Fresnillo plc

Financial results for the year ended 31 December 2016

Fresnillo plc today announced its financial results for the full year ended 31 December 2016. Octavio Alvídrez, CEO said:

"I am pleased to report a strong overall performance in 2016. We delivered record silver production of 50.3 million ounces, in line with our guidance, reflecting the initial contribution of San Julián phase I and higher grades at Fresnillo and Ciénega. Gold production of 935.5 thousand ounces exceeded our revised guidance, mainly as a result of the reduction in inventories at Herradura. Our record production, combined with higher metal prices and the devaluation of the Mexican peso during the year allowed us to deliver strong financial results in 2016 and as a result the Board has recommended a final dividend of US$21.5 cents per share, equivalent to approximately US$158.4 million.

At the Fresnillo mine, despite reporting a slight improvement in silver production in 2016, we continued to experience some issues that impacted the delivery of our turnaround plan. However, we have implemented additional measures to increase mine preparation and expect a gradual improvement in production in 2017.

San Julián phase I was commissioned in the third quarter and contributed to our record annual production. It is now operating at levels above its designed capacity. Despite taking the decision to delay the start-up of San Julián phase II, we are pleased with the progress made during the year and are confident that this second phase will be commissioned in the second quarter of 2017.

We continued to optimise our operations in 2016; we not only made good progress with our development projects but we also increased our resource base. The pyrites plant and second line of the dynamic leaching plant at Herradura advanced largely according to plan, with commissioning of both due in 2018, and our exploration work resulted in an increase of our resource base at our operating mines and at projects where we have identified strong potential.

Our solid operational performance, together with higher prices, lower costs and the favourable effect of the devaluation of the Mexican peso allowed us to almost double the cash generation from our mines. This more than offset our capital expenditure and the payment of dividends, resulting in the Company having a cash, cash equivalents and short-term investments balance of US$912.0 million, which increased by US$412.5 million from 2015 to 2016.

Regrettably, we did not achieve our target of zero fatal accidents in 2016. We have put in place a number of safety programmes and best practices at all of our operations and our focus remains on prioritising safety in all of our activities and continuing to strengthen our safety culture.

For 2017, we expect further increases in production with silver reaching the 58-61 million ounces range (including Silverstream) and gold production to be between 870-900 thousand ounces. Capital expenditure is anticipated to be approximately US$800 million and exploration expenses US$160 million, including the capitalised portion. We will continue to focus on delivering further cost reductions and productivity improvements in 2017 as well as improving our safety performance to meet our zero harm target.

Our performance in 2016 again demonstrated the quality of our asset base and our low-cost and flexible operations. I am confident that with our focus on operational delivery, disciplined approach to investment and clear commitment to sustainable business practices, we can continue to optimise our performance and maintain our strong financial position to deliver considerable long-term value for our shareholders.

Twelve months to 31 December 2016

$ million unless stated	2016	2015	% change
Silver Production* (kOz)	50,303	46,977	7.1
Gold Production* (Oz)	935,513	761,712	22.8
Total Revenue	1,905.5	1,444.4	31.9
Adjusted Revenue**	2,045.0	1,583.3	29.2
Gross Profit	882.1	433.1	103.7
EBITDA	1,032.0	547.5	88.5
Profit Before Income Tax	718.2	212.4	238.2
Profit for the year	425.0	69.4	512.4
Basic and Diluted EPS excluding post-tax Silverstream effects (USD)***	0.453	0.069	556.5

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

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

*** The weighted average number of shares was 736,893,589 for 2016 and 2015

2016 Highlights

Robust profit margins and strong financial position continue to deliver healthy returns

- Adjusted revenue of US$2,045.0 million, 29.2% increase vs. 2015 on increased volumes and higher metal prices
- Gross profit and EBITDA of US$882.1 million and US$1,032.0 million, up 103.7% and 88.5% respectively
- Profit from continuing operations before net finance costs and income tax of US$676.5 million, up 237.5%
- Devaluation of the Mexican peso vs. US dollar positively affected production costs
- Cost per tonne and cash cost decreased at all mines, due to devaluation of Mexican peso and cost reduction initiatives
- Net cash from operating activities increased by 65.4% to US$898.0 million vs US$542.9 million in 2015
- Capital expenditures of US$434.1 million, 8.6% lower than 2015 and below guidance, mainly due to lower capex at San Julián reflecting the delay in phase II.
- Exploration spend of US$121.2 million, 13.6% lower than 2015
- Free cash flow[1] of US$463.9 million (2015: US$68.2 million)
- Maintained financial flexibility, with year-end cash, cash equivalents and short term investments balance of US$912.0 million (2015: US$500.1 million), and debt of US$800 million
- Basic and diluted EPS from continuing operations of US$0.579; adjusted EPS of US$0.453, up 503.1% and 556.5% respectively
- 2016 final dividend of US$21.5 cents per share, equivalent to approximately US$158.4 million, recommended by the Board

Focus on continued optimisation of operations

- Record annual silver production (including Silverstream) of 50.3 moz (up 7.1%, in line with guidance; reflecting start-up of San Julián phase I and higher ore grades at Fresnillo and Ciénega
- Gold production of 935.5 koz, exceeded revised guidance; resulting from the reduction of inventories at Herradura, production from San Julián phase I and increased production at Noche Buena

[1] Net cash flow from operating activities less purchase of property, plant and equipment

- San Julián phase I commissioned, production already exceeding design capacity by 20%
- Measures taken at Fresnillo to address development delays resulting from maintenance issues by hiring additional skilled contractors and improving operative supervision
- Continued focus on delivery of safety culture

Disciplined investment and development of extensive growth pipeline

- Juanicipio moving closer to development phase, with first production expected in 1H 2019
- Gold and silver resources increased 8.2% and 10.2%, respectively and gold reserves remained stable, silver reserves decreased 3.2%
- 2017 production guidance of 58-61 moz silver (including 4 moz from the Silverstream) and 870-900 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 number: +44 (0) 20 3427 1906 / national free phone: 0800 279 5736
Access Code: 2652035

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:

Fresnillo plc

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CHAIRMAN'S STATEMENT

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

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

The year in review

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

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

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

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

The Board approved the resumption of the pyrites project in the Fresnillo District, which will improve overall recoveries of gold and silver contents by processing historical and ongoing tailings from the Fresnillo and

Saucito mines, which otherwise would have been lost. Always an attractive project from an IRR perspective, the Board's decision to resume construction was supported by better than expected cash generation in the first half of the year and a healthy balance sheet.

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

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

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

Dividends

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

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

Our governance agenda

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

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

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

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

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

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

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

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

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

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

Alberto Baillères
Non-executive Chairman

CHIEF EXECUTIVE'S STATEMENT

I am pleased to report solid performance in 2016, with a rise in production, delivery of the first phase of a key growth project, expansion of our resource base, and a maturing sustainability framework. There were challenges and setbacks, to be sure – three fatalities, which we see as unacceptable, slower than expected turnaround at our flagship Fresnillo mine, and technical issues and construction delays at San Julián – but also remarkable improvements in capacity utilisation, notably at Saucito and Herradura, and cash costs across the organisation. This comes in the context of volatile but improved metal prices that boosted revenues, profits and our cash position.

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

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

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

Operating performance

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

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

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

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

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

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

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

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

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

A commitment to sustainable business practices

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

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

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

Financial results

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

Adjusted production costs[2] decreased by 2.5%, mainly explained by the favourable effect of the 17.7% average devaluation of the Mexican peso vs. the US dollar during 2016, lower energy prices and the positive impact of our cost reduction initiatives. These factors more than compensated for the additional production costs arising from the increased ore throughput at Herradura and Saucito. However, cost of sales increased by 1.0% over 2015 mainly due to the decrease in inventories at Herradura following the increased processing capacity achieved with the commissioning of the second Merrill Crowe plant, as well as higher depreciation.

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

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

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

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

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

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

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

Outlook 2017

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

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

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

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

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

Octavio Alvídrez
Chief Executive Officer

Key commitments for 2017

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

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

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

FINANCIAL REVIEW

The Consolidated Financial Statements of Fresnillo plc are prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU. This Financial Review is intended to convey the main factors affecting performance and to provide a detailed analysis of the financial results in order to enhance understanding of the Group's financial statements. All comparisons refer to 2016 figures compared to 2015, unless otherwise noted. The financial information and year-on-year variations are presented in US dollars, except where indicated.

Commentary on financial performance

The Company achieved strong financial results with growth of 104.2% in gross profit, 88.5% in EBITDA, and 580.8% in attributable profit for the year, excluding the effect of the Silverstream revaluation. Furthermore, cash generation from our operations more than offset the investment in capex and the payment of dividends, resulting in the Company generating net cash of US$412.5 million for the period, with a cash and short term investment balance of US$912.0 million as of 31 December 2016. This strong financial position both reflects and extends our ability to continue generating value for our stakeholders.

Income statement

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

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

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

[3] The weighted average number of ordinary shares was 736,893,589 for 2016 and 2015. See Note 19 in the Consolidated Financial Statements.

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

Precious metal prices

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

As in previous years, the Company has structured certain hedge positions for lead and zinc to mitigate the risk of metal price volatilities.

MXN/USD exchange rate

The average spot Mexican peso/US dollar exchange rate devalued by 17.7%, from $15.85 per US dollar in 2015 to $18.66 per US dollar in 2016. This resulted in a favourable effect estimated at US$45.2 million on the Group's production costs, as costs denominated in Mexican pesos (approximately 2/3 of total costs) were lower when converted to US dollars.

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

Cost deflation

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

Labour

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

Energy

Electricity

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

Diesel

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

Operating materials

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

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

Contractors

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

Maintenance

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

Others

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

Treatment and refining charges

Treatment and refining charges[3] are reviewed annually using international benchmarks. Treatment charges per tonne of lead and zinc concentrate decreased in dollar terms by 11.5% and 8.7%, respectively, whilst silver refining charges decreased 4.3% year on year. However, this was mostly offset by the increase in volumes of zinc concentrates with high silver contents shipped from Fresnillo and Saucito to Met-Mex. As a result, treatment and refining charges set out in the income statement decreased by only 1.2% over 2015.

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

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

Revenues

Consolidated revenues (US$ millions)

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

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

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

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

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

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

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

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

Fresnillo plc's hedging policy for metal prices 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 reduction of gold inventories in the leaching pads at Herradura, and to a lesser extent, the start-up of San Julián, resulted in a positive impact on revenues of US$292.4 million, which represented 63.3% of the US461.7 million increase in adjusted revenues. The remaining 36.7%, or US$169.3 million, was explained by the benefit of higher metal prices.

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

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

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

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

- Herradura was the main contributor to adjusted revenues, reflecting the decrease in gold inventories in the leaching pads which was made possible due to the commissioning of the second Merrill Crowe Plant at the dynamic leaching plant (DLP) in the last quarter of 2015, eliminating the bottleneck in processing solution coming from the leaching pads and the DLP.
- Saucito was the second contributor, although its contribution declined from 30% in 2015 to 26% in 2016, notwithstanding a 12.7% increase in adjusted revenues.
- Similarly, Fresnillo contributed a lesser share of adjusted revenues, but remained as the third most important contributor to the Group’s adjusted revenues.
- Ciénega slightly decreased its contribution; whilst phase I of San Julián contributed for the first time.

Adjusted revenues by metal

	2016	2015	2014
Gold	**55.4%**	52.3%	47%
Silver	**35.4%**	39.0%	46%
Zinc	**5.2%**	4.5%	4%
Lead	**4.0%**	4.2%	3%
TOTAL	**100%**	100%	**100%**

Adjusted revenues by mine

	2016	2015
Herradura	**656.1**	445.1
Saucito	**528.0**	468.4
Fresnillo	**382.7**	318.6
Noche Buena	**225.8**	181.7
Ciénega	**185.0**	169.5
San Julián	**67.4**	
Soledad-Dipolos	**0.0**	0.0
TOTAL	**2,045.0**	1,583.3

Volumes of metal sold

	2016	% participation of each mine	2015	% participation of each mine	% Change
Silver (koz)					
Saucito	**20,386**	48.5	**20,337**	51.2	0.2
Fresnillo	**14,552**	34.6	**14,630**	36.9	-0.5
Ciénega	**4,482**	10.7	**4,129**	10.4	8.5
San Julián	**1,945**	4.6	**0**	0.0	N/A
Herradura	**646**	1.5	**535**	1.3	20.7
Noche Buena	**17**	0.0	**63**	0.2	-73
TOTAL SILVER (koz)	**42,028**	100	**39,694**	100	5.9
Gold (koz)					
Herradura	**549**	60.4	**409**	55.6	34.2
Noche Buena	**148**	16.3	**143**	19.5	3.5
Saucito	**78**	8.6	**75**	10.2	4
Ciénega	**67**	7.4	**77**	10.5	-13
Fresnillo	**37**	4.1	**31**	4.2	19.3
San Julián	**30**	3.3	**0**	0.0	N/A
TOTAL GOLD (koz)	**909**	100	**735**	100	23.7
Lead (mt)					
Fresnillo	**19,618**	44.7	**15,030**	39.2	30.5
Saucito	**19,171**	43.6	**18,916**	49.4	1.3
Ciénega	**5,138**	11.7	**4,352**	11.4	18.1
TOTAL LEAD (mt)	**43,927**	100	**38,298**	100	14.7
Zinc (mt)					
Fresnillo	**21,828**	45.8	**15,936**	41.3	37
Saucito	**19,551**	41.0	**17,358**	44.9	12.6
Ciénega	**6,259**	13.1	**5,324**	13.8	17.6
TOTAL ZINC (mt)	**47,638**	100	**38,618**	100	23.3

Cost of sales

	2016	2015	Amount	Change
	US$ million	US$ million	US$	%
Adjusted production costs[4]	**618.9**	**634.5**	(15.6)	(2.5)
Depreciation	**346.5**	**331.2**	15.3	4.6
Change in work in progress	**60.2**	**6.3**	53.9	855.6
Hedging	**2.8**	**28.6**	(25.8)	(90.3)
Reversal of inventories write-down, profit sharing and others	**(5.1)**	**10.7**	(15.8)	(147.7)
Cost of sales	**1,023.4**	**1,011.3**	**12.1**	**1.2**

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

Cost of sales remained fairly stable at US$1,023.4 million. The US$12.1 million increase is explained by the following combination of factors:

- A decrease in adjusted production costs (-US$15.6 million): This was mainly driven by: i) the favourable effect of the 17.7% devaluation of the Mexican peso/US dollar exchange rate when converting peso-denominated costs to US dollars (-US$45.2 million); ii) the efficiencies achieved at Fresnillo, Saucito and Ciénega resulting from some optimisation projects and cost reduction initiatives (-US$8.6 million); iii) lower energy costs, excluding foreign exchange effects, reflecting lower unit prices of electricity and diesel (-US$6.4 million); iv) lower cost of operating materials (-US$6.0 million); and v) lower maintenance costs (-US$4.0 million). These positive effects were partially offset by: i) additional production costs related to the start-up of San Julián phase I (US$20.4 million); ii) additional production costs related to increased ore throughput at Herradura and Saucito (US$24.6 million); iii) higher contractor costs as a result of a greater number of contractors used to carry out development, mainly at Saucito, and an increase in the unit fees charged by contractors in Mexican pesos (US$4.8 million); iv) an increase in the unit cost of personnel (excluding foreign exchange effects) and other items in pesos (US$4.8).
- Mexican peso/US dollar hedging (-US$25.8 million): During 2015 the Group entered into a combination of put and call options structured at zero cost (collars) which extended into 2016. The volume that expired during 2016 had been put in place to hedge US$198 million of costs denominated in Mexican pesos with average floor and cap exchange rates of $14.91 and $18.26 per US dollar respectively, resulting in a US$2.77 million loss recorded in the income statement; as of December 31st 2016, there were no outstanding positions.

- Reversal of inventories write-down, profit sharing and others (-US$15.8 million): The change is principally explained by the reversal of the provision recorded in December 2015 related to the forward price of gold falling below the inventory carrying cost at Soledad-Dipolos. This trend was reversed in 2016.

These positive effects were more than offset by increases in:

- Variation in change in work in progress (+US$53.9 million). This was mainly explained by the decrease in inventories at the leaching pads at Herradura.
- Depreciation (+US$15.3 million): The increase was explained by the larger asset base following the completion of San Julián phase I, and the increased depletion factor at Herradura.

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

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

Cost per tonne

		2016	**2015**	**Change %**
Fresnillo	US$/tonne milled	43.93	48.20	(8.9)
Saucito	US$/tonne milled	36.75	42.49	(13.5)
Ciénega	US$/tonne milled	55.49	62.99	(11.9)
Herradura	US$/tonne deposited	7.72	8.68	(11.0)
Herradura	US$/tonne hauled	2.31	2.66	(13.2)
Noche Buena	US$/tonne deposited	7.48	7.93	(5.7)
Noche Buena	US$/tonne hauled	1.60	1.67	(4.2)

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

		2016	2015	Change %
Fresnillo	US$ per silver ounce	**2.09**	**5.60**	(62.6)
Saucito	US$ per silver ounce	**(0.39)**	**1.15**	(133.9)
Ciénega	US$ per gold ounce	**(217.19)**	**245.49**	(188.5)
Herradura	US$ per gold ounce	**470.72**	**472.53**	(0.4)
Noche Buena	US$ per gold ounce	**765.90**	**972.74**	(21.3)

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

Fresnillo: US$2.09/oz (2016) vs. US$5.60/oz (2015), (-62.6%)

The decrease in cash cost per ounce is mainly explained by the higher by-product credits per silver ounce due to the increase in gold, lead and zinc volumes sold at higher prices (-US$2.88/oz); lower cost per tonne (-US$0.66/oz) ; increase in ore grade (-US$0.07/oz); and others (-US$0.01/oz). This was partly offset by higher treatment and refining charges per silver ounce due to: higher zinc and lead ore grades which increased the volume of concentrates, and an increase in the participation of zinc concentrate which has a higher per unit treatment charge (+US$0.12/oz).
Saucito: -US$0.39/oz (2016) vs. US$1.15/oz (2015), (-133.9%)
The decrease was driven by the higher by-product credits per ounce of silver resulting from increased gold, lead and zinc volumes sold at higher prices (-US$0.1.21/oz); lower cost per tonne (-US$0.63/oz); and lower treatment and refining charges (-US$0.23/oz). These positive effects were partly offset by the expected lower silver grade (+US$0.52/oz); and others (+US$0.01/oz).

Ciénega: -US$217.19/oz (2016) vs. US$245.49/oz (2015), (-188.5%)
The decrease in cash cost was primarily explained by higher by-product credits per ounce of gold due to the increased volumes of silver, lead and zinc sold at higher prices (-US$457.22/oz); and the decrease in cost per tonne (-US$141.54/oz). These favourable factors were partly offset by the expected decrease in gold grade (+US$98.31/oz); higher treatment and refining charges resulting from lower gold ore grade which requires producing more concentrate per ounce of gold, and higher lead and zinc ore grades which increase the volume of concentrates (+US$33.89/oz); and others (+US$3.88/oz).

Herradura: US$470.72/oz (2016) vs. US$472.53/oz (2015), (-0.4%)
The decrease in cash cost resulted from the lower cost per tonne (-US$47.68/oz); higher by-product credits per gold ounce due to the increased volume of silver sold at a higher price (-US$1.09/oz); and lower treatment and refining charges (-US$0.05/oz). These favourable effects were offset by: i) the expected lower gold grade (-US$30.29/oz); ii) an adverse inventory valuation effect, as ounces with a lower cost of production in the current period are mixed with the initial higher cost of inventory affecting cost of sales (+US$16.47/oz); and others (+US$0.24/oz).

Noche Buena: US$765.90/oz (2016) vs. US$972.74/oz (2015), (-21.3%)
The decrease in cash cost per ounce was mainly explained by: i) the higher gold grade (-US$123.96/oz); ii) the lower cost per tonne (-US$46.03/oz); and iii) the others (-US$36.85/oz).

San Julián (phase I): commenced operations in August 2016, thus there are no comparable year-on-year figures.

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

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

Management considers all-in sustaining costs a reasonable indicator of the mine's ability to generate free cash flow when compared with the corresponding metal price, and a means to monitor not only current production costs, but also sustaining costs as it includes mine development costs incurred to prepare the mine for future production, as well as sustaining capex.

All-in sustaining cost

		2016	2015	Change %
Fresnillo	US$ per silver ounce	**7.82**	**11.48**	(31.9)
Saucito	US$ per silver ounce	**4.77**	**7.11**	(32.9)
Ciénega	US$ per gold ounce	**428.00**	**710.37**	(39.7)
Herradura	US$ per gold ounce	**731.69**	**888.04**	(17.6)
Noche Buena	US$ per gold ounce	**823.04**	**1,015.40**	(18.9)

Fresnillo: Lower, mainly due to the lower administrative expenses and a decrease in capitalised development and mining works reflecting the temporary decrease in development rates; and the lower cash cost detailed above.

Saucito: Lower, as a result of the decrease in capex in 2016 compared to capex invested in expansion and efficiency projects in 2015; and the lower cash cost detailed above.

Ciénega: Lower, primarily explained by the lower cash cost detailed above.

Herradura: Lower, mainly due to the decrease in capitalised stripping costs; and to a lesser extent, the lower cash cost detailed above.

Noche Buena: Lower, driven by the lower cash cost detailed above.

San Julián (phase I): commenced operations in August 2016, thus there are no comparable year-on-year figures.

Gross profit

Gross profit, excluding hedging gains and losses, is a key financial indicator of profitability at each business unit and the Fresnillo Group as a whole.

Contribution by mine to consolidated gross profit, excluding hedging gains and losses

	2016		**2015**		**Change**	
	US$ million	%	**US$ million**	%	**Amount**	**%**
Herradura	309.3	35.7	163.3	35.4	146	89.4

Saucito	269.4	31.1	198.7	43.1	70.7	35.6
Fresnillo	158.6	18.3	83.1	18.0	75.5	90.9
Noche Buena	54.1	6.2	-1.2	-0.3	55.3	N/A
Ciénega	48.2	5.6	17.1	3.7	31.1	181.9
San Julián	26.3	3.0	0	0.0	26.3	N/A
Total for operating mines	**865.9**	100	**461**	100	**405**	**87.9**
MXN/USD exchange rate hedging (losses) and gains	-2.8		-28.6		25.8	(90.2)
Metal hedging and other subsidiaries	19.0		13.6		5.4	39.7
Total Fresnillo plc	**882.1**		**433.1**		**449.0**	**103.7**

Total gross profit, net of hedging gains and losses, totalled US$882.1 million in 2016.

The US$449.0 million increase in gross profit was mainly explained by: i) the favourable effect of higher metal prices (+US$167.5 million); ii) the positive impact of increased gold production at Herradura (+US$128.9 million); iii) the start-up of San Julián phase I (+US$45.8 million); iv) the 17.7% devaluation of the Mexican peso/US dollar (+US$45.2 million); v) higher ore grade at the Fresnillo mine (+US$29.0 million); vi) higher production at Noche Buena (+US$23.4 million); vii) the reversal of the write down of inventories at Soledad-Dipolos (+US$10.7 million); viii) the positive effect of lower hedging losses and other effects (+US$24.1 million); and ix) efficiencies achieved at some of our mines through optimisation projects and cost reduction initiatives (+US$8.6 million).

The above factors were partially offset by the lower ore grades at Herradura (-US$18.9 million) and the higher depreciation (-US$15.3 million).

Herradura became the largest contributor to the Group´s consolidated gross profit. Gross profit at Saucito increased by 35.6% to US$269.4 million, although its share of the Group's consolidated gross profit declined to 31.1% in 2016. Gross profit at the Fresnillo mine rose to US$158.6 million in 2016, while the mine's contribution to the Group's total gross profit slightly increased to 18.3%. Noche Buena generated a gross profit of US$54.1 million, and contributed 6.2% to the Group's consolidated gross profit. Ciénega's share of the Group's total gross profit increased to 5.6%, whilst San Julián contributed for the first time with 3.0%.

Administrative expenses

Administrative expenses decreased 10.7% from US$62.8 million to US$56.1 million due mainly to a decrease in non-recurring engineering and construction services provided by Servicios Industriales Peñoles, S.A.B. de C.V., lower cost of services provided by third parties, and the positive effect of the devaluation of the Mexican peso against the US dollar in administrative expenses denominated in pesos.

Exploration expenses

Business unit / project (US$ millions)	**Exploration expenses 2016**	**Exploration expenses 2015**	**Capitalised expenses 2016**	**Capitalised expenses 2015**
Ciénega	14.0	20.5		
Fresnillo	8.0	10.1		
Herradura	13.6	11.9		
Soledad-Dipolos	-	-		
Saucito	9.6	8.6		
Noche Buena	1.3	3.7		
San Ramón	4.3	4.5		
San Julián	4.4	3.3		
Orisyvo	2.2	13.3	0.2	0.4
Centauro Deep	3.2	10.0	1.0	0.4
Guanajuato	3.9	3.9	0.6	
Juanicipio	0.0	0.0	14.6	9.9
Others	56.7	50.4	0.3	0.4
TOTAL	**121.2**	**140.2**	**16.7**	**11.1**

Exploration expenses decreased by 13.6% to US$121.2 million in 2016, reflecting management's decision to reduce the expenditure in volatile market conditions. Nonetheless, the resource base was expanded. An additional US$16.7 million was capitalised in association with mining works at Juanicipio and minor equipment acquired at the Centauro Deep, Orisyvo and Guanajuato projects. As a result, total investment in exploration was US$137.9 million in 2016, a decrease of 8.9% over 2015. In 2017, total invested in exploration is expected to be approximately US$160 million, of which US$8 million is estimated to be capitalised.

EBITDA

	2016 US$ million	2015 US$ million	Amount	Change %
Gross Profit	**882.1**	433.1	451.3	104.2
+ Depreciation	**346.5**	331.2	15.3	4.6
- Administrative expenses	**(59.1)**	(62.8)	(3.7)	(5.8)
- Exploration expenses	**(121.2)**	(140.2)	(19.1)	(13.6)
- Selling expenses	**(16.3)**	(13.7)	(0.1)	0.7
EBITDA	**1,032.0**	547.5	484.5	88.5
EBITDA margin	**54.2**	37.9		

A gauge of the Group's financial performance and key indicator to measure debt capacity is EBITDA, which is calculated as gross profit plus depreciation, less administrative, selling and exploration expenses. In 2016, EBITDA increased 88.5% mainly due to the higher gross profit, the higher depreciation which is added back and the lower exploration and administrative expenses. EBITDA margin expressed as a percentage of revenues increased accordingly, from 37.9% in 2015 to 54.2% in 2016.

Other income and expenses

Other expenses decreased by 43.4% to US$9.0 million in 2016. This included disposals of fixed assets, remediation works and costs incurred in the maintenance of closed mines. This positively compares to the US$15.9 million recorded in the 2015 income statement.

Silverstream effects

The Silverstream contract is accounted for as a derivative financial instrument carried at fair value. The revaluation of the Silverstream contract generated a US$85.8 million non-cash gain mainly as a result of the increase in resources at Sabinas and the higher forward price of silver, which were partly mitigated by the higher discount rate used. In addition, a US$47.7 million non-cash gain was generated by: i) the unwinding of the discounted values; and ii) the difference between payments (volume and price) actually received and accrued in 2016 and payments estimated in the valuation model as at 31 December 2015. The total effect recorded in the 2016 income statement was US$133.5 million, which favourably compares to the US$27.7 million registered in 2015.

Since the IPO, cumulative cash received has been US$559.6 million, while total non-cash revaluation gains of US$683.8 million have been taken to the income statement. The Group expects further unrealised gains or losses will be taken to the income statement in accordance with silver price cyclicality or changes in the variables considered in valuing this contract. Further information related to the Silverstream contract is provided in the Balance Sheet section below and in notes 15 and 31 to the Consolidated Financial Statements.

Finance costs and income

Finance costs in 2016 decreased mainly due to the decline in accrued interest payable on the US$800 million principal amount of 5.500% Senior Notes, from US$36.0 million to US$29.0 million.

In 2014 we entered into gold derivative contracts to protect the value of the Penmont acquisition. As at 31 December 2016, outstanding collar derivative instruments mature over the period of January 2017 to December 2019 and hedge gold production of 1.04 million ounces with a floor price of US$1,100 per ounce and capped weighted average price of US$1,423.76 per ounce. In 2016, we recognised changes in the time value of the outstanding hedge position, resulting in a US$41.1 million non-cash loss recorded in the income statement.

Foreign exchange

A foreign exchange loss of US$18.4 million was recorded in 2016 as a result of the 20.1% devaluation of the spot MXN/USD exchange rate at 31 December. This loss positively compares to the US$36.2 million loss recognised in 2015.

The Group also enters into certain exchange rate derivative instruments as part of a programme to manage its exposure to foreign exchange risk associated with the purchase of equipment denominated in Euro (EUR), Swedish krona (SEK) and Canadian dollar (CAD). At the end of the year, the total EUR, SEK and CAD outstanding net forward position was EUR 9.35 million, CAD 0.0 and SEK 7.09 million with maturity dates from March through September 2017. Volumes that expired during 2016 were EUR 2.31 million with a weighted average strike of 1.1250 USD/EUR, CAD 3.86 million with a weighted average strike of 1.2629 CAD/USD and SEK 14.46 million with a weighted average strike of 8.41 SEK/USD, which has generated a result of US$46,627, -US$206,810 and -USS18,970 recorded in the income statement respectively.

Taxation

Corporate income tax expense of US$259.9 million increased 101.5% over 2015 which resulted mainly from the increase in profit generated in 2016. The effective tax rate, excluding the special mining rights, was 36.2% which was above the statutory corporate tax rate of 30%. This was mainly explained by the devaluation of the Mexican peso against the US dollar, which increased deferred income taxes, generated by higher differences arising between the carrying amount of assets and liabilities (denominated in US dollars) and their tax bases (denominated in Mexican pesos). Furthermore, US$33.4 million related to the special mining rights was registered in the income statement in 2016. Including the effect of mining rights, the effective tax rate was 40.8%.

Profit for the year

Profit for the year increased from US$69.4 million to US$425.0 million, whilst profit attributable to equity shareholders of the Group increased to US$427.0 million, up from US$70.5 million in 2015.

Excluding the effects of the Silverstream Contract, profit for the year increased from US$50.0 million to US$331.5 million. Similarly, profit attributable to equity shareholders of the Group, excluding the Silverstream effects, increased to US$333.5 million, up from US$51.1 million.

Cash Flow

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

	2016 US$ million	2015 US$ million	Amount US$	Change %
Cash generated by operations before changes in working capital	**1,023.3**	537.3	486.0	90.5
(Increase)/decrease in working capital	**(10.6)**	51.3	(61.9)	(120.6)
Taxes and employee profit sharing paid	**(114.8)**	(45.8)	(69.1)	150.9
Net cash from operating activities	**898.0**	542.9	355.1	65.4
Silverstream Contract	**47.6**	39.4	8.1	20.6
Purchase of property, plant & equipment	**(434.1)**	(474.7)	40.6	(8.6)
Dividends paid to shareholders of the Company	**(88.2)**	(37.5)	(50.7)	135.1
Net interest (paid)	**(21.1)**	(30.5)	9.5	(31.0)

Net increase in cash during the period before foreign exchange differences	**412.5**	52.2	360.3	690.2
Cash, cash equivalents and short-term investments at 31 December*	912.0	500.1	411.8	82.3

* As disclosed in the Consolidated Cash Flow Statement, cash and cash equivalents at 31 December 2016 totalled US$712.0 million and short-term investment held in fixed-term bank deposits amounted US$200.0 million. In 2015, cash and cash equivalents at 31 December 2015 accounted for US$381.4 million and short-term investments amounted to US$118.7 million.

Cash generated by operations before changes in working capital increased by 90.5% to US$1,023.3 million, mainly as a result of the higher profits generated in the year. Working capital increased US$10.6 million mainly due to an increase in trade and other receivables resulting from the higher volumes sold at higher metal prices (US$39.5 million). This increase in working capital was partly offset by: i) a decrease in inventories (US$23.7 million); ii) a decrease in prepayments and other assets (US$0.1 million); and iii) an increase in trade and other payables (US$5.1 million).

Taxes and employee profit sharing paid increased 150.9% over 2015 to US$114.8 million.

As a result of the above factors, net cash from operating activities increased significantly, from US$542.9 million in 2015 to US$898.0 million in 2016.

Other sources of cash were the proceeds of the Silverstream Contract of US$47.6 million and capital contributions from minority shareholders in subsidiaries of US$7.4 million.

The above funds were mainly used to purchase property, plant and equipment for a total of US$434.1 million, an 8.6% decrease over 2015. This was below the guidance of US$600 million mainly as a result of the delay in commissioning San Julián phase II. Capital expenditures for 2016 are further described below:

Purchase of property, plant and equipment

	2016 US$ million	
Fresnillo mine	**52.8**	Mine development and purchase of in-mine equipment which includes a hoist for the deepening of the shaft, raiseboring machines, pumps and other components
Saucito mine	**102.4**	Development, replacement of in-mine equipment and optimisation projects at the beneficiation plant
Herradura mine	**78.8**	Stripping activities, construction of leaching pad, and sustaining capex
San Julián	**134.1**	Completion of San Julián phase I, mine development and in-mine equipment
Ciénega mine	**32.7**	Development, replacement of in-mine equipment, purchase of components and expansion of tailings dam
Noche Buena	**8.6**	Construction of leaching pads and mine equipment
Juanicipio project	**14.6**	Exploration expenditure
Other	**10.1**	

Total purchase of property, plant and equip.	**434.1**

Dividends paid to shareholders of the Group in 2016 totalled US$88.2 million, a 135.1% increase from 2015, in line with our dividend policy that includes a consideration of profits generated in the period. The 2016 payment included: i) the final 2015 dividend of US$24.8 million; and ii) the 2016 interim dividend paid in September of US$63.4 million.

Net interest of US$21.1 million was paid, mainly reflecting the interest paid in relation with the issuance of the US$800 million principal amount of 5.500% Senior Notes.

The sources and uses of funds described above resulted in an increase in net cash of US$412.5 million (net increase in cash and cash equivalents), which combined with the US$500.1 million balance at the beginning of the year and the US$0.6 million unfavourable effect of the exchange rate resulted in cash, cash equivalents and short-term investments of US$912.0 million at the end of 2016.

Balance Sheet

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

Cash, cash equivalents and short-term investments increased during the year to US$912.0 million as explained above.

Inventories decreased 7.9% to US$276.9 million mainly as a result of the decreased inventories of gold deposited on the leaching pads at Herradura.

Trade and other receivables of US$286.7 million decreased 6.2% as a result of the decrease in income tax recoverable, partly offset by higher metal volumes sold at higher prices which increased receivables.

The change in the value of the Silverstream derivative from US$384.8 million at the beginning of the year to US$467.5 million as of 31 December 2016 reflects proceeds of US$50.7 million corresponding to 2016, (US$44.8 million in cash and US$5.9 million in receivables) and the Silverstream revaluation effect in the income statement of US$133.5 million.

The net book value of property, plant and equipment was US$2,180.2 million at year end, representing a 1.9% increase over 2015. The US$41.6 million increase was mainly explained by the capitalised development works; construction of San Julián; purchase of additional in-mine equipment; and construction of leaching pads at Herradura.

The Group's total equity was US$2,716.4 million as of 31 December 2016, a 14.4% increase over 2015. This was mainly explained by the increase in retained earnings, reflecting the 2015 profit, less dividends paid during the year, and the net unrealised gains on cash flow hedges.

Dividends

Based on the Group's 2016 performance, the Directors have recommended a final dividend of 21.5 US cents per Ordinary Share, which will be paid on 26 May 2017 to shareholders on the register on 28 April 2017. The dividend will be paid in UK pounds sterling unless shareholders elect to be paid in US dollars. This is in addition to the interim dividend of 8.6 US cents per share totalling U$63.4 million.

RISK MANAGEMENT FRAMEWORK

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

Risk management system

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

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

2016 risk assessment

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

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

A number of developments have adversely impacted the entire Mexican mining industry in recent years as reflected in the Investment Attractiveness Index[4] that assesses how mineral endowments and public policy factors, such as taxation and regulatory uncertainty, affect exploration and mining investment. Specific examples that have impacted the industry in Mexico include: weak rule of law in disbanding illegal blockades to mining assets; legal uncertainty regarding certain land tenure issues; instances of community opposition to mining resulting in the cancellation of major projects; aggressive and unfavourable tax requirements that disadvantage Mexico relative to other mining countries; and the adverse security environment still facing a number of regions in the country.

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

[4] Fraser Institute Annual Survey of Mining Companies: 2015, published in June 8, 2016. www.fraserinstitute.org

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

b) the management report (encompassed within the 'Overview', 'Strategic report', 'Performance' and 'Governance' sections) includes a fair review of the development and performance of the business, and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

For and on behalf of the Board

Charles Jacobs
Senior Independent Director
27 February 2017

Consolidated Income Statement
Year ended 31 December

	Notes	Year ended 31 December 2016			Year ended 31 December 2015		
		US$ thousands			US$ thousands		
		Pre-Silverstream revaluation effect	**Silverstream revaluation effect**	**Total**	Pre-Silverstream revaluation effect	Silverstream revaluation effect	Total
Continuing operations:							
Revenues	4	1,905,503		1,905,503	1,444,386		1,444,386
Cost of sales	5	(1,023,388)		(1,023,388)	(1,011,316)		(1,011,316)
Gross profit		**882,115**		**882,115**	**433,070**		**433,070**
Administrative expenses		(59,157)		(59,157)	(62,820)		(62,820)
Exploration expenses	6	(121,182)		(121,182)	(140,246)		(140,246)
Selling expenses		(16,277)		(16,277)	(13,693)		(13,693)
Other operating income	8	1,398		1,398	778		778
Other operating expenses	8	(10,442)		(10,442)	(16,650)		(16,650)
Profit from continuing operations before net finance costs and income tax		**676,455**		**676,455**	**200,439**		**200,439**
Finance income	9	6,958		6,958	65,838		65,838
Finance costs	9	(80,323)		(80,323)	(45,463)		(45,463)
Revaluation effects of Silverstream contract	14	-	133,528	133,528	-	27,720	27,720
Foreign exchange loss		(18,378)		(18,378)	(36,180)		(36,180)
Profit from continuing operations before income tax		**584,712**	**133,528**	**718,240**	**184,634**	**27,720**	**212,354**
Corporate income tax	10	(219,808)	(40,058)	(259,866)	(120,690)	(8,316)	(129,006)
Special mining right	10	(33,412)		(33,412)	(13,958)		(13,958)
Income tax expense	10	(253,220)	(40,058)	(293,278)	(134,648)	(8,316)	(142,964)
Profit for the year from continuing operations		**331,492**	**93,470**	**424,962**	**49,986**	**19,404**	**69,390**
Attributable to:							
Equity shareholders of the Company		333,516	93,470	426,986	51,119	19,404	70,523
Non-controlling interest		(2,024)		(2,024)	(1,133)		(1,133)
		331,492	**93,470**	**424,962**	**49,986**	**19,404**	**69,390**
Earnings per share: (US$)							
Basic and diluted earnings per Ordinary Share from continuing operations	11			0.579	-		0.096
Adjusted earnings per share: (US$)							
Adjusted basic and diluted earnings per Ordinary Share from continuing operations	11	0.453			0.069		-

Consolidated Statement of Comprehensive Income
Year ended 31 December

	Notes	Year ended 31 December **2016** **US$ thousands**	 2015 US$ thousands
Profit for the year		**424,962**	**69,390**
Other comprehensive income/(expense)			
Items that may be reclassified subsequently to profit or loss:			
Losses on cash flow hedges recycled to income statement		1,184	26,422
Income tax effect	10	(355)	(7,927)
Changes in the fair value of cash flow hedges		(52,918)	39,521
Income tax effect	10	15,875	(11,856)
Net effect of cash flow hedges		**(36,214)**	**46,160**
Changes in the fair value of available-for-sale financial assets	13	44,729	(14,636)
Income tax effect	13	(13,418)	4,391
Impairment of available-for-sale financial assets taken to income during the year		-	2,896
Income tax effect	10	-	(869)
Net effect of available-for-sale financial assets		**31,311**	**(8,218)**
Foreign currency translation		3	(134)
Net other comprehensive (expense)/income that may be reclassified subsequently to profit or loss:		**(4,900)**	**37,808**
Items that will not be reclassified to profit or loss:			
Remeasurement gains/(losses) on defined benefit plans	22	2,443	(2,273)
Income tax effect	10	(388)	**361**
Net other comprehensive income/(expense) that will not be reclassified to profit or loss		**2,055**	**(1,912)**
Other comprehensive (expense)/income, net of tax		(2,845)	35,896
Total comprehensive income for the year, net of tax		**422,117**	**105,286**
Attributable to:			
Equity shareholders of the Company		424,141	106,419
Non-controlling interests		(2,024)	(1,133)
		422,117	**105,286**

Consolidated Balance Sheet
Year ended 31 December

			As at 31 December
	Notes	**2016 US$ thousands**	2015 Restated US$ thousands
ASSETS			
Non-current assets			
Property, plant and equipment	12	2,180,217	2,138,588
Available-for-sale financial assets	13	116,171	71,442
Silverstream contract	14	438,811	358,164
Derivative financial instruments	30	16,532	97,473
Deferred tax asset	10	20,023	30,814
Inventories	15	89,351	76,375
Other receivables	16	990	2,289
Other assets		3,385	3,372
		2,865,480	**2,778,517**
Current assets			
Inventories	15	187,499	224,200
Trade and other receivables	16	286,678	237,992
Income tax recoverable		-	67,690
Prepayments		2,839	2,966
Derivative financial instruments	30	6,618	19,602
Silverstream contract	14	28,718	26,607
Short-term investments	17	200,000	118,718
Cash and cash equivalents	17	711,954	381,420
		1,424,306	**1,079,195**
Total assets		**4,289,786**	**3,857,712**
EQUITY AND LIABILITIES			
Capital and reserves attributable to shareholders of the Company			
Share capital	18	368,546	368,546
Share premium	18	1,153,817	1,153,817
Capital reserve	18	(526,910)	(526,910)
Hedging reserve	18	-	36,214
Available-for-sale financial assets reserve	18	47,608	16,297
Foreign currency translation reserve	18	(728)	(731)
Retained earnings	18	1,637,888	1,296,906
		2,680,221	2,344,139
Non-controlling interests		36,147	30,202
Total equity		**2,716,368**	**2,374,341**
Non-current liabilities			
Interest-bearing loans	20	798,027	797,032
Derivative financial instruments	30	16	-
Provision for mine closure cost	21	149,109	195,476
Provision for pensions and other post-employment benefit plans	22	9,095	14,534

		As at 31 December	
	Notes	**2016** **US$ thousands**	2015 Restated US$ thousands
Deferred tax liability	10	463,050	373,009
		1,419,297	**1,380,051**

		As at 31 December	
	Notes	**2016** **US$ thousands**	2015 Restated US$ thousands
Current liabilities			
Trade and other payables	23	121,633	89,630
Income tax payable		18,842	-
Derivative financial instruments	30	630	1,427
Employee profit sharing		13,016	12,263
		154,121	**103,320**
Total liabilities		**1,573,418**	**1,483,371**
Total equity and liabilities		**4,289,786**	**3,857,712**

These financial statements were approved by the Board of Directors on 27 February 2017 and signed on its behalf by:

Mr Arturo Fernandez
Non-executive Director
27 February 2017

Consolidated Statement of Cash Flows
Year ended 31 December

	Notes	2016 US$ thousands	2015 US$ thousands
		Year ended 31 December	
Net cash from operating activities	29	**897,958**	**542,894**
Cash flows from investing activities			
Purchase of property, plant and equipment		(434,050)	(474,692)
Proceeds from the sale of property, plant and equipment and other assets		277	6,077
Repayments of loans granted to contractors		2,626	1,567
Short-term investments	17	(81,282)	176,475
Silverstream contract	14	47,565	39,430
Interest received		6,958	4,614
Net cash used in investing activities		**(457,906)**	**(246,529)**
Cash flows from financing activities			
Dividends paid to shareholders of the Company	19	(88,219)	(37,529)
Capital contribution		7,361	4,796
Interest paid[1]	20	(28,028)	(35,144)
Net cash used in financing activities		**(108,886)**	**(67,877)**
Net increase in cash and cash equivalents during the year		331,166	228,488
Effect of exchange rate on cash and cash equivalents		(632)	(1,408)
Cash and cash equivalents at 1 January		381,420	154,340
Cash and cash equivalents at 31 December	17	**711,954**	**381,420**

1 Total interest paid during the year ended 31 December 2016 less amounts capitalised totalling US$18.2 million (31 December 2015: US$11.1 million) which were included within the caption Purchase of property, plant and equipment.

Consolidated Statement of Changes in Equity
Year ended 31 December

		Attributable to the equity holders of the Company									
	Notes	Share capital	Share premium	Capital reserve	Hedging reserve	Available-for-sale financial assets reserve	Foreign currency translation reserve	Retained earnings	Total	Non-controlling interests	Total equity
											US$ thousands
Balance at 1 January 2015		368,546	1,153,817	(526,910)	(9,946)	24,515	(597)	1,265,877	2,275,302	26,539	2,301,841
Profit/(loss) for the year		-	-	-	-	-	-	70,523	70,523	(1,133)	69,390
Other comprehensive income, net of tax		-	-	-	46,160	(8,218)	(134)	(1,912)	35,896	-	35,896
Total comprehensive income for the year		-	-	-	46,160	(8,218)	(134)	68,611	106,419	(1,133)	105,286
Capital contribution		-	-	-	-	-	-	-	-	4,796	4,796
Dividends declared and paid	19	-	-	-	-	-	-	(37,582)	(37,582)	-	(37,582)
Balance at 31 December 2015		**368,546**	**1,153,817**	**(526,910)**	**36,214**	**16,297**	**(731)**	**1,296,906**	**2,344,139**	**30,202**	**2,374,341**
Profit/(loss) for the year		-	-	-	-	-	-	426,986	426,986	(2,024)	424,962
Other comprehensive income, net of tax		-	-	-	(36,214)	31,311	3	2,055	(2,845)	-	(2,845)
Total comprehensive income for the year		-	-	-	(36,214)	31,311	3	429,041	424,141	(2,024)	422,117
Capital contribution		-	-	-	-	-	-	-	-	7,969	7,969
Dividends declared and paid	19	-	-	-	-	-	-	(88,059)	(88,059)	-	(88,059)
Balance at 31 December 2016		**368,546**	**1,153,817**	**(526,910)**	**-**	**47,608**	**(728)**	**1,637,888**	**2,680,221**	**36,147**	**2,716,368**

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. The registered address of Peñoles is Calzada Legaria 549, Mexico City 11250. Copies of Peñoles' accounts can be obtained from www.penoles.com.mx. Further information on related party balances and transactions with Peñoles' group companies is disclosed in note 27.

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

The consolidated financial statements of the Group for the year ended 31 December 2016 were authorised for issue by the Board of Directors of Fresnillo plc on 27 February 2017.

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

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

2. Significant accounting policies

(a) Basis of preparation and consolidation, and statement of compliance

Basis of preparation and statement of compliance

The Group's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union as they apply to the financial statements of the Group for the years ended 31 December 2016 and 2015, and in accordance with the provisions of the Companies Act 2006.

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

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

Basis of consolidation

The consolidated financial statements set out the Group's financial position as of 31 December 2016 and 2015, and the results of operations and cash flows for the years then ended.

Entities that constitute the Group are those enterprises controlled by the Group regardless of the number of shares owned by the Group. The Group controls an entity when the Group is exposed to, or has the right to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Entities are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. The Group applies the acquisition method to account for business combinations in accordance with IFRS 3.

All intra-group balances, transactions, income and expenses and profits and losses, including unrealised profits arising from intra-group transactions, have been eliminated on consolidation. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. The interest of non-controlling shareholders may be initially measured either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. The choice of measurement basis is made on an acquisition by-acquisition basis. Subsequent to acquisition, non-controlling interests consist of the amount attributed to such interests at initial recognition and the non-controlling interest's share of changes in equity since the date of the combination. Any losses of a subsidiary are attributed to the non-controlling interests even if that results in a deficit balance.

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, a transaction with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interest are also recorded in equity.

(b) Changes in accounting policies and disclosures

The accounting policies applied are consistent with those applied in the preparation of the consolidated financial statements for the year ended 31 December 2015. During 2016, there were no amendments to existing accounting policies.

As at 31 December 2015, derivatives relating to the gold hedging programme initiated in 2014 that mature after one year had been presented as current assets. During 2016, the Group restated the prior year comparatives and reclassified these derivatives to non-current assets. The reclassification resulted in an increase in non-current assets and a corresponding reduction in current assets by US$97.5 million as at 31 December 2015, with no impact on previously reported profit, other comprehensive income, liabilities, equity, cash flow or earnings per share. In addition, there is no tax effect and no impact on segmental disclosures.

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

The Group has adopted "IAS 1 Disclosure Initiative - Amendments to IAS 1". The amendments clarify existing requirements on materiality, aggregation and disaggregation in the preparation of financial statements and presentation of the notes. This amendment had no impact in the financial information of the Group.

Other than the above mentioned amendment there were no significant new standards that the Group was required to adopt effective from 1 January 2016.

Standards, interpretations and amendments issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, as applicable to the Group's financial statements, when they become effective, except where indicated.

IFRS 9 Financial Instruments: In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which concludes all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. The Group plans to adopt IFRS 9 Financial instruments from the mandatory effective date. The Group has completed a preliminary assessment of the expected major impacts of this standard, the most relevant are set out below.

Nature of change	IFRS 9 addresses the classification and measurement of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The derecognition rules are consistent with those under IAS 39.
Main impact	IFRS 9 makes significant changes in the classification of financial assets. Whereas under IAS 39, the default classification for financial assets was available-for-sale financial assets, under IFRS 9 the residual category is to recognise fair value through profit or loss (FVTPL). Generally under IFRS 9, investments in equity instruments are recognised as FVTPL unless the group makes an election, in respect of investments that are not held for trading, to measure the instruments at fair value through OCI (FVOCI). The group expects to designate all investments currently recognised in Available-for-sale financial assets as FVOCI. In accordance with IFRS 9, this means that all movements relating to such assets are recognised in OCI. Neither gains nor losses on disposal or significant or prolonged declines in the value of these investments are recognised in profit or loss. **Hedge accounting** The new hedge accounting rules will align the accounting for hedging instruments more closely with the Group's risk management practices. IFRS 9 changes the accounting requirements for the time value of purchased options where only the intrinsic value of such options has been designated as the hedging instrument. In such cases, changes in the time value of options are initially recognised in OCI. Amounts related to the time value of options are reclassified to profit or loss or as a basis adjustment to assets or liabilities upon maturity of the hedged item, or, in the case of a hedged item that realises over time, over the life of the hedged item. Under IAS 39, the change in time value of options is recorded in the income statement. **Impairment model** The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than on the basis of credit losses incurred as is the case under IAS 39. It will apply to Group's financial assets classified at amortised cost and debt instruments measured at FVOCI. IFRS 9 also sets out a simplified approach for traded and lease receivables that do not contain a significant financing component in accordance with IFRS 15.
Expected date of adoption by Group and considerations.	The Group plans to adopt IFRS 9 effective 1 January 2018 and plans to apply the limited exemption relating to transition for classification and measurement and impairment, and accordingly will not restate comparative periods in the year of initial application. Generally, the change in hedge requirements are accounted for prospectively; however, in the case of the recognition of time value of options in OCI, this is adjusted for retrospectively. The group expects the adjustment from retained earnings to hedging reserve as at 1 January 2017, the beginning of the comparative period for the year of implementation, to be US$ 23.0 million, reflecting

	the time value of the open positions as at 1 January 2017. In the year ended 31 December 2016, this amount was recognised in finance cost, in accordance with IAS 39.

IFRS 15 Revenue from Contracts with Customers: IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. The new revenue standard will supersede all current revenue recognition requirements under IFRS. Early adoption is permitted. IFRS 15 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. The Group plans to adopt IFRS 15 Revenue from Contracts with Customers from the mandatory effective date. The Group has completed a preliminary assessment of the expected major impacts of this standard, the most relevant are set out below.

Nature of change	IFRS 15 establishes a comprehensive framework for recognition of revenue from contracts with customers based on a core principle that an entity should recognise revenue representing the transfer of promised goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.
Main impact	As described in the accounting policies section, The Group's revenue is derived from one revenue stream that corresponds to the sale of goods (concentrates, precipitates and doré bars). The Group has evaluated recognition and measurement of revenue based on the five-step model in IFRS 15 and has not identified any material expected financial impacts. IFRS 15 includes disclosure requirements to enable users of the financial statements to understand the amount, timing, risk and judgements related to revenue recognition and related cash flows. Certain disclosures will change as a result of the requirements of IFRS 15. The Group expects this to include a breakdown of revenue from customers and revenue from other sources, including the movement in the value of embedded derivatives in sales contracts.
Expected date of adoption by Group and considerations	The Group plans to adopt IFRS 15 effective 1 January 2018 and to apply the simplified transition method, hence the cumulative effect of adoption, if any, will be recognised in retained earnings. The Group currently expects the cumulative effect to be nil.

IFRS 16 Leases

IFRS 16 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. These amendments are effective for annual periods beginning on or after 1 January 2019 and earlier application is permitted. However, as there are several interactions between IFRS 16 and IFRS 15 Revenue from contracts with customers, early application is restricted to entities that also early adopt IFRS 15. The Group is currently assessing the impact of IFRS 16 and is considering early adoption in 2018 to align with the adoption of IFRS 9 and IFRS 15.

Amendments to IAS 7 Disclosure Initiative

The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments do not prescribe a specific format to disclose financing activities; however, an entity may fulfil the disclosure objective by providing reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities.

The amendments apply prospectively for annual periods beginning on or after 1 January 2017 with earlier application permitted. Entities are not required to present comparative information for earlier periods. The amendments to this standard are not expected to have any impact in the financial information of the Group.

Amendments to IAS 12 Income Taxes

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

IFRIC 22 Foreign currency transactions and advance consideration

IFRIC 22 provides requirements about which exchange rate to use in reporting foreign currency transactions when payment is made or received in advance. The interpretation requires the company to determine a "date of transaction" for the purposes of selecting an exchange rate to use on initial recognition of the related asset, expense or income. In case there are multiple payments or receipts in advance, the entity should determine a date of the transaction for each flow of advance consideration. IFRIC 22 is applicable for annual periods beginning on or after 1 January 2018 and earlier adoption is permitted. The interpretation is not expected to have any impact in the financial information of the Group.

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

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

(c) Significant accounting judgments, estimates and assumptions

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

Judgements

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

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

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

Evaluation of the status of projects (note 2(e)):

The evaluation of project status impacts the accounting for costs incurred and requires management judgement. This includes the assessment of whether there is sufficient evidence of the probability of the existence of economically recoverable minerals to justify the commencement of capitalisation of costs, the timing of the end of the exploration phase and the start of the development phase and the commencement of the production phase. These judgements directly impact the treatment of costs incurred and proceeds from the sale of metals from ore produced.

Stripping costs (note 2(e)):

The Group incurs waste removal costs (stripping costs) during the development and production phases of its surface mining operations. During the production phase, stripping costs (production stripping costs) can be incurred both in relation to the production of inventory in that period and the creation of improved access and mining flexibility in relation to ore to be mined in the future. The former are included as part of the costs of inventory, while the latter are capitalised as a stripping activity asset, where certain criteria are met.

Once the Group has identified production stripping for a surface mining operation, judgment is required in identifying the separate components of the ore bodies for that operation, to which stripping costs should be allocated. Generally a component is a specific volume of the ore body that is made more accessible by the stripping activity. In identifying components of the ore body, the Group works closely with the mining operations personnel to analyse each of the mine plans. The mine plans and, therefore, the identification of components, will vary between mines for a number of reasons. These include, but are not limited to, the type of commodity, the geological characteristics of the ore body, the geographical location and/or financial considerations. The Group reassesses the components of ore bodies annually in line with the preparation of mine plans. In the current year, this reassessment did not give rise to any changes in the identification of components.

Once production stripping costs have been identified, judgement is also required to identify a suitable production measure to be used to allocate production stripping costs between inventory and any stripping activity asset(s) for each component. The Group considers that the ratio of the expected tonnes of waste to be stripped for an expected tonnes of ore to be mined for a specific component of the ore body is the most suitable production measure.

Furthermore, judgements and estimates are also used to apply the units of production method in determining the depreciable lives of the stripping activity asset(s).

Qualifying assets (note 2(e)):

All interest-bearing loans are held by the parent company and were not obtained for any specific asset's acquisition, construction, or production. Funds from these loans are transferred to subsidiaries to meet the strategic objectives of the Group or are otherwise held centrally. Due to this financing structure, judgement is required in determining whether those borrowings are attributable to the acquisition, construction or production of a qualifying asset. Therefore, Management determines whether borrowings are attributable to an asset or group of assets based on whether the investment in an operating or development stage project is classified as contributing to achieving the strategic growth of the Group.

Contingencies (note 26)

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

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

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

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

As additional geological information is produced during the operation of a mine, the economic assumptions used and the estimates of ore reserves and mineral resources may change. Such changes may impact the Group's reported balance sheet and income statement including:

- The carrying value of property, plant and equipment and mining properties may be affected due to changes in estimated future cash flows, which consider both ore reserves and mineral resources;
- Depreciation and amortisation charges in the income statement may change where such charges are determined using the unit-of-production method based on ore reserves;
- Stripping costs capitalised in the statement of financial position, either as part of mine properties or inventory, or charged to profit or loss may change due to changes in stripping ratios;
- Provisions for mine closure costs may change where changes to the ore reserve and resources estimates affect expectations about when such activities will occur;
- The recognition and carrying value of deferred income tax assets may change due to changes regarding the existence of such assets and in estimates of the likely recovery of such assets.

Determination of useful lives of assets for depreciation and amortisation purposes, notes 2 (e) and 12:

Estimates are required to be made by management as to the useful lives of assets. For depreciation calculated under the unit-of-production method, estimated recoverable reserves are used in determining the depreciation and/or amortisation of mine specific assets. Depreciation/amortisation charge is proportional to the depletion of the estimated remaining life of mine of production. Estimated useful lives of other assets are based on the expected usage of the asset. Each item's life, which is assessed annually, has regard to both its physical life limitations and to expectations of the use of the asset by the Group, including with reference to present assessments of economically recoverable reserves of the mine property at which the asset is used.

Silverstream, note 14:

The valuation of the Silverstream contract as a derivative financial instrument requires significant estimation by management. The term of the derivative is based on Sabinas life of mine which is currently 20 years and the value of this derivative is determined using a number of estimates, including the estimated recoverable ore reserves and mineral resources and future production profile of the Sabinas mine, the estimated recoveries of silver from ore mined, estimates of the future price of silver and the discount rate used to discount future cash flows. For further detail on the inputs that have a significant effect on the fair value of this derivative, see note 30. The impact of changes in silver price assumptions, foreign exchange, inflation and the discount rate is included in note 31.

Assessment of recoverability of property plant and equipment and impairment charges, note 2 (f):

The recoverability of an asset requires the use of estimates and assumptions such as long-term commodity prices, reserves and resources and the associated production profiles, discount rates, future capital requirements, exploration potential and operating performance. Changes in these assumptions will affect the recoverable amount of the property, plant and equipment.

Estimation of the mine closure costs, notes 2 (l) and 21:

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

Income tax, notes 2 (r) and 10:

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

(d) Foreign currency translation

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

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

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

(e) Property, plant and equipment

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

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

The expected useful lives are as follows:

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

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

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

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

Disposal of assets

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

Mining properties and development costs

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(f) Impairment of non-financial assets

The carrying amounts of non-financial assets are reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable. At each reporting date, an assessment is made to determine whether there are any indications of impairment. If there are indicators of impairment, an exercise is undertaken to determine whether carrying values are in excess of their recoverable amount. Such reviews are undertaken on an asset by asset basis, except where such assets do not generate cash flows independent of those from other assets or groups of assets, and then the review is undertaken at the cash generating unit level.

If the carrying amount of an asset or its cash generating unit exceeds the recoverable amount, a provision is recorded to reflect the asset at the recoverable amount in the balance sheet. Impairment losses are recognised in the income statement.

The recoverable amount of an asset
The recoverable amount of an asset is the greater of its value in use and fair value less costs of disposal. In assessing value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Fair value is based on an estimate of the amount that the Group may obtain in an orderly sale transaction between market participants. For an asset that does not generate cash inflows largely independently of those from other assets, or groups of assets, the recoverable amount is determined for the cash generating unit to which the asset belongs. The Group's cash generating units are the smallest identifiable groups of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

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

(g) Financial assets and liabilities

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

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

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

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

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

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

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

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

This category generally applies to interest-bearing loans and borrowings. For more information, refer to note 20.

Available-for-sale financial assets
Available-for-sale financial assets are those non-derivative financial assets that are designated as such or are not classified in any of the preceding categories and are not held to maturity investments.

Available-for-sale financial assets represent equity investments that have a quoted market price in an active market; therefore, a fair value can be reliably measured. After initial measurement, available-for-sale financial assets are measured at fair value with mark-to-market unrealised gains or losses recognised as other comprehensive income in the available-for-sale reserve until the financial asset is de-recognised.

Financial assets classified as available-for-sale are de-recognised when they are sold, and all the risks and rewards of ownership have been transferred. When financial assets are sold, the accumulated fair value adjustments recognised in other comprehensive income are included in the income statement within other operating income or expense.

De-recognition of financial assets and liabilities
A financial asset or liability is generally de-recognised when the contract that gives rise to it is settled, sold, cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, such that the difference in the respective carrying amounts together with any costs or fees incurred are recognised in profit or loss.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in the income statement.

(h) Impairment of financial assets

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired.

Assets carried at amortised cost
If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss is recognised in profit or loss.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired receivables are de recognised when they are assessed as uncollectible.

Available-for-sale financial assets
If an available-for-sale 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 external actuarial firm as at each year-end balance sheet date. The discount rate is the yield on bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid. Actuarial gains or losses are recognised in OCI and permanently excluded from profit or loss.

Past service costs are recognised as an expense on a straight line basis over the average period until the benefits become vested. If the benefits have already vested following the introduction of, or changes to, a pension plan, the past service cost is recognised immediately.

The defined benefit asset or liability comprises the present value of the defined benefit obligation less the fair value of plan assets out of which the obligations are to be settled directly. The value of any asset is restricted to the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

Net interest cost is recognised in finance cost and return on plan assets (other than amounts reflected in net interest cost) is recognised in OCI and permanently excluded from profit or loss.

Defined contribution pension plan

A defined contribution plan is a post-employment benefit plan under which the Group pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in profit or loss when they are due. The contributions are based on the employee's salary.

This plan started on 1 July 2007 and it is voluntary for all employees to join this scheme.

Seniority premium for voluntary separation

This unfunded plan corresponds to an additional payment over the legal seniority premium equivalent to approximately 12 days of salary per year for those unionised workers who have more than 15 years of service. Non-unionised employees with more than 15 years of service have the right to a payment equivalent to 12 days for each year of service. For both cases, the payment is based on the legal current minimum salary.

The cost of providing benefits for the seniority premium for voluntary separation is determined using the projected unit credit actuarial valuation method and prepared by an external actuarial firm as at each year-end balance sheet date. Actuarial gains or losses are recognised as income or expense in the period in which they occur.

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

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

(n) Employee profit sharing

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

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

(o) Leases

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

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

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

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

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

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

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

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

(p) Revenue recognition

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

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

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

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

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

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

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

The Group also recognises in selling expenses a discovery premium royalty equivalent to 1% of the value of the mineral extracted and sold during the year from certain mining titles granted by the Mexican Geological Survey (SGM) in the San Julian mine. The premium is settled to SGM on a quarterly basis.

Other income

Other income is recognised in the income statement when all significant risks and rewards of ownership are transferred to the customer, usually when title has been passed.

(q) Exploration expenses

Exploration activity involves the search for mineral resources, the determination of technical feasibility and the assessment of commercial viability of an identified resource.

Exploration expenses are charged to the income statement as incurred and are recorded in the following captions:

Cost of sales: costs relating to in-mine exploration, that ensure continuous extraction quality and extend mine life, and

Exploration expenses:

- Costs incurred in geographical proximity to existing mines in order to replenish or increase reserves, and
- Costs incurred in regional exploration with the objective of locating new ore deposits in Mexico and Latin America and which are identified by project. Costs incurred are charged to the income statement until there is sufficient probability of the existence of economically recoverable minerals and a feasibility study has been performed for the specific project.

(r) Taxation

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the country the Group operates.

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences, except:

where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of transaction, affects neither the accounting profit nor taxable profit loss; and

in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

where the deferred income tax asset relating to deductible temporary differences arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax relating to items recognised directly in other comprehensive income is recognised in equity and not in the income statement.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Mining Rights

The Special Mining Right is considered an income tax under IFRS and states that the owners of mining titles and concessions are subject to pay an annual mining right of 7.5% of the profit derived from the extractive activities. The Group recognises deferred tax assets and liabilities on temporary differences arising in the determination of the Special Mining Right. (See note 10).

Sales tax

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

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

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

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

(s) Derivative financial instruments and hedging

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

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

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

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

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

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

Cash flow hedges

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

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

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

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

(t) Borrowing costs

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

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

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

(u) Fair value measurement

The Group measures financial instruments at fair value at each balance sheet date. Fair values of financial instruments measured at amortised cost are disclosed in notes 30 and 31.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

In the principal market for the asset or liability, or

In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities

Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above. Further information on fair values is described in note 30.

(v) Dividend distribution

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

3. Segment reporting

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

At 31 December 2016, the Group has six reportable operating segments[1] as follows:

The Fresnillo mine, located in the state of Zacatecas, an underground silver mine;

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

The Ciénega mine, located in the state of Durango, an underground gold mine; including the San 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.

[1] Due to its size in the current year, the operations at San Julián located on the border between the states of Chihuahua and Durango, are reported within Other segments.

The operating performance and financial results for each of these mines are reviewed by management. As the Group´s chief operating decision maker does not review segment assets and liabilities, the Group has not disclosed this information.

Management monitors the results of its operating segments separately for the purpose of performance assessment and making decisions about resource allocation. Segment performance is evaluated without taking into account certain adjustments included in Revenue as reported in the consolidated income statement, and certain costs included within Cost of sales and Gross profit which are considered to be outside of the control of the operating management of the mines. The table below provides a reconciliation from segment profit to Gross profit as per the consolidated income statement. Other income and expenses included in the consolidated income statement are not allocated to operating segments. Transactions between reportable segments are accounted for on an arm's length basis similar to transactions with third parties.

In 2016 and 2015, substantially all revenue was derived from customers based in Mexico.

Operating segments

The following tables present revenue and profit information regarding the Group's operating segments for the year ended 31 December 2016 and 2015, respectively:

									Year ended 31 December 2016
US$ thousands	**Fresnillo**	**Herradura**	**Cienega**	**Soledad-Dipolos[4]**	**Saucito**	**Noche Buena**	**Other[5]**	**Adjustments and eliminations**	**Total**
Revenues:									
Third party[1]	327,957	655,025	169,530	-	459,590	225,374	66,441	1,586	1,905,503
Inter-Segment							77,385	(77,385)	-
Segment revenues	**327,957**	**655,025**	**169,530**	**-**	**459,590**	**225,374**	**143,826**	**(75,799)**	**1,905,503**
Segment Profit[2]	**224,163**	**369,896**	**100,105**	**12,977**	**363,780**	**83,852**	**109,212**	**(17,854)**	**1,246,131**
Foreign exchange hedging losses									(2,770)
Depreciation and amortisation									(346,502)
Employee profit sharing									(14,744)
Gross profit as per the income statement									**882,115**
Capital expenditure[3]	52,794	78,825	32,745	-	102,398	8,620	158,668	-	434,050

1 Total third party revenues include treatment and refining charges amounting US$141.1 million.

2 Segment profit excluding foreign exchange hedging losses, depreciation and amortisation and employee profit sharing.

3 Capital expenditure represents the cash outflow in respect of additions to property, plant and equipment, including mine development, construction of leaching pads, purchase of mine equipment and capitalised stripping activity, excluding additions relating to changes in the mine closure provision. Significant additions include the construction of second beneficiation plant (Merrill Crowe) at Herradura and the expansion of the flotation plant and the construction of the pyrites plant at Saucito.

4 During 2016, this segment did not operate due to the Bajio conflict (note 26). Segment profit is derived from the changes in the net realisable value allowance against inventory (note 15).

5 Other includes San Julián, the Juanicipio project and inter-segment leasing services provided by Minera Bermejal, S.A. de C.V.

									Year ended 31 December 2015
US$ thousands	Fresnillo	Herradura	Cienega	Soledad-Dipolos[4]	Saucito	Noche Buena	Other[5]	Adjustments and eliminations	Total
Revenues:									
Third party[1]	265,347	459,904	154,334	-	395,417	165,518		3,866	1,444,386
Inter-Segment							78,622	(78,622)	-
Segment revenues	**265,347**	**459,904**	**154,334**	**-**	**395,417**	**165,518**	**78,622**	**(74,756)**	**1,444,386**
Segment Profit[2]	**149,986**	**219,045**	**71,094**	**(7,995)**	**295,219**	**26,706**	**65,925**	**(14,322)**	**805,659**
Foreign exchange hedging losses									(28,589)
Depreciation and amortisation									(331,209)
Employee profit sharing									(12,791)
Gross profit as per the income statement									**433,070**
Capital expenditure[3]	50,610	119,743	24,632	-	108,276	2,649	168,782	-	474,692

1 Total third party revenues include treatment and refining charges amounting US$142.8 million.

2 Segment profit excluding foreign exchange hedging losses, depreciation and amortisation and employee profit sharing.

3 Capital expenditure represents the cash outflow in respect of additions to property, plant and equipment—including mine development, construction of leaching pads, purchase of mine equipment and stripping activity asset—excluding additions relating to changes in the mine closure provision. Significant additions include construction of finalisation of the dynamic leaching plant and purchase of land at Herradura, construction of employees' facilities at Ciénega, expansion of the flotation plant at Saucito and the purchase of land at Noche Buena.

4 During 2015 this segment did not operate due to the Bajio conflict (note 26).

5 Other includes San Julián, the Juanicipio project and inter-segment leasing services provided by Minera Bermejal, S.A. de C.V. The operations of San Julián have been reclassified from the Fresnillo segment to Other to align to the presentation in the current year.

4. Revenues

Revenues reflect the sale of goods, being concentrates doré, slag, and precipitates of which the primary contents are silver, gold, lead and zinc.

(a) Revenues by product sold

	Year ended 31 December	
	2016 **US$ thousands**	2015 US$ thousands
Lead concentrates (containing silver, gold, lead and by-products)	792,770	691,096
Doré and slag (containing gold, silver and by-products)	880,447	626,446
Zinc concentrates (containing zinc, silver and by-products)	120,889	81,184
Precipitates (containing gold and silver)	111,397	45,660
	1,905,503	**1,444,386**

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

(b) Value of metal content in products sold

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

	Year ended 31 December	
	2016 **US$ thousands**	2015 US$ thousands
Silver	724,024	617,434
Gold	1,133,067	828,476
Zinc	106,461	73,018
Lead	83,070	68,277
Value of metal content in products sold	2,046,622	1,587,205
Adjustment for treatment and refining charges	(141,119)	(142,819)
Total revenues[1,]	**1,905,503**	**1,444,386**

1 Include provisional price adjustments which represent changes in the fair value of embedded derivatives resulting in a gain of US$2.2 million (2015: gain of US$2.3 million) and hedging gain of US$1.6 million (2015: gain of US$ 3.9 million). For further detail, refer to note 2(p).

The average realised prices for the gold and silver content of products sold, prior to the deduction of treatment and refining charges, were:

	Year ended 31 December	
	2016 **US$ per ounce**	2015 US$ per ounce
Gold[2]	1,246.5	1,126.5
Silver[2]	17.2	15.6

2 Reported revenue does not include the results of hedging.

5. Cost of sales

	Year ended 31 December	
	2016 **US$ thousands**	2015 US$ thousands
Depreciation and amortisation (notes 2 (e) and 12)	346,502	331,209
Personnel expenses (note 7)	80,360	80,567
Maintenance and repairs	90,650	94,837
Operating materials	131,786	135,059
Energy	117,995	117,908
Contractors	174,167	175,898
Freight	7,921	9,821
Insurance	4,990	5,042
Mining concession rights and contributions	10,347	10,853
Other	14,721	15,211
Cost of production	979,439	976,405
Losses on foreign currency hedges	2,770	28,589
Change in work in progress and finished goods (ore inventories)	61,488	1,309
Change in net realisable value allowance against inventory (note 15)	(20,309)	5,013
	1,023,388	**1,011,316**

6. Exploration expenses

	Year ended 31 December	
	2016 **US$ thousands**	2015 US$ thousands
Contractors	88,822	105,161
Administrative services	6,243	6,907
Mining concession rights and contributions	14,027	15,684
Personnel expenses (note 7)	5,521	5,748
Assays	2,982	2,788
Maintenance and repairs	329	384
Operating materials	449	416
Rentals	1,524	1,874
Energy	407	454
Other	878	830
	121,182	**140,246**

These exploration expenses were mainly incurred in areas of the Fresnillo, Herradura, La Ciénega, Saucito and San Julian mines, the San Ramon satellite mine and Orysivo, Rodeo, Guanajuato and Centauro Deep projects. In addition, exploration expenses of US$7.9 million (2015: US$8.4 million) were incurred in the year on projects located in Peru.

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

	Year ended 31 December	
	2016 **US$ thousands**	2015 US$ thousands
Liabilities related to exploration activities	1,643	917

Liabilities related to exploration activities incurred by the Group operating companies are not included since it is not possible to separate the liabilities related to exploration activities of these companies from their operating liabilities.

Cash flows relating to exploration activities are as follows:

	Year ended 31 December	
	2016 US$ thousands	2015 US$ thousands
Operating cash out flows related to exploration activities	120,457	142,874

7. Personnel expenses

	Year ended 31 December	
	2016 US$ thousands	2015 US$ thousands
Employees' profit sharing	15,145	12,791
Salaries and wages	36,296	36,544
Bonuses	10,233	10,713
Legal contributions	12,979	12,644
Other benefits	8,035	8,084
Vacations and vacations bonus	1,634	2,464
Social security	4,459	5,310
Post-employment benefits[1]	3,567	4,572
Other	8,686	8,262
	101,034	**101,384**

1 Post- employment benefits include US$1.5 million associated to benefits corresponding to the defined contribution plan (2015: US$1.6 million).

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

	Year ended 31 December	
	2016 US$ thousands	2015 US$ thousands
Cost of sales (note 5)	80,360	80,567
Administrative expenses	15,153	15,069
Exploration expenses (note 6)	5,521	5,748
	101,034	**101,384**

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

	Year ended 31 December	
	2016 No.	2015 No.
Mining	1,881	1,812
Plant concentration	550	552
Exploration	454	519
Maintenance	894	755
Administration and other	791	725
Total	**4,570**	**4,362**

8. Other operating income and expenses

	Year ended 31 December	
	2016 US$ thousands	2015 US$ thousands
Other income:		
Rentals	3	166
Selling of scrap	610	5
Other	785	607
	1,398	**778**

	Year ended 31 December	
	2016 US$ thousands	2015 US$ thousands
Other expenses:		
Maintenance[1]	926	1,098
Donations	317	714
Environmental activities	1,005	4,022
Loss on sale of property, plant and equipment	1,103	3,757
Impairment on available-for-sale financial assets	-	2,896
Engineering and design studies	-	974
Consumption tax expensed	940	635
Write-off of property, plant and equipment	3,005	-
Other	3,146	2,554
	10,442	**16,650**

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

9. Finance income and finance costs

	Year ended 31 December	
	2016 US$ thousands	2015 US$ thousands
Finance income:		
Interest on short-term deposits and investments	4,542	1,779
Fair value movement on derivatives[1]	-	61,224
Other	2,416	2,835
	6,958	**65,838**

	Year ended 31 December	
	2016 US$ thousands	2015 US$ thousands
Finance costs:		
Interest on interest-bearing loans	29,006	35,969
Fair value movement on derivatives[1]	40,294	-
Unwinding of discount on provisions	10,476	8,586
Other	547	908
	80,323	**45,463**

1 Principally relates to the time value associated with gold commodity options see note 30 for further detail.

10. Income tax expense

a) Major components of income tax expense:

	Year ended 31 December	
	2016 US$ thousands	2015 US$ thousands
Consolidated income statement:		
Corporate income tax		
Current:		
Income tax charge	167,873	118,410
Amounts over provided in previous years[1]	(1,646)	(29,093)
	166,227	89,317
Deferred:		
Origination and reversal of temporary differences	53,581	31,373
Revaluation effects of Silverstream contract	40,058	8,316
	93,639	39,689
Corporate income tax	**259,866**	129,006
Special mining right		
Current:		
Special mining right charge[2]	24,502	6,384
	24,502	6,384
Deferred:		
Origination and reversal of temporary differences	8,910	7,574
Special mining right	33,412	13,958
Income tax expense reported in the income statement	**293,278**	142,964

1 During 2015, the Group clarified the treatment applied in the computation of the 2014 tax provision regarding the deduction of certain mining-related expenditures. This resulted in an adjustment of US$29.9 million to the 2015 current tax expense with an equal and opposite effect to the deferred tax expense.

2. The special mining right "SMR" allows the deduction of payments of mining concessions rights up to the amount of SMR payable within the same legal entity. During the fiscal year ended 31 December 2016, the Group credited US$12.4 million (2015: US$8.2 million) of mining concession rights against the SMR. Total mining concessions rights paid during the year were US$15.4 million (2015: US$17 million) and have been recognised in the income statement within cost of sales and exploration expenses. Mining concessions rights paid in excess of the SMR cannot be credited to SMR in future fiscal periods, and therefore no deferred tax asset has been recognised in relation to the excess. Without regards to credits permitted under the special mining right (SMR) regime, the current special mining right charge would have been US$36.9 million (2015: US$14.6 million).

	Year ended 31 December	
	2016 US$ thousands	2015 US$ thousands
Consolidated statement of comprehensive income:		
Deferred income tax credit/(charge) related to items recognised directly in other comprehensive income:		
Losses on cash flow hedges recycled to income statement	(355)	(7,927)
Changes in fair value of cash flow hedges	15,875	(11,856)
Changes in fair value of available-for-sale financial assets	(13,418)	3,522
Remeasurement losses on defined benefit plans	(388)	361
Income tax effect reported in other comprehensive income	**1,714**	(15,900)

(b) Reconciliation of the income tax expense at the Group's statutory income rate to income tax expense at the Group's effective income tax rate:

	Year ended 31 December	
	2016 US$ thousands	2015 US$ thousands
Accounting profit before income tax	**718,240**	212,354
Tax at the Group's statutory corporate income tax rate 30.0%	215,472	63,706
Expenses not deductible for tax purposes	2,016	2,983
Inflationary uplift of the tax base of assets and liabilities	(8,933)	(2,626)
Current income tax (over)/underprovided in previous years	(1,303)	(1,142)
Exchange rate effect on tax value of assets and liabilities[1]	90,035	77,473
Non-taxable/non-deductible foreign exchange losses	(2,157)	(5,437)
Inflationary uplift of tax losses	(2,891)	(3,250)
IEPS tax credit (note 10 (e))	(24,020)	-
Deferred tax asset not recognised	3,360	3,025
Special mining right deductible for corporate income tax	(10,024)	(4,187)
Other	(1,689)	(1,539)
Corporate income tax at the effective tax rate of 36.2% (2015: 60.7%)	**259,866**	129,006
Special mining right	33,412	13,958
Tax at the effective income tax rate of 40.8% (2015: 67.3%)	**293,278**	142,964

1 Mainly derived from the tax value of property, plant and equipment.

(c) Movements in deferred income tax liabilities and assets:

	Year ended 31 December	
	2016 US$ thousands	2015 US$ thousands
Opening net liability	(342,195)	(279,046)
Income statement charge arising on corporate income tax	(93,639)	(39,689)
Income statement charge arising on special mining right	(8,910)	(7,574)
Exchange difference	3	14
Net credit/(charge) related to items directly charged to other comprehensive income	1,714	(15,900)
Closing net liability	**(443,027)**	**(342,195)**

The amounts of deferred income tax assets and liabilities as at 31 December 2016 and 2015, considering the nature of the related temporary differences, are as follows:

	Consolidated balance sheet		Consolidated income statement	
	2016 US$ thousands	2015 US$ thousands	**2016 US$ thousands**	2015 US$ thousands
Related party receivables	(199,181)	(124,719)	72,799	(23,393)
Other receivables	(3,725)	(469)	3,256	(2,245)
Inventories	163,113	121,668	(43,868)	21,602
Prepayments	(1,803)	(830)	(10,727)	(17,551)
Derivative financial instruments including Silverstream contract	(134,984)	(137,396)	4,469	44,468
Property, plant and equipment arising from corporate income tax	(351,325)	(330,939)	36,358	38,313
Operating liabilities	24,303	19,871	4,083	35,674
Other payables and provisions	44,733	58,643	13,910	(12,502)
Losses carried forward	66,343	88,593	22,250	(37,857)
Post-employment benefits	1,685	2,049	364	(98)
Deductible profit sharing	3,905	3,740	(226)	(312)
Special mining right deductible for corporate income tax	29,100	21,065	(8,034)	(1,965)
Available-for-sale financial assets	(14,175)	(756)	13,419	(4,391)
Other	(3,581)	(4,192)	(14,414)	(365)
Net deferred tax liability related to corporate income tax	(375,592)	(283,672)		
Deferred tax credit related to corporate income tax	-	-	93,639	39,378
Related party receivables arising from special mining right	(18,764)	(15,207)	3,557	(1,571)
Inventories arising from special mining right	8,274	9,616	1,341	2,280
Property plant and equipment arising from special mining right	(56,945)	(52,932)	4,012	6,865
Net deferred tax liability	**(443,027)**	(342,195)		
Deferred tax credit			**102,549**	46,952
Reflected in the statement of financial position as follows:				
Deferred tax assets	20,023	30,814		
Deferred tax liabilities-continuing operations	(463,050)	(373,009)		
Net deferred tax liability	**(443,027)**	(342,195)		

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to the same fiscal authority.

On the basis of management's internal forecast, a deferred tax asset has been recognised in respect of tax losses amounting to US$221.1 million (2015: US$295.3 million). If not unutilised, US$10.7 million will expire within five years and US$210.4 million will expire between six and ten years.

The Group has further tax losses and other similar attributes carried forward of US$29.1 million (2015: US$23.0 million) on which no deferred tax is recognised due to insufficient certainty regarding the availability of appropriate future taxable profits.

(d) Unrecognised deferred tax on investments in subsidiaries

The Group has not recognised all of the deferred tax liability in respect of distributable reserves of its subsidiaries because it controls them and only part of the temporary differences are expected to reverse in the foreseeable future. The temporary differences for which a deferred tax liability has not been recognised aggregate to US$1,949 million (2015: US$1,449 million).

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

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

During 2016 the Mexican Internal Revenue Law granted to taxpayers a credit in respect of an excise tax (Special Tax on Production and Services, or IEPS for its acronym in Spanish) paid when purchasing diesel used for general machinery and certain mining vehicles. The credit can be applied against either the company's own corporate income tax or the income tax withheld from third parties. The credit is calculated on an entity-by-entity basis and expires one year after the purchase of the diesel. In the year ended 31 December 2016, the Group applied a credit of US$19.1 in respect of the year and recognised a deferred tax asset of US$4.8 in respect of the IEPS incurred in 2016 and expected to be applied during 2017. As the IEPS deduction is itself taxable, the deferred tax asset is recognised at 70% of the IEPS carried forward. The net amount applied by the Group is presented in the reconciliation of the effective tax rate in note 10(b).

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

11. Earnings per share

Earnings per share ('EPS') is calculated by dividing profit for the year attributable to equity shareholders of the Company by the weighted average number of Ordinary Shares in issue during the period.

The Company has no dilutive potential Ordinary Shares.

As of 31 December 2016 and 2015, earnings per share have been calculated as follows:

	Year ended 31 December	
	2016 **US$ thousands**	2015 US$ thousands
Earnings:		
Profit from continuing operations attributable to equity holders of the Company	426,986	70,523
Adjusted profit from continuing operations attributable to equity holders of the Company	333,516	51,119

Adjusted profit is profit as disclosed in the Consolidated Income Statement adjusted to exclude revaluation effects of the Silverstream contract of US$133.5 million gain (US$93.5 million net of tax) (2015: US$27.7 million loss (US$19.4 million net of tax)).

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

	2016 **thousands**	2015 thousands
Number of shares:		
Weighted average number of Ordinary Shares in issue	736,894	736,894

	2016 **US$**	2015 US$
Earnings per share:		
Basic and diluted earnings per share	0.579	0.096
Adjusted basic and diluted earnings per Ordinary Share from continuing operations	0.453	0.069

12. Property, plant and equipment

Year ended 31 December 2015

	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**

Year ended 31 December 2016

	Land and buildings	Plant and Equipment	Mining properties and development costs	Other assets	Construction in Progress	Total
						US$ thousands
Cost						
At 1 January 2016	173,201	1,447,939	1,289,406	217,979	561,623	**3,690,148**
Additions	459	11,423	4,168	(50,304)	441,649	**407,395**
Disposals	-	(12,409)	(4,206)	(161)	-	**(16,776)**
Transfers and other movements	70,315	188,633	218,648	26,391	(503,987)	**-**
At 31 December 2016	243,975	1,635,586	1,508,016	193,905	499,285	**4,080,767**
Accumulated depreciation						
At 1 January 2016	(74,170)	(725,762)	(678,417)	(73,211)	-	**(1,551,560)**
Depreciation for the year[1]	(16,412)	(177,744)	(148,223)	(18,961)	-	**(361,340)**
Write-off of property, plant and equipment	(4)	(2,909)	-	(92)	-	**(3,005)**
Disposals	-	11,048	4,206	101	-	**15,355**
At 31 December 2016	(90,586)	(895,367)	(822,434)	(92,163)	-	**(1,900,550)**
Net Book amount at 31 December 2016	153,389	740,219	685,582	101,742	499,285	**2,180,217**

1 Depreciation for the year includes US$346.5 million (2015: US$331.2 million) recognised as an expense in the cost of sales in the income statement and US$14.8 million (2015: US$14 million), capitalised as part of construction in progress.

The table below details construction in progress by operating mine

	Year ended 31 December	
	2016 US$ thousands	2015 US$ thousands
Saucito	45,197	2,312
Herradura	37,740	36,868
Noche Buena	15,985	3,354
Ciénega	17,348	13,280
Fresnillo	32,703	7,109
San Julián	270,154	431,864
Other	80,158	66,836
	499,285	**561,623**

During the year ended 31 December 2016, the Group capitalised US$18.2 million of borrowing costs within construction in progress (2015: US$ 11.1). Borrowing costs were capitalised at the rate of 5.78% (2015: 5.78%).

Sensitivity analysis

As at 31 December 2016 and 2015, the carrying amount of mining assets was fully supported by the higher of value in use and fair value less cost of disposal (FVLCD) computation of their recoverable amount. Value in use and FVLCD was determined based on the net present value of the future estimated cash flows expected to be generated from the continued use of the CGUs. For both valuation approaches management used price assumptions of US$1,250/ounce and US$18/ounce (2015: US$1,200/ounce and US$18/ounce) for gold and silver, respectively. Management considers that the models supporting the carrying amounts are most sensitive to commodity price assumptions and have therefore performed a sensitivity analysis for those CGUs, where a reasonable possible change in prices could lead to impairment. As at 31 December 2016 the carrying amount of the Herradura mine is US$ 624.6 million, the Noche Buena mine is US$88.1 million (2015: Herradura mine US$654.2 million and Noche Buena mine US$118.8 million) and the San Julián mine US$559.2 which, commenced commercial production in the third quarter of 2016.

The following table sets out the approximate expected impairment that would be recognised in 2016 and 2015 at hypothetical decreases in commodity prices:

	Decrease in commodity prices		Herradura US$ thousands	Noche Buena US$ thousands	San Julian US$ thousands
	Gold	Silver			
Year ended 31 December					
2016 Low sensitivity	10%	10%	-	-	-
High sensitivity	15%	20%	109,603	-	84,310
2015 Low sensitivity	5%	10%	-	-	-
High sensitivity	10%	20%	131,625	4,738	-

13. Available-for-sale financial assets

	Year ended 31 December	
	2016 US$ thousands	2015 US$ thousands
Beginning balance	71,442	86,078
Fair value change	44,729	(14,636)
Ending balance	**116,171**	**71,442**

In 2016 no impairment has arisen based on the investment in quoted shares. During 2015, several investments in quoted shares decreased below the cost paid by the Group therefore an impairment of US$2.9 million was recognised as other expenses in the income statement.

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

14. Silverstream contract

On 31 December 2007, the Group entered into an agreement with Peñoles through which it is entitled to receive the proceeds received by the Peñoles Group in respect of the refined silver sold from the Sabinas Mine ('Sabinas'), a base metals mine owned and operated by the Peñoles Group, for an upfront payment of US$350 million. In addition, a per ounce cash payment of $2.00 in years one to five and $5.00 thereafter (subject to an inflationary adjustment commencing on 31 December 2013) is payable to Peñoles. The cash payment per ounce for the year ended 31 December 2016 was $5.15 per ounce (2015: $5.10 per ounce). Under the contract, the Group has the option to receive a net cash settlement from Peñoles attributable to the silver produced and sold from Sabinas, to take delivery of an equivalent amount of refined silver or to receive settlement in the form of both cash and silver. If, by 31 December 2032, the amount of silver produced by Sabinas is less than 60 million ounces, a further payment is due from Peñoles of US$1 per ounce of shortfall.

The Silverstream contract represents a derivative financial instrument which has been recorded at fair value and classified within non-current and current assets as appropriate. Changes in the contract's fair value, other than those represented by the realisation of the asset through the receipt of either cash or refined silver, are charged or credited to the income statement. In the year ended 31 December 2016 total proceeds received in cash were US$47.5 million (2015: US$39.4 million) of which, US$2.8 million was in respect of proceeds receivable as at 31 December 2015 (2014: US$6.9 million). Cash received in respect of the year of US$44.8 million (2015: US$32.5 million) corresponds to 3.8 million ounces of payable silver (2015: 3.6 million ounces). As at 31 December 2016, a further US$5.9 million (2015: US$2.8 million) of cash corresponding to 538,756 ounces of silver is due (2015: 317,521 ounces).

The US$133.5 million unrealised gain recorded in the income statement (2015: US$27.7 million gain) resulted from the updating of assumptions used to value the Silverstream contract. The most significant of these were the increase in the Sabinas mine silver reserves and resources, the unwinding of the discount and the difference between the payments already received in 2016 and payments estimated in the valuation model as of 31 December 2015.

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

	2016 **US$ thousands**	2015 US$ thousands
Balance at 1 January:	384,771	392,276
Cash received in respect of the year	(44,796)	(32,456)
Cash receivable	(5,974)	(2,769)
Remeasurement gains recognised in profit and loss	133,528	27,720
Balance at 31 December	**467,529**	**384,771**
Less – Current portion	28,718	26,607
Non-current portion	**438,811**	**358,164**

See note 30 for further information on the inputs that have a significant effect on the fair value of this derivative, see note 31 for further information relating to market and credit risks associated with the Silverstream asset.

15. Inventories

	As at 31 December	
	2016 **US$ thousands**	2015 US$ thousands
Finished goods[1]	5,736	1,711
Work in progress[2]	189,047	251,900
Ore stockpile[3]	18,253	-
Operating materials and spare parts	70,348	73,104
	283,384	326,715
Accumulated write-down of work in progress inventory[4]	(2,269)	(22,578)
Allowance for obsolete and slow-moving inventories	(4,265)	(3,562)
Balance as 31 December at lower of cost and net realisable value	**276,850**	**300,575**
Less - Current portion	**187,499**	**224,200**
Non-current portion[5]	**89,351**	**76,375**

1 Finished goods include metals contained in concentrates and doré bars, and concentrates on hand or in transit to a smelter or refinery.

2 Work in progress includes metals contained in ores on leaching pads.

3 Ore stockpile includes ore mineral obtained during the development phase at San Julián.

4 Corresponds to ore inventory of the Soledad-Dipolos mine resulting from net realisable value calculations. (31 December 2015: Corresponds to ore inventory at Noche Buena and Soldead-Dipolos)

5 The non-current inventories are expected to be processed more than 12 months from the reporting date.

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

The amount of inventories recognised as an expense in the year was US$1,042.4 million (2015: US$1,001.0 million). The adjustment to the net realisable value allowance against work-in-progress inventory decreased US$20.3 million during the year (2015: US$5.0 million increase). The adjustment to the allowance for obsolete and slow-moving inventory recognised as an expense was US$0.7 million (2015: US$0.9 million).

16. Trade and other receivables

	Year ended 31 December	
	2016 US$ thousands	2015 US$ thousands
Trade and other receivables from related parties (note 27)[1]	189,619	115,805
Value Added Tax receivable	70,426	99,948
Advances and other receivable from contractors	14,651	13,641
Other receivables from related parties (note 27)	5,973	2,769
Loans granted to contractors	1,401	2,595
Other receivables arising on the sale of fixed assets	386	759
Other receivables	4,693	2,775
	287,149	238,292
Provision for impairment of 'other receivables'	(471)	(300)
Trade and other receivables classified as current assets	**286,678**	**237,992**
Other receivables classified as non-current assets:		
Loans granted to contractors	990	2,289
	990	**2,289**
	287,668	**240,281**

1 Trade receivables from related parties' includes the fair value of embedded derivatives arising due to provisional pricing in sales contracts of US$(2.8) million as at 31 December 2016 (2015: US$(0.5) million).

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

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

The total receivables denominated in US$ were US$206.8 million (2015: US$127 million), and in pesos US$80.9 million (2015: US$113.3 million).

As of 31 December for each year presented, with the exception of 'other receivables' in the table above, all trade and other receivables were neither past due nor impaired. The amount past due and considered as impaired as of 31 December 2016 is US$0.5 million (2015: US$0.3 million).

In determining the recoverability of receivables, the Group performs a risk analysis considering the type and age of the outstanding receivable and the credit worthiness of the counterparty, see note 31(b).

17. Cash and cash equivalents and short term investments

The Group considers cash and cash equivalents and short term investments when planning its operations and in order to achieve its treasury objectives.

	As at 31 December	
	2016 US$ thousands	2015 US$ thousands
Cash at bank and on hand	2,592	4,104
Short-term deposits	709,362	377,316
Cash and cash equivalents	**711,954**	**381,420**

Cash at bank earns interest at floating rates based on daily bank deposits. Short-term deposits are made for varying periods of between one day and four months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates. Short-term deposits can be withdrawn at short notice without any penalty or loss in value.

	As at 31 December	
	2016 US$ thousands	2015 US$ thousands
Short-term investments	**200,000**	**118,718**

Short-term investments are made for fixed periods no longer than four months and earn interest at fixed rates without an option for early withdrawal. As at 31 December 2016 short-term investments are held in fixed-term bank deposits of US$200,000 (31 December 2015: US$118,718).

18. Equity

Share capital and share premium

Authorised share capital of the Company is as follows:

	As at 31 December			
	2016		2015	
Class of share	Number	Amount	Number	Amount
Ordinary Shares each of US$0.50	1,000,000,000	$500,000,000	1,000,000,000	$500,000,000
Sterling Deferred Ordinary Shares each of £1.00	50,000	£50,000	50,000	£50,000

Issued share capital of the Company is as follows:

	Ordinary Shares		Sterling Deferred Ordinary Shares	
	Number	US$	Number	£
At 1 January 2015	736,893,589	$368,545,586	50,000	£50,000
At 31 December 2015	736,893,589	$368, 545,586	50,000	£50,000
At 31 December 2016	736,893,589	$368, 545,586	50,000	£50,000

As at 31 December 2016 and 2015, all issued shares with a par value of US$0.50 each are fully paid. The rights and obligations attached to these shares are governed by law and the Company's Articles of Association. Ordinary shareholders are entitled to receive notice and to attend and speak at any general meeting of the Company. There are no restrictions on the transfer of the Ordinary shares.

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

Reserves

Share premium

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

Capital reserve

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

Hedging reserve

This reserve records the portion of the gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge, net of tax. When the hedged transaction occurs, the gain or the loss is transferred out of equity to the income statement or the value of other assets.

Available-for-sale financial assets reserve

This reserve records fair value changes on available-for-sale investments, net of tax. On disposal or on impairment, the cumulative changes in fair value are recycled to the income statement.

Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial information of entities with a functional currency different to that of the presentational currency of the Group.

Retained earnings/accumulated losses

This reserve records the accumulated results of the Group, less any distributions and dividends paid.

19. Dividends declared and paid

The dividends declared and paid during the years ended 31 December 2016 and 2015 are as follows:

	US cents per Ordinary Share	Amount US$ thousands
Year ended 31 December 2016		
Final dividend for 2015 declared and paid during the year[1]	3.3	24,686
Interim dividend for 2016 declared and paid during the year[2]	8.6	63,373
	11.9	**88,059**
Year ended 31 December 2015		
Final dividend for 2014 declared and paid during the year[3]	3.0	22,107
Interim dividend for 2015 declared and paid during the year[4]	2.1	15,475
	5.1	**37,582**

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

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

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

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

20. Interest-bearing loans

Senior Notes

On 13 November 2013, the Group completed its offering of US$800 million aggregate principal amount of 5.500% Senior Notes due 2023 (the "notes").

Movements in the year in the debt recognised in the balance sheet are as follows:

	As at 31 December	
	2016 US$ thousands	2015 US$ thousands
Opening balance	797,032	796,160
Accrued interest	46,267	46,267
Interest paid[1]	(46,267)	(46,267)
Amortisation of discount and transaction costs	995	872
Closing balance	798,027	797,032

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

The Group has the following restrictions derived from the issuance of the senior notes (the Notes):

Change of control:

Should the rating of the senior notes be downgraded as a result of a change of control (defined as the sale or transfer of 35% or more of the common shares; the transfer of all or substantially all the assets of the Group; starting a dissolution or liquidation process; or the loss of the majority in the board of directors) the Group is obligated to repurchase the notes at an equivalent price of 101% of their nominal value plus the interest earnt at the repurchase date, if requested to do so by any creditor.

Pledge on assets:

The Group shall not pledge or allow a pledge on any property that may have a material impact on business performance (key assets). Nevertheless, the Group may pledge the aforementioned properties provided that the repayment of the Notes keeps the same level of priority as the pledge on those assets.

21. Provision for mine closure cost

The provision represents the discounted values of the estimated cost to decommission and rehabilitate the mines at the estimated date of depletion of mine deposits. The discount rate used in the calculation of the provision as at 31 December 2016 is in a range of 6.61% to 7.74% (2015: range of 4.65% to 7.13%). Uncertainties in estimating these costs include potential changes in regulatory requirements, decommissioning, dismantling, reclamation alternatives, timing, and the discount, foreign exchange and inflation rates applied.

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

The provision is expected to become payable at the end of the production life of each mine, based on the reserves and resources, which ranges from 3 to 27 years from 31 December 2016 (4 to 21 years from 31 December 2015).

	As at 31 December	
	2016 US$ thousands	2015 US$ thousands
Opening balance	**195,476**	**153,802**
Increase to existing provision	(21,745)	48,680
Effect of changes in discount rate	(13,570)	7,341
Unwinding of discount	10,476	8,586
Payments	(472)	-
Foreign exchange	(21,056)	(22,933)
Closing balance	**149,109**	**195,476**

22. Pensions and other post-employment benefit plans

The Group has a defined contribution plan and a defined benefit plan.

The defined contribution plan was established as 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 2016	Service cost	Net Interest	Foreign Exchange	Sub-total recognised in the year	Benefits paid	Return on plan assets (excluding amounts included in net interest	Actuarial changes arising from changes in demographic assumptions	Actuarial changes arising from changes in financial assumptions	Experience adjustments	Foreign exchange	Sub-total included in OCI	Contributions by employer	Defined benefit increase due to personnel transfer	Balance at 31 December 2016
															US$ thousands
Defined benefit obligation	(32,165)	(649)	(1,803)	5,573	3,121	816	-	(744)	2,636	1,103	-	2,995	-	(144)	(25,377)
Fair value of plan assets	17,631	-	927	(3,003)	(2,076)	(432)	(552)	-	-	-	-	(552)	1,570	141	16,282
Net benefit liability	(14,534)	(649)	(876)	2,570	1,045	384	(552)	(744)	2,636	1,103	-	2,443	1,570	(3)	(9,095)

		Pension cost charge to income statement					Remeasurement gains/(losses) in OCI								
	Balance at 1 January 2015	Service cost	Net Interest	Foreign Exchange	Sub-total recognised in the year	Benefits paid	Return on plan assets (excluding amounts included in net interest	Actuarial changes arising from changes in demographic assumptions	Actuarial changes arising from changes in financial assumptions	Experience adjustments	Foreign exchange	Sub-total included in OCI	Contributions by employer	Defined benefit increase due to personnel transfer	Balance at 31 December 2015
															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 of plan assets	19,826	-	1,121	(2,954)	(1,833)	(758)	(706)	-	-	-	-	(706)	1,065	37	17,631
Net benefit liability	(13,838)	(1,024)	(860)	2,131	247	273	(706)	(577)	(1,160)	170	-	(2,273)	1,065	(8)	(14,534)

Of the total defined benefit obligation, US$6.7 million (2015: US$8.6 million) relates to statutory seniority premiums for unionised workers which are not funded. The expected contributions to the plan for the next annual reporting period are nil.

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

	As at 31 December	
	2016 **%**	2015 %
Discount rate	7.52	6.79
Future salary increases (NCPI)	5.0	5.0

The mortality assumptions are that for current and future pensioners, men and women aged 65 will live on average for a further 22.3 and 25.5 years respectively (2015: 20.2 years for men and 23.4 for women). The weighted average duration of the defined benefit obligation is 12.1 years (2015: 11.7 years).

The fair values of the plan assets were as follows:

	As at 31 December	
	2016 **US$ thousands**	2015 US$ thousands
Government debt	746	1,084
State owned companies	3,914	3,017
Mutual funds (fixed rates)	11,622	13,530
	16,282	**17,631**

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

A quantitative sensitivity analysis for significant assumptions as at 31 December 2016 is as shown below:

Assumptions	Discount rate		Future salary increases (NCPI)		Life expectancy of pensioners
Sensitivity Level	0.5% Increase	0.5% Decrease	0.5% increase	0.5% decrease	+ 1 Increase
(Decrease)/increase to the net defined benefit obligation (US$ thousands)	(1,352)	1,491	552	239	186

The sensitivity analysis above has been determined based on a method that extrapolates the impact on net defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period. The pension plan is not sensitive to future changes in salaries other than in respect of inflation.

23. Trade and other payables

	As at 31 December	
	2016 **US$ thousands**	2015 US$ thousands
Trade payables	68,216	53,303
Other payables to related parties (note 27)	3,173	4,137
Accrued expenses	16,797	15,988
Other taxes and contributions	33,447	16,202
	121,633	**89,630**

Trade payables are mainly for the acquisition of materials, supplies and contractor services. These payables do not accrue interest and no guarantees have been granted. The fair value of trade and other payables approximate their book values.

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 31.

24. Commitments

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

	As at 31 December	
	2016 US$ thousands	2015 US$ thousands
Saucito	32,933	29,131
Herradura	29,544	13,897
Noche Buena	3,677	285
Ciénega	6,454	7,685
Fresnillo	12,079	6,181
San Julián	39,895	86,301
Other[1]	20,133	2,029
	144,715	**145,509**

1 Other includes commitments from Minera Bermejal, S. de R.L. de C.V. and Minera Juanicipio, S.A. de C.V. (2015: Minera Juanicipio, S.A. de C.V.)

25. Operating leases

(a) Operating leases as lessor

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

	As at 31 December	
	2016 US$ thousands	2015 US$ thousands
Within one year	1,095	1,984
After one year but not more than five years	1,875	487
	2,970	2,471

(b) Operating leases as lessee

The Group has financial commitments in respect of non-cancellable operating leases for land, offices and equipment. These leases have renewal terms at the option of the lessee with future lease payments based on market prices at the time of renewal. There are no restrictions placed upon the Group by entering into these leases.

The Group has put in place several arrangements to finance mine equipment through loans and the sale of mine equipment to contractors. In both cases, contractors are obligated to use these assets in rendering services to the Group as part of the mining work contract, during the term of financing or credit, which ranges from two to six years. The Group considers that the related mining work contracts contain embedded operating leases.

The future minimum rental commitments under these leases are as follows:

	As at 31 December	
	2016 US$ thousands	2015 US$ thousands
Within one year	6,790	2,720
After one year but not more than five years	3,399	3,115
	10,189	5,835

	As at 31 December	
	2016 US$ thousands	2015 US$ thousands
Minimum lease payments expensed in the year	4,142	8,008

26. Contingencies

As of 31 December 2016, the Group has the following contingencies:

- The Group is subject to various laws and regulations which, if not observed, could give rise to penalties.
- Tax periods remain open to review by the Mexican tax authorities in respect of income taxes for five years following the date of the filing of corporate income tax returns, during which time the authorities have the right to raise additional tax assessments including penalties and interest. Under certain circumstances, the reviews may cover longer periods.
- In addition, because a number of tax periods remain open to review by the tax authorities, there is a risk that transactions, and in particular related party transactions, that have not been challenged in the past by the authorities, may be challenged by them in the future, and this may result in the raising of additional tax assessments plus penalties and interest. It is not practical to determine the amount of any such potential claims or the likelihood of any unfavourable outcome. However, management believes that its interpretation of the relevant legislation is appropriate and that the Group has complied with all regulations and paid or accrued all taxes and withholdings that are applicable.
- During 2015 the Mexican tax authorities (SAT) commenced a tax audit at Minera Penmont relating to the fiscal years 2012 and 2013. The Group considers that it has provided all documentation required to demonstrate that all non-taxable income and tax deductions taken over these years are appropriate. SAT is currently evaluating the information provided by the company. The company has formally filed a writ before the Mexican Taxpayers Ombudsman (PRODECON per its acronym in Spanish) in order to request a conclusive agreement in this matter.
- On 8 May 2008, the Company and Peñoles entered into the Separation Agreement (the 'Separation Agreement'). This agreement relates to the separation of the Group and the Peñoles Group and governs certain aspects of the relationship between the Fresnillo Group and the Peñoles Group following the initial public offering in May 2008 ('Admission'). The Separation Agreement provides for cross-indemnities between the Company and Peñoles so that, in the case of Peñoles, it is held harmless against losses, claims and liabilities (including tax liabilities) properly attributable to the precious metals business of the Group and, in the case of the Company, it is held harmless by Peñoles against losses, claims and liabilities which are not properly attributable to the precious metals business. Save for any liability arising in connection with tax, the aggregate liability of either party under the indemnities shall not exceed US$250 million in aggregate.
- Peñoles has agreed to indemnify the Fresnillo Group in relation to (i) any tax charge, subject to certain exceptions, the Company may incur as a result of the Pre-IPO Reorganisation (including as a result of a transaction following Admission of a member of the Fresnillo Group, provided that Peñoles has confirmed that the proposed transaction will not give rise to a tax charge, or as a result of a transaction of a member of the Peñoles Group on or after Admission), the Global Offer or Admission and (ii) certain tax aspects of certain other pre-Admission transactions. Peñoles' liability under these indemnities and in respect of general tax liabilities arising pre-Admission which are not properly attributable to the precious metals business of the Fresnillo Group shall not exceed US$500 million. If a member of the Fresnillo Group forming part of Peñoles' tax consolidation pays an intra-group dividend in excess of its net income tax account ('Cuenta de Utilidad Fiscal Neta' o 'CUFIN') account after Admission and is relieved of tax as a result of the consolidation, it is required to pay Peñoles an amount in respect of that tax.
- On 30 November 2012, the Mexican government enacted a new federal labour law. During 2014 management implemented certain actions as a part of an ongoing process in order to manage the exposure resulting from the issuance of the new labour law including any potential impacts on the operations and financial position of the Group, however management does not expect any potential contingency or significant effect on the Group's financial statements as at 31 December 2016 and going forward.
- In regard to the ejido El Bajio matter previously reported by the Company:
- In 2009 five members of the El Bajio agrarian community in the state of Sonora, who claimed rights over certain surface land in the proximity of the operations of Minera Penmont ("Penmont"), submitted a legal claim before the Unitarian Agrarian Court (Tribunal Unitario Agrario) of Hermosillo, Sonora, to have Penmont vacate an area of this surface land. The land in dispute encompassed a portion of surface area where part of the operations of the Soledad-Dipolos mine are located. The litigation resulted in a definitive court order, pursuant to which Penmont was ordered to vacate 1,824 hectares of land. The disputed land was returned in July 2013, resulting in the suspension of operations at Soledad-Dipolos.
- The Agrarian Magistrate noted in 2013 that certain remediation activities were necessary and requested the guidance of the Federal Environmental Agency (SEMARNAT) in this respect. The Agrarian Magistrate further issued a procedural order in execution of his ruling determining, amongst other aspects, that Penmont must remediate the lands to the state they were in before Penmont's occupation.
- In the opinion of the Company, this procedural order was excessive since this level of remediation was not part of the original agrarian ruling and also because the procedural order appeared not to consider the fact that Penmont conducted its activities pursuant to valid mining concessions and environmental impact permits. In December 2016, the Unitarian Agrarian Court issued a subsequent procedural order in which the Court recognised that Penmont complied with the agrarian ruling by having returned the land in dispute and, furthermore, that remediation activities are to be conducted in accordance with Federal environmental guidelines and regulations, as supervised by the competent Federal authorities. Remediation activities in this respect are pending as the agrarian members have not yet permitted Penmont physical access to the lands. Penmont has already presented a conceptual mine closure and remediation plan before the Unitarian Agrarian Court in respect of the approximately 300 hectares where Penmont conducted mining activities. The agrarian community Ejido El Bajio has appealed this procedural order from December 2016 and the final result of the appeal is pending.

- In connection with the foregoing matters, and as previously reported by the Company in prior years, members of the El Bajio agrarian community presented a separate claim before the Unitarian Agrarian Court, alleging US$65 million in damages as well as requesting the cancellation of Penmont's mining concessions and environmental permits within the El Bajio lands. In April 2016, the Unitarian Agrarian Court issued a final and definitive ruling on the matter rejecting the claim, which is consistent with the Company's view, as previously reported, that this lawsuit had no merit.
- In addition, and as also previously reported by the Company, claimants in the El Bajio matter presented other claims against occupation agreements they entered into with Penmont, covering land parcels separate from the land described above. Penmont has no significant mining operations or specific geological interest in the affected parcels and these lands are therefore not considered strategic for Penmont. As previously reported, the Unitarian Agrarian Court issued rulings declaring such occupation agreements over those land parcels to be null and void and that Penmont must remediate such lands to the state that they were in before Penmont's occupation as well as returning any minerals extracted from this area. Given that Penmont has not conducted significant mining operations or has specific geological interest in these land parcels, any contingency relating to such land parcels is not considered material by the Company. The case relating to the claims over these land parcels remains subject to finalisation.
- Various claims and counterclaims have been made between the relevant parties in the El Bajio matter. There remains significant uncertainty as to the finalisation and ultimate outcome of these legal proceedings.

27. Related party balances and transactions

The Group had the following related party transactions during the years ended 31 December 2016 and 2015 and balances as at 31 December 2016 and 2015.

Related parties are those entities owned or controlled by the ultimate controlling party, as well as those who have a minority participation in Group companies and key management personnel of the Group.

(a) Related party balances

	Accounts receivable		Accounts payable	
	As at 31 December		As at 31 December	
	2016 US$ thousands	2015 US$ thousands	**2016 US$ thousands**	2015 US$ thousands
Trade:				
Metalúrgica Met-Mex Peñoles, S.A. de C.V.	189,584	115,786	301	130
Other*:*				
Industrias Peñoles, S.A.B. de C.V.	5,974	2,769	-	-
Servicios Administrativos Peñoles, S.A. de C.V.	-	-	1,612	366
Servicios Especializados Peñoles, S.A. de C.V.	-	-	36	1,804
Fuerza Eólica del Istmo S.A. de C.V.	-	-	-	916
Other	34	19	1,224	921
Sub–total	195,592	118,574	3,173	4,137
Less–current portion	195,592	118,574	3,173	4,137
Non-current portion	-	-	-	-

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

Other balances with related parties:

	Year ended 31 December	
	2016 US$ thousands	2015 US$ thousands
Silverstream contract:		
Industrias Peñoles, S.A.B. de C.V.	467,529	384,771

The Silverstream contract can be settled in either silver or cash. Details of the Silverstream contract are provided in note 14.

(b) Principal transactions with affiliates, including Industrias Peñoles S.A.B de C.V., the Company's parent, are as follows:

	Year ended 31 December	
	2016 US$ thousands	2015 US$ thousands
Income:		
Sales:[1]		
Metalúrgica Met-Mex Peñoles, S.A. de C.V.	1,905,503	1,458,413
Other income	2,381	982
Total income	**1,907,884**	**1,459,395**

1 Figures do not include hedging gains as the derivative transactions are not undertaken with related parties. Figures are net of the adjustment for treatment and refining charges of US$141.1 million (2015: US$142.48 million) and include sales credited to development projects of US$1.6 million (2015: US$17.9 million).

	Year ended 31 December	
	2016 US$ thousands	2015 US$ thousands
Expenses:		
Administrative services[2]*:*		
Servicios Administrativos Peñoles, S.A. de C.V.[3]	24,309	23,655
Servicios Especializados Peñoles, S.A. de C.V.	16,015	17,701
	40,324	41,356
Energy:		
Termoelectrica Peñoles, S. de R.L. de C.V.	16,011	20,332
Fuerza Eólica del Istmo S.A. de C.V.	1,794	6,713
	17,805	27,045
Operating materials and spare parts:		
Wideco Inc	5,254	6,368
Metalúrgica Met-Mex Peñoles, S.A. de C.V.	3,140	3,320
	7,347	9,688
Equipment repair and administrative services:		
Serviminas, S.A. de C.V.	8,268	3,860
Property, plant and equipment		
Equipos Industriales Naica, S.A. de C.V.	-	1,065
Insurance premiums:		
Grupo Nacional Provincial, S.A. B. de C.V.	7,155	8,382
Other expenses:	2,085	2,693
Total expenses	**84,031**	**94,089**

2 Includes US$4.7 million (2015: US$4.1 million) corresponding to expenses reimbursed.

3 Includes US$9.5 million (2015: US$8.2 million) relating to engineering costs that were capitalised.

(c) Compensation of key management personnel of the Group

Key management personnel include the members of the Board of Directors and the Executive Committee who receive remuneration.

	Year ended 31 December	
	2016 US$ thousands	2015 US$ thousands
Salaries and bonuses	2,416	3,311
Post-employment benefits	208	257
Other benefits	345	379
Total compensation paid in respect of key management personnel	**2,969**	3,947

	Year ended 31 December	
	2016 US$ thousands	2015 US$ thousands
Accumulated accrued defined pension entitlement	4,237	4,859

This compensation includes amounts paid to directors disclosed in the Directors' Remuneration Report.

The accumulated accrued defined pension entitlement represents benefits accrued at the time the benefits were frozen. There are no further benefits accruing under the defined benefit scheme in respect of current services.

28. Auditor's remuneration

Fees due by the Group to its auditor during the year ended 31 December 2016 and 2015 are as follows:

	Year ended 31 December	
Class of services	**2016 US$ thousands**	2015 US$ thousands
Fees payable to the Group's auditor for the audit of the Group's annual accounts	1,149	1,274
Fees payable to the Group's auditor and its associates for other services as follows:		
The audit of the Company's subsidiaries pursuant to legislation	222	338
Audit-related assurance services	350	328
Tax compliance services	21	24
Tax advisory services	-	16
Other assurance services	-	-
Total	**1,742**	1,980

29. Notes to the consolidated statement of cash flows

	Notes	2016 US$ thousands	2015 US$ thousands
Reconciliation of profit for the year to net cash generated from operating activities			
Profit for the year		**424,962**	**69,390**
Adjustments to reconcile profit for the period to net cash inflows from operating activities:			
Depreciation and amortisation	5	346,502	331,209
Employee profit sharing	7	15,145	13,170
Deferred income tax	10	102,549	47,263
Current income tax expense	10	190,729	95,701
Loss on the sale of property, plant and equipment and other assets	8	1,103	3,757
Other losses		981	3,353
Write-off of property, plant and equipment		3,005	-
Impairment of available-for-sale financial assets	8	-	2,896
Net finance costs		33,019	41,913
Foreign exchange (gain)/loss		(539)	18,991
Difference between pension contributions paid and amounts recognised in the income statement		(944)	(314)
Non cash movement on derivatives		40,345	(62,288)
Changes in fair value of Silverstream	14	(133,528)	(27,720)
Working capital adjustments			
(Increase)/decrease in trade and other receivables		(39,526)	58,219
Decrease in prepayments and other assets		113	891
Decrease in inventories		23,725	5,037
Increase/(decrease) in trade and other payables		5,133	(12,820)
Cash generated from operations		**1,012,774**	**588,648**
Income tax paid		(102,255)	(34,517)
Employee profit sharing paid		(12,561)	(11,237)
Net cash from operating activities		**897,958**	**542,894**

30. Financial instruments
(a) Fair value category

As at 31 December 2016

US$ thousands

Financial assets:	At fair value through profit or loss	Available-for-sale investments at fair value through OCI	Loans and receivables	At fair value through OCI (cash flow hedges)
Trade and other receivables[1] (note 16)	-	-	213,750	-
Available-for-sale financial assets (note 13)	-	116,171	-	-
Silverstream contract (note 14)	467,529	-	-	-
Derivative financial instruments (note 30)	145	-	-	23,005

Financial liabilities:	At fair value through profit or loss	At amortised Cost	At fair value through OCI (cash flow hedges)
Interest-bearing loans (note 20)	-	798,027	-
Trade and other payables (note 23)	-	70,442	-
Embedded derivatives within sales contracts[1] (note 4)	2,750	-	-
Derivative financial instruments (note 30)	-	-	646

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

Financial assets:	At fair value through profit or loss	Available-for-sale investments at fair value through OCI	Loans and receivables	At fair value through OCI (cash flow hedges)
				As at 31 December 2015
				US$ thousands
Trade and other receivables[1] (note 16)	-	-	127,224	-
Available-for-sale financial assets (note 13)	-	71,442	-	-
Silverstream contract (note 14)	384,771	-	-	-
Derivative financial instruments (note 30)	1	-	-	117,074
Financial liabilities:		At fair value through profit or loss	At amortised Cost	At fair value through OCI (cash flow hedges)
Interest-bearing loans (note 20)		-	797,032	-
Trade and other payables (note 23)		-	97,440	-
Embedded derivatives within sales contracts[1] (note 4)		532	-	-
Derivative financial instruments (note 30)		-	-	1,427

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

(b) Fair value measurement

The fair value of financial assets and liabilities, together with the carrying amounts shown in the balance sheet are as follows:

	Carrying amount		Fair value	
				As at 31 December
	2016 US$ thousands	2015 US$ thousands	**2016 US$ thousands**	2015 US$ thousands
Financial assets:				
Available-for-sale financial assets	116,171	71,442	116,171	71,442
Silverstream contract (note 14)	467,529	384,771	467,529	384,771
Derivative financial instruments	23,150	117,075	23,150	117,075
Financial liabilities:				
Interest-bearing loans[1] (note 20)	798,027	797,032	840,904	805,352
Embedded derivatives within sales contracts	2,750	532	2,750	532
Derivative financial instruments	646	1,427	646	1,427

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

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

As of 31 December 2016				
	Fair value measure using			
	Quoted prices in active markets Level 1 US$ thousands	Significant observable Level 2 US$ thousands	Significant unobservable Level 3 US$ thousands	Total US$ thousands
Financial assets:				
Derivative financial instruments:				
Options commodity contracts	-	23,005	-	23,005
Options and forward foreign exchange contracts	-	145	-	145
Silverstream contract	-	-	467,529	467,529
	-	**23,150**	**467,529**	**490,679**
Financial investments available-for-sale:				
Quoted investments	116,171	-	-	116,171
	116,171	**23,150**	**467,529**	**606,850**
Financial liabilities:				
Derivative financial instruments:				
Embedded derivatives within sales contracts	-	-	2,750	2,750
Options commodity contracts	-	66	-	66
Options and forward foreign exchange contracts	-	580	-	580
	-	**646**	**2,750**	**3,396**

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

There have been no significant transfers between Level 1 and Level 2 of the fair value hierarchy, and no transfers into and out of Level 3 fair value measurements.

A reconciliation of the opening balance to the closing balance for Level 3 financial instruments other than Silverstream (which is disclosed in note 14) is shown below:

	2016 US$ thousands	2015 US$ thousands
Balance at 1 January:	(532)	(2,911)
Changes in fair value	(1,718)	(11,511)
Realised embedded derivatives during the year	(500)	13,890
Balance at 31 December	**(2,750)**	**(532)**

The fair value of the financial assets and liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following valuation techniques were used to estimate the fair values:

Option and forward foreign exchange contracts
The Group enters into derivative financial instruments with various counterparties, principally financial institutions with investment grade credit ratings. The foreign currency forward (Level 2) contracts are measured based on observable spot exchange rates, the yield curves of the respective currencies as well as the currency basis spreads between the respective currencies. The foreign currency option contracts are valued using the Black Scholes model, the significant inputs to which include observable spot exchange rates, interest rates and the volatility of the currency.

Option commodity contracts
The Group enters into derivative financial instruments with various counterparties, principally financial institutions with investment grade credit ratings. The option commodity (Level 2) contracts are measured based on observable spot commodity prices, the yield curves of the respective commodity as well as the commodity basis spreads between the respective commodities. The option contracts are valued using the Black Scholes model, the significant inputs to which include observable spot commodities price, interest rates and the volatility of the commodity.

Silverstream contract
The fair value of the Silverstream contract is determined using a valuation model including unobservable inputs (Level 3). This derivative has a term of over 20 years and the valuation model utilises a number of inputs that are not based on observable market data due to the nature of these inputs and/or the duration of the contract. Inputs that have a significant effect on the recorded fair value are the volume of silver that will be produced and sold from the Sabinas mine over the contract life, the future price of silver, future foreign exchange rates between the Mexican peso and US dollar, future inflation and the discount rate used to discount future cash flows.

The estimate of the volume of silver that will be produced and sold from the Sabinas mine requires estimates of the recoverable silver reserves and resources, the related production profile based on the Sabinas mine plan and the expected recovery of silver from ore mined. The estimation of these inputs is subject to a range of operating assumptions and may change over time. Estimates of reserves and resources are updated annually by Peñoles, the operator and sole interest holder in the Sabinas mine and provided to the Company. The production profile and estimated payable silver that will be recovered from ore mined is based on the latest plan and estimates, also provided to the Company by Peñoles. The inputs assume no interruption in production over the life of the Silverstream contract and production levels which are consistent with those achieved in recent years

Management regularly assesses a range of reasonably possible alternatives for those significant unobservable inputs described above, and determines their impact on the total fair value. The significant unobservable inputs are not interrelated. The fair value of the Silverstream is not significantly sensitive to a reasonable change in future exchange rates, however, it is to a reasonable change in future silver price, future inflation and the discount rate used to discount future cash flows.

For further information relating to the Silverstream contract see note 14. The sensitivity of the valuation to the inputs relating to market risks, being the price of silver, foreign exchange rates, inflation and the discount rate is disclosed in note 31.

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

Interest-bearing loans

Fair value of the Group's interest-bearing loan, is derived from quoted market prices in active markets. (Level 1)

Embedded derivatives within sales contracts:
Sales of concentrates, precipitates and doré bars are 'provisionally priced' and revenue is initially recognised using this provisional price and the Group's best estimate of the contained metal. Revenue is subject to final price and metal content adjustments subsequent to the date of delivery (see note 2 (p)). This price exposure is considered to be an embedded derivative and is separated from the sales contract.

At each reporting date, the provisionally priced metal content is revalued based on the forward selling price for the quotational period stipulated in the relevant sales contract. The selling price of metals can be reliably measured as these metals are actively traded on international exchanges but the estimated metal content is a non-observable input to this valuation (Level 3).

At 31 December 2016 the fair value of embedded derivatives within sales contracts was US$(2.7) million (2015: US$(0.5) million). The revaluation effects of embedded derivatives arising from these sales contracts are recorded as an adjustment to revenues.

(c) Derivative financial instruments

The Group enters into certain forward and option contracts in order to manage its exposure to foreign exchange risk associated with costs incurred in Mexican pesos and other currencies. The Group also enters into option contracts to manage its exposure to commodity price risk as described in note 2 (s).

The following tables summarise the fair value of derivative financial instruments held as of 31 December 2016 and 2015.

Financial assets	As at 31 December	
	2016 US$ thousands	2015 US$ thousands
Currency contracts		
Forward contracts:		
Euro	145	1
Swedish krona	-	1
Option Contracts[1]:		
US dollar	-	78
Commodity contracts		
Option Contracts[1]:		
Gold	23,005	113,000
Lead	-	1,060
Zinc	-	2,935
Total derivative related assets	**23,150**	**117,075**
Less – Current portion	**6,618**	**19,602**
Non-current portion[2]	**16,532**	**97,473**

Financial liabilities	As at 31 December	
	2016 US$ thousands	2015 US$ thousands
Currency contracts		
Forward contracts:		
Euro	570	-
Canadian dollar	10	-
Option Contracts[1]:		
US dollar	-	1,427
Commodity contracts		
Option Contracts[1]:		
Gold	16	-
Lead	2	-
Zinc	48	-
Total derivative related liabilities	**646**	**1,427**
Less – Current portion	**630**	**1,427**
Non-current portion[2]	**16**	**-**

1 Option contracts operate as zero cost collars.

2 Non-current portion corresponds to Gold option contracts that mature in a period over one year from the reporting date until 30 December 2019.

The following table summarises the movements in deferred gains or losses on foreign exchange and price commodity derivative instruments qualifying for hedge accounting, net of tax effects, recorded in other comprehensive income for the year:

	As at 31 December	
	2016 US$ thousands	2015 US$ thousands
Beginning balance	36,214	(9,946)
Gains recycled to revenue during the year	(1,586)	(2,167)
Losses recycled to cost of sales during the year	2,770	28,589
Unrealised (losses)/gains before tax arising during the year	(52,918)	39,521
Deferred tax effect recorded in other comprehensive income during the year	15,520	(19,783)
Ending balance	**-**	**36,214**

31. Financial risk management

Overview

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

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

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

Credit risk

Liquidity risk

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

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

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

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

(a) Market risk

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

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

Foreign currency risk

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

In order to manage the Group's exposure to foreign currency risk on expenditure denominated in currencies other than the US dollar, the Group has entered into certain forward and option derivative contracts with maturity dates from 2017 (see note 30 for additional detail).

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

Year ended 31 December	Strengthening/ (weakening) of US dollar	Effect on profit before tax: increase/ (decrease) US$ thousands	Effect on equity: increase/ (decrease) US$ thousands
2016	15%	78	-
	(10%)	(67)	-
2015	10%	(4,235)	7,809
	(10%)	5,192	(2,213)

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

Year ended 31 December	Strengthening/ (weakening) of US dollar	Effect on profit before tax: increase/ (decrease) US$ thousands
2016	10%	(63)
	(10%)	94
2015	5%	213
	(10%)	(78)

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

Year ended 31 December	Strengthening/ (weakening) of US dollar	Effect on profit before tax: increase/ (decrease) US$ thousands	Effect on equity: increase/ (decrease) US$ thousands
2016	5%	459	-
	(10%)	(1,024)	-
2015	10%	-	-
	(10%)	-	-

Foreign currency risk – Silverstream

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

Year ended 31 December	Strengthening/ (weakening) of US dollar	Effect on profit before tax: increase/ (decrease) US$ thousands
2016	15%	(1,436)
	(10%)	1,223
2015	10%	(1,622)
	(10%)	1,982

Commodity risk

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

The Group uses derivative instruments to hedge against an element of gold price.

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

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

	Increase/(decrease) in commodity prices				Effect on profit before tax: increase/ (decrease) US$ thousands	Effect on equity: increase/ (decrease) US$ thousands
Year ended 31 December	Gold	Silver	Zinc	Lead		
2016	10%	25%	40%	40%	(28,516)	-
	(15%)	(20%)	(30%)	(15%)	(36,031)	120,715
2015	15%	20%	25%	20%	(51,326)	50,764
	(10%)	(15%)	(25%)	(15%)	52,915	136,469

Commodity price risk – Silverstream

Future silver price is one of the inputs to the Silverstream valuation model. The following table demonstrates the sensitivity of the Silverstream contract valuation to a reasonably possible change in future silver prices, with all other inputs to the Silverstream valuation model held constant. It is assumed that the same percentage change in silver price is applied to all applicable periods in the valuation model. There is no impact on the Group's equity, other than the equivalent change in retained earnings.

Year ended 31 December	Increase/ (decrease) in silver price	Effect on profit before tax: increase/ (decrease) US$ thousands
2016	25%	157,406
	(20%)	(125,925)
2015	20%	104,659
	(15%)	(78,494)

Interest rate risk

The Group is exposed to interest rate risk from the possibility that changes in interest rates will affect future cash flows or the fair values of its financial instruments, principally relating to the cash balances and the Silverstream contract held at the balance sheet date. Interest-bearing loans are at a fixed rate, therefore the possibility of a change in interest rate only impacts its fair value but not its carrying amount. Therefore, interest-bearing loans and loans from related parties are excluded from the table below.

The following table demonstrates the sensitivity of financial assets and financial liabilities (excluding Silverstream) to a reasonably possible change in interest rate applied to a full year from the balance sheet date. There is no impact on the Group's equity other than the equivalent change in retained earnings.

Year ended 31 December	Basis point increase/ (decrease) in interest rate	Effect on profit before tax: increase/ (decrease) US$ thousands
2016	65	5,943
	(20)	(1,829)
2015	50	2,525
	(10)	(505)

The sensitivity shown in the table above primarily relates to the full year of interest on cash balances held as at the year end.

Interest rate risk – Silverstream

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

Year ended 31 December	Basis point increase/ (decrease) in interest rate	Effect on profit before tax: increase/ (decrease) US$ thousands
2016	65	(35,908)
	(20)	12,051
2015	50	(17,853)
	(10)	3,729

Inflation rate risk

Inflation rate risk-Silverstream

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

Year ended 31 December	Basis point (increase/ (decrease) in inflation rate	Effect on profit before tax: increase/ (decrease) US$ thousands
2016	100	190
	(100)	(188)
2015	100	389
	(100)	(382)

Equity price risk

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

The following table demonstrates the sensitivity of available-for-sale financial assets to a reasonably possible change in market price of these equity instruments, reflecting the effect on the Group's profit before tax and equity:

Year ended 31 December	Increase/ (decrease) in equity price	Effect on profit before tax: increase/ (decrease) (US$ thousands)	Effect on equity: increase/ (decrease) US$ thousands
2016	100%	-	116,171
	(50%)	-	(58,086)
2015	50%	-	35,721
	(30%)	(5,135)	(16,297)

(b) Credit risk

Exposure to credit risk arises as a result of transactions in the Group's ordinary course of business and is applicable to all financial assets and derivative financial instruments. The financial assets are trade and other receivables, cash and cash equivalents, short-term investments, the Silverstream contract and available-for-sale financial assets.

The Group's policies are aimed at minimising losses as a result of counterparties' failure to honour their obligations. Individual exposures are monitored with customers subject to credit limits to ensure that the Group's exposure to bad debts is not significant. The Group's exposure to credit risk is influenced mainly by the individual characteristics of each counter party. The Group's financial assets are with counterparties with what the Group considers to have an appropriate credit rating. As disclosed in note 27, the counterparties to a significant proportion of these financial assets are related parties. At each balance sheet date, the Group's financial assets were neither impaired nor past due, other than 'Other receivables' as disclosed in note 16. The Group's policies are aimed at minimising losses from foreign currency hedging contracts. The Company's foreign currency hedging contracts are entered into with large financial institutions with strong credit ratings.

The Group has a high concentration of trade receivables with one counterparty Met-Mex Peñoles, the Group's primary customer throughout 2016 and 2015. A further concentration of credit risk arises from the Silverstream contract. Both Met-Mex and the counterparty to the Silverstream contract are subsidiaries in the Peñoles group which currently owns 75 per cent of the shares of the Company and is considered by management to be of appropriate credit rating.

The Group's surplus funds are managed by Servicios Administrativos Fresnillo, S.A. de C.V., which manages cash and cash equivalents, including short-term investments investing in a number of financial institutions. Accordingly, on an ongoing basis the Group deposits surplus funds with a range of financial institutions, depending on market conditions. In order to minimise exposure to credit risk, the Group only deposits surplus funds with financial institutions with a credit rating of MX-1 (Moody´s) and mxA-1+ (Standard and Poor's) and above. As at 31 December 2016, the Group had concentrations of credit risk as 24 percent of surplus funds were deposited with one financial institution of which 47 percent was held in short term Mexican government paper.

The maximum credit exposure at the reporting date of each category of financial asset above is the carrying value as detailed in the relevant notes. See note 13 for the maximum credit exposure to available-for-sale financial assets, note 17 for short-term investments and cash and cash equivalents and note 27 for related party balances with Met-Mex. The maximum credit exposure with relation to the Silverstream contract is the value of the derivative as at 31 December 2016, being US$467.5 million (2015: US$384.8 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 2016					
Interest-bearing loans (note 20)	46,267	92,534	92,534	892,534	1,123,869
Trade and other payables	71,389	-	-	-	71,389
Derivative financial instruments – liabilities	630	16	-	-	646
Embedded derivatives within sales contracts – liability	2,750	-	-	-	2,750

US$ thousands

	Within 1 year	2-3 years	3-5 years	> 5 years	Total
As at 31 December 2015					
Interest-bearing loans (note 20)	46,267	92,534	92,534	938,801	1,170,137
Trade and other payables	57,440	-	-	-	57,440
Derivative financial instruments – liabilities	342,108	730,303	317,359	-	1,389,770
Embedded derivatives within sales contracts – liability	532	-	-	-	532

The payments disclosed for financial derivative instruments in the above table are the gross undiscounted cash flows. However, those amounts may be settled gross or net. The following table shows the corresponding estimated inflows based on the contractual terms:

US$ thousands

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

					US$ thousands
	Within 1 year	2-3 years	3-5 years	> 5 years	Total
As at 31 December 2015					
Inflows	347,301	746,924	319,165	-	1,413,390
Outflows	(342,108)	(730,303)	(317,359)	-	(1,389,770)
Net	**5,193**	**16,621**	**1,806**	**-**	**23,620**

The above liquidity tables include expected inflows and outflows from currency option contracts which the Group expects to be exercised during 2017 as at 31 December 2016 and from 2016 to 2019 as at 31 December 2015, either by the Group or counterparty.

Management considers that the Group has adequate current assets and forecast cash from operations to manage liquidity risks arising from current liabilities and non-current liabilities.

Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios that support its business and maximise shareholder value. Management considers capital to consist of equity and certain interest-bearing loans, including loans from related parties, as disclosed in the balance sheet, excluding net unrealised gains or losses on revaluation of cash flow hedges and available-for-sale financial assets. In order to ensure an appropriate return for shareholder's capital invested in the Group management thoroughly evaluates all material projects and potential acquisitions and approves them at its Executive Committee before submission to the Board for ultimate approval, where applicable. The Group's dividend policy is based on the profitability of the business and underlying growth in earnings of the Group, as well as its capital requirements and cash flows, including cash flows from the Silverstream.