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31 July 2018

Fresnillo plc interim results for the six months to 30 June 2018

Financial highlights (1H18/1H17 comparisons)

- Adjusted revenues¹ of US\$1,189.9m, up 11.3%
- Gross profit and EBITDA² of US\$502.2m and US\$566.9m, up 9.2% and 8.5%, respectively
- Silverstream valuation, a non-cash item, had an adverse effect on profit before income tax, which came down 16.6% to US\$323.0m
- In addition, profit for the period of US\$229.3m, down 26.1%, was adversely impacted by changes in the MXP/USD exchange rate and inflation rate on deferred taxes (non-cash item)
- Basic and diluted EPS from continuing operations of US\$31.2 cents per share, adjusted EPS of US\$33.3 cents per share, down 25.5% and 9.3%
- Cash generated from operations, before changes in working capital of US\$575.9m, up 6.6%
- Net cash from operating activities of US\$366.6m, up 3.5%
- Strong balance sheet with cash and other liquid assets as at 30 June 2018 of US\$708.6m
- Interim dividend of US\$78.8m (10.7 US cents per share)

Operational highlights (1H18/1H17 comparisons)

- Silver production of 30.8 moz (including Silverstream), up 9.7%, and gold production of 465 koz, up 4.4%
- Ongoing tests at the Herradura leaching pads have resulted in an increase of 98.9 koz of gold in inventory as of 1 January 2018

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

- Full year consolidated production guidance has been revised marginally: total gold production to 900 – 930 koz (previously 870 – 900 koz) and total silver production to 64.5 – 67.5 moz (previously 67 – 70 moz) including Silverstream
- Pyrites plant at Saucito commissioned with minimal delays and on budget
- Final testing of second line of the dynamic leaching plant is on track with commercial production expected in 3Q18.

Highlights for 1H18

US\$ million unless stated	H1 18	H1 17	% change
Silver Production (koz) *	30,764	28,044	9.7
Gold Production (oz)	465,299	445,769	4.4
Total revenues	1,115.0	995.8	12.0
Adjusted revenues ¹	1,189.9	1,069.5	11.3
Exploration expenses	78.3	64.2	21.9
EBITDA ²	566.9	522.5	8.5
Profit for the period	229.3	310.1	(26.1)
Cash generated by operations before changes in working capital	575.9	540.3	6.6
Basic and Diluted EPS (US\$) ³	0.312	0.419	-25.5
Dividend per ordinary share (US\$)	0.107	0.106	0.9

* 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 2017 and H1 2016 was 736.9m. See Note 8 in the Interim Consolidated Financial Statements.

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

“I am pleased to report a robust performance in the first half, with silver and gold production both up in the period, and our new San Julián (phase II) mine making a strong contribution to overall production, while gold production at Herradura continues to outperform. We have marginally adjusted full year production guidance to reflect a stronger performance in gold and short term challenges at our silver operations though consolidated guidance remains unchanged.

In line with our strategy to actively manage and strengthen our asset portfolio, we are making good progress on the broader development pipeline which continues to provide a strong foundation for long term sustainable growth.

The Pyrites Plant at Saucito has been commissioned and final testing at the Second Dynamic Leaching Plant is on track. Both projects will make a meaningful contribution to overall 2018 production.

Once again we have maintained an extensive exploration programme during the first half and remain confident these proactive activities will provide a solid foundation on

which our long term future growth will be built. We continue to believe the vast potential of our exploration pipeline is a core differentiators for Fresnillo.

Looking ahead, we remain confident in our full year expectations. We will continue to maintain this disciplined approach to investment, to support our strategy and deliver shareholder returns. We are focused on efficiency and controlling costs to underpin projects, while driving performance improvements at our mines.”

Commentary on the Group’s results

Operating results

Fresnillo plc’s solid operating performance benefited mainly from the contribution of San Julián (phase II) and the higher gold production at Herradura.

First half silver production (including Silverstream) increased 9.7% on 1H17 mainly as a result of the start of operations at San Julián JM (Phase II) in July 2017. This was partially offset by lower ore grades at Fresnillo and Saucito and the expected lower ore grade at the San Julián Veins (Phase I).

First half gold production increased 4.4% vs. 1H17 benefiting from higher ore grade and changes in gold inventories at Herradura; on-going tests at the leaching pads led to an increase of 98.9 koz of gold in inventory as of 1 January 2018, with ounces subsequently decreasing during the period. In addition gold production increased due to higher ore grade and volume of ore processed at Saucito. These factors more than compensated for the lower ore grade at Ciénega and San Julián Veins (Phase I).

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

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

These operational results contributed to achieving strong financial results and maintaining attractive profit margins.

Fresnillo plc reported two fatalities in 1H18. Following investigations, management has taken certain measures to address and prevent the root causes of fatal injuries and decided to implement our “I care, we care” programme to develop risk competency through education of leaders, supervisors and the workforce.

Financial results

Total revenues increased 12.0% half on half to US\$1,115.0 million in 1H18 due to the higher volumes of all metals sold (82.7%) and higher metal prices, except for silver (17.3%).

In particular, the average realised gold price increased 5.0% from US\$1,250.3 per ounce in 1H17 to US\$1,312.8 per ounce in 1H18, whilst the average realised zinc and lead prices increased 16.8% and 7.6% respectively on 1H17. However, the average realised silver price decreased 5.5% from US\$17.4 per ounce in 1H17 to US\$16.5 per ounce in 1H18.

Adjusted production costs³ of US\$429.9 million increased by 25.4% over 1H17. This increase resulted mainly from higher stripping costs at Herradura, increases in maintenance and consumables and service costs, additional production costs from the start-up of San Julián (phase II), lower volume of development ore with no associated production costs at Saucito in 1H18, the adverse effect of the 2.4% revaluation of the Mexican peso against the US dollar and cost inflation mainly related to higher unit fees of contractors, operating materials and increases in wages to personnel.

The higher adjusted production costs and depreciation, mitigated by the positive effect of the changes in gold inventories at Herradura, resulted in an increase of 14.4% in cost of sales over 1H17.

Notwithstanding, the increase in revenues more than offset the increase in cost of sales, resulting in a 9.2% increase in gross profit to US\$502.2 million.

Administrative expenses rose by 16.1% mainly due to an increase in the volume of services provided by Servicios Industriales Peñoles, S.A.B de C.V. in relation mainly to San Julián (phase II) and an increase in fees paid to advisors.

As expected, exploration expenses of US\$78.3 million rose 21.9% over 1H17 due to the intensive exploration programme undertaken in our operating mining districts to convert resources into reserves and direct mine development.

The higher gross profit, partially offset by higher administrative and exploration expenses resulted in an 8.5% increase in EBITDA. However, EBITDA margin slightly decreased from 52.5% in the first half of 2017 to 50.8% in the same period of 2018.

Other expenses (non-operating) of US\$2.3 million, mainly related to the maintenance and rehabilitation costs at Las Torres closed mine, compared unfavourably versus the US\$23.4 million gain registered in 1H17, which resulted mainly from the sale of non-strategic mining claims to Argonaut Gold Inc.

During the period, there was a negative revaluation of the Silverstream contract of US\$21.8 million due primarily to the increase in the reference discount rate (LIBOR) and to a lesser extent, a decrease in silver resources at the Sabinas mine, and a lower forward price of silver. This compared adversely to the US\$54.8 million positive revaluation recognised in 1H17.

³ Adjusted production cost is calculated as total production costs less depreciation, profit sharing and the effects of exchange rate hedging.

An US\$11.8 million foreign exchange loss was recorded in 1H18, as a result of the realised transactions in the period and the marginal devaluation of the Mexican peso against the US dollar on the value of peso-denominated net monetary assets. This compared adversely against the US\$3.8 million foreign exchange gain recognised in 1H17.

Net finance costs of US\$15.1 million mainly reflected the interest recognised in the income statement in relation to the US\$800 million debt facility raised in November 2013. This positively compared against the US\$49.2 million finance costs in 1H17 that included the mark-to market time value of the outstanding gold hedging programme, which is now recognised in other comprehensive income rather than in the income statement in 1H18, in accordance with new accounting standards. In contrast, a US\$35.2 million loss was recognised in 1H17.

As a result of the adverse effects mentioned above, profit from continuing operations before income tax decreased 16.6% from US\$387.4 million to US\$323.0 million.

Income tax expense increased 33.3% to US\$82.8 million, despite the fact that profit before taxes decreased. This was mainly caused by the impact of changes in the Mexican peso/US dollar exchange rate and in the inflation rate on deferred taxes (a non-cash item). The effective tax rate, excluding the special mining right, was 25.6%, which was below the 30% statutory tax rate.

As a result of the above, net profit for the period of US\$229.3 million decreased 26.1% compared to 1H17.

Cash flow generated by operations, before changes in working capital, increased by 6.6% to US\$575.9 million.

Capital expenditure totalled US\$352.2 million, an increase of 33.3% compared to 1H17. Investments during the period included ongoing construction of the pyrites plant and the second line of the dynamic leaching plant at Herradura, development at Fresnillo, Saucito and Ciénega and sustaining capex at the open pit mines.

Other uses of funds during the period were income tax, special mining right and profit sharing paid of US\$145.3 million (US\$211.9 million in 1H17) and dividends paid of US\$219.4 million (US\$158.4 million in 1H17).

The Group maintained a strong balance sheet. Cash and other liquid assets as at 30 June 2018 amounted to US\$708.6 million, a 19.9% decrease compared to the US\$884.9 million in short term funds at the end of June 2017 and a 20.9% decrease over the year-end total of US\$896.0 million. Taking into account the cash and other liquid assets of US\$708.6 million and the US\$799.5 million amortised cost of the Senior Notes, Fresnillo plc's net debt was US\$90.9 million as at 30 June 2018. The Group had a net cash position of US\$88.4 million as at 30 June 2017.

The Board of Directors has declared an interim dividend of 10.7 US cents per share totaling US\$78.8 million to be paid on 7 September 2018 to shareholders on the register on 10 August 2018. This decision was made after a comprehensive review of the Company's and Group's financial situation, ensuring that the Group is well placed to meet its current and future financial requirements, including its development and exploration projects.

Growth

Fresnillo plc maintains a disciplined approach to profitable growth by investing in a high quality pipeline of projects and prospects. The pyrites plant at Saucito was commissioned with minimal delays and on budget in the 2Q18. The construction of the second line of the dynamic leaching plant was also completed and final testing remains on track with commercial production expected in 3Q18.

In Juanicipio, exploration and development continued over the first six months of 2018. The feasibility study was concluded and the next stages are focused on presenting this to the Technical Committee of Juanicipio and each partner's Board.

An intensive exploration programme, including drilling at 18 areas, was conducted during the period. Interesting results were obtained at Centauro Profundo, San Julián, Fresnillo and San Juan, whilst mapping and sampling have located additional new areas that merit drill testing at the Fresnillo and San Julián districts.

We continue to expect full year 2018 total risk capital investment in exploration of US\$180 million and capital expenditure for this year remains at US\$755 million.

Outlook

Our consolidated production guidance was recently revised: total gold production guidance was increased to 900-930 thousand ounces (870-900 thousand ounces originally) and total silver production guidance (including Silverstream) was decreased to 64.5-67.5 million ounces (original guidance of 67-70 million ounces) due mainly to issues associated with less availability of process water at San Julián.

We will continue to focus on improving performance at our mines, whilst reducing costs and investing in initiatives that could render higher productivity and efficiencies.

We have a long experience in exploration, mining and, together with our proven strategy, are confident that we will continue to create sustained value for stakeholders in the 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 31st 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 358 6377

US 800 458 4121

MX 001 800 062 2969

Access code: 7495569

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, and second line of DLP at Herradura, and four advanced exploration projects – Orisyvo, Juanicipio, Las Casas Rosario & Cluster Cebollitas and Centauro Deep, as well as a number of other long term exploration prospects. In total, Fresnillo plc has mining concessions covering approximately 1.8 million hectares in Mexico and 700 thousand hectares in Peru.

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

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

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 2018	H1 2017	% change
Silver (koz)	28,694	25,752	11.4
Silverstream prod'n (koz)	2,070	2,292	-9.7
Total Silver prod'n (koz)	30,764	28,044	9.7
Gold (oz)	465,299	445,769	4.4
Lead (t)	24,853	22,846	8.8
Zinc (t)	41,054	28,725	42.9

First half silver production (including Silverstream) increased 9.7% on 1H17 mainly as a result of the start of operations at San Julián JM (Phase II) in July 2017. This was partially offset by lower ore grades at Fresnillo and Saucito and the expected lower ore grade at the San Julián Veins (Phase I).

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

First half gold production increased 4.4% vs. 1H17 benefiting from higher ore grade and changes in gold inventories at Herradura; on-going tests at the leaching pads led to an increase of 98.9 koz of gold in inventory as of 1 January 2018, with ounces subsequently decreasing during the period. In addition gold production increased due to higher ore grade and volume of ore processed at Saucito. These factors more than compensated for the lower ore grade at Ciénega and San Julián Veins (Phase I).

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

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

2018 full year consolidated production guidance has been revised marginally: total gold production guidance is now 900-930 thousand ounces compared to our original guidance of 870-900 thousand ounces and total silver production guidance (including Silverstream) is 64.5-67.5 million ounces compared to our original guidance of 67-70 million ounces.

Fresnillo mine production

	H1 2018	H1 2017	% change
Ore Processed (t)	1,258,316	1,258,492	-0.0
Production			
Silver (koz)	8,129	8,930	-9.0
Gold (oz)	21,384	20,728	3.2
Lead (t)	10,835	10,153	6.7

Zinc (t)	16,846	14,634	15.1
Ore Grades			
Silver (g/t)	222	240	-7.5
Gold (g/t)	0.68	0.66	2.6
Lead (%)	0.95	0.89	7.1
Zinc (%)	1.82	1.63	11.7

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

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

We expect that with these measures, development rates will gradually increase from the current average of 3,130 m/month.

Year to date by-product gold and lead production increased 3.2% and 6.7% vs. 1H17 mainly due to higher ore grades.

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

Saucito mine production

	H1 2018	H1 2017	% change
Ore Processed (t)	1,396,753	1,338,370	4.4
Production			
Silver (koz)	10,067	10,821	-7.0
Gold (oz)	39,788	33,859	17.5
Lead (t)	8,510	9,442	-9.9
Zinc (t)	11,465	10,062	13.9
Ore Grades			
Silver (g/t)	262	293	-10.6
Gold (g/t)	1.20	1.08	11.2
Lead (%)	0.72	0.84	-14.6
Zinc (%)	1.31	1.26	4.0

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

First half by-product gold and zinc production increased 17.5% and 13.9% respectively vs. 1H17 as a result of higher ore grades, recovery rates and volumes of ore processed. Year to date by-product lead production decreased 9.9% vs. 1H17 as a result of a lower ore grade.

We continued to invest in increasing development at new areas and deepening the Jarillas shaft to maintain production and prevent increases to material handling costs. In addition, production at Natalias, an area between Saucito and Fresnillo, continued to ramp up and access to the Huizache veins was gained during 1H18 as a result of the increased development.

The leaching plant of the pyrites plant at Saucito was commissioned with minor delays in 2Q18 and it is expected to ramp up to full capacity within the following months. Further details are provided in the “Growth projects” section below.

Ciénega mine production

	H1 2018	H1 2017	% change
Ore Processed (t)	650,885	636,680	2.2
Production			
Gold (oz)	33,066	36,358	-9.1
Silver (koz)	2,757	2,786	-1.0
Lead (t)	2,687	3,251	-17.3
Zinc (t)	2,237	4,030	-44.5
Ore Grades			
Gold (g/t)	1.66	1.89	-12.5
Silver (g/t)	154	161	-4.2
Lead (%)	0.67	0.78	-14.3
Zinc (%)	0.74	1.08	-31.4

First half gold production decreased 9.1% vs. 1H17 primarily due to the lower than expected ore grade following the depletion of higher grade veins at Taspana, Las Casas and San Ramón. This was mitigated by the higher volume of ore processed due to the increased availability of equipment following improvements in the maintenance programme. Year to date silver production was in line with 1H17.

First half by-product lead and zinc production decreased when compared to the same periods of 2017 as a result of lower ore grades and recovery rates, which were mitigated by the higher volume of ore processed.

San Julián mine production

	1H 18	1H 17	% change
Ore Processed Phase I Veins (t)	600,517	614,423	-2.3
Ore Processed Phase II JM (t)	1,071,720	-	N/A
Total production at San Julián			
Gold (oz)	39,888	41,041	-2.8
Silver (koz)	7,100	2,979	138.3
Production Phase I Veins			
Gold (oz)	38,695	41,041	-5.7
Silver (koz)	2,707	2,979	-9.1
Production Phase II JM			
Gold (oz)	1,193	-	N/A
Silver (koz)	4,393	-	N/A
Lead (t)	2,821	-	N/A
Zinc (t)	10,507	-	N/A
Ore Grades Phase I Veins			
Gold (g/t)	2.04	2.18	-6.6
Silver (g/t)	151.71	164.16	-7.6
Ore Grades Phase II JM			
Gold (g/t)	0.08	-	N/A
Silver (g/t)	151.72	-	N/A
Lead (%)	0.41	-	N/A
Zinc (%)	1.28	-	N/A

San Julián Veins (Phase I)

Volumes of ore processed were maintained at 3,585 tpd, 19.5% above nameplate capacity of 3,000 tpd. First half silver production decreased 9.1% vs. 1H17 as a result of: i) the expected lower ore grade due to less availability of the higher silver ore grade areas; and ii) a lower volume of ore processed as a result of the low water availability, restricting processing capacity. With some other initiatives and the arrival of the rainy season, full processing capacity has now been restored.

The construction of the water reservoir, aimed at providing a consistent source of water, has been delayed as a result of a longer than expected permitting process

delaying the grant of environmental permits. The company is making efforts to accelerate this process and is also looking for alternate sources of water.

Year to date gold production decreased vs. 1H17 as a result of lower volumes of ore processed and lower ore grades due to the previously mentioned factors, however these were mitigated by the higher recovery rates.

San Julián (Phase II – JM disseminated ore body)

San Julián (phase II) started operations in July 2017 and is now operating at a rate of almost 6,400 tpd, which is above its nameplate capacity of 6,000 tpd.

Silver production reached 4.4 moz in 1H18. However, silver ore grade of 151.7 g/t was below the guidance of 185 g/t for the full year.

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

Herradura mine production

	H1 2018	H1 2017	% change
Ore Processed (t)	11,590,068	13,316,161	-13.0
Total Volume Hauled (t)	67,713,885	61,971,696	9.3
Production			
Gold (oz)	243,129	224,009	8.5
Silver (koz)	604	222	172.1
Ore Grades			
Gold (g/t)	0.72	0.64	11.2
Silver (g/t)	2.22	0.91	142.8

First half gold production increased on 1H17 as a result of: i) the ongoing changes in gold inventories; on-going tests at the leaching pads led to an increase of 98.9 koz of gold in inventory as of 1 January 2018, with ounces subsequently decreasing during the period; ii) an increase in the ore grade at the Dynamic Leaching Plant as a higher volume of ore was being processed from the higher grade Valles area; and iii) a higher speed of recovery due to an intensive targeted irrigation programme and better dilution. These factors more than compensated for the lower volume of ore processed.

In 2017, as part of the future mine plan, Fresnillo decided to construct a new leaching pad in a separate area of the Herradura mine. To reduce the hauling distance from the pit to the new pad, the Group constructed an access route through certain existing leaching pads, removing and redepositing the ore in the process. These works allowed the Group to perform assays and verify certain characteristics of the ore, including

the humidity of the ore deposited and the grade of gold in solution. The testing of those assays commenced in 2018 and is ongoing.

As a result of the information obtained to date, the Group updated its estimate of the recoverable remaining gold content in the inventories at the leaching pads resulting in an increase of 98.9 thousand ounces of gold as at 1 January 2018. This represents 1.7% of the total gold content deposited from the inception of the mine to 31 December 2017.

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

In 1H18, we commenced the installation of vibrating screens in the first line of the dynamic leaching plant. This initiative will increase gold recovery by 3-4% and is expected to become operational in 3Q18.

Noche Buena mine production

	H1 2018	H1 2017	% change
Ore Processed (t)	8,965,705	9,012,820	-0.5
Total Volume Hauled (t)	42,594,558	43,355,636	-1.8
Production			
Gold (oz)	88,043	89,774	-1.9
Silver (koz)	37	14	164.3
Ore Grades			
Gold (g/t)	0.53	0.51	4.3
Silver (g/t)	0.20	0.09	115.6

Year to date gold production remained at a similar level when compared to the same period of 2017.

The priority at this mine continues to be decreasing the costs, such as....

In 1H18, detailed engineering work was initiated in order to implement a Carbon in Column (CiC) process at this mine. This project will contribute to maintaining the efficiency of gold recovery in the last years of mine life and at the neutralisation stage, when gold content is expected to be lower. This project is anticipated to be commissioned by year end 2019.

Growth Projects

Capital expenditure for the full year 2018 remains at around US\$755 million. Below we provide an update on each of our growth projects that have been approved by the Board.

Pyrites Plant at the Saucito mine

The leaching plant of the pyrites plant at Saucito was commissioned in 2Q18, following a US\$50.3 million investment. Construction of the 14,000 tpd tailings flotation plant to process the historical and ongoing tailings from the Fresnillo mine continued and is expected to be concluded by 2019. This facility is expected to incur capex of US\$51.4 million, which is part of the total US\$155 million capex authorised for this project. .

The pyrites plant is expected to improve overall recoveries of silver within a range of 5% to 9% and gold between 11% to 13%, and contribute an annual production of 3.5 moz of silver and 13 koz of gold once it reaches its full capacity in 2019.

Second Dynamic Leaching Plant at Herradura

Construction of the second line of the dynamic leaching plant was completed in 2Q18 and final tests remain on track. Commercial production is expected to begin in 3Q18.

This US\$110 million project will extend the life of Herradura's mine to 12 years with an average life of mine annual gold production of 390 koz.

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 2018 approved capex and exploration budget.

Optimisation projects

Fresnillo optimisation project

During the first half of 2018 the digging process for the construction of the flotation plant that will contain the additional flotation cells and cleaners commenced. This froth flotation circuit is the second stage in this optimisation project and the final stage would be the installation of vibrating screens to increase the milling capacity to 9,000 tonnes per day. Capital expenditure for this project is estimated at US\$30 million and the expansion is expected to result in an additional annual average production of 3 million ounces of silver upon commissioning, expected at the beginning of 2020.

Ciénega optimisation project

Development works at Taspana and the exploration campaign to further evaluate other opportunities in the Ciénega District continued in 1H18. However, the exploration programme at the main Ciénega mine has identified additional mineralisation and, based on these results, we are currently anticipating a 2,000 tpd extension of milling capacity at the Ciénega mine.

The initial investment for this project is currently estimated at US\$55 million with production anticipated to commence at the end of 2020. Once at full capacity, average annual production is estimated at an additional 15 thousand gold ounces and 1.3 million silver ounces.

Advanced exploration projects

Juanicipio

The feasibility study was concluded in 2Q18 and it is currently being reviewed by the Technical Committee of Juanicipio. The next stages will be to get the approval of the latter Committee and of each partner's board. In the meantime, exploration and development of the mine continued with 3,689 metres advanced in development in 1H18. In addition, we have also initiated discussions with the suppliers of long time delivery equipment and contractors.

This project will be developed on a stand-alone basis and it is expected to be commissioned in 2020, with an annual average production of 10 million ounces of silver and 30 thousand ounces of gold, according to the last pre-feasibility study dated June 2012.

Orisyvo

A pre-feasibility study is being carried out and is expected to be concluded by year end. This project is now expected to commence production by year end of 2021 or beginning of 2022, following an estimated investment of US\$350 million.

Centauro Deep

During the first half, we continued to refine the geological model at this project, located below the existing Centauro pit. Once the resource estimate is updated at the end of the year, we will continue the evaluation of a potential underground mine. In the meantime, the expansion of the pit will continue subject to the discovery of additional mineralisation.

Guanajuato

Guanajuato is a large historic silver-gold mining district, and thus certain infrastructure is already in place.

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. Mining works began in the central areas to further define the mineral structures.

At the end of 2017, indicated and inferred resources at this project totalled 991 thousand ounces of gold and 69 million ounces of silver.

Rodeo

This gold-silver project is located in Durango. In 1H18 we continued negotiations to acquire land. Indicated and inferred resources amounted to 1.2 million ounces of gold and 11 million ounces of silver as of 31st of December 2017.

Exploration

In 1H18, US\$78.3 million of exploration expenses were recorded in the income statement, an increase of 21.9% over 1H17.

In the first six months, 253,258 metres of drilling were completed at our operating mines, as part of the 462,000 metre programme to direct mine development and partially convert resources into reserves. Additionally, 179,626 metres of exploration drilling were carried out, as part of the 398,000 metre programme at projects.

At present, 18 areas are in drilling and interesting results were obtained at Centauro Profundo, San Julián, Fresnillo and San Juan, extending known ore shoots and identifying new structures. Mapping and sampling have identified additional new areas that merit drill testing at the Fresnillo and San Julián districts. Our exploration teams continue working in selected areas focusing on the favourable silver-gold belts within in Mexico, Peru, Chile and Argentina.

Total risk capital invested in exploration for the full year 2018 is expected to be around US\$180 million.

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

Health and safety, human resources, environment and community relations

Health & Safety

Safety continues to be our highest priority. The goal of our Safety programme is to instil a safety culture where our workers and contractors have the knowledge, competence and desire to work safely. We regret to report two fatal injuries in 1H18. To improve our safety performance we are implementing our “I care, we care” programme in all of our operations. The programme aims to develop risk competency through education of leaders, supervisors and the workforce. It fosters coaching and positive incentives and a comprehensive review and enhancement of our Critical Control Risk Protocols and Emergency Response Teams.

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. The Mexican National Insurance

Institute confirmed six new cases of occupational diseases in our workforce in 1H18. We have enhanced our environmental monitoring programme in our operations along with industrial hygiene action plans. 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.

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. Our operations in Fresnillo, Saucito, Ciénega and Penmont are certified in ISO 14,001. In 2018 Herradura and Saucito obtained the Environmental Excellence Award from the Environmental Authorities in Mexico. This is the first time that this award is granted to the mining industry in Mexico. In the Penmont district, the Herradura and Noche Buena mines have the 'Cyanide Code' certification. We disclosed our environmental performance in the water and climate change programmes of the CDP (formerly known as the Carbon Disclosure Project) and the Mexican GHG voluntary reporting programme "GEI Mexico".

Community Relations

Our social licence to operate is our most valuable intangible asset. 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. The goal of our community relations strategy is to create mutually beneficial relationships with our neighbouring communities.

We continued to partner the NGO International Board on Books for Young People (IBBY), bringing books and children together through our Picando Letras programme. This programme currently benefits 8,186 children in 66 schools – from kindergartens to high schools – in local communities close to our Ciénega, Penmont, Saucito, Fresnillo, San Julián, Rodeo and Gigante (Guanajuato) mines and projects. In partnership with the National University Foundation we organised Health Weeks in Fresnillo, Ciénega, and San Julián. In 2H18, the health weeks will be organised in Penmont and our Guanajuato project. Our health weeks benefit over 11,000 people during the year. We continued to promote the development of regional value chains by participating in the established mining clusters of Zacatecas, Chihuahua and Sonora.

People

We seek to attract, develop and retain the best people, and engage them over the long-term. In 1H18, Fresnillo plc's workforce totalled 4,988 employees (4,817 in 2017) and

12,464 contractors (11,188 in 2017). The percentage of women and women managers are respectively at 9.2% (8.9% in 2017) and 4.4% (5.7% in 2017). The ratio of male to female salary for non-executive employees is 1.07.

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. We recruit graduates from our pool of interns through the 'Engineers in Training' programme.

Fresnillo plc is recognised as a Great Place to Work in Mexico, currently ranking 22th among companies with more than 5,000 employees.

Ethics Culture

We aspire to demonstrate a well-established ethical culture through our actions and behaviours. In 2017 we trained our executives and managers with the assistance of the University of Arizona. In 2018 we launched the training for the rest of the non-unionised employees. This face to face training includes ethical decision making, creating a culture of candour, managing diversity and transformational leadership. A culture survey will be deployed in 2H18 and an online course will be launched afterwards.

Our HSECR strategies are aligned with the United Nations Sustainable Development Goals (SDG's) and our performance was recognised through inclusion in the STOXX Global ESG leaders and the FTSE4Good UK 50. In addition, the Company participated in the evaluation questionnaire of the Dow Jones Sustainability Index (DJSI). The Company has disclosed its second Modern Slavery Statement for 2017.

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 financial statements.

Financial Review

The interim consolidated financial statements of Fresnillo plc for the first halves of 2018 and 2017 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 2018	H1 2017	% change
Adjusted revenues ¹	1,189.9	1,069.5	11.3
Lead and zinc hedging	0.0	0.0	N/A
Treatment & refining charges	-74.8	-73.6	1.6
Total revenues	1,115.0	995.8	12.0
Cost of sales	612.9	535.8	14.4
Gross Profit	502.2	460.0	9.2
Exploration expenses	78.3	64.2	21.9
EBITDA ²	566.9	522.5	8.5
Profit before income tax	323.0	387.4	-16.6
Special mining right	10.9	15.1	-28.1
Income tax expense	82.8	62.2	33.1
Profit for the period	229.3	310.1	-26.0
Profit for the period, excluding post-tax Silverstream revaluation effects	244.6	271.7	-10.0
Attributable profit	230.0	308.7	-25.5
Attributable profit, excluding post-tax Silverstream revaluation effects	245.3	270.3	-9.3
Basic and diluted earnings per share (US\$/share) ³	0.312	0.419	-25.5
Basic and diluted Earnings per share, excluding post-tax Silverstream revaluation effects (US\$/share)	0.333	0.367	-9.3

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 2018 and H1 2017 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 5.5% from US\$17.4 per ounce in 1H17 to US\$16.5 per ounce in 1H18, whilst the average realised gold price increased 5.0% from US\$1,250.3 per ounce in 1H17 to US\$1,312.8 per ounce in 1H18.

The average realised lead price increased by 7.6% to US\$1.1 per pound in 1H18, whilst the average zinc price rose 16.8% on 1H17 to US\$1.4 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 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 2018.

Concept	1H 2018	1H 2017	As of 30 June 2018
Weighted Floor (usd/tonne)	1,100	1,100	1,100
Weighted Cap (usd/tonne)	1,423	1,424	1,423
Expired volume	183,216	162,390	--
Effect on income statement Profit/(Loss) (US\$ dollars)	-	-	
Outstanding volume			529,368

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

In 2017, we hedged a portion of our by-product lead and zinc production for 2018. The table below illustrates the expired hedging volume, the results in 1H18 and the outstanding hedged position as of June 30th.

Concept	As of June 30 th 2018	
	Zinc*	Lead*
Weighted Floor (US\$/tonne)	2,591	2,370
Weighted Cap (US\$/tonne)	3,716	2,735
Expired volume (ton)	10,584	2,880
Effect on income statement Profit/(Loss) (US\$ dollars)	--	8,995
Total outstanding volume (tonne)	10,584	2,880

*Monthly settlements through December 2018

Foreign exchange rates

The average spot Mexican peso/US dollar exchange rate revalued by 2.2% from \$19.49 per US dollar in 1H17 to \$19.07 per US dollar in 1H18. This revaluation resulted in an adverse effect estimated at US\$4.0 million on the Group's production costs, as costs based on Mexican pesos, as opposed to those denominated in or pegged to the US dollar (approximately 45% of total costs), were higher when converted to US dollars.

The Mexican peso/US dollar spot exchange rate at 30 June 2018 was \$19.86 per US dollar, compared to the exchange rate at 31 December 2017 of \$19.74 per US dollar.

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 3.5%, which includes the negative effect of the 2.2% average revaluation of the Mexican peso/US dollar exchange rate.

Labour

Unionised employees received a 7.0% increase in wages in Mexican pesos and administrative employees at the mines received a 5.5% increase. Taking into consideration the 2.2% average revaluation of the Mexican peso against the US dollar, personnel costs increased by a net 8.1% in US dollar terms.

Inflation of key operating materials in US\$ terms

Unit prices of the majority of key operating materials increased in US dollar terms. However, this was partly offset by the decrease in the unit price of tires and steel for drilling. As a result, the weighted average unit prices of all operating materials over the half increased by 3.4%.

Key operating materials	1H18 VS 1H17
Reagents	15.8%
Steel balls for milling	10.0%
Lubricants	3.4%
Sodium cyanide	1.1%

Tyres	-1.2%
Steel for drilling	-1.7%
Weighted average of all operating materials	3.4%

Electricity

The weighted average cost of electricity in US dollars decreased 7.0% from US\$7.58 cents per kw in 1H17 to US\$7.05 cents per kw in the same period of 2018, reflecting the lower average generating cost charged by the government owned utility company.

Diesel

The weighted average cost of diesel in US dollars increased by 5.3% from US\$75.1 cents per litre in 1H17 to US\$79.0 cents per litre in 1H18.

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 4.8%.

Maintenance

Unit prices of spare parts to provide maintenance increased by approximately 1.8% in US dollars in 1H18.

Others

Other cost line items included an 11.4% increase in freight, a 6.2% decline in insurance premium per US dollar of value insured and an average inflation of 1.9% for the remaining components over 1H18.

Total revenues

Consolidated Revenues (US\$ millions)

	H1 2018	H1 2017	Amount	%Change
Adjusted revenues ¹	1,189.9	1,069.5	120.4	11.3
Hedging	0.0	0.0	0.0	N/A
Treatment and refining charges	-74.8	-73.6	-1.2	1.6
Total revenues	1,115.0	995.8	119.2	12.0

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\$1,189.9 million increased 11.3% over 1H17. This was explained mainly from the favourable effect of the higher volumes of all metals sold estimated at US\$99.6 million and the benefit of the higher gold, zinc and lead prices partly offset by the lower silver price, which resulted in a positive impact of US\$20.8 million.

Adjusted revenues¹ by metal
(US\$millions)

	H1 2018	%	H1 2017	%	Volume Variance	Price Variance	Total	%
Gold	593.0	49.8	543.9	50.9	21.4	27.7	49.1	9.0
Silver	432.1	36.3	413.2	38.6	42.8	(23.9)	18.9	4.6
Lead	55.6	4.7	46.8	4.4	5.0	3.7	8.8	18.8
Zinc	109.2	9.2	65.6	6.1	30.3	13.4	43.7	66.5
Total revenues	1,189.9	100.0	1,069.5	100.0	99.6	20.8	120.4	11.3

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. Zinc was the metal that increased its contribution to total adjusted revenues the most, rising from 6.1% in 1H17 to 9.2% in 1H18. This was followed by the increase in the contribution of lead to adjusted revenues, which rose from 4.4% in 1H17 to 4.7% in 1H18. Conversely, the contributions of gold and silver to the total adjusted revenues decreased respectively from 50.9% in 1H17 to 49.8% in 1H18 and from 38.6% in 1H17 to 36.3% in 1H18.

San Julián (phases I and II) contributed 15.9% to the Group's adjusted revenues with 6.3 moz silver and 38.3 koz of gold sold in 1H18. Herradura maintained its position as the largest contributor, representing 27.6% of the Group's adjusted revenues. Saucito and Fresnillo's contributions to adjusted revenues decreased from 23.7% and 20.5% in 1H17 to 20.7% and 18.1% respectively in 1H18 mainly due to the lower volumes of silver sold.

With the expansion of the Group's silver asset base, the relative contribution to silver adjusted revenues for related mines changed half on half. San Julián (phases I and II) represented 24.1% of silver adjusted revenues, whilst the relative contributions from Saucito, Fresnillo and Ciénega decreased as shown in the tables below.

The start-up of San Julián (phase II) also modified the relative contribution to zinc adjusted revenues. This new mine represented 25.9% of total zinc adjusted revenues in 1H18, thus helping to increase zinc's relative contribution to the Group's adjusted revenues from 6.1% in 1H17 to 9.2% 1H18.

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 18	H1 17
Herradura	53.5%	51.1%
Noche Buena	19.4%	20.4%
San Julián	8.5%	9.5%
Saucito	7.6%	7.1%
Ciénega (and San Ramón)	7.0%	7.8%
Fresnillo	4.0%	4.1%
TOTAL	100%	100%

Silver adjusted revenues by mine

	H1 18	H1 17
Saucito	35.5%	41.7%
Fresnillo	28.3%	34.5%
San Julián	24.1%	12.3%
Ciénega (and San Ramón)	9.7%	10.5%
Herradura	2.4%	1.0%
Noche Buena	0.0%	0.0%
TOTAL	100%	100%

Total adjusted revenues by mine

	H1 18	H1 17
Herradura	27.6%	26.3%
Saucito	20.7%	23.7%
Fresnillo	18.1%	20.5%
San Julián	15.9%	9.6%
Noche Buena	9.7%	10.4%
Ciénega	8.0%	9.5%
TOTAL	100%	100%

Volumes of metal in products sold
Six months ended 30 June

	H1 18	H1 17	% change
SILVER (kOz)			
Fresnillo	7,414	8,162	-9.2
Ciénega	2,555	2,488	2.7
Herradura	632	231	174.0
Saucito	9,279	9,881	-6.1
Noche Buena	5	3	66.7
San Julián (phase I)	2,602	2,930	-11.2
San Julián (phase II)	3,733	-	N/A

Total Silver (kOz)	26,220	23,695	10.6
GOLD (Oz)			
Fresnillo	18,176	17,890	1.6
Ciénega	31,603	33,924	-6.8
Herradura	262,162	237,041	10.6
Saucito	34,682	30,890	12.3
Noche Buena	66,794	74,402	-10.2
San Julián (phase I)	37,828	40,895	-7.5
San Julián (phase II)	473	-	N/A
Total Gold (Oz)	451,718	435,042	3.8
LEAD (MT)			
Fresnillo	9,964	9,301	7.1
Ciénega	2,461	2,990	-17.7
Saucito	7,837	8,524	-8.1
San Julián (phase II)	2,716	-	N/A
Total Lead (MT)	22,978	20,815	10.4
ZINC (MT)			
Fresnillo	14,246	12,414	14.8
Ciénega	1,836	3,347	45.2
Saucito	9,378	8,325	12.6
San Julián (phase II)	8,906	-	N/A
Total Zinc (MT)	34,366	24,086	42.7

Treatment and Refining charges

Similar to previous years, the 2018 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 2018. Treatment and refining charges in these Interim Financial Statements were assumed to be the same as those which were negotiated for the full year 2017, a consistent approach taken to that in 1H17.

Treatment and refining charges in absolute terms remained broadly flat half on half.

Cost of sales

	H1 18	H1 17	Change	
			Amount	%
Adjusted production costs ⁴	429.9	343.0	87.0	25.4
Depreciation and amortisation	192.8	168.0	24.9	14.8
Change in work in progress	-21.7	16.0	-37.7	N/A
Profit sharing	11.8	8.9	2.9	32.0
Cost of sales	612.9	535.8	77.1	14.4

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

Cost of sales of US\$612.9 million increased by 14.4% over 1H17 as a result of the following combination of factors:

- Adjusted production costs increased by 25.4% to US\$429.9 million in 1H18. The US\$87.0 million increase was mainly related to: i) higher stripping costs at Herradura together with increases in maintenance, consumable and services costs (US\$33.0 million); ii) the additional production costs associated with higher production resulting mainly from the start of operations at San Julián phase II (US\$32.4 million); iii) the lower volume of development ore with no associated production costs at Saucito, substituted by mineral extracted from the mine with cost in 1H18 (US\$9.9 million); and iv) the revaluation of the average Mexican peso/US dollar spot exchange rate (US\$4.0 million). In addition, cost inflation of 2.4% (excluding the adverse effect of the revaluation) had an adverse effect of US\$7.7 million, which is further broken down below:
 - Cost of contractors increased by US\$3.0 million due to the contract adjustments recorded during the first half of the year with each individual contractor in Mexican pesos terms
 - Cost of operating materials increased US\$2.1 million
 - Personnel costs, excluding profit sharing, increased by US\$1.9 million as a result of the 7.0% increase in wages in Mexican pesos
 - Cost of maintenance increased by US\$0.8 million
 - Energy cost decreased by US\$0.2 million due to lower unit prices of electricity, partially offset by the higher unit price of diesel
 - Other cost inflation of US\$0.1 million
- Depreciation increased by US\$24.9 million mainly due to the additional asset base from San Julián.
- The variation in change in work in progress had a positive effect of US\$37.7 million half on half. Change in work in progress was -US\$21.7 million in 1H18 mainly due to the increase in the value of inventories on the leaching pads at Herradura (see notes 2c and 5 in the interim financial information). This compared favourably to the US\$16.0 million costs recorded in 1H17 resulting from the decrease in inventory value at this mine.
- Profit sharing increased by US\$2.9 million to US\$11.8 million in 1H18.

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

COST PER TONNE*				
		H1 18	H1 17	% Change
Fresnillo	US\$/TONNE MILLED	46.92	44.07	6.5
Saucito	US\$/TONNE MILLED	53.56	45.16	18.6
Ciénega	US\$/TONNE MILLED	68.39	64.39	6.2
Herradura	US\$/TONNE DEPOSITED	10.25	7.10	44.3
Noche Buena	US\$/TONNE DEPOSITED	6.74	7.00	-3.8

*Indicators for San Julian phases I and II have not been disclosed as these are not representative, as they relate to the start-up period, when a significant volume of ore from stock pile is processed.

Cost per tonne across the Group were adversely impacted by: i) the 2.2% revaluation of the average Mexican peso against the US dollar; ii) higher unit prices of diesel (5.3%); iii) inflation in operating materials (2.9%) and contractor fees (3.5%); and iv) the 7.0% increase in wages in Mexican pesos to unionised workers. These adverse effects were mitigated by a 7.0% decrease in the unit price of electricity. Additional factors affecting cost per tonne at each mine are described below:

Fresnillo

Cost per tonne milled increased 6.5% half on half due to the factors mentioned above together with an increase in costs related to maintenance and development works.

Saucito

Cost per tonne milled increased 18.6% half on half primarily due to factors mentioned above and the lower volume of development ore processed in 1H18, which resulted in higher costs being recorded in this period.

Ciénega

Cost per tonne milled increased 6.2% mainly as a result of the aforementioned factors and the additional contractors hired to increase development at the satellite mines.

San Julián (phase I and II)

Phase I - Cost per tonne milled is not considered representative as it corresponds to the start-up period and a significant volume of stock pile was processed during this period.

Phase II - as operations commenced in July 2017, there are no comparable half on half figures.

Herradura

Cost per tonne increased 44.3% primarily due to the factors mentioned above, together with the higher stripping costs charged to production costs and longer haulage distances.

Noche Buena

Cost per tonne decreased by 3.8% as a result of the efficiencies achieved due to the initiatives to reduce costs at this mine.

CASH COST PER OUNCE⁵*

		H1 18	H1 17	% Change
Fresnillo	US\$ per silver ounce	-0.82	1.25	-165.7
Saucito	US\$ per silver ounce	1.25	1.64	-23.5
Ciénega	US\$ per gold ounce	-10.60	-242.81	95.6
Herradura	US\$ per gold ounce	364.85	483.91	-24.6
Noche Buena	US\$ per gold ounce	772.79	804.12	-3.9
Consolidated				
	US\$ per equiv. gold ounce	435.97	448.59	-2.8
	US\$ per equiv. silver ounce	5.47	6.26	-12.5

⁵ 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.

*

*Indicators for San Julian phases I and II have not been disclosed as these are not representative, as they relate to the start-up period, when a significant volume of ore from stock pile is processed.

Fresnillo: -US\$0.82/oz (1H18) vs US\$1.25/oz (1H17), (-US\$2.07/oz; -165.7%)

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

Saucito: US\$1.25/oz (1H18) vs US\$1.64/oz (1H17), (-US\$0.39/oz; -23.5%)

Cash cost per ounce decreased primarily due to higher gold and zinc by-product credits, which were partly offset by the increase in cost per tonne and the lower silver grade.

Ciénega: -US\$10.60/oz (1H18) vs -US\$242.81/oz (1H17), (US\$253.41/oz; 95.6%)

The increase in cash cost was explained by the lower gold grade, higher cost per tonne and lower zinc, silver and lead by-product credits. These adverse effects were mitigated by lower treatment and refining charges.

San Julián (phase I and phase II)

Phase I - Cash cost for 2017 is not considered representative as it corresponds to the start-up period, when a significant volume of ore from the stock pile is processed.

Phase II - as operations commenced in July 2017, there are no comparable half on half figures.

Herradura: US\$364.85/oz (1H18) vs US\$483.91/oz (1H17), (-US\$119.06/oz; -24.6%)

Cash cost per gold ounce decreased mainly as a result of the higher gold ore grade and the favourable effect of the increase in gold inventories on the leaching pads. This was partially offset by the higher cost per tonne.

Noche Buena: US\$772.79/oz (1H18) vs US\$804.12/oz (1H17), (-US\$31.33/oz; -3.9%)

The decrease in cash cost was driven by the higher gold ore grade and the lower cost per tonne.

All in sustaining cost

		H1 18	H1 17	Change %
Fresnillo	US\$ per silver ounce	6.79	7.57	-10.3
Saucito	US\$ per silver ounce	7.88	6.50	21.2
Ciénega	US\$ per gold ounce	1,198.16	419.16	185.8
San Julián (phase I)	US\$ per silver ounce	4.89	5.65	-13.4
San Julián (phase II)	US\$ per silver ounce	9.50	-	N/A
Herradura	US\$ per gold ounce	715.92	810.82	-11.7
Noche Buena	US\$ per gold ounce	1,051.80	908.73	15.7
Consolidated				
	US\$ per equiv. gold ounce	827.46	754.98	9.6
	US\$ per equiv. silver ounce	10.39	10.53	-1.3

All-in sustaining costs (AISC) 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.

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

Fresnillo: All-in sustaining cost decreased due to lower cash cost and lower sustaining capex. This was partially offset by increased mine development.

Saucito: All-in sustaining cost increased due to increased mine development, which was partly offset by lower cash cost.

Ciénega: The increase in all-in sustaining cost was mainly driven by the increase in cash cost, higher sustaining capex and increased mine development.

San Julián (phase I): AISC for 2017 is not considered representative as it corresponds to the start-up period, when a significant volume of ore from the stock pile is processed.

Herradura: All-in sustaining cost decreased mainly due to the lower cash cost which was partially offset by the higher capitalised stripping.

Noche Buena: The increase in all-in sustaining cost was due to a higher sustaining capex.

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

Gross profit

Total gross profit, excluding hedging gains and losses, increased by 9.2% to US\$502.2 million in 1H18. The US\$42.1 million increase resulted from: i) the gross profit of US\$54.2 million from the start-up of San Julián (phase II); ii) the increase in gold inventories at Herradura estimated at US\$46.0 million; iii) the higher ore grade at Herradura, partially offset by lower ore grades at Fresnillo, Ciénega, and Saucito with an estimated net impact of US\$36.3 million; and iv) the favourable effect of the higher gold, zinc and lead prices of US\$20.4 million. These factors were partially offset by: i) the adverse effect of the lower volumes of ore processed at Herradura and San Julián (phase I) mitigated by the increase in ore throughput at Saucito and Ciénega with a net effect estimated at US\$32.6 million; ii) the higher stripping at Herradura which had an estimated adverse impact of US\$31.4 million; iii) the higher depreciation of US\$29.2 million; iv) the additional costs registered due to the lower volume of development ore processed at Saucito with an estimated impact of US\$9.9 million; v) cost inflation of US\$7.7 million; and vi) the adverse impact of the revaluation of the Mexican peso against the US dollar of US\$4.0 million.

On a per mine basis, Herradura's contribution to the Group's consolidated gross profit increased from 29.2% to 40.2% driven by the higher ore grades and increase of inventories on the leaching pads. Gross profit at Saucito, Fresnillo and Ciénega decreased half on half, also affecting their contributions to the consolidated gross profit. Gross profit at San Julián increased by 10% over 1H17, but its contribution remained unchanged at 9.4%. Noche Buena's contribution to the Group's consolidated gross profit increased from 5.8% in 1H17 to 7.1% in 1H18.

(US\$ millions)					Change	
	H1 18	%	H1 17	%	Amount	%
Herradura	201.4	40.2	133.1	29.2%	68.3	51.3%
Saucito	99.2	19.8	120.5	26.4%	-21.3	-17.7%
Fresnillo	98.1	19.6	103.5	22.7%	-5.4	-5.2%
San Julián	47.5	9.5	43.0	9.4%	4.5	10.5%
Ciénega	20.0	4.0	29.7	6.5%	-9.7	-32.6%
Noche Buena	34.7	6.9	26.6	5.8%	8.1	30.5%
Total for operating mines	500.9	100%	456.4	100.0%	44.5	9.8%
MXP/USD exchange rate hedging (losses)	0.0		0.0		0.0	N/A
Metal hedging	0.0		0.0		0.0	N/A
Other subsidiaries	1.3		3.6		-2.3	-63.9
Total Fresnillo plc	502.2		460.0		42.2	9.2

Administrative expenses

Administrative and corporate expenses increased US\$5.4 million (+16.1%) 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, mainly San Julián (phase II) , and an increase in fees paid to advisors.

Exploration expenses

BUSINESS UNIT / PROJECT (US\$ millions)	Exploration expenses	Capitalised expenses
Ciénega	7.9	-
Fresnillo	7.7	-
Herradura	6.8	-
Saucito	8.1	-
Noche Buena	1.4	-
San Julián	4.0	-
Centaurus Deep	3.0	0.3
Orisyvo	2.1	-
San Ramón	1.4	-
San Juan	2.9	
Tajitos	1.3	
Corredor Herradura	0.4	-

Pilarica	2.0	-
Guazaparez	2.2	-
Candameña	0.2	-
Guanajuato	2.8	0.2
Perú	0.5	-
Juanicipio	0.0	2.3
Others	23.6	0.2
TOTAL	78.3	3.0

Exploration expenses totalled US\$78.3 million in 1H18, a 21.9% increase over the same period of 2017 due to intensified exploration activities aiming to convert resources into reserves and direct mine development at our operations. An additional US\$3.0 million was capitalised mainly related to exploration expenses at the Juanicipio project. Thus, risk capital invested in exploration totalled US\$81.3 million and remains at US\$180 million for the full year.

EBITDA

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

	H1 2018	H1 2017	% change
Gross Profit	502.2	460.0	9.2
+ Depreciation and amortisation	192.8	168.0	14.8
- Administrative Expenses	-38.4	-33.1	16.1
- Exploration Expenses	-78.3	-64.2	21.9
- Selling Expenses	-11.4	-8.2	39.0
EBITDA	566.9	522.5	8.5
EBITDA Margin	50.8%	52.5%	

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 increased from US\$522.5 million in 1H17 to US\$566.9 million in 1H18 as a result of the higher gross profit, which was partly offset by the higher administrative, exploration and selling expenses. However, the EBITDA margin decreased slightly from 52.5% in 1H17 to 50.8% in 1H18.

Other loss

During the period, a US\$2.3 million loss was recognised in the income statement resulting from the maintenance and rehabilitation costs at the Las Torres closed mine in Guanajuato. This compared unfavourably to the US\$23.4 million income recognised in 1H17 as a result of the sale of non-strategic mining claims to Argonaut Gold Inc. No concessions have been sold in 1H18.

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 1H18 was a US\$21.8 million loss, compared to the US\$54.8 million gain registered in 1H17. This loss was driven by an increase in the reference discount rate (LIBOR) and to a lesser extent, a decrease in silver resources at the Sabinas mine, and a lower forward price of silver. These factors were mitigated by the unwinding of the discount and the difference between payments received during the 1H18 and estimated payments in the valuation model at 31 December 2017.

The cumulative non-cash revaluation gains that have been recognised in the income statement since 2008 increased to US\$775.6 million in total; whilst cumulative cash received or receivable at the end of 1H18 from the Silverstream contract totalled US\$615.3 million (which compares favourably to the upfront payment of US\$350 million paid on 31 December 2007).

It is expected that the Group will record further unrealised gains or losses in the income statement in accordance with the cyclical behaviour of the silver price or changes in the other 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.

Finance costs

Finance costs reflected the interest on the US\$800 million principal amount of 5.5% Senior Notes, net of interest received. The finance cost of US\$15.1 million in 1H18 compared unfavourably with the US\$13.9 million recorded in 1H17. This was the result of higher interest on loans recognised this period as only US\$5.2 million were capitalised in 1H18 compared to US\$6.9 million capitalised in 1H17.

In 1H18, following the adoption of IFRS 9, *Financial Instruments*, the effects of the mark-to-market time value of the outstanding gold hedging programme are recognized in other comprehensive income, rather than in income as in 1H17 (see note 2c in the interim financial information). This caused a favourable effect as a US\$35.2 million loss was recognised in 1H17.

Foreign exchange

A foreign exchange loss of US\$11.8 million was recorded in the income statement as a result of the realised transactions in the period and the marginal devaluation of the Mexican peso against the US dollar in the six months ended 30 June 2018 on the value of peso-denominated net monetary assets. This compared adversely against the US\$3.8 million foreign exchange gain recognised in the first half of 2017.

The Group enters into certain exchange rate derivative instruments as part of a programme to manage its exposure to foreign exchange risk associated with the purchase of equipment denominated in Euro (EUR), Swedish krona (SEK) and

Canadian dollar (CAD). At the end of June, the total EUR outstanding net forward position was EUR 4.98 million with maturity dates from September through December 2018. There was no outstanding position in CAD and SEK. Volumes that expired during 1H18 were EUR 16.36 million with a weighted average strike of 1.2114 USD/EUR, CAD 1.10 million with a weighted average strike of 1.2847 CAD/USD and SEK 44.97 million with a weighted average strike of 8.2766 SEK/USD, which has generated an insignificant result in the period.

Taxation

Income tax expense increased by 33.3% from US\$62.2 million in 1H17 to US\$82.8 million in 1H18. The effective tax rate, excluding the special mining rights, was 25.6%, which was below the 30% statutory tax rate. This was mainly due to the tax credit related to the special tax on diesel, together with the inflationary uplift of the tax base of assets and liabilities.

The effective tax rate in 1H17 was lower (16.1% in 1H17 vs 25.6% in 1H18) mainly because in 1H17 there was a 13.4% revaluation of the Mexican peso which had an important impact on the tax value of assets and liabilities that are denominated in Mexican pesos; together with a higher inflation rate which impacted the inflationary uplift of the tax base of assets and liabilities.

Profit for the period

Profit for the period was US\$229.3 million, which represented a 26.1% decrease half on half as a result of the factors discussed above.

Excluding the effects of the Silverstream valuation, profit for the period decreased 10.0% to US\$244.6 million in 1H18.

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 18	H1 17	(US \$)	(%)
Cash generated by operations before changes in working capital	575.9	540.3	35.6	6.6
(Increase) decrease in working capital	63.9	-25.8	89.7	N/A
Taxes and Employee Profit Sharing paid	-145.3	-211.9	66.6	-31.4
Net cash from operating activities	366.6	354.2	12.5	3.5
Silverstream contract	22.3	23.0	-0.7	-3.1
Purchase of property, plant & equipment	-352.2	-264.3	-87.8	33.3
Dividends paid	-219.4	-158.4	-60.9	38.5
Net interest paid	-9.7	-8.5	-1.2	14.1
Net increase in cash and short term investments during the period	-187.5	-27.1	-160.4	593.1
Cash, cash equivalents and short term investments at 30 June*	708.6	884.9	176.4	-19.9

*As disclosed in the Consolidated Cash Flow Statement, cash and cash equivalents at 30 June 2018 totalled US\$688.6 million and debt instruments amounted to US\$20.1 million. Cash and cash equivalents at 30 June 2017 totalled US\$876.0 million and available-for-sale financial instruments held in funds amounted to US\$19.9 million.

In 1H18, cash generated by operations before changes in working capital totalled US\$575.9 million, a 6.6% increase due to higher profits generated from the Groups operating mines. Working capital increased by US\$63.9 million as a result of the net impact of the following factors:

- A US\$17.7 million increase in accounts receivables (mainly Value Added Tax to be recovered)
- An increase in prepayments of US\$19.8 million
- A US\$23.7 million increase in ore inventories primarily on the leaching pads at Herradura
- A US\$2.6 million decrease in accounts payable

Taxes and employee profit sharing paid of US\$145.3 million decreased by 31.4% over 1H17.

As a result of the above factors, net cash from operating activities increased by 3.5% to US\$366.6 million.

The Group also received proceeds of US\$22.3 million from the Silverstream Contract.

The Group purchased property plant and equipment for a total of US\$352.2 million, a 33.3% increase over 1H17. The Group expects capital expenditures of around US\$755 million for the full year. Capital expenditures for 1H18 are further described below:

Purchase of property, plant and equipment*		
(US\$ millions)		
H1 18		
Herradura mine	89.9	Construction of second line of the dynamic leaching plant and leaching pads; and stripping activities
Saucito mine	71.0	Construction of the pyrites plant, development works, deepening of the Jarillas shaft and purchase of in-mine equipment
Fresnillo mine	56.0	Mine development and purchase of in-mine equipment
Ciénega mine	34.4	Development works, construction of tailings dam and purchase of in-mine equipment
Noche Buena	20.1	Sustaining capex
San Julián	40.8	Purchase of in-mine equipment, construction of tailings dam and mine development
Other	40.0	Minera Bermejtal and Minera Juanicipio
Total Purchase of property, plant and equip.	352.2	

Dividends paid to shareholders in 1H18 totalled US\$219.4 million as a result of the final dividend of 29.8 US cents per share paid in May 2018. Other uses of funds included the US\$9.7 million net interest paid in 1H18.

The sources and uses of funds described above resulted in a net decrease of US\$187.5 million in cash and other liquid assets, which combined with the US\$896.0 million balance at the beginning of the year, resulted in cash and other liquid assets of US\$708.6 million as at 30 June 2018.

Balance Sheet

Fresnillo plc continued to maintain a solid financial position with cash and other liquid assets of US\$708.6 million as of 30 June 2018. This represented a 20.9% decrease versus December 2017 and a 19.9% decrease compared to the short term funds of US\$884.9 million as of 30 June 2017.

Trade and other receivables (including income tax recoverable) increased from US\$402.1 million as of 31 December 2017 to US\$430.8 million as at 30 June 2018 mainly due to the increase in recoverable taxes in 1H18.

Inventories rose 8.7% over the 2017 year-end figure to US\$294.8 million, mainly as a result of the increase in gold inventories on the leaching pads of Herradura.

The change in the value of the Silverstream derivative from US\$538.9 million at the beginning of the year to US\$495.2 million as of 30 June 2018 reflects a loss of US\$43.7 million, US\$17.4 million in cash generated in respect of the period and US\$4.5 million receivable and the revaluation effects of US\$21.8 million loss in the Group's income statement.

The net book value of property, plant and equipment increased by 6.0% to US\$2,595.4 million at 30 June 2018 (US\$2,448.6 at 31 December 2017), reflecting the larger asset base following the commissioning of the pyrites plant.

Fresnillo plc's total equity for 1H18 was US\$3,091.8 million, an increase of 0.8% when compared to the figure at the beginning of the year, which reflected retained earnings from 2017.

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 2017. 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 2017. Details of its financial instruments and hedging activities as at 30 June 2018 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 2019 as at July 2018. 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 2019.

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

Dividends

The Board of Directors has declared an interim dividend of 10.7 US cents per share totalling US\$78.8 million which will be paid on 7 September 2018 to shareholders on the register on 10 August 2018. 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 2018.

Risks and uncertainties

In the first half of 2018, 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 2017 (published in April 2018).

The principal risks are shown below:

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

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 2018 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 2018 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 2018

Interim Consolidated Income Statement

	Notes	For the six months ended 30 June				
		2018 (Unaudited)			2017 (Unaudited)	
		Pre-Silverstream revaluation effect	Silverstream revaluation effect	Total	Pre-Silverstream revaluation effect	Silverstream revaluation effect
<i>(in thousands of US dollars)</i>						
Continuing operations:						
Revenues	4	1,115,046		1,115,046	995,833	995,833
Cost of sales	5	(612,863)		(612,863)	(535,798)	(535,798)
Gross profit		502,183		502,183	460,035	460,035
Administrative expenses		(38,408)		(38,408)	(33,076)	(33,076)
Exploration expenses		(78,318)		(78,318)	(64,247)	(64,247)
Selling expenses		(11,381)		(11,381)	(8,189)	(8,189)
Other operating income		2,073		2,073	27,268	27,268
Other operating expenses		(4,415)		(4,415)	(3,910)	(3,910)
Profit from continuing operations before net finance costs and income tax		371,734		371,734	377,881	377,881
Finance income	6	8,914		8,914	7,812	7,812
Finance costs	6	(24,019)		(24,019)	(56,978)	(56,978)
Revaluation effects of Silverstream contract	10	-	(21,797)	(21,797)	-	54,834
Foreign exchange (loss)/gain		(11,834)		(11,834)	3,843	3,843
Profit from continuing operations before income tax		344,795	(21,797)	322,998	332,558	387,392
Corporate income tax	7	(89,367)	6,539	(82,828)	(45,701)	(62,152)
Special mining right	7	(10,878)		(10,878)	(15,131)	(15,131)
Income tax expense	7	(100,245)	6,539	(93,706)	(60,832)	(77,283)
Profit for the period from continuing operations		244,550	(15,258)	229,292	271,726	310,109
Attributable to:						
Equity shareholders of the Company		245,259	(15,258)	230,001	270,335	308,718
Non-controlling interests		(709)		(709)	1,391	1,391
		244,550	(15,258)	229,292	271,726	310,109
Earnings per share: (US\$)						
Basic and diluted earnings per ordinary share from continuing operations	8	-		0.312	-	0.419
Adjusted earnings per share: (US\$)						
Adjusted basic and diluted earnings per ordinary share from continuing operations	8	0.333		-	0.367	-

Interim Consolidated Statement of Comprehensive Income

For the six months ended 30 June
2018 2017
(Unaudited) (Unaudited)
(in thousands of US dollars)

Profit for the period	229,292	310,109
Other comprehensive income/(loss)		
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Gain on cost of hedge recycled to income statement	(9)	-
Income tax effect	3	-
Changes in the fair value of cost of hedges	15,992	-
Income tax effect	(4,798)	-
<i>Net effect of cost of hedges</i>	<u>11,188</u>	<u>-</u>
Changes in the fair value of available-for-sale financial assets	-	17,683
Income tax effect	-	(5,305)
Impairment of available-for-sale financial assets	-	36
Income tax effect	-	(11)
<i>Net effect of available-for-sale financial assets</i>	<u>-</u>	<u>12,403</u>
<i>Foreign currency translation</i>	<u>(112)</u>	<u>460</u>
Net other comprehensive income that may be reclassified subsequently to profit or loss	11,076	12,863
<i>Items that will not be reclassified to profit or loss:</i>		
Loss on cash flow hedges	-	-
Income tax effect	-	-
Changes in the fair value of cash flow hedges	(89)	-
Income tax effect	27	-
<i>Net effect of cash flow hedges</i>	<u>(62)</u>	<u>-</u>
Changes in the fair value of equity investments at FVOCI	(9,867)	-
Income tax effect	8,663	-
<i>Net effect of equity investments at FVOCI</i>	<u>(1,204)</u>	<u>-</u>
Net other comprehensive loss that will not be reclassified to profit or loss	(1,266)	-
Other comprehensive income, net of tax	9,810	12,863
Total comprehensive income, net of tax	239,102	322,972
Attributable to:		
Equity shareholders of the Company	239,811	321,581
Non-controlling interests	(709)	1,391
	<u>239,102</u>	<u>322,972</u>

Interim Consolidated Balance Sheet

	<i>Notes</i>	<i>As of 30 June 2018 (Unaudited) (in thousands of US dollars)</i>	<i>As of 31 December 2017 (Audited)</i>
ASSETS			
Non-current assets			
Property, plant and equipment	9	2,595,389	2,448,596
Other financial assets	2c,18	134,986	-
Available-for-sale financial assets	2c,18	-	144,856
Silverstream contract	10,18	467,058	506,569
Deferred tax asset		70,456	48,950
Inventories	11	91,620	91,620
Other receivables	12	63	129
Other assets		4,237	3,389
		<u>3,363,809</u>	<u>3,244,109</u>
Current assets			
Inventories	11	203,188	179,485
Trade and other receivables	2c,12	363,401	342,506
Income tax recoverable		67,424	59,588
Prepayments		22,535	3,543
Derivative financial instruments	18	606	382
Silverstream contract	10,18	28,181	32,318
Cash and cash equivalents	13	688,552	876,034
		<u>1,373,887</u>	<u>1,493,856</u>
Total assets		<u>4,737,696</u>	<u>4,737,965</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		(62)	-
Cost of hedging reserve		(2,188)	-
Available-for-sale financial assets reserve		-	53,799
Fair value reserve of financial assets at FVOCI		48,418	-
Foreign currency translation reserve		(722)	(610)
Retained earnings		1,990,668	1,962,708
		<u>3,031,567</u>	<u>3,011,350</u>
Non-controlling interests		60,219	55,245
Total equity		<u>3,091,786</u>	<u>3,066,595</u>
Non-current liabilities			
Interest-bearing loans		799,478	799,046
Derivative financial instruments	18	2,724	14,224
Provision for mine closure cost		188,490	184,775
Provision for pensions and other post-employment benefit plans		9,967	9,217
Deferred tax liability		511,055	491,677
		<u>1,511,714</u>	<u>1,498,939</u>
Current liabilities			
Trade and other payables		117,987	134,949
Income tax payable		3,149	18,328
Derivative financial instruments	18	1,096	4,992
Employee profit sharing		11,964	14,162

	<u>134,196</u>	<u>172,431</u>
Total liabilities	<u>1,645,910</u>	<u>1,671,370</u>
Total equity and liabilities	<u>4,737,696</u>	<u>4,737,965</u>

Interim Consolidated Statement of Cash Flows

	<i>Notes</i>	<i>For the six months ended 30 June</i>	
		<i>2018</i>	<i>2017</i>
		<i>(Unaudited)</i>	<i>(Unaudited)</i>
		<i>(in thousands of US dollars)</i>	
Net cash from operating activities	17	366,630	354,161
Cash flows from investing activities			
Purchase of property, plant and equipment		(352,174)	(264,341)
Proceeds from the sale of property, plant and equipment		78	13,078
Repayments of loans granted to contractors		493	402
Short-term investments		-	(290,000)
Silverstream contract	10	22,319	23,028
Interest received		8,907	7,801
Net cash used in investing activities		(320,377)	(510,032)
Cash flows from financing activities			
Dividends paid to shareholders of the Company		(219,369)	(158,433)
Capital contribution		5,683	10,457
Interest paid ¹		(18,654)	(16,267)
Net cash used in financing activities		(232,340)	(164,243)
Net decrease in cash and cash equivalents during the period		(186,087)	(320,114)
Effect of exchange rate on cash and cash equivalents		(1,395)	3,063
Cash and cash equivalents at 1 January	13	876,034	711,954
Cash and cash equivalents at 30 June	13	688,552	394,903

¹Total interest paid during the six months ended 30 June 2018 less amounts capitalised totalling US\$5.2 million (30 June 2017: US\$6.9 million) which were 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 2017 (Audited)		368,546	1,153,817	(526,910)	-	-	47,608	-	(728)	1,637,888	2,680,221	36,147	2,716,368
Profit for the period		-	-	-	-	-	-	-	-	308,718	308,718	1,391	310,109
Other comprehensive income, net of tax		-	-	-	-	-	12,403	-	460	-	12,863	-	12,863
Total comprehensive income for the period		-	-	-	-	-	12,403	-	460	308,718	321,581	1,391	322,972
Capital contribution		-	-	-	-	-	-	-	-	-	-	10,457	10,457
Dividends paid	14	-	-	-	-	-	-	-	-	(158,432)	(158,432)	-	(158,432)
Balance at 30 June 2017 (Unaudited)		368,546	1,153,817	(526,910)	-	-	60,011	-	(268)	1,788,174	2,843,370	47,995	2,891,365
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	2c	-	-	-	-	(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	14	-	-	-	-	-	-	-	-	(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

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 2018 (“interim consolidated financial statements”) were authorised for issue by the Board of Directors of Fresnillo plc on 30 July 2018.

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 2018 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 2017 as published in the Annual Report 2017.

These interim consolidated financial statements do not constitute statutory accounts as defined in section 435 of the Companies Act 2006. The financial information for the full year is based on the statutory accounts for the financial year ended 31 December 2017. A copy of the statutory accounts for that year, which were prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU up to 31 December 2017, 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.

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 2018 and 31 December 2017, and its operations and cash flows for the six-month periods ended 30 June 2018 and 30 June 2017.

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 2017.

(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 2017, except for the following:

New standards and interpretations as adopted by the Group

Financial instruments

On January 1, 2018, the Company adopted IFRS 9, *Financial Instruments* which replaced IAS 39, *Financial Instruments: Recognition and Measurement* using the modified retrospective approach.

IFRS 9 provides a revised model for classification and measurement of financial instruments; a single, forward-looking expected loss impairment model; and changes to hedge accounting.

The classification and measurement model for financial assets in IFRS 9 is based on the Group's business models for managing its financial assets and whether the contractual cash flows represent solely payments for principal and interest. Generally, equity instruments are classified and measured as fair value through profit or loss (FVPL). However, in respect of equity instruments that the Group intends to hold for the foreseeable future, IFRS 9 permits the Group to irrevocably elect upon initial recognition or transition to classify those assets as fair value through other comprehensive income (FVOCI). Changes in the fair value of equity instruments elected to be classified as FVOCI are not reclassified to profit or loss in future periods. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9.

Long-term financial assets

The adoption of IFRS 9 resulted in certain changes to the classification of financial assets previously classified as available-for-sale financial assets (AFS). The Company designated its investments in quoted equity investments as FVOCI and classified investments in funds as FVPL:

	<i>1 January 2018</i>	<i>31 December 2017</i>
	<i>(in thousands of US dollars)</i>	
Available-for-sale financial assets	-	144,856
Debt instruments at fair value through profit or loss	19,877	-
Equity instruments at fair value through other comprehensive income	124,979	-
	<u>144,856</u>	<u>144,856</u>

Upon transition, the balance in the AFS reserve relating to investments in funds was reclassified from accumulated other comprehensive income (OCI) to retained earnings. In addition, the amounts previously recognised in retained earnings related to historical impairment of AFS that are now classified as FVOCI have been reclassified to the FVOCI reserve.

Trade receivables

Under IFRS 9, embedded derivatives are no longer separated from their host contracts. Instead, where embedded derivatives are present, the entire host contract is classified as fair value through profit or loss. For the Group, this change affects the trade receivables that include provisional pricing adjustments.

Impairment

The adoption of the new "expected credit loss" impairment model under IFRS 9, as opposed to an incurred credit loss model under IAS 39, had a negligible impact on the carrying amounts of the Group's financial assets on the transition date given the Group transacts exclusively with organizations with strong credit ratings, the negligible historical level of counterparty default and the short term period of exposure to credit risk.

Hedging

The new general hedge accounting requirements retain the three types of hedge accounting mechanisms previously available under IAS 39. Under IFRS 9, however, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been replaced with the principle of an "economic relationship" and retrospective assessment of hedge effectiveness is no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

IFRS 9 changes the accounting requirements for the time value of purchased options where only the intrinsic value of such options has been designated as the hedging instrument. In such cases, changes in the time value of options are initially recognised in OCI as a cost of hedging. Where the hedged item is transaction related, amounts initially recognised in OCI related to the change in the time value of options are reclassified to profit or loss or as a basis adjustment to non-financial assets or liabilities upon maturity of the hedged item, or, in the case of a hedged item that realises over time, the amounts initially recognised in OCI are amortised to profit or loss on a systematic and rational basis over the life of the hedged item. Under IAS 39, the change in time value of options was recorded in the income statement. As at 1 January 2018, the adjustment to reflect the changes in accounting for the time value of such options increased retained earnings and decreased the hedging reserve by US\$19.1 million (US\$13.4 million net of tax).

Revenue recognition

On January 1, 2018, the Group adopted IFRS 15, *Revenue from Contracts with Customers* which supersedes IAS 18, *Revenue*. IFRS 15 establishes a single five-step model framework for determining the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. IFRS 15 requires entities to recognize revenue when control of goods or services transfers to the customer whereas the previous standard, IAS 18, required entities to recognize revenue when the risks and rewards of the goods or services transfer to the customer. The Company concluded there is no change in the timing of revenue recognition of its doré, precipitates and concentrate sales under IFRS 15 compared to the previous standard as the point of transfer of risks and rewards of goods and services and transfer of control occur at the same time. Therefore, no adjustment was required to the Group's financial statements.

Revenue associated with the sale of concentrates, precipitates and doré bars is recognized when control of the asset sold is transferred to the customer. Indicators of control transferring include an unconditional obligation to pay, legal title, physical possession, transfer of risk and rewards and customer acceptance. This generally occurs when the goods are delivered to the customer's smelter or refinery agreed with the buyer; at which point the buyer controls the goods.

The Group's sales contracts, in general, provide for a provisional payment based upon provisional assays and quoted metal prices. Revenues are recorded under these contracts at the time control passes to the buyer and measured at the fair value of the consideration receivable based on forward market prices set on specified quotational periods applied to the Group's best estimate of contained metal quantities.

At each reporting date, provisionally priced metal is marked to market based on the forward selling price for the quotational period stipulated in the contract. The transaction price can be measured reliably as an active and freely traded commodity market such as the London Metals Exchange exists for silver, gold, zinc and lead and the value of product sold by the Company is directly linked to the form in which it is traded on that market. Variations between the price recorded at the date when control is transferred to the buyer and the actual final price set under the smelting contracts are caused by changes in metal prices resulting in the receivable being recorded at FVTPL.

Final settlement is based on quantities adjusted as required following the inspection of the product by the customer as well as applicable commodity prices. IFRS 15 requires that variable consideration should only be recognized to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur. The Group concluded that the adjustments relating to the final assay results for the quantity and quality of concentrate sold are not significant and do not constrain the recognition of revenue.

Refining and treatment charges under the sales contracts continue to be deducted from revenue from sales of concentrates.

Other Narrow Scope Amendments

The Company has adopted IFRIC 22 – Foreign Currency Transactions and Advance Considerations, which did not have a material impact on the Company’s consolidated financial statements.

Impact of standards issued but not yet applied by the Group

IFRS 16 Leases

IFRS 16 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. These amendments are effective for annual periods beginning on or after 1 January 2019. The Group has decided to adopt the standard when it becomes effective.

IFRIC 23 Uncertainty over Income Tax treatments

This Interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. The interpretation is to be applied to the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments. Application of tax law can be complex and requires judgement to assess risk and estimate outcomes where the amount of tax payable or recoverable is uncertain. The Group is currently assessing whether any potential uncertain tax positions exist under the requirements of the Interpretation. IFRIC 23 is applicable for annual periods beginning on or after 1 January 2019.

The IASB and IFRS Interpretation committee have issued other amendments resulting from improvements to IFRSs that management considers do not have any impact on the accounting policies, financial position or performance of the Group. The Group has not early adopted any standard, interpretation or amendment that was issued but is not yet effective.

Significant accounting judgments, estimates and assumptions

Significant accounting judgments, estimates and assumptions are consistent with those disclosed in the ARA except as set out below.

Estimate of recoverable ore on leaching pads

In the Group’s open pit mines, certain mined ore is placed on leaching pads where a solution is applied to the surface of the heap to dissolve the gold and enable extraction. The determination of the amount of recoverable gold requires estimation with consideration of the quantities of ore placed on the pads and the grade of that ore (based on assay data) and the estimated recovery percentage (based on metallurgical studies and current technology).

The grades of ore placed on pads are regularly compared to the quantities of metal recovered through the leaching process to evaluate the appropriateness of the estimated recovery (metallurgical balancing). The Group monitors the results of the metallurgical balancing process and recovery estimates are refined based on actual results over time and when new information becomes available.

In 2017, the Group decided that it will construct a new leaching pad in a separate area of the Herradura mine. To reduce the hauling distance from the pit to the new pad, the Group constructed an access route through certain existing leaching pads, removing and redepositing the ore in the process. These works allowed the Group to perform assays and verify certain characteristics of the ore, including the humidity of the ore deposited and the grade of gold in solution. The testing of those assays commenced in 2018 and is ongoing.

As a result of this new information, the Group updated its estimate of the remaining gold content in leaching pads resulting in an increase of 98.9 thousand ounces of gold as at 1 January 2018. This represents 1.7% of the total gold content deposited from the inception of the mine to 31 December 2017.

This change in estimation was incorporated prospectively in inventory from 1 January 2018. The increase in the number of ounces reduced the weighted average cost of inventory. Had the estimation not changed, production cost during the six-month period ended 30 June 2018 would have been US\$46.0 million higher, with an offsetting impact against the work-in-progress inventory balance as of 30 June 2018.

3 Segment reporting

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

At 30 June 2018 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 2018 and 2017, substantially 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 2018 and 2017, respectively. Revenues for the six months ended 30 June 2018 include those derived from contracts with costumers and other revenues, as showed in note 4.

Six months ended 30 June 2018

<i>US\$ thousands</i>	Fresnillo	Herradura	Cienega	Soledad-Dipolos⁴	Saucito	Noche Buena	San Julian	Other⁵	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 and hedging gains and losses in respect of metal prices.

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

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

⁴Operations at Soledad-Dipolos were suspended in 2H 2013 as a result of the dispute disclosed in note 15.

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

Six months ended 30 June 2017

<i>US\$ thousands</i>	Fresnillo	Herradura	Cienega	Soledad-Dipolos⁴	Saucito	Noche Buena	San Julian	Other⁵	Adjustments and eliminations	Total
Revenues:										
Third party ¹	188,610	281,274	92,912	-	221,165	110,811	101,061	-	-	995,833
Inter-Segment	-	-	-	-	-	-	-	39,953	(39,953)	-
Segment revenues	188,610	281,274	92,912	-	221,165	110,811	101,061	39,953	(39,953)	995,833
Segment profit²	133,010	166,136	51,514	-	162,244	36,866	69,303	30,726	(12,882)	636,917
Depreciation and amortisation										(167,959)
Employee profit sharing										(8,923)
Gross profit as per the income statement										460,035
Capital expenditure³	49,456	61,233	19,006	-	53,239	8,670	55,568	17,169	-	264,341

¹Total third party revenues include treatment and refining charges amounting US\$73.6 million.

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

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

⁴Operations at Soledad-Dipolos were suspended in 2H 2013 as a result of the dispute disclosed in Note 15.

⁵Other inter-segment revenue corresponds to leasing services provided by Minera Bermejil, S.A. de C.V.; capital expenditure corresponds to Minera Juancipio 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>2018</i>	<i>2017</i>
	<i>(in thousands of US dollars)</i>	
Revenues from contracts with customers	1,125,946	993,981
Revenues from other sources		
Provisional pricing adjustment on products sold	(10,909)	1,852
Hedging gain on sales	9	-
	1,115,046	995,833

(b) Revenues by product sold

	<i>Six months ended 30 June</i>	
	<i>2018</i>	<i>2017</i>
	<i>(in thousands of US dollars)</i>	
Lead concentrates (containing silver, gold, lead and by-products)	426,307	405,714
Doré and slag (containing gold, silver and by-products)	442,240	392,085
Zinc concentrates (containing zinc, silver and by-products)	133,381	74,113
Precipitates (containing gold and silver)	113,118	123,921
	1,115,046	995,833

Substantially 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:

	<i>Six months ended 30 June</i>	
	<i>2018</i>	<i>2017</i>
	<i>(in thousands of US dollars)</i>	
Silver	432,093	413,205
Gold	593,002	543,912
Zinc	109,245	65,559
Lead	55,542	46,790
Value of metal content in products sold	1,189,882	1,069,466
Adjustment for treatment and refining charges	(74,836)	(73,633)
Total revenues ¹	1,115,046	995,833

¹ Includes provisional price adjustments which represent changes in the fair value of trade receivables resulting in a loss of US\$10.9 million (2017: gain of US\$1.9 million due to changes in the fair value of embedded derivatives arising on provisional pricing in sales contracts) and hedging gain of US\$0.01 million (2017: nil).

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

	<i>Six months ended 30 June</i>	
	<i>2018</i>	<i>2017</i>
	<i>(in US dollars per ounce)</i>	
Gold ²	1,312.77	1,250.25
Silver ²	16.48	17.44

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

5 Cost of sales

	<i>Six months ended 30 June</i>	
	<i>2018</i>	<i>2017</i>
	<i>(in thousands of US dollars)</i>	
Depreciation and amortisation (Note 9)	192,840	167,959
Personnel expenses ¹	50,146	41,571
Maintenance and repairs	65,479	51,351
Operating materials	86,877	69,101
Energy	75,458	66,996
Contractors	136,504	101,349
Mining concession rights and contributions	6,534	5,050
Freight	5,350	4,652
Insurance	2,543	2,285
Other	12,823	9,521
Cost of production	634,554	519,835
Change in work in progress and finished goods (ore inventories) ²	(21,691)	15,963
Cost of sales	612,863	535,798

¹ Personnel expenses include employees' profit sharing of US\$11.8 million for the six months ended 30 June 2018 (six months ended 30 June 2017: US\$8.9 million).

² Refer to note 2c for more detail related to change in work in progress inventories for the six-month period ended 30 June 2018 following a change in estimation..

6 Finance income and finance costs

	<i>Six months ended 30 June</i>	
	<i>2018</i>	<i>2017</i>
	<i>(in thousands of US dollars)</i>	
Finance income:		
Interest on short term deposits	7,956	5,569
Other	958	2,243
	8,914	7,812
Finance costs:		
Interest on short term deposits	41	-
Interest on interest-bearing loans	18,334	16,669
Unwinding of discount on provisions	5,026	5,451
Fair value movements on derivatives ¹	274	34,508
Other	344	350
	24,019	56,978

¹ The fair value movements on derivatives during the six months ended 30 June 2017 included changes to the time value of gold commodity options. From 1 January 2018, the time value is recognised in equity as a cost of hedging, see note 2c.

7 Income tax expense

Six months ended 30 June
2018 2017
(in thousands of US dollars)

<i>Current corporate income tax:</i>		
Income tax charge ¹	93,756	62,095
Amounts (over)/under provided in previous periods	(4,728)	8,676
	<u>89,028</u>	<u>70,771</u>
<i>Deferred corporate income tax:</i>		
Origination and reversal of temporary differences	339	(25,070)
Revaluation effects of Silverstream contract	(6,539)	16,451
	<u>(6,200)</u>	<u>(8,619)</u>
Corporate income tax	<u>82,828</u>	<u>62,152</u>
<i>Current special mining right:</i>		
Special mining right charge ²	2,917	10,287
	<u>2,917</u>	<u>10,287</u>
<i>Deferred special mining right:</i>		
Origination and reversal of temporary differences	7,961	4,844
Special mining right	<u>10,878</u>	<u>15,131</u>
Income tax expense as reported in the income statement	<u>93,706</u>	<u>77,283</u>

¹ During 2016 the Mexican Internal Revenue Law granted to taxpayers a credit in respect of an excise tax (Special Tax on Production and Services, or IEPS for its acronym in Spanish) paid when purchasing diesel used for general machinery and certain mining vehicles. The credit can be applied against either the Group's own corporate income tax or the income tax withheld from third parties. The credit is calculated on an entity-by-entity basis and expires one year after the purchase of the diesel. During the six months period ended 30 June 2018 the Group applied a credit of US\$16.9 million in respect of the period (30 June 2017: US\$15.3 million).

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 2018, the Group credited US\$8.9 million (2017: US\$7.6 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\$11.8 million (2017: US\$17.9). The total mining concession rights paid during the six month period were US\$9.9 million (2017: US\$7.3 million) and have been recognised in the income statement within cost of sales and exploration expenses. Mining concessions rights paid in excess of the 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.

The effective tax rate for corporate income tax for the six months ended 30 June 2018 is 25.64% (six months ended 30 June 2017: 16.04%) and 29.01% including the special mining right (six months ended 30 June 2017: 20.57%). The main factors that reduced the effective tax rate for corporate income tax below 30% are the IEPS tax incentive described above and the effect of uplift of tax value of assets.

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.

As of 30 June 2018 and 30 June 2017, earnings per share have been calculated as follows:

	<i>Six months ended 30 June</i>	
	<i>2018</i>	<i>2017</i>
	<i>(in thousands of US dollars)</i>	
Earnings:		
Profit from continuing operations attributable to equity holders of the Company	230,001	308,718
Adjusted profit from continuing operations attributable to equity holders of the Company	245,259	270,335

Adjusted profit is profit as disclosed in the Interim Consolidated Income Statement adjusted to exclude revaluation effects of the Silverstream contract of US\$21.8 million loss (US\$15.2 million net of tax) (2017: US\$54.8 million gain and US\$38.3 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.

	<i>Six months ended 30 June</i>	
	<i>2018</i>	<i>2017</i>
Number of shares:		
Weighted average number of ordinary shares in issue ('000)	736,894	736,894

	<i>Six months ended 30 June</i>	
	<i>2018</i>	<i>2017</i>
Earnings per share:		
Basic and diluted earnings per ordinary share from continuing operations (US\$)	0.312	0.419
Adjusted basic and diluted earnings per ordinary share from continuing operations (US\$)	0.333	0.367

9 Property, plant and equipment

The changes in property, plant and equipment during the six months ended 30 June 2018 are additions of US\$346.4 million (six months ended 30 June 2017: US\$288.4million) and depreciation and amortisation of US\$199.5 million, of which US\$6.7 million was capitalised as a part of the cost of other fixed assets (six months ended 30 June 2017: US\$176.4million, of which US\$8.4 million was capitalised). Significant additions include mine development, construction of leaching pads, purchase of mine equipment and capitalised stripping activity as well as projects such as: construction of facilities at San Julian phase II, the second dynamic leaching plant at Herradura and the construction of the pyrites plant in the Fresnillo district.

As of 30 June 2018 the Group has contractual commitments related to the construction and acquisition of property, plant and equipment of US\$262.0 million (31 December 2017: US\$207.5 million).

10 Silverstream contract

Cash received in respect of the period of US\$17.4 million (six months ended 30 June 2017: US\$17.1 million) corresponds to 2 million ounces of payable silver (six months ended 30 June 2017: 1.9 million ounces). As at 30 June 2018, a further US\$4.4 million (30 June 2017: US\$5.1 million) of cash corresponding to 413,793 ounces of silver is due (30 June 2017: 456,814 ounces).

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

	2018	2017
	<i>(in thousands of US dollars)</i>	
Balance at 1 January:	538,887	467,529
Cash received in respect of the period	(17,395)	(17,054)
Cash receivable	(4,456)	(5,146)
Remeasurement (loss)/gain recognised in profit or loss	(21,797)	54,834
Balance at 30 June	495,239	500,163
Less - Current portion	<u>28,181</u>	<u>31,387</u>
Non-current portion	<u>467,058</u>	<u>468,776</u>

The US\$21.8 million unrealised loss recorded in the income statement (30 June 2017: US\$54.8 million gain) resulted from the updating of assumptions used to value the Silverstream contract. The most significant of these were the increase in the LIBOR reference rate used to determine the discount rate, the Sabinas mine silver reserves and resources estimation update and the decrease in the forward silver price.

11 Inventories

	<i>As at 30 June</i>	<i>As at 31</i>
	<i>2018</i>	<i>December 2017</i>
	<i>(in thousands of US dollars)</i>	
Finished goods ¹	11,564	10,957
Work in progress ²	202,804	175,016
Ore stockpiles ³	9,165	15,115
Operating materials and spare parts	76,530	75,331
Inventories at lower of cost and net realisable value	<u>300,063</u>	<u>276,419</u>
Allowance for obsolete and slow-moving inventories	<u>(5,255)</u>	<u>(5,314)</u>
Balance at lower of cost and net realisable value	294,808	271,105
Less - Current portion	<u>203,188</u>	<u>179,485</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. Refer to note 2c for more detail related work in progress inventories as of 30 June 2018 following a change in estimation.

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 2018</i>	<i>As at 31 December 2017</i>
	<i>(in thousands of US dollars)</i>	
Trade receivables from related parties (Note 16) ¹	209,772	226,134
Value added tax receivable	138,143	85,979
Other receivables from related parties (Note 16)	4,621	4,925
Other receivable from contractors	3,025	19,832
Other receivables	8,488	6,072
	<u>364,049</u>	<u>342,942</u>
Provision for impairment of other receivables	(648)	(436)
	<u>363,401</u>	<u>342,506</u>
Other receivables classified as non-current assets:		
Loans granted to contractors	63	129
	<u>63</u>	<u>129</u>
	<u>363,464</u>	<u>342,635</u>

¹ As of 30 June 2018 trade receivables from related parties were valued at fair value based on forward market prices following the adoption of IFRS 9. At 31 December 2017 receivables from related parties included the fair value of embedded derivatives arising due to provisional pricing in sales contracts of US\$6.5 million..

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 2018</i>	<i>As at 31 December 2017</i>
	<i>(in thousands of US dollars)</i>	
Cash at bank and on hand	7,002	4,265
Short-term deposits	681,550	871,769
Cash and cash equivalents	<u>688,552</u>	<u>876,034</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 2018		
Total dividends paid during the period ¹	29.8	219.6
Six months ended 30 June 2017		
Total dividends paid during the period ²	21.5	158.4

¹ Final dividend for 2017 approved at the Annual General Meeting on 30 May 2018 and paid on 4 Jun 2018.

² Final dividend for 2016 approved at the Annual General Meeting on 23 May 2017 and paid on 26 May 2017.

15 Contingencies

The contingencies in the Group's annual consolidated financial statements for the year ended 31 December 2017 as published in the 2017 Annual Report, are still applicable as of 30 June 2018, including the El Bajío agrarian community conflict and Minera Penmont tax audit as described below:

- As previously reported by the Company, the Unitarian Agrarian Court in Hermosillo, Sonora issued in February 2014 a procedural order 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 and also because the procedural order appeared not to consider the fact that Penmont conducted its activities pursuant to valid mining concessions and environmental impact permits. In December 2016, the Agrarian Court issued a subsequent procedural order in which the Court recognised that Penmont complied with the agrarian ruling by having returned the land in dispute and, furthermore, that remediation activities are to be conducted in accordance with Federal environmental guidelines and regulations, as supervised by the competent Federal authorities. Remediation activities in this respect are pending as the agrarian members have not yet permitted Penmont physical access to the lands. Penmont has already presented a conceptual mine closure and remediation plan before the Agrarian Court in respect of the approximately 300 hectares where Penmont conducted mining activities. The agrarian community ejido El Bajío appealed this procedural order from the Agrarian Court and a Federal District Court denied this appeal. In August 2017 the agrarian community presented a further and last recourse against this ruling by the Federal District Court in relation to which there have been certain procedural developments; however, the final resolution continues to be pending.
- 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 no significant mining operations or specific geological interest in the affected parcels and these lands are therefore not considered strategic for Penmont. As previously reported, the Agrarian Court issued rulings declaring such occupation agreements over those land parcels to be null and void and that Penmont must remediate such lands to the state that they were in before Penmont's occupation as well as returning any minerals extracted from this area. Given that Penmont has not conducted significant mining operations or has 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.
- Various claims and counterclaims have been made between the relevant parties in the El Bajío matter. There remains significant uncertainty as to the finalisation and ultimate outcome of these legal proceedings.
- With regards to tax audits:
 - In May 2018 the Company was notified of tax assessments in respect of the Penmont tax audits for tax years 2012 and 2013. The tax authorities (SAT) determined additional income tax and value added tax of \$2.5 million and \$0.4million, and an additional profit sharing (PTU) to the Company's employees of \$0.3 million and \$0.1million for 2012 and 2013 respectively. On 11 July 2018 Penmont filed Substance Administrative Appeals against these tax assessments with the tax authorities, which, according to the Federal Tax Code, should be resolved within a period of 3 months. This term may however be extended depending on the authorities' workload. Management continues to be confident in its interpretation of the relevant legislation.
 - During 2018 the tax authorities commenced tax inspections for the 2014 tax year in respect of Minera Fresnillo, Minera Mexicana La Ciénega, Desarrollos Mineros El Aguila and Desarrollos Mineros Canelas (the Companies). In June 2018 the SAT provided its Audit Report, which challenges certain tax deductions taken by the Companies for Income Tax and Mining Rights purposes. On 11 July 2018, the Companies responded to the SAT's Audit Report and formally filed a writ before the Mexican Taxpayers Ombudsman (PRODECON per its Spanish acronym) requesting a conclusive agreement in the matter. The current audit process is suspended for the duration of the conclusive agreement proceedings, and the tax authorities cannot determine a tax deficiency until PRODECON issues the final agreement under the terms agreed between the Companies and the SAT. Management believes that its interpretation of the relevant

legislation is appropriate and that the Group has complied with all regulations and paid or accrued all taxes and withholdings that are applicable.

- There are currently a number of other ongoing tax inspections that have been initiated by the SAT in respect of which no findings or claims have been communicated to the Company. It is not practical to determine the amount of any potential claims or the likelihood of any unfavourable outcome arising from these or any future inspections that may be initiated. However, management believes that its interpretation of the relevant legislation is appropriate and that the Group has complied with all regulations and paid or accrued all taxes and withholdings that are applicable.
- New income tax and VAT legislation in respect of contractors came into effect on 1 January 2017, requiring management to ensure that contractors are compliant with their own tax obligations, including employment tax. This created a new obligation for Fresnillo to obtain and retain sufficient evidence of contractors' fiscal compliance in order to deduct costs related to the contractors for income tax purposes and to recover input VAT. In late 2017, the 2018 Federal Revenue Law clarified that if the online portal (established by the tax authorities to facilitate compliance) is used in 2018, it would be sufficient to discharge any 2017 compliance obligations. Management considers that it is well progressed in meeting its obligations for 2017 and 2018, and does not consider that any significant economic exposure will arise as a result of this new legislation with respect to the current year.
- In 2011, flooding occurred in the Saucito mine, following which the Group filed an insurance claim in respect of the damage caused (and in respect of business continuity). In early 2018, the insurance provider notified the Group that the claim had been accepted; however, there is disagreement about the appropriate amount to be paid. Due to the fact that negotiations are on-going and there is uncertainty regarding the timing of reaching an agreement with the insurer, the amount expected to be recovered is currently not practicable to determine.

16 Related party balances and transactions

The Group had the following related party transactions during the six months ended 30 June 2018 and 30 June 2017 and balances as at 30 June 2018 and 31 December 2017.

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

(a) Related party accounts receivable and payable

	<i>Accounts receivable</i>		<i>Accounts payable</i>	
	<i>As at 30 June 2018</i>	<i>As at 31 December 2017</i>	<i>As at 30 June 2018</i>	<i>As at 31 December 2017</i>
	<i>(in thousands of US dollars)</i>			
<i>Trade:</i>				
Metalúrgica Met-Mex Peñoles, S.A. de C.V.	209,772	225,741	210	397
<i>Other:</i>				
Industrias Peñoles, S.A.B. de C.V.	4,456	4,925	-	-
Servicios Administrativos Peñoles, S.A. de C.V.	-	-	3,427	2,434
Servicios Especializados Peñoles, S.A. de C.V.	-	-	617	1,786
Termoeléctrica Peñoles, S. de R.L. de C.V.	-	-	530	1,650
Fuentes de Energía Peñoles, S.A. de C.V.	-	-	554	-
Eólica de Coahuila S.A. de C.V.	-	-	2,816	1,926
Other	165	392	1,946	864
	<u>214,393</u>	<u>231,058</u>	<u>10,100</u>	<u>9,057</u>

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

Other balances due from related parties:

	<i>As at 30 June 2018</i>	<i>As at 31 December 2017</i>
	<i>(in thousands of US dollars)</i>	
<i>Silverstream contract:</i>		
Industrias Peñoles, S.A.B. de C.V.	495,239	538,887

The Silverstream contract can be settled in either silver or cash. Details of the Silverstream contract are provided in note 11.

(b) Principal transactions with affiliates are as follows:

	<i>Six months ended 30 June 2018</i>	<i>2017</i>
	<i>(in thousands of US dollars)</i>	
Income:		
<i>Sales¹:</i>		
Metalúrgica Met-Mex Peñoles, S.A. de C.V.	1,119,766	995,833
<i>Other income</i>	2,151	1,170
Total income	1,121,917	997,003

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\$74.8 million (June 2017: US\$73.6 million) and include sales credited to development projects of US\$ 4.7 million (June 2017: nil)

	<i>Six months ended 30 June 2018</i>	<i>2017³</i>
	<i>(in thousands of US dollars)</i>	
Expenses:		
<i>Administrative Services:</i>		
Servicios Administrativos Peñoles, S.A. de C.V. ²	14,105	13,723
Servicios Especializados Peñoles, S.A. de C.V. ²	7,192	8,855
	21,297	22,578
<i>Energy:</i>		
Fuerza Eólica del Istmo, S.A. de C.V.	2,187	1,615
Fuentes de Energía Peñoles, S.A. de C.V.	1,155	-
Termoeléctrica Peñoles, S. de R.L. de C.V.	9,474	9,996
Eólica de Coahuila, S.A. de C.V.	12,655	-
	25,471	11,611
<i>Operating materials and spare parts:</i>		
Wideco Inc	2,059	2,452
Metalúrgica Met-Mex Peñoles, S.A. de C.V.	3,678	2,814
	5,737	5,266
<i>Equipment repairs and administrative services:</i>		
Serviminas, S.A. de C.V.	4,366	4,097
<i>Insurance premiums:</i>		
Grupo Nacional Provincial, S.A.B. de C.V.	1,070	1,021
<i>Other expenses</i>	874	803
Total expenses	58,815	45,376

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 2018 for a total amount of US\$21.3 million (US\$20.4 million for the six months ended 30 June 2017). Of the total amount of these services, US\$19.0 million (US\$16.0 million for the six months ended 30 June 2017) were recognised in administrative expenses and US\$2.3 million (US\$4.4 million for six months ended 30 June 2017) were capitalised.

³ The presentation of figures for the six-month period ended 30 June 2017 has been amended to be consistent with the presentation for the six-month period ended 30 June 2018.

(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.

	<i>Six months ended 30 June</i>	
	<i>2018</i>	<i>2017</i>
	<i>(in thousands of US dollars)</i>	
Salaries and bonuses	2,005	2,239
Post-employment pension	150	137
Other benefits	115	136
Total compensation paid to key management personnel	2,270	2,512

17 Notes to the consolidated statement cash flows

	<i>Notes</i>	<i>Six months ended 30 June</i>	
		<i>2018</i>	<i>2017</i>
		<i>(in thousands of US dollars)</i>	
Reconciliation of profit for the period to net cash generated from operating activities			
Profit for the period		229,292	310,109
Adjustments to reconcile profit for the period to net cash inflows from operating activities:			
Depreciation and amortisation	5,9	192,840	167,959
Employee profit sharing		12,093	9,137
Deferred income tax expense	7	1,761	3,992
Current income tax expense	7	91,945	73,291
Loss/(gain) on the sale of property, plant and equipment		51	(24,686)
Other losses		3	31
Net finance costs		14,797	14,658
Foreign exchange loss		10,503	5,700
Difference between pension contributions paid and amounts recognised in the income statement		500	457
Non cash movement on derivatives	6	274	34,508
Changes in fair value of Silverstream	10	21,797	(54,834)
Working capital adjustments			
(Increase)/decrease in trade and other receivables		(17,724)	6,002
(Increase)/decrease in prepayments and other assets		(19,842)	712
(Increase)/decrease in inventories		(23,703)	14,129
(Decrease)/increase in trade and other payables		(2,634)	4,943
Cash generated from operations		511,953	566,108
Income tax paid ¹		(130,974)	(194,763)
Employee profit sharing paid		(14,349)	(17,184)
Net cash from operating activities		366,630	354,161

¹ Income tax paid includes US\$111.2 million corresponding to corporate income tax (June 2017: US\$170.3 million) and US\$19.7 corresponding to special mining right (June 2017: US\$24.5 million).

18 Financial instruments

a. Classification

As at 30 June 2018					
<i>US\$ thousands</i>					
Financial assets:	Amortized cost	Fair value through OCI	Fair value (hedging instruments)	Fair value through profit or loss	
Trade and other receivables (Note 12)	3,364	-	-	214,228	
Other financial assets	-	114,932	-	20,054	
Silverstream contract (Note 10)	-	-	-	495,239	
Derivative financial instruments	-	-	606	-	
Financial liabilities:			Amortised Cost	Fair value (hedging instruments)	Fair value through profit or loss
Interest-bearing loans			799,478	-	-
Trade and other payables			77,465	-	-
Derivative financial instruments			-	3,820	-

As at 31 December 2017				
<i>US\$ thousands</i>				
Financial assets:	Fair value through profit or loss	Available-for- sale investments at fair value through OCI	Loans and receivables	Fair value through OCI (cash flow hedges)
Trade and other receivables ¹ (Note 12)	-	-	236,859	-
Available-for-sale financial assets	-	144,856	-	-
Silverstream contract (Note 10)	538,887	-	-	-
Embedded derivatives within sales contracts	6,511	-	-	-
Derivative financial instruments	311	-	-	71
Financial liabilities:			Amortised Cost	Fair value through OCI (cash flow hedges)
Interest-bearing loans			799,046	-
Trade and other payables			102,721	-
Derivative financial instruments			37	19,179

¹ Embedded derivatives from sales contracts are presented net within Trade and other receivables in the balance sheet.

b. Fair value measurement

Fair value hierarchy

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either: a) in the principal market for the asset or liability, or b) in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible to the Group.

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

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

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

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

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

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

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

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

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

The fair value of financial assets and liabilities, together with the carrying amounts shown in the balance sheet, other than those with carrying amounts that are a reasonable approximation of their fair values, are as follows:

	Carrying amount		Fair value	
	30 June 2018	31 December 2017	30 June 2018	31 December 2017
	<i>US\$ thousands</i>			
Financial liabilities:				
Interest-bearing loans ¹	799,478	799,046	826,840	878,864

¹ The fair value of interest-bearing loans is derived from quoted market prices in active markets (Level 1 of the fair value hierarchy).

The carrying amounts of all other financial instruments are measured at fair value.

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

	As of 30 June 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	-	-	214,228	214,228
Derivative financial instruments:				
Option commodity contracts	-	582	-	582
Option and forward foreign exchange contracts	-	24	-	24
Silverstream contract (Note 10)	-	-	495,239	495,239
Other financial assets:				
Equity investments	114,932	-	-	114,932
Debt instruments	20,054	-	-	20,054
	134,986	606	709,467	845,059
Financial liabilities:				
Derivative financial instruments:				
Option commodity contracts	-	3,708	-	3,708
Option and forward foreign exchange contracts	-	112	-	112
	-	3,820	-	3,820
As of 31 December 2017¹				
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:				
Derivative financial instruments:				
Embedded derivatives within sales contracts			6,511	6,511
Option commodity contracts	-	71	-	71
Option and forward foreign exchange contracts	-	311	-	311
Silverstream contract (Note 10)	-	-	538,887	538,887
Financial assets available-for-sale:				
Quoted investments	144,856	-	-	144,856
	144,856	382	545,398	690,636
Financial liabilities:				
Derivative financial instruments:				
Options commodity contracts	-	19,179	-	19,179
Option and forward foreign exchange contracts	-	37	-	37
	-	19,216	-	19,216

¹ Financial assets and liabilities are classified in this note in line with IAS 39.

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:

	2018	2017
	<i>US\$ thousands</i>	
Balance at 1 January	225,741	(2,750)
Net change in trade receivable from goods sold	(5,030)	-
Changes in fair value	(6,841)	7,447
Realised embedded derivatives during the year	(4,098)	(5,595)
Balance at 30 June	209,772	(898)

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 is based on Sabinas life of mine which 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.

30 June 2018	Increase/ (decrease)	Effect on profit before tax: increase/ (decrease) <i>US\$ thousands</i>
Silver price	10% (5%)	67,402 (33,701)
Foreign exchange rate: strengthening/(weakening) of the US dollar	10% (10%)	(240) 293
Interest rate	75 basis point (75 basis point)	(44,408) 52,035
31 December 2017	Increase/ (decrease)	Effect on profit before tax: increase/ (decrease) <i>US\$ thousands</i>
Silver price	10% (10%)	72,779 (72,779)
Foreign exchange rate: strengthening/(weakening) of the US dollar	20% (10%)	(781) 521
Interest rate	90 basis point (50 basis point)	(58,798) 37,935

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 (see note 2 (p)). 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 2018 were consistent with those outstanding at 31 December 2017.

The gold commodity options in asset positions at 30 June 2018 were less than US\$0.1 million (31 December 2017: US\$ nil). The gold commodity options in liability positions at 30 June 2018 were US\$3.7 million (31 December 2017: US\$18.1 million). Other than gold commodity options, the derivative financial instruments outstanding at 30 June 2018 and 31 December 2017 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, as set out below:

	<i>As at 30 June 2018</i>	<i>As at 31 December</i>
	<i>(in thousands of US dollars)</i>	<i>2017</i>
Cash and cash equivalents (note 13)	688,552	876,034
Debt instruments	20,054	-
Available-for-sale financial instruments held in funds	-	19,877
	<u>708,606</u>	<u>895,911</u>