CONSOLIDATING OUR GROWTH
ADVANCING OUR PIPELINE

Fresnillo plc Annual Report and Accounts 2018

Fresnillo plc is the world's largest silver producer and Mexico's largest gold producer, listed on the London and Mexican stock exchanges.

The Company has been a steady and credible member of the FTSE 100 since 2008.

Find out more online at
www.fresnilloplc.com

PERFORMANCE HIGHLIGHTS

This has been another year of production growth across the portfolio. With our pipeline continuing to advance, and extensive consolidation activities currently underway, we are well-positioned to seize future opportunities.

Silver production

61.8 moz
+5.3%

Gold production

922.5 koz
+1.3%

Total attributable silver resources

2,204.0 moz
-5.0%

Total attributable gold resources

39.1 moz
+1.5%

Adjusted revenue[1]

US$2,243.4m
+0.5%

Gross profit

US$780.7m
-15.6%

EBITDA

US$915.1m
-13.7%

Profit from continuing operations

US$506.7m
-28.6%

OPERATIONAL HIGHLIGHTS

- Record annual silver production of 61.8 moz driven by the first full year of operations at San Julián (Disseminated Ore Body), albeit this was lower than guidance (which was revised twice during the year) and the long-term target set at the time of the IPO.
- Gold production up 1.3% vs. 2017 and in line with our upwardly revised guidance, as a result of a higher ore grade and recovery rate at Saucito, the contribution of the new Pyrites plant and the higher ore grade at Fresnillo.
- Commissioned Pyrites plant (phase I) on budget with a minor delay.
- Completed second line of dynamic leaching plant on budget but a longer testing period resulted in commercial production not commencing until 2019.
- Gold resources increased 1.5% while silver resources decreased 5.0%. Silver and gold reserves declined 5.1% and 6.0% respectively.
- We regret to report that five fatalities occurred during 2018 and one more in early 2019.

FINANCIAL HIGHLIGHTS

- Adjusted revenue[1] of US$2,243.4 million, up 0.5% over 2017 due to an increase in volumes of silver, lead and zinc sold, offset by the lower prices of these metals.
- Gross profit and EBITDA down 15.6% and 13.7%, to US$780.7 million and US$915.1 million respectively.
- Profit from continuing operations of US$506.7 million, down 28.6%.
- Capex of US$668.7 million, up 10.3% and US$298.1 million of dividends paid, up 26.0%.
- Strong balance sheet and low leverage ratio; cash and other liquid funds[2] of US$560.8 million, down 37.4% mainly due to lower cash flow from operations and increased capex.

1 Adjusted revenue is the revenue shown in the income statement adjusted to add back treatment and refining costs and gold, lead and zinc hedging. The Company considers this a useful additional measure to help understand underlying factors driving revenue in terms of volumes sold and realised prices.
2 Cash and other liquid funds are disclosed in note 30(c) to the Financial Statements.

AT A GLANCE

Our goal is to maintain the Group's position as the world's largest primary silver company and Mexico's largest gold producer.

Following a decade of consistent and successful progress, we are now focused on consolidating our growth and advancing our pipeline in order to deliver further growth in the years ahead. Our continuing success is a tribute to the long-term nature of our strategy, the skills and dedication of our people and the ongoing support of our stakeholders.

WHAT WE DO

We seek to create value for stakeholders across precious metal cycles, focusing on high-potential silver and gold projects that can be developed into low cost, world-class mines.

1 EXPLORE

Continuous, sustained exploration is the engine that drives our business. We invest across all price cycles, seeking out ore deposits in order to expand our resource base and replenish reserves.

OUR COMPETITIVE ADVANTAGE

Several concessions in Mexico; a team of talented, dedicated geologists; rigorous approach to prospects, with only those that demonstrate a minimum potential of 150 moz of silver or 2 moz of gold advancing; strict criteria on ore grades, metallurgical recoveries and environmental impact.

2 DEVELOP

Before we decide to develop a new mine, we check its potential against a set of strict criteria, including mineral content and associated costs. This means that only those projects with the potential to create value across precious metal price cycles are developed into operating mines.

OUR COMPETITIVE ADVANTAGE

Strictly applied viability criteria including rates of return and high environmental and social impact standards; a district consolidation strategy that creates synergies across our prospects and projects, reducing capex requirements; in addition to synergistic benefits from our membership of the Peñoles Group, with common requirements across a number of service areas creating opportunities for costs to be shared; in-house teams for engineering and construction.

3 OPERATE

We have seven mines currently in operation and continue to invest in infrastructure improvements, new technologies and new working practices to maximise the efficiency of each one.

OUR COMPETITIVE ADVANTAGE

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

See our business model on pages 20-21.

PRECIOUS METAL VALUE CHAIN

FRESNILLO PLC

- Exploration for mineral resources
- Development and construction of new mines
- Mineral extraction and beneficiation
- Smelting and refining
- Brokers
- Buyers

4 SUSTAIN

Fresnillo is a business focused on the long term. We operate responsibly at all times and work hard to ensure the highest standards of health and safety, environmental stewardship and governance. At the same time, we support our local communities and maintain a strong culture of ethical behaviour.

OUR COMPETITIVE ADVANTAGE

Extensive understanding of the economy, culture and communities in Mexico; a track record of adopting best practices domestically, which meet our own high standards as well as those of international business.

OUR INVESTMENT CASE

Fresnillo has established a reputation for a strong balance sheet, high quality assets, low cost and flexible operations, a disciplined approach to development and sustainable business practices. These qualities are the foundation for our long-established track record of creating value through growth and returns.

STRONG BALANCE SHEET

**OUTCOME:
OPERATIONAL FLEXIBILITY, INVESTMENT ACROSS PRICE CYCLES, SHAREHOLDER RETURNS**

Our healthy cash position and low leverage ratio enable us to invest in profitable growth, optimise operations and deliver solid returns to shareholders. Our capital expenditures in 2018 totalled US$668.7 million, while we invested US$172.8 million in exploration activities and paid dividends of US$298.1 million.

See the Financial Review on pages 85-97.

HIGH QUALITY ASSETS

**OUTCOME:
LONG-TERM VISIBILITY DELIVERING LONG-TERM RETURNS**

With approximately 1.8 million hectares of surface land, we pursue a district consolidation strategy that leverages local knowledge and shared infra-structure. At the end of 2018, our portfolio of low cost gold and silver mines, high potential development projects and advanced exploration prospects comprised over 2,204.0 moz of attributable silver resources and 39.1 moz of gold resources.

See our Review of Operations on pages 44-65.

LOW COST AND FLEXIBLE OPERATIONS

**OUTCOME:
HEALTHY MARGINS, AGILITY ACROSS PRICE CYCLES**

Our quality assets enable us to deliver profits across precious metal price cycles. At each mine, we maximise potential by customising mine plans, leveraging technology and sharing personnel, expertise and plant capacity across our districts. Never complacent, we continue to seek and implement new ways to improve efficiency, optimise material and energy consumption, and maintain our position as a low-cost producer.

Read more about our strategy and performance on pages 24-27.

DISCIPLINED APPROACH TO DEVELOPMENT

**OUTCOME:
LONG-TERM PROFITABLE GROWTH**

All decisions to proceed with a development project are based on stringent viability criteria covering areas such as rates of return and high environmental and social impact standards. We set delivery timelines and budgets to meet production targets in the context of market conditions, and maintain control by carrying out engineering and construction activities. Our Juanicipio project will be approved for development in due course and we look forward to construction activities beginning later in 2019, with operations commencing in 2H 2020.

SUSTAINABLE BUSINESS PRACTICES

**OUTCOME:
ENVIRONMENTAL STEWARDSHIP, SOCIAL LICENCE TO OPERATE, ETHICAL CULTURE**

Our commitment to sustainability underpins our ability to create value for all our stakeholders and ensure operational continuity. We strive to understand and respect the needs of local communities, prioritise local goods, services and employees, improve our health and safety record in the light of our recent unacceptable performance, and minimise our impact on the environment.

See our Social and Sustainability Review on pages 66-84.

WHERE WE OPERATE

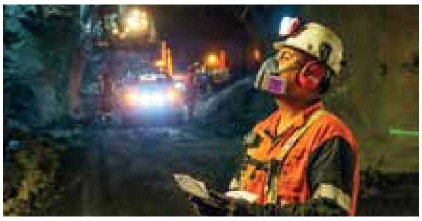
Our core operations are in Mexico, a country with significant geological resources, strong potential for continued growth, a skilled workforce and solid infrastructure, and a mining history extending more than 500 years. In total, Fresnillo plc has mining concessions covering approximately 1.8 million hectares in Mexico.

ADVANCED EXPLORATION PROJECTS 5

See pages 44-48.

DEVELOPMENT PROJECT 1

See page 49.



OPERATING MINES 7

See pages 50-65.

KEY ASSETS

Asset	Type	Main metal	Reserves (Silver)	Reserves (Gold)	Year[1]
OPERATING MINES					
1 **Fresnillo**	Underground	Silver primary	176.7 moz	566 koz	1554
2 **Saucito**	Underground	Silver primary	130.3 moz	679 koz	2011
3 **Ciénega**	Underground	Gold/Silver	56.9 moz	598 koz	1992
3 **San Ramón (Ciénega satellite)**	Underground	Gold/Silver	Reported as part of Ciénega		2012
4 **Herradura**	Open pit	Gold		7,375 koz	1997
5 **Soledad-Dipolos**[2]	Open pit	Gold		927 koz	2010
6 **Noche Buena**	Open pit	Gold		577 koz	2012
7 **San Julián**	Underground	Silver primary	112.1 moz	286 koz	2016

1 Represents start of commercial production.
2 Operations at Soledad-Dipolos are currently suspended.

Read more in our Review of Operations on pages 50-65.

DEVELOPMENT PROJECT

8 **Pyrites treatment plant**

Facility to process historical and ongoing tailings from Fresnillo and Saucito mines to increase metal recovery rates.

Annual production expected to average 3.5 moz silver and 13 koz gold once operating at full capacity.

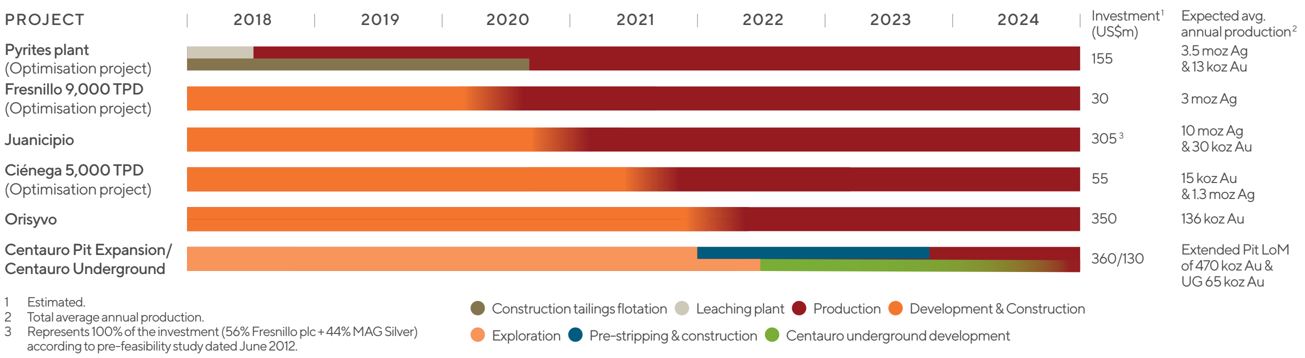
For more on our development project see page 49.

Asset	Main metal	Resources (Silver)	Resources (Gold)
EXPLORATION PROJECTS AND PROSPECTS			
9 **Juanicipio**	Silver	150.2 moz	862 koz
10 **Las Casas, Cebollitas Cluster**	Silver and Gold	Reported as part of Ciénega.	
11 **Centauro Deep**	Gold		1,802 koz Indicated & inferred gold resources.
12 **Centauro Pit Expansion as part of Herradura**	Gold		10,239 koz Measured, indicated & inferred gold resources.
13 **Orisyvo**	Gold	12.3 moz	9.6 moz

Plus many further early stage projects and prospects located in Mexico, Peru and Chile.

For more on our exploration projects and prospects see pages 44-48.

EXPECTED DELIVERY OF GROWTH



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

RISK MANAGEMENT FRAMEWORK

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

See our Risk Report on pages 28-43.

Our first decade has delivered a significant and sustained track record of achievements, with equivalent silver production growing at a compound annual rate of 8%[1]. Now is the time to take stock of our successes to date, to strengthen our processes and operational base, and to focus on our pipeline in order to prepare Fresnillo for the opportunities ahead.

Even though we narrowly failed to hit our long-term and ambitious target for silver production, the years from our IPO in 2008 to 2018 have been little short of dramatic, as we have established ourselves as the largest silver producing company in the world.

Our number of mines has risen from three to seven, our workforce from 2,964 to 17,601 at the end of 2018 and our revenues from US$720.5 million in 2008 to US$2.1 billion in 2018. At the same time, we have achieved an 80% increase in silver production and a 230% increase in attributable gold production. As our business has grown, so too have the challenges, including those around production, training and maintenance at mines such as Fresnillo and Saucito.

A MATURING BUSINESS

Now, as Fresnillo matures and transitions into a well-established, proven business positioned for long-term success, we are consolidating our growth.

This means investing across our operations to increase the productivity of mines and processing plants, such as the introduction of new IT and operational technologies, as well as the new measures now being introduced at the Fresnillo mine (see case study on page 53). We continuously invest in processes to help ensure the safety of all our people and contractors.

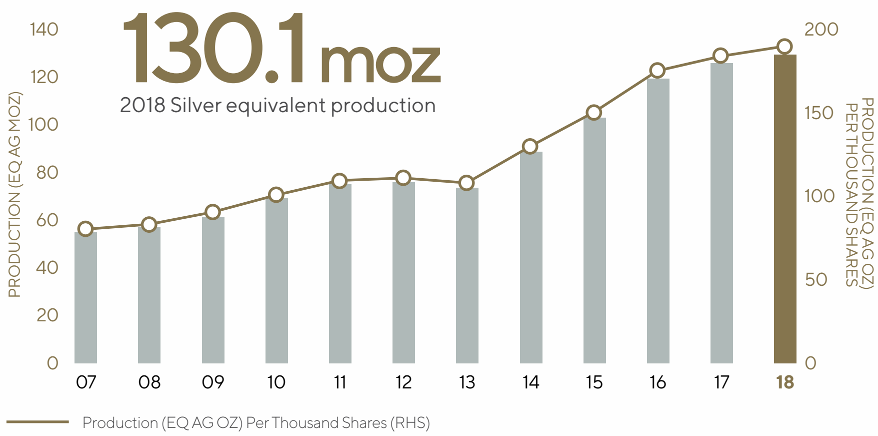
1 Compounded annual growth rate from 2007–2018, using a gold/silver ratio of 65.

IDATING OUR GROWTH

Even a single major incident is unacceptable – and our deeply disappointing record over the last 12 months is an area that is the focus for significant attention at the highest levels in our Company.

At the same time, we are keeping our focus firmly on the years and decades ahead. A continuous commitment to exploration is the lifeblood of Fresnillo and the hallmark of our success to date.

TOTAL PRODUCTION GROWTH



Continuous exploration, across price cycles and through all economic conditions, is a key competitive advantage for Fresnillo, and one of the features of our approach to mining which makes us distinctly different from our peers. It has been the foundation for our past performance – while also being the platform for our achievements in years to come.

The economic environment may change, but quality opportunities will always endure. Since our earliest days, we have maintained a strategic commitment to continuous exploration regardless of fluctuations in the prices of precious metals.

That commitment has meant that we have been able to stock our pipeline with a steady flow of projects. As is the nature of the mining industry, some of these have inevitably not proceeded for various reasons. However, a number of them have developed from geological possibilities into potential projects – and in some cases into operating mines delivering high quality production.

For example, by the time of the IPO our teams had identified significant potential on a site on the Chihuahua/Durango border. In July 2017, this site became fully operational as the San Julián silver-gold mine. Last year, it contributed 23.7% of our total silver production and accounted for 16.3% of the Group Adjusted revenue.

JUANICIPIO: OUR NEXT PROJECT IN THE PIPELINE

The Juanicipio project is a joint venture[1] with MAG Silver of which we own 56%. This standalone project, which is located in the Fresnillo District, eight kilometres from our Fresnillo mine, was first identified as a potential silver/gold project over ten years ago.

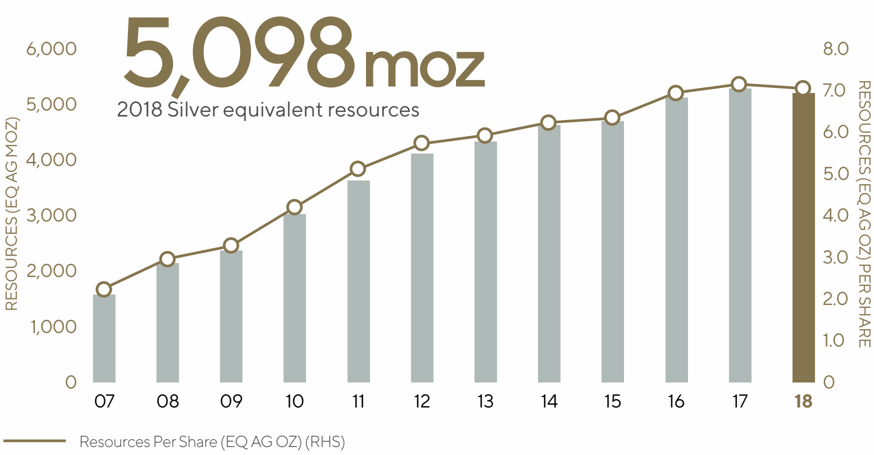
1 Not a joint venture for accounting purposes.

ING OUR PIPELINE

We are currently finalising plans for construction as well as operating agreements, and look forward to announcing the next steps in the near future.

Juanicipio will be the next project to emerge from our exploration pipeline, but it will certainly not be the last. Several potential projects are currently under evaluation, not only in Mexico but also in Peru and Chile.

GROWTH IN RESOURCES



CHAIRMAN'S STATEMENT

Celebrating the last ten years, while preparing ourselves for the future.

Alberto Baillères
Non-executive Chairman

During its first ten years as a plc, Fresnillo has achieved remarkable success. The company has positioned itself as one of the most profitable on the London Stock Exchange (LSE), generating significant benefits for shareholders, local communities and Mexico in general.

Major achievements and milestones over this period include: an 80% increase in silver production and a 230% increase in attributable gold production; four new mining operations and a strong project pipeline based on successful exploration efforts; a 149% growth in employment; investments of over US$135 million in health, safety and training; direct payments of close to US$32 million to support local communities, including primary education of over 8,000 children in 66 schools; more than US$2.3 billion paid in taxes; US$5.0 billion invested in new and existing operations; and over US$2.8 billion of dividends paid to shareholders.

Through the support of our workforce and local communities, as well as the introduction of new technologies to improve working conditions, safety and environmental impacts, we are recognised around the globe as a leading and respected public limited company.

It has been a privilege for me to lead the development of Fresnillo from its initial establishment as an LSE listed company to the present day. During those ten years, we have enjoyed high levels of growth and generated high returns consistently across price cycles and through a wide range of economic conditions.

+0.5%
Adjusted revenue

+5.3%
Silver production

27.4
US cents per share
Total dividend for the year

At the same time, we have learnt from the challenges encountered along the way, including the shortfall in production at our flagship Fresnillo mine and the delay of a couple of projects, which in turn have made us narrowly miss our long-term silver target of 65 moz despite considerable investments in successful new mines. On the positive side, we surpassed our long-term gold target in 2015 and have continued to build on that achievement over the last three years.

The Board and I continue to place the utmost importance on providing safe and healthy working conditions for our workforce. We are extremely saddened about the five fatalities during the year, as well as a further one in early 2019, and our thoughts are with the families and friends of those concerned. Our response has been to further strengthen our procedures and controls, with the ongoing support of an experienced engineer in charge of safety, health and community issues.

As you will read in the Chief Executive Officer's statement and throughout this report, we are carefully considering the demands and challenges of the coming years and we will invest in initiatives that will enable us to continue to grow and achieve good returns.

ACHIEVING YEAR-ON-YEAR GROWTH BY REMAINING TRUE TO OUR PRINCIPLES

Proven and practical, our strategy remained untouched during 2018. The focus on disciplined organic growth and on our four strategic pillars of exploration, development, operations and sustainability, enabled us once again to deliver year-on-year growth, despite silver production failing to meet our guidance and long-term target.

The Group generated over US$2.1 billion in adjusted revenue for the year, flat year-on-year. Profit during the year decreased, while cash and other liquid funds were US$560.8 million at the year end, a decrease of US$335.2 million over 2017. Debt remained unchanged at US$800 million.

OPERATIONAL HIGHLIGHTS

Full production details for the year are provided on pages 24 to 25 of this report. In summary, gold production had to be revised upwards twice during the year, driven by a better than expected performance in Noche Buena and Saucito. Although silver production was up year-on-year, it failed to reach our targets, despite guidance being lowered twice during the period. This was due to continuing challenges at our main underground silver mines. Production at the Fresnillo and Saucito mines was affected by shortcomings in our geological models and poor contractor performance. The geological models at both mines are being revised and infill drilling has been increased, while new contractors have been appointed at Fresnillo. At San Julián, although both phases have been operating above nameplate capacity, production was temporarily impacted by water shortages caused by exceptionally dry weather. This limited access to certain production areas included in the mining plan, and led to the need to process lower grade development ore from the existing stockpiles.

Having been part of Mexico's 500 years of mining history, Fresnillo is clearly here for the long term. The key aspects of our longevity are careful planning, extensive development and preparation, not only for the months ahead but also for the many decades to come. As outlined by the Chief Executive Officer on pages 14 to 16, further investments in infrastructure and technology are set to improve the rate of development and construction of the mining infrastructure to underpin production in future years.

At the same time, the investments made in recent years are beginning to bear fruit, including two major projects commissioned during 2018. The new Pyrites plant – to improve gold and silver recoveries at Fresnillo and Saucito – and the second line of the Dynamic Leaching Plant at Herradura have not been without challenges, but are now contributing to production.

The feasibility study for the Juanicipio project, a joint venture with Mag Silver, was completed in 2018 and the formal approval of the project is expected in due course. We are confident that Juanicipio will become a key project, maintaining our track record of high growth and returns.

San Julián and Juanicipio are proof that our consistent commitment to exploration through the cycles of our industry pays clear long-term dividends for our stakeholders. Although this year's results were mixed, the last ten years have seen a substantial increase in reserves and resources.

During 2018, silver and gold reserves decreased 5.1% and 6.0% respectively, due to the reasons outlined in the exploration section on pages 45 to 47. Following the 2018 drilling programmes, total silver resources reduced from 2.3 to 2.2 boz, while total gold resources increased from 38.5 to 39.1 moz. Our exploration mining concessions amount to 1.8 million hectares in Mexico, 655,000 hectares in Peru, and 10,000 hectares in two exploration options in Chile.

A COMMITTED AND TALENTED WORKFORCE…

A great company is built by great people, and I'm proud to say that our committed teams – from those working in mines and projects to their colleagues in offices across Mexico, South America and the UK – have again demonstrated their experience, dedication and talent. On behalf of the Board, I would like to thank them sincerely for these efforts.

In common with our industry peers as well as businesses operating in many other sectors, we face significant challenges in ensuring that we have the right calibre of people in the right jobs at the right time. To this end, during 2018 we increased the number and scope of partnerships with leading universities and the top earth science institutions in Mexico to develop new training programmes tailored to our requirements. As a result, we have provided 194 students with first hand practical experience during the year, and 173 are now in full time training.

…LED BY A SKILLED AND EXPERIENCED EXECUTIVE TEAM

Our Chief Executive Officer Octavio Alvídrez continues to lead the executive management team with distinction, supported by Chief Financial Officer Mario Arreguín and Vice President of Exploration David Giles.

Our Chief Operating Officer, Roberto Díaz, retired at the beginning of 2019, following eight years of service during which our operations made significant progress and major projects were successfully implemented. On behalf of the Board, I thank Roberto for his outstanding contribution and I am pleased to announce that he has agreed to continue to work with us as an advisor on special projects.

CHAIRMAN'S STATEMENT CONTINUED

The Saucito mine in the foreground and the Fresnillo mine in the background.

Our dividend policy is well-established, consistent and closely aligned with our commitment to create value through growth and returns.

We have recently made three senior appointments, two of which are completely new roles for Fresnillo. Together, these appointments will underpin our commitment to improving our safety record and preparing the Group for the future. Firstly, I would like to welcome Andre Sougarret, as our new Chief Operating Officer. He brings great mining experience and knowledge to Fresnillo following a notable career in the mining industry, previously holding important positions in Codelco and as Executive Vice President at Empresa National de Mineria in Chile. At the same time, we have appointed a new Chief Projects Officer who is responsible for development projects, freeing up Andre to focus more on the operations side of the business. Finally, and as mentioned earlier, our top team has also been supplemented by the appointment of a permanent specialist advisor who has responsibility for addressing our health and safety record, which was unacceptable during 2018.

BOARD ACTIVITIES

The Board supports the executive team by playing an active role in defining the strategy, reviewing progress versus plan and making sure that the business has sufficient flexibility to respond to ever-changing market conditions. As a Group, we work hard to ensure that capital allocation is balanced by growth, shareholder returns, financial strength and flexibility, while maintaining our commitment to sustainability and risk management.

The Board's duties include ensuring the highest standards of corporate governance, as befits a constituent of the FTSE 100 Index. As I report in my introduction to the Governance section on page 99, we are currently considering the implications of the new version of the UK Corporate Governance Code, which will take effect from 1 January 2019.

During the first half of 2018, our Senior Independent Director Charles Jacobs engaged with institutional investors and others regarding Board composition and membership. Again, you will find more detail about the outcome of these conversations on page 99, including our hope that shareholders will support our position on this matter at the 2019 AGM.

Board members also maintain oversight of our corporate culture, and at Board meetings we receive regular reports from the CEO on our Ethics programme and how our values of Responsibility, Integrity, Trust and Loyalty continue to guide our actions. In addition, our Head of Sustainability provides an annual presentation that gives us greater depth and detail about this matter.

Our culture is well-established and ingrained in all areas of operations. During the year we continued to conduct master classes and deliver online training modules in order to ensure that all our people, whether long-time employees or recent ones, understand the importance that we place on the Group's values.

However, we recognise that there remains work to do. Our recent safety record is unacceptable and we are therefore bringing additional focus and resources to drive improvement.

CHANGES TO THE BOARD

Guy Wilson retired from the Board at the 2018 AGM, following ten years of service. Guy was instrumental in establishing and then overseeing the work of the Audit Committee and I thank him unreservedly for his tireless work, constant support and good humour. He has been replaced as Chairman of the Audit Committee by Alberto Tiburcio, who joined the Board and Audit Committee in 2016, bringing with him extensive experience in audit and financial reporting.

During the year, the Board was strengthened by the appointment of Georgina Kessel as an Independent Non-executive Director. Ms Kessel worked in the Mexican government where she served as Secretary of State of the Ministry of Energy from 2006 to 2011. She also chaired the Governing Board of the Federal Electricity Commission and has been president and member of the Board of Directors of Petróleos Mexicanos (PEMEX). She is currently an independent director of Scotiabank and Iberdrola and is a partner at Spectron. The Board now has three female members, demonstrating our continued commitment to gender diversity which sits alongside our insistence that all Board members should also have relevant work experience.

(Right) The 1st and 2nd Dynamic Leaching Plants at Herradura.

(Far right) Children from the Valdecañas community.

In view of the demands of his recent appointment as Chairman of BBVA Bancomer, Mr Jaime Serra Puche resigned from the Board on 25 February 2019. The Nominations Committee has begun a search for a new independent Non-executive Director of the Company. My Board colleagues and I have greatly valued Jaime Serra Puche's contributions to the Fresnillo board meetings over the past five years. His political insight has been particularly valued and we have been grateful to have someone of his calibre and experience on our Board. We will miss his input greatly but wish him well for the future.

CONTINUING OUR DIVIDEND POLICY

Our dividend policy is well-established, consistent and closely aligned with our commitment to create value through growth and returns. In short, each year we aim to pay out 33-50% of profit after tax, while making certain adjustments to exclude non-cash effects in the income statement. We pay dividends in the approximate ratio of one-third as an interim dividend and two-thirds as a final dividend.

Before declaring a dividend, the Board carries out a detailed analysis of the profitability of the business, underlying earnings, capital requirements and cash flows. Our aim is to maintain enough flexibility to be able to react to movements in precious metals prices and seize attractive business opportunities.

We declared an interim dividend of 10.7 US cents per share, with a final dividend of 16.7 US cents per share, bringing the total for the year to 27.4 US cents per share.

OUTLOOK

In the short term, we are likely to experience a lower rate of growth, as we consolidate the progress made since our IPO and implement the necessary investments and initiatives that will advance our pipeline and underpin our future long-term growth.

Political and economic factors, both in Mexico and across the globe, could also impact our performance. For example, the buoyancy of the US domestic economy is attracting some investment that would otherwise have been directed towards our sector, while the China-US trade war as well as issues in South America and Europe are generating an unwelcome degree of uncertainty. In Mexico, we have a new administration and although we are yet to see any firm indication of direction, we are already working closely with the Government.

The Board and I believe that the developments currently underway, and those that will be introduced or extended during 2019, will position us well for the years ahead. In the coming months, and to comply with the 2018 UK Corporate Governance Code, we will continue to work towards defining our Company Purpose.

This will be a succinct expression of what Fresnillo is and what we stand for – and it will further focus the minds of all our people on our culture and the things we truly value, such as safety.

We have now established a long track record for delivering growth and returns, and our commitment to keeping that reputation remains undimmed. Fresnillo faces the future with confidence.

Alberto Baillères
Non-executive Chairman

CHIEF EXECUTIVE'S STATEMENT

Consolidating our growth, advancing our pipeline.

Octavio Alvídrez
Chief Executive Officer

Since the IPO in 2008, we have recorded an excellent set of achievements and over that period built a track record of creating value through growth and returns. Now is the time to consolidate our position while also making sure we continue to fuel our pipeline in order to deliver further growth in the years ahead.

Although it was disappointing not to reach our long-term silver target of 65 moz, we nevertheless look back with pride on the achievements of the last decade, including the fact that we reached our long-term goal for gold three years ahead of target.

We have delivered on the vast majority of the plans we laid out at the time of the IPO, in both financial and non-financial terms. We are now firmly established as the world's largest silver producer, Mexico's largest gold producer and a company that has earned the respect of its employees and local communities as well as of its shareholders.

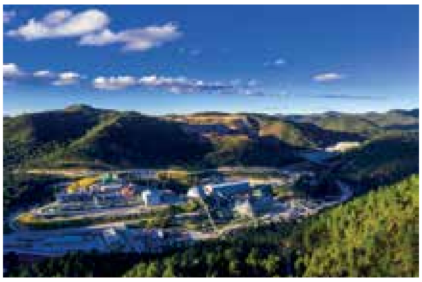
Now, in the early months of our second decade, it is time to continue to prepare Fresnillo for the many challenges and opportunities that lie ahead.

CONSISTENCY, CONSISTENCY, CONSISTENCY

Our strategy has remained the same throughout the last ten years, and this will continue to be the case. While other miners may change their stance depending on which way the economic wind is blowing, at Fresnillo we understand that consistent performance can only be delivered by remaining true to a conservative, long-term strategy.

KEY POINTS

- A decade of creating value through growth and returns.
- Silver production for the year increased by 5.3%, and gold production by 1.3%.
- Continuous investment to consolidate the business for the years ahead.
- Significant exploration activities.
- Completion of the Pyrites plant at Saucito.
- Completion of the second line of the Dynamic Leaching Plant, at Herradura.
- Silver resources down by 5.0%, gold resources up by 1.5%.
- Disappointing health and safety performance, with five fatalities in 2018 and one more in early 2019.



(Left) Employees at the Saucito mine.

(Right) View of both processing plants at San Julián.

This strategy has and will continue to achieve results across the various price cycles of precious metals. Although Fresnillo plc has only been in existence for a decade, our history stretches back over 125 years. The knowledge and experience gathered over that period is part of Fresnillo's DNA – and it ensures that we always take a long-term view, executing our strategy with consistency in order to manage fluctuations in prices.

PRODUCTION HIGHLIGHTS AND PRICE REVIEW

In 2008, we set ourselves the target to double annual silver production to 65 moz and to achieve gold production of 750,000 ounces in the decade to the end of 2018. We successfully reached the gold target in 2015 and although we have fallen just short of that ambitious goal for silver, this period of consolidation will improve our efficiency, strengthen our operational base and ensure that we continue to deliver growth in the years and decades to come.

Silver production did not quite reach the levels we forecast at the start of the year, following lower than expected ore grades at the Fresnillo and Saucito mines, as well as lower throughput at Fresnillo.

Notwithstanding, silver production from our mines increased 7.1% to 58.1 million ounces in 2018 driven mainly by the first full year of production at the San Julián Disseminated Ore Body and the contribution from the first phase of the new Pyrites plant at Saucito, which more than offset the lower production at the Fresnillo and Saucito mines.

We achieved better than anticipated results for gold in 2018, with production increasing slightly by 1.3% to 922,527 ounces. This reflected a good performance at Saucito, the start-up of the Pyrites plant and higher gold production at Fresnillo.

During the year, average realised silver prices decreased by 8.3%, with those for gold remaining broadly flat (up 0.1%). At the same time, average prices for zinc and lead, which are by-products of our silver and gold operations, decreased by 5.7% and 7.4% respectively and this had an impact on our financial performance.

CONSOLIDATING GROWTH, MAXIMISING POTENTIAL

The first pillar of our strategy is to maximise the potential of our existing operations, and during the year we were pleased to launch a series of operational excellence initiatives that will provide the platform for further growth in the years to come.

At the Fresnillo mine, for example, we have invested in innovative technology to improve productivity. Costing US$22.7 million and capable of boring at least 300 metres per month, a new state-of-the-art tunnelling machine is due to be commissioned in 2H19. Together with the vertical conveyor, which was commissioned towards the end of 2017, and the installation of new vibrating screens which have already proved their value at Saucito, the tunnelling machine will support our drive to extract greater value from the long-established Fresnillo mine.

For more information see pages 50-53.

Meanwhile, at San Julián we have addressed the low water availability that limited production during the early months of 2018. In the short term this involved digging wells, but in line with our commitment to always taking a long-term view, we have since successfully concluded consultations with the indigenous population regarding the construction of a new water reservoir which will ensure sufficient water to support greater production at San Julián.

For more information see pages 56-59.

IT is another example of how we are using innovation and new ways of working to improve production while lowering costs. For example, during 2018, we rolled-out a wide range of projects that are already beginning to transform productivity.

For more information see pages 50-56.

DELIVERING GROWTH THROUGH DEVELOPMENT PROJECTS

I fully expect to be able to make a positive announcement on our Juanicipio development project in due course, following a highly detailed technical evaluation that demonstrated its long-term viability. Eight kilometres from the Fresnillo mine, Juanicipio is expected to contribute to both silver and gold production, delivering high returns for our business while generating additional employment in the area. With first production anticipated in 2H20, Juanicipio reaffirms the world-class status of the Fresnillo district and underlines the wealth of resources that have already been discovered there, as well as those that await discovery in the future.

In addition, the first stage of the new Pyrites plant has now been completed and commissioned on budget, with only minor delays. While the ramp up did not accelerate as expected due to issues with the vertical mills, which have now been resolved, the plant will make an important contribution to production by extracting additional quantities of gold and silver from the historical and ongoing tailings at the Fresnillo and Saucito mines. Stage two is now underway and is expected to be concluded in 2H20.

We were also pleased to commission the second line at the Dynamic Leaching Plant (DLP) at Herradura during the year.

CHIEF EXECUTIVE'S STATEMENT CONTINUED

The testing period took longer than expected and despite production coming from the plant during the year, commercial production did not commence until 2019. Now complete, the DLP is processing an extra 8,000 tonnes per day of high grade ore from the pit, taking the daily throughput for the two DLP plants to 16,000 tonnes. Also at Herradura, tests of the leaching pads led to an increase of 98.9 thousand ounces of gold in inventory.

EXTENDING THE GROWTH PIPELINE

Our approach towards exploration is one of the qualities that sets us apart from our peers. Where they may choose to cut back on exploration in order to meet short-term price challenges, our commitment remains unequivocal and unchanging, regardless of the prevailing economic climate. Rather than opting to boost our pipeline through acquisition, we remain determined to fuel ours organically – drawing on the skills of more than 100 talented geologists to explore opportunities and build our resource base.

Among the year's most significant exploration developments, we continued to make good progress at Orisyvo and Guanajuato, while the project at Rodeo is showing good potential. At the end of 2018, our silver resources stood at 2.2 boz, down by 5.0% over the previous year, with our exploration mining concessions amounting to 1.8 million hectares in Mexico. Our gold resources increased by 1.5% during the year to 39.1 moz.

Furthermore, 2018 saw us take decisive steps in the internationalisation of our Company, with drilling now expected to take place at two projects in Chile that show good potential. We are also working hard to gain the necessary permits in Peru and continuing to scout projects in Argentina.

ADVANCING AND ENHANCING THE SUSTAINABILITY OF OUR OPERATIONS

The safety of our employees and contractors is our highest priority, and we continually monitor our performance and introduce new initiatives to address any gaps or failings in our processes. So it was both deeply saddening and totally unacceptable that we experienced five fatalities during the year and one more in early 2019. While we acknowledge that contractor safety is a particular challenge for our industry, this performance is clearly unacceptable. The safety of all of our employees and contractors is at the top of our HSECR agenda for 2019, and we will renew our efforts to align employees and contractors alike with our commitment to safety.

As I highlighted in last year's report, we began to roll out a new safety programme during 2018, following encouraging results from the pilot phase at our Fresnillo and Saucito mines. Known as 'I Care, We Care', this programme builds on and strengthens our existing processes.

The key aspect of 'I Care, We Care' is that it encourages people to fully report every incident, no matter how minor, so that our safety team can identify its root cause, develop risk awareness and put measures in place to prevent reoccurrence. The roll out is expected to be completed in 2019.

For more information see page 73.

In terms of environmental sustainability, we passed an important milestone in 2018. Over 60% of the electricity we consume is now provided by wind power – and we aim to increase this to 75% by the second half of 2019. The resultant decrease in our carbon emissions will also be supported by an initiative to convert a number of trucks in our fleet from diesel to Liquid Natural Gas, which will benefit the environment while also reducing our costs.

Our strong environmental, social and governance practices have again been recognised by external organisations. Not only did we retain our place in the FTSE4Good Index, but we also joined the STOXX Global ESG Leaders index for the first time. In addition, we received or retained a large number of national and international awards and certifications including:

- An Ethics and Values award from the Confederation of Industrial Chambers (Concamin) in Mexico.
- The Social Responsibility Award from the Federal Attorney for Environmental Protection (Profepa) in Mexico.
- A Profepa Award for Environmental Excellence at Saucito and Herradura.
- Clean Industry national certification from Profepa.
- International certifications including; the Cyanide Code at Herradura and Noche Buena; ISO 14001 (Environment); and OHSAS 18001 (Safety and Environment).

The BMX track at the Fresnillo recreational park.

THE YEAR AHEAD

We anticipate that 2019 will be a more challenging year than 2018, with a number of industry variables potentially working against us. While the volatility of precious metals prices is likely to reduce, the prices themselves may reduce, for example, and we could see headwinds from higher inflation and possibly a worsening of the US$-Peso exchange rate. The significant investments we have made in recent years will inevitably lead to greater depreciation costs and these will in turn impact our financial performance. In addition, silver and gold production may temporarily reduce, as we invest time and resources in consolidating our past achievements and preparing the ground for greater growth in future years, while also focusing on improved safety.

None of these possible developments are unusual or present us with issues we have not faced before. Change is part of the business cycle. We will continue to stand firm behind our strategy in the clear knowledge that it has guided us through a wide range of market and political conditions in the past, and will do so again in the future.

While we face short-term pressures, the long-term fundamentals remain sound. Our model is proven, our people are skilled, experienced and dedicated, and a track record of creating value through growth and returns will continue to be our defining characteristic.

Octavio Alvídrez
Chief Executive Officer

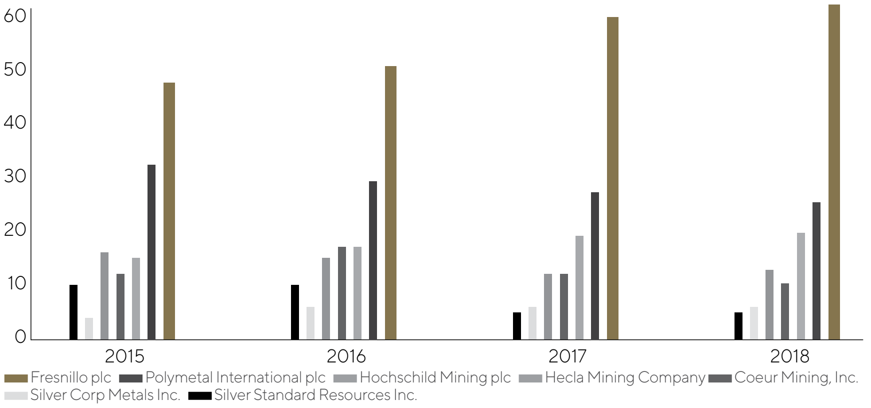
OUR MARKETS

As a major player in the global precious metals industry, we are impacted by the dynamics of the silver and gold markets.

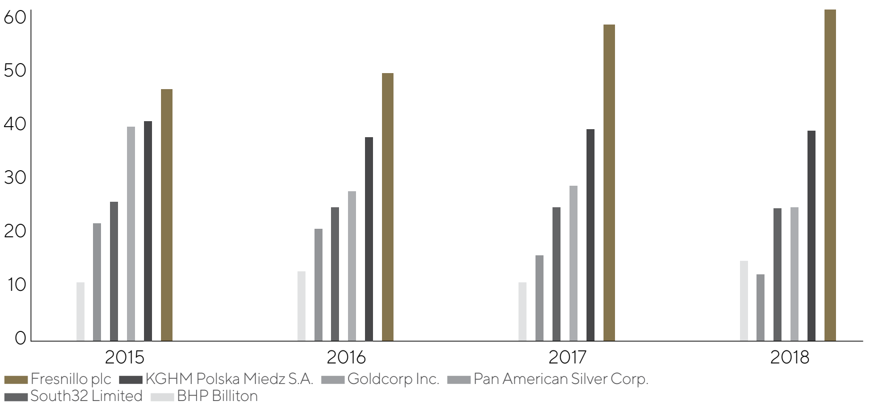
Mexico has a long-established history of mining going back more than 500 years, underpinned by its vast geological potential, skilled workforce, robust mining laws and mechanisms for creating shared value.

We are now exploring opportunities to apply the expertise and knowledge we have gained over the years to new locations in Mexico as well as elsewhere in Latin America.

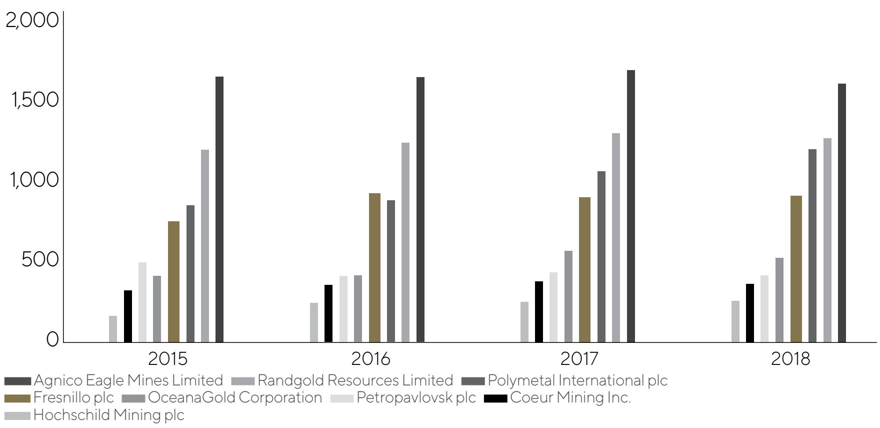
PEER GROUP: PRIMARY SILVER PRODUCERS PRODUCTION IN MOZ



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



PEER GROUP: MEDIUM-SIZE GOLD PRODUCERS PRODUCTION IN KOZ



FRESNILLO IN CONTEXT

Amongst major precious metal mining companies, Fresnillo is unique in that silver and gold each make significant contributions to the Group's revenue, and also because all our operations are located in Mexico. As such, we are exposed to the market dynamics of both the global precious metals industry, as well as those specific to companies operating in Mexico.

In silver, we consider our peer group to be other primary silver mining companies, notwithstanding the fact that close to two thirds of global output is derived as a by-product of gold, lead, zinc and copper mines. Irrespective, Fresnillo has long been the top global producer of silver, both by-product and primary, and we aim to maintain that leadership position going forward.

We are also Mexico's largest gold producer, with our peers being other global gold mining companies producing similar levels of annual production.

THE PRECIOUS METALS MARKET

Silver prices traded at a low of US$14.0/oz in November to a high of US$17.6/oz at the beginning of 2018, ending the year 8.5% down. The average realised price also decreased, down 8.3% from US$16.9/oz in 2017 to US$15.5/oz in 2018. Gold, on the other hand, ended the year marginally down (-1.6%), with the average realised price remaining broadly flat at US$1,269.1/oz (+0.1% year-on-year). This difference between prices for the two metals is a continuation of the tendency that has been evident since 2011, as seen in the gold silver ratio, with silver generally only outperforming gold in strong precious metal environments.

2018 was a year where both gold and silver prices remained under pressure with the US dollar strengthening, the US Federal Reserve raising interest rates three times during the year, and a buoyant US economy driven by the tax cuts in the first half, all fuelling positive investor sentiment.

OUR MARKETS CONTINUED

Centauro Pit at Herradura.

Our strategy has always been to invest across all price cycles, while maintaining a strong balance sheet.

That said, the fourth quarter saw a positive movement in the prices of both metals, bolstered by the possibility of the US Federal Reserve slowing its monetary tightening path going into 2019, driven by the possibility of a weakening US economy.

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

SUPPLY AND DEMAND

SILVER

Mine output provides the majority of silver supply, with the remainder coming from recycling and scrap. This year, total silver supply is forecast to reach 998.4 moz[1]. According to the Silver Institute, the market is expected to see a physical surplus in 2018 of 35.3 moz, driven by mine supply returning to growth after two years of decline and physical demand expected to contract, driven by lower bar and coin demand.

The supply side growth in production was marginal, and well below the high of 895.1 moz in 2015. This is partially due to no new large deposits being found following a trend of lower capital expenditure by miners in prior years.

Silver demand, where industrial demand represents approximately 60%, is expected to continue contracting, driven by year-on-year declines in investment demand. This is in part driven by factors in the US, as investors have looked to the secondary markets for bar and coin purchases, as well as factors elsewhere, such as a weakening economic climate that has dampened demand in China. Industrial demand however remained robust, reflecting the metal's unique characteristics. These include exceptionally high electrical and thermal conductivity which make silver an important component across a wide range of products, from electronics to antibacterial applications.

Looking ahead, with the continued decline of silver in photographic usage not being offset by an increase in photovoltaic usage, as has been the case in previous years, silver supply is anticipated to remain in surplus resulting in the silver price continuing to come under pressure.

GOLD

As with silver, mine output accounts for the majority of the global gold supply, with recycled material making up the difference. In 2018, global gold production marginally increased, with 4,490 tonnes being produced[2].

Demand for gold has traditionally been driven by its status as a safe haven investment. Consumers and investors acquire the metal to protect their savings and purchasing power in an environment of high inflation and low interest rates, and as a means to diversify away from the US dollar. In some markets, gold has a strong cultural allure, again with China and India leading the demand for gold jewellery. This year has seen Central Banks returning to buying gold, with levels of activity not seen since 2015. Banks are adding to their foreign reserves to counterbalance fiat currency risk, especially as emerging market banks tend to hold high allocations of US treasuries.

As mentioned earlier, the short-term performance of gold is strongly impacted by the perception of risk in the global economy, the strength of the US dollar and the impact of economic reform. In the longer term, gold is supported by a growing middle class in emerging markets and the continued perception of gold's role as a store of wealth.

See the Silver Institute and World Gold Council websites for current industry and market information.

KEY INDUSTRY TRENDS

The global mining industry is subject to a number of underlying trends that impact its competitiveness and viability. As many of these trends are aligned with our key risks, we include detailed analysis of their implications, as well as our response and mitigating actions, on pages 28 to 41.

1 Refinitiv Interim Silver Market Review, 15 November 2018 – New York City.
2 World Gold Council, Gold Demand Trends Full year and Q4 2018, 31 January 2019.

CAPITAL INVESTMENT AND RESOURCE REPLACEMENT

With precious metal prices remaining under pressure, the focus for many mining companies has continued to be on strengthening their balance sheets, sustaining their current production levels and growing their reserves and resources. For many, the latter two aims are proving challenging, following many years of under investment in exploration. As we saw towards the end of 2018 and early in 2019, there has been a consolidation of mining companies through acquisition.

THE OPPORTUNITY FOR FRESNILLO

Our consistent strategy has always been to invest across all price cycles, while maintaining a strong balance sheet. This dual focus has been, and continues to be, a key differentiator for Fresnillo – it has enabled us to build a solid foundation from which we continue to look to grow through exploration, adding only low cost, quality ounces, thereby not diluting our resource base.

MAINTAINING OUR LICENCE TO OPERATE

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

THE OPPORTUNITY FOR FRESNILLO

We strive to ensure that the communities close to our operations benefit from the success of our business. Initiatives such as the Picando Letras reading programme, a wide range of health programmes and shared activities have proved very successful in improving the lives and prospects of those who depend on us or are impacted by our operations.

To learn more about what it is we do for our local communities and how we maintain our licence to operate see pages 81-84.

A MOVE TO RENEWABLE SOURCES OF ENERGY

As with many extractive industries, precious metal mining activities contribute to greenhouse gas emissions, and miners therefore have a clear duty to be environmentally responsible. The shift towards greater responsibility is moving the industry towards a cleaner future, as it actively makes operational changes to reduce GHG emissions and improve energy efficiency.

THE OPPORTUNITY FOR FRESNILLO

As described on page 78, Fresnillo is committed to ensuring that renewable sources provide 75% of all our electricity needs by the end of 2019. Additionally, in conjunction with Caterpillar, we have trialled and are now looking to roll out the use of Liquid Natural Gas, reducing the need for diesel usage in our haulage truck fleet at our open pit operations.

Our business model and strategy have remained consistent over time, maintaining our conservative approach to growth and leverage, combined with a commitment to operational excellence, responsible business practices and disciplined capital allocation. Together, these combine to provide valuable downside protection, enabling us to deliver year-on-year stakeholder returns, even in the current market environment. At the same time, upside potential remains high given our consistent investment in exploration.

THE BUSINESS ENVIRONMENT IN MEXICO

Mexico has the second largest economy in Latin America and is characterised by a mature and relatively stable tax and legal framework. Despite the country's 500 year tradition of mining, its geological potential remains as strong as ever, with just under 350 companies undertaking mining projects in the country[3]. The industry directly employs over 370,000 people and represents 2.5% of Mexico's national GDP[4]. Mexico continues to be the largest producer of silver in the world and a top global producer of gold, copper and zinc, amongst other minerals. All of Fresnillo's current operations are located in Mexico and we remain committed to the long-term opportunities in the country.

Presidential and congressional elections were held in 2018 and a new administration took office on 1 December 2018.

COUNTRY CHALLENGES SPECIFIC TO FRESNILLO PLC

CORRUPTION, PART OF POTENTIAL ACTIONS BY THE GOVERNMENT – PRINCIPAL RISK NUMBER 2

See page 31.

SECURING LAND ACCESS – PRINCIPAL RISK NUMBER 3

See page 32.

SECURITY – PRINCIPAL RISK NUMBER 4

See page 33.

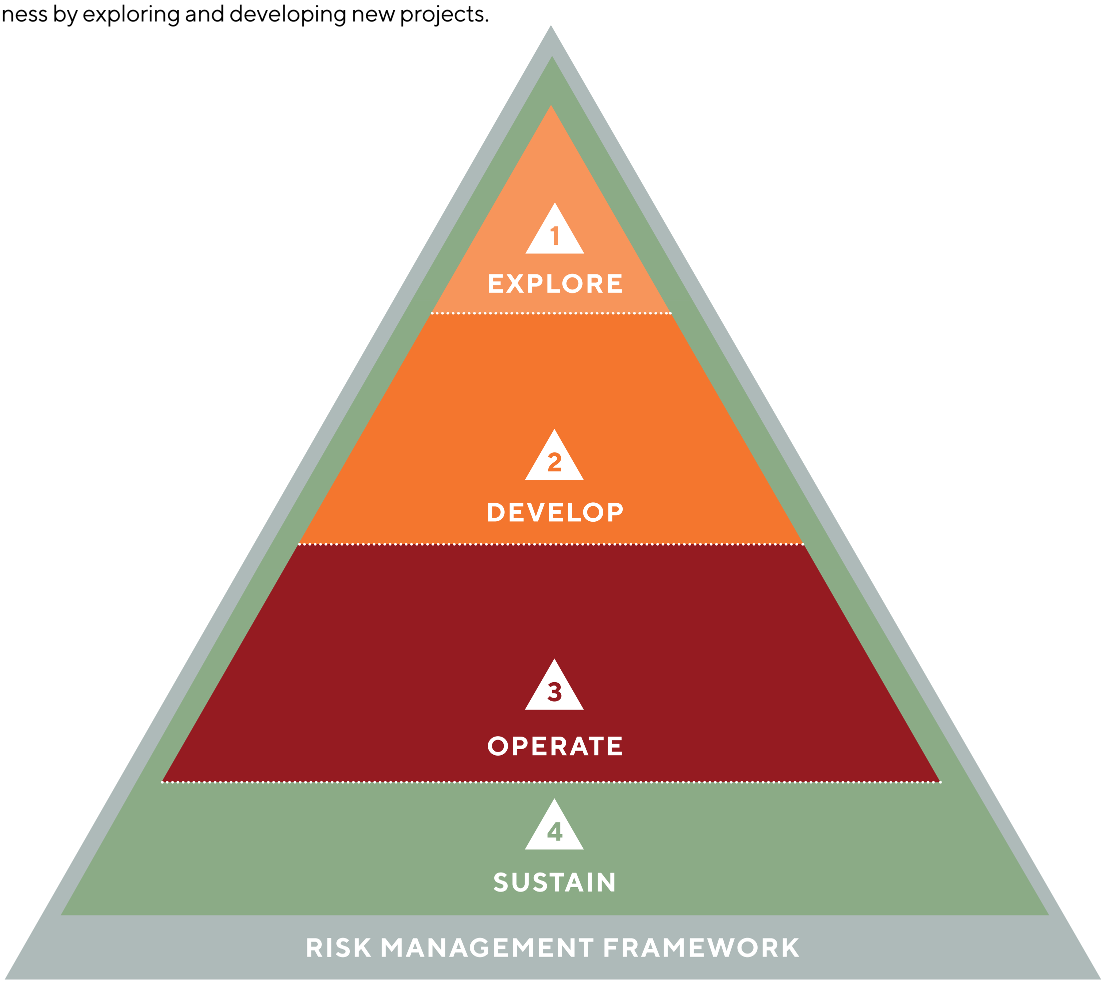
3 https://www.sgm.gob.mx/Web/SINEM/mining/mining_companies.html
4 https://www.export.gov/article?id=Mexico-Mining-and-Minerals

BUSINESS MODEL

Our business model spans the full mining value chain from exploration, development and construction, to mining operations, supported by strategic resources and relationships essential to the effective execution of the business.

WHAT WE DO

Gold and silver mining is the heart of our business model. We generate revenue by selling the metals contained in the ore we extract and process. We ensure the longevity of our business by exploring and developing new projects.



Underpinned by our values:
Integrity, trust, responsibility and loyalty, which demonstrate our ethical culture and are embedded in our behaviours.

OUR STRATEGY

Our strategy is intrinsically linked to our business model:

1. Ensure business continuity and growth by replenishing depleted reserves and maintaining a robust growth pipeline See pages 44-48.
2. Deliver profitable growth by advancing new projects towards commissioning, while optimising cash flow and returns See page 49.
3. Maximise the potential of existing operations while maintaining our position as a leading low-cost producer See pages 50-65.
4. Responsible business practices are embedded in our business model See pages 66-84.

RESOURCES AND RELATIONSHIPS

The key resources and relationships that underpin our business model:

H PEOPLE

We rely on the skills, experience and commitment of our people to meet our business goals. Attracting, engaging and developing the best talent are key to the execution of our strategic plan.

We have a skilled workforce of 5,139 unionised workers and employees and 12,462 contractors, supported by an experienced and value-driven leadership team.

See our people on pages 69-70.

N NATURAL RESOURCES

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

- 1.8 million hectares of surface land in mining concessions in Mexico.
- 1,321 megalitres of recycled water in our processes (efficiency of 80.16%).
- 26,000 tonnes of CO_2e avoided through the use of renewable energies.

See environment on pages 76-80.

S RELATIONSHIPS WITH KEY STAKEHOLDERS

Our social licence to operate is our most valuable intangible asset. Sustained trust from our stakeholders mitigates the risk of conflicts that would otherwise compromise our ability to execute our business strategy.

We work with more than 230 local suppliers.

See our stakeholders on pages 22-23.

F FINANCIAL STRENGTH AND CONTROL

We maintain strict controls on cash, costs and expenses and adhere rigidly to capex budgets. Our healthy position regarding cash and other liquid funds[1], balanced by our low leverage ratio, ensure sufficient resources to invest in advancing our pipeline and delivering returns to shareholders.

- Healthy balance sheet and low leverage ratio.
- Total equity of US$3,128.3 million.

See our strategy on pages 24-27.

M PROPERTY AND EQUIPMENT

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

Net book value of property, plant and equipment of US$2,693.1 million.

See the Finance Review on pages 85-97.

I TECHNOLOGY

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

Ongoing investments in the latest intelligent solutions to improve safety, productivity and decision-making, as well as identify and address gaps in cyber security.

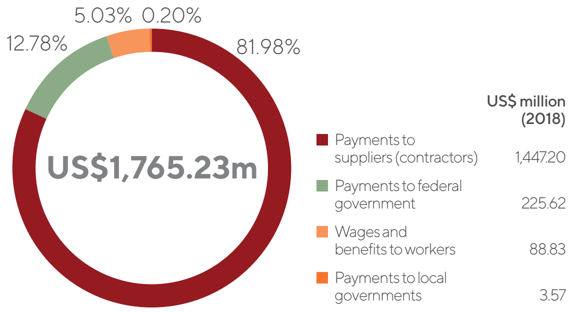
We have linked our resources and relationships to the Capitals outlined in the International Integrated Reporting Council's (IIRC's) framework.

H Human N Natural S Social
F Financial M Manufactured I Intellectual

VALUE CREATION

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

ECONOMIC VALUE DISTRIBUTED



FOR EMPLOYEES

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

- US$88.8 million in benefits and payments to employees.
- 293 'I Care, We Care' workshops provided to 9,991 employees and contractors.

FOR COMMUNITIES

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

- Social investment through direct contributions to local communities: US$3.1 million.
- Reading programmes benefitting 8,500 children in 72 schools.
- 1,321 megalitres of water recycled in our processes (efficiency of 80.2%).

FOR GOVERNMENT

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

- Obtain exploration, mining rights and environmental permits.
- Mining concession paid: US$13.3 million.

FOR SHAREHOLDERS

We generate sustainable long-term financial returns.

- EBITDA US$915.1 million.
- Profit for the year US$350 million.
- Earnings per share 0.48 (US$/share).
- US$298.1 million paid in dividends.

FOR SUPPLIERS

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

FOR CUSTOMERS

Treatment and refining charges: US$141.2 million in 2018.

MEMBERSHIP ORGANISATIONS

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

1 Cash and other liquid funds are disclosed in note 30c to the Financial Statements.

BUILDING TRUST

RELATIONSHIPS WITH KEY STAKEHOLDERS

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

Find out more about the outcomes of our engagement initiatives in our Social and Sustainability Review on pages 66-84.

EMPLOYEES AND UNIONS	LOCAL COMMUNITIES AND CIVIL SOCIETY
ENGAGEMENT STRATEGY	
• Engage union representatives constructively on collective bargaining and health & safety issues. • Conduct social, ethical and workplace surveys to identify issues that matter to employees. • Operate Health & Safety programmes in each business unit to foster direct dialogue between employees and management. • Operate the 'Fresnillo plays fair' whistleblowing line.	• Meet regularly with key stakeholders to understand and discuss their concerns. • Conduct Social Impact Assessments to identify potential negative impacts and perception studies to capture the expectations of communities. • Operate grievance mechanisms to address the concerns of communities. • Consult indigenous communities on new projects.
ISSUES THAT MATTER TO OUR STAKEHOLDERS	
• Remuneration. • Working conditions. • Labour rights. • Human rights. • Health & Safety. • Security.	• Their values and traditions. • Employment and procurement opportunities. • Public infrastructure and services. • Land acquisitions and resettlements. • Transparency regarding lobbying government payments. • Managing cyanide, mineral waste and hazardous materials. • Water stewardship. • Soil pollution. • Climate change.
HOW WE ADDRESS THESE ISSUES	
• Competitive remuneration, training and development opportunities to retain our talent. • Uphold our labour standards and respect human rights to ensure a positive work environment. • Operate a Health and Safety management system based on best practices to ensure a safe and healthy workplace. • Train employees to embed ethics and safety in our culture. • Monitor security situations, maintaining clear internal communications and close relations with authorities at federal, state and local levels.	• Ensuring that priority is given to local employment and procurement. • Strengthening regional supply chains through participation in mining clusters in Zacatecas, Sonora and Chihuahua. • Working with community leaders to engage municipalities on projects with the Mining Fund. • Managing community investment portfolio in alliance with NGOs. • Following best practices for land acquisition, resettlements and indigenous consultations. • Disclosing our government relations & lobbying activities and our government payments.

GOVERNMENT AND REGULATORS	CONTRACTORS AND SUPPLIERS	SHAREHOLDERS
• Engagement with federal authorities and regulators on regulatory issues through trade unions such as CAMIMEX and sustainability associations such as CESPEDES. • Direct engagement with federal, state and local authorities regarding mining rights, environmental permitting, etc. in the regions where we operate.	• Engage contractors with the 'I Care, We Care' programme to embed safety in our culture. • Engage contractors to certify their safety and environmental management systems and participate in government certifications.	• Organise conference calls and roadshows. • Attend investment forums and conferences. • Annual General Meeting.
• Water stewardship. • Mineral waste and hazardous materials management. • Cyanide Management. • Climate Change. • Labour rights. • Human rights. • Health & Safety.	• Working conditions. • Labour rights. • Human rights. • Health & Safety. • Security.	• Operating and Financial performance. • Growth strategy. • CAPEX projects.
• Conduct Environmental Impact Assessments to identify potential impacts and mitigation strategies. • Foster energy efficiency and supply from renewable sources. • Observe Responsible Water stewardship to secure access, the efficient use of resources, pollution protection, and cooperation with communities. • Manage our mineral and hazardous waste facilities responsibly. • Manage cyanide in compliance with the International Cyanide Management Institute (ICMI). • Participate in the Health, Safety and Environmental certifications of the Mexican authorities.	• Uphold our labour, Health & Safety and Environmental procedures. • Carry out due diligence procedures to verify the ethical profile of new contractors. • Provide technical support to help contractors comply with the Self-Management Safety programme. • Monitor security, maintaining clear communications with contractors.	• Stringent viability criteria for development projects, including rates of return, to ensure adaptability across price cycles. • Targeted investment and disciplined cash management.

OUR STRATEGY AND KPIs

Our strategy is designed to ensure that we meet our strategic goals across each element of the business model.

1 EXPLORE

Extend and maintain a robust growth pipeline

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

2018 Goals and Progress

GOALS

- Effectively deploy US$200 million in exploration investment.

PROGRESS

- Invested US$181.2 million in exploration with 579,000 metres and 346,455 metres drilled at our operating mines and exploration projects, respectively.
- Gold and silver reserves decreased by 6.0% and 5.1% respectively during the year.
- Silver resources decreased 5.0% mainly due to lower grade and tonnage at Saucito.
- Gold resources increased 1.5% as a result of an increase in resources at Centauro Deep.
- Continued exploration activities at all existing mines, with special emphasis on infill drilling in the Fresnillo District.
- Continued deep drilling at Juanicipio.
- Concluded the feasibility study at Juanicipio and carried out a pre-feasibility study at Centauro Deep.

2019 Targets

- Effectively deploy US$140 million in exploration investment.
- Accelerate infill drilling programme at Saucito and San Julián to convert resources into reserves.
- Carry out preliminary economic assessments at Tajitos and San Juan.
- Continue the preliminary economic studies at Guanajuato and Orisyvo.
- Implement parametric drilling at two projects in Chile and one project in Peru.
- Test-drill new targets that have been identified at San Julián, Fresnillo and Guanajuato.

2 DEVELOP

Deliver growth through development projects

Adhere to strict delivery timelines and capex budgets.

2018 Goals and Progress

GOALS

- Pyrites plant: Commission leaching plant to process tailings from the Saucito mine in 1H 2018. Continue construction of tailings flotation plant at Fresnillo to process historical and ongoing tailings, due to be commissioned by the end of 2019.
- Commission the Second line of the Dynamic Leaching Plant at Herradura in 2Q 2018.
- Conclude feasibility study of Juanicipio and initiate construction subject to Board approval.

PROGRESS

- Construction of the Pyrites plant (phase I) was completed on budget with a minor delay.
- Commissioned the second line of the Dynamic Leaching Plant, despite a delay as tests took longer than anticipated.
- Feasibility study was concluded and construction and operational agreements were reviewed. Construction is expected to begin in 2019, subject to Board approval.

2019 Targets

- Pyrites plant (phase II): Continue construction of tailings flotation plant at Fresnillo to process historical and ongoing tailings due to be commissioned in 2H 2020.
- Initiate construction of Juanicipio subject to Board approval.

3 OPERATE

Maximise the potential of existing operations while maintaining our position as a leading low-cost producer

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

2018 Goals and Progress

GOALS

- Produce between 67-70 moz silver (including Silverstream), 870-900 koz of gold.
- Continue stabilising ore grades and ore throughput at the Fresnillo mine.
- Maintain development rates at our underground mines, with the aim of gradually increasing them in the long term.

PROGRESS

- Produced 61.8 moz silver (including Silverstream), below revised guidance, and produced 922.5 koz of gold, in line with revised gold guidance. The graph opposite illustrates silver production from our own mines, with the shaded portion representing additional ounces accrued under the Silverstream contract.
- Silver ore grade decreased due to differences versus the geological model and increased dilution; ore throughput remained steady year-on-year.
- Development rates decreased in the Fresnillo district (see pages 51 and 55) and increased at Ciénega.

Our goal was to have 650 million ounces of silver and 7.5 million ounces of gold in reserves by the end of 2018. Despite missing our long-term goals for 2018, we are confident of the quality and potential of our operations going forward.

2019 Targets

- Produce between 58-61 moz silver, 910-930 koz of gold.
- Enhance management control in the Fresnillo district to improve development rates and increase productivity.
- Ramp-up of second line of Dynamic Leaching Plant.
- Contain costs.

2018 Group KPIs/Performance

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

ATTRIBUTABLE SILVER RESOURCES
MILLIONS OF OUNCES

2,204.0

2018	**2,204.0**
2017	2,320.5
2016	2,171.5
2015	1,970.7
2014	2008.4

Lower mainly due to the results of the infill drilling and higher cut-off grade at Saucito, as well as depletion at Ciénega and San Julián.

ATTRIBUTABLE GOLD RESOURCES
MILLIONS OF OUNCES

39.1

2018	**39.1**
2017	38.5
2016	38.4
2015	35.5
2014	34.1

Higher due to an increase at Centauro Deep, which offset decreases at Ciénega and Noche Buena.

Risks

- Impact of metal prices & global macroeconomic developments.
- Potential actions by government.
- Access to land.
- Security.
- Public perception against mining.
- Exploration.
- Human resources.

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

CENTAURO EXTENSION
CAPEX BUDGET AND TOTAL CAPEX TO DATE
US$

110m

104.6m

PYRITES PLANT
CAPEX BUDGET AND TOTAL CAPEX TO DATE
US$

155m

79.5m

- Impact of metal prices & global macroeconomic developments.
- Potential actions by government.
- Access to land.
- Security.
- Public perception against mining.
- Union relations.
- Projects (performance risk).
- Cyber security.
- Human resources.

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

SILVER PRODUCTION MILLIONS OF OUNCES

61.8

2018	58.1	3.7	**61.8**
2017	54.2	4.4	**58.7**
2016	45.7	4.6	**50.3**
2015	43.0	4.0	**47.0**
2014	40.4	4.6	**45.0**

Increased silver production due to first complete year of San Julián (Disseminated Ore Body).

GOLD PRODUCTION THOUSANDS OF OUNCES

922.5

2018	**922.5**
2017	911.1
2016	935.5
2015	761.7
2014	595.9

Increased gold production due to the higher ore grade and recovery rate at Saucito, the contribution of the new Pyrites plant and the higher ore grade at Fresnillo.

Proven and probable reserves: A measure of the quality of the Group's operating assets and our ability to extend the life of operating mines at profitable levels.

SILVER RESERVES MILLIONS OF OUNCES

476.0

2018	**476.0**
2017	501.7
2016	530.3
2015	547.6
2014	582.3

Lower mainly due to depletion at San Julián and lower tonnage at Saucito.

GOLD RESERVES MILLIONS OF OUNCES

11.0

2018	**11.0**
2017	11.7
2016	9.5
2015	9.5
2014	9.7

Lower due mainly to depletion at Herradura, Noche Buena and the San Julián veins.

- Impact of metal prices & global macroeconomic developments.
- Potential actions by government.
- Access to land.
- Security.
- Public perception against mining.
- Union relations.
- Cyber security.
- Human resources.

OUR STRATEGY AND KPIs CONTINUED

2018 Goals and Progress | 2019 Targets

4 SUSTAIN

Advance and enhance the sustainability of our business and uphold our licence to operate

We believe that responsible mining is compatible with high stakeholder expectations in terms of ethical, social and environmental performance, and recognise that our social licence to operate is dependent upon being trusted by our stakeholders. This underlines the importance of responsible business practices being deeply integrated into our business model, and of factors that affect stakeholders being considered at every critical decision-making level.

2018 Goals and Progress

GOALS

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

PROGRESS

- Despite five fatal injuries, we remain committed to embedding a safety culture in our operations.
- LTIFR increased as a consequence of an increase in the workforce and high turnover of contractors.
- Water intensity per tonne of mineral increased slightly due to operating conditions although efficiency remained at a high level.
- Despite the increase in energy demand, our carbon intensity remained at similar levels due to the increase in electricity supply from renewable sources.

2019 Targets

- Continue to define our Company Purpose, to express what Fresnillo is and what we stand for.

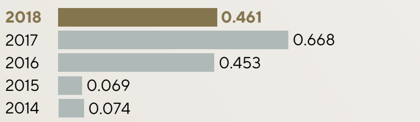
FINANCIAL KPIs

Earnings per share excluding post-tax Silverstream revaluation effects

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

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

0.461



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

2018 Group KPIs/Performance

WATER INTENSITY M³ PER TONNE OF MINERAL PROCESSED

0.26

2018	**0.26**
2017	0.23
2016	0.22
2015	0.25
2014	0.19

Though the water intensity remained at similar levels, the increase was due to a higher quantity of mineral processed.

GREENHOUSE GAS INTENSITY TONNES OF CO_2E PER TONNE OF MINERAL PROCESSED

0.016

2018	**0.016**
2017	0.016
2016	0.019
2015	0.017
2014	0.019

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

FATALITIES AND INJURIES
NUMBER OF FATAL INJURIES TO TO EMPLOYEES OR CONTRACTORS

5

2018	**5**
2017	1
2016	3
2015	1
2014	1

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

8.64

2018	**8.64**
2017	8.14
2016	5.99
2015	7.51
2014	3.7

Lost time injuries are work-related injuries rendering any of the Group's employees – full or part-time, direct or subcontracted, union or non-union – unable to perform his/her regular duties for one shift or more.

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

Risks

- Potential actions by government.
- Security.
- Public perception against mining.
- Safety.
- Environmental incidents.
- Human resources.

EBITDA, EBITDA margin and cash flow from operating activities before changes in working capital

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

EBITDA AND EBITDA MARGIN
US$

915.1m

2018	**43.5%**	**915.1**
2017	50.6%	1,060.1
2016	54.2%	1,032.0
2015	37.9%	547.5
2014	40.1%	567.3

Decrease as a result of lower gross profit and higher administrative and exploration expenses.

CASH FLOW GENERATED FROM OPERATIONS BEFORE WORKING CAPITAL ADJUSTMENTS
US$

930.7m

2018	**930.7**
2017	1,073.9
2016	1,023.3
2015	537.5
2014	568.5

Decrease due to lower profits.

MANAGING OUR RISKS

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

RISK MANAGEMENT SYSTEM

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

In addition to our established risk management activities, our executives, including operations managers, the controllership group, HSECR managers and exploration managers regularly engage in strengthening the effectiveness of our current controls. This supports the executives and the Board in each of their responsibilities.

Within the identification phase of our risk management system, the Company also captures emerging risks that could arise as a result of new developments that have a chance of impacting Fresnillo, either at a macro or operational level.

Examples of these are new requirements imposed by changes to regulation, including stricter environmental rules, the commissioning of a new project and the use of state of the art underground technology, amongst others.

2018 RISK ASSESSMENT

During our 2018 risk assessment exercise, a team of 135 people evaluated 109 risks across all our operations, advanced projects, exploration offices, and support and corporate areas.

We narrowed down our 109 risks into major risks which are monitored by executive management and the Audit Committee. We then further consolidated these into 12 principal risks which are closely monitored by the Board of Directors.

RISK GOVERNANCE BASIS

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

The Board
- Reviews and approves risk management and internal control systems.
- Determines the nature and extent of principal risks.
- Monitors exposures to ensure their nature and extent are aligned with overall goals and strategic objectives.
- Sets tone on risk management culture.

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

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

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

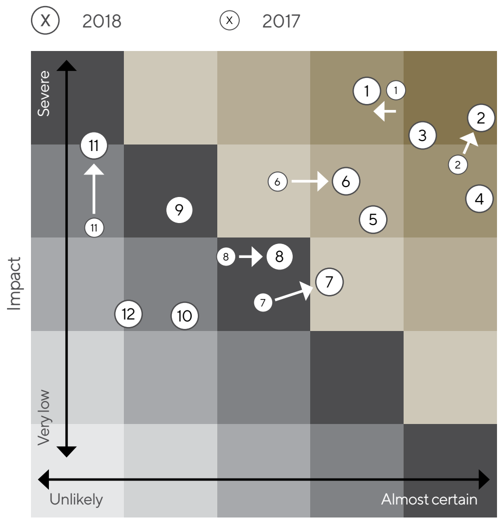
Operational* level
- Risk identification and assessment performed across mining operations, projects and exploration sites.
- Risk mitigation and internal controls monitoring embedded across functional areas and business units.
- Risk awareness and safety culture embedded in day-to-day operations.

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

* Including personnel at mine sites, development projects, exploration sites and support areas.

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

HEAT MAP



Relative position

2018	2017	Risk*	
1	1	**Impact of metal prices and global macroeconomic developments**	(v)
2	3	**Potential actions by the government (e.g. taxes/more stringent regulations)**	(v)
3	2	Access to land	(v)
4	4	Security	
5	5	Public perception against mining	
6	6	**Safety**	
7	8	**Union relations**	
8	9	**Exploration**	
9	7	Projects (performance risk)	
10	10	Cyber security	
11	12	**Environmental incidents**	(v)
12	11	Human resources	

* Bold text indicates risks that changed during 2018.
(v) Risk that was considered for the viability assessment as detailed on pages 42-43.

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

MANAGING OUR RISKS CONTINUED
RESPONSE/MITIGATION TO OUR RISKS

1. IMPACT OF METAL PRICES AND GLOBAL MACROECONOMIC DEVELOPMENTS

RISK DESCRIPTION

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

- A decrease in precious metal prices, which is the primary driver for this risk. The average realised price for gold remained flat year-on-year (+0.1% vs. 2017) while silver experienced an 8.3% decrease.
- Revaluation of the Mexican peso. In 2018, the peso was devalued by 1.6% versus the average spot exchange rate of the US dollar.
- General inflation in Mexico. This was 4.9% in Mexican peso terms during 2018. The specific inflation affecting the Company was 2.6% in US dollar terms.
- A decrease in the price of our by-products. In 2018, the average realised prices for lead and zinc decreased 7.4% and 5.7% respectively, over the previous year.

RESPONSE/MITIGATION

Our hedging policy remains guided by the principle of providing shareholders with full exposure to gold and silver prices. However, following shareholder approval for the acquisition of 44% of Penmont (and associated companies) in 2014, we initiated a specific hedging programme to protect the value of the investment made in the acquisition, using a collar structure to allow partial continued exposure to gold prices. The volume associated with this phased hedging programme was strictly limited to up to 44% of production associated with the acquired Penmont assets and will not be extended to other assets in the Group. The initial total volume hedged was 1,559,689 oz of which 1,213,537 oz have expired as at the end of 2018 (366,432 oz expired in 2018) with no corresponding cash impact in 2018.

We are not precluded from entering into derivatives to minimise our exposure to changes in the prices of lead and zinc by-products. In 2017, the Group hedged a portion of our by-product lead and zinc production with maturities starting in 2018. The combined profit during 2018 was US$ 1.6 million.

See note 29 in the Financial Statements page 211 for more details.

Furthermore, we have hedging policies in place for foreign exchange risk, including those associated with capex related to projects. In 2018, we entered into a number of foreign exchange forward contracts denominated in euros, Swedish kronor and Canadian dollars.

See note 29 in the Financial Statements page 210 for more details.

In terms of inflation, we experienced an increase in one of our main energy inputs over the previous year, with the average cost of diesel (USC$/lt.) rising by 7.7%. On the other hand, the weighted average KWH (USC$) decreased by 6.4%. We will continue to identify and maintain efficiency initiatives to reduce our energy consumption.

DESCRIPTION OF RISK LEVEL

According to the majority of silver and gold financial analysts, the volatility of metal prices is expected to continue to reduce. Medium term projections are likely to favour stronger and more stable prices due to the unpredictable global conditions which include: the view that US economic growth will slow, and that the Chinese economy is likely to suffer from the negative effects of any trade war. In summary, the macroeconomic backdrop is likely to favour a rotation back to safe haven assets.

KEY RISK INDICATORS

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

RISK APPETITE

HIGH FOR METAL PRICES, MEDIUM FOR ALL OTHER MACROECONOMIC DEVELOPMENTS

Risk rating (relative position)

2018: Very high (1)

2017: Very high (1)

LINK TO STRATEGY

1 2 3

CHANGE IN HEAT MAP

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

RISK DESCRIPTION

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

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

i. Extraction of materials other than minerals referenced in Article 4 of the Mexican Mining Law (gold, silver, lead, zinc, etc.) from the soil and sub-soil through open-pit processes;

ii. Emissions of certain substances into the atmosphere;

iii. Deposit of contaminants into the soil and water;

iv. Storage of waste in public or private landfills.

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

RESPONSE/MITIGATION

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

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

We remain compliant with all applicable environmental regulations and are fully committed to operating in a sustainable way. We are committed to holding community dialogue over the lifetime of a mine project, from the earliest exploration to eventual closure, aiming to create long-term relationships and value, while ensuring operational continuity.

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

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

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

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

DESCRIPTION OF RISK LEVEL

We continue to perceive this risk level as very high due to the pressure that the Government or Government officials (in either case, both at the federal and local levels) could exert over the mining industry. Evidence of this influence on our industry can be seen in the increase in the frequency of the reviews by the tax authorities, the legislation issued in 2017 requiring management to ensure that contractors are compliant with their own tax obligations, the imposition of the environmental taxes contained in the new State Law in Zacatecas and the indigenous consultation to obtain mining concessions. In addition it is evident in the continued perceived level of corruption across Mexico, which remains high[1] and worsened versus the previous year. As a result, delays in obtaining permits for certain operations and/or projects remain a risk.

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

KEY RISK INDICATORS

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

RISK APPETITE

LOW

Risk rating (relative position)

2018: Very high (2)

2017: Very high (3)

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

LINK TO STRATEGY

1 2 3 4

CHANGE IN HEAT MAP

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

MANAGING OUR RISKS CONTINUED
RESPONSE/MITIGATION TO OUR RISKS

3. ACCESS TO LAND

RISK DESCRIPTION

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

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

Furthermore, insecurity in our exploration and operational areas as well as potential actions by the government increase the complexity of land access risk.

As the issue with the Ejido El Bajio is not yet resolved, operations at Soledad & Dipolos remain suspended.

RESPONSE/MITIGATION

Successful land access plays a key role in the management of our mining rights, focusing on areas of interest or strategic value. At the end of 2018, after adding required areas and divesting areas of less interest, we held 1.8 million hectares of mining concessions, which represents no change year-on-year. Other initiatives include:

- Careful advanced planning for land requirements and acquisitions by anticipating any issues with a potential land purchase before intensive exploration. In certain areas of interest, we negotiate leasing or occupation agreements with purchase options, in compliance with legal and regulatory requirements.
- The fostering of strong community relations through investment in community programmes and infrastructure. Such investments totalled US$3.1 million in 2018.

See Social and Sustainability Review pages 66-84.

- Always seeking tri-party cooperation between the Government, community and ourselves in securing access to land.
- Early involvement of our community relations and negotiation teams during the negotiation and acquisition processes, including the exploration stage.
- Working with our land negotiation teams, which comprise specialists hired directly by Fresnillo and also provided by Peñoles as part of the service agreement.

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

DESCRIPTION OF RISK LEVEL

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

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

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

KEY RISK INDICATORS

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

RISK APPETITE

MEDIUM

Risk rating (relative position)

2018: Very high (3)

2017: Very high (2)

LINK TO STRATEGY

1 2 3

CHANGE IN HEAT MAP

=

4. SECURITY

RISK DESCRIPTION

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

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

For example, activities at the San Nicolás del Oro prospect remained suspended because of the level of insecurity in the state of Guerrero.

RESPONSE/MITIGATION

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

- We maintain close relations with authorities at federal, state and local levels, including army encampments located near the majority of our operations.
- We have completed the implementation of increased technological and physical security of our Merrill Crowe plants at Herradura and Noche Buena, including the use of a remote monitoring process, also in use at the San Julián mine. At the Saucito and Fresnillo mines, this programme is 90% and 40% complete, respectively; implementation at these two mines has taken longer than expected due to the extent of the new arrangements and the increased scope (remote monitoring). However, we expect to complete full implementation of our higher internal standard requirements across all business units during 2019.
- During 2018, we replaced the majority of our security contractors, all of which now meet our operational standards and reinforce our security strategies.
- We have maintained our logistics controls in order to reduce the probability of theft of mineral concentrate. These controls include: the use of real-time tracking technology; surveillance cameras; tests to identify alterations in transported material; guard services; control checkpoints in a 'safe corridor'; and reduced number of authorised stops in order to optimise delivery times and minimise the exposure of convoys.
- We continue to invest in community programmes, infrastructure improvements, and government initiatives to support the development of lawful local communities and discourage criminal acts.
- We suspend access to areas with an unacceptably high level of insecurity.
- Both internally and among our contractors, we continue to promote the reporting of criminal acts to the authorities.

DESCRIPTION OF RISK LEVEL

We have continued to experience a high level of security incidents, both in frequency and severity, however our operations were not materially impacted. The perceived level of risk has therefore remained very high. In the regions and projects where we operate, we did not observe an improvement in the crime rate during 2018.

Following the change of administration, we have yet to see evidence of the new national security strategy. We expect this to include the creation of a National Guard.

We refer to The Global Peace Index[1] ranking, which indicates a higher likelihood of violent demonstrations and political instability. This index uses three broad themes: level of safety and security in society; the extent of ongoing domestic or international conflict; and the degree of militarisation. Mexico ranks 140 of 163 countries worldwide (from best to worst), as a country with a low state of peace, and has fallen two places in the ranking. In addition, we also use the Mexico Peace Index[2] ranking as a reference. This is a comprehensive index of the following indicators: homicides; violent crimes; weapons crimes; organised crime; and detention without a sentence. The index ranks states from 1 to 5, where 1 represents the most peaceful. Zacatecas (3.3 on the index) tends to rank among the less peaceful states in Mexico, while Chihuahua (2.9), Sonora (2.2) and Durango (2.0) are located in the medium range.

KEY RISK INDICATORS

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

RISK APPETITE

LOW

Risk rating (relative position)

2018: Very high (4)

2017: Very high (4)

LINK TO STRATEGY

1 2 3 4

CHANGE IN HEAT MAP

=

1 Global Peace Index 2018 prepared by the Institute for Economics & Peace, http://economicsandpeace.org/
2 Mexico Peace Index 2018 prepared by the Institute for Economics & Peace, http://economicsandpeace.org/

MANAGING OUR RISKS CONTINUED
RESPONSE/MITIGATION TO OUR RISKS

5. PUBLIC PERCEPTION AGAINST MINING

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

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

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

See Community Relations in the Social and Sustainability Review, pages 81-84 for more information.

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

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

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

RISK APPETITE
LOW

Risk rating (relative position)

2018: High (5)

2017: High (5)

LINK TO STRATEGY
1 2 3 4

CHANGE IN HEAT MAP
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6. SAFETY

RISK DESCRIPTION

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

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

RESPONSE/MITIGATION

Regrettably, we suffered five fatal accidents during 2018, three of them in the last quarter of the year, meaning that we were very far from achieving our goal of zero fatalities. Management has continued to take serious actions to address and prevent the root causes of fatal accidents and strengthened our safety initiatives. These include:

- The continuing roll out of the 'I Care, We Care' programme at our different mines to improve safety performance and develop competences in our supervisors. The programme aims to develop risk competency by educating leaders, supervisors and the workforce. It fosters coaching and positive incentives and a comprehensive review and enhancement of our Critical Control Risk Protocols and Emergency Response Teams; and the appointment of a permanent specialist advisor in our top team who is in charge of safety, health and community issues and has the responsibility for addressing our unacceptable safety record.

The Total Recordable Injury Frequency Rate decreased to 20.47 in 2018 (vs. 23.22 in 2017) while the Lost Time Injury Frequency Rate increased to 8.64 (vs. 8.14 in 2017).

We continue to deliver training for both employees and contractors. Personnel received an average of 94 hours of training in 2018. 45 of these 94 hours involved HSECR training.

See Safety pages 73-74 for more on our safety strategy and programmes.

DESCRIPTION OF RISK LEVEL

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

As a result of the unacceptable safety record in 2018, the Board and the management team have decided to increase the likelihood of this risk.

KEY RISK INDICATORS

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

RISK APPETITE

LOW

Risk rating (relative position)

2018: High (6)

2017: High (6)

LINK TO STRATEGY

4

CHANGE IN HEAT MAP

MANAGING OUR RISKS CONTINUED
RESPONSE/MITIGATION TO OUR RISKS

7. UNION RELATIONS

RISK DESCRIPTION

The risk of union action or a deterioration in union relations at some sites may be possible. Internal union politics could impact us negatively, as could pressure from other mining unions that want to take over the Fresnillo labour contracts.

RESPONSE/MITIGATION

Our strategy is to integrate unionised personnel into each BU team. We achieve this by clearly assigned responsibilities and programmes for maintaining close relationships with unions at mine sites and at national level. We maintain close communication with union leaders at various levels of the organisation in order to: raise awareness about the economic situation the industry is facing; share our production results; and to encourage union participation in our initiatives regarding safety and other operational improvements. These initiatives include the safety guardians programme, alliances for obtaining certifications, integration of high productivity teams and family integration activities. During the year, we held six leadership workshops which were attended by 162 key union leaders at our business units, in order to improve their leadership abilities at the local union committees.

We are proactive and timely in our responses to the needs of the unions, and experienced no labour-related work stoppages in 2018. If required, we engage experienced legal counsel, both internal and external, to support us on labour issues. We will continue to closely monitor union and labour developments.

DESCRIPTION OF RISK LEVEL

During 2018, we continued to build on our good relations with unions at national and local levels, however recent developments have led us to increase our perceived level of risk driven by the potential changes to labour laws which might impact the way labour unions operate. At the time of this report's publication, the contractual revisions of our mines were carried out in a smooth manner without setbacks. Our executive management and the Board recognise the importance of union relations and follow any developments with interest.

KEY RISK INDICATORS

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

RISK APPETITE

LOW

Risk rating (relative position)

2018: Medium high (7)

2017: Medium low (8)

LINK TO STRATEGY

2 3

CHANGE IN HEAT MAP

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8. EXPLORATION

RISK DESCRIPTION

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

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

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

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

RESPONSE/MITIGATION

During 2018, we invested a total of US$181.2 million in exploration activities. Our objectives for 2019 include a budgeted risk capital investment in exploration of approximately US$140 million. The approximate spending split is 43% for operating mines, 19% for exploration projects, 25% for prospects and regional prospecting and 13% for mining rights.

Our exploration strategy also includes:

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

See pages 44-48 for more on our exploration programmes and investment.

DESCRIPTION OF RISK LEVEL

Maintaining a reasonable investment in exploration, even when metal prices are low, has been our policy through the years. While continuous investment has always been a hallmark of our exploration strategy, replenishing exploited reserves and increasing our total amount of resources could be a challenge in the future. During 2018 we saw a decrease in our total silver resources, especially at our mining operations.

Additionally, we are addressing certain issues with the geological model at the Fresnillo and Saucito mines.

KEY RISK INDICATORS

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

RISK APPETITE

MEDIUM

Risk rating (relative position)

2018: Medium (8)

2017: Medium (9)

LINK TO STRATEGY

1

CHANGE IN HEAT MAP

MANAGING OUR RISKS CONTINUED
RESPONSE/MITIGATION TO OUR RISKS

9. PROJECTS (PERFORMANCE RISK)

RISK DESCRIPTION

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

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

RESPONSE/MITIGATION

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

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

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

The project development pipeline in 2018 included:

- Completion of the first stage of the Pyrites plant project (leaching plant at Saucito).
- The Centauro Extension, including a second line of the Dynamic Leaching Plant, at Herradura.
- The conclusion of a feasibility study at Juanicipio and the start of discussions regarding construction and operations agreements. Approval of the project is anticipated in due course.

See development projects on page 49 for more information.

DESCRIPTION OF RISK LEVEL

Our investment governance process and system of capital project controls remain in place, safeguarding our ability to deliver growth through development projects. During 2018, we commissioned the 2nd Dynamic Leaching Plant, with some delays due to the testing period taking longer than expected. We anticipate construction of Juanicipio commencing in 2019. Several factors have led us to perceive a lower level of risk for Juanicipio compared to San Julián, these include a lower level of investment, easier access to infrastructure and the site's proximity to current operations.

KEY RISK INDICATORS

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

RISK APPETITE

MEDIUM

Risk rating (relative position)

2018: Medium (9)

2017: Medium (7)

LINK TO STRATEGY

2

CHANGE IN HEAT MAP

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10. CYBER SECURITY

RISK DESCRIPTION

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

As a mining company, we may be under threat of cyber attacks from a broad set of attacker groups, from 'hacktivists' and hostile regimes to organised criminals.

Their goals include a desire to take advantage of the role that mining plays in regional and global supply chains as well as in national economies. Certain groups may also attempt to exploit vulnerabilities created by the industry's heavy reliance on automated operational systems. In our case, this could include initiatives such as Operations Technology and Information Technology (OTIT) Integration and Digital Mine (see pages 50 to 65).

RESPONSE/MITIGATION

During 2018 we developed a set of initiatives under our 'Cyber Security Programme & Threat Assessment' project, supported by external advisors. The objective of the programme is to identify the cyber security risks to which our Company is exposed to and align them to our mission and business strategy.

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

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

Our approach will also be based on the MITRE ATT&CK™ which is used as a foundation for the development of specific threat models and methodologies in the private sector, in government, and in the cyber security product and service community. A governance model, continuous risk assessment and Information Security policies will form the basis for our OTIT operational assurance which will support the digital transformation of Fresnillo in the coming years.

DESCRIPTION OF RISK LEVEL

As cyber security is an increasing threat to the industry, the Audit Committee continues to monitor and oversee this risk.

Our plan for 2019 is to focus our efforts on risk mitigation projects designed to protect information and key assets, according to the risk appetite set by management.

KEY RISK INDICATORS

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

RISK APPETITE

LOW

Risk rating (relative position)

2018: Medium (10)

2017: Medium (10)

LINK TO STRATEGY

2 3

CHANGE IN HEAT MAP

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MANAGING OUR RISKS CONTINUED
RESPONSE/MITIGATION TO OUR RISKS

11. ENVIRONMENTAL INCIDENTS

RISK DESCRIPTION

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

RESPONSE/MITIGATION

Our environmental management system ensures compliance with Mexican regulations, provides transparency, and supports initiatives that reduce our environmental footprint.

Four of our five mining units are certified under ISO 14001 and have Clean Industry certification; our San Julián mine is currently in the process of obtaining both.

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

The recent disaster in Brazil has led to increased focus on the issue of tailings dam safety across the global mining industry, and motivated us to review our controls to mitigate this risk.

Our controls include carrying out a number of studies to confirm that an area is suitable prior to the construction of a dam. These studies include geotechnical, geological, geophysical, hydrological and seismic analysis. Prior to construction, the CNA (National Commission for Water) undertakes various studies and continues to periodically review dams in relation to environmental impacts, on an ongoing basis.

Evidence that the Company continues to comply with all the CNA's parameters is the fact that all permits are still held by Fresnillo plc. In addition, management carries out thorough internal and third party reviews for all tailings dams within the Group. Furthermore, management continues to take actions to mitigate this risk, for example by engaging a third party to conduct a design stability assessment before a tailings dam is approved for an increase in capacity, and to carry out regular tests throughout the lifetime of the dam.

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

See our performance in our Environment section on pages 76-80 of this report.

DESCRIPTION OF RISK LEVEL

Our environmental management system, together with our investment in preventative measures and training, are key factors which reduce the risk of major environmental incidents. Based on the perceived level of risk due to the recent severe and catastrophic industry developments, the Board has decided to increase the severity of this risk.

KEY RISK INDICATORS

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

RISK APPETITE

LOW

Risk rating (relative position)

2018: Medium low (11)

2017: Low (12)

LINK TO STRATEGY

4

CHANGE IN HEAT MAP

12. HUMAN RESOURCES

RISK DESCRIPTION

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

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

RESPONSE/MITIGATION

Recruitment: we have assessed our hiring requirements for key positions for 2019, and aim to meet them by internal training and promotion, and by recruitment through:

- Our close relationships with universities offering earth sciences programmes. We have dedicated programmes to identify potential candidates based on performance who may be hired as interns and/or employees on graduation. We welcomed 137 professional practitioners, 57 trainees and scholarships and 173 engineers to our coaching programme.
- CETEF (Centre for Technical Studies Fresnillo) which teaches specific mining operational skills. All 10 graduates hired in 2018 joined as full-time employees.
- CETLAR (the Peñoles Centre for Technical Studies) which trains mechanics and electrical technicians. All eight graduates were hired as full-time employees in 2018 across Fresnillo's business units.

During 2018 we contracted 83 experienced personnel to fulfil our requirements.

Retention: Our aim is to be the employer of choice, and we recognise that in order to be a profitable and sustainable company, we have to generate value for our employees and their families. We do this by providing a healthy, safe, productive and team-oriented working environment that not only encourages our people to fulfil their potential but also supports process improvements.

Our focus is on continuous improvement, driven by training, development and personal growth opportunities; in summary our focus is on fair hiring, fair remuneration and benefits and gender equality as described in the Our People section on pages 69 to 70. We again received the Great Place to Work award, among companies with more than 5,000 employees. During 2018, 143 employees were promoted (13% of our structure at a professional level) and 58 transfers took place between business units. As we explain in the Corporate Governance section, we are currently considering how best to enable employee engagement at Board level, which we believe will support improved retention rates.

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

Contractors: We have long-term drilling and mining contracts. We invest significantly in training contractors, particularly on safety and environmental requirements. We have supported the enrolment of 80 of our contractor companies into the self-management Programme on Health and Safety at Work (PASST), promoted by the Mexican Secretariat of Labour and Social Welfare (STPS). Of these companies, 55% have been certified, and 45% are in the process of being certified.

DESCRIPTION OF RISK LEVEL

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

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

KEY RISK INDICATORS

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

RISK APPETITE

MEDIUM

Risk rating (relative position)

2018: Low (12)

2017: Low (11)

LINK TO STRATEGY

1 2 3 4

CHANGE IN HEAT MAP

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VIABILITY STATEMENT AND GOING CONCERN STATEMENT

In accordance with provision C.2.2 of the UK Corporate Governance Code, and taking into account the Group's current position and its principal risks for a period longer than the 12 months required by the going concern statement, management prepared a viability analysis which was assessed by the Board for approval.

The Directors reviewed the viability period and confirmed that a five-year period to December 2023 remained suitable, in line with the nature of planning in the mining industry and the Company's five-year forecast period normally used to evaluate liquidity and contingency plans. It allows us to model capital expenditure and development programmes planned during the timeframe, and reflects cash flows generated by the projects currently under development. Due to the long business cycles in our industry, the Directors considered that a shorter time period would be insufficient.

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

For the purpose of assessing the Group's viability, the Directors identified that of the principal risks detailed on page 29, the following are the most important:

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

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

Scenario 1: Impact of metal prices and global macroeconomic developments. Over a period of a year, precious metal prices fall and then remain at a low level for the following four years of the viability period, varying between US$1,179 – 1,292 per gold oz. and US$14.7 – 18.2 per silver oz. To create this impartial projection for the future low metal price environment, the Directors used an average of the three lowest forecasts from each year of the assessment, based on consensus estimates published by institutional financial analysts. This low metal price environment was deemed to be the most significant risk and pervasive across the Company. (Principal risk)

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

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

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

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

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

Scenario 7: The removal of concessions by the Government at a mine. Congress approves a new law enabling the Ministry of Economics to withdraw a concession. It is determined that a negative social impact took place following the rupturing of a cyanide tank, leading to the poisoning of the surrounding community. The Government withdraws all permits and mining concessions, with no intention of reinstating them in the future. This leads to the permanent closure of the mine for the duration of the viability period, while mitigating actions are undertaken. (Principal risk)

The hypothetical scenarios above are extremely severe in order to create outcomes that have the ability to threaten the viability of the Group. However, multiple control measures are in place to prevent and mitigate any such occurrences. Should any of these scenarios take place, various options are available to the Company in order to maintain sufficient liquidity to continue in operation.

When quantifying the expected financial impact and remediation time required for each of these risks, management performed benchmarking against the Group's own experience and against publicly available information on relevant, similar incidents in the mining industry.

It is currently anticipated that all or part of the US$800 million Senior Notes issued in 2013 will be refinanced. However, to take into account the possibility that market conditions at the time will not permit refinancing on acceptable terms, all the scenarios outlined above, including such that used depressed metal prices, assume that Senior Notes are paid in full in 2023, in accordance with their maturity.

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

When these scenarios were re-modelled, liquidity problems arose reflecting a negative cash balance in some periods. Nevertheless, by applying certain mitigating actions that the company has identified, these problems were successfully alleviated, allowing for the continuity of the Company's operations.

The lowest cash balance level was identified in scenario number three, in combination with the low metal prices scenario. This scenario presents a negative cash balance from 2020, with the lowest cash balance in 2023 (US$-283m). If this scenario materialises, the Company can undertake the following mitigating actions: deferral of investments in the Orisyvo project during the viability period and a considerable reduction in exploration expenses in 2020, which would result in this scenario maintaining a positive cash balance throughout the viability period, with a minimum cash balance of US$7 million during the second year (2020).

Risk management and internal control systems are in place (page 28) throughout the Group. Through the internal control systems, the Directors monitor key variables that have the ability to impact the liquidity and solvency of the Group, and we are confident that management is able to sufficiently mitigate any situations as they might occur.

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

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

GOING CONCERN STATEMENT

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Review on pages 14 to 97. The financial position of the Group, its cash flows and liquidity position are described in the Financial Review in pages 85 to 97. In addition, note 30 to the financial statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

In making their assessment of the Group's ability to manage its future cash requirements, the Directors have considered the Company and Group budgets and the cash flow forecasts for the period to 31 December 2020. In addition, they reviewed a more conservative cash flow scenario with reduced silver and gold prices of US$14.8 and US$1,187 respectively throughout this period, while maintaining current budgeted expenditure while only considering projects approved by the Executive Committee. This resulted in our current cash balances reducing over time but maintaining ample liquidity throughout the period.

The Directors have further calculated prices (US$14.2 and US$1,110 for silver and gold respectively), which should they prevail to the end of 2020, would result in cash balances decreasing to minimal levels by the end of 2020, without applying mitigations.

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

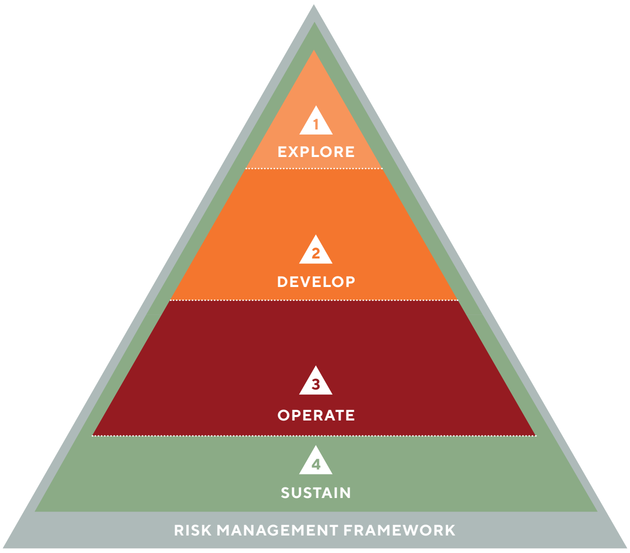
After reviewing all of the above considerations, the Directors have a reasonable expectation that management has sufficient flexibility in adverse circumstances to maintain adequate resources to continue in operational existence for the foreseeable future. The Directors, therefore, continue to adopt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

1 The average metals price derived from a range of Financial Institutions analysis as of December 2018.

REVIEW OF OPERATIONS

A STRONG GROWTH PIPELINE

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



Prospects & exploration

We ensure business continuity and growth by replenishing depleted reserves and maintaining a robust growth pipeline.

Prospects in drilling
Fresnillo District, Tajitos, Candameña, Guachichil, Pilarica (Peru), San Juan, Guazapares, Olivos, Lucerito, Minitas, Cebadillas, La Yesca, Dátil, Norias, Argentum.

Early stage exploration
Sonora and Sinaloa: Nudo, Lejano, Carina, Cerritos, Rosario, Elena, San Manuel, Santo Niño.
Chihuahua: Rosetillas, SJ Pinal, Lucero, Tempisque, Uruachi.
Durango: Canelas-VTopia, El Carmen.
Zacatecas: Urite, Atotonilco, Corredor Concha-Nieves, Villa García.
Peru: Sto. Domingo, La Pampa, Supaypacha, Alto Dorado.
Chile: Condoriaco, Capricornio.

See pages 45-47.

Development, feasibility & advanced exploration projects

We deliver growth through our development projects:

Development projects
Pyrites plant
Cebollitas Cluster
Centauro Extension
Juanicipio

PEA – Feasibility
Centauro Deep
Orisyvo

Advanced exploration
Guanajuato
Rodeo

See pages 46-49.

Mines in operation

We continually focus on greater efficiency across our assets in order to deliver high levels of production and maximise the potential of existing operations.

Fresnillo
Saucito
Herradura,
Noche Buena
Ciénega–San Ramón
Soledad & Dipolos[1]
San Julián

See pages 50-65.

1 Operations at Soledad & Dipolos are currently suspended.

Exploration sits right at the heart of our commitment to advancing our pipeline in order to provide a solid platform for future success.

HIGHLIGHTS OF 2018

- Continued exploration activities at all existing mines, with special emphasis on infill drilling in the Fresnillo District.
- Continued negotiations for access to land at advanced projects.
- Rolled out our communication programmes to explain the benefits of mining, across all of our operations.
- Continued deep drilling at Juanicipio.
- Concluded the feasibility study at Juanicipio and carried out a pre-feasibility study at Centauro Deep.
- Initiated a preliminary economic assessment at Orisyvo and Guanajuato.

PRIORITIES FOR 2019

- Carry out preliminary economic assessments at Tajitos and San Juan.
- Continue the preliminary economic studies at Guanajuato and Orisyvo.
- Implement parametric drilling at two projects in Chile and one project in Peru.
- Test-drill new targets that have been identified at San Julián, Fresnillo and Guanajuato.

Unlike the majority of mining companies in Mexico or elsewhere, Fresnillo has been built on a long-term commitment to exploration. Where others seek to grow mainly through acquisition, we focus on creating our own pipeline of reserves and resources. Where they bend when the economic winds change direction, we remain firm in our belief that steady, consistent and significant investment in exploration across all precious metals price cycles is the best way to deliver our growth ambitions.

Our focus remains on Latin America, maximising the geological potential in and around our current operations, while looking to locate and consolidate new districts in Mexico, Chile and Peru that indicate favourable gold-silver potential.

A HIGHLY EXPERIENCED TEAM…

In terms of exploration, 2018 was no different to any year since the IPO, as we again drew extensively on all the skills and experience of our specialists. This team of over 100 geologists in Mexico, Peru and Chile – supported by 40 specialists in claims management, negotiation, community relations and environmental control, as well as 250 assistants drawn from local communities – has access to realistic budgets and is hugely respected across our industry. The team comprises a well-balanced mix of senior and junior professionals, many of whom have been with us since our first days.

…BACKED BY TECHNOLOGY AND GUIDED BY STRICT CRITERIA

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

Our approach is to evaluate opportunities within existing mines and at new locations against a set of strict criteria – including a minimum potential of 150 moz of silver or 2 moz of gold for standalone projects – to ensure they meet our operational and revenue objectives. We also evaluate further factors before commencing activities, such as ore grades, metallurgical recoveries, extraction costs, environmental impact and community costs. Only those projects that score well against these requirements receive a green light. Our experienced exploration team has been responsible for our most significant breakthroughs, such as those at San Julián and Saucito, and is ideally qualified to identify and develop future mines.

2018 PERFORMANCE

MEXICO

During 2018, our exploration activities were focused around our existing mines, notably Herradura, Fresnillo, Ciénega and San Julián with these mines continuing to indicate further potential.

In terms of projects, drilling campaigns were carried out at the San Julián South, San Juan, Guanajuato, Pilarica and Juanicipio projects. These projects have further potential, and will continue to be targeted by our exploration programmes during 2019. In addition, our mapping processes have located new targets in the Fresnillo, Herradura, Ciénega and Guanajuato Districts, while an airborne geophysical survey also located areas for follow-up work at San Julián.

REVIEW OF OPERATIONS CONTINUED

PERU AND CHILE

Though still at early stages, our exploration strategy to diversify away from Mexico into other Latin American countries continues, with some exciting progress made during 2018. In Chile, 30 properties were evaluated and of these, two gold-silver properties were optioned late in the year and will be drill tested in 2019. We are also actively exploring Chile's Coastal Palaeocene Gold-Silver Belt and several districts have been evaluated to date between Antofagasta and La Serena.

The main challenge for our exploration team during the year was again access to land – and we continue to work closely with communities across our portfolio. For example, permitting for drilling at two Peruvian properties has been temporarily delayed by the local consulting process.

RESERVES AND RESOURCES

To estimate resources and calculate reserves, we use the 2012 edition of the JORC code. We continued to use a gold price of US$1,250/oz across our operations, including at our open pit operations, while the price used for silver resources and reserves remained at US$17.0/oz.

Silver reserves decreased 5.1% (501.7 moz in 2017 vs. 476.0 moz in 2018) due to depletion of higher grade material at San Julián and to a lesser extent, a lower estimated tonnage at Saucito. An infill drilling programme to convert resources to reserves will be accelerated at these areas. Gold reserves also decreased, falling 6.0% from 11.7 moz to 11.0 moz in 2018 mainly due to depletion at Noche Buena, Herradura and San Julián.

Silver resources decreased 5.0% from 2.3 boz to 2.2 boz, mainly driven by a lower grade and tonnage at Saucito. Gold resources increased 1.5% (38.5 moz vs. 39.1 moz) during the year due to an increase in resources at Centauro Deep, which more than offset decreases at Ciénega, Noche Buena and Saucito.

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

FRESNILLO DISTRICT

As a pre-eminent silver mining district located in the heart of Mexico, this region is largely responsible for our standing as the largest producer of silver in the world. The district's strengths include a long history of mining activities, a skilled workforce and good infrastructure. Our team of geologists has harnessed these advantages, while leveraging their own local and regional knowledge, in order to maximise the district's long-term potential. During 2018, 196,651 metres of drilling was carried out in the area.

Juanicipio is a standalone joint venture project, located just eight kilometres from the Fresnillo mine. Our Company owns 56%, with MAG Silver owning the remaining 44%. The project will be presented for Board approval in 2019 and it is expected to be commissioned in 2H 2020.

Please see overleaf for more details about Juanicipio.

HERRADURA DISTRICT

Located in the north west of Mexico, the Herradura district is home to the Herradura, Noche Buena and Soledad-Dipolos mines as well as Centauro Deep, a strategically important project located below the existing Centauro pit at Herradura. The district accounted for just under 70% of our total gold production in 2018.

Exploration continues to focus on brownfield targets, particularly on Centauro Deep, where gold resources increased by 1.1 moz.

CIÉNEGA DISTRICT

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

Last year, the exploration campaign was intensified at the Taspana and Tajos veins, where mining and preparation works are advancing at a good pace. In 2019, our plans are to continue exploring the Taspana and Tajos veins as well as the east extension of the principal Ciénega vein.

SAN JULIÁN DISTRICT

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

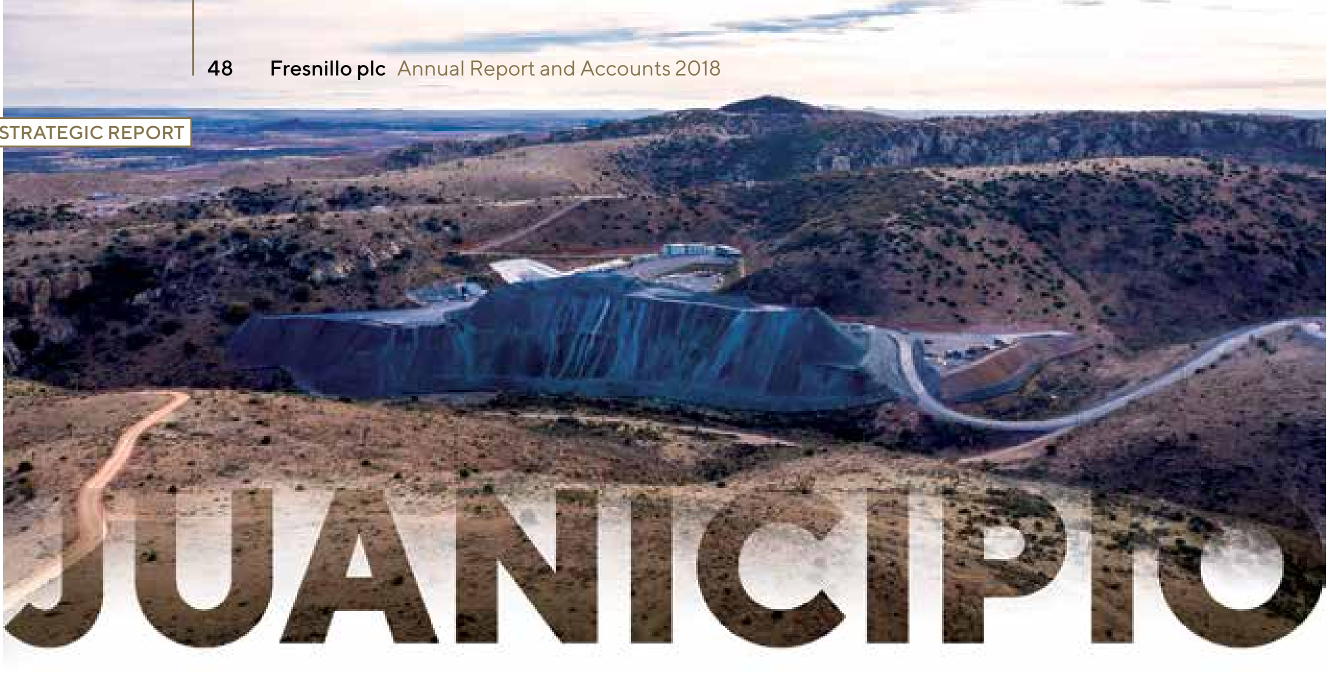
Our exploration team continues to explore and identify new targets in the area through our district consolidation strategy. In 2018 alone, by deploying an integrated approach that combines geophysics, geochemistry, geology and drilling, we were able to increase our silver resources by just under 20 moz, endorsing our view that San Julián has the potential to become established as an entirely new mining district, underpinning our long-term goals.

The 2019 programme includes following up on geochemical and geophysical targets in the northern part of the district, where surface exploration work is ongoing.

Exploration is a key competitive advantage and the foundation for the future.

Project	Location	2018 Drilling (metres)	Mineral Resources (attributable)	Status
Guanajuato	Guanajuato	58,294	2018: **1,209 koz Au and 80 moz Ag** Change versus 2017: ↑ **219 koz Au**; ↑ **11 moz Ag**	In drilling, PEA[1]
San Julián Sur	Chihuahua/ Durango	48,181	2018: **577 koz Au and 53 moz Ag** Change versus 2017: ↑ **147 koz Au**; ↑ **20 moz Ag**	In drilling, integrated exploration: geophysics, geochemistry and geology
San Juan	Durango	19,438	2018: **550 koz Au and 51 moz Ag** Change versus 2017: ↑ **71 koz Au**; ↑ **13 moz Ag**	In drilling
Candameña	Chihuahua	–	2018: **1,298 koz Au and 32 moz Ag** Change versus 2017: ↓ **4 koz Au**; ↑ **0.13 moz Ag**	In drilling, metallurgical studies and PEA; metal prices update[2]
Tajitos	Sonora	28,898	2018: **479 koz Au** Change versus 2017: ↑ **63 koz Au**	In drilling, PEA
Fresnillo District	Zacatecas	61,756	Huizache vein (Additional resources in drilling not estimated yet)	In drilling, Saucito resource expansion
Centauro Profundo	Sonora	8,305	2018: **1,802 koz Au** Change versus 2017: ↑ **1,138 koz Au**	In drilling, model update
Orisyvo	Chihuahua	12,502	2018: **9,609 koz Au and 12 moz Ag** Change versus 2017: **nil**	In drilling, exploring areas near the main resource
Lucerito	Durango	–	2018: **2,239 koz Au and 159 moz Ag** Change versus 2017: ↓ **60 koz Au**; ↓ **4 moz Ag**	Standby[3], metal prices update
Rodeo	Durango	–	2018: **1,215 koz Au and 11 moz Ag** Change versus 2017: **nil**	Land acquisition
Juanicipio	Zacatecas	22,668	2018: **862 koz Au and 150 moz Ag** Change versus 2017: ↑ **86 koz Au**; ↑ **11 moz Ag**	In drilling, feasibility study
Guachichil	Zacatecas	–	2018: **1,180 koz Au and 18 moz Ag** Change versus 2017: ↓ **8 koz Au**; ↓ **170 koz Ag**	Access permit in process, metal prices update
Pilarica	Peru	16,227	2018: **110 koz Au and 53 moz Ag** Change versus 2017: ↑ **19 koz Au**; ↓ **1.4 moz Ag**	In drilling, PEA
Leones	Chihuahua	–	2018: **26 moz Ag** Change versus 2017: **nil**	Standby[3]
Manzanillas	Durango	–	2018: **141 koz Au and 3 moz Ag** Change versus 2017: **nil**	Standby[3]
Cebadillas	Nayarit	–	2018: **165 koz Au and 4 moz Ag** Change versus 2017: **nil**	Standby[3]
La Yesca	Jalisco	–	2018: **27 koz Au and 5 moz Ag** Change versus 2017: **nil**	Standby[3]
San Nicolás	Guerrero	–	2018: **112 koz Au and 16 moz Ag** Change versus 2017: **nil**	Standby[3]
Guazaparez	Chihuahua	18,483	–	In drilling
Uruachic	Chihuahua	–	–	In drilling
Olivos	Sonora	18,138	–	In drilling
Las Pampas	Peru	–	–	In drilling
Others	Mexico & Peru	33,565	–	–

1 Preliminary Economic Assessment.
2 No new resources model; updated metal prices only.
3 Not currently a major priority.



JUANICIPIO

ADVANCED EXPLORATION PROJECT

2019 PRIORITIES

- Continue development of the mine.
- Submit the project for Board approval.
- Initiate construction, subject to Board approval.

Ownership: **56% Fresnillo plc, 44% Mag Silver**

Location: **Zacatecas, Fresnillo District**

Facilities: **Underground mine and flotation plant**

Commercial production: **2H20**

Anticipated production: **Annual average of 10 moz silver and 30 koz gold**[1]

Total Capex: **US$305 million**[2] **(Fres: US$171 million)**

ABOUT THE PROJECT

Juanicipio is a joint venture project, with Fresnillo owning 56% and MAG Silver Corp owning the remaining 44%. This is a standalone project, located just eight kilometres from the Fresnillo mine, to be constructed, developed and operated by Fresnillo plc.

The Juanicipio deposit consists of two main vein systems, the Valdecañas vein system and the Juanicipio vein, which are significant silver-gold epithermal structures.

The Valdecañas vein system displays the vertical grade transition typical of the principal veins in the Fresnillo district, observed as a change from silver and gold-rich zones at the top to increased lead and zinc in the deeper reaches.

KEY DEVELOPMENTS IN THE YEAR

The new feasibility study was concluded in 2H18 and this, together with the engineering, procurement, construction and management agreements, were reviewed by the Technical Committee of Juanicipio.

The project is expected to gain Board approval in due course and construction will commence later in 2019.

During the year, exploration and development of the mine continued to move forward, with 6,636 metres of development works completed. Additionally, towards the end of the year, in anticipation of project approval, we initiated discussions with contractors and also with suppliers of equipment with lengthy delivery times, in order to reduce the risk of delays.

CASE STUDY

Advancing our pipeline

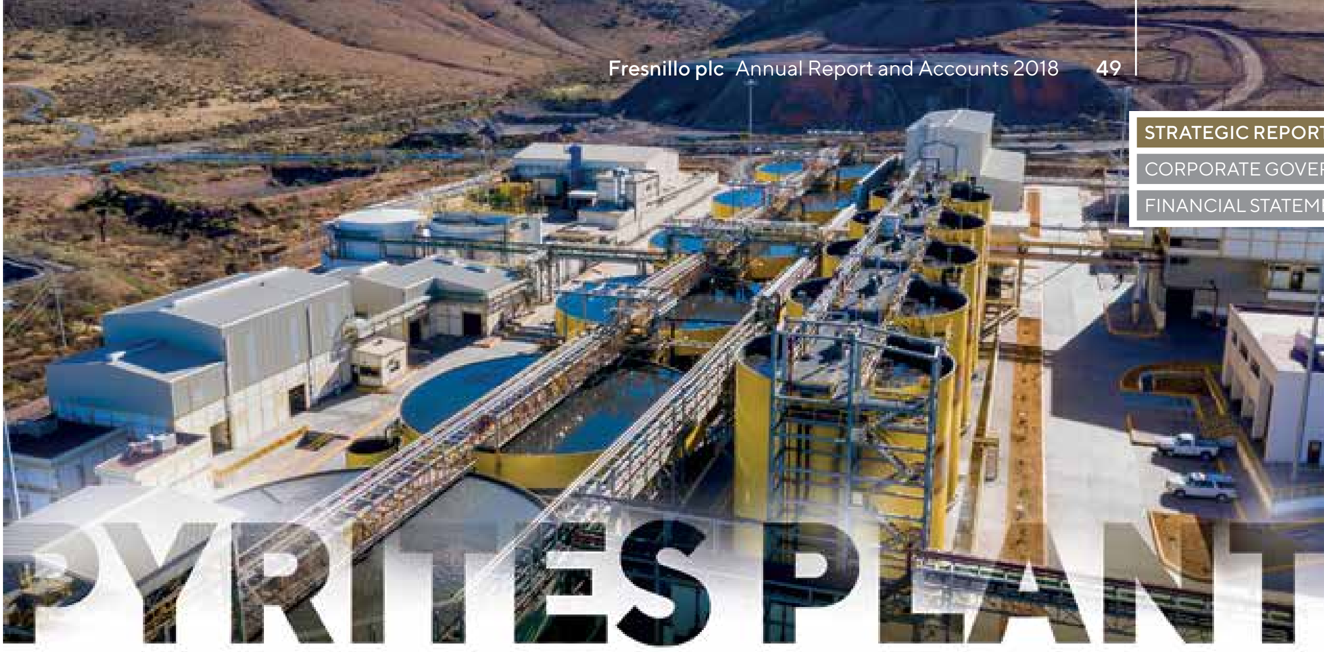
Drilling activities over the last 12 months have given us greater understanding of the potential at Juanicipio – endorsing the value of our strong, continuing commitment to exploration across all price cycles and in all economic environments.

Additional drilling at Juanicipio during the year has improved the geological model, generating a better understanding of the structure of the vein system. This has given us extra confidence when estimating the resources and reserves at the project.

Historically, most drilling activity in this area has targeted north-west trending veins, such as the San Carlos vein at Fresnillo or the Jarillas vein at Saucito. At Juanicipio, however, our team has also identified a vein running north-east which is perpendicular to all the other veins in the district. This discovery has opened up the possibility of similar trending veins nearby, and we will seek to identify these in the months ahead. In addition, a hyper-spectral survey has detected that the Juanicipio veins extend beyond the claim boundary to the north and onto our land at Fresnillo, again endorsing the potential that our Company has in this area.

The mine at Juanicipio will be approved for development in due course and we look forward to construction activities beginning later in 2019, with operations commencing in 2H 2020.

1 Pre-feasibility study 2012.
2 Represents 100% of investment (56% Fresnillo plcs, 44% Mag Silver) according to pre-feasibility study 2012.



PYRITES PLANT

DEVELOPMENT PROJECTS

Commissioning of phase II of the Pyrites plant set for 2H 2020.

TIMELINE

- Construction of the leaching plant of the Pyrites plant at Saucito (phase I) was commissioned in 2Q 2018 and started operations immediately afterwards.
- Construction of the flotation plant at the Fresnillo mine (phase II) is now expected to be concluded by 2H 2020, due to minor delays caused by a longer than anticipated permitting process.

2019 PRIORITIES

- Continue construction of the tailings flotation plant at Fresnillo.

2019 BUDGETED CAPEX
US$

49m

TOTAL CAPEX TO DATE
US$

79.5m

Ownership: **100% Fresnillo plc**

Location: **Zacatecas, Fresnillo District**

Facilities: **Leaching plant at the Saucito mine, flotation plant at the Fresnillo mine**

Commercial production: **2Q 2018 (phase I), 2H 2020 (phase II)**

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

Capex: **US$155.0 million**

ABOUT THE PROJECT

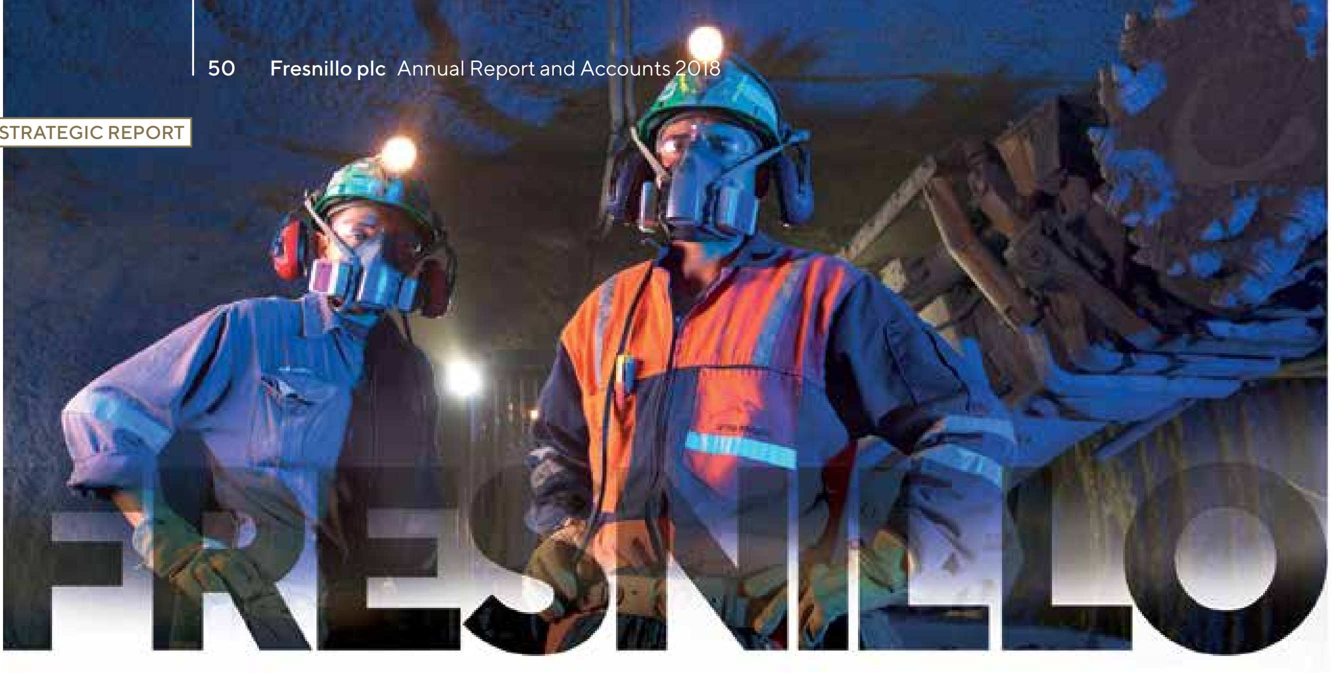
The construction of the 2,000 tpd Dynamic Leaching Plant to process tailings from the Saucito mine was completed in 2Q 2018 and contributed 977 koz silver and 3.6 koz gold in 2018 (see page 54). The construction of a 14,000 tpd tailings flotation plant to process the historical and ongoing tailings from the Fresnillo mine continued, and this US$53.8 million facility is expected to be commissioned in 2H 2020. Other facilities considered within the capex of this project were the flotation cells at Saucito, which were installed when constructing Saucito II, a central laboratory for the Fresnillo district and auxiliary buildings.

The Pyrites plant is expected to improve overall recoveries of gold and silver, and to therefore maximise production in the Fresnillo district. Production is expected to total an average of 3.5 moz silver and 13 koz gold per year once both phases are operating at full capacity.

The second phase, a flotation circuit, will treat the ongoing and historical tailings from the Fresnillo mine to produce a pyrites concentrate which will be sent to a filtration plant and then on to the leaching plant at Saucito, the final part of the process to produce the precipitates.

KEY DEVELOPMENTS IN THE YEAR

The leaching plant at Saucito, the first phase of the project, was commissioned with a delay of only a few months following a US$54.6 million investment, which was in line with the budget. Preparations for the second phase, a tailings flotation plant at the Fresnillo mine advanced, with detailed engineering and modelling of the various structures being concluded, while civil works and the foundations of the plant began.



MINES IN OPERATION

One of the world's oldest continuously operated mines, Fresnillo produced 24% of the Group's total silver in 2018 and generated 16.9% of total adjusted revenue.

2018 OBJECTIVES

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

2018 PERFORMANCE

- The silver ore grade decreased due to differences versus the geological model and increased dilution; ore throughput remained steady year-on-year.
- A new contractor was hired, however development rates declined due to lower productivity from other contractors and equipment failures.
- 70,322 metres of infill drilling was carried out.
- Continued preparation of the infrastructure for the expansion of the beneficiation plant.
- 247 metres deepening of the San Carlos shaft.

2019 OBJECTIVES

- Continue the infill drilling programme to improve the accuracy of the geological model.
- Enhance management controls.
- Increase development rates to over 3,000 tpd in the short term and commence operating the tunnel boring machine.
- Continue deepening the San Carlos shaft.
- Continue construction of the tailings flotation plant.
- Install flotation cells at the beneficiation plant.

Ownership: **100% Fresnillo plc**	Location: **Zacatecas**
In operation since: **1554**	Mine life (years): **8.6** (2017: 8.8)
Facilities: **Underground mine and flotation plant**	
Milling capacity (2018): **8,000 tpd/2,640,000 tpy**	
Workforce: **1,122 employees, 2,159 contractors**	

	2018	2017	% change
MINE PRODUCTION			
Ore milled (kt)	**2,443**	2,447	(0.2)
Silver (koz)	**15,117**	16,512	(8.4)
Gold (oz)	**42,290**	38,784	9.0
Lead (t)	**19,619**	20,514	(4.4)
Zinc (t)	**31,094**	30,021	3.6
Silver ore grade (g/t)	**214**	229	(6.6)
TOTAL RESERVES			
Silver (moz)	**176.7**	179.7	(1.7)
Gold (koz)	**566**	590	(4.1)
AVG ORE GRADE IN RESERVES			
Silver (g/t)	**243**	240	1.3
Gold (g/t)	**0.78**	0.79	(1.3)
Cut-off grade (g/t AgEq)	**212**	196	8.2
TOTAL RESOURCES			
Silver (moz)	**812.0**	812.8	(0.1)
Gold (moz)	**1.83**	1.85	(1.1)
AVG ORE GRADE IN RESOURCES			
Silver (g/t)	**339**	320	5.9
Gold (g/t)	**0.76**	0.73	4.1
Cut-off grade (g/t AgEq)	**131**	93	40.9

View of the Fresnillo mine facilities.

KEY DEVELOPMENTS IN THE YEAR

Silver production decreased 8.4% from 2017, mainly due to the lower ore grade resulting from the limited access to certain high grade veins at the San Carlos and Candelaria area, as well as shortcomings in the geological model. Ore throughput remained broadly stable at 7,292 tpd, though still below the nameplate capacity of 8,000 tpd, due to delays in development. The average development rate for the year was 2,884 metres per month (2017: 3,366 metres per month), driven by lower productivity from contractors and mining equipment failures, interrupting drilling activities.

To address this, we continued to implement several initiatives which included: investing in infrastructure and equipment to accelerate preparation and development works; improving the maintenance programme to increase equipment availability; and conducting an infill drilling programme to improve the accuracy of the geological model and provide greater certainty to production estimates. We hired an additional contractor in 3Q 2018, which started to ramp up its contribution to the development rate in the last quarter, and we expect that this will help increase rates going forward.

For 2019, the silver ore grade is expected to be in the range of 210-220 g/t and the gold ore grade to be around 0.60-0.65 g/t, while lead and zinc ore grades are expected to continue increasing and be in the region of 1.15 – 1.25% and 2.35 – 2.40% respectively.

Productivity, currently calculated as tonnes of ore milled per person, decreased compared to 2017 mainly due to an increase in the number of unionised employees and contractors.

EXPANSION PROJECT

The project to increase plant capacity to 9,000 tonnes per day continued, with progress focused on the civil works, the detailed engineering and the construction of the steel infrastructure for the plant. The second stage of this project will continue into 2019, including the installation of additional flotation cells, with the final stage being the installation of the vibrating screens in 2020. This project will result in an additional annual average production capacity of three million ounces of silver once commissioned in 1H 2020.

Silver resources remained broadly unchanged due to the higher silver grade in resources resulting from the higher cut-off grade, offset by a decrease in the tonnage of measured and indicated resources due to depletion.

Silver reserves slightly decreased mainly due to not being able to replace ounces mined during the year.

CAPITAL EXPENDITURES

Total capex spend in 2018 was US$121.1 million, primarily for mine development, sustaining capex, the deepening of the San Carlos shaft, the construction of the second phase of the Pyrites plant (see page 49) and the expansion of the beneficiation plant.

These same capex projects will continue to receive the majority of investment in 2019, though investments in technology continued to be reviewed and implemented during the year.

To date, work has begun to implement technologies including Track plus (Efficiently tracks personnel and mining equipment in real time from the Mine Operations Centre located above ground), Ventilation Plus (Ventilation optimised all through the underground mines, while maintaining gas levels within international standards) and MineOps Optimiser (monitors and optimises tasks carried out in our mines, and enables us to make accurate decisions in real time from a control room), with the MineOps programme expected to increase efficiency at the mine.

REVIEW OF OPERATIONS CONTINUED

Community football team at the Fresnillo recreational park.

Members of the team preparing the mine for the tunnel boring machine.

FINANCIAL PERFORMANCE

Financial highlights	2018	2017	% change
Adjusted revenue (US$m)	**378.3**	421.3	(10.2)
Adjusted production costs (US$m)	**120.7**	116.2	3.9
Segment profit (US$m)	**211.5**	252.2	(16.1)
Capital expenditure (US$m)	**121.1**	111.7	8.4
Exploration (US$m)	**18.2**	17.9	1.7
Cost per tonne (US$)	**49.4**	47.5	4.1
Cash cost ($/oz silver)	**0.5**	0.7	(35.2)
Margin ($/oz)	**15.1**	16.3	(7.4)
Margin (expressed as % of silver price)	**97.1**	95.8	

Adjusted revenue, excluding inter-segment sales, decreased by 10.2% to US$378.3 million due to the 8.3% decrease in volumes of silver sold.

Cost per tonne increased 4.1% to US$49.4 in 2018 mainly due to: i) cost inflation for this mine of 2.53% (largely related to contractors, personnel and operating materials); and ii) a greater number of contractors for maintenance to solve the problem related to equipment availability.

Cash cost per silver ounce decreased to US$0.5 (2017: US$0.7) due to higher by-product credits and lower treatment charges, partially offset by the lower silver ore grade and higher cost per tonne. Margin per ounce decreased 7.4% to US$15.1, however, expressed as a percentage of silver price, it increased to 97.1% (2017: 95.8%).

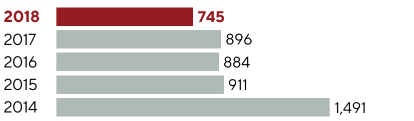
See detailed breakdown on page 91.

FRESNILLO
US$/TONNE MILLED

49.4

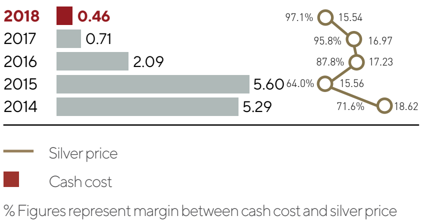
FRESNILLO ORE MILLED PER PERSON
TONNES

745



FRESNILLO CASH COST
SILVER US$/OUNCE

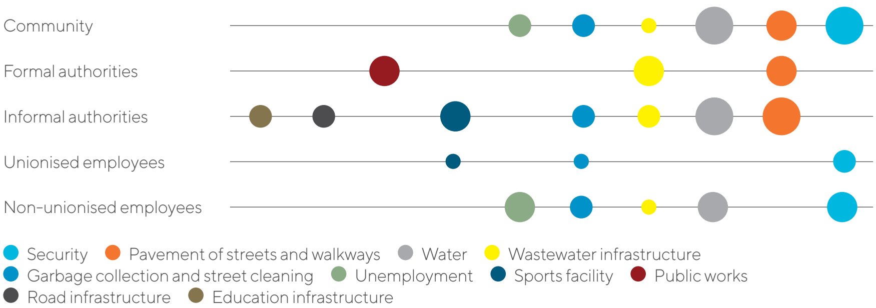
0.5



COMMUNITY PRIORITY ASSESSMENT

We engage communities through household surveys, interviews with leaders and focus groups to identify the issues that matter to them in order to identify risks and opportunities. Larger spheres represent greater importance to the individual stakeholder groups at Fresnillo.

STAKEHOLDER GROUP



CASE STUDY

Implementing infrastructure projects at the Fresnillo mine

One of the world's oldest continuously operated mines, Fresnillo has been producing silver for more than five centuries. However, recent years have seen production become more challenging in line with the deeper working levels that are an unavoidable feature of a mature mine.

Our response has been to implement a wide range of projects to enhance the mine's infrastructure and enable us to work more efficiently, more cost-effectively and at deeper levels.

For example, we recently invested in a vertical conveyor to reduce haulage distances. Installed at a cost of US$12 million, the conveyor has helped cut the cost per tonne by 40 US cents, based on 1,500 tonnes mined.

We are also currently in the process of installing a US$22.7 million tunnel boring machine that is expected to increase development rates by at least 300 metres per month and achieve payback in less than four years.

This state-of-the-art machine has been designed to our exact specification, and commissioning is anticipated during the second half of 2019.

In addition, we are implementing a new fleet management and mine control software solution that will give us greater visibility of mine operations. This software will monitor people, equipment, maintenance, drilling and haulage activities in real time and improve the performance of our own employees as well as contractors. This will be piloted in the San Alberto area of the mine during 2019.

We continue to invest in infrastructure to enable us to work more efficiently.

Vertical conveyor at Fresnillo.

MINES IN OPERATION

One of our most important assets, Saucito contributed 32% to total silver production in 2018 and generated 21.9% of total adjusted revenue.

2018 OBJECTIVES

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

2018 PERFORMANCE

- Failed to maintain development rate due to poor contractor performance.
- Conducted 107,111 metres of infill drilling.
- Construction of the Pyrites plant was concluded with delays of a few months, followed by minor adjustments to the grinding process in 2H18.
- Initiated Jarillas shaft deepening.

2019 OBJECTIVES

- Intensify parametric drilling and continue infill drilling programme.
- Increase development rates.
- Continue deepening of the Jarillas shaft.

Ownership: **100% Fresnillo plc**	Location: **Zacatecas**
In operation since: **2011**	Mine life (years): **5.3** (2017: 5.8)
Facilities: **Underground mine and flotation plant**	
Milling capacity (2018): **7,800 tpd/2,600,000 tpy**	
Workforce: **836 employees, 2,452 contractors**	

	2018	2017	% change
MINE PRODUCTION			
Ore milled (kt)	**2,792**	2,754	1.4
Silver (koz)	**19,781**	21,215	(6.8)
Gold (oz)	**86,092**	69,948	23.1
Lead (t)	**22,662**	17,714	27.9
Zinc (t)	**29,506**	20,348	45.0
Silver ore grade (g/t)	**257**	280	(8.0)
Gold ore grade (g/t)	**1.25**	1.09	14.7
TOTAL RESERVES			
Silver (moz)	**130.3**	133.2	(2.2)
Gold (koz)	**679**	708	(4.1)
AVG ORE GRADE IN RESERVES			
Silver (g/t)	**272**	261	4.2
Gold (g/t)	**1.42**	1.39	2.2
Cut-off grade (g/t AgEq)	**210**	215	(2.3)
TOTAL RESOURCES			
Silver (moz)	**428.2**	513.6	(16.6)
Gold (moz)	**1.9**	2.1	(9.5)
AVG ORE GRADE IN RESOURCES			
Silver (g/t)	**271**	280	(3.2)
Gold (g/t)	**1.19**	1.12	6.3
Cut-off grade (g/t AgEq)	**141**	117	20.5
PYRITES PLANT PRODUCTION			
Ore Processed (t)	**131,780**	–	N/A
Silver (koz)	**977**	–	N/A
Gold (oz)	**3,556**	–	N/A
Silver ore grade (g/t)	**393**	–	N/A
Gold ore grade (g/t)	**2.8**	–	N/A

KEY DEVELOPMENTS IN THE YEAR

Annual silver production decreased 6.8% compared to 2017 due to the lower than expected ore grade at higher grade stopes in the upper levels of the mine resulting from differences with the geological model and increased dilution.

Annual gold production increased 23.1% due to a higher ore grade. An intensive infill drilling programme is underway to improve the accuracy of the geological model and provide greater certainty to production estimates going forward.

The gradual depletion of the higher ore grade areas is anticipated to continue into 2019, with the silver ore grade expected to be between 210-220 g/t, while the gold ore grade will remain steady at 1.3 g/t.

Productivity declined compared to 2017 mainly due to an increase in the number of unionised employees and contractors.

The infill drilling programme, together with an increase in the cut off grade in resources, adversely impacted silver reserves and resources, which decreased 2.2% and 16.6% respectively.

The deepening of the Jarillas shaft from 630 metres to 1,000 metres, initiated in 2018, progressing 26 metres with the hoppers and hoist being installed during the year. This project will provide access to the deeper reserves of the Jarillas vein and is expected to be completed by the end of 2023.

Our focus at Saucito will continue to remain on ensuring the availability of contractors while increasing their productivity, gradually increasing development rates from 2,825 metres in 2018 to 3,600 metres by the end of 2019 in conjunction with the deepening of five main ramps at the Jarillas's vein.

The first phase of the Pyrites plant produced 977 koz silver and 3.6 koz gold in 2018.

CAPITAL EXPENDITURES

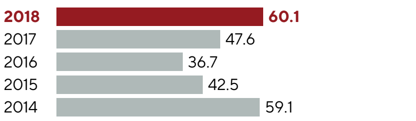
Capital expenditures in 2018 totalled US$148.4 million, primarily allocated to in-mine development and sustaining capex, the construction of the first phase of the Pyrites plant (see page 49) and the deepening of the Jarillas shaft project. In 2019, capex will primarily be allocated to increasing the development rates, sustaining capex and the deepening of the Jarillas shaft. Other minor investments in 2019 will include the full implementation of Ventilation Plus, Track Plus and ProxAlarm (prevents collisions between vehicles – and between people and vehicles – in underground mines) as well as advancing the implementation of MineOps Optimiser.

FINANCIAL PERFORMANCE

Financial highlights	2018	2017	% change
Adjusted revenue (US$m)	**492.0**	504.2	(2.4)
Adjusted production costs (US$m)	**167.7**	131.1	27.9
Segment profit (US$m)	**274.5**	315.2	(12.9)
Capital expenditure (US$m)	**148.4**	133.7	11.0
Exploration (US$m)	**36.6**	26.1	40.2
Cost per tonne (US$)	**60.1**	47.6	26.2
Cash cost ($/oz silver)	**1.0**	1.5	(35.3)
Margin ($/oz)	**14.6**	15.5	(5.8)
Margin (expressed as % of silver price)	**93.8**	91.1	

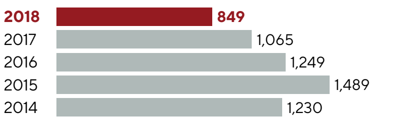
SAUCITO US$/TONNE MILLED

60.1



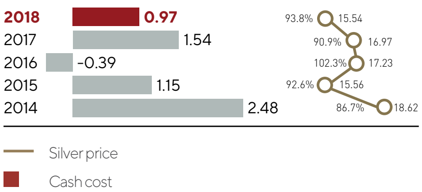
SAUCITO ORE MILLED PER PERSON TONNES

849



SAUCITO CASH COST SILVER US$/OUNCE

1.0



% Figures represent margin between cash cost and silver price

Adjusted revenue at Saucito decreased by 2.4%, mainly as a result of the lower volumes of silver sold at a lower price. The mine's contribution to total Adjusted silver revenue decreased to 35.5% in 2018 (2017: 39.7%), although Saucito remained the main contributor to total Adjusted silver revenues. Gold contributed 19.7% to Saucito's Adjusted revenue (2017: 16.1%), representing 8.6% of the Group's total Adjusted gold revenue.

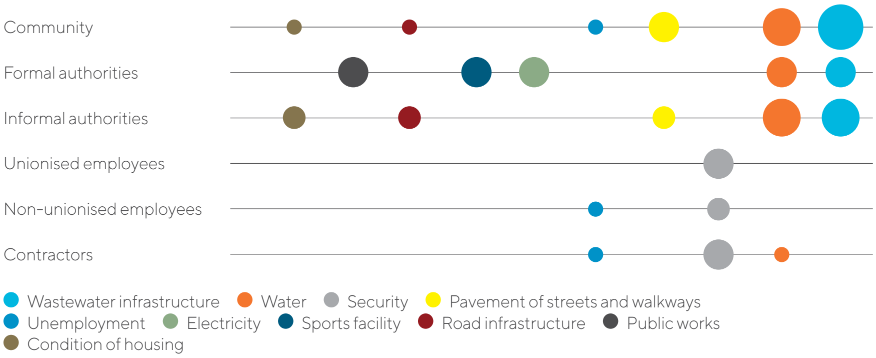
Cost per tonne increased 26.2% to US$60.1, mainly due to: i) lower volume of ore processed from development work; ii) an increase in the number of contractors for development works; and iii) higher consumption of reagents. Cost inflation at this mine was 2.45%. Cash cost per silver ounce decreased to US$1.0 per ounce (2017: US$1.5 per silver ounce) mainly as a result of the higher by-product credits per ounce of silver resulting from the increased volume of gold sold, partially offset by the higher cost per tonne and the lower silver grade. Margin per ounce decreased to US$14.6 in 2018 (2017: US$15.5). However, expressed as a percentage of silver price, the margin increased from 91.1% to 93.8%.

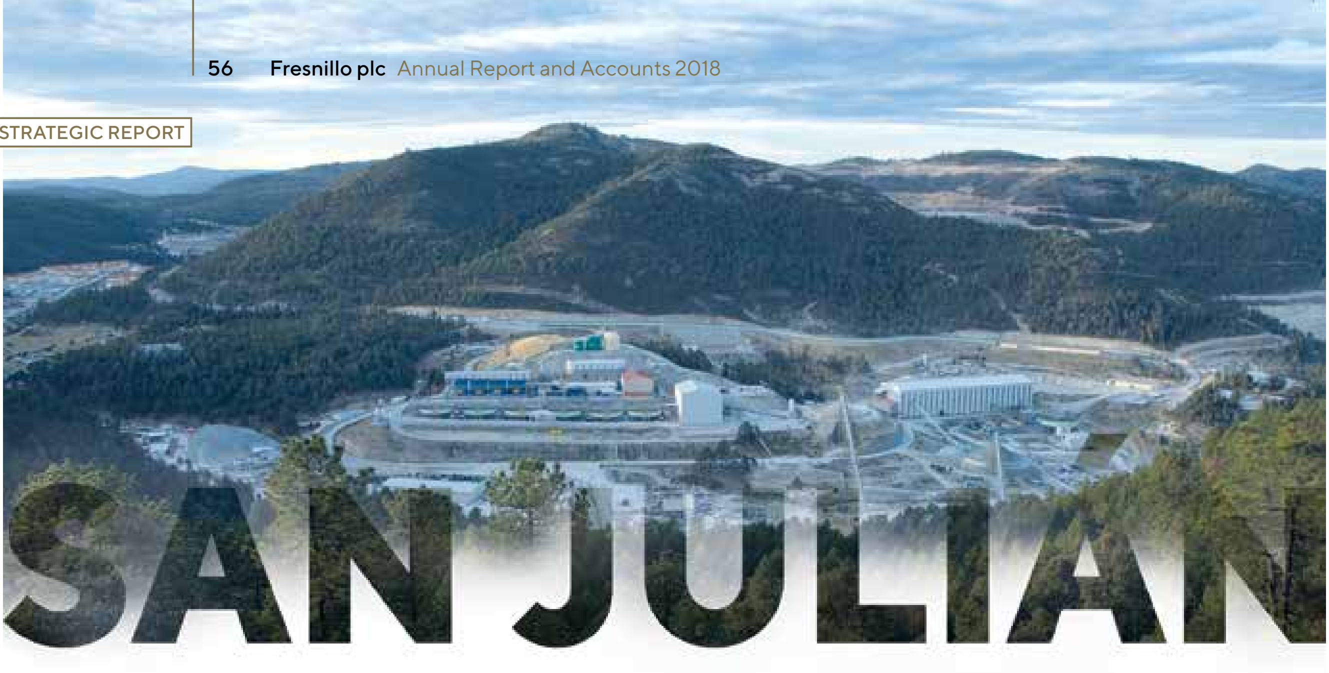
See detailed breakdown on page 91.

COMMUNITY PRIORITY ASSESSMENT

We engage communities through household surveys, interviews with leaders and focus groups to identify the issues that matter to them in order to identify risks and opportunities. Larger spheres represent greater importance to the individual stakeholder groups at Saucito.

STAKEHOLDER GROUP





MINES IN OPERATION

The San Julián silver-gold project is a cornerstone of our current and future production goals. In 2018 it contributed 24% to total silver production and generated 16% of total adjusted revenue.

2018 OBJECTIVES

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

2018 PERFORMANCE

- Permits obtained and construction of the water reservoir has begun.
- Resources within the San Julián area of influence increased following an intensive exploration programme.
- Continued second stage of the expansion of the tailings dam.

2019 OBJECTIVES

- Conclude the construction of the water reservoir.
- Increase productivity through the implementation of a fleet management system.
- Continue exploration in area of influence.
- Continue implementation of 'I Care, We Care' programme.
- Obtain clean industry and International Cyanide Management Code Certification.

Ownership: **100% Fresnillo plc**	Location: **Chihuahua/Durango border**
In operation since: **2H 2016 (Veins)/ 2Q 2017 (Disseminated Ore Body)**	Mine life (years): **3.5 Veins, 6.3 Disseminated Ore Body** (2017: 9.0)
Facilities: **Underground mine, flotation plant and a dynamic leaching plant**	
Workforce: **143 employees, 1,717 contractors**	

KEY DEVELOPMENTS IN THE YEAR

Silver and gold production at the San Julián veins decreased 8.5% and 4.3% vs. 2017 respectively, mainly due to the lower ore grade resulting from the depletion of high-grade areas. In contrast, silver production doubled at San Julián's Disseminated Ore Body and gold production increased 78.6% over 2017 as a result of the first full year of operations following its start up in July 2017.

In 2018, ore processed in the leaching plant at San Julián (Veins) remained broadly stable versus 2017 at 3,793 tpd, while ore throughput in the flotation plant at San Julián (Disseminated Ore Body) reached 6,631 tpd. This was achieved even though low water availability restricted processing capacity at San Julián (Veins) and temporarily affected the mining sequence at San Julián (Disseminated Ore Body) in 1H18.

Ore throughput at both plants is expected to decrease slightly in 2019, in accordance with the mine plan, but remain above nameplate capacity in the medium term.

In 2H18 we concluded an indigenous consultation, (see page 59). The first of its kind in Mexico, this was required in order to obtain the permits for the construction of a water reservoir that will provide a consistent source of water going forward. The construction of this facility started in 4Q18 and is expected to be concluded in 2H19 following a US$20 million investment.

The second stage of the expansion of the tailings dam, a downstream structure, was concluded at the end of 2018. In 2021 we expect to commence the third stage of the expansion, ensuring tailings dam capacity for a further five years.

In 2019, the silver ore grade at the San Julián Veins is expected to be in the range of 155-165 g/t and the gold ore grade is expected to average 1.6-1.7 g/t.

For the San Julián Disseminated Ore Body, silver ore grade is expected to be in the range of 160-170 g/t with the gold ore grade averaging around 0.09-0.10 g/t during 2019.

Gold and silver reserves at San Julián Veins decreased due to depletion of the higher grade areas. Gold and silver resources at San Julián veins decreased due to lower tonnage.

Silver and gold resources at San Julián Disseminated Ore body decreased due to lower tonnage and a higher cut off grade. Silver reserves decreased due to the same factors explained above.

	2018	2017	% change
MINE PRODUCTION			
Total production			
Gold (oz)	**82,344**	84,533	(2.6)
Silver (koz)	**14,630**	10,534	38.9
PRODUCTION SAN JULIÁN VEINS			
Ore milled (kt)	**1,271**	1,273	(0.2)
Silver (koz)	**5,434**	5,936	(8.5)
Gold (oz)	**79,218**	82,782	(4.3)
Silver ore grade (g/t)	**144.1**	157.2	(8.4)
Gold ore grade (g/t)	**2.0**	2.1	(4.8)
PRODUCTION SAN JULIÁN DISSEMINATED ORE BODY			
Ore milled (kt)	**2,221**	945	135.0
Silver (koz)	**9,196**	4,598	100.0
Gold (oz)	**3,125**	1,750	78.6
Lead (t)	**6,101**	3,598	69.6
Zinc (t)	**22,027**	7,849	180.6
Silver ore grade (g/t)	**154.4**	180.3	(14.4)
Gold ore grade (g/t)	**0.1**	0.1	0.0
Lead ore grade (%)	**0.4**	0.5	(20.0)
Zinc ore grade (%)	**1.4**	1.2	16.7
RESERVES SAN JULIÁN VEINS			
Silver (moz)	**18.0**	30.3	(40.6)
Gold (koz)	**231**	362	(36.2)
AVG ORE GRADE IN RESERVES SAN JULIÁN VEINS			
Silver (g/t)	**126**	151	(16.6)
Gold (g/t)	**1.62**	1.79	(9.5)
Cut-off grade (g/t AgEq)	**162**	171	(5.3)
RESERVES SAN JULIÁN DISSEMINATED ORE BODY			
Silver (moz)	**94.1**	104.5	(10.0)
Gold (koz)	**55**	54	1.9
AVG ORE GRADE IN RESERVES SAN JULIÁN DISSEMINATED ORE BODY			
Silver (g/t)	**209**	199	5.0
Gold (g/t)	**0.1**	0.1	–
Cut-off grade (g/t AgEq)	**170**	156	9.0
RESOURCES SAN JULIÁN VEINS			
Silver (moz)	**51.1**	69.5	(26.5)
Gold (koz)	**653**	871	(25.0)
AVG ORE GRADE IN RESOURCES SAN JULIÁN VEINS			
Silver (g/t)	**112**	118	(5.1)
Gold (g/t)	**1.43**	1.47	(2.7)
Cut-off grade (g/t AgEq)	**110**	95	15.8
RESOURCES SAN JULIÁN DISSEMINATED ORE BODY			
Silver (moz)	**105.2**	121.8	(13.6)
Gold (koz)	**63**	68	(7.4)
AVG ORE GRADE IN RESOURCES SAN JULIÁN DISSEMINATED ORE BODY			
Silver (g/t)	**227**	188	20.7
Gold (g/t)	**0.1**	0.1	–
Cut-off grade (g/t AgEq)	**133**	117	13.7

Capex spend in 2018 was US$83.1 million, mainly allocated to mining works, sustaining capex, construction of the tailings dam and the implementation of the Track Plus, ProxAlarm, Ventilation Plus and Mine Optimiser systems.

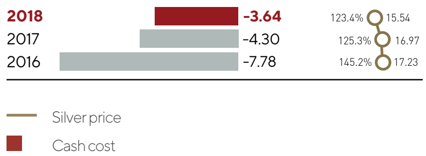
Budgeted capex for 2019 will mainly be allocated to mining works, sustaining capex and the construction of the water reservoir with minor investment required to conclude the implementation of the IT initiatives.

SAN JULIÁN (VEINS)
US$/TONNE MILLED

57.4

SAN JULIÁN (VEINS) CASH COST
SILVER US$/OUNCE

-3.6



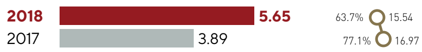
% Figures represent margin between cash cost and silver price

SAN JULIÁN (DISSEMINATED ORE BODY)
US$/TONNE MILLED

36.2

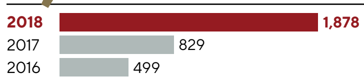
SAN JULIÁN (DISSEMINATED ORE BODY)
CASH COST SILVER US$/OUNCE

5.7



SAN JULIÁN (VEINS AND DISSEMINATED ORE BODY) ORE MILLED PER PERSON TONNES

1,878



REVIEW OF OPERATIONS CONTINUED

Inside the control room of the flotation plant for the Disseminated Ore Body.

The Merril Crowe plant at San Julián Veins.

FINANCIAL PERFORMANCE

Financial highlights	2018	2017	% change
Adjusted revenue (US$m)	**366.5**	287.2	27.6
Adjusted production costs (US$m)	**153.4**	96.5	59.0
Segment profit (US$m)	**176.5**	174.7	1.0
Capital expenditure (US$m)	**83.1**	79.1	5.1
Exploration (US$m)	**14.3**	2.5	472.0
Cost per tonne (US$) (Veins)	**57.4**	52.1	10.1
Cash cost (US$/oz silver) (Veins)	**(3.6)**	(4.3)	15.4
Margin (US$/oz) (Veins)	**19.2**	21.3	(9.9)
Margin (expressed as % silver price) (Veins)	**123.4**	125.3	N/A
Cost per tonne (US$) (Disseminated Ore Body)	**36.2**	31.9	13.6
Cash cost (US$/oz silver) (Disseminated Ore Body)	**5.7**	3.9	45.1
Margin (US$/oz) (Disseminated Ore Body)	**9.9**	13.1	(24.4)
Margin (expressed as % silver price) (Disseminated Ore Body)	**63.7**	77.0	N/A

Adjusted revenue and adjusted production costs increased, reflecting the first complete year of operations at San Julián (Disseminated Ore Body).

Cost per tonne at San Julián (Veins) rose 10.1% mainly due to the increase in the number of contractors for mining works.

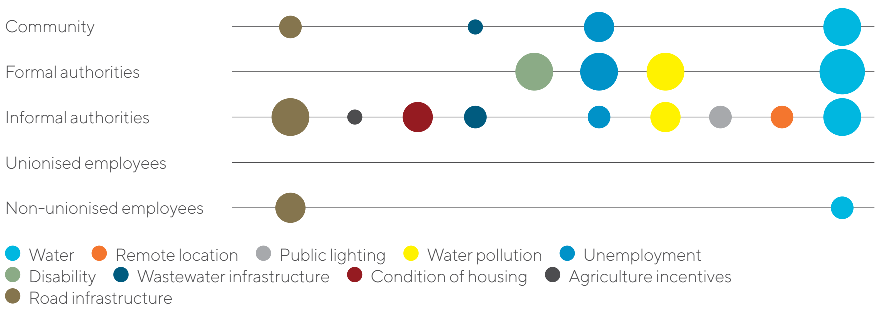
Cash cost at San Julián (Veins) increased mainly due to the lower silver ore grade and higher cost per tonne, mitigated by lower by-product credits due to the decline in volume of gold sold. Margin per ounce decreased to US$19.2 (2017: US$21.3), while margin expressed as a percentage of the silver price declined from 125.3% in 2017 to 123.4% in 2018 (see page 91).

Changes in cost per tonne and cash cost at San Julián (Disseminated Ore Body) are not considered to be representative as the 2017 figures correspond to the start-up of operations.

COMMUNITY PRIORITY ASSESSMENT

We engage communities through household surveys, interviews with leaders and focus groups to identify the issues that matter to them in order to identify risks and opportunities. Larger spheres represent greater importance to the individual stakeholder groups at San Julián.

STAKEHOLDER GROUP



CASE STUDY

Working together, sharing benefits

Following a detailed consultation process with the local community, we are implementing a project that will not only provide a reliable supply of water for our San Julián mine, but also increase access to water for the indigenous Raramuri people who live nearby.

During the year, we worked collaboratively with the local Raramuri community to gain their consent for the construction of a water reservoir to serve our San Julián mine.

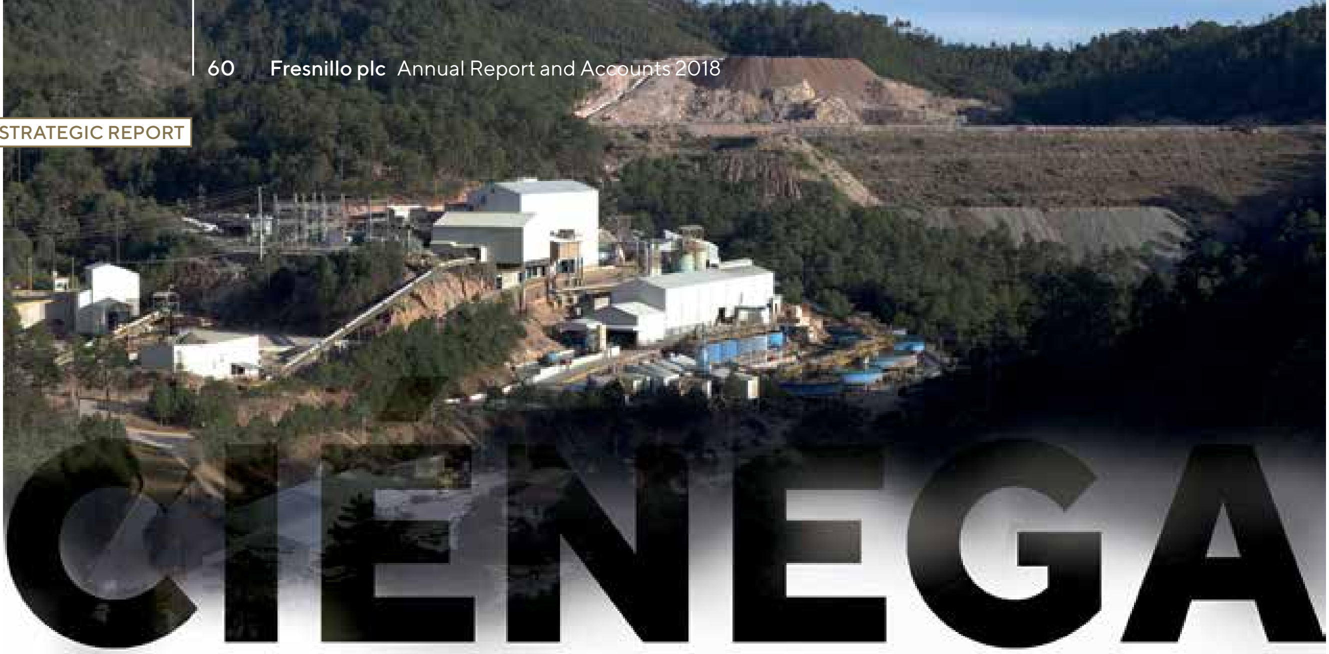
In what was the Mexican mining industry's first formal indigenous consultation process, following recent legislation, we developed an Informed Consultation and Participation process based on a sound understanding of the social, economic, cultural and environmental context. This process included extensive and highly sensitive interactions to ensure that the characteristics of the project, and its potential impacts and mitigation measures, were fully understood by the local people before they began their deliberations.

Following this lengthy and detailed process, we were pleased to gain consent from the Raramuri, and we are currently implementing measures to prevent or mitigate adverse environmental and social impacts. In addition, as well as creating local employment, we are working with the NGO CAPTAR AC and the community to build 325 rainwater collection systems that will provide water for each household.

Good faith, transparency and accountability are the key values that guide our consultation approach.

See Sharing the Benefits in the Social and Sustainability Review; pages 83-84.

Consultation process for the construction of the water reservoir at San Julián.



MINES IN OPERATION

Ciénega is a gold mine with a strong secondary profile in silver, contributing nearly 10% to total silver production in 2018 and generating 8% of total adjusted revenue.

Ownership: **100% Fresnillo plc**	Location: **Durango**
In operation since: **1992**	Mine life (years): **6.8** (2017: 6.9)
Facilities: **Underground mine, flotation and leaching plant**	
Milling capacity (2018): **4,000 tpd/1,340,000 tpy**	
Workforce: **513 employees, 544 contractors**	

	2018	2017	% change
MINE PRODUCTION			
Ore milled (kt)	**1,324**	1,302	1.7
Silver (koz)	**5,999**	5,394	11.2
Gold (oz)	**66,869**	71,947	(7.1)
Lead (t)	**4,799**	6,328	(24.2)
Zinc (t)	**5,892**	7,048	(16.4)
Silver ore grade (g/t)	**164**	151	8.6
Gold ore grade (g/t)	**1.65**	1.82	(9.3)
TOTAL RESERVES			
Silver (moz)	**56.9**	54.1	5.2
Gold (koz)	**598**	635	(5.8)
AVG ORE GRADE IN RESERVES			
Silver (g/t)	**198**	189	4.8
Gold (g/t)	**2.08**	2.22	(6.3)
Cut-off grade (g/t AgEq)	**Multiple**	Multiple	–
TOTAL RESOURCES			
Silver (moz)	**133.9**	167.3	(20.0)
Gold (moz)	**1.3**	1.7	(23.5)
AVG ORE GRADE IN RESOURCES			
Silver (g/t)	**191**	152	25.7
Gold (g/t)	**1.91**	1.56	22.4
Cut-off grade (g/t AgEq)	**Multiple**	Multiple	–

2018 OBJECTIVES

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

2018 PERFORMANCE

- Development at the Taspana vein continued and contributed to increased silver production.
- Exploration continued and the access ramp reached 1,473 metres.
- Construction of the third tailings dam progressed and will be completed early in 2019.
- A preliminary economic assessment (PEA) was conducted to support the plant's expansion to 5,000 tpd, leading to a decision to re-evaluate the economics of the project.

2019 OBJECTIVES

- Conduct an updated economic assessment for the expansion of the beneficiation plant at the Ciénega plant.
- Intensify exploration at the Rosario Transversal fault and commence exploration to the west of the San Ramón vein.
- Secure permits and begin engineering for the fourth tailings dam.

KEY DEVELOPMENTS IN THE YEAR

Annual gold production decreased due to a lower ore grade resulting from the depletion of higher ore grade areas. This was partially offset by the higher recovery rate and an increase in ore processed resulting from the reduced downtime enabled by efficiencies achieved in the maintenance programme. Silver production increased year-on-year due to the higher ore grade at the Taspana satellite mine and lower dilution.

As anticipated, the contribution from Taspana increased from 15,000 to 30,000 tonnes per month, thus contributing to the higher silver production.

In 2019, the average gold ore grade is expected to remain between 1.6-1.7 g/t and the silver ore grade is expected to average between 150-160 g/t.

Construction of the third tailings dam, a downstream structure, continued, and is expected to be concluded in early 2019.

Our exploration programme continued in 2018, identifying additional mineralisation at the main Ciénega mine. Based on these results, we are considering a 2,000 tpd expansion of the beneficiation plant at Ciénega. A preliminary economic assessment concluded in the year highlighted the need for greater capital expenditure on this project, and we are currently evaluating ways to improve its economic viability. In the meantime, exploration activities and mining works continue to advance in the area.

We also concluded a relatively minor capital project at Ciénega: the installation of a high compact thickener which will help to optimise water consumption and ensure that the tailings sent to the dam have a lower water content.

Productivity remained broadly unchanged over 2017 as the higher ore throughput offset the increase in workers and contractors.

Silver reserves increased due to higher ore grade, while gold reserves decreased as a result of the depletion of higher ore grade areas. Gold and silver resources decreased due to a higher cut-off grade.

FINANCIAL PERFORMANCE

Financial highlights	2018	2017	% change
Adjusted revenue (US$m)	**187.1**	198.3	(5.6)
Adjusted production costs (US$m)	**93.8**	86.7	8.2
Segment profit (US$m)	**79.2**	97.1	(18.4)
Capital expenditure (US$m)	**72.9**	46.5	56.8
Exploration (US$m)	**22.9**	16.5	38.8
Cost per tonne (US$)	**70.8**	66.5	6.5
Cash cost ($/oz gold)	**25.9**	(163.7)	N/A
Margin ($/oz)	**1,243.4**	1,431.1	(13.1)
Margin (expressed as % of gold price)	**98.0**	112.9	

Adjusted revenue decreased to US$187.1 million in 2018 due mainly to lower volumes of gold sold and lower volumes of lead and zinc sold at lower prices. Ciénega is the Group's most polymetallic mine, a fact demonstrated by the significant contribution from silver, lead and zinc of 57.5% in 2018 (2017: 57.2%).

Cost per tonne at Ciénega increased 6.5% to US$70.8 mainly due to the increase in contractors for development and civil works. Cost inflation at this mine was 1.57%.

Cash cost per gold ounce was US$25.9, an increase compared to -US$163.7 in 2017 as a result of the expected decrease in gold ore grade, the higher cost per tonne and higher treatment and refining charges, partly mitigated by higher by-product credits per gold ounce. Margin per ounce decreased to US$1,243.4 in 2018 (2017: US$1,431.2). Expressed as a percentage of gold prices, the margin declined to 98.0% (2017: 112.9%).

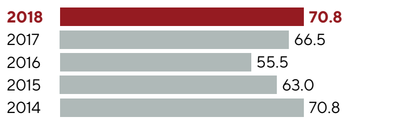
See detailed breakdown on page 91.

CAPITAL EXPENDITURES

Capex in 2018 totalled US$72.9 million and was allocated to mine development, sustaining capex, and the construction of the third tailings dam and the high compact thickener. Budgeted capex for 2019 will mainly be allocated to mining works and sustaining capex. Other smaller capital investments in the year will continue to advance the IT initiatives towards completion, including Track Plus, ProxAlarm, Ventilation plus and MineOps Optimiser.

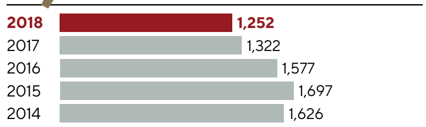
CIÉNEGA
US$/TONNE MILLED

70.8



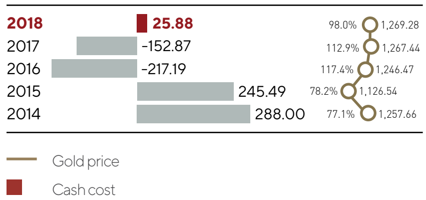
CIÉNEGA ORE MILLED PER PERSON
TONNES

1,252



CIÉNEGA CASH COST
GOLD US$/OUNCE

25.9

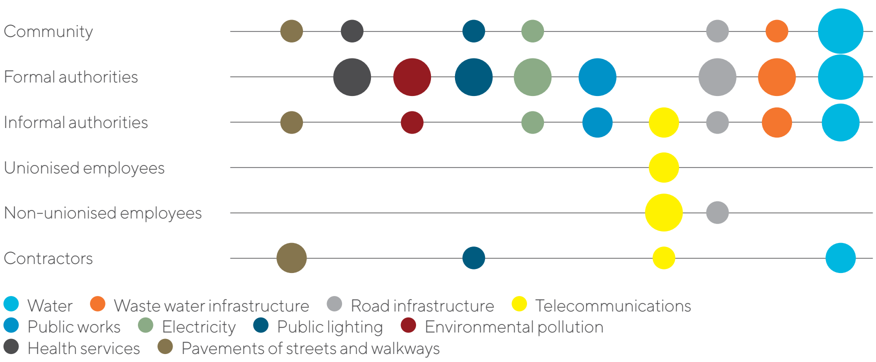


% Figures represent margin between cash cost and gold price

COMMUNITY PRIORITY ASSESSMENT

We engage communities through household surveys, interviews with leaders and focus groups to identify the issues that matter to them in order to identify risks and opportunities. Larger spheres represent greater importance to the individual stakeholder groups at Ciénega.

STAKEHOLDER GROUP



MINES IN OPERATION

One of Mexico's largest open pit gold mines, Herradura produced 51.4% of the Group's total gold in 2018 and generated 27.1% of total adjusted revenue.

2018 OBJECTIVES

- Commission the second line at the Dynamic Leaching Plant (DLP).
- Continue exploration to strengthen the Centauro expansion project.

2018 PERFORMANCE

- The second line at the DLP was commissioned in 3Q 2018 with commercial production commencing in 2019.
- Conducted an intensive exploration programme, although reserves did not increase as expected.

2019 OBJECTIVES

- Ramp-up of the second line at the DLP.
- Continue infill drilling in the Centauro pit to re-assess pit expansion.
- Start gradual conversion of haulage equipment to a dual fuel system.
- Conclude construction of leaching pad number 13.

Ownership: **Minera Penmont (100% Fresnillo plc)** Location: **Sonora**

In operation since: **1997** Mine life (years): **13.2** (2017: 11.6)

Facilities: **Open pit mine, heap leach and Merrill Crowe plants; dynamic leaching plants (DLP)**

Workforce: **1,500 employees, 516 contractors**

	2018	2017	% change
MINE PRODUCTION			
Ore deposited (kt)	**22,157**	26,027	(14.9)
Total volume hauled (kt)	**124,024**	130,025	(4.6)
Gold (oz)	**474,168**	473,638	0.1
Silver (koz)	**1,523**	551	176.4
Gold ore grade (g/t)	**0.76**	0.68	11.8
TOTAL RESERVES			
Gold (koz)	**7.4**	7.7	(3.9)
AVG ORE GRADE IN RESERVES			
Gold (g/t)	**0.78**	0.79	(1.3)
Cut-off grade (g/t Au)	**Multiple**	Multiple	–
TOTAL RESOURCES			
Gold (moz)	**10.2**	10.3	(1.0)
AVG ORE GRADE IN RESOURCES			
Gold (g/t)	**0.80**	0.80	–
Cut-off grade (g/t Au)	**Multiple**	Multiple	–

KEY DEVELOPMENTS IN THE YEAR

Annual gold production remained flat compared to 2017 due to higher ore grade processed at the Dynamic Leaching Plant and a higher recovery rate as a result of the increased irrigation on the leaching pads, offset by the lower volume of ore processed due to heavy rainfall in 2H 2018.

Following the construction of an access road through a number of leaching pads to reduce haulage costs, we took the opportunity to perform assays and verify certain characteristics of the ore that was displaced. These tests confirmed additional gold content on the leaching pads, which resulted in an increase of 98.9 thousand ounces of gold as at 1 January 2018.

Gold ore grades in 2019 are expected to be in the range of 0.70 – 0.75 g/t.

Productivity decreased compared to 2017 due to a lower volume of ore and waste material hauled by an increased number of personnel.

Following the increase in reserves at the Herradura mine in 2017, and further exploration conducted in the 1H18, we carried out the annual analysis to identify the separate components of the ore bodies at Herradura. This concluded that the number of components to which stripping costs are allocated should be reduced from two to one.

This change resulted in recognising the entirety of the stripping in the income statement as opposed to partially capitalising it, thereby increasing the expensed stripping ratio to 4.56 in 2H18. The expensed stripping ratio in 1H18 was 2.33, having considered it as two components.

We continued working on strengthening the project to expand the Centauro pit. We carried out an additional 102,592 metres of drilling in 2018 to further optimise the pit shell and improve the financial metrics of this project. However, as reserves have not yet increased as expected, we will continue drilling in 2019.

Other smaller projects ongoing at this mine include the construction of leaching pad number 13 to ensure operational continuity, due to be concluded in 2H 2019; a pilot project to evaluate the use of dual fuel systems (diesel and Liquid Natural Gas) for our haulage equipment that will reduce cost and our carbon footprint (see our case study on page 78); and the installation of vibrating screens at the DLP (phase I) that will increase milling capacity from 8,700 tpd to 9,200 tpd.

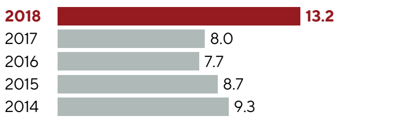
Gold reserves slightly decreased as a result of lower tonnage, while gold resources remained broadly flat.

CAPITAL EXPENDITURES

Capital expenditures in 2018 totalled US$116.0 million, which included mine preparation, sustaining capex, the construction of the second line at the DLP and land acquisition. Capex for 2019 will mainly be focused on sustaining capex and the construction of an additional leaching pad. Minor investments during the year will include the full implementation of ProxAlarm and the Fatigue Monitoring system (reduces operator error and the dangers of operator fatigue), as well as the continued implementation of the MineOps Optimiser system.

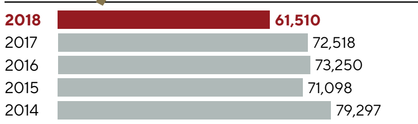
HERRADURA US$/TONNE DEPOSITED

13.2



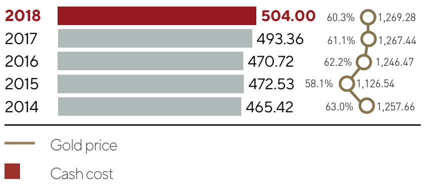
HERRADURA ORE/WASTE MOVED PER PERSON TONNES

61,510



HERRADURA CASH COST GOLD US$/OUNCE

504.0



% Figures represent margin between cash cost and gold price

FINANCIAL PERFORMANCE

Financial highlights	2018	2017	% change
Adjusted revenue (US$m)	**608.2**	606.8	0.2
Adjusted production costs (US$m)	**292.7**	207.4	41.1
Segment profit (US$m)	**323.0**	355.6	(9.2)
Capital expenditure (US$m)	**116.0**	153.2	(24.3)
Exploration (US$m)	**33.0**	27.1	21.8
Cost per tonne (US$)	**13.2**	8.0	65.8
Cash cost ($/oz gold)	**504.0**	492.9	2.3
Margin ($/oz)	**765.3**	774.5	(1.2)
Margin (expressed as % of gold price)	**60.3**	61.1	

Adjusted revenue remained broadly unchanged at US$608.2 million. This was the result of the increased volumes of silver sold partly offset by the lower volume of gold sold.

Cost per tonne of ore deposited increased 65.8% to US$13.2 mainly due to: i) higher stripping charged to production costs; ii) the change in criteria from two components to one; and iii) inefficiencies due to the lower volume deposited (-14.9%). Cost inflation at this mine was 4.0% (largely related to the increase in the price of diesel).

Cash cost per gold ounce increased 2.3% to US$504.0, as a result of the higher cost per tonne and the change in criteria from two components to one, mitigated by the higher gold grade; a favourable effect due to the re-estimation of gold content in the leaching pads; and higher by-product credits per gold ounce. Margin per ounce and margin expressed as a percentage of gold prices decreased to US$765.3 and 60.3%, respectively.

See detailed breakdown on page 91.

2ND DYNAMIC LEACHING PLANT

Commissioning of the second line of the Dynamic Leaching Plant at Herradura was delayed to 3Q18, due to tests taking longer than anticipated and commercial production did not commence until 2019. However, 21,266 ounces of gold were produced in 4Q18. The DLP will extend the life of the mine at Herradura to 12 years with an average life of mine annual gold production of 390 koz. The project will enable sulphides occurring deeper in the pit to be processed more efficiently.

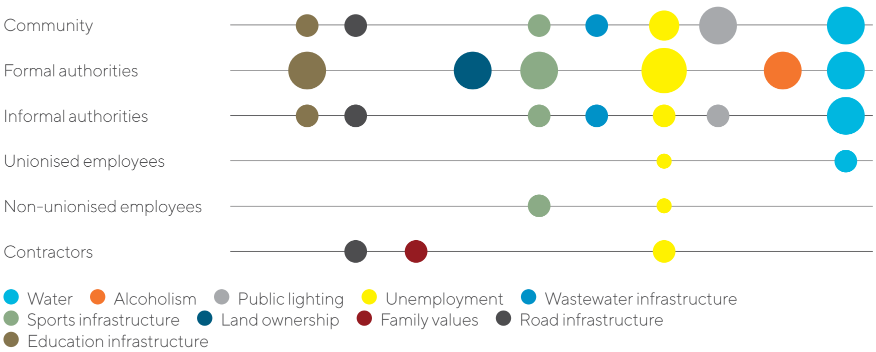
TOTAL CAPEX US$

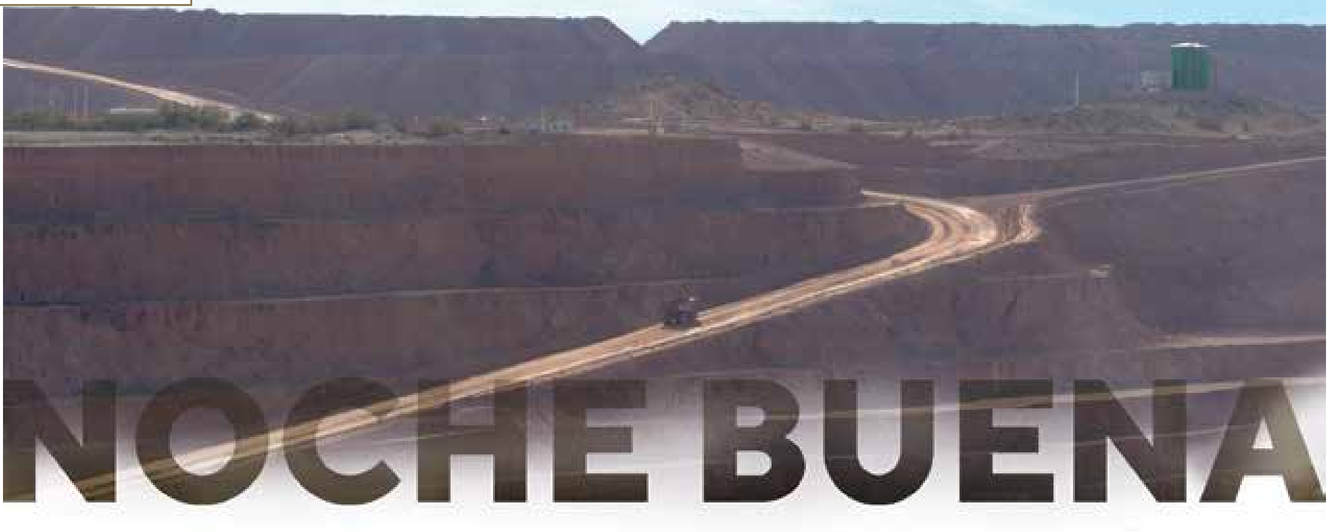
104.6m

COMMUNITY PRIORITY ASSESSMENT

We engage communities through household surveys, interviews with leaders and focus groups to identify the issues that matter to them in order to identify risks and opportunities. Larger spheres represent greater importance to the individual stakeholder groups at Penmont.

STAKEHOLDER GROUP





NOCHE BUENA

MINES IN OPERATION

Noche Buena is located in the Herradura district, 23 kilometres from the Herradura mine. Noche Buena produced 18% of the Group's total gold in 2018 and generated over 9% of total Adjusted revenue.

2018 OBJECTIVES
- Maintain comparative low cash cost profile.
- Maximise production by extracting ore from new areas.

2018 PERFORMANCE
- Contained costs.
- Production was higher than anticipated, thus contributing to the upward revision of the Group's gold guidance.

2019 OBJECTIVES
- Maintain comparative low cash cost profile.
- Complete construction of leaching pad number 7.
- Implement the activated carbon project.
- Prepare mine closure plan.

Ownership: **Minera Penmont (100% Fresnillo plc)**	Location: **Sonora**
In operation since: **2012**	Mine life (years): **1.9** (2017: 2.8)
Facilities: **Open pit mine, heap leach and Merrill Crowe plant**	
Workforce: **513 employees, 553 contractors**	

	2018	2017	% change
MINE PRODUCTION			
Ore deposited (kt)	**18,196**	17,821	2.1
Total volume hauled (kt)	**80,305**	85,233	(5.8)
Gold (oz)	**167,208**	172,282	(2.9)
Silver (koz)	**52**	31	67.7
Gold ore grade (g/t)	**0.52**	0.52	0.0
TOTAL RESERVES			
Gold (koz)	**577**	819	(29.5)
AVG ORE GRADE IN RESERVES			
Gold (g/t)	**0.53**	0.51	3.9
Cut-off grade (g/t Au)	**0.25**	0.25	–
TOTAL RESOURCES			
Gold (moz)	**592**	837	(29.3)
AVG ORE GRADE IN RESOURCES			
Gold (g/t)	**0.53**	0.51	3.9
Cut-off grade (g/t Au)	**0.25**	0.25	–

KEY DEVELOPMENTS IN THE YEAR

Annual gold production decreased 2.9%, due to the lower overall speed of recovery resulting from the taller leaching pads, which in turn increased the time the solution remained in the pads. This was partly offset by the higher volume of ore processed.

Due to the mine having a limited remaining life, we remained focused on improving efficiency and reducing costs. A project to implement a Carbon in Column (CiC) process commenced during the year with engineering work, site preparation and delivery of equipment and materials. This project will contribute to maintaining the efficiency of gold recovery in the final years of mine life and at the neutralisation stage, when the gold content is expected to be lower. We expect this project to be commissioned in 2019.

In 2019, the average ore grade is expected to be around 0.55 g/t as we mine the deeper areas of the pit.

Productivity decreased compared to 2017 due to a lower volume of ore and waste material hauled by an increased number of personnel.

Flora relocation.

The Noche Buena beneficiation plant.

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

CAPITAL EXPENDITURES

Capital expenditures in 2018 totalled US$50.2 million, focused on mining works and sustaining capex, including the construction of leaching pads to guarantee operational continuity. Spend in 2019 will again primarily be in sustaining capex and the construction of leaching pad number 7.

SOCIAL AND SUSTAINABILITY PRIORITY ASSESSMENT

See Herradura for community priority assessment associated with all Penmont mines, page 63.

We remained focused on improving efficiency and reducing costs.

FINANCIAL PERFORMANCE

Financial highlights	2018	2017	% change
Adjusted revenue (US$m)	**211.4**	215.5	(1.9)
Adjusted production costs (US$m)	**122.8**	132.7	(7.5)
Segment profit (US$m)	**85.9**	75.5	13.8
Capital expenditure (US$m)	**50.2**	18.7	168.4
Exploration (US$m)	**3.0**	5.7	(47.4)
Cost per tonne (US$)	**6.8**	7.5	(9.4)
Cash cost ($/oz gold)	**735.4**	793.5	(7.3)
Margin ($/oz)	**533.9**	474.0	12.6
Margin (expressed as % of gold price)	**42.1**	37.4	

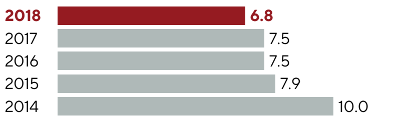
Adjusted revenue at Noche Buena slightly decreased by 1.9% to US$211.4 million, reflecting the lower volumes of gold sold.

Cost per tonne at this mine decreased 9.4% to US$6.8 in 2018 as a result of shorter distances to haul mineral from the pit to the leaching pads, despite the fact that cost inflation at this mine was 2.54% (mainly related to the unit price of diesel).

Cash cost per gold ounce decreased 7.3% to US$735.4 due to lower cost per tonne. Margin per ounce increased to US$533.9, while margin expressed as a percentage of the gold price rose to 42.1% in 2018 (see page 91).

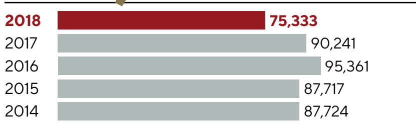
NOCHE BUENA US$/TONNE DEPOSITED

6.8



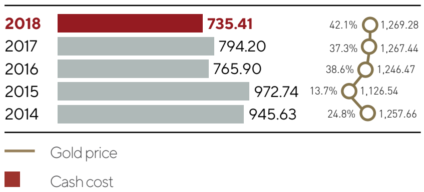
NOCHE BUENA ORE/WASTE MOVED PER PERSON TONNES

75,333

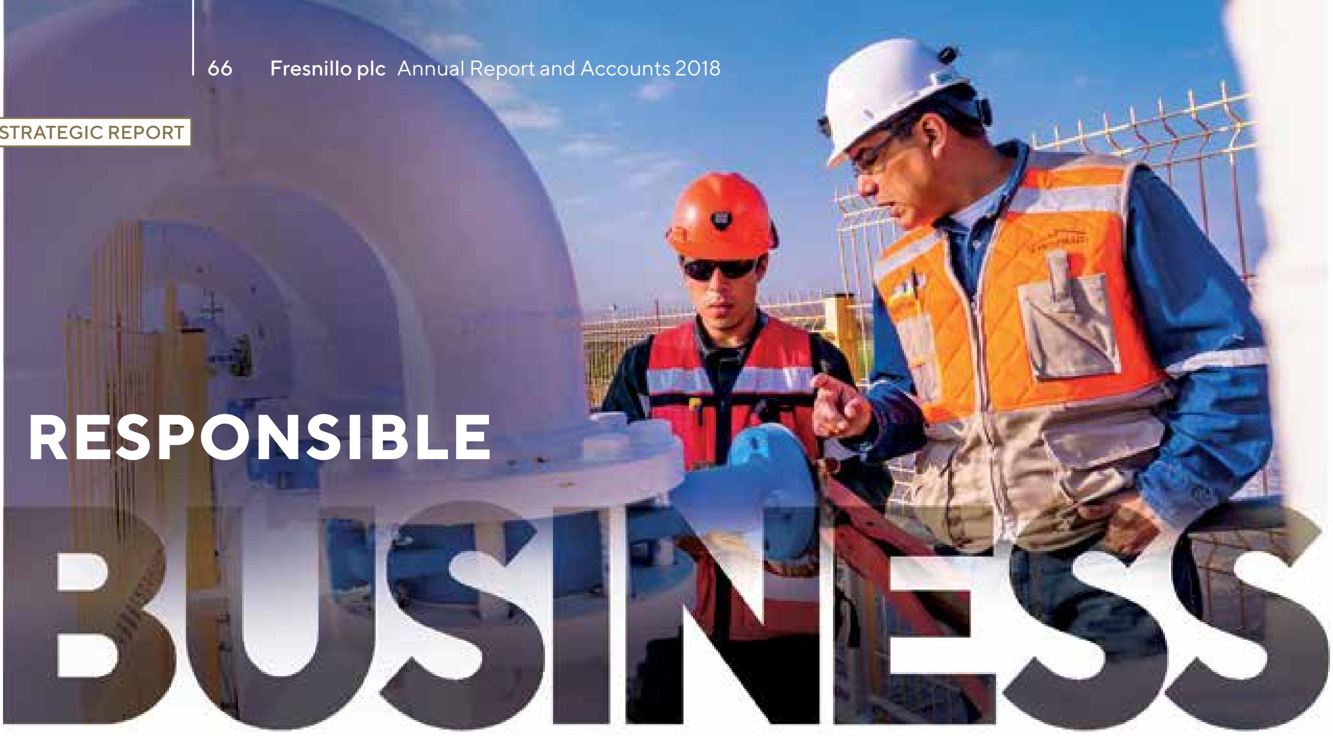


NOCHE BUENA CASH COST GOLD US$/OUNCE

735.4



% Figures represent margin between cash cost and gold price



RESPONSIBLE BUSINESS

SOCIAL AND SUSTAINABILITY REVIEW

We are committed to the responsible operation of our business. We do all we can to ensure the highest standards of ethical behaviour, health and safety, environmental stewardship and governance, while sharing the benefits of mining with our communities.

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

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

DEAR SHAREHOLDER

The long-term sustainable success of the Company relies on building trust and mutually beneficial relationships with its stakeholders. The Health, Safety, Environment & Community Relations (HSECR) Committee evaluates, on behalf of the Board, the Company's effectiveness in responding to the wider and evolving interests of its stakeholders. Our commitment to sustainability is founded upon an ethical culture, responsible mining practices and sharing the benefits of mining with wider society. As Chairman of the HSECR Committee, I am pleased to present the activities of the HSECR Committee during the year.

The Committee is mindful of its responsibility to ensure that management has effective policies, due diligence processes and management systems in place to proactively address issues that are material to the business and relevant to its stakeholders. We have instructed management to enhance the Company's reporting practices through a set of Strategic Key Performance Indicators (KPIs). The Committee also evaluated and recommended to the Board of Directors a specific set of KPIs in order to appraise sustainability performance in a more structured manner.

Maintaining a safe and healthy workplace is our highest priority, above production and profitability. I deeply regret to report that five fatal accidents occurred in 2018 and one in early 2019. Independent of the root cause analysis of these accidents, we believe that our safety culture must be deeply embedded within the Company through behavioural change. To this end, we prompted implementation of the 'I Care, We Care' programme that integrates best practices, systems, programmes and behaviours with the goal of working in a safe manner. As part of our governance agenda, we evaluated the Company's Modern Slavery Report and monitored the progress of the 'step-up' ethics culture initiative.

We strongly believe that consultation and participation are fundamental rights of indigenous peoples. Good faith, transparency and accountability, must always be the compass that guides our community engagement efforts. Through constructive dialogue and inclusive participation, the Company obtained the free, prior and informed consent of the Raramuri indigenous people to build and operate a water reservoir for our San Julián mine.

ROLE OF THE COMMITTEE

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

The Committee has responsibility over the following HSECR matters:

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

HSECR COMMITTEE MEMBERSHIP

In 2018, we welcomed Dame Judith Macgregor, an independent Non-executive Director, as a member of our Committee and I am sure that she will make valuable contributions going forward.

HSECR COMMITTEE ACTIVITY

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

POLICIES AND SYSTEMS

- Review of the strategy and implementation plans of the 'I Care, We Care' programme.
- Evaluation of community relations strategy and flagship projects with the communities where we operate, on issues such as education, health, water and capacity building.
- Evaluation and recommendation to the Board of Directors of a set of Board-level Sustainability KPIs.

PERFORMANCE EVALUATION

- Recommended evaluation of the Company's HSECR performance with a new set of KPIs.

EXTERNAL REPORTING

- Review of the Modern Slavery Statement 2017.

ETHICAL CULTURE

- Monitoring the progress of the ethics culture programme.

We remain strongly committed to promoting a long-term focus and rigorous analysis of the Company's sustainability strategy. I am very pleased to report that our Environment, Social and Governance (ESG) performance was recognised by the inclusion of Fresnillo plc in the FTSE4Good Index.

However, there is no room for complacency, and we continue to be fully committed to making further improvements on the ESG issues that are material to the Company and its stakeholders.

Yours faithfully

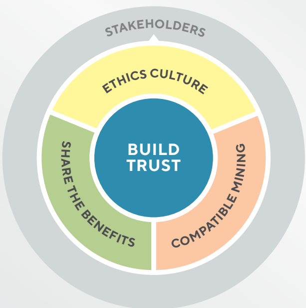
Arturo Fernández Pérez
Chairman, Health, Safety, Environment and Community Relations Committee

SOCIAL AND SUSTAINABILITY REVIEW CONTINUED

We are committed to the responsible operation of our business. We do all we can to ensure the highest standards of ethical behaviour, health and safety, environmental stewardship and governance, while sharing the benefits of mining with our communities. During 2018, we were again proud to be part of the FTSE4Good Index. We were also recognised by a number of other bodies this year, including: an Ethics and Values in Industry award from the Mexican Confederation of Industrial Chambers (CONCAMIN); and the Socially Responsible Company award from the Mexican Centre for Philanthropy (CEMEFI).

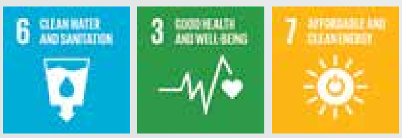
OUR APPROACH TO SUSTAINABILITY

We believe that responsible mining is compatible with high stakeholder expectations in terms of ethical, social and environmental performance, and recognise that our social licence to operate is dependent upon being trusted by our stakeholders. This underlines the importance of responsible business practices being deeply integrated into our business model, and of factors that affect stakeholders being considered at every critical decision-making level.



SUSTAINABLE DEVELOPMENT GOALS

Since we adopted the United Nations Sustainable Development Goals (SDGs), we have strategically aligned our sustainability strategy to advance these goals directly as part of our core business processes, or indirectly through collaboration and leverage.



In collaboration with other members of the Silver Institute, we are working on a sustainability initiative to communicate how silver, our flagship product, contributes to a sustainable future. For example, it is a key material used in renewable energy, electric vehicles, and anti-bacterial applications such as water treatment, medical applications and clothing.

See our website for more on the alignment of our sustainability strategy and the SDGs.

HUMAN RIGHTS

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

Key human rights issues for businesses operating in Mexico

Occupational Health & Safety (See our compatible mining section)	Modern slavery
Working conditions (See our people section)	Child labour
Unions: freedom of association (See our people section)	Discrimination
Environment (See our compatible mining section)	Land rights
Corruption: Transparency in government payments (See our compatible mining and risk sections)	Security

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

MODERN SLAVERY

Modern slavery is a grave violation to human rights. It comprises all forms of contemporary slavery such as forced labour, servitude, human trafficking and all forms of child labour. We have a zero-tolerance approach to modern slavery and demand that all employees, suppliers and contractors reject any and all of its forms.

Visit us online to read our Modern Slavery Report.

CHILD LABOUR

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

DISCRIMINATION

We are committed to ensuring that our people are treated fairly and with dignity in the workplace and do not tolerate any form of harassment, intimidation or discrimination. We promote equal opportunities, ensuring that employment and career development decisions are based on performance, qualifications, skills, experience and ethical behaviour. We have policies in place based on salary scales to mitigate gender payment gaps. In 2018, the gender payment gap of non-unionised, non-executive employees was 3.95%. We train our executives, managers and non-unionised employees to raise awareness of unconscious bias and their impacts on decision making.

GENDER PAY GAPS OF NON-UNIONISED, NON-EXECUTIVE EMPLOYEES

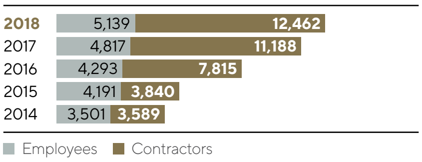
	Open pit Operations	Underground Operations	Projects	Explorations	Support and administrative staff	Average Gap per hierarchical level
First level 'Senior Engineer'	-2.50%	-6.15%	-23.46%	-3.21%	-13.91%	-6.61%
Second level 'Junior Engineer'	-0.85%	-4.63%	-5.16%	8.71%	5.39%	-1.04%
Third level 'Assistant'	16.33%	-21.36%	-100.00%	-7.98%	51.86%	-9.28%
					Overall average gap	-3.95%

OUR PEOPLE

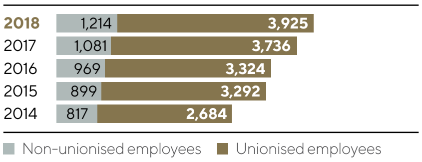
Great Place To Work®

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

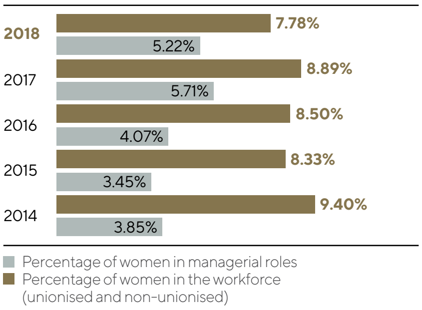
EMPLOYEES AND CONTRACTORS



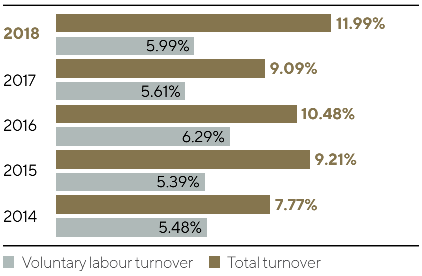
UNIONISED AND NON-UNIONISED EMPLOYEES



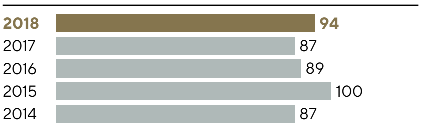
GENDER DIVERSITY



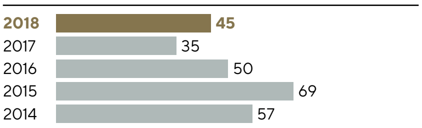
VOLUNTARY LABOUR TURNOVER



AVERAGE WORKFORCE TRAINING HOURS



AVERAGE HSECR TRAINING HOURS



Members of the Saucito team.

We respect labour rights and engage union representatives constructively. We engage our people through employee surveys to better understand and respond to their expectations. During 2018, we were proud to be recognised as one of the Best Places to Work in Mexico.

TALENT MANAGEMENT

We seek to recruit, retain, and develop the most talented people in order to ensure we have an appropriate pipeline to meet the future needs of the business. We attract and develop talent with a long-term mindset (see the case study 'Securing a talented and diverse engineering workforce' on page 70) and emphasise the value of training and mentorship. We believe that the best retention strategy is to provide opportunities for people to learn and grow. For example, among our non-unionised workforce, we promoted 143 employees to higher positions and offered changes of business unit to a further 58. In addition, we reviewed our incentives to better recognise performance. Our new performance appraisal mechanism aligns training needs and helps us identify high potential people. We develop our high potential middle managers via the Leaders with Vision programme. This involves senior executives delivering seminars throughout the year as a mechanism to engage and mobilise our people. The executives participate in a training programme organised by the Mexico Autonomous Institute of Technology (ITAM), a leading business school.

DIVERSITY & INCLUSION

We value and respect all people from diverse backgrounds. We aspire to develop an inclusive culture where our people feel valued and are inspired to contribute to their fullest potential. With the support of the University of Arizona, we continue to train managers and executives on how to manage a diverse workforce, raising awareness of unconscious bias and its impact on decision making. We also supported the Women in Mining chapters in the Mexican States of Zacatecas and Sonora.

See our website for our Diversity and Inclusion Policy.

WOMEN IN MINING

SOCIAL AND SUSTAINABILITY REVIEW CONTINUED

CASE STUDY

Securing a talented and diverse engineering workforce

We collaborate with leading educational institutions in Mexico to attract young and diverse talent in geology, metallurgy and mining engineering, offering students internships of varying lengths.

We recruit graduates from our pool of interns through the Engineers in Training programme. These graduates are assigned a coach from our operations team who supervises their development and provides performance appraisals – and those with good appraisals receive permanent job offers, securing the talent pipeline for our growth strategy. Through this programme, we engage students from the earliest stages of their college education and encourage more women to participate in mining.

Programme	Men	Women	Total
Short internships	79	57	**136**
Long internships	34	16	**50**
Engineers in Training	149	24	**173**
	73%	27%	**100%**

UNION RELATIONS

Unions are our strategic partners and key players in our drive to foster productivity and develop a safety culture. We respect the rights of employees to freedom of expression, association and collective bargaining. We engage unions to build trust through continuous dialogue, leadership development programmes, wellbeing activities (sports, culture, etc.) and continuous improvement projects. We have successfully reviewed our collective agreements at our Fresnillo, Saucito, Ciénega and Penmont mines. During 2018 we did not experience any work stoppage or industrial action as a consequence of labour disputes.

HEALTHIER LIFESTYLES

To prevent and control obesity-related diseases, our long-term campaign 'Bienestar siempre' raises awareness of healthy lifestyles based on good dietary habits and exercise. We launched the 'fitness challenge' to engage and support our employees with dieticians and trainers in their journey towards adopting healthier lifestyles. Our dieticians monitor the dining rooms of our mining operations to ensure that healthier choices are on offer, and also engage local schools to promote healthier dietary habits in our communities.

Bienestar siempre

ETHICS CULTURE

Our behaviours and actions should always reflect our well-established ethical culture. We have identified the winning behaviours of a step-up culture and a strategy to embed ethics throughout Fresnillo.

WINNING BEHAVIOURS OF OUR STEP-UP CULTURE FRAMEWORK

KEY ACTIVITIES:

PERFORMANCE

	2018	2017
Alleged inappropriate arrangements with suppliers	**21**	10
Alleged harassment	**18**	5
Alleged conflict of interest	**6**	–
Alleged professional negligence	**5**	7
Alleged theft	**1**	7
Alleged abuse of authority	**–**	4
Alleged misuse of assets	**–**	3
Alleged fraud	**–**	1
Other	**9**	9
	60	46

The ethics culture programme has raised awareness and encouraged people to speak-up or report whenever they observe actions and behaviours prohibited by our code of conduct.

HOW WE EVALUATE, TRAIN AND SUPPORT OUR STEP-UP CULTURE

KEY ACTIVITIES:

EVALUATION:
We benchmark our ethics and compliance practices with Ethisphere's Ethics Quotient, monitor our culture through Ethisphere's Ethical Culture & Perceptions Survey, and monitor our winning behaviours with the ad hoc survey designed by the Centre for Leadership Ethics of the University of Arizona.

TRAINING:
We trained our executives and managers in masterclasses delivered by the professors of the University of Arizona. We also trained a group of internal trainers to deliver ethics workshops for the rest of our employees, and are deploying an e-learning course to reinforce areas of opportunity detected in the culture survey. All our training follows the Step Up Culture framework.

SUPPORT:
We use the 'moral compass' tool and the 'step-up culture' framework to enhance ethical decision making. We are converting our trainers into ethics ambassadors, and learn and share best practices by participating in Ethisphere's Business Ethics Leadership Alliance (BELA) and the Center for Leadership Ethics of the University of Arizona. In addition, we raise awareness of key elements of our code of conduct through e-learning.

CASE STUDY

Ethics ambassadors

Trained by the University of Arizona, in 2018 our ethics ambassadors delivered more than 40 ethics culture workshops – reaching 81% of our non-unionised employees.

Our ambassadors come from diverse backgrounds and represent all our business units and departments, including operations, finance, explorations and sustainability. Because our people have been trained on ethics by their own colleagues, they become more open when discussing ethical issues. Our ethics ambassadors also trained around 80 senior level contractors as part of our 'step-up' culture programme. Last December, the hard work of this group was recognised when they were awarded an ounce of silver and a course in Innovation delivered by the University of Arizona.

For more details, see the Audit Committee Report (pages 119-129).

Visit us online to read the article by Mr Alvídrez, which was published by Ethisphere's Magazine, on our journey to embed ethics in the culture of the organisation.

SOCIAL AND SUSTAINABILITY REVIEW CONTINUED

COMPATIBLE MINING

MATERIALITY

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

Note: Material issues in blue, other issues in green.

OTHER ISSUES

- Non-mineral waste and hazardous materials management.
- Government relations & lobbying.
- Employee wellbeing.
- Fair remuneration.
- Respect the culture and heritage of local communities.
- Energy.
- Acid Mine Drainage (AMD).
- Union relations.
- Local employment.
- Local procurement (Small and Medium Enterprises).
- Community human rights.
- Biodiversity.
- Human rights in the workplace.
- Equal remuneration for women and men.
- Corruption and bribery.
- Air emissions (SOx, NOx, particulate matter, etc.).
- Compliance with international labour standards.
- Employee recruitment, development and retention.
- Protection against forced or compulsory labour.
- Diversity and non-discrimination.
- Effectiveness of the Mexican Mining Fund.
- Climate change (physical, reputational, regulatory/financial risks).
- Appropriate disclosure of information and consultation on new projects.
- Mine closure.
- Indigenous rights.
- Number of workday hours.
- Work-family balance.

The outcomes of the materiality assessment continue to guide our sustainability strategy.

CASE STUDY

Consulting indigenous people

We are committed to interacting with indigenous peoples, respecting their values, culture and traditions.

We recognise that consultation is a fundamental right of indigenous communities and a mechanism for building trust. Consultation allows us to understand their perspectives on our projects and address their concerns. Prior to consulting, we assess potential impacts and benefits of our projects and develop the capacities of the communities to fully exercise their right to consultation. To consult, we consider their preferred method of engagement, present information in a culturally appropriate manner and reach agreements on shared benefits. Good faith, transparency and accountability are the key values that guide our consultation approach.

Read more about our community strategy on pages 81-82.

INSTILLING A CULTURE OF SAFETY

Our goal is to instil a safety culture where our workers and contractors have the knowledge, competence and desire to work safely.

Relevance and risk in the lifecycle of mining

EXPLORATION	DEVELOPMENT	OPERATION	CLOSURE

Risk: High Medium Low

ME CUIDO, NOS CUIDAMOS (I CARE, WE CARE)

This comprehensive programme integrates the best systems, projects and behaviours into one cohesive initiative in order to encourage safe working. It enables us to continuously innovate in safety, risk assessment and emergency preparedness, while also developing accountability through better leadership and clearer responsibilities. A key strength of the programme lies in its ability to involve each and every one of us in building trust and respect. It highlights the importance of safe working, recognises positive behaviours and creates a learning environment.

LEADERSHIP: VALUES-DRIVEN LEADERSHIP

KEY ACTIVITIES:

- Senior leadership education courses.
- Supervisor education courses.
- Coaching our people.

ACCOUNTABILITY: INTEGRATION OF SAFETY AND OPERATIONAL MANAGEMENT SYSTEMS

KEY ACTIVITIES:

- Safety is the responsibility of line management.
- Senior management involvement in processes, systems, operations and reports.

RISK COMPETENCIES – BEHAVIOUR: A MATURE AND RESILIENT SAFETY CULTURE

KEY ACTIVITIES:

- Stepback & Think STOP +.
- Positive recognition.

RISK COMPETENCIES – SYSTEMS: ESTABLISH A RISK-BASED MANAGEMENT SYSTEM

KEY ACTIVITIES:

- Internal documents aligned with ISO standards.
- Critical control risk protocols and organisational implementation.

LEARNING ENVIRONMENT: REDUCE RISKS THROUGH ENGINEERING, SYSTEMS, BEHAVIOURS AND LESSONS LEARNT

KEY ACTIVITIES:

- Communicate and implement improvements and corrective actions.
- Investigation – Eye On Risk.

Protective equipment used when handling sodium cyanide.

SOCIAL AND SUSTAINABILITY REVIEW CONTINUED

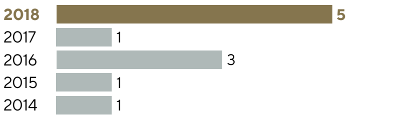
CERTIFICATIONS

	Fresnillo	Saucito	Ciénega	Penmont	San Julián
OHSAS 18001 Sets out criteria for international best practice in occupational health and safety management.	Certified	Certified	Certified	Certified	–

PERFORMANCE

We regret to report five fatal injuries in 2018 and one fatal injury in early 2019. We are committed to implementing the measures required to reverse the negative trend in our safety record.

FATALITIES

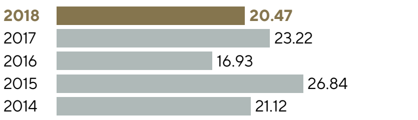


Number of fatal injuries to employees or contractors.

'I CARE, WE CARE' TRAININGS:

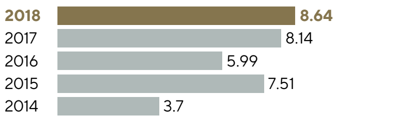
Mine	Number of courses	Number of people
Saucito	96	3,254
Fresnillo	64	2,706
San Julián	78	2,358
Ciénega	42	1,472
Juanicipio	13	201

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



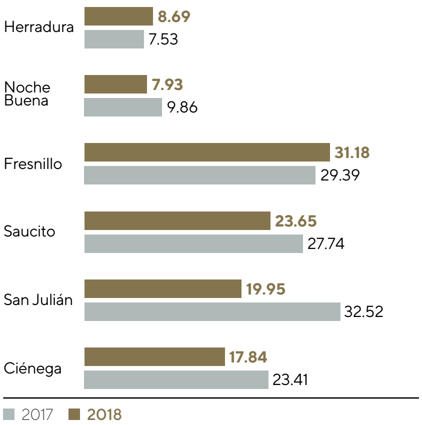
The number of fatalities + lost-time cases + restricted work cases + medical treatment + first aid cases per 1,000,000 hours worked.

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

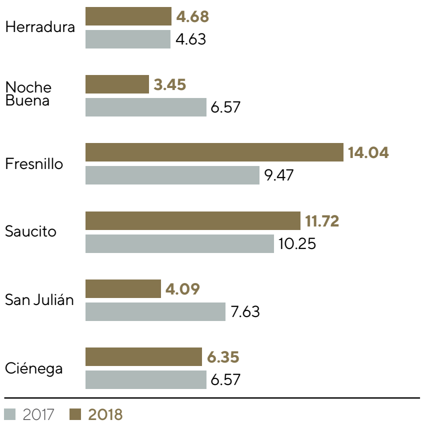


The number of lost-time injuries + fatalities per 1,000,000 hours worked.

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



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



Employees by the vertical conveyor at the Fresnillo mine.

Employees in front of the shaft winch at the Saucito mine.

OCCUPATIONAL HEALTH

We strive to keep our people healthy and prevent occupational diseases. Our approach aims to pre-emptively identify and manage the health risks to which our workforce is exposed.

Relevance and risk in the lifecycle of mining

EXPLORATION	DEVELOPMENT	OPERATION	CLOSURE

Risk: High Medium Low

Preventive care and the promotion of healthier lifestyles can limit certain chronic diseases and enhance overall wellness and fitness for work. While our focus is on prevention, emergency response is also a core competence of all our health teams.

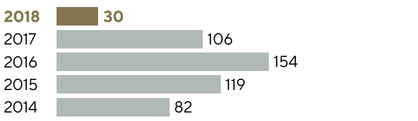
KEY ACTIVITIES:

- Monitor level of exposure to physical and chemical risks to the health of our people (noise, dust, vibration, heavy metal contamination, extreme temperatures, etc).
- Determine operating procedures, equipment, training and controls.
- Engage Safety and Operations teams to eliminate unhealthy conditions.
- Ensure that every employee entering the workforce has a health check, including physical and psychosocial evaluations.
- Perform regular check-ups to screen for occupational diseases and advise on preventive care.
- Manage our own rehabilitation facilities to accelerate recovery from injuries.

PERFORMANCE

We have reviewed our criteria regarding how we report new cases of occupational diseases. We have transitioned from reporting occupational diseases determined by the Mexican Social Security Institute (IMSS) for indemnity purposes, to reporting new cases identified during annual check-ups for special surveillance, rehabilitation or reassignment.

NEW CASES OF OCCUPATIONAL DISEASES



Clinic in the Ciénega district.

CERTIFICATIONS

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

CASE STUDY

Ventilation on demand

The intelligent ventilation systems of our underground mines allow us to monitor gas concentrations and ventilate on demand to protect the health of our people.

Optimising ventilation also enables us to reduce our energy intensity, operating costs and carbon footprint.

In 2018 the system allowed us to save 4,051 MWh which represents an estimated reduction of 2,358 tonnes of CO_2.

Read more about our environmental impact on pages 76-80.

SOCIAL AND SUSTAINABILITY REVIEW CONTINUED

ENVIRONMENT

While the mining and processing of precious metals are essential industries, we recognise that our business has the potential to consume water, disturb land and produce waste and greenhouse gases.

Optimising our use of resources, curbing any negative impact of our activities and being transparent and accountable regarding our environmental footprint are crucial elements of sustainable mining and help us to retain our social licence to operate.

Clean technologies play an essential role in improving environmental performance and reinforcing the social acceptability of the mining industry. We support the Colorado Cleantech Challenge, an innovation showcase that connects mining companies with clean technology solution providers, with the mutually beneficial goal of meeting our industry's environmental challenges. In addition, our CEO, Octavio Alvídrez, is a member of the Lowel Institute of Mineral Resources of the University of Arizona. This leading research institute has the depth of expertise necessary to tackle the challenges that are critically important to modern mining. We are part of the World Environment Centre (WEC), a think tank that advances sustainable development through the business practices of member companies and in partnership with governments, non-governmental organisations, and other stakeholders.

ENVIRONMENTAL IMPACT ASSESSMENTS

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

CERTIFICATIONS

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

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

CASE STUDY

Biodiversity management – constructing a water dam for San Julián

As part of our efforts to mitigate the effects on biodiversity from the construction of our water dam in San Julián, we have implemented the following measures:

- Relocation of 9,844 plants of pines, oaks and biznagas, in 7.5 hectares.
- 9.2 hectares reforested with 12,000 pine trees.
- 29 captures and releases of wildlife, including foxes, skunks, squirrels and snakes, among others.
- 25,554 metres of soil conservation works.
- 7 filtering dams under construction to increase the natural filtration of water and protect the quality of the stream.
- 77 photo captures (phototraps) for wildlife monitoring.
- Community monitoring of water quality with the participation of the State Government.

ENERGY AND CLIMATE

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

Relevance and risk in the lifecycle of mining

EXPLORATION | DEVELOPMENT | OPERATION | CLOSURE

Risk: High Medium Low

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

INTEGRATE RENEWABLES AND CLEAN TECHNOLOGIES

KEY ACTIVITIES:

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

OPERATIONAL EXCELLENCE AND ENERGY EFFICIENCY

KEY ACTIVITIES:

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

PUBLIC POLICY AND PREPAREDNESS FOR THE PHYSICAL IMPACT OF CLIMATE CHANGE

KEY ACTIVITIES:

- Engage public policymakers and other stakeholders through the Mexican Chapter of the World Business Council for Sustainable Development (CESPEDES).

See page 80 (water section) and our website for a more detailed discussion.

- Recognise that the most significant physical impacts of climate change for our Company relate to water.

Learn more about our risk assessment and governance in our report to the CDP climate change programme.

PERFORMANCE

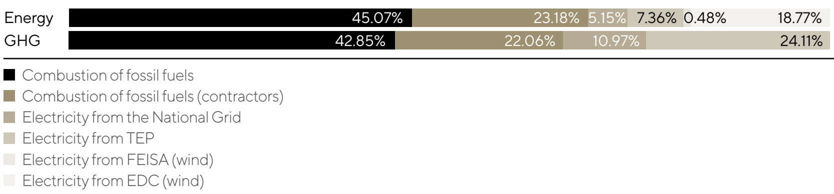
In spite of the increase in energy demand, we reduced our greenhouse gas emissions. This reduction was driven by an increase of renewables in our energy mix, going from 9.09% in 2017 to 19.24% in 2018. This prevented the emission of 26,000 tonnes of CO_2e.

GLOBAL GHG EMISSIONS FOR THE PERIOD 1 JANUARY 2018 TO 31 DECEMBER 2018

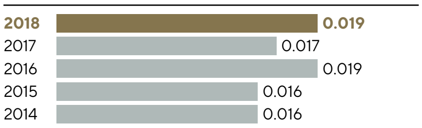
	GHG emissions (tonnes of CO_2e)		Energy (MWhe)	
	Reporting year 2018	Comparison year 2012	Reporting year 2018	Comparison year 2012
Scope 1 (direct emissions): Combustion of fuel (mobile and stationary sources).	**530,377**	375,121	**2,042,982**	1,385,448
Scope 2 (indirect emissions): Electricity purchased from the Mexican National Grid (CFE), WindForce Peñoles (FEISA) and Thermoelectric Peñoles (TEP).	**286,697**	329,245	**950,547**	420,615
Intensity measurement: Emissions and energy reported above per tonne of mineral processed.	**0.016**	0.013	**0.059**	0.034

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

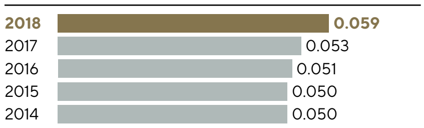
ENERGY – GHG PROFILE – 2018



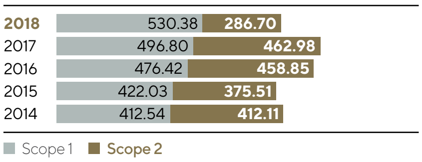
GHG INTENSITY (TONNES OF CO_2E PER TONNE OF MINERAL PROCESSED)



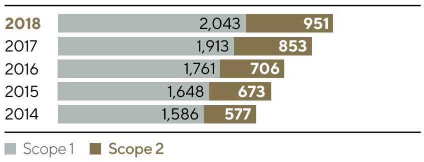
ENERGY INTENSITY (MWHE PER TONNE OF MINERAL PROCESSED)



GHG EMISSIONS



ENERGY USE



SOCIAL AND SUSTAINABILITY REVIEW CONTINUED

CASE STUDY

Reducing costs, cutting emissions

We're making good progress towards our commitment announced at the 2018 AGM: to improve energy efficiency while moving Fresnillo rapidly towards cleaner, greener energy sources.

Over the last 12 months we have continued to support energy innovations and to deliver on our pledge to integrate more renewables and clean energy technologies into our energy mix. For example, the percentage of our electricity usage derived from wind power was 61% by the end of the year – and we are on track to hit our target of 75% by the close of the next financial year.

A new fuel system currently being piloted at our Herradura mine is also helping to underline our increasingly positive environmental credentials by reducing costs and cutting emissions.

Currently at the pilot stage, new dual fuel engines in Herradura's haulage truck fleet can automatically switch between diesel and clean liquid natural gas (LNG), depending on the terrain.

Early tests reveal that diesel is accounting for just 30% of usage, with the less expensive and greener LNG powering the trucks for the remainder of their journeys. This has led to fuel savings in the order of 20%, reduced the number of engine failures and is expected to result in a 5% fall in GHG emissions from the fleet.

CYANIDE MANAGEMENT

Our goal is to protect human health and the environment by responsibly managing sodium cyanide solutions and waste (tailings and spent heaps).

Relevance and risk in the lifecycle of mining

EXPLORATION	DEVELOPMENT	OPERATION	CLOSURE

Risk: High Medium Low

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

PERFORMANCE

Our operations at Herradura and Noche Buena are certified by the Cyanide Code. During 2018, we reported no incidents related to cyanide management.

	2018	2017
Sodium cyanide (NaCN) (tonne)	**13,497**	11,653

DESIGN AND OPERATE OUR GOLD-ORIENTED FACILITIES IN COMPLIANCE WITH THE INTERNATIONAL CYANIDE MANAGEMENT INSTITUTE (ICMI)

KEY ACTIVITIES:

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

Visit us online to learn more about our responsible cyanide management practices.

MINERAL WASTE MANAGEMENT

Our goal is to protect local communities and the environment by managing mineral waste responsibly.

Relevance and risk in the lifecycle of mining

EXPLORATION | DEVELOPMENT | OPERATION | CLOSURE

Risk: High Medium Low

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

MANAGE OUR WASTE RESPONSIBLY TO PROTECT THE HEALTH AND SAFETY OF COMMUNITIES, THE QUALITY OF THE ENVIRONMENT AND OUR REPUTATION

KEY ACTIVITIES:

- Design, build, operate and monitor all tailings dams in accordance with our own high standards and in line with the requirements of the Mexican authorities (see case study opposite for details).

MANAGE CLOSURE RESPONSIBLY TO PREVENT LEGACY ISSUES

KEY ACTIVITIES:

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

Visit us online to learn more about how we manage mineral waste.

PERFORMANCE

Our historical tailings facility at Fresnillo has been transformed into an ecological park for the community, and its environmental quality has been certified by the Mexican Environment Ministry.

		Unit	2018	2017
Mine waste	Waste rock	Tonne	**164,490,105**	164,431,521
Processing waste	Tailings	Tonne	**8,795,869**	8,062,207
Metallurgical waste	Tailings	Tonne	**3,560,486**	3,049,216
	Heaps	Tonne	**39,912,814**	42,448,200

CASE STUDY

Responsible management of Tailings Storage Facilities (TSFs)

Tailings management is a key concern for the mining industry.

While very rare, recent tailings incidents in the industry have served as a reminder of the critical nature of TSFs. We are fully committed to addressing the expectations of our stakeholders to build and operate TSFs responsibly. Our tailings dams are designed and built to resist extreme weather and seismic events, in line with the hydrological, geotechnical and structural design requirements of the Mexican authorities. We pay particular attention to the chemical stability of the tailings, so that any seepage does not represent a danger to human health or the environment.

We maintain strict control over the water balance to prevent overtopping failures and ban the use of tailings dams as water reservoirs. Diversion channels are incorporated to prevent runoff water from entering the dam reservoir, while seepage collection systems protect the environment downstream. In addition to regulatory requirements, such as daily inspections and internal audits, we conduct third party stability reviews of the embankments of our operating and closed tailings dams.

SOCIAL AND SUSTAINABILITY REVIEW CONTINUED

WATER STEWARDSHIP

Our goal is to increase access to safe water by minimising our water footprint and cooperating with our stakeholders, notably communities, authorities and NGOs.

Relevance and risk in the lifecycle of mining

EXPLORATION | DEVELOPMENT | OPERATION | CLOSURE

Risk: High Medium Low

Although we operate in a number of arid regions, the mining and processing of ore requires large volumes of water – and this is often a relevant issue for local communities. We recognise that water is a human right and cooperate with communities to increase water access. Securing access and being responsible water stewards are critical success factors, and the prevention of environmental impacts on water resources and related ecosystems is fundamental to our social and environmental licences to operate.

Before we commence any project, we carry out EIAs to gain knowledge of water resources and their vulnerability on a local and regional scale. Responding to the expectations of our stakeholders, we evaluate water risk using the Aqueduct tool from the World Resources Institute (WRI). (Visit us online to learn more about our risk assessment as well as our report to the CDP Water programme).

ENVIRONMENTAL COMPLIANCE AND COOPERATION WITH LOCAL STAKEHOLDERS

KEY ACTIVITIES:

- Secure water rights from authorities before using any water in mining and mineral processing.
- Send unused water from dewatering to settlement ponds in order to control suspended solids, before discharging the cleaned water downstream.
- Respect our water quotas, monitoring our discharges and taking action to ensure that they adhere to water quality regulations.
- Cooperate with water authorities and other stakeholders, including communities, to increase water access.

OPERATIONAL EXCELLENCE TO REDUCE OUR WATER FOOTPRINT

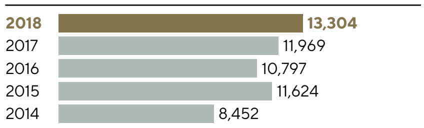
KEY ACTIVITIES:

- Implement closed water circuits, eliminating the need to discharge processed water into water streams.
- Reuse wastewater from municipalities and our own operations and camps.
- Account for water use, using the Water Accounting Framework proposed by the Minerals Council of Australia.

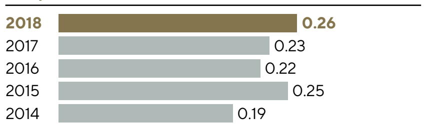
PERFORMANCE

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

WATER WITHDRAWAL (MEGALITRE)



WATER INTENSITY (M3/TONNE OF MINERAL PROCESSED)



OPERATIONAL EFFICIENCY

	Unit	2018	2017	2016	2015	2014
Reuse efficiency	%	**80.16**	83.13	80.92	81.36	82.14
Total volume of recycled water	megalitre	**1,321**	2,039	1,891	1,210	1,240

Visit us online to learn more about our water stewardship.

SOIL POLLUTION

Our goal is to prevent soil contamination by managing our operations responsibly, thereby protecting the environment and the health of local communities.

Relevance and risk in the lifecycle of mining

EXPLORATION | DEVELOPMENT | OPERATION | CLOSURE

Risk: High Medium Low

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

MANAGE OUR PROCESSES RESPONSIBLY TO PREVENT IMPACTS ON THE SOIL

KEY ACTIVITIES:

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

COMMUNITIES

Our communities are our strategic partners. We earn and maintain their trust through effective engagement and by being accountable for our impacts – and we recognise that this is the only way to obtain and preserve our social licence to operate.

Our community strategy, which embraces all phases of the mining lifecycle, aims to build mutual understanding between our operations and local communities, ensuring that we engage, develop and grow together.

ENGAGING COMMUNITIES EFFECTIVELY IN THE LIFECYCLE OF MINING

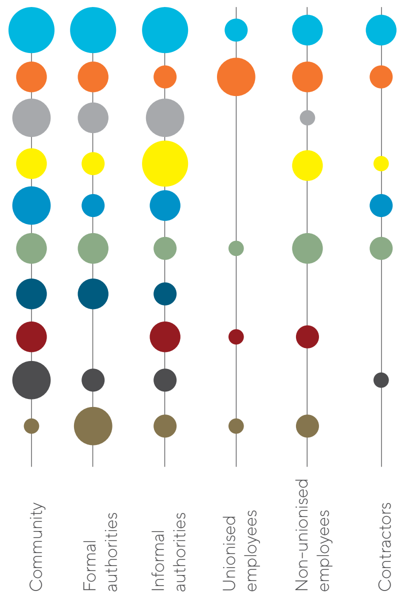
KEY ACTIVITIES:

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

AVOID OR MITIGATE NEGATIVE IMPACTS ON THE CULTURE AND HERITAGE OF COMMUNITIES

KEY ACTIVITIES:

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



Water · Security · Wastewater · Road infrastructure · Pavement of streets and walkways · Unemployment · Electricity supply · Garbage collection and street cleaning · Public lighting · Sport and recreational spaces

Local priority assessment (larger spheres represent greater importance).

COMMUNITY ENGAGEMENT STRATEGY

EXPLORATION → PROJECT → OPERATION → CLOSURE

KNOWLEDGE

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

EFFECTIVE ENGAGEMENT

- Community activities
- Formal meetings/Informal meetings/Consultation/Communication
- Register of incidents/Register of commitments/Grievances

DEVELOP

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

SOCIAL AND SUSTAINABILITY REVIEW CONTINUED

LAND ACQUISITIONS AND RESETTLEMENTS

Relevance and risk in the lifecycle of mining

EXPLORATION	DEVELOPMENT	OPERATION	CLOSURE

Risk: High Medium Low

Our goal is to manage resettlement responsibly, respecting local laws and following international best practices.

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

KEY ACTIVITIES:

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

PERFORMANCE

No community resettlements occurred at our operations or development projects during 2018.

TRANSPARENCY AND ACCOUNTABILITY

Relevance and risk in the lifecycle of mining

EXPLORATION	DEVELOPMENT	OPERATION	CLOSURE

Risk: High Medium Low

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

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

DISCLOSURE OF ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) INFORMATION USING THE APPROPRIATE CHANNELS

KEY ACTIVITIES:

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

ACCOUNTABILITY AND SENSIBILITY REGARDING OUR POSITIVE AND NEGATIVE IMPACTS

KEY ACTIVITIES:

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

GOVERNMENT PAYMENT TRANSPARENCY

Relevance and risk in the lifecycle of mining

EXPLORATION	DEVELOPMENT	OPERATION	CLOSURE

Risk: High Medium Low

Our goal is to disclose transparently our payments to governments.

Responsible mining can be a driver of economic and social development. However, corruption and poor governance diminish the benefits that society should gain from the revenues generated by mining resources. We believe that transparency regarding payments to government builds trust and empowers society.

Visit us online to consult our report on payments to governments.

CASE STUDY

Measuring the social impact: the benefits of reading

Measuring their impact in communities is an important element of social programmes.

Our 'Picando Letras' reading programme aims to create a space where teachers, parents, youngsters and children interact, raise awareness and reflect as a result of reading – in an enjoyable, free and meaningful manner. This strengthens community bonds, educates people so they can self-reflect, express their feelings and thoughts and really listen to others in a tolerant and respectful environment. We conducted pre and post programme evaluations in the remote communities of Ciénega and San Julián with the following results:

- An increase of 8% in the number of children who decide to read on their own at home.
- An increase of 12% in the number of children who spontaneously mentioned that reading was one of their favourite things to do at home.
- On average, book collections in the schools increased by 69%.
- An increase of 14% in the number of children who say they love to read and 12% in the number of children who enjoy people reading to them.
- 28% of the children improved their comprehension skills, and their understanding of the stories.
- 7% improved their narrative skills, when telling others about the stories they listened to.

SHARING THE BENEFITS

In addition to effective stakeholder engagement, sharing the benefits of mining is essential to the social acceptability of mining projects. We create value in the regions where we operate in the form of employment, procurement, talent development, strategic community investment and payment of our fair share of taxes.

MINING FUND

In 2014, Mexico introduced a special tax to create a fund for the sustainable development of mining regions. The funds are allocated to federal, state and municipal governments. Although this fund is intended to develop the infrastructure of communities surrounding mining operations, in reality state and municipal authorities invest large amounts of it elsewhere. We partner with our communities to engage the authorities, and aim to encourage them to fund infrastructure projects that benefit mining communities.

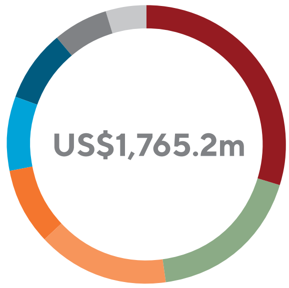
FRESNILLO'S CONTRIBUTION TO THE FUND FOR SUSTAINABLE DEVELOPMENT OF MINING STATES AND MUNICIPALITIES (USD MILLION)

2018	2017
$19.0	$26.5

LOCAL EMPLOYMENT AND PROCUREMENT

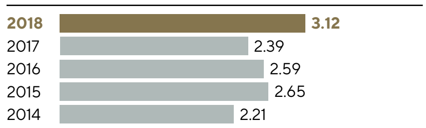
Local employment is a key driver of social acceptability and community development. We promote local employment from the early days of the exploration phase onwards. In the development and operational phases, for example, we offer employment opportunities directly or through our mining contractors. Our local and regional labour as a percentage of the total workforce is 73.39%. Our Centre for Technical Studies (CETEF) trains mining technicians to meet our specific needs. CETEF candidates are chosen from the communities surrounding our operations, thus securing talent and strengthening our social licence to operate. We participate in the mining clusters of Zacatecas, Sonora and Chihuahua. Clusters contribute to the development of regional suppliers, strengthening their participation in the value chain of mining companies.

ECONOMIC VALUE DISTRIBUTED BY STATE

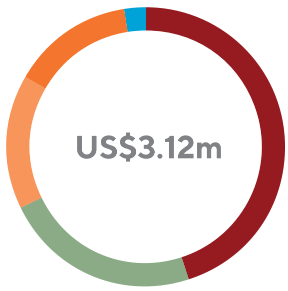


Sonora	29.79%
Zacatecas	18.26%
Mexico City	15.06%
Durango	8.88%
Coahuila	8.81%
Chihuahua	8.15%
Guanajuato	6.34%
Estado de Mexico	4.71%

COMMUNITY INVESTMENT (IN MILLION US$)



COMMUNITY INVESTMENT BY STRATEGIC LEVER %



Education	33%
Water	28%
Infrastructure and other	19%
Health	17%
Capacity building	3%

SOCIAL INVESTMENT

We work with our communities to develop a purposeful social investment portfolio aligned with the UN Sustainable Development Goals.

Over the years we have increased our partnerships with civil society organisations in order to build capacity in the communities where we operate.

CREATE LONG-TERM VALUE WITH OUR COMMUNITIES

4 QUALITY EDUCATION	3 GOOD HEALTH AND WELL-BEING	8 DECENT WORK AND ECONOMIC GROWTH	6 CLEAN WATER AND SANITATION
EDUCATION	HEALTH AND SPORTS	CAPACITY BUILDING	WATER
INNOVEC; Universidad La Salle Laguna; A leer IBBY México; FIRST	caliderh; UNAM	Fundación ProEmpleo	

SOCIAL AND SUSTAINABILITY REVIEW CONTINUED

EDUCATION

PRIORITIES

In line with SDG 4, we seek to support inclusive and quality education as a key lever to reduce poverty and inequality. We collaborate on programmes which encourage children to read, communicate, appreciate music, and learn about rocks and minerals and robotics.

2018 PERFORMANCE HIGHLIGHTS

Picando Letras (Carving Letters) programme – with the support of the NGO International Board on Books for Young People (IBBY), we bring books and children together. This project benefits around 8,500 children in 72 schools (see case study).

Together with the NGO INNOVEC and the Zacatecas State Government, we launched a pilot programme to teach 'Rocks and Minerals' in our Fresnillo district, which benefited more than 1,000 children in nine schools.

We partnered with high schools in Fresnillo, Caborca (Penmont), and Turuachi (San Julián), entering four teams in the FIRST (For Inspiration and Recognition of Science and Technology) Robotics competition (see case study). In partnership with LaSalle Laguna University, we offer four excellence scholarships to pursue college education in Torreon.

We partnered with Maestro Elena Duran and her 'Flutes without borders' initiative to offer two concerts for 600 people from our Rodeo project, as well as 300 people from our Ciénega mine.

HEALTH

PRIORITIES

In line with SDG 3, we seek to ensure healthy lives and promote wellbeing. We work closely with NGOs, authorities and communities to provide healthcare, and to promote sports and resilience.

2018 PERFORMANCE HIGHLIGHTS

In partnership with the National University Foundation, we organised Health Weeks in Fresnillo, Ciénega, Penmont and San Julián, benefiting close to 8,000 people during the year.

Comprising reclaimed tailings ponds and a zoo, our Fresnillo parks received an average of 2,000 visitors per month.

Our football school, in partnership with Santos Futbol Club, has a capacity for 300 children in our Fresnillo District.

WATER

PRIORITIES

In line with SDG 6, we are committed to ensuring the availability and sustainable management of water and sanitation for all. We collaborate with indigenous communities on rainwater harvesting systems and engage authorities to develop water and sanitation infrastructure with the Mining Fund.

2018 PERFORMANCE HIGHLIGHTS

With the support of Captar AC we are implementing 325 rainwater collection system for houses, benefiting 15 communities close to our San Julián mine.

We continued to engage with the municipalities, campaigning for higher levels of investment by the Mining Fund in the communities neighbouring our operations.

CAPACITY BUILDING

PRIORITIES

In line with SDG 8, we promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all. We offer training of local entrepreneurs in addition to our local employment and procurement opportunities.

2018 PERFORMANCE HIGHLIGHTS

To diversify local economies, we provided training and follow-up for entrepreneurs in the communities of Fresnillo, Uruachi, Rodeo and Guanajuato.

CASE STUDY

Robotics competition

We partnered with local schools in communities neighbouring our Fresnillo, Caborca (Penmont) and Turuachi (San Julián) mines to compete in the FIRST (For Inspiration and Recognition of Science and Technology) Robotics competition.

With the support of mentors from our Company, children aged from 15 to 18 learnt how to develop their expertise in robotics, as well as the importance of teamwork and volunteering for their communities. We are preparing a fourth team from La Ciénega to compete in 2019.

The results saw the Potrobots of the Cecytech of Turuachi community become the first team from the Rarámuri community to compete in an international robotics competition, proving that with the right support and encouragement, everything is possible. The Cabots from Conalep of Caborca Sonora advanced to the quarter finals, while the Jeunes d'Argent (Silver Youngsters), of the Cbetis 1 of Fresnillo won the Spirit Award for the most dynamic and enthusiastic team.

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 2018 figures compared to 2017, unless otherwise noted. The financial information and year-on-year variations are presented in US dollars, except where indicated. The full financial statements and their accompanying notes can be found on pages 164 to 217.

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

The following report presents how we have managed our financial resources.

COMMENTARY ON FINANCIAL PERFORMANCE

2018 was a year of challenges and opportunities for the Group. This was also reflected in the financial performance for the year, with gross profit and EBITDA decreasing over 2017 by 15.6% and 13.7% respectively, while we nevertheless delivered healthy profit margins. We maintained a solid financial position, with US$560.8 million in cash and other liquid funds[1] as of 31 December 2018 notwithstanding paying dividends of US$298.1 million in accordance with our policy, investing US$668.7 million in capex and spending US$172.8 million in exploration to underpin our future growth.

Adjusted revenue slightly increased year-on-year due to the increased volumes of silver, lead and zinc sold, primarily from the San Julián (Disseminated Ore Body), offset by lower prices. This increase, together with the positive effect of the re-assessment of gold content in the leaching pads and the higher ore grade at Herradura, was more than offset by the higher stripping ratio at Herradura and higher depreciation. As a result gross profit decreased 15.6% over 2017 and, together with the higher exploration expenses, this contributed to the 13.7% decline in EBITDA.

INCOME STATEMENT

	2018 US$ million	2017 US$ million	Amount US$ million	Change %
Adjusted revenue[2]	**2,243.4**	2,233.2	10.2	0.5
Total revenue	**2,103.8**	2,093.3	10.5	0.5
Cost of sales	**(1,323.1)**	(1,167.9)	(155.2)	13.3
Gross profit	**780.7**	925.4	(144.7)	(15.6)
Exploration expenses	**172.8**	141.1	31.7	22.5
Operating profit	**506.7**	709.3	(202.6)	(28.6)
EBITDA[3]	**915.1**	1,060.1	(145.0)	(13.7)
Income tax expense including mining rights	**134.0**	180.7	(46.7)	(25.8)
Profit for the year	**350.0**	560.8	(210.8)	(37.6)
Profit for the year, excluding post-tax Silverstream effects	**339.5**	481.2	(141.7)	(29.4)
Basic and diluted earnings per share (US$/share)[4]	**0.475**	0.761	(0.286)	(37.6)
Basic and diluted earnings per share, excluding post-tax Silverstream effects (US$/share)	**0.461**	0.653	(0.192)	(29.4)

1 Cash and other liquid funds are disclosed in note 30(c) to the financial statements.
2 Adjusted revenue is revenue as disclosed in the income statement adjusted to exclude treatment and refining charges and gold, lead and zinc hedging.
3 Earnings before interest, taxes, depreciation and amortisation (EBITDA) is calculated as gross profit plus depreciation less administrative, selling and exploration expenses.
4 The weighted average number of ordinary shares was 736,893,589 for 2018 and 2017. See note 17 in the consolidated financial statements.

FINANCIAL REVIEW CONTINUED

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

PRECIOUS METAL PRICES

In 2018, the average realised silver price decreased by 8.3% from US$16.9 per ounce in 2017 to US$15.5 per ounce in 2018. In addition, average realised lead and zinc prices decreased 7.4% and 5.7% year-on-year, to US$0.99 and US$1.28 per pound, respectively. The average realised gold price remained broadly stable at US$1,269.1 per ounce (2017: US$1,267.4).

HEDGING

In the second half of 2014, Fresnillo plc initiated a one-off hedging programme to protect the value of the investment made in the Penmont acquisition. The hedging programme was executed for a total volume of 1,559,689 ounces of gold with monthly settlements until December 2019.

The table below illustrates the expired structures and the outstanding hedged position as of 31 December 2018.

Concept	2018	2017	2016	2015	2014	As of 31 December 2018*
Weighted floor (US$/oz)	1,100	1,100	1,100	1,100	1,100	1,100
Weighted cap (US$/oz)	1,423	1,424	1,438	1,431	1,440	1,424
Expired volume (oz)	366,432	324,780	220,152	266,760	35,413	–
Gain recognised in income	–	–	48,158	1,023,580	–	–
Total outstanding volume (oz)						346,152

* Monthly settlements through December 2019.

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

MX$/US$ EXCHANGE RATE

The average spot Mexican peso/US dollar exchange rate devalued by 1.6%, from $18.94 per US dollar in 2017 to $19.24 per US dollar in 2018. This resulted in a favourable effect estimated at US$6.7 million on the Group's production costs, as costs denominated in Mexican pesos (approximately 45% of total costs) were lower when converted to US dollars.

HEDGING

As previously reported, in 2016 Fresnillo plc decided to suspend its Mexican peso exchange rate hedging programme to hedge payment of certain peso denominated production costs. However, the Group has continued to enter 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). The aggregate effect on income in the year was a loss of US$321,873.

COST INFLATION

In 2018, there was a cost inflation of 2.6% net of the 1.6% average devaluation of the Mexican peso against the US dollar. The main components of our cost inflation basket are listed below:

LABOUR

Unionised employees received on average a 7.0% increase in wages in Mexican pesos, and administrative employees at the mines received a 5.5% increase; when converted to US dollars, the weighted average labour inflation was 4.5%.

ENERGY

ELECTRICITY

The Group's weighted average cost of electricity decreased by 6.4% from 7.6 US cents per kW in 2017 to 7.1 US cents per kW in 2018. This decrease was mainly due to the lower average generating cost of the Comisión Federal de Electricidad (CFE), the national utility.

DIESEL

The weighted average cost of diesel in US dollars increased 7.7% to 82.4 US cents per litre in 2018, compared to 76.5 US cents per litre in 2017.

OPERATING MATERIALS

	Year over year change in unit price %
Steel balls for milling	5.5
Other reagents	5.2
Sodium cyanide	1.1
Lubricants	0.9
Explosives	0.2
Tyres	(0.6)
Steel for drilling	(1.1)
Weighted average of all operating materials	**1.4**

Unit prices of the majority of operating materials remained broadly stable in US dollar terms, with the exception being the steel balls for milling and other reagents, which experienced year-on-year inflation of over 5%. However, this was partly offset by the decrease in the unit price of tyres and steel for drilling. As a result, the weighted average unit prices of all operating materials increased by 1.4% over the year. There has been no significant impact on the unit cost of operating materials from the devaluation of the Mexican peso/US dollar exchange rate as the majority of these items are dollar-denominated.

CONTRACTORS

Agreements are signed individually with each contractor company, and include specific terms and conditions that cover not only labour, but also operating materials, equipment and maintenance, amongst others. Contractor costs are mainly denominated in Mexican pesos and are an important component of our total production costs. In 2018, increases granted to contractors, whose agreements were due for review during the period, resulted in a weighted average increase of 2.9% in US dollars.

MAINTENANCE

Unit prices of spare parts for maintenance remained broadly unchanged on average in US dollar terms (0.7% increase).

OTHERS

Other cost components include freight, which increased by an estimated 7.7% in US dollars, partially offset by a 2.7% decrease in insurance costs. The remaining cost inflation components experienced average inflation of 1.8% in US dollars over 2017.

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

REVENUE

CONSOLIDATED REVENUE[1] (US$ MILLIONS)

	2018 US$ million	2017 US$ million	Amount US$ million	Change %
Adjusted revenue[1]	**2,243.4**	2,233.2	10.2	0.5
Gold, lead and zinc hedging	**1.6**	0.0	1.6	100
Treatment and refining charges	**(141.2)**	(139.9)	(1.3)	0.9
Total revenue	**2,103.8**	**2,093.3**	**10.5**	**0.5**

Adjusted revenue increased by US$10.5 million as a result of the increase in volumes of silver, lead and zinc sold, partially offset by the lower prices of these same metals. Total revenue remained broadly unchanged at US$2,103.8 million.

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

FINANCIAL REVIEW CONTINUED

ADJUSTED REVENUE[1] BY METAL (US$ MILLION)

	2018		2017					
	US$ million	%	US$ million	%	Volume Variance US$ million	Price Variance US$ million	Total US$ million	%
Silver	**815.5**	**36.3**	844.7	37.8	51.8	(81.0)	(29.2)	(3.5)
Gold	**1,118.5**	**49.9**	1,125.3	50.4	(8.2)	1.4	(6.8)	(0.6)
Lead	**105.6**	**4.7**	101.8	4.6	11.7	(7.9)	3.8	3.7
Zinc	**203.9**	**9.1**	161.4	7.2	53.1	(10.6)	42.5	26.3
Total adjusted revenue	**2,243.4**	**100.0**	**2,233.2**	**100.0**	**108.3**	**(98.2)**	**10.2**	**0.5**

The higher volumes of silver sold resulted from the first complete year of San Julián (Disseminated Ore Body) and the increased production at Herradura and Ciénega, while the higher sales of lead and zinc were mainly driven by the contribution of San Julián (Disseminated Ore Body) and the increased volumes of base metals at depth in the Saucito mine. These favourable effects, net of the lower volume of gold sold, resulted in a positive impact on revenue of US$108.3 million. This was offset by a US$98.2 million negative effect primarily resulting from the lower silver, lead and zinc prices.

The contribution of gold to Adjusted revenue decreased slightly from 50.4% in 2017 to 49.9% in 2018, reflecting the expected lower volumes of gold produced and sold, while silver's contribution to Adjusted revenue decreased to 36.3% as the increased volumes of silver sold were more than offset by the lower price. As expected, the higher content of base metals at certain mines is changing the relative proportion of Adjusted revenue, with zinc increasing its contribution from 7.2% in 2017 to 9.1% in 2018, and lead representing 4.7%.

Herradura remained the main contributor to Adjusted revenue, primarily due to the higher volumes of silver sold during the year. Saucito's and Fresnillo's contribution declined from 22.6% and 18.9% in 2017 to 21.9% and 16.9% respectively in 2018, reflecting the decrease in silver ore grade and a lower silver price. The San Julián mine continued to increase its contribution to the Group's Adjusted revenue from 12.9% in 2017 to 16.4% in 2018. Noche Buena's contribution decreased to 9.4%, in line with the 1.9% decline in its Adjusted revenue, while Ciénega maintained its contribution to the Group's Adjusted revenue at 8.3%.

The relative contribution to Adjusted silver revenue continued to change in 2018 with the San Julián mine representing 24.8% (2017: 18.6%), and the contributions of Saucito and Fresnillo decreasing as expected due to an expanded silver asset base.

The start-up of San Julián (Disseminated Ore Body) also affected the relative contribution to zinc adjusted revenues. This new mine represented 25.7% of total zinc Adjusted revenues in 2018, helping to increase zinc's relative contribution to the Group's Adjusted revenues.

The contribution by metal and by mine to Adjusted revenues is expected to change further in the future, as new projects are incorporated into the Group's operations and as precious metal prices fluctuate.

ADJUSTED REVENUE BY METAL

	2018	2017
Gold	**49.9%**	50.4%
Silver	**36.3%**	37.8%
Zinc	**9.1%**	7.2%
Lead	**4.7%**	4.6%
Total	**100.0%**	**100.0%**

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

ADJUSTED REVENUE[1] BY MINE

	2018		2017	
Herradura	608.2	27.1%	606.8	27.2%
Saucito	492.0	21.9%	504.2	22.6%
Fresnillo	378.3	16.9%	421.3	18.9%
Noche Buena	211.4	9.4%	215.5	9.6%
San Julián (Disseminated Ore Body)	187.4	8.4%	84.8	3.8%
Ciénega	187.1	8.3%	198.3	8.9%
San Julián (Veins)	179.1	8.0%	202.3	9.1%
Total	**2,243.4**	**100%**	**2,045.0**	**100%**

VOLUMES OF METAL SOLD

	2018	% participation of each mine	2017	% participation of each mine	% change
Silver (koz)					
Saucito	17,968	34.6	19,608	39.4	(8.4)
Fresnillo	13,890	26.8	15,145	30.4	(8.3)
San Julián (Veins)	5,255	10.1	5,777	11.6	(9.0)
San Julián (Disseminated Ore Body)	7,806	15.0	3,853	7.7	102.6
Ciénega	5,459	10.5	4,815	9.7	13.4
Herradura	1,503	2.9	570	1.1	163.7
Noche Buena	7	0.0	7	0.0	–
Total silver (koz)	51,888	100	49,775	100	4.2
Gold (koz)					
Herradura	460	52.3	471	53.0	(2.3)
Noche Buena	167	19.0	170	19.1	(1.8)
San Julián (Veins)	77	8.8	81	9.2	(4.9)
Saucito	74	8.4	64	7.2	15.6
Ciénega	63	7.2	67	7.5	(6.0)
Fresnillo	37	4.2	33	3.8	12.1
San Julián (Disseminated Ore Body)	1	0.1	1	0.1	–
Total gold (koz)	879	100	888	100	(1.0)
Lead (t)					
Fresnillo	18,097	37.2	18,743	42.8	(3.4)
Saucito	20,362	41.9	16,081	36.7	26.6
Ciénega	4,385	9.0	5,828	13.3	(24.7)
San Julián (Disseminated Ore Body)	5,770	11.9	3,183	7.3	81.3
Total lead (t)	48,614	100	43,834	100	10.9
Zinc (t)					
Fresnillo	26,248	36.3	25,442	46.6	3.2
Saucito	22,599	31.3	16,815	30.8	34.4
San Julián (Disseminated Ore Body)	18,538	25.6	6,386	11.7	190.3
Ciénega	4,887	6.8	5,950	10.9	(17.9)
Total zinc (t)	72,272	100	54,594	100	32.4

FINANCIAL REVIEW CONTINUED

HEDGING

In 2018 we entered into a series of derivative contracts to hedge part of our lead and zinc by-product production through collar structures. The chart below illustrates the expired hedging structures, their impact on income in 2018 and the outstanding hedged position as of 31 December.

	As of 31 December 2018	
Concept	Zinc	Lead
Weighted floor (US$/tonne)	2,591	2,370
Weighted cap (US$/tonne)	3,716	2,735
Expired volume (tonne)	21,168	5,760
Gain/Loss (US$ dollars)	602,101	980,141
Total outstanding volume (tonne)	0	0

TREATMENT AND REFINING CHARGES

Treatment and refining charges[1] are reviewed annually using international benchmarks. Treatment charges per tonne of lead and zinc concentrate decreased in dollar terms by 13.3% and 7.5%, respectively, compared to 2017, while silver refining charges declined by 7.4% over the year. This lower charge per tonne was offset by the increase in volumes of lead and zinc concentrates with high silver contents mainly shipped from Saucito and San Julián (Disseminated Ore Body) to Met-Mex, as well as the volumes of precipitates sold from the Pyrites plant. As a result, treatment and refining charges set out in the income statement in absolute terms increased by only 0.9% over 2017.

COST OF SALES

Concept	2018 US$ million	2017 US$ million	Amount US$ million	Change %
Adjusted production costs[2]	**952.0**	769.2	182.8	23.8
Depreciation	**411.8**	367.6	44.2	12.0
Profit sharing	**12.5**	16.5	(4.0)	(24.1)
Change in work in progress and others	**(53.6)**	16.9	(70.4)	N/A
Others	**0.4**	(2.3)	2.7	N/A
Cost of sales	**1,323.1**	1,167.9	155.2	13.3

Cost of sales increased 13.3% to US$1,323.1 million in 2018. The US$155.2 million increase is explained by the following combination of factors:

- An increase in Adjusted production costs (+US$182.8 million). This was primarily due to: i) higher stripping costs at Herradura (+US$82.6 million); ii) additional Adjusted production costs associated with the first complete year of operations at San Julián (Disseminated Ore Body) (+US$49.6 million); iii) the decrease in volume of ore processed from development works at Saucito, the costs of which were capitalised (+US$31.2 million); iv) cost inflation (+US$26.4 million); and v) the reassessment in the year of the number of mining components at Herradura from two to one, effective from July 2019, which increased stripping costs expensed (+US$21.9 million) (see page 62). The increase was partly offset by the lower volume of ore processed mainly at Herradura (–US$19.6 million); and the favourable effect of the devaluation of the Mexican peso vs. US dollar and others (–US$9.3 million).
- Depreciation (+US$44.2 million). This is mainly due to the full year of operation at San Julián and the increased depreciation at the Saucito mine resulting from the start up of the Pyrites plant and the amortisation of capitalised mining works.

These negative effects were partly offset by:

- The increase in change in work in progress (–US$70.4 million). Change in work in progress was –US$53.6 million in 2018 as a result of the re-assessment of the gold content in the leaching pads at Herradura (see notes 2c and 5 in the financial information). This compared favourably to the US$16.9 million costs recorded in 2017 as a result of the decrease in inventories in the leaching pads at Herradura.
- Others –US$1.3 million.

COST PER TONNE, CASH COST PER OUNCE AND ALL-IN SUSTAINING COST (AISC)

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

1 Treatment and refining charges include the cost of treatment and refining as well as the margin charged by the refiner.
2 Adjusted production costs is calculated as total production costs less depreciation, profit sharing and the effects of exchange rate hedging.

Cost per tonne		2018	2017	Change %
Fresnillo	US$/tonne milled	**49.4**	47.5	4.1
Saucito	US$/tonne milled	**60.1**	47.6	26.1
Ciénega	US$/tonne milled	**70.8**	66.5	6.5
San Julián (Veins)	US$/tonne milled	**57.4**	52.1	10.1
San Julián (Disseminated Ore Body)[3]	US$/tonne milled	**36.2**	31.9	13.6
Herradura	US$/tonne deposited	**13.2**	8.0	65.8
Herradura	US$/tonne hauled	**3.1**	2.6	17.0
Noche Buena	US$/tonne deposited	**6.8**	7.5	(9.4)
Noche Buena	US$/tonne hauled	**2.1**	1.7	24.2

Explanations regarding changes in cost per tonne by mine are covered in the Review of Operations section, on pages 50 to 65.

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

Cash cost per ounce		2018	2017	Change %
Fresnillo	US$ per silver ounce	**0.5**	0.7	(35.2)
Saucito	US$ per silver ounce	**1.0**	1.5	(35.6)
Ciénega	US$ per gold ounce	**25.9**	(163.7)	N/A
San Julián (Veins)	US$ per silver ounce	**(3.6)**	(4.3)	(15.4)
San Julián (Disseminated Ore Body)[3]	US$ per silver ounce	**5.7**	3.9	45.1
Herradura	US$ per gold ounce	**504.0**	492.9	2.3
Noche Buena	US$ per gold ounce	**735.4**	793.5	(7.3)

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

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

FRESNILLO: US$0.46/OZ AG (2018) VERSUS US$0.71/OZ AG (2017), (-35.2%)

Cash cost per ounce decreased, principally due to higher by-product credits (-US$0.97/oz) and lower treatment charges (-US$0.24/oz), partially offset by the lower silver ore grade (+US$0.71/oz) and the higher cost per tonne (+US$0.28/oz) (see page 52).

SAUCITO: US$0.97/OZ AG (2018) VERSUS US$1.50/OZ AG (2017), (-35.6%)

The decrease was driven by the higher by-product credits per ounce of silver resulting from the increased volume of gold sold (-US$2.29/oz), partially offset by the higher cost per tonne (+US$1.21/oz) (see page 55) and the lower silver grade (+US$0.55/oz).

CIÉNEGA: US$25.88/OZ AU (2018) VERSUS – US$163.74/OZ AU (2017), (N/A)

The increase in cash cost was primarily due to: the expected decrease in gold grade (+US$115.01/oz), the higher cost per tonne (+US$42.32/oz) (see page 61) and higher treatment and refining charges (+US$6.78/oz). These unfavourable factors were mitigated by higher by-product credits per gold ounce due to the lower volume of gold produced (-US$19.26/oz); and others (-US$3.96/oz).

HERRADURA: US$504.00/OZ AU (2018) VERSUS US$492.86/OZ AU (2017), (+2.3%)

The increase in cash cost resulted from the higher cost per tonne (+US$261.13/oz) (see page 63) and the change from two mining components to one during the year (see page 63) (+US$60.68/oz); mitigated by the higher gold grade (-US$247.39/oz); a favourable inventory valuation effect due to the increase in gold inventories on the leaching pads (-US$34.32/oz); and higher by-product credits per gold ounce due to the increased volume of silver sold, albeit at a lower price (-US$29.75/oz).

NOCHE BUENA: US$735.41/OZ AU (2018) VERSUS US$793.48/OZ AU (2017), (-7.3%)

The decrease in cash cost per ounce was mainly due to the lower cost per tonne (-US$69.41/oz) (see page 65).

SAN JULIÁN VEINS: -US$3.64/OZ AG (2018) VERSUS -US$4.30/OZ AG (2017), (+15.4%)

The increase in cash cost was explained mainly by the lower silver ore grade (+US$1.29/oz) and higher cost per tonne (+US$0.04/oz) (see page 58), mitigated by lower by-product credits due to the decline in volume of gold sold (-US$0.67/oz).

SAN JULIÁN DISSEMINATED ORE BODY

As operations commenced in July 2017, year-on-year figures are not considered to be representative.

FINANCIAL REVIEW CONTINUED

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

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

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

ALL-IN SUSTAINING COST

All-in sustaining cost per ounce		2018	2017	Change %
Fresnillo	US$ per silver ounce	**8.92**	8.20	8.7
Saucito	US$ per silver ounce	**8.64**	7.09	21.9
Ciénega	US$ per gold ounce	**1,413.87**	691.43	104.5
San Julián (Veins)	US$ per silver ounce	**5.05**	0.83	>100.0
San Julián (Disseminated Ore Body)[1]	US$ per silver ounce	**10.01**	7.88	26.9
Herradura	US$ per gold ounce	**806.73**	807.66	(0.1)
Noche Buena	US$ per gold ounce	**1,029.68**	870.05	18.3

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

Fresnillo: Higher, mainly due to capitalised mine development mitigated by lower sustaining capex.

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

Ciénega: Higher, primarily due to an increase in sustaining capex, higher capitalised mine development and a higher cash cost.

Herradura: Broadly stable, mainly due to the decrease in capitalised stripping costs following the reassessment of the number of mining components from two to one (see pages 62 and 63); offset by higher cash cost detailed on page 91.

Noche Buena: Higher, driven by the higher capitalised stripping, mitigated by the lower cash cost detailed on page 91.

San Julián:
San Julián (Veins): Higher, mainly due to increased sustaining capex and higher capitalised mine development.

San Julián (Disseminated Ore Body): As operations commenced in July 2017, there are no comparable year-on-year figures.

GROSS PROFIT

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

Total gross profit, net of hedging gains and losses, decreased by 15.6% to US$780.7 million in 2018.

The US$144.7 million decrease in gross profit was mainly explained by: i) lower silver, lead and zinc prices (-US$97.7 million); ii) the higher stripping ratio at Herradura (-US$82.6 million); iii) the 17.5% decrease in volume of ore deposited at the Herradura heap leach (-US$64.8 million); iv) higher depreciation (-US$44.2 million); v) the decrease in volume of ore processed from development at Saucito, the costs of which were capitalised (-US$31.2 million); vi) cost inflation (-US$26.4 million); vii) the adverse effect of recognising the entirety of the stripping in the income statement in 2H 2018 following the change from two components to one at Herradura, as opposed to partially capitalising it (see pages 62 and 63) (-US$21.8 million); viii) lower production at San Julián (Veins) (-US$19.5 million); and ix) others (-US$7.0 million). These factors were partly mitigated by: i) the re-assessment of gold inventories in the leaching pads at Herradura (+US$94.4 million); ii) the higher ore grade from the inventory and improved speed of recovery at Herradura (+US$68.4 million); iii) increased production at San Julián (Disseminated Ore Body) resulting from its first complete year of operations (+US$67.1 million); and iv) the higher recovery rate at Saucito (+US$20.7 million).

As reflected in the table below, Herradura remained the largest contributor to the Group's consolidated gross profit, although there was a slight decrease in its gross profit when compared to 2017. Gross profit at Saucito and Fresnillo declined by 22.1% and 24.5% over 2017 respectively, decreasing its contribution to the consolidated gross profit. San Julián remained the fourth largest contributor. Gross profit at Noche Buena increased 18.1% year on year, providing 8.7% of total gross profit, while Ciénega's share of the Group's total gross profit decreased to 4.1%.

CONTRIBUTION BY MINE TO CONSOLIDATED GROSS PROFIT, EXCLUDING HEDGING GAINS AND LOSSES

	2018 US$ million	%	2017 US$ million	%	Change Amount US$ million	Change %
Herradura	**278.4**	**36.2**	292.8	32.0	(14.4)	(4.9)
Saucito	**177.8**	**23.1**	228.2	24.9	(50.4)	(22.1)
Fresnillo	**144.9**	**18.9**	191.6	20.9	(46.7)	(24.4)
San Julián	**68.4**	**8.9**	93.1	10.1	(24.7)	(26.5)
Noche Buena	**67.2**	**8.7**	56.9	6.2	10.3	18.1
Ciénega	**31.9**	**4.2**	53.8	5.9	(21.9)	(40.7)
Total for operating mines	**768.6**	**100**	**916.4**	**100**	**(147.8)**	**(16.1)**
Metal hedging and other subsidiaries	**12.1**		9.0		3.1	34.4
Total Fresnillo plc	**780.7**		**925.4**		**144.7**	**(15.6)**

ADMINISTRATIVE AND CORPORATE EXPENSES

Administrative expenses increased 21.0% from US$42.3 million to US$51.2 million, due mainly to an increase in services provided by consultants (legal, safety, taxes, geological, indigenous community consultation, amongst others).

Corporate expenses increased 5.7% over 2017 to US$32.1 million mainly as a result of increased corporate services provided by Servicios Industriales Peñoles, S.A.B de C.V., due to a larger number of mines and projects, and to a lesser extent, a 2.0% cost inflation.

EXPLORATION EXPENSES

Business unit/project (US$ millions)	Exploration expenses 2018	Exploration expenses 2017	Capitalised expenses 2018	Capitalised expenses 2017
Ciénega	**9.9**	10.8	**–**	–
Fresnillo	**15.6**	15.8	**–**	–
Herradura	**14.9**	19.1	**–**	–
Saucito	**16.3**	11.7	**–**	–
Noche Buena	**2.0**	6.1	**–**	–
San Ramón	**2.4**	4.4	**–**	–
San Julián	**12.2**	8.4	**–**	–
Orisyvo	**5.2**	1.9	**–**	–
Centauro Deep	**5.4**	2.7	**1.7**	0.1
Guanajuato	**16.9**	7.9	**1.1**	0.8
Juanicipio	**0.0**	0.0	**4.8**	2.3
Others	**72.0**	52.3	**0.8**	1.0
Total	**172.8**	**141.1**	**8.4**	**4.2**

Exploration expenses increased as planned by 22.5% from US$141.1 million in 2017 to US$172.8 in 2018, due to intensified exploration activities, mainly around our mining districts and advanced exploration projects (see pages 45 to 48). An additional US$8.4 million was capitalised, mainly relating to exploration expenses at the Juanicipio project, Centauro Deep and Guanajuato. As a result, risk capital invested in exploration totalled US$181.2 million in 2018, a 24.7% increase over 2017. In 2019, total invested in exploration is expected to be approximately US$140 million, of which US$10 million is expected to be capitalised.

FINANCIAL REVIEW CONTINUED

EBITDA

	2018 US$ million	2017 US$ million	Amount US$ million	Change%
Gross profit	**780.7**	925.4	(144.7)	(15.6)
+ Depreciation	**411.8**	367.6	44.2	12.0
– Administrative expenses	**(83.3)**	(72.7)	(10.6)	14.6
– Exploration expenses	**(172.8)**	(141.1)	(31.7)	22.5
– Selling expenses	**(21.2)**	(19.1)	(2.1)	11.1
EBITDA	**915.1**	1,060.1	(145.0)	(13.7)
EBITDA margin	**43.5**	50.6		

EBITDA is a gauge of the Group's financial performance and a key indicator to measure debt capacity. It is calculated as gross profit plus depreciation, less administrative, selling and exploration expenses. In 2018, EBITDA decreased 13.7% to US$915.1 million mainly due to the lower gross profit. As a result, EBITDA margin expressed as a percentage of revenue decreased, from 50.6% in 2017 to 43.5% in 2018.

OTHER OPERATING INCOME AND EXPENSE

In 2018, a net gain of US$3.3 million was recognised in the income statement. This compared unfavourably to the US$16.8 million net gain recognised in 2017 mainly as a result of the sale of non-strategic mining claims to Argonaut Gold Inc.

SILVERSTREAM EFFECTS

The Silverstream contract is accounted for as a derivative financial instrument carried at fair value. The total revaluation effect recorded in the 2018 income statement was a gain of US$15.0 million. This includes negative non-cash revaluation effects of US$22.5 million mainly as a result of the lower forward price of silver and a higher discount rate used, mitigated by the updating of the Sabinas production plan, which resulted from the updated estimate of reserves and resources. This was more than offset by a US$37.5 million non-cash gain mainly generated by the unwinding of the discounted values. In 2017, a US$113.7 million gain was registered mainly as a result of converting resources into reserves at the Sabinas mine.

Since the IPO, cumulative cash received has been US$629.3 million. The Group expects that further unrealised gains or losses will be taken to the income statement in accordance with silver price cyclicality or changes in the variables considered in valuing this contract. Further information related to the Silverstream contract is provided in the balance sheet section on page 96 and in notes 13 and 29 to the consolidated financial statements.

FINANCE COSTS

Finance costs reflected the interest on the US$800 million principal amount of 5.5% Senior Notes, net of interest received. In 2018 finance costs decreased 21.8%, from US$34.0 million to US$29.6 million, mainly due to the decrease in borrowing costs capitalised in 2018 compared to 2017.

In 2018, following the adoption of IFRS 9, Financial Instruments, the effects of the mark-to-market time value of the outstanding gold hedging programme are recognised in other comprehensive income, rather than in income as in 2017 (see note 2c in the financial information). This caused a favourable effect as a US$41.1 million loss was recognised in 2017.

FOREIGN EXCHANGE

A foreign exchange loss of US$8.1 million was recorded as a result of the realised transactions in the year. This compared negatively against the US$6.4 million foreign exchange loss recognised in 2017.

The Group 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 2018, the total EUR, SEK and CAD outstanding net forward position was EUR 12.67 million, CAD 0.0 and SEK 13.29 million with maturity dates from March through September 2019. Volumes that expired during 2018 were EUR 26.41 million with a weighted average strike of 1.2024 USD/EUR, CAD 1.10 million with a weighted average strike of 1.2847 CAD/USD and SEK 69.70 million with a weighted average strike of 8.5762 SEK/USD. The aggregate effect on income in the year was a loss of US$321,873.

TAXATION

Corporate income tax expense decreased 21.4% from US$153.5 million in 2017 to US$120.6 million in 2018, reflecting the decline in profit before income tax.

The effective tax rate, excluding the special mining rights, was 24.9%, which was below the 30% statutory tax rate. This was mainly due to the inflationary uplift of the tax base of assets and liabilities, together with the tax credit related to the special tax on diesel. Including the effect of the special mining rights, the effective tax rate was 27.7% in 2018.

The effective tax rate in 2017 was lower (20.7% in 2017 vs. 24.9% in 2018) mainly because in 2017 there was a 4.5% revaluation of the Mexican peso which had an important impact on the tax value of assets and liabilities that are denominated in Mexican pesos; together with a higher inflation rate which impacted the inflationary uplift of the tax base of assets and liabilities (See note 10 to the financial statements).

PROFIT FOR THE YEAR

Profit for the year decreased from US$560.8 million to US$350.0 million in 2018, a 37.6% decline year-on-year as a result of the factors described above.

Excluding the effects of the Silverstream contract, profit for the year decreased from US$481.2 million to US$339.5 million.

CASH FLOW

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

	2018 US$ million	2017 US$ million	Amount US$ million	Change %
Cash generated by operations before changes in working capital	**930.7**	1,073.7	(143.0)	(13.3)
(Increase)/Decrease in working capital	**(127.9)**	(2.9)	(125.0)	>100
Taxes and employee profit sharing paid	**(214.4)**	(309.3)	94.9	(30.7)
Net cash from operating activities	**588.4**	761.5	(173.2)	(22.7)
Silverstream contract	**36.3**	43.3	(7.0)	(16.3)
Purchase of property, plant & equipment	**(668.7)**	(604.8)	(63.9)	10.6
Dividends paid to shareholders of the Company	**(298.1)**	(236.6)	(61.5)	26.0
Net interest (paid)	**(15.7)**	(21.0)	5.3	(25.2)
Net increase in cash during the period after foreign exchange differences	**(335.2)**	(16.0)	(319.4)	>100
Cash and other liquid funds at 31 December[1]	**560.8**	896.0	(335.3)	(37.4)

1 Cash and other liquid funds are disclosed in note 30(c) to the financial statements.

Cash generated by operations before changes in working capital decreased by 13.3% to US$930.7 million, mainly as a result of the lower profits generated in the year. Working capital increased US$127.9 million mainly due to increased ore inventories in the leaching pads at Herradura (US$63.9 million); higher trade and other receivables resulting from an increase in VAT receivables (US$60.4 million); and an increase in prepayments and other assets (US$11.8 million). This increase in working capital was partly offset by an increase in trade and other payables (US$8.2 million).

Taxes and employee profit sharing paid decreased 30.7% over 2017 to US$214.4 million.

As a result of the above factors, net cash from operating activities decreased 22.7% from US$761.5 million in 2017 to US$588.4 million in 2018.

Other sources of cash were the proceeds of the Silverstream contract of US$36.3 million and capital contributions from minority shareholders in subsidiaries of US$23.6 million.

FINANCIAL REVIEW CONTINUED

The funds mentioned on the previous page were mainly used to purchase property, plant and equipment for a total of US$668.7 million, a 10.6% increase over 2017. Capital expenditures for 2018 are further described below:

PURCHASE OF PROPERTY, PLANT AND EQUIPMENT

	2018 US$ million	
Fresnillo mine	121.1	Mine development and purchase of in-mine equipment, deepening of the San Carlos shaft and the construction of the second phase of the Pyrites plant
Saucito mine	148.4	Development, replacement of in-mine equipment, construction of the Pyrites plant and deepening of the Jarillas shaft
Herradura mine	116.0	Stripping activities, sustaining capex, construction of second line of the DLP and land acquisition
San Julián mine	83.1	Mine development, purchase of in-mine equipment and construction of the third tailing dam
Ciénega mine	72.9	Development, replacement of in-mine equipment, construction of tailings dam and installation of high compact thickener
Noche Buena mine	50.2	Mining works and sustaining capex
Juanicipio project	46.9	Exploration expenditure and construction of ramps
Other	30.1	
Total purchase of property, plant and equipment	**668.7**	

Dividends paid to shareholders of the Group in 2018 totalled US$298.1 million, a 26.0% increase over 2017, in line with our dividend policy which includes a consideration of profits generated in the period. The 2018 payment included the final 2017 dividend of US$219.4 million and the 2018 interim dividend paid in September of US$78.8 million.

Net interest of US$15.7 million was paid, mainly reflecting the interest paid in relation with the issuance of the US$800 million principal amount of 5.500% Senior Notes.

The sources and uses of funds described above resulted in a decrease in net cash of US$335.2 million (net decrease in cash and other liquid assets), which combined with the US$896.0 million balance at the beginning of the year resulted in cash and other liquid assets of US$560.8 million at the end of 2018.

BALANCE SHEET

Fresnillo plc continued to maintain a solid financial position with cash and other liquid funds[1] of US$560.8 million as of 31 December 2018, albeit decreasing 37.4% versus December 2017, as explained above.

Inventories increased 23.6% to US$335.0 million mainly as a result of the increase in inventories of gold on the leaching pads at Herradura.

Trade and other receivables increased 14.9% to US$462.0 million mainly as a result of the increase in value added tax recoverable.

The change in the value of the Silverstream derivative from US$538.9 million at the beginning of the year to US$519.1 million as of 31 December 2018 reflects proceeds of US$34.8 million corresponding to 2018 (US$31.4 million in cash and US$3.4 million in receivables) and the Silverstream revaluation effect in the income statement of US$15.0 million.

The net book value of property, plant and equipment was US$2,693.1 million at year end, representing a 10.0% increase over 2017. The US$244.5 million increase was mainly due to the advancement in the development projects; capitalised development works; purchase of additional in-mine equipment; and the construction of leaching pads at Herradura and Noche Buena.

The Group's total equity was US$3,128.3 million as of 31 December 2018, a 2.0% increase over 2017. This was mainly explained by the increase in retained earnings, reflecting the 2017 profit and the net unrealised gains on cash flow hedges.

1 Cash and other liquid funds are disclosed in note 30(c) to the financial statements.

DIVIDENDS

Based on the Group's 2018 performance, the Directors have recommended a final dividend of 16.7 US cents per Ordinary Share, which will be paid on 24 May 2019 to shareholders on the register on 26 April 2019. The dividend will be paid in UK pounds sterling unless shareholders elect to be paid in US dollars. This is in addition to the interim dividend of 10.7 US cents per share amounting to US$78.8 million.

The corporate income tax reform introduced in Mexico in 2014 created a withholding tax obligation of 10% relating to the payment of dividends, including to foreign nationals.

Historically the Company has been making dividend payments out of retained earnings generated before the tax reform came into force and no withholding tax has therefore been applicable. We expect that dividend payments relating to 2019 and future years will attract the withholding obligation. However, foreign shareholders may be able to recover such tax depending on their tax residence and the existence of double taxation agreements.

GOVERNMENT PAYMENT TRANSPARENCY

We aim to be transparent about our payments to governments.

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

The key activity of the year was evaluating our tax position and publishing a statement on our website to clarify our approach to risk management and governance arrangements in relation to UK taxation, in accordance with Schedule 19 of the Finance Act 2016.

PERFORMANCE

Please see the Government Payments Report on our website.

STRONG GOVERNANCE

FRESNILLO'S APPROACH TO GOVERNANCE

The Board takes corporate governance seriously and considers its responsibilities under the UK Corporate Governance Code (the 'Code') with care. With nearly 75% of its share capital owned by Peñoles, it is important to understand Fresnillo's corporate governance in the context of the Company's relationship with its parent company. The Board considers this to be a strength rather than a threat because it brings the shareholder perspective into the boardroom and creates an additional level of accountability for the executive team compared to other listed companies. The framework for corporate governance within Fresnillo plc therefore has three features which are relatively unusual for UK public companies; in particular:

1. **A fully non-executive Board:**
There are no Executive Directors on the Board; however, the Fresnillo Board operates differently from the traditional UK boards which usually have both non-executive and executive directors. The non-independent and independent Directors on the Board engage with the business of the Board from two different perspectives which enables two levels of scrutiny to be applied to the Board's decision-making.

2. **A fit for purpose Remuneration Committee:** The membership of the Remuneration Committee is made up of Non-executive Directors (the majority of whom are independent) who are able to bring the following perspectives to the working of the Remuneration Committee:
   - an understanding of shareholder expectations;
   - an understanding of the evolving remuneration expectations of investors on the London Stock Exchange; and
   - an understanding of the general approaches to remuneration within the Mexican market.

   Having the Chairman of the Company, who is non-executive but not independent, as a member of the Remuneration Committee, enhances the Committee's collective ability to take these perspectives into account in its discussions.

3. **Strong governance over related party matters:** Fresnillo plc derives synergistic benefits from services provided by Peñoles. Being a part of a group which has common requirements across a number of service areas, provides opportunities for resources to be shared efficiently from a cost point of view. The key elements of the Board's approach to ensuring that the Company's commercial relationship with its parent company and other related parties are independent and maintained on an arms length basis are described later in this section. The Audit Committee regularly reviews these arrangements to ensure that they provide the intended benefits to the Company in a transparent and controlled manner.

CHAIRMAN'S GOVERNANCE LETTER

DEAR SHAREHOLDER

We passed the tenth anniversary of Fresnillo's listing on the London Stock Exchange this year and continued to reflect on the standards of governance that are necessary and appropriate to a company of the size and nature of Fresnillo. We continued the dialogue with our largest independent shareholders about the standards of corporate governance that are the most appropriate for our Group. This is a subject about which we remain as attentive as ever and I would like to reiterate that we are truly committed to having the highest standards of corporate governance considering the nature of the company that Fresnillo is.

At the 2018 AGM, Guy Wilson, who was an independent Non-executive Director and Chairman of our Audit Committee retired from the Board having served on the Board for ten years. I would like to express my appreciation to Guy for the commendable work that he did in establishing the Audit Committee as a thorough and independent overseer of our financial reporting, risk and internal control frameworks. Alberto Tiburcio has taken over as Chairman of the Audit Committee and is doing an excellent job in ensuring that the Audit Committee continues to progress in its important role.

We were pleased to welcome Georgina Kessel to the Board as an independent Non-executive Director following her election at the 2018 AGM. For the second year running, we were able to appoint a new female member with superb credentials to our Board, maintaining our policy of making appointments to the Board on the basis of merit whilst, at the same time, continuing to broaden the gender diversity of the Board.

In the first half of 2018, our Senior Independent Director, Charles Jacobs, supported by members of our senior management team, led a number of conversations with institutional investors and their representative bodies regarding our Board composition and membership, particularly focusing on the time and commitment of our Board members. Notwithstanding this dialogue, it is disappointing that some investors did not share our assessment and chose to vote against the reappointments of certain Directors. We note that those institutions represented a minority of our independent shareholders. We have commented at some length on pages 107 and 108 of this Corporate Governance Report on the basis on which the Nominations Committee and the Board have assessed the current composition, independence and time commitment of the Directors and I hope that shareholders will support the Board's position on this matter. It is not clear at this stage, following the recent change of the Mexican Government, how the political situation in Mexico will impact Fresnillo. It is clear, though, that the Board will benefit from having such a diverse and experienced range of skills and insights around the Board table, enabling it to evaluate the current context and guide the management team going forward. Consequently, we maintain our conviction that the current composition of the Board is the best one, and therefore we will continue to press the case for our shareholders to endorse the appointment of all of our Directors at the 2019 AGM.

In July 2018, the FRC published a new version of the UK Corporate Governance Code which will take effect from 1 January 2019. We have begun considering the implications of this new Code for our own corporate governance arrangements and will comment on this more fully in our 2019 annual report. At this stage, where we are able to comment on provisions of the new Code, we have done so in this annual report.

As ever, my colleagues and I are always willing to discuss our corporate governance arrangements with any shareholder who wishes to engage with us on this topic. If there are any governance matters which shareholders wish to raise, they should contact our London office (the contact details are set out on page 250).

Yours faithfully

Mr Alberto Baillères
Chairman of the Board

KEY GOVERNANCE DEVELOPMENTS IN 2018

STAKEHOLDERS
The Board has begun to consider its engagement with the Group's key stakeholders.

See page 113.

DIVERSITY
A third female member was appointed to the Board in 2018.

See page 117.

INDEPENDENCE
Steps were taken during the year to enhance the independent representation on the Board.

See page 107.

UK CORPORATE GOVERNANCE CODE 2018
During 2018, the Board took steps towards compliance with the 2018 version of the Code.

See page 113.

OVERBOARDING
The Board and management have engaged with shareholders about overboarding concerns in 2018.

See pages 107–108.

BOARD EVALUATION
The Board undertook an internally conducted effectiveness review in 2018.

See page 111.

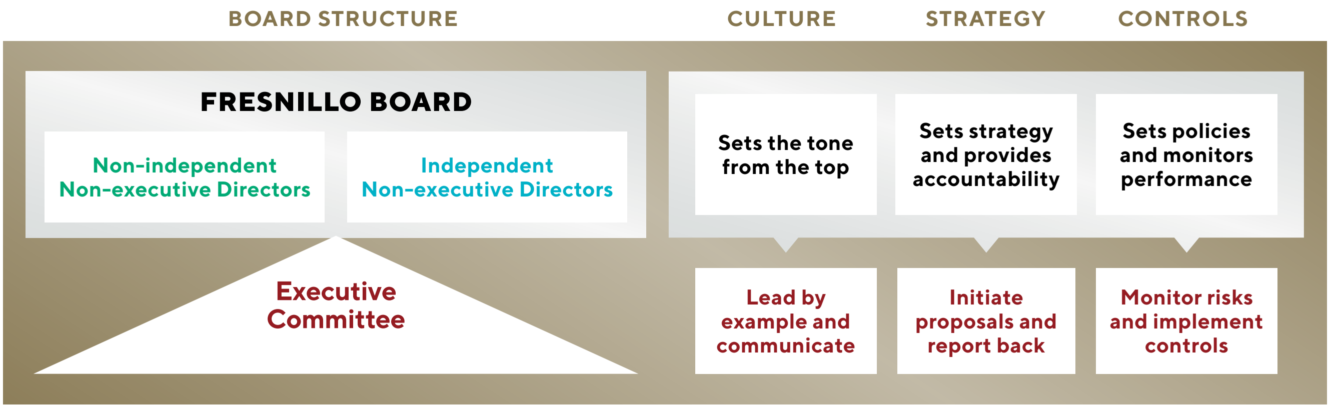
FRESNILLO'S APPROACH TO CORPORATE GOVERNANCE

THE BOARD'S LEADERSHIP ROLE

The Board provides leadership to the Fresnillo Group, setting the key values underpinning the culture by which the Group will continue to operate. The Board supervises the management of the Group's activities, including the implementation of both the Group's long-term plans and commercial strategy.

THE BOARD AND CULTURE

The Corporate Code of Conduct is approved by the Board and sets down its cultural expectations for the activities of all Directors, executives, employees and related third parties (including clients, suppliers and the community) in the conduct of the Company's business. The Corporate Code of Conduct helps to ensure a foundation of values and sets standards for behaviour that encourage an environment of ethics and responsibility for the benefit of the Company's stakeholders. It serves to complement the internal and external regulations already in force and also to establish corrective measures for anyone who fails to comply with the provisions of the Corporate Code of Conduct. It also provides the framework for the Company's compliance with the UK Bribery Act and the Mexican anti-bribery and corruption legislation.



BOARD SCRUTINY AND PROCESS

The Board has a formal schedule of matters reserved for its approval which includes approvals of major expenditure, investments and key policies. The schedule is regularly reviewed to keep it up to date with any regulatory developments. The last review and revision was undertaken in October 2017.

The requirements of the roles of Chairman and of the Chief Executive Officer have been agreed by the Board and are set out in a written Statement of Responsibilities. The composition of the Board has been structured to ensure that no one individual can dominate the decision-making processes of the Board.

The non-independent and independent Directors on the Board engage with the business of the Board from two different perspectives which enables two levels of scrutiny to be applied to the Board's decision-making.

1ST LEVEL OF SCRUTINY

The Executive Committee meets with the non-independent Non-executive Directors to ensure that any reports and proposals are properly evaluated before they are brought to the full Board for discussion and, where appropriate, approval.

2ND LEVEL OF SCRUTINY

The independent Non-executive Directors bring an external perspective to bear when evaluating proposals and conducting the business of the Board.

The different participants therefore contribute to the work of the Board, through its meetings in the following way:

PRE-MEETING

PREPARATION OF THE AGENDA
- CEO/CFO/Company Secretary

PREPARATION OF PAPERS
- Executive Committee members

INTERNAL REVIEW
- Executive Committee members
- Non-independent Non-executive Directors

CIRCULATION
- CEO/CFO (five days before meeting)

DURING MEETINGS

PRESENTATION OF PAPERS AND REPORTS
- Executive Committee members

COMMITTEE REPORTS
- Committee Chairs

APPROVALS

Under Schedule of Matters reserved to the board;

- Full Board

Under Relationship Agreement;

- Independent Non-executive Directors

POST-MEETING

PRESENTATION OF MINUTES
- Company Secretary

IMPLEMENTATION OF BOARD DECISIONS
- Executive Committee members

REPORTING BACK TO THE BOARD
- Executive Committee members

BOARD COMMITTEES

AUDIT COMMITTEE

COMPOSITION:
– All independent Non-executive Directors

KEY CONTRIBUTORS:
Chief Financial Officer, Internal Audit, Risk Manager, Company Secretary, External Auditor

See the Audit Committee Report on pages 119-129.

NOMINATIONS COMMITTEE

COMPOSITION:
– Majority independent Non-executive Directors

KEY CONTRIBUTORS:
Chairman, Chief Executive Officer, Company Secretary

See the Nominations Committee Report on pages 116-118.

REMUNERATION COMMITTEE

COMPOSITION:
– Majority independent Non-executive Directors

KEY CONTRIBUTORS:
Chief Executive Officer, Remuneration Consultants, Company Secretary

See the Remuneration Report on pages 130-142.

HSECR COMMITTEE

COMPOSITION:
– Majority non-independent Non-executive Directors

KEY CONTRIBUTORS:
Chief Executive Officer, Head of Sustainability, Line Managers, Chief Legal Officer

See the Social and Sustainability Review on pages 66-84.

UK CORPORATE GOVERNANCE CODE COMPLIANCE STATEMENT

As a company with a premium listing on the London Stock Exchange, Fresnillo is required under the FCA Listing Rules to comply with the Code Provisions of the Code (a copy of which can be found on the website of the Financial Reporting Council www.frc.org.uk) or otherwise explain its reasons for non-compliance.

The following statement is therefore made in respect of the year ended 31 December 2018 in compliance with such requirement.

For the financial year ended 31 December 2018, the Company has complied with the provisions of the Code in all areas, save in respect of Code Provision D.2.1 which provides that the Board should establish a Remuneration Committee of at least three independent Non-executive Directors. The composition of the Fresnillo Remuneration Committee is made up of three members including two independent Non-executive Directors one of whom, Charles Jacobs, is the Chairman of the Committee. The Chairman of the Company, Alberto Baillères, who was not independent at the time of his appointment, is also a member. The Board believes that Mr Baillères' experience and knowledge of the Group and the Mexican market and his considerable contribution to the Remuneration Committee's deliberations justifies his membership of the Remuneration Committee. Mr Baillères is not involved in matters concerning his own remuneration.

The following sections of this report explain how the principles of the Code were applied and provide cross-references to other sections of the report and/or the Company's website (www.fresnilloplc.com) where more detailed descriptions are available.

THE BOARD OF DIRECTORS

NON-INDEPENDENT NON-EXECUTIVE DIRECTORS

Alberto Baillères
Chairman

DATE OF APPOINTMENT
15 April 2008

COMMITTEE MEMBERSHIP
Nominations Committee (Chairman)
Remuneration Committee

CURRENT EXTERNAL LISTED COMPANY DIRECTORSHIPS
All four of the BAL Listed Entities (as defined below), Fomento Económico Mexicano S.A.B. de C.V., Grupo Televisa S.A.B., Grupo Kuo S.A.B. de C.V. and Dine S.A.B. de C.V.

OTHER KEY CURRENT APPOINTMENTS
Mr Baillères is President of Grupo BAL. He is also a member of the board of Grupo Financiero BBVA Bancomer S.A. de C.V. and BBVA Bancomer, S.A., as well as being member of the board of trustees of Instituto Tecnológico Autónomo de México, A.C.

KEY STRENGTHS AND EXPERIENCE
- Long-term knowledge and understanding of the Mexican commercial environment.
- Relationships within the Mexican and international businesses communities.

Over a period of 50 years, Mr Baillères has built up unprecedented experience and knowledge of both the Group and the Mexican markets in which it operates from both investor and supervisory perspectives.

BOARD AND COMMITTEE MEETING ATTENDANCE
B 4/4 N 3/3 A -
H - R 3/3

Alejandro Baillères
Non-executive Director and Deputy Chairman

DATE OF APPOINTMENT
16 April 2012

COMMITTEE MEMBERSHIP
None

CURRENT EXTERNAL LISTED COMPANY DIRECTORSHIPS
All four of the BAL Listed Entities, Coca-Cola FEMSA S.A.B. de C.V. (Alternate Director).

OTHER KEY CURRENT APPOINTMENTS
Mr Baillères is Deputy Chairman of Grupo BAL. and a member of the board of trustees of Instituto Tecnológico Autónomo de México, A.C. He is a member of the international council of the World Economic Forum.

KEY STRENGTHS AND EXPERIENCE
- Insurance and related financial services in Mexico.
- Broad board-level commercial experience in Mexico.

As Deputy Chairman of Grupo BAL and former Chief Executive Officer of Grupo Nacional Provincial (a leading insurance company in Mexico), Mr Baillères brings knowledge and experience of Mexican and international business to his role.

BOARD AND COMMITTEE MEETING ATTENDANCE
B 4/4 N - A -
H - R -

Arturo Fernández
Non-executive Director

DATE OF APPOINTMENT
15 April 2008

COMMITTEE MEMBERSHIP
HSECR Committee (Chairman)

CURRENT EXTERNAL LISTED COMPANY DIRECTORSHIPS
All four of the BAL Listed Entities, Grupo Bimbo S.A.B. de C.V. and Fomento Económico Mexicano S.A.B. de C.V. (Alternate Director).

OTHER KEY CURRENT APPOINTMENTS
Mr Fernández is rector and a member of the board of trustees of Instituto Tecnológico Autónomo de México, A.C and a member of the board Grupo BBVA Bancomer S.A. de C.V. and BBVA Bancomer, S.A.

KEY STRENGTHS AND EXPERIENCE
- International economics and public policy.
- Directorships of several Mexican companies.

Mr Fernández' career brings together a solid academic economics background, many years' experience within the Mexican public policy arena and broad commercial experience (through board directorships of leading businesses in a number of sectors in Mexico).

BOARD AND COMMITTEE MEETING ATTENDANCE
B 4/4 N - A -
H 2/2 R -

Some Directors hold directorships of some or all of the following listed companies which all part of the consortium known as Grupo BAL (along with Fresnillo plc, see also page 136): Industrias Peñoles S.A.B. de C.V., Grupo Palacio de Hierro S.A.B. de C.V., Grupo Nacional Provincial S.A.B. and Grupo Profuturo S.A.B. de C.V. In this section, these companies are jointly or individually referred to as the BAL Listed Entities.

Juan Bordes
Non-executive Director

DATE OF APPOINTMENT
10 January 2008

COMMITTEE MEMBERSHIP
None

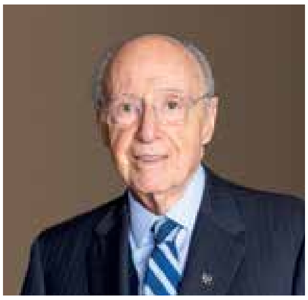
CURRENT EXTERNAL LISTED COMPANY DIRECTORSHIPS
All four of the BAL Listed Entities and Bolsa Mexicana de Valores S.A.B. de C.V.

OTHER KEY CURRENT APPOINTMENTS
Mr Bordes is a member of the board of trustees of Instituto Tecnológico Autónomo de México, A.C.

KEY STRENGTHS AND EXPERIENCE
- Senior executive (CEO-level) responsibilities over many years.
- Board membership of companies spanning a broad range of sectors and industries.

During his career, Mr Bordes has held both senior executive management roles and board responsibilities with companies spanning a number of different sectors, particularly within Mexico.

BOARD AND COMMITTEE MEETING ATTENDANCE
B 4/4 N – A –
H – R –



Jaime Lomelín
Non-executive Director

DATE OF APPOINTMENT
15 April 2008

COMMITTEE MEMBERSHIP
HSECR Committee

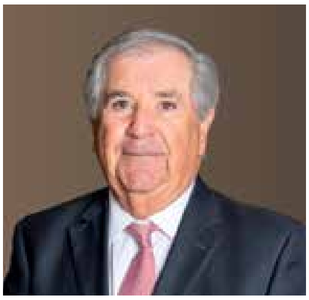
CURRENT EXTERNAL LISTED COMPANY DIRECTORSHIPS
Mr Lomelín is a director of the following BAL Listed Entities: Industrias Peñoles S.A.B. de C.V., Grupo Nacional Provincial S.A.B., Grupo Palacio de Hierro, S.A.B. de C.V. (Alternate Director) and Grupo Profuturo, S.A.B. de C.V. (Alternate Director).

OTHER KEY CURRENT APPOINTMENTS
Mr Lomelín is a member of the board of the Cámara Minera de México (the Mexican Mining Chamber) and a member of the board of trustees of Instituto Tecnológico Autónomo de México, A.C.

KEY STRENGTHS AND EXPERIENCE
- Mining and engineering.
- Senior operational experience within Mexico.

Following a career in metals and mining, Mr Lomelín was Chief Executive Officer of Fresnillo plc from April 2008 to 15 August 2012 when he became a Non-executive Director, thus he brings senior management, mining and engineering experience to the Board discussions.

BOARD AND COMMITTEE MEETING ATTENDANCE
B 4/4 N – A –
H 2/2 R –



Fernando Ruiz
Non-executive Director

DATE OF APPOINTMENT
15 April 2008

COMMITTEE MEMBERSHIP
HSECR Committee

CURRENT EXTERNAL LISTED COMPANY DIRECTORSHIPS
Kimberly Clark de México S.A.B. de C.V., Mexichem S.A.B. de C.V., Grupo Cementos de Chihuahua S.A.B. de C.V., Grupo Mexico S.A.B. de C.V., Rassini S.A.B. de C.V., Grupo Financiero Santander Mexico S.A.B. de C.V., Grupo Pochteca S.A.B. de C.V., Bolsa Mexicana de Valores S.A.B. de C.V. and two BAL Listed Entities (Grupo Nacional Provincial S.A.B. and Grupo Palacio de Hierro S.A.B. de C.V.)

OTHER KEY CURRENT APPOINTMENTS
None

KEY STRENGTHS AND EXPERIENCE
- Mexican tax and accounting experience.
- International board and audit committee experience

Mr Ruiz was, until 2006, managing partner of Chevez, Ruiz, Zamarripa y Cia., S.C., tax advisers and consultants in Mexico and now serves on the board and audit committees of several Mexican and international companies. He has extensive knowledge of Mexican tax and accounting issues.

BOARD AND COMMITTEE MEETING ATTENDANCE
B 4/4 N – A –
H 2/2 R –

NON-INDEPENDENT NON-EXECUTIVE DIRECTORS

The Non-independent Directors have more regular day-to-day access to the executive management of Fresnillo plc and therefore are able to engage with proposals put forward by the Executive Committee as they are developed.

1ST LEVEL OF SCRUTINY

The Executive Committee has several meetings with the non-independent Non-executive Directors to ensure that any reports and proposals are properly evaluated before they are brought to the full Board for discussion and, where appropriate, approval.

B Board meeting
N Nominations Committee meeting
A Audit Committee meeting
H HSECR Committee meeting
R Remuneration Committee meeting

THE BOARD OF DIRECTORS CONTINUED

INDEPENDENT NON-EXECUTIVE DIRECTORS

Charles Jacobs
Senior Independent Non-executive Director

DATE OF APPOINTMENT
16 May 2014

COMMITTEE MEMBERSHIP
Remuneration Committee (Chairman)
Audit Committee

CURRENT EXTERNAL LISTED COMPANY DIRECTORSHIPS
Investec Plc/Investec Limited.

OTHER KEY CURRENT APPOINTMENTS
Mr Jacobs is senior partner and chairman of Linklaters LLP.

KEY STRENGTHS AND EXPERIENCE
- Board and governance experience.
- Legal professional with a focus on capital markets, mining and metals.

Mr Jacobs brings his non-executive directorships at Investec and his 28 years of experience in governance, legal and regulatory matters to the boardroom.

As Senior Independent Director, Charles Jacobs is available to shareholders if they have concerns that have not been resolved through the normal channels of Chairman, Chief Executive Officer or Head of Investor Relations.

BOARD AND COMMITTEE MEETING ATTENDANCE
B 4/4 N – A 3/3
H – R 3/3

Bárbara Garza Lagüera
Independent Non-executive Director

DATE OF APPOINTMENT
16 May 2014

COMMITTEE MEMBERSHIP
Nominations Committee

CURRENT EXTERNAL LISTED COMPANY DIRECTORSHIPS
Coca-Cola FEMSA S.A.B. de C.V., Fomento Económico Mexicano S.A.B. de C.V., Promecap Acquisition Company S.A.B. de C.V.

OTHER KEY CURRENT APPOINTMENTS
Ms Garza Lagüera is a non-executive director of Soluciones Financieras SOLFI.

KEY STRENGTHS AND EXPERIENCE
- Mexican commercial and industrial experience.
- International Board experience.

As an experienced director, particularly through her career at Coca-Cola FEMSA and Fomento Económico Mexicano, the largest franchise bottler of Coca-Cola products in the world, Ms Garza Lagüera brings a broad experience of Mexican commercial and international business.

BOARD AND COMMITTEE MEETING ATTENDANCE
B 4/4 N 3/3 A –
H – R –

Georgina Kessel
Independent Non-executive Director

DATE OF APPOINTMENT
30 May 2018

COMMITTEE MEMBERSHIP
None

CURRENT EXTERNAL LISTED COMPANY DIRECTORSHIPS
Iberdrola S.A. (Independent Non-executive Director and Chair of the Audit & Risk Committee).

OTHER KEY CURRENT APPOINTMENTS
Ms Kessel is a non-executive director of Grupo Financiero Scotia Inverlat, S.A. de C.V. (a subsidiary of The Bank of Nova Scotia) serving as Chair of the Audit Committee and a member of the Risk and Corporate Governance Committees) and a partner in Spectron E&I, an energy advisory firm.

KEY STRENGTHS AND EXPERIENCE
- Ministerial experience within Mexican government.
- Knowledge of Mexican energy sector.

Ms Kessel served as Secretary of State in the Ministry of Energy from 2006 to 2011. She also chaired the Governing Board of the Federal Electricity Commission and has been president and a Board member of Petróleos Mexicanos (PEMEX). She has previously been General Director of the National Bank of Works and Public Services (BANOBRAS), member of the governing bodies of Nacional Financiera (NAFIN) and the National Bank of Foreign Trade (BANCOMEXT), adviser to the Chairman of the Federal Competition Commission (CFC) and Head of the Investment Unit at the Ministry of Finance and Public Credit of Mexico.

BOARD AND COMMITTEE MEETING ATTENDANCE
B 2/2 N – A –
H – R –

Dame Judith Macgregor, DCMG LVO
Independent
Non-executive Director

DATE OF APPOINTMENT
23 May 2017

COMMITTEE MEMBERSHIP
HSECR Committee

CURRENT EXTERNAL LISTED COMPANY DIRECTORSHIPS
None

OTHER KEY CURRENT APPOINTMENTS
Dame Judith is a member of the Governing Council of the University of Southampton, a member of the UK Arts and Humanities Research Council, the Board of VisitBritain and a Trustee of the University of Cape Town in South Africa Trust.

KEY STRENGTHS AND EXPERIENCE
- International diplomatic experience.
- Government relations in resource-rich countries.

Dame Judith's distinguished career as a British diplomat brings a range of international experience to her role. She has worked closely with and promoted the interests and profile of UK companies across a wide range of sectors, including the mining sector, in a number of countries including Mexico.

BOARD AND COMMITTEE MEETING ATTENDANCE
B 4/4 N – A –
H 2/2 R –

Alberto Tiburcio
Independent
Non-executive Director

DATE OF APPOINTMENT
4 May 2016

COMMITTEE MEMBERSHIP
Audit Committee (Chairman)
Nominations Committee

CURRENT EXTERNAL LISTED COMPANY DIRECTORSHIPS
Mr Tiburcio is an independent non-executive director of FEMSA, S.A.B. de C.V., Coca-Cola FEMSA, S.A.B. de C.V., Grupo Nacional Provincial S.A.B. and Grupo Palacio de Hierro S.A.B. de C.V.

OTHER KEY CURRENT APPOINTMENTS
Mr Tiburcio is an independent non-executive director of Grupo Financiero Scotia Inverlat, S.A. de C.V. (a Mexican subsidiary of The Bank of Nova Scotia), Profuturo Afore S.A. de C.V., Transparencia Mexicana and Instituto Tecnológico Autónomo de México, A.C.

KEY STRENGTHS AND EXPERIENCE
- International and Mexican audit and accountancy and Mexican tax experience.
- Mexican and international board and audit committee experience.

Mr Tiburcio was the Chairman and CEO of Mancera S.C. (the Mexican firm of Ernst & Young LLP) from January 2001 until his retirement in June 2013 having been a partner for more than 30 years. He has served as statutory auditor and advisor to many prestigious Mexican companies and now sits on the boards and audit committees of important Mexican companies and institutions thus bringing significant Mexican tax as well as Mexican and international audit and accounting experience to the Board.

BOARD AND COMMITTEE MEETING ATTENDANCE
B 4/4 N 3/3 A 5/5
H – R –

Jaime Serra
Mr Jaime Serra served as a Director throughout 2018 but resigned as a Director on 25 February 2019. His Board and Committee attendance during 2018 is set out below:

BOARD AND COMMITTEE MEETING ATTENDANCE
B 3/4 N – A 4/5
H – R 2/3

INDEPENDENT NON-EXECUTIVE DIRECTORS
The Board considers these Directors to be independent in character and judgement.

2ND LEVEL OF SCRUTINY
The Independent Non-executive Directors bring an external perspective to bear when evaluating proposals and conducting the business of the Board.

DIRECTORS RE-ELECTION
All of the Directors listed in this section, except Mr Serra, will seek re-election by shareholders at the forthcoming Annual General Meeting.

B Board meeting
N Nominations Committee meeting
A Audit Committee meeting
H HSECR Committee meeting
R Remuneration Committee meeting

EXECUTIVE COMMITTEE

The Executive Committee comprises the most senior executives within the Fresnillo Group.

Octavio Alvídrez
Chief Executive Officer

DATE OF APPOINTMENT
15 August 2012

COMMITTEE MEMBERSHIP
Mr Alvídrez is invited to attend Board, Audit Committee, HSECR Committee and Remuneration Committee meetings.

KEY STRENGTHS AND EXPERIENCE
- Mine management within Mexico.
- UK investor relations.

Mr Alvídrez has extensive experience within the mining industry having previously held the position of General Manager of the Madero mine operated by Peñoles, which is one of Mexico's largest mines. Mr Alvídrez joined the Peñoles Group in August 1988, since then he has held a number of senior operational and financial positions across Peñoles (Treasurer and Head of Procurement) and Fresnillo (Head of Investor Relations in London).

Mr Alvídrez is the current President of The Silver Institute, a director of the Lowell Institute for Mineral Resources of the University of Arizona, a member of the Mexican Mining Chamber and a Vice-president of the Advisory Board of the School of Mines of the University of Guanajuato, Mexico.

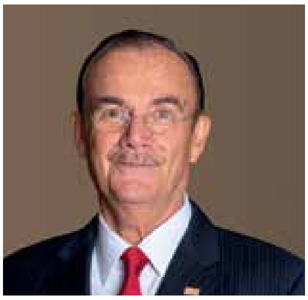
Mario Arreguín
Chief Financial Officer

DATE OF APPOINTMENT
15 April 2008

COMMITTEE MEMBERSHIP
Mr Arreguín is invited to attend Board and Audit Committee meetings.

KEY STRENGTHS AND EXPERIENCE
- Accountancy and treasury.
- Investment banking.

Mr Arreguín was previously employed by Peñoles where he held the position of Chief Financial Officer for 11 years and Group Treasurer for six years prior to this. Mr Arreguín has a background in investment banking and project management.



David Giles
Vice President, Exploration

DATE OF APPOINTMENT
15 April 2008

COMMITTEE MEMBERSHIP
Mr Giles is invited to attend Board meetings.

KEY STRENGTHS AND EXPERIENCE
- Senior exploration experience within Mexico.
- Engineering and geology background.

During a 30-year career at Peñoles, Mr Giles held a number of senior management positions including Vice President of Exploration. Prior to this he worked for AMAX Inc., Corona Gold Corp. and Toromex. He is an officer of the Society of Economic Geologists and the Mexican Association of Mining Metallurgical and Geological Engineers.

André Sougarret
Chief Operating Officer

DATE OF APPOINTMENT
2 January 2019

COMMITTEE MEMBERSHIP
Mr Sougarret is invited to attend Board meetings and to the Audit Committee on occasions.

KEY STRENGTHS AND EXPERIENCE
- Senior project and operational experience.
- Strong mining and engineering track record.

Mr Sougarret's most recent role was as Executive Vice President at the National Mining Company (ENAMI), an organisation responsible for the growth of the mining industry in Chile. Prior to joining ENAMI, Mr Sougarret Larroquete held several positions at the Teniente Division of Codelco implementing best practice methods across the entire division. His previous roles also include General Manager of the Centinela and Esperanza mines at Antofagasta plc. He has a degree in Mining Engineering from the University of Chile and an MBA in Company Administration from Loyola College.

Roberto Diaz served as the Chief Operating Officer until his retirement in early 2019.

EFFECTIVENESS

CHAIRMAN'S INDEPENDENCE

The Chairman, Mr Alberto Baillères, is beneficially interested in more than 50% of the share capital of the Company through his interest in Industrias Peñoles S.A.B. de C.V., the Company's controlling shareholder. Mr Baillères is also the Chairman of Peñoles and other companies within the BAL Group. Mr Baillères has been the Chairman of the Company since its IPO in 2008.

Mr Baillères was appointed to the Board by Peñoles pursuant to the Relationship Agreement, thus at the time of his appointment was not independent. Having been responsible for overseeing the successful development of the Group over many years, the Board considers that his continued involvement as its Non-executive Chairman is very important to the continued success of the Company. The Board considers that the continued oversight of the Company's strategic and operational integrity provided by it being a member of the Peñoles Group enhances the quality of its corporate governance rather than detracts from it (as explained further on page 100) and, therefore, the Board continues to value and endorse Mr Baillères' chairmanship of the Company. Given Mr Baillères' experience and understanding of Mexican business and its regulatory context, this assessment gains further validity in the current political and social environment in Mexico. Notwithstanding the expectations of the 2018 UK Corporate Governance Code, the Board does not expect to change this assessment for the foreseeable future.

The performance of the Chairman has been evaluated by the independent Non-executive Directors, led by the Senior Independent Director, every year since 2008 and feedback from that review is provided to the Chairman by the Senior Independent Director.

The Relationship Agreement continues to provide a foundation for a transparent governance system, which ensures that the Company benefits from Mr Baillères' leadership and experience while being able to demonstrate to other shareholders that the Fresnillo Group is capable of carrying on its business independently of any companies with which he is connected. In particular, the Relationship Agreement ensures that transactions and relationships between the Fresnillo Group and its controlling shareholder are at arm's length and on competitive commercial terms. Further information regarding the Relationship Agreement can be found on page 109.

DIRECTORS' INDEPENDENCE

The Board considers the Directors listed as being independent on pages 104 and 105, to be independent in character and judgement. For each of these Directors, their circumstances are assessed by reference to Provision B.1.1. of the Code and the Board remains satisfied that they are each independent when the standards set out in Code Provision B.1.1 are taken into account. For Ms Bárbara Garza Lagüera, Mr Charles Jacobs, Ms Georgina Kessel, Dame Judith Macgregor and Mr Jaime Serra Puche, none of the situations set out in Code Provision B.1.1 are applicable. In making this assessment for Mr Alberto Tiburcio, the Board notes that Mr Tiburcio retired as Chairman and Chief Executive Officer of Mancera S.C., the Mexican firm of EY, the Company's auditor, in June 2013. Mr Tiburcio was not involved in the provision of audit or any other services to the Company by Ernst & Young LLP prior to his retirement. Mr Tiburcio is an independent non-executive director of Grupo Nacional Provincial, S.A.B. and Grupo Palacio de Hierro, S.A.B. de C.V., which are companies within the BAL Group. Given that he is not involved in executive duties in any of those companies and has a similar obligation to be independent for those two companies as for Fresnillo, the Board does not consider that Mr Tiburcio's position as an independent Non-executive Director of the Company is adversely impacted by those two appointments. The Board believes that Mr Tiburcio's experience in Mexican and international business and his experience and knowledge of Mexican and international accounting and audit practice and corporate governance are particularly valuable to the Board and the Audit Committee, making him eminently qualified to be the Chairman of the Audit Committee.

TIME COMMITMENT AND OVERBOARDING

The Board is very aware that investors are concerned about all Board members being able to devote sufficient time and attention to the Company's business and this concern will be triggered (a) when a director's attendance record at Board and Committee meetings falls below expected levels without sufficient justification; and/or (b) where a director is overboarded, in particular, when a Non-executive Director holds more than five listed company directorships.

The Nominations Committee annually reviews the time commitments of the Non-executive Directors to the Fresnillo plc Board and devoted significant time and thought to this exercise in 2018. Its philosophy in doing so, was to consider (1) the total workload of each Non-executive Director; and (2) the particular value that each Director brings to the Board.

EFFECTIVENESS CONTINUED

In assessing the time commitments of each of the Directors, the Nominations Committee takes into account the following factors:

1. Public companies vary considerably in the expectations that they place on their non-executive directors. It considers that a global company with various lines of business operating in many countries, should not count the same as a single-product company with operations primarily in just one country. Fresnillo plc falls into the latter category and because of the relative commonality of its activities, the Board does not consider that it needs more than four scheduled Board meetings a year, a factor which is reflected in the relatively low fees that the Company pays its Non-executive Directors.

2. This relatively low number of meetings is further justified by the degree of governance oversight of the Company. This comes by virtue of it also being a member of the BAL Group, of which, five of the Directors are also members in a primary capacity and two of the Directors are involved in an independent non-executive capacity. The calendar for Board and Committee meetings is scheduled to align with the other meetings of companies, including listed companies within the BAL Group ownership structure. This ensures that Fresnillo plc Directors who are appointed to the boards of other companies within the BAL Group do not have any time conflicts with their other commitments on BAL Listed Entity boards.

The Non-executive Directors are required, by their letters of appointment, to spend 14 days per annum on Company business. The BAL Group Directors usually meet with management prior to each Board meeting to extensively review the agenda and papers for the forthcoming meeting with them. They also oversee management responses to actions arising from the Board meetings. This time commitment, as well as the time required in travelling to the UK for the annual general meeting each year, more than exceeds the time commitment specified in their letters of appointment. The attendance record at Board meetings of the BAL appointed Directors over the past ten years has been exemplary.

The independent Directors have committee responsibilities which, in conjunction with their Board duties, take up more time than their letters of appointment require. In addition, the UK-based Directors also travel to and from Mexico for Board and Committee meetings which also significantly increases the time that they spend on their Board duties.

The other listed company directorships of the Fresnillo plc Directors is set out on pages 102 to 105 of this report. The Board and Committee attendance record of each of the Directors during 2018 is set out on pages 102 to 105 of this report.

In addition, during 2018 the Nominations Committee specifically considered the issue of overboarding and time commitment in relation to two Directors: Fernando Ruiz and Jaime Serra. Its assessment is as follows:

FERNANDO RUIZ

For the whole of his time on the Fresnillo board, Mr Ruiz has held many other listed company directorships. These directorships are mainly on listed Mexican companies and, as explained previously, the Board considers that these directorships are less time consuming and onerous in their demand than UK listed companies because of the size of their boards and the frequency of their meetings. Mr Ruiz' attendance record at Board and Committee meetings has been solid and has never been a matter of concern to the Nominations Committee or the Board.

Of greater importance to the Nominations Committee is the value to the Board of Mr Ruiz' advice and expertise, particularly in the area of tax and Government fiscal policy. The Board are keen that Mr Ruiz continues to remain a member of the Board, albeit given his length of service on the Board, he is no longer considered to be an Independent Director.

JAIME SERRA

Jaime Serra held six listed company directorships, one more than allowed by investor policies and missed one board and two committee meetings in 2018. Mr Serra was a key player in the original launch of the NAFTA free trade agreement when he was still in government and his knowledge and expertise has been in great demand, including in an ad hoc unpaid capacity at Government level during the negotiation of the United States – Mexico – Canada Agreement ('USMCA'), the successor agreement to NAFTA, during 2018. The Board considered that it is of huge benefit to Fresnillo to have someone of Mr Serra's calibre on the Board given his involvement and insight into the political world.

Notwithstanding this, given the overboarding concerns and the demands of his recent appointment as Chairman of BBVA Bancomer, Mr Serra and the Board agreed that he would not stand for re-election at the 2019 AGM and he resigned from the Board on 25 February 2019.

THE GOVERNANCE OF FRESNILLO'S RELATED PARTY ARRANGEMENTS

RELATIONSHIP AGREEMENT

Peñoles has entered into a relationship agreement with the Company (the 'Relationship Agreement') to ensure that relationships between the Fresnillo Group and the Peñoles Group are conducted at arm's length and on normal commercial terms. The Non-independent Directors listed previously have been appointed to the Board by Peñoles pursuant to the Relationship Agreement.

The Relationship Agreement complies with the independence provisions set out in Listing Rule 6.1.4DR for controlled companies. The Company has complied with the independence provisions included in the Relationship Agreement during the financial year ended 31 December 2018.

As far as the Company is aware, such provisions have been complied with during the financial year ended 31 December 2018 by Peñoles and/or any of its associates.

Peñoles has also undertaken not to exercise its voting rights to amend the Articles of Association in a way which would be inconsistent with the provisions of the agreement. It has also agreed to abstain from voting on any resolution to approve a 'related party transaction' (as defined in paragraph 11.1.5 R of the Listing Rules) involving any member of the Peñoles Group.

The following diagram summarises the approach taken to identify and manage related party transactions.

IDENTIFYING DIRECTORS' INTERESTS

PROCESS	HOW THIS IS MANAGED	RESPONSIBILITY
Monitoring of Directors' interests	If a Director is interested in a company which could potentially enter into transactions with a Fresnillo plc Group company, the Board will normally consider that interest under its arrangements for authorising conflicts of interest under s175 of Companies Act.	Directors

MANAGING A RELATED PARTY TRANSACTION

PROPOSED TRANSACTION	Ongoing monitoring of Directors' interests and related parties of the Company provides the information to determine if a related party approval is required for a proposed transaction, where possible.

PROCESS	HOW THIS IS MANAGED	RESPONSIBILITY
Contract negotiation and verification	The Executive Committee will seek to ensure that the best possible terms are achieved for a proposed transaction and that they are verified by industry benchmarking reports or independent valuation/assessment, where possible.	Fresnillo management and Executive Committee
Financial scrutiny	The Audit Committee reviews the key terms of major transactions which are verified, where possible, as to price and quality with external consultants or independent benchmarking.	Audit Committee
Independent Director approval	Under the Relationship Agreement and the Listing Rules, the Independent Directors must approve any transaction with the Peñoles Group and its associates without the non-independent Directors voting.	Independent Directors

CONFLICTS OF INTEREST

The Group requires that Directors complete a 'Director's List'. The list sets out details of situations where each Director's interest may conflict with those of the Company (situational conflicts). Each Director has re-submitted their list as at 31 December 2018 for the Board to consider and authorise any new situational conflicts identified in the re-submitted lists.

At the beginning of each Board meeting, the Company Secretary reminds the Directors of their duties under sections 175, 177 and 182 of the Companies Act which relate to the disclosure of any conflicts of interest prior to any matter that may be discussed by the Board.

Further information about related party matters considered by the Board during the year are set out in the Audit Committee Report on pages 128 and 129.

BOARD BUSINESS AND ACTIVITIES

All meetings of the Board are held in Mexico. The Board has a well-established programme of meetings. Board members usually receive Board papers five days prior to meetings in order to enable the Directors adequate time to study and consider the documents. Members of the Executive Committee, led by the Chief Executive Officer, are present at all of the Board meetings and present all of the papers on operational, stakeholder and financial matters. The following table sets out the key business of the Board during 2018.

STRATEGIC UPDATES	GOVERNANCE AND ETHICS	REPORTING	FINANCIAL AND CONTROLS
– Exploration strategy. – Update on San Julián development. – Update on Ciénega expansion. – CSR strategy. – Update on the New United States-Mexico-Canada Trade Agreement. – Annual strategy lunch.	– Receipt of Board evaluation reports and action plan. – Meeting of independent Directors. – Board and Committee appointments. – Approval of Shared Services Agreement. – Approval of Met-Mex contract rates. – Review of changes to the UK Corporate Governance Code.	– Approval of 2017 Annual Report and Accounts. – Approval of Preliminary Announcement. – Review and approval of Viability Statement. – Approval of Interim Report. – Approval of Modern Slavery Statement.	– Approval of budget and business plan 2019. – Review and approval of dividend policy and dividend proposals. – Review and approval of Principal Risks and Uncertainties.

REGULAR REPORTS AND AGENDA ITEMS

- Chief Executive's Report (including Project, Exploration HSCER and Culture Reports).
- Financial Report.
- Board and Committee Reports.
- Risk and Internal Control Report.
- Anti-Bribery and Corruption updates.
- Investor Relations and Corporate Communications update.
- Legal and Company Secretarial Report (including litigation update).

Directors have the right to raise concerns at Board meetings, and can ask for those concerns to be recorded in the Board minutes. The advice and services of the Company Secretary (whose appointment and removal is a matter reserved for the Board) are also available to the Directors. The Group has also established a procedure which enables Directors, in relevant circumstances, to obtain independent professional advice at the Company's expense.

ENSURING THAT THE ANNUAL REPORT IS FAIR, BALANCED AND UNDERSTANDABLE

In relation to the Annual Report and financial statements for the year ended 31 December 2018, there are a number of steps that the Board undertook to ensure that the Annual Report is fair, balanced and understandable:

- Two weeks prior to the Annual Report being approved by the Board, members of the Audit Committee and other Directors reviewed a current draft enabling them to assess whether the information was consistent with their understanding of the Company's business and the nature and content of discussions at the Board meetings during the year.
- Suggested changes put forward by the Directors, based on knowledge obtained through Board and Audit Committee papers and discussion and other interactions with management were taken into account by management in preparing the final version of the Annual Report.
- Internal Audit undertook a review exercise of the principal non-financial numbers in the Annual Report which are extracted from the Company's operational records.
- The Audit Committee also reviewed the Annual Report and financial statements, taking into account comments made and reports issued by EY and decided to recommend them to the Board for approval.

As a result of the above procedures, the Board considers that, taken as a whole, the Annual Report is fair, balanced and understandable.

BOARD PERFORMANCE EVALUATION

In order to evaluate its own effectiveness, the Board undertakes annual appraisals using a combination of externally facilitated and internally-run evaluations over a three-year cycle. The cycle of the Board's evaluations is summarised as follows:

YEAR 1	YEAR 2	YEAR 3
Externally facilitated Board evaluation using questionnaires and/or interviews	Follow-up on action plan prepared in response to year 1 evaluation using internally-facilitated questionnaires	Focus on outstanding and emerging issues arising from the action plan using internally-facilitated questionnaires

BOARD EVALUATION IN 2018

2018 was the second year of the three-year evaluation cycle and therefore the Company used an internally-facilitated evaluation to follow up on the external evaluation conducted by Linstock in 2017.

The 2018 evaluation was conducted by the Company Secretary by means of a confidential questionnaire. The aim of the evaluation was to follow-up on the points raised by Lintstock, review the Board's progress to date and identify further steps for the Board to take.

The questionnaire was consistent with the 2017 approach in seeking the Directors' views on the Board's interaction with strategy and operational matters and the Board's processes and interactions.

The Board was presented with the findings of the evaluation at the October Board meeting. The key points of discussion arising from the 2018 evaluation process and principal actions being taken in response focussed on the following areas:

- the process for agreeing future strategy;
- the allocation of time to the discussions about risk;
- additional information to support the Key Performance Indicator metrics presented to the Board;
- reporting on community relations;
- the format of Board papers; and
- further developments to the process for post-investment reviews.

INDIVIDUAL PERFORMANCE REVIEWS

Non-executive Directors occasionally meet the Chairman without executives being present. The independent Non-executive Directors meet annually in order to evaluate the performance of the Chairman. On the back of this meeting, the Senior Independent Director discusses the views of the independent Directors with the Chairman. The Independent Directors held this meeting in 2018 after the February meeting and took the 2017 Board Evaluation review into account in their discussions and feedback to the Chairman.

BOARD DEVELOPMENT

Senior management present on the Group's strategic initiatives to provide the Non-executive Directors with more information about the broader context to the Company's activities. In addition, there is a regular distribution of industry briefings on technical, market and sector issues.

Directors are encouraged to visit the Company's mines to familiarise themselves with the Fresnillo Group's operations; building on mine visits in recent years. During 2018, a number of the Non-executive Directors made mine visits including to Fresnillo, Saucito, Juanicipio, Herradura and Noche Buena.

Briefings were arranged for all Directors from the Company's legal advisers. These include presentations which were aimed at familiarising the Directors with their duties and responsibilities as Directors of a UK listed company and changes to the UK Corporate Governance Code. In addition, the Chairman meets with Directors to discuss any training or development needs.

CASE STUDY – BY DAME JUDITH MACGREGOR

GETTING UP TO SPEED WITH FRESNILLO

As British Ambassador to Mexico from 2009 to 2013, I was well aware of Fresnillo's successful activity as a UK listed company and major gold and silver producer – a significant player in our work to strengthen bilateral trade and business.

But in 2017 as a new Independent Board Director, a different learning was ahead of me. This began in London, with a thorough induction on UK Corporate Governance and my role in this, conducted by Fresnillo's London lawyers, Head of Legal in Mexico and Company Secretary – with invaluable support from the Senior Independent Director.

This theory came to life and much better understanding, in subsequent meetings with the Chairman, CEO and fellow members of the Fresnillo Board, plus the chance to meet Fresnillo staff and most importantly, to see the Fresnillo mines, which span a large part of Mexico. Mining is a complex industry around a reasonably straightforward proposition of extracting valuable minerals from the soil. But its economic, social, environmental and human ramifications are of course extremely wide ranging.

Visits now to three mines: to Fresnillo, San Julián and Herradura have given me a far better understanding of how we are meeting our goal of creating value through growth and returns: of the importance of investment in the people, the technology and the skills necessary for our business and the economic and social context around it. In the Fresnillo mine, it was instructive to see the challenges of maximising extraction from an historic mine. In San Julián, the start up of a totally new operation in a previously untapped region, and at Herradura, the growing enhancement of production through new technology, especially the use of IT.

Equally impressive on all my trips has been the strong focus on social programmes to help develop the economic, educational and health opportunities in the local communities. One highlight was seeing students in a remote community develop a robot that could score real goals (!) and it was great to visit new projects to stimulate enterprise and water conservation. There is much still to learn – but 18 months on and as a member of the Committee for Health and Safety, Environment and Community Relations, I am definitely better equipped to provide the oversight and challenge required of an Independent Director.

Mining is a complex industry around a reasonably straightforward proposition of extracting valuable minerals from the soil. But its economic, social, environmental and human ramifications are of course extremely wide ranging.

UK CORPORATE GOVERNANCE CODE 2018

During the year, the Board and its Committees have considered the requirements of the 2018 version of the UK Corporate Governance Code (the 'New Code') and initiated actions to move the Company's corporate governance towards compliance with the new provisions set out in the New Code. The key steps taken have included:

- Reviews of the Board's responsibilities and those of the Board Committees and, where appropriate, amendments to Committee terms of reference to bring them into line with the New Code;
- A review of the current conflicts of interests procedures operated by the Board;
- Agreement concerning the mechanisms for Board engagement with employees including the designation of Mr Arturo Fernández as the Non-executive Director responsible for overseeing those arrangements, and
- A decision that the Audit Committee should continue to review whistleblowing procedures and reporting on a regular basis but reporting to the Board at least twice per year on this matter from 2019 onwards.

STAKEHOLDER ENGAGEMENT

STAKEHOLDER GROUP	GOVERNANCE RESPONSIBILITY	GOVERNANCE ACTIVITIES DURING 2018
EMPLOYEES	Board, Audit Committee and HSECR Committee	– Review of culture and organisational ethics strategy and reports on metrics. – Oversight of whistleblower arrangements and cases. – Evaluation of health and safety performance. – Monitoring the initiative to embed ethics and culture. – Evaluation of the Modern Slavery Statement. – Development of health, safety and diversity and inclusion KPIs for reporting to the Board.
LOCAL COMMUNITIES AND CIVIL SOCIETY	Board and HSECR Committee	– Community initiatives are monitored by the Board and HSECR Committee. – During 2018, the HSECR Committee developed community KPIs. – Evaluation of trends and their business implications.
CONTRACTORS	Board, Audit and HSECR Committees	– HSECR Committee oversight of dialogue with contractors on safety matters. – Reviews of contractor engagement elements of the Anti-Bribery & Corruption programme.
CUSTOMERS	Board and Audit Committee	– The Company's relationship with its sole customer is monitored through the Board's related party oversight processes.
GOVERNMENT AND REGULATORS	Board, Executive Committee, HSECR Committee and Audit Committee	– Regular dialogue with Government departments at both BAL, Board and Executive Committee levels during the year reports on matters such as taxation. – Evaluation of regulatory impacts on health, safety, environment and social matters.

The Executive Committee is responsible for the day-to-day stewardship of all stakeholder relationships and its members report to the Board on the key metrics and initiatives. The Executive Committee is currently developing a proposal for future employee engagement for the Board to review in compliance with Code Provision 5 of the 2018 UK Corporate Governance Code. Stakeholder relationships are included in the bonus metrics for the senior management team.

Further information about the Group's relationship with its suppliers is set out on pages 22 and 23 of the Strategic Report.

RELATIONS WITH SHAREHOLDERS

The Board continually monitors the interests of the Company's minority shareholders in order to ensure that those interests are being properly respected, and that they are aligned as far as possible with those of the majority shareholders.

The Company has an office in London where the Head of Investor Relations is based. During 2018, the Group maintained a strong communications and investor relations programme, as detailed in the table below.

The Chief Executive Officer and Chief Financial Officer also meet with analysts, hold conference calls after production reports and engage with shareholders by participating in the major roadshows after the preliminary and half-yearly results are announced. They are joined by other members of the Executive Committee for some of these visits. This is done to give the investors and analysts the chance to discuss the results of the Group whilst also giving them an opportunity to raise any queries or concerns they may have. The table below outlines some examples of the discussion points at such meetings and the response from the Company.

2018	INVESTOR RELATIONS AND INDUSTRY ACTIVITIES
JANUARY	Publication of the 4Q 2017 production report
FEBRUARY	
MARCH	Roadshow following the preliminary results announcement and presentation: UK and USA
APRIL	Publication of the 1Q 2018 Production Report followed by investor conference calls
MAY	Annual General Meeting BAML Global Metals and Mining Conference
JUNE	
JULY	Publication of the 2Q 2018 Production Report
AUGUST	Publication of the half-year results and UK roadshow
SEPTEMBER	Denver Gold Forum HSBC EEMEA and LATAM Conference
OCTOBER	Publication of the 3Q 2018 Production Report followed by investor conference calls
NOVEMBER	Goldman Sachs Global Natural Resources Conference JP Morgan Best of British Conference
DECEMBER	

Progress at the Fresnillo mine
Clear explanation of the decisive plan to stabilise the mine's ore grade and throughput while outlining the reasons for progressing at a slower than anticipated pace.

Economic outlook for the mining industry in Mexico
Articulate the market conditions seen in Mexico with special emphasis on the mining industry. Additionally provide relevant updates following the election of the new Mexican President.

Performance at our operating mines
Provide a clear update on the performance of all operating mines including the infill drilling programme at Fresnillo and Saucito to enhance the accuracy of the geological model.

Projects progress
Keep the market up to date with progress at the Pyrites plant project and the commissioning of second line of the DLP at Herradura.

Juanicipio
Updates on the progress of this joint venture project including principal statistics where available, the completion of the Feasibility study and the expected timing for its subsequent approval.

Exchange rate effects
Clear and detailed articulation of the different exchange rate effects on production costs in conjunction with other line items in the income statement, including the charge for taxation.

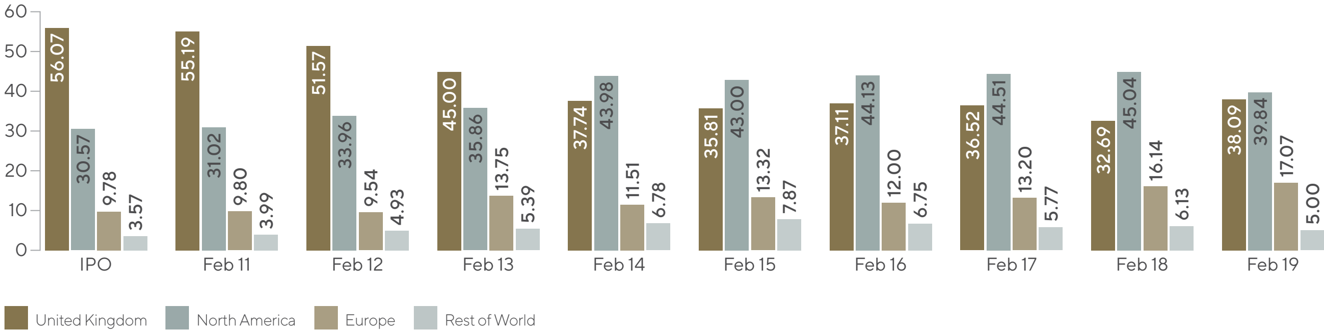
Costs
Detailed breakdown of cost metrics on a year-by-year basis highlighting and clarifying variations; cost inflation/deflation by component.

Capital allocation: Capex versus dividends
Reiteration of the Company's unchanged dividend policy of balancing quality growth with returns across the cycle.

The Head of Investor Relations in London is tasked with maintaining existing relations with analysts and major shareholders on a day-to-day basis, which is done by way of telephone calls and meetings. The Company also attends a full programme of mining conferences in order to meet with current and prospective investors. Contact with investors in Mexico is maintained through the Investor Relations Office in Mexico City. The Chief Financial Officer gives a report at each Board meeting on communications and shareholder activity.

GEOGRAPHICAL SHAREHOLDER BASE

The following graph (IPO in 2008 until January 2019) demonstrates the Company's global appeal to independent investors with a significant shift from a predominantly UK shareholder base to a much more globally diverse shareholder base.



MAJOR INTERESTS IN SHARES

As at 25 February 2019, the Company had been advised of the following notifiable interests (whether directly or indirectly held) in its voting rights:

	Number of voting rights	%
Industrias Peñoles S.A.B. de C.V.	552,595,191	74.99
BlackRock Inc.	46,029,078	6.25
First Eagle Investment Management LLC.	37,243,673	5.05

2018 ANNUAL GENERAL MEETING

At the 2018 Annual General Meeting, all resolutions put to shareholders were passed by a majority. Prior to the AGM, the Company consulted with a number of shareholders in relation to the resolutions to re-elect the Directors. In accordance with UK Listing Rules applicable to companies with a controlling shareholder, the resolutions relating to the re-election of the independent Non-executive Directors required approval by a majority of votes cast by independent shareholders as well as all the shareholders of the Company.

Further to the Code provisions, details of proxy voting are presented at the AGM and final figures are announced to the London Stock Exchange and uploaded to the Company's website as soon practicable after the AGM.

2019 ANNUAL GENERAL MEETING

The Company's eleventh Annual General Meeting will be held on 21 May 2019 at 12.00 noon at The Royal Aeronautical Society, 4 Hamilton Place, London, W1J 7BQ. The business of the Annual General Meeting ('AGM') will be conducted in accordance with paragraphs 36 and 38 of the Guidance on Board Effectiveness published by the Financial Reporting Council in July 2018. In planning the business of each AGM, the Board takes account of institutional shareholder guidelines on pre-emption rights, share buy-backs and shareholder rights in relation to general meetings when drafting the usual resolutions dealing with those matters. In each case, resolutions are presented to the AGM to give the Board flexibility to respond to market developments.

AUTHORITY TO PURCHASE OWN SHARES

The Company was authorised by a shareholders' resolution passed at the Annual General Meeting held in May 2018 to purchase up to 10% of its issued Ordinary Share capital. Any shares which have been bought back may be held as treasury shares or, if not so held, must be cancelled immediately upon completion of the purchase, thereby reducing the amount of the Company's issued and authorised share capital. This authority will expire at the forthcoming Annual General Meeting and a resolution to renew the authority for a further year will be proposed. No shares were purchased by the Company during the year.

The Corporate Governance Report which is set out on pages 98 to 129 has been approved by the Board of Directors of Fresnillo plc

Signed on behalf of the Board

Charles Jacobs
Senior Independent Director
25 February 2019

NOMINATIONS COMMITTEE REPORT

DEAR SHAREHOLDER

During 2018, there have been two main issues for the Nominations Committee to consider: the need to replace Guy Wilson who retired at the AGM having served ten years as an independent Non-executive Director and Chairman of the Audit Committee and the search for a new Chief Operating Officer to replace Roberto Diaz, who retired at the beginning of 2019. In both tasks, the Nominations Committee made good progress. I was pleased that Georgina Kessel agreed to join the Board as an independent Non-executive Director at the 2018 AGM and that Alberto Tiburcio, who has served on the Board and Audit Committee since 2016, agreed to take over as Chairman of the Audit Committee. Alberto and Georgina are both settling into these new roles very well and I firmly believe that the Nominations Committee decisions will, in both cases, prove to be very successful. I am also pleased to report that we now have three female Directors on our Board which further demonstrates our commitment to promoting greater diversity on the Board.

At the executive level, the process to replace of Roberto Diaz as Chief Operating Officer has been a long one. After a long search, we were pleased to confirm the appointment of André Sougarret as Chief Operating Officer which was announced in January 2019. We recognise, as a result of this appointment, that our Executive Committee continues to consist only of men. We have always maintained a policy of appointing people on the basis of merit but without discrimination and this continues to be the case. Mr Sougarret was the best of the candidates considered for the job and the Nominations Committee was happy to endorse his appointment. Where we can, we continue to promote women into senior positions in the Company. Towards the end of the year, for example, we appointed a new Compliance Officer who is female.

I am also pleased to report that we now have three female Directors on our Board which further demonstrates our commitment to promoting greater diversity on the Board.

Earlier in the Corporate Governance Report, reference is made to our dialogue with shareholders about the time commitment and other interests of our Non-executive Directors. This is a matter we have scrutinised closely as a Committee. We remain firmly convinced that there is an excellent combination of skills and experience around the Board table which will serve the Board well in the coming months. We will continue to review such matters each year in the light of the requirements of the new UK Corporate Governance Code.

Yours faithfully

Mr Alberto Baillères
Chairman of the Nominations Committee

NOMINATIONS COMMITTEE

COMPOSITION

The members of the Nominations Committee are Alberto Baillères (Chairman of the Committee), Bárbara Garza Lagüera and Alberto Tiburcio. Ms Garza Lagüera and Mr Tiburcio are both independent Non-executive Directors and therefore the majority of the members of the Nominations Committee are independent in compliance with the requirements of the UK Corporate Governance Code.

ROLE

The Nominations Committee is responsible for making recommendations to the Board on the structure, size and composition of the Board and its committees and succession planning for the Directors and other senior executives. Before making appointments of new Directors, the Committee is responsible for evaluating the balance of skills, knowledge and experience on the Board and identifying and nominating suitable candidates.

The Nominations Committee has approved Board Appointments and Board Diversity Policies which provide the framework for the Nominations Committee and the Board's approach to Board appointments.

Attendance	
Mr Alberto Baillères	3/3
Ms Bárbara Garza Lagüera	3/3
Mr Alberto Tiburcio	3/3

BOARD APPOINTMENTS POLICY AND PROCESS IN SUMMARY

The Nominations Committee and Board are strongly committed to the principle of equality of opportunity when making new appointments to the Board while ensuing that appointments are made on the basis of merit. The Nominations Committee continues to consider the composition of the Board with a focus on its continued commitment to diversity.

The criteria for determining the composition of the Board and future Board appointments continue to be based on:
- Relationship Agreement requirements for appointments to the Board by Peñoles.
- The Company's leading position as a precious metals miner in Mexico.
- The Company's inclusion in the FTSE 100 Index.
- The specific functions on Board committees which independent Directors will be required to fulfil.
- The provisions set out in the current terms of reference of the Nominations Committee.

The Nominations Committee does not use open advertising or retain any external consultants when making new appointments to the Board as it is considered unnecessary considering the Company's contacts within Mexico and further afield.

BOARD DIVERSITY POLICY PROGRESS

All Board appointments are made on merit. The Board recognises and embraces the benefits of having a diverse Board; particularly the value that different perspectives and experience bring to the quality of Board debate and decision-making. There are certain considerations which are taken into account in considering the composition of the Board such as: background and experience; age; gender; and shareholder perspectives.

The Board believes that setting targets for the number of people from a particular background or gender is not the most effective approach to take. The Board will therefore look to follow the principles of this policy rather than specified quotas or targets. Following the recent appointments of Dame Judith Macgregor and Georgina Kessel as independent Non-executive Directors, 50% (four out of the eight) of the Directors that have been appointed to the Board since 2012 have been women. This demonstrates the Board's commitment to gender diversity. With 25% of the current Board composition being female, the Nominations Committee recognises that this does not meet the 33% target for representation of women on the board set by the Hampton-Alexander Review. Nevertheless, it will continue to keep the gender balance of the Board as a key factor in considering future Board appointments, which at all times will be based on merit.

NOMINATIONS COMMITTEE REPORT CONTINUED

The Board recognises that very few women are attracted to mining engineering and geology academic programmes in Mexico and, in view of the stage of development of Mexico, the participation of women in the labour force as a whole is still relatively low. This will take time to rectify but it is changing and the Company is committed to hiring and developing women with educational training in mining engineering, geology, finance and accounting. A further explanation of the steps that the Company is taking to promote diversity across its businesses is set out in the Sustainability Report on page 69.

Board composition: gender split	2017	2018
Male	10/12	9/12
Female	2/12	3/12

With ten Mexican and two British directors on the Board, the Nominations Committee is satisfied with the ethnic diversity of the Board.

Full versions of the Board Appointments Policy and Process and the Board Diversity Policy and the Group Diversity Policy, can be found on the Company's website (www.fresnilloplc.com).

ACTIVITY DURING 2018

The Nominations Committee met three times during the year.

BOARD APPOINTMENTS

The Nominations Committee is committed to a progressive refreshing of the Board, as recommended by Code Provision B.2.3 of the UK Corporate Governance Code.

The Nominations Committee recognised that a further independent Non-executive Director appointment was necessary given that Guy Wilson had reached the nine year deadline for independence set by the UK Corporate Governance Code. Consequently, Mr Guy Wilson retired from the Board at the 2018 AGM and was replaced as an independent Non-executive Director by Georgina Kessel, who brings excellent political and business experience in Mexico and further afield to the Board.

COMMITTEE MEMBERSHIP

The Nominations Committee reviewed the composition and effectiveness of the Board Committees in 2018 in the light of recent changes to the composition of the Board and approved the following changes to the Board Committees which took effect from the 2018 AGM:

- Alberto Tiburcio was appointed Chairman of the Audit Committee in place of Guy Wilson, who retired from the Audit Committee;
- Charles Jacobs was appointed as an additional member of the Audit Committee; and
- Judith Macgregor was appointed as an additional member of the HSECR Committee.

EXECUTIVE SUCCESSION PLANNING

Each year, the Nominations Committee reviews a schedule of possible successors for all the positions on the Executive Committee (Chief Executive Officer, Chief Financial Officer, Vice President of Exploration and Chief Operating Officer). This review considers both short-term emergency and long-term planning scenarios. Any actions needed to support the development of potential long-term successors are discussed. The Nominations Committee also monitors the long-term evolution of the membership of the Board as a whole. Over the past year, the Nominations Committee has been considering the need to replace Mr Roberto Diaz, the Chief Operating Officer, who retired in early 2019. Identifying the right successor for this role has been an extended exercise. It was decided to split the current role into two separate roles, Chief Operating Officer and Chief Projects Officer. Following an extensive search, which included the consideration of suitable female candidates, the Nominations Committee approved the appointment of Mr André Sougarret as Chief Operating Officer with effect from 2 January 2019. In December 2018, Humberto Garibay was appointed as Chief Projects Officer reporting to the Chief Operating Officer.

OTHER NOMINATIONS COMMITTEE ACTIVITY

The Nominations Committee also considered the following matters:

- Approval of the Nominations Committee Report prior to publication.
- Review of the time commitment required from each Director.
- The proposed re-election of each of the continuing Directors at the AGM.
- A self-evaluation exercise (which concluded that the Nominations Committee is functioning well).

The terms of reference of the Nominations Committee are available on the Company's website at www.fresnilloplc.com.

The letters of appointment for the Non-executive Directors are made available for inspection at the Company's registered office, during normal business hours.

AUDIT COMMITTEE REPORT

DEAR SHAREHOLDER

I am delighted to introduce my first Audit Committee Report since being appointed Chairman of the Audit Committee in May 2018. I would like to begin by thanking Guy Wilson, my predecessor, for chairing the Committee from July 2008 until the AGM this year, and for his valuable contributions to the Company. I will certainly seek to maintain and develop the important role that the Audit Committee plays in the overseeing the integrity of the financial reporting, risk and control and assurance activities.

As we started planning for this latest report, it was pleasing to see that some issues which had been topics of scrutiny and discussion in previous years have become less prominent in our thinking in 2018, for instance there has been some improvement in the Company's IT security and data protection. However, as old challenges recede, others remain and new ones emerge. One major area of discussion during the year, was the ongoing dialogue with the Mexican tax authorities about the investigations that we referred to in the 2017 annual report. These investigations are routine but ahead of changes of personnel at the Mexican tax authorities towards the end of the year there was a noticeable increase in tax audit activity. I am pleased to report that a number of the audits were concluded satisfactorily prior to the end of the year. Notwithstanding this good progress, there are some audits still ongoing which we will continue to monitor closely.

There are a number of key issues that we discuss with the external audit team each year when reviewing the financial statements. This year, we have spent time discussing the valuation of inventories as an emerging consideration for the Audit Committee due to the re-estimation of quantities held in leaching pads at Herradura. This was as a result of new information obtained from samples taken when a new access road was cut through the pad, following which drill samples were taken from a larger area of the pad. This is discussed on page 62 of this report. A more general concern during the year has been the changing macro-economic environment and its impact on commodity prices. In turn, these impact a number of our judgement areas including the valuation of the Silverstream arrangements, the estimation of reserves and resources, the going concern assessment and the testing for impairment.

The work undertaken by EY on our 2017 financial statements was the subject of an external review by the FRC's Audit Quality Review team and I am pleased to report that the conclusion from that review was that the quality of the audit is good with only limited improvements needed. We have evaluated the two specific points raised by the AQRT and have responded accordingly.

During the year, two evaluation exercises were undertaken. Towards the end of the year, the Audit Committee members and key participants in the Audit Committee meetings completed an internal evaluation questionnaire, the results of which were satisfactory and discussed at our December meeting. This review resulted in some useful suggestions for further improving the quality of the Committee's work (see page 129). We also commissioned Deloitte to undertake an externally facilitated review of our Internal Audit function, which was conducted in the final quarter of the year and the results were discussed at our February 2019 meeting. The overall conclusion of that review from Deloitte was that the Internal Audit function is performing effectively.

During the second half of 2018, the Fresnillo Board and the Audit Committee assessed the implications of the 2018 update to the UK Corporate Governance Code. The Audit Committee has focused on three particular areas, ahead of the effective date of the Code on 1 January 2019. The Board has decided that the Audit Committee will continue its role in regularly reviewing whistleblowing reports reviewed by the Honour Commission, but will then report to the Board on the information it has received and the conclusion of its reviews. We also intend to review our reporting on audit and associated matters in the light of the new requirements of Provision 26 of the new Code. Finally, we received a summary from management on the steps being taken in this annual report to reflect the requirements of the new Code, particularly in relation to stakeholder reporting.

During the year, I visited the Fresnillo and Saucito mines and the Juanicipio project. Also during the year, my fellow Director and member of the Audit Committee, Charles Jacobs visited the Fresnillo and Herradura mines. In addition to seeing the mine operations during my visits, I was able to get to know the different programmes that the Company has developed to support the communities and its sustainability.

With the change in the Mexican Government which took place on 1 December 2018, the regulatory environment in Mexico may experience some significant changes over the coming months. This along with the testing economic circumstances that are expected, may present new challenges in 2019. I believe the Audit Committee is well-placed to meet them, if they occur.

Yours faithfully

Alberto Tiburcio
Chairman of the Audit Committee

AUDIT COMMITTEE REPORT CONTINUED

AUDIT COMMITTEE

COMPOSITION

The members of the Audit Committee at 31 December 2018 were Alberto Tiburcio (Chairman of the Committee), Jaime Serra and Charles Jacobs.

	Financial and auditing experience	Sector experience
Alberto Tiburcio (appointed to the Committee on 4 May 2016 and appointed Chairman of the Committee on 30 May 2018)	Previously Chairman and CEO of EY (Mexico). Experience in national and international accounting and audit practice and corporate governance.	Various industries. Independent board and Audit Committee experience at various public companies.
Jaime Serra (appointed to the Committee on 16 May 2014)	Previously Secretary of Finance and Commerce in the Mexican government.	Political and financial insight through the various roles held in government.
Charles Jacobs (appointed to the Committee on 30 May 2018)	Senior Partner and Chairman of Linklaters LLP.	An adviser to several UK natural resources companies and boards.
Guy Wilson (appointed 1 July 2008, retired on 30 May 2018)	Previously a partner at EY (UK) with international audit, accountancy and capital transaction experience.	Previously an adviser to several UK natural resources company boards.

The Chief Financial Officer and representatives from the external auditor and Internal Audit attend all meetings. The Chief Executive Officer, other members of the Executive Committee and management attend where appropriate and external advisors attend for specific matters if relevant.

THE ROLE AND ACTIVITY OF THE AUDIT COMMITTEE

The Audit Committee met five times during 2018. Its programme of activity is determined at the beginning of each year and is structured to ensure that it reviews all of the activities set out in its terms of reference. The Audit Committee has six primary responsibilities and a secondary one for monitoring its own effectiveness. This report is, therefore, presented under the following headings:

FINANCIAL REPORTING
Overseeing the Company's financial reporting to shareholders.

EXTERNAL AUDIT
Overseeing the Company's relationship with its external auditor.

RISK AND INTERNAL CONTROL
Overseeing risk, internal control, going concern and viability.

EFFECTIVENESS
Monitoring the Audit Committee's effectiveness and that of the internal and external audit functions.

INTERNAL AUDIT
Overseeing the work and findings of the Internal Audit team.

WHISTLEBLOWING
Overseeing the effectiveness of the Company's whistleblower scheme.

RELATED PARTIES
Overseeing financial aspects of the relationship with related parties.

The role and duties of the Audit Committee are set out in its terms of reference, a copy of which can be found on the Company's website at www.fresnilloplc.com.

FINANCIAL REPORTING

KEY ACTIVITIES DURING THE PAST 12 MONTHS

- Review of plan for preparing the financial statements and Annual Report for the year ending 31 December 2018.
- Review of the significant judgements and estimates that impact the financial statements.
- Review of the financial statements and Annual Report for the year ending 31 December 2018.
- Review of the reconciliation of Tax and PTU and monitoring the ongoing dialogue with the Mexican tax authorities on tax matters.
- Review of Payments to Government disclosure.
- Review of interim financial statements for 2018 and Interim Announcement.
- Consideration of new accounting standards, particularly IFRS 9, 15 and 16, and their implications for the Company's financial reporting.
- Consideration of whether any changes were required to the existing accounting policies.

SIGNIFICANT JUDGEMENT AREAS

The Audit Committee spends time ensuring that there is consistency between the policies and judgements used in preparing both the full-year and half-year financial statements prior to respectively recommending those financial statements to the Board for approval. In conjunction with management and the external auditor, the Audit Committee considers the principal areas of audit risk and judgements made in relation to the financial statements which should be considered during its review of the financial statements and the external auditor's report thereon. In many cases, these significant judgement areas will be the same as those considered in previous years; however, as the mining cycle progresses these judgement areas will evolve and new ones will need to be considered while others may become less important. This process may be summarised in the following way:

SIGNIFICANT JUDGEMENT PROCESS BY CATEGORY OF RISK

ANNUAL ASSESSMENT OF KEY AUDIT RISKS → IDENTIFICATION OF KEY VARIABLES TO CONSIDER → REVIEW OF SOURCES OF ASSURANCE → DISCUSSIONS WITH MANAGEMENT AND EY → COMMITTEE'S CONCLUSION ON TREATMENT AND SUITABILITY OF DISCLOSURE

SIGNIFICANT JUDGEMENT AREAS IN 2018

The significant judgement areas prioritised in 2018 are set out below. In each case, the Audit Committee concluded that the accounting treatment and disclosure in the financial statements is appropriate.

SILVERSTREAM CONTRACT (SEE NOTE 13 TO THE FINANCIAL STATEMENTS)	
ASSESSMENT OF THE RISK	The Silverstream contract represents a large asset on our balance sheet which can, as a result of movements in variables discussed below, give rise to large, albeit non-cash, income or expense amounts in the income statement.
VARIABLES CONSIDERED	The Silverstream contract is a derivative financial instrument which must be reflected at fair value at each balance sheet date. The fair value is most sensitive to the timing and volume of forecast production derived from the reserves and resources and production profile of the Sabinas mine, estimated future silver price and the discount rate applied in the valuation.
SOURCES OF ASSURANCE	The Audit Committee discussed with management and EY the inputs into the valuation at the balance sheet date and associated sensitivity analysis. It also reviewed management's suggested disclosures relating to the Silverstream contract. It discussed with EY their procedures for their audit of the valuation.

AUDIT COMMITTEE REPORT CONTINUED

FINANCIAL REPORTING CONTINUED

RELATED PARTY TRANSACTIONS INCLUDING REVENUE RECOGNITION (SEE NOTE 26 TO THE FINANCIAL STATEMENTS)

ASSESSMENT OF THE RISK	Fresnillo has a controlling shareholder and as a result has very strong ties both to Peñoles and the broader BAL group. There is a risk that related party relationships could be taken advantage of to manipulate earnings or otherwise distort our financial position. Furthermore, related party transaction disclosure requirements allow investors to understand the nature and extent of the Company's transactions with related parties and there is a risk that disclosures in the financial statements could be inaccurate or incomplete.
VARIABLES CONSIDERED	Every year, the Audit Committee scrutinises the probity of all major related party transactions to ensure that they are entered into transparently and fairly to all shareholders (see the section of this report headed 'Transactions with Related Parties').
SOURCES OF ASSURANCE	The Audit Committee considered management reports on the transactions with related parties during the year and for the trading relationship with Met-Mex the basis on which pricing is determined by reference to third party benchmarking reports. Transfer pricing assessments are also completed by the Group's external adviser, PricewaterhouseCoopers ('PwC'). The Audit Committee discussed EY's procedures to ensure that related party transactions are recognised accurately and correctly reported in the relevant disclosures in the Annual Report, to ensure that they are consistent with the information it is presented with during the year.

ESTIMATION OF QUANTITIES IN INVENTORY (SEE NOTE 14 TO THE FINANCIAL STATEMENTS)

ASSESSMENT OF THE RISK	Inventory from leaching pads accumulates over time during which period the potential recovery of precious metal from that inventory may change. This may result in an incorrect valuation of the metal held in the leaching pads. The re-estimation of quantities of ore held in leaching pads at Herradura had to be considered as a result of new information obtained from samples taken when a new access road was cut through the pad, following which drill samples were taken from a larger area of the pad.
VARIABLES CONSIDERED	The Audit Committee considered management's basis for the timing and quantification of the updated estimation. This included (i) the relevance of the results of the samples taken from one area of the leaching pads to all deposits; (ii) the justification for the inputs used in the inventory calculation; (iii) indicators at the prior year end, that could have highlighted the need to perform a re-estimate of recovery rates; and (iv) whether there is a need to re-evaluate the inventory at other nearby business units.
SOURCES OF ASSURANCE	The Audit Committee has discussed the answers given to EY and their specialists by the operational management team in response to enquiries concerning this matter.

MINERAL RESERVES AND RESOURCES (SEE PAGES 245 TO 247)

ASSESSMENT OF THE RISK	Reserves and resources are a primary driver of Fresnillo's market valuation and a significant input into calculations of depreciation and assessments of impairment. Inaccuracies in the estimation of reserves and resources would lead to broad implications across the Annual Report and Accounts.
VARIABLES CONSIDERED	The estimation of mineral reserves and resources requires significant judgement, not only in respect of mineral physically in place but also metal price and cost assumptions used to determine the cut-off grade for identifying economically viable ore bodies. There is also judgment in developing and maintaining the mine plans which estimate the timing and quantities of related production.
SOURCES OF ASSURANCE	The Audit Committee took into account the report by SRK Consulting (the Company's independent reserves and resources auditor) on the reserves and resources (excluding Silverstream) as presented to the Board in February 2019. The Audit Committee also considered EY's evaluation of the competence and objectivity of SRK.

TAXATION AND PTU (SEE NOTE 10 TO THE FINANCIAL STATEMENTS)

ASSESSMENT OF THE RISK	The taxation of mining companies in Mexico has been the subject of much attention and governmental action in Mexico. In accordance with the Mexican legislation, local companies also pay employee profit sharing ('PTU') equivalent to approximately 10% of the taxable income of each fiscal year. There is a risk that deductions taken when calculating tax and PTU charges may be challenged, and that any resulting exposures to payable taxation and PTU may not have been provided for appropriately. In addition, certain tax assets and liabilities are denominated in Mexican pesos and are revalued in US dollars during the period, resulting in foreign exchange gains or losses which need to be taken into account when assessing the tax charge for the period and the deferred taxes computation.
VARIABLES CONSIDERED	The Audit Committee reviews the status and potential outcomes of tax audits and significant adjustments applied to accounting profit in determining profit subject to taxation or PTU for each subsidiary which are clearly set out in papers prepared by management.
SOURCES OF ASSURANCE	Throughout the year the Audit Committee received updates on the status of tax inspections. The Audit Committee reviewed management's supporting memoranda on the consolidation of tax and PTU and sought EY's views on the same. It ascertained the degree to which such judgements and adjustments are supported by internal and/or external subject matter experts and ensured that these explanations correspond with information it was presented with during the year prior to approving the relevant disclosures in the Annual Report.

ENSURING THAT THE ANNUAL REPORT IS FAIR, BALANCED AND UNDERSTANDABLE

The Audit Committee supports the Board in ensuring that the Annual Report is fair, balanced and understandable. The approach taken by the Board in relation to the Annual Report and financial statements for the year ended 31 December 2018 is described on page 110 of the Corporate Governance Report. The Audit Committee also:

- reviews the Annual Report and financial statements, taking into account comments made and reports issued by EY and then decides whether to recommend them to the Board for approval; and
- discusses with Internal Audit any issues arising from the review that they undertake of the principal non-financial numbers in the Annual Report (which are extracted from the Company's operational records).

AUDIT COMMITTEE REPORT CONTINUED

EXTERNAL AUDIT

KEY ACTIVITIES DURING THE PAST 12 MONTHS

- Review of letter from EY providing their observations and opportunities arising from the 2017 audit process and management responses to same.
- Discussion with EY of the findings from their review of the interim results for the period ended 30 June 2018.
- Review of 2018 half-year representation letter given to EY.
- Review and approval of the external audit plan, fees and terms of audit engagement.
- Review of Financial Reporting Council ('FRC') Report on EY as a firm in respect of 2017 annual reports.
- Consideration of the independence, objectivity and qualifications of EY as external auditor.
- Review of policy on the provision of non-audit services by the external auditor and approvals.
- Review of the Audit Quality Review team report on EY's audit of the 2017 financial statements.
- Review of the results of the 'hard close audit' for the ten months to 31 October 2018.
- Review EY's report following completion of the audit for the year ended 31 December 2018.
- Review of the representation letter given to EY for the 2018 full-year audit.
- Review effectiveness of the 2018 full-year audit process.
- Recommendation to the Board of the reappointment of EY as auditor at the 2019 AGM.

During 2018, the members of the Audit Committee met twice with representatives from EY without management present and once with management without representatives of EY present, to ensure that there are no issues in the relationship between management and the external auditor which it should address. There were none.

APPOINTMENT OF THE EXTERNAL AUDITOR

In February 2018, the Audit Committee considered and recommended the re-appointment of the external auditor, EY, to the Board prior to the Company's Annual General Meeting. This recommendation took into account the commitments made by EY during the tender exercise which was conducted during 2016 (and was outlined in the Audit Committee Report for 2016). EY was first appointed as the Company's external auditor in 2008 and reappointed following this tender exercise in 2016.

The Audit Partner is Daniel Trotman and he has been the Audit Partner for four years.

EVALUATION OF THE EXTERNAL AUDITOR

The Audit Committee reviewed the FRC's Audit Quality Review ('AQR') on EY as a firm and the specific report on EY's audit of the 2017 financial statements. The conclusion from that review was that the quality of the audit was good with only limited improvements needed. The Audit Committee has evaluated the two specific points raised by the AQR and discussed them with EY. It does not consider these points to be significant and the Chairman of the Audit Committee has responded to the communications received from the FRC.

In February 2019, based on the above criteria, and following detailed discussions with management, the Audit Committee evaluated the performance of EY in 2018 and concluded that it was appropriate to recommend the reappointment of EY as external auditor at the 2019 Annual General Meeting.

QUALITY AND INDEPENDENCE OF THE EXTERNAL AUDITOR AND NON-AUDIT SERVICES POLICY

The Audit Committee is mindful of its responsibility to ensure that the external auditor maintains its independence and objectivity and is appropriately qualified with sufficient resources and expertise to fulfil the role. The Audit Committee specifically reviewed, and is satisfied with, the independence of EY as the external auditor based on disclosures provided by EY in accordance with UK Ethical Standards for the audit profession.

The Audit Committee reviewed its policy for the provision of non-audit services to the Fresnillo Group by the external auditor (the 'Policy') during the year having previously updated it in 2016. No further changes were made to the Policy in 2018. The current policy permits the engagement of the external auditor to provide statutory audit services, certain assurance, and due diligence services where fees are less than US$5,000 to be pre-approved. Any engagement of the external auditor to provide permitted services above US$5,000 is subject to the specific approval of the Audit Committee. During 2018, the Audit Committee authorised EY to provide research into transfer pricing methodologies (US$30,000), in accordance with the Policy on the basis that this piece of work was not deemed by the Audit Committee to compromise EY's independence. As at the date of this report, this work has not yet been awarded to EY.

Details of the fees paid to EY during the year as shown in note 27 to the financial statements.

RISK AND INTERNAL CONTROL

KEY ACTIVITIES DURING THE PAST 12 MONTHS

RISK	• Half-yearly reviews of the risk matrix and Key Risk Indicators ('KRIs'). • Half-yearly reviews of the Principal Risks and Uncertainties.
INTERNAL CONTROL	• Quarterly review of internal control monitoring reports to the Board. • Consideration of plan for the year-end review of the system of internal controls. • Annual review of the system of internal controls.
FINANCIAL	• Annual treasury policy review and investment of cash balances.
NON-FINANCIAL	• Regular reviews of the Anti-Bribery and Corruption Programme ('ABAC'). • Regular reports on legal matters (including land titles and litigation). • Regular reviews of IT governance, IT strategy, cyber security and data protection. • Annual review of compliance with mining licence conditions.
GOING CONCERN	• Half-yearly reviews of the Going Concern Statement and supporting papers.
VIABILITY	• Review of the process for preparing the Viability Statement including scenario planning assumptions and supporting paper. • Review of the draft Viability Statement prior to submission to Board for approval.

RISK

Management continues to build on the existing risk management framework, seeking to enhance risk governance and management across the business in line with the UK Corporate Governance Code. In order to support the Board in monitoring the normal risk management activities, the Audit Committee reviewed management's activities in relation to:

- quarterly reporting to the Board on the effectiveness of current controls;
- promoting the ownership of risk mitigation and associated controls among the process owners at the business unit level (being the first line of defence) through their periodic reporting on the effectiveness of controls; and
- ensuring that the Group's corporate values and control culture are embedded throughout the organisation.

These efforts have resulted in a transparent analysis of the operational, financial and executive management controls for each of the risks that have been identified by management in its risk universe. A quarterly report is prepared for the Board which comments on any significant variations in KRIs and management's conclusion on the likely effect on the relevant risk ratings and/or any modifications in the related controls. This is reviewed by the Audit Committee prior to its submission to the Board.

During 2018, the Audit Committee and Board formally reviewed the Principal Risks and Uncertainties of the Group prior to the publication of both the interim and full-year reports.

Further details of the risk management system are set out on pages 28 to 29.

FINANCIAL RISK MANAGEMENT

The Company's objectives and policies on financial risk management including information on the Company's exposures to market risk, such as foreign currency, commodity price, interest rate, inflation rate and equity price risks; credit risk and liquidity risk can be found in note 30 to the financial statements.

INFORMATION TECHNOLOGY

In the current year the Audit Committee continued to receive updates on the Group's IT strategy, its linkage to the Group's overall business strategy and the financial implications of that strategy for the business plan. The Audit Committee has also focused on the related risks of cyber security. The Audit Committee was satisfied that progress has been made during the year in each of these areas.

INTERNAL CONTROL

The Audit Committee assists the Board in monitoring the effectiveness of the Company's internal control environment. This monitoring includes oversight of all material controls including financial, operational, regulatory and compliance.

During 2018, the Audit Committee has continued to review the quarterly internal control monitoring document which was introduced in 2016 and which is prepared and submitted to the Board at each of its regular meetings. This document specifically reports on developments in the Key Risk Indicators and internal controls and the key findings from the quarterly Internal Audit reports.

AUDIT COMMITTEE REPORT CONTINUED

RISK AND INTERNAL CONTROL CONTINUED

During 2018, the Internal Audit team facilitated a 'roadshow' of meetings with management at each of the Business Units to discuss the differences between Internal Audit's assessment of the Group's internal controls and those of the management teams themselves. This exercise promoted a better understanding of the importance of the Group's internal procedures in mitigating risk and enhancing internal controls.

The process agreed by the Audit Committee to monitor the Group's system of internal controls is focused on improving the understanding of how the various sources of assurance (such as operational management, financial management, executive management and Internal Audit) interact in the review and execution of material controls identifying and addressing any gaps in the control framework. To this end, the Audit Committee, with the assistance of the risk function and management, has assessed its approach to monitoring the ongoing effectiveness of the Group's system of internal controls. The progress to date was reviewed by the Audit Committee in February 2019.

Further control exceptions identified in the current year include those relating to health and safety procedures, handling of explosives, further improving the monitoring of tailings deposits and procedures in relation to permits. These issues are not pervasive throughout the Group's operations but each issue has occurred at least at one of the Group's operating areas and plans for remediation have been approved and these are being progressed.

On the recommendation of the Audit Committee, the Board agreed that the following statement be made about the review of the system of internal control in the 2018 Annual Report and Accounts.

The Board has, through the Executive Committee and the Audit Committee (at its February 2019 meeting), reviewed the effectiveness of the Group's system of internal controls. As a result of this review, the Board considers that the measures that have been or are planned to be implemented complement Fresnillo's risk management framework and are appropriate to the Group's circumstances.

The Board is committed to the continued development of its internal control regime with a view to achieving and maintaining best practice levels of risk management and internal control for international mining companies listed on the London Stock Exchange.

GOING CONCERN

The Directors must satisfy themselves as to the Group's ability to continue as a going concern for a minimum of 12 months from the approval of the financial statements. The Audit Committee supported the Board in this assessment by considering whether the Company has adequate liquid resources to meet its obligations as they fall due. In February 2019, the Audit Committee reviewed the Group budget and cash flow forecasts for the period to December 2020, taking into account the Company's anticipated production profiles at each mine, budgeted capital and exploration expenditure and the sensitivity of the cashflow forecasts to movements in metal prices, including stress testing those forecasts to identify the levels to which metals prices must fall to put pressure on working capital levels.

The Audit Committee also considered EY's report on this assessment and on the reasonableness of assumptions therein, including their consistency with assumptions and estimates used elsewhere in the preparation of the financial statements. The Audit Committee also challenged management on the feasibility of the mitigating actions and the potential speed of their implementation. As a result of the procedures performed, the Audit Committee satisfied itself that the going concern basis of preparation is appropriate and the financial statements appropriately reflect the conclusions on going concern.

VIABILITY ASSESSMENT

The executive team has developed a comprehensive approach for the preparation of the Viability Statement, which was first used in the Company's annual report for the year ended 31 December 2015. This process has been reviewed each year since and incrementally developed. The key steps in this process are explained within the Viability Statement.

The Audit Committee reviewed the methodology that the executive team adopted in preparing the Viability Statement at its meeting in December 2018 and then reviewed the output from that process at its meeting in February 2019. Given that the five-year period of assessment for the purposes of the Viability Statement, the potential impact of the repayment of the US$800 million Senior Notes in 2023, was also taken into account for the first time.

The Board's Going Concern Statement and longer-term Viability Statement are set out in the Strategic Report on pages 42 and 43.

INTERNAL AUDIT

KEY ACTIVITIES DURING THE PAST 12 MONTHS

ANNUALLY	• Review of the Internal Audit Plan and its resourcing for the following year. • Evaluation of Internal Audit.
TWICE A YEAR	• Meeting between the Audit Committee and Internal Audit without management present.
QUARTERLY	• Review of significant Internal Audit findings (including progress on the most significant points from previous audits) based on the audits conducted during the most recent quarter.

The Head of Internal Audit and Deputy Director, Internal Audit attend all meetings of the Audit Committee.

The Internal Audit team seeks to complete audits of all the operating risks across all of the Fresnillo Group's mining assets on a regular basis. During the year, the Audit Committee received specific input from Internal Audit to focus on three particular areas:

1. **New mines:** Following the emphasis on auditing the Company's new mines which was initiated in 2016, Internal Audit completed its examination to ensure that proper procedures were implemented from the beginning in those new operations and to ascertain whether there were any lessons to be learned. This work was fundamental to refine methodologies and working arrangements between multiple disciplines to provide enhanced transparency to management about operational and financial performance throughout the process of building and commissioning new mines.

2. **Red flags:** At each meeting during the year, the Audit Committee focused on the progress made by management in dealing with 'red flag' items, being the most serious control weaknesses, raised during Internal Audit visits to ensure that the management responses to remediation are appropriate and timely progress in reducing the number of red flags over time.

3. **IT issues:** (including cyber security): During 2017, the Audit Committee received presentations from the Head of IT setting out the Group IT Strategy for the year and demonstrating how this supports the overall Group Strategy. The Audit Committee noted good progress in establishing appropriate procedures and systems for dealing with cyber security threats. An initial phase of work supported by PwC has now been completed and a second phase of implementation work, facilitated by Deloitte is progressing well.

In addition, the Audit Committee also monitored the quality of the dialogue between Internal Audit and the Executive Committee in reviewing internal audit findings and agreeing action plans with appropriate levels of operational buy-in to deal with the points raised. The Audit Committee met with the Chief Executive Officer and Chief Operating Officer several times during the year to review the outstanding points and is satisfied with the progress achieved through this dialogue.

The Internal Audit Plan for 2019 was reviewed at the Audit Committee meeting in October 2018 and was approved. When reviewing the Internal Audit Plan for the year, the Audit Committee also considered the personnel available within the Internal Audit team, their expertise and experience, to resource their increasing workload. For 2019, the Audit Committee requested that the Internal Audit team consider whether any additional financially-focussed audits should be considered in addition to the operational audits that are currently undertaken within the plan.

The members of the Audit Committee evaluate the performance of the Internal Audit team annually and in 2018 this process was facilitated externally by Deloitte. The findings of the evaluation were presented to the Audit Committee, and a summary of it was also presented to the Board in February 2019. Deloitte's overall view was that the Internal Audit function is performing in an effective manner. The Audit Committee will review their detailed recommendations with Internal Audit at its upcoming meetings.

AUDIT COMMITTEE REPORT CONTINUED

WHISTLEBLOWING

KEY ACTIVITIES DURING THE PAST 12 MONTHS

- Review of whistleblowing cases considered by Honour Commission at each meeting of the Audit Committee.

Fresnillo plc has a whistleblowing line available for all stakeholders, including employees, third parties and the general public. Information regarding this whistleblowing mechanism is widely circulated with access available via our website in the Ethics and Culture/Code of Conduct section. The purpose of the whistleblowing line is to encourage employees and others to raise good faith concerns about misconduct that goes or appears to go against the Company's internal Code of Conduct and our institutional values.

The 'Fresnillo Plays Fair' whistleblower hotline allows stakeholders to anonymously report (via an independent third party) violations of the Group's Code of Conduct. The results are assessed by an independent third party and processed for review by the Honour Commission, which comprises the Chief Executive Officer, the Chief Financial Officer, the Chief Operating Officer, the Compliance Officer, the Director of Internal Audit, the Vice President of Exploration and the Head of Legal. The whistleblowing reports are reviewed on a quarterly basis by Audit Committee.

These arrangements have been established for some time and the Audit Committee is responsible for ensuring that appropriate investigation of all whistleblowing incidents is undertaken in a timely manner. In 2018, there were a total of 60 reports, a 30% increase over 2017. The Audit Committee continues to view this increase being as a result of the Company's efforts to promote a greater understanding of the benefits of reporting issues and considers that this indicates that employees recognise that such reports are valued and investigations are rigorously evaluated. In 2018, 65% of the reports were concluded in the year with the remainder, having been raised in the latter part of the year, still under investigation. Further details on the whistleblowing report activity in 2018 is set out in the Sustainability Report on page 71.

During 2018, the Audit Committee was satisfied that all matters had been or are being properly investigated with appropriate action taken. The Audit Committee considers that current level of issues raised is good evidence that the programme is being taken seriously across the Group and is operating satisfactorily.

The Board and the Audit Committee have considered whether responsibility for overseeing the whistleblower arrangements should transfer to the Board itself, in line with the recommendations of the 2018 UK Corporate Governance Code. Both the Board and the Audit Committee consider that the Committee's current oversight of the whistleblower arrangements works well and, therefore, this responsibility will remain with the Audit Committee; however the Chairman of the Audit Committee will report formally to the Board concerning the Audit Committee's reviews of the whistleblower line at least twice a year in future.

RELATED PARTIES

KEY ACTIVITIES DURING THE PAST 12 MONTHS

- Review of related parties list.
- Conclusion of the renewal of the Shared Services Agreement
- Review of insurance programme (including the role of related parties in the insurance programme).
- Review of Met-Mex treatment charge and refining charge rates for 2018.

Peñoles owns just under 75% of the issued share capital of the Company (see page 115) and therefore has and will continue to have a significant level of influence over the affairs and operations of Fresnillo.

Being part of the same Group also provides an opportunity for synergistic benefits to be achieved operationally and administratively by combining the resourcing of common services that can be shared between Peñoles and Fresnillo. The principal arrangements between the Company and related parties are:

RELATED PARTIES CONTINUED

THE SHARED SERVICES AGREEMENT	The Shared Services Agreement is an agreement between the Company and Peñoles under which 24 categories of services are provided to the Company by Peñoles. The Shared Services Agreement was renewed for five years with effect from 1 January 2018. In order to ensure that Fresnillo is charged appropriately for services rendered by Peñoles under the Shared Services Agreement, management has regular meetings with Peñoles to discuss its performance against the Key Performance Indicators ('KPIs') for each of the different categories of service where issues of non-compliance are addressed and remediation agreed. In addition, Internal Audit conducts reviews of approximately one third of the services provided each year to ensure that these services are provided in accordance with the agreed KPIs. As a result, all services are reviewed by Internal Audit over a three-year cycle. As described in the 2017 Annual Report, the Audit Committee concluded that the new five-year Shared Services Agreement was reasonable in all respects and recommended that the independent Non-executive Directors approve signing of the Shared Services Agreement by the Company, which they did at the Board meeting in February 2018.
THE MET-MEX AGREEMENT	During the year, the Audit Committee considered the proposed charges in respect of the Met-Mex arrangements for 2018 comparing proposed prices to comparable prices charged by Met-Mex to independent customers and to those of other smelters taking account of ore composition and transport costs to validate that they are reasonable. Based on the satisfactory outcome of the Audit Committee's review of the proposed prices, the Audit Committee recommended to the Board that the independent Directors approve the proposed charges for 2018 under the Met-Mex arrangements, which they did at the Board meeting in October 2018.
OTHER AGREEMENTS	There are other dealings with related parties in the ordinary course of business (e.g. insurance brokerage) which, although not requiring approval by independent Directors, will from time-to-time be reviewed by the Audit Committee to ensure that the arrangements are on a reasonable arm's-length basis.

EFFECTIVENESS

KEY ACTIVITIES DURING THE PAST 12 MONTHS

- Audit Committee evaluation activities.
- Annual review of the terms of reference of the Audit Committee in order to ensure that they remain up-to-date.

Since the inception of the Audit Committee, there has been a continuing programme of evaluation which has embraced the activities of the Committee itself as well as the performances respectively of the external auditor and the Internal Audit function. At least once every three years, these reviews have been externally facilitated with internal evaluation exercises undertaken during the intervening years.

Following the 2017 external evaluation of the Committee by Lintstock LLP, an internal review of the Audit Committee was conducted by the Company Secretary used a questionnaire-based approach. The output from that review was considered satisfactory and at the meeting of the Audit Committee in December 2018 a number of specific steps were discussed, mostly focussed on further improving the time efficiency of the Committee's discussions and developing certain aspects of the reports provided to the Committee.

Members of the Audit Committee take responsibility for updating their knowledge of accounting and audit issues as well as relevant regulatory issues. They also ensure that they develop a good understanding of the Company's operations. During 2018, both Alberto Tiburcio and Charles Jacobs visited a number of the Group's mines. In addition to the usual briefings and updates that they attend, they also hosted a meeting of Audit Committee Chairs of other UK-listed resources companies to discuss current audit and accounting issues being considered across the mining sector.

The terms of reference of the Committee were reviewed to take account of the requirements of the new UK Corporate Governance Code and these were approved by the Board in February 2019.

REMUNERATION AT A GLANCE

REMUNERATION POLICY IN SUMMARY

REMUNERATION POLICY OBJECTIVE

WHAT DOES THE POLICY SEEK TO ACHIEVE?

The Group's remuneration policy seeks to ensure that the Company is able to attract, retain and motivate its Executive Directors and members of the Executive Committee. The retention of key management and the alignment of management incentives to the creation of shareholder value are the key objectives of this policy.

COMPONENTS OF DIRECTORS' REMUNERATION

HOW IS THE REMUNERATION POLICY ACHIEVED?

COMPONENT	RATIONALE
SALARY	Setting base salary levels for Executive Directors and members of the Executive Committee at an appropriate level is key to managerial retention in Mexico. Salaries are positioned within a range of possible salaries according to experience and length of service. Ordinarily, subject to performance, the same percentage will be applied to salary increases across the Company for senior management and other employees alike.
BONUS	The annual bonus rewards the achievement of financial and strategic business targets and the delivery of personal objectives. Annual bonus is capped at six months' salary and is paid on the basis of metrics set out in the remuneration policy.
LONG-TERM INCENTIVES	The annual bonus scheme sets targets which are aligned to the long-term strategic objectives so that these priorities are embedded within the day-to-day activities of our business. The Company does not operate a long-term incentive plan.
BENEFITS	Benefits are provided in line with the Group's policy on employee benefits.
PENSION	The Group operates a defined contribution scheme. Executive Directors and key management are entitled to membership of the defined contribution scheme.
SHARE BASED REMUNERATION	The Company does not use share-based forms of remuneration because historically it has not been a common form of remuneration in Mexico.
ADDITIONAL FEATURES OF FRESNILLO'S REMUNERATION POLICY	
SHAREHOLDING GUIDELINES	In the absence of share-based incentive schemes, the Company does not adopt shareholding guidelines for executives.
RECOVERY OF BONUS	The absence of long-term incentives and the operation of Mexican law makes it difficult to adopt claw-back and malus arrangements. There is however scope within the bonus scheme for bonus awards to be adjusted downward at the discretion of the Remuneration Committee.

WHAT WAS ACHIEVED? PERFORMANCE HIGHLIGHTS AND OUTCOMES IN 2018

SILVER PRODUCTION (MOZ)	GOLD PRODUCTION (KOZ)	TOTAL SILVER RESERVES (MOZ)	TOTAL GOLD RESERVES (MOZ)	PROFIT FOR THE YEAR (US$M)
61.8 +5.3%	922.5 +1.3%	476.9 -5.1%	11.0 -6.0%	350.0 -37.6%
(2017: 58.7)	(2017: 911.1)	(2017: 501.7)	(2017: 11.7)	(2017: 560.8)

OBJECTIVE OF THE ANNUAL BONUS

WHAT DOES THE ANNUAL BONUS SEEK TO ACHIEVE?

The annual bonus is set for and based on performance over a single-year period but the KPIs and targets are also designed to ensure that both short-term objectives and the long-term development of the Fresnillo Group are given broadly equal priority within variable remuneration.

BALANCING LONG-TERM AND SHORT-TERM OBJECTIVES

HOW IS THE ANNUAL BONUS STRUCTURED?

LINK TO STRATEGY

1 EXTEND THE GROWTH PIPELINE

2 DELIVER GROWTH THROUGH DEVELOPMENT PROJECTS

3 MAXIMISE THE POTENTIAL OF EXISTING OPERATIONS

4 ADVANCE SUSTAINABLE DEVELOPMENT

BONUS CATEGORY	WEIGHTING (%)	MEASURE	IMPACT Short-term vs. **Long-term**
3 PRODUCTION	26	Increase in equivalent ounces produced	Drives annual results **Supports long-term financial sustainability**
3 4 SAFETY	5+/-5	Fatalities	Ensures a safe working environment **Creates a positive culture**
1 2 3 RESOURCES	30	1 Increase in total resources 2 Increase in resources upgraded	**Ensures that the long-term prospects are enhanced**
1 2 STAKEHOLDERS	11	Various linked to employee, supplier and community relations	**Maintains the business model over the long term**
1 2 3 FINANCIAL	17	Adjusted net profit	Drives annual results **Supports long-term financial sustainability**
1 2 4 TEAMWORK	11	1 Teamwork 2 Succession planning	Improves short-term performance **Sustainable management team**
3 4 SAFETY & ENVIRONMENT	PENALTIES	1 Multiple fatalities 2 Environmental incidents	Ensures a safe working environment **Reduces risk of long-term environmental damage**

Note: Net Profit is adjusted to exclude currency fluctuation, the effect of year-on-year changes in metal prices and any revaluation of the Silverstream Contract.

In addition to Penalties based on the metrics, the Remuneration Committee also has discretion to reduce bonus payments in the event of poor operational and financial performance, see Remuneration Policy on pages 143 to 147.

TOTAL ENVIRONMENTAL INCIDENTS	FATALITIES
0	5
(2017: 0)	(2017: 1)

CEO'S 2018 REMUNERATION

TOTAL SALARY (US$'000)	BONUS (US$'000)
830 +4.0%	Nil -100%
(2017: 809)	(2017: 98)

DIRECTORS' REMUNERATION REPORT
CHAIRMAN'S ANNUAL STATEMENT

DEAR SHAREHOLDER

This year has been a year of reflection for the Remuneration Committee. We continue to welcome the support of our shareholders for our remuneration arrangements and I was pleased to see that this support was again strongly demonstrated at our 2018 AGM.

For some time, however, the Remuneration Committee has been considering whether the annual bonus arrangements for our senior management team could be better aligned to our strategy. As the Company moves from a phase of fairly rapid growth to one of consolidation, we believe that some realignment would be helpful. In reflecting on this, we have also considered the feedback that we received from shareholders on our remuneration arrangements. In last year's annual report, we stated that there would be a cap on any individual component of the bonus arrangements of 135% of target. More recently, we have further refined the bonus scheme to better align the KPIs to the requirements of our current strategy and growth profile and also introduce a sliding scale of payments between two months' salary and six months' salary for maximum achievement in place of the stepped payment thresholds between target and maximum that we currently have. We believe that these changes, which are designed to improve the effectiveness of our bonus plan should be approved by our shareholders and, therefore, we are submitting our remuneration policy for approval at the 2019 AGM. I would ask for your support for these amendments.

The Remuneration Committee has considered the requirements of the new UK Corporate Governance Code. Given that our remuneration policy does not anticipate the use of long-term share-based incentives, the most significant elements of the new Code do not apply to Fresnillo. However, there are some important principles set out in the new Code which we recognise are important. The Remuneration Committee considers that the Company's remuneration policy has always been inherently clear, simple, predictable and proportionate. We also firmly believe that our policy is designed to avoid of excessive rewards. However, the changes to the remuneration policy, which we are proposing at the 2019 AGM, seek to create even closer alignment between remuneration and the Company's purpose, values and strategy. The main changes proposed to be made to the Policy are summarised below:

Proposed change	Rationale
Updating the KPIs referred to in the Policy, both in terms of the objective themselves and the measures relating thereto.	To better align the incentives for the Executive Committee members with the requirements of the business as the Group moves into a phase of slower organic growth.
Introducing a cap on each of the KPIs (other than the Safety KPI) such that the points awarded on any KPI (other than Safety) cannot exceed 135 per cent. of the target set for that KPI at the beginning of the year.	To mitigate the possibility that high performance in one category could make up for poor performance in all other categories.
Introducing a sliding scale for bonus awards between 100 points (two months' salary) and 115 points (six months' salary) rather than the current stepped approach.	To more closely align bonus to actual performance.

In our Remuneration Report, we continue to publish remuneration information in respect of our Chief Executive Officer as if he were a member of the Board, even though that is not the case. We believe this is an appropriate addition to the transparency of our reporting. As ever, I am always interested to hear the views of shareholders on our approach to executive remuneration.

Yours faithfully

Charles Jacobs
Chairman of the Remuneration Committee

DIRECTORS' REMUNERATION REPORT
ANNUAL REPORT ON REMUNERATION 2018

INTRODUCTION

This Report sets out information about the remuneration of the Directors and Chief Executive Officer of the Company for the year ended 31 December 2018. In accordance with the Regulations (as defined on page 143), the information provided in the section entitled 'Directors' Remuneration – 1 January 2018 to 31 December 2018' and accompanying notes, has been audited by Ernst & Young LLP.

Although the Chief Executive Officer is not currently a member of the Board, the Remuneration Committee has elected to report on his remuneration in this Report as if he were a Director, in keeping with the spirit of the Regulations.

AUDITED INFORMATION – DIRECTORS' REMUNERATION – 1 JANUARY 2018 TO 31 DECEMBER 2018

SINGLE TOTAL FIGURE OF REMUNERATION

The detailed emoluments received by the Executive and Non-executive Directors and the Chief Executive Officer during the year ended 31 December 2018 are detailed below:

US$'000	Salary/Fees 2018	Benefits 2018	Annual bonus 2018	Pension 2018	Total 2018	Salary/Fees 2017	Benefits 2017	Annual bonus 2017	Pension 2017	Total 2017
Chairman										
Alberto Baillères	47	0	0	0	47	43	0	0	0	43
Non-executive Directors										
Juan Bordes	47	0	0	0	47	43	0	0	0	43
Arturo Fernández	47	0	0	0	47	43	0	0	0	43
Jaime Lomelín	47	0	0	0	47	43	0	0	0	43
Fernando Ruiz	47	0	0	0	47	43	0	0	0	43
Guy Wilson[1]	49	0	0	0	49	118	0	0	0	118
Alejandro Baillères	47	0	0	0	47	43	0	0	0	43
Bárbara Garza Lagüera	47	0	0	0	47	43	0	0	0	43
Charles Jacobs	120	0	0	0	120	118	0	0	0	118
Jaime Serra	47	0	0	0	47	43	0	0	0	43
Alberto Tiburcio[2]	58	0	0	0	58	43	0	0	0	43
Dame Judith Macgregor[3]	120	0	0	0	120	72	0	0	0	72
Georgina Kessel[4]	28	0	0	0	28	–	–	–	–	–
Total	751	0	0	0	751	695	0	0	0	695
Chief Executive Officer (not a member of the Board during the year)										
Octavio Alvídrez[5,6]	830	78	0	(22)	886	810	81	98	83	1,072
Grand total	1,581	78	0	(22)	1,637	1,505	81	98	83	1,767

1 Guy Wilson retired from the Board on 30 May 2018.
2 Alberto Tiburcio's increase in fees are due to his increased responsibilities as Chairman of the Audit Committee.
3 Dame Judith Macgregor was appointed to the Board on 23 May 2017.
4 Georgina Kessel was appointed to the Board on 30 May 2018.
5 Benefits provided to Mr Alvídrez include the cost of life insurance premiums 2018: US$28,632 (2017: US$26,536), club memberships 2018: US$3,039 (2017: US$1,748), subsistence and other meal benefits 2018: US$5,147 (2017: US$13,613), premiums for medical insurance covering limited expenses and check-ups 2018: US$2,534 (2017: US$5,045), chauffeur 2018: US$32,818 (2017: US$29,780), car 2018: US$5,185 (2017: US$3,957) and social security costs 2018: US$1,041 (2017: US$993).
6 The basis of calculation for Mr Alvídrez' annual bonus for 2018 is set out in the following table.

The Company does not operate a long-term incentive plan or any share-based incentives.

DIRECTORS' REMUNERATION REPORT CONTINUED
ANNUAL REPORT ON REMUNERATION 2018 CONTINUED

The objectives, as applied to Mr Alvídrez' annual bonus payment, the measures associated with each objective, and the relative weighting between objectives, are detailed below:

Bonus category	Measure	Weighting points[1]	2018 KPI target	2018 result	2018 points award	2017 result	2017 points award
Production	Increase in equivalent ounces produced[2] *This information is shown on page 25*	26	129.3 million equivalent ounces of silver (2017: 118.8 million equivalent)	**122.7**	**24.7**	118.0	25.9
Resources	Increase in total resources[2] *This information is shown on pages 245 and 246*	10	At least maintain prior year total resources	**100%**	**10.0**	103%	10.3
	Increase in resources upgraded from inferred to measured/indicated[2] *This information is shown on page 245*	20	At least maintain prior year total indicated resources	**103%**	**20.6**	101%	20.2
Financial	Adjusted net profit[3]	17	US$486 million[4] (2017: US$384 million)	**US$373 million**	**13.1**	US$442 million	19.6
Stakeholder	Relationship with key stakeholders e.g. communities and unions[4]	5	Unmeasured	**7**	**7**	5	5
	Management of land rights[4]	3		**4**	**4**	4	4
	Controls over contractors[4]	3		**4**	**4**	4	4
Teamwork	Collective teamwork across the Group[4]	5	Unmeasured	**7**	**7**	7	7
	Progressing the Succession Plan for Executive Committee positions[4]	6		**6**	**6**	5	5
Safety	Fatal accidents[5]	5		**5**	**0**	1	0
Sub-total		**100**			**96.4**		101.0
Penalties:	Safety: Environment:	– –	Zero fatal accidents[6]: Zero serious incidents[7]:		**(9.3)** **0**		0 0
Sub-total		**100**			**87.1**		101.0
Discretion[8]		**100**			**–**		–
Total		**100**			**87.1**		101.0

1 The points weighting is considered by the Remuneration Committee each year to ensure that it reflects an appropriate balance of priorities for management. Where a change of emphasis is considered to be necessary, the weighting will be amended in future years.
2 Any decrease in equivalent ounces produced and/or in reserves and resources will result in points being deducted from the total points scored in proportion to the level of the shortfall compared to the previous year. Production excludes amounts from the Silverstream contract and is compared against budget for the year. Total resources includes 100% of all of the resource estimates at the Group's controlled mines, irrespective of ownership.
3 Net profit is adjusted to exclude currency fluctuation, the effect of year-on-year changes in metals prices and any revaluation of the Silverstream contract. The 2018 net profit amount for the purposes of the 2018 annual bonus was in line with this approach. A table setting out the reconciliation of net profit to the numbers reported in the financial statements is set out on page 135. The target is set as the prior year profit, excluding the revaluation of the Silverstream contract, the mark-to-market revaluation of derivatives and foreign exchange gains/losses in the prior year.
4 The points awarded for the stakeholder and teamwork objectives are subject to some discretion. The following points are awarded depending on the Remuneration Committee's assessment of the stakeholder and teamwork effort: Satisfactory performance = 100% of weighting points; outstanding performance = 140% of weighting points; and underperformance = 0 points.
5 In the event of a single fatality, zero points will be awarded for safety. For the purposes of calculating fatalities; all fatalities are included, irrespective of whether they are employees or contractors. Conversely, in the event of zero fatalities during the year, the number of points awarded would be increased to ten points.
6 In addition to the loss of points for a single fatality (see note 5), the number of points awarded will be further reduced by 1% if there are two fatalities, or by 2% if there are three fatalities, or by 3% if there are four fatalities etc.
7 In the event of an environmental incident, the total bonus score will be reduced by 2%, in the case of two incidents, a further 3% will be deducted. In the case of three incidents, a further 4% and so on.
8 Under the current Remuneration Policy and proposed Remuneration Policy, the Remuneration Committee has discretion to make adjustments to bonus payments (see section headed Discretion in the table on page 144).

RECONCILIATION OF ADJUSTED NET PROFIT TARGETS AND OUTCOMES TO THE FINANCIAL STATEMENTS

US$ millions	2018 Result	2017 Result
Profit for year as shown in financial statements	350.0	560.8
Adjustments:		
Changes due to currency fluctuations	(27.5)	30.3
Changes due to year-on-year movements in metal prices (including the effects of metal hedging)	61.4	(69.3)
Changes due to the movement in the valuation of the Silverstream contract	(10.5)	(79.6)
Adjusted net profit total for bonus purposes	373.0	442.2

EXPLANATION OF NON-FINANCIAL TARGETS AND COMMITTEE DECISION ON POINTS AWARDED

Relationship with stakeholders	Performance was in line with expectations.
Surface tenure	Performance continued to be in line with expectations.
Controls over contractors	Improvements made during 2017 were maintained during 2018.
Collective teamwork	Improvements made during 2017 were maintained during 2018.
Succession plan for Executive Committee positions	A key appointment to the Executive Committee was made at the end of the year.

PENSION ENTITLEMENT

The pension entitlement of the Chief Executive Officer is as follows:

US$'000	Defined Contribution Scheme ('DCS')	Defined Benefit Scheme ('DBS')
Rights as at 31 December 2018[1]	617	869
Additional benefit in the event that the Chief Executive Officer retires early.	In the event of early retirement, Mr Alvídrez is entitled to receive his accumulated contributions (both member and Company) to the DCS.	Mr Alvídrez is not currently entitled to any additional benefit on early retirement in the DBS.

	Accumulated accrued benefits		Increase in accrued benefits during the year (note 1)		Increase, before inflation and the exchange, in accrued benefits during the year	
US$'000	At 31 December 2018	At 31 December 2017	2018	2017	2018	2017
Octavio Alvídrez	1,486	1,447	39	150	5	83

1 The increase in accrued benefits during the year includes a revaluation effect of US$ (25k) (2017: US$19k).

Mr Alvídrez is expected to retire at his normal retirement age of 60 years old.

DIRECTORS' REMUNERATION REPORT CONTINUED
ANNUAL REPORT ON REMUNERATION 2018 CONTINUED

SHARES HELD BY DIRECTORS

The number of Ordinary Shares of the Company in which the Directors were beneficially interested at 1 January 2018 and at 31 December 2018 was:

	1 January 2018	31 December 2018
Alberto Baillères[1]	552,595,191	552,595,191
Juan Bordes	15,000	15,000
Arturo Fernández	–	–
Jaime Lomelín	–	–
Fernando Ruiz	30,000	30,000
Guy Wilson[2]	15,000	N/A
Alejandro Baillères	–	–
Bárbara Garza Lagüera	–	–
Charles Jacobs	–	–
Jaime Serra	–	–
Alberto Tiburcio	–	–
Dame Judith Macgregor	–	–
Georgina Kessel[3]	N/A	–

1 Alberto Baillères holds an indirect interest in the Company. Mr Baillères and companies controlled by Mr Baillères hold, in aggregate 68.9% of the issued share capital (and voting rights) of Peñoles. Peñoles holds 552,595,191 Ordinary Shares (74.99%) of the issued share capital in the Company. Fresnillo plc and Peñoles are part of the consortium known as Grupo BAL which is controlled and directly or indirectly majority-owned by Mr Baillères.
2 Guy Wilson retired from the Board on 30 May 2018.
3 Georgina Kessel was appointed to the Board on 30 May 2018.

UNAUDITED INFORMATION

IMPLEMENTATION OF REMUNERATION POLICY IN 2018

CHIEF EXECUTIVE OFFICER SALARY AND BENEFITS

The total remuneration paid to the Chief Executive Officer, Octavio Alvídrez, during the year was US$886,112.

During the year, Mr Alvídrez served as Chief Executive Officer but was not a member of the Board. Mr Alvídrez is employed under a contract of employment with Servicios Administrativos Fresnillo S.A. de C.V., a subsidiary of Fresnillo plc. Mr Alvídrez' contract commenced on 15 August 2012 and is governed by Mexican Federal Labour Law. Mr Alvídrez' service agreement does not have a fixed term and can be terminated in writing by either party. There is no provision in Mr Alvídrez' service agreement entitling him to additional compensation for termination other than those required by Mexican labour laws for termination without cause. No benefits are payable on termination.

The salary payable under Mr Alvídrez' service agreement is MX$972,010 per month, which excludes payments for holidays, Company-paid savings contributions and other cash benefits. In 2018, his total salary payments were MX$15,985,844 (US$829,925). In 2017, his total salary payments were MX$15,322,731 (US$809,480). In 2018, Mr Alvídrez was awarded a salary increase of 4.5%. The percentage level of salary increases for employees during the year was an average of 5.5%. As required by the Directors' Remuneration Policy, Willis Towers Watson have confirmed that the Chief Executive Officer's remuneration remains in line with the Remuneration Policy.

Under his service agreement, Mr Alvídrez is entitled to 26 working days' paid holiday per year. He is not entitled to profit-sharing ('PTU'). Mr Alvídrez is also entitled to life insurance, the use of a chauffeur and company car, the payment of medical insurance premiums covering limited expenses and check-ups, meals and subsistence payments and club subscriptions.

The Remuneration Committee consider that year-on-year changes to the remuneration of the Chief Executive Officer align equitably with changes in the remuneration of the Company's workforce for the following reasons:

Salary	The Remuneration Committee ordinarily use the same percentage agreed for the whole workforce as the percentage basis for the annual salary increase for the Chief Executive Officer.
Bonus	The Chief Executive is prohibited from participating in the PTU scheme and therefore may only receive a bonus maximum equal to six months' pay. All other employees are eligible for PTU payments annually which can be as high as 200% of salary in exceptional years.
Benefits	The Chief Executive Officer participates in the Company-wide benefits scheme.
Pension	The Chief Executive Officer is a member of the Company's standard pension scheme.

ANNUAL BONUS

Mr Alvídrez achieved 87.1 points under the bonus scheme for the year ended 31 December 2018 (2017: 101.0 points) and therefore was not awarded a bonus for 2018.

PENSIONS

The Group operates a defined contribution scheme (which was introduced on 1 July 2007). Further information on the Group's pension schemes is set out in the Remuneration Policy on page 145.

RECOVERY OF BONUS

The Remuneration Policy gives the Remuneration Committee discretion to reduce bonus payments to take account of poor operational or financial performance during the year or in relation to previous years. Downward adjustment would also be considered where the executive response to adverse health, safety or environmental performance during the year was considered to be poor. Such discretion would be applied after any adjustments in relation to safety and environmental performance had already been deducted under the annual bonus plan see page 144 in the Directors' Remuneration Policy section.

YEAR-ON-YEAR PERCENTAGE CHANGE IN REMUNERATION OF CEO AND ALL EMPLOYEES

	Percentage change (in US dollar amounts) 2018–2019		
	Base salary/Fees	Benefits	Annual bonus
Chief Executive Officer	2.5%	(4.0%)	(100%)
All employees	18.0%	6.8%	2.1%

IMPLEMENTATION OF THE REMUNERATION POLICY IN 2018 AND 2019

The Remuneration Committee established the peer group of companies for the purposes of validating the remuneration of Executive Directors and senior management (the 'Peer Group'). The Peer Group consists of 11 resources companies from Europe (three companies), USA and Canada (six companies) and Mexico (two companies) as follows:

Europe	Randgold Resources
	Acacia Mining
	Hochschild Mining
USA/Canada	Agnico Eagle Mines Ltd
	Goldcorp Inc.
	Hecla Mining Co.
	Newmont Mining Corporation
	Panamerican Silver Corp.
	Yamana Gold Inc.
Mexico	Goldcorp
	Grupo Mexico

The Remuneration Committee has agreed that the Chief Executive's salary should be set within a range of 25–75% of the Peer Group for base salary. In 2017, Willis Towers Watson advised the Remuneration Committee that the CEO's salary remains well within the parameters set out in the remuneration policy. A further review will be conducted in April 2019.

The Remuneration Committee has considered the effectiveness of key performance indicators ('KPIs') and targets that were set for 2018 and it continues to consider that the overall structure of the Annual Bonus Plan as set for 2018 remains broadly appropriate for 2019. However, recognising that the Company is moving into a phase of consolidation rather than growth, the Remuneration Committee received a revised proposal for the structure of the annual bonus plan. The Remuneration Committee also, with effect from 2018, introduced a cap on each of the KPIs (other than the Safety KPI) such that the points awarded on any KPI (other than Safety) cannot exceed 135% of the target set for that KPI at the beginning of the year. Since 2017, the Remuneration Committee has been given discretion under the Remuneration Policy to amend bonus payment outcomes in certain circumstances (as set out in the Remuneration Policy). Such discretion is unaffected by this cap.

The 2019 weightings and measures are therefore set out in the table below. The 2019 targets and performance against those targets will be disclosed in next year's report.

DIRECTORS' REMUNERATION REPORT CONTINUED
ANNUAL REPORT ON REMUNERATION 2018 CONTINUED

Objective	Measure	Weighting points[1]
Financial	(Adjusted EBITDA 2019/Budgeted EBITDA) x 100[4]	20
Production	Increase in equivalent ounces produced compared to the prior year production level[3]	20
Exploration	(Total Resources 2019/Total Resources 2018) x 100[2]	3
	Net increase in resources upgraded from inferred to measured and indicated (MI Resources 2019/MI Resources 2018) x 100[2]	4
	Reserves replenishment[2] (Reserves 2019/Reserves 2018) x 100	4
Exploration Projects Progress	Progress compared to project plan for four key exploration projects (to be reviewed each year) (Target = 90% progress: Maximum = 100% progress, proportional decrease to nil points below 90%)	10
Projects	Progress compared to project plan for three key development projects (to be reviewed each year) (Target = 92% progress: Maximum = 100% progress, proportional decrease to nil points below 92%)	11
Human Resources	Performance of contractors Management of contractors – progress with stripping programmes (Target = 90% progress: Maximum = 100% progress, proportional decrease to nil points below 90%)[4]	5
	Unionised labour relations (Discretionary award)[4]	2
	Management of contractors programme (Target = 90% progress on planned work: Maximum = 100% progress, proportional decrease to nil points below 90%)[4]	1
Safety	Fatal accidents (see note 5 below)[5]	
	Progress in implementing the safety plan for the year (Target = 95% progress: Maximum = 100% progress, proportional decrease to nil points below 95%)	3
	Reduction in the Lost Days Ratio compared to previous year (Lost days/Total Headcount, including contractors) Maximum: 10% or more reduction	3
	Reduce the Injury Rate compared to previous year (Total accidents /Headcount) Maximum: 10% or more reduction	3
Communities	Project-based target to be determined each year	6
Synergies and collective teamwork	Discretionary target to be agreed by the Chairman and Deputy Chairman	4
Environment Management	Based on a score card for managing environmental risks	3
Total		**100**
Adjustments[6,7,8]		–
Total		**100**

1 The points weighting is considered by the Remuneration Committee each year to ensure that it reflects an appropriate balance of priorities for management according to the Strategic Plan. Where a change of emphasis is considered to be necessary, the weighting will be amended in future years. For 2019, the targets, weighting and measures have been amended to reflect that the Company is moving into a phase of consolidation rather than growth.
2 Increase of 2.0 points per each 1% of audited Resources above Target. A decrease of 2.0 points per each 1% below Target. Resources will be weighted to take account of quality and potential commercial viability. Increase of 2.0 per each 1% of audited Reserves above Target. A decrease of 2.0 points per each 1% below Target. Reserves will be weighted to take account of quality and commercial viability.
3 For 2019, lead and zinc production will be included in the production target as well as silver and gold. Increase of 1.0 point per 1.00% increase in Production up to 5.0 points. Decrease of 1 point in the case of a 1% decline in Production from zero to 5% reduction, decrease of 1.5 for each additional 1% decline between 6% and 10% reduction, for each additional 1% percentage decline beyond 10% decline, 3 points are deducted.
4 EBITDA is adjusted to exclude currency fluctuation, the effect of year-on-year changes in metals prices and any revaluation of the Silverstream contract. Increase of 1.0 point per 1.00% increase in EBITDA up to 7.0 points, decrease of 1 point in the case of a 1% decline in EBITDA from zero to 5% reduction, decrease of 1.5 for each additional 1% decline between 6% and 10% reduction, for each additional 1% percentage decline beyond 10% decline, 2.5 points are deducted.
5 In the event of zero fatalities during the year, a premium of 10 points will be awarded for safety. For the purposes of calculating fatalities; all fatalities are included, irrespective of whether they are employees or contractors.
6 In the event of a fatality, zero points will be awarded for safety, the number of points awarded will be further reduced by 1% if there are two fatalities. From the remaining total score, an additional 2% will be deducted if there are three fatalities. In the case of four fatal accidents, an additional 3% will be deducted from the remaining total score and so on for further fatalities.
7 In the event of an environmental incident, the total bonus score will be reduced by 1% per each Environmental Incident reported to Profepa up to three incidents. In the case of four incidents or more, a further 3% for each incident will be deducted and so on.
8 Under the Remuneration Policy, the Remuneration Committee has discretion to make adjustments to bonus payments in certain circumstances.
9 The maximum points awarded cannot exceed 35% above the weighting.

NON-EXECUTIVE DIRECTORS LETTERS OF APPOINTMENT

The key terms of the Non-executive Directors' letters of appointment for the directors serving during the year are as follows:

Director	Date of original letter of appointment	Notice period from Director to the Company	Duration of term[1]	Fees p.a.
Alberto Baillères	15 April 2008	3 months	1 year	£35,000
Juan Bordes	15 April 2008	3 months	1 year	£35,000
Arturo Fernández	15 April 2008	3 months	1 year	£35,000
Fernando Ruiz	15 April 2008	3 months	1 year	£35,000
Alejandro Baillères	16 April 2012	3 months	1 year	£35,000
Jaime Lomelín	15 August 2012	3 months	1 year	£35,000
Bárbara Garza Lagüera	11 April 2014	3 months	1 year	£35,000
Charles Jacobs	11 April 2014	3 months	1 year	£90,000
Jaime Serra Puche[2]	11 April 2014	3 months	1 year	£35,000
Alberto Tiburcio	4 May 2016	3 months	1 year	£50,000
Dame Judith Macgregor	22 May 2017	3 months	1 year	£90,000
Georgina Kessel	7 May 2018	3 months	1 year	£35,000

1 Unexpired term: the Non-executive Directors all have rolling contracts which are subject to the annual re-election at the Annual General Meeting. The current term expires on 21 May 2019, being the date of the next Annual General Meeting but the appointment will continue after that date provided that each Director is re-elected at the AGM.
2 Jaime Serra Puche resigned from the Board on 25 February 2019.

Unless otherwise determined, the Director concerned may give not less than three months' notice of termination of the appointment. Copies of the Directors' letters of appointment and service agreements are available for inspection at the Company's registered office.

REMUNERATION COMMITTEE

ROLE

The Remuneration Committee has responsibility for making recommendations to the Board on the Group's Remuneration Policy for Executive Directors and the Chief Executive Officer and other members of the Executive Committee, and for determining specific remuneration packages for senior management, including pension rights and any compensation packages, as well as remuneration of the Chairman within agreed terms of reference.

MEMBERSHIP

The Remuneration Committee consisted of the following Directors as at 31 December 2018:

- Mr Charles Jacobs (Chairman), independent Non-executive Director;
- Mr Alberto Baillères, Chairman of the Board; and
- Mr Jaime Serra, independent Non-executive Director.

Although the UK Corporate Governance Code states the need for the Remuneration Committee to be made up of independent Non-executive Directors, the Board believes that it is vital that the membership of the Committee is made up of Non-executive Directors who are able to bring the following perspectives to the working of the Remuneration Committee:

- an understanding of shareholder expectations;
- an understanding of the evolving remuneration expectations of investors on the London Stock Exchange, and
- an understanding of the general approaches to remuneration within the Mexican market.

The current composition of the Remuneration Committee is considered to be appropriate. Although Mr Baillères was non-independent at the time of his appointment to the Board (and therefore his membership of the Remuneration Committee does not comply with Code Provision D.2.1 of the UK Corporate Governance Code), the Board continues to uphold the view that Mr Baillères' experience and knowledge of the Group and the Mexican market and his considerable contribution to the Remuneration Committee's deliberations justifies his membership of the Remuneration Committee.

DIRECTORS' REMUNERATION REPORT CONTINUED
ANNUAL REPORT ON REMUNERATION 2018 CONTINUED

REMUNERATION COMMITTEE ACTIVITY DURING THE PAST 12 MONTHS

Attendance	
Mr Charles Jacobs	3/3
Mr Alberto Baillères	3/3
Mr Jaime Serra	2/3

During the year, the Committee met three times. Its key activities during the year were:
- Approval of and recommendation of changes to the Remuneration Policy to the Board for approval prior to inclusion in the business of the 2018 AGM for shareholder approval.
- Review of reports from Willis Towers Watson concerning the benchmarking of remuneration for members of the Executive Committee and Executive Directors, by reference to the Peer Group.
- Consideration of information about Mexican inflation trends and internal employee salary reviews prior to setting the annual salary increases for the Chief Executive Officer and members of the Executive Committee.
- Review of a report from Willis Towers Watson concerning developments in market practice in Mexico in relation to long-term share-based incentives.
- Review of the Non-executive Directors' fees.
- Review of the performance of the Chief Executive Officer and members of the Executive Committee compared to the KPIs set for 2017 and approval of annual bonus awards for 2017 based on achievement of KPI targets.
- Review of KPI targets for the Chief Executive Officer and members of the Executive Committee for 2018, including consideration of the effectiveness of changes to the targets to reward better performance in safety improvement and exploration efforts set the previous year.
- Revision of KPIs for Chief Executive and members of the Executive Committee for 2019 to better align with Strategic Plan.
- Receipt of reports from the Company Secretary on UK regulatory developments in relation to executive remuneration, including the implications of changes to the UK Corporate Governance in relation to remuneration.
- Other activities, e.g. Committee evaluation, as required by the Committee's terms of reference and review of the terms of reference of the Committee.

The terms of reference for the Remuneration Committee have been approved by the Board and are available on the Company's website at www.fresnilloplc.com.

ADVISORS TO THE REMUNERATION COMMITTEE
Remuneration consultants are engaged by Group companies to provide benchmarking information on remuneration but not to provide guidance on the structure of remuneration. All of the consultants that the Group uses are independent of the Company. No remuneration consultants are directly engaged by the Remuneration Committee itself.

Benchmarking information on pay and employment conditions is supplied annually by Mercer, Hay Group and Data Compensation. The information provided is used across the Group in determining salaries for all employee grades including senior management. While the Remuneration Committee takes such information into account when considering executive remuneration, none of these advisors are considered to materially assist the Remuneration Committee in the performance of its duties.

In addition, the Remuneration Committee receives specific reports comparing the remuneration of the members of the Executive Committee to international benchmarks. Willis Towers Watson have advised the Remuneration Committee in relation to the establishment of the Peer Group and the provision of benchmarking information showing the position of the remuneration, and particularly the salaries, of members of the Executive Committee in relation to the Peer Group. Willis Towers Watson provide general advice and benchmarking information to the Group concerning executive remuneration and during 2018, the Group paid Willis Towers Watson US$Nil (2017: US$20,735).

The Company Secretary ensures that the Remuneration Committee fulfils its duties under its terms of reference and provides regular updates to the Remuneration Committee on relevant regulatory developments in the UK.

The Group Human Resources Department provides information on Mexican market trends and compensation structures for the broader employee population in the Fresnillo Group.

AGM VOTING ON THE REMUNERATION REPORT

The Remuneration Committee's approach to executive remuneration has received strong support from shareholders at every Annual General Meeting since the Company's listing on the London Stock Exchange in 2008. More than 98% of independent share votes cast on the advisory vote at each AGM have been in favour of the Directors' Remuneration Report.

	All shares voted		Free float shares voted		
	For	Against	For	Against	Number of votes withheld
2011	99.98%	0.02%	99.88%	0.12%	5,125
2012	99.91%	0.09%	99.54%	0.46%	1,814,818
2013	99.97%	0.03%	99.82%	0.18%	115,987
2014: Remuneration Policy	99.72%	0.28%	98.69%	1.31%	532,589
2014: Remuneration Report	100.00%	0.00%	99.99%	0.01%	531,072
2015: Remuneration Report	99.91%	0.09%	99.55%	0.45%	814,989
2016: Remuneration Report	99.89%	0.11%	99.48%	0.52%	44,391
2017: Remuneration Policy	99.87%	0.13%	99.42%	0.58%	43,901
2017: Remuneration Report	99.86%	0.14%	99.34%	0.66%	43,901
2018: Remuneration Report	99.79%	0.21%	98.99%	1.01%	12,203
2018: Remuneration Policy amendment	99.45%	0.55%	97.32%	2.68%	9.907

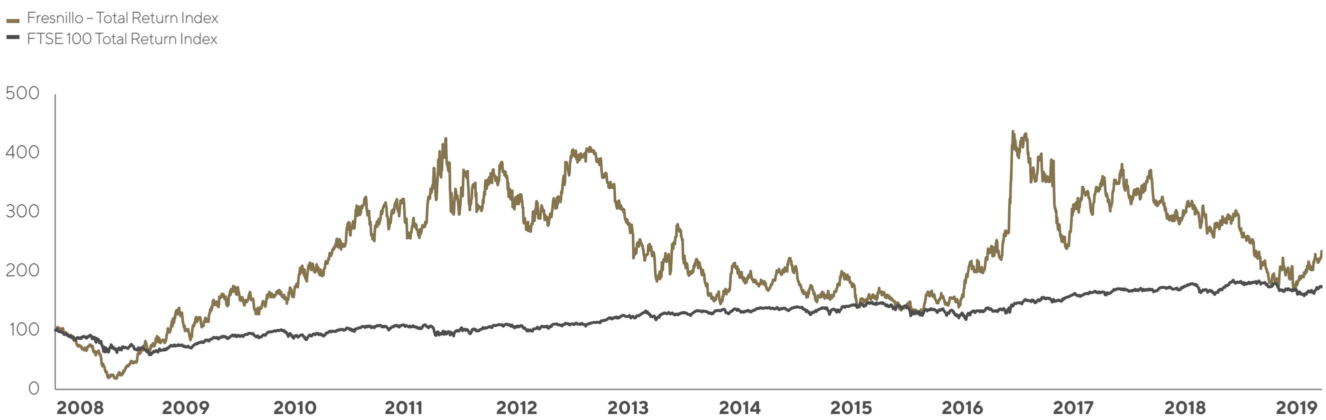
Note: Prior to 2014, there was only one vote on the Directors Remuneration Report at each Annual General Meeting.

PAYMENTS TO DEPARTING DIRECTORS

During the year, the Company has not made any payments to past Directors; nor has it made any payments to Directors for loss of office.

PERFORMANCE REVIEWS

As required by the Regulations, the following graph sets out the performance of the Company's share price since its listing compared to the FTSE 100 Index. This is deemed to be the most appropriate indices for comparative purposes.



DIRECTORS' REMUNERATION REPORT CONTINUED
ANNUAL REPORT ON REMUNERATION 2018 CONTINUED

TOTAL REMUNERATION OF THE CHIEF EXECUTIVE OFFICER

The total remuneration of the Chief Executive Officer for the past six years, in US dollars, has been as follows:

Year ending 31 December	2013	2014	2015	2016	2017	2018
Chief Executive Officer						
Total remuneration US$'000s						
Octavio Alvídrez	1,116	1,217	1,166	1,111	1,072	**886**
Percentage change on previous year	(41.5%)	9.1%	(4.2%)	(4.7%)	(3.5%)	**(10.7%)**
Proportion of maximum bonus paid to CEO in year						
Octavio Alvídrez	33.33%	33.33%	33.33%	66.66%	33.33%	**Nil%**

RELATIVE IMPORTANCE OF THE SPEND ON PAY

	2018	2017	% change
Staff costs (US$'000s)[1]	**109,549**	99,337	**10.3%**
Distributions to shareholders (US$'000s)	**298,442**	236,543	**26.2%**

1 Staff costs are taken without PTU in order to make a like-for-like comparison with the Chief Executive Officer who does not receive PTU.

This Report has been approved by the Board of Directors of Fresnillo plc.

Signed on behalf of the Board.

Charles Jacobs
Chairman of the Remuneration Committee
25 February 2019

DIRECTORS' REMUNERATION REPORT CONTINUED
PROPOSED DIRECTORS' REMUNERATION POLICY FOR 2019

INTRODUCTION

This part of the Directors' Remuneration Report sets out the remuneration policy of the Company and has been prepared in accordance with The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 ('the Regulations'). The policy has been developed taking into account the principles of the 2018 version of the UK Corporate Governance Code (the '2018 Code') and the views of our major shareholders. The Remuneration Committee have assessed the criteria recommended by Code Provision 40 of the 2018 Code. It believes that the Company's remuneration policy has always been inherently clear, simple, designed to avoid of excessive rewards, predictable and proportionate. The changes to the remuneration policy seek to create even closer alignment between remuneration and the Company's purpose, values and strategy. It describes the policy which will be applied for the financial year ending 31 December 2019. The remuneration policy will be put to a vote at the 2019 Annual General Meeting and if approved, the effective date of the policy will be the date of the 2019 Annual General Meeting of the Company, 21 May 2019.

As required by UK law, the remuneration policy is binding in relation to Directors. The Company currently has no Executive Directors who would be bound by the remuneration policy. However, the Company will (as it has previously done) treat the Chief Executive Officer as if he were an Executive Director for the purposes of the remuneration policy and for reporting on his remuneration.

REMUNERATION POLICY

The Group's remuneration policy seeks to ensure that the Company is able to attract, retain and motivate its Executive Directors and members of the Executive Committee. The retention of key management and the alignment of management incentives and the creation of shareholder value being key objectives of this policy.

Setting base salaries for Executive Directors and members of the Executive Committee at an appropriate level is a key to managerial retention in Mexico. Therefore, the Remuneration Committee seeks to ensure that salaries are market competitive both within the Mexican context and internationally for comparable companies. Total compensation is set within a range around the median level for the Company's peer group within Mexico and internationally, total remuneration is benchmarked triennially to ensure that the whole remuneration package is maintained at this level over the long term. Salaries are positioned within the range according to experience and service.

The table below sets out the key elements of Executive Directors' pay set out in the remuneration policy (the 'Policy Table'):

BASE SALARY

PROVIDES THE CORE REWARD FOR THE ROLE	
Operation	Reviewed annually and fixed for 12 months starting on 1 April each year and the review is influenced by: • Role, experience and performance. • Average workforce salary adjustments. • Mexican economic factors. • Comparison with the Company's peer group in Mexico and internationally. Salaries are benchmarked triennially by reference to companies of similar size and complexity and will be positioned within a mid-range of the Company's comparator peer group in Mexico and internationally. The next review will take place in April 2019.
Maximum value	The Executive Director's salary will be reviewed taking account of the benchmarking information received by the Remuneration Committee and the maximum value of the Executive Director's base salary will be positioned within the mid-range for companies in the peer group of Mexican and international resources companies. An Executive Director's salary will be increased in line with increases applied across the whole workforce. In exceptional circumstances, the Executive Director's salary may be increased by up to but never more than 10% above the average pay increase for the whole workforce of the Company in any year. The rationale for such increases will be fully explained in the Annual Report on Remuneration.
Performance metric	The Remuneration Committee considers individual salaries at the appropriate meeting each year by reference to the factors noted under the 'Operation' heading in this table. Details of the current remuneration of the Executive Director are provided in the Annual Report on Remuneration.
Discretion	The Remuneration Committee will establish the Company's comparator peer group in Mexico and internationally as part of the triennial review which it will consider in April 2019. The peer group will be reviewed again in April 2019. The Committee will report on the outcome of these reviews within the relevant Annual Report on Remuneration.

DIRECTORS' REMUNERATION REPORT CONTINUED
PROPOSED DIRECTORS' REMUNERATION POLICY FOR 2019 CONTINUED

ANNUAL BONUS

REWARDS THE ACHIEVEMENT OF BOTH SHORT AND LONG-TERM FINANCIAL AND STRATEGIC BUSINESS TARGETS AND DELIVERY OF PERSONAL OBJECTIVES

<table>
<tr><td>Operation</td><td>Targets are renewed annually and relate to the strategic aims of the business as a whole. A scoring system is used for the plan. Each objective set for the executive at the beginning of the year is allocated a points-rating which represents a median performance target for that objective. Upper and lower point thresholds are set to allow for outstanding performance and to ensure that underperformance is not rewarded. For each member of the Executive Committee (including the Chief Executive Officer, the Chief Financial Officer, the Vice President of Exploration and the Chief Operating Officer), a bonus is only payable if the aggregate performance equals or exceeds 100 points. Bonus payments are paid for aggregate performance against target at or above 100 points is made on a prorated basis between two months' salary paid for the achievement of 100 points and six months' salary paid for the achievement of 115 points or more, as follows:

<table>
<tr><th>Number of points</th><th>Months' salary paid</th></tr>
<tr><td>100.00</td><td>Two months' salary.</td></tr>
<tr><td>100.01-115.00</td><td>Prorated on a linear basis between two months' salary and six months' salary.</td></tr>
<tr><td>115.01+</td><td>Six months' salary.</td></tr>
</table></td></tr>
<tr><td>Maximum value</td><td>The maximum percentage of salary is 50% (six months' salary) and is paid where Executive Directors achieve 115.01 points or more under the Annual Bonus Plan (the target is 100 points).</td></tr>
<tr><td>Performance metric</td><td>The KPI targets set out in the previous table will apply and are intended to focus on risks that are within the control and influence of management. Thus, the management of safety, security, project, human resource, exploration teamwork, synergies, community and environmental risks are all currently implicitly covered within the KPIs. The KPIs and targets, which are set by reference to the reserves and resources and financial metrics at the previous year end and/or set in the budget for the forthcoming financial year are also designed to ensure that both short-term objectives and the long-term development of the Fresnillo Group are given equal priority. The achievement of project milestones will be used to measure project management performance and the Committee's discretion will be applied for subjective metrics such as teamwork.

Details of the measures, targets and performance which is tested on an annual basis will be provided in the Annual Report on Remuneration.</td></tr>
<tr><td>Discretion</td><td>The Remuneration Committee considers that the KPIs, upon which bonuses are based, may need to evolve from year-to-year in line with the strategy and therefore it retains the discretion to make appropriate adjustments to the KPIs themselves, the bonus bands within the overall maximum and the individual KPI weightings from year-to-year.

The Remuneration Committee retains the discretion to adjust bonus payments in the following circumstances:

(i) A downward adjustment where the KPI outcomes would result, in the opinion of the Remuneration Committee, in a bonus payment which cannot be justified by the Company's financial or operational performance during the year (or in respect of previous years). In this case a downward adjustment would be applied.

(ii) Where factors outside the control of Executive Directors e.g. force majeure circumstances have significantly depressed the level of points awarded. In deciding whether adjustment is merited, the Remuneration Committee will consider the appropriateness of the Executive Director's response to those circumstances; in this situation a modest upward adjustment may be considered.

(iii) Poor executive response to adverse health, safety or environmental performance during the year, in which case a downward adjustment would be considered.

The use of any such discretions will be fully explained in future Directors' Remuneration Reports.</td></tr>
</table>

Note: Any adjustment in individual KPI weightings will not result in their achievement being any less difficult to satisfy.

BENEFITS

HELP RECRUIT AND RETAIN EMPLOYEES	
Operation	An Executive Director would be entitled to life insurance, the use of a company car and chauffeur, meal and subsistence benefits, the payment of premiums for medical insurance covering limited expenses and check-ups. Benefits may be changed if Company policy on benefits changes.
Maximum value	The current benefits are set out in the Annual Remuneration Report. The maximum value of benefits will be determined by Company policy that is applicable from time to time.
Performance metric	None.
Discretion	The Remuneration Committee may consider changes to the benefits made available to Executive Directors in line with any changes in the policy for benefits provided to all employees.

PENSION

REWARDS CONTINUED EMPLOYMENT AND SUSTAINED CONTRIBUTION	
Operation	The Group operates a defined contribution scheme. Executive Directors are entitled to membership of the defined contribution scheme.
Maximum value	The maximum Company contribution for any employee may not exceed 13% of salary.
Performance metric	None.
Discretion	Not applicable.

ALIGNMENT OF EXECUTIVE REMUNERATION AND THE MARKET

In setting the fixed remuneration of Executive Directors and the members of the Executive Committee, information relating to the mining company comparators is provided by various consultants. Information relating to the Mexican economic metrics and internal benchmarking is collated by management for the Remuneration Committee to consider.

A formal review of the Executive Director and Executive Committee members' remuneration is conducted by Willis Towers Watson and will be undertaken at least once every three years. These enable the Remuneration Committee to validate the Company's policy towards remuneration and ensure that it is globally as well as locally competitive. The analysis evaluates the elements of base salary, short-term compensation (guaranteed payments and short-term bonus) and long-term compensation (primarily stock programmes) separately. With assistance from Willis Towers Watson, the Remuneration Committee has established a peer group which will be used to benchmark any Executive Director's and any Executive Committee member's remuneration (the 'Peer Group') to ensure that it remains within the parameters set out in this policy (see page 137 of the Annual Report on Remuneration). The Peer Group will be reviewed at least every three years, and updated where necessary, to ensure that it remains an appropriate comparator group of companies.

THE CONSIDERATION OF WIDER EMPLOYMENT CONDITIONS AND REMUNERATION

When setting pay and benefits for Executive Directors and members of the Executive Committee, the Remuneration Committee takes account of pay and conditions across the Group. It will consider the overall pay increase percentage negotiated each year, with employee representatives as its starting point taking account of inflation and other information supporting the annual pay award for employees. Subject to the 10% limit in the Policy Table, the Remuneration Committee may agree pay increases above or below the agreed percentage in exceptional circumstances, where in its discretion it considers such variance to the norm to be justified. Other than the Willis Towers Watson report specifically commissioned by the Remuneration Committee, the same benchmark reports are used in the evaluation of executive and employee remuneration, thus providing a common approach to both.

Below Board level, a statutory profit-sharing arrangement ('PTU') is operated which in some years has enabled employees to receive significant levels of bonus in line with the increased profitability of the relevant employing company. Neither the Chief Executive Officer nor any of the Non-executive Directors participate in a PTU scheme within the Fresnillo Group. The other members of senior management group below Board level are employed by Servicios Administrativos Fresnillo S.A. de C.V., which pays annual PTU payments. However, such payments are modest.

The Group operates two pension schemes: (i) a defined benefit scheme which was closed to new members on 1 July 2007 with benefits frozen at this date for existing members, subject to indexation with reference to the Mexican National Consumer Price Index; and (ii) a defined contribution scheme (which was introduced on 1 July 2007). Membership of the latter scheme is voluntary, members earning a salary of no more than 25 times the minimum wage in force from time to time may make contributions of 5% to the scheme.

On behalf of members earning a salary of no more than 25 times the minimum wage in force from time to time the employing company may make contributions of 5% to the scheme. The employing company may also make additional contributions between 5-8% of salary to this plan. Members may elect to match percentages between 5% to 8% of salary.

Executive Directors may participate the Group's pension schemes on the same basis as any other employee.

DIRECTORS' REMUNERATION REPORT CONTINUED
PROPOSED DIRECTORS' REMUNERATION POLICY FOR 2019 CONTINUED

The Remuneration Committee does not consult with employees in setting Directors' remuneration. Engagement with employees as a stakeholder group is primarily the responsibility of the Board; however, where appropriate, the Remuneration Committee will consider any relevant feedback from employees to the Board in relation to remuneration matters when discharging its responsibilities under this Policy.

ENGAGEMENT WITH SHAREHOLDERS ON REMUNERATION

The composition of the Remuneration Committee has been designed to ensure that the views of the controlling shareholder (through the membership of the Chairman of the Board on the Committee) and the independent shareholders (through the membership of a UK-based Director on the Committee) can be represented. The Remuneration Committee has considered the views of organisations such as Institutional Shareholder Services ('ISS') and the Investment Association both generally and as reported to the Company in relation to its own executive remuneration practices prior to each Annual General Meeting, when considering the Remuneration Policy and its application.

POLICY ON RECRUITMENT

The Remuneration Committee will consider the remuneration of new Executive Directors by reference to the remuneration policy set out previously. The Remuneration Committee does not as a default position pay sign-on payments or compensate new Directors for any variable remuneration forfeited from any employment prior to joining the Board. If it did, such payments would be fully explained in the next Annual Report on Remuneration both as to the reason for payment and the rationale for the quantum. Salary will be set so as to be market competitive both within the Mexican context and internationally for comparable companies and taking account of the experience and seniority of the appointee coming into the new role. The Remuneration Committee is likely to set base salaries below median on appointment while retaining discretion to award increases during the first and, possibly, subsequent years to bring salaries into the normal range expected for Executive Directors, in line with the Company's stated policy. Such increases will not exceed the maximum level set out in the Policy Table. New Executive Directors will receive benefits and pensions in line with the Company's existing policy and will be able to participate in the Annual Bonus Plan on a pro-rated basis for the portion of the financial year for which they are in post. The maximum level of variable pay for new recruits will be the same as that set out in the Policy Table for existing employees (pro-rated as necessary).

POLICY ON LOSS OF OFFICE

Other than in circumstances of gross misconduct, Executive Directors and members of the Executive Committee, including the Chief Executive Officer, leaving employment from the Group, will be entitled to receive salary and pro-rated annual bonus based on performance to the date of leaving. Statutory entitlements are payable according to Mexican labour law, based on length of service. Mexican labour law does not make any provision for employers and employees to give or receive notice of termination of employment. Therefore the Committee will not generally make payments in lieu of notice to departing executives. However, the Committee reserves the right to make additional payments where such payments are made in good faith in discharge of an existing legal obligation (or by way of damages for breach of such an obligation), or by way of settlement or compromise of any claim arising in connection with the termination of an Executive Director's office or employment. No contractual commitments concerning loss of office were entered into with any Director prior to 27 June 2012.

ANNUAL BONUS PLAN AND POLICY ON VARIABLE REMUNERATION

It is the Company's policy not to use its equity to incentivise long-term performance. The Company's core strategy is one of long-term sustainable growth. Sustainable growth in mining requires the steady and safe expansion of the Group's operations through the discovery of new resources and construction, maintenance and/or expansion of new mines. No distinction is therefore made between short and long-term incentives.

The Company operates a single cash-based incentive plan for Executive Directors and the members of the Executive Committee, including the Chief Executive Officer.

RECOVERY OF BONUS

The absence of long-term incentives and the operation of Mexican law makes it difficult to adopt claw-back and malus arrangements. The Remuneration Committee has considered whether malus and/or claw-back provisions should be incorporated into the service agreement for the Chief Executive Officer. Given that the Company does not operate any remuneration plans with a timeframe of more than one year, the Remuneration Committee does not consider that there is much value in introducing claw-back provisions into the contractual arrangements with the Chief Executive Officer at this stage. Within this remuneration policy, the Remuneration Committee reserves the right to make downward adjustment to bonus payments where the KPI outcomes would result, in the opinion of the Remuneration Committee, in a bonus payment which cannot be justified by the Company's financial or personal performance during the year (or subsequently in respect of previous years). In this case a downward adjustment would be applied.

ILLUSTRATIONS OF THE APPLICATION OF THE REMUNERATION POLICY FOR THE CHIEF EXECUTIVE OFFICER

The following table sets out the fixed and variable remuneration of the Chief Executive Officer in the different scenarios where he receives, minimum, target and maximum variable pay (based on 31 December 2018 remuneration).

Component	Max value US$'000s		Minimum	Target	Maximum
Share incentives[1]					
Annual bonus	303	Annual variable pay[2]			US$1,295k[4]
				US$1,093k	23.4%
			US$992k	9.2%	
Pension benefits	79	Fixed pay[3]	100%	90.8%	76.6%
Other benefits	78				
Base salary	835				

1 Fresnillo plc does not operate any share option or share-based long-term incentive plans.
2 Variable pay consists only of remuneration where performance measures or targets relate only to one financial year.
3 Fixed pay includes salary, benefits and pension.
4 The Company does not operate any equity-based long-term incentives, consequently, the Company's share price does not have any impact on the variable remuneration paid to Executive Directors and members of the Executive Committee who do not sit on the Board.

EXTERNAL APPOINTMENTS

It is the Board's policy to allow Executive Directors to accept directorships of other quoted and non-quoted companies and retain any fees or other remuneration for doing so, provided that they have obtained the consent of the Chairman of the Company. Any such directorships must be formally notified to the Board.

CHAIRMAN AND NON-EXECUTIVE DIRECTORS

The remuneration of the Chairman of the Company and the Non-executive Directors consists of fees that are paid quarterly in arrears. The Chairman and Non-executive Directors do not participate in any long-term incentive or annual bonus schemes, nor do they accrue any pension entitlement. Neither the Chairman nor any of the Non-executive Directors has a service contract with the Company; however each has entered into a letter of appointment with the Company.

NON-EXECUTIVE DIRECTORS' LETTERS OF APPOINTMENT

On their initial appointment, each of the Non-executive Directors signed a letter of appointment with the Company, for an initial period of three years. Since April 2011, the letters of appointment of serving Non-executive Directors have been drafted in accordance with provision B.7.1 of the UK Corporate Governance Code, thus obliging them to retire at each Annual General Meeting and be subject to annual re-election by shareholders to serve for a further term of one year. The amendments have been drafted such that renewed appointment will not necessitate a new letter of appointment.

The Chairman of the Company does not receive any fees for acting as Chairman other than his fees as a Non-executive Director.

Each Non-executive Director is expected to commit a minimum of 14 days per year in fulfilling their duties as a Director of the Company. The fees payable to Non-executive Directors are calculated on the following bases:

- A base fee of £35,000 per annum is paid to each non-UK-based Non-executive Director to reflect the time commitment and level of involvement they are required to make in the activities of the Board as a whole.
- There are no set fees for membership of any Board committees or for the chairmanship of the Board, other than as follows.
  - The UK-based Non-executive Directors receive a higher fee, currently £90,000 per annum, to reflect the additional time commitment that they make in order to travel to Board meetings in Mexico and for responsibilities as Committee members and, where appropriate, as Senior Independent Director and/or Chairman of any Committee.
  - When the Chairman of the Audit Committee is resident in Mexico, he/she will receive an additional fee of £15,000 per annum.
  - Members of the Audit Committee will receive an additional fee of £5,000 per annum.

SHAREHOLDING GUIDELINES

Fresnillo has not introduced share ownership guidelines The Company does not operate share-based incentive arrangements given that the culture for incentives in the Mexican market does not favour share-based incentives. Consequently, there would be neither opportunity nor appetite for executives to build a shareholding in the Company and therefore the Remuneration Committee has not adopted any shareholding guidelines.

DIRECTORS' REPORT

In accordance with section 415 of the Companies Act 2006, the Directors of Fresnillo plc present their report for the year ended 31 December 2018.

The Directors believe that the requisite components of this report are set out elsewhere in this Annual Report and/or on the Company's website www.fresnilloplc.com. The table sets out where the necessary disclosures can be found.

Directors	Directors that have served during the year and summaries of the current Directors' key skills and experience are set out in the Corporate Governance Report on pages 102 to 105.
Results and dividends	Results for the year ended 31 December 2018 are set out in the Financial Review on pages 85 to 87 and the Consolidated Income Statement on page 164. Information regarding the proposed final dividend can be found in the Financial Review on page 97. Dividend payments made during the year ended 31 December 2018 can be found in the notes to the financial statements on page 233.
Articles of Association	Any amendments made to the Articles of Association may be made by a special resolution of shareholders. The following is a summary of the structure, rights and restrictions of the Company's share capital: The Company has two classes of share capital: 736,893,589 ordinary shares of US$0.50 ('Ordinary Shares') and 50,000 deferred shares of £1.00 each ('Sterling Deferred Shares'). The Ordinary Shares are listed on the London Stock Exchange and the Mexican Stock Exchange. The rights and obligations attaching to these shares are governed by UK law and the Company's Articles of Association. Ordinary shareholders are entitled to receive notice and to attend and speak at any general meeting of the Company. On a show of hands every shareholder present in person or by proxy (or being a corporation represented by a duly authorised representative) shall have one vote, and on a poll every shareholder who is present in person or by proxy shall have one vote for every share held. The Notice of Annual General Meeting specifies deadlines for exercising voting rights and appointing a proxy or proxies. There are no restrictions on the transfer of the Ordinary Shares other than: • the standard restrictions for a UK-quoted company set out in article 32 of the Articles of Association; • where, from time to time, certain restrictions may become imposed by laws and regulations (for example, insider trading laws); and • pursuant to the Listing Rules of the Financial Services Authority whereby certain Directors, officers and employees of the Company require the approval of the Company to deal in the Ordinary Shares. A Director may be elected either to fill a casual vacancy or as an additional Director, but so that the total number of Directors shall not thereby exceed the maximum in accordance with the Company's Articles of Association. Any person so appointed by the Directors shall retire at the next Annual General Meeting and shall then be eligible for election. No shareholder holds securities carrying special rights as to the control of the Company. There are no limitations on the holding of securities. There are no restrictions on voting rights or any arrangements by which, with the Company's cooperation, financial rights carried by securities are held by a person other than the holder of the securities. There are no agreements between holders of securities that are known to the Company which may result in restrictions on the transfer of voting rights. The Sterling Deferred Shares only entitle the shareholder to payment of the amount paid up after repayment to Ordinary Shareholders on winding up or on a return of capital. The Sterling Deferred Shares do not entitle the holder to payment of any dividend, or to receive notice or to attend and speak at any general meeting of the Company. The Company may also at its option redeem the Sterling Deferred Shares at a price of £1.00 or, as custodian, purchase or cancel the Sterling Deferred Shares or require the holder to transfer the Sterling Deferred Shares. Except at the option of the Company, the Sterling Deferred Shares are not transferable. The Company's full Articles of Association can be found on the Company's website. www.fresnilloplc.com/who-we-are/corporate-governance/
Share capital	Details of the Company's share capital are set out in note 17 to the financial statements on page 197.
Authority to purchase own shares	Details on the Company's current authority to purchase its own shares and that being sought at the forthcoming Annual General Meeting are set out in the Corporate Governance Report on page 115.
Directors' interests	Details of the Directors' beneficial interests are set out in the Remuneration Report on page 136.
Directors' indemnities	The Company has given indemnities to each of the Directors in respect of any liability arising against them in connection with the Company's (and any associated company's) activities in the conduct of their duties. These indemnities are subject to the conditions set out in the Companies Act 2006 and remain in place at the date of this report.
Directors' and Officers' Liability Insurance	Directors' and Officers' Liability Insurance cover is in place at the date of this report. Cover is reviewed annually and the last renewal was carried out in October 2018.
Major interests in shares	Notifiable major share interests of which the Company has been made aware of are set out on page 115 of the Corporate Governance Report.

Change of control	Details setting out the effect of a change of control of the Company on significant agreements are set out on the Company's website. http://www.fresnilloplc.com/who-we-are/corporate-governance
Political contributions	The Company did not make any donations to political organisations during the year.
Payments to governments	In June 2018, the Company approved and published a report disclosing payments made to governments. The report can be found on the Company's website. http://www.fresnilloplc.com/investor-relations/regulatory-announcements.
Modern Slavery Statement	The Company has approved and published on its website its Modern Slavery Statement in accordance with the Modern Slavery Act 2015. http://www.fresnilloplc.com/corporate-responsibility/modern-slavery/
Diversity policy	In February 2018 the Company approved and published on its website its policy on diversity. http://www.fresnilloplc.com/corporate-responsibility/our-policies/
UK tax strategy	The Company's UK tax strategy for the financial year ending 31 December 2018 is published on its website. http://www.fresnilloplc.com/corporate-responsibility/tax-strategy/
Greenhouse gas emissions	Details of the Company's greenhouse gas emissions can be found in the Social and Sustainability Report on page 77 of the Strategic Report.
Financial risk	Details of the Company's policies on financial risk management and the Company's exposure to price risk, credit risk, liquidity risk and cash flow risk are outlined in note 30 to the financial statements.
Branches outside the UK	The Company's operations are outside the UK.
Activities in research and development	The Company does not have any research and development activities.
Future developments	Details about the Company's future developments can be found in the Strategic Report on pages 08 and 09.
Auditors	A resolution to re-appoint Ernst & Young LLP as auditor will be proposed at the Annual General Meeting.
Post-balance sheet events	There have been no post-balance sheet events.
Audit information	Each of the Directors at the date of the approval of this report confirms that: • so far as he/she is aware, there is no relevant audit information of which the Company's auditor is unaware; and • he/she has taken all the reasonable steps that he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of the information. • The confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.
Additional Listing Rule disclosures	Disclosure requirements under Listing Rule 9.8.4 C are identified below along with cross-references indicating where the relevant information is set out in the Annual Report: • Capitalised interest for the year ended 31 December 2018 and information regarding tax relief can be found on page 194. • Details of significant contracts with controlling shareholders can be found on pages 128 to 129. • Details pertaining to services provided to the Company by Peñoles are set out on pages 204 to 205. • Statement confirming agreement has been entered into with controlling shareholder and that independence provisions are complied with can be found in the Corporate Governance Report on page 109.

The Directors' Report has been approved by the Board of Directors of Fresnillo plc.

Signed on behalf of the Board.

Charles Jacobs
Senior Independent Director
25 February 2019

Fresnillo plc
Registered Office:
21 Upper Brook Street
London, W1K 7PY
United Kingdom
Company No: 6344120

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report and the Group and parent company financial statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards ('IFRS') adopted by the European Union.

The Directors are required to prepare financial statements for each financial year which present a true and fair view of the financial position of the Company and of the Group and the financial performance and cash flows of the Company and of the Group for that period. In preparing those financial statements, the Directors are required to:
- select suitable accounting policies in accordance with IAS 8: 'Accounting Policies, Changes in Accounting Estimates and Errors' and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company and of the Group's financial position and financial performance;
- state that the Company and the Group has complied with IFRS, subject to any material departures disclosed and explained in the financial statements; and
- prepare the accounts on a going concern basis unless, having assessed the ability of the Company and the Group to continue as a going concern, management either intends to liquidate the entity or to cease trading, or have no realistic alternative but to do so.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and of the Group and enable them to ensure that the financial statements comply with the Companies Acts 2006 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Under applicable UK law and regulations, the Directors are responsible for the preparation of a Directors' Report, Directors' Remuneration Report and Corporate Governance Report that comply with that law and regulations. In addition the Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Neither the Company nor the Directors accept any liability to any person in relation to the annual financial report except to the extent that such liability could arise under English law. Accordingly, any liability to a person who has demonstrated reliance on any untrue or misleading statement or omission shall be determined in accordance with section 90A and schedule 10A of the Financial Services and Markets Act 2000.

In accordance with provision C.1.1 of the UK Corporate Governance Code, the Directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides information to enable shareholders to assess the Company's performance, business model and strategy.

RESPONSIBILITY STATEMENT OF THE DIRECTORS IN RESPECT OF THE ANNUAL REPORT AND ACCOUNTS

I confirm on behalf of the Board that to the best of its knowledge:
a) the financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit and loss of the Company and the undertakings included in the consolidation taken as a whole; and
b) the management report (encompassed within the 'Overview', 'Strategic Report', 'Performance' and 'Governance' sections) includes a fair review of the development and performance of the business, and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

For and on behalf of the Board

Charles Jacobs
Senior Independent Director
25 February 2019

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FRESNILLO PLC

OPINION

In our opinion:

- Fresnillo plc's Group financial statements and Parent Company financial statements (the 'financial statements') give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2018 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006, and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements of Fresnillo plc which comprise:

Group	Parent company
Consolidated balance sheet as at 31 December 2018	Parent Company balance sheet as at 31 December 2018
Consolidated income statement for the year then ended	Parent Company statement of changes in equity for the year then ended
Consolidated statement of comprehensive income for the year then ended	Parent Company statement of cash flows for the year then ended
Consolidated statement of changes in equity for the year then ended	Related notes 1 to 17 to the financial statements including a summary of significant accounting policies
Consolidated statement of cash flows for the year then ended	
Related notes 1 to 30 to the financial statements, including a summary of significant accounting policies	

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Group and Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FRESNILLO PLC CONTINUED

CONCLUSIONS RELATING TO PRINCIPAL RISKS, GOING CONCERN AND VIABILITY STATEMENT

We have nothing to report in respect of the following information in the annual report, in relation to which the ISAs(UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the annual report set out on pages 28 to 41 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation set out on pages 125 and 126 in the annual report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- the directors' statement set out on page 43 in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- whether the directors' statement in relation to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the directors' explanation set out on pages 42 and 43 in the annual report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

OVERVIEW OF OUR AUDIT APPROACH

Key audit matters	• Recognition of related party transactions, including revenue recognition. • Valuation of the Silverstream contract. • Recoverable amount of mining assets. • Recoverable amount of investments in subsidiaries (Parent Company only). • Re-estimation of quantities held in leaching pads at Herradura.
Audit scope	• We performed an audit of the complete financial information of 6 components, being the 5 operating mining units and the Parent Company. These components accounted for: – 100% of Revenues; – 92% of Profit before tax, excluding Silverstream revaluation effects and the gain from the part payment of an insurance claim; and, – 81% of Total assets. • In addition, we performed specified procedures on specific balances at a further 4 components. These components accounted for: – 100% of the Silverstream revaluation effects; – 8% of Profit before tax excluding Silverstream revaluation effects and the gain from the part payment of an insurance claim; and, – 17% of Total assets.
Materiality	• Overall Group materiality of US$23.4 million which represents 5% of forecast profit before tax, prior to Silverstream revaluation effects and the gain from the part payment of an insurance claim of an insurance claim.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

In the table below, each key audit matter is attributed an icon which is used to map these to our components in scope in the subsequent section below.

KEY AUDIT MATTER

RECOGNITION OF RELATED PARTY TRANSACTIONS, INCLUDING REVENUE RECOGNITION ◆

- All of the Group's current year revenue from the sale of goods, being concentrates, doré, slag and precipitates (US$2,102.7 million; 2017: US$2,084.0 million), and a significant amount of its expenses incurred (US$133.2 million; 2017: US$111.6 million), arise from transactions with related parties. These related parties are principally subsidiaries of the Group's direct Parent, Industrias Peñoles ('Peñoles').
- Principal transactions include the sale of goods to the Met-Mex Peñoles refinery, administrative services received and the Silverstream contract.
- There is a risk that, if not at arm's length or not reflecting the goods or services provided in the period, such transactions could be used to manipulate earnings or to distribute profits to the Group's parent.
- There is also a risk that revenues are inappropriately recognised as a result of incorrect cut-off or inappropriate measurement of product sold.
- There is an ongoing focus by the Mexican tax authorities on transfer pricing as reflected by the current tax inspections. There is therefore the potential risk of tax exposures arising from related party transactions.

➲ Our judgment is that the level of risk in this area remains consistent with the prior year.

We have not made significant changes to our audit response compared to the prior year.

Related party transactions are disclosed in note 26 to the consolidated financial statements, Revenues in note 4 and relevant accounting policies in note 2.

OUR AUDIT RESPONSE

We performed full scope audit procedures over this risk area in 6 components, which covered 100% of the aggregate risk amount relating to revenue and 61% relating to related party expenses. In addition we performed specified procedures in 1 component which covered 38% of the aggregate risk amount relating to related party expenses. We also performed specified procedures over the Silverstream contract, which covered 100% of the risk amount.

Identification of related parties and related party transactions	• We evaluated the appropriateness of management's process for identifying, recording and reporting related party transactions and tested relevant controls. • We read contracts and agreements with related parties to understand the nature of the transactions. • Throughout the performance of our audit procedures, we remained alert for any related party transactions not already identified by management or that are outside the normal course of business.
Revenue recognition	• On a sample basis we performed testing to verify physical deliveries of product in the year. • We performed revenue cut-off testing, by reference to shipment dates. • We evaluated the appropriateness of the accounting for embedded derivatives arising from the provisional pricing terms in sales contracts. • We obtained an understanding of the basis of the treatment and refining charges negotiated between the Group and Peñoles for the current year, these being deducted from revenue. We confirmed principal inputs to external benchmarks and confirmations received directly from the auditor of Peñoles. • We performed overall analytical procedures which consisted of comparing actual revenues on a disaggregated basis to detailed expectations developed based on production in the year and market prices for relevant metals and obtained explanations for any material variances.
Related party expenses	• On a sample basis we tested related party expenses against underlying contractual terms. • We utilised data analysis tools to interrogate entire data sets for potential related party transactions. • We compared actual results against detailed expectations of income statement line items impacted by related party transactions to corroborate that there was no evidence of manipulation.
Silverstream contract	• We tested a sample of cash receipts in respect of silver that is payable under the contract in the year. • The valuation of the Silverstream contract is discussed separately below.
Accuracy of disclosures	• We verified that related party disclosures in the financial statements are consistent with the results of our audit procedures.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FRESNILLO PLC CONTINUED

KEY AUDIT MATTER	
Transfer pricing considerations	• We, along with our internal transfer pricing specialist, obtained and reviewed the most recent report (for 2017) to management from its transfer pricing specialists. • We assessed the specialist as a specialist engaged by management. • Our transfer pricing specialist inspected information to support transactions between Fresnillo and Peñoles.
Management override	• We performed overall analytical review procedures applying a low variance threshold at a disaggregated level, comparing production quantities against the mine plans. We obtained explanations for variances through interviews with management and the Executive Committee, internal reporting to the Executive Committee and published production reports. Where relevant, we corroborated those explanations through EY's bespoke data analysis tools and external sources of information. • We also used EY's data analysis tools to search for terms indicating related parties and prepared a summary of transactions related to known related-party vendors and customers, which we compared to the schedule provided by management to the Audit Committee.

KEY OBSERVATIONS COMMUNICATED TO THE AUDIT COMMITTEE

- Our procedures did not identify issues with the identification, recording or reporting of related party transactions.
- We concluded that revenue recognition in the year is appropriate, including the treatment of related provisional pricing terms.
- In respect of transfer pricing in transactions with related parties, we confirmed that the methodology for determining transfer pricing in respect of the transactions with other Peñoles companies has not changed during the year.

KEY AUDIT MATTER

VALUATION OF THE SILVERSTREAM CONTRACT ■

- The valuation of the Silverstream contract (US$519.1 million at 31 December 2018; 2017: US$538.9 million), a derivative financial instrument, is estimated by management using a discounted cash flow model.
- Key assumptions are the estimation of the reserves and resources and the related production profile of the Sabinas mine (owned and operated by Peñoles), future silver prices and the discount rate applied. These assumptions require management judgment and estimation.
- The resulting valuation is sensitive to changes in these assumptions which may result in material revaluation effects in the financial statements (US$15.0 million pre-tax gain in 2018; 2017: US$133.7 million pre-tax gain).

➲ Our judgment is that the level of risk in this area remains consistent with the prior year.

We have not made significant changes to our audit response compared to the prior year.

The nature of the Silverstream contract and related valuation considerations are disclosed in note 13 to the consolidated financial statements and the relevant accounting policies in note 2.

OUR AUDIT RESPONSE

We performed specified procedures over the valuation of the Silverstream contract at 31 December 2018 and related income statement revaluation effects. These procedures covered 100% of the risk amount.

Valuation model	• In conjunction with our valuation specialists, we evaluated the appropriateness of the valuation approach and related model used by the Company to determine the fair value of the Silverstream contract under accounting standards.

KEY AUDIT MATTER	
Reserves and resources and production profile of the Sabinas mine	• We interviewed the Sabinas mine geologist in order to understand the assumptions used in the estimation of reserves and resources and movements in the estimation in the year. • We issued instructions to the auditor of Peñoles to perform procedures and report to us in respect of the reserves and resources estimate and mine plan of the Sabinas mine. These procedures included: – conducting walkthroughs to confirm our understanding of Peñoles management's processes to estimate quantities of reserves and resources and to develop the Sabinas mine plan; – testing of certain key Peñoles controls which address the risks associated with the estimation of reserves and resources quantities and the accuracy of the resulting mine plan; – gaining an understanding of reasons for changes in estimates of reserves and resources in the year; – assessing the professional competence, objectivity, and capabilities of Peñoles' internal specialists involved in the estimation of reserves and resources quantities; and – evaluating the reasonableness and appropriateness of inputs to the reserves and resources estimates and Sabinas mine plan as at 31 December 2018. • We discussed the results of the above procedures with the auditor of Peñoles and reviewed key working papers.
Key economic assumptions in the valuation	• With assistance from our valuation specialists we corroborated key economic assumptions in the valuation, including future silver prices, foreign exchange rates and the discount rate applied. • This included comparison to market data to consider the appropriateness of silver price and discount rate assumptions when considered together in the valuation model and analysis of the consistency of assumptions to other accounting estimates. • We performed sensitivity analysis on the combination of silver price assumptions and discount rate.

KEY OBSERVATIONS COMMUNICATED TO THE AUDIT COMMITTEE

- The valuation model is consistent with that used in prior periods and we consider this appropriate for the nature of this long-term derivative contract.
- We highlighted the sensitivity of the valuation to economic input assumptions, most significantly silver price and discount rate.
- We concluded that the overall valuation of the contract is within a reasonable range.

KEY AUDIT MATTER

RECOVERABLE AMOUNT OF MINING ASSETS ▲

- The identification of indicators of impairment is judgmental.
- When an impairment test is performed, the key assumptions underpinning management's assessment of the recoverable amount of mining assets are reserves and resources and related mine plans and production profiles, estimated future operating and capital expenditure, future commodity prices, exchange rates and the discount rates applied.
- The estimation of mineral reserves and resources quantities of the Group's mines requires significant judgment and estimation.
- The Group's reserves and resources are audited by SRK, a specialist engaged by management.
- Changes to assumptions could lead to material changes in estimated recoverable amounts, resulting in impairment of property plant and equipment (net book value being US$2,693.1 million, 2017 US$2,448.6 million). There is no impairment taken in prior years that may be reversed.

➲ Our judgment is that the level of risk in this area remains consistent with the prior year.

We have not made significant changes to our audit response compared to the prior year.

Management's assessment of the judgement and estimation required is set out in note 2 to the consolidated financial statements, with results of management's assessment for impairment in note 12. The reserves and resources tables are presented on pages 245 to 247, after the Parent Company notes.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FRESNILLO PLC CONTINUED

KEY AUDIT MATTER

OUR AUDIT RESPONSE

We performed full scope audit procedures over this risk area in 5 components, which covered 100% of the risk amount.

Indicators of impairment and methodology used to estimate recoverable values	• We reviewed management's identification of indicators of impairment under accounting standards. • We assessed the methodology used by management to estimate the recoverable value of each mining asset for which an impairment test was performed to ensure that this is consistent with accounting standards. • We have assessed the valuation models used by management to estimate the recoverable value of each asset.
Estimation process for reserves and resources	• We walked through the process of the estimation of the reserves and resources quantities and tested relevant controls. • We walked through the process of converting the estimation of the reserves and resources quantities to mine plans and tested relevant controls.
External specialists engaged by management	• We assessed SRK as a specialist engaged by management. • Through discussions with SRK, we have gained an understanding of the scope of their work to verify that this was appropriate. • We engaged our own specialist (geologist) to evaluate the information provided by management's geologist. • We read the report of the external specialist and gained an understanding of the changes in reserves and resources estimates in the year.
Key internal assumptions used in management's estimate of the recoverable values of mining assets	• We agreed related production profiles to the current mine plans for each mine and considered their consistency with our understanding of future plans at the mines obtained through interviews with both operating and senior management. • We assessed operating and capital costs included in the cash flow forecasts for consistency with current operating costs and forecast mine production.
Key external assumptions used in management's estimate of the recoverable values of mining assets	• Working with our valuation specialists we assessed management's assumptions relating to future metals prices and discount rates, comparing these to market data and also for consistency with other estimates used in the financial statements. • We have performed sensitivity analysis on management's calculated recoverable values for alternative assumptions around the discount rate applied.

KEY OBSERVATIONS COMMUNICATED TO THE AUDIT COMMITTEE

- We assessed SRK as an appropriate specialist engaged by management for the purposes of auditing the reserves and resources of the Group.
- We confirmed that the audited reserves and resources estimates have been appropriately used in relevant financial statement calculations.
- We consider the approach to determining the recoverable value of mining assets tested for impairment to be appropriate.
- Our procedures confirmed that the reserves and resources and related production profiles used in impairment testing are consistent with the estimates audited by SRK and respective mine plans.
- Our procedures confirmed that the estimates of operating and capital costs are consistent with the production profiles of respective mines and related mine plans.
- We concluded that the carrying values of mining assets are recoverable at 31 December 2018.

KEY AUDIT MATTER

RECOVERABLE AMOUNT OF INVESTMENT IN SUBSIDIARIES (PARENT COMPANY ONLY) ▽

- Investments in subsidiaries (US$7,141 million, 2017 US$7,094 million) are more sensitive to changes in recoverable value than the Group's underlying mining assets because these investments were re-measured at fair value in 2008 when the Group was established ahead of its Initial Public Offering.
- The principal driver of the recoverable amount of investments in subsidiaries is the estimated value of underlying mining assets held by the Group's subsidiaries. Refer to related considerations in the related key audit matter above.
- In addition, management estimates the recoverable value of exploration projects in considering the recoverable value of subsidiaries.
- Changes to assumptions could lead to material changes in estimated recoverable amounts, resulting in either impairment or reversals of impairment taken in prior years.

Our judgment is that the level of risk in this area has increased as a result of performance at certain mines being below expectation in the year. We have not made significant changes to our audit response compared to the prior year.	Management's assessment of the judgement and estimation required is set out in note 2 to the Parent Company financial statements, with management's assessment of investments in subsidiaries included in note 5.

OUR AUDIT RESPONSE

We performed full scope audit procedures over this risk area in 1 component, which covered 100% of the risk amount.

Key internal assumptions used in management's estimate of the recoverable value	• We have assessed the methodology used by management to estimate the recoverable value of each investment for which an impairment test was performed to ensure that this is consistent with accounting standards. • Refer to the key audit matter above with respect to procedures performed relating to the recoverable value of mining assets. • We have evaluated management's approach to valuing exploration prospects.
Key external assumptions used in management's estimate of the recoverable value	• Refer to the key audit matter above with respect to procedures performed relating to the recoverable value of mining assets. • We have performed sensitivity analysis on management's calculated recoverable values for alternative assumptions around the discount rate applied.

KEY OBSERVATIONS COMMUNICATED TO THE AUDIT COMMITTEE

- We concluded that the carrying values of mining assets, the principal driver of the recoverable amount of investments in subsidiaries, are reasonable.
- We highlighted the sensitivity of the recoverable value, and therefore impairment charges or reversals, to economic input assumptions, most significantly silver and gold prices and the discount rate applied. We consider that management's discount rates applied are at the lower end of an acceptable range. We reported sensitivity analysis to demonstrate the financial impact of changing this assumption.

KEY AUDIT MATTER

RE-ESTIMATION OF QUANTITIES HELD IN LEACHING PADS AT HERRADURA ●

- The recoverable quantity of gold from leaching pads is an estimate requiring consideration of a number of variables and is likely to evolve over time as further information is obtained from ongoing leaching activities and analysis of the ore deposited.
- Following new information obtained in the year related to humidity and the grade of content in solution, management updated its estimate of the gold content in the Herradura leaching pads. This resulted in an increase in the estimated remaining gold content as at 1 January 2018 from 23 koz to 122 koz.
- Management has accounted for this increase prospectively, by increasing the number of ounces in inventory as at 1 January 2018, therefore reducing the weighted average unit cost of production. This impact reduced cost of sales in the year by US$76.8 million.
- We consider that there is a risk of manipulation of the estimate as a result of management judgment involved in interpreting the results of the new analysis in the year in combination with ongoing recovery information from the pads. This includes the extent to which this new information is extrapolated across the full extent of the Herradura leaching pads. There is also judgment involved in the timing of the recognition of the change in estimate and the related effects on the financial statements.

This is a new risk for the year. We have designed and executed specific audit responses to address the risk in the current year.	Inventories are disclosed in note 14 and cost of sales in note 5 to the consolidated financial statements. The relevant accounting policies are set out in note 2.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FRESNILLO PLC CONTINUED

OUR AUDIT RESPONSE	
We performed full scope audit procedures over this risk area in the impacted component, which covered 100% of the risk amount.	
Methodology applied to make estimate	• We assessed management's geologist involved in estimating the recoverable quantity of gold from leaching pads as a specialist. • We engaged an external specialist (geologist) to evaluate the information provided by management's internal geologist. • We, along with our specialist, – obtained an understanding of management's process and methodology to determine the revised estimate of quantities held in leaching pads; – assessed the appropriateness of the methodology applied including changes as compared to prior periods; – evaluated the basis for judgments applied, including the appropriateness of applying the new information to the entirety of the Herradura leaching pads; – challenged whether the information obtained at Herradura suggests recovery rates for other mines in the mining district should be revised.
Calculation of estimate and related financial statement effects	• We assessed whether the adjustment represents a change in estimation or a prior year error. • We recomputed the calculation of estimated gold content performed by management, agreeing inputs to prior year working papers where relevant. • We performed sensitivity analysis on the primary inputs to the calculation, being humidity and gold content in solution. • We reviewed the disclosures in the financial statements to confirm their accuracy and clarity.
Management override	• As the evaluation of related controls requires the evaluation of the assumptions used in, and the output of, that process, we do not seek to rely on these controls. We increased the level of challenge when performing our substantive procedures, including the engagement of a specialist as discussed above.

KEY AUDIT MATTER

KEY OBSERVATIONS COMMUNICATED TO THE AUDIT COMMITTEE

- As heap leach recovery rates are an estimate that continues to be refined as new information is obtained, we consider it reasonable that management updated its estimate to reflect new information obtained in the current year.
- We therefore agree with management that it is appropriate for the adjustment to be accounted for prospectively in 2018.
- We highlighted the judgmental nature of the assumptions applied in the computation of the adjustment and demonstrated the potential range in the estimate of recoverable gold using sensitivity analysis.
- We concluded that there was a reasonable basis for the final assumptions used in the estimate and their application to the entire Herradura leaching pads.
- As such we concluded that there was adequate basis for the additional quantity and resulting accounting effects in the year.

PRINCIPAL CHANGES AS COMPARED TO THE PRIOR YEAR ARE DETAILED BELOW:

This year we have included a new Key Audit Matter 'Re-estimation of quantities held in leaching pads at Herradura'. During 2017 and 2018, management assayed ore samples that were removed from an existing pad at Herradura in order to build a pathway to new leaching pads. The new information obtained from the assays resulted in a re-estimation of the remaining gold content of the leaching pads and a corresponding adjustment to inventory volumes. Given the judgment involved in this re-estimation and the size of the adjustment we consider this a new significant and fraud risk in the year.

In the prior year, our audit report included a key audit matters in relation to 'Disclosures, provisions and asset carrying value arising from the El Bajio Ejido conflict.' In light of a decrease in associated risk following favourable court rulings and a reduced possible financial statement impact, we no longer consider this a significant risk in the current year.

In the prior year, our audit report included a key audit matters in relation to 'Potential tax uncertainties arising from tax authority inspections and changes in legislation'. In light of no recent updates to legislation or significant new inspections, this area was not a key audit matter for this year's audit.

AN OVERVIEW OF THE SCOPE OF OUR AUDIT

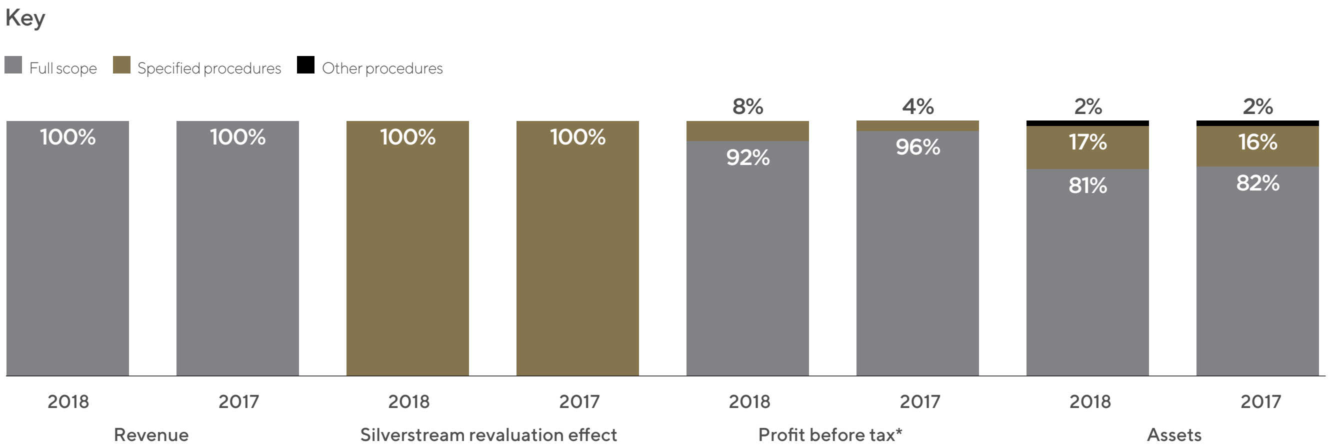
TAILORING THE SCOPE

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the group and effectiveness of group-wide controls, changes in the business environment and other factors such as recent Internal audit results when assessing the level of work to be performed at each entity.

We performed an audit of the complete financial information of 6 components (2017: 5) ('full scope components') which were selected based on their size or risk characteristics. These components cover the operating mining units in Mexico and the Parent Company. In some instances operating mining units include more than one operating mine; the Penmont mining unit includes the Herradura, Noche Buena and Soledad & Dipolos mines (additionally in 2017 the Fresnillo mining unit included the Fresnillo and the San Julián mines).

We also performed specified audit procedures on specific account balances in a further 4 components (2017: 5). The procedures were on those account balances within those components which we deemed to be significant either because of the size of these accounts or their risk profile. These accounts included taxation, mine closure provisions, property, plant and equipment and cash and cash equivalents and all balances relating to the Silverstream contract.

The reporting components where we performed audit procedures represented:



* Excludes sales, Silverstream revaluation effects and gain on sale of concessions.

The audit scope of components at which we perform specified procedures may not include testing of all significant accounts of the component but will have contributed to the coverage reflected above.

The remaining components together represent an effect on the Group's Profit before tax excluding Silverstream revaluation effects and the receipt of a part payment received in respect of an insurance claim of less than 1% (2017: (1)%) and 2% of total assets (2017: 2%). For these components, we perform other procedures, including analytical review and testing of consolidation journals and intercompany eliminations to respond to any potential risks of material misstatement in the Group financial statements.

CHANGES FROM THE PRIOR YEAR

In the current year, following the San Julián phase II mining unit coming on stream in summer 2017, we have separated the Fresnillo and San Julián mining units into two components, representing the individual operating mines. We have also removed Las Torres from our scope to reflect the stability in management's estimation of mine rehabilitation costs.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FRESNILLO PLC CONTINUED

INVOLVEMENT WITH COMPONENT TEAMS

All of the Group's significant operations are in Mexico and are audited by one local team under our direct supervision.

	Work performed by	
	Primary team	One component team under our direct supervision
Full scope components	● (Parent company)	●●●●●
Components on which specified audit procedures are performed	● (Silverstream contract*)	●●●

* In respect of the valuation of the Silverstream contract, we perform primary procedures directly. The component team performs certain supporting procedures regarding cash receipts, and the auditor of Peñoles provides support in respect of procedures on the estimation of reserve and resource quantities and the related mine plan at the Sabinas mine.

In establishing our overall approach to the Group audit, we determined the type of work that needed to be undertaken at each of the components by us, as the primary audit engagement team, or by the component auditor operating under our instruction. Of the 6 full scope components, audit procedures were performed on 1 of these directly by the primary audit team. For the 4 components at which specified procedures were performed, where the work was performed by component auditors, we determined the appropriate level of involvement to enable us to determine that sufficient audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole.

The primary engagement team, including the Senior Statutory Auditor, visited Mexico four times during the audit, during both the planning and execution phases, with members of the team working with and supervising the component team in Mexico for a number of weeks over several visits. These visits involved discussion and oversight of the component team audit approach, consideration of any accounting and auditing issues arising from their work, reviewing key audit working papers, meeting with management and attending closing meetings. In addition, in the last two years members of the primary engagement team, including the Senior Statutory Auditor, visited three of the Group's mining operations. This, together with the additional procedures performed at Group level, gave us appropriate evidence for our opinion on the Group financial statements.

Senior members of the component team attended a Global Team Planning Event in the planning phase of the audit, the Post Interim Event after hard close procedures and interacted regularly with the local team between visits to Mexico as appropriate. The primary engagement team is predominantly composed of Spanish speakers in order to further enhance our interactions with both the component team and management.

The primary team was responsible for the scope and direction of the audit process. For certain procedures, in particular areas involving significant judgement and heightened audit risk, we performed work ourselves with support where required from the component team. In other cases, we reviewed key working papers including, but not limited to, the risk areas described above.

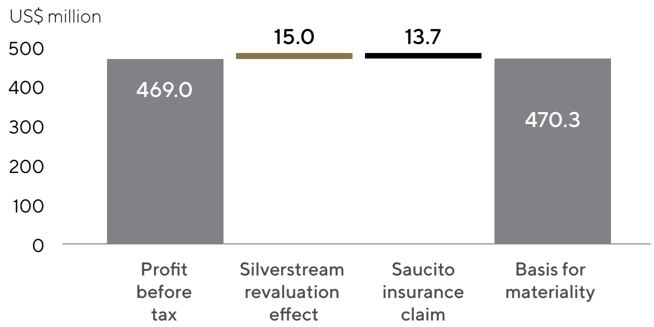
OUR APPLICATION OF MATERIALITY

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

MATERIALITY

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be US$23.4 million (2017: US$31.0 million), which is 5% (2017: 5%) of profit before tax prior to Silverstream revaluation effects and the receipt of a part payment received in respect of an insurance claim, a one-off material item (subject to roundings). We believe this measure of profit represents one of the principal considerations for members of the Group, particularly as the Silverstream revaluation effects are principally non-cash in nature and the receipt of a part payment in respect of an insurance claim is a one off transaction. In the prior year an adjustment had been made to exclude the one-off gain on the sale of a concession.



During the course of our audit, we reassessed initial materiality and updated its calculation for the actual financial results of the year. This resulted in a decrease of materiality compared to that calculated at the planning stage of the audit, due to a decrease in precious metals prices in the last quarter of the year.

We determined materiality for the Parent Company to be US$70.0 million (2017: US$70.5 million), which is 1% (2017: 1%) of equity. The materiality of the Parent Company is higher than that of the Group, reflective of the Parent Company's primary role being that of a holding company.

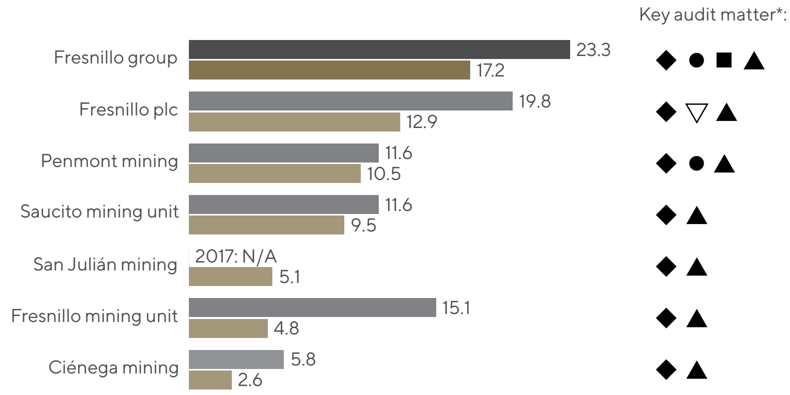
PERFORMANCE MATERIALITY

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 75% (2017: 75%) of our planning materiality, namely US$17.5 million (2017: US$23.2 million). We based this judgement on factors including the past history of misstatements, our ability to assess the likelihood of misstatements and the effectiveness of the internal control environment.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. The performance materiality allocated to full-scope components in the current year is set out in the graph to the right.

Allocated performance materiality decreased in respect of all components, reflecting the overall performance of the Group.



* The icons correspond to the key audit matters set out above. Audit procedures in respect of the recoverable amount of investments in subsidiaries are performed at the performance materiality of the standalone parent financial statements.

REPORTING THRESHOLD

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of US$1.1 million (2017: US$1.5 million), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

OTHER INFORMATION

The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- **Fair, balanced and understandable set out on page 150** – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit Committee reporting set out on pages 119 to 129** – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code set out on page 101** – the parts of the directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R (2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FRESNILLO PLC
CONTINUED

OPINIONS ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006
In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:
- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION
In the light of the knowledge and understanding of the Group and the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:
- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

RESPONSIBILITIES OF DIRECTORS
As explained more fully in the Directors' Responsibilities Statement set out on page 150, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

The objectives of our audit, in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:
- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group. We determined that the most significant which are directly relevant to specific assertions in the financial statements are those related to the reporting framework (IFRS, the Companies act 2006 and UK Corporate Governance Code), regulations impacting mining operations including mining laws, environmental and labour regulations and tax and employee profit sharing requirements in Mexico.
- We understood how Fresnillo plc is complying with those legal and regulatory frameworks by making enquiries to management, internal audit, those responsible for legal and compliance procedures and the Company secretary. We corroborated our enquiries through our review of board minutes and papers provided to the Audit Committee.
- We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur by meeting with management from various parts of the business to understand where it is considered there was a susceptibility of fraud. We also considered performance targets and their propensity to influence on efforts made by management to manage earnings. We considered the programs and controls that the Group has established to address risks identified, or that otherwise prevent, deter and detect fraud; and how senior management monitors those programs and controls. Where the risk was considered to be higher, we performed audit procedures to address each identified fraud risk. These procedures included testing manual journals and were designed to provide reasonable assurance that the financial statements were free of fraud or error.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

OTHER MATTERS WE ARE REQUIRED TO ADDRESS

- We were appointed by the Company on 4 May 2016 to audit the financial statements for the year ending 31 December 2018 and subsequent financial periods.
- The period of total uninterrupted engagement including previous renewals and reappointments is 11 years, covering periods from our initial appointment in 2008 through to the year ended 31 December 2018.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent Company and we remain independent of the Group and the Parent Company in conducting the audit.
- The audit opinion is consistent with the additional report to the Audit Committee.

USE OF OUR REPORT

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Daniel Trotman
(Senior statutory auditor)
FOR AND ON BEHALF OF ERNST & YOUNG LLP, STATUTORY AUDITOR
London

26 February 2019

CONSOLIDATED INCOME STATEMENT
YEAR ENDED 31 DECEMBER

		Year ended 31 December 2018			Year ended 31 December 2017		
	Notes	US$ thousands			US$ thousands		
		Pre-Silverstream revaluation effect	Silverstream revaluation effect	Total	Pre-Silverstream revaluation effect	Silverstream revaluation effect	Total
Continuing operations:							
Revenues	4	**2,103,785**		**2,103,785**	2,093,308		2,093,308
Cost of sales	5	**(1,323,057)**		**(1,323,057)**	(1,167,903)		(1,167,903)
Gross profit		**780,728**		**780,728**	925,405		925,405
Administrative expenses		**(83,339)**		**(83,339)**	(72,710)		(72,710)
Exploration expenses	6	**(172,799)**		**(172,799)**	(141,108)		(141,108)
Selling expenses		**(21,237)**		**(21,237)**	(19,110)		(19,110)
Other operating income	8	**11,703**		**11,703**	28,203		28,203
Other operating expenses	8	**(8,360)**		**(8,360)**	(11,371)		(11,371)
Profit from continuing operations before net finance costs and income tax		**506,696**		**506,696**	709,309		709,309
Finance income	9	**20,372**		**20,372**	14,576		14,576
Finance costs	9	**(50,010)**		**(50,010)**	(89,653)		(89,653)
Revaluation effects of Silverstream contract	13	**–**	**14,956**	**14,956**	–	113,656	113,656
Foreign exchange loss		**(8,084)**		**(8,084)**	(6,399)		(6,399)
Profit from continuing operations before income tax		**468,974**	**14,956**	**483,930**	627,833	113,656	741,489
Corporate income tax	10	**(116,162)**	**(4,487)**	**(120,649)**	(119,365)	(34,097)	(153,462)
Special mining right	10	**(13,315)**		**(13,315)**	(27,220)		(27,220)
Income tax expense	10	**(129,477)**	**(4,487)**	**(133,964)**	(146,585)	(34,097)	(180,682)
Profit for the year from continuing operations		**339,497**	**10,469**	**349,966**	481,248	79,559	560,807
Attributable to:							
Equity shareholders of the Company		**339,377**	**10,469**	**349,846**	481,019	79,559	560,578
Non-controlling interest		**120**		**120**	229		229
		339,497	**10,469**	**349,966**	481,248	79,559	560,807
Earnings per share: (US$)							
Basic and diluted earnings per Ordinary Share from continuing operations	11	**–**		**0.475**	–		0.761
Adjusted earnings per share: (US$)							
Adjusted basic and diluted earnings per Ordinary Share from continuing operations	11		**0.461**	**–**	0.653		–

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
YEAR ENDED 31 DECEMBER

	Notes	Year ended 31 December 2018 US$ thousands	2017 US$ thousands
Profit for the year		**349,966**	560,807
Other comprehensive income/(expense)			
Items that may be reclassified subsequently to profit or loss:			
Gain on cash flow hedges recycled to income statement		1,582	–
Loss on cost of hedge recycled to income statement		(269)	–
Changes in the fair value of cost of hedges		14,353	–
Total effect of cash flow hedges		15,666	–
Changes in the fair value of available-for-sale financial assets		–	8,808
Impairment of available-for-sale financial assets taken to income during the year		–	36
Total effect of available-for-sale financial assets		–	8,844
Foreign currency translation		(185)	118
Income tax effect on items that may be reclassified subsequently to profit or loss:		(4,699)	(2,653)
Net other comprehensive income that may be reclassified subsequently to profit or loss:		**10,782**	6,309
Items that will not be reclassified to profit or loss:			
Changes in the fair value of cash flow hedges		–	–
Losses on cash flow hedges recycled to other assets		(233)	–
Changes in the fair value of cash flow hedges		(58)	–
Total effect of cash flow hedges		(291)	–
Changes in the fair value of equity investments at FVOCI		(46,579)	–
Remeasurement gains on defined benefit plans	21	2,610	933
Income tax effect on items that will not be reclassified to profit or loss	10	19,999	(148)
Net other comprehensive (expense)/income that will not be reclassified to profit or loss		**(24,261)**	785
Other comprehensive (expense)/income, net of tax		**(13,479)**	7,094
Total comprehensive income for the year, net of tax		**336,487**	567,901
Attributable to:			
Equity shareholders of the Company		336,377	567,672
Non-controlling interests		110	229
		336,487	567,901

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER

	Notes	As at 31 December 2018 US$ thousands	2017 US$ thousands
ASSETS			
Non-current assets			
Property, plant and equipment	12	**2,693,104**	2,448,596
Equity instruments at FVOCI	2(b), 29	**78,219**	–
Available-for-sale financial assets	2(b)	**–**	144,856
Silverstream contract	13	**498,274**	506,569
Derivative financial instruments	29	**20**	–
Deferred tax asset	10	**88,883**	48,950
Inventories	14	**91,620**	91,620
Other receivables	15	**–**	129
Other assets		**3,199**	3,389
		3,453,319	3,244,109
Current assets			
Inventories	14	**243,404**	179,485
Trade and other receivables	15	**411,157**	342,506
Income tax recoverable		**50,871**	59,588
Prepayments		**15,488**	3,543
Derivative financial instruments	29	**294**	382
Silverstream contract	13	**20,819**	32,318
Cash and cash equivalents	16	**560,785**	876,034
		1,302,818	1,493,856
Total assets		**4,756,137**	4,737,965
EQUITY AND LIABILITIES			
Capital and reserves attributable to shareholders of the Company			
Share capital	17	**368,546**	368,546
Share premium	17	**1,153,817**	1,153,817
Capital reserve	17	**(526,910)**	(526,910)
Hedging reserve	17	**(229)**	–
Cost of hedging reserve	17	**(2,374)**	–
Available-for-sale financial assets reserve	17	**–**	53,799
Fair value reserve of financial assets at FVOCI	17	**23,370**	–
Foreign currency translation reserve	17	**(795)**	(610)
Retained earnings	17	**2,033,860**	1,962,708
		3,049,285	3,011,350
Non-controlling interests		**78,968**	55,245
Total equity		**3,128,253**	3,066,595
Non-current liabilities			
Interest-bearing loans	19	**800,127**	799,046
Derivative financial instruments	29	**–**	14,224
Provision for mine closure cost	20	**189,842**	184,775
Provision for pensions and other post-employment benefit plans	21	**6,393**	9,217
Deferred tax liability	10	**470,925**	491,677
		1,467,287	1,498,939

	Notes	As at 31 December 2018 US$ thousands	 2017 US$ thousands
Current liabilities			
Trade and other payables	22	133,140	134,949
Income tax payable		10,960	18,328
Derivative financial instruments	29	3,807	4,992
Employee profit sharing		12,690	14,162
		160,597	172,431
Total liabilities		1,627,884	1,671,370
Total equity and liabilities		4,756,137	4,737,965

These financial statements were approved by the Board of Directors on 25 February 2019 and signed on its behalf by:

Mr Arturo Fernández
Non-executive Director
25 February 2019

CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED 31 DECEMBER

	Notes	Year ended 31 December 2018 US$ thousands	 2017 US$ thousands
Net cash from operating activities	28	**588,359**	761,471
Cash flows from investing activities			
Purchase of property, plant and equipment		**(668,669)**	(604,751)
Proceeds from the sale of property, plant and equipment and other assets	8	**78**	26,078
Repayments of loans granted to contractors		**1,327**	925
Short-term investments		**–**	200,000
Silverstream contract	13	**36,303**	43,349
Purchase of available-for-sale financial assets		**–**	(19,877)
Proceeds from the sale of debt investments		**20,087**	–
Interest received		**19,520**	14,535
Net cash used in investing activities		**(591,354)**	(339,741)
Cash flows from financing activities			
Dividends paid to shareholders of the Company	18	**(298,068)**	(236,560)
Capital contribution		**23,613**	18,869
Interest paid[1]	19	**(35,177)**	(35,503)
Net cash used in financing activities		**(309,632)**	(253,194)
Net (decrease)/increase in cash and cash equivalents during the year		**(312,627)**	168,536
Effect of exchange rate on cash and cash equivalents		**(2,622)**	(4,456)
Cash and cash equivalents at 1 January		**876,034**	711,954
Cash and cash equivalents at 31 December	16	**560,785**	876,034

1 Total interest paid during the year ended 31 December 2018 less amounts capitalised totalling US$11.1 million (31 December 2017: US$11.4 million) which were included within the caption Purchase of property, plant and equipment.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
YEAR ENDED 31 DECEMBER

		Attributable to the equity holders of the Company											
													US$ thousands
	Notes	Share capital	Share premium	Capital reserve	Hedging reserve	Cost of hedging reserve	Available-for-sale financial assets reserve	Fair value reserve of financial assets at FVOCI	Foreign currency translation reserve	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 1 January 2017		368,546	1,153,817	(526,910)	–	–	47,608	–	(728)	1,637,888	2,680,221	36,147	2,716,368
Profit for the year		–	–	–	–	–	–	–	–	560,578	560,578	229	560,807
Other comprehensive income, net of tax		–	–	–	–	–	6,191	–	118	785	7,094	–	7,094
Total comprehensive income for the year		–	–	–	–	–	6,191	–	118	561,363	567,672	229	567,901
Capital contribution		–	–	–	–	–	–	–	–	–	–	18,869	18,869
Dividends declared and paid	18	–	–	–	–	–	–	–	–	(236,543)	(236,543)	–	(236,543)
Balance at 31 December 2017		**368,546**	**1,153,817**	**(526,910)**	**–**	**–**	**53,799**	**–**	**(610)**	**1,962,708**	**3,011,350**	**55,245**	**3,066,595**
Adjustments for initial application of IFRS 9	2(b)					**(13,376)**	**(53,799)**	**49,622**		**17,553**	**–**	**–**	**–**
Profit for the year		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**349,846**	**349,846**	**120**	**349,966**
Other comprehensive expense, net of tax		**–**	**–**	**–**	**(229)**	**11,002**	**–**	**(26,252)**	**(185)**	**2,195**	**(13,469)**	**(10)**	**(13,479)**
Total comprehensive income for the year		**–**	**–**	**–**	**(229)**	**11,002**	**–**	**(26,252)**	**(185)**	**352,041**	**336,377**	**110**	**336,487**
Capital contribution		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**23,613**	**23,613**
Dividends declared and paid	18	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(298,442)**	**(298,442)**	**–**	**(298,442)**
Balance at 31 December 2018		**368,546**	**1,153,817**	**(526,910)**	**(229)**	**(2,374)**	**–**	**23,370**	**(795)**	**2,033,860**	**3,049,285**	**78,968**	**3,128,253**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

Fresnillo plc. ('the Company') is a public limited company and registered in England and Wales with registered number 6344120 and is the holding company for the Fresnillo subsidiaries detailed in note 5 of the Parent Company accounts (the 'Group').

Industrias Peñoles S.A.B. de C.V. ('Peñoles') currently owns 75 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 26.

The consolidated financial statements of the Group for the year ended 31 December 2018 were authorised for issue by the Board of Directors of Fresnillo plc on 25 February 2019.

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

2. SIGNIFICANT ACCOUNTING POLICIES

(A) BASIS OF PREPARATION AND CONSOLIDATION, AND STATEMENT OF COMPLIANCE

BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE

The Group's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union as they apply to the financial statements of the Group for the years ended 31 December 2018 and 2017, 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 trade receivables, derivative financial instruments, equity securities, investment in funds 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 2018 and 2017, 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 adopted in the preparation of the consolidated financial statements are consistent with those applied in the preparation of the consolidated financial statements for the year ended 31 December 2017, except for the following:

NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS (NEW STANDARDS) ADOPTED BY THE GROUP

FINANCIAL INSTRUMENTS

On January 1, 2018, the Company adopted IFRS 9, Financial Instruments which replaced IAS 39, Financial Instruments: Recognition and Measurement using the modified retrospective approach, hence, the Group does not restate prior periods. Differences between previous carrying amounts using accounting policies as disclosed in the 2017 ARA and those determined under IFRS 9 at the date of initial application have been included in opening retained earnings.

IFRS 9 provides a revised model for classification and measurement of financial instruments; a single, forward-looking expected loss impairment model; and changes to hedge accounting.

The classification and measurement model for financial assets in IFRS 9 is based on the Group's business models for managing its financial assets and whether the contractual cash flows represent solely payments for principal and interest. Generally, equity instruments are classified and measured as fair value through profit or loss (FVPL). However, in respect of equity instruments that the Group intends to hold for the foreseeable future, IFRS 9 permits the Group to irrevocably elect upon initial recognition or transition to classify those assets as fair value through other comprehensive income (FVOCI). Changes in the fair value of equity instruments elected to be classified as FVOCI are not reclassified to profit or loss in future periods. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9.

LONG-TERM FINANCIAL ASSETS

The adoption of IFRS 9 resulted in certain changes to the classification of financial assets previously classified as available-for-sale financial assets (AFS). The Company designated its investments in quoted equity investments as FVOCI and classified investments in funds as FVPL:

	(in thousands of US dollars)	
	1 January 2018	31 December 2017
Available-for-sale financial assets	–	144,856
Debt instruments at fair value through profit or loss	19,877	–
Equity instruments at fair value through other comprehensive income	124,979	–
	144,856	144,856

Upon transition, the balance in the AFS reserve relating to investments in funds was reclassified from accumulated other comprehensive income (OCI) to retained earnings in the amount of US$53.8 million. In addition, the amounts previously recognised in retained earnings related to historical impairment of AFS that are now classified as FVOCI have been reclassified to the FVOCI reserve in the amount of US$6.0 million.

TRADE RECEIVABLES

Under IFRS 9, embedded derivatives are no longer separated from their host contracts. Instead, where embedded derivatives are present, the entire host contract is classified as fair value through profit or loss. For the Group, this change affects the trade receivables that include provisional pricing adjustments. However, it did not result in any change in the carrying amount of those trade receivables.

IMPAIRMENT

The adoption of the new 'expected credit loss' impairment model under IFRS 9, as opposed to an incurred credit loss model under IAS 39, had a negligible impact on the carrying amounts of the Group's financial assets on the transition date given the Group transacts exclusively with organisations with strong credit ratings, has had a negligible historical level of counterparty default and only has a short term period of exposure to credit risk.

HEDGING

The new general hedge accounting requirements retain the three types of hedge accounting mechanisms previously available under IAS 39. Under IFRS 9, however, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been replaced with the principle of an 'economic relationship' and retrospective assessment of hedge effectiveness is no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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 as a cost of hedging. Where the hedged item is transaction related, amounts initially recognised in OCI related to the change in the time value of options are reclassified to profit or loss or as a basis adjustment to non-financial assets or liabilities upon maturity of the hedged item, or, in the case of a hedged item that realises over time, the amounts initially recognised in OCI are amortised to profit or loss on a systematic and rational basis over the life of the hedged item. Under IAS 39, the change in time value of options was recorded in the income statement. As at 1 January 2018, the adjustment to reflect the changes in accounting for the time value of such options increased retained earnings and decreased the cost of hedging reserve by US$19.1 million (US$13.4 million net of tax).

REVENUE RECOGNITION

On January 1, 2018, the Group adopted IFRS 15, Revenue from Contracts with Customers which supersedes IAS 18, Revenue. IFRS 15 establishes a single five-step model framework for determining the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. IFRS 15 requires entities to recognise revenue when control of goods or services transfers to the customer whereas the previous standard, IAS 18, required entities to recognise revenue when the risks and rewards of the goods or services transfer to the customer. The Company concluded there is no change in the timing of revenue recognition of its doré, precipitates and concentrate sales under IFRS 15 compared to the previous standard as the point of transfer of risks and rewards of goods and services and transfer of control occur at the same time. Therefore, no adjustment was required to the Group's financial statements.

Revenue associated with the sale of concentrates, precipitates and doré bars is recognised when control of the asset sold is transferred to the customer. Indicators of control transferring include an unconditional obligation to pay, legal title, physical possession, transfer of risk and rewards and customer acceptance. This generally occurs when the goods are delivered to the customer's smelter or refinery agreed with the buyer; at which point the buyer controls the goods.

The Group's sales contracts, in general, provide for a provisional payment based upon provisional assays and quoted metal prices. Revenues are recorded under these contracts at the time control passes to the buyer and measured at the fair value of the consideration receivable based on forward market prices set on specified quotational periods applied to the Group's best estimate of contained metal quantities.

At each reporting date, provisionally priced metal is marked to market based on the forward selling price for the quotational period stipulated in the contract, changes in fair value of provisionally priced metal is recognised in revenue adjusting the value of sales. The transaction price can be measured reliably as an active and freely traded commodity market such as the London Metals Exchange exists for silver, gold, zinc and lead and the value of product sold by the Company is directly linked to the form in which it is traded on that market. Variations between the price recorded at the date when control is transferred to the buyer and the actual final price set under the smelting contracts are caused by changes in metal prices resulting in the receivable being recorded at FVPL.

Final settlement is based on quantities adjusted as required following the inspection of the product by the customer as well as applicable commodity prices. IFRS 15 requires that variable consideration should only be recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. The Group concluded that the adjustments relating to the final assay results for the quantity and quality of concentrate sold are not significant and do not constrain the recognition of revenue.

Refining and treatment charges under the sales contracts continue to be deducted from revenue from sales of concentrates as these are not related to a distinct good or service.

OTHER NARROW SCOPE AMENDMENTS

The Group has adopted IFRIC 22 – Foreign Currency Transactions and Advance Considerations, which did not have a material impact on the Group's consolidated financial statements.

Other than the amendment mentioned above, there were no significant new standards that the Group was required to adopt effective from 1 January 2018.

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 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. The Group has elected to adopt the new standard from 1 January 2019 applying the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets will be measured at the amount of the lease liability on adoption. The Group has set up a project team which has reviewed all of the Group's leasing arrangements over the last year in light of the new lease accounting rules in IFRS 16. As at the reporting date, the Group has non-cancellable operating lease commitments of $16.1 million, see note 24. Of these commitments, approximately $0.2 million relate to short-term leases and $2.7 million to low value leases which will both be recognised on a straight-line basis as expense in profit or loss.

IFRIC 23 UNCERTAINTY OVER INCOME TAX TREATMENTS

This Interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. The interpretation is to be applied to the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments. Application of tax law can be complex and requires judgement to assess risk and estimate outcomes where the amount of tax payable or recoverable is uncertain. The Group evaluated potential uncertain tax positions under the requirements of the Interpretation and has not identified any impact on the Group's financial statements. IFRIC 23 is applicable for annual periods beginning on or after 1 January 2019.

The IASB and IFRS Interpretation committee have issued other amendments resulting from improvements to IFRSs 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 for the year ended 31 December 2018 are:

- 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 will be a subset of the total ore body that is made more accessible as a result of 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 since components are usually identified during the mine planning stage. The Group reassesses the components of ore bodies in line with the preparation and update of mine plans which usually depend on newest information of reserves and resources.

  In the current year, this reassessment did not give rise to any changes in the identification of components except for those existing at Centauro pit at Herradura mine.

  Following the results of reserves and resources studies in the prior year, significant additional gold reserves were identified at Centauro pit. The mining operations worked on assessing the impact of these new reserves on the design of the mine and proposed a new mine plan which was approved in July 2018. The new design significantly expands the size of the Centauro pit and results in areas which were previously going to be mined as two separate components being accessed and mined as a single component. Based on the new mine plan, effective 1 July 2018 the Group has changed the components identified at Centuaro pit and therefore the measurement of the corresponding stripping costs.

  This change was incorporated prospectively from 1 July 2018. Had the determination of components not changed, capitalised stripping cost during the six-month period ended 31 December 2018 would have been US$28.6 million higher, with an offsetting impact against the work-in-progress inventory balance as of 31 December 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

- Contingencies, note 25:
  By their nature, contingencies will be resolved only when one or more uncertain future events occur or fail to occur. The assessment of the existence and potential quantum of contingencies inherently involves the exercise of significant judgement and the use of estimates regarding the outcome of future events.

ESTIMATES AND ASSUMPTIONS

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

- Estimated recoverable ore reserves and mineral resources, note 2(e):
  Ore reserves are estimates of the amount of ore that can be economically and legally extracted from the Group's mining properties; mineral resources are an identified mineral occurrence with reasonable prospects for eventual economic extraction. The Group estimates its ore reserves and mineral resources based on information compiled by appropriately qualified persons relating to the geological and technical data on the size, depth, shape and grade of the ore body and suitable production techniques and recovery rates, in conformity with the Joint Ore Reserves Committee (JORC) code 2012. Such an analysis requires complex geological judgements to interpret the data. The estimation of recoverable ore reserves and mineral resources is based upon factors such as geological assumptions and judgements made in estimating the size and grade of the ore body, estimates of commodity prices, foreign exchange rates, future capital requirements and production costs.

  As additional geological information is produced during the operation of a mine, the economic assumptions used and the estimates of ore reserves and mineral resources may change. Such changes may impact the Group's reported balance sheet and income statement including:
  - The carrying value of property, plant and equipment and mining properties may be affected due to changes in estimated future cash flows, which consider both ore reserves and mineral resources;
  - Depreciation and amortisation charges in the income statement may change where such charges are determined using the unit-of-production method based on ore reserves;
  - Stripping costs capitalised in the balance sheet, either as part of mine properties or inventory, or charged to profit or loss may change due to changes in stripping ratios;
  - Provisions for mine closure costs may change where changes to the ore reserve and resources estimates affect expectations about when such activities will occur; and
  - The recognition and carrying value of deferred income tax assets may change due to changes regarding the existence of such assets and in estimates of the likely recovery of such assets.

- Estimate of recoverable ore on leaching pads:
  In the Group's open pit mines, certain mined ore is placed on leaching pads where a solution is applied to the surface of the heap to dissolve the gold and enable extraction. The determination of the amount of recoverable gold requires estimation with consideration of the quantities of ore placed on the pads and the grade of that ore (based on assay data) and the estimated recovery percentage (based on metallurgical studies and current technology).

  The grades of ore placed on pads are regularly compared to the quantities of metal recovered through the leaching process to evaluate the appropriateness of the estimated recovery (metallurgical balancing). The Group monitors the results of the metallurgical balancing process and recovery estimates are refined based on actual results over time and when new information becomes available.

  In 2017, the Group decided that it would construct a new leaching pad in a separate area of the Herradura mine. To reduce the hauling distance from the pit to the new pad, the Group constructed an access route through certain existing leaching pads, removing and redepositing the ore in the process. These works allowed the Group to perform assays and verify certain characteristics of the ore, including the humidity of the ore deposited and the grade of gold in solution. The Group finalised the evaluation of those assays during first half of 2018.

  As a result of this new information, the Group updated its estimate of the remaining gold content in leaching pads resulting in an increase of 98.9 thousand ounces of gold as at 1 January 2018. This represents 1.7% of the total gold content deposited from the inception of the mine to 31 December 2017.

  This change in estimation was incorporated prospectively in inventory from 1 January 2018. The increase in the number of ounces reduced the weighted average cost of inventory. Had the estimation not changed, production cost during the year ended 31 December 2018 would have been US$71.9 million higher, with an offsetting impact against the work-in-progress inventory balance as of 31 December 2018.

- Silverstream, note 13:
  The valuation of the Silverstream contract as a derivative financial instrument requires estimation by management. The term of the derivative is based on the Sabinas life of mine and the value of this derivative is determined using a number of estimates, including the estimated recoverable ore reserves and mineral resources and future production profile of the Sabinas mine, the estimated recoveries of silver from ore mined, estimates of the future price of silver and the discount rate used to discount future cash flows. For further detail on the inputs that have a significant effect on the fair value of this derivative, see note 30. The impact of changes in silver price assumptions, foreign exchange, inflation and the discount rate is included in note 31.

- Estimation of the mine closure costs, notes 2 (j) and 19:
  Significant estimates and assumptions are made in determining the provision for mine closure cost as there are numerous factors that will affect the ultimate amounts payable. These factors include estimates of the extent and costs of rehabilitation activities, the currency in which the cost will be incurred, technological changes, regulatory changes, cost increases, mine life and changes in discount rates. Those uncertainties may result in future actual expenditure differing from the amounts currently provided. The provision at the balance sheet date represents management's best estimate of the present value of the future closure costs required.

- Income tax, notes 2 (q) and 10:
  The recognition of deferred tax assets, including those arising from un-utilised tax losses require management to assess the likelihood that the Group will generate taxable earnings in future periods, in order to utilise recognised deferred tax assets. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Group to realise the net deferred tax assets recorded at the balance sheet date could be impacted.

(D) FOREIGN CURRENCY TRANSLATION

The Group's consolidated financial statements are presented in US dollars, which is the Parent Company's functional currency. The functional currency for each entity in the Group is determined by the currency of the primary economic environment in which it operates. The determination of functional currency requires management judgement, particularly where there may be more than one currency in which transactions are undertaken and which impact the economic environment in which the entity operates. For all operating entities, this is US dollars.

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

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

(E) PROPERTY, PLANT AND EQUIPMENT

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

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

The expected useful lives are as follows:

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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 as new information of reserves and resources is available. 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.

(F) IMPAIRMENT OF NON-FINANCIAL ASSETS

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

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

THE RECOVERABLE AMOUNT OF AN ASSET

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

REVERSAL OF IMPAIRMENT

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

(G) FINANCIAL ASSETS AND LIABILITIES

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured at amortised cost;
- those to be measured subsequently at fair value through OCI; and
- those to be measured subsequently at fair value through profit or loss.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset.

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

AMORTISED COST

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

The Group's financial assets at amortised cost include receivables (other than trade receivables which are measured at fair value through profit and loss).

FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the statement of profit or loss.

At transition to IFRS 9, the Group had certain financial asset that were accounted for as debt instruments at fair value through other comprehensive income; however, at the reporting date, no such assets existed.

EQUITY INSTRUMENTS DESIGNATED AS FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

The Group elected to classify irrevocably its listed equity investments under this category.

FAIR VALUE THROUGH PROFIT OR LOSS

Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

Changes in the fair value of financial assets at FVPL are recognised in other gains/(losses) in the statement of profit or loss as applicable.

The Group's trade receivables and derivative financial instruments, including the Silverstream contract, are classified as fair value through profit or loss.

DE-RECOGNITION OF FINANCIAL ASSETS

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

IMPAIRMENT OF FINANCIAL ASSETS

From 1 January 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For receivables (other than trade receivables which are measured at FVPL), the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

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

For this purpose, the costs of production include:
- personnel expenses, which include employee profit sharing, materials and contractor expenses which are directly attributable to the extraction and processing of ore;
- the depreciation of property, plant and equipment used in the extraction and processing of ore; and
- related production overheads (based on normal operating capacity).

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

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

(I) 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.

(J) 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.

(K) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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.

(L) 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.

(M) 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.

(N) REVENUE FROM CONTRACTS WITH CUSTOMERS

Revenue is recognised when control of goods or services transfers to the customer based on the performance obligations settle in the contracts with customers.

SALE OF GOODS

Revenue associated with the sale of concentrates, precipitates and doré bars is recognised when control of the asset sold is transferred to the customer. Indicators of control transferring include an unconditional obligation to pay, legal title, physical possession, transfer of risk and rewards and customer acceptance. This generally occurs when the goods are delivered to the customer's smelter or refinery agreed with the buyer; at which point the buyer controls the goods.

The Group's sales contracts, in general, provide for a provisional payment based upon provisional assays and quoted metal prices. Revenues are recorded under these contracts at the time control passes to the buyer and measured at the fair value of the consideration receivable based on forward market prices set on specified quotational periods applied to the Group's best estimate of contained metal quantities.

Final settlement is based on quantities adjusted as required following the inspection of the product by the customer as well as applicable commodity prices. IFRS 15 requires that variable consideration should only be recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. As the adjustments relating to the final assay results for the quantity and quality of concentrate sold are not significant, they do not constrain the recognition of revenue.

Refining and treatment charges under the sales contracts are deducted from revenue from sales of concentrates as these are not related to a distinct good or service.

(O) 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.

(P) SELLING EXPENSES

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

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

(Q) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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 (See note 10 (e)). The Group recognises deferred tax assets and liabilities on temporary differences arising in the determination of the Special Mining Right (See note 10).

SALES TAX

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

- When the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable; and
- When receivables and payables are stated with the amount of sales tax included.

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

(R) 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.

Beginning 1 January 2018, the documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is 'an economic relationship' between the hedged item and the hedging instrument.
- The effect of credit risk does not 'dominate the value changes' that result from that economic relationship.
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

Hedges which meet the 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. This is not a reclassification adjustment and will not be recognised in OCI for the period. 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. In such cases, changes in the time value of options are initially recognised in OCI as a cost of hedging. Where the hedged item is transaction related, amounts initially recognised in OCI related to the change in the time value of options are reclassified to profit or loss or as a basis adjustment to non-financial assets or liabilities upon maturity of the hedged item, or, in the case of a hedged item that realises over time, the amounts initially recognised in OCI are amortised to profit or loss on a systematic and rational basis over the life of the hedged item.

(S) 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.

(T) 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 29 and 30.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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 29.

(U) 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 2018, the Group has seven reportable operating segments as follows:

- The Fresnillo mine, located in the state of Zacatecas, an underground silver mine.
- The Saucito mine, located in the state of Zacatecas, an underground silver mine.
- The Ciénega mine, located in the state of Durango, an underground gold mine; including the San Ramón satellite mine.
- The Herradura mine, located in the state of Sonora, a surface gold mine.
- The Soledad-Dipolos mine, located in the state of Sonora, a surface gold mine.
- The Noche Buena mine, located in state of Sonora, a surface gold mine.
- The San Julián mine, located on the border of Chihuahua/Durango states, an underground silver-gold mine.

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

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

In 2018 and 2017, 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 2018 and 2017, respectively. Revenues for the year ended 31 December 2018 include those derived from contracts with costumers and other revenues, as showed in note 4.

									Year ended 31 December 2018	
US$ thousands	Fresnillo	Herradura	Ciénega	Soledad-Dipolos[4]	Saucito	Noche Buena	San Julián	Other[5]	Adjustments and eliminations	Total
Revenues:										
Third party[1]	333,009	607,073	172,922	–	436,491	210,994	341,714	–	1,582	2,103,785
Inter-Segment								85,101	(85,101)	–
Segment revenues	**333,009**	**607,073**	**172,922**	**–**	**436,491**	**210,994**	**341,714**	**85,101**	**(83,519)**	**2,103,785**
Segment Profit[2]	**211,530**	**322,985**	**79,154**	**–**	**274,505**	**85,903**	**176,518**	**65,690**	**(11,281)**	**1,205,004**
Depreciation and amortisation										(411,764)
Employee profit sharing										(12,512)
Gross profit as per the income statement										**780,728**
Capital expenditure[3]	121,146	116,002	72,895	–	148,440	50,209	83,129	76,848	–	668,669

1 Total third party revenues include treatment and refining charges amounting US$141.2 million. Adjustments and eliminations correspond to hedging gains (note 4).
2 Segment profit excluding foreign exchange hedging gains, 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 the construction of facilities at San Julián phase II, the second dynamic leaching plant at Herradura and the construction of the Pyrites plant at Saucito.
4 During 2018, this segment did not operate due to the Bajio conflict (note 25).
5 Other inter-segment revenue corresponds to leasing services provided by Minera Bermejal, S.A. de C.V; capital expenditure mainly corresponds to Minera Juanicipio S.A de C.V. and Minera Bermejal, S. de R.L. de C.V.

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

1 Total third party revenues include treatment and refining charges amounting US$139.9 million.
2 Segment profit excluding depreciation and amortisation and employee profit sharing. During 2017 there were no foreign exchange hedging losses included in Gross profit.
3 Capital expenditure represents the cash outflow in respect of additions to property, plant and equipment, including mine development, construction of leaching pads, purchase of mine equipment and capitalised stripping activity, excluding additions relating to changes in the mine closure provision. Significant additions the construction of facilities at San Julián phase II, the second dynamic leaching plant at Herradura and the construction of the Pyrites plant at Saucito.
4 During 2017, this segment did not operate due to the Bajio conflict (note 25). Segment profit is derived from the changes in the net realisable value allowance against inventory (note 14).
5 Other inter-segment revenue corresponds to leasing services provided by Minera Bermejal, S.A. de C.V; capital expenditure corresponds to Minera Juanicipio S.A de C.V.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

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 SOURCE

	Year ended 31 December	
	2018 US$ thousands	2017 US$ thousands
Revenues from contracts with customers	2,102,694	2,084,048
Revenues from other sources:		
Provisional pricing adjustment on products sold	(491)	9,260
Hedging gain on sales	1,582	–
	2,103,785	2,093,308

(B) REVENUES BY PRODUCT SOLD

	Year ended 31 December	
	2018 US$ thousands	2017 US$ thousands
Lead concentrates (containing silver, gold, lead and by-products)	804,882	832,039
Doré and slag (containing gold, silver and by-products)	818,067	820,821
Zinc concentrates (containing zinc, silver and by-products)	249,182	195,837
Precipitates (containing gold and silver)	231,654	244,611
	2,103,785	2,093,308

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

(C) 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	
	2018 US$ thousands	2017 US$ thousands
Silver	815,837	844,815
Gold	1,118,087	1,125,290
Zinc	204,499	161,305
Lead	106,536	101,826
Value of metal content in products sold	2,244,959	2,233,236
Adjustment for treatment and refining charges	(141,174)	(139,928)
Total revenues[1]	2,103,785	2,093,308

1 Includes provisional price adjustments which represent changes in the fair value of trade receivables resulting in a loss of US$0.5 million (2017: gain of US$9.2 million due to changes in the fair value of embedded derivatives arising on provisional pricing in sales contracts) and hedging gain of US$1.6 million (2017: nil). For further detail, refer to note 2(n).

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	
	2018 US$ per ounce	2017 US$ per ounce
Gold[2]	1,269.1	1,267.4
Silver[2]	15.5	16.9

2 For the purpose of the calculation, revenue by content of products sold does not include the results from hedging.

5. COST OF SALES

	Year ended 31 December	
	2018 US$ thousands	2017 US$ thousands
Depreciation and amortisation (notes 2 (e) and 12)	**411,764**	367,609
Personnel expenses (note 7)	**94,653**	89,629
Maintenance and repairs	**150,021**	115,670
Operating materials	**191,954**	153,221
Energy	**176,333**	144,298
Contractors	**291,970**	233,909
Freight	**11,633**	10,545
Insurance	**4,956**	4,786
Mining concession rights and contributions	**13,271**	11,589
Other	**29,680**	22,043
Cost of production	**1,376,235**	1,153,299
Change in work in progress and finished goods (ore inventories)[1]	**(53,178)**	16,873
Change in net realisable value allowance against inventory (note 14)	**–**	(2,269)
	1,323,057	1,167,903

1 Refer to note 2 (c) for more detail related to change in work in progress inventories for the year ended 31 December 2018 following a change in estimations.

6. EXPLORATION EXPENSES

	Year ended 31 December	
	2018 US$ thousands	2017 US$ thousands
Contractors	**127,734**	105,778
Administrative services	**6,734**	6,818
Mining concession rights and contributions	**23,441**	15,056
Personnel expenses (note 7)	**4,137**	4,260
Assays	**3,615**	2,850
Rentals	**1,378**	2,329
Other	**5,760**	4,017
	172,799	141,108

These exploration expenses were mainly incurred in areas of the Fresnillo, Herradura, La Ciénega, Saucito and San Julián mines, the San Ramón satellite mine and Orysivo, Guanajuato, Centauro Deep, San Javier and Carina projects. In addition, exploration expenses of US$6.3 million (2017: US$8.3 million) were incurred in the year on projects located in Peru and Chile.

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

	Year ended 31 December	
	2018 US$ thousands	2017 US$ thousands
Liabilities related to exploration activities	**112**	1,947

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

Cash flows relating to exploration activities are as follows:

	Year ended 31 December	
	2018 US$ thousands	2017 US$ thousands
Operating cash out flows related to exploration activities	**174,634**	140,804

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

7. PERSONNEL EXPENSES

	Year ended 31 December	
	2018 US$ thousands	2017 US$ thousands
Salaries and wages	46,542	39,448
Employees' profit sharing	13,003	17,150
Bonuses	12,367	12,112
Statutory healthcare and housing contributions	17,976	16,057
Other benefits	10,682	8,704
Vacations and vacations bonus	2,870	2,636
Social security	2,369	1,862
Post-employment benefits[1]	4,026	4,224
Legal contributions	2,190	1,608
Training	3,033	3,834
Other	7,404	8,852
	122,462	116,487

1 Post-employment benefits include US$0.6 million associated to benefits corresponding to the defined contribution plan (2017: US$0.4 million).

(A) PERSONNEL EXPENSES ARE REFLECTED IN THE FOLLOWING LINE ITEMS:

	Year ended 31 December	
	2018 US$ thousands	2017 US$ thousands
Cost of sales (note 5)	94,653	89,629
Administrative expenses	23,672	20,109
Exploration expenses (note 6)	4,137	6,749
	122,462	116,487

(B) THE MONTHLY AVERAGE NUMBER OF EMPLOYEES DURING THE YEAR WAS AS FOLLOWS:

	Year ended 31 December	
	2018 No.	2017 No.
Mining	2,236	1,994
Plant concentration	752	602
Exploration	480	501
Maintenance	1,035	865
Administration and other	658	936
Total	5,161	4,898

8. OTHER OPERATING INCOME AND EXPENSES

	Year ended 31 December	
	2018 US$ thousands	2017 US$ thousands
Other income:		
Gain on sale of property, plant and equipment[1]	–	25,333
Insurance recovery[2]	9,245	–
Other	2,458	2,870
	11,703	28,203

	Year ended 31 December	
	2018 US$ thousands	2017 US$ thousands
Other expenses:		
Rentals	184	229
Maintenance[3]	1,278	1,858
Donations	1,313	2,540
Environmental activities	1,216	1,790
Loss on sale of property, plant and equipment	999	–
Consumption tax expensed	655	1,031
Impairment available-for-sale financial assets	–	36
Other	2,715	3,887
	8,360	11,371

1 Mainly corresponds to a sale of a certain mining concession from the Fresnillo district to a third party for a consideration of US$26.0 million, resulting in a gain of US$24.8 million.
2 Corresponds to a partial reimbursement for the insurance claim relating to Saucito's flood see note 26 for further detail.
3 Costs relating to the rehabilitation of the facilities of Compañía Minera las Torres, S.A. de C.V. (a closed mine).

9. FINANCE INCOME AND FINANCE COSTS

	Year ended 31 December	
	2018 US$ thousands	2017 US$ thousands
Finance income:		
Interest on short-term deposits and investments	15,584	11,368
Other	4,788	3,208
	20,372	14,576

	Year ended 31 December	
	2018 US$ thousands	2017 US$ thousands
Finance costs:		
Interest on interest-bearing loans	36,258	35,808
Fair value movement on derivatives[1]	274	41,389
Unwinding of discount on provisions	10,044	11,703
Other	3,434	753
	50,010	89,653

1 The 2017 figure principally relates to the time value associated with gold commodity options (see note 29 for further detail). During 2018 this effect was recognised within other comprehensive income (see note 2 (b)).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

10. INCOME TAX EXPENSE

A) MAJOR COMPONENTS OF INCOME TAX EXPENSE:

	Year ended 31 December	
	2018 US$ thousands	2017 US$ thousands
Consolidated income statement:		
Corporate income tax		
Current:		
Income tax charge	156,715	155,692
Amounts under provided in previous years	11,774	8,676
	168,489	164,368
Deferred:		
Origination and reversal of temporary differences	(52,327)	(45,003)
Revaluation effects of Silverstream contract	4,487	34,097
	(47,840)	(10,906)
Corporate income tax	120,649	153,462
Special mining right		
Current:		
Special mining right charge[1]	10,860	19,415
	10,860	19,415
Deferred:		
Origination and reversal of temporary differences	2,455	7,805
Special mining right	13,315	27,220
Income tax expense reported in the income statement	133,964	180,682

1 The special mining right 'SMR' allows the deduction of payments of mining concessions rights up to the amount of SMR payable within the same legal entity. During the fiscal year ended 31 December 2018, the Group credited US$17.3 million (2017: US$15.7 million) of mining concession rights against the SMR. Total mining concessions rights paid during the year were US$22.2 million (2017: US$16.3 million) and have been recognised in the income statement within cost of sales and exploration expenses. Mining concessions rights paid in excess of the SMR cannot be credited to SMR in future fiscal periods, and therefore no deferred tax asset has been recognised in relation to the excess. Without regards to credits permitted under the SMR regime, the current special mining right charge would have been US$28.1 million (2017: US$35.1 million).

	Year ended 31 December	
	2018 US$ thousands	2017 US$ thousands
Consolidated statement of comprehensive income:		
Deferred income tax credit/(charge) related to items recognised directly in other comprehensive income:		
Gain on cash flow hedges recycled to income statement	(388)	–
Changes in fair value of cash flow hedges	(4,224)	–
Changes in fair value of available-for-sale financial assets	20,327	(2,653)
Remeasurement losses on defined benefit plans	(415)	(148)
Income tax effect reported in other comprehensive income	15,300	(2,801)

(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	
	2018 US$ thousands	2017 US$ thousands
Accounting profit before income tax	**483,930**	741,489
Tax at the Group's statutory corporate income tax rate 30.0%	**145,179**	222,446
Expenses not deductible for tax purposes	**2,454**	2,562
Inflationary uplift of the tax base of assets and liabilities	**(16,599)**	(20,011)
Current income tax (over)/underprovided in previous years	**(4,807)**	472
Exchange rate effect on tax value of assets and liabilities[1]	**(778)**	(9,934)
Non-taxable/non-deductible foreign exchange losses	**1,255**	(4,242)
Inflationary uplift of tax losses	**(2,909)**	(5,084)
IEPS tax credit (note 10 (e))	**(7,012)**	(26,181)
Deferred tax asset not recognised	**6,571**	4,461
Special mining right deductible for corporate income tax	**(3,992)**	(8,165)
Other	**1,287**	(2,862)
Corporate income tax at the effective tax rate of 24.9% (2017: 20.7%)	**120,649**	153,462
Special mining right	**13,315**	27,220
Tax at the effective income tax rate of 27.6% (2017: 24.4%)	**133,964**	180,682

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	
	2018 US$ thousands	2017 US$ thousands
Opening net liability	**(442,727)**	(443,027)
Income statement credit arising on corporate income tax	**47,840**	10,906
Income statement charge arising on special mining right	**(2,455)**	(7,805)
Exchange difference	**–**	–
Net credit/(charge) related to items directly charged to other comprehensive income	**15,300**	(2,801)
Closing net liability	**(382,042)**	(442,727)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

10. INCOME TAX EXPENSE CONTINUED

The amounts of deferred income tax assets and liabilities as at 31 December 2018 and 2017, considering the nature of the related temporary differences, are as follows:

	Consolidated balance sheet		Consolidated income statement	
	2018 US$ thousands	2017 US$ thousands	**2018 US$ thousands**	2017 US$ thousands
Related party receivables	**(220,131)**	(221,451)	**(1,320)**	22,270
Other receivables	**1,315**	(2,171)	**(3,486)**	(1,554)
Inventories	**188,119**	162,842	**(25,277)**	271
Prepayments	**(1,035)**	(898)	**137**	(923)
Derivative financial instruments including Silverstream contract	**(150,205)**	(147,535)	**(1,942)**	12,551
Property, plant and equipment arising from corporate income tax	**(330,722)**	(341,774)	**(11,052)**	(9,551)
Exploration expenses and operating liabilities	**50,691**	44,121	**(6,570)**	(19,818)
Other payables and provisions	**57,303**	55,379	**(1,924)**	(10,646)
Losses carried forward	**67,059**	68,213	**1,154**	(1,870)
Post-employment benefits	**1,016**	1,465	**34**	220
Deductible profit sharing	**3,807**	4,249	**442**	(344)
Special mining right deductible for corporate income tax	**29,321**	30,661	**1,340**	(1,561)
Equity investments at FVOCI	**3,510**	–	**–**	–
Available-for-sale financial assets	**–**	(16,818)	**–**	2,643
Other	**(4,396)**	(3,772)	**624**	(2,594)
Net deferred tax liability related to corporate income tax	**(304,348)**	(367,489)	**–**	–
Deferred tax credit related to corporate income tax	**–**	–	**(47,840)**	(10,906)
Related party receivables arising from special mining right	**(20,161)**	(21,379)	**(1,218)**	2,616
Inventories arising from special mining right	**13,746**	11,107	**(2,639)**	(2,831)
Property plant and equipment arising from special mining right	**(71,279)**	(64,966)	**6,312**	8,020
Net deferred tax liability	**(382,042)**	(442,727)	**–**	–
Deferred tax credit	**–**	–	**(45,385)**	(3,101)
Reflected in the statement of financial position as follows:				
Deferred tax assets	**88,883**	48,950	**–**	–
Deferred tax liabilities-continuing operations	**(470,925)**	(491,677)	**–**	–
Net deferred tax liability	**(382,042)**	(442,727)	**–**	–

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$223.5 million (2017: US$227.4 million). If not utilised, US$37.6 million (2017: US$13.7 million) will expire within five years and US$185.9 million (2017: US$213.6 million) will expire between six and ten years.

The Group has further tax losses and other similar attributes carried forward of US$42.2 million (2017: US$37.4 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$1,430 million (2017: US$1,723 million).

(E) CORPORATE INCOME TAX ('IMPUESTO SOBRE LA RENTA' OR 'ISR') AND SPECIAL MINING RIGHT ('SMR')

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

During 2016 the Mexican Internal Revenue Law granted to taxpayers a credit in respect of an excise tax (Special Tax on Production and Services, or IEPS for its acronym in Spanish) paid when purchasing diesel used for general machinery and certain mining vehicles. The credit can be applied against either the Group's own corporate income tax or the income tax withheld from third parties. The credit is calculated on an entity-by-entity basis and expires one year after the purchase of the diesel. In the year ended 31 December 2018, the Group applied a credit of US$14.9 million in respect of the year (2017: US$23.2 million), which was offset by an adjustment in respect of prior years of US$7.8 million (2017: nil). Additionally, as at 31 December 2017 the Group recognised a deferred tax asset US$2.9 million in respect of the IEPS incurred in 2017 and expected to be applied during 2018. As the IEPS deduction is itself taxable, the deferred tax asset is recognised at 70% of the IEPS carried forward. The net amount applied by the Group is presented in the reconciliation of the effective tax rate in note 10(b).

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

11. EARNINGS PER SHARE

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

The Company has no dilutive potential Ordinary Shares.

As of 31 December 2018 and 2017, earnings per share have been calculated as follows:

	Year ended 31 December	
	2018 US$ thousands	2017 US$ thousands
Earnings:		
Profit from continuing operations attributable to equity holders of the Company	349,846	560,578
Adjusted profit from continuing operations attributable to equity holders of the Company	339,377	481,019

Adjusted profit is profit as disclosed in the Consolidated Income Statement adjusted to exclude revaluation effects of the Silverstream contract of US$14.9 million gain (US$10.4 million net of tax) (2017: US$113.6 million gain (US$79.5 million net of tax)).

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

	2018 thousands	2017 thousands
Number of shares:		
Weighted average number of Ordinary Shares in issue	736,984	736,894

	2018 US$	2017 US$
Earnings per share:		
Basic and diluted earnings per share	0.475	0.761
Adjusted basic and diluted earnings per Ordinary Share from continuing operations	0.461	0.653

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

12. PROPERTY, PLANT AND EQUIPMENT

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

	Year ended 31 December 2018					
	Land and buildings	Plant and Equipment	Mining properties and development costs	Other assets	Construction in Progress	Total
						US$ thousands
Cost						
At 1 January 2018	261,805	1,817,591	1,909,385	255,465	471,055	4,715,301
Additions	1,928	76,424	69	546	586,840	665,807
Disposals	–	(9,768)	(2,386)	(1,749)		(13,903)
Transfers and other movements	19,566	248,356	269,336	22,469	(559,727)	–
At 31 December 2018	283,299	2,132,603	2,176,404	276,731	498,168	5,367,205
Accumulated depreciation						
At 1 January 2018	(112,048)	(1,051,459)	(997,913)	(105,285)	–	(2,266,705)
Depreciation for the year[1]	(24,130)	(166,204)	(208,807)	(20,878)	–	(420,019)
Disposals	–	9,159	1,881	1,583	–	12,623
At 31 December 2018	(136,178)	(1,208,504)	(1,204,839)	(124,580)	–	(2,674,101)
Net Book amount at 31 December 2018	147,121	924,099	971,565	152,151	498,168	2,693,104

1 Depreciation for the year includes US$411.8 million (2017: US$367.7 million) recognised as an expense in cost of sales in the income statement and US$8.3 million (2017: US$13.3 million), capitalised as part of construction in progress.
2 From the additions in 'other assets' category US$(4.5) million (2017: US$24.1 million) corresponds to the reassessment of mine closure rehabilitations costs, see note 20.

The table below details construction in progress by operating mine

	Year ended 31 December	
	2018 US$ thousands	2017 US$ thousands
Saucito	88,916	101,885
Herradura	70,536	98,401
Noche Buena	20,834	12,028
Ciénega	47,838	29,039
Fresnillo	48,671	30,641
San Julián	64,236	53,383
Other[3]	157,137	145,678
	498,168	471,055

3 Manly corresponds to Juanicipio development project (2017: Juanicipio development project and Minera Bermejal, S.A. de C.V.).

During the year ended 31 December 2018, the Group capitalised US$11.1 million of borrowing costs within construction in progress (2017: US$11.4). Borrowing costs were capitalised at the rate of 5.78% (2017: 5.78%).

SENSITIVITY ANALYSIS

As at 31 December 2018 and 2017, 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 long-term price assumptions of US$1,310/ounce and US$19.25/ounce (2017: US$1,300/ounce and US$19/ounce) for gold and silver, respectively. Management considers that the models supporting the carrying amounts are most sensitive to commodity price assumptions and have therefore performed a sensitivity analysis for those CGUs, where a reasonable possible change in prices could lead to impairment. Management has considered a low sensitivity by decreasing gold and silver prices by 5% (2017: gold and silver 5%) and a high sensitivity by decreasing gold and silver prices by 10% and 15% respectively (2017: gold and silver 10%). As at 31 December 2018 the analysis resulted in an impairment on Herradura of US$302.7 million under high sensitivity; US$72.3 million under low sensitivity and San Julián US$159.3 million under high sensitivity; US$45.4 million under low sensitivity (2017: nil for Herradura and San Julián).

13. SILVERSTREAM CONTRACT

On 31 December 2007, the Group entered into an agreement with Peñoles through which it is entitled to receive the proceeds received by the Peñoles Group in respect of the refined silver sold from the Sabinas Mine ('Sabinas'), a base metals mine owned and operated by the Peñoles Group, for an upfront payment of US$350 million. In addition, a per ounce cash payment of $2.00 in years one to five and $5.00 thereafter (subject to an inflationary adjustment that commenced from 31 December 2013) is payable to Peñoles. The cash payment per ounce for the year ended 31 December 2018 was $5.26 per ounce (2017: $5.20 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 FVPL and classified within non-current and current assets as appropriate. The term of the derivative is based on Sabinas life of mine which is currently 35 years. Changes in the contract's fair value, other than those represented by the realisation of the asset through the receipt of either cash or refined silver, are charged or credited to the income statement. In the year ended 31 December 2018 total proceeds received in cash were US$36.3 million (2017: US$43.3 million) of which, US$4.9 million was in respect of proceeds receivable as at 31 December 2017 (2016: US$5.9 million). Cash received in respect of the year of US$31.3 million (2017: US$37.3 million) corresponds to 3.4 million ounces of payable silver (2017: 3.6 million ounces). As at 31 December 2018, a further US$3.4 million (2017: US$4.9 million) of cash receivable corresponding to 335,914 ounces of silver is due (2017: 422,375 ounces).

The US$15.0 million unrealised gain recorded in the income statement (31 December 2017: US$113.6 million gain) resulted mainly from the unwinding of the discount and the updating of the Sabinas long-term mine plan, which were partially compensated by the increase in the LIBOR reference rate and the decrease in the forward silver price.

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

	2018 US$ thousands	2017 US$ thousands
Balance at 1 January:	**538,887**	467,529
Cash received in respect of the year	**(31,379)**	(37,373)
Cash receivable	**(3,371)**	(4,925)
Remeasurement gains recognised in profit and loss	**14,956**	113,656
Balance at 31 December	**519,093**	538,887
Less – Current portion	**20,819**	32,318
Non-current portion	**498,274**	506,569

See note 29 for further information on the inputs that have a significant effect on the fair value of this derivative, see note 30 for further information relating to market and credit risks associated with the Silverstream asset.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

14. INVENTORIES

	As at 31 December	
	2018 US$ thousands	2017 US$ thousands
Finished goods[1]	15,052	10,957
Work in progress[2]	235,094	175,016
Ore stockpile[3]	3,799	15,115
Operating materials and spare parts	87,180	75,331
	341,125	276,419
Allowance for obsolete and slow-moving inventories	(6,101)	(5,314)
Balance as 31 December at lower of cost and net realisable value	335,024	271,105
Less – Current portion	243,404	179,485
Non-current portion[4]	91,620	91,620

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 (note 2(c)).
3 Ore stockpile includes ore mineral obtained during the development phase at San Julián.
4 The non-current inventories are expected to be processed more than 12 months from the reporting date.

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

The amount of inventories recognised as an expense in the year was US$1,323.1 million (2017: US$1,170.1 million) before changes to the net realisable value of inventory. During the year there was no adjustment to net realisable value allowance against work-in-progress inventory (2017: US$2.2 million decrease). The adjustment to the allowance for obsolete and slow-moving inventory recognised as an expense was US$0.8 million (2017: US$1.04 million).

15. TRADE AND OTHER RECEIVABLES

	Year ended 31 December	
	2018 US$ thousands	2017 US$ thousands
Trade and other receivables from related parties (note 26)[5]	213,292	226,134
Value Added Tax receivable	182,290	85,979
Other receivables from related parties (note 26)	3,371	4,925
Other receivables from contractors	2,755	21,292
Other receivables	10,306	4,612
	412,014	342,942
Provision for impairment of 'other receivables'	(857)	(436)
Trade and other receivables classified as current assets	411,157	342,506
Other receivables classified as non-current assets:		
Loans granted to contractors	–	129
	–	129
	411,157	342,635

5 As of 31 December 2017 trade receivables from related parties includes the fair value of embedded derivatives arising due to provisional pricing in sales contracts of US$6.5 million.

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

The total receivables denominated in US$ were US$223.1 million (2017: US$242.3 million), and in Mexican pesos US$187.2 million (2017: US$100.3 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 2018 is US$0.9 million (2017: US$0.4 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 30(b).

16. CASH AND CASH EQUIVALENTS

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

	As at 31 December	
	2018 US$ thousands	2017 US$ thousands
Cash at bank and on hand	2,125	4,265
Short-term deposits	558,660	871,769
Cash and cash equivalents	560,785	876,034

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.

17. EQUITY

SHARE CAPITAL AND SHARE PREMIUM

Authorised share capital of the Company is as follows:

	As at 31 December			
	2018		2017	
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 2017	736,893,589	$368,545,586	50,000	£50,000
At 31 December 2017	736,893,589	$368, 545,586	50,000	£50,000
At 31 December 2018	736,893,589	$368, 545,586	50,000	£50,000

As at 31 December 2018 and 2017, 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 transferable.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

17. EQUITY CONTINUED

COST OF HEDGING RESERVE

The changes in the time value of option contracts are accumulated in the costs of hedging reserve. These deferred costs of hedging are either reclassified to profit or loss or recognised as a basis adjustment to non-financial assets or liabilities upon maturity of the hedged item, or, in the case of a hedge item that realises over time, amortised on a systematic and rational basis over the life of the hedged item.

AVAILABLE-FOR-SALE FINANCIAL ASSETS RESERVE

As at 31 December 2017 this reserve recorded fair value changes on available-for-sale investments, net of tax. On disposal or on impairment, the cumulative changes in fair value were recycled to the income statement. These assets were reclassified upon adoption of IFRS 9, for further detail see note 2 (b).

FAIR VALUE RESERVE OF FINANCIAL ASSETS AT FVOCI

The Group has elected to recognise changes in the fair value of certain investments in equity securities in OCI, as explained in note 2(b). These changes are accumulated within the FVOCI reserve within equity. The Group transfers amounts from this reserve to retained earnings when the relevant equity securities are derecognised.

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.

18. DIVIDENDS DECLARED AND PAID

The dividends declared and paid during the years ended 31 December 2018 and 2017 are as follows:

	US cents per Ordinary Share	Amount US$ thousands
Year ended 31 December 2018		
Final dividend for 2017 declared and paid during the year[1]	29.8	219,594
Interim dividend for 2018 declared and paid during the year[2]	10.7	78,848
	40.5	298,442
Year ended 31 December 2017		
Final dividend for 2016 declared and paid during the year[3]	21.5	158,432
Interim dividend for 2017 declared and paid during the year[4]	10.6	78,111
	32.1	236,543

1 This dividend was approved by the Board of Directors on 30 May 2018 and paid on 4 June 2018.
2 This dividend was approved by the Board of Directors on 3 September 2018 and paid on 7 September 2018.
3 This dividend was approved by the Board of Directors on 23 May 2017 and paid on 26 May 2017.
4 This dividend was approved by the Board of Directors on 31 July 2017 and paid on 8 September 2017.

19. 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	
	2018 US$ thousands	2017 US$ thousands
Opening balance	799,046	798,027
Accrued interest	46,267	46,267
Interest paid[5]	(46,267)	(46,267)
Amortisation of discount and transaction costs	1,081	1,019
Closing balance	800,127	799,046

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

The Group has the following restrictions derived from the issuance of 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.

20. PROVISION FOR MINE CLOSURE COST

The provision represents the discounted values of the estimated cost to decommission and rehabilitate the mines at the estimated date of depletion of mine deposits. Uncertainties in estimating these costs include potential changes in regulatory requirements, decommissioning, dismantling, reclamation alternatives, timing, and the discount, foreign exchange and inflation rates applied.

The Group has performed separate calculations of the provision by currency, discounting at corresponding rates. As at 31 December 2018, the discount rates used in the calculation of the parts of the provision that relate to Mexican pesos range from 7.12% to 8.55% (2017: range of 6.27% to 7.97%). The range for the current year parts that relate to US dollars range from 2.05% to 2.70% (2017: range of 1.37% to 2.22%). 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 25 years from 31 December 2018 (3 to 27 years from 31 December 2017). As at 31 December 2018 the weighted average term of the provision is 12 years (2017:13 years).

	As at 31 December	
	2018 US$ thousands	2017 US$ thousands
Opening balance	**184,775**	149,109
Increase to existing provision	**9,758**	1,024
Effect of change in estimation	**–**	19,678
Effect of changes in discount rate	**(14,279)**	(281)
Unwinding of discount	**10,065**	11,729
Payments	**(545)**	(131)
Foreign exchange	**68**	3,647
Closing balance	**189,842**	184,775

21. PENSIONS AND OTHER POST-EMPLOYMENT BENEFIT PLANS

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

The defined contribution plan was established as from 1 July 2007 and consists of periodic contributions made by each non-unionised worker and contributions made by the Group to the fund matching workers' contributions, capped at 8% of the employee's annual salary.

The defined benefit plan provides pension benefits based on each worker's earnings and years of services provided by personnel hired through 30 June 2007 as well as statutory seniority premiums for both unionised and non-unionised workers.

The overall investment policy and strategy for the Group's defined benefit plan is guided by the objective of achieving an investment return which, together with contributions, ensures that there will be sufficient assets to pay pension benefits and statutory seniority premiums for non-unionised workers as they fall due while also mitigating the various risks of the plan. However, the portion of the plan related to statutory seniority premiums for unionised workers is not funded. The investment strategies for the plan are generally managed under local laws and regulations. The actual asset allocation is determined by current and expected economic and market conditions and in consideration of specific asset class risk in the risk profile. Within this framework, the Group ensures that the trustees consider how the asset investment strategy correlates with the maturity profile of the plan liabilities and the respective potential impact on the funded status of the plan, including potential short-term liquidity requirements.

Death and disability benefits are covered through insurance policies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

21. PENSIONS AND OTHER POST-EMPLOYMENT BENEFIT PLANS CONTINUED

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 2018	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 2018
															US$ thousands
Defined benefit obligation	(27,327)	(62)	(1,791)	5	(1,848)	884	–	–	1,749	821	–	2,570	–	–	(25,721)
Fair value of plan assets	18,110	–	1,110	27	1,137	(630)	40	–	–	–	–	40	614	57	19,328
Net benefit liability	(9,217)	(62)	(681)	32	(711)	254	40	–	1,749	821	–	2,610	614	57	(6,393)

		Pension cost charge to income statement					Remeasurement gains/(losses) in OCI								
	Balance at 1 January 2017	Service cost	Net Interest	Foreign Exchange	Sub-total recognised in the year	Benefits paid	Return on plan assets (excluding amounts included in net interest	Actuarial changes arising from changes in demographic assumptions	Actuarial changes arising from changes in financial assumptions	Experience adjustments	Foreign exchange	Sub-total included in OCI	Contributions by employer	Defined benefit increase due to personnel transfer	Balance at 31 December 2017
															US$ thousands
Defined benefit obligation	(25,377)	(956)	(1,729)	(1,146)	(3,831)	883	–	–	515	498	–	1,013	–	(15)	(27,327)
Fair value of plan assets	16,282	–	1,031	731	1,762	(413)	(80)	–	–	–	–	(80)	422	137	18,110
Net benefit liability	(9,095)	(956)	(698)	(415)	(2,069)	470	(80)	–	515	498	–	933	422	122	(9,217)

Of the total defined benefit obligation, US$7.4 million (2017: US$7.5 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	
	2018 %	2017 %
Discount rate	8.42	7.67
Future salary increases (NCPI)	5.15	5.0

The life expectancy of current and future pensioners, men and women aged 65 and older will live on average for a further 23.1 and 26.6 years respectively (2017: 23.1 years for men and 26.3 for women). The weighted average duration of the defined benefit obligation is 10.8 years (2017: 11 years).

The fair values of the plan assets were as follows:

	As at 31 December	
	2018 US$ thousands	2017 US$ thousands
Government debt	351	556
State owned companies	5,132	4,559
Mutual funds (fixed rates)	13,845	12,995
	19,328	18,110

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 2018 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)	(1,256)	1,374	179	(173)	76

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.

22. TRADE AND OTHER PAYABLES

	As at 31 December	
	2018 US$ thousands	2017 US$ thousands
Trade payables	91,734	93,664
Other payables to related parties (note 26)	12,321	9,057
Accrued expenses	13,163	18,600
Other taxes and contributions	15,922	13,628
	133,140	134,949

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 30.

23. COMMITMENTS

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

	As at 31 December	
	2018 US$ thousands	2017 US$ thousands
Saucito	52,288	64,511
Herradura	17,701	28,813
Noche Buena	3,346	1,643
Ciénega	13,779	16,688
Fresnillo	90,181	19,570
San Julián	8,781	27,403
Other[1]	142,111	83,729
	328,187	242,357

1 Other includes commitments of Minera Juanicipio, S.A. de C.V. (2017: Minera Bermejal, S. de R.L. de C.V. and Minera Juanicipio, S.A. de C.V.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

24. OPERATING LEASES

(A) OPERATING LEASES AS LESSOR

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

	As at 31 December	
	2018 US$ thousands	2017 US$ thousands
Within one year	–	491
After one year but not more than five years	–	108
	–	599

(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[1]:

	As at 31 December	
	2018 US$ thousands	2017 US$ thousands
Within one year	6,374	3,424
After one year but not more than five years	9,756	2,926
	16,130	6,350

	As at 31 December	
	2018 US$ thousands	2017 US$ thousands
Minimum lease payments expensed in the year	7,193	4,916

1 During the Group's IFRS 16 implementation activities, a limited number of highly certain extensions to operating lease commitments were identified. The 2017 commitments have been restated to reflect those judgements in a consistent manner.

25. CONTINGENCIES

As of 31 December 2018, the Group has the following contingencies:

- The Group is subject to various laws and regulations which, if not observed, could give rise to penalties.
- Tax periods remain open to review by the Mexican tax authorities (SAT, by its Spanish acronym) in respect of income taxes for five years following the date of the filing of corporate income tax returns, during which time the authorities have the right to raise additional tax assessments including penalties and interest. Under certain circumstances, the reviews may cover longer periods. As such, there is a risk that transactions, and in particular related party transactions, that have not been challenged in the past by the authorities, may be challenged by them in the future.
- Other than discussed below, tax inspections that had been initiated by the SAT in previous years, were either closed or resolved through a Conclusive Agreement in 2018 or in early 2019. According to article 69-H of the Mexican Tax Code, settlements reached and executed by taxpayers and the authority may not be challenged in any way. Such settlements shall only be effective between the parties; and they shall not constitute a precedent in any case.
- With respect to Minera Penmont's 2012 and 2013 tax inspections, on 11 July, 2018 the Company filed before tax authorities a substance administrative appeal against the tax assessment, and on 3 September 2018, it filed additional documentation before tax authorities and is waiting for its response.
- On 22 October 2018 we were notified of the SAT's findings in respect of Minera Penmont's 2015 & 2016 tax inspections. The Company considers it completed the provision of all documentation required to demonstrate that the tax deductions which are being challenged, are appropriate and is waiting for the SAT's response.
- On 1 February 2019 we were notified that the SAT will conduct an inspection of Minera Saucito's 2013 tax certificate.
- It is not practical to determine the amount of any potential claims or the likelihood of any unfavourable outcome arising from these or any future inspections that may be initiated. However, management believes that its interpretation of the relevant legislation is appropriate and that the Group has complied with all regulations and paid or accrued all taxes and withholdings that are applicable.

- 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 2018 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 Court noted in that same year that certain remediation activities were necessary to comply with the relevant regulatory requirements and requested the guidance of the Federal Environmental Agency (SEMARNAT) in this respect. The Agrarian Court further issued a procedural order in execution of its ruling determining, amongst other aspects, that Penmont must remediate the lands to the state they were in before Penmont's occupation.
  - In the opinion of the Company, this procedural order was excessive since this level of remediation was not part of the original agrarian ruling and also because the procedural order appeared not to consider the fact that Penmont conducted its activities pursuant to valid mining concessions and environmental impact permits. In December 2016, the Agrarian Court issued a subsequent procedural order in which the Court recognised that Penmont complied with the agrarian ruling by having returned the land in dispute and, furthermore, that remediation activities are to be conducted in accordance with Federal environmental guidelines and regulations, as supervised by the competent Federal authorities. Remediation activities in this respect are pending as the agrarian members have not yet permitted Penmont physical access to the lands. Penmont has already presented a conceptual mine closure and remediation plan before the Agrarian Court in respect of the approximately 300 hectares where Penmont conducted mining activities. The agrarian community Ejido El Bajio appealed this procedural order from the Agrarian Court and a Federal District Court denied this appeal. The agrarian community has presented in the month of August 2017 a further and last recourse against this ruling by the Federal District Court and the final result is pending.
  - In addition, and as also previously reported by the Company, claimants in the El Bajio matter presented other claims against occupation agreements they entered into with Penmont, covering land parcels separate from the land described above. Penmont has no significant mining operations or specific geological interest in the affected parcels and these lands are therefore not considered strategic for Penmont. As previously reported, the Agrarian Court issued rulings declaring such occupation agreements over those land parcels to be null and void and that Penmont must remediate such lands to the state that they were in before Penmont's occupation as well as returning any minerals extracted from this area. Given that Penmont has not conducted significant mining operations nor 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.
- In 2011, flooding occurred in the Saucito mine, following which the Group filed an insurance claim in respect of the damage caused (and in respect of business interruption). In early 2018, the insurance provider notified the Group that the claim had been accepted; however, there is disagreement about the appropriate amount to be paid. In October the Group received US$13.6 million in respect of the insurance claim, however this does not constitute a final settlement and management continues to pursue a higher insurance reimbursement. Due to the fact that negotiations are on-going and there is uncertainty regarding the timing of reaching an agreement with the insurer, the amount expected to be recovered is currently not practicable to determine.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

25. CONTINGENCIES CONTINUED

- On 11 February 2019, the Supreme Court of Mexico issued a ruling regarding a specific constitutional issue presented by the former administration of the Federal Government, who challenged the ability of the State of Zacatecas to impose environmental taxes on aspects such as (i) extraction of rocks; (ii) emissions into the air; (iii) discharges of industrial residues, and (iv) disposal of industrial waste.

  The ruling of the Supreme Court establishes that, from a constitutional point of view, there is no express limitation granting the Mexican State at a Federal level the sole power to impose such taxes; therefore, the State of Zacatecas has a joint right to create these taxes. Notwithstanding the foregoing, the Court did not exhaust the analysis of the legality of each particular tax created by the State of Zacatecas.

  The Company had previously challenged the legality of such taxes and in 2017 obtained an injunction from a Federal court. The State of Zacatecas has appealed this ruling and the final result is pending.

26. RELATED PARTY BALANCES AND TRANSACTIONS

The Group had the following related party transactions during the years ended 31 December 2018 and 2017 and balances as at 31 December 2018 and 2017.

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	
	2018 US$ thousands	2017 US$ thousands	2018 US$ thousands	2017 US$ thousands
Trade:				
Metalúrgica Met-Mex Peñoles, S.A. de C.V.	**213,202**	225,741	**408**	397
Other:				
Industrias Peñoles, S.A.B. de C.V.	**3,371**	4,925	**–**	–
Servicios Administrativos Peñoles, S.A. de C.V.	**–**	–	**3,249**	2,434
Servicios Especializados Peñoles, S.A. de C.V.	**–**	–	**1,556**	1,786
Fuentes de Energía Peñoles, S.A. de C.V.	**–**	–	**1,138**	–
Termoeléctrica Peñoles, S. de R.L. de C.V.	**–**	–	**988**	1,650
Eólica de Coahuila S.A. de C.V.	**–**	–	**3,459**	1,926
Other	**90**	392	**1,523**	864
Sub-total	**216,663**	231,058	**12,321**	9,057
Less-current portion	**216,663**	231,058	**12,321**	9,057
Non-current portion	**–**	–	**–**	–

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

Other balances with related parties:

	Year ended 31 December	
	2018 US$ thousands	2017 US$ thousands
Silverstream contract:		
Industrias Peñoles, S.A.B. de C.V.	**519,093**	538,887

The Silverstream contract can be settled in either silver or cash. Details of the Silverstream contract are provided in note 13.

(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	
	2018 US$ thousands	2017 US$ thousands
Income:		
Sales:[1]		
Metalúrgica Met-Mex Peñoles, S.A. de C.V.	**2,119,758**	2,101,579
Insurance recovery		
Grupo Nacional Provincial, S.A. B. de C.V.[2]	**13,652**	–
Other income	**4,419**	3,173
Total income	**2,137,829**	2,104,752

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$141.2 million (2017: US$139.9 million) and include sales credited to development projects of US$17.6 million (2017: US$8.3 million).
2 Includes a time value element of US$ 3.1 million which has been recognised in finance income within the income statement.

	Year ended 31 December	
	2018 US$ thousands	2017 US$ thousands
Expenses:		
Administrative services[3]*:*		
Servicios Administrativos Peñoles, S.A. de C.V.[4]	**28,625**	26,323
Servicios Especializados Peñoles, S.A. de C.V.	**15,830**	18,239
	44,455	44,562
Energy:		
Termoeléctrica Peñoles, S. de R.L. de C.V.	**17,383**	20,415
Fuerza Eólica del Istmo S.A. de C.V.	**2,187**	1,678
Fuentes de Energía Peñoles, S.A. de C.V.	**3,872**	–
Eólica de Coahuila S.A. de C.V.	**34,147**	13,666
	57,589	35,759
Operating materials and spare parts:		
Wideco Inc	**5,783**	4,534
Metalúrgica Met-Mex Peñoles, S.A. de C.V.	**8,329**	6,420
	14,112	10,954
Equipment repair and administrative services:		
Serviminas, S.A. de C.V.	**9,733**	8,406
Insurance premiums:		
Grupo Nacional Provincial, S.A. B. de C.V.	**8,603**	8,157
Other expenses:	**2,561**	3,795
Total expenses	**137,053**	111,633

3 Includes US$1.7 million (2017: US$6.4 million) corresponding to expenses reimbursed.
4 Includes US$4.2 million (2017: US$7.5 million) relating to engineering costs that were capitalised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

26. RELATED PARTY BALANCES AND TRANSACTIONS CONTINUED

(C) COMPENSATION OF KEY MANAGEMENT PERSONNEL OF THE GROUP

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

	Year ended 31 December	
	2018 US$ thousands	2017 US$ thousands
Salaries and bonuses	3,260	3,385
Post-employment benefits	245	235
Other benefits	249	373
Total compensation paid in respect of key management personnel	3,754	3,993

	Year ended 31 December	
	2018 US$ thousands	2017 US$ thousands
Accumulated accrued defined pension entitlement	4,001	4,433

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.

27. AUDITOR'S REMUNERATION

Fees due by the Group to its auditor during the year ended 31 December 2018 and 2017 are as follows:

	Year ended 31 December	
Class of services	2018 US$ thousands	2017 US$ thousands
Fees payable to the Group's auditor for the audit of the Group's annual accounts	1,306	1,214
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	176	226
Audit-related assurance services	347	308
Tax compliance services	4	19
Total	1,833	1,767

28. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	2018 US$ thousands	2017 US$ thousands
Reconciliation of profit for the year to net cash generated from operating activities			
Profit for the year		349,966	560,807
Adjustments to reconcile profit for the period to net cash inflows from operating activities:			
Depreciation and amortisation	5	411,764	367,609
Employee profit sharing	7	13,003	17,150
Deferred income tax	10	(45,385)	(3,101)
Current income tax expense	10	179,349	183,783
Loss/(gain) on the sale of property, plant and equipment and other assets	8	999	(25,333)
Impairment of available-for-sale financial assets	8	–	36
Net finance costs		27,433	33,674
Foreign exchange loss		8,382	11,434
Difference between pension contributions paid and amounts recognised in the income statement		62	(58)
Non-cash movement on derivatives		34	41,389
Changes in fair value of Silverstream	14	(14,956)	(113,656)
Working capital adjustments			
(Increase) in trade and other receivables		(60,384)	(44,381)
(Increase) in prepayments and other assets		(11,753)	(708)
(Increase)/decrease in inventories		(63,918)	5,745
Increase in trade and other payables		8,174	36,426
Cash generated from operations		802,770	1,070,816
Income tax paid		(200,088)	(292,063)
Employee profit sharing paid		(14,323)	(17,282)
Net cash from operating activities		588,359	761,471

29. FINANCIAL INSTRUMENTS

(A) FAIR VALUE CATEGORY

	As at 31 December 2018			
	US$ thousands			
Financial assets:	Amortised cost	Fair value through OCI	Fair value (hedging instruments)	Fair value through profit or loss
Trade and other receivables (note 15)	1,986	–	–	216,573
Equity instruments at FVOCI	–	78,219	–	–
Silverstream contract (note 13)	–	–	–	519,093
Derivative financial instruments	–	–	314	–

Financial liabilities:	Amortised cost	Fair value (hedging instruments)	Fair value through profit or loss
Interest-bearing loans (note 19)	800,127	–	–
Trade and other payables (note 22)	97,169	–	–
Derivative financial instruments	–	3,807	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

29. FINANCIAL INSTRUMENTS CONTINUED

	As at 31 December 2017			
	US$ thousands			
Financial assets:	At fair value through profit or loss	Available-for-sale investments at fair value through OCI	Loans and receivables	At fair value through OCI (cash flow hedges)
Trade and other receivables[1] (note 15)	–	–	236,859	–
Available-for-sale financial assets	–	144,856	–	–
Silverstream contract (note 13)	538,887	–	–	–
Embedded derivatives within sales contracts[1] (note 4)	6,511	–	–	–
Derivative financial instruments	311	–	–	71

Financial liabilities:	At fair value through profit or loss	At amortised Cost	At fair value through OCI (cash flow hedges)
Interest-bearing loans (note 19)	–	799,046	–
Trade and other payables (note 22)	–	102,721	–
Derivative financial instruments	37	–	19,179

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

(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:

			As at 31 December	
	Carrying amount		Fair value	
	2018 US$ thousands	2017 US$ thousands	2018 US$ thousands	2017 US$ thousands
Financial assets:				
Trade receivables	216,573	236,859	216,573	236,859
Equity instruments at FVOCI	78,219	–	78,219	–
Available-for-sale financial assets	–	144,856	–	144,856
Silverstream contract (note 13)	519,093	538,887	519,093	538,887
Embedded derivatives within sales contracts	–	6,511	–	6,511
Derivative financial instruments	74	382	74	382
Financial liabilities:				
Interest-bearing loans[2] (note 19)	800,127	799,046	817,936	878,864
Derivative financial instruments	3,807	19,216	3,807	19,216

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

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

	As of 31 December 2018			
	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:				
Trade receivables	–	–	216,573	216,573
Derivative financial instruments:				
Option commodity contracts (note 29 (c))	–	240	–	240
Option and forward foreign exchange contracts	–	74	–	74
Silverstream contract	–	–	519,093	519,093
Other financial assets:				
Equity instruments at FVOCI	78,219	–	–	78,219
	78,219	314	735,666	814,199
Financial liabilities:				
Derivative financial instruments:				
Option commodity contracts (note 29 (c))	–	3,660	–	3,660
Option and forward foreign exchange contracts	–	147	–	147
	–	3,807	–	3,807

	As of 31 December 2017			
	Fair value measure using			
	Quoted prices in active markets Level 1 US$ thousands	Significant observable Level 2 US$ thousands	Significant unobservable Level 3 US$ thousands	Total US$ thousands
Financial assets:				
Derivative financial instruments:				
Embedded derivatives within sales contracts	–	–	6,511	6,511
Option commodity contracts (note 29 (c))	–	71	–	71
Option and forward foreign exchange contracts	–	311	–	311
Silverstream contract	–	–	538,887	538,887
Financial investments available-for-sale:				
Quoted investments	144,856	–	–	144,856
	144,856	382	545,398	690,636
Financial liabilities:				
Derivative financial instruments:				
Option commodity contracts (note 29 (c))	–	19,179	–	19,179
Option and forward foreign exchange contracts	–	37	–	37
	–	19,216	–	19,216

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

29. FINANCIAL INSTRUMENTS CONTINUED

A reconciliation of the opening balance to the closing balance for Level 3 financial instruments other than Silverstream (which is disclosed in note 13) is shown below[1]:

	2018 US$ thousands	2017 US$ thousands
Balance at 1 January:	225,741	(2,750)
Net change in trade receivable from goods sold	(12,048)	–
Changes in fair value	(4,016)	15,068
Realised embedded derivatives during the year	3,525	(5,807)
Balance at 31 December	213,202	6,511

1 Balance as at 31 December 2017 corresponds to the embedded derivative included in trade receivable for sales subject to provisional pricing; from 1 January 2018 onwards as a result of the adoption of IFRS 9 as explained in note 2 (b) the balance corresponds the whole trade receivable for sales subject to provisional pricing.

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 13. 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 30.

EQUITY INVESTMENTS:

The fair value of equity investments is derived from quoted market prices in active markets (Level 1).

INTEREST-BEARING LOANS

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

TRADE RECEIVABLES:

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 (n)). This price exposure is considered to be an embedded derivative and therefore the entire related trade receivable is measured at fair value.

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.

(C) DERIVATIVE FINANCIAL INSTRUMENTS

The Group enters into certain option contracts to manage its exposure to commodity price risk as described in note 2 (r).

The Group sells gold as the primary product of the Group's open-pit mines. Upon the acquisition of the remaining 46% interest in the Penmont mines in 2014, the Group entered into commodity option contracts to protect the value of future sales related to that previous non-controlling interest over a period of five years. The Group also sells lead and zinc as a by-product in certain of its mines. Except in relation to the acquisition of the remaining in interest in the Penmont mines described above, the Group's risk management strategy is to not hedge primary metal prices and hedge by-product metals in certain market conditions. The Group monitors metal price volatility in order to determine when to enter into new hedging contracts related to by-products. New contracts were entered into in 2017 but not in 2018. These contracts are expected to reduce the volatility attributable to metals price fluctuations. Hedging the price volatility of forecast metals sales is in accordance with the risk management strategy outlined by the Board of Directors.

There is an economic relationship between the hedged items and the hedging instruments as the terms of the commodity option contracts match the terms of the expected highly probable forecast sales (i.e., notional amount and expected payment date). The Group has established a hedge ratio of 1:1 for the hedging relationships as the underlying risks of the commodity option contracts are identical to the hedged risk components. To test the hedge effectiveness, the Group uses the hypothetical derivative method and compares the changes in the fair value of the hedging instruments against the changes in fair value of the hedged items attributable to the hedged risks.

Due to the terms of the Group's hedge relationships, the change in the fair value of both the hedging instrument and hedged items equalled the amounts recognised in other comprehensive income in the following paragraphs. The amounts recycled to the income statement in respect of these contracts are recognised in revenue; ineffectiveness is recognised in finance cost.

GOLD OPTION CONTRACTS

As at 31 December 2018, the outstanding collar derivative instruments mature over the period from 31 January 2019 to 30 December 2019 and hedge cash proceeds for the sales of gold production amounting 346,152 ounces (2017: 712,584 ounces) with a floor price of US$1,100:1 ounce, a range of capped prices from US$1,375 to US$1,495:1 ounce (2017: US$1,375 to US$1,495:1 ounce) and weighted average capped price of US$1,424:1 ounce (2017: US$1,423 :1 ounce). The fair value of the put options as at 31 December 2018 was an asset of US$0.9 million (2017: US$3.7 million), and the fair value of the call options at 31 December 2018 was a liability of US$4.6 million (2017:US$21.8 million). In 2018 the changes in the fair value of the option contracts corresponding to the time value amounted to US$14.4 million and was recorded in other comprehensive income; in 2017 fair value amounted of US$41.1 million was recorded in the income statement.

LEAD OPTION CONTRACTS

As at 31 December 2018 there were no outstanding options related to lead contracts. As at 31 December 2017, lead collar derivative instruments hedge lead production amounting 21,168 tonnes with a floor price of US$2,370:1 tonne, a range of capped prices from US$2,730 to US$2,740:1 tonne and weighted average cap price of US$2,735:1 tonne. The fair value of the put options at 31 December 2017 was an asset of US$0.5 million, and the fair value of the call options at 31 December 2017 was a liability of US$0.5 million. The gain recycled to the income statement in the period was US$1.0 million (2017: nil).

ZINC OPTION CONTRACTS

As at 31 December 2018 there were no outstanding options related to zinc contracts. As at 31 December 2017, zinc collar derivative instruments hedge lead production amounting 5,760 tonnes with a range of floor prices of US$2,500 to 2,756:1 tonne and weighted average floor price of US$2,591:1 tonne, a range of capped prices from US$3,650 to US$3,800:1 tonne and weighted average cap price of US$3,716:1 tonne. The fair value of the put options at 31 December 2017 was an asset of US$0.5 million, and the fair value of the call options at 31 December 2017 was a liability of US$1.5 million. The gain recycled to the income statement in the period was US$0.6 million (2017: nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

30. FINANCIAL RISK MANAGEMENT

OVERVIEW

The Group's principal financial assets and liabilities, other than derivatives, comprise trade receivables, cash, equity instruments at FVOCI, interest-bearing loans and trade payables.

The Group has exposure to the following risks from its use of financial instruments:
- Market risk, including foreign currency, commodity price, interest rate, inflation rate and equity price risks.
- Credit risk.
- Liquidity risk.

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

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

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

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

(A) MARKET RISK

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

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

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

FOREIGN CURRENCY RISK

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

In order to manage the Group's exposure to foreign currency risk on expenditure denominated in currencies other than the US dollar, the Group has entered into certain forward and option derivative contracts with maturity dates from 2018 (see note 29 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
2018	**10%**	**(380)**
	(10%)	**464**
2017	20%	(3,783)
	(10%)	1,365

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

Year ended 31 December	Strengthening/ (weakening) of US dollar	Effect on profit before tax: increase/ (decrease) US$ thousands
2018	**10%** **(10%)**	**19** **20**
2017	10% (10%)	(335) 500

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
2018	**10%** **(10%)**	**53** **52**
2017	10% (10%)	1058 (1,056)

FOREIGN CURRENCY RISK – SILVERSTREAM

Future foreign exchange rates are one of the inputs to the Silverstream valuation model. The following table demonstrates the sensitivity of the Silverstream contract valuation to a reasonably possible change in the Mexican peso as compared to the US dollar, with all other inputs to the Silverstream valuation model held constant. It is assumed that the same percentage change in exchange rates is applied to all applicable periods in the valuation model.

Year ended 31 December	Strengthening/ (weakening) of US dollar	Effect on profit before tax: increase/ (decrease) US$ thousands
2018	**10%** **(10%)**	**(46)** **56**
2017	20% (10%)	(781) 521

COMMODITY RISK

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

The Group uses derivative instruments to hedge against an element of gold, zinc and lead price.

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

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

	Increase/(decrease) in commodity prices					
Year ended 31 December	Gold	Silver	Zinc	Lead	Effect on profit before tax: increase/ (decrease) US$ thousands	Effect on equity: increase/ (decrease) US$ thousands
2018	**10%** **(10%)**	**15%** **(15%)**	**25%** **(20%)**	**20%** **(15%)**	**22,330** **(21,204)**	**(14,910)** **8,703**
2017	10% (10%)	10% (10%)	20% (20%)	15% (15%)	83,433 5,105	(19,164) 1,818

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

30. FINANCIAL RISK MANAGEMENT CONTINUED

COMMODITY PRICE RISK – SILVERSTREAM

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

Year ended 31 December	Increase/ (decrease) in silver price	Effect on profit before tax: increase/ (decrease) US$ thousands
2018	**15%**	**106,879**
	(15%)	**(106,879)**
2017	10%	72,779
	(10%)	(72,779)

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
2018	**75**	**4,206**
	(75)	**(4,206)**
2017	90	7,898
	(50)	(4,388)

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
2018	**75**	**(47,151)**
	(75)	**54,775**
2017	90	(58,798)
	(50)	37,935

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
2018	**100**	**56**
	(100)	**(51)**
2017	100	88
	(100)	(83)

EQUITY PRICE RISK

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

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

Year ended 31 December	Increase/ (decrease) in equity price	Effect on profit before tax: increase/ (decrease) (US$ thousands)	Effect on equity: increase/ (decrease) US$ thousands
2018	**40%**	**–**	**31,288**
	(40%)	**–**	**(31,288)**
2017	40%	–	28,972
	(65%)	–	(65,408)

(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 26, 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 2018 and 2017. 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 2018, the Group had concentrations of credit risk as 19 percent of surplus funds were deposited with one financial institution of which the total investment 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 16 for the maximum credit exposure to cash and cash equivalents, note 27 for related party balances with Met-Mex and note 29 for equity instruments at FVOCI. The maximum credit exposure with relation to the Silverstream contract is the value of the derivative as at 31 December 2018, being US$519.1 million (2017: US$538.9 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

30. FINANCIAL RISK MANAGEMENT CONTINUED

(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 2018					
Interest-bearing loans (note 19)	**46,267**	**92,534**	**92,534**	**800,000**	**1,031,335**
Trade and other payables	**97,169**	**–**	**–**	**–**	**97,169**
Derivative financial instruments – liabilities	**3,807**	**–**	**–**	**–**	**3,807**

					US$ thousands
	Within 1 year	2–3 years	3–5 years	> 5 years	Total
As at 31 December 2017					
Interest-bearing loans (note 19)	46,267	92,534	92,534	846,267	1,077,602
Trade and other payables	102,311	–	–	–	102,311
Derivative financial instruments – liabilities	4,992	14,224	–	–	19,216

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 2018					
Inflows	**12,608**	**4,310**	**–**	**–**	**16,918**
Outflows	**(12,688)**	**(4,290)**	**–**	**–**	**(16,977)**
Net	**(80)**	**20**	**–**	**–**	**(60)**

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

The above liquidity tables include expected inflows and outflows from currency option contracts which the Group expects to be exercised during 2019 as at 31 December 2018 and during 2018 as at 31 December 2017, either by the Group or counterparty.

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

CAPITAL MANAGEMENT

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

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

	2018 US$ thousands	2017 US$ thousands
Cash and cash equivalents (note 16)	560,785	876,034
Available-for-sale financial instruments held in funds	–	19,877
Cash and other liquid assets position	560,785	895,911

PARENT COMPANY STATEMENT OF COMPREHENSIVE INCOME
YEAR ENDED 31 DECEMBER

		Year ended 31 December	
	Notes	2018 US$ thousands	2017 US$ thousands
Profit for the year	3	(571,022)	323,122
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Changes in the fair value of available-for-sale financial assets	2 (b),16	–	8,808
Impairment of available-for-sale financial assets taken to income during the year		–	36
Total effect of available-for-sale financial assets		–	8,844
Income tax effect on items that may be reclassified subsequently to profit or loss		–	(2,653)
Net other comprehensive income that may be reclassified subsequently to profit or loss:		–	6,191
Items that will not be reclassified to profit or loss:			
Changes in the fair value of equity investments at FVOCI	2 (b)	(46,579)	–
Income tax effect on items that will not be reclassified to profit or loss:	4	20,328	–
Net other comprehensive expense that will not be reclassified to profit or loss		(26,251)	–
Other comprehensive (expense)/income, net of tax		(26,251)	6,191
Total comprehensive income for the year, net of tax		(597,273)	329,313

PARENT COMPANY BALANCE SHEET
AS AT 31 DECEMBER

	Notes	2018 US$ thousands	2017 US$ thousands
		As at 31 December	
ASSETS			
Non-current assets			
Investments in subsidiaries	5	**6,415,137**	7,094,131
Equity instruments at FVOCI	2 (b), 16	**78,219**	–
Available-for-sale financial assets	2 (b), 16	**–**	144,856
Derivative financial instruments	16	**20**	–
Deferred tax asset	4	**23,012**	10,169
		6,516,388	7,249,156
Current assets			
Loans to related parties	13	**895,315**	590,286
Income tax recoverable		**259**	632
Trade and other receivables	6	**4,336**	8,139
Derivative financial instruments	16	**294**	382
Cash and cash equivalents	7	**4,560**	133,370
		904,764	732,809
Total assets		**7,421,152**	7,981,965
EQUITY AND LIABILITIES			
Capital and reserves attributable to shareholders of the Company			
Share capital	8	**368,546**	368,546
Share premium	8	**1,153,817**	1,153,817
Merger reserve	8	**4,627,260**	5,353,146
Available-for-sale financial assets reserve	8	**–**	46,916
Fair value reserve of financial assets at FVOCI	8	**16,488**	–
Retained earnings	8	**105,430**	231,455
Total equity		**6,271,541**	7,153,880
Non-current liabilities			
Interest-bearing loans	10	**800,127**	799,046
Derivative financial instruments	16	**–**	14,224
		800,127	813,270
Current liabilities			
Trade and other payables	11	**10,820**	9,823
Derivative financial instruments	16	**3,807**	4,992
Loans from related parties	13	**334,857**	–
		349,484	14,815
Total liabilities		**1,149,611**	828,085
Total equity and liabilities		**7,421,152**	7,981,965

The loss for the Company is US$571.0 million for the year ended 31 December 2018 (2017: profit of US$323.1 million). In accordance with the exemption granted under section 408 of the Companies Act 2006 a separate income statement for the Company has not been presented.

These financial statements were approved by the Board of Directors on 25 February 2019 and signed on its behalf by:

Mr Arturo Fernández
Non-executive Director

25 February 2019

PARENT COMPANY STATEMENT OF CASH FLOWS
YEAR ENDED 31 DECEMBER

		Year ended 31 December	
	Notes	2018 US$ thousands	2017 US$ thousands
Net cash generated from operating activities	15	**10,606**	20,063
Cash flows from investing activities			
Capital contribution to subsidiaries		**(46,892)**	(33,484)
Loans granted to related parties		**(2,114,835)**	(1,546,749)
Proceeds from repayment of loans granted to related parties		**1,809,356**	1,437,453
Interest received		**54,717**	53,685
Dividends received		**152,616**	218,593
Purchase of available-for-sale financial assets		**–**	(19,877)
Proceeds from the sale of debt investments		**20,087**	–
Other payments		**–**	(1,526)
Net cash (used in) generated from investing activities		**(124,951)**	108,095
Cash flows from financing activities			
Loans granted by related parties		**465,443**	31,366
Repayment of loans granted by related parties		**(131,415)**	(31,366)
Dividends paid		**(298,068)**	(236,560)
Interest paid		**(46,981)**	(47,720)
Net cash used in financing activities		**(11,021)**	(284,280)
Net in cash and cash equivalents during the year		**(125,366)**	(156,122)
Effect of exchange rate on cash and equivalents		**(3,444)**	1,756
Cash and cash equivalents at 1 January		**133,370**	287,736
Cash and cash equivalents at 31 December	7	**4,560**	133,370

PARENT COMPANY STATEMENT OF CHANGES IN EQUITY
YEAR ENDED 31 DECEMBER

US$ thousands

	Notes	Share capital	Share premium	Merger reserve	Available-for-sale financial assets reserve	Fair value reserve of financial assets at FVOCI	Retained earnings	Total equity
Balance at 1 January 2017		368,546	1,153,817	5,250,357	40,725	–	247,665	7,061,110
Profit for the year		–	–	–	–	–	323,122	323,122
Other comprehensive expense net of tax		–	–	–	6,191	–	–	6,191
Total comprehensive loss for the year		–	–	–	6,191	–	323,122	329,313
Transfer of reserves		–	–	102,789	–	–	(102,789)	–
Dividends declared and paid	9	–	–	–	–	–	(236,543)	(236,543)
Balance at 31 December 2017		**368,546**	**1,153,817**	**5,353,146**	**46,916**	**–**	**231,455**	**7,153,880**
Adjustments for initial application of IFRS 9	2 (b)	–	–	–	(46,916)	42,739	17,553	13,376
Profit for the year		–	–	–	–	–	(571,022)	(571,022)
Other comprehensive expense net of tax		–	–	–	–	(26,251)	–	(26,251)
Total comprehensive income for the year		–	–	–	–	(26,251)	(571,022)	(597,273)
Transfer of reserves		–	–	(725,886)	–	–	725,886	–
Dividends declared and paid	9	–	–	–	–	–	(298,442)	(298,442)
Balance at 31 December 2018		**368,546**	**1,153,817**	**4,627,260**	**–**	**16,488**	**105,430**	**6,271,541**

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

1. CORPORATE INFORMATION
Fresnillo plc ('the Company') is a public limited company and registered in England and Wales with registered number 6344120 and is the holding company for the Fresnillo subsidiaries detailed in note 5. The Company is a Mexican resident for taxation purposes with tax residency in Mexico City. For further information see note 4.

Industrias Peñoles S.A.B. de C.V. ('Peñoles') currently owns 75 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 country of incorporation of Peñoles is Mexico. Copies of Peñoles' accounts can be obtained from www.penoles.com.mx

The primary activity of the Company is as a holding company for the Fresnillo Group of companies. See note 5.

The financial statements of the Company for the year ended 31 December 2018 were authorised for issue by the Board of Directors of Fresnillo plc on 25 February 2019.

2. SIGNIFICANT ACCOUNTING POLICIES
(A) BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE
The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union as they apply to the financial statements of the Company for the years ended 31 December 2018 and 2017, and in accordance with the provisions of the Companies Act 2006.

The financial statements of the Company have been prepared on a historical cost basis, except for certain derivative financial instruments and equity securities which have been measured at fair value.

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

The basis of preparation and accounting policies used in preparing the financial statements are set out below. These accounting policies have been consistently applied to all the periods presented unless otherwise stated.

(B) CHANGES IN ACCOUNTING POLICIES
The accounting policies applied are consistent with those applied in the preparation of the separate financial statements for the year ended 31 December 2017, except for the following:

On January 1, 2018, the Company adopted IFRS 9, Financial Instruments which replaced IAS 39, Financial Instruments: Recognition and Measurement using the modified retrospective approach, hence, the Company does not restate prior periods. Differences between previous carrying amounts using accounting policies as disclosed in the 2017 ARA and those determined under IFRS 9 at the date of initial application have been included in opening retained earnings.

IFRS 9 provides a revised model for classification and measurement of financial instruments; a single, forward-looking expected loss impairment model; and changes to hedge accounting.

The classification and measurement model for financial assets in IFRS 9 is based on the Company's business models for managing its financial assets and whether the contractual cash flows represent solely payments for principal and interest. Generally, equity instruments are classified and measured as fair value through profit or loss (FVPL). However, in respect of equity instruments that the Company intends to hold for the foreseeable future, IFRS 9 permits the Company to irrevocably elect upon initial recognition or transition to classify those assets as fair value through other comprehensive income (FVOCI). Changes in the fair value of equity instruments elected to be classified as FVOCI are not reclassified to profit or loss in future periods. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9.

LONG-TERM FINANCIAL ASSETS
The adoption of IFRS 9 resulted in certain changes to the classification of financial assets previously classified as available-for-sale financial assets (AFS). The Company designated its investments in quoted equity investments as FVOCI and classified investments in funds as FVPL:

	(in thousands of US dollars)	
	1 January 2018	31 December 2017
Available-for-sale financial assets	–	144,856
Debt instruments at fair value through profit or loss	19,877	–
Equity instruments at fair value through other comprehensive income	124,979	–
	144,856	144,856

Upon transition, the balance in the AFS reserve relating to investments in funds was reclassified from accumulated other comprehensive income (OCI) to retained earnings in the amount of US$46.9 million. In addition, the amounts previously recognised in retained earnings related to historical impairment of AFS that are now classified as FVOCI have been reclassified to the FVOCI reserve in the amount of US$6.0 million.

IMPAIRMENT

The adoption of the new 'expected credit loss' impairment model under IFRS 9, as opposed to an incurred credit loss model under IAS 39, had a negligible impact on the carrying amounts of the Company's financial assets on the transition date given the probability of default determined for its subsidiaries, see note 2 (f). At 1 January 2018 the expected credit loss was negligible.

REVENUE RECOGNITION

On January 1, 2018, the Company adopted IFRS 15, Revenue from Contracts with Customers which supersedes IAS 18, Revenue. IFRS 15 establishes a single five-step model framework for determining the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. IFRS 15 requires entities to recognise revenue when control of goods or services transfers to the customer whereas the previous standard, IAS 18, required entities to recognise revenue when the risks and rewards of the goods or services transfer to the customer. The Company concluded there is no change in the timing of revenue recognition of the trademark royalties under IFRS 15 compared to the previous standard as the point of transfer of risks and rewards of goods and services and transfer of control occur at the same time. Therefore, no adjustment was required to the Company's financial statements.

Other than the amendment mentioned above, there were no significant new standards that the Company was required to adopt effective from 1 January 2018.

STANDARDS, INTERPRETATIONS AND AMENDMENTS ISSUED BUT NOT YET EFFECTIVE

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

IFRS 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. As at 31 December 2018 the Company has no lease agreements as a lessor or as a lessee, thus no impact is expected on the accounting policies, financial position or performance of the Company.

IFRIC 23 UNCERTAINTY OVER INCOME TAX TREATMENTS

This Interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. The interpretation is to be applied to the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments. Application of tax law can be complex and requires judgement to assess risk and estimate outcomes where the amount of tax payable or recoverable is uncertain. The Company evaluated potential uncertain tax positions under the requirements of the Interpretation and has not identified any impact on the Company's financial statements. IFRIC 23 is applicable for annual periods beginning on or after 1 January 2019.

The IASB has issued other amendments to standards, including those resulting from improvements to IFRSs that management considers do not have any impact on the accounting policies, financial position or performance of the Company.

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

(C) SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS CONTINUED

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

JUDGEMENTS

An area of judgement, apart from those involving estimations, that have the most significant effect on the amounts recognised in the financial statements is:

- Contingencies (note 12):
  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

A significant area of estimation uncertainty made by management in preparing the financial information statements include:

- Impairment and subsequent reversal of impairment of investments in subsidiaries (notes 2(e) and 5):
  The Company assesses investments in subsidiaries annually to determine whether any indication of impairment exists. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs of disposal (FVLCD) and the value in use. Due to the nature of the subsidiaries, the assessment of the recoverable amount is generally determined based on the net present value of future cash flows related to the subsidiaries requiring the use of estimates and assumptions such as long-term commodity prices, reserves and resources and the associate production profiles, discount rates, future capital requirements, exploration potential and operating performance. These cash flows are discounted using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The determination of that rate requires certain judgements.

  Where an impairment charge has previously been recognised, the Company assesses at the end of each reporting period whether there is any indication that the impairment loss may no longer exist or may have decreased. If any such indication exists, the Company estimates the recoverable amount of that investment, requiring similar estimates and assumptions as those for determining an impairment charge. At 31 December 2018 the Company recognised an impairment loss of US$725.9 million (2017: reversal of impairment of US$102.8 million) to recognised a cumulative impairment relating to subsidiaries of US$1,162.3 million (2017: US$436.4 million).

(D) FOREIGN CURRENCY TRANSLATION

The Company's financial statements are presented in US dollars, which is the functional currency of the Company. The functional currency for the Company is determined by the currency of the primary economic environment in which it operates.

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

(E) INVESTMENTS IN SUBSIDIARIES

Subsidiaries are entities which the Company controls due to it being exposed to, or has the right to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Investments in subsidiaries are recognised at acquisition cost less any provision for impairment. Impairment charges and reversals, up to the value of the merger reserve, are reclassified from retained earnings to the merger reserve.

When the Company increases its capital investment in or where there is a return of share capital from its subsidiaries, such movements are recognised as an addition to, or return of the original cost recognised in investment in subsidiaries. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established.

At each reporting date, an assessment is made to determine whether there are any indicators of impairment. Where an indicator of impairment exists, an estimate of the recoverable amount of the investment in subsidiary is made, which is considered to be the higher of the fair value less costs of disposal and the value in use. The Company usually determines fair value based on the net present value of the future cash flows related to its subsidiaries. If the carrying amount of an investment exceeds the recoverable amount, a provision is recorded in the income statement to reflect the investment at the recoverable amount.

Where an impairment charge has previously been recognised, an assessment is made at the end of each reporting period whether there is any indication that the impairment loss may no longer exist or may have decreased. If any such indication exists, an estimate of the recoverable amount is made. An impairment loss is reversed to profit or loss to the extent that the increased carrying value of the investment in subsidiary does not exceed that that would have been determined had no impairment loss been recognised for the asset in prior years.

(F) FINANCIAL ASSETS AND LIABILITIES
From 1 January 2018, the Company classifies its financial assets in the following measurement categories:
- those to be measured at amortised cost.
- those to be measured subsequently at fair value through OCI, and.
- those to be measured subsequently at fair value through profit or loss.

The classification depends on the Company's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

The Company reclassifies debt investments when and only when its business model for managing those assets changes.

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the group commits to purchase or sell the asset.

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Subsequent measurement of debt instruments depends on the Company's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Company classifies its debt instruments:

AMORTISED COST
Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

The Company's financial assets at amortised cost include receivables from loans granted to related parties.

FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME
Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the statement of profit or loss.

At transition to IFRS 9, the Company had certain financial assets that were accounted for as debt instruments at fair value through other comprehensive income; however, at the reporting date, no such assets existed.

EQUITY INSTRUMENTS DESIGNATED AS FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME
Upon initial recognition, the Company can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, except when the Company benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

The Company elected to classify irrevocably its listed equity investments under this category.

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS CONTINUED

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

FAIR VALUE THROUGH PROFIT OR LOSS

Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

Changes in the fair value of financial assets at FVPL are recognised in other gains/(losses) in the statement of profit or loss as applicable.

The Company's derivative financial instruments are classified as fair value through profit or loss.

DE-RECOGNITION OF FINANCIAL ASSETS

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

IMPAIRMENT OF FINANCIAL ASSETS

From 1 January 2018, the Company assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For loans granted to subsidiaries the Company evaluate the expecting credit loss using a one year probability of default corresponding to the mining industry determined by a specialised financial institution and considering an appropriate severity based on the cost of capital of the Group.

For other trade receivables, the Company applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

(G) 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.

(H) SHARE CAPITAL

Ordinary shares issued by the Company are recorded at the net proceeds received, which is the fair value of the consideration received less costs that are incurred in connection with the share issue. The nominal par value of the shares issued is taken to the share capital account and any excess is recorded in the share premium account, including the costs that were incurred with the share issue.

(I) REVENUE RECOGNITION

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

TRADEMARK ROYALTIES

Trademark royalty income is recognised only at the time when it is probable that the amounts related to certain rights will be received.

(J) INCOME TAX

CURRENT INCOME TAX

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

DEFERRED INCOME TAX

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

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

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of transaction, affects neither the accounting profit nor taxable profit loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

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

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

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

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

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

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

(K) DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING

The Company enters into derivative contracts in order to manage certain market risks derived from changes in foreign exchange and commodity prices which impact the financial and business transactions of its subsidiaries. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

In the Group's consolidated financial statements certain of these derivative instruments are designated as cash flow hedges but for the purposes of the Company's stand-alone financial statements the related hedged items are not held by the Company, so do not qualify as cash flow hedges.

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

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

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS CONTINUED

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(L) FAIR VALUE MEASUREMENT

The Company measures financial instruments at fair value at each balance sheet date. Fair values of financial instruments measured at amortised cost are disclosed in notes 16 and 17.

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

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

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

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

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

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

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

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

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

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

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

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above. Further information on fair values is described in note 16.

(M) DIVIDEND DISTRIBUTION

Dividends payable to the Company's shareholders are recognised as a liability in the financial statements in the period in which the dividends are approved by the Company's shareholders.

Mexican Income Tax Law establishes a 10% withholding on earnings from 2014 and thereafter, for dividends paid to foreign residents and Mexican individuals.

Dividends paid are not subject to income tax if paid from the Net Tax Profit Account (CUFIN). Dividends paid that exceed CUFIN are subject to an income tax payable at a rate of 30%. The tax is payable by the Company and may be credited against the normal income tax payable by the Company in the year in which the dividends are paid or in the following two years. Dividends paid from earnings previously taxed are not subject to any withholding or additional tax payment.

3. SEGMENT REPORTING

Segmental information is not presented in the Company's stand-alone financial statements as this is presented in the Group's consolidated financial statements.

4. INCOME TAX

(A) INCOME TAX REPORTED IN OTHER COMPREHENSIVE INCOME

	Year ended 31 December	
	2018 US$ thousands	2017 US$ thousands
Deferred income tax credit/(charge) related to items recognised directly in other comprehensive income:		
Changes in the fair value of equity investments at FVOCI (note 2 (b))	20,328	–
Change in fair value on available-for-sale financial assets (note 2 (b))	–	(2,642)
Impairment of available-for-sale financial assets taken to income during the year	–	(11)
Income/(expense) tax effect reported in other comprehensive income	**20,328**	(2,653)

(B) THE MOVEMENTS IN THE DEFERRED INCOME TAX LIABILITY ARE AS FOLLOWS:

	Year ended 31 December	
	2018 US$ thousands	2017 US$ thousands
Opening net asset	**10,169**	9,691
(Expense)/income statement credit	(7,485)	3,131
Net credit/(charge) related to items directly charged to other comprehensive income (note 2 (b))	20,328	(2,653)
Closing net asset	**23,012**	10,169

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities.

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

	Year ended 31 December	
	2018 US$ thousands	2017 US$ thousands
Prepayments and other assets	(579)	(614)
Accrual for expected credit losses on loans granted to subsidiaries	374	–
Derivative financial instruments	1,098	5,603
Losses carried forward	18,608	21,998
Equity instruments at FVOCI	3,511	–
Available-for-sale financial assets	–	(16,818)
Net deferred tax asset	**23,012**	10,169

(C) UNRECOGNISED DEFERRED TAX ON INVESTMENTS IN SUBSIDIARIES

The Company has not recognised all of the deferred tax liability in respect of distributable reserves of its subsidiaries because it controls them and only part of the temporary differences are expected to reverse in the foreseeable future. The temporary differences for which a deferred tax liability has not been recognised aggregate to US$1,430 million (2017: US$1,723 million).

(D) CORPORATE INCOME TAX ('IMPUESTO SOBRE LA RENTA' OR 'ISR')

The Company is a Mexican resident for taxation purposes. The rate of current corporate income tax is 30%.

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS CONTINUED

5. INVESTMENTS IN SUBSIDIARIES

	Year ended 31 December	
	2018 US$ thousands	2017 US$ thousands
Opening balance	**7,094,131**	6,957,858
Impairment	**(725,886)**	–
Reversal of impairment	**–**	102,789
Additions	**46,892**	33,484
Closing balance	**6,415,137**	7,094,131

During 2018, due to gold and silver prices decreasing the Company made an impairment assessment to determine whether the carrying value of each of its subsidiaries was recoverable as at 31 December 2018. As a result, a cumulative impairment loss of US$1,162.3 million is recognised with respect to certain of the Company's investment in subsidiaries (2017: US$436.4 million). The recoverable amount was estimated based on the Fair Value Less Cost of Disposal (FVLCD) model (2017: FVLCD).

The following tables provide relevant information in respect of each impaired subsidiary:

	Year ended 31 December 2018			
	Current year Impairment loss US$ thousand	Cumulative Impairment US$ thousand	Recoverable amount US$ thousands	Discount rate
Minera Fresnillo, S.A. de C.V.	**578,642**	**578,642**	**3,982,547**	**Post-tax 5.77%**
Minera Mexicana la Ciénega, S.A. de C.V.	**140,358**	**501,149**	**496,394**	**Post-tax 5.49%**
Exploraciones Mineras Parreña, S.A. de C.V.	**6,886**	**82,549**	**139,784**	**Post-tax 5.38%**
	725,886	**1,162,340**		

In determining FVLCD it is necessary to make a series of assumptions to estimate future cash flows including reserves and resources volumes and related production profile, price assumptions, cost estimates and discount rate. Accordingly, the fair value is categorised as Level 3 in the fair value hierarchy. The price assumptions used to calculate FVLCD are determined with reference analysts' consensus of long term prices. As at 31 December 2018, the Company used long-term price assumptions of US$1,310/ounce and US$19.25/ounce for gold and silver, respectively.

	Year ended 31 December 2017			
	Current year Impairment reversal US$ thousand	Cumulative Impairment US$ thousand	Recoverable amount US$ thousands	Discount rate
Minera Fresnillo, S.A. de C.V.	(94,747)	–	4,440,269	Post-tax 5.13%
Minera Mexicana la Ciénega, S.A. de C.V.	–	360,791	571,439	Post-tax 5.13%
Exploraciones Mineras Parreña, S.A. de C.V.	(8,042)	75,663	146,670	Post-tax 5.02%
	(102,789)	436,454		

In determining FVLCD it is necessary to make a series of assumptions to estimate future cash flows including reserves and resources volumes and related production profile, price assumptions, cost estimates and discount rate. Accordingly, the fair value is categorised as Level 3 in the fair value hierarchy. The price assumptions used to calculate FVLCD are determined with reference analysts' consensus of long-term prices. As at 31 December 2017, the Company used price assumptions of US$1,300/ounce and US$19/ounce for gold and silver, respectively.

SENSITIVITY ANALYSIS

As at 31 December 2018 management has performed a sensitivity analysis for those subsidiaries where cumulative impairment may be affected by a reasonably possible change in silver and gold prices. Management has considered a decrease in silver and gold of 15% and 10% respectively (2017: 10% silver and gold). The sensitivity resulted in an additional impairment on Minera Fresnillo, S.A. de C.V. of US$719.9 million (2017: US$448.2 million), Minera Mexicana la Ciénega, S.A. de C.V. US$102.1 million (2017; US$110.6 million) and Minera Saucito, S.A. de C.V. US$134.5 million (2017: US$49.5 million).

The subsidiaries in which investments are directly held as at 31 December 2018 and 2017 are as follows:

Legal company	Principal activity	Country of incorporation	Equity interest % Year ended 31 December 2018	2017
Minera Fresnillo, S.A. de C.V.	Production of lead/silver and zinc concentrates	México[3]	100	100
Minera Penmont, S. de R.L. de C.V.[1]	Production of doré bars (gold/silver)	México[3]	56	56
Minera Mexicana La Ciénega, S.A. de C.V.	Production of lead and zinc concentrates and silver precipitates	México[3]	100	100
Minera Saucito, S.A. de C.V.	Production of lead and zinc concentrates	México[3]	100	100
Desarrollos Mineros Canelas, S.A. de C.V.	Extraction and sale of mineral ore	México[3]	100	100
Desarrollos Mineros Fresne, S. de R.L. de C.V.[1]	Extraction and sale of mineral ore	México[3]	56	56
Desarrollos Mineros el Aguila, S.A. de C.V.	Extraction and sale of mineral ore	México[3]	100	100
Metalúrgica Reyna, S.A. de C.V.	Extraction and sale of mineral ore	México[3]	100	100
Equipos Mineros Nazas, S.A. de C.V.	Leasing of mining equipment	México[3]	100	100
Proveedora de Equipos Fresne, S de R.L. de C.V.[1]	Leasing of mining equipment	México[3]	56	56
Equipos Mineros la Hacienda, S.A. de C.V.	Leasing of mining equipment	México[3]	100	100
Proveedora de Equipos Jerez, S.A. de C.V.	Leasing of mining equipment	México[3]	100	100
Minera Juanicipio, S.A. de C.V.	Mining project	México[3]	56	56
Comercializadora de Metales Fresnillo, S.A. de C.V.	Holds rights over silver production from Peñoles' polymetallic Sabinas mine through the Silverstream contract	México[3]	100	100
Exploraciones Mineras Parreña, S.A. de C.V.	Exploration services	México[3]	100	100
Exploraciones y Desarrollos Mineros Coneto, S.A. P. I. de C.V.	Exploration services	México[3]	55	55
Minera El Bermejal, S. de R.L. de C.V.	Mining equipment leasing	México[3]	100	100
Compañía Minera Las Torres, S.A. de C.V.	Mine project	México[3]	100	100
Servicios Administrativos Fresnillo, S. A. de C.V.	Administrative services	México[3]	100	100
Operaciones Fresnillo, S.A. de C.V.	Administrative services	México[3]	100	100
Servicios de Exploración Fresnillo, S.A. de C.V.	Administrative services	México[3]	100	100
Fresnillo Management Services, Ltd	Administrative services	UK[4]	100	100
Fresbal Investments, Ltd	Holding company for mining Investments	Canada[5]	100	100
Fresnillo Perú, S.A.C.	Exploration services	Peru[6]	100	100
Parreña Perú, S.A.C.	Exploration services	Peru[6]	100	–
Fresnillo Chile, SpA	Exploration services	Chile[7]	100	100
Minera Capricornio, SpA	Exploration services	Chile[7]	100	–
Caja de Ahorros Fresnillo, S.C.[2]	Administrative services	México[3]	–	–

The list of subsidiary undertakings presented in this note represents the full list of subsidiary undertakings, required to be submitted by Section 409 of the Companies Act 2006.

1 The remaining 44% interest in these companies are held by Comercializadora de Metales Fresnillo, S.A. de C.V. a wholly-owned subsidiary of the Company.
2 Whilst Fresnillo plc holds no direct ownership in Caja de Ahorros Fresnillo, S.C. the entire share capital of the company is held through its subsidiaries.
3 The registered address for all Mexican subsidiaries is: Calzada Saltillo 400 No. 989, Torreón, Coahuila 27250.
4 Registered address is: Second Floor, 21 Upper Brook Street, London W1.
5 Registered address is: 355 Burrard Street, Suite 1800, Vancouver, BC, V6C 2G8.
6 Registered address is: República de Colombia 643, Piso 9, Distrito San Isidro, Lima 27.
7 Registered address is: Apoquindo 4775 oficina 1002 – Las Condes, Santiago de Chile.

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS CONTINUED

6. TRADE AND OTHER RECEIVABLES

	Year ended 31 December	
	2018 US$ thousands	2017 US$ thousands
Other receivables from related parties (note 13)	4,176	7,958
Prepayments	157	159
Other	3	22
	4,336	8,139

As of 31 December for each year presented, other receivables from related parties were neither past due nor impaired. In determining the recoverability of a receivable, the Company performs a risk analysis considering the type and age of the outstanding receivable and the credit worthiness of the counterparty.

7. CASH AND CASH EQUIVALENTS

	Year ended 31 December	
	2018 US$ thousands	2017 US$ thousands
Cash at bank and on hand	104	6
Short-term deposits	4,456	133,364
Cash and cash equivalents	4,560	133,370

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.

8. EQUITY

SHARE CAPITAL AND SHARE PREMIUM

	As at 31 December			
	2018		2017	
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 2017	736,893,589	$368,545,586	50,000	£50,000
At 31 December 2017	736,893,589	$368,545,586	50,000	£50,000
At 31 December 2018	736,893,589	$368,545,586	50,000	£50,000

As at 31 December 2018 and 2017, all issued shares with a par value of $0.50 each are fully paid. The rights and obligations attaching to these shares are governed by law and the Company's Articles of Association. Ordinary shareholders are entitled to receive notice and to attend and speak at any general meeting of the Company. There are no restrictions on the transfer of the Ordinary shares.

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

RESERVES

SHARE PREMIUM

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

MERGER RESERVE

The merger reserve represents the difference between the value of the net assets acquired as part of the Pre-IPO reorganisation and the nominal value of the shares issued pursuant to the Merger Agreement. Movements in this reserve during 2018 and 2017 represent the impairment losses and reversals of the carrying value of Fresnillo's investments in subsidiaries transferred from retained earnings.

AVAILABLE-FOR-SALE FINANCIAL ASSETS RESERVE

As at 31 December 2017 this reserve recorded fair value changes on available-for-sale investments, net of tax. On disposal or on impairment, the cumulative changes in fair value were recycled to the income statement. These assets were reclassified upon adoption of IFRS 9, for further detail see note 2 (b).

FAIR VALUE RESERVE OF FINANCIAL ASSETS AT FVOCI

The Company has elected to recognise changes in the fair value of certain investments in equity securities in OCI, as explained in note 2(b). These changes are accumulated within the FVOCI reserve within equity. The Company transfers amounts from this reserve to retained earnings when the relevant equity securities are derecognised.

RETAINED EARNINGS

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

9. DIVIDENDS DECLARED AND PAID

The dividends declared and paid during the years ended 31 December 2018 and 2017 are as follows:

	US cents per Ordinary Share	Amount US$ thousands
Year ended 31 December 2018		
Final dividend for 2017 declared and paid during the year[1]	29.8	219,594
Interim dividend for 2018 declared and paid during the year[2]	10.7	78,848
	40.5	**298,442**
Year ended 31 December 2017		
Final dividend for 2016 declared and paid during the year[3]	21.5	158,432
Interim dividend for 2017 declared and paid during the year[4]	10.6	78,111
	32.1	**236,543**

1 This dividend was approved by the Board of Directors on 30 May 2018 and paid on 4 June 2018.
2 This dividend was approved by the Board of Directors on 3 September 2018 and paid on 7 September 2018.
3 This dividend was approved by the Board of Directors on 23 May 2017 and paid on 26 May 2017.
4 This dividend was approved by the Board of Directors on 31 July 2017 and paid on 8 September 2017.

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS CONTINUED

10. INTEREST-BEARING LOANS

SENIOR NOTES

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

An analysis of the debt recognised in the balance sheet is as follows:

	As at 31 December	
	2018 US$ thousands	2017 US$ thousands
Opening balance	799,046	798,027
Accrued interest	46,267	46,267
Interest paid[1]	(46,267)	(46,267)
Amortisation of discount and transaction costs	1,081	1,019
Closing balance	800,127	799,046

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 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.

11. TRADE AND OTHER PAYABLES

	Year ended 31 December	
	2018 US$ thousands	2017 US$ thousands
Other payables to related parties (note 13)	1,592	3,895
Other taxes and contributions	8,490	5,332
Accrued expenses	738	596
	10,820	9,823

The fair value of trade and other payables approximates their book values. The Company's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 17.

12. CONTINGENCIES

As of 31 December 2018 the Company has the following contingencies:

- The Company is subject to various laws and regulations which, if not observed, could give rise to penalties.
- Tax periods remain open to review by the Mexican tax authorities (SAT, by its Spanish acronym) in respect of income taxes for five years following the date of the filing of corporate income tax returns, during which time the authorities have the right to raise additional tax assessments including penalties and interest. Under certain circumstances, the reviews may cover longer periods. As such, there is a risk that transactions, and in particular related party transactions, that have not been challenged in the past by the authorities, may be challenged by them in the future.
- Other than discussed below, tax inspections that had been initiated by the SAT in previous years, were either closed or resolved through a Conclusive Agreement in 2018 or in early 2019. According to article 69-H of the Mexican Tax Code, settlements reached and executed by taxpayers and the authority may not be challenged in any way. Such settlements shall only be effective between the parties; and they shall not constitute a precedent in any case.
- With respect to Minera Penmont´s 2012 and 2013 tax inspections, on 11 July 2018 the Company filed before tax authorities a substance administrative appeal against the tax assessment, and on 3 September 2018, it filed additional documentation before tax authorities and is waiting for its response.
- On 22 October 2018 we were notified of the SAT´s findings in respect of Minera Penmont´s 2015 & 2016 tax inspections. The Company considers it completed the provision of all documentation required to demonstrate that the tax deductions which are being challenged, are appropriate and is waiting for the SAT´s response.
- On 1 February 2019 we were notified that the SAT will conduct an inspection of Minera Saucito's 2013 tax certificate.
- It is not practical to determine the amount of any potential claims or the likelihood of any unfavourable outcome arising from these or any future inspections that may be initiated. However, management believes that its interpretation of the relevant legislation is appropriate and that the Group has complied with all regulations and paid or accrued all taxes and withholdings that are applicable.
- On 8 May 2008, the Company and Peñoles entered into the Separation Agreement (the 'Separation Agreement'). This agreement relates to the separation of the Fresnillo Group (the 'Group') and the Peñoles Group and governs certain aspects of the relationship between the Fresnillo Group and the Peñoles Group following the initial public offering in May 2008 ('Admission'). The Separation Agreement provides for cross-indemnities between the Company and Peñoles so that, in the case of Peñoles, it is held harmless against losses, claims and liabilities (including tax liabilities) properly attributable to the precious metals business of the Group and, in the case of the Company, it is held harmless by Peñoles against losses, claims and liabilities which are not properly attributable to the precious metals business. Save for any liability arising in connection with tax, the aggregate liability of either party under the indemnities shall not exceed US$250 million in aggregate.
- Peñoles has agreed to indemnify the Fresnillo Group in relation to (i) any tax charge, subject to certain exceptions, the Company may incur as a result of the Pre-IPO Reorganisation (including as a result of a transaction following Admission of a member of the Fresnillo Group, provided that Peñoles has confirmed that the proposed transaction will not give rise to a tax charge, or as a result of a transaction of a member of the Peñoles Group on or after Admission), the Global Offer or Admission; and (ii) certain tax aspects of certain other pre-Admission transactions. Peñoles' liability under these indemnities and in respect of general tax liabilities arising pre-Admission which are not properly attributable to the precious metals business of the Fresnillo Group shall not exceed US$500 million. If a member of the Fresnillo Group forming part of Peñoles' tax consolidation pays an intra-group dividend in excess of its net income tax account ('Cuenta de Utilidad Fiscal Neta' or 'CUFIN') account after Admission and is relieved of tax as a result of the consolidation, it is required to pay Peñoles an amount in respect of that tax.
- In regard to the ejido El Bajio matter previously reported by the Company:
  - In 2009 five members of the El Bajio agrarian community in the state of Sonora, who claimed rights over certain surface land in the proximity of the operations of Minera Penmont ('Penmont'), submitted a legal claim before the Unitarian Agrarian Court (Tribunal Unitario Agrario) of Hermosillo, Sonora, to have Penmont vacate an area of this surface land. The land in dispute encompassed a portion of surface area where part of the operations of the Soledad-Dipolos mine are located. The litigation resulted in a definitive court order, pursuant to which Penmont was ordered to vacate 1,824 hectares of land. The disputed land was returned in July 2013, resulting in the suspension of operations at Soledad-Dipolos.
  - The Agrarian Court noted in that same year that certain remediation activities were necessary to comply with the relevant regulatory requirements and requested the guidance of the Federal Environmental Agency (SEMARNAT) in this respect. The Agrarian Court further issued a procedural order in execution of its ruling determining, amongst other aspects, that Penmont must remediate the lands to the state they were in before Penmont's occupation.
  - In the opinion of the Company, this procedural order was excessive since this level of remediation was not part of the original agrarian ruling and also because the procedural order appeared not to consider the fact that Penmont conducted its activities pursuant to valid mining concessions and environmental impact permits. In December 2016, the Agrarian Court issued a subsequent procedural order in which the Court recognised that Penmont complied with the agrarian ruling by having returned the land in dispute and, furthermore, that remediation activities are to be conducted in accordance with Federal environmental guidelines and regulations, as supervised by the competent Federal authorities. Remediation activities in this respect are pending as the agrarian members have not yet permitted Penmont physical access to the lands. Penmont has already presented a conceptual mine closure and remediation plan before the Agrarian Court in respect of the approximately 300 hectares where Penmont conducted mining activities. The agrarian community Ejido El Bajio appealed this procedural order from the Agrarian Court and a Federal District Court denied this appeal. The agrarian community has presented in the month of August 2017 a further and last recourse against this ruling by the Federal District Court and the final result is pending.

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS CONTINUED

12. CONTINGENCIES CONTINUED

- In addition, and as also previously reported by the Company, claimants in the El Bajio matter presented other claims against occupation agreements they entered into with Penmont, covering land parcels separate from the land described above. Penmont has no significant mining operations or specific geological interest in the affected parcels and these lands are therefore not considered strategic for Penmont. As previously reported, the Agrarian Court issued rulings declaring such occupation agreements over those land parcels to be null and void and that Penmont must remediate such lands to the state that they were in before Penmont's occupation as well as returning any minerals extracted from this area. Given that Penmont has not conducted significant mining operations or has specific geological interest in these land parcels, any contingency relating to such land parcels is not considered material by the Company. The case relating to the claims over these land parcels remains subject to finalisation.
- Various claims and counterclaims have been made between the relevant parties in the El Bajio matter. There remains significant uncertainty as to the finalisation and ultimate outcome of these legal proceedings.

• In 2011, flooding occurred in the Saucito mine, following which the Group filed an insurance claim in respect of the damage caused (and in respect of business interruption). In early 2018, the insurance provider notified the Group that the claim had been accepted; however, there is disagreement about the appropriate amount to be paid. In October the Group received US$13.6 million in respect of the insurance claim, however this does not constitute a final settlement and management continues to pursue a higher insurance reimbursement. Due to the fact that negotiations are on-going and there is uncertainty regarding the timing of reaching an agreement with the insurer, the amount expected to be recovered is currently not practicable to determine.

• On 11 February 2019, the Supreme Court of Mexico issued a ruling regarding a specific constitutional issue presented by the former administration of the Federal Government, who challenged the ability of the State of Zacatecas to impose environmental taxes on aspects such as (i) extraction of rocks; (ii) emissions into the air; (iii) discharges of industrial residues; and (iv) disposal of industrial waste.
The ruling of the Supreme Court establishes that, from a constitutional point of view, there is no express limitation granting the Mexican State at a Federal level the sole power to impose such taxes; therefore, the State of Zacatecas has a joint right to create these taxes. Notwithstanding the foregoing, the Court did not exhaust the analysis of the legality of each particular tax created by the State of Zacatecas.
The Company had previously challenged the legality of such taxes and in 2017 obtained an injunction from a Federal court. The State of Zacatecas has appealed this ruling and the final result is pending.

13. RELATED PARTY BALANCES AND TRANSACTIONS

Related parties are those entities owned or controlled by the ultimate controlling party and include the Company's subsidiaries disclosed in note 5, as well as those entities who have a minority participation in Fresnillo Group companies. Related party balances will be settled in cash. All the balances as at 31 December 2018 and 2017 and the transactions carried-out with related parties for the years then ended correspond to subsidiaries.

(A) RELATED PARTY ACCOUNTS RECEIVABLE AND PAYABLE

	Accounts receivable US$ thousands		Accounts payable US$ thousands	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Loans with related parties[1]	895,315	590,286	334,857	–
Administrative services	4,101	7,911	1,590	2,888
Trademark royalty	–	–	–	733
Other	75	47	2	274
Sub-total	899,491	598,244	336,449	3,895
Less-current portion	899,491	598,244	336,449	3,895
Non-current portion	–	–	–	–

1 Accounts receivable derived from loans with related parties are net of reserve for expected credit loss of US$1.2 million (2017: nil) see note 2 (f).

Effective interest rates on loans granted to related parties in US dollar range between 4.26% to 4.74% (2017: 3.23% to 3.43%); in Mexican peso range 9.98% to 10.36% (2017: 9.04% to 9.44).

(B) PRINCIPAL TRANSACTIONS WITH RELATED PARTIES (APART FROM DIVIDENDS, ADDITIONAL INVESTMENTS AND RETURNS OF CAPITAL) ARE AS FOLLOWS:

	Year ended 31 December	
	2018 US$ thousands	2017 US$ thousands
Income:		
Trademark royalties	**16,860**	32,111
Interest on loans to related parties	**54,270**	52,163
Total income	**71,130**	84,274

	Year ended 31 December	
	2018 US$ thousands	2017 US$ thousands
Expenses:		
Administrative services	**5,168**	8,517
Interest on loans from related parties	**1,439**	1,451
Others	**97**	–
Total expenses	**6,704**	9,968

(C) COMPENSATION OF KEY MANAGEMENT PERSONNEL OF THE COMPANY

Key management personnel comprise Non-executive Directors. In 2018, their compensation was US$0.7 million (2017: US$0.7 million). This compensation paid is disclosed in the Directors' Remuneration Report.

14. AUDITOR'S REMUNERATION

The auditor's remuneration for the Company was US$1.3 million (2017: US$1.2 million) in respect of the audit of its financial statements together with a proportion of the fees in relation to Fresnillo Group audit.

Fees paid to Ernst & Young LLP and its associates for non-audit services to the Company itself are not disclosed in the stand alone financial statements because Group financial statements are prepared which include these fees on a consolidated basis.

15. NOTES TO THE STATEMENT OF CASH FLOWS

		Year ended 31 December	
	Notes	2018 US$ thousands	2017 US$ thousands
Reconciliation of profit for the year to net cash generated from operating activities			
Profit for the year		**(571,022)**	323,122
Adjustments to reconcile profit for the period to net cash inflows from operating activities:			
Impairment reversal of investment in subsidiaries	5	**725,886**	(102,789)
Dividend income		**(152,616)**	(218,593)
Income tax expense		**1,753**	(3,131)
Other expenses		**–**	1,526
Impairment of available-for-sale financial assets		**–**	36
Net finance (gain)/loss		**(3,200)**	36,668
Foreign exchange loss		**3,444**	(852)
Working capital adjustments			
Decrease/(Increase) in trade and other receivables		**5,293**	(7,930)
Increase in prepayments and other assets		**–**	(159)
Decrease/(Increase) in trade and other payables		**1,162**	(7,241)
Cash generated from operations		**10,700**	20,657
Income tax paid		**(94)**	(594)
Net cash generated from operating activities		**10,606**	20,063

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS CONTINUED

16. FINANCIAL INSTRUMENTS

(A) FAIR VALUE CATEGORY

	As at 31 December 2018		
	US$ thousands		
Financial assets:	Amortised cost	Fair value through OCI	Fair value through profit or loss
Trade and other receivables	4,336	–	–
Loans to related parties	896,562	–	–
Other financial assets	–	78,219	–
Derivative financial instruments	–	–	314

Financial liabilities:		At amortised Cost	Fair value through profit or loss
Interest-bearing loans	–	800,127	–
Trade and other payables	–	1,592	–
Derivative financial instruments	–	–	3,807

	As at 31 December 2017		
	US$ thousands		
Financial assets:	At fair value through profit or loss	Available-for-sale investments at fair value through OCI	Loans and receivables
Trade and other receivables	–	–	8,138
Loans to related parties	–	–	590,286
Available-for-sale financial assets	–	144,856	–
Derivative financial instruments	382	–	–

Financial liabilities:	At fair value through profit or loss	At amortised Cost
Interest-bearing loans	–	799,046
Trade and other payables	–	2,888
Derivative financial instruments	19,216	–

(B) FAIR VALUES

The fair value of financial assets and liabilities, together with the carrying amounts shown in the balance sheet, other than those with carrying amounts that are a reasonable approximation of their fair values are as follows:

				As at 31 December
		Carrying Amount		Fair Value
	2018 US$ thousands	2017 US$ thousands	2018 US$ thousands	2017 US$ thousands
Financial assets:				
Derivative financial instruments	314	382	314	382
Loans to related parties[1]	896,562	590,286	896,562	590,286
Other financial assets	78,219	–	78,219	–
Available-for-sale financial assets	–	144,856	–	144,856
Financial liabilities:				
Interest-bearing loans[2]	800,127	799,046	817,936	878,864
Derivative financial instruments	3,807	19,216	3,807	19,216

1 Loans with related party are categorised in Level 3 of the fair value hierarchy.
2 Interest-bearing loans are categorised in Level 1 of the fair value hierarchy.

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

As of 31 December 2018
US$ thousands

	Fair value measure using			
	Quoted prices in active markets Level 1 US$ thousands	Significant observable Level 2 US$ thousands	Significant unobservable Level 3 US$ thousands	Total US$ thousands
Financial assets:				
Derivative financial instruments:				
Option commodity contracts (note 16 (c))	–	240	–	240
Option and forward foreign exchange contracts	–	74	–	74
Other financial assets:				
Equity investments	78,219	–	–	78,219
	78,219	314	–	78,533
Financial liabilities:				
Derivative financial instruments:				
Option commodity contracts (note 16 (c))	–	3,660	–	3,660
Option and forward foreign exchange contracts	–	147	–	147
	–	3,807	–	3,807

As of 31 December 2017
US$ thousands

	Fair value measure using			
	Quoted prices in active markets Level 1 US$ thousands	Significant observable Level 2 US$ thousands	Significant unobservable Level 3 US$ thousands	Total US$ thousands
Financial assets:				
Derivative financial instruments:				
Option commodity contracts (note 16 (c))	–	71	–	71
Option and forward foreign exchange contracts	–	311	–	311
Financial investments available-for-sale:				
Quoted investments	144,856	–	–	144,856
	144,856	382	–	145,238
Financial liabilities:				
Derivative financial instruments:				
Option commodity contracts (note 16 (c))	–	19,179	–	19,179
Option and forward foreign exchange contracts	–	37	–	37
	–	19,216	–	19,216

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

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

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

OPTION AND FORWARD FOREIGN EXCHANGE CONTRACTS

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

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS CONTINUED

16. FINANCIAL INSTRUMENTS CONTINUED

OPTION COMMODITY CONTRACTS

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

EQUITY INVESTMENTS:

The fair value of equity investments is derived from quoted market prices in active markets. (Level 1)

INTEREST-BEARING LOANS

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

LOANS WITH RELATED PARTIES

Fair value of the Company's loan to related party is determined using a discounted cash flow method based on market interest rates at each reporting date.

(C) DERIVATIVE FINANCIAL INSTRUMENTS

The Company enters into certain forward and option contracts in order to manage its subsidiaries' exposure to foreign exchange risk arising from the activities of these subsidiaries. Also the Company enters into option contracts to manage its subsidiaries' exposure to commodity price risk associated with the sales of gold. In the Group's consolidated financial statements certain of these derivatives are designated as cash flow hedges but for the purposes of the Company's stand-alone financial statements the related hedged items are not held by the Company, so do not qualify as cash flow hedges.

The following tables summarise the fair value of derivative financial instruments held as of 31 December 2018 and 2017.

	As at 31 December	
Financial assets	2018 US$ thousands	2017 US$ thousands
Option contracts[1]		
Gold	194	–
Lead	46	71
Total derivative related assets	240	71
Less –current portion	240	71
Non-current portion[2]	–	–

	As at 31 December	
Financial liabilities	2018 US$ thousands	2017 US$ thousands
Commodity contracts[1]		
Gold	3,660	18,096
Zinc	–	1,083
Total derivative related liabilities	3,660	19,179
Less –current portion	3,660	4,992
Non-current portion[2]	–	14,187

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.

17. FINANCIAL RISK MANAGEMENT

OVERVIEW

The Company's principal financial assets and liabilities, other than derivatives, are comprised of trade receivables, cash, available-for-sale financial assets, loans to and from related parties, interest-bearing loans and trade payables.

The Company enters into certain derivative transactions with the purpose of managing foreign exchange risk arising on the activity and transactions of its subsidiaries.

The Company has exposure to the following risks from its use of financial instruments:
- Market risk, including foreign currency, interest rate and equity price risks.
- Credit risk.
- Liquidity risk.

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

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

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

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

(A) MARKET RISK

Market risk is the risk that changes in market factors, such as foreign exchange rates, or interest rates will affect the Company income or the value of its financial instruments.
The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

FOREIGN CURRENCY RISK

The Company is exposed to foreign currency risk on transactions and balances that are denominated in currencies other than the US dollar. Transactions in foreign currencies include the purchase of services, payment or receipt of dividends and other items. As a result, the Company has financial liabilities denominated in currencies other than functional currency, and holds cash and cash equivalents in Mexican peso.

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

Year ended 31 December	Strengthening/ (weakening) of US dollar	Effect on profit before tax: increase/ (decrease) US$ thousands
2018	**10%**	**(399)**
	(10%)	**487**
2017	20%	(88)
	(10%)	59

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS CONTINUED

17. FINANCIAL RISK MANAGEMENT CONTINUED

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

Year ended 31 December	Strengthening/ (weakening) of US dollar	Effect on profit before tax: increase/ (decrease) US$ thousands
2018	**10%**	**(172)**
	(10%)	**258**
2017	10%	(335)
	(10%)	500

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

Year ended 31 December	Strengthening/ (weakening) of US dollar	Effect on profit before tax: increase/ (decrease) US$ thousands
2018	**10%**	**1,460**
	(10%)	**(1,453)**
2017	10%	1,058
	(10%)	(1,056)

COMMODITY RISK

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

The Company uses derivative instruments to hedge against precious metals commodity price exposure in its subsidiaries, see mentioned in note 16 (c).

The table below reflects the aggregate sensitivity relating to changes in the fair value of commodity derivative contracts of financial assets and liabilities, reflecting the impact on the Company's profit before tax with all other variables held constant. There is no impact on the Company's equity other than the effect on profit before tax.

	Increase/(decrease) in commodity prices				Effect on profit before tax: increase/ (decrease) US$ thousands
Year ended 31 December	Gold	Silver	Zinc	Lead	
2018	**10%**	**15%**	**25%**	**20%**	**(8,703)**
	(10%)	**(15%)**	**(20%)**	**(15%)**	**14,910**
2017	10%	10%	20%	15%	(50,854)
	(10%)	(10%)	(20%)	(15%)	31,725

INTEREST RATE RISK

The Company is exposed to interest rate risk from the possibility that changes in interest rates will affect future cash flows or the fair values of its financial instruments. The Company's earnings are sensitive to changes in interest rates on any floating element of the loans with related parties and interest earned on cash balances. Interest-bearing loans are at a fixed rate, therefore the possibility of a change in interest rate only impacts its fair value but not its carrying amount. Therefore, interest-bearing loans and loans from related parties are excluded from the table below.

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

Year ended 31 December	Basis point increase/ (decrease) in interest rate	Effect on profit before tax: increase/ (decrease) US$ thousands
2018	**75**	**34**
	(75)	**(34)**
2017	90	1,200
	(50)	(667)

EQUITY PRICE RISK

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

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

Year ended 31 December	Increase/ (decrease) in equity price	Effect on profit before tax: increase/ (decrease)	Effect on equity: increase/ (decrease) US$ thousands
2018	**40%**	**–**	**31,288**
	(40%)	**–**	**(31,288)**
2017	40%	–	28,972
	(65%)	–	(65,408)

(B) CREDIT RISK

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

The Company's policies are aimed at minimising losses as a result of counterparties' failure to honour their obligations. Individual exposures are monitored with customers subject to credit limits to ensure that the Company's exposure to bad debts is not significant. The Company's exposure to credit risk is influenced mainly by the individual characteristics of each counter party. The Company's financial assets are with counterparties that the Company considers to have an appropriate credit rating. As disclosed in note 13, the counterparties to a significant proportion of these financial assets are related parties. At each balance sheet date, the Company's financial assets were neither impaired nor past due. The Company's policies are aimed at minimising losses from the foreign currency and commodity hedging contracts. The Company's foreign currency and commodity derivative contracts are entered into with large financial institutions with strong credit ratings.

The Company's surplus funds are managed by Servicios Administrativos Fresnillo, S.A. de C.V., which manages cash and cash equivalents investing in a number of financial institutions. In order to minimise exposure to credit risk, the Company only deposits cash and cash equivalents with financial institutions with a credit rating of M-1 (Moody's) and mxA-1+ (Standard and Poors) and above, and only for periods of less than four months.

The maximum credit exposure at the reporting date of each category of financial asset above is the carrying value as detailed in the relevant notes. See note 2 (b) for the maximum credit exposure for other financial assets, note 8 for cash and cash equivalents and note 13 for related party balances.

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS CONTINUED

17. FINANCIAL RISK MANAGEMENT CONTINUED

(C) LIQUIDITY RISK

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company monitors its risk of a shortage of funds using projected cash flows and by monitoring the maturity of both its financial assets and liabilities.

The table below summarises the maturity profile of the Company financial liabilities based on contractual undiscounted payments.

					US$ thousands
	Within 1 year	2–3 years	3–5 years	> 5 years	Total
As at 31 December 2018					
Interest-bearing loans	**46,267**	**92,534**	**92,534**	**800,000**	**1,031,335**
Derivatives financial instruments – liabilities	**3,660**	**–**	**–**	**–**	**3,660**
Trade and other payables	**3,807**	**–**	**–**	**–**	**3,807**

					US$ thousands
	Within 1 year	2–3 years	3–5 years	> 5 years	Total
As at 31 December 2017					
Interest-bearing loans	46,267	92,534	92,534	846,267	1,077,602
Derivatives financial instruments – liabilities	4,992	14,224	–	–	19,216
Trade and other payables	2,888	–	–	–	2,888

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

					US$ thousands
	Within 1 year	2–3 years	3–5 years	> 5 years	Total
As at 31 December 2018					
Inflows	**12,608**	**4,310**	**–**	**–**	**16,918**
Outflows	**(12,688)**	**(4,290)**	**–**	**–**	**(16,978)**
Net	**(80)**	**20**	**–**	**–**	**(60)**

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

The above liquidity tables include expected inflows and outflows from derivative financial instruments which the Company expects are going to be exercised during 2019 as at 31 December 2018 and during 2018 as at 31 December 2017, either by the Company or counterparty.

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

CAPITAL MANAGEMENT

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

FRESNILLO PLC CONSOLIDATED AUDITED MINERAL RESOURCE STATEMENT[1]

		Quantity	Grade				Contained Metal			
Resource Category	Cut-off Grade[2]	Tonnes (kt)	Au (g/t)	Ag (g/t)	Pb (%)	Zn (%)	Au (koz)	Ag (koz)	Pb (kt)	Zn (kt)
Minera Fresnillo – Fresnillo/Proaño Mine – Underground										
Measured		12,742	0.91	557	1.05	1.81	371	228,164	133	230
Indicated	131 g/t AgEq	24,713	0.84	261	1.78	3.94	669	207,342	440	974
Measured & Indicated		37,455	0.86	362	1.53	3.22	1,040	435,506	573	1,205
Inferred		37,141	0.66	315	1.22	2.29	789	376,438	454	849
Minera Saucito – Saucito Mine – Underground										
Measured		6,937	2.31	366	1.36	2.23	515	81,733	95	155
Indicated	141 g/t AgEq	14,383	1.58	265	1.54	2.83	731	122,314	222	407
Measured & Indicated		21,319	1.82	298	1.48	2.63	1,246	204,046	316	562
Inferred		27,755	0.71	251	1.11	1.97	637	224,111	309	547
Minera Ciénega – Ciénega Complex – Underground										
Measured		5,518	2.67	185	1.04	1.72	474	32,826	57	95
Indicated	Multiple[3]	11,250	1.76	187	0.73	1.12	638	67,709	82	126
Measured & Indicated		16,768	2.06	186	0.83	1.32	1,112	100,535	139	221
Inferred		5,090	1.39	204	0.70	1.29	228	33,359	36	66
Minera Fresnillo – San Julián Mine Underground: Veins										
Measured		961	2.24	166	–	–	69	5,134	–	–
Indicated	110 g/t AgEq	7,902	1.46	112	–	–	372	28,468	–	–
Measured & Indicated		8,864	1.55	118	–	–	441	33,603	–	–
Inferred		5,375	1.23	101	–	–	212	17,454	–	–
Minera Fresnillo – San Julián Mine Underground: Disseminated										
Measured		12,881	0.14	242	0.69	1.80	58	100,026	88	232
Indicated	133 g/t AgEq	1,511	0.09	106	0.45	1.58	4	5,142	7	24
Measured & Indicated		14,392	0.14	227	0.66	1.78	63	105,168	95	256
Inferred		6	0.04	41	0.08	2.47	–	8	–	–
Minera Penmont Underground: Centauro Profundo										
Measured		–	–	–	–	–	–	–	–	–
Indicated	2.0 g/t Au	7,088	6.94	–	–	–	1,581	–	–	–
Measured & Indicated		7,088	6.94	–	–	–	1,581	–	–	–
Inferred		992	6.92	–	–	–	221	–	–	–
Minera Penmont Open Pit: Mega Centauro[4,5]										
Measured		210,358	0.80	–	–	–	5,433	–	–	–
Indicated	Multiple[6]	165,574	0.79	–	–	–	4,223	–	–	–
Measured & Indicated		375,932	0.80	–	–	–	9,657	–	–	–
Inferred		20,700	0.87	–	–	–	582	–	–	–
Minera Penmont Open Pit: Soledad-Dipolos[4,5,7]										
Measured		33,688	0.59	–	–	–	634	–	–	–
Indicated	0.25 g/t Au	17,220	0.53	–	–	–	293	–	–	–
Measured & Indicated		50,908	0.57	–	–	–	927	–	–	–
Inferred		32	0.35	–	–	–	–	–	–	–
Minera Penmont Open Pit: Noche Buena[4,5]										
Measured		22,651	0.53	–	–	–	389	–	–	–
Indicated	0.25 g/t Au	11,262	0.52	–	–	–	188	–	–	–
Measured & Indicated		33,914	0.53	–	–	–	577	–	–	–
Inferred		886	0.52	–	–	–	15	–	–	–
Totals – Underground										
Measured & Indicated	Multiple	105,885	1.61	258	1.06	2.12	5,484	878,858	1,124	2,243
Inferred		76,360	0.85	265	1.04	1.91	2,087	651,371	798	1,462
Totals – Open Pit										
Measured & Indicated		460,753	0.75	–	–	–	11,161	–	–	–
Inferred	Multiple	21,618	0.86	–	–	–	597	–	–	–

1 Mineral resources are reported inclusive of ore reserves. Mineral resources are not ore reserves and do not have demonstrated economic viability. All figures rounded to reflect the relative accuracy of the estimates. Gold, silver, lead and zinc assays were capped where appropriate.

2 Mineral resources are reported at metal equivalent cut-off grades based on metal price assumptions*, variable metallurgical recovery assumptions (variable metallurgical recoveries as a function of grade and relative metal distribution), mining costs, processing costs, general and administrative (G&A) costs, and variable NSR factors (NSR factors include smelting and transportation costs). The AgEq variable cut-offs grades are calculated by dividing the applicable costs by a variable Ag net value factor which includes prices, recoveries, and payabilities.

3 The cut-off grade for Ciénega's mineral resources varies between 171 and 237 g/t AgEq.

4 The Mega Centauro, Soledad/Dipolos, and Noche Buena resources are reported within pit shells run at a US$1,250/oz Au price.

5 The Mega Centauro, Soledad/Dipolos, Noche Buena open pit mines has produced silver at an average concentration of 0.3 g/t to 1.1 g/t. Silver is not assayed for and is not estimated in the resource model. Based on past production, factored in situ silver in the open pit M & I & I resources is approximately in the range of 14 to 15 Moz.

6 Mega Centauro mineral reserves are reported at varied cut-offs dependent on material types and grade. Oxide material above 0.25 g/t Au reports to the heap leach, transitional and sulfide material above 0.30 g/t Au reports to the heap leach, oxide material above 1.05 g/t Au reports to the mill, transitional and sulfide material above 0.54 g/t Au reports to the mill.

7 The Soledad/Dipolos mine has been subject to legal action regarding surface access. SRK has been provided with documents indicating a reasonable chance that these actions will be settled in favour of the mine.

* Metal price assumptions considered for the calculation of metal equivalent grades are: Gold (US$/oz 1,250.00), Silver (US$/oz 17.00), Lead (US$/lb 0.90) and Zinc (US$/lb 1.10)

• The resources were estimated by Fresnillo. Dr Bart Stryhas,CPG #11034, a Qualified Person, reviewed and audited the resource estimates for Minera Penmont. Matthew Hastings, M.Sc, P.Geo, MAusIMM #314693 of SRK, a Qualified Person, reviewed and audited the resource estimates for Ciénega. Benjamin Parsons, BSc, MSc Geology, MAusIMM (CP) #222568 of SRK, a Qualified Person, reviewed and audited the resource estimates for Fresnillo and Saucito. Giovanny Ortiz, MAusIMM #304612 of SRK Consulting (U.S.), Inc., a Qualified Person, reviewed and audited the resource estimates for San Julián.

FRESNILLO PLC CONSOLIDATED AUDITED MINERAL RESOURCE STATEMENT OF EXPLORATION PROJECTS AND PROSPECTS[1]

		Quantity	Grade				Contained Metal			
Deposit/Fresnillo Subsidiary	Cut-off Grade[2]	Tonnes (kt)	Au (g/t)	Ag (g/t)	Pb (%)	Zn (%)	Au (koz)	Ag (koz)	Pb (kt)	Zn (kt)
Measured Mineral Resource										
Orisyvo – disseminated Au[4]	0.34 g/t Au	41,455	1.43	2	–	–	1,902	2,047	–	–
Candameña – disseminated Au[4]		–	–	–	–	–	–	–	–	–
San Julián Sur – veins		–	–	–	–	–	–	–	–	–
Leones – breccia[4]		–	–	–	–	–	–	–	–	–
Tajitos – disseminated Au	0.25 g/t Au	20,440	0.40	–	–	–	266	–	–	–
Lucerito – breecia/mantos[4]		–	–	–	–	–	–	–	–	–
Rodeo – disseminated Au		–	–	–	–	–	–	–	–	–
Manzanillas – veins	US$58.30/t	75	6.76	130	–	–	16	316	–	–
San Juan – veins		–	–	–	–	–	–	–	–	–
Juanicipio – veins[3]		–	–	–	–	–	–	–	–	–
Guachichil – disseminated Au[4]		–	–	–	–	–	–	–	–	–
Opulencia – veins		–	–	–	–	–	–	–	–	–
Guanajuato Centro – veins		–	–	–	–	–	–	–	–	–
Guanajuato Sur – veins		–	–	–	–	–	–	–	–	–
Cebadillas – veins		–	–	–	–	–	–	–	–	–
La Yesca – veins		–	–	–	–	–	–	–	–	–
San Nicolas – veins		–	–	–	–	–	–	–	–	–
Pilarica – mantos		–	–	–	–	–	–	–	–	–
Total Measured		**61,970**	**1.10**	**1**	**–**	**–**	**2,185**	**2,363**	**–**	**–**
Indicated Mineral Resource										
Orisyvo – disseminated Au[4]	0.36 g/t Au	201,152	1.05	1	–	–	6,793	8,666	–	–
Candameña – disseminated Au[4]	0.58 g/t Au-Eq	49,617	0.75	17	0.04	0.10	1,196	27,803	19	52
Leones – breccia[4]		–	–	–	–	–	–	–	–	–
Tajitos – disseminated Au	0.25 g/t Au	7,748	0.39	–	–	–	98	–	–	–
Lucerito – breccia/mantos[4]	1.00 g/t Au-Eq	125,229	0.38	25	0.27	0.44	1,530	100,655	338	551
Rodeo – disseminated Au	0.30 g/t Au	5,180	0.58	3	–	–	96	565	–	–
San Juan – veins	US$58.30/t	2,439	1.38	146	–	–	108	11,447	–	–
Manzanillas – veins	US$58.30/t	919	3.53	69	–	–	104	2,034	–	–
Juanicipio – veins[3]	US$55.10/t	7,164	1.89	414	2.21	3.75	436	95,437	159	268
Guachichil – disseminated Au[4]		–	–	–	–	–	–	–	–	–
Opulencia – veins	2.10 g/t Au-Eq	1,671	3.45	148	–	–	185	7,939	–	–
Guanajuato Sur – veins	2.10 g/t Au-Eq	558	5.26	791	–	–	94	14,185	–	–
Guanajuato Centro – veins	2.10 g/t Au-Eq	1,229	5.48	127	–	–	216	5,023	–	–
Cebadillas – veins		–	–	–	–	–	–	–	–	–
La Yesca – veins		–	–	–	–	–	–	–	–	–
San Nicolas – veins		–	–	–	–	–	–	–	–	–
Pilarica – mantos	11 g/t Ag-Eq	9,461.74	–	108.04	0.31	0.49	–	32,867	30	46
San Julián Sur – veins	US$52.10/t	2,629	1.48	121	–	–	125	10,208	–	–
Total Indicated		**414,996**	**0.82**	**24**	**0.13**	**0.22**	**10,983**	**316,829**	**545**	**918**
Inferred Mineral Resource										
Orisyvo – disseminated Au[4]	0.35 g/t Au	46,682	0.61	1	–	–	914	1,625	–	–
Candameña – disseminated Au[4]	0.38 g/t Au-Eq	7,569	0.42	16	0.01	0.04	101	3,882	1	3
Leones – breccia[4]	60 g/t Ag	7,268	0.01	112	1.44	1.25	1	26,234	105	91
Tajitos – disseminated Au	0.25 g/t Au	7,246	0.50	–	–	–	116	–	–	–
Lucerito – breccia/mantos[4]	1.00 g/t Au-Eq	55,168	0.40	33	0.22	0.38	709	58,532	121	210
Rodeo – disseminated Au	0.30 g/t Au	72,353	0.48	5	–	–	1,118	10,900	–	–
San Juan – veins	US$58.30/t	8,803	1.56	140	–	–	442	39,618	–	–
Manzanillas – veins	US$58.30/t	317	2.03	46	–	–	21	474	–	–
Juanicipio – veins[3]	US$55.10/t	8,791	1.51	194	2.67	5.28	426	54,771	235	464
Guachichil – disseminated Au[4]	0.46 g/t Au-Eq	56,028	0.65	10	0.10	0.16	1,180	18,085	55	88
Opulencia – veins	2.10 g/t Au-Eq	2,080	2.72	114	–	–	182	7,604	–	–
Guanajuato Sur – veins	2.10 g/t Au-Eq	2,613	1.73	335	–	–	145	28,157	–	–
Guanajuato Centro – veins	2.10 g/t Au-Eq	4,422	2.72	119	–	–	386	16,873	–	–
Cebadillas – veins	2.10 g/t Au-Eq	1,980	2.59	65	–	–	165	4,109	–	–
La Yesca – veins	159 g/t Ag-Eq	1,116	0.76	141	–	–	27	5,073	–	–
San Nicolas – veins	2.10 g/t Au-Eq	2,167	1.61	225	–	–	112	15,684	–	–
Pilarica – mantos	20 g/t Ag-Eq OP, 125 g/t Ag-Eq UG	5,334	0.64	115	1.96	1.90	110	19,806	104	101
San Julián Sur – veins	US$52.10/t	10,008	1.40	134	–	–	452	43,128	–	–
Total Inferred		**299,945**	**0.69**	**37**	**0.21**	**0.32**	**6,609**	**354,553**	**622**	**957**

1 Mineral resources are not ore reserves and do not have demonstrated economic viability. All figures rounded to reflect the relative accuracy of the estimates. Metal assays were capped where appropriate. Mineral resources are reported at variable metal, metal equivalent or NSR cut-off grades and assuming reasonable metal recoveries. Orisyvo, Pilarica, Lucerito, Candameña, Rodeo and Guachichil mineral resources are reported inside a conceptual pit shell based on appropriate mining and processing costs and metal recoveries for oxide and sulfide material. Equivalent metal grades (and conceptual pit optimisation) are based on US$1,250 per ounce of gold, US$17.00 per ounce of silver (US$1,400 per ounce of gold, US$17.50 per ounce of silver for the Orisyvo project), US$1.10 per pound of zinc and US$0.90 per pound of lead.
2 Cut-off grade calculations assume variable metallurgical recoveries.
3 Portions of the Valdecañas deposit within the Minera Juanicipio property where Fresnillo plc holds a 56% interest. Mineral resources quoted reflect Fresnillo plc's attributable 56% ownership.
4 Mineral resources statement prepared independently by SRK CA.

FRESNILLO PLC AUDITED ORE RESERVE STATEMENT

Deposit	Cut-off Grade[1]	Quantity Tonnes (kt)	Grade Au (g/t)	Grade Ag (g/t)	Grade Pb (%)	Grade Zn (%)	Contained Metal Au (koz)	Contained Metal Ag (koz)	Contained Metal Pb (kt)	Contained Metal Zn (kt)
Minera Fresnillo – Fresnillo/Proaño Mine – Underground[2]										
Proven		4,899	0.66	320	0.76	1.31	104	50,402	37	64
Probable	212 g/t AgEq	17,673	0.81	222	1.80	3.91	463	126,254	317	691
Proven and Probable		22,572	0.78	243	1.57	3.35	566	176,656	355	755
Minera Saucito – Saucito Mine – Underground[2]										
Proven		3,901	1.63	307	1.05	1.72	204	38,465	41	67
Probable	210 g/t AgEq	11,010	1.34	259	1.37	2.42	475	91,824	151	266
Proven and Probable		14,910	1.42	272	1.29	2.24	679	130,289	192	333
Minera Ciénega – Ciénega Complex – Underground[2]										
Proven		3,083	2.62	193	0.97	1.63	260	19,105	30	50
Probable	Multiple[3]	5,867	1.79	201	0.74	1.05	338	37,827	44	62
Proven and Probable		8,950	2.08	198	0.82	1.25	598	56,932	74	112
Minera Fresnillo – San Julián Mine Underground: Veins[2]										
Proven		692	1.82	139	–	–	40	3,099	–	–
Probable	162 g/t AgEq	3,764	1.58	123	–	–	191	14,881	–	–
Proven and Probable		4,456	1.62	126	–	–	231	17,980	–	–
Minera Fresnillo – San Julián Underground: Disseminated[2]										
Proven		13,568	0.12	212	0.60	1.52	53	92,312	81	206
Probable	170 g/t AgEq	430	0.11	132	0.38	1.04	2	1,823	2	4
Proven and Probable		13,998	0.12	209	0.59	1.51	55	94,135	83	211
Minera Penmont Open Pit: Mega Centauro[4]										
Proven		169,723	0.80	–	–	–	4,341	–	–	–
Probable	Multiple[5]	122,556	0.77	–	–	–	3,034	–	–	–
Proven and Probable		292,279	0.78	–	–	–	7,375	–	–	–
Minera Penmont Open Pit: Soledad-Dipolos[4,6]										
Proven		33,688	0.59	–	–	–	634	–	–	–
Probable	0.25 g/t Au	17,220	0.53	–	–	–	293	–	–	–
Proven and Probable		50,908	0.57	–	–	–	927	–	–	–
Minera Penmont Open Pit: Noche Buena[4]										
Proven		22,651	0.53	–	–	–	389	–	–	–
Probable	0.25 g/t Au	11,262	0.52	–	–	–	188	–	–	–
Proven and Probable		33,914	0.53	–	–	–	577	–	–	–
Totals – Underground										
Proven		26,143	0.79	242	0.73	1.48	661	203,383	190	388
Probable	Multiple	38,743	1.18	219	1.33	2.64	1,468	272,608	514	1,024
Proven and Probable		64,886	1.02	228	1.08	2.18	2,129	475,991	703	1,412
Totals – Open Pit										
Proven		226,062	0.74	–	–	–	5,364	–	–	–
Probable	Multiple	151,038	0.72	–	–	–	3,515	–	–	–
Proven and Probable		377,100	0.73	–	–	–	8,880	–	–	–

1 All figures rounded to reflect the relative accuracy of the estimates. Mineral reserves are reported at metal equivalent cut-off grades based on metal price assumptions*, variable metallurgical recovery assumptions (variable metallurgical recoveries as a function of grade and relative metal distribution), mining costs, processing costs, general and administrative (G&A) costs, sustaining capital costs, and variable NSR factors (NSR factors include smelting and transportation costs). Each AgEq cut-off is calculated by dividing the appropriate cost by the corresponding Ag net value factor which includes prices, recoveries, and payabilities.
2 Reserves include planned dilution to a minimum mining width and to minable outlines. Additionally, based on mining method, floor dilution is included and appropriate mining recovery factors are applied.
3 The cut-off grades for the Ciénega reserve vary between 171 and 359 g/t AgEq.
4 Reserves have no additional dilution added to that inherent in the Selective Mining Unit (SMU) of 15m x 15m x 8m. Reserves are converted from resources through the process of pit optimisation, pit design, production schedule and supported by a Minera Penmont cash flow model.
5 Mega Centauro mineral reserves are reported at varied cut-offs dependent on material types and grade. Oxide material above 0.25 g/t Au reports to the heap leach, transitional and sulfide material above 0.30 g/t Au reports to the heap leach, oxide material above 1.05 g/t Au reports to the mill, transitional and sulfide material above 0.54 g/t Au reports to the mill.
6 The Soledad/Dipolos mine has been subject to legal action regarding surface access. SRK has been provided with documents indicating a reasonable chance that these actions will be settled in favour of the mine.
* Metal price assumptions considered for the calculation of metal equivalent grades are: Gold (US$/oz 1,250.00), Silver (US$/oz 17.00), Lead (US$/lb 0.90) and Zinc (US$/lb 1.10)
• The reserves are valid as of 31 December 2018. All topography is valid as of 31 October 2018.
• The ore reserves were estimated by Fresnillo. Fernando Rodrigues, BS Mining, MBA, MMSAQP #01405, MAusIMM #304726 of SRK, a Qualified Person, reviewed and audited the open pit reserve and underground reserve estimates.

OPERATING STATISTICS

	ORE PROCESSED (tonnes)						SILVER (grams/tonne)					
	2013	2014	2015	2016	2017	2018	2013	2014	2015	2016	2017	2018
Fresnillo	2,703,395	2,625,511	2,410,033	2,373,092	2,447,394	**2,443,440**	285.3	258.5	220.0	226.7	229.6	**213.8**
Ciénega	1,242,168	1,341,569	1,329,364	1,274,939	1,302,409	**1,323,908**	121.6	108.5	129.0	143.5	151.5	**164.4**
Herradura	14,363,315	22,305,133	22,875,421	25,158,600	26,027,466	**22,156,792**	1.1	1.2	1.2	1.2	0.9	**2.7**
Saucito	1,181,737	1,534,579	2,339,096	2,635,093	2,753,876	**2,792,057**	329.6	338.9	327.5	302.7	279.8	**257.6**
Soledad-Dipolos	6,701,841	–	–	–	–	**–**	0.4	–	–	–	–	**–**
Noche Buena	12,283,709	15,607,230	17,399,931	17,431,718	17,820,817	**18,195,744**	0.2	0.4	0.2	0.1	0.1	**0.1**
San Julián – Vetas	–	–	–	423,069	1,273,129	**1,270,781**	–	–	–	172.5	157.2	**144.1**
San Julián – JM	–	–	–	–	945,057	**2,221,433**	–	–	–	–	180.3	**154.4**

	ZINC CONCENTRATE (tonnes)						SILVER (grams/tonne)					
	2013	2014	2015	2016	2017	2018	2013	2014	2015	2016	2017	2018
Fresnillo	29,325	29,196	36,595	50,682	57,686	**59,987**	1,356	1,221	1,036	868	816	**773**
Ciénega	11,625	11,850	11,694	14,265	14,108	**12,472**	1,266	1,172	1,770	1,692	2,413	**2,042**
Herradura	–	–	–	–	–	**–**	–	–	–	–	–	**–**
Saucito	8,758	20,794	42,643	50,409	41,768	**60,879**	1,087	789	788	842	889	**704**
Soledad-Dipolos	–	–	–	–	–	**–**	–	–	–	–	–	**–**
Noche Buena	–	–	–	–	–	**–**	–	–	–	–	–	**–**
San Julián – JM	–	–	–	–	15,827	**43,808**	–	–	–	–	2,750	**2,590**

	LEAD CONCENTRATE (tonnes)						SILVER (grams/tonne)					
	2013	2014	2015	2016	2017	2018	2013	2014	2015	2016	2017	2018
Fresnillo	63,256	57,263	50,787	58,584	58,675	**53,930**	10,469	10,180	8,737	7,653	7,950	**7,859**
Ciénega	13,380	12,627	13,721	15,600	16,508	**12,951**	7,974	8,004	8,418	7,607	6,966	**10,689**
Herradura	–	–	–	–	–	**–**	–	–	–	–	–	**–**
Saucito	26,055	40,415	69,128	61,321	53,082	**63,756**	13,460	11,443	9,405	10,440	11,731	**8,978**
Soledad-Dipolos	–	–	–	–	–	**–**	–	–	–	–	–	**–**
Noche Buena	–	–	–	–	–	**–**	–	–	–	–	–	**–**
San Julián – JM	–	–	–	–	8,634	**13,434**	–	–	–	–	11,524	**12,847**

	DORÉ AND OTHER PRODUCTS (tonnes)						SILVER (grams/tonne)					
	2013	2014	2015	2016	2017	2018	2013	2014	2015	2016	2017	2018
Ciénega precipitates	55.7	67.4	68.2	59.4	67.5	**70.5**	187,928	175,026	204,790	282,650	277,557	**321,707**
Ciénega Gravimetric Concentrator	–	–	–	–	–	**–**	–	–	–	–	–	**–**
Herradura doré	18.2	31.1	33.6	46.8	44.3	**79.1**	474,052	650,999	480,633	417,271	393,103	**604,868**
Herradura slag	711.3	716.9	779.1	807.1	669.9	**773.4**	930	1,198	578	965	738	**1,174**
Soledad-Dipolos doré	2.3	–	–	–	–	**–**	292,473	–	–	–	–	**–**
Soledad-Dipolos slag	301.5	–	–	–	–	**–**	972	–	–	–	–	**–**
Fresnillo Concentrates from tailings dam	1,990.0	2,277.5	1,544.2	433.9	–	**–**	3,031.9	2,872.0	2,565.5	2,573.1	–	**–**
Noche Buena doré	4.8	7.6	8.0	7.1	6.7	**7.7**	261,005.1	333,260.8	213,687.2	69,443.6	31,252.3	**24,479.9**
Noche Buena slag	548.6	564.2	452.1	229.0	371.2	**292.5**	495.0	1,125.6	707.2	263.4	61.2	**206.3**
San Julián – Vetas precipitates	–	–	–	84.6	218.4	**202.1**	–	–	–	759,300	845,230	**836,331**

	METAL PRODUCED[1,2] SILVER (ounces)						GOLD (ounces)					
	2013	2014	2015	2016	2017	2018	2013	2014	2015	2016	2017	2018
Fresnillo	22,764,018	20,098,245	15,612,175	15,864,614	16,511,937	**15,117,156**	33,079	35,676	34,120	42,421	38,784	**42,290**
Ciénega	4,240,245	4,075,181	4,827,864	5,130,870	5,394,037	**5,998,987**	112,053	108,211	85,662	72,851	71,947	**66,869**
Herradura	298,984	679,073	525,757	637,775	551,476	**1,523,453**	264,562	265,564	398,866	520,366	473,638	**474,168**
Saucito	11,581,014	15,396,754	21,983,852	21,946,059	21,215,072	**19,780,721**	45,177	57,227	84,884	86,198	69,948	**86,092**
Soledad-Dipolos	31,124	–	–	–	–	**–**	47,285	–	–	–	–	**–**
Noche Buena	49,217	102,357	72,868	32,631	31,324	**51,616**	108,729	129,242	158,179	182,280	172,282	**167,208**
San Julián – Vetas	–	–	–	2,065,536	5,935,507	**5,433,526**	–	–	–	31,397	82,782	**79,218**
San Julián – JM	–	–	–	–	4,598,421	**9,196,272**	–	–	–	–	1,750	**3,125**
Fresnillo total	38,964,601	40,351,611	43,022,515	45,677,485	54,237,774	**57,101,731**	610,884	595,920	761,712	935,513	911,132	**918,971**

1 Including Production from Fresnillo's tailings dam.
2 All figures include 100% of production from the Penmont mines (Herradura, Soledad-Dipolos and Noche Buena).

	GOLD (grams/tonne)						ZINC (%)						LEAD (%)					
	2013	2014	2015	2016	2017	2018	2013	2014	2015	2016	2017	2018	2013	2014	2015	2016	2017	2018
	0.50	0.53	0.57	0.73	0.64	0.70	0.94	0.97	1.18	1.56	1.72	1.75	0.63	0.59	0.75	0.99	0.92	0.90
	2.90	2.59	2.07	1.84	1.82	1.65	0.75	0.73	0.80	1.00	0.98	0.83	0.56	0.53	0.61	0.68	0.74	0.60
	0.61	0.72	0.73	0.71	0.64	0.76	–	–	–	–	–	–	–	–	–	–	–	–
	1.41	1.40	1.42	1.39	1.09	1.25	0.87	1.32	1.70	1.49	1.21	1.61	0.55	0.75	1.01	0.93	0.77	0.94
	0.54	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
	0.54	0.51	0.50	0.51	0.51	0.52	–	–	–	–	–	–	–	–	–	–	–	–
	–	–	–	2.47	2.10	2.01	–	–	–	–	–	–	–	–	–	–	–	–
	–	–	–	–	0.12	0.09	–	–	–	–	1.18	1.35	–	–	–	–	0.52	0.43

	GOLD (grams/tonne)						ZINC (%)						LEAD (%)					
	2013	2014	2015	2016	2017	2018	2013	2014	2015	2016	2017	2018	2013	2014	2015	2016	2017	2018
	2.7	3.0	2.6	2.8	2.3	2.3	50.9	52.1	52.0	51.1	52.0	51.8	–	–	–	–	–	–
	13.6	11.8	11.2	10.1	13.9	13.1	47.0	50.6	51.1	52.2	50.0	47.2	–	–	–	–	–	–
	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
	5.4	3.5	3.0	3.8	3.8	2.8	51.5	50.5	49.3	46.6	48.7	48.5	–	–	–	–	–	–
	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
	–	–	–	–	0.9	0.8	–	–	–	–	49.6	50.3	–	–	–	–	–	–

	GOLD (grams/tonne)						ZINC (%)						LEAD (%)					
	2013	2014	2015	2016	2017	2018	2013	2014	2015	2016	2017	2018	2013	2014	2015	2016	2017	2018
	14.7	17.4	18.7	20.0	18.3	21.8	–	–	–	–	–	–	24.6	24.3	32.0	36.4	35.0	36.4
	138.4	146.9	105.0	76.5	69.5	85.4	–	–	–	–	–	–	36.0	37.5	39.5	37.7	38.3	37.1
	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
	52.1	42.3	36.3	40.6	38.0	39.3	–	–	–	–	–	–	21.5	24.7	30.0	34.1	33.4	35.5
	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
	–	–	–	–	4.6	4.5	–	–	–	–	–	–	–	–	–	–	41.7	45.4

	GOLD (grams/tonne)					
	2013	2014	2015	2016	2017	2018
	26,459	20,327	16,008	15,660	13,252	11,504
	–	–	–	–	–	–
	411,210	247,967	369,321	351,900	344,604	196,925
	1,035	756	541	942	647	435
	507,822	–	–	–	–	–
	991	–	–	–	–	–
	9.1	10.8	10.4	14.5	–	–
	516,359	465,538	533,408	611,567	602,221	509,555
	1,623	815	506	1,225	979	324
	–	–	–	11,542	11,788	12,193

	ZINC (tonne)						LEAD (tonne)					
	2013	2014	2015	2016	2017	2018	2013	2014	2015	2016	2017	2018
	14,914	15,199	19,029	25,898	30,021	31,094	15,552	13,888	16,248	21,326	20,514	19,619
	5,459	6,000	5,970	7,450	7,048	5,892	4,811	4,736	5,425	5,883	6,328	4,799
	–	–	–	–	–	–	–	–	–	–	–	–
	4,509	10,501	21,023	23,498	20,348	29,506	5,605	9,967	20,740	20,935	17,714	22,662
	–	–	–	–	–	–	–	–	–	–	–	–
	–	–	–	–	–	–	–	–	–	–	–	–
	–	–	–	–	–	–	–	–	–	–	–	–
	–	–	–	–	7,849	22,027	–	–	–	–	3,598	6,101
	24,881	31,700	46,022	56,845	65,266	88,520	25,968	28,591	42,413	48,144	48,153	53,181

SHAREHOLDER INFORMATION

FINANCIAL CALENDAR

Preliminary Statement	26 February 2019
First Interim Management Statement	10 April 2019
Annual General Meeting	21 May 2019
Interim Statement	30 July 2019
Second Interim Management Statement	23 October 2019

DIVIDEND PAYMENT SCHEDULE

2018 Final Dividend Record Date	26 April 2019
2018 Final Dividend Payment Date	24 May 2019
2019 Interim Dividend Record Date	9 August 2019
2019 Interim Dividend Payment Date	6 September 2019

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SHARE FRAUD WARNING

Share fraud includes scams where investors are called out of the blue and offered shares that turn out to be worthless or non-existent, or an inflated price for shares they own. These calls come from fraudsters operating in 'boiler rooms', mostly based abroad. While high profits are promised, those who buy or sell shares in this way usually lose their money. Most victims are experienced investors, losing on average £20,000.

PROTECT YOURSELF

If you are offered unsolicited investment advice, discounted shares, inflated prices for shares you own, or free company or research reports, take these steps before handing over any money:

1. Get the name of the person and organisation.
2. Check the Financial Services Register at www.fca.org.uk/register to ensure they are authorised.
3. Use the details on the Financial Services Register to contact the firm.
4. Call the FCA Consumer Helpline on 0800 111 6768 if there are no contact details on the Register or you are told they are out of date.
5. Search the list of unauthorised firms and individuals to avoid doing business with.
6. **REMEMBER: if it sounds too good to be true, it probably is!**

If you use an unauthorised firm to buy or sell shares, you will not have access to the Financial Ombudsman Service or Financial Services Compensation Scheme (FSCS) if things go wrong.

REPORT A SCAM

If you are approached about a share scam you should tell the FCA using the form at www.fca.org.uk/scams (where you can also review the latest scams) or call the Consumer Helpline on 0800 111 6768.

If you have already paid money to share fraudsters then contact Action Fraud on 0300 123 2040.

For further information, please visit our website:
www.fresnilloplc.com or contact:
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Gabriela Mayor, Head of Investor Relations

FORWARD LOOKING STATEMENTS

This document includes statements that are, or may be deemed to be, 'forward-looking statements'. These forward-looking statements can be identified by the use of forward-looking terminology, including the terms 'believes', 'estimates', 'plans', 'projects', 'anticipates', 'expects', 'intends', 'may', 'will', or 'should' or, in each case, their negative or other variations or comparable terminology, or by discussions of strategy, plans, objectives, goals, future events or intentions. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this document and include, but are not limited to, statements regarding the Group's intentions, beliefs or current expectations concerning, among other things, the Group's results of operations, financial position, liquidity, prospects, growth, strategies and the silver and gold industries. By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances.

Forward-looking statements are not guarantees of future performance and the actual results of the Group's operations, financial position and liquidity, and the development of the markets and the industry in which the Group operates, may differ materially from those described in, or suggested by, the forward-looking statements contained in this document. In addition, even if the results of operations, financial position and liquidity, and the development of the markets and the industry in which the Group operates are consistent with the forward-looking statements contained in this document, those results or developments may not be indicative of results or developments in subsequent periods. A number of factors could cause results and developments to differ materially from those expressed or implied by the forward-looking statements including, without limitation, general economic and business conditions, industry trends, competition, commodity prices, changes in regulation, currency fluctuations (including the US dollar and Mexican peso exchange rates), the Group's ability to recover its reserves or develop new reserves, including its ability to convert its resources into reserves and its mineral potential into resources or reserves, changes in its business strategy, political and economic uncertainty.

Forward-looking statements may, and often do, differ materially from actual results. Any forward-looking statements in this document speak only as of the date of this document, reflect the Group's current view with respect to future events and are subject to risks relating to future events and other risks, uncertainties and assumptions relating to the Group's operations, results of operations, growth strategy and liquidity. Investors should specifically consider the factors identified in this document which could cause actual results to differ before making an investment decision. Subject to the requirements of the Prospectus Rules, the Disclosure and Transparency Rules and the Listing Rules or applicable law, the Group explicitly disclaims any obligation or undertaking publicly to release the result of any revisions to any forward-looking statements in this document that may occur due to any change in the Group's expectations or to reflect events or circumstances after the date of this document.

NOTES

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