpt Au reports to the heap leach, oxide material above 0.93 gpt Au reports to the mill, transitional and sulfide material above 0.48 gpt Au reports to the mill.
6 The Soledad/Dipolos mine has been subject to legal action regarding surface access. SRK has been provided with documents indicating a reasonable chance that these actions will be settled in favour of the mine.
* Metal price assumptions considered for the calculation of metal equivalent grades are: Gold (US$/oz 1,250.00), Silver (US$/oz 17.00), Lead (US$/lb 1.00) and Zinc (US$/lb 1.20).
- Full mining recovery assumed with a factor applied for pillars where appropriate.
- The reserves are valid as of December 31, 2017. All topography is valid as of October 31, 2017.
- The ore reserves were estimated by Fresnillo. Bret C Swanson, BE (Min) MMSAQP #04418QP, a Qualified Person, reviewed and audited the open pit reserve calculations. Fernando Rodrigues, BS Mining, MBA,MMSAQP #01405, MAusIMM #304726 of SRK, a Qualified Person, reviewed and audited the underground reserve calculations.

SHAREHOLDER INFORMATION

FINANCIAL CALENDAR

Preliminary Statement	27 February 2018
First Interim Management Statement	25 April 2018
Annual General Meeting	30 May 2018
Interim Statement	31 July 2018
Second interim Management Statement	24 October 2018

DIVIDEND PAYMENT SCHEDULE

2017 Final Dividend Record Date	27 April 2018
2017 Final Dividend Payment Date	4 June 2018
2018 Interim Dividend Record Date	10 August 2018
2018 Interim Dividend Payment Date	7 September 2018

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SHARE FRAUD WARNING
Share fraud includes scams where investors are called out of the blue and offered shares that turn out to be worthless or non-existent, or an inflated price for shares they own. These calls come from fraudsters operating in 'boiler rooms', mostly based abroad. While high profits are promised, those who buy or sell shares in this way usually lose their money. Most victims are experienced investors, losing on average £20,000.

PROTECT YOURSELF
If you are offered unsolicited investment advice, discounted shares, inflated prices for shares you own, or free company or research reports, take these steps before handing over any money:

1. Get the name of the person and organisation.
2. Check the Financial Services Register at www.fca.org.uk/register to ensure they are authorised.
3. Use the details on the Financial Services Register to contact the firm.
4. Call the FCA Consumer Helpline on 0800 111 6768 if there are no contact details on the Register or you are told they are out of date.
5. Search the list of unauthorised firms and individuals to avoid doing business with.
6. **REMEMBER: if it sounds too good to be true, it probably is!**

If you use an unauthorised firm to buy or sell shares, you will not have access to the Financial Ombudsman Service or Financial Services Compensation Scheme (FSCS) if things go wrong.

REPORT A SCAM
If you are approached about a share scam you should tell the FCA using the form at www.fca.org.uk/scams (where you can also review the latest scams) or call the Consumer Helpline on 0800 111 6768.

If you have already paid money to share fraudsters then contact Action Fraud on 0300 123 2040.

For further information, please visit our website:
www.fresnilloplc.com or contact:
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Gabriela Mayor, Head of Investor Relations

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

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

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

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