

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

RISK DESCRIPTION

Following the change in administration in 2018, actions by the new Government may have an adverse impact on us. This could include more stringent regulations relating to the environment or explosives, more challenging processes for obtaining permits, more onerous tax compliance obligations for ourselves and our contractors, as well as more frequent reviews by tax authorities (See note 25 for more details, pages 202 to 204).

On 1 January 2017, a new state law (the 'State 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;
- iv. Storage of waste in public or private landfills.

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



RESPONSE/MITIGATION

Following an initial legal injunction and a ruling in our favour, the Supreme Court has allowed the Zacatecas state the right to impose an 'environmental tax'. Notwithstanding this development, the methodology presented for the calculation of such an 'environmental tax' is yet to be discussed and approved. Considering the initial methodology, we estimate that the potential net impact of these new taxes on our income statement would be in the range of US\$ 5-8 million annually. We look forward to the court resolving the calculation methodology.

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 are committed to holding community dialogue over the lifetime of a mine project, from the earliest exploration to eventual closure, aiming to create long-term relationships and value, while ensuring operational continuity.

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. We will continue working together with the authorities.

We have extensive engagement programmes with communities that may be impacted by our mining activities. At the San Julián mine, for example, we have recently worked in conjunction with the Federal Government to successfully conclude an indigenous consultation for the construction of a water reservoir.

See our Social and Sustainability Review, pages 66-84 for more details.



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 the reviews by the tax authorities, the legislation issued in 2017 requiring management to ensure that contractors are compliant with their own tax obligations, the imposition of the environmental taxes contained in the new State Law in Zacatecas and the indigenous consultation to obtain mining concessions. In addition it is evident in the continued perceived level of corruption across Mexico, which remains high¹ and worsened versus the previous year. As a result, delays in obtaining permits for certain operations and/or projects remain a risk.

Mexico has a new administration and although we are yet to see any firm indication of direction, we remain confident in the long-term view both of our Company and the mining sector more generally in Mexico. We will work with the new Government alongside trade bodies and the Mexican Mining Chamber. Our aim will be to defend the industry and its interests, while also continuing to highlight the significant positive impact the mining industry makes to infrastructure, education and health in remote communities as well across Mexico more generally.

KEY RISK INDICATORS

- Number of media mentions related to mining regulations. These could include the mention 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.

RISK APPETITE

LOW

Risk rating (relative position)

2018: Very high (2)

2017: Very high (3)

Note: In the map, the perceived level of risk remains very high, with the change in rating during 2018 being due to the change of administration. The change in rating though was only marginal as the possible impact and likelihood of a change in government was anticipated and had already been captured within the risk rating last year.

LINK TO STRATEGY



CHANGE IN HEAT MAP



1 Corruption Perception Index 2018, issued by Transparency International ranks Mexico as 138th of 180 countries by perceived levels of public sector corruption.