

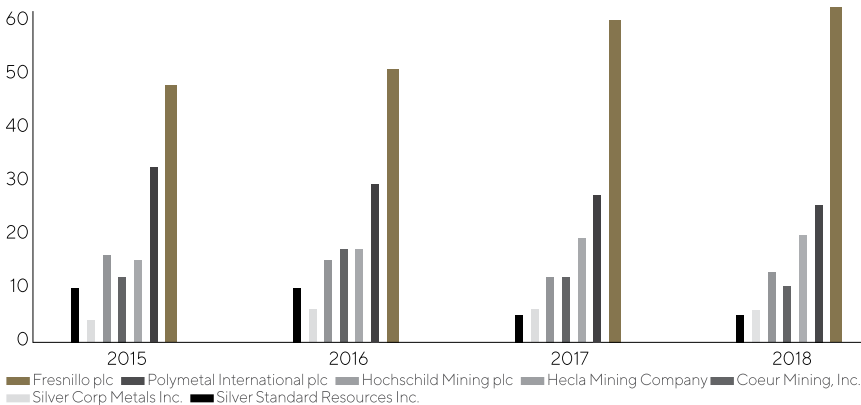
## OUR MARKETS

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

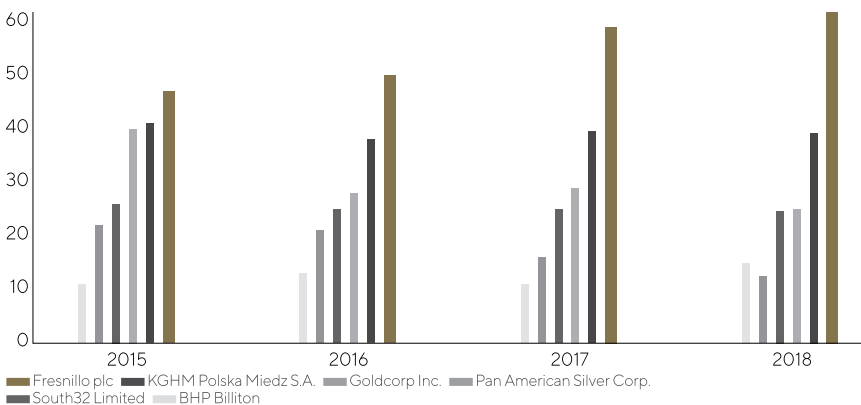
Mexico has a long-established history of mining going back more than 500 years, underpinned by its vast geological potential, skilled workforce, robust mining laws and mechanisms for creating shared value.

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

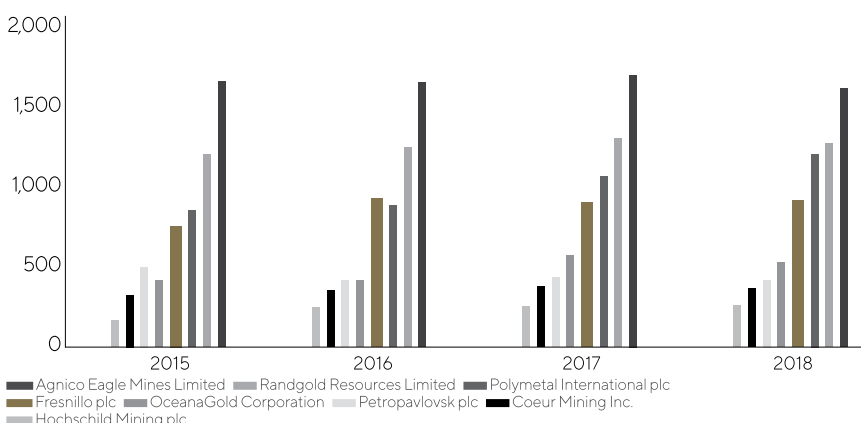
### PEER GROUP: PRIMARY SILVER PRODUCERS PRODUCTION IN MOZ



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



### PEER GROUP: MEDIUM-SIZE GOLD PRODUCERS PRODUCTION IN KOZ



### FRESNILLO IN CONTEXT

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

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

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

### THE PRECIOUS METALS MARKET

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

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

## OUR MARKETS CONTINUED



*Centauro Pit at Herradura.*

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

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

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

### SUPPLY AND DEMAND

#### SILVER

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

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

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

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


#### GOLD

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

Demand for gold has traditionally been driven by its status as a safe haven investment. Consumers and investors acquire the metal to protect their savings and purchasing power in an environment

of high inflation and low interest rates, and as a means to diversify away from the US dollar. In some markets, gold has a strong cultural allure, again with China and India leading the demand for gold jewellery. This year has seen Central Banks returning to buying gold, with levels of activity not seen since 2015. Banks are adding to their foreign reserves to counterbalance fiat currency risk, especially as emerging market banks tend to hold high allocations of US treasuries.

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

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

### KEY INDUSTRY TRENDS

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

<sup>1</sup> Refinitiv Interim Silver Market Review, 15 November 2018 – New York City.

<sup>2</sup> World Gold Council, Gold Demand Trends Full year and Q4 2018, 31 January 2019.

### CAPITAL INVESTMENT AND RESOURCE REPLACEMENT

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

### THE OPPORTUNITY FOR FRESNILLO


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

### MAINTAINING OUR LICENCE TO OPERATE

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

### THE OPPORTUNITY FOR FRESNILLO

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

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

### A MOVE TO RENEWABLE SOURCES OF ENERGY

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

### THE OPPORTUNITY FOR FRESNILLO

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


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

### THE BUSINESS ENVIRONMENT IN MEXICO


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

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


### COUNTRY CHALLENGES SPECIFIC TO FRESNILLO PLC CORRUPTION, PART OF POTENTIAL ACTIONS BY THE GOVERNMENT – PRINCIPAL RISK NUMBER 2

 See page 31.

### SECURING LAND ACCESS – PRINCIPAL RISK NUMBER 3

 See page 32.

### SECURITY – PRINCIPAL RISK NUMBER 4

 See page 33.

<sup>3</sup> [https://www.sgm.gob.mx/Web/SINEM/mining/mining\\_companies.html](https://www.sgm.gob.mx/Web/SINEM/mining/mining_companies.html)

<sup>4</sup> <https://www.export.gov/article?id=Mexico-Mining-and-Minerals>