Fresnillo plc

Financial results for the year ended 31 December 2015

Fresnillo plc today announced its financial results for the full year ended 31 December 2015. Octavio Alvídrez, CEO said:

"I am pleased to report a solid overall performance against a backdrop of continued global economic uncertainty and weak precious metals prices. Silver production was at the top end of our guidance, whilst in gold we surpassed our long term 2018 target. Our performance was driven by substantial operational progress during the year: we ramped up Saucito II, reached steady state at Herradura, and have begun to see the results of the measures we have put in place to solve development delays at Fresnillo.

Development projects advanced largely according to plan, with commissioning of phase 1 at San Julián due in the second quarter of 2016, and we have continued to invest in exploration to advance projects and prospects where we have identified strong potential.

We maintained a strong financial position, ending the year with a healthy cash balance, and without impairments. Weaker precious metals prices clearly impacted financial performance, but this was offset by higher volumes; we continued to generate sound profit margins and substantial cashflow from operating activities.

Our 2015 performance underlines the quality of our assets, our low-cost and flexible operations, and the benefits of a disciplined approach to investment, maintenance of a strong balance sheet and a clear commitment to sustainable business practices. We are confident in our ability to build on these solid foundations to deliver long-term value for our shareholders, balancing growth and returns whilst maintaining the strong financial position which allows us to optimise performance in current market conditions.

In light of the weak precious metals price backdrop, we reduced 2015 capital expenditure and exploration spend from budgeted levels, and have similarly reduced these budgets for 2016, deferring certain investments whilst favouring those which accelerate cashflow generation as part of our contingency plan. We will continue to focus on further cost reductions, productivity improvements and value preservation measures as we work towards our 2016 production targets."

Twelve months to 31 December 2015

$ million unless stated	**2015**	**2014**	**% change**
Silver Production* (kOz)	46,977	45,000	4.4
Gold Production* (Oz)	761,712	595,920	27.8
Total Revenue	1,444.4	1,413.7	2.2
Adjusted Revenue**	1,583.3	1,545.0	2.5
Gross Profit	433.1	521.1	(16.9)
EBITDA	547.5	567.3	(3.5)
Profit Before Income Tax	212.4	251.1	(15.4)
Profit for the year	69.4	117.1	(40.7)
Basic and Diluted EPS excluding post-tax Silverstream effects (USD)***	0.069	0.074	(6.8)

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

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

*** The weighted average number of shares was 736,893,589 in 2015 and 2014

2015 Highlights

Robust balance sheet and healthy profit margins support strong financial position

- Adjusted revenue of US$1,583 million, 2.5% increase on 2014 as higher volumes more than offset lower metal prices
- Gross profit and EBITDA of US$433.1 million and US$547.5 million, down 16.9% and 3.5% respectively
- Profit from continuing operations of US$200.4 million, down 18.4%
- Devaluation of the Mexican peso vs. US dollar positively affected production costs, but also resulted in increased deferred taxes with a negative impact on effective tax rate
- Net cash from operating activities was US$542.9 million vs US$121.6 million in 2014
- Capital expenditures of US$474 million and exploration spend of US$140 million
- Maintained financial flexibility, with year-end cash balance of US$500.1 million and net debt position of US$296.9 million at 31 December 2015
- Basic and diluted EPS from continuing operations of US$0.094; adjusted EPS of US$0.069, down 36.1% and 6.8%
- 2015 final dividend of 3.35 US cents per share, equivalent to approximately US$24.7 million, recommended by the Board
- The consolidated income statement for the year was significantly impacted by certain foreign exchange effects, gold hedging and the Silverstream revaluation. Adjusting for these effects[1], would result in EBITDA of US$576.1 million (2014: US$568.4 million) and profit for the year of US$131.0 million (2014: US$134.4 million).

Continued focus on optimising operations

- Silver production (including Silverstream) of 47 moz (+4.4%), at top end of guidance range; primarily attributable to Saucito II ramp-up ahead of schedule
- Gold production of 762 koz, surpassing 2018 gold production target of 750 koz; reached steady state production at Herradura and second Merrill Crowe plant installed
- Measures taken at Fresnillo to address development delays and control dilution; improvements in grade and production in 2H15 and targeting double digit increase in ore milled in 2016

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[1] These effects are as follows:

- Foreign exchange effects- the 16.9% devaluation of the spot Mexican peso/US dollar exchange rate (2014: 12.6% devaluation) adversely affected income principally as a result of:
  - i) Realised losses on derivative instruments used in the Mexican peso/US dollar hedge programme (2015: US$28.6 million pre-tax loss, 2014: US$1.1 million pre-tax loss) (see note 6 to the Financial Information);
  - ii) the retranslation of monetary assets and liabilities transacted in Mexican pesos (2015: US$36.2 million pre-tax loss, 2014: US$24.4 million pre-tax loss);
  - iii) the translation of the tax values of assets and liabilities for the purposes of calculating deferred tax (2015: US$77.5 million negative impact on tax charge, 2014: US$53.4 million negative impact) (see note 11 to the Financial Information).
- The gold hedging programme put in place to protect the value of the investment in Penmont following the acquisition of the minority interest acquisition in 2014 resulted in a pre-tax gain of US$59.7 million (2014: US$4.4 million gain) representing the change in the time value of the hedging instruments (see note 31(c) to the Financial Information);
- The revaluation of the Silverstream contract resulted in a US$27.2 million pre-tax gain (2014: US$77.1 million pre-tax gain) (see note 15 to the Financial Information).

The tax effect of the pre-tax items above reflects tax at the statutory corporate tax rate of 30% (2014: 30%).

- Cost per tonne decreased at four of our five operating mines
- Renewed focus on safety following fatalities in late 2015 and early 2016

Prudent development of quality growth pipeline

- Commissioning of San Julián phase 1 on track for Q2 2016; key milestone in achieving silver production target of 65 moz by 2018
- Disciplined investment approach in low price environment: deferral of certain projects; reduced capex budget of US$600 million for 2016, focused on San Julián and optimising performance at operating mines; US$135-140 million for exploration
- Development work at Orisyvo deferred
- Equipment orders on hold for Pyrites Plant; resume project pending Board approval as market conditions warrant
- Juanicipio moving closer to development phase, with first production expected in 2018
- Exploration continues at Ciénega and Centauro Deep; economic evaluation of Centauro extension underway
- Gold resources increased 4%, silver resources and gold reserves stable, silver reserves decreased 6%
- 2016 production guidance of 49-51 moz silver (including 4 moz from the Silverstream) and 775-790 koz gold; 2018 production target of 65 moz silver

Analyst Presentation

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

For those unable to attend the presentation dial in details are:
Dial in numbers:
London: 020 3427 1908
New York: +1 646 254 3365
Mexico: +1 877 550 9932
Access Code: 1094271

A link to the webcast can be found on Fresnillo's homepage, www.fresnilloplc.com. The webcast will include audio from the conference call and synchronised power point slides. Please note that you will not be able to post questions through the webcast.

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

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About Fresnillo plc

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

Fresnillo plc has six operating mines, all of them in Mexico - Fresnillo, Saucito, Ciénega (including the San Ramón satellite mine), Herradura, Soledad-Dipolos[1] and Noche Buena, two development projects - San Julián and the Pyrites plant, and four advanced exploration prospects – Orisyvo, Juanicipio, Las Casas Rosario & Cluster Cebollitas and Centauro Deep, as well as a number of other long term exploration prospects. In total, Fresnillo plc has mining concessions covering approximately 2 million hectares in Mexico.

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

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

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

Forward Looking Statements

Information contained in this announcement may include 'forward-looking statements'. All statements other than statements of historical facts included herein, including, without limitation, those regarding the Fresnillo Group's intentions, beliefs or current expectations concerning, amongst other things, the Fresnillo Group's results of operations, financial position, liquidity, prospects, growth, strategies and the silver and gold industries are forward-looking statements. Such 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 Fresnillo Group's operations, financial position and liquidity, and the development of the markets and the industry in which the Fresnillo 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 Fresnillo 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 exchanges rates), the Fresnillo 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 and political and economic uncertainty.

CHAIRMAN'S STATEMENT

In the past year we have witnessed a continued downward trend in precious metal prices, to levels not seen in five years. This has led to short-term operational and financial challenges and raised long-term strategic questions for our industry. However, we have seen periods of uncertainty and low prices before and believe that, with our high quality assets, conservative financial structure and ability to adjust operations and investments, Fresnillo plc has demonstrated its capacity to meet these challenges, maintain solid profit margins and continue to pursue its long-term goals.

Within this context we successfully ramped up the Saucito II expansion, significantly ahead of the original three-year timeframe. This was essential to achieving the 4% rise in silver production year over year, to the upper range of our guidance. In addition, we reached steady state at Herradura, which combined with higher throughput at Saucito, increased the 2015 gold production to a record of 762 koz, 28% above the previous year and strongly ahead of guidance. Notably, at the time of our IPO in 2008 we had set a 10-year gold production target of 400 koz, which has been revised upward several times due in part to the acquisition of the remaining 44% of Penmont in 2014, and we have surpassed even that target.

Development projects advanced largely according to plan. In the second quarter of this year we will commission the first stage of the US$515 million San Julián mine, the key growth project to achieve our silver production target of 65 moz by 2018. Detailed engineering neared completion for the pyrites plant, which will recover silver and gold from old and current tailings of the Fresnillo and Saucito mines. The Juanicipio advanced exploration project in the Fresnillo District is moving closer to the development phase, with production expected to begin in 2018.

Exploration results were mixed, with a 4.2% rise in total gold resources and 1.9% decrease in silver resources. Gold reserves remained relatively stable while silver reserves decreased 6.0%, mainly at Fresnillo and San Julián. Our resource base remains exceptionally sound, particularly given the lower silver prices used for the estimates.

The maturity of the Company's Health, Safety, Environment and Community Relations (HSECR) System progressed toward its 2016 targets, as determined by an independent assessment. Notwithstanding the significant reduction in fatalities over the past few years, it is with much sadness I report one fatal accident in 2015, and two fatalities in early 2016, a disturbing reversal of our safety record. It is the Company's responsibility to ensure that everyone who works at our operations returns home safely to their family every day. The Board will always give the highest priority to safety issues and has overseen investigation of these accidents, ensuring that management takes action to improve safety systems and practices. I encourage you to review our social and sustainability performance for a deeper look at our programmes and progress, as well as how we intend to support the UN's sustainable development goals.

* * *

Revenues increased mainly as a result of higher production volumes and productivity improvements, which more than compensated for the 10.4% and 16.1% declines in our average realised gold and silver prices, respectively. As a result, total adjusted revenues of US$1,583.3 million were 2.5% above last year.

Furthermore, the 19.2% average devaluation of the Mexican peso benefited peso-denominated production costs. However, profit attributable to equity shareholders was US$70.5 million, down 35.0%, mainly due to the non-cash accounting effect of the devaluation of the Mexican peso on deferred taxes.

EBITDA of US$547.5 million was 3.5% lower than in the previous year, while cash flow from operations was a healthy US$542.9 million, 346.3% higher mainly due to a reduction in accounts receivable. Our year-end cash balance was US$500 million, and net debt was US$300 million.

After a comprehensive review of the Company's financial situation, capital requirements, growth targets and the precious metal markets, the Board declared an interim dividend of 2.1 US cents per share and a final dividend of 3.35 US cents per share, totalling US$24.7 million.

Our goal is to create long-term shareholder value, and I believe that this can be achieved by balancing growth, corporate social responsibility and attractive returns for our shareholders. The Group's dividend policy takes into account the profitability of the business and underlying earnings, as well as its capital requirements and cash flows, whilst maintaining an appropriate level of dividend cover. A total dividend of between 33 and 50 per cent of profit after tax is paid out each year in the approximate proportion of one-third to be paid as an interim dividend, two-thirds to be paid as a final dividend. This gives us the required flexibility to consider the underlying cyclical behaviour of precious metal prices.

The Board's governance agenda in 2015 was focused on the action plan based on the 2014 External Board Evaluation and in response to UK Corporate Governance Code changes taking effect this year, most significantly conducting the assessment of viability for the preparation of the Viability Statement.

The Board also continued to take an active role in setting strategy, reviewing progress against plan and ensuring management retains sufficient flexibility to respond to market dynamics and operational developments. Our role is perhaps most vital in the allocation of capital, and my colleagues and I are aligned in seeking a balance between growth, returns to our shareholders and maintaining a strong financial position.

It is with these priorities in mind that we scaled down our capital expenditures and exploration budget in 2015, and have begun to implement our contingency plan in 2016 to safeguard our financial position at a time of cyclically low precious metal prices. Specifically, we have deferred equipment orders for the planned pyrites plant and development work at Orisyvo. We will continue to monitor market conditions closely to evaluate the timing of reinstating these projects, or if further deferrals are required, and will act accordingly. We have also directed management to focus on further cost reductions, productivity improvements and value preservation measures.

The challenges we face today are real and evolving. While there is little consensus on when we might next see upside, I believe that our low cost operations, development project pipeline and portfolio of exploration projects constitute the solid foundations to drive long-term shareholder value.

Fresnillo is well placed to withstand volatility and lower precious metal prices and to reap the benefits of an eventual upturn. For now, we will focus on ensuring that our operations are working to their full potential, bringing our new San Julián mine on line as planned, replenishing reserves and continuing to explore core districts.

It is in these challenging circumstances when strong leadership is most deeply appreciated, and for this reason I wish to recognise our management team and the people of Fresnillo for their endurance, and my fellow Directors for their invaluable advice and support.

Alberto Baillères
Non-executive Chairman

CHIEF EXECUTIVE'S STATEMENT

The mining industry faces significant pressures and challenges today: depressed prices, technical difficulties in accessing mineral resources and rising demands of multiple stakeholders. Many in our industry have responded by increasing productivity, innovating processes and technologies, and improving their response to competing interests. By necessity, best industry practices have been redefined.

But many miners have rationalised portfolios, curtailed production, cancelled or deferred investment in new projects and reduced exploration. Such cash preservation measures may be critical in the short term but, taken to the extreme, could undermine the foundations of long-term value creation.

In that regard Fresnillo is well placed, with solid foundations on which to drive long-term value creation: a strong balance sheet that enables us to invest across cycles, high quality assets, low cost and flexible operations, a disciplined approach to development, and a commitment to sustainable business practices.

These foundations uphold our commitment to balancing growth and returns, together with maintaining a strong financial position, allowing us to optimise performance in current market conditions while pursuing profitability and sustainability across precious metal price cycles.

Indeed, we continued to generate solid profit margins in 2015, albeit lower year on year, while all in sustaining costs (AISC) for many of our mines remain amongst the lowest in the industry. We advanced our development projects and by investing in exploration across price cycles, we generated increases in gold resources over 2014, whilst silver resources remained relatively stable despite lower price assumptions.

We remain prepared to act, of course, favouring actions that accelerate cash flow while deferring investments that do not compromise the optimal timing of our critical growth projects. Such was the case in 2015 when we lowered our capital expenditure and exploration spending from their original budgeted amounts.

However, we did encounter some internal challenges of our own in the year. At the Fresnillo mine, we fell short of our own expectations of operational excellence following development delays that had begun in 2013 concurrent with the natural and expected decline in silver ore grade. These delays, which limited access to richer stopes, were caused by a combination of factors including narrower veins, which increase dilution and require additional development to maintain throughput levels, poor rock quality necessitating additional shotcreting and anchoring, issues with contractors, and insufficient implementation of in-mine infrastructure.

We continue to see the results of the measures we implemented at the Fresnillo mine gradually come through, with grades and throughput increasing in the final months of the year, whilst lowering dilution; I am confident of a turnaround in 2016 with a target of a double-digit increase in ore milled.

At Herradura, our focus this year centred on increasing our processing capacity to cater for both the solution produced at the leaching pads and the dynamic leaching plant (DLP). We installed a second Merrill Crowe plant and made technical modifications to the DLP, which allowed us to reach steady state production by year end.

Safety continues to be our highest priority and I am deeply saddened to report one fatality in late 2015 and two in early 2016, as well as an increase in injury rates. Failure to meet our targets in this regard has profound human implications, more than any other goal we set ourselves. We must continue to strengthen our safety culture and address the human factors involved in the majority of accidents in order to safeguard our workforce and retain our licence to operate.

In each of the areas above, we have taken important steps to improve performance in 2016 and we will hold ourselves accountable for the targets I outline below.

Operating and financial performance
We produced a record 47.0 moz of silver in 2015 (including the Silverstream), at the top end of our guidance range and 4.4% over 2014. This primarily reflected the ramp-up of Saucito II that resulted in higher ore throughput, as well as milling efficiencies at the Saucito I plant. Higher silver ore grade at Ciénega also contributed to the increase in production. These factors more than offset lower ore grade and volumes processed at Fresnillo.

Gold production of 762 koz increased 27.8% over the same period of 2014, against our target of 715-730 koz and surpassing the 2018 gold production target of 750 koz. This was a result of Herradura and its dynamic leaching plant being fully operational for the year, and installation of a second Merrill Crowe plant that was key in increasing capacity and reaching steady state.

By-product lead production increased 48.3% on 2014, to 42,413 tonnes, as a result of increased ore throughput and higher ore grade at Saucito and higher ore grades at Ciénega and Fresnillo. Similarly, by-product zinc production increased 45.2% to 46,022 tonnes due to higher ore throughput and ore grades at Saucito and higher ore grades and recovery rates at Fresnillo. We expect base metal production to continue to increase as we extract at deeper levels of the Fresnillo mine, and our capacity to process these lead and zinc ores will increase following the plant expansion.

Our development projects and high quality growth pipeline remain a key pillar of our long-term growth strategy. We significantly advanced development of the San Julián silver-gold project, and despite delays in permitting, weather-related issues, security concerns and a high rotation of contractor personnel arising from the project's remote location, execution delays were relatively minimal. The commissioning of the stage 1 leaching plant is now expected in the second quarter of 2016, only months after the revised target date.

Detailed engineering continued at the pyrites project, which is expected to increase silver and gold recovery rates by processing tailings, both historical and ongoing, from the Fresnillo and Saucito mines. Once engineering is completed in mid-2016, further work on the project will be put on hold as part of the contingency plan implemented by the Board to safeguard our financial position; equipment orders and construction work will resume as market conditions warrant.

Exploration mainly focused on areas of influence at current operating mines and key exploration sites, with our advanced exploration projects all progressing according to plan. At Juanicipio, mining works continued at a good pace and drilling showed positive results with a 10% increase in silver resources. We saw increases in silver-gold resources at the Huizache, San Julián Sur, Guanajuato and Rodeo projects.

Our resources and reserves reflect lowered price assumptions: the silver price assumption decreased to US$15 per oz (2014: US$18). The gold price assumption for open pit resources was lowered to US$1,300 per oz (2014: US$1,350), consistent with the price used for the purpose of the design of the pit shell, allowing for adequate long term design flexibility. The gold price assumption for underground reserves and resources and for reserves in open pits was unchanged at US$1,150 per oz. Notwithstanding these reductions, our high quality asset base remains healthy. Gold resources increased 4.2%, whilst silver resources and gold reserves decreased by 1.9% and 1.5% respectively. Silver reserves decreased, mainly at Fresnillo and San Julián, to 547.6 moz.

We continued to advance our HSECR framework in the year, and saw improvement in many key areas outside of the aforementioned safety issues. A notable highlight was the introduction of renewables in our energy portfolio as we move to decouple growth from carbon emissions. Moreover, our progress in terms of carbon emissions reporting transparency earned a 93 rating from the Carbon Disclosure Project against our initial rating of 58 in 2010. The response to climate change and the need to build resilience in a carbon-constrained economy, particularly in light of COP21 commitments, will require our considerable focus. Also notable was our inclusion as a top emerging markets performer by Vigeo, an international research group on environmental, social and governance issues.

While our financial performance in the year was impacted by the decline in precious metal prices, with our average realised silver and gold prices 16.1% and 10.4% lower than in 2014, respectively, this was more than compensated by the higher volumes of metal produced and sold in 2015.

As a result, adjusted revenues totalled US$1,583.3 million, 2.5% above the previous year. Higher cost of sales that included a significant hedging loss weighed on gross profit, which declined by 16.9% to US$433.1 million. Lower exploration expenses helped stem the decline in EBITDA to 3.5%, resulting in an EBITDA margin of 37.9%. The 16.9% devaluation of the Mexican peso against the US dollar resulted in non-cash charges to the income statement and affected the monetary position and value of certain assets and liabilities, resulting in a much higher deferred tax charge. A detailed review of our performance is set out in the Financial Review.

Moving forward: our 2016 outlook and objectives

While we see long-term fundamental support for precious metals, we do not expect significant shifts in the factors driving current volatility, nor does there appear to be a clear catalyst that would support a return to higher prices.

Fresnillo remains well positioned to weather such volatility, with sufficient financial and operating flexibility. Our long-term strategic goals are unchanged: to profitably and sustainably maintain the Group's position as the world's largest primary silver company and a leading gold producer in Mexico. Having already attained our 2018 gold production and reserves targets, we remain committed to our silver targets of 65 million ounces production at that time, and 650 million ounces in reserves.

Our near term focus remains on controlling expenditures, optimising performance and delivering returns, even as we hold firm to our belief that value creation requires sustainable growth through the disciplined development of new projects and ongoing investment in exploration across prices cycles. As such, and in consideration of the contingency plan, we have budgeted US$600 million in capital expenditures for 2016, to be allocated primarily to San Julián and sustaining capex at current operations, and US$135-140 million for exploration. However, we will continue to monitor market conditions and may adjust the budget accordingly.

We aim to produce 49-51 moz of silver, including 4 moz from the Silverstream, and 775-790 koz of gold in 2016. In addition, we will continue to pursue a favourable resolution on Soledad-Dipolos, where mining and beneficiation were suspended in 2013 following contested ownership of some surface lands; since that time, we have fostered strong relationships with other neighbouring agrarian communities that have led to the signing of new agreements.

As always, we will seek additional efficiencies at all our operating mines, investing in productivity and controlling costs to maintain our cost position and solid margins. I personally benchmark our success by the ability to meet our objectives within a framework of maturing sustainability and good governance, and continuous improvement in our safety culture.

I am humbled by and grateful for the confidence placed in us by our people and our communities, our suppliers and contractors, and our clients and shareholders, and feel a deep personal responsibility to meeting our commitments on sustainable value creation. I look forward to working together in 2016 to drive that vision ever forward.

Octavio Alvídrez
Chief Executive Officer

WHAT WE SAID WE WOULD DO IN 2015	WHAT WE DID IN 2015
Zero fatalities, continuous improvement in safety	One fatality in 2015 (vs. one in 2014); two in January 2016
45-47 moz silver, including Silverstream	Met guidance at 47 moz mainly due to higher throughput at Saucito, offsetting lower ore grade at Fresnillo
670-685 koz gold, later revised upwards to 715-730 koz	Exceeded guidance at 762 koz mainly due to Herradura and its DLP being fully operational for the year, and steady state having been reached at the mine post the installation of the second Merrill Crowe plant
San Julián phase 1 start-up in 4Q15	Deferred to Q2 2016 following delays in permitting, weather-related issues, security concerns and a high rotation of contractor personnel
Launch next phase of growth at Ciénega: start construction of plant expansion, build tailing dam	Following positive exploration results, capacity expansion at Ciénega was deferred in order to

#3, conduct pre-feasibility study of mine expansion for Board approval; finalise detailed engineering of the pyrites plant and commence construction	evaluate need for increased milling levels, permitting process underway for tailings dam; detailed engineering works continue at the pyrites plant
Exploration budget of approximately US$170.0 million, focused around current mines and advanced exploration projects	Risk capital invested in exploration reduced to US$151 million
Evaluate mine plan option for Centauro Extension; continue exploration of Centauro Deep	At Centauro Extension, development of optimal pit design was concluded; mining works continued at Centauro Deep, geological model being revised
Adapt water stewardship and biodiversity strategies	Collaborating internally to forecast future energy demands and identify reduction opportunities
Further advance maturity of HSECR system towards fully integrated system by 2016 target	Maturity of HSECR system reached an overall level of 92.3%

OUR COMMITMENTS AND TARGETS FOR 2016

Maximise the potential of existing operations

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

Deliver growth through development projects

San Julián: Commission leaching plant to process ore from the veins (phase 1) in 2Q16, flotation plant to process ore from the disseminated ore body (phase 2) in 4Q16
Pyrites plant: Complete engineering; equipment orders and construction on hold as per contingency plan

Extend the growth pipeline

Deploy US$135-140 million in exploration investment

Advance and enhance the sustainability of our operations

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

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 2015 figures compared to 2014, unless otherwise noted. The financial information and year on year variations are presented in US dollars, except where indicated.

Commentary on financial performance

As we set out below, challenging and unpredictable conditions in the precious metals industry in 2015, combined with Company-specific issues, affected our financial results in the year. Notwithstanding these factors, the Group's profitable operating profile, disciplined focus on productivity and efficiency, and strong asset portfolio give us confidence in our cash generating capacity and ability to generate sustainable stakeholder value over the long term.

Income statement

	2015 US$ million	2014 US$ million	Amount US$	Change %
Adjusted revenue[1]	**1,583.3**	1,545.0	38.3	2.5
Gold, lead and zinc hedging	**3.9**	0.1	3.8	>100
Treatment and refining charges	**(142.8)**	(131.4)	(11.4)	8.7
Total revenues	**1,444.4**	1,413.7	30.7	2.2
Cost of sales	**(1,011.3)**	(892.6)	(118.7)	13.3
Gross profit	**433.1**	521.1	(88.0)	(16.9)
Exploration expenses	**140.2**	168.8	(28.5)	(16.9)
EBITDA[2]	**547.5**	567.3	(19.8)	(3.5)
Finance income	**65.8**	7.5	58.3	>100
Finance costs	**(45.5)**	(54.6)	9.1	(16.7)
Profit before income tax	**212.4**	251.1	(38.7)	(15.4)
Mining right	**14.0**	15.7	(1.7)	(11.1)
Income tax expense	**129.0**	118.3	10.7	9.1
Profit for the year	**69.4**	117.1	(47.7)	(40.7)
Profit for the year, excluding post-tax Silverstream effects	**50.0**	63.2	(13.2)	(20.9)
Attributable profit	**70.5**	108.4	(37.9)	(35.0)
Attributable profit, excluding post-tax Silverstream effects	**51.1**	54.5	(3.4)	(6.2)
Basic and diluted Earnings per share (US$/share)[3]	**0.096**	0.147	(0.053)	(36.1)
Basic and diluted Earnings per share, excluding post-tax Silverstream effects (US$/share)	**0.069**	0.074	(0.005)	(6.8)

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

[2] Earnings before interest, taxes, depreciation and amortisation (EBITDA) is calculated as gross profit plus depreciation less administrative, selling and exploration expenses.

[3] The weighted average number of ordinary shares was 736,894,000 for 2015 and 2014. See Note 19 in the Consolidated Financial Statements.

Fresnillo plc's financial performance largely reflects the Group's operational performance, asset quality, and the ability of our management and personnel to execute towards our strategic goals. However, there are a number of macroeconomic variables that lie beyond our control which affect financial results. These include:

Precious metal prices

In 2015, the strengthening of the US dollar, an improving US economy and the significant decline in oil prices put further downward pressure on precious metal prices. The average realised gold price decreased 10.4%, to US$1,126.5 per ounce and the average realised silver price decreased 16.1% to $15.6 per ounce. Furthermore, the average lead and zinc prices decreased 13.6% and 15.2% year on year.

The Company has structured certain hedge positions to cover the risk of precious metal prices.

Foreign exchange rates

The average spot Mexican peso/US dollar exchange rate devalued by 19.2%, from $13.30 per US dollar in 2014 to $15.85 per US dollar in 2015. This resulted in a favourable effect estimated at US$48.0 million on the Group's production costs, as costs denominated in Mexican pesos (approximately 2/3 of total costs) were lower when converted to US dollars.

The Mexican peso/US dollar spot exchange rate at 31 December 2015 was $17.21 per US dollar, compared to $14.72 per US dollar at the beginning of the year. The 16.9% devaluation had an adverse effect on: i) monetary assets and liabilities transacted in Mexican pesos; ii) the Mexican peso/US dollar hedge programme and related realised and unrealised gains and losses; and iii) taxes and mining rights as the devaluation resulted in an increase in related deferred tax liabilities.

Cost deflation

For the first time since the Company's IPO in 2008, there was a net decrease in the weighted average input cost over the year, of 8.4%. This deflation reflected, amongst other factors, the favourable effect of the 19.2% average devaluation of the Mexican peso against the US dollar.

Labour

Employees received a 5.5% increase in wages in Mexican pesos and administrative employees at the mines received a 4.5% increase; when converted to US dollars the deflation factor was 11.7%.

Energy

Electricity

The Group's weighted average cost of electricity decreased by 35.6% to US$7.1 cents per kW in 2015, compared to US$11.0 in 2014. Electricity rates are set by the Comisión Federal de Electricidad (CFE), the national utility, based on their average generating cost, which correlates mainly to fuel oil and coal prices. In 2015, the decrease in electricity rates by CFE was mainly explained by the lower oil prices and its efforts to substitute expensive fuels for cheaper and cleaner alternatives such as natural gas and renewable energy.

Diesel

The weighted average cost of diesel in US dollars decreased 11.1% from US$83.5 cents per litre in 2014 to US$74.2 cents per litre in 2015. Diesel prices are controlled by Petróleos Mexicanos (PEMEX), the national oil company.

Operating materials

	Year over year change in USD %
Steel balls for milling	-6.9
Lubricants	-5.4
Tyres	-5.0
Sodium cyanide	-3.5
Other reagents	-2.2
Explosives	-2.1
Steel for drilling	0.8
Weighted average of all operating materials	**-3.8**

For the second consecutive year, unit prices of the majority of key operating materials decreased due to the lower demand for these inputs, resulting in a net weighted average decrease of -3.8%. This reflects the combined effect of price inflation and the weighting of each component in the total cost of operating materials. There has not been a significant impact from the devaluation of the MXP/US dollar exchange rate as the majority of these items are dollar denominated.

Contractors

Agreements are signed individually with each contractor and have specific terms and conditions that cover operating materials, equipment and labour, amongst others. Contractor costs are an important component of the Company's total costs, denominated in Mexican pesos. In 2015, increases granted to contractors, whose agreement was due for review during the period, ranged from 1.9% - 23.9% in Mexican pesos (equivalent to -14.5% to 3.9% in dollar terms), resulting in a weighted average decrease of 4.8% in dollars.

Maintenance

Unit prices of spare parts for maintenance decreased 6.4% on average in US dollars.

Others

Other cost components include freight and insurance premiums, which decreased by an estimated 4.0% and 3.6% respectively on a per unit basis. The remaining components had an average deflation of 5.7% over 2014.

Treatment and refining charges

Treatment and refining charges[2], which are deducted from adjusted revenue for the purposes of revenues as disclosed in the income statement, are determined annually using international benchmarks. Treatment charges per tonne of lead concentrate decreased by 7.0%, whilst silver refining charges and treatment charges per tonne of zinc concentrate remained relatively stable year on year. However this was more than offset by

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

the increase in volumes of lead and zinc concentrates with high silver contents shipped mainly from Saucito to Met-Mex, resulting in an 8.7% aggregate increase in treatment and refining charges.

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

Revenues

Consolidated revenues (US$ millions)

	2015 US$ million	2014 US$ million	Amount US$	Change %
Adjusted revenue[1]	**1,583.3**	1,545.0	38.3	2.5
Gold, lead and zinc hedging	**3.9**	0.1	3.8	>100
Treatment and refining charges	**(142.8)**	(131.4)	(11.4)	8.7
Total revenues	**1,444.4**	**1,413.7**	**30.7**	**2.2**

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

Total revenues for the full year of US$1,444.4 million increased by 2.2% over 2014. This was mainly explained by higher adjusted revenue, which rose 2.5% to US$1,583.3 million as a result of the increase in sales volumes which more than mitigated the lower metal prices. However, this positive effect was slightly offset by the 8.7% increase in treatment and refining charges.

In 2015 we entered into derivative contracts to hedge part of our lead and zinc by-product production through collar structures, resulting in a US$3.9 million gain recorded in the income statement. The chart below illustrates the expired hedging structures, results in 2015 and the outstanding hedged position as of 31 December.

Concept	2015		As of 31 December	
	Zinc	Lead	Zinc*	Lead*
Weighted Floor (US$/tonne)	2,120	2,044	2,205	1,985
Weighted Cap (US$/tonne)	2,536	2,381	2,543	2,259
Expired volume (tonne)	11,179	4,397		
Gain recognised in income	1,684,725	1,157,383		
Total outstanding volume (tonne)			4,536	4,272

* Monthly settlements until December 2015

In addition, in 2014 we initiated a one-off gold hedging programme to protect the value of the investment made in the Penmont acquisition, the effects of which are recorded as finance income and a small portion in revenue. The chart below illustrates the expired hedging structures, results in 2015 and the outstanding hedged position as of 31 December.

Concept	2015	2014	As of 31 December* 2015
Weighted floor (US$/oz)	1,100	1,100	1,100
Weighted cap (US$/oz)	1,431	1,440	1,426
Expired volume (oz)	266,760	35,413	
Gain recognised in income	1,023,580	--	
Total outstanding volume (oz)			1,257,516

*Monthly settlements through December 2019

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

The higher volumes sold mainly due to the ramp-up at Saucito II and Herradura resulted in a positive impact on revenues of US$247.2 million. This was partly offset by the US$208.9 million unfavourable effect of the lower metal prices.

The contribution of gold to adjusted revenues rose from 47% in 2014 to 52% in 2015 and the contribution of silver decreased from 46% to 39%. This resulted from the combination of: i) the increase in the volume of gold sold (+28.2%) being higher than that of silver (+3.4%); and ii) that whilst the average price of gold decreased 8.5%, average silver price decreased 16.5%, thus increasing the gold/silver price ratio from 67.3 to 73.8.

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

	2015		2014		Volume	Price	Total	
	US$ million	%	US$ million	%	Variance	Variance	US$	%
Silver	**617.4**	**39**	714.9	46	22.1	(119.6)	(97.5)	(13.6)
Gold	**827.4**	**52**	720.5	47	176.7	(69.8)	106.9	14.8
Lead	**67.1**	**4**	51.5	3	24.4	(8.7)	15.7	30.3
Zinc	**71.3**	**5**	58.1	4	24.0	(10.8)	13.2	22.7
Total adjusted revenues	**1,583.3**	100	**1,545.0**	**100**	**247.2**	**(208.9)**	**38.3**	**2.5**

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

In terms of adjusted revenues by mine, Saucito has become the main contributor to adjusted revenues as a result of the successful ramp-up at Saucito II. Herradura increased its share of consolidated adjusted revenues due to higher volumes of gold produced and sold resulting from the ramp-up to steady state post the lifting of the suspension of the explosives permit in 2014, and the first full year of operations at the dynamic leaching plant. The increased gold production at Noche Buena slightly increased its contribution. In contrast, Fresnillo contributed a lesser share of adjusted revenues and decreased to the third most important contributor to adjusted revenue, reflecting the lower volumes produced as a result of the operational challenges faced in this mine. The lower gold grades at Ciénega combined with lower precious metal prices resulted in a decrease in its contribution to adjusted revenues.

Adjusted revenues by metal

	2015	2014
Gold	**52%**	47%
Silver	**39%**	46%
Zinc	**5%**	4%
Lead	**4%**	3%
TOTAL	**100%**	**100%**

Adjusted revenues by mine

	2015	2014
Saucito	**468.4**	**372.5**
Herradura	**445.1**	**342.7**
Fresnillo	**318.6**	**460.3**
Noche Buena	**181.7**	**163.5**
Ciénega	**169.5**	**206.0**
Soledad-Dipolos	**0.0**	**0.0**
TOTAL	**1,583.3**	1,545.0

Volumes of metal sold

	2015	2014	% Change
Silver (koz)			
Fresnillo	**14, 630**	19,513	(25.0)
Saucito	**20,337**	14,684	38.5
Ciénega	**4,129**	3,427	20.5
Herradura	**535**	673	(20.6)
Noche Buena	**63**	100	(37.0)
Soledad-Dipolos	**0**	0	0
TOTAL SILVER (koz)	**39,694**	38,938	1.9
Gold (koz)			
Fresnillo	**31**	32	(3.6)
Saucito	**75**	53	42.5
Ciénega	**77**	97	(21.0)
Herradura	**409**	264	55.2
Noche Buena	**143**	128	11.9
Soledad-Dipolos	**0**	0	0
TOTAL GOLD (koz)	**735**	573	28.3
Lead (mt)			
Fresnillo	**15,030**	12,754	17.8
Saucito	**18,916**	8,959	111.1
Ciénega	**4,352**	3,655	19.1
TOTAL LEAD (mt)	**38,298**	25,369	51.0
Zinc (mt)			
Fresnillo	**15,936**	12,657	25.9
Saucito	**17,358**	8,643	100.8
Ciénega	**5,324**	5,399	(1.4)
TOTAL ZINC (mt)	**38,618**	26,699	44.6

Cost of sales

	2015	2014	Amount	Change
	US$ million	US$ million	US$	%
Adjusted production costs[4]	**634.5**	678.0	(43.5)	(6.4)
Depreciation	**331.2**	296.2	35.0	11.8
Change in work in progress	**6.3**	(104.7)	111.0	(106.0)
Profit sharing	**12.8**	12.6	0.2	1.6
Hedging	**28.6**	1.1	27.5	>100
Others	**(2.1)**	9.5	(11.5)	N/A
Cost of sales	**1,011.3**	**892.6**	**118.7**	**13.3**

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

Cost of sales totalled US$1,011.3 million, an increase of 13.3% over 2014. The US$118.7 million increase is explained by the following combination of factors:

- A decrease in adjusted production costs (-US$43.5 million): This was mainly driven by: i) the efficiencies achieved at Saucito, Noche Buena, Ciénega and the dynamic leaching plant resulting from the economies of scale (-US$53.2 million); ii) the favourable effect of the devaluation of the Mexican peso/US dollar exchange rate when converting peso-denominated costs to US dollars (-US$48.0 million); iii) energy costs, excluding foreign exchange effects, decreased due to lower unit prices of electricity and diesel (-US$12.6 million); iv) the lower volumes of ore processed at Fresnillo (-US$10.2 million); and v) others (-US$4.6 million) including a decrease in the unit cost of consumables priced in US dollars (electricity, operating materials, spare parts, diesel, etc.); partially offset by the increase in unit cost of personnel (excluding foreign exchange effects) and other items in pesos. These positive effects were partially offset by: i) the increased ore throughput at Saucito, Noche Buena and Herradura (US$70.2 million); ii) additional adjusted production costs resulting from a full year of operations at the DLP (US$5.2 million); and iii) contractor costs increased as a result of a greater number of contractors used to carry out development, mainly at the Fresnillo mine, and an increase in the unit fees charged by contractors in Mexican pesos (US$9.7 million).

The positive effect of adjusted production costs was more than offset by increases in:

- Variation in change in work in progress (+US$111.0 million). This was mainly explained by the increase in ore inventories in 2014 at Herradura as a result of not having sufficient capacity at the Merrill Crowe plant to process all the rich solution coming from both the pads and the new dynamic leaching plant; and at Noche Buena as part of the ramp-up to the new expanded capacity. This year, the bottle neck at Herradura was eliminated and Noche Buena operated steadily, resulting in a small reduction in inventory. Additionally, this year due to the continued drop in gold price we recognised a write down of US$5.01 million in the value of inventories at Soledad and Dipolos.

- Depreciation (+US$35.0 million): The increase was explained by the higher depreciation recorded at Saucito as a result of the start-up of Saucito II, additional mining works depreciated at Fresnillo and increased depletion factors mainly at Herradura and Noche Buena.

- Hedging (+US$27.5): The Group enters into certain exchange rate derivative instruments as part of a programme to manage its exposure to foreign exchange risk associated with costs incurred in Mexican pesos. The Company had short term forward dollar sales of US$ 116.5 million mature during the year at an average rate of $15.735 MXN/USD, resulting in a US$186,875 profit recognised in the income statement. As of 31 December, the where no outstanding forward instruments.

Additionally, the Group entered into a combination of put and call options structured at zero cost (collars). In 2015, these derivatives were used to hedge US$279.5 million of costs denominated in Mexican pesos with average floor and cap exchange rates of $13.488 and $14.422 per US dollar respectively, resulting in a US$28.42 million loss recorded in the income statement. The total outstanding position using collar structures as of 31 December 2015 was US$198.0 million with maturity dates throughout 2015 with average floor and cap exchange rates of $14.92 and $17.97 per US dollar respectively. These instruments guarantee a minimum exchange rate should the market fall below the floor exchange rate. Between the floor and cap exchange rates the Group sells US dollars at the market rate, and when the Mexican peso per US dollar exchange rate goes above the cap rate, the Company is obliged to sell US dollars at the contract rate.

- Profit sharing (+US$0.2 million): Slight increase due to higher profit base at Saucito and Penmont (Herradura and Noche Buena), as each Fresnillo subsidiary pays profit sharing individually.

- Others (-US$11.5 million): The change in others is principally relates to unproductive costs incurred in the first quarter of 2014 related to the limited operations at Herradura due to the temporary suspension of the explosives permit, that situation was solved and thus no unproductive costs were recognised this year.

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

Cost per tonne, calculated as total production costs less depreciation, profit sharing and exchange rate hedging effects, divided by total tonnage milled or deposited, is a key indicator to measure the effects of mining inflation and cost control performance at each mine and the Group as a whole. We have included cost per tonne hauled/moved as we believe it is a useful indicator to thoroughly analyse cost performance for the open pit mines.

Cost per tonne

		2015	**2014**	**Change %**
Fresnillo	US$/tonne milled	48.20	47.29	1.9
Saucito	US$/tonne milled	42.49	59.14	(28.2)
Ciénega	US$/tonne milled	62.99	70.84	(11.1)
Herradura	US$/tonne deposited	8.68	9.29	(6.6)
Herradura	US$/tonne hauled	2.66	2.37	12.2
Noche Buena	US$/tonne deposited	7.93	9.98	(20.5)
Noche Buena	US$/tonne hauled	1.67	1.68	(0.6)
Soledad-Dipolos	US$/tonne deposited	-	-	N/A

Cash cost per ounce, calculated as total cash cost (cost of sales plus treatment and refining charges less depreciation) less revenues from by-products divided by the silver or gold ounces sold, when compared to the corresponding metal price, is an indicator of the ability of the mine to cover its production costs.

Cash cost per ounce

		2015	2014	Change %
Fresnillo	US$ per silver ounce	**5.60**	5.29	5.9
Saucito	US$ per silver ounce	**1.15**	2.48	(53.4)
Ciénega	US$ per gold ounce	**245.5**	288.0	(14.8)
Herradura	US$ per gold ounce	**472.5**	465.4	1.5

Noche Buena	US$ per gold ounce	**972.7**	945.6	2.9
Soledad-Dipolos	US$ per gold ounce	**-**	-	N/A

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

Fresnillo: US$5.60/oz (2015) vs US$5.29/oz (2014), (+5.9%)
The increase in cash cost per ounce is mainly explained by the lower volumes of silver sold, reflecting lower ore throughput and decline in ore grade (+US$1.46/oz); higher treatment and refining charges per silver ounce due to: lower silver ore grade which implies producing more concentrate per ounce of silver, higher zinc and lead ore grades which increases the volume of concentrates, and an increase in the participation of zinc concentrate which has a higher per unit treatment charge (+US$0.28/oz); and higher cost per tonne (+US$0.12/oz). This was partly mitigated by higher by-product credits per silver ounce due to the increase in lead and zinc volumes (-US$1.40/oz); and lower profit sharing (-US$0.14/oz).

Saucito: US$1.15/oz (2015) vs US$2.48/oz (2014), (-53.4%)
The decrease was driven by the lower cost per tonne (-US$1.71/oz); and higher by-product credits per ounce of silver resulting from increased gold, lead and zinc volumes sold (-US$0.44/oz). These positive effects were partly offset by the expected lower silver grade (+US$0.45/oz); higher treatment and refining charges resulting from the same reasons as mentioned for the Fresnillo mine (+US$0.25/oz); and higher profit sharing (+US$0.13/oz).

Ciénega: US$245.49/oz (2015) vs US$288.00/oz (2014), (-14.8%)
The decrease in cash cost was primarily explained by higher by-product credits per ounce of gold due to the increased volumes of silver and lead sold (-US$198.32/oz); the decrease in cost per tonne (-US$108.62/oz); and others (-US$5.83). These favourable factors were partially offset by the expected decrease in gold grade (+US$221.58/oz); and higher treatment and refining charges resulting from lower gold ore grade which implies producing more concentrate per ounce of gold, and higher lead and zinc ore grades which increase the volume of concentrates (+US$48.68/oz).

Herradura: US$472.53/oz (2015) vs US$465.42/oz (2014), (+1.5%)
The increase in cash cost resulted from: an adverse inventory valuation effect, as ounces with a lower cost of production in the current period are mixed with the initial higher cost of inventory affecting cost of sales (+US$78.52/oz); and lower by-product credits per gold ounce due to the lower silver price and decreased volumes of silver sold (+US$27.45/oz). These negative effects were partly mitigated by: i) the unproductive costs recorded in 2014 in relation to the stoppage (-US$52.81/oz); ii) the lower cost per tonne (-US$33.89/oz); iii) higher ore grade (-US$8.45/oz); and iv) others (-US$3.70/oz).

Noche Buena: US$972.74/oz (2015) vs US$945.63/oz (2014), (+2.9%)
The increase in cash cost per ounce was mainly explained by i) the adverse inventory valuation effect mentioned for the Herradura mine (+US$164.27/oz); ii) the lower gold grade (+US$73.03/oz); and iii) others (+US$6.08/oz). These adverse effects were partially offset by the lower cost per tonne (-US$216.26/oz).

Soledad-Dipolos: There were no comparable figures in 2015 and 2014 due to the suspended operations.

In addition to the traditional cash cost described above, the Group is reporting all-in sustaining costs (AISC), in accordance with the guidelines issued by the World Gold Council.

This cost metric is calculated as traditional cash cost plus on-site general, corporate and administrative costs, community costs related to current operations, capitalised stripping and underground mine development, sustaining capital expenditures and remediation expenses.

Management considers all-in sustaining costs a reasonable indicator of the mine's ability to generate free cash flow when compared with the corresponding metal price, and a means to monitor current production costs and 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

		2015	2014	Change %
Fresnillo	US$ per silver ounce	**11.48**	9.84	16.7
Saucito	US$ per silver ounce	**7.11**	5.43	31.0
Ciénega	US$ per gold ounce	**710.37**	786.40	(9.7)
Herradura	US$ per gold ounce	**888.04**	862.19	3.0
Noche Buena	US$ per gold ounce	**1,015.40**	1,051.00	(3.4)
Soledad-Dipolos	US$ per gold ounce	**-**	-	N/A

Fresnillo: Higher, mainly due to the increase in capitalised development and mining works to move towards full capacity operations with access to sufficient stopes; and the higher cash cost detailed above.

Saucito: Higher, as a result of the increase in capex invested in the expansion and in efficiency projects; which was partly mitigated by the lower cash cost detailed above.

Ciénega: Lower, primarily explained by the decrease in development, mining works and sustaining capex; and the lower cash cost detailed above.

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

Noche Buena: Lower, driven by the decrease in capitalised stripping costs; sustaining capex and lower cash cost detailed above.

Soledad-Dipolos: There were no comparable figures in 2015 and 2014 due to the suspended operations.

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

	2015		2014		Change	
	US$ million	**%**	**US$ million**	**%**	**Amount**	**%**
Saucito	198.7	44.4	188.9	33.3	9.8	5.2
Herradura	163.3	36.5	136.2	24.0	27.1	19.9
Fresnillo	83.1	18.5	206.7	36.4	(123.6)	(59.8)
Ciénega	17.1	3.8	40.8	7.2	(23.7)	(58.1)
Noche Buena	(1.2)	(0.3)	11.5	2.0	(12.7)	N/A
Soledad-Dipolos	(13.0)	(2.9)	(16.5)	(2.9)	3.5	(21.2)
Total for operating mines	**448.0**	100.0	**567.6**	100.0	**(119.6)**	**(21.1)**
MXP/USD exchange rate hedging (losses) and gains	(28.6)		(1.1)		(27.5)	N/A
Other subsidiaries	13.6		(45.4)		59.0	N/A
Total Fresnillo plc	**433.1**		**521.1**		**(88.0)**	**(16.9)**

Total gross profit, net of hedging gains and losses, decreased 16.9% to US$433.1 million in 2015.

The US$88.0 million decrease in gross profit was mainly explained by: i) the adverse effect of lower silver and gold prices (-US$187.0 million); ii) the 8.2% decrease in ore throughput and 14.9% decrease in silver grade at the Fresnillo mine (-US$64.3 million); iii) higher depreciation (-US$35.0 million); and iv) other effects (-US$8.4 million).

The above factors were partially mitigated by higher gross profit related to: i) increased ore volumes processed at Saucito (+US$117.2 million); ii) the 19.2% devaluation of the Mexican peso/US dollar (+US$48.0 million); iii) the positive effect of reaching steady state at Herradura (+US$23.8 million); iv) the first full year of operations at the dynamic leaching plant (+US$13.4 million); and v) higher ore grades at Herradura (+US$4.3 million).

On a per mine basis, Saucito became the largest contributor to the Group´s consolidated gross profit reflecting the increased volumes produced and sold as a result of the ramp-up of Saucito II and strong margins generated at this mine, despite the lower metal prices. Gross profit at Herradura increased 19.9% to US$163.3 million in 2015 due to Herradura and its DLP being operational for the full year, the ramp-up to steady state and the commissioning of the second Merrill Crowe plant. This increased Herradura's share of the Group's consolidated gross profit from 24.0% in 2014 to 36.5% in 2015. Gross profit at the Fresnillo mine decreased 59.8% to US$83.1 million in 2015, reflecting the adverse effect of the lower volumes produced and the decrease in metal prices, which reduced Fresnillo's contribution to the Group's total gross profit to 18.5%. Gross profit at Ciénega decreased 58.1% as a result of the lower sales volumes of gold and the decline in metal prices, which reduced its share of the Group's total to 3.8%. Lastly, at Noche Buena, the favourable effect of higher gold volumes produced and sold did not fully offset the impact of lower gold price and higher costs, generating a loss of US$1.2 million (including depreciation of US$43.5 million).

Administrative expenses

Administrative expenses decreased 7.0% from US$67.5 million to US$62.8 million due mainly to a decrease in non-recurring engineering and construction services provided by Servicios Industriales Peñoles, S.A.B. de C.V. and the positive effect of the devaluation of the Mexican peso against the US dollars in administrative expenses denominated in pesos.

Exploration expenses

Business unit / project (US$ millions)	**Exploration expenses 2015**	**Exploration expenses 2014**	**Capitalised expenses 2015**	**Capitalised expenses 2014**
Ciénega	20.5	27.6		
Fresnillo	10.1	5.6		
Herradura	11.9	14.7		
Soledad-Dipolos	-	-		
Saucito	8.6	3.2		
Noche Buena	3.7	10.1		
San Ramón	4.5	4.9		
San Julián	3.3	4.4		
Orisyvo	13.3	15.2	0.4	1.2
Centauro Deep	10.0	34.4	0.4	2.7
Guanajuato	3.9	4.0		
Juanicipio	0.0	0.0	9.9	10.1
Others	50.4	44.7	0.4	1.7
TOTAL	140.2	168.8	11.1	15.7

Exploration expenses in 2015 totalled US$140.2 million, a 16.9% decrease over 2014, as a result of management's decision to continue reducing the expenditure given the decline in precious metals prices. Good results were obtained at a number of key exploration sites, and the resource base was expanded despite lower price assumptions. An additional US$11.1 million was recorded in association with mining works at Juanicipio and minor equipment acquired at the Centauro Deep and Orisyvo projects. Furthermore, unit costs for exploration and drilling came down substantially, which allowed for similar rates of advancement at a lower investment. As a result, total investment in exploration of US$151.3 million in 2015 decreased 18.0% over 2014, below the original budgeted figure of US$170 million. In 2016, risk capital invested in exploration is expected to be within the range of US$135-US$140 million, of which US$25 million is estimated to be capitalised.

EBITDA

	2015 US$ million	2014 US$ million	Amount	Change %
Gross Profit	**433.1**	521.1	(88.0)	(16.9)
+ Depreciation	**331.2**	296.2	35.0	11.8
- Administrative expenses	**(62.8)**	(67.5)	4.7	(7.0)
- Exploration expenses	**(140.2)**	(168.8)	28.5	(16.9)
- Selling expenses	**(13.7)**	(13.6)	(0.1)	0.7
EBITDA	**547.5**	567.3	(19.8)	(3.5)
EBITDA margin	**37.9**	40.1		

A gauge of the Group's financial performance and key indicator to measure debt capacity is EBITDA, which is calculated as gross profit plus depreciation, less administrative, selling and exploration expenses. In 2015, EBITDA decreased 3.5% to US$547.5 million mainly due to the lower gross profit, which was partially mitigated by lower exploration and administrative expenses. EBITDA margin expressed as a percentage of revenues declined accordingly, from 40.1% in 2014 to 37.9% in 2015.

Other expenses

Other expenses decreased by 37.9% to US$15.9 million in 2015. This included disposals of fixed assets, remediation works carried out at the Saucito, Herradura, Fresnillo and Ciénega mines and costs incurred in the maintenance of closed mines. This positively compares to the US$25.5 million loss registered in the 2014 income statement.

Silverstream effects

The Silverstream contract is accounted for as a derivative financial instrument carried at fair value. The revaluation of the Silverstream contract generated a US$6.1 million non-cash gain mainly as a result of the increase in resources at Sabinas, which more than offset the lower forward price of silver and the higher discount rate used. In addition, a US$21.6 million non-cash gain was generated by: i) the unwinding of the discounted values (US$20.3); and ii) the difference between payments (volume and price) actually received and accrued in 2015 and payments estimated in the valuation model as at 31 December 2014 (US$1.3). The total effect recorded in the 2015 income statement was US$27.7 million, which represented a 64.0% decrease from the US$77.0 million registered in 2014.

Since the IPO, cumulative cash received has been US$502.0 million, while total non-cash revaluation gains of US$550.3 million have been taken to the income statement. The Group expects further unrealised gains or losses will be taken to the income statement in accordance with the cyclical behaviour of the silver price or changes in the variables considered in valuing this contract. Further information related to the Silverstream contract is provided in the Balance Sheet section below and in notes 15 and 32 to the Consolidated Financial Statements.

Finance costs and income

Finance costs in 2015 decreased mainly due to the decline from US$43.6 million to US$35.1 million in accrued interest payable in relation to the US$800 million principal amount of 5.500% Senior Notes.

In 2014 we entered into derivative contracts to protect the value of the Penmont acquisition. As at 31 December 2015, the outstanding collar derivative instruments mature over the period from January 2016 to December 2019 and hedge gold production of 1.3 million ounces with a floor price of US$1,100 per ounce and capped weighted average price of US$1,426 per ounce. In 2015, we recognised changes in the time value of the outstanding hedge position, resulting in a US$59.7 million non-cash gain recorded in the income statement.

Foreign exchange

A foreign exchange loss of US$36.2 million was recorded in 2015 as a result of the 16.9% devaluation of the Mexican peso against the US dollar. This loss adversely compares to the US$24.4 million loss recognised in 2014.

The Group also enters into certain exchange rate derivative instruments as part of a programme to manage its exposure to foreign exchange associated with the purchase of equipment denominated in Euro (EUR) and Swedish Krona (SEK). At year end, the total EUR and SEK outstanding net forward position was zero EUR and SEK 14.46 million with maturity dates through to March 2016.

Volumes that expired during 2015 were EUR 2.42 million with a weighted average strike of 1.193 usd/eur and SEK 59.67 million with a weighted average strike of 8.23 SEK/USD, which generated losses of US$0.1 million and US$0.9 million respectively. Both results were recognised in the income statement.

Taxation

Corporate income tax expense of US$129.0 million increased 9.1% over 2014 despite the lower profit base in 2015. This was mainly explained by the devaluation of the Mexican peso against the US dollar, which increased deferred income taxes, generated by higher differences arising between the carrying amount of assets and liabilities (denominated in US dollars) and their tax bases (denominated in Mexican pesos). As a result, the effective tax rate was 60.7%, significantly above the statutory corporate tax rate of 30%. Furthermore, US$14.0 million related to the special mining rights was registered in the income statement in 2015. Including the effect of mining rights, the effective tax rate was 67.3%.

Profit for the year

Profit for the year decreased by 40.7% to US$69.4 million, whilst profit attributable to equity shareholders of the Group declined by 35.0% from US$108.4 million to US$70.5 million in 2015.

Excluding the effects of the Silverstream Contract, profit for the year decreased 20.9% to US$50.0 million. Similarly, profit attributable to equity shareholders of the Group, excluding the Silverstream effects, declined by 6.2% to US$51.1 million.

Cash Flow

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

	2015 US$ million	2014 US$ million	Amount US$	Change %
Cash generated by operations before changes in working capital	**537.3**	568.5	(31.2)	(5.5)
Decrease/(Increase) in working capital	**51.3**	(183.4)	234.7	(128.0)
Taxes and employee profit sharing paid	**(45.8)**	(263.5)	217.7	(82.6)
Net cash from operating activities	**542.9**	121.6	421.3	346.5
Silverstream Contract	**39.4**	58.8	(19.3)	(32.9)
Purchase of property, plant & equipment	**(474.7)**	(425.6)	(49.1)	11.5
Dividends paid to shareholders of the Company	**(37.5)**	(87.0)	49.4	(56.8)
Net interest (paid)	**(30.5)**	(37.6)	7.1	(18.8)
Purchase of minority shares	**-**	(450.5)	450.5	N/A
Net increase/(decrease) in cash during the period before foreign exchange differences	**52.2**	(798.2)	850.2	N/A
Cash, cash equivalents and short-term investments at 31 December*	500.1	449.3	50.8	11.3

* As disclosed in the Consolidated Cash Flow Statement, cash and cash equivalents at 31 December 2015 totalled US$381.4 million and short-term investment held in fixed-term bank deposits amounted US$118.7 million. In 2014, cash and cash equivalents at 31 December 2014 accounted for US$154.3 million and short-term investments amounted to US$295.0 million.

Cash generated by operations before changes in working capital decreased by 5.5% to US$537.3 million, mainly as a result of the lower profits generated in the year. Working capital decreased US$51.3 million mainly due to: i) a decrease in trade and other receivables resulting mainly from the lower metal prices (US$58.2

million); ii) a decrease in inventories (US$5.0 million); and iii) a decrease in prepayments and other assets (US$0.9 million). These reductions in working capital were partially offset by a decrease in trade and other payables (US$12.8 million).

Taxes and employee profit sharing paid decreased 82.6% over 2014 to US$45.8 million, mainly as a result of lower profits generated.

As a result of the above factors, net cash from operating activities increased significantly from US$121.6 million in 2014 to US$542.9 million in 2015.

Other sources of cash were the proceeds from the Silverstream Contract of US$39.4 million.

The above funds were mainly used to purchase property plant and equipment for a total of US$474.7 million, which represented a 11.5% increase over 2014.This was below the revised guidance of US$570 million as a result of the deferral of some expenditures in light of the prevailing low precious metal prices. Capital expenditures for 2015 are further described below:

Purchase of property, plant and equipment

	2015 US$ million	
Fresnillo mine	**205.6**	Mine development and purchase of in-mine equipment such as pumps, jumbos and a raiseboring machine. Construction of ramps and mining works, purchase of equipment for the leaching plant and acquisition of land at San Julián (US$150.3 million), and the Orisyvo project (US$1.2 million)
Saucito mine	**108.3**	Mining works and purchase of in-mine equipment
Herradura mine	**119.7**	Stripping activities, construction of leaching pad, sustaining capex and construction of the second Merrill Crowe plant
Ciénega mine	**24.6**	Development, replacement of in-mine equipment, purchase of equipment to optimise the milling process and employees' facilities
Noche Buena	**2.6**	Expansion of smelting capacity at the beneficiation plant, construction of leaching pads and diesel supply station
Juanicipio project	**9.9**	Exploration expenses
Other	**4.0**	Exploraciones Mineras Parreña and SAFSA
Total purchase of property, plant and equip.	**474.7**	

Dividends paid to shareholders of the Group in 2015 totalled US$37.5 million, a 56.8% decrease from 2014, in line with our dividend policy that includes a consideration of profits generated in the period. The 2015 payment included: i) the final 2014 dividend of US$22.1 million; and ii) the 2015 interim dividend paid in September of US$15.5 million.

Net interest of US$30.5 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 net increase of US$52.0 million in cash and cash equivalents, which combined with the US$449.3 million balance at the beginning of the year and the US$1.2

million unfavourable effect of the exchange rate resulted in cash, cash equivalents and short-term investments of US$500.1 million at the end of 2015.

Balance Sheet

Fresnillo plc continues to prioritise and maintain a strong, flexible financial position.

Cash, cash equivalents and short-term investments increased during the year to US$500.1 million as explained above.

Inventories slightly decreased 1.6% to US$300.6 million due to the decreased inventories of lead concentrate at Saucito, which more than offset the increase in inventories of gold deposited on the leaching pads at Herradura and Noche Buena.

Trade and other receivables of US$305.7 million decreased 33.0% as a result of the decrease in prices which reduced receivables from Met-Mex.

The change in the value of the Silverstream derivative from US$392.3 million at the beginning of the year to US$384.8 million as of 31 December 2015 reflects proceeds of US$35.2 million corresponding to 2015, (US$32.5 million in cash and US$2.7 million in receivables) and the Silverstream effect in the income statement of US$27.7 million.

The net book value of property, plant and equipment was US$2,138.6 million at year end, representing an 8.6% increase over 2014. The US$169.2 million increase was mainly explained by the capitalised development works at Fresnillo and Saucito; construction of San Julián and of the Merrill Crowe plant at Herradura; purchase of additional in-mine equipment and surface land; and construction of leaching pads at Herradura.

The Group's total equity was US$2,374.3 million as of 31 December 2015, a 3.1% increase over 2014. This was mainly explained by the increase in retained earnings, reflecting the 2014 profit, less dividend paid during the year, and the net unrealised gains on cash flow hedges.

Dividends

Based on the Group's 2015 performance, the Directors have recommended a final dividend of 3.35 US cents per Ordinary Share, which will be paid on 9 May 2016 to shareholders on the register on 22 April 2016. 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 2.1 US cents per share totalling U$15.5 million.

RISK MANAGEMENT FRAMEWORK

Risk management framework

Risk is inherent in all business activities. We maintain a comprehensive risk management framework that serves to identify, assess and respond to our principal risks. Our approach is not intended to eliminate risk entirely, but rather to provide the structural means to identify, prioritise and manage the risks involved in our activities in order to support our value creation objectives.

Governance

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

In accordance with our governance practices, the Audit Committee supports the Board of Directors in monitoring the Company´s risk exposures and is responsible for reviewing the effectiveness of the risk management and internal control systems. The Risk Manager and Internal Audit supports the Audit Committee in evaluating the design and operating effectiveness of the risk mitigation strategies and the internal controls implemented by management.

Executive Management reviews strategic objectives and risk appetite, assesses the level of risk related to achieving these objectives, and incorporates controls into the strategic and operating plans to mitigate them. This top down risk identification and assessment process helps to ensure that the bottom up process performed at the business unit level is aligned with and focused on current strategy and objectives.

Risk management system

The annual and ongoing elements of the Group's risk management process are controlled by well-established risk identification, assessment and monitoring processes. We have progressed in embedding a risk management culture amongst all employees, however this is an ongoing process and we are still working to demonstrate this with evidence collected through the monitoring of our controls to mitigate risks.

We have continued to build on our existing risk management framework, enhancing risk management and internal control systems across the business in line with changes to the UK Corporate Governance Code.

In addition to the permanent risk management activities, our priority for 2016 is to continue promoting a 'monitoring environment' which consists of validating the effectiveness of our current controls in order to support the Board in their responsibilities, which include monitoring and reviewing risk management and the internal control systems.

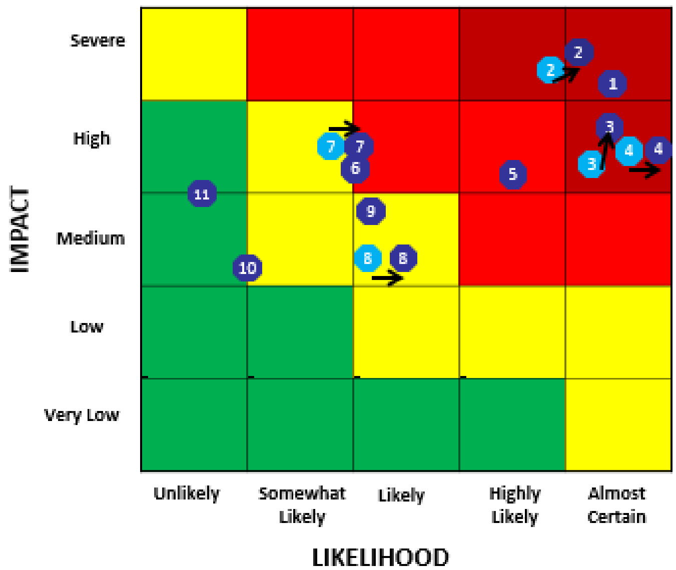
2015 risk assessment

The annual risk assessment exercise across all our operations, advanced projects, exploration offices, support and corporate areas identified and evaluated 104 risks in 2015. This universe was narrowed down into major risks monitored by Executive Management and the Audit Committee, and then further consolidated into eleven principal risks closely monitored by Executive Management and the Board of Directors.

For the bottom up process, the teams in charge of each business unit determined the perceived level of risk for their individual unit. Executive Management then reviewed and challenged each perceived level through the evaluation of certain controls and relative risk levels, and compared it to Fresnillo plc's risk universe as a whole. The result of this exercise is used as another input for the selection of the principal risks of Fresnillo plc. The same risk analysis was conducted on advanced projects, detailing the specific risks faced by each project according to the unique characteristics and conditions of each site.

We believe there were a number of developments in 2015 that have the potential to adversely impact the entire Mexican mining industry. These include Mexico's transition towards indigenous consultation (which is an emerging initiative but worth monitoring); the perceived level of corruption across Mexico remaining high; continued legal challenges to the mining industry by individuals and local communities who may seek to disregard previous land agreements; and due to lower metal prices, profit levels have been impacted and also profit sharing to employees and union workers has decreased. As a result of these changes we determined that the following risk rating levels facing Fresnillo plc have increased: 'potential actions by the government', 'security', 'access to land' and 'union relations'. As with all our key risks, the Board and the Executive Committee continue to closely monitor them.

HEAT MAP



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

2014 2015

Risk that changed during 2015

(V) *Risk that was considered for the viability assessment as detailed in page XX*

Statement of Directors' responsibilities

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 Commission, give a true and fair view of the assets, liabilities, financial position and profit and loss of the Company and the undertakings included in the consolidation taken as a whole; and

b) the management report 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

Guy Wilson
Senior Independent Director
29 February 2016

Consolidated Income Statement
Year ended 31 December

	Notes	Year ended 31 December 2015 US$ thousands Pre-Silverstream revaluation effect	Silverstream revaluation effect	Total	Year ended 31 December 2014 US$ thousands Pre-Silverstream revaluation effect	Silverstream revaluation effect	Total
Continuing operations:							
Revenues	5	1,444,386		1,444,386	1,413,701		1,413,701
Cost of sales	6	(1,011,316)		(1,011,316)	(892,647)		(892,647)
Gross profit		**433,070**		**433,070**	**521,054**		**521,054**
Administrative expenses		(62,820)		(62,820)	(67,540)		(67,540)
Exploration expenses	7	(140,246)		(140,246)	(168,784)		(168,784)
Selling expenses		(13,693)		(13,693)	(13,610)		(13,610)
Other operating income	9	778		778	580		580
Other operating expenses	9	(16,650)		(16,650)	(26,122)		(26,122)
Profit from continuing operations before net finance costs and income tax		**200,439**		**200,439**	**245,578**		**245,578**
Finance income	10	65,838		65,838	7,460		7,460
Finance costs	10	(45,463)		(45,463)	(54,616)		(54,616)
Revaluation effects of Silverstream contract	15	-	27,720	27,720	-	77,054	77,054
Foreign exchange loss		(36,180)		(36,180)	(24,411)		(24,411)
Profit from continuing operations before income tax		**184,634**	**27,720**	**212,354**	**174,011**	**77,054**	**251,065**
Corporate income tax	11	(120,690)	(8,316)	(129,006)	(95,155)	(23,116)	(118,271)
Special mining right	11	(13,958)		(13,958)	(15,700)		(15,700)
Income tax expense	11	(134,648)	(8,316)	(142,964)	(110,855)	(23,116)	(133,971)
Profit for the year from continuing operations		**49,986**	**19,404**	**69,390**	**63,156**	**53,938**	**117,094**
Attributable to:							
Equity shareholders of the Company		51,119	19,404	70,523	54,511	53,938	108,449
Non-controlling interest		(1,133)		(1,133)	8,645		8,645
		49,986	**19,404**	**69,390**	**63,156**	**53,938**	**117,094**
Earnings per share: (US$)							
Basic and diluted earnings per Ordinary Share from continuing operations	12	-		0.096	–		0.147
Adjusted earnings per share: (US$)							
Adjusted basic and diluted earnings per Ordinary Share from continuing operations	12	0.069		-	0.074		–

Consolidated Statement of Comprehensive Income
Year ended 31 December

		Year ended 31 December	
	Notes	**2015** **US$ thousands**	2014 US$ thousands
Profit for the year		**69,390**	**117,094**
Other comprehensive income/(expense)			
Items that may be reclassified subsequently to profit or loss:			
Net losses/(gains) on cash flow hedges recycled during the year		26,422	(3,247)
Related income tax effect	11	(7,927)	974
Net unrealised gains/(losses) on cash flow hedges		39,521	(11,771)
Related income tax effect	11	(11,856)	3,531
Net effect of cash flow hedges		46,160	(10,513)
Fair value (losses)/gains on available-for-sale financial assets	14	(14,636)	22,833
Related income tax effect	11	4,391	(6,850)
Impairment losses on available-for-sale financial assets taken to income during the year		2,896	982
Related income tax effect	11	(869)	(295)
Net effect of available-for-sale financial assets		(8,218)	16,670
Foreign currency translation		(134)	(234)
Net other comprehensive income that may be reclassified subsequently to profit or loss:		**37,808**	**5,923**
Items that will not be reclassified to profit or loss:			
Losses on cash flow hedges reclassified to the value of other assets		-	(220)
Related income tax effect	11	-	66
Remeasurement losses on defined benefit plans	23	(2,273)	(1,851)
Related income tax effect	11	361	296
Net other comprehensive expense that will not be reclassified to profit or loss		**(1,912)**	**(1,709)**
Other comprehensive income, net of tax		**35,896**	**4,214**
Total comprehensive income for the year, net of tax		**105,286**	**121,308**
Attributable to:			
Equity shareholders of the Company		106,419	112,663
Non-controlling interests		(1,133)	8,645
		105,286	**121,308**

Consolidated Balance Sheet
As at 31 December

		As at 31 December	
	Notes	**2015 US$ thousands**	2014 US$ thousands
ASSETS			
Non-current assets			
Property, plant and equipment	13	2,138,588	1,969,418
Available-for-sale financial assets	14	71,442	86,078
Silverstream contract	15	358,164	358,965
Deferred tax asset	11	30,814	57,705
Inventories	16	76,375	84,412
Other receivables	17	2,289	3,853
Other assets		3,372	3,872
		2,681,044	**2,564,303**
Current assets			
Inventories	16	224,200	221,200
Trade and other receivables	17	237,992	287,595
Income tax recoverable		67,690	168,498
Prepayments		2,966	3,356
Derivative financial instruments	31	117,075	14,551
Silverstream contract	15	26,607	33,311
Short-term investments	18	118,718	295,000
Cash and cash equivalents	18	381,420	154,340
		1,176,668	**1,177,851**
Total assets		**3,857,712**	**3,742,154**
EQUITY AND LIABILITIES			
Capital and reserves attributable to shareholders of the Company			
Share capital	19	368,546	368,546
Share premium	19	1,153,817	1,153,817
Capital reserve	19	(526,910)	(526,910)
Net unrealised gains/(losses) on cash flow hedges	19	36,214	(9,946)
Net unrealised gains on available-for-sale financial assets	19	16,297	24,515
Foreign currency translation reserve	19	(731)	(597)
Retained earnings	19	1,296,906	1,265,877
		2,344,139	2,275,302
Non-controlling interests		30,202	26,539
Total equity		**2,374,341**	**2,301,841**
Non-current liabilities			
Interest-bearing loans	21	797,032	796,160
Provision for mine closure cost	22	195,476	153,802
Provision for pensions and other post-employment benefit plans	23	14,534	13,838
Deferred tax liability	11	373,009	336,751
		1,380,051	**1,300,551**

Consolidated Balance Sheet
As at 31 December

		As at 31 December	
	Notes	**2015 US$ thousands**	2014 US$ thousands
Current liabilities			
Trade and other payables	24	89,630	100,351
Derivative financial instruments	31	1,427	27,033
Income tax	11	-	814
Employee profit sharing		12,263	11,564
		103,320	**139,762**
Total liabilities		**1,483,371**	**1,440,313**
Total equity and liabilities		**3,857,712**	**3,742,154**

These financial statements were approved by the Board of Directors on 29 February 2016 and signed on its behalf by:

Mr Arturo Fernandez
Non-executive Director

29 February 2016

Consolidated Statement of Cash Flows
Year ended 31 December

	Notes	Year ended 31 December 2015 US$ thousands	2014 US$ thousands
Net cash from operating activities	30	**542,894**	**121,634**
Cash flows from investing activities			
Purchase of property, plant and equipment		(474,692)	(425,574)
Proceeds from the sale of property, plant and equipment and other assets		6,077	14,206
Repayments of loans granted to contractors		1,567	3,479
Short-term investments	18	176,475	(295,133)
Silverstream contract	15	39,430	58,777
Interest received		4,614	5,993
Net cash used in investing activities		**(246,529)**	**(638,252)**
Cash flows from financing activities			
Dividends paid to shareholders of the Company	20	(37,529)	(86,952)
Acquisition of non-controlling interest	4(b)	-	(450,540)
Capital contribution		4,796	4,378
Interest paid[1]	21	(35,144)	(43,581)
Net cash used in financing activities		**(67,877)**	**(576,695)**
Net increase/(decrease) in cash and cash equivalents during the year		228,488	(1,093,313)
Effect of exchange rate on cash and cash equivalents		(1,408)	(4,041)
Cash and cash equivalents at 1 January		154,340	1,251,694
Cash and cash equivalents at 31 December	18	**381,420**	**154,340**

[1]Total interest paid during the year ended 31 December 2015 less amounts capitalised as part of fixed assets projects totalling US$11.1 million (31 December 2014: US$2.7 million).

Consolidated Statement of Changes in Equity
Year ended 31 December

	Notes	Attributable to the equity holders of the Company								Non-controlling interests	Total equity
		Share capital	Share premium	Capital reserve	Net unrealised gains/(losses) on revaluation of cash flow hedges	Net unrealised gains/(losses) on available-for-sale financial assets	Foreign currency translation reserve	Retained earnings	Total		
											US$ thousands
Balance at 1 January 2014		368,546	1,153,817	(526,910)	721	7,845	(363)	1,269,781	2,273,437	398,534	2,671,971
Profit for the year								108,449	108,449	8,645	117,094
Other comprehensive income, net of tax		-	-	-	(10,667)	16,670	(234)	(1,555)	4,214	-	4,214
Total comprehensive income for the year		-	-	-	(10,667)	16,670	(234)	106,894	112,663	8,645	121,308
Capital contribution		-	-	-	-	-	-	-	-	46,011	46,011
Acquisition of non-controlling interest	4(b)	-	-	-	-	-	-	(23,844)	(23,844)	(426,651)	(450,495)
Dividends declared and paid	20	-	-	-	-	-	-	(86,954)	(86,954)	-	(86,954)
Balance at 31 December 2014		**368,546**	**1,153,817**	**(526,910)**	**(9,946)**	**24,515**	**(597)**	**1,265,877**	**2,275,302**	**26,539**	**2,301,841**
Profit/(loss) for the year								70,523	70,523	(1,133)	69,390
Other comprehensive income, net of tax		-	-	-	46,160	(8,218)	(134)	(1,912)	35,896	-	35,896
Total comprehensive income for the year		-	-	-	46,160	(8,218)	(134)	68,611	106,419	(1,133)	105,286
Capital contribution		-	-	-	-	-	-	-	-	4,796	4,796
Dividends declared and paid	20	-	-	-	-	-	-	(37,582)	(37,582)	-	(37,582)
Balance at 31 December 2015		**368,546**	**1,153,817**	**(526,910)**	**36,214**	**16,297**	**(731)**	**1,296,906**	**2,344,139**	**30,202**	**2,374,341**

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 6 of the Parent Company accounts ('the Group').

Industrias Peñoles S.A.B. de C.V. ('Peñoles') currently owns 75 percent of the shares of the Company and the ultimate controlling party of the Company is the Baillères family, whose beneficial interest is held through Peñoles. 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 28.

The consolidated financial statements of the Group for the year ended 31 December 2015 were authorised for issue by the Board of Directors of Fresnillo plc on 29 February 2016.

The auditor's report on those financial statements will be delivered to the Registrar in due course.

The financial information contained in this document does not constitute statutory accounts as defined in section 435 of the Companies Act 2006.

The Group's principal business is the mining and beneficiation of non-ferrous minerals, and the sale of related production. The primary contents of this production are silver, gold, lead and zinc. 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 2015 and 2014, and in accordance with the provisions of the Companies Act 2006.

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

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

Basis of consolidation

The consolidated financial statements set out the Group's financial position as of 31 December 2015 and 2014, 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 2014. During 2015, there were no amendments to existing accounting policies.

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

During 2015 there were no new standards adopted by the Group. New standards issued by the IASB effective as of 1 January 2015 had no impact in the financial information of the Group.

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 that consider will be applicable to the Group's financial statements, when they become effective.

IFRS 9 Financial Instruments: In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. The Group is currently assessing the impact of IFRS 9 and plans to adopt the new standard on the required effective date.

IFRS 15 Revenue from Contracts with Customers: IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018, when the IASB finalises their amendments to defer the effective date of IFRS 15 by one year. Early adoption is permitted. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

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, earlier application is permitted. However, as there are several interactions between IFRS 16 and IFRS 15 Revenue from contracts with customers, early application is restricted to entities that also early apply IFRS 15. The Group is currently assessing the impact of IFRS 16 and plans to adopt the new standard on the required effective date.

Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 Presentation of Financial Statements clarify, rather than significantly change, existing IAS 1 requirements. These amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. The Group has not early adopted this standard; however, management has reviewed the aggregation level in the financial statements including disclosures in notes, considering the new guidance on materiality. The amendments to this standard are not expected to have any impact in the financial information of the Group.

Amendments to IAS 7 Disclosure Initiative

The amendments to IAS 7 require disclosure of information that will allow users to understand changes in liabilities arising from financing activities. This include changes arising from (i) cash flows, such as drawdowns and repayments of borrowings; and (ii) non-cash changes, such as acquisitions, disposals and unrealised exchange differences. These amendments are effective for annual periods beginning on or after 1 January 2017, with early adoption permitted. The amendments to this standard are not expected to have any impact in the financial information of the Group.

Amendments to IAS 12 Income Taxes

The amendments to IAS 12 clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. They also clarify certain other aspects of accounting for deferred tax assets. These amendments are effective for annual periods beginning on or after 1 January 2017, with early adoption permitted. The amendments to this standard are not expected to have any impact in the financial information of the Group.

The IASB have issued other amendments to standards that management considers do not have any impact on the accounting policies, financial position or performance of the Group.

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

(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 currencies(note 2(d)):

The determination of functional currency requires management judgement, particularly where there may be several currencies in which transactions are undertaken and which impact the economic environment in which the entity operates.

– Evaluation of projects status (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. Significant judgement is required to distinguish between development stripping and production stripping and, within production stripping, to distinguish between the portion that relates to the extraction of inventory and that which relates to the creation of a stripping activity asset.

Once the Group has identified production stripping for a surface mining operation, it identifies the separate components of the ore bodies for that operation. An identifiable component is a specific volume of the ore body that is made more accessible by the stripping activity. Significant judgement is required to identify and define these components, and also to determine the expected tonnes of waste to be stripped and ore to be mined in each of these components. These assessments are undertaken for each individual mining operation based on the information available in the mine plan. 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.

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 directly attributable to the acquisition, construction or production of a qualifying asset. Therefore, Management determines whether borrowings are directly 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 27)

By their nature, contingencies will be resolved only when one or more uncertain future events occur or fail to occur. The assessment of the existence and potential quantum of contingencies inherently involves the exercise of significant judgement and the use of estimates regarding the outcome of future events.

Estimates and assumptions
Significant areas of estimation uncertainty considered by management in preparing the consolidated financial statements include:

– Estimated recoverable ore reserves and mineral resources, note 2(e):

Ore reserves are estimates of the amount of ore that can be economically and legally extracted from the Group's mining properties; mineral resources are an identified mineral occurrence with reasonable prospects for eventual economic extraction. The Group estimates its ore reserves and mineral resources based on information compiled by appropriately qualified persons relating to the geological and technical data on the size, depth, shape and grade of the ore body and suitable production techniques and recovery rates, in conformity with the Joint Ore Reserves Committee (JORC) code 2012. Such an analysis requires complex geological judgements to interpret the data. The estimation of recoverable ore reserves and mineral resources is based upon factors such as estimates of commodity prices, foreign exchange rates, future capital requirements and production costs, along with geological assumptions and judgements made in estimating the size and grade of the ore body.

As the economic assumptions used may change and as additional geological information is produced during the operation of a mine, 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, those cash flows 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;
- Capitalised stripping costs recognised in the income statement as either part of mine properties or as part of inventory or charged to profit or loss may change due to changes in stripping ratios; determination of stripping ratios is based on ore reserves and resources;
- Provisions for mine closure costs may change where changes to the ore reserve and resources estimates affect expectations about when such activities will occur;
- The recognition and carrying value of deferred income tax assets may change due to changes in the judgements 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 13:

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. This results in a depreciation/amortisation charge proportional to the depletion of the estimated remaining life of mine production. Estimated useful lives of other assets is 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 present assessments of economically recoverable reserves of the mine property at which the asset is used.

– Silverstream, note 15:

The valuation of the Silverstream contract as a derivative financial instrument requires significant estimation by management. The derivative has a term of over 20 years and the value of this derivative is determined using a number of estimates, including the estimated recoverable ore reserves and mineral resources and future production profile of the Sabinas mine, the estimated recoveries of silver from ore mined, estimates of the future price of silver and the discount rate used to discount future cash flows. For further detail on the inputs that have a significant effect on the fair value of this derivative, see note 31. The impact of changes in silver price assumptions, foreign exchange, inflation and the discount rate is included in note 32.

– Assessment of recoverability of assets 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 associate 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 22:

Significant estimates and assumptions are made in determining the provision for mine closure cost as there are numerous factors that will affect the ultimate liability payable. These factors include estimates of the extent and costs of rehabilitation activities, technological changes, regulatory changes, cost increases, mine life and changes in discount rates. Those uncertainties may result in future actual expenditure differing from the amounts currently provided. The provision at the balance sheet date represents management's best estimate of the present value of the future closure costs required.

– Income tax, notes 2(r) and 11:

Judgement is required in determining whether deferred tax assets are recognised on the balance sheet. Deferred tax assets, including those arising from un-utilised tax losses require management to assess the likelihood that the Group will generate taxable earnings in future periods, in order to utilise recognised deferred tax assets. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Group to realise the net deferred tax assets recorded at the balance sheet date could be impacted.

(d) Foreign currency translation

The Group's consolidated financial statements are presented in US dollars, which is the parent company's functional currency. The functional currency for each entity in the Group is determined by the currency of the primary economic environment in which it operates. For all operating entities, this is US dollars.

Transactions denominated in currencies other than the functional currency of the entity are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rate of exchange ruling at the balance sheet date. All differences that arise are recorded in the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated into US dollars using the exchange rate at the date when the fair value is determined.

For entities with functional currencies other than US dollars, as at the reporting date, assets and liabilities are translated into the reporting currency of the Group by applying the exchange rate at the balance sheet date and the income statement is translated at the average exchange rate for the year. The resulting difference on exchange is included as a cumulative translation adjustment in other comprehensive income. On disposal of an entity, the deferred cumulative amount recognised in other comprehensive income relating to that operation is recognised in the income statement.

(e) Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and impairment, if any. Cost comprises the purchase price and any costs directly attributable to bringing the asset into working condition for its intended use. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads.

The cost less the residual value of each item of property, plant and equipment is depreciated over its useful life. Each item's estimated useful life has been assessed with regard to both its own physical life limitations and the present assessment of economically recoverable reserves of the mine property at which the item is located. Estimates of remaining useful lives are made on a regular basis for all mine buildings, machinery and equipment, with annual reassessments for major items. Depreciation is charged to cost of sales on a unit-of-production (UOP) basis for mine buildings and installations, plant and equipment used in the mine production process or on a straight line basis over the estimated useful life of the individual asset when not related to the mine production process. Changes in estimates, which mainly affect unit-of-production calculations, are accounted for prospectively. Depreciation commences when assets are available for use. Land is not depreciated.

The expected useful lives are as follows:

	Years
Buildings	6
Plant and equipment	4
Mining properties and development costs[1]	16
Other assets	3

1 Depreciation of mining properties and development cost are determined using the unit-of-production method.

An item of property, plant and equipment is de-recognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising at de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year that the asset is de-recognised.

Non-current assets or disposal groups are classified as held for sale when it is expected that the carrying amount of the asset will be recovered principally through sale rather than through continuing use. Assets are not depreciated when classified as held for sale.

Disposal of assets
Gains or losses from the disposal of assets are recognised in the income statement when all significant risks and rewards of ownership are transferred to the customer, usually when title has been passed.

Mining properties and development costs
Payments for mining concessions are expensed during the exploration phase of a prospect and capitalised during the development of the project when incurred.

Purchased rights to ore reserves and mineral resources are recognised as assets at their cost of acquisition or at fair value if purchased as part of a business combination.

Mining concessions, when capitalised, are amortised on a straight line basis over the period of time in which benefits are expected to be obtained from that specific concession.

Mine development costs are capitalised as part of property, plant and equipment. Mine development activities commence once a feasibility study has been performed for the specific project. When an exploration prospect has entered into the advanced exploration phase and sufficient evidence of the probability of the existence of economically recoverable minerals has been obtained pre-operative expenses relating to mine preparation works are also capitalised as a mine development cost.

The initial cost of a mining property comprises its construction cost, any costs directly attributable to bringing the mining property into operation, the initial estimate of the provision for mine closure cost, and, for qualifying assets, borrowing costs. The Group cease the capitalisation of borrowing cost when the physical construction of the asset is complete and is ready for its intended use.

Revenues from metals recovered from ore mined in the mine development phase, prior to commercial production, are credited to mining properties and development costs. Upon commencement of production, capitalised expenditure is depreciated using the unit-of-production method based on the estimated economically proven and probable reserves to which they relate.

Mining properties and mine development are stated at cost, less accumulated depreciation and impairment in value, if any.

Construction in progress
Assets in the course of construction are capitalised as a separate component of property, plant and equipment. On completion, the cost of construction is transferred to the appropriate category of property, plant and equipment. The cost of construction in progress is not depreciated.

Subsequent expenditures
All subsequent expenditure on property, plant and equipment is capitalised if it meets the recognition criteria, and the carrying amount of those parts that are replaced, is de-recognised. All other expenditure including repairs and maintenance expenditure is recognised in the income statement as incurred.

Stripping costs
In a surface mine operation, it is necessary to remove overburden and other waste material in order to gain access to the ore bodies (stripping activity). During development and pre-production phases, the stripping activity costs are capitalised as part of the initial cost of development and construction of the mine (the stripping activity asset) and charged as depreciation or depletion to cost of sales, in the income statement, based on the mine's units of production once commercial operations begin.

Removal of waste material normally continues throughout the life of a surface mine. At the time that saleable material begins to be extracted from the surface mine the activity is referred to as production stripping.

Production stripping cost is capitalised only if the following criteria is met:

- It is probable that the future economic benefits (improved access to an ore body) associated with the stripping activity will flow to the Group;
- The Group can identify the component of an ore body for which access has been improved; and
- The costs relating to the improved access to that component can be measured reliably

If not all of the criteria are met, the production stripping costs are charged to the income statement as operating costs as they are incurred.

Stripping activity costs associated with such development activities are capitalised into existing mining development assets, as mining properties and development cost, within property, plant and equipment, using a measure that considers the volume of waste extracted compared with expected volume, for a given volume of ore production. This measure is known as "component stripping ratio", which is revised annually in accordance with the mine plan. The amount capitalised is subsequently depreciated over the expected useful life of the identified component of the ore body related to the stripping activity asset, by using the units of production method. The identification of components and the expected useful lives of those components are evaluated annually. Depreciation is recognised as cost of sales in the income statement.

The capitalised stripping activity asset is carried at cost less accumulated depletion/depreciation, less impairment, if any. Cost includes the accumulation of costs directly incurred to perform the stripping activity that improves access to the identified component of ore, plus an allocation of directly attributable overhead costs. The costs associated with incidental operations are excluded from the cost of the stripping activity asset.

In identifying components of the ore body, the Group works closely with the mining operations personnel for each mining operation to analyse each of the mine plans. Generally, a component will be a subset of the total ore body and a mine may have several components that are identified based on the mine plan. The mine plans and therefore the identification of components can vary between mines for a number of reasons including but not limited to, the type of commodity, the geological characteristics of the ore body, the geographical location and/or financial considerations.

(f) Impairment of non-financial assets

The carrying amounts of 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 to disposal. Fair value is based on an estimate of the amount that the Group may obtain in an orderly sale transaction between market participants. 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. For an asset that does not generate cash inflows largely independently of those from other assets, or groups of assets, the recoverable amount is determined for the cash generating unit to which the asset belongs. The Group's cash generating units are the smallest identifiable groups of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Reversal of impairment
An assessment is made each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the Group makes an estimate of the recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in estimates used to determine the asset's recoverable amount since the impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to the recoverable amount. That increased amount cannot exceed the carrying amount

that would have been determined, net of depreciation, had no impairment loss been recognised in previous years. Such impairment loss reversal is recognised in the income statement.

(g) Financial assets and liabilities

Financial assets are recognised when the Group becomes party to contracts that give rise to them and are classified as financial assets at fair value through profit or loss; held to maturity investments; available-for-sale financial assets; or loans and receivables or derivatives designated as hedging instruments, as appropriate. The Group determines the classification of its financial assets at initial recognition and re-evaluates this designation at each balance sheet date. When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

The Group recognises financial liabilities on its balance sheet when, and only when, it becomes a party to the contractual provisions of the instrument. Financial liabilities are classified at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial liabilities are initially recognised at the fair value of the consideration received, including any transaction costs incurred.

Financial assets and liabilities at fair value through profit or loss

Financial assets and liabilities classified as held-for-trading and other assets or liabilities designated as fair value through profit or loss at inception are included in this category. Financial assets or liabilities are classified as held-for-trading if they are acquired or incurred for the purpose of selling or repurchasing in the short term. Derivatives, including separated embedded derivatives are also classified as held-for-trading unless they are designated as effective hedging instruments as defined by IAS 39. Financial assets or liabilities at fair value through profit or loss are carried in the balance sheet at fair value with gains or losses arising from changes in fair value, presented as finance costs or finance income in the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, do not qualify as trading assets and have not been designated as either fair value through profit and loss or available-for-sale.

After initial measurement, such assets are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Gains or losses are recognised in income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Current trade receivables are carried at the original invoice amount less provision made for impairment of these receivables. Non-current receivables are stated at amortised cost. Loans and receivables from contractors are carried at amortised cost.

Loans and borrowings

After initial recognition at fair value, net of directly attributable transaction costs, interest-bearing loans are subsequently measured at amortised cost using the effective interest rate (EIR) method. The EIR amortisation is included as finance costs in the income statement. Gains and losses are recognised in profit or loss, in the income statement, when the liabilities are derecognised as well as through the EIR amortisation process.

The Group adjusts the carrying amount of the financial liability to reflect actual and revised estimated cash flows. The carrying amount is recalculated by computing the present value of estimated future cash flows at the financial instrument's original effective interest rate or, when applicable, the revised effective interest rate. Any adjustment is recognised in profit or loss as income or expense.

This category generally applies to interest-bearing loans and borrowings. For more information, refer to note 21.

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 asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. In assessing whether there is an impairment, the Group considers whether a decline in fair value is either significant or prolonged, by considering the size of the decline in this value, the historic volatility in changes in fair value and the duration of the sustained decline. Reversals in respect of equity instruments classified as available-for-sale are not recognised in the income statement.

(i) Inventories

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

For this purpose, the costs of production include:

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

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

– related production overheads (based on normal operating capacity).

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

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

(j) Short-term investments

Where the Group invests in short-term instruments which are either not readily convertible into known amounts of cash or are subject to risk of changes in value that are not insignificant, these instruments are classified as short-term investments. Short-term investments are classified as loans and receivables.

(k) Cash and cash equivalents

For the purposes of the balance sheet, cash and cash equivalents comprise cash at bank, cash on hand and short-term deposits held with banks that are readily convertible into known amounts of cash and which are subject to insignificant risk of changes in value. Short-term deposits earn interest at the respective short-term deposit rates between one day and four months. For the purposes of the cash flow statement, cash and cash equivalents as defined above are shown net of outstanding bank overdrafts.

(l) Provisions

Mine closure cost
A provision for mine closure cost is made in respect of the estimated future costs of closure, restoration and for environmental rehabilitation costs (which include the dismantling and demolition of infrastructure, removal of residual materials and remediation of disturbed areas) based on a mine closure plan, in the accounting period when the related environmental disturbance occurs. The provision is discounted and the unwinding of the discount is included within finance costs. At the time of establishing the provision, a corresponding asset is capitalised where it gives rise to a future economic benefit and is depreciated over future production from the mine to which it relates. The provision is reviewed on an annual basis by the Group for changes in cost estimates, discount rates or life of operations. Changes to estimated future costs are recognised in the balance sheet by adjusting the mine closure cost liability and the related asset originally recognised. If, for mature mines, the revised mine assets net of mine closure cost provisions exceed the recoverable value, the portion of the increase is charged directly as an expense. For closed sites, changes to estimated costs are recognised immediately in profit or loss.

(m) Employee benefits

The Group operates the following plans:

Defined benefit pension plan
This funded plan is based on each employee's earnings and years of service. This plan was open to all employees in Mexico until it was closed to new entrants on 1 July 2007. The plan is denominated in Mexican Pesos. For members as at 30 June 2007, benefits were frozen at that date subject to indexation with reference to the Mexican National Consumer Price Index (NCPI).

The cost of providing benefits under the defined benefit plan is determined using the projected unit credit actuarial valuation method and prepared by an independent actuarial firm as at each year-end balance sheet date. The discount rate is the yield on mxAAA (Standard & Poor's) and AAA-mex (Fitch Ibca) credit-rated 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 independent actuarial firm as at each year-end balance sheet date. Actuarial gains or losses are recognised as income or expense in the period in which they occur.

Other
Benefits for death and disability are covered through insurance policies.

Termination payments for involuntary retirement (dismissals) are charged to the income statement, when incurred.

(n) Employee profit sharing

In accordance with the Mexican legislation, companies in Mexico are subject to pay for employee profit sharing ('PTU') equivalent to ten percent of the taxable income of each fiscal year.

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

(o) Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date including whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

a) There is a change in contractual terms, other than a renewal or extension of the arrangement;
b) A renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
c) There is a change in the determination of whether fulfilment is dependent on a specified asset; or
d) There is a substantial change to the asset.

Group as a lessee
Finance leases which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset, or if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are reflected in the income statement.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expense in the income statement on a straight line basis over the lease term.

Group as a lessor
Leases where the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Where a reassessment is made, lease accounting commences or ceases from the date when the change in circumstances gave rise to the reassessment for scenarios a), c) or d) and at the date of renewal or extension period for scenario b) above.

For arrangements entered into prior to 1 January 2005, the date of inception is deemed to be 1 January 2007, in accordance with the transitional requirements of IFRIC 4.

(p) Revenue recognition

Revenue is recognised to the extent that it is probable that economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of consideration received excluding discounts, rebates, and other sales taxes.

Sale of goods
Revenue is recognised in the income statement when all significant risks and rewards of ownership are transferred to the customer, usually when title has been passed. Revenue excludes any applicable sales taxes.

The Group recognises revenue on a provisional basis at the time concentrates, precipitates and doré bars are delivered to the customer's smelter or refinery, using the Group's best estimate of contained metal. Revenue is subject to adjustment once the analysis of the product samples is completed, contract conditions have been fulfilled and final settlement terms are agreed. Any subsequent adjustments to the initial estimate of metal content are recorded in revenue once they have been determined.

In addition, sales of concentrates and precipitates throughout each calendar month, as well as doré bars that are delivered after the 20th day of each month, are 'provisionally priced' subject to a final adjustment based on the average price for the month following the delivery to the customer, based on the market price at the relevant quotation point stipulated in the contract. Doré bars that are delivered in the first 20 days of each month are finally priced in the month of delivery.

For sales of goods that are subject to provisional pricing, revenue is initially recognised when the conditions set out above have been met using the provisional price. The price exposure is considered to be an embedded derivative and hence separated from the sales contract. At each reporting date, the provisionally priced metal is revalued based on the forward selling price for the quotation period stipulated in the contract until the quotation period ends. The selling price of the metals can be reliably measured as these are actively traded on international exchanges. The revaluing of provisionally priced contracts is recorded as an adjustment to revenue.

The customer deducts treatment and refining charges before settlement. Therefore, the fair value of consideration received for the sale of goods is net of those charges.

The Group recognises in selling expenses a levy in respect of the Extraordinary Mining Right as sales of gold and silver are recognised.The Extraordinary Mining Right consists of a 0.5% rate, applicable to the owners of mining titles. The payment must be calculated over the total sales of all mining concessions. The payment of this mining right must be remitted no later than the last business day of March of the following year and can be credited against corporate income tax.

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 11).

Sales tax
Expenses and assets are recognised net of the amount of sales tax, except:

– When the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable;

– When receivables and payables are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

(s) Derivative financial instruments and hedging

The Group uses derivatives to reduce certain market risks derived from changes in foreign exchange and commodities price which impact its financial and business transactions. Hedges are designed to protect the value of expected production against the dynamic market conditions.

Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. The full fair value of a derivative is classified as non-current asset or liability if the remaining maturity of the item is more than 12 months.

Any gains or losses arising from changes in fair value on derivatives during the year that do not qualify for hedge accounting are taken directly to the income statement.

Derivatives are valued using valuation approaches and methodologies (such as Black Scholes and Net Present Value) applicable to the specific type of derivative instrument. The fair value of forward currency and commodity contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles, European foreign exchange options are valued using the Black Scholes model. The Silverstream contract is valued using a Net Present Value valuation approach.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for the undertaken hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

Cash flow hedges
For derivatives that are designated and qualify as cash flow hedges, the effective portion of changes in the fair value of derivative instruments are recorded as in other comprehensive income and are transferred to the income statement when the hedged transaction affects profit or loss, such as when a forecast sale or purchase occurs. For gains or losses related to the hedging of foreign exchange risk these are included, in the line item in which the hedged costs are reflected. Where the hedged item is the cost of a non-financial asset or liability, the amounts recognised in other comprehensive income are transferred to the initial carrying amount of the non-financial asset or liability. The ineffective portion of changes in the fair value of cash flow hedges is recognised directly as finance costs, in the income statement of the related period.

If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, any cumulative gain or loss recognised directly in other comprehensive income from the period that the hedge was effective remains separately in other comprehensive income until the forecast transaction occurs, when it is recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the income statement.

When hedging with options, the Group designates only the intrinsic value movement of the hedging option within the hedge relationship. The time value of the option contracts is therefore excluded from the hedge designation. Changes in fair value of time value is recognised in the income statement in finance costs.

Embedded derivatives
Contracts are assessed for the existence of embedded derivatives at the date that the Group first becomes party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. Embedded derivatives which are not clearly and closely related to the underlying asset, liability or transaction are separated and accounted for as stand-alone derivatives.

(t) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes 12 or more months to get ready for its intended use or sale (a qualifying asset) are capitalised as part of the cost of the respective asset. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Where funds are borrowed specifically to finance a project, the amount capitalised represents the actual borrowing costs incurred. Where surplus funds are available for a short term from funds borrowed specifically to finance a project, the income generated from the temporary investment of such amounts is also capitalised and deducted from the total capitalised borrowing cost. Where the funds used to finance a project form part of general borrowings, the amount capitalised is calculated using a weighted average of rates applicable to relevant general borrowings of the Group during the period.

All other borrowing costs are recognised in the income statement in the period in which they are incurred.

(u) Fair value measurement

The Group measures financial instruments at fair value at each balance sheet date. Fair values of financial instruments measured at amortised cost are disclosed in notes 31 and 32.

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 31.

(v) Dividend distribution

Dividends payable to the Company’s shareholders are recognised as a liability when these are approved by the Company’s shareholders or Board as appropriate. Dividends payable to minority shareholders are recognised as a liability when these are approved by the Company’s subsidiaries.

3. Segment reporting

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

At 31 December 2015, the Group has six reportable operating segments represented by six producing mines as follows:

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

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

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

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

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

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

The 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 2015 and 2014, 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 2015 and 2014, respectively:

									Year ended 31 December 2015
US$ thousands	Fresnillo	Herradura	Cienega	Soledad-Dipolos	Saucito	Noche Buena	Other[11]	Adjustments and eliminations	Total
Revenues:									
Third party[1]	265,347	459,904	154,334	-	395,417	165,518		3,866	1,444,386
Inter-Segment							78,622	(78,622)	-
Segment revenues	**265,347**	**459,904**	**154,334**	**-**	**395,417**	**165,518**	**78,622**	**(74,756)**	**1,444,386**
Segment Profit[2]	**149,986**	**219,045**	**71,094**	**(7,995)**	**295,219**	**26,706**	**65,925**	**(14,322)**	**805,659**
Hedging									(28,589)
Depreciation and amortisation									(331,209)
Employee profit sharing									(12,791)
Gross profit as per the income statement									**433,070**
Capital expenditure[3]	205,573[4]	119,743[5]	24,632[6]	-[7]	108,276[8]	2,649[9]	13,819[10]		474,692

1 Total third party revenues include treatment and refining charges amounting US$142.8 million.
2 Segment profit excluding foreign exchange hedging losses, depreciation and amortisation and employee profit sharing.
3 Capital expenditure consists of additions to property, plant and equipment, including mine development and stripping activity asset but excluding additions relating to changes in the mine closure provision.
4 Capital expenditure consists of mine development work, the construction of San Julian project, and purchase of mine equipment.
5 Capital expenditure consists of surface mine stripping activity, construction of second beneficiation plant (Merrill Crowe), construction of leaching pads and purchase of mine equipment.
6 Capital expenditure consists of mine development work and purchase of mine equipment.
7 During 2015, this segment did not operate due the Bajio conflict (note 27).
8 Capital expenditure consists of mine development work expansion of flotation plant and mine equipment.
9 Capital expenditures consists of construction of leaching pads and purchase of land.
10 Capital expenditure consists of the acquisition of property, plant and equipment and exploration expenditures capitalised, including Juanicipio project, and expansion of administrative office.
11 Other includes inter-segment leasing services provided by Minera Bermejal, S.A. de C.V.

US$ thousands	Fresnillo	Herradura	Cienega	Soledad-Dipolos	Saucito	Noche Buena	Other[11]	Adjustments and eliminations	Total
									Year ended 31 December 2014
Revenues:									
Third party[1]	394,644	341,409	191,553	-	323,398	162,596		101	1,413,701
Inter-Segment	-	-	-	-	-	-	71,443	(71,443)	-
Segment revenues	**394,644**	**341,409**	**191,553**	**-**	**323,398**	**162,596**	**71,443**	**(71,342)**	**1,413,701**
Segment Profit[2]	**271,878**	**170,299**	**96,961**	**(8,203)**	**235,015**	**25,832**	**58,524**	**(20,063)**	**830,243**
Hedging									(1,118)
Depreciation and amortisation									(295,452)
Employee profit sharing									(12,619)
Gross profit as per the income statement									**521,054**
Capital expenditure[3]	175,875[4]	63,119[5]	37,890[6]	–[7]	114,438[8]	20,887[9]	13,365[10]	–	425,574

1 Total third party revenues include treatment and refining charges amounting US$131.4 million.
2 Segment profit excluding foreign exchange hedging losses, depreciation and amortisation and employee profit sharing.
3 Capital expenditure consists of additions to property, plant and equipment, including mine development and stripping activity asset but excluding additions relating to changes in the mine closure provision.
4 Capital expenditure consists of mine development work, the construction of San Julian project, and purchase of mine equipment.
5 Capital expenditure consists of surface mine stripping activity, final phase of the construction of the dynamic leaching plant and purchase of land.
6 Capital expenditure consists of mine development work, purchase of mine equipment and construction of employees' facilities.
7 During 2014, this segment did not operate due the Bajio conflict (note 27). As a result of the Bajio dispute, the site was remediated and certain fixed assets were dismantled for a net amount of US$ 16.9 million (note 9 and 13).
8 Capital expenditure consists of mine development work, the construction of Saucito II plant and mine equipment.
9 Capital expenditures consists of construction of leaching pads and expansion of beneficiation plant.
10 Capital expenditure consists of the acquisition of property, plant and equipment and exploration expenditures capitalised, including Juanicipio project, mine equipment purchased by Minera El Bermejal and expansion of administrative office.
11 Other includes inter-segment leasing services provided by Minera Bermejal, S.A. de C.V. The presentation of other and adjustments and eliminations have been changed to be consistent with the presentation in the 2015 table above.

4.Group information

The list of the Company's subsidiaries included in the consolidated financial statements and its principal activities are showed in the Company's separate financial statements.

(a) Material partly-owned subsidiaries

As at 31 December 2015 and 2014, there are no material partly-owned subsidiaries. Non-controlling interests showed in the income statement for the year ended 31 December 2014 include US$24,969 thousand corresponding to partly-owned subsidiaries where the non-controlling interest has subsequently been purchased, as explained in the note 4(b) below. Condensed financial information relating to partly-owned subsidiaries for the period were as follows:

Summarised income statement for the year ended 31 December 2014

The following amounts relate to the results before the Group acquired the non-controlling interest in the subsidiaries (see note 4(b)).

	Minera Penmont, S de R.L. de C.V.	Desarrollo Mineros Fresne S de R.L. de C.V.	Proveedora de Equipos Fresne S de R.L. de C.V.	Minera el Bermejal S de R.L. de C.V.
Revenue	632,079	427,963	32,257	53,374
(Loss)/profit before income tax	(16,503)	87,454	(3,849)	27,073
Income tax credit/(charge)	3,175	(35,054)	2,486	(8,035)
(Loss)/profit for the year for continuing operations	(13,328)	52,400	(1,363)	19,038
Other comprehensive income	-	-	-	-
Total comprehensive income	(13,328)	52,400	(1,363)	19,038
Attributable to non-controlling interests	(5,864)	23,056	(600)	8,377
Dividends paid to non-controlling interests	-	-	-	-

Summarised cash flow information for the year ended 31 December 2014

The following amounts relate to the results before the Group acquired the non-controlling interest in the subsidiaries| (see note 4(b)).

	Minera Penmont, S de R.L. de C.V.	Desarrollo Mineros Fresne S de R.L. de C.V.	Proveedora de Equipos Fresne S de R.L. de C.V.	Minera el Bermejal S de R.L. de C.V.
Operating	(25,272)	26,655	26,067	(11,034)
Investing	(13,247)	(64,990)	(27,404)	(1,370)
Financing	47,844	39,985	(804)	10,900
Net increase/(decrease) in cash and cash equivalents	9,325	1,650	(2,141)	(1,504)

(b) Transactions with non-controlling interests

On 6 October 2014, the Group acquired the remaining 44% of the issued shares of Minera Penmont, S. de R.L. de C.V., Desarrollos Mineros Fresne, S. de R.L. de C.V, Proveedora de Equipos Fresne, S. de R.L. de C.V. and Minera Bermejal, S. de R.L. de C.V. (together referred to as Penmont), for a purchase consideration of US$450,540 thousand including acquisition expenses. After the transaction, the Group holds 100% of the equity share capital of the previously mentioned companies. The carrying amount of the non-controlling interest in Penmont on the date of acquisition was US$426,652 thousand. The group derecognised the non-controlling interest of US$ 426,652 thousand and recorded a decrease in equity attributable to owners of the parent of US$ 23,844 thousand. To determine the amount of non-controlling interest corresponding to the above mentioned subsidiaries, the Group used the figures as of 30 September 2014, due to the fact that there were no material transactions from that date to the date of purchase. The effect of the changes in the ownership interest in Penmont on the equity attributable to owners of the Group during 2014 is summarised as follows:

	Minera Penmont, S de R.L. de C.V.	Desarrollo Mineros Fresne S de R.L. de C.V.	Proveedora de Equipos Fresne S de R.L. de C.V.	Minera el Bermejal S de R.L. de C.V.	Total
Carrying amount of non-controlling interest acquired	222,557	64,216	93,488	46,390	426,651
Consideration paid to non-controlling interest	171,791	54,065	120,294	104,390	450,540
(Deficit)/excess of consideration paid recognised in parent's equity	(50,766)	(10,151)	26,806	58,000	23,889

During 2015, the Group did not carry out any transactions with any non-controlling interest that resulted in changes to the ownership of a subsidiary.

5. 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	
	2015 US$ thousands	2014 US$ thousands
Lead concentrates (containing silver, gold, lead and by-products)	691,096	777,560
Doré and slag (containing gold, silver and by-products)	626,446	504,000
Zinc concentrates (containing zinc, silver and by-products)	81,184	70,695
Precipitates (containing gold and silver)	45,660	61,446
	1,444,386	**1,413,701**

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

(b) Value of metal content in products sold

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

	Year ended 31 December	
	2015 US$ thousands	2014 US$ thousands
Silver	617,434	714,928
Gold	828,476	720,536
Zinc	73,018	58,076
Lead	68,277	51,581
Value of metal content in products sold	1,587,205	1,545,121
Adjustment for treatment and refining charges	(142,819)	(131,420)
Total revenues[1,]	**1,444,386**	**1,413,701**

[1] Include provisional price adjustments which represent changes in the fair value of embedded derivatives resulting a gain of US$2.3 million (2014: gain of US$2 million) and hedging gain of US$3.9 million (2014: gain of US$ 0.1 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	
	2015 US$ per ounce	2014 US$ per ounce
Gold[2]	1,126.5	1,257.7
Silver[2]	15.6	18.6

2 Revenue of products sold does not include hedging gains.

6. Cost of sales

	Year ended 31 December	
	2015 US$ thousands	2014 US$ thousands
Depreciation and amortisation (notes 2 (e) and 13)	331,209	295,452
Personnel expenses (note 8)	80,567	81,256
Maintenance and repairs	94,837	88,180
Operating materials	135,059	136,694
Energy	117,908	132,540
Contractors	175,898	219,622
Freight	9,821	11,764
Insurance	5,042	6,567
Mining concession rights and contributions	10,853	9,860
Other	15,211	14,318
Cost of production	976,405	996,253
Losses on foreign currency hedges	28,589	1,118
Change in work in progress and finished goods (ore inventories)	1,309	(122,289)
Inventory write down (note 16)	5,013	17,565
	1,011,316	**892,647**

7. Exploration expenses

	Year ended 31 December	
	2015 **US$ thousands**	2014 US$ thousands
Contractors	105,161	129,443
Administrative services	6,907	8,598
Mining concession rights and contributions	15,684	14,595
Personnel expenses (note 8)	5,748	5,614
Assays	2,788	3,509
Maintenance and repairs	384	686
Operating materials	416	809
Rentals	1,874	3,912
Energy	454	608
Other	830	1,010
	140,246	**168,784**

These exploration expenses were mainly incurred in areas of the Fresnillo, Herradura, La Ciénega and Saucito mines, the San Ramon satellite mine and the San Julian, Orysivo, Rodeo, Guanajuato and Centauro Deep projects. In addition, exploration expenses of US$8.4 million (2014: US$6.8 million) were incurred in the year in projects located in Peru.

The following table sets forth liabilities (generally trade payables) incurred in the exploration activities of the Group companies engaged only in exploration, principally Exploraciones Mineras Parreña, S.A. de C.V. Liabilities related to exploration activities incurred by the Group operating companies are not included since it is not possible to separate the liabilities related to exploration activities of these companies from their operating liabilities.

	Year ended 31 December	
	2015 **US$ thousands**	2014 US$ thousands
Liabilities related to exploration activities	917	3,545

Cash flows relating to exploration activities are as follows:

	Year ended 31 December	
	2015 **US$ thousands**	2014 US$ thousands
Operating cash out flows related to exploration activities	142,874	165,461

8. Personnel expenses

	Year ended 31 December	
	2015 **US$ thousands**	2014 US$ thousands
Employees' profit sharing	12,791	12,619
Salaries and wages	36,544	38,572
Bonuses	10,713	10,410
Legal contributions	12,644	13,757
Other benefits	8,084	7,967
Vacations and vacations bonus	2,464	2,070
Social security	5,310	5,233
Post-employment benefits [1]	4,572	4,349
Other	8,262	8,953
	101,384	**103,930**

1 Post- employment benefits include US$1.6 million associated to benefits corresponding to the defined contribution plan (2014: US$1,463).

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

	Year ended 31 December	
	2015 **US$ thousands**	2014 US$ thousands
Cost of sales (note 6)	80,567	81,256
Administrative expenses	15,069	17,060
Exploration expenses (note 7)	5,748	5,614
	101,384	**103,930**

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

	Year ended 31 December	
	2015 **No.**	2014 No.
Mining	1,560	1,406
Plant concentration	552	475
Exploration	519	655
Maintenance	755	694
Administration and other	976	600
Total	**4,362**	**3,830**

9. Other operating income and expenses

	Year ended 31 December	
	2015 **US$ thousands**	2014 US$ thousands
Other income:		
Rentals	166	313
Other	612	267
	778	**580**

	Year ended 31 December	
	2015 **US$ thousands**	2014 US$ thousands
Other expenses:		

Maintenance[1]	1,098	1,966
Donations	714	435
Environmental activities	4,022	371
Loss on sale of property, plant and equipment	3,757	1,791
Write-off of property, plant and equipment[2]	-	16,912
Impairment on available-for-sale financial assets	2,896	982
Engineering and design studies	974	-
Other	3,189	3,665
	16,650	**26,122**

[1] Costs relating to Compañía Minera las Torres, S.A. de C.V.

[2] Corresponds to Soledad and Dipolos fixed assets, (note 13)

10. Finance income and finance costs

	Year ended 31 December	
	2015 US$ thousands	2014 US$ thousands
Finance income:		
Interest on short-term deposits and investments	1,779	4,364
Fair value movement on derivatives[1]	61,224	1,464
Other	2,835	1,632
	65,838	**7,460**

	Year ended 31 December	
	2015 US$ thousands	2014 US$ thousands
Finance costs:		
Interest on interest-bearing loans	35,969	44,421
Unwinding of discount on provisions	8,586	8,725
Other	908	1,470
	45,463	**54,616**

1 Principally relates to the time value associated with Gold commodity options see note 31 for further detail.

11. Income tax expense
a) Major components of income tax expense:

	Year ended 31 December	
	2015 US$ thousands	2014 US$ thousands
Consolidated income statement:		
Corporate income tax		
Current:		
Income tax charge	118,410	130,029
Amounts (over)/underprovided in previous years	(29,093)	4,872
	89,317	134,901
Deferred:		
Origination and reversal of temporary differences	31,373	(39,746)
Revaluation effects of Silverstream contract	8,316	23,116
	39,689	(16,630)
Corporate income tax	**129,006**	**118,271**
Special mining right		
Current:		
Special mining right charge[1]	6,384	910
	6,384	910
Deferred:		
Origination and reversal of temporary differences	7,574	14,790
Special mining right	13,958	15,700
Income tax expense reported in the income statement	**142,964**	**133,971**

[1] Without regards to credits permitted under the special mining right (SMR) regime, the current special mining right charge would have been US$14.6 million (2014: US$ 10 million). However, the SMR allows as a credit the payment of mining concessions rights up to the amount of SMR payable. During the fiscal year ended 31 December 2015, the Group credited US$8.2 million (2014: US$ 9.1 million) of mining concession rights against the SMR. Total mining concessions right paid during the year were US$17 million (2014: US$16 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.

	Year ended 31 December	
	2015 **US$ thousands**	2014 US$ thousands
Consolidated statement of comprehensive income:		
Deferred income tax effect related to items charged or credited directly to other comprehensive income:		
Net (charge)/credit arising on (losses)/gains on cash flow hedges recycled to income statement	(7,927)	974
Net (charge)/credit arising on unrealised (gains)/losses arising on valuation of cash flow hedges	(11,856)	3,531
Net credit/(charge) arising on unrealised losses/(gains) on available-for-sale financial assets	3,522	(7,145)
Net credit arising on cash flow gains reclassified to value of other assets	-	66
Net credit arising on remeasurement losses on defined benefit plans	361	296
Income tax effect reported in other comprehensive income	**(15,900)**	**(2,278)**

(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	
	2015 **US$ thousands**	2014 US$ thousands
Accounting profit before income tax	**212,354**	**251,065**
Tax at the Group's statutory corporate income tax rate 30.0%	63,706	75,319
Expenses not deductible for tax purposes	2,983	2,749
Inflationary uplift of the tax base of assets and liabilities	(2,626)	(13,051)
Current income tax (over)/underprovided in previous years	(1,142)	735
Exchange rate effect on tax value of assets and liabilities[1]	77,473	53,388
Non-taxable/non-deductible foreign exchange losses	(5,437)	(84)
Inflationary uplift of tax losses	(3,250)	(2,348)
Deferred tax asset not recognised	3,025	1,808
Special mining right deductible for corporate income tax	(4,187)	(4,710)
Other	(1,539)	4,465
Corporate income tax at the effective tax rate of 60.7% (2014: 47.1%)	**129,006**	**118,271**
Special mining right	13,958	15,700
Tax at the effective income tax rate of 67.3% (2014: 53.4%)	**142,964**	**133,971**

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	
	2015 US$ thousands	2014 US$ thousands
Opening net liability	(279,046)	(277,972)
Income statement (charge)/credit arising on corporate income tax	(39,689)	16,630
Income statement charge arising on special mining right	(7,574)	(14,790)
Exchange difference	14	(636)
Net charge related to items directly charged to other comprehensive income	(15,900)	(2,278)
Closing net liability	**(342,195)**	**(279,046)**

The amounts of deferred income tax assets and liabilities as at 31 December 2015 and 2014, considering the nature of the temporary differences, are as follows:

	Consolidated balance sheet		Consolidated income statement	
	2015 US$ thousands	2014 US$ thousands	**2015 US$ thousands**	2014 US$ thousands
Related party receivables	(124,719)	(148,112)	(23,393)	90,960
Other receivables	(469)	(2,714)	(2,245)	1,517
Inventories	121,668	144,146	21,602	(124,344)
Prepayments	(830)	(883)	(17,551)	1,933
Derivative financial instruments including Silverstream contract	(137,396)	(95,080)	44,468	23,102
Property, plant and equipment arising from corporate income tax	(330,939)	(285,281)	38,313	49,981
Operating liabilities	19,871	42,171	35,674	(37,241)
Other payables and provisions	58,643	46,141	(12,502)	(8,039)
Losses carried forward	88,593	50,736	(37,857)	(2,967)
Post-employment benefits	2,049	1,951	(98)	169
Deductible profit sharing	3,740	4,682	(312)	1,386
Special mining right deductible for corporate income tax	21,065	23,862	(1,965)	(13,014)
Available-for-sale financial assets	(756)	(5,147)	(4,391)	(295)
Other	(4,192)	(4,569)	(365)	223
Net deferred tax liability related to corporate income tax	(283,672)	(228,097)		
Deferred tax credit related to corporate income tax	-	-	39,378	(16,629)
Related party receivables arising from special mining right	(15,207)	(16,778)	(1,571)	16,778
Inventories arising from special mining right	9,616	11,896	2,280	(11,896)
Property plant and equipment arising from special mining right	(52,932)	(46,067)	6,865	9,907
Net deferred tax liability	**(342,195)**	**(279,046)**		
Deferred tax charge/(credit)			**46,952**	**(1,840)**
Reflected in the statement of financial position as follows:				
Deferred tax assets	30,814	57,705		
Deferred tax liabilities-continuing operations	(373,009)	(336,751)		
Net deferred tax liability	**(342,195)**	**(279,046)**		

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$295.3 million (2014: US$169.1 million). To the extent unutilised, US$12.0 million will expire within five years and US$283.3 million will expire between six and ten years.

The Group has further tax losses and other similar attributes carried forward of US$23.0 million (2014: US$15.0 million) on which no deferred tax is recognised due to insufficient certainty regarding the availability of appropriate future taxable profits.

(d) Unrecognised deferred tax on investments in subsidiaries

The Group has not recognised all of the deferred tax liability in respect of distributable reserves of its subsidiaries because it controls them and only part of the temporary differences are expected to reverse in the foreseeable future. The temporary differences for which a deferred tax liability has not been recognised aggregate to US$1,449 million (2014: US$1,528 million).

(e) Corporate Income Tax ('Impuesto Sobre la Renta' or 'ISR') and Special Mining Right ("SMR")

The Group's principal operating subsidiaries are Mexican residents for taxation purposes. The rate of current corporate income tax is 30%.

As part of the income tax reform in Mexico enacted at the end of 2013 and effective 1 January 2014, the tax law changed in respect of the treatment of certain mining related expenditure for tax purposes. As at 31 December 2014, there was uncertainty in relation to the tax treatment of certain expenditure incurred in the year. As a result, in calculating the tax provision as at 31 December 2014, the Group deducted only a portion of the total related expenditure incurred in the year. A deferred tax asset in respect of the remaining future tax benefit was also recognised. Subsequent to the approval of the Annual Report 2014, management performed further analysis of this expenditure ahead of submitting tax computations and concluded that this expenditure incurred in 2014 is deductible in full for tax purposes. The Group has submitted tax computations for 2014 on this basis. As a result, the Group has reflected a reduction of US$29.1 million in current tax in respect of previous periods. There is a corresponding increase in the deferred tax expense and, therefore, no impact on the total effective tax rate.

The SMR is considered as income tax under IFRS, and states that the owners of mining titles and concessions are subject to pay an annual mining right of 7.5% of the profit derived from the extractive activities. The SMR allows as a credit the payment of mining concessions rights up to the amount of SMR payable The 7.5% tax apply to a base of income before interest, annual inflation adjustment, taxes paid on the regular activity, depreciation and amortization, as defined by the new ISR. This SMR can be credited against the corporate income tax of the same fiscal year and its payment must be remitted no later than the last business day of March of the following year.

12. 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 2015 and 2014, earnings per share have been calculated as follows:

	Year ended 31 December	
	2015 US$ thousands	2014 US$ thousands
Earnings:		
Profit from continuing operations attributable to equity holders of the Company	70,523	108,449
Adjusted profit from continuing operations attributable to equity holders of the Company	51,119	54,511

Adjusted profit is profit as disclosed in the Consolidated Income Statement adjusted to exclude revaluation effects of the Silverstream contract of US$27.7 million gain (US$19.4 million net of tax) (2014: US$77.1 million loss (US$53.9 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.

	2015 thousands	2014 thousands
Number of shares:		
Weighted average number of Ordinary Shares in issue	736,894	736,894

	2015 US$	2014 US$
Earnings per share:		
Basic and diluted earnings per share	0.096	0.147
Adjusted basic and diluted earnings per Ordinary Share from continuing operations	0.069	0.074

13. Property, plant and equipment

Year ended 31 December 2014

	Land and buildings	Plant and Equipment	Mining properties and development costs	Other assets	Construction in Progress	Total
						US$ thousands
Cost						
At 1 January 2014	139,628	1,213,781	940,051	163,269	335,109	**2,791,838**
Additions	3,344	40,796	66,080	22,176	333,394	**465,790**
Disposals	(6,633)	(11,484)	-	(6,555)	(559)	**(25,231)**
Write-off of property, plant and equipment[2]	-	(28,505)	-	(2,010)	-	**(30,515)**
Transfers and other movements	17,007	128,474	87,993	2,151	(235,625)	**-**
At 31 December 2014	153,346	1,343,062	1,094,124	179,031	432,319	**3,201,882**
Accumulated depreciation						
At 1 January 2014	(51,952)	(395,869)	(449,452)	(56,441)	-	**(953,714)**
Depreciation for the year[1]	(11,785)	(179,280)	(109,431)	(13,012)	-	**(313,508)**
Disposals	2,749	11,380	-	7,026	-	**21,155**
Write-off of property, plant and equipment[2]	-	12,062	-	1,541	-	**13,603**
At 31 December 2014	(60,988)	(551,707)	(558,883)	(60,886)	-	**(1,232,464)**
Net Book amount at 31 December 2014	92,358	791,355	535,241	118,145	432,319	**1,969,418**

Year ended 31 December 2015

	Land and buildings	Plant and Equipment	Mining properties and development costs	Other assets	Construction in Progress	Total
						US$ thousands
Cost						
At 1 January 2015	153,346	1,343,062	1,094,124	179,031	432,319	**3,201,882**
Additions	2,432	10,518	33,236	36,290	442,384	**524,860**
Disposals	(518)	(23,028)	(11,493)	(1,555)	-	**(36,594)**
Transfers and other movements	17,941	117,387	173,539	4,213	(313,080)	**-**
At 31 December 2015	173,201	1,447,939	1,289,406	217,979	561,623	**3,690,148**
Accumulated depreciation						
At 1 January 2015	(60,988)	(551,707)	(558,883)	(60,886)	-	**(1,232,464)**
Depreciation for the year[1]	(13,347)	(188,647)	(129,586)	(13,693)	-	**(345,273)**
Disposals	165	14,592	10,052	1,368	-	**26,177**
At 31 December 2015	(74,170)	(725,762)	(678,417)	(73,211)	-	**(1,551,560)**
Net Book amount at 31 December 2015	99,031	722,177	610,989	144,768	561,623	**2,138,588**

1 Depreciation for the year includes US$331.2 million (2014: 295.5 million) recognised as an expense in the cost of sales in the income statement and US$14 million (2014: 18 million), capitalised as part of construction in progress.

2 The Company re-assessed its plans for the Soledad and Dipolos operations and decided to write-off the carrying value of certain property, plant and equipment that could not be utilised or reassigned, or remains at the site and is no longer considered to have a future economic benefit to the Group. The net charge for the year ended 31 December 2015 was US$ nil (2014: US$ 16.9 million) and is reflected in other operating expenses.

The table below details construction in progress by segment

	Year ended 31 December	
	2015 US$ thousands	2014 US$ thousands
Saucito	2,312	22,382
Herradura	36,868	24,339
Soledad-Dipolos	-	101
Noche Buena	3,354	4,183
Cienega	13,280	19,839
Fresnillo	438,973	299,590
Other	66,836	61,885
	561,623	**432,319**

During the year ended 31 December 2015, the Group capitalised US$11.1 million borrowing costs within construction in progress (2014: US$ 2.7). Borrowing costs were capitalised at the rate of 5.78% (2014: 5.78%).

Sensitivity analysis

As at 31 December 2015 and 2014, 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 models Management used price assumptions of US$1,200/ounce and US$18/ounce (2014: US$1,250/ounce and US$18/ounce) for gold and silver, respectively. Management consider that the models supporting the carrying amounts are most sensitive to commodity price assumptions and have therefore performed a sensitivity analysis for those CGUs, where a reasonable possible change in prices could lead to impairment. As at 31 December 2015 the carrying amount of Herradura mine is US$ 654.2 million and Noche Buena mine is US$118.8 million (2014: Cienega mine US$240.5 million and Noche Buena mine US$141 million)

The following table sets out the approximate expected impairment which would be recognised in 2015 and 2014 at hypothetical decreases in commodity prices:

		Decrease in commodity prices		Herradura	Cienega	Noche Buena
		Gold	Silver	US$ thousands	US$ thousands	US$ thousands
Year ended 31 December						
2015	Low sensitivity	5%	10%	-	-	-
	High sensitivity	10%	20%	131,625	-	4,738
2014	Low sensitivity	5%	10%	-	18,033	-
	High sensitivity	10%	20%	-	127,124	37,986

14. Available-for-sale financial assets

	Year ended 31 December	
	2015 US$ thousands	2014 US$ thousands
Beginning balance	86,078	63,245
Fair value change	(14,636)	22,833
Ending balance	**71,442**	**86,078**

At 31 December 2015, several investments in quoted shares decreased below the cost paid by the Group. This decrease has been consistent during the past 12-month period, which is considered to be prolonged, therefore an impairment of US$2.9 million was recognized as other expenses in the income statement. (2014: US$1.0 million).

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

15. Silverstream contract

On 31 December 2007, the Group entered into an agreement with Peñoles through which it is entitled to receive the proceeds received by the Peñoles Group in respect of the refined silver sold from the Sabinas Mine ('Sabinas'), a base metals mine owned and operated by the Peñoles Group, for an upfront payment of US$350 million. In addition, a per ounce cash payment of $2.00 in years one to five and $5.00 thereafter (subject to an inflationary adjustment commencing on 31 December 2013) is payable to Peñoles. The cash payment per ounce for the year ended 31 December 2015 was $5.10 per ounce (2014: $5.05 per ounce). Under the contract, the Group has the option to receive a net cash settlement from Peñoles attributable to the silver produced and sold from Sabinas, to take delivery of an equivalent amount of refined silver or to receive settlement in the form of both cash and silver. If, by 31 December 2032, the amount of silver produced by Sabinas is less than 60 million ounces, a further payment is due from Peñoles of US$1 per ounce of shortfall.

The Silverstream contract represents a derivative financial instrument which has been recorded at fair value and classified within non-current and current assets as appropriate. Changes in the contract's fair value, other than those represented by the realisation of the asset through the receipt of either cash or refined silver, are charged or credited to the income statement. In the year ended 31 December 2015 total proceeds received in cash were US$39.4 million (2014: US$58.7 million) of which, US$6.9 million was in respect of proceeds receivable as at 31 December 2014 (2014: US$8.1 million). Cash received in respect of the year of US$32.5 million (2014: US$50.6 million) corresponds to 3.6 million ounces of payable silver (2014: 4.1 million ounces). As at 31 December 2015, a further US$2.8 million (2014: US$6.9 million) of cash corresponding to 317,521 ounces of silver is due (2014: 638,681 ounces).

The US$27.7 million unrealised gain recorded in the income statement (2014: US$77.1 million gain) resulted from the updating of assumptions used to value the Silverstream contract. The most significant of these were an increase of the Sabinas mine silver reserves, the decrease of the reference discount rate (LIBOR) and the difference between the payments already received in 2015 and payments estimated in the valuation model as of 31 December 2014. These were partially offset by an increase of the spread used to calculate the discount rate and a decrease in the forward price of silver which was lower than the previous year.

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

	2015 **US$ thousands**	2014 US$ thousands
Balance at 1 January:	392,276	372,846
Cash received in respect of the year	(32,456)	(50,650)
Cash receivable	(2,769)	(6,974)
Remeasurement gains recognised in profit and loss	27,720	77,054
Balance at 31 December	**384,771**	**392,276**
Less – Current portion	26,607	33,311
Non-current portion	**358,164**	**358,965**

See note 31 for further information on the inputs that have a significant effect on the fair value of this derivative, see note 32 for further information relating to market and credit risks associated with the Silverstream asset, and note 2(c) for the estimates and assumptions

16. Inventories

	As at 31 December	
	2015 **US$ thousands**	2014 US$ thousands
Finished goods[1]	1,711	2,094
Work in progress[2]	251,900	252,826
Operating materials and spare parts	73,104	70,904
	326,715	325,824
Accumulated write-down of work in progress inventory[3]	(22,578)	(17,565)
Allowance for obsolete and slow-moving inventories	(3,562)	(2,647)
Balance as 31 December at lower of cost and net realisable value	**300,575**	**305,612**
Less - Current portion	224,200	221,200
Non-current portion[4]	**76,375**	**84,412**

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 Corresponds to ore inventory of Noche Buena and Soledad-Dipolos mines resulting from net realizable value calculations.
4 The non-current inventories are expected to be processed more than 12 months from the reporting date.

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

The amount of inventories recognised as an expense in the year was US$1,001.0 million (2014: US$846.4 million). The amount of write down of inventories and allowance for obsolete and slow-moving inventory recognised as an expense was US$5.9 million (2014: US$18.2 million).

17. Trade and other receivables

	Year ended 31 December	
	2015 US$ thousands	2014 US$ thousands
Trade receivables from related parties (note 28)[1]	115,805	139,620
Value Added Tax receivable	99,948	106,903
Advances and other receivable from contractors	13,641	22,589
Other receivables from related parties (note 28)	2,769	7,015
Loans granted to contractors	2,595	2,866
Other receivables arising on the sale of fixed assets	759	6,009
Other receivables	2,775	2,911
	238,292	287,913
Provision for impairment of 'other receivables'	(300)	(318)
Trade and other receivables classified as current assets	**237,992**	**287,595**
Other receivables classified as non-current assets:		
Loans granted to contractors	2,289	3,853
	2,289	**3,853**
	240,281	**291,448**

[1] Trade receivables from related parties' includes the fair value of embedded derivatives arising due to provisional pricing in sales contracts of US$(0.5) million as at 31 December 2015 (2014: US$(2.9) million).

Trade receivables are shown net of any corresponding advances, are non-interest bearing and generally have payment terms of 46 to 60 days.

Loans granted to contractors bear interest of between LIBOR plus 1.5% to LIBOR plus 3% and mature over two years.

The total receivables denominated in US$ were US$127 million (2014: US$167 million), and in pesos US$113.3 million (2014: US$124.4 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 2015 is US$0.3 million (2014: US$0.3 million).

In determining the recoverability of receivables, the Group performs a risk analysis considering the type and age of the outstanding receivable and the credit worthiness of the counterparty, see note 32(b).

18. 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	
	2015 **US$ thousands**	2014 US$ thousands
Cash at bank and on hand	4,104	3,979
Short-term deposits	377,316	150,361
Cash and cash equivalents	**381,420**	**154,340**

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	
	2015 **US$ thousands**	2014 US$ thousands
Short-term investments	**118,718**	**295,000**

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 2015 short-term investments are held in fixed-term bank deposits of US$118,718 (31 December 2014: US$295,000).

19. Equity

Share capital and share premium

Authorised share capital of the Company is as follows:

	As at 31 December			
	2015		2014	
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 2014	736,893,589	$368,545,586	50,000	£50,000
At 31 December 2014	736,893,589	$368, 545,586	50,000	£50,000
At 31 December 2015	736,893,589	$368, 545,586	50,000	£50,000

As at 31 December 2015 and 2014, all issued shares with a par value of US$0.50 each are fully paid. The rights and obligations attached to these shares are governed by law and the Company's Articles of Association. Ordinary shareholders are entitled to receive notice and to attend and speak at any general meeting of the Company. There are no restrictions on the transfer of the Ordinary shares.

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

Reserves

Share premium

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

Capital reserve

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

Net unrealised gains/(losses) on revaluation of cash flow hedges
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.

Unrealised gains/(losses) on available-for-sale financial assets
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.

20. Dividends declared and paid

The dividends declared and paid during the years ended 31 December 2015 and 2014 are as follows:

	US cents per Ordinary Share	Amount US$ thousands
Year ended 31 December 2015		
Final dividend for 2014 declared and paid during the year[1]	3.0	22,107
Interim dividend for 2015 declared and paid during the year[2]	2.1	15,475
	5.1	**37,582**
Year ended 31 December 2014		
Final dividend for 2013 declared and paid during the year[3]	6.8	50,109
Interim dividend for 2014 declared and paid during the year[4]	5.0	36,845
	11.8	**86,954**

1 This dividend was approved by the Board of Directors on 18 May 2015 and paid on 22 May 2015.

2 This dividend was approved by the Board of Directors on 3 August 2015 and paid on 10 September 2015.

3 This dividend was approved by the Board of Directors on 16 May 2014 and paid on 22 May 2014.

4 This dividend was approved by the Board of Directors on 4 August 2014 and paid on 11 September 2014.

21. 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	
	2015 US$ thousands	2014 US$ thousands
Opening balance	796,160	795,306
Accrued interest	46,267	46,267
Interest paid[1]	(46,267)	(46,267)
Amortisation of discount and transaction costs	872	854
Closing balance	797,032	796,160

1 Accrued interest is payable semi-annually on 13 May and 13 November.

22. Provision for mine closure cost

The provision represents the discounted values of the estimated cost to decommission and rehabilitate the mines at the estimated date of depletion of mine deposits. The discount rate used in the calculation of the provision as at 31 December 2015 is in a range of 4.65% to 7.13% (2014: range of 3.22% to 7.51%). Uncertainties in estimating these costs include potential changes in regulatory requirements, decommissioning, dismantling, reclamation alternatives, timing, and the discount, foreign exchange and inflation rates applied.

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

The provision is expected to become payable at the end of the production life of each mine, based on the reserves and resources, which ranges from 4 to 21 years from 31 December 2015 (3 to 19 years from 31 December 2014).

	As at 31 December	
	2015 US$ thousands	2014 US$ thousands
Opening balance	**153,802**	**127,008**
Increase to existing provision	48,680	30,922
Effect of changes in discount rate	7,341	3,051
Unwinding of discount	8,586	8,725
Payments	-	(452)
Foreign exchange	(22,933)	(15,452)
Closing balance	**195,476**	**153,802**

23. 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 from1 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 2015	Past Service cost	Service cost	Net Interest	Foreign Exchange	Sub-total recognised in the year	Benefits paid	Return on plan assets (excluding amounts included in net interest	Actuarial changes arising from changes in demographic assumptions	Actuarial changes arising from changes in financial assumptions	Experience adjustments	Foreign exchange	Sub-total included in OCI	Contributions by employer	Defined benefit increase due to personnel transfer	Balance at 31 December 2015
																US$ thousands
Defined benefit obligation	(33,664)	-	(1,024)	(1,981)	5,085	2,080	1,031	-	(577)	(1,160)	170	-	(1,567)	-	(45)	(32,165)
Fair value on plan assets	19,826	-	-	1,121	(2,954)	(1,833)	(758)	(706)	-	-	-	-	(706)	1,065	37	17,631
Net benefit liability	(13,838)	-	(1,024)	(860)	2,131	247	273	(706)	(577)	(1,160)	170	-	(2,273)	1,065	(8)	(14,534)

		Pension cost charge to income statement						Remeasurement gains/(losses) in OCI								
	Balance at 1 January 2014	Past Service cost	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 2014
																US$ thousands
Defined benefit obligation	(34,001)	(1,028)	(886)	(2,121)	3,935	(100)	1,643	-	(324)	-	(898)	-	(1,222)	-	16	(33,664)
Fair value on plan assets	22,526	-	-	1,381	(2,493)	(1,112)	(1,643)	(629)	-	-	-	-	(629)	645	(16)	19,826
Net benefit liability	(11,475)	(1,028)	(886)	(740)	1,442	(1,212)	-	(629)	(324)	-	(898)	-	(1,851)	645	-	(13,838)

Of the total defined benefit obligation, US$8.6 million (2014: US$8.9 million) relates to statutory seniority premiums for unionised workers which are not funded. The expected contributions to the plan for the next annual reporting period are nil.

The principal assumptions used in determining pension and other post-employment benefit obligations for the Group's plans are shown below:

	As at 31 December	
	2015 **%**	2014 %
Discount rate	6.79	7.0
Future salary increases (NCPI)	5.0	5.0

The mortality assumptions are that for current and future pensioners, men and women aged 65 will live on average for a further 20.2 and 23.4 years respectively (2014 18.9 years for men and 22.4 for women). The weighted average duration of the defined benefit obligation is 11.71 years (2014: 12.35 years).

The fair values of the plan assets were as follows:

	As at 31 December	
	2015 **US$ thousands**	2014 US$ thousands
Government debt	1,084	1,657
State owned companies	3,017	2,191
Mutual funds (fixed rates)	13,530	15,978
	17,631	**19,826**

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 2015 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)	(1,699)	2,197	464	(111)	468

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.

24. Trade and other payables

	As at 31 December	
	2015 **US$ thousands**	2014 US$ thousands
Trade payables	53,303	68,638
Other payables to related parties (note 28)	4,137	1,702
Accrued expenses	15,988	20,193
Other taxes and contributions	16,202	9,818
	89,630	**100,351**

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 32.

25. Commitments

A summary of capital expenditure commitments by operating segment is as follows:

	As at 31 December	
	2015 US$ thousands	2014 US$ thousands
Saucito	29,131	44,312
Herradura	13,897	9,236
Noche Buena	285	691
Cienega	7,685	2,290
Fresnillo	92,482	172,774
Other	2,029	4,927
	145,509	**234,230**

26. Operating leases

(a) Operating leases as lessor

Future minimum rentals receivable under non-cancellable operating leases are as follows:

	As at 31 December	
	2015 US$ thousands	2014 US$ thousands
Within one year	1,984	4,434
After one year but not more than five years	487	3,710
	2,471	**8,144**

(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	
	2015 US$ thousands	2014 US$ thousands
Within one year	2.720	7,143
After one year but not more than five years	3,115	2,724
	5,835	**9,867**

	As at 31 December	
	2015 US$ thousands	2014 US$ thousands
Minimum lease payments expensed in the year	8,008	12,217

27. Contingencies

As of 31 December 2015, the Group has the following contingencies:

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

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

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

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

– Peñoles has agreed to indemnify the Fresnillo Group in relation to (i) any tax charge, subject to certain exceptions, the Company may incur as a result of the Pre-IPO Reorganisation (including as a result of a transaction following Admission of a member of the Fresnillo Group, provided that Peñoles has confirmed that the proposed transaction will not give rise to a tax charge, or as a result of a transaction of a member of the Peñoles Group on or after Admission), the Global Offer or Admission and (ii) certain tax aspects of certain other pre-Admission transactions. Peñoles' liability under these indemnities and in respect of general tax liabilities arising pre-Admission which are not properly attributable to the precious metals business of the Fresnillo Group shall not exceed US$500 million. If a member of the Fresnillo Group forming part of Peñoles' tax consolidation pays an intra-group dividend in excess of its net income tax account ('Cuenta de Utilidad Fiscal Neta' o 'CUFIN') account after Admission and is relieved of tax as a result of the consolidation, it is required to pay Peñoles an amount in respect of that tax.

– On 30 November 2012, the Mexican government enacted a new federal labour law. 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 2015 and going forward.

– In regard to the ejido El Bajio matter previously reported by the Company:

  In 2009, five members of the El Bajio agrarian community in the state of Sonora, who claimed rights over certain surface land in the proximity of the operations of Minera Penmont ("Penmont"), submitted a legal claim before the Unitarian Agrarian Court (*Tribunal Unitario Agrario*) of Hermosillo Sonora, to have Penmont vacate an area of this surface land. The land in dispute encompassed a portion of surface area where part of the operations of Soledad-Dipolos is located. The litigation resulted in a definitive court order, pursuant to which Penmont was ordered to vacate 1,824 hectares of land. The disputed land was returned in July 2013, resulting in the suspension of operations at Soledad-Dipolos.

  The Agrarian Magistrate noted 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 Magistrate further issued a procedural order in execution of his ruling determining, amongst other aspects, that Penmont must remediate the lands to the state they were in before Penmont's occupation.

  In the opinion of the Company, this procedural order is excessive since this level of remediation was not part of the original agrarian ruling and also because the procedural order appears not to consider the fact that Penmont conducted its activities pursuant to valid mining concessions and environmental impact permits. Penmont has challenged the procedural order before Federal courts, who have indicated that the correct procedural time for filing such complaint should be when legal execution over lands comprising the Soledad-Dipolos pit is initiated (currently the lands are in a judicial deposit pending final execution for delivery to claimants). Penmont conducted mining activities on approximately 300 hectares of such lands and remediation activities in this respect are still pending.

  In connection with the foregoing matters, members of the El Bajio agrarian community presented additional claims, including a separate claim before the Unitarian Agrarian Court, claiming US$65 million in damages, alleging that the Group improperly used the land affected by the court ruling, as well as requesting the cancellation of Penmont's mining concessions and environmental permits within the El Bajio lands. Such concessions and permits are held by way of separate title to that relating to the surface land. The claimants have not yet presented substantial evidence to support their claim and the Group believes that these claims are without merit. Any initial ruling in this case would be subject to the appeals process in Mexico before judicial authorities other than the Unitarian Agrarian Court of Hermosillo, Sonora. Given the lack of evidence in support of the damages claim, the Company believes that an adverse and definitive ruling is not probable.

– In addition, claimants have 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. The Unitarian Agrarian Court has issued rulings declaring (i) such occupation agreements over those land parcels to be null and void; (ii) 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; and (iii) that Penmont must pay rent for occupying the land parcels whilst the claimants must reimburse Penmont the monies it originally paid for occupying such lands. The rulings also make reference in this same context (including remediation and return of minerals) to the separate court case involving Soledad-Dipolos mentioned above. Penmont has appealed these rulings since it is the owner of the mining concessions and all mining activities were conducted in accordance with Mexican law. The ultimate result of the appeals process remains pending. In regards the reference to Soledad-Dipolos within the scope of these land parcels cases, certain of these appeals have been decided for the Company, some against, whilst others remain pending. However, any adverse court order involving minerals over lands where the Soledad-Dipolos pit is located would be subject to a further appeals process, as that was a separate legal file as described above.

  Various claims and counterclaims have been made between the relevant parties in the El Bajio matter including appeals that are pending as well as criminal complaints between the parties. There remains significant uncertainty as to the finalisation and ultimate outcome of these legal proceedings.

28. Related party balances and transactions

The Group had the following related party transactions during the years ended 31 December 2015 and 2014 and balances as at 31 December 2015 and 2014.

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	
	2015 US$ thousands	2014 US$ thousands	**2015 US$ thousands**	2014 US$ thousands
Trade:				
Metalúrgica Met-Mex Peñoles, S.A. de C.V.	115,786	139,620	130	619
Other:				
Industrias Peñoles, S.A.B. de C.V.	2,769	6,974		
Servicios Administrativos Peñoles, S.A. de C.V.			366	866
Servicios Especializados Peñoles, S.A. de C.V.			1,804	-
Fuerza Eólica del Istmo S.A. de C.V.			916	-
Other	19	41	921	217
Sub–total	118,574	146,635	4,137	1,702
Less–current portion	118,574	146,635	4,137	1,702
Non-current portion	-	-	-	-

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

Other balances with related parties:

	Year ended 31 December	
	2015 US$ thousands	2014 US$ thousands
Silverstream contract:		
Industrias Peñoles, S.A.B. de C.V.	384,771	392,276

The Silverstream contract can be settled in either silver or cash. Details of the Silverstream contract are provided in note 15.

(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	
	2015 US$ thousands	2014 US$ thousands
Income:		
Sales:[1]		
Metalúrgica Met-Mex Peñoles, S.A. de C.V.	1,458,413	1,413,600
Other income	982	1,047
Total income	**1,459,395**	**1,414,647**

[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$142.8 million (2014: US$131.4 million) and includes sales credited to development project of US$17.9 million (2014: nil).

	Year ended 31 December	
	2015 US$ thousands	2014 US$ thousands
Expenses:		
Administrative services[2]*:*		
Servicios Administrativos Peñoles, S.A. de C.V.[3]	23,655	22,080
Servicios Especializados Peñoles, S.A. de C.V.	17,701	18,545
	41,356	40,625
Energy:		
Termoelectrica Peñoles, S. de R.L. de C.V.	20,332	30,917
Fuerza Eólica del Istmo S.A. de C.V.	6,713	-
	27,045	30,917
Operating materials and spare parts:		
Wideco Inc	6,368	4,667
Metalúrgica Met-Mex Peñoles, S.A. de C.V.	3,320	4,345
	9,688	9,012
Equipment repair and administrative services:		
Serviminas, S.A. de C.V.	3,860	3,437
Property, plant and equipment		
Equipos Industriales Naica, S.A. de C.V.	1,065	-
Insurance premiums:		
Grupo Nacional Provincial, S.A. B. de C.V.	8,382	7,262
Other expenses:	2,693	7,821
Total expenses	**94,089**	**99,074**

[2] Includes US$4.1 million (2014: US$4.7 million) corresponding to expenses reimbursed.

[3] Includes US$8.2 million (2014: US$7.7 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	
	2015 **US$ thousands**	2014 US$ thousands
Salaries and bonuses	3,311	3,262
Post-employment benefits	257	148
Other benefits	379	600
Total compensation paid in respect of key management personnel	**3,947**	**4,010**

	Year ended 31 December	
	2015 **US$ thousands**	2014 US$ thousands
Accumulated accrued defined pension entitlement	4,859	4,902

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.

29. Auditor's remuneration

Fees due by the Group to its auditor during the year ended 31 December 2015 and 2014 are as follows:

	Year ended 31 December	
Class of services	**2015** **US$ thousands**	2014 US$ thousands
Fees payable to the Group's auditor for the audit of the Group's annual accounts	1,274	1,278
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	338	405
Audit-related assurance services	328	344
Tax compliance services	24	24
Tax advisory services	16	12
Other assurance services	-	25
Total	**1,980**	**2,088**

30. Notes to the consolidated statement of cash flows

	Notes	2015 US$ thousands	2014 US$ thousands
Reconciliation of profit for the year to net cash generated from operating activities			
Profit for the year		**69,390**	**117,094**
Adjustments to reconcile profit for the period to net cash inflows from operating activities:			
Depreciation and amortisation	6	331,209	295,452
Employee profit sharing	8	13,170	12,885
Deferred income tax	11	47,263	(1,840)
Current income tax expense	11	95,701	135,811
Loss on the sale of property, plant and equipment and other assets	9	3,757	1,791
Write-off of property, plant and equipment	9	-	16,912
Other losses/(gains)		3,353	(973)
Impairment of available for sale financial assets	9	2,896	982
Net finance costs		41,913	48,721
Foreign exchange loss		18,991	19,103
Difference between pension contributions paid and amounts recognised in the income statement		(314)	1,211
Non cash movement on derivatives		(62,288)	(1,565)
Changes in fair value of Silverstream	15	(27,720)	(77,054)
Working capital adjustments			
Decrease/(increase) in trade and other receivables		58,219	(105,242)
Decrease in prepayments and other assets		891	2,068
Decrease/(increase) in inventories		5,037	(97,472)
(Decrease)/increase in trade and other payables		(12,820)	17,214
Cash generated from operations		**588,648**	**385,098**
Income tax paid		(34,517)	(243,085)
Employee profit sharing paid		(11,237)	(20,379)
Net cash from operating activities		**542,894**	**121,634**

31. Financial instruments
(a) Fair value category

As at 31 December 2015

US$ thousands

Financial assets:	At fair value through profit or loss	Available-for-sale investments at fair value through OCI	Loans and receivables	At fair value through OCI (cash flow hedges)
Trade and other receivables[1]	-	-	127,224	
Available-for-sale financial assets	-	71,442		-
Silverstream contract (note 15)	384,771	-	-	-
Derivative financial instruments	1		-	117,074-

Financial liabilities:	At fair value through profit or loss	At amortised Cost	At fair value through OCI (cash flow hedges)
Interest-bearing loans	-	797,032	-
Trade and other payables	-	97,440	-
Embedded derivatives within sales contracts[1]	532	-	-
Derivative financial instruments	-	-	1,427

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

As at 31 December 2014

				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]	-	-	173,722	-
Available-for-sale financial assets	-	86,078		-
Silverstream contract (note 15)	392,276	-	-	-
Derivative financial instruments	480	-	-	14,551
Financial liabilities:		At fair value through profit or loss	At amortised Cost	At fair value through OCI (cash flow hedges)
Interest-bearing loans		-	796,160	-
Trade and other payables		-	70,340	-
Embedded derivatives within sales contracts[1]		2,911	-	-
Derivative financial instruments		-	-	27,033

[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, 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	
	2015 US$ thousands	2014 US$ thousands	**2015 US$ thousands**	2014 US$ thousands
Financial assets:				
Available-for-sale financial assets	71,442	86,078	71,441	86,078
Silverstream contract (note 15)	384,771	392,276	384,771	392,276
Derivative financial instruments	117,075	14,551	117,075	14,551
Financial liabilities:				
Interest-bearing loans[1] (note 21)	797,032	796,160	805,352	795,128
Embedded derivatives within sales contracts	532	2,911	532	2,911
Derivative financial instruments	1,427	27,033	1,427	27,033

1 Interest-bearing loans are categorised in Level 1 of the fair value hierarchy.

The financial assets and liabilities measured at fair value are categorised into the fair value hierarchy as at 31 December as follows:

	As of 31 December 2015			
	Fair value measure using			
	Quoted prices in active markets Level 1 US$ thousands	Significant observable Level 2 US$ thousands	Significant unobservable Level 3 US$ thousands	Total US$ thousands
Financial assets:				
Derivative financial instruments:				
Options commodity contracts		116,995		116,995
Options and forward foreign exchange contracts		80		80
Silverstream contract			384,771	384,771
		117,075	**384,771**	**501,846**
Financial investments available-for-sale:				
Quoted investments	71,442			71,442
	71,442	**117,075**	**384,771**	**573,288**
Financial liabilities:				
Derivative financial instruments:				
Embedded derivatives within sales contracts			532	532
Options commodity contracts				
Options and forward foreign exchange contracts		1,427		1,427
		1,427	**532**	**1,959**

	As of 31 December 2014			
	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	–	14,229	–	14,229
Option and forward foreign exchange contracts	–	322	–	322
Silverstream contract	–	-	392,276	392,276
	-	**14,551**	**392,276**	**406,827**
Financial investments available-for-sale:				
Quoted investments	86,078	–	–	86,078
	86,078	**14,551**	**392,276**	**492,905**
Financial liabilities:				
Derivative financial instruments:				
Embedded derivatives within sales contracts	–	–	2,911	2,911
Options commodity contracts	–	8,704	-	8,704
Options and forward foreign exchange contracts	–	18,329	–	18,329
	-	**27,033**	**2,911**	**29,944**

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 15) is shown below:

	2015 **US$ thousands**	2014 US$ thousands
Balance at 1 January:	(2,911)	(1,154)
Changes in fair value	(11,511)	(15,489)
Realised embedded derivatives during the year	13,890	13,732
Balance at 31 December	**(532)**	**(2,911)**

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 (for further information relating to the Silverstream contract see note 15). 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.

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 32.

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 Group’s interest-bearing loan, is derived from quoted market prices in active markets.

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.

At 31 December 2015 the fair value of embedded derivatives within sales contracts was US$(0.5) million (2014: US$(2.9) 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).

Foreign exchange hedging

The Group has entered into a number of forward derivative contracts to hedge its exposure to fluctuations in foreign exchange rates. The outstanding forward derivative contracts as at 31 December 2015 are as follows:

	As at 31 December 2015				
	Term	Currency	Contract value (thousands)	Contract exchange rate	2015 Fair value (US$ thousands)
Euro denominated forward contracts	2016	EUR	69	EUR1:US$1.09 to EUR1:US$1.10	0.3
Swedish Krona denominated forward contracts	2016	SEK	14,463	SEK$8.41:US$1	0.6

The Group's euro-denominated forward derivative instruments mature on 11 March 2016. The Group also entered into a number of SEK-US dollar forward contracts to hedge its exposure to fluctuations in foreign exchange rates. These derivative instruments mature on 11 March 2016.

The Group also entered into Mexican peso-US dollar collars to hedge its exposure to fluctuations in foreign exchange rates. Collar derivative instruments mature over the period from 11 January 2016 to 8 August 2016. The collar instruments hedge costs denominated in Mexican peso amounting to US$198 million with a range of floor prices from MX$14.00 to MX$16.82:US$1 and weighted average rate of US$14.92 and a range of capped prices from MX$17.25 to MX$19.50:US$1 and weighted average rate of US$18.26. The fair value of the put options at 31 December 2015 was an asset of US$0.5 million, and the fair value of the call options at 31 December 2015 was a liability of US$1.8 million.

Forward derivative contracts that were outstanding as at 31 December 2014 were as follows:

	As at 31 December 2014				
	Term	Currency	Contract value (thousands)	Contract exchange rate	2014 Fair value (US$ thousands)
Euro denominated forward contracts	2015	EUR	869	EUR1:US$1.25 to EUR1:US$1.35	(121)
Swedish Krona denominated forward contracts	2015	SEK	41,597	SEK$7.19:US$1 to SEK$7.62:US$1	(359)

The Group's euro-denominated forward derivative instruments matured on 13 March 2015 at a weighted average rate of US$1.35: €1. The Group also entered into a number of SEK-US dollar forward contracts to hedge its exposure to fluctuations in foreign exchange rates. These derivative instruments matured over a period from 13 March 2015 to 12 June 2015 with a weighted average rate of SKD$7.27:US$1.

The Group also entered into Mexican peso-US dollar collars to hedge its exposure to fluctuations in foreign exchange rates. Collar derivative instruments matured over the period from 12 January 2015 to 14 December 2015. The collar instruments hedge costs denominated in Mexican peso amounting to US$259.5 million with a range of floor prices from MX$13.09 to MX$14.00:US$1 and weighted average rate of US$13.45 and a range of capped prices from MX$13.50 to MX$18.13:US$1 and weighted average rate of US$14.19. The fair value of the put options at 31 December 2014 was an asset of US$1.2 million, and the fair value of the call options at 31 December 2014 was a liability of US$18.7 million.

Commodity price hedging

During 2014, the Group entered into gold ounce-US dollar collars to hedge its exposure to fluctuations in commodity price as described in note 2(s) for a total amount of 1,559,689 ounces. As at 31 December 2015 the outstanding collar derivative instruments mature over the period from 29 January 2016 to 30 December 2019 and hedge cash proceeds for the sales of gold production amounting 1,257,516 ounces (2014: 1,524,276 ounces) with a floor price of US$1,100:1 ounce and a range of capped prices from US$1,375 to US$1,495:1 ounce (these being the same for 2014) and weighted average price of US$1,426:1 ounce. (2014: 1,427:1 ounce). The fair value of the put options as at 31 December 2015 was an asset of US$147.3 million (2014: US$111.8 million), and the fair value of the call options at 31 December 2015 was a liability of US$35.1 million (2014:US$107.4 million). In 2015 the changes in the fair value of the option contracts corresponding to the time value amounted to US$59.7 million (2014: US$4.4) and were recorded in the income statement.

The Group also entered into lead tonnes-US dollar and zinc tonnes-US dollar collars to hedge its exposure to fluctuations in commodity price. Lead collar derivative instruments mature over the period from 29 January 2016 to 30 December 2016 and hedge lead production amounting 4,272 tonnes (2014: 2,261 tonnes) with a floor price of US$1,985:1 tonne (2014:US$2,100:1 tonne) and a range of capped prices from US$2,220 to US$2,310:1 tonne (2014: US$2,450 to US$2,550:1 tonne) and weighted average price of US$2,259:1 tonne (2014: US$2,496:1 tonne). The fair value of the put options at 31 December 2015 was an asset of US$1.0 million (2014: US$0.6million), and the fair value of the call options at 31 December 2015 was a liability of US$0.085 million (2014: US$0.001 million). Zinc collar derivate instruments mature over the period 29 January 2016 to 30 December 2016 and hedge zinc production amounting 4,536 tonnes (2014: 8,911 tonnes) with a with a floor price of US$2,205:1 tonne (2014: range of floor prices of US$1,900 to US$2,200:1 tonne and weighted average price of US$2,100:1 tonne) and a range of capped prices from US$2,535 to US$2,550:1 tonne (2014: US$2,400 to US$2,650: 1 tonne) and weighted average price of US$2,542:1 tonne (2014: US$2,534:1 tonne). The fair value of the put options at 31 December 2015 was an asset of US$2.7 million (2014: US$0.5 million), and the fair value of the call options at 31 December 2015 was a liability of US$0.02 million (2014: US$0.1 million).

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	
	2015 US$ thousands	2014 US$ thousands
Beginning balance	(9,946)	721
(Gains) recycled to revenue during the year	(2,167)	(3,027)
Losses/(gains) recycled to cost of sales during the year	28,589	(220)
Gains recycled to the value of other assets	-	(220)
Unrealised gains/(losses) before tax arising during the year	39,521	(11,771)
Deferred tax effect recorded in other comprehensive income during the year	(19,783)	4,571
Ending balance	**36,214**	**(9,946)**

32. Financial risk management

Overview

The Group's principal financial assets and liabilities, other than derivatives, comprise trade receivables, cash, available-for-sale assets, interest-bearing loans and trade payables.

The Group has exposure to the following risks from its use of financial instruments:

– Market risk, including foreign currency, commodity price, interest rate, inflation rate and equity price risks
– Credit risk
– Liquidity risk

This note presents information about the Group's exposure to each of the above risks and the Group's objectives, policies and processes for assessing and managing risk. Further quantitative disclosures are included throughout the financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Fresnillo Audit Committee has responsibility for overseeing how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Audit Committee is assisted in its oversight role by Internal Audit, which undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

(a) Market risk

Market risk is the risk that changes in market factors, such as foreign exchange rates, commodity prices or interest rates will affect the Group's income or the value of its financial instruments.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Foreign currency risk

The Group has financial instruments that are denominated in Mexican peso, euro and Swedish krona which are exposed to foreign currency risk. Transactions in currencies other than the US dollar include the purchase of services, fixed assets, spare parts and the payment of dividends. As a result, the Group has financial assets and liabilities denominated in currencies other than functional currency, and holds cash and cash equivalents in Mexican Peso.

In order to manage the Group's exposure to foreign currency risk on expenditure denominated in currencies other than the US dollar, the Group has entered into certain forward and option derivative contracts with maturity dates from 2015 (see note 31 for additional detail).

The following table demonstrates the sensitivity of financial assets and financial liabilities (excluding Silverstream) to a reasonably possible change in the US dollar exchange rate compared to the Mexican peso, reflecting the impact on the Group's profit before tax and equity, with all other variables held constant. It is assumed that the same percentage change in exchange rates is applied to all applicable periods for the purposes of calculating the sensitivity with relation to derivative financial instruments.

Year ended 31 December	Strengthening/ (weakening) of US dollar	Effect on profit before tax: increase/ (decrease) US$ thousands	Effect on equity: increase/ (decrease) US$ thousands
2015	10%	(4,235)	7,809
	(10%)	5,192	(2,213)
2014	15%	(3,350)	(28,970)
	(5%)	616	11,513

The following table demonstrates the sensitivity of financial assets and financial liabilities to a reasonably possible change in the US dollar exchange rate compared to the Swedish krona on the Group's profit before tax and equity, with all other variables held constant. It is assumed that the same percentage change in exchange rates is applied to all applicable periods. There is no impact on the Group's equity, other than the equivalent change in retained earnings.

Year ended 31 December	Strengthening/ (weakening) of US dollar	Effect on profit before tax: increase/ (decrease) US$ thousands
2015	5%	213
	(10%)	(78)
2014	15%	(515)
	(10%)	572

The following table demonstrates the sensitivity of financial assets and financial liabilities (excluding Silverstream) to a reasonably possible change in the US dollar exchange rate compared to the euro on the Group's profit before tax and equity, with all other variables held constant. It is assumed that the same percentage change in exchange rates is applied to all applicable periods.

Year ended 31 December	Strengthening/ (weakening) of US dollar	Effect on profit before tax: increase/ (decrease) US$ thousands	Effect on equity: increase/ (decrease) US$ thousands
2015	10%	-	-
	(10%)	-	-
2014	5%	52	-
	(10%)	105	-

Foreign currency risk – Silverstream

Future foreign exchange rates are one of the inputs to the Silverstream valuation model. The following table demonstrates the sensitivity of the Silverstream contract valuation to a reasonably possible change in the Mexican peso as compared to the US dollar, with all other inputs to the Silverstream valuation model held constant. It is assumed that the same percentage change in exchange rates is applied to all applicable periods in the valuation model. There is no impact on the Group's equity, other than the equivalent change in retained earnings.

Year ended 31 December	Strengthening/ (weakening) of US dollar	Effect on profit before tax: increase/ (decrease) US$ thousands
2015	10%	(1,622)
	(10%)	1,982
2014	5%	(2,427)
	(10%)	2,966

Commodity risk

The Group has exposure to changes in metals prices (specifically silver, gold, lead and zinc) which have a significant effect on the Group's results. These prices are subject to global economic conditions and industry-related cycles.

The Group uses derivative instruments to hedge against an element of gold price, see mentioned in note 2 (s).

The table below reflects the aggregate sensitivity of financial assets and liabilities (excluding Silverstream) to a reasonably possible change in gold and silver prices, reflecting the impact on the Group's profit before tax with all other variables held constant.

The sensitivity shown in the table below relates to changes in fair value of commodity derivatives financial instruments contracts and embedded derivatives in sales.

	Increase/(decrease) in commodity prices				Effect on profit before tax: increase/ (decrease)	Effect on equity: increase/ (decrease)
Year ended 31 December	Gold	Silver	Zinc	Lead	US$ thousands	US$ thousands
2015	15%	20%	25%	20%	(51,326)	50,764
	(10%)	(15%)	(25%)	(15%)	52,915	136,469
2014	10%	20%	15%	10%	(93,922)	(791)
	(10%)	(20%)	(10%)	(15%)	49,405	49,612

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
2015	20%	104,659
	(15%)	(78,494)
2014	20%	103,125
	(20%)	(103,125)

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 and loans from related parties 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
2015	50	2,525
	(10)	(505)
2014	25	1,140
	(10)	(456)

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
2015	50	(17,853)
	(10)	3,729
2014	25	(15,067)
	(10)	3,123

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
2015	100	389
	(100)	(382)
2014	100	697
	(100)	(680)

Equity price risk

The Group has exposure to changes in the price of equity instruments that it holds as available-for-sale assets.

The following table demonstrates the sensitivity of available-for-sale 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
2015	50%	-	35,721
	(30%)	(5,135)	(16,297)
2014	60%	-	51,157
	(40%)	(16,983)	(17,632)

(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 28, 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 17. 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 2015 and 2014. A further concentration of credit risk arises from the Silverstream contract. Both Met-Mex and the counterparty to the Silverstream contract are subsidiaries in the Peñoles group which currently owns 75 per cent of the shares of the Company and is considered by management to be of appropriate credit rating.

The Group's surplus funds are managed by Servicios Administrativos Fresnillo, S.A. de C.V., which manages cash and cash equivalents, including short-term investments investing in a number of financial institutions. Accordingly, on an ongoing basis the Group deposits surplus funds with a range of financial institutions, depending on market conditions. In order to minimize 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 2015, the Group had concentrations of credit risk as 61 percent of surplus funds were deposited with one financial institution of which 96 percent was held in short term Mexican government paper.

The maximum credit exposure at the reporting date of each category of financial asset above is the carrying value as detailed in the relevant notes. See note 14 for the maximum credit exposure to available-for-sale financial assets, note 18 for short-term investments and cash and cash equivalents and note 28 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 2015, being US$384.8 million (2014: US$392.2 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 2015					
Interest-bearing loans (note 21)	46,267	92,534	92,534	938,801	1,170,137
Trade and other payables	57,440	-	-	-	57,440
Derivative financial instruments – liabilities	342,108	730,303	317,359		1,389,770
Embedded derivatives within sales contracts – liability	532	-	-	-	532

					US$ thousands
	Within 1 year	**2-3 years**	**3-5 years**	**> 5 years**	**Total**
As at 31 December 2014					
Interest-bearing loans (note 21)	46,267	92,534	92,534	985,068	1,216,403
Trade and other payables	70,340	-	-	-	70,340
Derivative financial instruments – liabilities	261,051	-	-	-	261,051
Embedded derivatives within sales contracts – liability	2,911	-	-	-	2,911

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 2015					
Inflows	347,301	746,924	319,165	-	1,413,390
Outflows	342,108	730,303	317,359	-	1,389,770
Net	**5,193**	**16,621**	**1,806**	**-**	**23,620**

					US$ thousands
	Within 1 year	**2-3 years**	**3-5 years**	**> 5 years**	**Total**
As at 31 December 2014					
Inflows	239,238	-	-	-	239,238
Outflows	261,051	-	-	-	261,051
Net	**(21,813)**	**-**	**-**	**-**	**(21,813)**

The above liquidity tables include expected inflows and outflows from currency option contracts which the Group expects to be exercised during 2016 as at 31 December 2015 and in 2015 as at 31 December 2014, 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.