



RNS Number : 6507V
Fresnillo PLC
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Production Report for the three months ended 30 June 2018

Overview

- Quarterly and first half silver production (including Silverstream), up 5.7% and 9.7% respectively over the corresponding periods in 2017 primarily due to the start up of operations at San Julián JM (Phase II) in July 2017.
- Quarterly gold production of 234 koz, up 4.6% vs. 2Q17 due to the higher ore grade, throughput and recovery rate at Saucito and the higher ore grades at Noche Buena, Herradura and Fresnillo.
- First half gold production of 465 koz up 4.4% vs. 1H17, due to the ongoing decrease in gold inventories and higher ore grade at Herradura and higher volume of ore processed and ore grade at Saucito.
- Ongoing tests at the Herradura leaching pads have resulted in an increase of 98.9 koz of gold in the inventory as of 1 January 2018.
- Full year consolidated production guidance has been revised marginally: total gold production to 900 - 930 koz (previously 870 - 900 koz) and total silver production to 64.5 - 67.5 moz (previously 67 - 70 moz) including Silverstream.

Octavio Alvidrez, Chief Executive Officer, said:

"I am pleased to report a robust production performance in the first half. In line with our strategy, we continue to actively manage and strengthen our asset portfolio. In particular during the period we have successfully ramped up our new San Julián JM mine to full capacity which has made a significant contribution to overall production. We have also made good progress with our

development pipeline, with our two main projects now complete. The Pyrites Plant has been commissioned and final testing at the Second Dynamic Leaching Plant is on track. Both projects will make a meaningful contribution to overall 2018 production.

We have adjusted our full year production guidance to reflect a better than anticipated gold performance due mainly to the ongoing reduction of inventories at Herradura and slightly lower than expected silver production due mainly to issues associated with less availability of process water at San Julián. Overall however, our full year consolidated guidance in silver equivalent ounces remains unchanged".

Total Production

	2Q 18	2Q 17	% change	1Q 18	1H 18	1H 17	% change
Silver (koz)	14,459	13,328	8.5	14,235	28,694	25,752	11.4
Silverstream (koz)	884	1,188	-25.6	1,186	2,070	2,292	-9.7
Total Silver (koz)	15,343	14,515	5.7	15,421	30,764	28,044	9.7
Gold (oz)	233,841	223,479	4.6	231,458	465,299	445,769	4.4
Lead (t)	13,223	11,385	16.1	11,629	24,853	22,846	8.8
Zinc (t)	22,014	14,919	47.6	19,040	41,054	28,725	42.9

Silver

Quarterly and first half silver production (including Silverstream) increased 5.7% and 9.7% vs. the corresponding periods in 2017 mainly as a result of the start of operations at San Julián JM (Phase II) in July 2017. This was partially offset by lower ore grades at Fresnillo and Saucito and the expected lower ore grade at the San Julián Veins (Phase I).

The Silverstream contribution decreased as expected due to the lower silver ore grade at the Sabinas mine.

Quarterly silver production increased 1.6% vs. 1Q18 as a result of the higher volume of ore processed at Saucito and the higher grades at Ciénega and San Julián JM (Phase II). These factors compensated for the lower ore grades at the San Julián Veins (Phase I) and at Fresnillo.

Gold

Quarterly gold production increased 4.6% vs. 2Q17 as a result of the higher ore grade, volume of ore processed and recovery rate at Saucito and the higher ore grades at Noche Buena, Herradura and Fresnillo. These were partially offset by the lower ore grade at Ciénega.

First half gold production increased 4.4% vs. 1H17 as a result of the ongoing decrease of inventories and higher ore grade at Herradura in addition to higher ore grade and volume of ore processed at Saucito. These factors more than compensated for the lower ore grade at Ciénega and San Julián Veins (Phase I).

Quarterly gold production remained broadly flat vs. 1Q18 (+1.0%) as a result of the higher ore grade, volume of ore processed and recovery at Saucito and the marginally higher volume of ore processed and ore grade at Noche Buena which compensated for the lower volume of ore processed and speed of recovery at Herradura.

Outlook

2018 full year consolidated production guidance has been revised marginally: total gold production guidance is now 900-930 thousand ounces compared to our original guidance of 870-900 thousand ounces and total silver production guidance (including Silverstream) is 64.5-67.5 million ounces compared to our original guidance of 67-70 million ounces. In the case of gold production, we are slightly increasing our guidance to align production rates to the ongoing reduction of inventories at Herradura's leaching pads. In the case of silver production, we are marginally decreasing guidance to reflect the now expected lower production from San Julián resulting from a temporary re-sequencing of the production plan and higher input of stockpile ore to deal with issues associated with less availability of process water. The construction of the water reservoir, aimed at providing a consistent source of water to reduce this risk, has been delayed as a result of a longer than expected permitting process. Full year consolidated production guidance, in equivalent silver ounces, remains broadly the same as our original guidance.

By-products

Quarterly by-product lead production increased 16.1% vs. 2Q17 as a result of the start up of operations at San Julián JM (Phase II) in July 2017 and the higher volume of ore processed and ore grade at Saucito which compensated for the lower ore grade and recovery rate at Ciénega.

Year to date by-product lead production increased 8.8% vs. 1H17 as a result of the start up of San Julián JM (Phase II) and the higher ore grade at Fresnillo. These factors more than offset the lower ore grade and recovery rate at Ciénega and the lower ore grade at Saucito.

Quarterly by-product lead production increased 13.7% vs. 1Q18 as a result of the higher volume of ore processed, ore grade and recovery rate at Saucito which partially offset the lower ore grade at Fresnillo.

Quarterly by-product zinc production increased 47.6% vs. 2Q17 as a result of San Julián JM (phase II) commencing operations in July 2017, and a higher ore grade, recovery rate and volume of ore processed at Saucito. These were partially offset by the lower ore grade and recovery rate at Ciénega.

Half year by-product zinc production increased vs. 1H17 as a result of the start up of operations at San Julián JM (Phase II), the higher ore grade at Fresnillo and higher ore grade, recovery rate and volume of ore processed at Saucito. These factors more than compensated for the lower ore grade and recovery rate at Ciénega.

Quarterly by-product zinc production increased 15.6% vs. 1Q18 as a result of higher ore grade, volume of ore processed and recovery rate at Saucito which more than compensated for the lower ore grade at Fresnillo.

Fresnillo mine production

	2Q 18	2Q 17	% change	1Q 18	1H 18	1H 17	% change
Ore Processed (t)	620,906	645,479	-3.8	637,410	1,258,316	1,258,492	-0.0
Production							
Silver (koz)	3,793	4,491	-15.5	4,336	8,129	8,930	-9.0
Gold (oz)	10,953	9,403	16.5	10,431	21,384	20,728	3.2
Lead (t)	5,052	4,982	1.4	5,783	10,835	10,153	6.7
Zinc (t)	7,979	7,927	0.7	8,866	16,846	14,634	15.1
Ore Grades							

Silver (g/t)	211	235	-10.1	232	222	240	-7.5
Gold (g/t)	0.70	0.59	19.3	0.66	0.68	0.66	2.6
Lead (%)	0.90	0.86	4.9	1.00	0.95	0.89	7.1
Zinc (%)	1.74	1.69	3.1	1.90	1.82	1.63	11.7

Quarterly silver production decreased 15.5% and 12.5% vs. 2Q17 and 1Q18 respectively mainly due to the lower than expected ore grades in certain areas and the temporary limited access to higher ore grade areas at San Alberto, Candelaria and Santa Elena.

The temporary restricted access to higher grade areas of the mine was a result of the delays in development and mine preparation following lower than expected productivity from contractors. This was due to a high turnover of contractor personnel which has a knock-on effect of delaying the maintenance programme thereby resulting in lower equipment availability. To mitigate this, the Company is looking to: i) add a new contractor; ii) review, adapt and improve the maintenance programme; and iii) purchase additional equipment, to be operated by our own team alongside our contractors, in order to provide us with higher degree of control to increase development rates and mine preparation.

Silver production at the Fresnillo mine has shown a positive trend increasing from 7,579 koz in the 2H16 to 8,129 in the 1H18, a +7.2% increase. However, we have been below our production targets which we are confident will be achieved in the near future once we overcome the contractors productivity shortcomings.

The silver grade for the full year is expected to be 215-225 g/t (previously 235 g/t) whilst going forward, the long term grade is expected to remain approximately 260 g/t.

First half silver production decreased vs. 1H17 as a result of the lower ore grade and, to a lesser extent, lower recovery rate.

Quarterly by product gold production increased vs. 2Q17 and 1Q18 due to the higher ore grades which compensated for the lower volumes of ore processed. Similarly, year to date by-product gold production increased 3.2% vs. 1H17 mainly due to higher ore grade.

Quarterly and first half by-product lead production increased vs. 2Q17 and 1H17 as a result of higher ore grades.

Quarterly by-product lead and zinc production decreased 12.6% and 10.0% vs. 1Q18 respectively, due to the lower ore grade and volume of ore processed.

Quarterly by-product zinc production remained at a similar level vs. 2Q17. First half by-product zinc production increased 15.1% vs. 1H17 as a result of higher ore grade and to a lesser extent, improved recovery rate.

Saucito mine production

	2Q 18	2Q 17	% change	1Q 18	1H 18	1H 17	% change
Ore Processed (t)	723,208	667,456	8.3	673,545	1,396,753	1,338,370	4.4
Production							
Silver (koz)	5,235	5,674	-7.7	4,832	10,067	10,821	-7.0
Gold (oz)	22,908	15,896	44.1	16,880	39,788	33,859	17.5
Lead (t)	5,327	4,688	13.6	3,183	8,510	9,442	-9.9

Zinc (t)	7,549	4,923	53.3	3,916	11,465	10,062	13.9
Ore Grades							
Silver (g/t)	263	306	-14.1	260	262	293	-10.6
Gold (g/t)	1.28	1.05	22.7	1.12	1.20	1.08	11.2
Lead (%)	0.86	0.81	6.2	0.57	0.72	0.84	-14.6
Zinc (%)	1.64	1.26	30.1	0.96	1.31	1.26	4.0

Quarterly and year to date silver production decreased 7.7% and 7.0% vs. 2Q17 and 1H17 respectively as a result of lower than expected ore grades and increased dilution. We are now using smaller sized equipment for the narrower veins in order to decrease dilution in these areas.

Quarterly silver production however increased 8.3% vs. 1Q18 as a result of the higher volume of ore processed.

The silver ore grade for the full year 2018 is now expected to be 255-265 g/t (285 g/t previously guided) whilst going forward, the long term silver grade is expected to be approximately 280 g/t.

Quarterly and first half by-product gold production increased 44.1%, 35.7% and 17.5% vs. 2Q17, 1Q18 and 1H17 respectively as a result of higher ore grades, recovery rates and volumes of ore processed.

Quarterly by-product lead production increased 13.6% vs. 2Q17 as a result of higher volume of ore processed and a higher ore grade. However, year to date by-product lead production decreased 9.9% vs. 1H17 as a result of a lower ore grade. Quarterly by-product lead production increased 67.3% vs. 1Q18 as a result of a higher ore grade, volume of ore processed and recovery rate.

Quarterly and year to date by-product zinc production increased over the corresponding periods of 2017 and vs. the previous quarter as a result of higher ore grades, recovery rates and volumes of ore processed.

Ciénega mine production

	2Q 18	2Q 17	% change	1Q 18	1H 18	1H 17	% change
Ore Processed (t)	330,879	322,760	2.5	320,006	650,885	636,680	2.2
Production							
Gold (oz)	16,689	18,904	-11.7	16,377	33,066	36,358	-9.1
Silver (koz)	1,518	1,458	4.1	1,239	2,757	2,786	-1.0
Lead (t)	1,352	1,715	-21.2	1,335	2,687	3,251	-17.3
Zinc (t)	1,231	2,070	-40.5	1,006	2,237	4,030	-44.5
Ore Grades							
Gold (g/t)	1.65	1.89	-12.7	1.66	1.66	1.89	-12.5
Silver (g/t)	166	161	3.5	141	154	161	-4.2
Lead (%)	0.67	0.78	-14.2	0.67	0.67	0.78	-14.3
Zinc (%)	0.77	1.10	-29.9	0.72	0.74	1.08	-31.4

Quarterly and year to date gold production decreased 11.7% and 9.1% respectively vs. their corresponding periods of 2017 primarily due to the lower than expected ore grade following the depletion of higher grade veins at Taspana, Las Casas and San Ramón. This was mitigated by the higher volume of ore processed due to the increased availability of equipment following

improvements in the maintenance programme. Quarterly gold production increased 1.9% vs. 1Q18 as a result of the higher volume of ore processed.

The expected gold grade for the full year 2018 is expected to remain approximately 1.8 g/t.

Quarterly silver production increased 4.1% vs. 2Q17 and 22.4% vs. 1Q18 due to increased access to higher silver ore grade areas at Taspana and Rosario and increased volume of ore processed. Year to date silver production was in line with 1H17.

The expected silver grade for the full year 2018 remains unchanged at approximately 160 g/t.

Quarterly and first half by-product lead and zinc production decreased when compared to the same periods of 2017 as a result of lower ore grades and recovery rates, which were mitigated by the higher volume of ore processed. Quarterly by-product lead production was in line with 1Q18.

Quarterly by-product zinc production increased 22.4% vs. 1Q18 as a result of a higher recovery rate, ore grade and volume of ore processed.

San Julián mine production

	2Q 18	2Q 17	% change	1Q 18	1H 18	1H 17	% change
Ore Processed Phase I Veins (t)	289,775	308,342	-6.0	310,742	600,517	614,423	-2.3
Ore Processed Phase II JM (t)	540,261	-	N/A	531,459	1,071,720	-	N/A
Total production at San Julián							
Gold (oz)	20,097	20,912	-3.9	19,791	39,888	41,041	-2.8
Silver (koz)	3,533	1,592	121.9	3,568	7,100	2,979	138.3
Production Phase I Veins							
Gold (oz)	19,584	20,912	-6.4	19,111	38,695	41,041	-5.7
Silver (koz)	1,263	1,592	-20.7	1,445	2,707	2,979	-9.1
Production Phase II JM							
Gold (oz)	513	-	N/A	680	1,193	-	N/A
Silver (koz)	2,270	-	N/A	2,123	4,393	-	N/A
Lead (t)	1,493	-	N/A	1,328	2,821	-	N/A
Zinc (t)	5,254	-	N/A	5,252	10,507	-	N/A
Ore Grades Phase I Veins							
Gold (g/t)	2.12	2.19	-3.2	1.97	2.04	2.18	-6.6
Silver (g/t)	144.58	171.58	-15.7	158.35	151.71	164.16	-7.6
Ore Grades Phase II JM							
Gold (g/t)	0.07	-	N/A	0.09	0.08	-	N/A
Silver (g/t)	156.71	-	N/A	146.64	151.72	-	N/A
Lead (%)	0.42	-	N/A	0.40	0.41	-	N/A
Zinc (%)	1.26	-	N/A	1.31	1.28	-	N/A

San Julián Veins (Phase I)

Quarterly and first half silver production decreased 20.7%, 9.1% and 12.6% vs. the same periods in 2017 and the previous quarter respectively as a result of: i) the expected lower ore grade due to less availability of the higher silver ore grade areas; and ii) a lower volume of ore processed as a result of the low water availability, restricting processing capacity. With the arrival of the rainy season, full processing capacity has now been restored.

The construction of the water reservoir, aimed at providing a consistent source of water, has been delayed as a result of a longer than expected permitting process delaying the grant of environmental permits. The company is making efforts to accelerate this process and is also looking for alternate sources of water.

The expected silver grade for the full year 2018 is in the range of 165-175 g/t.

Quarterly and year to date gold production decreased vs. their corresponding periods in 2017 as a result of lower volumes of ore processed and lower ore grades due to the previously mentioned factors, however these were mitigated by the higher recovery rates.

Quarterly gold production increased 2.5% vs. 1Q18 as a result of increased access to areas with a higher gold ore grade and a higher recovery rate which resulted from the appropriate operating controls and the excellent response of the mineral at the leaching stage.

The expected gold grade for the full year 2018 is expected to be in the range of 1.9-2.1 g/t

San Julián (Phase II - JM disseminated ore body)

Quarterly silver production increased 6.9% vs. 1Q18 due to the extraction from higher ore grade areas in line with the mining sequence of the ore body. However, silver ore grade of 156.7 g/t was below the guidance of 185 g/t for the full year.

The silver ore grade for the full year 2018 is expected to be in the range of 145-155 g/t, lower than the previously guided ore grade, due to the extraction of ore from lower grade areas of the mine as well as processing ore from the development stockpile instead of mining the orebody according to the original plan. This was done as a temporary alternate production plan as stope back-filling could not have been done at the normal pace due to lower availability of water, which has now been restored with the arrival of the rainy season.

Quarterly by-product gold production decreased 24.6% vs. 1Q18 as a result of a lower ore grade and lower recovery rate.

Quarterly by-product lead production increased 12.4% vs. 1Q18 as a result of a higher ore grade and recovery rate. Additionally quarterly, by-product zinc production remained at similar levels vs. 1Q18.

Herradura total mine production

	2Q 18	2Q 17	% change	1Q 18	1H 18	1H 17	% change
Ore Processed (t)	5,605,427	6,551,791	-14.4	5,984,641	11,590,068	13,316,161	-13.0
Total Volume Hauled (t)	33,560,118	31,063,542	8.0	34,153,768	67,713,885	61,971,696	9.3
Production							
Gold (oz)	117,886	116,267	1.4	125,243	243,129	224,009	8.5

Silver (koz)	363	104	249.0	241	604	222	172.1
Ore Grades							
Gold (g/t)	0.76	0.66	15.7	0.68	0.72	0.64	11.2
Silver (g/t)	2.60	0.87	198.5	1.86	2.22	0.91	142.8

Quarterly and first half gold production increased vs. the corresponding periods of 2017 as a result of: i) the ongoing inventory reduction at the leaching pads; ii) an increase in the ore grade at the Dynamic Leaching Plant as a higher volume of ore was being processed from the higher grade Valles area; and iii) a higher speed of recovery due to an intensive targeted irrigation programme and better dilution. These factors more than compensated for the lower volume of ore processed.

Quarterly gold production decreased 5.9% vs. 1Q18 as a result of a decrease in the inventory reduction at the leaching pads and a lower volume of ore processed. However, the previously mentioned factors were mitigated by the higher ore grade in the mined areas.

In 2017, as part of the future mine plan, Fresnillo decided to 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 testing of those assays commenced in 2018 and is ongoing.

As a result of the information obtained to date, the Group updated its estimate of the recoverable remaining gold content in the inventories at the 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.

Management expects to finalise the remaining testing by the year end. The additional results may further increase management's estimates.

Noche Buena total mine production

	2Q 18	2Q 17	% change	1Q 18	1H 18	1H 17	% change
Ore Processed (t)	4,550,915	4,399,136	3.5	4,414,790	8,965,705	9,012,820	-0.5
Total Volume Hauled (t)	22,073,319	22,436,979	-1.6	20,521,239	42,594,558	43,355,636	-1.8
Production							
Gold (oz)	45,308	42,097	7.6	42,735	88,043	89,774	-1.9
Silver (koz)	18	7	157.1	19	37	14	164.3
Ore Grades							
Gold (g/t)	0.54	0.51	5.9	0.52	0.53	0.51	4.3
Silver (g/t)	0.18	0.09	93.1	0.22	0.20	0.09	115.6

Quarterly gold production increased vs. the same period 2017 as a result of higher ore grade and volume of ore processed. Year to date gold production

remained at a similar level when compared to the same period of 2017.

Quarterly gold production increased 6.0% vs. 1Q18 as a result of higher volume of ore processed and to a lesser extent, higher ore grade.

Update on development projects

An update on our development projects and exploration programme will be provided alongside our interim results, due to be announced on 31 July 2018.

Safety Performance

We deeply regret to report that during 2Q18 there was a fatality at the San Julián mine as a result of an accident that occurred outside the mine operating areas but within the Company's property limits. We continue to reinforce our safety measures throughout the Company, with our management systems and organisational programmes centered on personnel safety. We remain committed to our zero fatalities target.

Interim Results

Fresnillo will announce its 2018 Interim Results on 31st of July 2018.

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About Fresnillo plc

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

Fresnillo plc has seven operating mines, all of them in Mexico - Fresnillo, Saucito, Ciénega (including the San Ramón satellite mine), Herradura, Soledad-Dipolos¹, Noche Buena and San Julián (phase I and II), two development projects - the Pyrites Plant, and second line of DLP at Herradura, and four advanced exploration projects - Orisyvo, Juanicipio, Las Casas Rosario & Cluster Cebollitas and Centauro Deep, as well as a number of other long term exploration prospects. In total, Fresnillo plc has mining concessions covering approximately 1.8 million hectares in Mexico.

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

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

¹ Operations at Soledad-Dipolos are currently suspended.

Forward Looking Statements

Information contained in this announcement may include 'forward-looking statements'. All statements other than statements of historical facts included herein, including, without limitation, those regarding the Fresnillo Group's intentions, beliefs or current expectations concerning, amongst other things, the Fresnillo Group's results of operations, financial position, liquidity, prospects, growth, strategies and the silver and gold industries are forward-looking statements. Such forward-looking statements involve risk and uncertainty because they relate to future events and circumstances. Forward-looking statements are not guarantees of future performance and the actual results of the Fresnillo Group's operations, financial position and liquidity, and the development of the markets and the industry in which the Fresnillo Group operates, may differ materially from those described in, or suggested by, the forward-looking statements contained in this document. In addition, even if the results of operations, financial position and liquidity, and the development of the markets and the industry in which the Fresnillo Group operates are consistent with the forward-looking statements contained in this document, those results or developments may not be indicative of results or developments in subsequent periods. A number of factors could cause results and developments to differ materially from those expressed or implied by the forward-looking statements including, without limitation, general economic and business conditions, industry trends, competition, commodity prices, changes in regulation, currency fluctuations (including the US dollar and Mexican Peso exchange rates), the Fresnillo Group's ability to recover its reserves or develop new reserves, including its ability to convert its resources into reserves and its mineral potential into resources or reserves, changes in its business strategy and political and economic uncertainty.

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