

Fresnillo Plc LSE:FRES

FY 2017 Earnings Call Transcripts

Tuesday, February 27, 2018 9:00 AM GMT

S&P Global Market Intelligence Estimates

	-FY 2017-			-FY 2018-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS Normalized	0.67	0.65	▼ (2.99 %)	0.72
Revenue (mm)	2103.21	2093.31	▼ (0.47 %)	2415.79

Currency: USD

Consensus as of Feb-26-2018 12:05 PM GMT

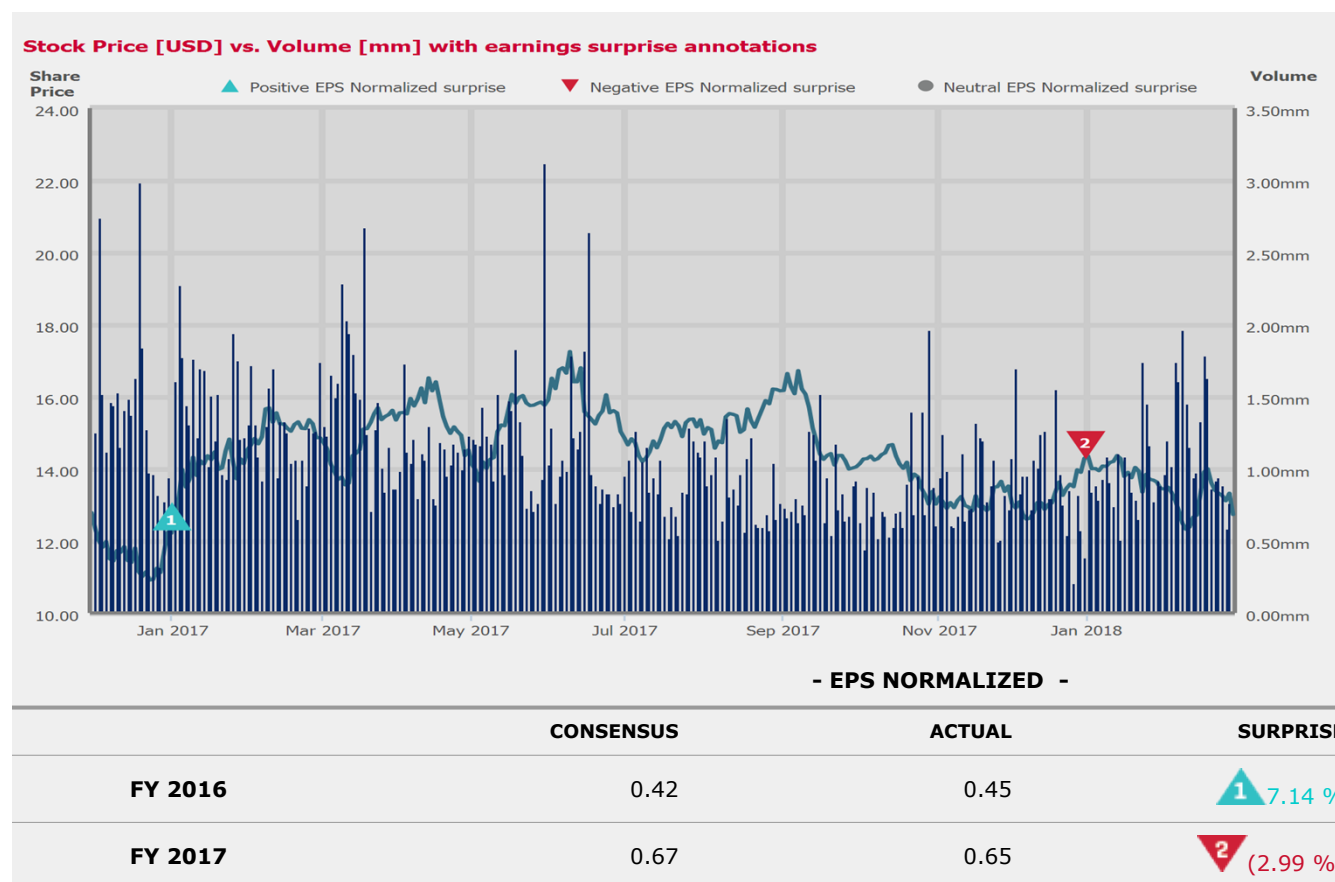


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Call Participants

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Presentation

Octavio M. Alvírez
Chief Executive Officer

Thank you. Good morning all. Thank you. Good morning all, and thank you for being here at the Full Year 2017 Preliminary Results of Fresnillo. I would like to draw your attention to the disclaimer. And here with me this morning is Mario Arreguín, our CFO; and David Giles, our Vice President of Exploration.

David A. Giles
Vice President of Exploration

Hello there.

Octavio M. Alvírez
Chief Executive Officer

I would like to start with an overview.

2018 marks a 10-year anniversary for Fresnillo being listed in the London Stock Exchange. So I think it's a great opportunity to look back and see what we've done in this decade, which I believe which has achieved a lot of our milestones.

In the operations side, our silver production has increased by up to 69%, going from 34 -- a little bit over 34 million ounces of silver at the end on 2007 to 53.3 million ounces of silver. Gold, remember, that we achieved the 750,000 ounces mark. We're doing right now 911,000 ounces of gold. But at the same time, we have increased silver reserves by 23% since IPO and gold reserves by 216% since IPO, going from 9 million ounces of gold to 35 -- just over 35 million ounces of gold.

Dividends that we have paid, \$2.5 billion over this decade.

And on the development side, we started with 3 mining operations: Fresnillo in the Fresnillo District; Ciénega, the smallest one of our operations; and Herradura. And since then, we've opened 4 new mines: Saucito in the Fresnillo District; Noche Buena on the Herradura District; and Soledad-Dipolos; and San Julián, a new mining district.

Along with that, we opened also a satellite mine in Ciénega, San Ramón. We built the third dynamic leaching plant at Herradura. And right now, we are commissioning 2 projects, the Pyrites Plant at the Fresnillo District and the second dynamic leaching plant at Herradura, that will help us process sulphide and transitional ore from the Herradura deeper ore body.

On the exploration side, also some good numbers. We posted \$1.6 billion invested in exploration since IPO. And that has helped us grown our rich silver resources by 177% to 2.3 billion ounces, and gold resources, we have grown over 3x, as I mentioned, from 9 million to just over 39 million ounces.

95% of our growth has been organic. The only producing piece that we have purchased is the Noche Buena ore deposit. And as you know, we have a strong pipeline of growth prospects and projects, 1.8 million hectares of exploration and mining concessions in Mexico, just around 400,000 hectares of exploration concessions in Peru, making it the largest concession holding in Peru for a mining company. We started 4 years ago, acquiring these concessions. And also, we are scouting in Chile. Hopefully, in the next coming years, we'll start exploring there.

Sustainability, it's another one of our columns with the workers, with the communities around the operations in where we operate. And I think the only way now for mining having an integral approach, not only in production, but also in sustainability. Next.

So this is what we call the value-creation cycle, starting with high-quality, low-cost, flexible operations. Very importantly, and especially in environments that we live through the cycles in mining, a disciplined approach to development. But remember that the operating assets that we brought onstream are along

the same lines, quality lines, from our regional assets, specifically Saucito, which is even more competitive than Fresnillo.

Also, San Julián, the growth along the lines of -- in terms of low cost of production at a similar level down Fresnillo. And on the gold side, Soledad-Dipolos and Noche Buena at a point in time. And this is possible with a dedicated team, very experienced. This team has been together for the last 25, 30 years, longer workforce, also making possible this growth and this approach.

This underpins, of course, the strength of our balance sheet that in turns gives us the possibility to invest in development of new prospects and new projects that will go and balance our approach to returns and further growth. All that in a framework of sustainability in the mining industry.

This is a chart in which we have reflected some of the growth and some of the milestones we achieved in these 10 last years, starting with the IPO in May 2008; then bringing onstream Soledad-Dipolos; Saucito I was commissioned in 2010; then Noche Buena; then we commissioned the first dynamic leaching plant at Herradura; Saucito II, the expansion in 2014; further growth, which is about optimizing, which is another key element in our strategy, optimizing Saucito from nominal capacity of 4,000 each one of the phases, Saucito I and Saucito II, and now we are close to 9,000 tonnes per day in the 2 plants. San Julián Phase I, which was a quite difficult and challenging project to bring onstream, initially mentioned that we were planning to bring first San Julián earlier than Saucito II, and then given the fact of the challenges that we were facing there, we kind of pushed Saucito II and -- earlier and we brought later San Julián. And finally, San Julián Phase II commissioned last year.

But as I mentioned, our main strategy has been consistent in these 10 years in which we invested in growth. That's the first column. Total exploration expenses on the last decade, \$1.57 billion from 2008 to 2007 (sic) [2017] and total CapEx sustaining as well as growth CapEx, just over \$4.2 billion these 10 years. That gave us, as I mentioned, increase in silver equivalent resources of 4.45 million ounces.

If you divide these ounces that we just covered by the amount we have invested in exploration, gives approximately \$25 per ounce discovery, which is quite outstanding, I would say.

Production growth: silver, 69%; and gold, 225%. And EBITDA of \$8.5 billion in these 10 years. And total dividends paid, there has not been a single prelim or final interim or final dividend that we have not paid in these 10 years amounting to \$2.492 billion as well. Thus making the strategy of balanced growth and returns. And as I mentioned in an environment in which many of mining competitors have gone through write-offs or write-downs, in our case, it's not been the case.

From all of these aspects, I believe that health and safety is the one in which we've suffered. In 2017, we have one fatality. And I regret to say that last night we had a fatality at the Saucito mine. So this is a pending aspect in a company to really go and achieve our objective of 0 fatalities. So we are reinforcing this aspect that never gives you rest in our operations. And hopefully, with a new approach that we are implementing across all of our operations, we can finally fulfill our objective of 0 fatalities.

Sense of environment, community relations, as I mentioned, very important thing. We have been working with the communities on 4 different pillars, which are education. Well or better educated community gives you the possibility to start a dialogue really and making -- or being able to interact with them and try and to convey the message of why mining is important in these communities. Also, with job creation. Water is very important, so we have some programs in terms of water in our communities, and also entrepreneurship, so that we can maintain the economic activity even beyond mining.

Some of the highlights in these 10 years. And coming to 2017, we achieved silver production of 58.7 million ounces, including the Silverstream, up 15%, within the guidance. And gold production, 911,000, less than the year before, but better than we expected in the guidance.

Construction of San Julián, as we mentioned, we achieved it. We ramped it up, the second phase, in only 2 months and now it's running up to capacity. We look forward to -- we are evaluating the possibility on installing screenings as we did in the various screens in Saucito so we can further improve the capacity at San Julián Phase II. Phase I, remember that it's a nameplate capacity of 3,000 tonnes per day. We are doing 3,500.

And also, silver production at the Fresnillo mine was up. The bottom production at Fresnillo was in 2015. 2016 was slightly up. And 2017, we've increased 4%. This year, we have a confidence to continue that trend. So we are forecasting 7% to 9% further increase in production that will bring our silver production to 17.5 million to 18 million ounces of silver. The larger development that we've done in the last 2 years have paid off somehow. We have a larger number of stopes and that gives us a possibility to forecast the larger production.

Gold, 38.5 million ounces in resources and 2.3 billion ounces of silver also went up. And we had a slight decrease in terms of reserves on the silver side, and David Giles will go in more detail about that.

Guidance for this year is between 67 million to 70 million ounces of silver, including the Silverstream. And on the gold side, very much flat, 870,000 to 900,000 ounces of gold.

EBITDA of just over \$1 billion, \$1,060,000,000 in EBITDA. And another characteristic, another mark in our operations, very good margins, 50.6% EBITDA margin as -- on a consolidated basis in our company.

I would say that the cash generation in our operations is quite important, and that gives us the possibility to have cash in hand of \$896 million. And that, with the cash on hand and the commitment that we see in terms of investment for next year has made our board to pay the final dividend of \$219.6 million, USD 0.298 per share, up 39%, totaling close to \$300 million for the full year.

Just some small information on the operations. As I mentioned, Fresnillo is maintaining the upward trend, and we expect to do so in this year as well. I would like to draw your attention to the cash cost for 2017. Mario will go in more detail about the inflationary pressures that we've been experiencing at our mines. But basically, we keep on strengthening the infrastructure in Fresnillo. We are deepening the shaft, the San Carlos shaft, to 400 meters so that we can have access to the deeper zone of that ore body. We are also bringing a -- onstream a new vertical conveyor, which is quite an alternative to a shaft and that will lower the haulage cost from the bottom part of the ore body. That is already being -- has been commissioned. And also, we are bringing a tunneling machine that will be ready in the last quarter of this year that will further increase the development rates. But especially, on the haulage level, the [6 95] level to the west, which will give us access to prepare those areas out west of the Fresnillo and up from [6 95] level. So we keep on strengthening the infrastructure and the position and deficiencies at Fresnillo.

On Saucito, 21.2 million ounces of silver in production last year. In 2016, let's say, the 21.9 million ounces of production made us the largest silver-producing mine worldwide. So we expect very much the same this year. We had lower grades due to some geomechanical problems in some of our stopes. But we are in a good position this year. So giving you some guidance and some of the annexes in terms of grade that we are expecting for Saucito and Fresnillo in this year.

In Saucito, we are also strengthening our infrastructure, deepening the Jarillas shaft, and also maintaining the development rate at 33,100 meters per month. On the Fresnillo side, we are doing 3,500 meters per month, which we believe is a sustainable rate, even to be in a position to increase to 9,000 tonnes per day next year. Next.

Herradura, a production of 473,000 ounces in 2017. Very good cash costs and remarkable increase in terms of reserves and resources.

Let's go back to when we bought the 46% of this asset from Newmont. We had a much smaller reserve and resource base. Since then, we've been evaluating different possibilities for Herradura. We mentioned at a point in time to keep Centauro because we have further exploration potential to that. But this increase in reserves to 7.7 million ounces, extending the mine life of Herradura, has given us the possibility of evaluating an expansion at Herradura. And I will further comment in the following slides.

We are expecting to commission the second dynamic leaching plant just to be efficient in processing the transitional and the sulphide ore at depth, so very exciting Herradura, very exciting times.

In Noche Buena, 4.6 years -- 4.5, 4.6 years of mine life, according to that reserve. Herradura is not growing, so we are concentrating on being very efficient, more efficient in terms of the production at Noche Buena.

Finally, on Ciénega. Ciénega, the same trends. The gold trending down, silver trending up. But in equivalent ounces, it's approximately -- it's been the case, approximately the same 150,000 ounces of gold. Very efficient production in terms of cash cost. The number you have there of 72,000 ounces of gold and the 5.4 million ounces of silver amount to approximately 150,000 ounces equivalent gold.

Good news in terms of exploration. In Ciénega, you may remember that we were evaluating at a point in time increasing the production to the west of Ciénega in the Taspana area. With the exploration success we are having in the same Ciénega mine, we are changing that view and probably the increase in production will be in the same flotation plant in Ciénega instead of building it to the west, 25 kilometers of the Ciénega infrastructure. Next slide.

And San Julián Phase I and II. Well, as I mentioned, Phase I is doing very well in terms of the production rate. And Phase II, as I mentioned also, very good ramp-up last quarter of last year.

I would like to mention the amount of resources that we have in San Julián. So this year, we are concentrating on upgrading those resources to reserves and that will be a big piece in our strategy at the mine. Also, with the potential we see, we mentioned before that we opened this mine with approximately exploring what we see a potential of 30% in the district. So further potential, exploration potential in the same district, more visible on the veins. But also, we are doing some exploration on the further disseminated ore bodies as well.

And some of the projects that we are building right now that expect to be commissioned in the next quarter is the Pyrites Plant to further increase the coverage in the Fresnillo District, treating the flotation tailings and historical tailings from Fresnillo and the current tailings from Saucito that is expected to be commissioned this year, the portion of Saucito. And in 2019, we'll build the flotation plant for the tailings at Fresnillo. So a total \$155 million investment, going very well, as you can see.

On the upper photograph, you will see to the left Saucito I and II. And on the front -- or forefront, I mean, is the new facility of the leaching plant.

And the second dynamic leaching plant in Herradura, you will see in the photograph on the left, very much a mirror plant to the first dynamic leaching plant being built. So another 8,000 tonnes per day, \$110 million investment, expected to be commissioned in second quarter of this year.

And then on the right, that section will help me illustrate what I mentioned, the growth in reserves to 7.7 million ounces. And let's remember that when we commissioned the second dynamic leaching plant, we said this was going to help us extend the mine life of the Herradura mine on an average of 390,000 ounces per year to 12 years. Well, if you take into account the 7.7 million ounces of reserves that we have now and you divide it by the 390,000 ounces of gold, that would give you approximately 20 years of mine life. When you have that kind of mine life, then you start looking for alternatives, either grow the capacity and expand the open pit, and that's what we did. Right now, we are moving 120 million tonnes per year between ore and waste. We did an exercise to go to 150 million, another one will go to 180 million, 185 million per year. But what we found so far is that the current production of 120 million is the best alternative so far. Instead of investing heavily in equipment through expansion, I think it's a better case the way we are doing it. So we have a mine life, which is a very good success, of just over 20 years of this ore body. But this doesn't seem -- this -- I wouldn't say that this would be a dynamic approach that we will be doing the following years. We continue exploring because there are further exploration potential. And whenever that exploration gives us additional reserves and resources, we will evaluate again a potential expansion for this ore body.

Juancipio project, the next big development projects of Fresnillo on the Fresnillo District. We mentioned the quality of this project before. We were expecting to finish the feasibility study in the first month of this year. Unfortunately, I think we were a bit optimistic. We will finish it. The consultant we are hiring to do this full feasibility study will be finishing it at the end of this month. So more likely at those times, that we

will present for approval to the respective boards in April, at which time in which we will publish the full feasibility study.

And with that, I will pass the microphone to -- oh, there's no microphone, to David Giles.

David A. Giles

Vice President of Exploration

Thank you. Good morning. We're on Page 20. This is -- this triangle shows the very strong growth pipeline that the company has. And this strong pipeline gives us a potential to develop large, world-class, low-cost mines -- new mine.

And was looking at the -- back when the IPO in 2018 -- up at the top where there's mining operations, back in 2018, Saucito, San Ramón, Soledad-Dipolos and San Julián were all down in the bottom half of the triangle and we've moved those up to new mines. What's going on right now? We're very active right now. Octavio has described the development projects which are going very well. There, you can see the second line down the Pyrites Plant, Cebollitas, Centauro and Juanicipio.

And we're also moving -- this year, we'll move to PEA these 4 advanced exploration and prefeasibilities projects: Centauro Deep, Orisyvo, Guanajuato and Rodeo. So those by the -- all of those by in the end of this year will have PEAs from them and eventually will be presented to the board for new mines.

In 2017, where did we have good exploration results? Our mining operations districts like Fresnillo, Herradura, San Julián have great potential. So lots of our effort has been there. And we've increased resources at those places, particularly at Saucito and at San Julián.

As well as you come down the triangle, other places we had greatest success was at the Centauro Extension.

Guanajuato, which is a district that our mother company worked years ago, Fresnillo has continued to explore there, and it's looking very good. The gold, silver resources there have increased substantially.

Coming down to these prospects in drilling. We've had good results in the Tajitos property, which is in the Herradura District; at the Candameña property, which is in the Orisyvo District; at San Juan, which is a prospect that we've resumed exploring, it's in Durango.

Further down the triangle, we've had good results at Lejano, the exploration that's in early stage that's in the Herradura District; at Uruachi, which is on the bottom right side the triangle, which is within the Orisyvo district. And also a couple of the properties in Peru are doing very well at Sto. Domingo and Supaypacha.

You'll see on the top of the triangle, on the right, our exploration budget. We're going to continue the same strategy. It's a good budget, \$200 million for 2018. 42% of the -- 42% will be spent around our mines. But our districts, I think there's still an early stage -- a lot of potential there. 33% of the budget will be spent at the advanced exploration projects and 25% at new properties for the future.

Underneath the triangle, we can see -- a couple of times, Octavio has mentioned the large land position that we have in Mexico improved. But it's not any old land position. We're right in the main mining districts. So we're well located for the future there.

We come to Page 21. Thank you, Gaby. I'm going to show you the gold resources and then the gold, silver resources and then the gold reserves and the silver reserves.

This table on the gold resources, you can see it's in millions of ounces on the Y side of the graph. We're really just looking at our resources at the top of a huge bar, right? The blue bar there, we have 38.4 million ounces of gold resources at the beginning of the year. And at the end of the year, 2017, that was increased to 38.5 million ounces, the blue bar on the right.

And some things have gone up, some things have gone down, but you can see that the increase in gold resources mainly came from the Fresnillo, Ciénega and San Julián mines as well as at Guanajuato project, and this was partially offset by a small reduction in the resources in the Herradura District.

We go to Page 22. This shows the situation at our silver mines and projects together. Again, we're just looking at the top tip of an iceberg of our resources. You can see on the bar on the left, at the beginning of the year, our resources were 2.17 billion ounces of silver. That's a lot. And you can see at the end of the year, they were increased to, which is the blue bar on the right, 2.32 billion ounces of silver. That's an increase of 7%. Where was that done? It was mostly done, look at the big green bar, at the Saucito mine, where a dozen drill rigs are working at surface. And they're still exploring it, and it's still growing. You can see all the way across it on silver resources, everything went up at Fresnillo, Saucito, Ciénega mines, San Julián and the projects, the various projects we've got like Guanajuato, San Juan and others.

Let's talk a little bit about reserves as we go to Page 23, our gold reserves. So you can see on the bar on the left, the blue bar, gold reserves at the beginning of 2017 were 9.54 million ounces of gold. These were substantially increased, and see the bar on the right, to 11.7 million ounces of gold. The big jump, of course, is the green bar there, Herradura, where we increased the reserves at Herradura, 2.5 million ounces. News we have, as Octavio pointed out, Herradura we now have 16 years of reserves and 22 years of resources.

The gold reserves came down slightly at Saucito and at Ciénega. But really, that's no important impact because we have resources at those mines that's 24 and 30 years, respectively. Very good shape, our gold reserves.

As our silver reserves, as you can see on 24 -- Page 24, the blue bar, at beginning of the year, we had 570 million (sic) [530 million] ounces of silver reserves. At the end of the year, 501 million ounces. Where did they come down? They came down, you can see the red bar on the left, at the Fresnillo mine. The silver reserves came down because at the Fresnillo mine, we concentrated on our development work on increasing production rather than convert resources to reserves at that mine. But we still have 10 years' reserves, silver reserves at the Fresnillo mine, and we have 45 years of silver resources at the mine.

Similarly, at Ciénega, there's a slight reduction, 12% in the -- 12 million ounces in silver reserves. We have 30 years of resources at the Ciénega mine. So we're in good shape. What we have to do this year is, particularly at Fresnillo mine, concentrate development on changing the silver resources to reserves.

So that's the summary. I think that we have a very strong future on its reserves, resources and new mines.

Octavio M. Alvídrez
Chief Executive Officer

Mario?

Mario Arreguín
Chief Financial Officer

Okay, good morning, everyone. It's always a pleasure to be here and be able to share our financial results with you. I would like to start on Page 21 by showing you the variables which are outside of our control -- Page 27, sorry, Page 27, by showing you the variables which are outside of our control but had an impact on our financial numbers. And these are mainly the metal prices, the exchange rates and cost inflation. Those are the 3 important ones that had some sort of impact on our numbers.

Starting with metal prices. As you can see, gold and silver prices, which are our main products, were more or less in line with what we saw the previous year. Where we do see an important increase is on the base metals, in lead and zinc, which are our by-products. However, with the important increases in prices that we saw versus last year of 24% in the case of lead and 33% in the case of zinc, they did have a material impact, both on our sales, profits and also in our cash costs when you credit back the base metals.

In terms of the exchange rate, there are 2 ways to look at it. First, when you look at it on a spot basis, what you had at the beginning of the year and at the end of the year, that will basically impact some of our accounting numbers. And where you see a real effect in terms of our cost is when you look at the average spot exchange rate throughout the year.

So let's start with the spot at the beginning and end of this year. As you can see in 2016, we had a 20% devaluation, which had an important impact on our numbers, basically on our deferred taxes. And contrasting that in 2017, we had a slight revaluation of 4.5%. Again, given the fact that we had a very important devaluation in 2016 and a slight revaluation in 2017, that meant that in 2016 we recognized a very important effect on the deferred taxes. And we saw the opposite effect in 2017 given the revaluation. And where you see and compare 1 year to the other, you will see that, that had a very important impact when you talk about the net income after taxes, and we will see that when we look at the income statement.

In terms of the average spot exchange rate, as you can see, we had a very slight devaluation of only 1.5%, still favorable in terms of our costs.

And in terms of cost inflation, very contrasting years. In 2016, we had a deflation of 8.08%, mainly driven by the huge devaluation and the impact that, that has on our peso-denominated costs versus 2017 where we saw a cost inflation of 6.36%, mainly driven by the increase in electricity prices and also the increase in diesel prices. So bearing all of this in mind, we can now move to the income statement.

But before that, on Page 29, I just would like to share -- 28, I'm not getting the pages right. I'd like to share with you basically the -- how we go about calculating our cost inflation. Here you see the basket that we consider and the specific weight for each one of the consumables. And that's just for you to look at so you can see which were the ones that had the most important impact. Again, you can see here clearly that it was electricity and diesel and also contractors.

Moving on now and bearing everything else that I just said in mind, we can now look at the income statement. And as you can see, all profit lines, which are highlighted in yellow, were above last year. It was not a huge increase. But I think overall, it was a good year. We had increases in profits of around 5% in terms of gross profit, then operating profit.

What I would like to share with you as we move along throughout this presentation are basically 4 or 5 concepts. First, I will touch on the increase in adjusted revenues, where that came from. Then I would like to talk about adjusted production cost. We had an increase of 24%, and I do want to make sure that we all understand how that came about. Then I will touch on gross profit, which increased by 5%. Also would like to share with you the most important components of that increase. I will touch a bit on exploration expenses, which were the main projects and the main operations which used that \$141 million that we spent throughout the year. And then I will explain how we increased the net profit by 32% when income before taxes only increased by 3.2%. So that's going to be the bulk of the next few slides that we're going to look at.

So going first to adjusted revenues. Here, we show the breakdown by mine and also by metal of our revenues. As you can see, gold continues to be the most important component of our sales, representing 50%; silver, 38%. And as I mentioned, zinc and lead, which are our by-products, they used to be around 6%, 5% of our total revenues. With the important increase in prices, now they represent around 12%.

And when you look at the pie on the left-hand side, you will see that when we did the IPO, we only had 3 colors there. Now you see a more diversified participation of all the mines that we have, 7 in total. And that will continue to change next year as San Julián ramps up throughout the year.

Let's move to the next page, Gaby, please. In terms of adjusted production cost, what you see here is an analysis of the \$150 million increase. In other words, the increase -- the 24% increase that's shown in the green bar. And what we try to do with this chart is show you how we get to that increase of \$150.28 million.

Starting on the left, most of that increase is related to additional production, to increase in production, mainly San Julián coming into operation, that's Phase II. And Phase I, ramping up to full capacity

throughout the year, that's in 2016, Saucito -- I mean, San Julián Phase I only operated for a few months. So it's good to know that most of that increase in adjusted production cost is related to volume.

Following that, of course, is cost inflation. I already explained to you that we had a 6.3% cost inflation. So translating that in terms of production cost, that represented an increase of \$40 million.

Thirdly, we've had increases in maintenance and also we -- an increase in the consumption of consumables and also some services at our mines, which represented around an increase of \$18 million.

The fourth column is an unusual one. This increase that you see here for \$12.7 million is related to the fact that at Saucito, in 2016, some of the minerals that we processed came from the development works that we were doing at the mine. We were not going to throw that to the waste because it had good content, so we decided to process that. But most of that cost was capital-light and went to the balance sheet. And only -- we only recognized the costs related to -- in the income statement, the costs related to the milling and flotation. So it was like that, sort of like, if you will, subsidized the production in 2016. In 2017, we had -- we also processed some volume, but much lesser than we did coming out of the development works that we were doing. So that accounts for the \$12.7 million that we show there.

On the positive side, I told you that we had a slight devaluation of the average exchange rate, which had a positive impact of \$4.7 million. And we also had less development works that were taken to the income statement in other mines, which lowered our adjusted production cost by \$10.5 million. So that briefly explains how we get to the \$150 million increase.

Moving on now to the consolidated gross profit. Again, on the right-hand side, we see the green bar, which shows the \$43 million increase in gross profit. And all the other bars simply show how we get -- how we got to that. Higher production represented \$142.9 million increase in gross profit. Then the higher metal prices. Remember, we were talking only about zinc and lead, and that's why I insisted that they had a material impact because that increased our profit by \$72 million. And then you have the devaluation effect, which I already spoke about, which had a slight positive effect. And then you start seeing the negative factors, which was cost inflation, we already spoke about that. The fact that we have an increase in depreciation as more and more new mines come into operation, we start recognizing that depreciation. I already mentioned that we had more maintenance. So that had an effect of increasing our -- decreasing our gross profit by \$48 million. And lastly, the fact that we had lower ore grades compared to the previous year had a negative impact of \$88 million. In other words, if we have kept those same lower ore grades, which, by the way, were totally expected, we have that accounted for in our budget, and that's why we try to compensate that with additional volume, which you can see on the left side. So with that, we get to the \$43.3 million change in gross profit.

Very briefly, just a breakdown of the \$141 million in terms of exploration expenses. You can see that \$65 million went to our operating units; around \$27 million went to our exploration projects; \$27 million to prospects; and \$12 million to regional prospecting.

So that's more or less the breakdown there.

Moving on to cash flow now. We had a good year also in terms of cash generation. Worth mentioning here is CapEx, the purchase of property, plant and equipment. We've invested \$600 million, one of our main uses of cash during the year, an increase of almost 39% compared to the previous year.

Another pleasant for our investors use of funds is the dividends paid throughout the year, which were \$236 million. This includes the final dividend for the previous year. No, the -- yes, the final dividend for the previous year and the interim dividend also.

I think it's worth mentioning the fact that we were net cash flow positive, considering the number that you get before paying out dividends. So that's good to know. And also, the fact that we closed the -- I would say, with a very healthy cash balance of very close to \$900 million at the end of the year.

Next, on Page 35, just a brief breakdown of our investments in CapEx. So for those who are interested in knowing where we invested that money, you can see it here on Page 35.

Balance sheet, not much to comment. I think we have a very, very solid balance sheet.

Move on to the next page, please. And lastly, in terms of cash cost, here we're showing the consolidated cash cost. For those who like to see Fresnillo as a silver company, which we are, of course. We converted every other metal, gold and the base metals into silver equivalent ounces. And you can see that in -- you can see the company that way. We had an increase of only 2.4% on -- in terms of cash cost expressed in silver equivalent ounces. But if you would like to look at it from a gold perspective, given the fact that 50% of our sales the previous year were gold, then you would see that we had a 4.7% increase in our cash cost. And we do the same numbers for the all-in sustaining costs. I think we are very competitive and one of the lowest all-in sustaining, all-cash cost businesses compared to our peers.

In the appendix, you will see all the individual cash cost for all our mines. We saw that when Octavio was presenting the operating part of the presentation.

And with that, I think I'm done.

Octavio M. Alvírez
Chief Executive Officer

Okay. The last part, I'd like to touch on the [indiscernible] development and construction of the projects. And a -- here, something to mention, we are brought -- some of the change that we've done, we brought closer Fresnillo to 9,000 billed by quarter to a half year as we recognize a better position for the mine. Ciénega, I think, with 5,000. We pushed that over a quarter further out. Juanicipio maintained the mid-2020 starting operation. And Orisyvo right now is -- we've been optimizing the evaluation there, strengthening the case, and this project really speaks out about our disciplined approach to growth. I mean, having a 8.5 million ounce of gold ore body, some other companies probably would have rushed to bring that into production. But in our case, as I mentioned, a key part of our strategy is not really diluting the quality of the core in production. So whenever we bring this onstream is because we feel confident that it is growing for the long-term success of I think the metric that we have for the kind of operations that we are -- aim for. And in the case of Centauro, this is the conceptual or the concept we have, further exploration in the coming years. We do have exploration potential above the 7.7 million ounces of reserves that obtained -- obtaining resources. And whenever we achieve a larger resource base, we will continue doing the evaluation of a potential expansion of the pit. For the time being, it's at 120 million tonnes per year, producing on average the 90,000 ounces of gold over the mine life and further potential at depth I mentioned. The basic concept that we will be reviewing along the lines of exploration success in the coming years and evaluation of the potential as such. Juanicipio, we have pointed out before the \$305 million CapEx is according to the PFS that we have from 2012. More likely that will change as soon as we have the full feasibility study concluded, we will be updating you accordingly.

Next. With this, we have 2018 and '19 a flat silver production and going up in 2020, as we expect production coming from the Fresnillo expansion to 9,000. Pyrites Plant, well, a share of Juanicipio reflected there. And the front -- further increase in production at San Julián.

Next slide. On the gold side, as well in 2018 and '19, somehow similar production. And in 2020, a small jump from some of the operations we had reflected in the growth chart as well. That growth, coupled with the expected CapEx, you may remember that in 2018, in the previous operation, we have big year, which is still the case but to a lower extent, \$755 million. This year, coming down in 2019 and 2020 to \$725 million and \$590 million with a breakdown of the sustaining growth.

Just on the previous chart, I believe there is something -- the previous one. Previous one. In that one, I mean, we should see the Centauro expansion going from 2021 and on -- not from 2020. We believe that 2021 and 2022, it reflects in the CapEx number that we have in the last year. 2020 is not kind of that CapEx reflected, so the previous chart on Page 39, yes, we should make that correction. Okay?

Well, here you have a company that has been performing these last 10 years according to the objectives we've set at that time. Very much on track to doubling our production we had in 2008. And growing in productions. So importantly, in reserves and resources, as we mentioned. Bringing onstream new production around the same quality that we initially had. Very disciplined in terms of capital allocation and

we -- probably will be -- will grow [single] stream. Cash generation, ample EBITDA margins and a very focused approach to growth and returns.

And now as an outlook for this year, I mentioned we'll continue strengthening the safety programs across all of our mines, that's a pending issue that we have. Deliver Saucito Pyrites Plant, starting the Pyrites Plant portion of Fresnillo. Fresnillo, further efficiencies, but we are confident that we will keep on the same trend, going upwards. Conclude the feasibility study for Juanicipio and to start building it whenever that is approved by our board. Continue investing in exploration, as I mentioned, it's quite remarkable metric that we've achieved in recent years.

The guideline for this year, 67 million to 70 million ounces of silver, flat production to last year. Optimize the operations. A very focused control on costs, I think this is one of the challenges we have this year. And along the lines, also some geopolitical events in Mexico Presidential election and the NAFTA negotiation that may bring some volatility to the exchange rate.

Just to conclude, reiterate our investment case, high-quality, low-cost, flexible operations; a disciplined approach to development, very important. This [year], we've seen corporate cycles in the mining industry. And despite that fact, we have maintained our approach, and that's giving us good results, that's thanks to our experienced workforce. Strong balance sheet, further grow and invest in those projects and prospects that are on the lines of foreign operations and commitment to sustainability, which is the only way that we continue mine life.

And with that, operator, have -- we've concluded the presentation, and we would open up for questions first here in the room and then after via call. Thank you.

Question and Answer

Daniel Harry David Shaw

Morgan Stanley, Research Division

Dan Shaw from Morgan Stanley. Just a -- first a couple on exploration. So on Slide 20, you've got your pipeline triangle and the \$200 million budget. Can you give us an idea of how much of that \$200 million goes to actual, I guess, activity, drilling and so on? And how much is spent on just holding land packages potentially to look at in the future? And then just as a follow-up on exploration as well. At Herradura, you've got resources down but reserves up. Is that just a transfer of one to the other or is there something else going on that?

David A. Giles

Vice President of Exploration

Yes, most of our exploration money be spent on drilling and development, really. The \$200 million, how much to give an estimate? 75% is drilling and development working. And on the resources, the resources went up strongly at Herradura the year before. And this year, it was more focused on changing resources to reserves. This 2017, the reserves went up, and 2016 is when the resources made up the big jump.

Daniel Harry David Shaw

Morgan Stanley, Research Division

Is this about a transfer from one to the other?

David A. Giles

Vice President of Exploration

Yes.

Daniel Harry David Shaw

Morgan Stanley, Research Division

Got it. And then just wanted to ask on CapEx. 2018 number didn't come down, I think we had \$860 million previously, and now we're at \$755 million. I'm trying to do sort of the comparison on the expected delivery of growth, but I have a black and white printout from the old one, which makes it a bit more difficult. Can you just run through what is driving that reduction from what you said previously, \$860 million down to that \$755 million that we are today?

Octavio M. Alvidrez

Chief Executive Officer

Well, in that \$860 million, we had the previous expectation for [bringing] Juanicipio, we expect to approve it earlier. And then we changed to the full feasibility study that we updated you. So that's a part of the change. Also, the Pyrites Plant as well, although we are not changing the conclusion periods for that plant, but we have changed or moved a little bit from one to the other one. What else we changing there? Some of the sustaining as well, some of the sustaining. That's about it. There's one other portion of the possibility to a -- for the expansion of Herradura as well. More investment in trucks, that is not coming. So that's it.

James Andrew Keith Bell

BofA Merrill Lynch, Research Division

It's James Bell at Bank of America Merrill Lynch. Just 2 questions. On cost inflation, last year, you gave specific guidance, I wasn't sure if I missed that in the press release, but what are you thinking particularly on the electricity and the labor and contracting sites for this year?

Mario Arreguín

Chief Financial Officer

Sure. You're asking about last year?

James Andrew Keith Bell

BofA Merrill Lynch, Research Division

No. I'm saying, it was 4% to 6% guidance last year. So you came in slightly above...

Mario Arreguín

Chief Financial Officer

Oh, yes. What are we expecting...

James Andrew Keith Bell

BofA Merrill Lynch, Research Division

What are we thinking about the [division]? And then particularly electricity, contractors, labor, that sort of breakdown, if you can give any color there.

Mario Arreguín

Chief Financial Officer

Yes, of course. We're expecting something around 7%. In the particular case of electricity, no, we not expecting an increase. Most of the increase that we are expecting is derived from the fact that we in Mexico had an inflation of 6.7% last year, which will be reflected on higher wages. And we're not expecting, but we are assuming for our budgeting purposes, that we will not see a devaluation. But anything can happen with the elections that are coming along and the NAFTA. But assuming no exchange-rate effect, and given the fact that we had inflation that will be reflected in wages, I would say that, that's the main component, along with some consumables, which makes us believe that we will see a 7% increase next year. In terms of electricity, now expecting pretty much same level or a bit lower. We're going to be consuming more electricity from private sources that are dedicated to generating electricity from the wind, [indiscernible] electricity. And we have discussions with them, and that's the sort of cost that we are expecting for electricity next year. And then later, we have a start to negotiating with the union, one of our sister companies have -- they may start at 7%, so that would be our target for this year.

James Andrew Keith Bell

BofA Merrill Lynch, Research Division

Okay. And then just on Fresnillo mine. Last year, you've changed over the contractor, I believe. Then you talked about it, maybe the mine being in a better position, the 9,000 tonne per day target being brought forward. I just wondered if you could talk about what's changed in the last sort of 3 to 4 months. And then maybe talk a little bit about the grade projections sort of past 2018, given that you've kind of underperformed there for the last couple of years.

Octavio M. Alvidrez

Chief Executive Officer

Well, the Fresnillo mine, as we mentioned -- as I mentioned, I mean it touched bottom as of 2015. 2016, very much level. 2017 is 4%, which we aimed for initially 7% to 10%, of course, and we ended up at 4% increase. We are confident, according to the number of a production stopes that we have now, to measure development that we will be able to reach 7% to 9% increase this year going to 17.5 million to 18 million ounces of silver. The production stopes, we have been well, what we were -- and we also updated you on the lack of workforce at the time, what we have achieved with the union is to allow us to go with contractors as well as the production stopes. And that gives us further confidence that we can increase the throughput, the volumes this year. The production stopes are ready. So we will try to start with contractors on the production stopes next month. What has changed? Contractors is continuous somehow challenge and struggle. We have approved 1 to 2 new ones, with no significant good results. However, we have maintained the 3,500 meters per month development mark, that gave us possibility of a larger number of stopes. That would take us to the 9,000 tonnes per day. However, at that time, we would need to further increase the development. Hopefully, with the new contractors coming in the following couple of months, we can reinforce that and be ready for the contract production. If that is proven successful, what we will

do probably is to get rid of some of the smaller contractors that are not performing well, but we will do that until October. Infrastructure, as I mentioned, we have continued strengthening the mine. The vertical conveyor belt will help us get rid of some of this haulage by truck. Ventilation as well, pumping stations, electricity going to the West that have speed up the cycles from development to production to haulage. So all in all, a better position.

Luke Nelson

JP Morgan Chase & Co, Research Division

Luke Nelson, JPMorgan. Just on the medium-term guidance, 2019, '20, that you provide on 40 and 41. Looks like it's been reduced by 10% to 12% versus what was given at the half year. And I know you did talk through some of the changes to the expected delivery. But don't just -- doesn't -- I mean, most of those things were sort of alluded to at the H1. So I'll just be interested to see, is anything changed in terms of grades or throughput or the Pyrites Plant, et cetera, to drive that reduction in production for next year specifically? And then also, my second question, just following on from the first on the CapEx guidance. Just if you could provide a bit more breakdown or granularity on what you missed on approved projects for 2019 and '20?

Octavio M. Alvírez

Chief Executive Officer

Sure. The changes on the production for next year, a little bit less grade according to some geomechanic changes that we have to do in San Julián. The initial production program contemplated mining in the next years in some of the higher-grade area. And with these changes that we did, we are going in lower -- a little bit lower-grade area, so that's one of the changes. Another one is also in Saucito, but not drastically, but slightly. I think those are the 2 main changes.

Luke Nelson

JP Morgan Chase & Co, Research Division

Is it possible to give a bit more quantitative guidance on grades and volumes? Do you expect full...

Octavio M. Alvírez

Chief Executive Officer

In San Julián, we have one in the Annex, don't we, for next year. What we are expecting in terms of grade and volumes? Do you have it there in the presentation, Gaby, so we can show it? Yes, we have the breakdown for San Julián, the vein systems. This is what 2018 expected grades, 150 grams per tonne for the disseminator 185, which was high for '19. We are not producing the [indiscernible] probably not this year. So we may be able to give you some indication with respect to 2019.

Luke Nelson

JP Morgan Chase & Co, Research Division

And then the CapEx, the unapproved proportion of CapEx for next year and 2020.

Octavio M. Alvírez

Chief Executive Officer

Unapproved, can you show the slide on the CapEx? That goes along with the chart that we have on the previous page. But for 2018, we would have portion of the Fresnillo going to 9,000, of course. The Pyrites Plant, concluding that portion of the Saucito. Pending will be 2019, the Pyrite Plant of Fresnillo. Juanicipio, we have it in 2018, '19 and '20. Las Torres exploration, we have it in 2018 [indiscernible] Herradura in 2018. And the rest is very much sustaining. In 2019, we have the Fresnillo, 9,000; the Pyrites Plant, the portion that belongs to the Fresnillo flotation for the tailing; a little bit of Ciénega expansion, 3/4 probably of that CapEx; Juanicipio, as I mentioned; and a portion which is not approved, of course, of Orisyvo. And the rest is sustaining. And in 2020, we would have 1/3 approximately of Ciénega expansion, which is not board-approved yet; Juanicipio, to conclude that project, the construction of that project, a portion of Juanicipio, which is not approved -- board-approved. And that's it. The rest is sustained.

Luke Nelson

JP Morgan Chase & Co, Research Division

Last couple of questions. I just wanted to ask about the Fresnillo portion of the Pyrites Plant. You mentioned that it looks like it's been delayed by 12 months. Could you explain why that is?

Octavio M. Alvírez

Chief Executive Officer

That in a way was contemplated. First it will be flotation part of the Saucito. And then going to the flotation part of Fresnillo. We've delayed it probably by 6 months. So that's initially, we were going to build [indiscernible]. But we've been doing it because we are producing already some pyrites concentrate and some silver content but as the pyrite in Saucito has the capacity to treat also the portion coming from Fresnillo, we will be able to preserve that [indiscernible] happens. And next year we'll go into building the flotation part of the Fresnillo and continue building the historical tailings there that makes up the [indiscernible].

Luke Nelson

JP Morgan Chase & Co, Research Division

And then I wanted to ask about the cost inflation on a dollar per tonne milled basis. At Saucito, it was up pretty significantly, 29% year-on year, and I think 20% at Ciénega as well. What was driving those 2 sort of kind of outlier increases on a dollar per tonne milled basis?

Mario Arreguín

Chief Financial Officer

Sure. In the terms on -- in terms of Saucito, what I said about the mineral that came out of the development works, that was a big, big component of that change. And in terms of -- you asked about Saucito -- no I mean Ciénega?

Luke Nelson

JP Morgan Chase & Co, Research Division

No. Ciénega, yes.

Mario Arreguín

Chief Financial Officer

There we had more development costs -- development costs.

Luke Nelson

JP Morgan Chase & Co, Research Division

And then just, I'm sorry, just one last one, sorry. On -- could you just give us some clarity around the Herradura potential expansion you had mentioned? So you said you'd thought an optimal level for the mine was around 120 million, 130 million, which is what it did in 2017. So what format would this expansion potentially take that you mentioned that [indiscernible] has a higher reserve position?

Octavio M. Alvírez

Chief Executive Officer

It would be a lay back of the pit, of course, and a higher tonnage milled per year. We compare the 120 million tonnes per year that we are doing right now to 150 million and to 185 million. And the amount of investment that we will have to do for an expansion going to 150 million or 180 million would not be compensated with the investment [indiscernible]. So a better case was to still at this level with the levels of resources and reserves to keep on the current production [indiscernible].

Luke Nelson

JP Morgan Chase & Co, Research Division

But potentially to do an expansion of a much bigger scale than...

Octavio M. Alvírez*Chief Executive Officer*

I think if you can -- can we put the section of the Herradura pit. Whenever you keep on exploring and then some of the blocks that you have over here and you translate those blocks of waste to ore, you make a stronger case to lower with the stripping ratio somehow. And then you produce more ore out of the same tonnage as you would have a stronger [indiscernible] so that's what we're aiming for. Keep on exploring, converting of the ore, identifying further ore on those areas and then evaluate again the possible expansion.

Jatinder Goel*Citigroup Inc, Research Division*

Jatinder Goel from Citi. A couple of questions. On your sustaining CapEx guidance for '19 and '20, it looks much below '18 and also below 2017 level while production is flat in '19 and actually rising in '20. Just trying to understand what's driving that sustaining CapEx lower. Are there any one-off elements? And -- or is there a cyclical which will come back in 3, 5 years which don't happen every year? And second question, operating material on your Slide 28 had a lower delta year-on-year in 2017. What's driving that, given inflationary environment? Is there any contracted volume? Or was there any lag which is now coming through in 2018? And maybe a final one, Noche Buena looks very impressive on milled tonnage unit costs, flat year-on-year compared to all other mines. What's specifically behind holding that cost flat?

Mario Arreguín*Chief Financial Officer*

Well, for the CapEx and the jump of production of 2020, that has to do with Fresnillo going to 9,000, the jump; the Pyrites Plant that we mentioned, concluding also the Fresnillo portion; San Julián; and a little bit of Ciénega, with the continuous trend that we have; and a little bit of Juanicipio. If we are aiming to conclude Juanicipio by mid-2020, second half, that operation would be ramping. So that's the -- has to do with the jump from 2019 to 2020. And the CapEx, if we look at the previous version in 2019 and 2020, is a higher CapEx than what we were expecting. So that higher CapEx, compared to what we did in the interims, is a bit higher in 2020. So that has to do also with that higher productions. What was the second question again, please, sorry.

Jatinder Goel*Citigroup Inc, Research Division*

Operating material on Slide 28 had a negative year-on-year delta. Just trying to understand what made it go down in an inflationary environment, even though it's a lower [indiscernible]? [indiscernible] currency or --

Mario Arreguín*Chief Financial Officer*

Versus the 7% that we are expecting for this year?

Jatinder Goel*Citigroup Inc, Research Division*

Page 28. Yes, operating material, the second broad heading, minus 1.1% unit price increase.

Mario Arreguín*Chief Financial Officer*

Operating materials.

Jatinder Goel*Citigroup Inc, Research Division*

Yes.

Mario Arreguín

Chief Financial Officer

No, that simply reflects the fact that some of our providers lowered their prices on certain operating materials. And for this year, it's going to be the opposite. We're expecting increases in line, which is one of our consumables. We're also expecting increases in the price of steel, mainly for grinding, for milling. Those are the 2 main items in which we are expecting increases in terms of consumables and operating materials. Whereas, last year, we had a reduction -- an important reduction in tires, in explosives and in sodium cyanide. That's why you see that minus 1.1%.

Jatinder Goel

Citigroup Inc, Research Division

Just a final one, Noche Buena flat year-on-year unit cost. Third question.

Mario Arreguín

Chief Financial Officer

Noche Buena flat on production.

Jatinder Goel

Citigroup Inc, Research Division

2017 unit cost was flat year-on-year while all other mining areas had higher unit cost on milled tonnage.

Mario Arreguín

Chief Financial Officer

Yes. The distance to the waste dumps has to do with it, was shortened. So that's why we're maintaining the same costs.

Octavio M. Alvírez

Chief Executive Officer

Yes, for example, Noche Buena coming to the last stage of the time line. In some areas of the open pit, you have no further potential of production underneath. You can store the waste there, not bring it to the waste dumps. So we are concentrating on Noche Buena it has the benefit of mine life to really maintain or even reduce costs.

Unknown Analyst

Sorry, can I just ask one more? Just on your longer-term outlook, you targeted 65 million ounces of silver by 2018. We're in 2018, it looks like you're going to get there. Obviously, gold, you've surpassed that already. When do we get another set of longer-term targets for Fresnillo in terms of maybe whether it's an ounce target or do you think it's not appropriate to have that anymore and it's about returns, or...

Octavio M. Alvírez

Chief Executive Officer

We are finishing right now the strategic plan. And of course, the board that has to do with the definition of the strategy and then the goals, we are discussing that possibility. We may be discussing that in April. So probably if we go and set an objective for the coming years, it would be more likely that we come up with a new objective in July [indiscernible]. Of course, it will not be a 10-year. We were initially trying to establish a track record. But that's what we are discussing in the board sessions.

Unknown Analyst

And could I ask one follow-up question? Just on the maintenance CapEx guidance you gave in the slides. For 2019, we have about \$170 million decline in CapEx for maintenance year-on-year. What were the main drivers behind that?

Octavio M. Alvírez

Chief Executive Officer

Herradura came down. San Julián as well from 2018 to '19. Ciénega also. We were developing Taspana and we finished that, and that will come into production. What else? I think those 3, Herradura, San Julián and Ciénega. Fresnillo is maintained. Saucito as well. And Noche Buena, a little bit [indiscernible].

Unknown Analyst

And then I have one last question. So on exploration, you had in your exploration triangle the Cebollitas Cluster as a potential development. Could you give us some information around what that is and [indiscernible]?

David A. Giles

Vice President of Exploration

It's in development and exploration and providing some ore as well. A satellite project, about 20 kilometers away from Ciénega. And we've found the extension to these from those bench [indiscernible]

Unknown Analyst

Follow-up question. Just on the dividend. Obviously, you have very strong track record in paying out the dividend and you have a very clear policy as well. But it would be interesting just to get your view on how you're thinking about shareholder returns going forward, particularly in the context of CapEx that is -- will fall away over the next 12 to 24 months, production that is, well, fully flat and also with the balance sheet that is in a strong position at the moment. So it's, well, how relevant you think the current policy is. And how you sort of decide between the -- sort of investing internally or M&A versus additional shareholder returns.

Octavio M. Alvírez

Chief Executive Officer

Well, as we've done in the past, I mean, consistency, I believe, is what the -- somehow sustains the company from somewhat -- to maintain the [indiscernible] strategy. What we've done in the past is probably what we could expect in the future. Whenever we go over \$1 billion cash in hand, we don't have the use in the coming years for the portfolio development approval we have. We paid in the past [indiscernible] dividends. So that might be the case. Having quite a large exploration portfolio, I don't see good chances to go in M&A. Exploring our own projects and prospects, bringing those that make sense along the lines in terms of quality, low cost has paid out for the company. So whenever we go and look at some other possibilities in terms of M&A, we always compare it to what we have in our portfolio [indiscernible] strong choice in terms of the return metrics, and the strength of the operations that we can make out of those. So -- but we take a look at some of the operational assets that are out there for sale, we have all this research and development. We've done since the purchase of [indiscernible] early-stage projects that we are developing. Some of those examples are Candameña, for example. In the area of Orisyvo we've done some acquisitions as well just to further strengthen the area. What other -- in Guanajuato.

David A. Giles

Vice President of Exploration

Yes, we bought property there. In Peru, we have picked up in Sto. Domingo, we've consolidated that district. And in the Fresnillo District [we've bought] to consolidate.

Octavio M. Alvírez

Chief Executive Officer

[indiscernible] more like. And as we mentioned, our strategy to balance growth and returns support really the [indiscernible]. Okay. Operator, are there any questions via phone?

Operator

[Operator Instructions] And we have one question already from Daniel Major from UBS.

Daniel Edward Major*UBS Investment Bank, Research Division*

Three questions. I mean, first one, there is the recurring theme that your results of meeting the [indiscernible] of the construction side but pushing out the growth profile over the subsequent years. Obviously, we've got into that in some detail and a similar concept on the CapEx. I mean, what additional degree of confidence can you give us that the targets you lay out in terms of growth in CapEx are not conceptual targets but are just kind of real targets, and we're not going to see the same pushing out of growth [indiscernible]? And then the second question, I suppose more specifically on the recurring theme, is the development rate at the Fresnillo mine, can you remind us exactly what development rate you're at right now? And when you expect to get to the development rate required to support the 9,000 tonnes per day throughput rate? And the final question is on whether you could give us any update on the succession planning within the Baillères family, whether there's been any changes in the central sort of [general optional session] and the shape of the company and whether there's any potential changes at the board level [indiscernible]?

Octavio M. Alvidrez*Chief Executive Officer*

Okay. Development rates of Fresnillo is the first one is...

Gabriela Mayor*Head of Investor Relations*

Dan, can you please just reformulate the first question please? Is it about the rate of certainty and confidence about the CapEx targets?

Daniel Edward Major*UBS Investment Bank, Research Division*

Correct. What degree of [indiscernible] confidence can you give us that you're not going to downgrade 2019, 2020 production guidance again that has been a recurring theme over the last couple of sets of results?

Octavio M. Alvidrez*Chief Executive Officer*

Production. CapEx.

Gabriela Mayor*Head of Investor Relations*

[Foreign Language]

Octavio M. Alvidrez*Chief Executive Officer*

No production, we feel quite comfortable. Of course, as we mentioned, I mean, the track record that we've done over the last 10 years, it is on target at the long-term level. However, I recognize that on year-to-year, it may be changing, but not drastically. Well, we have in front of us the 2018, which is quite firm. '19 and '20, I would say '19, very much a similar level, and '20, the jump, according to the project that we mentioned, we are quite confident on achieving those. The CapEx as well is an exercise in which we plan ahead for the next 3 to 4 years. And of course, what we try to do is optimize that first view. Whenever we optimize it, it's good. What has happened in the past also that we have deferred some of the projects, especially that has been the case in Juanicipio, also with the -- with San Julián as well, that was a very challenging project in terms of construction. So -- and Juanicipio for some of the reasons that we explained at that moment. Fresnillo, I think, has been the case in which we've been falling short of our expectations in the past. I think we've been a bit optimistic there in terms of the development rate that we were planning to achieve. However, going from 3,000 meters per month to 3,600 and 3,800 that we achieved in the past, gave us a possibility to have Fresnillo in a much better position right now. And

that's why it's been 2 years in which we have increased the production. And this year, we are aiming -- as I mentioned, we have the production stopes ready. It's just a matter of workforce that we will be achieving with contractors. But we feel more confident of -- in Fresnillo as well achieving a third consecutive year of increased production. The other question was?

Gabriela Mayor

Head of Investor Relations

Around succession planning.

Octavio M. Alvidrez

Chief Executive Officer

Well, succession planning. Mr. Alejandro Baillères was named Vice -- Deputy Chairman. Deputy Chairman in our last board meeting. The Baillères family with Alejandro is third-generation in mining, very experienced and the [column] in our -- [columns] in our company. So Alejandro has been in the board several years now and just recently been named Deputy Chairman. Mr. Alberto Baillères, our Chairman -- our current Chairman, I mean is very hands-on, very active, is the core of our company and our strategy and is still the case.

Gabriela Mayor

Head of Investor Relations

Any more questions?

Octavio M. Alvidrez

Chief Executive Officer

Any further questions, operator?

Operator

We have no further questions in the queue.

Octavio M. Alvidrez

Chief Executive Officer

Okay, thank you very much all. Have a pleasant day with no snow.

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