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Fresnillo PLC
30 July 2019

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Fresnillo plc interim results for the six months to 30 June 2019

Financial highlights (1H19/1H18 comparisons)

- Adjusted revenues^[1] of US\$1,069.0m, down 10.2%; 55% of this due to lower volumes and 45% due to lower prices
- Gross profit and EBITDA^[2] of US\$205.5m and US\$307.9m, down 59.1% and 45.7%, respectively
- Profit for the period of US\$70.9m, down 69.1%
- Basic and diluted EPS from continuing operations of US\$9.5 cents per share, adjusted EPS of US\$8.4 cents per share, down 69.4% and 74.8% respectively
- Cash generated from operations, before changes in working capital of US\$316.1m, down 45.1%
- Strong balance sheet with cash and other liquid funds^[3] as at 30 June 2019 of US\$362.1m
- 2019 capex has been revised and reduced to US\$655m
- Interim dividend of US\$19.2m (2.6 US cents per share)

Operational highlights (1H19/1H18 comparisons)

As disclosed in the 2Q19 production report on 17 July 2019:

- Silver production of 27.6 moz (including Silverstream), down 10.4%, and gold production of 432 koz, down 7.1%
- Construction of Juanicipio remains on track to be concluded by the end of 2020.
- Construction of the pyrites plant (phase II) at Fresnillo continued to progress, with commissioning expected by the end of 2020.
- Optimisation of the Fresnillo flotation plant to cope with higher content of lead and zinc is progressing according to plan and is expected to be concluded by 2H20.
- A programme to control costs and further operational measures to increase productivity will be deployed in 2H19.

Highlights for 1H19

US\$ million unless stated	H1 19	H1 18	% change
Silver Production (koz) *	27,557	30,764	-10.4
Gold Production (oz)	432,417	465,299	-7.1
Total revenues	1,002.0	1,115.0	-10.1
Adjusted revenues ¹	1,069.0	1,189.9	-10.2
Cost of Sales	796.5	612.9	30.0
Exploration expenses	84.0	78	7.3
EBITDA ²	307.9	566.9	-45.7
Profit for the period	70.9	229.3	-69.1
Cash generated by operations before changes in working capital	316.1	575.9	-45.1
Basic and Diluted EPS (US\$) ³	0.095	0.311	-69.4
Dividend per ordinary share (US\$)	0.026	0.107	-75.7

* Silver production includes volumes realised under the Silverstream contract

¹ Adjusted revenues are the revenues shown in the income statement adjusted to add back treatment and refining costs and the effects of gold, lead and zinc hedging. The Company considers this is a useful additional measure to help understand underlying factors driving revenue in terms of volumes sold and realised prices

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

³ The weighted average number of shares for H1 2019 and H1 2018 was 736.9m. See Note 8 in the Interim Consolidated Financial Statements.

Octavio Alvidrez, Chief Executive Officer of Fresnillo plc, said:

"As we previously disclosed in our second quarter production report, continued challenges at our Fresnillo, Saucito and Herradura mines, combined with higher costs, have impacted profitability for the period. Following the measures put in place, we have seen some short term improvement in mine performance at both Fresnillo and Saucito and we expect to see a gradual improvement in the following quarters, albeit not at the rate we had anticipated. We have therefore adjusted our full year production forecasts in the second quarter production report.

Performance of the business in the first half has not met our expectations. I am however encouraged that the steps we are taking, the targeted, albeit downsized compared to last year exploration programme and the progress on nearer term growth projects, give us greater confidence in the medium term outlook.

A key strength of Fresnillo is our ability to invest through the economic cycle. Our exploration programme continues to produce good results and we are working hard to convert resources into reserves. The Orisyvo and Centauro projects alone have the potential to be

significant contributors to the future value of the group and yet are only a small proportion of our overall pipeline.

Meeting the challenge of improving our near term performance however is key. We are committed to working through these short term issues, returning the Fresnillo and Saucito mines to growth and increasing efficiencies, completing the Juanicipio construction on time and on budget and then delivering on the potential of our development pipeline."

Commentary on the Group's results

Operating results

First half silver production (including Silverstream) decreased 10.4% vs. 1H18 mainly as a result of the lower volumes of ore processed and lower ore grades at the Fresnillo and Saucito mines, the latter being expected. The lower ore grades at San Julián veins and San Julián Disseminated Ore Body (San Julián DOB) further impacted silver production during the period. However, this was mitigated by the higher silver grade at Ciénega and the contribution from the pyrites plant at Saucito (phase I), following its commissioning in mid 2018.

First half gold production decreased 7.1% vs. 1H18 mainly as a result of the lower volume of ore processed at Noche Buena, but in line with the mine plan, which reflects the gradual decrease in ore deposited towards the end of the mine life. The delay in the construction of the 13th leaching pad at Herradura caused a decrease in ore deposited and a lower overall speed of recovery as ore was deposited at higher levels of the current leaching pads, thus impacting gold production. Furthermore, lower gold ore grades at Ciénega, San Julián veins and Saucito negatively impacted gold production, mitigated by higher gold grade at Fresnillo and the contribution from the pyrites plant at Saucito (phase I).

First half by-product lead production remained at similar levels vs. 1H18 driven by higher ore grades at Saucito, and to a lesser extent, a higher recovery rate, ore grade and volume of ore processed at San Julian (DOB). These were partially offset by lower ore grade and volume of ore processed at Fresnillo.

First half by-product zinc production increased 3.3% vs. 1H18 due to higher grades and recovery rates at both Saucito and Ciénega, offset by a lower ore grade and rate of recovery at Fresnillo.

Fresnillo plc regrets to report two fatalities in 1H19. A thorough investigation of each incident was conducted, and measures were taken to address and prevent the root causes of these fatal injuries. The Group continues to implement the "I care, we care" programme and, despite improvements in Total Recordable and Lost Time Injury Frequency Rates in 1H19, there remain areas of required improvement in continuing to mature Fresnillo's safety culture.

Financial results

Total revenues decreased 10.1% to US\$1,069 million in 1H19 mainly due to the lower volumes of gold and silver sold and lower metal prices, except for gold.

In particular, the average realised silver price decreased 7.5% from US\$16.5 per ounce in 1H8 to US\$15.2 per ounce in 1H19, while lead and zinc prices decreased 20.8% and 13.1% respectively on 1H18. The average realised gold price remained flat at US\$1,320.7 in 1H19.

Adjusted production costs^[4] of US\$566.4 million increased by 31.7% over 1H18. The US\$136.5 million increase resulted mainly from: i) the expected higher stripping costs expensed at Herradura following the reassessment of the number of mining components from two to one; ii) the additional maintenance, operating materials and contractors associated with longer haulage distances, narrower veins, better equipment availability and the infill drilling programme; iii) an expected increase in development works; iv) the expected additional production costs associated with the start of operations at the Pyrites Plant at Saucito and the second line of the Dynamic Leaching Plant at Herradura; and v) anticipated cost inflation, which in the period was 4.2% (excluding the positive effect of the 0.6% devaluation of the Mexican peso against the US dollar) mainly related to higher unit prices of electricity and diesel, higher unit fees of contractors and increases in wages to personnel.

Additionally, depreciation increased 24.7% half on half primarily due to the increased asset base including the Pyrites Plant and the 2nd Dynamic Leaching plant, the tailings dam at San Julián, additional equipment at all the operations and the amortisation of new capitalised mining works and stripping.

The higher adjusted production costs and depreciation, together with the smaller positive effect of the changes in gold inventories at Herradura, resulted in an increase of 30.0% in cost of sales over 1H18.

The decrease in total revenues and the increase in cost of sales resulted in a 59.1% decrease in gross profit to US\$205.5 million in 1H19.

Administrative expenses rose by 13.2% mainly due to an increase in the volume of services provided by Servicios Industriales Peñoles, S.A.B de C.V. in relation to new operations, primarily the Pyrites Plant and the 2nd Dynamic Leaching Plant, and approved development projects, and an increase in fees paid to advisors.

Exploration expenses rose 7.3% over 1H18 due to the intensive exploration programme undertaken in our operating mining districts to increase infill drilling, convert resources into reserves and direct mine development.

The decrease in gross profit, together with the higher administrative and exploration expenses resulted in a 45.7% decrease in EBITDA, with EBITDA margin reducing from 50.8% in 1H18 to 30.7% in 1H19.

During the period, there was a positive revaluation of the Silverstream contract of US\$11.4 million primarily due to the decrease in the reference discount rate (LIBOR) and the favourable effect of the unwinding of the discount, partly offset by the decrease in silver resources at the Sabinas mine, updates to US dollar/Mexican peso exchange rate and inflation forecasts and a lower forward silver price of silver. This compared favourably to the US\$21.8 million negative revaluation recognised in 1H18.

Net finance costs of US\$27.8 million mainly reflected the interest recognised in the income statement in relation to the US\$800 million debt facility raised in November 2013. An impact of US\$15.7 million in interest and surcharges further increased net finance costs, which resulted from aligning the tax treatment of mining works across the Group's underground mines to the agreement reached between SAT, Prodecon and Fresnillo plc in November 2018, as announced on 1 July 2019. This adversely compared against the US\$15.1 million net finance costs in 1H18.

A US\$5.1 million foreign exchange gain was recorded in 1H19, as a result of the realised transactions in the period and the marginal revaluation of the Mexican peso against the US dollar on the value of peso-denominated net monetary assets. This compared favourably against the US\$11.8 million foreign exchange loss recognised in 1H18.

As a result of the adverse effects mentioned above, profit from continuing operations before income tax decreased 83.3% from US\$323.0 million to US\$54.1 million in 1H19.

Income tax for the period was -US\$4.0 million (US\$82.8 million expense in 1H18). The effective tax rate, excluding the special mining rights was -7.4% (25.6% in 1H18). The main factors that have reduced the tax rate in the period were usual adjustments to the tax bases of assets or liabilities for foreign exchange and inflation, the effect recorded in the period in respect of the voluntary amendment to the tax treatment for mining works for the years 2014 to 2018 and a tax credit related to the special tax on diesel. These factors, in combination with reduced profit before tax, resulted in the negative tax rate.

Furthermore, special mining rights for 1H19 were -US\$12.9 million vs US\$10.9 million in 1H18. The main reason for the negative mining rights was the effect that the voluntary amendment to the tax treatment for mining works had on the deferred mining rights.

Net profit for the period decreased 69.1% from US\$229.3 million to US\$70.9 million in 1H19.

Cash flow generated by operations, before changes in working capital, decreased by 45.1% to US\$316.1 million.

Capital expenditure totalled US\$248.4 million, a decrease of 29.5% compared to 1H18. Investments during the period included ongoing construction of the pyrites plant (phase II) at Fresnillo and Juanicipio, mine development at Fresnillo, Saucito and Ciénega and construction of leaching pads at the open pit mines.

Other uses of funds during the period were income tax, special mining rights and profit sharing paid of US\$140.8 million (US\$145.3 million in 1H18) and dividends paid of US\$123.1 million (US\$219.4 million in 1H18).

Cash and other liquid funds as at 30 June 2019 totalled US\$362.1 million, a 48.9% decrease compared to the US\$708.6 million in cash and other liquid assets at the end of June 2018 and a 35.4% decrease over the year-end total of US\$560.8 million. Taking into account the cash and other liquid funds of US\$362.1 million and the US\$800.6 million amortised cost of the Senior Notes, Fresnillo plc's net debt was US\$438.5 million as at 30 June 2019. The Group had a net debt position of US\$90.9 million as at 30 June 2018. Despite these movements, the Board considers the balance sheet to remain strong at 30 June 2019, with a net debt / last twelve months EBITDA ratio of 0.7x

Interim Dividend

The Board of Directors has declared an interim dividend of 2.6 US cents per share totaling US\$19.2 million to be paid on 6 September 2018 to shareholders on the register on 9 August 2018. This decision was made after a comprehensive review of the Company's and Group's financial situation, as well as the Parent's distributable earnings, ensuring that the Group is well placed to meet its current and future financial requirements, including its development and exploration projects.

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. It is expected that the 2019 interim dividend will be paid out of the remaining balance of the retained earnings generated before 2014.

Growth

Fresnillo plc maintains a disciplined approach to profitable growth by investing in a high quality pipeline of projects and prospects.

To that extent, during the first half of the year, the Company was pleased to announce the Board approval of the Juanicipio project (Fresnillo plc 56%, MAG Silver 44%) and construction of this new mine commenced immediately.

Construction of the tailings flotation plant at the Fresnillo mine (phase II of the Pyrites project) is on track, and is due to be commissioned in the second half of 2020.

Exploration continues to be a key pillar of our strategy and in 1H19 risk capital invested in exploration totalled US\$91.3 million. The Group focused its exploration efforts in 13 areas, with interesting results obtained at Fresnillo, San Julián and San Juan extending known ore shoots and identifying new structures. Negotiations with communities to obtain access permits to drill continued advancing at several project areas in Peru and Chile.

Total risk capital expected to be invested in exploration for the full year 2019 has been increased to approximately US\$160 million, while capital expenditure for the year has been reduced to US\$65 million to reflect the lower rate of capital deployment at our different mines and projects.

Reserves and resources estimates will be updated by the Company and subsequently audited by SRK at year end.

Outlook

Our consolidated production guidance was recently revised as stated in our production report dated 17th of July. Total gold production guidance was decreased around 3% to 880-910 thousand ounces (910-930 thousand ounces previously) mainly due to the delay in the construction of a leaching pad at Herradura and lower volumes of ore processed at the DLP. Total silver production guidance (including Silverstream) was reduced approximately 5% to 55-58 million ounces (previous guidance of 58-61 million ounces) mainly due to lower ore grades and ore throughput at the Fresnillo mine and, to a lesser extent, the lower ore grade at San Julián resulting from the changes to the sequencing of the mine plan.

We will continue prioritising cost reduction initiatives and focusing on increasing productivity.

We recognise that 2019 has been and will prove to be a challenging year but we remain confident that with the measures we continue to implement at our mines to address these challenges, together with our consistent, focused strategy, the Group will continue to create sustained value for stakeholders in the medium and long-term, balancing growth with returns and maintaining a solid financial position.

Presentation for Analysts

Octavio Alvidrez, Chief Executive Officer and Mario Arreguín, Chief Financial Officer, will host a presentation for analysts on Tuesday 30st July at 9am (BST) at Bank of America Merrill Lynch, 2 King Edward St, London EC1A 1HQ

For analysts unable to attend dial in details are:

Dial-in number: UK 0800 376 7425

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A webcast can be accessed at: www.fresnilloplc.com

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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 at Fresnillo and Juanicipio, and three advanced exploration projects - Orisyvo, Las Casas Rosario & Cluster Cebollitas and Centauro Deep, as well as a number of other long term exploration prospects.

Fresnillo plc has mining concessions and exploration projects in Mexico, Peru and Chile.

Fresnillo plc has a strong and long tradition of exploring, 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 and Mexico's largest gold producer.

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.

¹ Operations at Soledad-Dipolos are currently suspended.

Operational Review

Production

Production	H1 2019	H1 2018	% change
Silver (koz)	26,009	28,694	-9.4
Silverstream prod'n (koz)	1,548	2,070	-25.2
Total Silver prod'n (koz)	27,557	30,764	-10.4
Gold (oz)	432,417	465,299	-7.1
Lead (t)	25,164	24,853	1.3
Zinc (t)	42,406	41,054	3.3

First half silver production (including Silverstream) down 10.4% vs. 1H18 due to lower volumes of ore processed and lower ore grades at Fresnillo and the expected lower ore grades at Saucito. The lower ore grades at San Julián veins and San Julián Disseminated Ore Body (San Julián DOB) further impacted silver production during the period. However, this was mitigated by the higher silver grade at Ciénega and the contribution from the pyrites plant at Saucito (phase I), following its commissioning in mid 2018.

First half Silverstream production decreased vs. 1H18 due to a lower ore grade. Production is expected to stabilise at current levels.

First half gold production is down 7.1% vs. 1H18 primarily driven by a lower volume of ore processed at Noche Buena and lower speed of recovery and ore processed at Herradura. Furthermore, the lower gold ore grades at Ciénega, San Julián veins and Saucito negatively impacted gold production, mitigated by higher gold grade at Fresnillo and the contribution from the pyrites plant at Saucito (phase I).

First half by-product zinc production increased 3.3% vs. 1H18 due to higher grades and recovery rates at both Saucito and Ciénega, offset by a lower ore grade and rate of recovery at Fresnillo.

First half by-product lead production remained at similar levels vs. 1H18 driven by higher ore grades at Saucito, and to a lesser extent, a higher recovery rate, ore grade and volume of ore processed at San Julian (DOB). These were partially offset by lower ore grade and volume of ore processed at Fresnillo.

Fresnillo mine production

	H1 2019	H1 2018	% change
Ore Processed (t)	1,194,199	1,258,316	-5.1
Production			
Silver (koz)	6,407	8,129	-21.2
Gold (oz)	24,935	21,384	16.6
Lead (t)	8,769	10,835	-19.1
Zinc (t)	11,957	16,846	-29.0
Ore Grades			
Silver (g/t)	187	222	-15.7
Gold (g/t)	0.86	0.68	26.6

Lead (%)	0.85	0.95	-10.8
Zinc (%)	1.46	1.82	-19.9

First half silver production decreased 21.2% vs. 1H18 primarily driven by lower ore grades that differed from the geological model and the delays in development.

Mine performance improvement remains a key priority and a number of initiatives are on-going. The infill drilling programme has progressed well, which will result in an updated and more accurate geological model, once the results are fully analysed. We anticipate the lower dilution rate achieved will continue, with further improvements expected towards the last quarter of the year, driven by the introduction of operational measures, and blasting efficiencies and controls, including the use of a topographic scanner which will provide more accurate results. The semi-automatic drilling equipment is now in operation, thus contributing to increase productivity.

Development rates averaged 3,100 metres per month in 2Q19 as more preparation of and infrastructure (electricity, ventilation, waste haulage) for the mine was needed to ensure continuous improvement. However, this was in line with the objective of increasing development rates to over 3,000 tpd, with the aim of reaching 3,500 metres per month by the end of 2019. Training of new personnel and improvements to the maintenance programme in order to increase equipment availability are on-going.

The above improvements will further increase production in 2H19, albeit not at the pace to compensate for the lower than expected production in 1H19.

First half by-product gold production increased vs. 1H18 due to a higher ore grade.

Silver ore grade in 2019 is expected to be between 190-200 g/t, while gold, lead and zinc ore grades are estimated to remain around current levels of 0.85 g/t, 0.85% and 1.45% respectively.

Saucito mine production

	H1 2019	H1 2018	% change
Ore Processed (t)	1,327,673	1,396,753	-4.1
Production			
Silver (koz)	8,840	10,067	-11.5
Gold (oz)	36,716	39,788	-7.3
Lead (t)	10,439	8,510	22.7
Zinc (t)	15,052	11,465	31.3
Ore Grades			
Silver (g/t)	243	262	-6.8
Gold (g/t)	1.14	1.20	-4.1
Lead (%)	0.93	0.72	29.6
Zinc (%)	1.64	1.31	25.3

As expected, first half silver production decreased 11.5% vs. 1H18 due to a lower volume of ore processed and lower ore grade. The lower ore throughput resulted from a decrease in the Jarillas vein width, and some downtime in the milling area. The lower ore grade is a result of the gradual depletion of some higher ore grade areas and changes to mine sequencing.

The infill drilling campaign at Saucito continues. As with the Fresnillo mine, the results continue to be analysed. This campaign will result in an improved geological model.

Similar to Fresnillo, the use of a topographic scanner at the Saucito mine is expected to provide more accurate measurements, thus contributing to achieve blasting efficiencies and reduce dilution.

First half by-product gold production decreased 7.3% vs. 1H18 due to lower ore grade and lower volume of ore processed.

The silver ore grade for 2019 is now expected to be higher than anticipated at a range between 230-240 g/t, while gold ore grade is estimated to remain around 1.1 g/t.

PYRITES PLANT (PHASE I)

	H1 2019	H1 2018	% change
Ore Processed (t)	87,005	11,745	640.1
Production			
Silver (koz)	638	73	774.0
Gold (oz)	2,315	186	1,144.6
Ore Grades			
Silver (g/t)	305	452	-32.4
Gold (g/t)	2.31	3.37	-31.5

The leaching plant of the Pyrites plant at Saucito contributed 638 koz of silver and 2,315 oz of gold in 1H19. The plant was commissioned mid-2018, thus comparing figures vs. 2018 are not meaningful.

The silver ore grade for 2019 is expected to be between 190-210 g/t.

Ciénega mine production

	H1 2019	H1 2018	% change
Ore Processed (t)	650,107	650,885	-0.1
Production			
Gold (oz)	29,757	33,066	-10.0
Silver (koz)	2,920	2,757	5.9
Lead (t)	2,335	2,687	-13.1
Zinc (t)	3,842	2,237	71.7
Ore Grades			

Gold (g/t)	1.55	1.66	-6.6
Silver (g/t)	163	154	6.0
Lead (%)	0.56	0.67	-15.6
Zinc (%)	1.00	0.74	33.9

First half gold production decreased 10.0% vs. 1H18 driven by lower ore grades resulting from the natural depletion of some high ore grade areas in the deeper levels at Las Casas and East Taspana. A lower recovery rate also impacted first half gold production.

First half silver production increased 5.9% vs. 1H18 as a result of a higher ore grade due to the access to higher silver ore grade areas, particularly at Rosario.

The expected gold ore grade in 2019 remains in the range of 1.60-1.70 g/t and silver ore grade is still anticipated to be between 150-160 g/t.

San Julián mine production

	1H 19	1H 18	% change
Ore Processed Veins (t)	661,680	600,517	10.2
Ore Processed DOB(t)	1,107,875	1,071,720	3.4
Total production at San Julián			
Gold (oz)	36,443	39,888	-8.6
Silver (koz)	6,542	7,100	-7.9
Production Veins			
Gold (oz)	35,299	38,695	-8.8
Silver (koz)	2,330	2,707	-13.9
Production DOB			
Gold (oz)	1,143	1,193	-4.2
Silver (koz)	4,212	4,393	-4.1
Lead (t)	3,621	2,821	28.4
Zinc (t)	11,555	10,507	10.0
Ore Grades Veins			
Gold (g/t)	1.74	2.04	-14.7
Silver (g/t)	119.69	151.71	-21.1
Ore Grades DOB			
Gold (g/t)	0.08	0.08	0.0
Silver (g/t)	137.00	151.72	-9.7
Lead (%)	0.44	0.41	6.0
Zinc (%)	1.40	1.28	8.9

San Julián Veins

First half silver production decreased 13.9% vs. 1H18 due to a lower than expected ore grade as a result of the different quality of the areas exploited. First half gold production decreased 8.8% vs. 1H18 driven by lower grades, mitigated by higher volumes of ore processed.

We expect gold ore grades in 2019 to be in the range of 1.6-1.7 g/t and silver grades to average 110-125 g/t (previous guidance 130-140 g/t).

San Julián (disseminated ore body)

First half silver production decreased 4.1% vs. 1H18 mainly due to lower ore grade resulting from the changes made to the mine sequencing as a result of the geotechnical instability in areas with higher silver ore grades.

These changes to the mine plan have impacted the expected silver ore grade and as a result, grade guidance for the full year is decreased from 160-170 g/t to 125-140 g/t.

Herradura mine production

	H1 2019	H1 2018	% change
Ore Processed (t)	11,161,864	11,590,068	-3.7
Total Volume Hauled (t)	61,233,200	67,713,885	-9.6
Production			
Gold (oz)	236,866	243,129	-2.6
Silver (koz)	634	604	5.0
Ore Grades			
Gold (g/t)	0.82	0.72	15.2
Silver (g/t)	2.70	2.22	21.7

First half gold production decreased 2.6% vs. 1H18 due to the slower overall speed of recovery resulting from the higher level of the leaching pads, which increased the time that solution is in the pads. This was mitigated by a higher ore grade contributed by the 2nd line of the Dynamic Leaching Plant.

The construction of the 13th leaching pad was delayed by at least 6 months due to a longer than anticipated permitting process that in turn affected the coordination of the subsequent activities. The construction of the pad has been concluded and irrigation has commenced. However, given the two to three months irrigation cycle, gold production is expected to be affected in 2H19, therefore the Group's gold guidance has been decreased.

As previously disclosed, the number of components underlying the planning of the mine has changed from two to one, therefore stripping costs are considered across this single component in 2H18. This change resulted in recognising the entirety of the stripping cost in the income statement as opposed to partially capitalising it. This has therefore had an adverse effect half on half, as the total volume hauled in 1H18 was 67.7 million tonnes but only costs relating to 39.1 million tonnes were expensed; while the costs relating to the total volume hauled in 1H19 of 61.2 million tonnes was taken to costs in 1H19. This increase impacted adjusted production costs by approximately US\$46.1 million.

Expected gold ore grade in 2019 remains at 0.70-0.75 g/t.

Noche Buena mine production

	H1 2019	H1 2018	% change
Ore Processed (t)	6,575,328	8,965,705	-26.7
Total Volume Hauled (t)	26,115,609	42,594,558	-38.7
Production			
Gold (oz)	65,386	88,043	-25.7
Silver (koz)	29	37	-21.6
Ore Grades			
Gold (g/t)	0.53	0.53	0.0
Silver (g/t)	0.22	0.20	12.2

First half production decreased 25.7% vs. 1H18 due to a lower volume of ore processed, but in accordance with the mine plan. The lower speed of recovery further impacted quarterly gold production.

Expected gold ore grade in 2019 remains approximately 0.55 g/t.

Growth Projects

Capital expenditure guidance for the full year 2019 has been reduced from US\$710 million to approximately US\$655 million to reflect the lower rate of capital deployment at our different mines and projects.

Pyrites Plant at the Saucito mine

Construction of the 14,000 tonnes per day tailings flotation plant to process historical and ongoing tailings at the Fresnillo mine (phase II) remains on track and is due to be commissioned by the end of 2020. The assembly of the flotation cells and milling structure continued, as well as the construction of the maintenance workshop and compressors.

Total capex for this facility is expected to be US\$51.4 million, which is part of the total US\$155 million capex authorised for this project. US\$46 million is anticipated to be deployed in 2019.

The Pyrites plant (phase I and II) is expected to improve overall recoveries of silver by between 5% to 9% and 11% to 13% for gold, and contribute an average annual production of 3.5 moz of silver and c. 13 koz of gold once it reaches its full capacity.

Juanicipio

The project received Board approval in April this year and construction commenced immediately. Mine development continued and progress in engineering and construction of the beneficiation plant was made.

Juanicipio is expected to contribute a total average annual production of 11.7 moz silver and 43.5 koz gold, with an initial life of mine of 12 years. The timetable remains unchanged, despite lower capex deployed in 2019, with construction expected to be concluded by late 2020.

Below we provide an update on other projects which are expected to contribute to our medium and long term growth. These projects have not yet been approved by the Board and are subject to ongoing internal review. However, certain minor works and exploration activities might be in progress in preparation for Board approval and as such, are included within the 2019 approved capex and exploration budget.

Optimisation projects

Fresnillo optimisation project

Further progress was achieved in the engineering of the project, civil works and construction of the steel infrastructure. The second stage of this project will focus on the installation of additional flotation cells to cope with higher base metal contents. The final stage will be the installation of vibrating screens to increase the milling capacity from its current nameplate capacity of 8,000 tonnes per day to 9,000 tonnes per day, once the mine is developed and prepared to maintain this capacity. Capital expenditure for this project is estimated at US\$35 million, of which US\$14.3 million has been deployed in 2018 and 1H19. The expansion is expected to result in an additional annual average production of two million ounces of silver upon commissioning, expected in 2H20.

Ciénega optimisation project

Exploration has been intensified at the Rosario Transversal fault as well as to the West of the San Ramón vein, to identify further opportunities in the Ciénega District and improve the economic viability of this project. With the results of this exploration campaign, resources and reserves estimates will be updated and a new preliminary economic assessment will be produced.

The estimated initial investment for this project is US\$55 million, with first production now anticipated in 2H21. Once at full capacity, the estimated average annual production will be an additional 15 thousand ounces of gold and 1.3 million ounces of silver.

Advanced exploration projects

Orisyvo

Exploration and additional metallurgy testing continued during the period. This information will be used to design a new recovery estimation that will be used to update the preliminary economic assessment. This project is now expected to commence production in 2H22, following an estimated investment of US\$430 million.

Centauro pit expansion and Centauro underground

During the first half of the year, drilling activities continued to increase gold resources in the Herradura pit and increase the project profitability. According to the latest assessments, capex for the expansion of the pit and the underground mine is estimated to be US\$360 million and US\$130 million respectively. Once the resource estimate is updated at the end of the year, a new capex estimate and stripping analysis will be calculated. Commissioning is anticipated in 2023 and mid-2024.

Guanajuato

Guanajuato is a large historic silver-gold mining district. The Fresnillo holdings are comprised of three areas of interest: the Gigante-Opulencia systems in the north, the Las Torres-Peregrina targets in the centre of the district and La Joya-Cerro Blanco in the south. In 1H19, exploration continued with 11,670 metres being drilled and additional mining works.

At the end of 2018, indicated and inferred resources at this project totalled 1.2 million ounces of gold and circa 80 million ounces of silver.

Rodeo

This gold-silver project is located in Durango. Negotiations to acquire land and engage with the surrounding communities continued. Indicated and inferred resources amounted to 1.2 million ounces of gold and 11 million ounces of silver as of 31st of December 2018.

Exploration

During the first half of 2019, 220,000 metres of drilling were completed at our operating mines, as part of the 505,000 metre 2019 programme to convert resources into reserves and direct mine development. Additionally, 120,000 metres of exploration drilling were carried out, as part of the 254,000 metre 2019 programme at new projects.

13 areas are currently being drilled and interesting results were obtained at Fresnillo, San Julián and San Juan extending known ore shoots and identifying new structures. Mapping and sampling have also located additional new areas that merit drill testing in the Herradura, Fresnillo and San Julian districts. Negotiations with communities to obtain access permits to drill are advancing at several project areas in Peru and Chile. Exploration teams are working at selected areas in the favourable silver-gold belts in Mexico, Peru, Chile and Argentina.

In the first six months, US\$84.0 million of exploration expenses were recorded in the income statement, an increase of 7.3% over 1H18.

Total risk capital expected to be invested in exploration for the full year 2019 has been increased to approximately US\$160 million.

Health and safety, human resources, environment and community relations

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.

Health & Safety

Safety continues to be our highest priority. Our goal is to instil a safety culture where our workers and contractors have the knowledge, competence and desire to work safely. To this end, we made progress with the implementation of the 'I Care, We Care' programme. 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.

We regret to report two fatal injuries in the first half of 2019. Although, our Total Recordable and Lost Time Injury Frequency Rates improved with respect to 2018, we recognise the long road ahead to mature our safety culture.

We strive to keep our workforce healthy and prevent occupational diseases. The goal of our Occupational Health programme is to prevent, detect and treat work-related illnesses amongst our employees and contractors. Preventive care and the promotion of healthier lifestyles can limit certain chronic diseases and enhance overall wellness and fitness for work. Our Healthy Lifestyles programme supports healthy eating habits and the prevention and control of obesity-related diseases. This programme includes raising awareness (doing exercise, healthy diet tips, etc.) and sessions with nutritionists and psychologists.

Our People

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.

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 collaborate with leading educational institutions in Mexico to attract young talent in geology, metallurgy and mining engineering, offering students internships of varying lengths. So far in 2019, we have offered internship opportunities to 40 students. In addition, we recruit graduates from our pool of interns through the 'Engineers in Training' programme. Year to date, we have recruited 50 graduates, among them, 22% are women.

We value and respect all people from diverse backgrounds. We aspire to develop an inclusive culture where our people feel valued and are inspired. Improving the participation of woman in Mining in Mexico remains a big challenge. We achieved a slight increase in the overall percentage of woman (9.6% in 1H19 vs. 9.1% in 1H18) employed at the company, but we lost ground in the participation of woman in leadership roles (4.4% in 1H19 vs. 5.2% in 1H18).

Environment

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. Our environmental management system ensures effective compliance with regulations.

We are committed to reducing our carbon footprint. So far in 2019, 68% of our electricity has come from renewable sources, and we aim to get to 75% by year end. Although our energy intensity increased due to longer hauling distances, our carbon intensity remained at similar levels.

With the support of the NGO Captar AC, we partnered with 15 communities to build rainwater harvesting systems for 315 houses. This project benefited close to a thousand people in the neighbouring communities of our San Julian Mine.

We continued to engage with the municipalities, campaigning for higher levels of investment by the Mining Fund in the communities neighbouring our operations.

Community Relations

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.

We partnered with high schools in Fresnillo, Caborca (Penmont), Turuachi (San Julián), and Cienega entering four teams in the FIRST (For Inspiration and Recognition of Science and Technology) Robotics competition. Our Cienega team qualified for the Houston Championship obtaining the "Inspiration Award". In partnership with LaSalle Laguna University, we offered eight excellence scholarships for students to pursue college education in Torreon.

Further, in partnership with the NGO INNOVEC and the Zacatecas State Government, we deployed the "Rocks and Minerals" programme, benefiting more than 1,000 children in nine schools.

Related party transactions

Details of related party transactions that have taken place in the first six months of the current financial year are detailed in note 16 of the interim consolidated financial statements.

Financial Review

The interim consolidated financial statements of Fresnillo plc for the first halves of 2019 and 2018 have been prepared in accordance with IAS 34 "Interim Financial Reporting" as adopted by the European Union. Management recommends reading this section in conjunction with the Interim Financial Statements and their accompanying Notes.

Income Statement

Income Statement Key Line Items Six months ended 30 June (in millions of US\$)

	H1 2019	H1 2018	% change
Adjusted revenues ¹	1,069.0	1,189.9	-10.2
Lead and zinc hedging	0.1	0.0	N/A
Treatment & refining charges	-67.1	-74.8	-10.4
Total revenues	1,002.0	1,115.0	-10.1
Cost of sales	796.5	612.9	30.0
Gross Profit	205.5	502.2	-59.1
Exploration expenses	84.0	78.3	7.3
EBITDA ²	307.9	566.9	-45.7
Profit before income tax	54.1	323.0	-83.3
Special mining right	-12.9	10.9	N/A
Income tax expense	-4.0	82.8	N/A
Profit for the period	70.9	229.3	-69.1
Profit for the period, excluding post-tax Silverstream revaluation effects	62.9	244.6	-74.3
Attributable profit	70.2	230.0	-69.5
Attributable profit, excluding post-tax Silverstream revaluation effects	62.2	245.3	-74.6
Basic and diluted earnings per share (US\$/share) ³	0.095	0.311	-69.4
Basic and diluted Earnings per share, excluding post-tax Silverstream revaluation effects (US\$/share)	0.084	0.333	-74.8

¹ Adjusted revenues is the revenue shown in the income statement adjusted to add back treatment and refining costs and the effects of gold, lead and zinc hedging. The Company considers this is a useful additional measure to help understand underlying factors driving revenue in terms of volumes sold and realised prices.

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

³ The weighted average number of shares for H1 2019 and H1 2018 was 736.9m. See Note 8 in the Consolidated Financial Statements.

Fresnillo plc's financial results rely on the Group's asset quality, skilled personnel and management's execution capabilities. However, there are a number of macroeconomic variables affecting the financial results which are beyond the Group's control. A description of these variables is provided below.

Metal prices

The average realised silver price decreased 7.5% from US\$16.5 per ounce in 1H18 to US\$15.2 per ounce in 1H19, whilst the average realised gold price remained flat at US\$1,320.7 per ounce in 1H19 (1H18: US\$1,312.8 per ounce).

The average realised lead price decreased by 20.8% to US\$0.87 per pound in 1H19, whilst the average zinc price decreased 13.1% on 1H18 to US\$1.25 per pound.

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 initially executed for a total volume of 1,559,689 oz of gold with monthly settlements until December 2019.

The table below illustrates the expired structures and the outstanding hedged position as of 30 June 2019.

Concept	1H 2019	1H 2018	As of 30 June 2019
Weighted Floor (usd/tonne)	1,100	1,100	1,100
Weighted Cap (usd/tonne)	1,424	1,423	1,424

Expired volume	173,076	183,216	--
Profit (US\$ dollars)	-	-	
Outstanding volume			173,076

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

In addition, in the first half of 2019 we hedged a portion of our by-product zinc production for 2019. The table below illustrates the expired hedging volume, the results in 1H19 and the outstanding hedged position as of June 30th.

Concept	As of June 30 th 2019*
	Zinc
Weighted Floor (US\$/tonne)	2,636
Weighted Cap (US\$/tonne)	3,085
Expired volume (ton)	4,648
Profit/(Loss) (US\$ dollars)	79,270
Total outstanding volume (tonnes)	13,944

*Monthly settlements through December 2019

Foreign exchange rates

The Mexican peso/US dollar spot exchange rate at 30 June 2019 was \$19.17 per US dollar, compared to the exchange rate at 31 December 2018 of \$19.68 per US dollar. The 2.6% spot revaluation had a positive effect on the net monetary peso asset position, which contributed to the US\$5.1 million foreign exchange gain recognised in the income statement.

The average spot Mexican peso/US dollar exchange rate devalued marginally by 0.6% from \$19.07 per US dollar in 1H18 to \$19.17 per US dollar in 1H19.

Hedging

As previously reported, Fresnillo plc decided in 2016 that it would suspend its Mexican peso exchange rate hedging programme to hedge payment of certain peso denominated production costs. 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).

Cost Inflation

The estimated cost inflation half on half was 3.9%, which includes the positive effect of the 0.6% average devaluation of the Mexican peso/US dollar exchange rate.

Labour

Unionised employees received a 7.5% increase in wages in Mexican pesos and administrative employees at the mines received a 5.5% increase. Taking into consideration the 0.6% average devaluation of the Mexican peso against the US dollar, personnel costs increased by a net 6.0% in US dollar terms.

Inflation of key operating materials in US\$ terms

Unit prices of a number of key operating materials increased in US dollar terms including steel balls for milling, sodium cyanide and tires. These increases were mitigated by the decrease in the unit price of reagents and steel for drilling. As a result, the weighted average unit prices of all operating materials over the half increased by 2.0%.

Key operating materials	1H19 VS 1H18
Sodium cyanide	6.0%
Steel balls for milling	5.1%
Tires	2.8%
Explosives	1.3%
Steel for drilling	0.6%
Lubricants	-0.6%
Reagents	-12.3%
Weighted average of all operating materials	2.0%

Electricity

The weighted average cost of electricity in US dollars increased 3.3% from US\$7.05 cents per kw in 1H18 to US\$7.28 cents per kw in the same period of 2019, reflecting the higher average generating cost charged by the government-owned utility company following the increase in the prices of natural gas and fuel, offset by the lower unit price of the electricity consumed from renewable sources.

Diesel

The weighted average cost of diesel in US dollars increased by 11.3% from US\$79.0 cents per litre in 1H18 to US\$88.0 cents per litre in 1H19.

Contractors

Contractor costs are an important component of the Group's total costs and include costs incurred by contractors relating to operating materials, equipment and labour. The weighted average increase in contractor unit costs in US dollar terms was 3.1% when compared to 1H18.

Maintenance

Unit prices of spare parts to provide maintenance increased by approximately 1.0% in US dollars in 1H19.

Others

Other cost line items included a 10.1% increase in freight, a 1.1% increase in insurance premium per US dollar insured unit and an average inflation of 2.1% for the remaining components over 1H19.

Total revenuesConsolidated Revenues
(US\$ millions)

	H1 2019	H1 2018	Amount	%Change
Adjusted revenues ¹	1,069.0	1,189.9	-120.9	-10.2
Hedging	0.1	0.0	0.1	N/A
Treatment and refining charges	-67.1	-74.8	7.8	10.4
Total revenues	1,002.0	1,115.0	-113.1	10.1

¹ Adjusted revenues is the revenue shown in the income statement adjusted to add back treatment and refining costs and the effects of gold, lead and zinc hedging. The Company considers this is a useful additional measure to help understand underlying factors driving revenue in terms of volumes sold and realised prices.

Adjusted revenues of US\$1,069.0 million decreased 10.2% over 1H18. This was mainly explained by both the adverse effects of the lower volumes of gold and silver sold estimated at US\$74.9 million and the lower silver, zinc and lead prices estimated at US\$57.9 million, partly offset by the higher volume of zinc sold, which resulted in a positive impact of US\$7.1 million and a US\$3.5 million benefit from the higher gold price.

Adjusted revenues¹ by metal
(US\$millions)

	H1 2019	%	H1 2018	%	Volume Variance	Price Variance	Total	%
Gold	556.8	52.1	593.0	49.8	(39.7)	3.5	(36.2)	-6.1
Silver	366.1	34.2	432.1	36.3	(35.2)	(30.8)	(66.0)	-15.3
Lead	45.3	4.2	55.6	4.7	1.3	(11.6)	(10.3)	-18.5
Zinc	100.8	9.5	109.2	9.2	7.1	(15.5)	(8.4)	-7.7
Total revenues	1,069.0	100.0	1,189.9	100.0	(66.5)	(54.4)	(120.9)	10.2

¹ Adjusted revenues is the revenue shown in the income statement adjusted to add back treatment and refining costs and the effects of gold, lead and zinc hedging. The Company considers this is a useful additional measure to help understand underlying factors driving revenue in terms of volumes sold and realised prices.

Changes in the contribution by metal were the result of the relative changes in metal prices and volumes produced. Gold was the metal that increased its contribution to total adjusted revenues the most, rising from 49.8% in 1H18 to 52.1% in 1H19, followed by zinc, which rose slightly from 9.2% in 1H18 to 9.4% in 1H19. Conversely, the contributions of silver and lead to the total adjusted revenues decreased respectively from 36.3% in 1H18 to 34.3% in 1H19 and from 4.7% in 1H18 to 4.2% in 1H19.

Herradura and Saucito were the largest contributors, representing 29.7% and 22.9% respectively of the Group's total adjusted revenue. Fresnillo's contribution to total adjusted revenues decreased from 18.1% in 1H18 to 15.0% in 1H19, reflecting the lower volume of silver, lead and zinc sold at lower prices. Noche Buena's contribution to total adjusted revenues decreased from 9.7% to 8.1% mainly as a result of lower volumes of gold sold.

Fresnillo's contribution to the Group's silver adjusted revenues decreased from 28.3% in 1H18 to 24.2% in 1H19 reflecting the 21.4% decrease in silver volumes sold. In contrast, Saucito and Ciénega's contributions to silver adjusted revenues increased as shown in the tables below.

Noche Buena's contribution to the Group's gold adjusted revenues decreased half on half due to the lower volume of gold sold.

The lower zinc ore grade at Fresnillo, together with the lower price, affected this mine's contribution to the Group's zinc adjusted revenues, which decreased from 41.7% in 1H18 to 26.8% in 1H19. Saucito became the largest contributor to zinc adjusted revenues increasing its participation from 27.0% in 1H18 to 38.6% in 1H19.

The contribution by metal and by mine to adjusted revenues is expected to change further over future periods as new projects are incorporated into the Group's operations and as precious metal prices fluctuate.

Gold Adjusted revenues by mine

	H1 19	H1 18
Herradura	55.2%	53.5%
Noche Buena	15.6%	19.4%
Saucito	8.7%	7.6%
San Julián Veins	8.4%	8.5%
Ciénega (and San Ramón)	6.7%	7.0%
Fresnillo	5.3%	4.0%
San Julián DOB	0.1%	0.0%
TOTAL	100%	100%

Silver Adjusted revenues by mine

	H1 19	H1 18
Saucito	37.7%	35.5%
Fresnillo	24.2%	28.3%
San Julián DOB	14.7%	14.2%
Ciénega (and San Ramón)	11.2%	9.7%
San Julián Veins	9.5%	9.9%
Herradura	2.7%	2.4%
Noche Buena	0.0%	0.0%
TOTAL	100%	100%

Total adjusted revenues by mine

	H1 19	H1 18
Herradura	29.7%	27.6%
Saucito	22.9%	20.7%
Fresnillo	15.0%	18.1%
Ciénega	8.5%	8.0%
San Julián DOB	8.2%	8.1%
Noche Buena	8.1%	9.7%
San Julián Veins	7.6%	7.8%
TOTAL	100%	100%

Volumes of metal in products sold
Six months ended 30 June

	H1 19	H1 18	% change
SILVER (kOz)			
Fresnillo	5,825	7,414	-21.4
Ciénega	2,695	2,555	5.5
Herradura	652	632	3.2
Saucito	8,387	9,279	-9.6
Pyrites plant	654	-	N/A
Noche Buena	4	5	-20.0
San Julián Veins	2,275	2,602	-12.6
San Julián DOB	3,555	3,733	-4.8
Total Silver (kOz)	24,040	26,220	-8.3
GOLD (Oz)			
Fresnillo	22,325	18,176	22.8
Ciénega	28,112	31,603	-11.0
Herradura	233,625	262,162	-10.9
Saucito	34,177	34,682	-1.5
Pyrites plant	2,467	-	N/A
Noche Buena	65,318	66,794	-2.2
San Julián (phase I)	35,069	37,828	-7.3
San Julián (phase II)	379	473	-19.9
Total Gold (Oz)	421,472	451,718	-6.7
LEAD (MT)	H1 19	H1 18	% change
Fresnillo	7,921	9,964	-20.5
Ciénega	2,107	2,461	-14.4
Saucito	10,168	7,837	29.7
San Julián (phase II)	3,393	2,716	24.9
Total Lead (MT)	23,590	22,978	2.7
ZINC (MT)			
Fresnillo	9,890	14,246	-30.6
Ciénega	3,158	1,836	72.0
Saucito	14,099	9,378	50.3
San Julián (phase II)	9,617	8,906	8.0
Total Zinc (MT)	36,764	34,366	7.0

Treatment and Refining charges

Similar to previous years, the 2019 treatment and refining charges (TRCs) per tonne and per ounce are currently being negotiated with Met-Mex in accordance with international benchmarks and will apply retrospectively from January 2019. We expect these negotiations to conclude by October 2019. Treatment and refining charges in these Interim Financial Statements were assumed to be the same as those which were negotiated for the full year 2018, consistent with the approach taken in 1H18.

Treatment charges per tonne of lead and zinc concentrate for the first half of 2019 decreased 13.3% and 7.5% respectively, whilst silver refining charges decreased 7.4% compared to 1H18. However, these favourable effects were partially offset by the increase in the volumes of zinc concentrates and precipitates shipped to Met-Mex. As a result, treatment and refining charges in absolute terms decreased US\$7.8 million.

Cost of sales

	H1 19	H1 18	Change	
			Amount	%
Adjusted production costs ⁴	566.4	429.9	136.5	31.8
Depreciation and amortisation	240.5	192.8	47.7	24.7
Change in work in progress	-14.0	-21.7	7.7	-35.5
Profit Sharing	4.3	11.8	-7.5	-63.6
Unproductive costs	-0.7	0.0	-0.7	N/A
Cost of Sales	796.5	612.9	183.7	30.0

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

Cost of sales of US\$796.5 million increased by 30.0% over 1H18 as a result of the following combination of factors:

- Adjusted production costs increased by 31.8% to US\$566.4 million in 1H19. The US\$136.5 million increase was mainly related to: i) higher stripping costs expensed at Herradura following the reassessment of the number of mining components from two to one (US\$46.1 million); ii) additional maintenance, operating materials and contractors associated with longer haulage distances, narrower veins, better equipment availability and the infill drilling programme (US\$33.8 million); iii) an increase in development works (US\$25.6 million); iv) the additional production costs associated with the start of operations at the Pyrites Plant at Saucito and the second line of the Dynamic Leaching Plant at Herradura (US\$20.7 million); and v) cost

inflation of 4.2% (excluding the positive effect of the devaluation) had an adverse effect of US\$17.2 million, which is further broken down below:

- Unit cost of energy increased by US\$6.4 million due to higher unit prices of electricity and diesel
- Unit cost of contractors increased by US\$4.3 million due to the contract adjustments recorded during the first half of the year with each individual contractor in Mexican pesos terms
- Personnel unit costs, excluding profit sharing, increased by US\$2.5 million as a result of the 7.0% increase in wages in Mexican pesos
- Unit cost of operating materials increased US\$1.9 million
- Unit cost of maintenance increased by US\$0.7 million
- Other cost inflation of US\$1.4 million

Other factors had a negative effect of US\$1.1 million.

The above increases were partly mitigated by lower costs related to a decrease in volumes produced (-US\$8.0 million).

- Depreciation increased by US\$47.6 million mainly due to the additional asset base of the Pyrites Plant and the 2nd Dynamic Leaching plant, tailings dam at San Julián, additional equipment at all the operations and the amortisation of new capitalised mining works and stripping.
- The variation in the change in work in progress had a negative effect of US\$7.7 million half on half. Change in work in progress was -US\$14.0 million in 1H19 mainly due to the increase of inventories at Herradura as a result of the delay in the construction of the 13th leaching pad. However, this compared unfavourably to the -US\$21.7 million costs recorded in 1H18 resulting from the increase in inventories at this mine.
- Employee profit sharing decreased by US\$7.5 million in 1H19
- Unproductive costs of -US\$0.7 million.

Cost per tonne and cash cost per ounce

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, employee profit sharing and exchange rate hedging effects, divided by total tonnage processed.

COST PER TONNE				
		H1 19	H1 18	% Change
Fresnillo	US\$/TONNE MILLED	58.87	46.92	25.5
Saucito	US\$/TONNE MILLED	65.96	53.56	23.2
Ciénega	US\$/TONNE MILLED	79.46	68.39	16.2
San Julián Veins	US\$/TONNE MILLED	66.54	58.24	14.3
San Julián DOB	US\$/TONNE MILLED	38.98	34.50	13.0
Herradura	US\$/TONNE DEPOSITED	18.02	10.25	75.8
Noche Buena	US\$/TONNE DEPOSITED	9.32	6.74	38.4

Costs per tonne across the Group were adversely impacted by: i) the higher unit prices of electricity and diesel; ii) the 3.1% increase in contractor fees; iii) the inflation in operating materials (2.0%); and iv) the 7.5% increase in wages in Mexican pesos to unionised workers. These factors impacted to a greater or lesser extent all Fresnillo plc's operating assets. Additional factors affecting cost per tonne at each mine are described below:

Fresnillo

Cost per tonne milled increased 25.5% half on half principally due to an increase in development works and maintenance activities, together with increased consumption of operating materials.

Saucito

Cost per tonne milled increased 23.2% half on half primarily due to the new Pyrites Plant operating following its commissioning at the end of 1H18, and increased development work activities.

Ciénega

Cost per tonne milled increased 16.2% mainly as a result of increased contractor activities due to the narrower veins.

San Julián Veins

Cost per tonne milled increased 14.3% as a result of increase in development work activities.

San Julián Disseminated Ore Body

Cost per tonne milled increased 13.0% mainly as a result of the increased consumption of operating materials to improve stability in certain areas.

Herradura

Cost per tonne increased 75.8% primarily due to the increased stripping costs expensed following the reassessment of the number of mining components from two to one and the increase in maintenance and higher consumption of operating materials associated with longer haulage distances.

Noche Buena

Cost per tonne increased by 38.4% driven by the lower economies of scale due to the decrease in volume of ore processed.

CASH COST PER OUNCE

Cash cost is a key indicator which measures the ability of the mine to cover its production costs. Cash cost per ounce is calculated as total cash cost (cost of sales plus treatment and refining charges and mining rights less depreciation) less revenues from by-products divided by the silver or gold ounces sold.

		H1 19	H1 18	% Change
Fresnillo	US\$ per silver ounce	3.12	-0.82	N/A
Saucito	US\$ per silver ounce	2.36	1.25	88.6
Ciénega	US\$ per gold ounce	176.85	-10.60	N/A
San Julián Veins	US\$ per silver ounce	0.58	-4.45	N/A
San Julián DOB	US\$ per silver ounce	6.03	5.18*	16.4
Herradura	US\$ per gold ounce	770.28	364.85	111.1
Noche Buena	US\$ per gold ounce	821.91	772.79	6.4
Consolidated				
	US\$ per equiv. gold ounce	683.45	435.97	56.8
	US\$ per equiv. silver ounce	7.88	5.47	44.1

Fresnillo: US\$3.12/oz (1H19) vs -US\$0.82/oz (1H18), (US\$3.94/oz; N/A)

The increase in cash cost per ounce was primarily driven by lower silver ore grade, a higher cost per tonne and, to a lesser extent, lower gold, lead and zinc by-product credits. This was mitigated by lower treatment and refining charges.

Saucito: US\$2.36/oz (1H19) vs US\$1.25/oz (1H18), (US\$1.11/oz; 88.6%)

Cash cost per ounce increased primarily due to higher cost per tonne, and to a lesser extent, lower silver ore grade. This was mitigated by higher gold, zinc and lead by-product credits.

Ciénega: US\$176.85/oz (1H19) vs -US\$10.60/oz (1H18), (US\$187.45/oz; N/A)

The increase in cash cost was mainly explained by the lower gold grade and higher cost per tonne. These adverse effects were mitigated by higher zinc by-product credits.

San Julián Veins: US\$0.58/oz (1H19) vs -US\$4.45/oz (1H18), (US\$5.03/oz; N/A)

Cash cost per ounce increased due to the lower silver ore grade and higher cost per tonne. This was mitigated by higher gold by-product credits.

San Julián (DOB) US\$6.03/oz (1H19) vs US\$5.18/oz (1H18), (US\$0.85/oz; 16.4%)

The increase in cash cost was mainly explained by the lower ore grade achieved.

Herradura: US\$770.28/oz (1H19) vs US\$364.85/oz (1H18), (US\$405.43/oz; 112.18%)

The higher cash cost per gold ounce was driven by the increased stripping costs expensed following the reassessment of the number of mining components from two to one, the decrease in gold ounces produced mainly due to the lower speed of recovery from depositing on the upper levels of the leaching pads, and the higher cost per tonne.

Noche Buena: US\$821.91/oz (1H19) vs US\$772.79/oz (1H18), (US\$49.12/oz; 6.4%)

The increase in cash cost was driven by the higher cost per tonne and a lower speed of recovery at the leaching pads, mitigated by the inventory valuation effect.

All in sustaining cost

		H1 19	H1 18	Change %
Fresnillo	US\$ per silver ounce	12.46	6.79	83.5
Saucito	US\$ per silver ounce	10.02	7.88	27.2
Ciénega	US\$ per gold ounce	1,533.84	1,198.16	28.0
San Julián Veins	US\$ per silver ounce	10.85	4.89	121.9
San Julián DOB	US\$ per silver ounce	9.49	9.50	-0.1
Herradura	US\$ per gold ounce	925.37	715.92	29.3
Noche Buena	US\$ per gold ounce	906.56	1,051.80	-13.8
Consolidated				
	US\$ per equiv. gold ounce	1,025.85	827.46	24.0
	US\$ per equiv. silver ounce	11.83	10.39	13.8

All-in sustaining costs are 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.

All-in sustaining costs are affected by ad hoc expenses recorded in each particular period, and therefore may significantly vary period on period.

The changes in all-in sustaining costs at each mine are explained below:

Fresnillo: All-in sustaining cost increased 83.4% over 1H18. The US\$5.67 per ounce increase was 31% explained by higher capitalised mine development per ounce and an increase in sustaining capex per ounce. The remaining 69% of the variation was explained by the increase in cash cost and cost per tonne described above.

Saucito: All-in sustaining cost increased US\$2.14 per ounce, of which 48% was due to higher capitalised mine developments per ounce, mitigated by lower sustaining capex per ounce. The remaining 52% of the variation resulted from the increase in cash cost and cost per tonne.

Ciénega: The US\$335.68 per ounce increase was 44% driven by the higher capitalised mine development per ounce. The remaining 56% was explained by the factors affecting cash cost and cost per tonne described above.

San Julián Veins: The US\$5.96 per ounce increase in all in sustaining cost was 16% driven by the higher capitalised mine development per ounce mitigated by the lower sustaining cost per ounce. The remaining 84% was due to the factors affecting cash cost and cost per tonne.

San Julián Disseminated Ore Body: The all in sustaining cost remained flat half on half as lower capitalised mine development per ounce and decrease in sustaining capex per ounce were offset by the increases in cash cost and cost per tonne.

Herradura: All-in sustaining cost increased by US\$209.45 per ounce mainly due to the higher cash costs and cost per tonne, mitigated by the decrease in capitalised stripping per ounce.

Noche Buena: The US\$145.24 per ounce decrease in all-in sustaining cost was the result of the decrease in sustaining capex per ounce and to a lesser extent, lower capitalised stripping, partly offset by the higher cash cost and cost per tonne.

Gross profit

Total gross profit, excluding hedging gains and losses, decreased by 59.1% to US\$205.5 million in 1H19. The US\$296.7 million decrease resulted from:

- i) The unfavourable effect of the lower silver, lead and zinc prices estimated at US\$54.4 million;
- ii) Lower volume of ore processed at Fresnillo, Saucito, Herradura and Noche Buena, mitigated by the increase in ore processed at San Julián, with a net impact of US\$49.8 million;
- iii) Higher depreciation of US\$47.6 million;
- iv) Lower silver ore grades at San Julián disseminated ore body and veins, and Fresnillo, mitigated by higher grades at Herradura and Ciénega, resulting in an estimated net impact of US\$46.1 million;
- v) The increased stripping costs expensed following the reassessment of the number of mining components from two to one resulting in an adverse impact of US\$46.1 million;
- vi) Additional costs incurred due to increased requirements for maintenance, operating materials and contractors, associated with longer haulage distances, narrower veins, better equipment availability and infill drilling all with an estimated impact of US\$33.8 million;
- vii) Increased development works with an estimated impact of US\$25.6 million and;
- viii) Cost inflation of US\$17.2 million.

These effects were partly mitigated by the contribution of the new pyrites plant and the second line of the dynamic leaching plant estimated at US\$11.4 million and the lower treatment and refining charges and other favourable effects estimated at US\$12.5 million.

On a per mine basis, Herradura's contribution to the consolidated gross profit decreased from 40.2% to 37.7% as a result of the US\$124.1 million reduction in gross profit half on half. Saucito's contribution to the Group's gross profit increased from 19.8% in 1H18 to 32.5% in 1H19, albeit a US\$32.5 million decrease half on half in the mine's gross profit. The ongoing challenges at the Fresnillo mine decreased gross profit by 63.6%, reducing its share of the Group's consolidated gross profit to 17.3% in 1H19. Gross profit at San Julián was significantly impacted by the lower ore grades and metal prices, together with the increased production costs as described above.

(US\$ millions)					Change	
	H1 19	%	H1 18	%	Amount	%
Herradura	78.2	37.7	201.4	40.2	-123.2	-61.2
Saucito	67.0	32.5	99.2	19.8	-32.2	-32.4
Fresnillo	35.7	17.3	98.1	19.6	-62.4	-63.6
Noche Buena	17.4	8.3	34.7	6.9	-17.3	-49.8
Ciénega	8.1	3.9	20.0	4.0	-11.9	-59.5
San Julián	0.5	0.3	47.5	9.5	-47.0	-98.9
Total for operating mines	206.9	100%	500.9	100%	-295.6	-59.0
MXP/USD exchange rate hedging (losses)	0.0		0.0		0.0	N/A
Metal hedging	0.1		0.0		0.1	N/A
Other subsidiaries	-1.4		1.3		-2.7	N/A
Total Fresnillo plc	205.5		502.2		-296.7	-59.1

Administrative expenses

Administrative and corporate expenses increased by US\$5.1 million to US\$43.6 million in 1H19. The 13.2% increase was mainly explained by the increase in services provided by Servicios Industriales Peñoles, S.A.B de C.V. in relation to new operations, namely the Pyrites Plant and the 2nd Dynamic Leaching Plant, and approved development projects, together with an increase in advisory services.

Exploration expenses

BUSINESS UNIT / PROJECT (US\$ millions)	Exploration expenses	Capitalised expenses
Ciénega	6.6	-
Fresnillo	7.9	-

Herradura	5.4	-
Saucito	7.1	-
San Julián	9.8	-
Centauro Deep	0.3	1.4
Orisyvo	0.9	-
San Ramón	1.1	-
Valles	1.2	-
San Juan	1.1	-
Tajitos	0.3	-
San Antonio	1.1	-
Pilarica	0.5	-
Candameña	0.4	-
San Javier	0.7	0.8
Carina	1.2	1.0
Guanajuato	12.6	1.5
Chile	1.2	-
Perú	3.0	-
Juanicipio	0.0	2.4
Condoriaco	3.9	-
Others	17.7	0.2
TOTAL	84.0	7.3

Exploration expenses totalled US\$84.0 million in 1H19, a 7.3% increase over 1H18 due to intensified exploration activities aimed at converting resources into reserves and direct mine development at our operations. An additional US\$7.3 million was capitalised mainly related to exploration expenses at the Juanicipio and Guanajuato projects and equipment at Centauro Deep, amongst others. Thus, risk capital invested in exploration totalled US\$91.3 million. The full year exploration budget has been increased from US\$140 million to US\$160 million (including capitalised exploration expenses of ~US\$10 million) to reflect an increase in exploration at Herradura and San Julián.

EBITDA

EBITDA and EBITDA Margin Six months ended 30 June (in millions of US\$)

	H1 2019	H1 2018	% change
Gross Profit	205.5	502.2	-59.1
+ Depreciation and amortisation	240.5	192.8	24.7
- Administrative Expenses	-43.6	-38.5	13.2
- Exploration Expenses	-84.0	-78.3	7.3
- Selling Expenses	-10.6	-11.4	-7.2
EBITDA	307.9	566.9	-45.7
EBITDA Margin	30.7%	50.8%	

A key indicator of the Group's financial performance is EBITDA, which is calculated as gross profit plus depreciation, less administrative, selling and exploration expenses. This indicator decreased from US\$566.9 million in 1H18 to US\$307.9 million in 1H19 as a result of the lower gross profit and higher administrative expenses and exploration expenses. The EBITDA margin decreased from 50.8% in 1H18 to 30.7% in 1H19.

Silverstream revaluation effects

The Silverstream contract is accounted for as a derivative financial instrument carried at fair value. The total effect of the revaluation of the Silverstream contract recorded in 1H19 was a US\$11.4 million gain, compared to the US\$21.8 million loss registered in 1H18. This positive revaluation was driven by a decrease in the reference discount rate (LIBOR) and the favourable effect of the unwinding of the discount. These factors were partly offset by the decrease in silver resources at the Sabinas mines, updates to the US dollar/Mexican peso exchange rate and inflation forecasts and a lower forward silver price of silver.

Since the IPO, cumulative cash received from the Silverstream contract has been US\$642.2 million, which compares favourably to the upfront payment of US\$350 million paid on 31 December 2007.

The Group expects that further unrealised gains or losses will be recorded in the income statement in accordance with the cyclical behaviour of the silver price or changes in the assumptions used when valuing this contract. Further information related to the Silverstream contract is provided in the Balance Sheet section below and in notes 10 and 18 to the Interim Financial Statements.

Net finance costs

Net finance costs of US\$27.8 million in 1H19 compared unfavourably with the US\$15.1 million recorded in 1H18. The 1H19 net finance costs principally reflected: i) the interest on the US\$800 million principal amount of 5.5% Senior Notes and ii) US\$15.7 million in interest and surcharges, which resulted from aligning the tax treatment of mining works across the Group's underground mines to the agreement reached between SAT, Prodecon and Fresnillo plc in November 2018. Detailed information is provided in note 7 to the Interim Financial Statements. This was mitigated by the interest gained on the short term deposits and inflation restatement effects in the cash position.

Foreign exchange

A foreign exchange gain of US\$5.1 million was recorded in the income statement as a result of the realised transactions in the period and the marginal revaluation of the Mexican peso against the US dollar in the six months ended 30 June 2019 on the value of peso-denominated net monetary assets. This compared positively against the US\$11.8 million foreign exchange loss recognised in 1H18.

The Group also entered 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 June, the total EUR and SEK outstanding net forward position was EUR 19.9 million with maturity dates from September through March 2020. Volumes that expired or had been rolled over during 1H19 were EUR 15.32 million with a weighted average strike of 1.1491 USD/EUR and SEK 23.39 million with a weighted average strike of 8.80 SEK/USD, which has generated an insignificant result in the period.

Taxation

Income tax expense for the period was -US\$4.0 million which compared favourably vs. US\$82.8 million in 1H18. The effective tax rate, excluding the special mining rights was -7.4% (25.6% in 1H18). The reason for the negative tax rate was the significant permanent differences between the tax and accounting treatment, together with the low level of profit before income tax. The permanent differences were mainly related to: i) the revaluation of the Mexican peso which had an important impact on the tax value of assets and liabilities that are denominated in Mexican pesos; ii) the inflation rate which impacted the inflationary uplift of the tax base for assets and liabilities; iii) the effect recorded in the period in respect of the voluntary amendment to the tax treatment for mining works for the years 2014 to 2018; iv) the tax credit related to the special tax on diesel; and v) a new boarder zone tax benefit which benefited the Herradura and Noche Buena operations.

Mining rights for 1H19 were -US\$12.9 million vs US\$10.9 million in 1H18. The main reason for the negative mining rights was the effect that the voluntary amendment to the tax treatment for mining works for the years 2014 to 2018 had on the deferred mining rights.

Profit for the period

Profit for the period was US\$70.9 million, which represented a 69.1% decrease half on half as a result of the factors discussed above.

Excluding the effects of the Silverstream valuation, profit for the period decreased 74.3% to US\$62.9 million in 1H19.

Cash Flow

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

Cash Flow Key Items Six months ended 30 June (in millions of US\$)				
	H1 19	H1 18	(US \$)	(%)
Cash generated by operations before changes in working capital	316.1	575.9	-259.8	-45.1
Increase in working capital	7.6	63.9	56.3	-88.2
Taxes and Employee Profit Sharing paid	-140.8	-145.3	4.5	3.1
Net cash from operating activities	167.7	366.6	-198.9	-54.3
Silverstream contract	12.9	22.3	-9.4	-42.2
Purchase of property, plant & equipment	-248.4	-352.2	103.8	29.5
Dividends paid	-123.1	-219.4	96.3	43.9
Net interest paid	-21.2	-9.7	-11.5	118.6
Net decrease in cash and short term investments during the period	-198.7	-187.5	-11.2	-6.0
Cash and other liquid funds at 30 June*	362.1	708.6	-346.5	-48.9

* Cash and other liquid funds are disclosed in note 18(d) to the Financial Statements.

In 1H19, cash generated by operations before changes in working capital totalled US\$316.1 million, a 45.1% decrease due to lower profits generated from the Group's operating mines. Working capital increased by US\$7.6 million as a result of the net impact of the following factors:

- US\$25.9 million increase in inventories primarily on the leaching pads at Herradura
- An increase in prepayments of US\$7.7 million
- A -US\$18.7 million decrease in accounts receivables which resulted from lower prices and production volumes
- A -US\$10.4 million decrease in accounts payable
- Others: US\$3.1 million

Taxes and employee profit sharing paid of US\$140.8 million marginally decreased by 3.1% over 1H18. This included the cash payment of income tax and special mining rights related to the amendment in the treatment of mining works across the underground mines. For further detail please see note 7 to the financial statements.

As a result of the above factors, net cash from operating activities decreased by 54.3% to US\$167.7 million.

The Group also received proceeds of US\$12.9 million from the Silverstream Contract.

The Group purchased property plant and equipment for a total of US\$248.4 million, a 29.5% decrease over 1H18. The Group has decreased its expected capital expenditures to c. US\$655 million for the full year to reflect the lower rate of capital deployment at our different mines and projects. Capital expenditures for 1H19 are further described below:

Purchase of property, plant and equipment*		
(US\$ millions)		
H1 19		
Fresnillo mine	70.4	Mine development and mining works, purchase of in-mine equipment, including a tunnel boring machine, deepening of the San Carlos shaft and construction of the Pyrites Flotation Plant.
Saucito mine	60.9	Mine development, purchase of in-mine equipment and deepening of the Jarillas shaft.
Ciénega mine	31.9	Mining works, purchase of in-mine equipment and construction of tailings dam.
San Julián Veins and DOB	29.3	Mining works, construction of tailings dam and water reservoir and purchase of in-mine equipment.
Herradura mine	21.8	Purchase of in-mine equipment, land acquisition and construction of leaching pad.
Noche Buena	3.0	Implementation of Carbon in Column process, construction of leaching pad and anti-collision

		system
Other	31.1	Minera Bermejal and Minera Juanicipio
Total Purchase of property, plant and equip.	248.4	

Dividends paid to shareholders in 1H19 totalled US\$123.1 million as a result of the 2018 final dividend of 16.7 US cents per share paid in May 2019. Other uses of funds included the US\$21.3 million net interest paid in 1H19.

The sources and uses of funds described above resulted in a net decrease of US\$198.7 million in cash and other liquid funds, which, combined with the US\$560.8 million balance at the beginning of the year, resulted in cash and other liquid funds of US\$362.1 million as at 30 June 2019.

Balance Sheet

Fresnillo plc continued to maintain a solid financial position with cash and other liquid funds of US\$362.1 million as of 30 June 2019. However, this represented a 35.4% decrease versus December 2018 and a 48.9% decrease compared to the cash and other liquid funds of US\$708.6 million as of 30 June 2018.

Trade and other receivables (including income tax recoverable) decreased from US\$462.0 million as at 31 December 2018 to US\$474.3 million as at 30 June 2019 mainly due to the decrease in accounts receivables with Met-Mex as a result of the lower prices and volumes sold.

Inventories rose 7.7% over the 2018 year-end figure to US\$360.9 million, mainly as a result of the increase in gold inventories on the leaching pads at Herradura.

The change in the value of the Silverstream derivative from US\$519.1 million at the beginning of the year to US\$517.3 million as of 30 June 2019 reflects proceeds of US\$13.2 million (US\$9.5 million in cash generated in respect of the period and US\$3.7 million receivable) and the revaluation effects of a US\$11.4 million gain in the Group's income statement.

The net book value of property, plant and equipment remained flat (+0.6%) at US\$2,711.5 million at 30 June 2019 (US\$2,693.1 at 31 December 2018).

Fresnillo plc's total equity for 1H19 was US\$3,109.8 million, a decrease of 0.6% when compared to the figure at the beginning of the year, which reflected lower retained earnings from 2018.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out above in the Operational Review, with further detail in the Annual Report 2018. The financial position of the Group, its cash flows and liquidity position are described in the Financial Review. In addition, the Group's objectives, policies and processes for managing its capital, its financial risk management objectives and its exposures to credit risk and liquidity risk were set out in the Annual Report 2018. Details of its financial instruments and hedging activities as at 28 June 2019 are set out in note 18 to the interim report.

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 as at July 2019. In addition, they reviewed a more conservative cash flow scenario with silver and gold prices significantly reduced below current expectations, whilst maintaining current budgeted expenditure, which resulted in our current cash balances reducing over time to a more than adequate margin of liquidity towards the end of 2020.

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

Dividends

The Board of Directors has declared an interim dividend of 2.6 US cents per share totalling US\$19.2 million which will be paid on 6 September 2019 to shareholders on the register on 9 August 2019. This decision was made after a comprehensive review of the Group's financial situation, assuring that the Group is well placed to meet its current and future financial requirements, including its development and exploration projects.

Fresnillo's existing dividend policy, which takes into account the profitability of the business and underlying earnings of the Group, as well as its capital requirements and cash flows whilst maintaining an appropriate level of dividend cover, remains in place. To reiterate the policy, a total dividend of between 33 and 50 percent of profit after tax is paid out each year in the approximate proportion of one-third to be paid as an interim dividend, two-thirds to be paid as a final dividend.

The interim dividend will be paid in UK pounds sterling to shareholders, unless a shareholder elects to receive dividends in US dollars. The interim dividend will be paid in UK pounds sterling with the dividend being converted into UK pounds sterling on or around 13 August 2019.

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. It is expected that the 2019 interim dividend will be paid out of the remaining balance of the retained earnings generated before 2014.

We expect that future dividend payments 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.

Risks and uncertainties

In the first half of 2019, the Board and the Executive Committee continued to oversee Fresnillo plc's principal risks as part of our risk management framework as we work towards achieving our strategic objectives.

Fresnillo plc currently monitors twelve principal risks which have not changed from those set out in the Strategic Report of the Annual Report for the year ended 31 December 2018 (published in April 2019).

The principal risks are shown below:

- Impact of metal prices and global macroeconomic developments (silver and gold prices)
- Potential actions by the government (e.g. taxes, more stringent regulations, permits, etc)
- Access to land
- Security
- Public perception against mining
- Safety
- Union relations
- Exploration
- Projects (performance risk)
- Cybersecurity
- Environmental incidents
- Human Resources

Directors

The names and functions of the current directors and senior management team of Fresnillo plc are shown on the Group's website: www.fresnilloplc.com

Statement of directors' responsibilities

The Directors of the Company hereby confirm that to the best of their knowledge:

(a) the condensed set of financial statements has been prepared in accordance with IAS 34 as adopted by the European Union and gives a true and fair view of the assets, liabilities, financial position and profit and loss account of the Fresnillo Group as required by DTR 4.2.4; and

(b) the interim management report includes a fair review of the information required by DTR 4.2.7 (being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principle risks and uncertainties for the remaining six months of the year) and DTR 4.2.8 (being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period and changes since the last annual report).

On behalf of the board of directors of Fresnillo plc.

Octavio Alvidrez
Chief Executive Officer

INDEPENDENT REVIEW REPORT TO FRESNILLO PLC

Introduction

We have been engaged by the Company to review the interim condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2019 which comprises the interim consolidated income statement, the interim consolidated statement of comprehensive income, the interim consolidated balance sheet, the interim consolidated cash flow statement, the interim consolidated statement of changes in equity and the related Notes 1 to 18. We have read the other information contained in the half yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim condensed consolidated set of financial statements.

This report is made solely to the Company in accordance with guidance contained in International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our work, for this report, or for the conclusions we have formed.

Directors' Responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in Note 2a, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The interim condensed consolidated set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

Our Responsibility

Our responsibility is to express to the Company a conclusion on the interim condensed consolidated set of financial statements in the half-yearly financial report based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim condensed consolidated set of financial statements in the half-yearly financial report for the six months ended 30 June 2019 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Ernst & Young LLP
London

30 July 2019

Interim Consolidated Income Statement

Notes

For the six months ended 30 June

	2019 (Unaudited)			2018 (Unaudited)		
	Pre-Silverstream revaluation effect	Silverstream revaluation effect	Total	Pre-Silverstream revaluation effect	Silverstream revaluation effect	Total
<i>(in thousands of US dollars)</i>						
Continuing operations:						
Revenues	1,001,965		1,001,965	1,115,046		1,115,046
	4					
Cost of sales	(796,453)		(796,453)	(612,863)		(612,863)
	5					
Gross profit	205,512		205,512	502,183		502,183
Administrative expenses	(43,506)		(43,506)	(38,408)		(38,408)
Exploration expenses	(84,045)		(84,045)	(78,318)		(78,318)
Selling expenses	(10,561)		(10,561)	(11,381)		(11,381)
Other operating income	904		904	2,073		2,073
Other operating expenses	(3,005)		(3,005)	(4,415)		(4,415)
Profit from continuing operations before net finance costs and income tax	65,299		65,299	371,734		371,734
Finance income	15,630		15,630	8,914		8,914
	6					
Finance costs	(43,442)		(43,442)	(24,019)		(24,019)
	6					
Revaluation effects of Silverstream contract		11,431	11,431	-	(21,797)	(21,797)
	10					

For the six months ended 30 June
2019 2018
(Unaudited) (Unaudited)
(in thousands of US dollars)

Foreign currency translation	368	(112)
Income tax effect on items that may be reclassified subsequently to profit or loss	(41)	(4,795)
Net other comprehensive income that may be reclassified subsequently to profit or loss	466	11,076
Items that will not be reclassified to profit or loss:		
Loss on cash flow hedges	(347)	-
Changes in the fair value of cash flow hedges	(18)	(89)
Total effect of cash flow hedges	(365)	(89)
Changes in the fair value of equity investments at FVOCI	30,801	(9,867)
Income tax effect on items that will not be reclassified to profit or loss	(9,131)	8,690
Net other comprehensive profit/(loss) that will not be reclassified to profit or loss	21,305	(1,266)
Other comprehensive income, net of tax	21,771	9,810
Total comprehensive income, net of tax	92,685	239,102
Attributable to:		
Equity shareholders of the Company	91,942	239,811
Non-controlling interests	743	(709)
	92,685	239,102

Interim Consolidated Balance Sheet

Notes As of 30 June 2019 (Unaudited) As of 31 December 2018 (Audited)
(in thousands of US dollars)

ASSETS

Non-current assets

Property, plant and equipment	2c, 9	2,711,512	2,693,104
Equity instruments at FVOCI	18	109,020	78,219
Silverstream contract	10,18	496,983	498,274
Derivative financial instruments	18	-	20

	Notes	As of 30 June 2019 (Unaudited) (in thousands of US dollars)	As of 31 December 2018 (Audited) (in thousands of US dollars)
Deferred tax asset		91,087	88,883
Inventories	11	91,620	91,620
Other assets		<u>3,351</u>	<u>3,199</u>
		<u>3,503,573</u>	<u>3,453,319</u>
Current assets			
Inventories	11	269,322	243,404
Trade and other receivables	12	405,813	411,157
Income tax recoverable		68,442	50,871
Prepayments		23,072	15,488
Derivative financial instruments	18	2,788	294
Silverstream contract	10,18	20,303	20,819
Cash and cash equivalents	13	<u>362,060</u>	<u>560,785</u>
		<u>1,151,800</u>	<u>1,302,818</u>
Total assets		<u>4,655,373</u>	<u>4,756,137</u>
EQUITY AND LIABILITIES			
Capital and reserves attributable to shareholders of the Company			
Share capital		368,546	368,546
Share premium		1,153,817	1,153,817
Capital reserve		(526,910)	(526,910)
Hedging reserve		107	(229)
Cost of hedging reserve		(2,862)	(2,374)
Fair value reserve of financial assets at FVOCI		44,931	23,370
Foreign currency translation reserve		(427)	(795)
Retained earnings		<u>1,980,964</u>	<u>2,033,860</u>
		3,018,166	3,049,285
Non-controlling interests		<u>95,012</u>	<u>78,968</u>
Total equity		<u>3,113,178</u>	<u>3,128,253</u>
Non-current liabilities			
Interest-bearing loans		800,591	800,127
Lease liabilities	2c	7,264	-
Provision for mine closure cost		199,040	189,842
Provision for pensions and other post-employment benefit plans		7,305	6,393

		<i>As of 30 June 2019 (Unaudited) (in thousands of US dollars)</i>	<i>As of 31 December 2018 (Audited) (in thousands of US dollars)</i>
Deferred tax liability		<u>372,262</u>	<u>470,925</u>
		<u>1,386,462</u>	<u>1,467,287</u>
Current liabilities			
Trade and other payables		137,536	133,140
Income tax payable		2,616	10,960
Derivative financial instruments	18	6,667	3,807
Lease liabilities	2c	4,097	-
Employee profit sharing		<u>4,817</u>	<u>12,690</u>
		<u>155,733</u>	<u>160,597</u>
Total liabilities		<u>1,542,195</u>	<u>1,627,884</u>
Total equity and liabilities		<u>4,655,373</u>	<u>4,756,137</u>

Interim Consolidated Statement of Cash Flows

	<i>Notes</i>	<i>For the six months ended 30 June 2019 (Unaudited) (in thousands of US dollars)</i>	<i>2018 (Unaudited) (in thousands of US dollars)</i>
Net cash from operating activities	17	<u>167,696</u>	<u>366,630</u>
Cash flows from investing activities			
Purchase of property, plant and equipment		(248,352)	(352,174)
Proceeds from the sale of property, plant and equipment		210	78
Repayments of loans granted to contractors		-	493
Silverstream contract	10	12,899	22,319
Interest received		<u>15,630</u>	<u>8,907</u>
Net cash used in investing activities		<u>(219,613)</u>	<u>(320,377)</u>
Cash flows from financing activities			
Dividends paid to shareholders of the Company		(123,057)	(219,369)
Capital contribution		15,301	5,683
Interest paid ¹		(36,931)	(18,654)
Leases payment		(2,530)	-
Net cash used in financing activities		<u>(147,217)</u>	<u>(232,340)</u>
Net decrease in cash and cash equivalents during the period		(199,134)	(186,087)
Effect of exchange rate on cash and cash equivalents		409	(1,395)
Cash and cash equivalents at 1 January	13	560,785	876,034

	13	362,060	688,552
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Cash and cash equivalents at 30 June

¹Total interest paid during the six months ended 30 June 2019 less amounts capitalised totalling US\$2.6 million (30 June 2018: US\$5.2 million) which is included within the caption Purchase of property, plant and equipment.

Interim Consolidated Statement of Changes in Equity

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 attributable to shareholders of the Company	Non-controlling interests	Total equity
	<i>(in thousands of US dollars)</i>											
Balance at 1 January 2018 (Audited)	368,546	1,153,817	(526,910)	-	-	53,799	-	(610)	1,962,708	3,011,350	55,245	3,066,595
Adjustments of initial application of IFRS 9	-	-	-	-	(13,376)	(53,799)	49,622	-	17,553	-	-	-
Profit for the period	-	-	-	-	-	-	-	-	230,001	230,001	(709)	229,292
Other comprehensive income, net of tax	-	-	-	(62)	11,188	-	(1,204)	(112)	-	9,810	-	9,810
Total comprehensive income for the period	-	-	-	(62)	11,188	-	(1,204)	(112)	230,001	239,811	(709)	239,102
Capital contribution	-	-	-	-	-	-	-	-	-	-	5,683	5,683
Dividends paid	-	-	-	-	-	-	-	-	(219,594)	(219,594)	-	(219,594)
Balance at 30 June 2018 (Unaudited)	368,546	1,153,817	(526,910)	(62)	(2,188)	-	48,418	(722)	1,990,668	3,031,567	60,219	3,091,786
Balance at 1 January 2019- (Audited)	368,546	1,153,817	(526,910)	(229)	(2,374)	-	23,370	(795)	2,033,860	3,049,285	78,968	3,128,253
Profit for the period	-	-	-	-	-	-	-	-	70,165	70,165	749	70,914
Other comprehensive income, net of tax	-	-	-	336	(488)	-	21,561	368	-	21,777	(6)	21,771
Total comprehensive income for the period	-	-	-	336	(488)	-	21,561	368	70,165	91,942	743	92,685
Capital contribution	-	-	-	-	-	-	-	-	-	-	15,301	15,301
Dividends paid	-	-	-	-	-	-	-	-	(123,061)	(123,061)	-	(123,061)
Balance at 30 June 2019 (Unaudited)	368,546	1,153,817	(526,910)	107	(2,862)	-	44,931	(427)	1,980,964	3,018,166	95,012	3,113,178

Notes to the Interim Condensed Consolidated Financial Statements**1 Corporate Information**

Fresnillo plc ("the Company") is a public limited company registered in England and Wales with the registered number 6344120.

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 16.

The interim condensed consolidated financial statements of the Group for the six months ended 30 June 2019 ("interim consolidated financial statements") were authorised for issue by the Board of Directors of Fresnillo plc on 29 July 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's operating mines and its principal activities is disclosed in Note 3.

2 Significant accounting policies**(a) Basis of preparation and statement of compliance**

The interim consolidated financial statements of the Group for the six months ended 30 June 2019 have been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the European Union (EU). They do not include all the information required for full annual financial statements for the Group, and therefore,

should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2018 as published in the Annual Report 2018.

These interim consolidated financial statements do not constitute statutory accounts as defined in section 435 of the Companies Act 2006. A copy of the statutory accounts for the year ended 31 December 2018 has been delivered to the Register of Companies. The auditor's report in accordance with Chapter 3 of Part 16 of the Companies Act 2006 in relation to those accounts was unqualified, did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying the report and did not contain a statement under section 498(2) or section 498(3) of the UK Companies Act 2006.

The interim 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 interim 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 where otherwise indicated.

The impact of seasonality or cyclicity on operations is not considered significant on the interim consolidated financial statements.

(b) Basis of consolidation

The interim consolidated financial statements set out the Group's financial position as of 30 June 2019 and 31 December 2018, and its operations and cash flows for the six-month periods ended 30 June 2019 and 30 June 2018.

The basis of consolidation adopted in the preparation of the interim consolidated financial statements is consistent with that applied in the preparation of the consolidated financial statements for the year ended 31 December 2018.

(c) Changes in accounting policies and presentation

The accounting policies adopted in the preparation of the interim consolidated financial statements are consistent with those applied in the preparation of the consolidated financial statements for the year ended 31 December 2018, except for the following:

New standards and interpretations as adopted by the Group

IFRS 16, Leases

The Group has adopted IFRS 16, Leases from 1 January 2019 but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard ("modified retrospective approach"). The adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 4.2% for contracts denominated in US dollars and 10.1% for contracts denominated in Mexican pesos. Contracts in other currencies are not material.

The resulting lease liability as of 1 January 2019 was determined as follows:

	2019
	<i>(in thousands of US dollars)</i>
Operating lease commitments disclosed as at 31 December 2018	16,130
Discounted using the lessee's incremental borrowing rate of at the date of initial application	14,181
(Less): short-term leases recognised on a straight-line basis as expense	(146)
(Less): low-value leases recognised on a straight-line basis as expense	(2,552)
(Less): other adjustments	(184)
	<hr/>
Lease liability recognised as at 1 January 2019	11,299
	<hr/>
Less - Current portion	3,758
Non-current portion	7,541
	<hr/>

The associated right-of-use assets were measured at the amount equal to the lease liability, therefore there was no adjustment to retained earnings on adoption. The right-of-use assets were evaluated for indicators of impairment in accordance with IAS 36, no indicators were identified.

The recognised right-of-use assets relate to the following types of assets:

	<i>30 June 2019 (in thousands of US dollars)</i>	<i>1 January 2019</i>
Computer equipment	8,148	7,749
Buildings	3,209	3,550
	<u>11,357</u>	<u>11,299</u>

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- The use of a single discount rate to a portfolio of leases with reasonably similar characteristics.
- The accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases, and
- The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments (including in-substance fixed payments), less any lease incentives receivable variable lease payment that are based on an index or a rate.
- Amounts expected to be payable by the lessee under residual value guarantees the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- The amount of the initial measurement of lease liability
- Any lease payments made at or before the commencement date less any lease incentives received
- Any initial direct costs, and
- Restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT-equipment.

Other Narrow Scope Amendments and IFRS interpretations

The Group also adopted other amendments to IFRSs' as well as the interpretation IFRIC 23 "Uncertainty over Income Tax Treatments (UTP)", which were effective for accounting periods beginning on or after 1 January 2019. The Group has reassessed its accounting policy under the implementation guidance of IFRIC 23 and clarified that detection risk is not considered in respect of recognition or measurement of uncertain tax positions. The impact of adoption did not have a material effect on the Group Consolidated Interim Financial Statements.

Impact of standards issued but not yet applied by the Group

The IASB has 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.

Significant accounting judgments, estimates and assumptions

Significant accounting judgments, estimates and assumptions are consistent with those disclosed in the consolidated financial statements for the year ended 31 December 2018.

3 Segment reporting

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

At 30 June 2019 the Group has seven reportable operating segments represented by seven producing mines 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 Cienega mine, located in the State of Durango, an underground gold mine; including the San Ramon satellite mine;
- The Herradura mine, located in the State of Sonora, a surface gold mine;
- The Soledad-Dipolos mine, located in the State of Sonora, a surface gold mine;
- The Noche Buena mine, located in the State of Sonora, a surface gold mine; and
- The San Julian 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.

In the six months ended 30 June 2019 and 2018, all revenue was derived from customers based in Mexico.

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 interim consolidated income statements, 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 interim consolidated income statement. Other income and expenses included in the interim 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.

Operating segments

The following tables present revenue and profit information regarding the Group's operating segments for the six months ended 30 June 2019 and 2018, respectively. Revenues for the six months ended 30 June 2019 and 30 June 2018 include those derived from contracts with customers and other revenues, as showed in note 4.

<i>Six months ended 30 June 2019</i>										
<i>US\$ thousands</i>	Fresnillo	Herradura	Cienega	Soledad-Dipolos ⁴	Saucito	Noche Buena	San Julian	Other ⁵	Adjustments and eliminations	Total
Revenues:										
Third party ¹	140,988	316,762	83,987	-	217,484	86,497	156,168	-	79	1,001,965
Inter-Segment	-	-	-	-	-	-	-	47,356	(47,356)	-
Segment revenues	140,988	316,762	83,987	-	217,484	86,497	156,168	47,356	(47,277)	1,001,965
Segment profit²	72,013	95,887	33,005	-	118,300	26,810	66,332	36,937	1,027	450,311
Depreciation and amortisation										(240,480)
Employee profit sharing										(4,319)
Gross profit as per the income statement										205,512
Capital expenditure³										
	70,424	21,838	31,921	-	60,941	2,978	29,354	30,896	-	248,352

¹Total third party revenues include treatment and refining charges amounting US\$67.0 million. Adjustments and eliminations correspond to hedging gains (note 4).

²Segment profit excluding depreciation and amortisation and employee profit sharing.

³Capital expenditure represents the cash outflow in respect of additions to property, plant and equipment.

⁴During 2019, this segment did not operate due to the Bajio conflict (note 15).

⁵Other inter-segment revenue corresponds to leasing services provided by Minera Bermejil, S.A. de C.V.; capital expenditure corresponds to Minera Juanicipio S.A. de C.V.

<i>Six months ended 30 June 2018</i>										
<i>US\$ thousands</i>	Fresnillo	Herradura	Cienega	Soledad-Dipolos ⁴	Saucito	Noche Buena	San Julian	Other ⁵	Adjustments and eliminations	Total
Revenues:										
Third party ¹	189,199	327,385	87,889	-	218,517	114,855	177,192	-	9	1,115,046
Inter-Segment	-	-	-	-	-	-	-	41,370	(41,370)	-
Segment revenues	189,199	327,385	87,889	-	218,517	114,855	177,192	41,370	(41,361)	1,115,046
Segment profit²	130,522	224,580	42,790	-	144,728	46,850	98,356	31,498	(12,523)	706,801
Depreciation and amortisation										(192,840)
Employee profit sharing										(11,778)
Gross profit as per the income statement										502,183
Capital expenditure³										
	55,960	89,904	34,404	-	70,966	20,133	40,847	39,960	-	352,174

¹Total third party revenues include treatment and refining charges amounting US\$74.8 million. Adjustments and eliminations correspond to hedging gains (note 4).

²Segment profit excluding depreciation and amortisation and employee profit sharing.

³Capital expenditure represents the cash outflow in respect of additions to property, plant and equipment.

⁴During 2018, this segment did not operate due to the Bajio conflict (note 15).

⁵Other inter-segment revenue corresponds to leasing services provided by Minera Bermejil, S.A. de C.V.; capital expenditure corresponds to Minera Juanicipio S.A. de C.V.

4 Revenues

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

(a) Revenues

	<i>Six months ended 30 June</i>	
	<i>2019</i>	<i>2018</i>
	<i>(in thousands of US dollars)</i>	
Revenues from contracts with customers	1,004,571	1,125,946
Revenues from other sources		
Provisional pricing adjustment on products sold	(2,685)	(10,909)
Hedging gain on sales	79	9
	<u>1,001,965</u>	<u>1,115,046</u>

Six months ended 30 June
2019 2018
(in thousands of US dollars)

(b) Revenues by product sold

	Six months ended 30 June	
	2019	2018
	(in thousands of US dollars)	
Lead concentrates (containing silver, gold, lead and by-products)	366,790	426,307
Doré and slag (containing gold, silver and by-products)	403,259	442,240
Zinc concentrates (containing zinc, silver and by-products)	117,602	133,381
Precipitates (containing gold and silver)	114,314	113,118
	<u>1,001,965</u>	<u>1,115,046</u>

All lead and zinc 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:

	Six months ended 30 June	
	2019	2018
	(in thousands of US dollars)	
Silver	366,099	432,093
Gold	556,766	593,002
Zinc	100,922	109,245
Lead	45,263	55,542
Value of metal content in products sold	1,069,050	1,189,882
Adjustment for treatment and refining charges	(67,085)	(74,836)
Total revenues ¹	<u>1,001,965</u>	<u>1,115,046</u>

¹ Includes provisional price adjustments which represent changes in the fair value of trade receivables resulting in a loss of US\$2.7 million (2018: loss of US\$10.9 million) and hedging gain of US\$0.08 million (2018: gain of less than US\$0.01 million).

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

	Six months ended 30 June	
	2019	2018
	(in US dollars per ounce)	
Gold ²	1,320.74	1,312.77
Silver ²	15.25	16.48

² For the purpose of the calculation, revenue by content of products sold does not include the results from hedging.

5 Cost of sales

	Six months ended 30 June	
	2019	2018
	(in thousands of US dollars)	
Depreciation and amortisation (Note 9)	240,480	192,840
Personnel expenses ¹	52,394	50,146
Maintenance and repairs	90,329	65,479
Operating materials	118,380	86,877
Energy	108,231	75,458
Contractors	168,274	136,504
Mining concession rights and contributions	6,243	6,534

Half-year Report

	Six months ended 30 June	
	2019	2018
	<i>(in thousands of US dollars)</i>	
Freight	5,184	5,350
Surveillance	3,448	1,350
Insurance	2,984	2,543
Other	14,545	11,473
Cost of production	810,492	634,554
Change in work in progress and finished goods (ore inventories)	(14,039)	(21,691)
Cost of sales	796,453	612,863

¹ Personnel expenses include employees' profit sharing of US\$4.3 million for the six months ended 30 June 2019 (six months ended 30 June 2018: US\$11.8 million).

6 Finance income and finance costs

	Six months ended 30 June	
	2019	2018
	<i>(in thousands of US dollars)</i>	
Finance income:		
Interest on short term deposits	7,171	7,956
Other	8,459	958
	15,630	8,914
Finance costs:		
Interest on short term deposits	-	41
Interest on interest-bearing loans	20,482	18,334
Unwinding of discount on provisions	5,924	5,026
Fair value movements on derivatives	-	274
Other ¹	17,036	344
	43,442	24,019

¹ Includes US\$15.7 million of interest and surcharges as a result of the amendment to tax positions described in note 7.

7 Income tax expense

	Six months ended 30 June	
	2019	2018
	<i>(in thousands of US dollars)</i>	
<i>Current corporate income tax:</i>		
Income tax charge ¹	49,827	93,756
Amounts under/(over) provided in previous periods ³	34,002	(4,728)
	83,829	89,028
<i>Deferred corporate income tax:</i>		
Origination and reversal of temporary differences	(91,268)	339
Revaluation effects of Silverstream contract	3,429	(6,539)
	(87,839)	(6,200)
Corporate income tax	(4,010)	82,828

Six months ended 30 June
2019 2018
(in thousands of US dollars)

Current special mining right:

Special mining right charge^{2,3}

9,360	2,917
<u>9,360</u>	<u>2,917</u>

Deferred special mining right:

Origination and reversal of temporary differences

(22,210)	7,961
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Special mining right

<u>(12,850)</u>	<u>10,878</u>
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Income tax expense as reported in the income statement

<u>(16,860)</u>	<u>93,706</u>
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¹ During 2019 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 could be applied against the annual Group's own corporate income tax. The credit is calculated on an entity-by-entity basis. During the six months period ended 30 June 2019 the Group has recognized a credit of US\$8.1 million (30 June 2018: US\$16.9 million) in respect of the period. As the IEPS deduction is itself taxable, the benefit is recognised at 70% of the IEPS calculated during the period.

² The special mining right allows the deduction of payments for mining concession rights up to the amount of the special mining right payable within the same legal entity. In the six months ended 30 June 2019, the Group credited US\$6.2 million (2018: US\$8.9 million) of mining concession rights against the special mining right. Prior to credits permitted under the special mining right regime, the current special mining right charge would have been US\$8.8 million (2018: US\$11.8).

The total mining concession rights paid during the six month period were US\$10.7 million (2018: US\$9.9 million) and have been recognised in the income statement within cost of sales and exploration expenses. Mining concessions rights paid in excess of the special mining right cannot be credited to special mining rights in future fiscal periods, and therefore, no deferred tax asset has been recognised in relation to the excess.

³ In 2017, the Mexican tax authorities ("SAT") opened routine audits into the 2014 tax returns of two underground mining subsidiaries relating primarily to the tax treatment of certain mining works, which is not explicitly dealt with in the Mexican income tax law. In 2018, the Group and SAT agreed on the most appropriate tax treatment of mining works disbursements at the two subsidiaries for the year of the audit. This resulted in tax amendments documented through agreements executed between SAT, PRODECON (Mexico's tax ombudsman) and the Group on 30 November 2018 (the "Conclusive Agreements").

Fresnillo determined it to be in the Company's best interests to align its tax treatment across its underground mining operations subsidiaries with the Conclusive Agreements. Accordingly, on 28 June 2019, Fresnillo elected to amend the tax treatment of mining works across all its underground mines in operation, retrospectively, for the years 2014 to 2018.

The amendment resulted in an increase in the current corporate income tax of US\$38.5 million and current special mining right of US\$6.8 million; this effect was offset by a decrease in deferred corporate income tax of US\$39.5 million and deferred special mining right of US\$12.3 million. After considering the effect of recoverable tax-related balances arising during the amendment period, the amount payable upon amendment in respect of corporate income tax and special mining right was US\$32.9 million and US\$6.8 million, respectively. The amendment also resulted in US\$15.7 million of interest and surcharges, presented in finance costs. Of the total amount payable, US\$55.3 million, US\$22.2 million was offset against corporate income tax and VAT receivables that existed at the date of the amendment and the remaining US\$33.1 million was paid in cash.

The effective tax rate for corporate income tax for the six months ended 30 June 2019 is (7.42)% (six months ended 30 June 2018: 25.64%) and (31.19)% including the special mining right (six months ended 30 June 2018: 29.01%). The main factors that reduced the effective tax rate for corporate income tax below 30% are the effect of uplift of tax value of assets, the effect of foreign exchange on tax bases, the amendment in the tax treatment of mining works and the IEPS tax incentive described above.

In addition to the effect of the voluntary tax amendment, the origination and reversal of temporary differences principally reflect reductions in provisional sales and the effect of movements in property, plant and equipment in the period.

8 Earnings per share

Earnings per share ("EPS") is calculated by dividing profit for the period 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.

For the six months ended 30 June 2019 and 30 June 2018, earnings per share have been calculated as follows:

Six months ended 30 June
2019 2018
(in thousands of US dollars)

Earnings:

Profit from continuing operations attributable to equity holders of the Company	70,165	230,001
Adjusted profit from continuing operations attributable to equity holders of the Company	62,163	245,259

Adjusted profit is profit as disclosed in the Interim Consolidated Income Statement adjusted to exclude revaluation effects of the Silverstream contract of US\$11.4 million gain (US\$8.0 million net of tax) (2018: US\$21.8 million loss and US\$15.2 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.

Six months ended 30 June
2019 2018

Number of shares:

Weighted average number of ordinary shares in issue ('000)	736,894	736,894
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Six months ended 30 June
2019 2018

Earnings per share:

Basic and diluted earnings per ordinary share from continuing operations (US\$)	0.095	0.311
Adjusted basic and diluted earnings per ordinary share from continuing operations (US\$)	0.084	0.333

9 Property, plant and equipment

The changes in property, plant and equipment, including right-of-use assets, during the six months ended 30 June 2019 are principally additions of US\$245.3 million (six months ended 30 June 2018: US\$346.4 million) and depreciation and amortisation of US\$241.1 million, of which US\$0.10 million was capitalised as a part of the cost of other fixed assets (six months ended 30 June 2018: US\$199.5 million, of which US\$6.7 million was capitalised). Significant additions include mine development, and purchase of mine equipment as well as projects such as Juanicipio and the construction of the pyrites plant in the Fresnillo district.

As of 30 June 2019 the Group has contractual commitments related to the construction and acquisition of property, plant and equipment of US\$250.0 million (31 December 2018: US\$328.2 million).

10 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 period ended 30 June was \$5.31 per ounce (30 June 2018: \$5.26 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.

Cash received in respect of the period of US\$9.5 million (six months ended 30 June 2018: US\$17.4 million) corresponds to 1.3 million ounces of payable silver (six months ended 30 June 2018: 2.0 million ounces). As at 30 June 2019, a further US\$3.7 million (30 June 2018: US\$4.4 million) of cash corresponding to 374,432 ounces of silver is due (30 June 2018: 413,793 ounces).

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

	2019	2018
	<i>(in thousands of US dollars)</i>	
Balance at 1 January:	519,093	538,887
Cash received in respect of the period	(9,528)	(17,395)
Cash receivable	(3,710)	(4,456)
Remeasurement gain/(loss) recognised in profit or loss	11,431	(21,797)
Balance at 30 June	<u>517,286</u>	<u>495,239</u>
Less - Current portion	<u>20,303</u>	<u>28,181</u>
Non-current portion	<u>496,983</u>	<u>467,058</u>

The US\$11.4 million unrealised gain recorded in the income statement (30 June 2018: US\$21.8 million loss) resulted mainly from the decrease in the LIBOR reference rate and the unwinding of the discount which were partially compensated by the updating of the Sabinas Reserves and Resources, inflation and exchange rate forecasts and the decrease in the forward silver price curve.

11 Inventories

	<i>As at 30 June</i>	<i>As at 31</i>
	<i>2019</i>	<i>December 2018</i>
	<i>(in thousands of US dollars)</i>	
Finished goods ¹	11,013	15,052
Work in progress ²	255,632	235,094
Ore stockpiles ³	1,657	3,799
Operating materials and spare parts	<u>98,030</u>	<u>87,180</u>
Inventories at lower of cost and net realisable value	366,332	341,125
Allowance for obsolete and slow-moving inventories	<u>(5,390)</u>	<u>(6,101)</u>
Balance at lower of cost and net realisable value	360,942	335,024
Less - Current portion	<u>269,322</u>	<u>243,404</u>
Non-current portion ⁴	<u>91,620</u>	<u>91,620</u>

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

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

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

⁴ The non-current inventories are expected to be processed more than 12 months from the reporting date.

12 Trade and other receivables

	<i>As at 30 June</i>	<i>As at 31</i>
	<i>2019</i>	<i>December 2018</i>
	<i>(in thousands of US dollars)</i>	
Trade and other receivables from related parties (Note 16) ¹	192,404	213,292
Value added tax receivable	196,799	182,290

	<i>As at 30 June 2019 (in thousands of US dollars)</i>	<i>As at 31 December 2018</i>
Other receivables from related parties (Note 16)	5,387	3,371
Other receivable from contractors	2,527	2,755
Other receivables	<u>9,453</u>	<u>10,306</u>
	406,570	412,014
Provision for impairment of other receivables	<u>(757)</u>	<u>(857)</u>
	<u>405,813</u>	<u>411,157</u>

¹Trade receivables from related parties are valued at fair value based on forward market prices.

13 Cash and cash equivalents

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

	<i>As at 30 June 2019 (in thousands of US dollars)</i>	<i>As at 31 December 2018</i>
Cash at bank and on hand	4,343	2,125
Short-term deposits	<u>357,717</u>	<u>558,660</u>
Cash and cash equivalents	<u>362,060</u>	<u>560,785</u>

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.

14 Dividends paid

Dividends declared by the Company are as follows:

	Per share US Cents	Amounts \$Million
Six months ended 30 June 2019		
Total dividends paid during the period ¹	16.7	123.1
Six months ended 30 June 2018		
Total dividends paid during the period ²	29.8	219.6

¹ Final dividend for 2018 approved at the Annual General Meeting on 21 May 2019 and paid on 24 May 2019.

² Final dividend for 2017 approved at the Annual General Meeting on 30 May 2018 and paid on 4 Jun 2018.

15 Contingencies

The contingencies in the Group's annual consolidated financial statements for the year ended 31 December 2018 as published in the 2018 Annual Report, are still applicable as of 30 June 2019, including the matters described below:

- Various claims and counterclaims have been made between the relevant parties in the El Bajío matter. There remains uncertainty as to the finalisation and ultimate outcome of these legal proceedings, with the following being the two main proceedings:
 - As previously reported by the Company, the Unitarian Agrarian Court in Hermosillo, Sonora issued a procedural order in February 2014 determining, amongst other aspects, that Minera Penmont ("Penmont") must remediate the lands subject of the litigation 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 which ordered Penmont to vacate the lands in dispute and also because the procedural order appeared not to consider the fact that Penmont conducted its activities pursuant to valid mining concessions and environmental impact permits. In December 2016, the Unitarian Agrarian Court issued a resolution stating that Penmont had complied with the agrarian ruling by returning the land in dispute and that remediation activities were to be conducted in accordance with applicable environmental guidelines and regulations, as supervised by the competent authorities. The agrarian community Ejido El Bajío appealed the resolution, but a District Court in Sonora denied the Ejido's motion. The agrarian community presented a further and last recourse before a Federal Court of Appeals and in June 2019 this Court denied the Ejido's recourse. Final closure of this litigation is pending, once the file returns from the Court of Appeals to the Unitarian Agrarian Court in Sonora and it declares the closure of the case, for which there is not a specific time frame.
 - In addition, and as also previously reported by the Company, claimants in the El Bajío matter presented other claims against occupation agreements they entered into with Penmont, covering land parcels separate from the land described above. Penmont has had 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 had specific geological interest in these land parcels, any contingencies relating to such land parcels are not considered material by the Company. The case relating to the claims over these land parcels remains subject to final conclusion.

Six months ended 30 June
2019 2018
(in thousands of US dollars)

Income:*Sales¹:*

Metalúrgica Met-Mex Peñoles, S.A. de C.V.	1,001,995	1,119,766
	<u> </u>	<u> </u>

<i>Other income</i>	3,222	2,151
	<u> </u>	<u> </u>

Total income	1,005,217	1,121,917
	<u> </u>	<u> </u>

¹ Figures do not include hedging results as the derivative transactions are not undertaken with related parties. Figures are net of treatment and refining charges of US\$67.1 million (June 2018: US\$74.8 million) and include sales credited to development projects of US\$0.1 million (June 2018: 4.7)

Six months ended 30 June
2019 2018
(in thousands of US dollars)

Expenses:*Administrative Services:*

Servicios Administrativos Peñoles, S.A. de C.V. ²	17,540	14,105
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Servicios Especializados Peñoles, S.A. de C.V. ²	8,977	7,192
	<u> </u>	<u> </u>

	26,517	21,297
	<u> </u>	<u> </u>

Energy:

Fuerza Eólica del Istmo, S.A. de C.V.	-	2,187
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Fuentes de Energía Peñoles, S.A. de C.V.	2,314	1,155
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Termoeléctrica Peñoles, S. de R.L. de C.V.	7,478	9,474
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Eólica de Coahuila, S.A. de C.V.	24,475	12,655
	<u> </u>	<u> </u>

	34,267	25,471
	<u> </u>	<u> </u>

Operating materials and spare parts:

Wideco Inc	3,286	2,059
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Metalúrgica Met-Mex Peñoles, S.A. de C.V.	4,524	3,678
	<u> </u>	<u> </u>

	7,810	5,737
	<u> </u>	<u> </u>

Equipment repairs and administrative services:

Serviminas, S.A. de C.V.	4,857	4,366
	<u> </u>	<u> </u>

Six months ended 30 June
2019 2018
(in thousands of US dollars)

Insurance premiums:

Grupo Nacional Provincial, S.A.B. de C.V.	1,719	1,070
	<u>1,719</u>	<u>1,070</u>
<i>Other expenses</i>	1,142	874
	<u>1,142</u>	<u>874</u>
Total expenses	76,312	58,815
	<u>76,312</u>	<u>58,815</u>

² Based on the Service Agreement with Servicios Administrativos Peñoles, S.A. de C.V. ("SAPSA") and Servicios Especializados Peñoles, S.A. de C.V. ("SEPSA"), both wholly owned Peñoles' subsidiaries, the companies provided administrative services during the six months ended 30 June 2019 for a total amount of US\$26.5 million (US\$21.3 million for the six months ended 30 June 2018). Of the total amount of these services, US\$24.3 million (US\$19.0 million for the six months ended 30 June 2018) were recognised in administrative expenses and US\$2.2 million (US\$2.3 million for six months ended 30 June 2018) were capitalised.

(c) Compensation of key management personnel of the Group

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

Six months ended 30 June
2019 2018
(in thousands of US dollars)

Salaries and bonuses	2,197	2,005
Post-employment pension	141	150
Other benefits	143	115
	<u>143</u>	<u>115</u>
Total compensation paid to key management personnel	2,481	2,270
	<u>2,481</u>	<u>2,270</u>

17 Notes to the consolidated statement cash flows

	Notes	Six months ended 30 June 2019	2018 (in thousands of US dollars)
Reconciliation of profit for the period to net cash generated from operating activities			
Profit for the period		70,914	229,292
Adjustments to reconcile profit for the period to net cash inflows from operating activities:			
Depreciation and amortisation	9	241,074	192,840
Employee profit sharing		4,563	12,093
Deferred income tax expense	7	(110,049)	1,761
Current income tax expense	7	93,189	91,945
Loss on the sale of property, plant and equipment		127	51
Other losses		-	3
Net finance costs		27,804	14,797
Foreign exchange loss		(506)	10,503
Difference between pension contributions paid and amounts recognised in the income statement		477	500
Non cash movement on derivatives	6	(79)	274
Changes in fair value of Silverstream	10	(11,431)	21,797
Working capital adjustments			
Decrease/(increase) in trade and other receivables		15,730	(17,724)
Increase in prepayments and other assets		(7,741)	(19,842)
Increase in inventories		(25,918)	(23,703)
Increase/(decrease) in trade and other payables		10,377	(2,634)
		<u>308,531</u>	<u>511,953</u>
Cash generated from operations		308,531	511,953
Income tax paid ¹		(127,986)	(130,974)
Employee profit sharing paid		(12,849)	(14,349)
Net cash from operating activities		167,696	366,630

¹ Income tax paid includes US\$111.2 million corresponding to corporate income tax (June 2018: US\$111.2 million) and US\$17.9 corresponding to special mining right (June 2018: US\$19.7 million), for further information refer to note 7.

18 Financial instruments

a. Classification

As at 30 June 2019

US\$ thousands

Financial assets:	Amortized	Fair value	Fair value (hedging)	Fair value
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	Quoted prices in active markets (Level 1)	Significant observable (Level 2)	Significant unobservable (Level 3)	Total
<i>US\$ thousands</i>				
Financial assets:				
Trade receivables	-	-	196,115	196,115
Derivative financial instruments:				
Option commodity contracts	-	2,727	-	2,727
Option and forward foreign exchange contracts	-	61	-	61
Silverstream contract (Note 10)	-	-	517,286	517,286
Other financial assets:				
Equity instruments at FVOCI	109,018	-	-	109,018
	109,018	2,788	713,401	825,207
Financial liabilities:				
Derivative financial instruments:				
Option commodity contracts	-	6,506	-	6,506
Option and forward foreign exchange contracts	-	161	-	161
	-	6,667	-	6,667

As of 31 December 2018

Fair value measure using

	Quoted prices in active markets (Level 1)	Significant observable (Level 2)	Significant unobservable (Level 3)	Total
<i>US\$ thousands</i>				
Financial assets:				
Trade receivables			216,573	216,573
Derivative financial instruments:				
Option commodity contracts	-	240	-	240
Option and forward foreign exchange contracts	-	74	-	74
Silverstream contract (Note 10)	-	-	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:				
Options commodity contracts	-	3,660	-	3,660
Option and forward foreign exchange contracts	-	147	-	147
	-	3,807		3,807

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

A reconciliation of the opening balance to the closing balance for Level 3 financial instruments other than Silverstream (which is disclosed in Note 10) is shown below:

	2019	2018
<i>US\$ thousands</i>		
Balance at 1 January	213,202	225,741
Net change in trade receivable from goods sold	(18,112)	(5,030)
Changes in fair value ¹	5,299	(6,841)
Realised embedded derivatives during the year ¹	(7,985)	(4,098)
Balance at 30 June	192,404	209,772

1 Changes in fair value and realised embedded derivatives during the year are recognised in revenues.

Valuation techniques

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

Option commodity contracts

The Group enters into derivative financial instruments with various counterparties, principally financial institutions with investment grade credit ratings. The Level 2 option commodity 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.

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 Level 2 foreign currency forward 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.

Silverstream contract (see note 10)

The fair value of the Silverstream contract is determined using a valuation model. The term of the derivative, which is based on Sabinas life of mine is currently 41 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 contract is not significantly sensitive to a reasonable change in future inflation, however, it is to a reasonable change in future silver price, future exchange rate and the discount rate used to discount future cash flows.

The following table demonstrates the sensitivity of the Silverstream contract valuation to reasonably possible change in those inputs. There are no changes to equity other than those derived from the changes in profit before tax.

	Increase/ (decrease)	Effect on profit before tax: increase/ (decrease) <i>US\$ thousands</i>
30 June 2019		
Silver price	10%	71,619
	(10%)	(71,619)
Foreign exchange rate: strengthening/(weakening) of the US dollar	5%	35
	(5%)	(39)
Interest rate	25 basis point	(15,714)
	(50 basis point)	33,743
31 December 2018		
Silver price	15%	106,879
	(15%)	(106,879)
Foreign exchange rate: strengthening/(weakening) of the US dollar	10%	(46)
	(10%)	56
Interest rate	75 basis point	(4,206)
	(75 basis point)	4,206

Equity investments

The fair value of equity investments is derived from quoted market prices in active markets.

Interest-bearing loans

The fair value of the Group's interest-bearing loan is derived from quoted market prices in active markets.

Receivables from provisional sales

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. 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 forward and option contracts in order to manage its exposure to foreign exchange risk associated with costs incurred in Mexican pesos and other currencies. The Group also enters into option contracts to manage its exposure to commodity price risk. The types of derivative contracts outstanding at 30 June 2019 were consistent with those outstanding at 31 December 2018.

The gold commodity options in liability positions at 30 June 2018 were US\$6.5 million (31 December 2018: US\$4.6 million). Additionally, the zinc options in an asset position at 30 June 2018 were US\$2.8 million (31 December 2018: nil); the zinc options in a liability position at 30 June 2018 were US\$0.1 million (31 December 2018: nil). Other than gold and zinc commodity options, the derivative financial instruments outstanding at 30 June 2019 and 31 December 2018 were not material.

d. 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 debt instruments. 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, which consists of cash and cash equivalents and investments in debt instruments, where relevant. As at 30 June 2019 and 31 December 2018, the amount of investments in debt instruments was nil.

[1] Adjusted revenues are the revenues shown in the income statement adjusted to add back treatment and refining costs and the effects of gold, lead and zinc hedging. The Company considers this is a useful additional measure to help understand underlying factors driving revenue in terms of volumes sold and realised prices

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

[3] Cash and other liquid funds are disclosed in note 18(d) to the Financial Statements

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

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