Fresnillo plc

Financial results for the year ended 31 December 2018

Fresnillo plc today announced its financial results for the full year ended 31 December 2018. Octavio Alvídrez, CEO said:

"Since we listed on the London Stock Exchange in 2008, we have successfully built a track record of creating value through growth and returns. We have remained committed to our stated strategy, investing in our business, growing production and delivering returns to our shareholders in what has been a volatile time for the wider mining sector.

2018 was however a more challenging year for Fresnillo.

We achieved record annual silver production of 61.8 moz and a very strong gold performance of 923 koz in 2018. Gold production surpassed the expectations we had at the beginning of the year. Despite the year on year increase in silver production, we reported lower silver production than anticipated and were disappointed not to meet our long-term silver target of 65 moz. This was mainly due to lower than expected ore grades at the Fresnillo and Saucito mines combined with some operational issues.

We are taking action to address this, not least by intensifying our infill drilling programmes, controlling dilution and further investment in equipment and infrastructure. The flotation plant to process historical and ongoing tailings at the Fresnillo mine is progressing and is expected to improve overall recoveries once completed. We have also invested in innovative technology to improve productivity with a new state-of-the-art tunnelling machine due to be commissioned in 2019.

A more challenging operating environment was also reflected in the financial performance for the year, with gross profit and EBITDA decreasing by 15.6% and 13.7% respectively, though margins remained strong. This decrease in gross profit was driven by the higher stripping ratio at Herradura, as well as higher depreciation and increased cost inflation across the Group, amongst other factors. These adverse factors were mitigated by the reassessment of inventories at Herradura as well as the higher production at San Julián (Disseminated Ore Body) following its first full year in operation.

We maintained a solid financial position, with US$560.8 million in cash and other liquid funds notwithstanding paying dividends of US$298.1 million, investing US$668.7 million in capex and spending US$172.8 million in exploration. The Board has recommended a final dividend of US$16.7 cents per share, bringing the total paid for the year to US$201.9 million.

Core to our organic growth strategy is ensuring we deliver on the potential of our existing assets while expanding our development pipeline.

I fully expect to be able to make a further positive announcement on our Juanicipio development project in due course. This joint venture project is expected to further contribute to silver and gold production, delivering high returns for our business while generating additional employment in the area. With first production anticipated in the second half of 2020, Juanicipio reaffirms the world-class status of the Fresnillo district and underlines the extent of the resources that have already been discovered there, as well as those that await discovery in the future.

We have also progressed our other development projects. The first stage of the new Pyrites plant has now been commissioned. The plant will make an important contribution to production by extracting additional quantities of gold and silver from the historical and ongoing tailings at the Fresnillo and Saucito mines. We were also pleased to commission the second line at the Dynamic Leaching Plant (DLP) at Herradura during the year.

Another point of difference for Fresnillo is our commitment to maintaining a strong exploration pipeline. We continued to make good progress at Orisyvo and Guanajuato, while the project at Rodeo is showing positive signs. At the end of 2018, our silver resources stood at 2.2 boz, down by 5.0% over the previous year, with our exploration mining concessions amounting to 1.8 million hectares in Mexico. Our gold resources increased by 1.5% during the year to 39.1 moz. In 2018 we also progressed our international pipeline, with exploration prospects in Chile and Peru.

The safety of our employees and contractors is the absolute priority for the Board. So it is with deep regret I confirm five fatalities during the year and one more at the beginning of 2019. We must do better. The safety of our workforce is at the top of our HSECR agenda for 2019, and we will renew our efforts to align employees and contractors alike with our safety culture.

Looking ahead, I expect 2019 to be another challenging year. We face a number of headwinds, including lower prices for precious metals and higher inflation. I also expect to see higher depreciation costs as a result of the investments we have made in recent years into the operations, while we continue to expect to work through operational issues and lower grades at certain mines during the year. All this has resulted in us slightly lowering our silver production guidance for 2019.

Our strategic goals remain unchanged, and we are committed to maintaining our position as the world's largest primary silver company and a leading gold producer in Mexico. Our model is proven, our people are skilled, experienced and dedicated, and a track record of creating value through growth and returns will continue to be our defining characteristic."

Twelve months to 31 December 2018

$ million unless stated	**2018**	**2017**	**% change**
Silver Production* (kOz)	61,804	58,673	5.3
Gold Production* (Oz)	922,527	911,132	1.3
Total Revenue	2,103.8	2,093.3	0.5
Adjusted Revenue**	2,243.4	2,233.2	0.5
Gross Profit	780.7	925.4	(15.6)
EBITDA	915.1	1,060.1	(13.7)
Profit Before Income Tax	483.9	741.5	(34.7)
Profit for the year	350.0	560.8	(37.6)
Basic and Diluted EPS excluding post-tax Silverstream effects (USD)***	0.475	0.653	(37.6)

* Fresnillo attributable production, plus ounces registered in production through the Silverstream Contract

** Adjusted Revenue is revenue as disclosed in the income statement adjusted to exclude treatment and refining charges and lead and zinc hedging

*** The weighted average number of shares was 736,893,589 for 2018 and 2017

2018 Highlights

Challenging operational environment impacted financial performance

- Adjusted revenue of US$2,243.4 million, 0.5% increase vs. 2017 primarily due to record silver, lead and zinc volumes sold offset by lower prices.
- Higher adjusted production costs, up 23.8%, mainly driven by the higher stripping ratio at Herradura, cost inflation and additional costs associated with higher volumes produced.
- Gross profit of US$780.7 million down 15.6% respectively mainly due to lower prices, higher adjusted production costs and increased depreciation. Healthy profit margin maintained (37.1%).
- Exploration spend of US$172.8 million, up 22.5%.
- Profit from continuing operations of US$506.7 million, down 28.6% as a result of lower gross profit and higher exploration and administrative expenses.
- Profit for the year of USD$350.0 million, down 37.6% on 2017 mainly due to the lower profit from continuing operations and the US$22.5 million Silverstream revaluation loss recognised in 2018, compared to the US$70.3 million gain in 2017.
- Cash generated by operations before changes in working capital decreased by 13.3% to US$930.7 million (2017: US$1,073.9 million).
- Capital expenditures of US$668.7 million, up 10.6% vs 2017 but below guidance, mainly due to the delay in the start of the construction of the Juanicipio project.

- Maintained financial flexibility, with year-end cash and other liquid funds[1] of US$560.8 million (2017: US$896.1 million).
- Basic and diluted EPS from continuing operations of US$0.475; adjusted EPS of US$0.461, down 37.6% and 29.4% respectively.
- 2018 final dividend of US$16.7 cents per share, equivalent to approximately US$123.1 million, recommended by the Board

Delivering on the potential of existing assets while expanding development pipeline

- Commissioned the leaching plant at Saucito in 2Q18, the first phase of this US$155 million Pyrites Plant project in the Fresnillo district.
- Construction of the US$110 million second line of the Dynamic Leaching Plant at Herradura completed in 2018, albeit minor delays due to a longer testing period.
- Juanicipio project continued to advance and Board approval is expected in due course.
- Gold resources increased 1.5% mainly due to positive results at Centauro Deep; silver resources down 5.0% as a result of lower ore grade and tonnage at Saucito. Gold reserves declined 6.0% due to depletion at Noche Buena, Herradura and San Julián, while silver reserves decreased 5.1% mainly due to San Julián (Veins) and Saucito.
- 2018 exploration budget of approximately US$140 million (including capitalised exploration expenses)

Board change

- In view of the demands of his recent appointment as Chairman of BBVA Bancomer, Mr Jaime Serra Puche resigned from the Board on 25th February 2019. The Nominations Committee has begun a search for a new independent non-executive director of the Company.

Outlook

- Silver production expected to be in the range of 58 to 61 moz including the Silverstream. Gold production expected to be in the range of 910-930 koz
- Capital expenditure is anticipated to be approximately US$710 million

Analyst Presentation

Fresnillo plc will be hosting a presentation for analysts and investors today at 09.00 (GMT) at Bank of America Merrill Lynch Financial Centre, 2 King Edward St., EC1A 1HQ, London, United Kingdom.

The presentation will also be available via a live webcast. A link to the webcast will be made available on Fresnillo's homepage: www.fresnilloplc.com or can be accessed directly here: (https://edge.media-server.com/m6/p/jyrt7fps).

If you are not attending the presentation in person, but wish to ask questions, you must also join the live conference call as questions cannot be submitted via the webcast function.

Conference Call:

To access the conference call, please use the following details:

UK: 0800 376 7425
US: + 1 866 869 2321
Mexico: 01 800 801 7884
Confirmation code: 4661517

A recording of the conference call will be available for 7 days following the presentation. The access details for the replay are as follows:

Replay dial in:
Replay dial in:
UK: 0808 238 0667
US: 1(917) 677-7532
Mexico: +44(0) 3333009785

Confirmation code: 4661517

[1] Cash and other liquid funds are disclosed in Note 30 (c) to the financial statements

For further information, please visit our website: www.fresnilloplc.com or contact:

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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-Dipolos[1], Noche Buena and San Julián (Phase I and II), one development project - the Pyrites Plant at Fresnillo, 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 thousands hectares in Peru.

Fresnillo plc has a strong and long tradition of exploring, mining, a proven track record of mine development, reserve replacement, and production costs in the lowest quartile of the cost curve for silver.
Fresnillo plc's goal is to maintain the Group's position as the world's largest primary silver company and Mexico's largest gold producer.

[1]Operations at Soledad-Dipolos are currently suspended.

CHAIRMAN'S STATEMENT

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

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

Major achievements and milestones over this period include: an 80% increase in silver production and a 230% increase in attributable gold production; four new mining operations and a strong project pipeline based on successful exploration efforts; a 149% growth in employment; investments of over US$135 million in health, safety and training; direct payments of close to US$32 million to support local communities, including primary education of over 8,000 children in 66 schools; more than US$2.3 billion paid in taxes; US$5.0 billion invested in new and existing operations; and over US$2.8 billion of dividends paid to shareholders. Through the support of our workforce and local communities, as well as the introduction of new technologies to improve working conditions, safety and environmental impacts, we are recognised around the globe as a leading and respected public limited company.

It has been a privilege for me to lead the development of Fresnillo from its initial establishment as a LSE listed company to the present day. During those ten years, we have enjoyed high levels of growth and generated high returns consistently across price cycles and through a wide range of economic conditions. At the same time, we have learnt from the challenges encountered along the way, including the shortfall in production at our flagship Fresnillo mine and the delay of a couple of projects, which in turn has made us narrowly miss our long-term silver target of 65 moz despite considerable investments in successful new mines. On the positive side, we surpassed our long-term gold target in 2015 and have continued to build on that achievement over the last three years.

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

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

Achieving year-on-year growth by remaining true to our principles

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

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

Operational highlights

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

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

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

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

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

During 2018, silver and gold reserves decreased 5.1% and 6.0% respectively. Following the 2018 drilling programmes, total silver resources reduced from 2.3 to 2.2 Boz, while total gold resources increased from 38.5 to 39.1 Moz. Our exploration mining concessions amount to 1.8 million hectares in Mexico, 655,000 hectares in Peru, and 10,000 hectares in two exploration options in Chile.

A committed and talented workforce...

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

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

...led by a skilled and experienced executive team

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

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

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

Board activities

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

The Board's duties include ensuring the highest standards of corporate governance, as befits a constituent of the FTSE100 Index. We are currently considering the implications of the new version of the UK Corporate Governance Code, which will take effect from 1 January 2019.

During the first half of 2018, our Senior Independent Director Charles Jacobs engaged with institutional investors and others regarding Board composition and membership.

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

Our culture is well-established and ingrained in all areas of operations. During the year we continued to conduct master classes and deliver online training modules in order to ensure that all our people, whether long-time employees or recent ones, understand the importance that we place on the Group's values. However, we recognise that there remains work to do. Our recent safety record is unacceptable and we are therefore bringing additional focus and resources to drive improvement.

Changes to the Board

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

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

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

Continuing our dividend policy

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

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

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

Outlook

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

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

The Board and I believe that the developments currently underway, and those that will be introduced or extended during 2019, will position us well for the years ahead. In the coming months and to comply with the 2018 UK Corporate Governance Code, we will continue to work towards defining our Company Purpose. This will be a succinct expression of what Fresnillo is and what we stand for - and it will further focus the minds of all our people on our culture and the things we truly value, such as safety.

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

Alberto Baillères
Non-executive Chairman
Chief Executive's statement

CHIEF EXECUTIVE'S STATEMENT

Consolidating our growth, advancing our pipeline

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

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

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

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

Consistency, consistency, consistency

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

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

Production highlights and price review

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

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

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

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

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

Consolidating growth, maximising potential

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

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

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

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

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

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

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

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

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

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

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

As I highlighted in last year's report, we began to roll out a new safety programme during 2018, following encouraging results from the pilot phase at our Fresnillo and Saucito mines. Known as *I Care, We Care*, this programme builds on and strengthens our existing processes. The key aspect of *I Care, We Care* is that it encourages people to fully report every incident, no matter how minor, so that our safety team can identify its root cause, develop risk awareness and put measures in place to prevent reoccurrence. The roll out is expected to be completed in 2019.

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

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

- An Ethics and Values award from the Confederation of Industrial Chambers (Concamin) in Mexico
- The Social Responsibility Award from the Federal Attorney for Environmental Protection (Profepa) in Mexico
- A Profepa Award for Environmental Excellence at Saucito and Herradura
- Clean Industry national certification from Profepa
- International certifications including; the Cyanide Code at Herradura and Noche Buena; ISO 14,001 (Environment); and OHSAS 18,001 (Safety and Environment)

The year ahead

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

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

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

Octavio Alvídrez
- Chief Executive Officer

FINANCIAL REVIEW

The Consolidated Financial Statements of Fresnillo plc are prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU. This Financial Review is intended to convey the main factors affecting performance and to provide a detailed analysis of the financial results in order to enhance understanding of the Group's financial statements. All comparisons refer to 2018 figures compared to 2017, unless otherwise noted. The financial information and year-on-year variations are presented in US dollars, except where indicated.

By following strict controls on cash, costs and expenses and while adhering to our capex budgets, we have maintained a healthy cash and other liquid funds [1] position and a low leverage ratio. This has enabled us to invest in profitable growth and deliver solid returns to shareholders.

The following report presents how we have managed our financial resources.

COMMENTARY ON FINANCIAL PERFORMANCE

2018 was a year of challenges and opportunities for the Group. This was also reflected in the financial performance for the year, with gross profit and EBITDA decreasing over 2017 by 15.6% and 13.7% respectively, while we nevertheless delivered healthy profit margins. We maintained a solid financial position, with US$560.8 million in cash and other liquid funds [1] as of 31 December 2018 notwithstanding paying dividends of US$298.1 million in accordance with our policy, investing US$668.7 million in capex and spending US$172.8 million in exploration to underpin our future growth.

Adjusted revenue slightly increased year-on-year due to the increased volumes of silver, lead and zinc sold, primarily from the San Julián (Disseminated Ore Body), offset by lower prices. This increase, together with the positive effect of the re-assessment of gold content in the leaching pads and the higher ore grade at Herradura, was more than offset by the higher stripping ratio at Herradura and higher depreciation. As a result gross profit decreased 15.6% over 2017 and, together with the higher exploration expenses, this contributed to the 13.7% decline in EBITDA.

INCOME STATEMENT

	2018 US$ million	2017 US$ million	Amount US$ million	Change %
Adjusted revenue [2]	**2,243.4**	2,233.2	10.2	0.5
Total revenue	**2,103.8**	2,093.3	10.5	0.5
Cost of sales	**(1,323.1)**	(1,167.9)	(155.2)	13.3
Gross profit	**780.7**	925.4	(144.7)	(15.6)
Exploration expenses	**172.8**	141.1	31.7	22.5
Operating profit	**506.7**	709.3	(202.6)	(28.6)
EBITDA [3]	**915.1**	1,060.1	(145.0)	(13.7)
Income tax expense including mining rights	**134.0**	180.7	(46.7)	(25.8)
Profit for the year	**350.0**	560.8	(210.8)	(37.6)
Profit for the year, excluding post-tax Silverstream effects	**339.5**	481.2	(141.7)	(29.4)
Basic and diluted earnings per share (US$/share) [4]	**0.475**	0.761	(0.286)	(37.6)
Basic and diluted earnings per share, excluding post-tax Silverstream effects (US$/share)	**0.461**	0.653	(0.192)	(29.4)

1 Cash and other liquid funds are disclosed in note 30(c) to the financial statements.
2 Adjusted revenue is revenue as disclosed in the income statement adjusted to exclude treatment and refining charges and gold, lead and zinc hedging.
3 Earnings before interest, taxes, depreciation and amortisation (EBITDA) is calculated as gross profit plus depreciation less administrative, selling and exploration expenses.
4 The weighted average number of ordinary shares was 736,893,589 for 2018 and 2017. See note 17 in the consolidated financial statements.

The Group's financial performance is largely determined by the quality of our assets, the skills of our people and the execution capabilities of management to achieve our strategic goals. However, there are a number of macroeconomic variables that lie beyond our control and which affect financial results. These include:

PRECIOUS METAL PRICES

In 2018, the average realised silver price decreased by 8.3% from US$16.9 per ounce in 2017 to US$15.5 per ounce in 2018. In addition, average realised lead and zinc prices decreased 7.4% and 5.7% year-on-year, to US$0.99 and

US$1.28 per pound, respectively. The average realised gold price remained broadly stable at US$1,269.1 per ounce (2017: US$1,267.4).

Hedging

In the second half of 2014, Fresnillo plc initiated a one-off hedging programme to protect the value of the investment made in the Penmont acquisition. The hedging programme was executed for a total volume of 1,559,689 ounces of gold with monthly settlements until December 2019.

The table below illustrates the expired structures and the outstanding hedged position as of 31st December 2018.

Concept	2018	2017	2016	2015	2014	As of December 31st 2018*
Weighted floor (US$/oz)	1,100	1,100	1,100	1,100	1,100	1,100
Weighted cap (US$/oz)	1,423	1,424	1,438	1,431	1,440	1,424
Expired volume (oz)	366,432	324,780	220,152	266,760	35,413	
Gain recognised in income	--	--	48,158	1,023,580	--	
Total outstanding volume (oz)						346,152

*Monthly settlements through December 2019

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

MX$/US$ EXCHANGE RATE

The average spot Mexican peso/US dollar exchange rate devalued by 1.6%, from $18.94 per US dollar in 2017 to $19.24 per US dollar in 2018. This resulted in a favourable effect estimated at US$6.7 million on the Group's production costs, as costs denominated in Mexican pesos (approximately 45% of total costs) were lower when converted to US dollars.

Hedging

As previously reported, in 2016 Fresnillo plc decided to suspend its Mexican peso exchange rate hedging programme to hedge payment of certain peso denominated production costs. However, the Group has continued to enter into certain exchange rate derivative instruments as part of a programme to manage its exposure to foreign exchange risk associated with the purchase of equipment denominated in Euro (EUR), Swedish krona (SEK) and Canadian dollar (CAD). The aggregate effect on income in the year was a loss of US$321,873 (See foreign exchange section below).

COST INFLATION

In 2018, there was a cost inflation of 2.6% net of the 1.6% average devaluation of the Mexican peso against the US dollar. The main components of our cost inflation basket are listed below:

LABOUR

Unionised employees received on average a 7.0% increase in wages in Mexican pesos, and administrative employees at the mines received a 5.5% increase; when converted to US dollars, the weighted average labour inflation was 4.5%.

ENERGY

ELECTRICITY

The Group's weighted average cost of electricity decreased by 6.4% from US$7.6 cents per kW in 2017 to US$7.1 cents per kW in 2018. This decrease was mainly due to the lower average generating cost of the Comisión Federal de Electricidad (CFE), the national utility.

DIESEL

The weighted average cost of diesel in US dollars increased 7.7% to US$82.4 cents per litre in 2018, compared to US$76.5 cents per litre in 2017.

OPERATING MATERIALS

	Year over year change in unit price %
Steel balls for milling	5.5
Other reagents	5.2
Sodium cyanide	1.1
Lubricants	0.9

Explosives	0.2
Tyres	(0.6)
Steel for drilling	(1.1)
Weighted average of all operating materials	**1.4**

Unit prices of the majority of operating materials remained broadly stable in US dollar terms, with the exception being the steel balls for milling and other reagents, which experienced year-on-year inflation of over 5%. However, this was partly offset by the decrease in the unit price of tyres and steel for drilling. As a result, the weighted average unit prices of all operating materials increased by 1.4% over the year. There has been no significant impact on the unit cost of operating materials from the devaluation of the MXN peso/US dollar exchange rate as the majority of these items are dollar-denominated.

CONTRACTORS

Agreements are signed individually with each contractor company, and include specific terms and conditions that cover not only labour, but also operating materials, equipment and maintenance, amongst others. Contractor costs are mainly denominated in Mexican pesos and are an important component of our total production costs. In 2018, increases granted to contractors, whose agreements were due for review during the period, resulted in a weighted average increase of 2.9% in US dollars.

MAINTENANCE

Unit prices of spare parts for maintenance remained broadly unchanged on average in US dollar terms (0.7% increase).

OTHERS

Other cost components include freight, which increased by an estimated 7.7% in US dollars, partially offset by a 2.7% decrease in insurance costs. The remaining cost inflation components experienced average inflation of 1.8% in US dollars over 2017.

The effects of the above external factors, combined with the Group's internal variables, are further described below through the main line items of the income statement.

REVENUE

CONSOLIDATED REVENUE (US$ MILLIONS)

	2018 US$ million	2017 US$ million	Amount US$ million	Change %
Adjusted revenue [1]	**2,243.4**	2,233.2	10.2	0.5
Gold, lead and zinc hedging	**1.6**	0.0	1.6	100
Treatment and refining charges	**(141.2)**	(139.9)	(1.3)	0.9
Total revenue	**2,103.8**	2,093.3	**10.5**	**0.5**

Adjusted revenue increased by US$10.5 million as a result of the increase in volumes of silver, lead and zinc sold, partially offset by the lower prices of these same metals. Total revenue remained broadly unchanged at US$2,103.8 million.

ADJUSTED REVENUE [1] BY METAL (US$ MILLION)

	2018		2017					
	US$ million	**%**	US$ million	%	Volume Variance US$ million	Price Variance US$ million	Total US$ million	%
Silver	**815.5**	**36.3**	844.7	37.8	51.8	(81.0)	(29.2)	(3.5)
Gold	**1,118.5**	**49.9**	1,125.3	50.4	(8.2)	1.4	(6.8)	(0.6)
Lead	**105.6**	**4.7**	101.8	4.6	11.7	(7.9)	3.8	3.7
Zinc	**203.9**	**9.1**	161.4	7.2	53.1	(10.6)	42.5	26.3
Total adjusted revenue	**2,243.4**	**100.0**	**2,233.2**	**100.0**	**108.3**	**(98.2)**	**10.2**	**0.5**

The higher volumes of silver sold resulted from the first complete year of San Julián (Disseminated Ore Body) and the increased production at Herradura and Ciénega, while the higher sales of lead and zinc were mainly driven by the contribution of San Julián (Disseminated Ore Body) and the increased volumes of base metals at depth in the

Saucito mine. These favourable effects, net of the lower volume of gold sold, resulted in a positive impact on revenue of US$108.3 million. This was offset by a US$98.2 million negative effect primarily resulting from the lower silver, lead and zinc prices.

The contribution of gold to Adjusted revenue decreased slightly from 50.4% in 2017 to 49.9% in 2018, reflecting the expected lower volumes of gold produced and sold, while silver's contribution to Adjusted revenue decreased to 36.3% as the increased volumes of silver sold were more than offset by the lower price. As expected, the higher content of base metals at certain mines is changing the relative proportion of Adjusted revenue, with zinc increasing its contribution from 7.2% in 2017 to 9.1% in 2018, and lead representing 4.7%.

Herradura remained the main contributor to Adjusted revenue, primarily due to the higher volumes of silver sold during the year. Saucito’s and Fresnillo’s contribution declined from 22.6% and 18.9% in 2017to 21.9% and 16.9% respectively in 2018, reflecting the decrease in silver ore grade and a lower silver price. The San Julián mine continued to increase its contribution to the Group’s Adjusted revenue from 12.9% in 2017 to 16.4% in 2018. Noche Buena’s contribution decreased to 9.4%, in line with the 1.9% decline in its Adjusted revenue, while Ciénega maintained its contribution to the Group’s Adjusted revenue at 8.3%.

The relative contribution to Adjusted silver revenue continued to change in 2018 with the San Julián mine representing 24.8% (2017: 18.6%), and the contributions of Saucito and Fresnillo decreasing as expected due to an expanded silver asset base.

The start-up of San Julián (Disseminated Ore Body) also affected the relative contribution to zinc adjusted revenues. This new mine represented 25.7% of total zinc Adjusted revenues in 2018, helping to increase zinc’s relative contribution to the Group’s Adjusted revenues.

The contribution by metal and by mine to Adjusted revenues is expected to change further in the future, as new projects are incorporated into the Group’s operations and as precious metal prices fluctuate.

ADJUSTED REVENUE BY METAL

	2018	2017
Gold	**49.9%**	50.4%
Silver	**36.3%**	37.8%
Zinc	**9.1%**	7.2%
Lead	**4.7%**	4.6%
TOTAL	**100%**	**100%**

1 Adjusted revenue is revenue as disclosed in the income statement adjusted to exclude treatment and refining charges and gold, lead and zinc hedging.

ADJUSTED REVENUE BY MINE

	2018		2017	
Herradura	**608.2**	27.1%	606.8	27.2%
Saucito	**492.0**	21.9%	504.2	22.6%
Fresnillo	**378.3**	16.9%	421.3	18.9%
Noche Buena	**211.4**	9.4%	215.5	9.6%
San Julián (Disseminated Ore Body)	**187.4**	8.4%	84.8	3.8%
Ciénega	**187.1**	8.3%	198.3	8.9%
San Julián (Veins)	**179.1**	8.0%	202.3	9.1%
TOTAL	**2.243.4**	**100%**	**2,045.0**	**100%**

VOLUMES OF METAL SOLD

	2018	% participation of each mine	2017	% participation of each mine	% change
Silver (koz)					
Saucito	**17,968**	34.6	19,608	39.4	(8.4)
Fresnillo	**13,890**	26.8	15,145	30.4	(8.3)
San Julián (Veins)	**5,255**	10.1	5,777	11.6	(9.0)
San Julián (Disseminated Ore Body)	**7,806**	15.0	3,853	7.7	102.6
Ciénega	**5,459**	10.5	4,815	9.7	13.4
Herradura	**1,503**	2.9	570	1.1	163.7
Noche Buena	**7**	0.0	7	0.0	-
TOTAL SILVER (koz)	**51,888**	100	49,775	100	4.2
Gold (koz)					
Herradura	**460**	52.3	471	53.0	(2.3)
Noche Buena	**167**	19.0	170	19.1	(1.8)
San Julián (Veins)	**77**	8.8	81	9.2	(4.9)
Saucito	**74**	8.4	64	7.2	15.6
Ciénega	**63**	7.2	67	7.5	(6.0)
Fresnillo	**37**	4.2	33	3.8	12.1
San Julián (Disseminated Ore Body)	**1**	0.1	1	0.1	-
TOTAL GOLD (koz)	**879**	100	888	100	(1.0)
Lead (t)					
Fresnillo	**18,097**	37.2	18,743	42.8	(3.4)
Saucito	**20,362**	41.9	16,081	36.7	26.6
Ciénega	**4,385**	9.0	5,828	13.3	(24.7)
San Julián (Disseminated Ore Body)	**5,770**	11.9	3,183	7.3	81.3
TOTAL LEAD (t)	**48,614**	100	43,834	100	10.9
Zinc (t)					
Fresnillo	**26,248**	36.3	25,442	46.6	3.2
Saucito	**22,599**	31.3	16,815	30.8	34.4
San Julián (Disseminated Ore Body)	**18,538**	25.6	6,386	11.7	190.3
Ciénega	**4,887**	6.8	5,950	10.9	(17.9)
TOTAL ZINC (t)	**72,272**	100	54,594	100	32.4

HEDGING

In 2018 we entered into a series of derivative contracts to hedge part of our lead and zinc by-product production through collar structures. The chart below illustrates the expired hedging structures, their impact on income in 2018 and the outstanding hedged position as of December 31st.

Concept	As of December 31st 2018	
	Zinc	Lead
Weighted Floor (US$/tonne)	2,591	2,370
Weighted Cap (US$/tonne)	3,716	2,735
Expired volume (ton)	21,168	5,760
Gain/Loss (US$ dollars)	602,101	980,141
Total outstanding volume (tonne)	0	0

TREATMENT AND REFINING CHARGES

Treatment and refining charges [3] are reviewed annually using international benchmarks. Treatment charges per tonne of lead and zinc concentrate decreased in dollar terms by 13.3% and 7.5%, respectively, compared to 2017, while silver refining charges declined by 7.4% over the year. This lower charge per tonne was offset by the increase in volumes of lead and zinc concentrates with high silver contents mainly shipped from Saucito and San Julián (Disseminated Ore Body) to Met-Mex, as well as the volumes of precipitates sold from the Pyrites plant. As a result, treatment and refining charges set out in the income statement in absolute terms increased by only 0.9% over 2017.

COST OF SALES

Concept	**2018 US$ million**	2017 US$ million	Amount US$ million	Change %
Adjusted production costs [4]	**952.0**	769.2	182.8	23.8
Depreciation	**411.8**	367.6	44.2	12.0
Profit sharing	**12.5**	16.5	(4.0)	(24.1)
Change in work in progress and others	**(53.6)**	16.9	(70.4)	N/A
Others	**0.4**	(2.3)	2.7	N/A
Cost of sales	**1,323.1**	1,167.9	155.2	13.3

3 Treatment and refining charges include the cost of treatment and refining as well as the margin charged by the refiner.
4 Adjusted production costs is calculated as total production costs less depreciation, profit sharing and the effects of exchange rate hedging.

Cost of sales increased 13.3% to US$1,323.1 million in 2018. The US$155.2 million increase is explained by the following combination of factors:

- An increase in Adjusted production costs (+US$182.8 million). This was primarily due to: i) higher stripping costs at Herradura (+US$82.6 million); ii) additional Adjusted production costs associated with the first complete year of operations at San Julián (Disseminated Ore Body) (+US$49.6 million); iii) the decrease in volume of ore processed from development works at Saucito, the costs of which were capitalised (+US$31.2 million); iv) cost inflation (+US$26.4 million); v) the reassessment in the year of the number of mining components at Herradura from two to one, effective from July 2019, which increased stripping costs expensed (+US$21.9 million). The increase was partly offset by the lower volume of ore processed mainly at Herradura (-US$19.6 million); and the favourable effect of the devaluation of the Mexican peso vs US dollar and others (-US$9.3 million).
- Depreciation (+US$44.2 million). This is mainly due to the full year of operation at San Julián and the increased depreciation at the Saucito mine resulting from the start up of the Pyrites plant and the amortisation of capitalised mining works.

These negative effects were partly offset by:

- The increase in change in work in progress (-US$70.4 million). Change in work in progress was –US$53.6 million in 2018 as a result of the re-assessment of the gold content in the leaching pads at Herradura (see notes 2c and 5 in the financial information). This compared favourably to the US$16.9 million costs recorded in 2017 as a result of the decrease in inventories in the leaching pads at Herradura.
- Others -US$1.3 million.

COST PER TONNE, CASH COST PER OUNCE AND ALL-IN SUSTAINING COST (AISC)

Cost per tonne is a key indicator to measure the effects of mining inflation and cost control performance at each mine. This indicator is calculated as total production costs, plus ordinary mining rights, less depreciation, profit sharing and exchange rate hedging effects, divided by total tonnage processed. We have included cost per tonne hauled/moved as we believe it is a useful indicator to thoroughly analyse cost performance for the open pit mines.

Cost per tonne		2018	2017	Change %
Fresnillo	US$/tonne milled	**49.4**	47.5	4.1
Saucito	US$/tonne milled	**60.1**	47.6	26.1
Ciénega	US$/tonne milled	**70.8**	66.5	6.5
San Julián (Veins)	US$/tonne milled	**57.4**	52.1	10.1
San Julián (Disseminated Ore Body)[5]	US$/tonne milled	**36.2**	31.9	13.6
Herradura	US$/tonne deposited	**13.2**	8.0	65.8
Herradura	US$/tonne hauled	**3.1**	2.6	17.0
Noche Buena	US$/tonne deposited	**6.8**	7.5	(9.4)
Noche Buena	US$/tonne hauled	**2.1**	1.7	24.2

5 Indicator may not be representative as it corresponds to the start-up period, when a significant volume of ore from stock pile is processed.

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

Saucito
Cost per tonne increased 26.2% to US$60.1, mainly due to: i) lower volume of ore processed from development work; ii) increased in the number of contractors for development works; and iii) higher consumption of reagents. Cost inflation at this mine was 2.45%.

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

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

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

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

Cash cost per ounce, calculated as total cash cost (cost of sales plus treatment and refining charges, less depreciation) less revenue from by-products divided by the silver or gold ounces sold, when compared to the corresponding metal price, is an indicator of the ability of the mine to cover its production costs.

Cash cost per ounce		2018	2017	Change %
Fresnillo	US$ per silver ounce	**0.5**	0.7	(35.2)
Saucito	US$ per silver ounce	**1.0**	1.5	(35.6)
Ciénega	US$ per gold ounce	**25.9**	(163.7)	N/A
San Julián (Veins)	US$ per silver ounce	**(3.6)**	(4.3)	(15.4)
San Julián (Disseminated Ore Body)[6]	US$ per silver ounce	**5.7**	3.9	45.1
Herradura	US$ per gold ounce	**504.0**	492.9	2.3
Noche Buena	US$ per gold ounce	**735.4**	793.5	(7.3)

6 Indicator may not be representative as it corresponds to the start-up period, when a significant volume of ore from stock pile is processed.

The particular variations in cash cost for each mine are explained as follows:

FRESNILLO: US$0.46/OZ (2018) VERSUS US$0.71/OZ (2017), (-35.2%)
Cash cost per ounce decreased, principally due to higher by-product credits (-US$0.97/oz) and lower treatment charges (-US$0.24/oz), partially offset by the lower silver ore grade (+US$0.71/oz) and the higher cost per tonne (+US$0.28/oz).

SAUCITO: US$0.97/OZ (2018) VERSUS US$1.50/OZ (2017), (-35.6%)

The decrease was driven by the higher by-product credits per ounce of silver resulting from the increased volume of gold sold (-US$2.29/oz), partially offset by the higher cost per tonne (+US$1.21/oz) and the lower silver grade (+US$0.55/oz).

CIÉNEGA: US$25.88/OZ (2018) VERSUS -US$163.74/OZ (2017), (N/A)

The increase in cash cost was primarily due to: the expected decrease in gold grade (+US$115.01/oz), the higher cost per tonne (+US$42.32/oz) and higher treatment and refining charges (+US$6.78/oz). These unfavourable factors were mitigated by higher by-product credits per gold ounce due to the lower volume of gold produced (-US$19.26/oz); and others (-US$3.96/oz).]

HERRADURA: US$504.00/OZ (2018) VERSUS US$492.86/OZ (2017), (+2.3%)

The increase in cash cost resulted from the higher cost per tonne (+US$261.13/oz) and the change from two mining components to one during the year (+US$60.68/oz); mitigated by the higher gold grade (-US$247.39/oz); a favourable inventory valuation effect due to the increase in gold inventories on the leaching pads (-US$34.32/oz); and higher by-product credits per gold ounce due to the increased volume of silver sold, albeit at a lower price (-US$29.75/oz).

NOCHE BUENA: US$735.41/OZ (2018) VERSUS US$793.48/OZ (2017), (-7.3%)

The decrease in cash cost per ounce was mainly due to the lower cost per tonne (-69.41/oz).

SAN JULIÁN VEINS: -US$3.64/OZ (2018) VERSUS -US$4.30/OZ (2017), (+15.4%)

The increase in cash cost was explained mainly by the lower silver ore grade (+US$1.29/oz) and higher cost per tonne (+US$0.04/oz), mitigated by lower by-product credits due to the decline in volume of gold sold (-0.67/oz).

SAN JULIÁN DISSEMINATED ORE BODY: As operations commenced in July 2017, there are no comparable year-on-year figures.

In addition to the traditional cash cost described above, the Group is reporting all-in sustaining costs (AISC), in accordance with the guidelines issued by the World Gold Council.

This cost metric is calculated as traditional cash cost plus on-site general, corporate and administrative costs, community costs related to current operations, capitalised stripping and underground mine development, sustaining capital expenditures and remediation expenses.

We consider all-in sustaining costs to be a reasonable indicator of a mine’s ability to generate free cash flow when compared with the corresponding metal price. We also believe it is a means to monitor not only current production costs, but also sustaining costs as it includes mine development costs incurred to prepare the mine for future production, as well as sustaining capex.

ALL-IN SUSTAINING COST

All-in sustaining cost per ounce		**2018**	2017	Change %
Fresnillo	US$ per silver ounce	**8.92**	8.20	8.7
Saucito	US$ per silver ounce	**8.64**	7.09	21.9
Ciénega	US$ per gold ounce	**1,413.87**	691.43	104.5
San Julián (Veins)	US$ per silver ounce	**5.05**	0.83	N/A
San Julián (Disseminated Ore Body)[1]	US$ per silver ounce	**10.01**	7.88	26.9
Herradura	US$ per gold ounce	**806.73**	807.66	(0.1)
Noche Buena	US$ per gold ounce	**1,029.68**	870.05	18.3

1 Indicator may not be representative as it corresponds to the start-up period, when a significant volume of ore from stock pile was processed.

Fresnillo: Higher, mainly due to capitalised mine development mitigated by lower sustaining capex.

Saucito: Higher, as a result of higher capitalised mine development and an increase in sustaining capex.

Ciénega: Higher, primarily due to an increase in sustaining capex, higher capitalised mine development and a higher cash cost.

Herradura: Broadly stable, mainly due to the decrease in capitalised stripping costs following the reassessment of the number of mining components from two to one; offset by higher cash cost detailed above.

Noche Buena: Higher, driven by the higher capitalised stripping, mitigated by the lower cash cost detailed above.

San Julián:
San Julián (Veins): Higher, mainly due to increased sustaining capex and higher capitalised mine development.

San Julián (Disseminated Ore Body): As operations commenced in July 2017, there are no comparable year-on-year figures.

GROSS PROFIT

Gross profit, excluding hedging gains and losses, is a key financial indicator of profitability at each business unit and the Fresnillo Group as a whole.

Total gross profit, net of hedging gains and losses, decreased by 15.6% to US$780.7 million in 2018.

The US$144.7 million decrease in gross profit was mainly explained by: i) lower silver, lead and zinc prices (-US$97.7 million); ii) the higher stripping ratio at Herradura (-US$82.6 million); iii) the 17.5% decrease in volume of ore deposited at the Herradura heap leach (-US$64.8 million); iv) higher depreciation (-US$44.2 million); v) the decrease in volume of ore processed from development at Saucito, the costs of which were capitalised (-US$31.2 million); vi) cost inflation (-US$26.4 million); vii) the adverse effect of recognising the entirety of the stripping in the income statement in 2H 2019 following the change from two components to one at Herradura, as opposed to partially capitalising it (-US$21.8 million); viii) lower production at San Julián (Veins) (-US$19.5 million); and ix) others (-US$7.0 million). These factors were partly mitigated by: i) the re-assessment of gold inventories in the leaching pads at Herradura (+US$94.4 million); ii) the higher ore grade from the inventory and improved speed of recovery at Herradura (+US$68.4 million); iii) increased production at San Julián (Disseminated Ore Body) resulting from its first complete year of operations (+US$67.1 million); and iv) the higher recovery rate at Saucito (+US$20.7 million).

As reflected in the table below, Herradura remained the largest contributor to the Group's consolidated gross profit, although there was a slight decrease in its gross profit when compared to 2017. Gross profit at Saucito and Fresnillo declined by 22.1% and 24.5% over 2017 respectively, decreasing its contribution to the consolidated gross profit. San Julián remained the fourth largest contributor. Gross profit at Noche Buena increased 18.1% year on year, providing 8.7% of total gross profit, while Ciénega's share of the Group's total gross profit decreased to 4.1%.

CONTRIBUTION BY MINE TO CONSOLIDATED GROSS PROFIT, EXCLUDING HEDGING GAINS AND LOSSES

					Change	
	2018 US$ million	**%**	**2017 US$ million**	**%**	Amount US$ million	%
Herradura	278.4	36.2	292.8	32.0	(14.4)	(4.9)
Saucito	177.8	23.1	228.2	24.9	(50.4)	(22.1)
Fresnillo	144.9	18.9	191.6	20.9	(46.7)	(24.4)
San Julián	68.4	8.9	93.1	10.1	(24.7)	(26.5)
Noche Buena	67.2	8.7	56.9	6.2	10.3	18.1
Ciénega	31.9	4.2	53.8	5.9	(21.9)	(40.7)
Total for operating mines	**768.6**	**100**	**916.4**	**100**	(147.8)	**(16.1)**
Metal hedging and other subsidiaries	12.1		9.0		3.1	34.4
Total Fresnillo plc	**780.7**		**925.4**		**144.7**	**(15.6)**

ADMINISTRATIVE AND CORPORATE EXPENSES

Administrative expenses increased 21.0% from US$42.3 million to US$51.2 million, due mainly to an increase in services provided by consultants (legal, safety, taxes, geological, indigenous community consultation, amongst other).

Corporate expenses increased 5.7% over 2017 to US$32.1 million mainly as a result of increased corporate services provided by Servicios Industriales Peñoles, S.A.B de C.V., due to a larger number of mines and projects, and to a lesser extent, a 2.0% cost inflation.

EXPLORATION EXPENSES

Business unit/project (US$ millions)	**Exploration expenses 2018**	Exploration expenses 2017	Capitalised expenses 2018	Capitalised expenses 2017
Ciénega	**9.9**	10.8	–	–
Fresnillo	**15.6**	15.8	–	–
Herradura	**14.9**	19.1	–	–
Saucito	**16.3**	11.7	–	–
Noche Buena	**2.0**	6.1	–	–
San Ramón	**2.4**	4.4	–	–
San Julián	**12.2**	8.4	–	–
Orisyvo	**5.2**	1.9	–	–
Centauro Deep	**5.4**	2.7	1.7	0.1
Guanajuato	**16.9**	7.9	1.1	0.8
Juanicipio	**0.0**	0.0	4.8	2.3
Others	**72.0**	52.3	0.8	1.0
TOTAL	**172.8**	**141.1**	**8.4**	**4.2**

Exploration expenses increased as planned by 22.5% from US$141.1 million in 2017 to US$172.8 in 2018, due to intensified exploration activities, mainly around our mining districts and advanced exploration projects. An additional US$8.4 million was capitalised, mainly relating to exploration expenses at the Juanicipio project, Centauro Deep and Guanajuato. As a result, risk capital invested in exploration totalled US$181.2 million in 2018, a 24.7% increase over 2017. In 2019, total invested in exploration is expected to be approximately US$140 million, of which US$10 million is expected to be capitalised.

EBITDA

	2018 US$ million	2017 US$ million	Amount US$ million	Change %
Gross profit	**780.7**	925.4	(144.7)	(15.6)
+ Depreciation	**411.8**	367.6	44.2	12.0
– Administrative expenses	**(83.3)**	(72.7)	(10.6)	14.6
– Exploration expenses	**(172.8)**	(141.1)	(31.7)	22.5
– Selling expenses	**(21.2)**	(19.1)	(2.1)	11.1
EBITDA	**915.1**	1,060.1	(145.0)	(13.7)
EBITDA margin	**43.5**	50.6		

EBITDA is a gauge of the Group's financial performance and a key indicator to measure debt capacity. It is calculated as gross profit plus depreciation, less administrative, selling and exploration expenses. In 2018, EBITDA decreased 13.7% to US$915.1 million mainly due to the lower gross profit. As a result, EBITDA margin expressed as a percentage of revenue decreased, from 50.6% in 2017 to 43.5% in 2018.

OTHER OPERATING INCOME AND EXPENSE

In 2018, a net gain of US$3.3 million was recognised in the income statement. This compared unfavourably to the US$16.8 million net gain recognised in 2017 mainly as a result of the sale of non-strategic mining claims to Argonaut Gold Inc.

SILVERSTREAM EFFECTS

The Silverstream contract is accounted for as a derivative financial instrument carried at fair value. The total revaluation effect recorded in the 2018 income statement was a gain of US$15.0 million. This includes negative non-cash revaluation effects of US$22.5 million mainly as a result of the lower forward price of silver and a higher discount rate used, mitigated by the updating of the Sabinas production plan, which resulted from the updated estimate of reserves and resources. This was more than offset by a US$37.5 million non-cash gain mainly generated by the unwinding of the discounted values. In 2017, a US$113.7 million gain was registered mainly as a result of converting resources into reserves at the Sabinas mine.

Since the IPO, cumulative cash received has been US$629.3 million. The Group expects that further unrealised gains or losses will be taken to the income statement in accordance with silver price cyclicality or changes in the variables considered in valuing this contract. Further information related to the Silverstream contract is provided in the balance sheet section and in notes 13 and 29 to the consolidated financial statements.

FINANCE COSTS

Finance costs reflected the interest on the US$800 million principal amount of 5.5% Senior Notes, net of interest received. In 2018 finance costs decreased 21.8%, from US$34.0 million to US$29.6 million, mainly due to the decrease in borrowing costs capitalised in 2018 compared to 2017.

In 2018, following the adoption of IFRS 9, Financial Instruments, the effects of the mark-to market time value of the outstanding gold hedging programme are recognised in other comprehensive income, rather than in income as in 2017 (see note 2c in the financial information). This caused a favourable effect as a US$41.1 million loss was recognised in 2017.

FOREIGN EXCHANGE

A foreign exchange loss of US$8.1 million was recorded as a result of the realised transactions in the year. This compared negatively against the US$6.4 million foreign exchange loss recognised in 2017.

The Group enters into certain exchange rate derivative instruments as part of a programme to manage its exposure to foreign exchange risk associated with the purchase of equipment denominated in Euro (EUR), Swedish krona (SEK) and Canadian dollar (CAD). At the end of 2018, the total EUR, SEK and CAD outstanding net forward position was EUR 12.67 million, CAD 0.0 and SEK 13.29 million with maturity dates from March through September 2019. Volumes that expired during 2018 were EUR 26.41 million with a weighted average strike of 1.2024 USD/EUR, CAD 1.10 million with a weighted average strike of 1.2847 CAD/USD and SEK 69.70 million with a weighted average strike of 8.5762 SEK/USD. The aggregate effect on income in the year was a loss of US$321,873.

TAXATION

Corporate income tax expense decreased 21.4% from US$153.5 million in 2017 to US$120.6 million in 2018, reflecting the decline in profit before income tax.

The effective tax rate, excluding the special mining rights, was 24.9%, which was below the 30% statutory tax rate. This was mainly due to the inflationary uplift of the tax base of assets and liabilities, together with the tax credit related to the special tax on diesel. Including the effect of the special mining rights, the effective tax rate was 27.7% in 2018.

The effective tax rate in 2017 was lower (20.7% in 2017 vs 24.9% in 2018) mainly because in 2017 there was a 4.5% revaluation of the Mexican peso which had an important impact on the tax value of assets and liabilities that are denominated in Mexican pesos; together with a higher inflation rate which impacted the inflationary uplift of the tax base of assets and liabilities (See note 10 to the financial statements).

PROFIT FOR THE YEAR

Profit for the year decreased from US$560.8 million to US$350.0 million in 2018, a 37.6% decline year on year as a result of the factors decribed above.

Excluding the effects of the Silverstream Contract, profit for the year decreased from US$481.2 million to US$339.5 million.

CASH FLOW

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

	2018 US$ million	2017 US$ million	Amount US$ million	Change %
Cash generated by operations before changes in working capital	**930.7**	1,073.7	(143.0)	(13.3)
(Increase)/Decrease in working capital	**(127.9)**	(2.9)	(125.0)	>100
Taxes and employee profit sharing paid	**(214.4)**	(309.3)	94.9	(30.7)
Net cash from operating activities	**588.4**	761.5	(173.2)	(22.7)
Silverstream contract	**36.3**	43.3	(7.0)	(16.3)
Purchase of property, plant & equipment	**(668.7)**	(604.8)	(63.9)	10.6
Dividends paid to shareholders of the Company	**(298.1)**	(236.6)	(61.5)	26.0
Net interest (paid)	**(15.7)**	(21.0)	5.3	(25.2)

Net increase in cash during the period after foreign exchange differences	**(335.2)**	(16.0)	(319.4)	>100
Cash and other liquid funds at 31 December [1]	**560.8**	896.0	(335.3)	(37.4)

1 Cash and other liquid funds are disclosed in note 31(c) to the financial statements.

Cash generated by operations before changes in working capital decreased by 13.3% to US$930.7 million, mainly as a result of the lower profits generated in the year. Working capital increased US$127.9 million mainly due to increased ore inventories in the leaching pads at Herradura (US$63.9 million); higher trade and other receivables resulting from an increase in VAT receivables (US$60.4 million); and an increase in prepayments and other assets (US$11.8 million). This increase in working capital was partly offset by an increase in trade and other payables (US$8.2 million).

Taxes and employee profit sharing paid decreased 30.7% over 2017 to US$214.4 million.

As a result of the above factors, net cash from operating activities decreased 22.7% from US$761.5 million in 2017 to US$588.4 million in 2018.

Other sources of cash were the proceeds of the Silverstream Contract of US$36.3 million and capital contributions from minority shareholders in subsidiaries of US$23.6 million.

The above funds were mainly used to purchase property, plant and equipment for a total of US$668.7 million, a 10.6% increase over 2017. Capital expenditures for 2018 are further described below:

PURCHASE OF PROPERTY, PLANT AND EQUIPMENT

	2018 US$ million	
Fresnillo mine	**121.1**	Mine development and purchase of in-mine equipment, deepening of the San Carlos shaft and the construction of the second phase of the Pyrites plant
Saucito mine	**148.4**	Development, replacement of in-mine equipment, construction of the Pyrites plant and deepening of the Jarillas shaft
Herradura mine	**116.0**	Stripping activities, sustaining capex, construction of second line of the DLP and land acquisition
San Julián	**83.1**	Mine development, purchase of in-mine equipment and construction of the third tailing dam
Ciénega mine	**72.9**	Development, replacement of in-mine equipment, construction of tailings dam and installation of high compact thickener
Noche Buena	**50.2**	Mining works and sustaining capex
Juanicipio project	**46.9**	Exploration expenditure and construction of ramps
Other	**30.1**	
Total purchase of property, plant and equipment	**668.7**	

Dividends paid to shareholders of the Group in 2018 totalled US$298.1 million, a 26.0% increase over 2017, in line with our dividend policy which includes a consideration of profits generated in the period. The 2018 payment included the final 2017 dividend of US$219.4 million and the 2018 interim dividend paid in September of US$78.8 million.

Net interest of US$15.7 million was paid, mainly reflecting the interest paid in relation with the issuance of the US$800 million principal amount of 5.500% Senior Notes.

The sources and uses of funds described above resulted in a decrease in net cash of US$335.2 million (net decrease in cash and other liquid assets), which combined with the US$896.0 million balance at the beginning of the year resulted in cash and other liquid assets of US$560.8 million at the end of 2018.

BALANCE SHEET

Fresnillo plc continued to maintain a solid financial position with cash and other liquid funds [1] of US$560.8 million as of 31

December 2018, albeit decreasing 37.4% versus December 2017, as explained above.

Inventories increased 23.6% to US$335.0 million mainly as a result of the increase in inventories of gold on the leaching pads at Herradura.

Trade and other receivables increased 14.9% to US$462.0 million mainly as a result of the increase in value added tax recoverable.

The change in the value of the Silverstream derivative from US$538.9 million at the beginning of the year to US$519.1 million as of 31 December 2018 reflects proceeds of US$34.8 million corresponding to 2018 (US$31.4 million in cash and US$3.4 million in receivables) and the Silverstream revaluation effect in the income statement of US$15.0 million.

The net book value of property, plant and equipment was US$2,693.1 million at year end, representing a 10.0% increase over 2017. The US$244.5 million increase was mainly due to the advancement in the development projects; capitalised development works; purchase of additional in-mine equipment; and the construction of leaching pads at Herradura and Noche Buena.

The Group's total equity was US$3,128.3 million as of 31 December 2018, a 2.0% increase over 2017. This was mainly explained by the increase in retained earnings, reflecting the 2017 profit and the net unrealised gains on cash flow hedges.

DIVIDENDS

Based on the Group's 2018 performance, the Directors have recommended a final dividend of US$16.7 cents per Ordinary Share, which will be paid on 24 May 2019 to shareholders on the register on 26 April 2018. The dividend will be paid in UK pounds sterling unless shareholders elect to be paid in US dollars. This is in addition to the interim dividend of US$10.7 cents per share amounting to US$78.8 million.

The corporate income tax reform introduced in Mexico in 2014 created a withholding tax obligation of 10% relating to the payment of dividends, including to foreign nationals.

Historically the Company has been making dividend payments out of retained earnings generated before the tax reform came into force and no withholding tax has therefore been applicable. We expect that dividend payments relating to 2019 and future years will attract the withholding obligation. However, foreign shareholders may be able to recover such tax depending on their tax residence and the existence of double taxation agreements.

RISK MANAGEMENT FRAMEWORK

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

Risk management system

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

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

Within the identification phase of our risk management system, the company also captures emerging risks that could arise as a result of new developments that have a chance of impacting Fresnillo, either at a macro or operational level. Examples of these are new requirements imposed by changes to regulation, including stricter environmental rules, the commissioning of a new project and the use of state of the art underground technology, amongst others.

2018 risk assessment

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

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

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

Response / mitigation to our risks

① Impact of metal prices and global macroeconomic developments

RISK DESCRIPTION

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

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

LINK TO STRATEGY

- Mines in operation
- Development projects
- Growth pipeline

KEY RISK INDICATORS

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

RESPONSE / MITIGATION

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

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

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

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

RISK APPETITE

High for metal prices,
Medium for all other macroeconomic developments

RISK RATING (relative position)

2018: Very high (1)
2017: Very high (1)

Change in risk level: ←

DESCRIPTION OF RISK LEVEL

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

② Potential actions by the government, e.g. implementation of more stringent regulations for obtaining permits, etc.

RISK DESCRIPTION

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

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

i. Extraction of materials other than minerals referenced in Article 4 of the Mexican Mining Law (gold, silver, lead, zinc, etc.) from the soil and sub-soil through open-pit processes;
ii. Emissions of certain substances into the atmosphere;
iii. Deposit of contaminants into the soil and water; and
iv. Storage of waste in public or private landfills.

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

LINK TO STRATEGY

- Mines in operation
- Development projects
- Growth pipeline
- Sustainable development

KEY RISK INDICATORS

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

RESPONSE / MITIGATION

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

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

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

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

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

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

RISK APPETITE

Low

RISK RATING (relative position)

2018: Very high (2)
2017: Very high (3)
Change in risk level: ↗
Note: In the map, the perceived level of risk remains very high, with the change in rating during 2018 being due to the change of administration. The change in rating though was only marginal as the possible impact and likelihood of a change in government was anticipated and had already been captured within the risk rating last year.

DESCRIPTION OF RISK LEVEL

We continue to perceive this risk level as very high due to the pressure that the Government or Government officials (in either case, both at the federal and local levels) could exert over the mining industry. Evidence of this influence on our industry can be seen in the increase in the frequency of the reviews by the tax authorities, the legislation issued in 2017 requiring management to ensure that contractors are compliant with their own tax obligations, the imposition of the environmental taxes contained in the new State Law in Zacatecas and the indigenous consultation to obtain mining concessions. In addition it is evident in the continued perceived level of corruption across Mexico, which remains high[2] and worsened versus the previous year. As a result, delays in obtaining permits for certain operations and/or projects remain a risk.

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

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

③ Access to land

RISK DESCRIPTION

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

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

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

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

LINK TO STRATEGY

- Mines in operation
- Development projects
- Growth pipeline

KEY RISK INDICATORS

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

RESPONSE / MITIGATION

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

- Careful advanced planning for land requirements and acquisitions by anticipating any issues with a potential land purchase before intensive exploration. In certain areas of interest, we negotiate leasing or occupation agreements with purchase options, in compliance with legal and regulatory requirements.
- The fostering of strong community relations through investment in community programmes and infrastructure. Such investments totalled US$3.1 million in 2018
- Always seeking tri-party cooperation between the Government, community and ourselves in securing access to land.
- Early involvement of our community relations and negotiation teams during the negotiation and acquisition processes, including the exploration stage.
- Working with our land negotiation teams, which comprise specialists hired directly by Fresnillo and also provided by Peñoles as part of the service agreement.

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

RISK APPETITE

Medium

RISK RATING (relative position)

2018: Very high (2)
2017: Very high (2)
Change in risk level:

DESCRIPTION OF RISK LEVEL

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

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

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

④ Security

RISK DESCRIPTION

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

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

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

LINK TO STRATEGY

- Mines in operation
- Development projects
- Growth pipeline
- Sustainable development

KEY RISK INDICATORS

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

RESPONSE / MITIGATION

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

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

RISK APPETITE

Low

RISK RATING (relative position)

2018: Very high (4)
2017: Very high (4)
Change in risk level:

(=)

DESCRIPTION OF RISK LEVEL

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

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

We refer to The Global Peace Index[3] ranking, which indicates a higher likelihood of violent demonstrations and political instability. This index uses three broad themes: level of safety and security in society; the extent of ongoing domestic or international conflict; and the degree of militarisation. Mexico ranks 140 of 163 countries worldwide (from best to worst), as a country with a low state of peace, and has fallen two places in the ranking. In addition, we also use the Mexico Peace Index[2] ranking as a reference. This is a comprehensive index of the following indicators: homicides; violent crimes; weapons crimes; organised crime; and detention without a sentence. The index ranks states from 1 to 5, where 1 represents the most peaceful. Zacatecas (3.3 on the index) tends to rank among the less peaceful states in Mexico, while Chihuahua (2.9), Sonora (2.2) and Durango (2.0) are located in the medium range.

[3] Global Peace Index 2018 and Mexico Peace Index 2018 prepared by the Institute for Economics & Peace, http://economicsandpenace.org/

⑤ Public perception against mining

RISK DESCRIPTION

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

LINK TO STRATEGY

- Mines in operation
- Development projects
- Growth pipeline
- Sustainable development

KEY RISK INDICATORS

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

RESPONSE / MITIGATION

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

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

RISK APPETITE

Low

RISK RATING (relative position)

2018: High (5)

2017: High (5)

Change in heat map:

DESCRIPTION OF RISK CHANGE

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

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

⑥ Safety

RISK DESCRIPTION

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

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

LINK TO STRATEGY

- Sustainable development

KEY RISK INDICATORS

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

RESPONSE / MITIGATION

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

- The continuing roll out of the ¨I care, we care" programme at our different mines to improve safety performance and develop competences in our supervisors. The programme aims to develop risk competency by educating leaders, supervisors and the workforce. It fosters coaching and positive incentives and a comprehensive review and enhancement of our Critical Control Risk Protocols and Emergency Response Teams.
- The appointment of a permanent specialist advisor in our top team who is in charge of safety, health and community issues and has the responsibility for addressing our unacceptable safety record.
- The Total Recordable Injury Frequency Rate decreased to 20.47 in 2018 (vs. 23.22 in 2017) while the Lost Time Injury Frequency Rate increased to 8.64 (vs. 8.14 in 2017).
- We continue to deliver training for both employees and contractors. Personnel received an average of 94 hours of training in 2018. 45 of these 94 hours involved HSECR training.

RISK APPETITE

Low

RISK RATING (relative position)

2018: High (6)
2017: High (6)
Change in risk level: →

DESCRIPTION OF RISK LEVEL

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

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

⑦ Union relations

RISK DESCRIPTION

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

LINK TO STRATEGY

- Mines in operation
- Development projects

KEY RISK INDICATORS

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

RESPONSE / MITIGATION

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

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

RISK APPETITE

Low

RISK RATING (relative position)

2018: Medium high (7)

2017: Medium low (8)

Change in risk level:

↗

DESCRIPTION OF RISK LEVEL

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

⑧ Exploration

RISK DESCRIPTION

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

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

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

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

LINK TO STRATEGY

- Growth pipeline

KEY RISK INDICATORS

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

RESPONSE / MITIGATION

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

Our exploration strategy also includes:

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

RISK APPETITE

Medium

RISK RATING (relative position)

2018: Medium (8)
2017: Medium (9)
Change in risk level:

→

DESCRIPTION OF RISK LEVEL

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

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

⑨ Projects (performance risk)

RISK DESCRIPTION

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

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

LINK TO STRATEGY

- Development projects

KEY RISK INDICATORS

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

RESPONSE / MITIGATION

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

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

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

The project development pipeline in 2018 included:

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

RISK APPETITE

Medium

RISK RATING (relative position)

2018: Medium (9)
2017: Medium (7)

Change in risk level: =

DESCRIPTION OF RISK LEVEL

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

⑩ Cyber security

RISK DESCRIPTION

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

As a mining company, we may be under threat of cyber attacks from a broad set of attacker groups, from "hacktivists" and hostile regimes to organised criminals. Their goals include a desire to take advantage of the role that mining plays in regional and global supply chains as well as in national economies. Certain groups may also attempt to exploit vulnerabilities created by the industry's heavy reliance on operational automated systems. In our case, this could include initiatives such as Operations Technology and Information Technology.

LINK TO STRATEGY

- Mines in operation
- Development projects

KEY RISK INDICATORS

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

RESPONSE / MITIGATION

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

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

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

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

RISK APPETITE

Low

RISK RATING (relative position)

2018: Medium (10)
2017: Medium (10)

Change in risk level:

=

DESCRIPTION OF RISK LEVEL

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

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

⑪ Environmental incidents

RISK DESCRIPTION

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

LINK TO STRATEGY

- Sustainable development

KEY RISK INDICATORS

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

RESPONSE / MITIGATION

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

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

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

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

Our controls include carrying out a number of studies to confirm that an area is suitable prior to the construction of a dam. These studies include geotechnical, geological, geophysical, hydrological and seismic analysis. Prior to construction, the CNA (National Commission for Water) undertakes various studies and continues to periodically review dams in relation to environmental impacts, on an ongoing basis. Evidence that the Company continues to comply with all the CNA's parameters is the fact that all permits are still held by Fresnillo plc. In addition, management run thorough internal and third party reviews for all tailing dams within the group. Furthermore, management continues to take actions to mitigate this risk, for example by engaging a third party to conduct a design stability assessment before a tailings dam is approved for an increase in capacity, and to carry out regular tests throughout the lifetime of the dam.

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

RISK APPETITE

Low

RISK RATING (relative position)

2018: Medium Low (11)
2017: Low (12)
Change in risk level:
↑

DESCRIPTION OF RISK LEVEL

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

⑫ Human Resources

RISK DESCRIPTION

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

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

LINK TO STRATEGY

- Mines in operation
- Development projects
- Growth pipeline
- Sustainable development

KEY RISK INDICATORS

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

RESPONSE / MITIGATION

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

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

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

Retention: Our aim is to be the employer of choice, and we recognise that in order to be a profitable and sustainable company, we have to generate value for our employees and their families. We do this by providing a healthy, safe, productive and team-oriented working environment that not only encourages our people to fulfil their potential but also supports process improvements. Our focus is on continuous improvement, driven by training, development and personal growth opportunities; in summary our focus is on fair hiring, fair remuneration and benefits and gender equality. We again received the Great Place to Work award, among companies with more than 5,000 employees. During 2018, 143 employees were promoted (13% of our structure at a professional level) and 58 transfers took place between business units. As we explain in the Corporate Governance section, we are currently considering how best to enable employee engagement at Board level, which we believe will support improved retention rates.

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

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

RISK APPETITE

Medium

RISK RATING (relative position)

2018: Low (12)
2017: Low (11)
Change in risk level:

=

DESCRIPTION OF RISK LEVEL

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

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

Statement of Directors' responsibilities

The Directors are responsible for preparing the annual report and the Group and parent company financial statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards (IFRS) adopted by the European Union.

The Directors are required to prepare financial statements for each financial year which present a true and fair view of the financial position of the Company and of the Group and the financial performance and cash flows of the Company and of the Group for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies in accordance with IAS 8: 'Accounting Policies, Changes in Accounting Estimates and Errors' and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company and of the Group's financial position and financial performance;
- state that the Company and the Group has complied with IFRS, subject to any material departures disclosed and explained in the financial statements; and
- prepare the accounts on a going concern basis unless, having assessed the ability of the Company and the Group to continue as a going concern, management either intends to liquidate the entity or to cease trading, or have no realistic alternative but to do so.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and of the Group and enable them to ensure that the financial statements comply with the Companies Acts 2006 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Under applicable UK law and regulations the Directors are responsible for the preparation of a Directors' report, Directors' remuneration report and corporate governance report that comply with that law and regulations. In addition the Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Neither the Company nor the Directors accept any liability to any person in relation to the annual financial report except to the extent that such liability could arise under English law. Accordingly, any liability to a person who has demonstrated reliance on any untrue or misleading statement or omission shall be determined in accordance with section 90A and schedule 10A of the Financial Services and Markets Act 2000.

In accordance with provision C.1.1 of the UK Corporate Governance Code, the Directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides information to enable shareholders to assess the Company's performance, business model and strategy.

Responsibility statement of the Directors in respect of the annual report and accounts
I confirm on behalf of the Board that to the best of its knowledge:

a) the financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit and loss of the Company and the undertakings included in the consolidation taken as a whole; and

b) the management report (encompassed within the 'Overview', 'Strategic report', 'Performance' and 'Governance' sections) includes a fair review of the development and performance of the business, and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Signed for and on behalf of the Board

Charles Jacobs
Senior Independent Director
25 February 2019

Consolidated Income Statement

Year ended 31 December

x		Year ended 31 December 2018			Year ended 31 December 2017		
	Notes	US$ thousands			US$ thousands		
		Pre-Silverstream revaluation effect	**Silverstream revaluation effect**	**Total**	Pre-Silverstream revaluation effect	Silverstream revaluation effect	Total
Continuing operations:							
Revenues	4	2,103,785		2,103,785	2,093,308		2,093,308
Cost of sales	5	(1,323,057)		(1,323,057)	(1,167,903)		(1,167,903)
Gross profit		**780,728**		**780,728**	**925,405**		**925,405**
Administrative expenses		(83,339)		(83,339)	(72,710)		(72,710)
Exploration expenses	6	(172,799)		(172,799)	(141,108)		(141,108)
Selling expenses		(21,237)		(21,237)	(19,110)		(19,110)
Other operating income	8	11,703		11,703	28,203		28,203
Other operating expenses	8	(8,360)		(8,360)	(11,371)		(11,371)
Profit from continuing operations before net finance costs and income tax		**506,696**		**506,696**	**709,309**		**709,309**
Finance income	9	20,372		20,372	14,576		14,576
Finance costs	9	(50,010)		(50,010)	(89,653)		(89,653)
Revaluation effects of Silverstream contract	13		14,956	14,956	-	113,656	113,656
Foreign exchange loss		(8,084)		(8,084)	(6,399)		(6,399)
Profit from continuing operations before income tax		**468,974**	**14,956**	**483,930**	**627,833**	**113,656**	**741,489**
Corporate income tax	10	(116,162)	(4,487)	(120,649)	(119,365)	(34,097)	(153,462)
Special mining right	10	(13,315)		(13,315)	(27,220)		(27,220)
Income tax expense	10	(129,477)	(4,487)	(133,964)	(146,585)	(34,097)	(180,682)
Profit for the year from continuing operations		**339,497**	**10,469**	**349,966**	**481,248**	**79,559**	**560,807**
Attributable to:							
Equity shareholders of the Company		339,377	10,469	349,846	481,019	79,559	560,578
Non-controlling interest		120		120	229		229
		339,497	**10,469**	**349,966**	**481,248**	**79,559**	**560,807**
Earnings per share: (US$)							
Basic and diluted earnings per Ordinary Share from continuing operations	11			0.475	-		0.761
Adjusted earnings per share: (US$)							
Adjusted basic and diluted earnings per Ordinary Share from continuing operations	11		0.461		0.653		-

Consolidated Statement of Comprehensive Income
Year ended 31 December

	Notes	Year ended 31 December **2018** **US$ thousands**	 2017 US$ thousands
Profit for the year		**349,966**	**560,807**
Other comprehensive income/(expense)			
Items that may be reclassified subsequently to profit or loss:			
Gain on cash flow hedges recycled to income statement		1,582	-
Loss on cost of hedge recycled to income statement		(269)	-
Changes in the fair value of cost of hedges		14,353	-
Total effect of cash flow hedges		**15,666**	**-**
Changes in the fair value of available-for-sale financial assets		-	8,808
Impairment of available-for-sale financial assets taken to income during the year		-	36
Total effect of available-for-sale financial assets		**-**	**8,844**
Foreign currency translation		(185)	118
Income tax effect on items that may be reclassified subsequently to profit or loss:		(4,699)	(2,653)
Net other comprehensive income that may be reclassified subsequently to profit or loss:		**10,782**	**6,309**
Items that will not be reclassified to profit or loss:			
Changes in the fair value of cash flow hedges		-	-
Losses on cash flow hedges recycled to other assets		(233)	-
Changes in the fair value of cash flow hedges		(58)	-
Total effect of cash flow hedges		**(291)**	**-**
Changes in the fair value of equity investments at FVOCI		(46,579)	-
Remeasurement gains on defined benefit plans	21	2,610	933
Income tax effect on items that will not be reclassified to profit or loss	10	19,999	(148)
Net other comprehensive (expense)/income that will not be reclassified to profit or loss		**(24,261)**	**785**
Other comprehensive (expense)/income, net of tax		**(13,479)**	**7,094**
Total comprehensive income for the year, net of tax		**336,487**	**567,901**
Attributable to:			
Equity shareholders of the Company		336,377	567,672
Non-controlling interests		110	229
		336,487	**567,901**

Consolidated Balance Sheet
As at 31 December

		As at 31 December	
	Notes	**Wouldn2018 US$ thousands**	2017 US$ thousands
ASSETS			
Non-current assets			
Property, plant and equipment	12	2,693,104	2,448,596
Equity instruments at FVOCI	2(b), 29	78,219	-
Available-for-sale financial assets	2(b)	-	144,856
Silverstream contract	13	498,274	506,569
Derivative financial instruments	29	20	-
Deferred tax asset	10	88,883	48,950
Inventories	14	91,620	91,620
Other receivables	15	-	129
Other assets		3,199	3,389
		3,453,319	**3,244,109**
Current assets			
Inventories	14	243,404	179,485
Trade and other receivables	15	411,157	342,506
Income tax recoverable		50,871	59,588
Prepayments		15,488	3,543
Derivative financial instruments	29	294	382
Silverstream contract	13	20,819	32,318
Cash and cash equivalents	16	560,785	876,034
		1,302,818	**1,493,856**
Total assets		**4,756,137**	**4,737,965**
EQUITY AND LIABILITIES			
Capital and reserves attributable to shareholders of the Company			
Share capital	17	368,546	368,546
Share premium	17	1,153,817	1,153,817
Capital reserve	17	(526,910)	(526,910)
Hedging reserve	17	(229)	-
Cost of hedging reserve	17	(2,374)	-
Available-for-sale financial assets reserve	17	-	53,799
Fair value reserve of financial assets at FVOCI	17	23,370	-
Foreign currency translation reserve	17	(795)	(610)
Retained earnings	17	2,033,860	1,962,708
		3,049,285	3,011,350
Non-controlling interests		78,968	55,245
Total equity		**3,128,253**	**3,066,595**

Consolidated Balance Sheet
As at 31 December

	Notes	2018 US$ thousands	2017 US$ thousands
		As at 31 December	
Non-current liabilities			
Interest-bearing loans	19	800,127	799,046
Derivative financial instruments	29	-	14,224
Provision for mine closure cost	20	189,842	184,775
Provision for pensions and other post-employment benefit plans	21	6,393	9,217
Deferred tax liability	10	470,925	491,677
		1,467,287	**1,498,939**
Current liabilities			
Trade and other payables	22	133,140	134,949
Income tax payable		10,960	18,328
Derivative financial instruments	29	3,807	4,992
Employee profit sharing		12,690	14,162
		160,597	**172,431**
Total liabilities		**1,627,884**	**1,671,370**
Total equity and liabilities		**4,756,137**	**4,737,965**

These financial statements were approved by the Board of Directors on 25 February 2019 and signed on its behalf by:

Mr Arturo Fernandez
Non-executive Director
25 February 2019

Consolidated Statement of Cash Flows
Year ended 31 December

		Year ended 31 December	
	Notes	**2018 US$ thousands**	2017 US$ thousands
Net cash from operating activities	28	**588,359**	**761,471**
Cash flows from investing activities			
Purchase of property, plant and equipment		(668,669)	(604,751)
Proceeds from the sale of property, plant and equipment and other assets	8	78	26,078
Repayments of loans granted to contractors		1,327	925
Short-term investments		-	200,000
Silverstream contract	13	36,303	43,349
Purchase of available-for-sale financial assets		-	(19,877)
Proceeds from the sale of debt investments		20,087	-
Interest received		19,520	14,535
Net cash used in investing activities		**(591,354)**	**(339,741)**
Cash flows from financing activities			
Dividends paid to shareholders of the Company	18	(298,068)	(236,560)
Capital contribution		23,613	18,869
Interest paid[1]	19	(35,177)	(35,503)
Net cash used in financing activities		**(309,632)**	**(253,194)**
Net (decrease)/increase in cash and cash equivalents during the year		(312,627)	168,536
Effect of exchange rate on cash and cash equivalents		(2,622)	(4,456)
Cash and cash equivalents at 1 January		876,034	711,954
Cash and cash equivalents at 31 December	16	**560,785**	**876,034**

1 Total interest paid during the year ended 31 December 2018 less amounts capitalised totalling US$11.1 million (31 December 2017: US$11.4 million) which were included within the caption Purchase of property, plant and equipment.

Consolidated Statement of Changes in Equity
Year ended 31 December

		Attributable to the equity holders of the Company											
	Notes	Share capital	Share premium	Capital reserve	Hedging reserve	Cost of hedging reserve	Available-for-sale financial assets reserve	Fair value reserve of financial assets at FVOCI	Foreign currency translation reserve	Retained earnings	Total	Non-controlling interests	Total equity
													US$ thousands
Balance at 1 January 2017		**368,546**	**1,153,817**	**(526,910)**	**-**		**47,608**		**(728)**	**1,637,888**	**2,680,221**	**36,147**	**2,716,368**
Profit for the year		-	-	-	-		-		-	560,578	560,578	229	560,807
Other comprehensive income, net of tax		-	-	-	-		6,191		118	785	7,094	-	7,094
Total comprehensive income for the year		-	-	-	-		6,191		118	561,363	567,672	229	567,901
Capital contribution		-	-	-	-		-		-	-	-	18,869	18,869
Dividends declared and paid	18	-	-	-	-		-		-	(236,543)	(236,543)	-	(236,543)
Balance at 31 December 2017		**368,546**	**1,153,817**	**(526,910)**	**-**		**53,799**		**(610)**	**1,962,708**	**3,011,350**	**55,245**	**3,066,595**
Adjustments for initial application of IFRS 9	2(b)					(13,376)	(53,799)	49,622		17,553	-	-	-
Profit for the year		-	-	-	-	-	-	-	-	349,846	349,846	120	349,966
Other comprehensive expense, net of tax		-	-	-	(229)	11,002	-	(26,252)	(185)	2,195	(13,469)	(10)	(13,479)
Total comprehensive income for the year		-	-	-	(229)	11,002	-	(26,252)	(185)	352,041	336,377	110	336,487
Capital contribution		-	-	-	-	-	-	-	-	-	-	23,613	23,613
Dividends declared and paid	18	-	-	-	-	-	-	-	-	(298,442)	(298,442)	-	(298,442)
Balance at 31 December 2018		**368,546**	**1,153,817**	**(526,910)**	**(229)**	**(2,374)**	**-**	**23,370**	**(795)**	**2,033,860**	**3,049,285**	**78,968**	**3,128,253**

1. Corporate information

Fresnillo plc. ("the Company") is a public limited company and registered in England and Wales with registered number 6344120 and is the holding company for the Fresnillo subsidiaries detailed in note 5 of the Parent Company accounts ('the Group').

Industrias Peñoles S.A.B. de C.V. ('Peñoles') currently owns 75 percent of the shares of the Company and the ultimate controlling party of the Company is the Baillères family, whose beneficial interest is held through Peñoles. The registered address of Peñoles is Calzada Legaria 549, Mexico City 11250. Copies of Peñoles' accounts can be obtained from www.penoles.com.mx. Further information on related party balances and transactions with Peñoles' group companies is disclosed in note 26.

The consolidated financial statements of the Group for the year ended 31 December 2018 were authorised for issue by the Board of Directors of Fresnillo plc on 25 February 2019.

The Group's principal business is the mining and beneficiation of non-ferrous minerals, and the sale of related production. The primary contents of this production are silver, gold, lead and zinc. Further information about the Group operating mines and its principal activities is disclosed in note 3.

The auditor's report on those financial statements was unqualified and did not contain a statement under section 498 of the Companies Act 2006.

The audited financial statements will be delivered to the Registrar of Companies in due course. The financial information contained in this document does not constitute statutory accounts as defined in section 435 of the Companies Act 2006

2. Significant accounting policies

(a) Basis of preparation and consolidation, and statement of compliance

Basis of preparation and statement of compliance

The Group's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union as they apply to the financial statements of the Group for the years ended 31 December 2018 and 2017, and in accordance with the provisions of the Companies Act 2006.

The consolidated financial statements have been prepared on a historical cost basis, except for trade receivables, derivative financial instruments, equity securities, investment in funds and defined benefit pension scheme assets which have been measured at fair value.

The consolidated financial statements are presented in dollars of the United States of America (US dollars or US$) and all values are rounded to the nearest thousand ($000) except when otherwise indicated.

Basis of consolidation

The consolidated financial statements set out the Group's financial position as of 31 December 2018 and 2017, and the results of operations and cash flows for the years then ended.

Entities that constitute the Group are those enterprises controlled by the Group regardless of the number of shares owned by the Group. The Group controls an entity when the Group is exposed to, or has the right to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Entities are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. The Group applies the acquisition method to account for business combinations in accordance with IFRS 3.

All intra-group balances, transactions, income and expenses and profits and losses, including unrealised profits arising from intra-group transactions, have been eliminated on consolidation. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. The interest of non-controlling shareholders may be initially measured either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. The choice of measurement basis is made on an acquisition by-acquisition basis. Subsequent to acquisition, non-controlling interests consist of the amount attributed to such interests at initial recognition and the non-controlling interest's share of changes in equity since the date of the combination. Any losses of a subsidiary are attributed to the non-controlling interests even if that results in a deficit balance.

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, a transaction with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interest are also recorded in equity.

(b) Changes in accounting policies and disclosures

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those applied in the preparation of the consolidated financial statements for the year ended 31 December 2017, except for the following:

New standards, interpretations and amendments (new standards) adopted by the Group

Financial instruments

On January 1, 2018, the Company adopted IFRS 9, Financial Instruments which replaced IAS 39, Financial Instruments: Recognition and Measurement using the modified retrospective approach, hence, the Group does not restate prior periods. Differences between previous carrying amounts using accounting policies as disclosed in the 2017 ARA and those determined under IFRS 9 at the date of initial application have been included in opening retained earnings.

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

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

Long-term financial assets

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

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

Upon transition, the balance in the AFS reserve relating to investments in funds was reclassified from accumulated other comprehensive income (OCI) to retained earnings in the amount of US$53.8 million. In addition, the amounts previously recognised in retained earnings related to historical impairment of AFS that are now classified as FVOCI have been reclassified to the FVOCI reserve in the amount of US$6.0 million.

Trade receivables

Under IFRS 9, embedded derivatives are no longer separated from their host contracts. Instead, where embedded derivatives are present, the entire host contract is classified as fair value through profit or loss. For the Group, this change affects the trade receivables that include provisional pricing adjustments. However, it did not result in any change in the carrying amount of those trade receivables.

Impairment

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

Hedging

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

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

Revenue recognition

On January 1, 2018, the Group adopted IFRS 15, Revenue from Contracts with Customers which supersedes IAS 18, Revenue. IFRS 15 establishes a single five-step model framework for determining the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. IFRS 15 requires entities to 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, changes in fair value of provisionally priced metal is recognised in revenue adjusting the value of sales. The transaction price can be measured reliably as an active and freely traded commodity market such as the London Metals Exchange exists for silver, gold, zinc and lead and the value of product sold by the Company is directly linked to the form in which it is traded on that market. Variations between the price recorded at the date when control is transferred to the buyer and the actual final price set under the smelting contracts are caused by changes in metal prices resulting in the receivable being recorded at FVPL.

Final settlement is based on quantities adjusted as required following the inspection of the product by the customer as well as applicable commodity prices. IFRS 15 requires that variable consideration should only be 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 as these are not related to a distinct good or service.

Other Narrow Scope Amendments

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

Other than the amendment mentioned above, there were no significant new standards that the Group was required to adopt effective from 1 January 2018.

Standards, interpretations and amendments issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, as applicable to the Group's financial statements, when they become effective, except where indicated.

IFRS 16 Leases

IFRS 16 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. These amendments are effective for annual periods beginning on or after 1 January 2019 and earlier application is permitted. The Group has elected to adopt the new standard from 1 January 2019 applying the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets will be measured at the amount of the lease liability on adoption. The Group has set up a project team which has reviewed all of the Group's leasing arrangements over the last year in light of the new lease accounting rules in IFRS 16. As at the reporting date, the Group has non-cancellable operating lease commitments of $16.1 million, see note 24. Of these commitments, approximately $0.2 million relate to short-term leases and $2.7 million to low value leases which will both be recognised on a straight-line basis as expense in profit or loss.

IFRIC 23 Uncertainty over Income Tax treatments

This Interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. The interpretation is to be applied to the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments. Application of tax law can be complex and requires judgement to assess risk and estimate outcomes where the amount of tax payable or recoverable is uncertain. The Group evaluated potential uncertain tax positions under the requirements of the Interpretation and has not identified any impact on the Group's financial statements. IFRIC 23 is applicable for annual periods beginning on or after 1 January 2019.

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

(c) Significant accounting judgments, estimates and assumptions

The preparation of the Group's consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. These judgements and estimates are based on management's best knowledge of the relevant facts and circumstances, with regard to prior experience, but actual results may differ from the amounts included in the consolidated financial statements. Information about such judgements and estimates is contained in the accounting policies and/or the notes to the consolidated financial statements.

Judgements

Areas of judgement, apart from those involving estimations, that have the most significant effect on the amounts recognised in the consolidated financial statements for the year ended 31 December 2018 are:

– Stripping costs, note 2(e):

The Group incurs waste removal costs (stripping costs) during the development and production phases of its surface mining operations. During the production phase, stripping costs (production stripping costs) can be incurred both in relation to the production of inventory in that period and the creation of improved access and mining flexibility in relation to ore to be mined in the future. The former are included as part of the costs of inventory, while the latter are capitalised as a stripping activity asset, where certain criteria are met.

Once the Group has identified production stripping for a surface mining operation, judgment is required in identifying the separate components of the ore bodies for that operation, to which stripping costs should be allocated. Generally, a component will be a subset of the total ore body that is made more accessible as a result of the stripping activity. In identifying components of the ore body, the Group works closely with the mining operations personnel to analyse each of the mine plans since components are usually identified during the mine planning stage. The Group reassesses the components of ore bodies in line with the preparation and update of mine plans which usually depend on newest information of reserves and resources. In the current year, this reassessment did not give rise to any changes in the identification of components except for those existing at Centauro pit at Herradura mine.

Following the results of reserves and resources studies in the prior year, significant additional gold reserves were identified at Centauro pit. The mining operations worked on assessing the impact of these new reserves on the design of the mine and proposed a new mine plan which was approved in July 2018.The new design significantly expands the size of the Centauro pit and results in areas which were previously going to be mined as two separate components being accessed and mined as a single component. Based on the new mine plan, effective 1 July 2018 the Group has changed the components identified at Centuaro pit and therefore the measurement of the corresponding stripping costs.

This change was incorporated prospectively from 1 July 2018. Had the determination of components not changed, capitalised stripping cost during the six-month period ended 31 December 2018 would have been US$28.6 million higher, with an offsetting impact against the work-in-progress inventory balance as of 31 December 2018.

– Contingencies, note 25

By their nature, contingencies will be resolved only when one or more uncertain future events occur or fail to occur. The assessment of the existence and potential quantum of contingencies inherently involves the exercise of significant judgement and the use of estimates regarding the outcome of future events.

Estimates and assumptions

Significant areas of estimation uncertainty considered by management in preparing the consolidated financial statements include:

– Estimated recoverable ore reserves and mineral resources, note 2(e):

Ore reserves are estimates of the amount of ore that can be economically and legally extracted from the Group's mining properties; mineral resources are an identified mineral occurrence with reasonable prospects for eventual economic extraction. The Group estimates its ore reserves and mineral resources based on information compiled by appropriately qualified persons relating to the geological and technical data on the size, depth, shape and grade of the ore body and suitable production techniques and recovery rates, in conformity with the Joint Ore Reserves Committee (JORC) code 2012. Such an analysis requires complex geological judgements to interpret the data. The estimation of recoverable ore reserves and mineral resources is based upon factors such as geological assumptions and judgements made in estimating the size and grade of the ore body, estimates of commodity prices, foreign exchange rates, future capital requirements and production costs.

As additional geological information is produced during the operation of a mine, the economic assumptions used and the estimates of ore reserves and mineral resources may change. Such changes may impact the Group's reported balance sheet and income statement including:

- The carrying value of property, plant and equipment and mining properties may be affected due to changes in estimated future cash flows, which consider both ore reserves and mineral resources;
- Depreciation and amortisation charges in the income statement may change where such charges are determined using the unit-of-production method based on ore reserves;
- Stripping costs capitalised in the balance sheet, either as part of mine properties or inventory, or charged to profit or loss may change due to changes in stripping ratios;
- Provisions for mine closure costs may change where changes to the ore reserve and resources estimates affect expectations about when such activities will occur;
- The recognition and carrying value of deferred income tax assets may change due to changes regarding the existence of such assets and in estimates of the likely recovery of such assets.

– Estimate of recoverable ore on leaching pads

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

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

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

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

This change in estimation was incorporated prospectively in inventory from 1 January 2018. The increase in the number of ounces reduced the weighted average cost of inventory. Had the estimation not changed, production cost during the year ended 31 December 2018 would have been US$71.9 million higher, with an offsetting impact against the work-in-progress inventory balance as of 31 December 2018.

– Silverstream, note 13:

The valuation of the Silverstream contract as a derivative financial instrument requires estimation by management. The term of the derivative is based on the Sabinas life of mine and the value of this derivative is determined using a number of estimates, including the estimated recoverable ore reserves and mineral resources and future production profile of the Sabinas mine, the estimated recoveries of silver from ore mined, estimates of the future price of silver and the discount rate used to discount future cash flows. For further detail on the inputs that have a significant effect on the fair value of this derivative, see note 30. The impact of changes in silver price assumptions, foreign exchange, inflation and the discount rate is included in note 31.

– Estimation of the mine closure costs, notes 2 (j) and 19:

Significant estimates and assumptions are made in determining the provision for mine closure cost as there are numerous factors that will affect the ultimate amounts payable. These factors include estimates of the extent and costs of rehabilitation activities, the currency in which the cost will be incurred, technological changes, regulatory changes, cost increases, mine life and changes in discount rates. Those uncertainties may result in future actual expenditure differing from the amounts currently provided. The provision at the balance sheet date represents management's best estimate of the present value of the future closure costs required.

– Income tax, notes 2 (q) and 10:

The recognition of deferred tax assets, including those arising from un-utilised tax losses require management to assess the likelihood that the Group will generate taxable earnings in future periods, in order to utilise recognised deferred tax assets. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Group to realise the net deferred tax assets recorded at the balance sheet date could be impacted.

(d) Foreign currency translation

The Group's consolidated financial statements are presented in US dollars, which is the parent company's functional currency. The functional currency for each entity in the Group is determined by the currency of the primary economic environment in which it operates. The determination of functional currency requires management judgement, particularly where there may be more than one currency in which transactions are undertaken and which impact the economic environment in which the entity operates. For all operating entities, this is US dollars.

Transactions denominated in currencies other than the functional currency of the entity are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rate of exchange ruling at the balance sheet date. All differences that arise are recorded in the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated into US dollars using the exchange rate at the date when the fair value is determined.

For entities with functional currencies other than US dollars as at the reporting date, assets and liabilities are translated into the reporting currency of the Group by applying the exchange rate at the balance sheet date and the income statement is translated at the average exchange rate for the year. The resulting difference on exchange is included as a cumulative translation adjustment in other comprehensive income. On disposal of an entity, the deferred cumulative amount recognised in other comprehensive income relating to that operation is recognised in the income statement.

(e) Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and impairment, if any. Cost comprises the purchase price and any costs directly attributable to bringing the asset into working condition for its intended use. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads.

The cost less the residual value of each item of property, plant and equipment is depreciated over its useful life. Each item's estimated useful life has been assessed with regard to both its own physical life limitations and the present assessment of economically recoverable reserves of the mine property at which the item is located. Estimates of remaining useful lives are made on a regular basis for all mine buildings, machinery and equipment, with annual reassessments for major items. Depreciation is charged to cost of sales on a unit-of-production (UOP) basis for mine buildings and installations, plant and equipment used in the mine production process or on a straight-line basis over the estimated useful life of the individual asset when not related to the mine production process. Changes in estimates, which mainly affect unit-of-production calculations, are accounted for prospectively. Depreciation commences when assets are available for use. Land is not depreciated.

The expected useful lives are as follows:

	Years
Buildings	6
Plant and equipment	4
Mining properties and development costs[1]	16
Other assets	3

1 Depreciation of mining properties and development cost are determined using the unit-of-production method.

An item of property, plant and equipment is de-recognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising at de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year that the asset is de-recognised.

Non-current assets or disposal groups are classified as held for sale when it is expected that the carrying amount of the asset will be recovered principally through sale rather than through continuing use. Assets are not depreciated when classified as held for sale.

Disposal of assets
Gains or losses from the disposal of assets are recognised in the income statement when all significant risks and rewards of ownership are transferred to the customer, usually when title has been passed.

Mining properties and development costs
Payments for mining concessions are expensed during the exploration phase of a prospect and capitalised during the development of the project when incurred.

Purchased rights to ore reserves and mineral resources are recognised as assets at their cost of acquisition or at fair value if purchased as part of a business combination.

Mining concessions, when capitalised, are amortised on a straight-line basis over the period of time in which benefits are expected to be obtained from that specific concession.

Mine development costs are capitalised as part of property, plant and equipment. Mine development activities commence once a feasibility study has been performed for the specific project. When an exploration prospect has entered into the advanced exploration phase and sufficient evidence of the probability of the existence of economically recoverable minerals has been obtained pre-operative expenses relating to mine preparation works are also capitalised as a mine development cost.

The initial cost of a mining property comprises its construction cost, any costs directly attributable to bringing the mining property into operation, the initial estimate of the provision for mine closure cost, and, for qualifying assets, borrowing costs. The Group cease the capitalisation of borrowing cost when the physical construction of the asset is complete and is ready for its intended use.

Revenues from metals recovered from ore mined in the mine development phase, prior to commercial production, are credited to mining properties and development costs. Upon commencement of production, capitalised expenditure is depreciated using the unit-of-production method based on the estimated economically proven and probable reserves to which they relate.

Mining properties and mine development are stated at cost, less accumulated depreciation and impairment in value, if any.

Construction in progress
Assets in the course of construction are capitalised as a separate component of property, plant and equipment. On completion, the cost of construction is transferred to the appropriate category of property, plant and equipment. The cost of construction in progress is not depreciated.

Subsequent expenditures
All subsequent expenditure on property, plant and equipment is capitalised if it meets the recognition criteria, and the carrying amount of those parts that are replaced, is de-recognised. All other expenditure including repairs and maintenance expenditure is recognised in the income statement as incurred.

Stripping costs
In a surface mine operation, it is necessary to remove overburden and other waste material in order to gain access to the ore bodies (stripping activity). During development and pre-production phases, the stripping activity costs are capitalised as part of the initial cost of development and construction of the mine (the stripping activity asset) and charged as depreciation or depletion to cost of sales, in the income statement, based on the mine's units of production once commercial operations begin.

Removal of waste material normally continues throughout the life of a surface mine. At the time that saleable material begins to be extracted from the surface mine the activity is referred to as production stripping.

Production stripping cost is capitalised only if the following criteria is met:

- It is probable that the future economic benefits (improved access to an ore body) associated with the stripping activity will flow to the Group;
- The Group can identify the component of an ore body for which access has been improved; and
- The costs relating to the improved access to that component can be measured reliably.

If not all of the criteria are met, the production stripping costs are charged to the income statement as operating costs as they are incurred.

Stripping activity costs associated with such development activities are capitalised into existing mining development assets, as mining properties and development cost, within property, plant and equipment, using a measure that considers the volume of waste extracted compared with expected volume, for a given volume of ore production. This measure is known as "component stripping ratio", which is revised annually in accordance with the mine plan. The amount capitalised is subsequently depreciated over the expected useful life of the identified component of the ore body related to the stripping activity asset, by using the units of production method. The identification of components and the expected useful lives of those components are evaluated as new information of reserves and resources is available. Depreciation is recognised as cost of sales in the income statement.

The capitalised stripping activity asset is carried at cost less accumulated depletion/depreciation, less impairment, if any. Cost includes the accumulation of costs directly incurred to perform the stripping activity that improves access to the identified component of ore, plus an allocation of directly attributable overhead costs. The costs associated with incidental operations are excluded from the cost of the stripping activity asset.

(f) Impairment of non-financial assets

The carrying amounts of non-financial assets are reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable. At each reporting date, an assessment is made to determine whether there are any indications of impairment. If there are indicators of impairment, an exercise is undertaken to determine whether carrying values are in excess of their recoverable amount. Such reviews are undertaken on an asset by asset basis, except where such assets do not generate cash flows independent of those from other assets or groups of assets, and then the review is undertaken at the cash generating unit level.

If the carrying amount of an asset or its cash generating unit exceeds the recoverable amount, a provision is recorded to reflect the asset at the recoverable amount in the balance sheet. Impairment losses are recognised in the income statement.

The recoverable amount of an asset
The recoverable amount of an asset is the greater of its value in use and fair value less costs of disposal. In assessing value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Fair value less cost of disposal is based on an estimate of the amount that the Group may obtain in an orderly sale transaction between market participants. For an asset that does not generate cash inflows largely independently of those from other assets, or groups of assets, the recoverable amount is determined for the cash generating unit to which the asset belongs. The Group's cash generating units are the smallest identifiable groups of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Reversal of impairment
An assessment is made each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the Group makes an estimate of the recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in estimates used to determine the asset's recoverable amount since the impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to the recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised in previous years. Such impairment loss reversal is recognised in the income statement.

(g) Financial assets and liabilities

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured at amortised cost.
- those to be measured subsequently at fair value through OCI, and.
- those to be measured subsequently at fair value through profit or loss.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

The group reclassifies debt investments when and only when its business model for managing those assets changes.

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset.

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

Amortised cost
Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

The Group's financial assets at amortised cost include receivables (other than trade receivables which are measured at fair value through profit and loss).

Fair value through other comprehensive income
Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the statement of profit or loss.

At transition to IFRS 9, the Group had certain financial asset that were accounted for as debt instruments at fair value through other comprehensive income; however, at the reporting date, no such assets existed.

Equity instruments designated as fair value through other comprehensive income
Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

The Group elected to classify irrevocably its listed equity investments under this category.

Fair value through profit or loss
Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

Changes in the fair value of financial assets at FVPL are recognised in other gains/(losses) in the statement of profit or loss as applicable.

The Group's trade receivables and derivative financial instruments, including the Silverstream contract, are classified as fair value through profit or loss.

De-recognition of financial assets
Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Impairment of financial assets
From 1 January 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For receivables (other than trade receivables which are measured at FVPL), the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

(h) Inventories

Finished goods, work in progress and ore stockpile inventories are measured at the lower of cost and net realisable value. Cost is determined using the weighted average cost method based on cost of production which excludes borrowing costs.

For this purpose, the costs of production include:

– personnel expenses, which include employee profit sharing, materials and contractor expenses which are directly attributable to the extraction and processing of ore;

– the depreciation of property, plant and equipment used in the extraction and processing of ore; and

– related production overheads (based on normal operating capacity).

Operating materials and spare parts are valued at the lower of cost or net realisable value. An allowance for obsolete and slow-moving inventories is determined by reference to specific items of stock. A regular review is undertaken by management to determine the extent of such an allowance.

Net realisable value is the estimated selling price in the ordinary course of business less any further costs expected to be incurred to completion and disposal.

(i) Cash and cash equivalents

For the purposes of the balance sheet, cash and cash equivalents comprise cash at bank, cash on hand and short-term deposits held with banks that are readily convertible into known amounts of cash and which are subject to insignificant risk of changes in value. Short-term deposits earn interest at the respective short-term deposit rates between one day and four months. For the purposes of the cash flow statement, cash and cash equivalents as defined above are shown net of outstanding bank overdrafts.

(j) Provisions

Mine closure cost
A provision for mine closure cost is made in respect of the estimated future costs of closure, restoration and for environmental rehabilitation costs (which include the dismantling and demolition of infrastructure, removal of residual materials and remediation of disturbed areas) based on a mine closure plan, in the accounting period when the related environmental disturbance occurs. The provision is discounted and the unwinding of the discount is included within finance costs. At the time of establishing the provision, a corresponding asset is capitalised where it gives rise to a future economic benefit and is depreciated over future production from the mine to which it relates. The provision is reviewed on an annual basis by the Group for changes in cost estimates, discount rates or life of operations. Changes to estimated future costs are recognised in the balance sheet by adjusting the mine closure cost liability and the related asset originally recognised. If, for mature mines, the revised mine assets net of mine closure cost provisions exceed the recoverable value, the portion of the increase is charged directly as an expense. For closed sites, changes to estimated costs are recognised immediately in profit or loss.

(k) Employee benefits

The Group operates the following plans:

Defined benefit pension plan
This funded plan is based on each employee's earnings and years of service. This plan was open to all employees in Mexico until it was closed to new entrants on 1 July 2007. The plan is denominated in Mexican Pesos. For members as at 30 June 2007, benefits were frozen at that date subject to indexation with reference to the Mexican National Consumer Price Index (NCPI).

The cost of providing benefits under the defined benefit plan is determined using the projected unit credit actuarial valuation method and prepared by an external actuarial firm as at each year-end balance sheet date. The discount rate is the yield on bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid. Actuarial gains or losses are recognised in OCI and permanently excluded from profit or loss.

Past service costs are recognised as an expense on a straight-line basis over the average period until the benefits become vested. If the benefits have already vested following the introduction of, or changes to, a pension plan, the past service cost is recognised immediately.

The defined benefit asset or liability comprises the present value of the defined benefit obligation less the fair value of plan assets out of which the obligations are to be settled directly. The value of any asset is restricted to the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

Net interest cost is recognised in finance cost and return on plan assets (other than amounts reflected in net interest cost) is recognised in OCI and permanently excluded from profit or loss.

Defined contribution pension plan
A defined contribution plan is a post-employment benefit plan under which the Group pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in profit or loss when they are due. The contributions are based on the employee's salary.

This plan started on 1 July 2007 and it is voluntary for all employees to join this scheme.

Seniority premium for voluntary separation
This unfunded plan corresponds to an additional payment over the legal seniority premium equivalent to approximately 12 days of salary per year for those unionised workers who have more than 15 years of service. Non-unionised employees with more than 15 years of service have the right to a payment equivalent to 12 days for each year of service. For both cases, the payment is based on the legal current minimum salary.

The cost of providing benefits for the seniority premium for voluntary separation is determined using the projected unit credit actuarial valuation method and prepared by an external actuarial firm as at each year-end balance sheet date. Actuarial gains or losses are recognised as income or expense in the period in which they occur.

Other
Benefits for death and disability are covered through insurance policies.

Termination payments for involuntary retirement (dismissals) are charged to the income statement, when incurred.

(l) Employee profit sharing

In accordance with the Mexican legislation, companies in Mexico are subject to pay for employee profit sharing ('PTU') equivalent to ten percent of the taxable income of each fiscal year.

PTU is accounted for as employee benefits and is calculated based on the services rendered by employees during the year, considering their most recent salaries. The liability is recognised as it accrues and is charged to the income statement. PTU, paid in each fiscal year, is considered deductible for income tax purposes.

(m) Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date including whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

a) There is a change in contractual terms, other than a renewal or extension of the arrangement;
b) A renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
c) There is a change in the determination of whether fulfilment is dependent on a specified asset; or
d) There is a substantial change to the asset.

Group as a lessee
Finance leases which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset, or if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are reflected in the income statement.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

Group as a lessor
Leases where the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Where a reassessment is made, lease accounting commences or ceases from the date when the change in circumstances gave rise to the reassessment for scenarios a), c) or d) and at the date of renewal or extension period for scenario b) above.

For arrangements entered into prior to 1 January 2005, the date of inception is deemed to be 1 January 2007, in accordance with the transitional requirements of IFRIC 4.

(n) Revenue from contracts with customers

Revenue is recognised when control of goods or services transfers to the customer based on the performance obligations settle in the contracts with customers.

Sale of goods
Revenue associated with the sale of concentrates, precipitates and doré bars is 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.

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

Refining and treatment charges under the sales contracts are deducted from revenue from sales of concentrates as these are not related to a distinct good or service.

(o) Exploration expenses

Exploration activity involves the search for mineral resources, the determination of technical feasibility and the assessment of commercial viability of an identified resource.

Exploration expenses are charged to the income statement as incurred and are recorded in the following captions:

- Cost of sales: costs relating to in-mine exploration, that ensure continuous extraction quality and extend mine life, and
- Exploration expenses:
  - Costs incurred in geographical proximity to existing mines in order to replenish or increase reserves, and
  - Costs incurred in regional exploration with the objective of locating new ore deposits in Mexico and Latin America and which are identified by project. Costs incurred are charged to the income statement until there is sufficient probability of the existence of economically recoverable minerals and a feasibility study has been performed for the specific project.

(p) Selling expenses

The Group recognises in selling expenses a levy in respect of the Extraordinary Mining Right as sales of gold and silver are recognised. The Extraordinary Mining Right consists of a 0.5% rate, applicable to the owners of mining titles. The payment must be calculated over the total sales of all mining concessions. The payment of this mining right must be remitted no later than the last business day of March of the following year and can be credited against corporate income tax.

The Group also recognises in selling expenses a discovery premium royalty equivalent to 1% of the value of the mineral extracted and sold during the year from certain mining titles granted by the Mexican Geological Survey (SGM) in the San Julian mine. The premium is settled to SGM on a quarterly basis.

(q) Taxation

Current income tax
Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the country the Group operates.

Deferred income tax
Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences, except:

– where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of transaction, affects neither the accounting profit nor taxable profit loss; and

– in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

– where the deferred income tax asset relating to deductible temporary differences arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

– in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax relating to items recognised directly in other comprehensive income is recognised in equity and not in the income statement.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Mining Rights

The Special Mining Right is considered an income tax under IFRS and states that the owners of mining titles and concessions are subject to pay an annual mining right of 7.5% of the profit derived from the extractive activities (See note 10 (e)). The Group recognises deferred tax assets and liabilities on temporary differences arising in the determination of the Special Mining Right (See note 10).

Sales tax
Expenses and assets are recognised net of the amount of sales tax, except:

– When the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable;

– When receivables and payables are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

(r) Derivative financial instruments and hedging

The Group uses derivatives to reduce certain market risks derived from changes in foreign exchange and commodities price which impact its financial and business transactions. Hedges are designed to protect the value of expected production against the dynamic market conditions.

Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. The full fair value of a derivative is classified as non-current asset or liability if the remaining maturity of the item is more than 12 months.

Any gains or losses arising from changes in fair value on derivatives during the year that do not qualify for hedge accounting are taken directly to the income statement.

Derivatives are valued using valuation approaches and methodologies (such as Black Scholes and Net Present Value) applicable to the specific type of derivative instrument. The fair value of forward currency and commodity contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles, European foreign exchange options are valued using the Black Scholes model. The Silverstream contract is valued using a Net Present Value valuation approach.

Beginning 1 January 2018, the documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

• There is 'an economic relationship' between the hedged item and the hedging instrument.

• The effect of credit risk does not 'dominate the value changes' that result from that economic relationship.

• The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

Hedges which meet the criteria for hedge accounting are accounted for as follows:

Cash flow hedges

For derivatives that are designated and qualify as cash flow hedges, the effective portion of changes in the fair value of derivative instruments are recorded as in other comprehensive income and are transferred to the income statement when the hedged transaction affects profit or loss, such as when a forecast sale or purchase occurs. For gains or losses related to the hedging of foreign exchange risk these are included, in the line item in which the hedged costs are reflected. Where the hedged item is the cost of a non-financial asset or liability, the amounts recognised in other comprehensive income are transferred to the initial carrying amount of the non-financial asset or liability. This is not a reclassification adjustment and will not be recognised in OCI for the period. The ineffective portion of changes in the fair value of cash flow hedges is recognised directly as finance costs, in the income statement of the related period.

If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, any cumulative gain or loss recognised directly in other comprehensive income from the period that the hedge was effective remains separately in other comprehensive income until the forecast transaction occurs, when it is recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the income statement.

When hedging with options, the Group designates only the intrinsic value movement of the hedging option within the hedge relationship. The time value of the option contracts is therefore excluded from the hedge designation. In such cases, changes in the time value of options are initially recognised in OCI as a cost of hedging. Where the hedged item is transaction related, amounts initially recognised in OCI related to the change in the time value of options are reclassified to profit or loss or as a basis adjustment to non-financial assets or liabilities upon maturity of the hedged item, or, in the case of a hedged item that realises over time, the amounts initially recognised in OCI are amortised to profit or loss on a systematic and rational basis over the life of the hedged item.

(s) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes 12 or more months to get ready for its intended use or sale (a qualifying asset) are capitalised as part of the cost of the respective asset. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Where funds are borrowed specifically to finance a project, the amount capitalised represents the actual borrowing costs incurred. Where surplus funds are available for a short term from funds borrowed specifically to finance a project, the income generated from the temporary investment of such amounts is also capitalised and deducted from the total capitalised borrowing cost. Where the funds used to finance a project form part of general borrowings, the amount capitalised is calculated using a weighted average of rates applicable to relevant general borrowings of the Group during the period.

All other borrowing costs are recognised in the income statement in the period in which they are incurred.

(t) Fair value measurement

The Group measures financial instruments at fair value at each balance sheet date. Fair values of financial instruments measured at amortised cost are disclosed in notes 29 and 30.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

– In the principal market for the asset or liability, or

– In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to the Group.

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

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

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

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

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

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

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

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

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above. Further information on fair values is described in note 29.

(u) Dividend distribution

Dividends payable to the Company's shareholders are recognised as a liability when these are approved by the Company's shareholders or Board as appropriate. Dividends payable to minority shareholders are recognised as a liability when these are approved by the Company's subsidiaries.

3. Segment reporting

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

At 31 December 2018, the Group has seven reportable operating segments as follows:

– The Fresnillo mine, located in the state of Zacatecas, an underground silver mine;
– The Saucito mine, located in the state of Zacatecas, an underground silver mine;
– The Ciénega mine, located in the state of Durango, an underground gold mine; including the San 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; and
– The Noche Buena mine, located in state of Sonora, a surface gold mine.
– 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.

Management monitors the results of its operating segments separately for the purpose of performance assessment and making decisions about resource allocation. Segment performance is evaluated without taking into account certain adjustments included in Revenue as reported in the consolidated income statement, and certain costs included within Cost of sales and Gross profit which are considered to be outside of the control of the operating management of the mines. The table below provides a reconciliation from segment profit to Gross profit as per the consolidated income statement. Other income and expenses included in the consolidated income statement are not allocated to operating segments. Transactions between reportable segments are accounted for on an arm's length basis similar to transactions with third parties.

In 2018 and 2017, substantially all revenue was derived from customers based in Mexico.

Operating segments

The following tables present revenue and profit information regarding the Group's operating segments for the year ended 31 December 2018 and 2017, respectively. Revenues for the year ended 31 December 2018 include those derived from contracts with costumers and other revenues, as showed in note 4.

										Year ended 31 December 2018
US$ thousands	**Fresnillo**	**Herradura**	**Cienega**	**Soledad-Dipolos[4]**	**Saucito**	**Noche Buena**	**San Julian**	**Other[5]**	**Adjustments and eliminations**	**Total**
Revenues:										
Third party[1]	333,009	607,073	172,922	-	436,491	210,994	341,714		1,582	2,103,785
Inter-Segment								85,101	(85,101)	-
Segment revenues	**333,009**	**607,073**	**172,922**	**-**	**436,491**	**210,994**	**341,714**	**85,101**	**(83,519)**	**2,103,785**
Segment Profit[2]	**211,530**	**322,985**	**79,154**	**-**	**274,505**	**85,903**	**176,518**	**65,690**	**(11,281)**	**1,205,004**
Depreciation and amortisation										(411,764)
Employee profit sharing										(12,512)
Gross profit as per the income statement										**780,728**
Capital expenditure[3]	121,146	116,002	72,895	-	148,440	50,209	83,129	76,848	-	668,669

1 Total third party revenues include treatment and refining charges amounting US$141.2 million. Adjustments and eliminations correspond to hedging gains (note 4).

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

3 Capital expenditure represents the cash outflow in respect of additions to property, plant and equipment, including mine development, construction of leaching pads, purchase of mine equipment and capitalised stripping activity, excluding additions relating to changes in the mine closure provision. Significant additions the construction of facilities at San Julian phase II, the second dynamic leaching plant at Herradura and the construction of the pyrites plant at Saucito.

4 During 2018, this segment did not operate due to the Bajio conflict (note 25).

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

										Year ended 31 December 2017
US$ thousands	Fresnillo	Herradura	Cienega	Soledad-Dipolos[4]	Saucito	Noche Buena	San Julian	Other[5]	Adjustments and eliminations	Total
Revenues:										
Third party[1]	368,286	605,823	183,689	-	446,008	214,998	274,504	-	-	2,093,308
Inter-Segment								79,907	(79,907)	-
Segment revenues	**368,286**	**605,823**	**183,689**	**-**	**446,008**	**214,998**	**274,504**	**79,907**	**(79,907)**	**2,093,308**
Segment Profit[2]	**252,249**	**355,570**	**97,098**	**2,269**	**315,196**	**75,496**	**174,712**	**59,878**	**(22,966)**	**1,309,502**
Depreciation and amortisation										(367,609)
Employee profit sharing										(16,488)
Gross profit as per the income statement										**925,405**
Capital expenditure[3]	111,724	153,200	46,461	-	133,679	18,748	79,069	61,870	-	604,751

1 Total third party revenues include treatment and refining charges amounting US$139.9 million.

2 Segment profit excluding depreciation and amortisation and employee profit sharing. During 2017 there were no foreign exchange hedging losses included in Gross profit.

3 Capital expenditure represents the cash outflow in respect of additions to property, plant and equipment, including mine development, construction of leaching pads, purchase of mine equipment and capitalised stripping activity, excluding additions relating to changes in the mine closure provision. Significant additions the construction of facilities at San Julian phase II, the second dynamic leaching plant at Herradura and the construction of the pyrites plant at Saucito.

4 During 2017, this segment did not operate due to the Bajio conflict (note 25). Segment profit is derived from the changes in the net realisable value allowance against inventory (note 14).

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

4. Revenues

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

(a) Revenues by source

	Year ended 31 December	
	2018 US$ thousands	2017 US$ thousands
Revenues from contracts with customers	2,102,694	2,084,048
Revenues from other sources:		
Provisional pricing adjustment on products sold	(491)	9,260
Hedging gain on sales	1,582	-
	2,103,785	**2,093,308**

(b) Revenues by product sold

	Year ended 31 December	
	2018 US$ thousands	2017 US$ thousands
Lead concentrates (containing silver, gold, lead and by-products)	804,882	832,039
Doré and slag (containing gold, silver and by-products)	818,067	820,821
Zinc concentrates (containing zinc, silver and by-products)	249,182	195,837
Precipitates (containing gold and silver)	231,654	244,611
	2,103,785	**2,093,308**

All lead concentrates, precipitates, doré and slag, were sold to Peñoles' metallurgical complex, Met-Mex, for smelting and refining.

(c) Value of metal content in products sold

For products other than refined silver and gold, invoiced revenues are derived from the value of metal content adjusted by treatment and refining charges incurred by the metallurgical complex of the customer. The value of the metal content of the products sold, before treatment and refining charges is as follows:

	Year ended 31 December	
	2018 US$ thousands	2017 US$ thousands
Silver	815,837	844,815
Gold	1,118,087	1,125,290
Zinc	204,499	161,305
Lead	106,536	101,826
Value of metal content in products sold	2,244,959	2,233,236
Adjustment for treatment and refining charges	(141,174)	(139,928)
Total revenues[1]	**2,103,785**	**2,093,308**

1 Includes provisional price adjustments which represent changes in the fair value of trade receivables resulting in a loss of US$0.5 million (2017: gain of US$9.2 million due to changes in the fair value of embedded derivatives arising on provisional pricing in sales contracts) and hedging gain of US$1.6 million (2017: nil). For further detail, refer to note 2(n).

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

	Year ended 31 December	
	2018 US$ per ounce	2017 US$ per ounce
Gold[2]	1,269.1	1,267.4
Silver[2]	15.5	16.9

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

5. Cost of sales

	Year ended 31 December	
	2018 **US$ thousands**	2017 US$ thousands
Depreciation and amortisation (notes 2 (e) and 12)	411,764	367,609
Personnel expenses (note 7)	94,653	89,629
Maintenance and repairs	150,021	115,670
Operating materials	191,954	153,221
Energy	176,333	144,298
Contractors	291,970	233,909
Freight	11,633	10,545
Insurance	4,956	4,786
Mining concession rights and contributions	13,271	11,589
Other	29,680	22,043
Cost of production	1,376,235	1,153,299
Change in work in progress and finished goods (ore inventories) [1]	(53,178)	16,873
Change in net realisable value allowance against inventory (note 14)	-	(2,269)
	1,323,057	**1,167,903**

1 Refer to note 2 (c) for more detail related to change in work in progress inventories for the year ended 31 December 2018 following a change in estimations.

6. Exploration expenses

	Year ended 31 December	
	2018 **US$ thousands**	2017 US$ thousands
Contractors	127,734	105,778
Administrative services	6,734	6,818
Mining concession rights and contributions	23,441	15,056
Personnel expenses (note 7)	4,137	4,260
Assays	3,615	2,850
Rentals	1,378	2,329
Other	5,760	4,017
	172,799	**141,108**

These exploration expenses were mainly incurred in areas of the Fresnillo, Herradura, La Ciénega, Saucito and San Julian mines, the San Ramon satellite mine and Orysivo, Guanajuato, Centauro Deep, San Javier and Carina projects. In addition, exploration expenses of US$6.3 million (2017: US$8.3 million) were incurred in the year on projects located in Peru and Chile.

The following table sets forth liabilities (generally trade payables) corresponding to exploration activities of the Group companies engaged only in exploration, principally Exploraciones Mineras Parreña, S.A. de C.V.

	Year ended 31 December	
	2018 **US$ thousands**	2017 US$ thousands
Liabilities related to exploration activities	112	1,947

The liabilities related to exploration activities recognised by the Group operating companies are not included since it is not possible to separate the liabilities related to exploration activities of these companies from their operating liabilities.

Cash flows relating to exploration activities are as follows:

	Year ended 31 December	
	2018 **US$ thousands**	2017 US$ thousands
Operating cash out flows related to exploration activities	174,634	140,804

7. Personnel expenses

	Year ended 31 December	
	2018 **US$ thousands**	2017 US$ thousands
Salaries and wages	46,542	39,448
Employees' profit sharing	13,003	17,150
Bonuses	12,367	12,112
Statutory healthcare and housing contributions	17,976	16,057
Other benefits	10,682	8,704
Vacations and vacations bonus	2,870	2,636
Social security	2,369	1,862
Post-employment benefits[1]	4,026	4,224
Legal contributions	2,190	1,608
Training	3,033	3,834
Other	7,404	8,852
	122,462	**116,487**

1 Post- employment benefits include US$0.6 million associated to benefits corresponding to the defined contribution plan (2017: US$0.4 million).

(a) Personnel expenses are reflected in the following line items:

	Year ended 31 December	
	2018 **US$ thousands**	2017 US$ thousands
Cost of sales (note 5)	94,653	89,629
Administrative expenses	23,672	20,109
Exploration expenses (note 6)	4,137	6,749
	122,462	**116,487**

(b) The monthly average number of employees during the year was as follows:

	Year ended 31 December	
	2018 **No.**	2017 No.
Mining	2,236	1,994
Plant concentration	752	602
Exploration	480	501
Maintenance	1,035	865
Administration and other	658	936
Total	**5,161**	**4,898**

8. Other operating income and expenses

	Year ended 31 December	
	2018 **US$ thousands**	2017 US$ thousands
Other income:		
Gain on sale of property, plant and equipment[1]	-	25,333
Insurance recovery[2]	9,245	-
Other	2,458	2,870
	11,703	**28,203**

	Year ended 31 December	
	2018 **US$ thousands**	2017 US$ thousands
Other expenses:		
Rentals	184	229
Maintenance[3]	1,278	1,858
Donations	1,313	2,540
Environmental activities	1,216	1,790
Loss on sale of property, plant and equipment	999	-
Consumption tax expensed	655	1,031
Impairment available-for-sale financial assets	-	36
Other	2,715	3,887
	8,360	**11,371**

1 Mainly corresponds to a sale of a certain mining concession from the Fresnillo district to a third party for a consideration of US$26.0 million, resulting in a gain of US$24.8 million.

2 Corresponds to a partial reimbursement for the insurance claim relating to Saucito's flood see Note 26 for further detail.

3 Costs relating to the rehabilitation of the facilities of Compañía Minera las Torres, S.A. de C.V. (a closed mine).

9. Finance income and finance costs

	Year ended 31 December	
	2018 **US$ thousands**	2017 US$ thousands
Finance income:		
Interest on short-term deposits and investments	15,584	11,368
Other	4,788	3,208
	20,372	**14,576**

	Year ended 31 December	
	2018 **US$ thousands**	2017 US$ thousands
Finance costs:		
Interest on interest-bearing loans	36,258	35,808
Fair value movement on derivatives[1]	274	41,389
Unwinding of discount on provisions	10,044	11,703
Other	3,434	753
	50,010	**89,653**

1 The 2017 figure principally relates to the time value associated with gold commodity options (see note 29 for further detail). During 2018 this effect was recognised within other comprehensive income (see note 2 (b)).

10. Income tax expense

a) Major components of income tax expense:

	Year ended 31 December	
	2018 US$ thousands	2017 US$ thousands
Consolidated income statement:		
Corporate income tax		
Current:		
Income tax charge	156,715	155,692
Amounts under provided in previous years	11,774	8,676
	168,489	164,368
Deferred:		
Origination and reversal of temporary differences	(52,327)	(45,003)
Revaluation effects of Silverstream contract	4,487	34,097
	(47,840)	(10,906)
Corporate income tax	**120,649**	**153,462**
Special mining right		
Current:		
Special mining right charge[1]	10,860	19,415
	10,860	19,415
Deferred:		
Origination and reversal of temporary differences	2,455	7,805
Special mining right	**13,315**	**27,220**
Income tax expense reported in the income statement	**133,964**	**180,682**

1. The special mining right "SMR" allows the deduction of payments of mining concessions rights up to the amount of SMR payable within the same legal entity. During the fiscal year ended 31 December 2018, the Group credited US$17.3 million (2017: US$15.7 million) of mining concession rights against the SMR. Total mining concessions rights paid during the year were US$22.2 million (2017: US$16.3 million) and have been recognised in the income statement within cost of sales and exploration expenses. Mining concessions rights paid in excess of the SMR cannot be credited to SMR in future fiscal periods, and therefore no deferred tax asset has been recognised in relation to the excess. Without regards to credits permitted under the SMR regime, the current special mining right charge would have been US$28.1 million (2017: US$35.1 million).

	Year ended 31 December	
	2018 US$ thousands	2017 US$ thousands
Consolidated statement of comprehensive income:		
Deferred income tax credit/(charge) related to items recognised directly in other comprehensive income:		
Gain on cash flow hedges recycled to income statement	(388)	-
Changes in fair value of cash flow hedges	(4,224)	-
Changes in fair value of available-for-sale financial assets	20,327	(2,653)
Remeasurement losses on defined benefit plans	(415)	(148)
Income tax effect reported in other comprehensive income	**15,300**	**(2,801)**

(b) Reconciliation of the income tax expense at the Group's statutory income rate to income tax expense at the Group's effective income tax rate:

	Year ended 31 December	
	2018 US$ thousands	2017 US$ thousands
Accounting profit before income tax	**483,930**	**741,489**
Tax at the Group's statutory corporate income tax rate 30.0%	145,179	222,446
Expenses not deductible for tax purposes	2,454	2,562
Inflationary uplift of the tax base of assets and liabilities	(16,599)	(20,011)
Current income tax (over)/underprovided in previous years	(4,807)	472
Exchange rate effect on tax value of assets and liabilities[1]	(778)	(9,934)
Non-taxable/non-deductible foreign exchange losses	1,255	(4,242)
Inflationary uplift of tax losses	(2,909)	(5,084)
IEPS tax credit (note 10 (e))	(7,012)	(26,181)
Deferred tax asset not recognised	6,571	4,461
Special mining right deductible for corporate income tax	(3,992)	(8,165)
Other	1,287	(2,862)
Corporate income tax at the effective tax rate of 24.9% (2017: 20.7%)	**120,649**	**153,462**
Special mining right	13,315	27,220
Tax at the effective income tax rate of 27.6% (2017: 24.4%)	**133,964**	**180,682**

1 Mainly derived from the tax value of property, plant and equipment.

(c) Movements in deferred income tax liabilities and assets:

	Year ended 31 December	
	2018 US$ thousands	2017 US$ thousands
Opening net liability	(442,727)	(443,027)
Income statement credit arising on corporate income tax	47,840	10,906
Income statement charge arising on special mining right	(2,455)	(7,805)
Exchange difference	-	-
Net credit/(charge) related to items directly charged to other comprehensive income	15,300	(2,801)
Closing net liability	**(382,042)**	**(442,727)**

The amounts of deferred income tax assets and liabilities as at 31 December 2018 and 2017, considering the nature of the related temporary differences, are as follows:

	Consolidated balance sheet		Consolidated income statement	
	2018 US$ thousands	2017 US$ thousands	**2018 US$ thousands**	2017 US$ thousands
Related party receivables	(220,131)	(221,451)	(1,320)	22,270
Other receivables	1,315	(2,171)	(3,486)	(1,554)
Inventories	188,119	162,842	(25,277)	271
Prepayments	(1,035)	(898)	137	(923)
Derivative financial instruments including Silverstream contract	(150,205)	(147,535)	(1,942)	12,551
Property, plant and equipment arising from corporate income tax	(330,722)	(341,774)	(11,052)	(9,551)
Exploration expenses and operating liabilities	50,691	44,121	(6,570)	(19,818)
Other payables and provisions	57,303	55,379	(1,924)	(10,646)
Losses carried forward	67,059	68,213	1,154	(1,870)
Post-employment benefits	1,016	1,465	34	220
Deductible profit sharing	3,807	4,249	442	(344)
Special mining right deductible for corporate income tax	29,321	30,661	1,340	(1,561)
Equity investments at FVOCI	3,510	-	-	-
Available-for-sale financial assets		(16,818)	-	2,643
Other	(4,396)	(3,772)	624	(2,594)
Net deferred tax liability related to corporate income tax	(304,348)	(367,489)		
Deferred tax credit related to corporate income tax	-	-	(47,840)	(10,906)
Related party receivables arising from special mining right	(20,161)	(21,379)	(1,218)	2,616
Inventories arising from special mining right	13,746	11,107	(2,639)	(2,831)
Property plant and equipment arising from special mining right	(71,279)	(64,966)	6,312	8,020
Net deferred tax liability	**(382,042)**	**(442,727)**		
Deferred tax credit			**(45,385)**	**(3,101)**
Reflected in the statement of financial position as follows:				
Deferred tax assets	88,883	48,950		
Deferred tax liabilities-continuing operations	(470,925)	(491,677)		
Net deferred tax liability	**(382,042)**	**(442,727)**		

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to the same fiscal authority.

On the basis of management's internal forecast, a deferred tax asset has been recognised in respect of tax losses amounting to US$223.5 million (2017: US$227.4 million). If not utilised, US$37.6 million (2017: US$13.7 million) will expire within five years and US$185.9 million (2017: US$213.6 million) will expire between six and ten years.

The Group has further tax losses and other similar attributes carried forward of US$42.2 million (2017: US$37.4 million) on which no deferred tax is recognised due to insufficient certainty regarding the availability of appropriate future taxable profits.

(d) Unrecognised deferred tax on investments in subsidiaries

The Group has not recognised all of the deferred tax liability in respect of distributable reserves of its subsidiaries because it controls them and only part of the temporary differences are expected to reverse in the foreseeable future. The temporary differences for which a deferred tax liability has not been recognised aggregate to US$1,430 million (2017: US$1,723 million).

(e) Corporate Income Tax ('Impuesto Sobre la Renta' or 'ISR') and Special Mining Right ("SMR")

The Group's principal operating subsidiaries are Mexican residents for taxation purposes. The rate of current corporate income tax is 30%.

During 2016 the Mexican Internal Revenue Law granted to taxpayers a credit in respect of an excise tax (Special Tax on Production and Services, or IEPS for its acronym in Spanish) paid when purchasing diesel used for general machinery and certain mining vehicles. The credit can be applied against either the Group's own corporate income tax or the income tax withheld from third parties. The credit is calculated on an entity-by-entity basis and expires one year after the purchase of the diesel. In the year ended 31 December 2018, the Group applied a credit of US$14.9 million in respect of the year (2017: US$23.2 million), which was offset by an adjustment in respect of prior years of US$7.8 million (2017: nil). Additionally, as at 31 December 2017 the Group recognised a deferred tax asset US$2.9 million in respect of the IEPS incurred in 2017 and expected to be applied during 2018. As the IEPS deduction is itself taxable, the deferred tax asset is recognised at 70% of the IEPS carried forward. The net amount applied by the Group is presented in the reconciliation of the effective tax rate in note 10(b).

The SMR states that the owners of mining titles and concessions are subject to pay an annual mining right of 7.5% of the profit derived from the extractive activities and is considered as income tax under IFRS. The SMR allows as a credit the payment of mining concessions rights up to the amount of SMR payable. The 7.5% tax applies to a base of income before interest, annual inflation adjustment, taxes paid on the regular activity, depreciation and amortization, as defined by the new ISR. This SMR can be credited against the corporate income tax of the same fiscal year and its payment must be remitted no later than the last business day of March of the following year.

11. Earnings per share

Earnings per share ('EPS') is calculated by dividing profit for the year attributable to equity shareholders of the Company by the weighted average number of Ordinary Shares in issue during the period.

The Company has no dilutive potential Ordinary Shares.

As of 31 December 2018 and 2017, earnings per share have been calculated as follows:

	Year ended 31 December	
	2018 US$ thousands	2017 US$ thousands
Earnings:		
Profit from continuing operations attributable to equity holders of the Company	349,846	560,578
Adjusted profit from continuing operations attributable to equity holders of the Company	339,377	481,019

Adjusted profit is profit as disclosed in the Consolidated Income Statement adjusted to exclude revaluation effects of the Silverstream contract of US$14.9 million gain (US$10.4 million net of tax) (2017: US$113.6 million gain (US$79.5 million net of tax)).

Adjusted earnings per share have been provided in order to provide a measure of the underlying performance of the Group, prior to the revaluation effects of the Silverstream contract, a derivative financial instrument.

	2018 thousands	2017 thousands
Number of shares:		
Weighted average number of Ordinary Shares in issue	736,984	736,894

	2018 US$	2017 US$
Earnings per share:		
Basic and diluted earnings per share	0.475	0.761
Adjusted basic and diluted earnings per Ordinary Share from continuing operations	0.461	0.653

12. Property, plant and equipment

	Land and buildings	Plant and Equipment	Mining properties and development costs	Other assets	Construction in Progress	Total
						Year ended 31 December 2017
						US$ thousands
Cost						
At 1 January 2017	243,975	1,635,586	1,508,016	193,905	499,285	**4,080,767**
Additions	3,079	5,464	46,558	27,187[2]	567,856	**650,144**
Disposals	-	(9,584)	(4,415)	(1,611)	-	**(15,610)**
Transfers and other movements	14,751	186,125	359,226	35,984	(596,086)	**-**
At 31 December 2017	261,805	1,817,591	1,909,385	255,465	471,055	**4,715,301**
Accumulated depreciation						
At 1 January 2017	(90,586)	(895,367)	(822,434)	(92,163)	-	**(1,900,550)**
Depreciation for the year[1]	(21,462)	(165,502)	(179,891)	(14,061)		**(380,916)**
Disposals		9,410	4,412	939		**14,761**
At 31 December 2017	(112,048)	(1,051,459)	(997,913)	(105,285)	-	**(2,266,705)**
Net Book amount at 31 December 2017	149,757	766,132	911,472	150,180	471,055	**2,448,596**

	Land and buildings	Plant and Equipment	Mining properties and development costs	Other assets	Construction in Progress	Total
						Year ended 31 December 2018
						US$ thousands
Cost						
At 1 January 2018	261,805	1,817,591	1,909,385	255,465	471,055	**4,715,301**
Additions	1,928	76,424	69	546	586,840	**665,807**
Disposals	-	(9,768)	(2,386)	(1,749)		**(13,903)**
Transfers and other movements	19,566	248,356	269,336	22,469	(559,727)	**-**
At 31 December 2018	283,299	2,132,603	2,176,404	276,731	498,168	**5,367,205**
Accumulated depreciation						
At 1 January 2018	(112,048)	(1,051,459)	(997,913)	(105,285)		**(2,266,705)**
Depreciation for the year[1]	(24,130)	(166,204)	(208,807)	(20,878)		**(420,019)**
Disposals	-	9,159	1,881	1,583		**12,623**
At 31 December 2018	(136,178)	(1,208,504)	(1,204,839)	(124,580)		**(2,674,101)**
Net Book amount at 31 December 2018	147,121	924,099	971,565	152,151	498,168	**2,693,104**

1 Depreciation for the year includes US$411.8 million (2017: US$367.7 million) recognised as an expense in cost of sales in the income statement and US$8.3 million (2017: US$13.3 million), capitalised as part of construction in progress.

2 From the additions in "other assets" category US$(4.5) million (2017: US$24.1 million) corresponds to the reassessment of mine closure rehabilitations costs, see note 20.

The table below details construction in progress by operating mine

	Year ended 31 December	
	2018 US$ thousands	2017 US$ thousands
Saucito	88,916	101,885
Herradura	70,536	98,401
Noche Buena	20,834	12,028
Ciénega	47,838	29,039
Fresnillo	48,671	30,641
San Julián	64,236	53,383
Other[1]	157,137	145,678
	498,168	**471,055**

1 Manly corresponds to Juanicipio development project (2017: Juanicipio development project and Minera Bermejal, S.A. de C.V.).

During the year ended 31 December 2018, the Group capitalised US$11.1 million of borrowing costs within construction in progress (2017: US$11.4). Borrowing costs were capitalised at the rate of 5.78% (2017: 5.78%).

Sensitivity analysis

As at 31 December 2018 and 2017, the carrying amount of mining assets was fully supported by the higher of value in use and fair value less cost of disposal (FVLCD) computation of their recoverable amount. Value in use and FVLCD was determined based on the net present value of the future estimated cash flows expected to be generated from the continued use of the CGUs. For both valuation approaches management used long term price assumptions of US$1,310/ounce and US$19.25/ounce (2017: US$1,300/ounce and US$19/ounce) for gold and silver, respectively. Management considers that the models supporting the carrying amounts are most sensitive to commodity price assumptions and have therefore performed a sensitivity analysis for those CGUs, where a reasonable possible change in prices could lead to impairment. Management has considered a low sensitivity by decreasing gold and silver prices by 5% (2017: gold and silver 5%) and a high sensitivity by decreasing gold and silver prices by 10% and 15% respectively (2017: gold and silver 10%). As at 31 December 2018 the analysis resulted in an impairment on Herradura of US$302.7 million under high sensitivity; US$72.3 million under low sensitivity and San Julian US$159.3 million under high sensitivity; US$45.4 million under low sensitivity (2017: nil for Herradura and San Julian).

13. Silverstream contract

On 31 December 2007, the Group entered into an agreement with Peñoles through which it is entitled to receive the proceeds received by the Peñoles Group in respect of the refined silver sold from the Sabinas Mine ('Sabinas'), a base metals mine owned and operated by the Peñoles Group, for an upfront payment of US$350 million. In addition, a per ounce cash payment of $2.00 in years one to five and $5.00 thereafter (subject to an inflationary adjustment that commenced from 31 December 2013) is payable to Peñoles. The cash payment per ounce for the year ended 31 December 2018 was $5.26 per ounce (2017: $5.20 per ounce). Under the contract, the Group has the option to receive a net cash settlement from Peñoles attributable to the silver produced and sold from Sabinas, to take delivery of an equivalent amount of refined silver or to receive settlement in the form of both cash and silver. If, by 31 December 2032, the amount of silver produced by Sabinas is less than 60 million ounces, a further payment is due from Peñoles of US$1 per ounce of shortfall.

The Silverstream contract represents a derivative financial instrument which has been recorded at FVPL and classified within non-current and current assets as appropriate. The term of the derivative is based on Sabinas life of mine which is currently 35 years. Changes in the contract's fair value, other than those represented by the realisation of the asset through the receipt of either cash or refined silver, are charged or credited to the income statement. In the year ended 31 December 2018 total proceeds received in cash were US$36.3 million (2017: US$43.3 million) of which, US$4.9 million was in respect of proceeds receivable as at 31 December 2017 (2016: US$5.9 million). Cash received in respect of the year of US$31.3 million (2017: US$37.3 million) corresponds to 3.4 million ounces of payable silver (2017: 3.6 million ounces). As at 31 December 2018, a further US$3.4 million (2017: US$4.9 million) of cash receivable corresponding to 335,914 ounces of silver is due (2017: 422,375 ounces)

The US$15.0 million unrealised gain recorded in the income statement (31 December 2017: US$113.6 million gain) resulted mainly from the unwinding of the discount and the updating of the Sabinas long term mine plan, which were partially compensated by the increase in the LIBOR reference rate and the decrease in the forward silver price.

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

	2018 US$ thousands	2017 US$ thousands
Balance at 1 January:	538,887	467,529
Cash received in respect of the year	(31,379)	(37,373)
Cash receivable	(3,371)	(4,925)
Remeasurement gains recognised in profit and loss	14,956	113,656
Balance at 31 December	519,093	538,887
Less – Current portion	20,819	32,318
Non-current portion	498,274	506,569

See note 29 for further information on the inputs that have a significant effect on the fair value of this derivative, see note 30 for further information relating to market and credit risks associated with the Silverstream asset.

14. Inventories

	As at 31 December	
	2018 **US$ thousands**	2017 US$ thousands
Finished goods[1]	15,052	10,957
Work in progress[2]	235,094	175,016
Ore stockpile[3]	3,799	15,115
Operating materials and spare parts	87,180	75,331
	341,125	276,419
Allowance for obsolete and slow-moving inventories	(6,101)	(5,314)
Balance as 31 December at lower of cost and net realisable value	**335,024**	**271,105**
Less - Current portion	**243,404**	**179,485**
Non-current portion[4]	**91,620**	**91,620**

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

2 Work in progress includes metals contained in ores on leaching pads (note 2(c)).

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

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

Concentrates are a product containing sulphides with variable content of precious and base metals and are sold to smelters and/or refineries. Doré is an alloy containing a variable mixture of gold and silver that is delivered in bar form to refineries. This content once processed by the smelter and refinery is sold to customers in the form of refined products.

The amount of inventories recognised as an expense in the year was US$1,323.1 million (2017: US$1,170.1 million) before changes to the net realisable value of inventory. During the year there was no adjustment to net realisable value allowance against work-in-progress inventory (2017: US$2.2 million decrease). The adjustment to the allowance for obsolete and slow-moving inventory recognised as an expense was US$0.8 million (2017: US$1.04 million).

15. Trade and other receivables

	Year ended 31 December	
	2018 US$ thousands	2017 US$ thousands
Trade and other receivables from related parties (note 26)[1]	213,292	226,134
Value Added Tax receivable	182,290	85,979
Other receivables from related parties (note 26)	3,371	4,925
Other receivables from contractors	2,755	21,292
Other receivables	10,306	4,612
	412,014	342,942
Provision for impairment of 'other receivables'	(857)	(436)
Trade and other receivables classified as current assets	**411,157**	**342,506**
Other receivables classified as non-current assets:		
Loans granted to contractors	-	129
	-	**129**
	411,157	**342,635**

1 As of 31 December 2017 trade receivables from related parties includes the fair value of embedded derivatives arising due to provisional pricing in sales contracts of US$6.5 million.

Trade receivables are shown net of any corresponding advances, are non-interest bearing and generally have payment terms of 46 to 60 days.

The total receivables denominated in US$ were US$223.1 million (2017: US$242.3million), and in Mexican pesos US$187.2 million (2017: US$100.3 million).

As of 31 December for each year presented, with the exception of 'other receivables' in the table above, all trade and other receivables were neither past due nor impaired. The amount past due and considered as impaired as of 31 December 2018 is US$0.9 million (2017: US$0.4 million). In determining the recoverability of receivables, the Group performs a risk analysis considering the type and age of the outstanding receivable and the credit worthiness of the counterparty, see note 30(b).

16. Cash and cash equivalents

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

	As at 31 December	
	2018 US$ thousands	2017 US$ thousands
Cash at bank and on hand	2,125	4,265
Short-term deposits	558,660	871,769
Cash and cash equivalents	**560,785**	**876,034**

Cash at bank earns interest at floating rates based on daily bank deposits. Short-term deposits are made for varying periods of between one day and four months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates. Short-term deposits can be withdrawn at short notice without any penalty or loss in value.

17. Equity

Share capital and share premium

Authorised share capital of the Company is as follows:

	As at 31 December			
	2018		2017	
Class of share	Number	Amount	Number	Amount
Ordinary Shares each of US$0.50	1,000,000,000	$500,000,000	1,000,000,000	$500,000,000
Sterling Deferred Ordinary Shares each of £1.00	50,000	£50,000	50,000	£50,000

Issued share capital of the Company is as follows:

	Ordinary Shares		Sterling Deferred Ordinary Shares	
	Number	US$	Number	£
At 1 January 2017	736,893,589	$368,545,586	50,000	£50,000
At 31 December 2017	736,893,589	$368, 545,586	50,000	£50,000
At 31 December 2018	736,893,589	$368, 545,586	50,000	£50,000

As at 31 December 2018 and 2017, all issued shares with a par value of US$0.50 each are fully paid. The rights and obligations attached to these shares are governed by law and the Company's Articles of Association. Ordinary shareholders are entitled to receive notice and to attend and speak at any general meeting of the Company. There are no restrictions on the transfer of the Ordinary shares.

The Sterling Deferred Ordinary Shares only entitle the shareholder on winding up or on a return of capital to payment of the amount paid up after repayment to Ordinary Shareholders. The Sterling Deferred Ordinary Shares do not entitle the holder to payment of any dividend, or to receive notice or to attend and speak at any general meeting of the Company. The Company may also at its option redeem the Sterling Deferred Ordinary Shares at a price of £1.00 or, as custodian, purchase or cancel the Sterling Deferred Ordinary Shares or require the holder to transfer the Sterling Deferred Ordinary Shares. Except at the option of the Company, the Sterling Deferred Ordinary Shares are not transferrable.

Reserves

Share premium
This reserve records the consideration premium for shares issued at a value that exceeds their nominal value.

Capital reserve
The capital reserve arose as a consequence of the Pre-IPO Reorganisation as a result of using the pooling of interest method.

Hedging reserve
This reserve records the portion of the gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge, net of tax. When the hedged transaction occurs, the gain or the loss is transferred out of equity to the income statement or the value of other assets.

Cost of hedging reserve
The changes in the time value of option contracts are accumulated in the costs of hedging reserve. These deferred costs of hedging are either reclassified to profit or loss or recognised as a basis adjustment to non-financial assets or liabilities upon maturity of the hedged item, or, in the case of a hedge item that realises over time, amortised on a systematic and rational basis over the life of the hedged item.

Available-for-sale financial assets reserve
As at 31 December 2017 this reserve recorded fair value changes on available-for-sale investments, net of tax. On disposal or on impairment, the cumulative changes in fair value were recycled to the income statement. These assets were reclassified upon adoption of IFRS-9, for further detail see note 2 (b).

Fair value reserve of financial assets at FVOCI
The Group has elected to recognise changes in the fair value of certain investments in equity securities in OCI, as explained in note 2(b). These changes are accumulated within the FVOCI reserve within equity. The Group transfers amounts from this reserve to retained earnings when the relevant equity securities are derecognised.

Foreign currency translation reserve
The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial information of entities with a functional currency different to that of the presentational currency of the Group.

Retained earnings/accumulated losses
This reserve records the accumulated results of the Group, less any distributions and dividends paid.

18. Dividends declared and paid

The dividends declared and paid during the years ended 31 December 2018 and 2017 are as follows:

	US cents per Ordinary Share	Amount US$ thousands
Year ended 31 December 2018		
Final dividend for 2017 declared and paid during the year[1]	29.8	219,594
Interim dividend for 2018 declared and paid during the year[2]	10.7	78,848
	40.5	**298,442**
Year ended 31 December 2017		
Final dividend for 2016 declared and paid during the year[3]	21.5	158,432
Interim dividend for 2017 declared and paid during the year[4]	10.6	78,111
	32.1	**236,543**

1 This dividend was approved by the Board of Directors on 30 May 2018 and paid on 4 June 2018.

2 This dividend was approved by the Board of Directors on 3 September 2018 and paid on 7 September 2018.

3 This dividend was approved by the Board of Directors on 23 May 2017 and paid on 26 May 2017.

4 This dividend was approved by the Board of Directors on 31 July 2017 and paid on 8 September 2017.

19. Interest-bearing loans

Senior Notes

On 13 November 2013, the Group completed its offering of US$800 million aggregate principal amount of 5.500% Senior Notes due 2023 (the “Notes”).

Movements in the year in the debt recognised in the balance sheet are as follows:

	As at 31 December	
	2018 US$ thousands	2017 US$ thousands
Opening balance	799,046	798,027
Accrued interest	46,267	46,267
Interest paid[1]	(46,267)	(46,267)
Amortisation of discount and transaction costs	1,081	1,019
Closing balance	800,127	799,046

1 Accrued interest is payable semi-annually on 13 May and 13 November.

The Group has the following restrictions derived from the issuance of the Notes:

Change of control:

Should the rating of the senior notes be downgraded as a result of a change of control (defined as the sale or transfer of 35% or more of the common shares; the transfer of all or substantially all the assets of the Group; starting a dissolution or liquidation process; or the loss of the majority in the board of directors) the Group is obligated to repurchase the notes at an equivalent price of 101% of their nominal value plus the interest earnt at the repurchase date, if requested to do so by any creditor.

Pledge on assets:

The Group shall not pledge or allow a pledge on any property that may have a material impact on business performance (key assets). Nevertheless, the Group may pledge the aforementioned properties provided that the repayment of the Notes keeps the same level of priority as the pledge on those assets.

20. Provision for mine closure cost

The provision represents the discounted values of the estimated cost to decommission and rehabilitate the mines at the estimated date of depletion of mine deposits. Uncertainties in estimating these costs include potential changes in regulatory requirements, decommissioning, dismantling, reclamation alternatives, timing, and the discount, foreign exchange and inflation rates applied.

The Group has performed separate calculations of the provision by currency, discounting at corresponding rates. As at 31 December 2018, the discount rates used in the calculation of the parts of the provision that relate to Mexican pesos range from 7.12% to 8.55% (2017: range of 6.27% to 7.97%). The range for the current year parts that relate to US dollars range from 2.05% to 2.70% (2017: range of 1.37% to 2.22%).
Mexican regulations regarding the decommissioning and rehabilitation of mines are limited and less developed in comparison to regulations in many other jurisdictions. It is the Group's intention to rehabilitate the mines beyond the requirements of Mexican law, and estimated costs reflect this level of expense. The Group intends to fully rehabilitate the affected areas at the end of the life of the mines.

The provision is expected to become payable at the end of the production life of each mine, based on the reserves and resources, which ranges from 3 to 25 years from 31 December 2018 (3 to 27 years from 31 December 2017). As at 31 December 2018 the weighted average term of the provision is 12 years (2017:13 years)

	As at 31 December	
	2018 US$ thousands	2017 US$ thousands
Opening balance	**184,775**	**149,109**
Increase to existing provision	9,758	1,024
Effect of change in estimation	-	19,678
Effect of changes in discount rate	(14,279)	(281)
Unwinding of discount	10,065	11,729
Payments	(545)	(131)
Foreign exchange	68	3,647
Closing balance	**189,842**	**184,775**

21. Pensions and other post-employment benefit plans

The Group has a defined contribution plan and a defined benefit plan.

The defined contribution plan was established as from 1 July 2007 and consists of periodic contributions made by each non-unionised worker and contributions made by the Group to the fund matching workers' contributions, capped at 8% of the employee's annual salary.

The defined benefit plan provides pension benefits based on each worker's earnings and years of services provided by personnel hired through 30 June 2007 as well as statutory seniority premiums for both unionised and non-unionised workers.

The overall investment policy and strategy for the Group's defined benefit plan is guided by the objective of achieving an investment return which, together with contributions, ensures that there will be sufficient assets to pay pension benefits and statutory seniority premiums for non-unionised workers as they fall due while also mitigating the various risks of the plan. However, the portion of the plan related to statutory seniority premiums for unionised workers is not funded. The investment strategies for the plan are generally managed under local laws and regulations. The actual asset allocation is determined by current and expected economic and market conditions and in consideration of specific asset class risk in the risk profile. Within this framework, the Group ensures that the trustees consider how the asset investment strategy correlates with the maturity profile of the plan liabilities and the respective potential impact on the funded status of the plan, including potential short-term liquidity requirements.

Death and disability benefits are covered through insurance policies.

The following tables provide information relating to changes in the defined benefit obligation and the fair value of plan assets:

		Pension cost charge to income statement					Remeasurement gains/(losses) in OCI								
	Balance at 1 January 2017	Service cost	Net Interest	Foreign Exchange	Sub-total recognised in the year	Benefits paid	Return on plan assets (excluding amounts included in net interest	Actuarial changes arising from changes in demographic assumptions	Actuarial changes arising from changes in financial assumptions	Experience adjustments	Foreign exchange	Sub-total included in OCI	Contributions by employer	Defined benefit increase due to personnel transfer	Balance at 31 December 2018
															US$ thousands
Defined benefit obligation	(27,327)	(62)	(1,791)	5	(1,848)	884	-	-	1,749	821	-	2,570	-	-	(25,721)
Fair value of plan assets	18,110	-	1,110	27	1,137	(630)	40	-	-	-	-	40	614	57	19,328
Net benefit liability	(9,217)	(62)	(681)	32	(711)	254	40	-	1,749	821	-	2,610	614	57	(6,393)

		Pension cost charge to income statement					Remeasurement gains/(losses) in OCI								
	Balance at 1 January 2016	Service cost	Net Interest	Foreign Exchange	Sub-total recognised in the year	Benefits paid	Return on plan assets (excluding amounts included in net interest	Actuarial changes arising from changes in demographic assumptions	Actuarial changes arising from changes in financial assumptions	Experience adjustments	Foreign exchange	Sub-total included in OCI	Contributions by employer	Defined benefit increase due to personnel transfer	Balance at 31 December 2017
															US$ thousands
Defined benefit obligation	(25,377)	(956)	(1,729)	(1,146)	(3,831)	883	-	-	515	498	-	1,013	-	(15)	(27,327)
Fair value of plan assets	16,282	-	1,031	731	1,762	(413)	(80)	-	-	-	-	(80)	422	137	18,110
Net benefit liability	(9,095)	(956)	(698)	(415)	(2,069)	470	(80)	-	515	498	-	933	422	122	(9,217)

Of the total defined benefit obligation, US$7.4 million (2017: US$7.5 million) relates to statutory seniority premiums for unionised workers which are not funded. The expected contributions to the plan for the next annual reporting period are nil.

The principal assumptions used in determining pension and other post-employment benefit obligations for the Group's plans are shown below:

	As at 31 December	
	2018	2017
	%	%
Discount rate	8.42	7.67
Future salary increases (NCPI)	5.15	5.0

The life expectancy of current and future pensioners, men and women aged 65 and older will live on average for a further 23.1 and 26.6 years respectively (2017: 23.1 years for men and 26.3 for women). The weighted average duration of the defined benefit obligation is 10.8 years (2017: 11 years).

The fair values of the plan assets were as follows:

	As at 31 December	
	2018	2017
	US$ thousands	US$ thousands
Government debt	351	556
State owned companies	5,132	4,559
Mutual funds (fixed rates)	13,845	12,995
	19,328	**18,110**

The pension plan has not invested in any of the Group's own financial instruments nor in properties or assets used by the Group.

A quantitative sensitivity analysis for significant assumptions as at 31 December 2018 is as shown below:

Assumptions	Discount rate		Future salary increases (NCPI)		Life expectancy of pensioners
Sensitivity Level	0.5% Increase	0.5% Decrease	0.5% increase	0.5% decrease	+ 1 Increase
(Decrease)/increase to the net defined benefit obligation (US$ thousands)	(1,256)	1,374	179	(173)	76

The sensitivity analysis above has been determined based on a method that extrapolates the impact on net defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period. The pension plan is not sensitive to future changes in salaries other than in respect of inflation.

22. Trade and other payables

	As at 31 December	
	2018	2017
	US$ thousands	US$ thousands
Trade payables	91,734	93,664
Other payables to related parties (note 26)	12,321	9,057
Accrued expenses	13,163	18,600
Other taxes and contributions	15,922	13,628
	133,140	**134,949**

Trade payables are mainly for the acquisition of materials, supplies and contractor services. These payables do not accrue interest and no guarantees have been granted. The fair value of trade and other payables approximate their book values.

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 30.

23. Commitments

A summary of capital expenditure commitments by operating mine is as follows:

	As at 31 December	
	2018 US$ thousands	2017 US$ thousands
Saucito	52,288	64,511
Herradura	17,701	28,813
Noche Buena	3,346	1,643
Ciénega	13,779	16,688
Fresnillo	90,181	19,570
San Julián	8,781	27,403
Other[1]	142,111	83,729
	328,187	**242,357**

1 Other includes commitments of Minera Juanicipio, S.A. de C.V. (2017: Minera Bermejal, S. de R.L. de C.V. and Minera Juanicipio, S.A. de C.V.)

24. Operating leases

(a) Operating leases as lessor

Future minimum rentals receivable under non-cancellable operating leases are as follows:

	As at 31 December	
	2018 US$ thousands	2017 US$ thousands
Within one year	-	491
After one year but not more than five years	-	108
	-	**599**

(b) Operating leases as lessee

The Group has financial commitments in respect of non-cancellable operating leases for land, offices and equipment. These leases have renewal terms at the option of the lessee with future lease payments based on market prices at the time of renewal. There are no restrictions placed upon the Group by entering into these leases.

The Group has put in place several arrangements to finance mine equipment through loans and the sale of mine equipment to contractors. In both cases, contractors are obligated to use these assets in rendering services to the Group as part of the mining work contract, during the term of financing or credit, which ranges from two to six years. The Group considers that the related mining work contracts contain embedded operating leases.

The future minimum rental commitments under these leases are as follows[1]:

	As at 31 December	
	2018 US$ thousands	2017 US$ thousands
Within one year	6,374	3,424
After one year but not more than five years	9,756	2,926
	16,130	6,350

	As at 31 December	
	2018 US$ thousands	2017 US$ thousands
Minimum lease payments expensed in the year	7,193	4,916

1 During the Group's IFRS 16 implementation activities, a limited number of highly certain extensions to operating lease commitments were identified. The 2017 commitments have been restated to reflect those judgements in a consistent manner.

25. Contingencies

As of 31 December 2018, the Group has the following contingencies:

- The Group is subject to various laws and regulations which, if not observed, could give rise to penalties.
- Tax periods remain open to review by the Mexican tax authorities (SAT, by its Spanish acronym) in respect of income taxes for five years following the date of the filing of corporate income tax returns, during which time the authorities have the right to raise additional tax assessments including penalties and interest. Under certain circumstances, the reviews may cover longer periods. As such, there is a risk that transactions, and in particular related party transactions, that have not been challenged in the past by the authorities, may be challenged by them in the future.
- Other than discussed below, tax inspections that had been initiated by the SAT in previous years, were either closed or resolved through a Conclusive Agreement in 2018 or in early 2019. According to article 69-H of the Mexican Tax Code, settlements reached and executed by taxpayers and the authority may not be challenged in any way. Such settlements shall only be effective between the parties; and they shall not constitute a precedent in any case.
- With respect to Minera Penmont´s 2012 and 2013 tax inspections, on July 11th, 2018 the Company filed before tax authorities a substance administrative appeal against the tax assessment, and on September 3th 2018, it filed additional documentation before tax authorities and is waiting for its response.
- On 22 October 2018 we were notified of the SAT´s findings in respect of Minera Penmont´s 2015 & 2016 tax inspections. The Company considers it completed the provision of all documentation required to demonstrate that the tax deductions which are being challenged, are appropriate and is waiting for the SAT´s response.
- On 1 February 2019 we were notified that the SAT will conduct an inspection of Minera Saucito's 2013 tax certificate.
- It is not practical to determine the amount of any potential claims or the likelihood of any unfavourable outcome arising from these or any future inspections that may be initiated. However, management believes that its interpretation of the relevant legislation is appropriate and that the Group has complied with all regulations and paid or accrued all taxes and withholdings that are applicable.
- On 8 May 2008, the Company and Peñoles entered into the Separation Agreement (the 'Separation Agreement'). This agreement relates to the separation of the Group and the Peñoles Group and governs certain aspects of the relationship between the Fresnillo Group and the Peñoles Group following the initial public offering in May 2008 ('Admission'). The Separation Agreement provides for cross-indemnities between the Company and Peñoles so that, in the case of Peñoles, it is held harmless against losses, claims and liabilities (including tax liabilities) properly attributable to the precious metals business of the Group and, in the case of the Company, it is held harmless by Peñoles against losses, claims and liabilities which are not properly attributable to the precious metals business. Save for any liability arising in connection with tax, the aggregate liability of either party under the indemnities shall not exceed US$250 million in aggregate.
- Peñoles has agreed to indemnify the Fresnillo Group in relation to (i) any tax charge, subject to certain exceptions, the Company may incur as a result of the Pre-IPO Reorganisation (including as a result of a transaction following Admission of a member of the Fresnillo Group, provided that Peñoles has confirmed that the proposed transaction will not give rise to a tax charge, or as a result of a transaction of a member of the Peñoles Group on or after Admission), the Global Offer or Admission and (ii) certain tax aspects of certain other pre-Admission transactions. Peñoles' liability under these indemnities and in respect of general tax liabilities arising pre Admission which are not properly attributable to the precious metals business of the Fresnillo Group shall not exceed US$500 million. If a member of the Fresnillo Group forming part of Peñoles' tax consolidation pays an intra-group dividend in excess of its net income tax account ('Cuenta de Utilidad Fiscal Neta' o 'CUFIN') account after Admission and is relieved of tax as a result of the consolidation, it is required to pay Peñoles an amount in respect of that tax.
- On 30 November 2012, the Mexican government enacted a new federal labour law. During 2014 management implemented certain actions as a part of an ongoing process in order to manage the exposure resulting from the issuance of the new labour law including any potential impacts on the operations and financial position of the Group, however management does not expect any potential contingency or significant effect on the Group's financial statements as at 31 December 2018 and going forward.
- In regard to the ejido El Bajio matter previously reported by the Company:
  - In 2009 five members of the El Bajio agrarian community in the state of Sonora, who claimed rights over certain surface land in the proximity of the operations of Minera Penmont ("Penmont"), submitted a legal claim before the Unitarian Agrarian Court (Tribunal Unitario Agrario) of Hermosillo, Sonora, to have Penmont vacate an area of this surface land. The land in dispute encompassed a portion of surface area where part of the operations of the Soledad-Dipolos mine are located. The litigation resulted in a definitive court order, pursuant to which Penmont was ordered to vacate 1,824 hectares of land. The disputed land was returned in July 2013, resulting in the suspension of operations at Soledad-Dipolos.

  - The Agrarian Court noted in that same year that certain remediation activities were necessary to comply with the relevant regulatory requirements and requested the guidance of the Federal Environmental Agency (SEMARNAT) in this respect. The Agrarian Court further issued a procedural order in execution of its ruling determining, amongst other aspects, that Penmont must remediate the lands to the state they were in before Penmont's occupation.
  - In the opinion of the Company, this procedural order was excessive since this level of remediation was not part of the original agrarian ruling and also because the procedural order appeared not to consider the fact that Penmont conducted its activities pursuant to valid mining concessions and environmental impact permits. In December 2016, the Agrarian Court issued a subsequent procedural order in which the Court recognised that Penmont complied with the agrarian ruling by having returned the land in dispute and, furthermore, that remediation activities are to be conducted in accordance with Federal environmental guidelines and regulations, as supervised by the competent Federal authorities. Remediation activities in this respect are pending as the agrarian members have not yet permitted Penmont physical access to the lands. Penmont has already presented a conceptual mine closure and remediation plan before the Agrarian Court in respect of the approximately 300 hectares where Penmont conducted mining activities. The agrarian community Ejido El Bajio appealed this procedural order from the Agrarian Court and a Federal District Court denied this appeal. The agrarian community has presented in the month of August 2017 a further and last recourse against this ruling by the Federal District Court and the final result is pending.
  - In addition, and as also previously reported by the Company, claimants in the El Bajio matter presented other claims against occupation agreements they entered into with Penmont, covering land parcels separate from the land described above. Penmont has no significant mining operations or specific geological interest in the affected parcels and these lands are therefore not considered strategic for Penmont. As previously reported, the Agrarian Court issued rulings declaring such occupation agreements over those land parcels to be null and void and that Penmont must remediate such lands to the state that they were in before Penmont's occupation as well as returning any minerals extracted from this area. Given that Penmont has not conducted significant mining operations nor has specific geological interest in these land parcels, any contingency relating to such land parcels is not considered material by the Company. The case relating to the claims over these land parcels remains subject to finalisation.
  - Various claims and counterclaims have been made between the relevant parties in the El Bajio matter. There remains significant uncertainty as to the finalisation and ultimate outcome of these legal proceedings.
- In 2011, flooding occurred in the Saucito mine, following which the Group filed an insurance claim in respect of the damage caused (and in respect of business interruption). In early 2018, the insurance provider notified the Group that the claim had been accepted; however, there is disagreement about the appropriate amount to be paid. In October the Group received US$13.6 million in respect of the insurance claim, however this does not constitute a final settlement and management continues to pursue a higher insurance reimbursement. Due to the fact that negotiations are on-going and there is uncertainty regarding the timing of reaching an agreement with the insurer, the amount expected to be recovered is currently not practicable to determine.
- On 11 February 2019, the Supreme Court of Mexico issued a ruling regarding a specific constitutional issue presented by the former administration of the Federal Government, who challenged the ability of the State of Zacatecas to impose environmental taxes on aspects such as (i) extraction of rocks; (ii) emissions into the air; (iii) discharges of industrial residues, and (iv) disposal of industrial waste.

  The ruling of the Supreme Court establishes that, from a constitutional point of view, there is no express limitation granting the Mexican State at a Federal level the sole power to impose such taxes; therefore, the State of Zacatecas has a joint right to create these taxes. Notwithstanding the foregoing, the Court did not exhaust the analysis of the legality of each particular tax created by the State of Zacatecas.

  The Company had previously challenged the legality of such taxes and in 2017 obtained an injunction from a Federal court. The State of Zacatecas has appealed this ruling and the final result is pending.

26. Related party balances and transactions

The Group had the following related party transactions during the years ended 31 December 2018 and 2017 and balances as at 31 December 2018 and 2017.

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

(a) Related party balances

	Accounts receivable		Accounts payable	
	As at 31 December		As at 31 December	
	2018 US$ thousands	2017 US$ thousands	**2018 US$ thousands**	2017 US$ thousands
Trade:				
Metalúrgica Met-Mex Peñoles, S.A. de C.V.	213,202	225,741	408	397
Other:				
Industrias Peñoles, S.A.B. de C.V.	3,371	4,925	-	-
Servicios Administrativos Peñoles, S.A. de C.V.	-	-	3,249	2,434
Servicios Especializados Peñoles, S.A. de C.V.	-	-	1,556	1,786
Fuentes de Energía Peñoles, S.A. de C.V.	-	-	1,138	-
Termoeléctrica Peñoles, S. de R.L. de C.V.	-	-	988	1,650
Eólica de Coahuila S.A. de C.V.	-	-	3,459	1,926
Other	90	392	1,523	864
Sub–total	216,663	231,058	12,321	9,057
Less–current portion	216,663	231,058	12,321	9,057
Non-current portion	-	-	-	-

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

Other balances with related parties:

	Year ended 31 December	
	2018 US$ thousands	2017 US$ thousands
Silverstream contract:		
Industrias Peñoles, S.A.B. de C.V.	519,093	538,887

The Silverstream contract can be settled in either silver or cash. Details of the Silverstream contract are provided in note 13.

(b) Principal transactions with affiliates, including Industrias Peñoles S.A.B de C.V., the Company's parent, are as follows:

	Year ended 31 December	
	2018 US$ thousands	2017 US$ thousands
Income:		
Sales:[1]		
Metalúrgica Met-Mex Peñoles, S.A. de C.V.	2,119,758	2,101,579
Insurance recovery		
Grupo Nacional Provincial, S.A. B. de C.V.[2]	13,652	-
Other income	4,419	3,173
Total income	**2,137,829**	**2,104,752**

1 Figures do not include hedging gains as the derivative transactions are not undertaken with related parties. Figures are net of the adjustment for treatment and refining charges of US$141.2 million (2017: US$139.9 million) and include sales credited to development projects of US$17.6 million (2017: US$8.3 million).

2 Includes a time value element of US$ 3.1 million which has been recognised in finance income within the income statement.

	Year ended 31 December	
	2018 US$ thousands	2017 US$ thousands
Expenses:		
Administrative services[2]*:*		
Servicios Administrativos Peñoles, S.A. de C.V.[3]	28,625	26,323
Servicios Especializados Peñoles, S.A. de C.V.	15,830	18,239
	44,455	44,562
Energy:		
Termoeléctrica Peñoles, S. de R.L. de C.V.	17,383	20,415
Fuerza Eólica del Istmo S.A. de C.V.	2,187	1,678
Fuentes de Energía Peñoles, S.A. de C.V.	3,872	-
Eólica de Coahuila S.A. de C.V.	34,147	13,666
	57,589	35,759
Operating materials and spare parts:		
Wideco Inc	5,783	4,534
Metalúrgica Met-Mex Peñoles, S.A. de C.V.	8,329	6,420
	14,112	10,954
Equipment repair and administrative services:		
Serviminas, S.A. de C.V.	9,733	8,406
Insurance premiums:		
Grupo Nacional Provincial, S.A. B. de C.V.	8,603	8,157
Other expenses:	2,561	3,795
Total expenses	**137,053**	**111,633**

2 Includes US$1.7 million (2017: US$6.4 million) corresponding to expenses reimbursed.

3 Includes US$4.2 million (2017: US$7.5 million) relating to engineering costs that were capitalised.

(c) Compensation of key management personnel of the Group

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

	Year ended 31 December	
	2018 **US$ thousands**	2017 US$ thousands
Salaries and bonuses	3,260	3,385
Post-employment benefits	245	235
Other benefits	249	373
Total compensation paid in respect of key management personnel	**3,754**	**3,993**

	Year ended 31 December	
	2018 **US$ thousands**	2017 US$ thousands
Accumulated accrued defined pension entitlement	4,001	4,433

This compensation includes amounts paid to directors disclosed in the Directors' Remuneration Report.

The accumulated accrued defined pension entitlement represents benefits accrued at the time the benefits were frozen. There are no further benefits accruing under the defined benefit scheme in respect of current services.

27. Auditor's remuneration

Fees due by the Group to its auditor during the year ended 31 December 2018 and 2017 are as follows:

	Year ended 31 December	
Class of services	**2018** **US$ thousands**	2017 US$ thousands
Fees payable to the Group's auditor for the audit of the Group's annual accounts	1,306	1,214
Fees payable to the Group's auditor and its associates for other services as follows:		
The audit of the Company's subsidiaries pursuant to legislation	176	226
Audit-related assurance services	347	308
Tax compliance services	4	19
Total	**1,833**	**1,767**

28. Notes to the consolidated statement of cash flows

	Notes	2018 US$ thousands	2017 US$ thousands
Reconciliation of profit for the year to net cash generated from operating activities			
Profit for the year		**349,966**	**560,807**
Adjustments to reconcile profit for the period to net cash inflows from operating activities:			
Depreciation and amortisation	5	411,764	367,609
Employee profit sharing	7	13,003	17,150
Deferred income tax	10	(45,385)	(3,101)
Current income tax expense	10	179,349	183,783
Loss/(gain) on the sale of property, plant and equipment and other assets	8	999	(25,333)
Impairment of available-for-sale financial assets	8	-	36
Net finance costs		27,433	33,674
Foreign exchange loss		8,382	11,434
Difference between pension contributions paid and amounts recognised in the income statement		62	(58)
Non cash movement on derivatives		34	41,389
Changes in fair value of Silverstream	14	(14,956)	(113,656)
Working capital adjustments			
(Increase) in trade and other receivables		(60,384)	(44,381)
(Increase) in prepayments and other assets		(11,753)	(708)
(Increase)/decrease in inventories		(63,918)	5,745
Increase in trade and other payables		8,174	36,426
Cash generated from operations		**802,770**	**1,070,816**
Income tax paid		(200,088)	(292,063)
Employee profit sharing paid		(14,323)	(17,282)
Net cash from operating activities		**588,359**	**761,471**

29. Financial instruments
(a) Fair value category

As at 31 December 2018 US$ thousands				
Financial assets:	Amortized cost	Fair value through OCI	Fair value (hedging instruments)	Fair value through profit or loss
Trade and other receivables (note 15)	1,986	-	-	216,573
Equity instruments at FVOCI	-	78,219	-	-
Silverstream contract (note 13)	-	-	-	519,093
Derivative financial instruments		-	314	-

Financial liabilities:	Amortized cost	Fair value (hedging instruments)	Fair value through profit or loss
Interest-bearing loans (note 19)	800,127	-	-
Trade and other payables (note 22)	97,169	-	-
Derivative financial instruments	-	3,807	-

As at 31 December 2017				
				US$ thousands
Financial assets:	At fair value through profit or loss	Available-for-sale investments at fair value through OCI	Loans and receivables	At fair value through OCI (cash flow hedges)
Trade and other receivables[1] (note 15)	-	-	236,859	-
Available-for-sale financial assets	-	144,856	-	-
Silverstream contract (note 13)	538,887	-	-	-
Embedded derivatives within sales contracts[1] (note 4)	6,511	-	-	-
Derivative financial instruments	311	-	-	71
Financial liabilities:		At fair value through profit or loss	At amortised Cost	At fair value through OCI (cash flow hedges)
Interest-bearing loans (note 19)		-	799,046	-
Trade and other payables (note 22)		-	102,721	-
Derivative financial instruments		37	-	19,179

1 Trade and other receivables and embedded derivative within sales contracts are presented net in Trade and other receivables in the balance sheet.

(b) Fair value measurement

The fair value of financial assets and liabilities, together with the carrying amounts shown in the balance sheet are as follows:

				As at 31 December
	Carrying amount		Fair value	
	2018 US$ thousands	2017 US$ thousands	**2018 US$ thousands**	2017 US$ thousands
Financial assets:				
Trade receivables	216,573	236,859	216,573	236,859
Equity instruments at FVOCI	78,219	-	78,219	-
Available-for-sale financial assets	-	144,856	-	144,856
Silverstream contract (note 13)	519,093	538,887	519,093	538,887
Embedded derivatives within sales contracts	-	6,511	-	6,511
Derivative financial instruments	74	382	74	382
Financial liabilities:				
Interest-bearing loans[1] (note 19)	800,127	799,046	817,936	878,864
Derivative financial instruments	3,807	19,216	3,807	19,216

1 Interest-bearing loans are categorised in Level 1 of the fair value hierarchy.

The financial assets and liabilities measured at fair value are categorised into the fair value hierarchy as at 31 December as follows:

	As of 31 December 2018			
	Fair value measure using			
	Quoted prices in active markets Level 1 US$ thousands	Significant observable Level 2 US$ thousands	Significant unobservable Level 3 US$ thousands	Total US$ thousands
Financial assets:				
Trade receivables	-	-	216,573	216,573
Derivative financial instruments:				
Option commodity contracts (note 29 (c))	-	240	-	240
Option and forward foreign exchange contracts	-	74	-	74
Silverstream contract	-	-	519,093	519,093
Other financial assets:				
Equity instruments at FVOCI	78,219	-	-	78,219
	78,219	**314**	**735,666**	**814,199**
Financial liabilities:				
Derivative financial instruments:				
Option commodity contracts (note 29 (c))	-	3,660	-	3,660
Option and forward foreign exchange contracts	-	147	-	147
	-	**3,807**	**-**	**3,807**

	As of 31 December 2017			
	Fair value measure using			
	Quoted prices in active markets Level 1 US$ thousands	Significant observable Level 2 US$ thousands	Significant unobservable Level 3 US$ thousands	Total US$ thousands
Financial assets:				
Derivative financial instruments:				
Embedded derivatives within sales contracts	-	-	6,511	6,511
Option commodity contracts (note 29 (c))	-	71	-	71
Option and forward foreign exchange contracts	-	311	-	311
Silverstream contract	-	-	538,887	538,887
Financial investments available-for-sale:				
Quoted investments	144,856	-	-	144,856
	144,856	**382**	**545,398**	**690,636**
Financial liabilities:				
Derivative financial instruments:				
Option commodity contracts (note 29 (c))	-	19,179	-	19,179
Option and forward foreign exchange contracts	-	37	-	37
	-	**19,216**	**-**	**19,216**

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

A reconciliation of the opening balance to the closing balance for Level 3 financial instruments other than Silverstream (which is disclosed in note 13) is shown below[1]:

	2018 US$ thousands	2017 US$ thousands
Balance at 1 January:	225,741	(2,750)
Net change in trade receivable from goods sold	(12,048)	-
Changes in fair value	(4,016)	15,068
Realised embedded derivatives during the year	3,525	(5,807)
Balance at 31 December	**213,202**	**6,511**

1 Balance as at 31 December 2017 corresponds to the embedded derivative included in trade receivable for sales subject to provisional pricing; from 1 January 2018 onwards as a result of the adoption of IFRS 9 as explained in note 2 (b) the balance corresponds the whole trade receivable for sales subject to provisional pricing.

The fair value of the financial assets and liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

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

Option and forward foreign exchange contracts
The Group enters into derivative financial instruments with various counterparties, principally financial institutions with investment grade credit ratings. The foreign currency forward (Level 2) contracts are measured based on observable spot exchange rates, the yield curves of the respective currencies as well as the currency basis spreads between the respective currencies. The foreign currency option contracts are valued using the Black Scholes model, the significant inputs to which include observable spot exchange rates, interest rates and the volatility of the currency.

Option commodity contracts
The Group enters into derivative financial instruments with various counterparties, principally financial institutions with investment grade credit ratings. The option commodity (Level 2) contracts are measured based on observable spot commodity prices, the yield curves of the respective commodity as well as the commodity basis spreads between the respective commodities. The option contracts are valued using the Black Scholes model, the significant inputs to which include observable spot commodities price, interest rates and the volatility of the commodity.

Silverstream contract
The fair value of the Silverstream contract is determined using a valuation model including unobservable inputs (Level 3). This derivative has a term of over 20 years and the valuation model utilises a number of inputs that are not based on observable market data due to the nature of these inputs and/or the duration of the contract. Inputs that have a significant effect on the recorded fair value are the volume of silver that will be produced and sold from the Sabinas mine over the contract life, the future price of silver, future foreign exchange rates between the Mexican peso and US dollar, future inflation and the discount rate used to discount future cash flows.

The estimate of the volume of silver that will be produced and sold from the Sabinas mine requires estimates of the recoverable silver reserves and resources, the related production profile based on the Sabinas mine plan and the expected recovery of silver from ore mined. The estimation of these inputs is subject to a range of operating assumptions and may change over time. Estimates of reserves and resources are updated annually by Peñoles, the operator and sole interest holder in the Sabinas mine and provided to the Company. The production profile and estimated payable silver that will be recovered from ore mined is based on the latest plan and estimates, also provided to the Company by Peñoles. The inputs assume no interruption in production over the life of the Silverstream contract and production levels which are consistent with those achieved in recent years

Management regularly assesses a range of reasonably possible alternatives for those significant unobservable inputs described above, and determines their impact on the total fair value. The significant unobservable inputs are not interrelated. The fair value of the Silverstream is not significantly sensitive to a reasonable change in future exchange rates, however, it is to a reasonable change in future silver price, future inflation and the discount rate used to discount future cash flows.

For further information relating to the Silverstream contract see note 13. The sensitivity of the valuation to the inputs relating to market risks, being the price of silver, foreign exchange rates, inflation and the discount rate is disclosed in note 30.

Equity investments:
The fair value of equity investments is derived from quoted market prices in active markets (Level 1).

Interest-bearing loans

The fair value of the Group's interest-bearing loan, is derived from quoted market prices in active markets (Level 1).

Trade receivables:

Sales of concentrates, precipitates and doré bars are 'provisionally priced' and revenue is initially recognised using this provisional price and the Group's best estimate of the contained metal. Revenue is subject to final price and metal content adjustments subsequent to the date of delivery (see note 2 (n)). This price exposure is considered to be an embedded derivative and therefore the entire related trade receivable is measured at fair value.

At each reporting date, the provisionally priced metal content is revalued based on the forward selling price for the quotational period stipulated in the relevant sales contract. The selling price of metals can be reliably measured as these metals are actively traded on international exchanges but the estimated metal content is a non-observable input to this valuation.

(c) Derivative financial instruments

The Group enters into certain option contracts to manage its exposure to commodity price risk as described in note 2 (r).

The Group sells gold as the primary product of the Group's open-pit mines. Upon the acquisition of the remaining 46% interest in the Penmont mines in 2014, the Group entered into commodity option contracts to protect the value of future sales related to that previous non-controlling interest over a period of five years. The Group also sells lead and zinc as a by-product in certain of its mines. Except in relation to the acquisition of the remaining in interest in the Penmont mines described above, the Group's risk management strategy is to not hedge primary metal prices and hedge by-product metals in certain market conditions. The Group monitors metal price volatility in order to determine when to enter into new hedging contracts related to by-products. New contracts were entered into in 2017 but not in 2018. These contracts are expected to reduce the volatility attributable to metals price fluctuations. Hedging the price volatility of forecast metals sales is in accordance with the risk management strategy outlined by the Board of Directors.

There is an economic relationship between the hedged items and the hedging instruments as the terms of the commodity option contracts match the terms of the expected highly probable forecast sales (i.e., notional amount and expected payment date). The Group has established a hedge ratio of 1:1 for the hedging relationships as the underlying risks of the commodity option contracts are identical to the hedged risk components. To test the hedge effectiveness, the Group uses the hypothetical derivative method and compares the changes in the fair value of the hedging instruments against the changes in fair value of the hedged items attributable to the hedged risks.

Due to the terms of the Group's hedge relationships, the change in the fair value of both the hedging instrument and hedged items equalled the amounts recognised in other comprehensive income in the following paragraphs. The amounts recycled to the income statement in respect of these contracts are recognised in revenue; ineffectiveness is recognised in finance cost.

Gold option contracts

As at 31 December 2018, the outstanding collar derivative instruments mature over the period from 31 January 2019 to 30 December 2019 and hedge cash proceeds for the sales of gold production amounting 346,152 ounces (2017: 712,584 ounces) with a floor price of US$1,100:1 ounce, a range of capped prices from US$1,375 to US$1,495:1 ounce (2017: US$1,375 to US$1,495:1 ounce) and weighted average capped price of US$1,424:1 ounce (2017: US$1,423 :1 ounce). The fair value of the put options as at 31 December 2018 was an asset of US$0.9 million (2017: US$3.7 million), and the fair value of the call options at 31 December 2018 was a liability of US$4.6 million (2017:US$21.8 million). In 2018 the changes in the fair value of the option contracts corresponding to the time value amounted to US$14.4 million and was recorded in other comprehensive income; in 2017 fair value amounted of US$41.1 million was recorded in the income statement.

Lead option contracts

As at 31 December 2018 there were no outstanding options related to lead contracts. As at 31 December 2017, lead collar derivative instruments hedge lead production amounting 21,168 tonnes with a floor price of US$2,370:1 tonne, a range of capped prices from US$2,730 to US$2,740:1 tonne and weighted average cap price of US$2,735:1 tonne. The fair value of the put options at 31 December 2017 was an asset of US$0.5 million, and the fair value of the call options at 31 December 2017 was a liability of US$0.5 million. The gain recycled to the income statement in the period was US$1.0 million (2017: nil).

Zinc option contracts

As at 31 December 2018 there were no outstanding options related to zinc contracts. As at 31 December 2017, zinc collar derivative instruments hedge lead production amounting 5,760 tonnes with a range of floor prices of US$2,500 to 2,756:1 tonne and weighted average floor price of US$2,591:1 tonne, a range of capped prices from US$3,650 to US$3,800:1 tonne and weighted average cap price of US$3,716:1 tonne. The fair value of the put options at 31 December 2017 was an asset of US$0.5 million, and the fair value of the call options at 31 December 2017 was a liability of US$1.5 million. The gain recycled to the income statement in the period was US$0.6 million (2017: nil).

30. Financial risk management

Overview

The Group's principal financial assets and liabilities, other than derivatives, comprise trade receivables, cash, equity instruments at FVOCI, interest-bearing loans and trade payables.

The Group has exposure to the following risks from its use of financial instruments:

– Market risk, including foreign currency, commodity price, interest rate, inflation rate and equity price risks

– Credit risk

– Liquidity risk

This note presents information about the Group's exposure to each of the above risks and the Group's objectives, policies and processes for assessing and managing risk. Further quantitative disclosures are included throughout the financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Fresnillo Audit Committee has responsibility for overseeing how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Audit Committee is assisted in its oversight role by Internal Audit, which undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

(a) Market risk

Market risk is the risk that changes in market factors, such as foreign exchange rates, commodity prices or interest rates will affect the Group's income or the value of its financial instruments.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

In the following tables, the effect on equity excludes the changes in retained earnings as a direct result of changes in profit before tax.

Foreign currency risk

The Group has financial instruments that are denominated in Mexican peso, euro and Swedish krona which are exposed to foreign currency risk. Transactions in currencies other than the US dollar include the purchase of services, fixed assets, spare parts and the payment of dividends. As a result, the Group has financial assets and liabilities denominated in currencies other than functional currency, and holds cash and cash equivalents in Mexican Peso.

In order to manage the Group's exposure to foreign currency risk on expenditure denominated in currencies other than the US dollar, the Group has entered into certain forward and option derivative contracts with maturity dates from 2018 (see note 29 for additional detail).

The following table demonstrates the sensitivity of financial assets and financial liabilities (excluding Silverstream) to a reasonably possible change in the US dollar exchange rate compared to the Mexican peso, reflecting the impact on the Group's profit before tax and equity, with all other variables held constant. It is assumed that the same percentage change in exchange rates is applied to all applicable periods for the purposes of calculating the sensitivity with relation to derivative financial instruments.

Year ended 31 December	Strengthening/ (weakening) of US dollar	Effect on profit before tax: increase/ (decrease) US$ thousands
2018	10%	(380)
	(10%)	464
2017	20%	(3,783)
	(10%)	1,365

The following table demonstrates the sensitivity of financial assets and financial liabilities to a reasonably possible change in the US dollar exchange rate compared to the Swedish krona on the Group's profit before tax and equity, with all other variables held constant. It is assumed that the same percentage change in exchange rates is applied to all applicable periods.

Year ended 31 December	Strengthening/ (weakening) of US dollar	Effect on profit before tax: increase/ (decrease) US$ thousands
2018	10%	19
	(10%)	20
2017	10%	(335)
	(10%)	500

The following table demonstrates the sensitivity of financial assets and financial liabilities (excluding Silverstream) to a reasonably possible change in the US dollar exchange rate compared to the euro on the Group's profit before tax and equity, with all other variables held constant. It is assumed that the same percentage change in exchange rates is applied to all applicable periods.

Year ended 31 December	Strengthening/ (weakening) of US dollar	Effect on profit before tax: increase/ (decrease) US$ thousands
2018	10%	53
	(10%)	52
2017	10%	1058
	(10%)	(1,056)

Foreign currency risk – Silverstream

Future foreign exchange rates are one of the inputs to the Silverstream valuation model. The following table demonstrates the sensitivity of the Silverstream contract valuation to a reasonably possible change in the Mexican peso as compared to the US dollar, with all other inputs to the Silverstream valuation model held constant. It is assumed that the same percentage change in exchange rates is applied to all applicable periods in the valuation model.

Year ended 31 December	Strengthening/ (weakening) of US dollar	Effect on profit before tax: increase/ (decrease) US$ thousands
2018	10%	(46)
	(10%)	56
2017	20%	(781)
	(10%)	521

Commodity risk

The Group has exposure to changes in metals prices (specifically silver, gold, lead and zinc) which have a significant effect on the Group's results. These prices are subject to global economic conditions and industry-related cycles.

The Group uses derivative instruments to hedge against an element of gold, zinc and lead price.

The table below reflects the aggregate sensitivity of financial assets and liabilities (excluding Silverstream) to a reasonably possible change in commodities prices, reflecting the impact on the Group's profit before tax with all other variables held constant.

The sensitivity shown in the table below relates to changes in fair value of commodity derivatives financial instruments contracts and embedded derivatives in sales.

	Increase/(decrease) in commodity prices				Effect on profit before tax: increase/ (decrease)	Effect on equity: increase/ (decrease)
Year ended 31 December	Gold	Silver	Zinc	Lead	US$ thousands	US$ thousands
2018	10%	15%	25%	20%	22,330	(14,910)
	(10%)	(15%)	(20%)	(15%)	(21,204)	8,703
2017	10%	10%	20%	15%	83,433	(19,164)
	(10%)	(10%)	(20%)	(15%)	5,105	1,818

Commodity price risk – Silverstream

Future silver price is one of the inputs to the Silverstream valuation model. The following table demonstrates the sensitivity of the Silverstream contract valuation to a reasonably possible change in future silver prices, with all other inputs to the Silverstream valuation model held constant. It is assumed that the same percentage change in silver price is applied to all applicable periods in the valuation model. There is no impact on the Group's equity, other than the equivalent change in retained earnings.

Year ended 31 December	Increase/ (decrease) in silver price	Effect on profit before tax: increase/ (decrease) US$ thousands
2018	15%	106,879
	(15%)	(106,879)
2017	10%	72,779
	(10%)	(72,779)

Interest rate risk

The Group is exposed to interest rate risk from the possibility that changes in interest rates will affect future cash flows or the fair values of its financial instruments, principally relating to the cash balances and the Silverstream contract held at the balance sheet date. Interest-bearing loans are at a fixed rate, therefore the possibility of a change in interest rate only impacts its fair value but not its carrying amount. Therefore, interest-bearing loans and loans from related parties are excluded from the table below.

The following table demonstrates the sensitivity of financial assets and financial liabilities (excluding Silverstream) to a reasonably possible change in interest rate applied to a full year from the balance sheet date. There is no impact on the Group's equity other than the equivalent change in retained earnings.

Year ended 31 December	Basis point increase/ (decrease) in interest rate	Effect on profit before tax: increase/ (decrease) US$ thousands
2018	75	4,206
	(75)	(4,206)
2017	90	7,898
	(50)	(4,388)

The sensitivity shown in the table above primarily relates to the full year of interest on cash balances held as at the year end.

Interest rate risk – Silverstream

Future interest rates are one of the inputs to the Silverstream valuation model. The following table demonstrates the sensitivity of the Silverstream contract valuation to a reasonably possible change in interest rates, with all other inputs to the Silverstream valuation model held constant. It is assumed that the same change in interest rate is applied to all applicable periods in the valuation model. There is no impact on the Group's equity, other than the equivalent change in retained earnings.

Year ended 31 December	Basis point increase/ (decrease) in interest rate	Effect on profit before tax: increase/ (decrease) US$ thousands
2018	75	(47,151)
	(75)	54,775
2017	90	(58,798)
	(50)	37,935

Inflation rate risk

Inflation rate risk-Silverstream

Future inflation rates are one of the inputs to the Silverstream valuation model. The following table demonstrates the sensitivity of the Silverstream contract to a reasonably possible change in the inflation rate, with all other inputs to the Silverstream valuation model held constant. It is assumed that the same change in inflation is applied to all applicable periods in the valuation model. There is no impact on the Group's equity, other than the equivalent change in retained earnings.

Year ended 31 December	Basis point (increase/ (decrease) in inflation rate	Effect on profit before tax: increase/ (decrease) US$ thousands
2018	100	56
	(100)	(51)
2017	100	88
	(100)	(83)

Equity price risk

The Group has exposure to changes in the price of equity instruments that it holds as available-for-sale financial assets.

The following table demonstrates the sensitivity of available-for-sale financial assets to a reasonably possible change in market price of these equity instruments, reflecting the effect on the Group's profit before tax and equity:

Year ended 31 December	Increase/ (decrease) in equity price	Effect on profit before tax: increase/ (decrease) (US$ thousands)	Effect on equity: increase/ (decrease) US$ thousands
2018	40%	-	31,288
	(40%)	-	(31,288)
2017	40%	-	28,972
	(65%)	-	(65,408)

(b) Credit risk

Exposure to credit risk arises as a result of transactions in the Group's ordinary course of business and is applicable to all financial assets and derivative financial instruments. The financial assets are trade and other receivables, cash and cash equivalents, short-term investments, the Silverstream contract and available-for-sale financial assets.

The Group's policies are aimed at minimising losses as a result of counterparties' failure to honour their obligations. Individual exposures are monitored with customers subject to credit limits to ensure that the Group's exposure to bad debts is not significant. The Group's exposure to credit risk is influenced mainly by the individual characteristics of each counter party. The Group's financial assets are with counterparties with what the Group considers to have an appropriate credit rating. As disclosed in note 26, the counterparties to a significant proportion of these financial assets are related parties. At each balance sheet date, the Group's financial assets were neither impaired nor past due, other than 'Other receivables' as disclosed in note 16. The Group's policies are aimed at minimising losses from foreign currency hedging contracts. The Company's foreign currency hedging contracts are entered into with large financial institutions with strong credit ratings.

The Group has a high concentration of trade receivables with one counterparty Met-Mex Peñoles, the Group's primary customer throughout 2018 and 2017. A further concentration of credit risk arises from the Silverstream contract. Both Met-Mex and the counterparty to the Silverstream contract are subsidiaries in the Peñoles group which currently owns 75 per cent of the shares of the Company and is considered by management to be of appropriate credit rating.

The Group's surplus funds are managed by Servicios Administrativos Fresnillo, S.A. de C.V., which manages cash and cash equivalents, including short-term investments investing in a number of financial institutions. Accordingly, on an ongoing basis the Group deposits surplus funds with a range of financial institutions, depending on market conditions. In order to minimise exposure to credit risk, the Group only deposits surplus funds with financial institutions with a credit rating of MX-1 (Moody´s) and mxA-1+ (Standard and Poor's) and above. As at 31 December 2018, the Group had concentrations of credit risk as 19 percent of surplus funds were deposited with one financial institution of which the total investment was held in short term Mexican government paper.

The maximum credit exposure at the reporting date of each category of financial asset above is the carrying value as detailed in the relevant notes. See note 16 for the maximum credit exposure to cash and cash equivalents, note 27 for related party balances with Met-Mex and note 29 for equity instruments at FVOCI. The maximum credit exposure with relation to the Silverstream contract is the value of the derivative as at 31 December 2018, being US$519.1 million (2017: US$538.9 million).

(c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

The Group monitors its risk of a shortage of funds using projected cash flows from operations and by monitoring the maturity of both its financial assets and liabilities.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments.

					US$ thousands
	Within 1 year	2–3 years	3-5 years	> 5 years	Total
As at 31 December 2018					
Interest-bearing loans (note 19)	46,267	92,534	92,534	800,000	1,031,335
Trade and other payables	97,169				97,169
Derivative financial instruments – liabilities	3,807				3,807

					US$ thousands
	Within 1 year	2-3 years	3-5 years	> 5 years	Total
As at 31 December 2017					
Interest-bearing loans (note 19)	46,267	92,534	92,534	846,267	1,077,602
Trade and other payables	102,311	-	-	-	102,311
Derivative financial instruments – liabilities	4,992	14,224	-	-	19,216

The payments disclosed for financial derivative instruments in the above table are the gross undiscounted cash flows. However, those amounts may be settled gross or net. The following table shows the corresponding estimated inflows based on the contractual terms:

					US$ thousands
	Within 1 year	2-3 years	3-5 years	> 5 years	Total
As at 31 December 2018					
Inflows	12,608	4,310			16,918
Outflows	(12,688)	(4,290)			(16,977)
Net	**(80)**	**20**			**(60)**

					US$ thousands
	Within 1 year	2-3 years	3-5 years	> 5 years	Total
As at 31 December 2017					
Inflows	15,174	-	-	-	15,174
Outflows	(14,884)	-	-	-	(14,884)
Net	**290**	**-**	**-**	**-**	**290**

The above liquidity tables include expected inflows and outflows from currency option contracts which the Group expects to be exercised during 2019 as at 31 December 2018 and during 2018 as at 31 December 2017, either by the Group or counterparty.

Management considers that the Group has adequate current assets and forecast cash from operations to manage liquidity risks arising from current liabilities and non-current liabilities.

Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios that support its business and maximise shareholder value. Management considers capital to consist of equity and certain interest-bearing loans, including loans from related parties, as disclosed in the balance sheet, excluding net unrealised gains or losses on revaluation of cash flow hedges and available-for-sale financial assets. In order to ensure an appropriate return for shareholder's capital invested in the Group management thoroughly evaluates all material projects and potential acquisitions and approves them at its Executive Committee before submission to the Board for ultimate approval, where applicable. The Group's dividend policy is based on the profitability of the business and underlying growth in earnings of the Group, as well as its capital requirements and cash flows, including cash flows from the Silverstream.

In managing its capital, the Group considers its cash and other liquid asset position, as set out below:

	2018 **US$ thousands**	2017 US$ thousands
Cash and cash equivalents (note 16)	560,785	876,034
Available-for-sale financial instruments held in funds	-	19,877
Cash and other liquid assets position	**560,785**	**895,911**