Fresnillo plc
Financial results for the year ended 31 December 2021

Fresnillo plc today announced its financial results for the full year ended 31 December 2021.

Octavio Alvídrez, CEO said:

"The continued impact of the pandemic, combined with the new Mexican labour reform, have presented Fresnillo with operational challenges during the year. More recently, we were all devastated to report the passing of Alberto Baillères, our Honorary Chairman. Don Alberto was a remarkable man. We will miss his guidance, compassion, encouragement and faith.

Despite the challenges, we delivered a creditable performance. Silver production of 53.1 moz (including Silverstream), was marginally below guidance, but flat vs. FY20. Gold production of 751.2 koz, was however ahead of guidance, down 2.4% vs. FY20.

We reported US$2,847.9 million in adjusted revenue, an increase of 9.2%, primarily due to better prices for precious metals. Gross profit rose year-on-year by 6.5% to US$936.9 million. We maintained our strong financial position as cash and other liquid funds increased from US$1,070.4 million in 2020 to US$1,235.3 million in 2021. We declared an interim dividend of 9.90 US cents per share, with a final dividend of 24.0 US cents per share, bringing the total for the year to 33.9 US cents per share, in line with our consistent dividend policy.

Regrettably, a fourth wave of Covid-19 has reached Mexico and we began to see the impact of this in terms of staff absenteeism from the 2nd week of December and accelerated throughout the first few weeks of the year. The safety and well-being of our people is our priority. Covid protocols remain in place, but we are relieved to see the omicron variant presents a lesser health risk. Nonetheless, we are seeing greater levels of absenteeism which in turn is having an impact across our business.

The labour reform in Mexico restricting the ability to subcontract labour came into effect from 1st September 2021 resulting in the requirement to internalise a high proportion of our contractor workforce. Subsequent contractor uptake has varied, with underground mines more affected resulting in an increased number of vacancies and a higher workforce turnover. This has affected equipment availability and utilisation rates. The actions we announced to address this challenge will continue, including recruitment campaigns, training and investment in new equipment. These campaigns are proving effective. We expect to have completed the staffing process in the Fresnillo District and Ciénega in the third quarter, while our open pit mines, which have seen a lesser impact, should be fully staffed during 1Q22.

We made good progress on our development projects. The new Juanicipio mine was completed at the end of 2021, as planned. However, approval to complete the tie-in to the national power grid was not granted by Comisión Federal de Electricidad (CFE), the state-owned electrical company, before year end as expected. The mill commissioning timeline was therefore extended by approximately six months. Juanicipio will be an increasingly major influence in our operations, on average producing 11.7 moz silver and 43.5 koz gold a year for the life of mine. Similar covid-related delays related to energy inspection and new requirements also affected the start-up of the new Pyrites Plant at the Fresnillo mine.

Our longer term growth pipeline remains strong. The increased exploration budget for 2021 supported an intensive programme across all our operations, with the aim of increasing the resource base, converting inferred resources into indicated, and improving the confidence of the grade distribution in our reserves.

We are making steady progress with our next development projects at Rodeo and Orisyvo, where we expect to commence production towards the end of 2024 and 2025 respectively, subject to Board approval.

We are committed to playing our part in fighting climate change by mitigating our environmental impact wherever possible. We have completed our project to install dual fuel engines that run on both Liquid Natural Gas (LNG) and diesel as planned. In 2021, 49.7% of our electricity consumption came from renewable sources and we are focused on achieving our target of using wind power to provide 75% of our electricity by 2030.

Looking ahead we remain alert to potential on-going challenges that are outside our control, not least possible further regulatory reform, inflationary pressures and of course the threat of new covid variants. Lower production and recovery rates at Herradura and the continuing workforce shortages at Saucito caused by the new labour reform – as well as the impact of recent geotechnical instability in the Saucito area – are also likely to add to the pressures we may face in 2022. In addition, the extension to the timeline for the tie-in to the national grid of both the Juanicipio plant and the Pyrites Plant mean that we now expect lower contributions than previously anticipated from these operations during 2022.

However, we expect our exploration pipeline to continue making good progress, particularly at the Rodeo Orysivo and Guanajuato projects. Precious metals prices also established what looks to be a realistic floor towards the end of the year and our view is that a period of higher prices is the most likely outcome. We therefore look forward to 2022 with determination and confidence"

Financial Highlights - 12 months to 31 December 2021

$ million unless stated	***2021***	***2020***	% ***change***
Silver Production (kOz)*	*53,095*	*53,050*	*0.1*
Gold Production (Oz)*	*751,203*	*769,618*	*(2.4)*
Total Revenue	*2,703.1*	*2,430.1*	*11.2*
*Adjusted Revenue***	*2,847.9*	*2,608.1*	*9.2*
Gross Profit	*936.9*	*879.4*	*6.5*
EBITDA	*1,206.3*	*1,169.1*	*3.2*
Profit Before Income Tax	*611.5*	*551.3*	*10.9*
Profit for the year	*438.5*	*375.6*	*16.8*
*Basic and Diluted EPS excluding post-tax Silverstream effects (USD)****	*0.572*	*0.440*	*30.0*

* *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 ordinary shares was 736,893,589 for 2021 and 2020. See note 17 in the consolidated financial statements.*

2021 Highlights

Strong financial results, supported by high precious metals prices and a robust operational performance

- Adjusted revenue increased 9.2% over 2020 primarily due to a higher silver price.
- Revenue increased 11.2% year-on-year to US$2,703.1 million due to the higher adjusted revenue combined with lower treatment and refining charges.
- Adjusted production costs increased mainly as a result of a 9.6% cost inflation combined with the 5.6% average revaluation of the Mexican peso vs. US dollar.
- Gross profit and EBITDA increased to US$936.9 million and US$1,206.3 million, a 6.5% and 3.2% increase over 2020.

- US$1,235.3 million in cash and other liquid funds[1] as of 31 December 2021 notwithstanding paying dividends of US$245.6 million, investing US$592.1 million in capex and spending US$130.3 million on exploration expenses to underpin our future growth.
- Net cash was US$67.5 million as at 31 December 2021. This compares to the net debt position of US$97.4 million as at 31 December 2020.
- Final dividend of 24.0 US cents per Ordinary Share. This is in addition to the interim dividend of 9.90 US cents per share amounting to US$73.0 million. This final dividend is higher than the previous year due to the higher profit in 2021, and remains in line with the Group's dividend policy.

Maintaining focus on operational improvement, addressing challenges of Labour Reform and Covid-19

- To support the wellbeing of our people and their communities, we continued to engage extensively and play our part as a large employer and supportive neighbour. We maintained our investment in local healthcare including contributing testing equipment and vaccines – as well as in the provision of employment opportunities and education programmes.
- Actions to mitigate the impact of new labour reforms include new recruitment campaigns, training and investment in new equipment, to date proving effective. We expect to complete the staffing process in the Fresnillo District and Ciénega in the 3Q 2022. Our open pit mines, which have experienced less of an impact, should be fully staffed during the first quarter of the year.
- Infrastructure projects continued to progress:
    - The deepening of the San Carlos shaft at Fresnillo remains on track for completion in 2022.
    - At Saucito, we continued with the project to deepen the Jarillas shaft to 1,000 metres with completion in 2025; this will reduce haulage costs by providing access to deeper levels of the mine where almost half of the reserves are located.

Progressing new development projects and investing in long term future

- Juanicipio plant construction was completed towards the end of 2021, as planned though the tie-in to the national power grid was not granted by Comisión Federal de Electricidad (CFE), the state-owned electrical company, before year end as expected. The mill commissioning timeline was therefore extended by approximately six months to comply with new requirements from Centro Nacional de Control de Energía. (CENACE), the state regulator. Juanicipio is set to be an increasingly major influence in our operations later this year, with annual silver and gold production expected to average 11.7 moz and 43.5 koz respectively over the life of mine.
- New Pyrites Plant at the Fresnillo mine was also completed on time. Similar grid tie-in delays impacted the start-up of the plant. When fully operational, we anticipate that it will produce an average of 3.5 moz of silver and 13 koz of gold per year, including production from Saucito.
- US$30 million plant optimisation project to improve the recovery of lead and zinc from the lower levels of the Fresnillo mine was commissioned as planned. The flotation circuit was connected on schedule early in the year and we are now seeing an improved quality of concentrates, better recovery rates and greater control of impurities.
- The increased exploration budget for 2021 supported an intensive programme across all our operations, aiming at increasing the resource base, converting inferred resources into indicated, and improving the confidence of the grade distribution in our reserves.
    - Silver resources stood at 2.3 boz, a slight increase of 1.2% over 2020 mainly as a result of the exploration efforts at Fresnillo and San Julián Veins. Gold resources remained stable at 39.0 moz.
    - Silver reserves decreased 9.0% to 419.8 moz mainly due to depletion at Fresnillo, Saucito and San Julián (DOB). Gold reserves decreased by 7.7% to 7.8 moz primarily due to more stringent geotechnical and cost considerations at Herradura and depletion at Noche Buena.
    - Exploration continued in Peru and Chile, where we developed new drill targets and restructured our organisation and reporting procedures in order to speed up and streamline our activities.

- Advanced exploration projects at Rodeo and Orisyvo continued to make good progress. We currently expect to commence production at Rodeo and Orisyvo towards the end of 2024 and 2025 respectively, subject to Board approval.

Cautious 2022 outlook, confidence in longer term prospects

- Lower production and recovery rates at Herradura and the continuing workforce shortages at Saucito caused by the new labour reform – as well as the impact of seismicity in the Saucito area, will impact 2022, as will the extension to the timeline for the tie-in to the national grid of both the Juanicipio plant and the Pyrites Plant.
- Given this context, our 2022 attributable silver production remains in the range of 50.5 to 56.5 moz (including Silverstream) while our attributable gold production continues to be in the range of 600 to 650 koz.
- Further, Fresnillo remains positive about the outlook for precious metals prices which will support the financial performance of the business.
- Some uncertainty remains including over inflationary pressures and potential for new regulatory change in Mexico.
- However, our proven ability to deliver development projects on time and budget, combined with our extensive medium term pipeline provide basis for considerable confidence in the long term future.

Analyst Presentation

Fresnillo plc will be hosting a webcast presentation for analysts and investors today at 9:00am (GMT). Registration and access will be provided on the homepage of Fresnillo's website and directly via this link: https://kvgo.com/IJLO/Fresnillo-FY21-Preliminary-Results

For those unable to access the webcast, a conference line will also be provided:

UK: +44 (0) 33 0551 0200
US: 1 866 966 5335
MX: 00 1 866 966 8830
Password: Quote "Fresnillo" when prompted by the operator

Questions may be submitted via the conference dial-in.

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 Las Casas Rosario & Cluster Cebollitas), Herradura, Soledad-Dipolos[1], Noche Buena and San Julián (Veins and Disseminated Ore Body), two development projects - the Pyrites Plant at Fresnillo and Juanicipio, both of which have been completed but approvals to operate are pending, and three advanced exploration projects – Orisyvo, Rodeo and Guanajuato, as well as a number of other long term exploration prospects.

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

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

Chairman's statement

Living up to our Purpose, building up our resilience

This last year has again seen our Purpose come to the fore - supporting our people through the continuing challenge of Covid-19, as well as the new labour reform, and enabling them to maintain satisfactory levels of production. As we move into 2022, we are continuing to adjust to the labour reform and invest in infrastructure that will make Fresnillo a more resilient business.

I am pleased to present my first Annual Report statement as Chairman of Fresnillo. Having been a member of the Board since 2012, I know that I have the support of a committed Board and management team executing a proven long-term strategy. Under my Chairmanship, continuity will be the watchword: we will remain loyal to our core principles, ensuring we always behave in a way that is faithful to our Purpose and contributes to the wellbeing of all stakeholders – including shareholders, our workforce, local communities, suppliers, government authorities and the environment.

Before turning to our performance for 2021, I would like to pay personal tribute to my father Alberto Baillères, who sadly passed away on 2 February 2022, having stepped down as Chairman in April 2021. He chaired Fresnillo with distinction since our listing in London, though his leadership of the Group extended over half a century. The Board and I believe that the best way to honour his memory is to preserve and build on his legacy of responsibility, integrity and respect – these are not only the values of Fresnillo but also the principles by which my father lived his professional and personal life.

Delivering on our promises

As we anticipated, the pandemic again disrupted our activities in 2021, although not to the same extent as the previous year. The introduction of new labour legislation added to the challenges we faced and caused additional disruption during the year, primarily at our underground mines. This meant that silver production fell marginally below guidance, while higher production at Herradura helped us to exceed our guidance for gold production.

We achieved US$2,703.1 million in total revenue and US$2,847.9 million in adjusted revenue during the year. This represented an increase of 11.2% and 9.2% respectively, primarily due to better prices for silver. Gross profit rose year-on-year by 6.1% to US$936.9 million, primarily driven by higher prices. Cash and other liquid funds increased from US$1,070.4 million to US$1,235.3 million, reflecting the increased cash generated by the mines.

Our approach is to remain steady, constant and focused on the long term through all the various cycles that may impact our business. Our strategy is well established, and our dividend policy remains unchanged. We aim to pay out 33-50% of profit after tax each year, while making certain adjustments to exclude non-cash effects in the income statement. Dividends are paid 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 flow. Our goal 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 $9.90 US cents per share, with a final dividend of 24.0 US cents per share, bringing the total for the year to 33.9 US cents per share.

Living up to our Purpose
Once again, our Purpose has been at the heart of how we think and act, and it has supported our people and their communities through what were at times difficult and demanding days.

Our Purpose is to contribute to the wellbeing of people through the sustainable mining of silver and gold.

Thanks in large part to the protocols we introduced in our mines and to the testing and vaccination programme that we continued to support for our people and their communities, we have managed to loosen the grip of the pandemic. We have built on the extensive and unprecedented experience we gained in the previous year, working with the municipal and federal authorities to enable our people to continue working through the third and fourth waves of Covid-19, albeit with some inevitable restrictions.

During my many visits to our operating units, it has been particularly pleasing to see that our people increasingly engage with our Purpose. They were of course familiar with the words, but since the onset of the pandemic they have witnessed the actions behind those words. Our Purpose is not an empty corporate promise but a way of thinking and acting that guides everything we do and every decision we take, from stope to Boardroom – with the health and safety of our people always our overriding priority.

Building up our resilience
Our experience with the pandemic has underlined the need for our business, our people and our communities to be resilient to many factors that could affect us. During 2021 we focused on building up our resilience across four key areas.

For example, we continued to build greater production resilience through the development of our new mine at Juanicipio, which we expect to produce an annual average of 11.7 MOZ silver and 43.5 KOZ gold when fully operational. Following construction of the Juanicipio plant on schedule, we expected to be granted approval for connection to the national power grid by the end of the year. Unfortunately, this was delayed and as a result we have extended the commissioning timeline by approximately six months to comply with new requirements from the authorities. Future Group production will also be underpinned by the start-up of the new Pyrites plant at Fresnillo. In addition, we continued to invest in efficiency improvements at the Fresnillo mine through a series of infrastructure investments.

Our exploration activities have continued to deliver a more resilient pipeline, with the increased budget for 2021 supporting extensive brownfield activities in the Fresnillo and San Julián Districts, as well as good progress at Guanajuato.
Across the business, the support of our workforce has been vital to our past successes and future plans. We rely on our people for their skills and commitment and do everything we can to provide them with rewarding careers. During 2021, one of our greatest challenges was to continue to benefit from a trained and supportive workforce in the face of major legislative change. Mexico's new labour reform law came into effect in September, restricting our ability to subcontract labour. Our response was to work hard to retain as many of our contractors' people as possible, bringing them in-house to join our unionised employees. This was a demanding and somewhat disruptive process, and I would like to thank everybody involved for their perseverance and patience. Ultimately, we believe that although the move away from outsourcing may be a challenge in the short term, in the medium

and long term it will lead to a more cohesive and resilient workforce. The Chief Executive comments further on labour reform in his statement.

During the year, we also supported greater resilience in the communities where our people live, by maintaining our commitment to investment in local healthcare – including providing Covid-19 testing equipment and vaccines – employment, education programmes, capacity building, training and support for local entrepreneurs.

Board activities
The Board met regularly through the year and discussed a wide range of matters, from how the Company was supporting vaccination programmes in remote communities to the impact of the new labour reforms.

One of our most important tasks is to maintain oversight of Fresnillo's culture, and we received regular updates on how our Purpose and values continued to be the beacons that guide our actions. During 2021, we were pleased to see our teams develop a five-hour online training module to promote diversity, equality and inclusion. We comply with the ethnic diversity targets set for FTSE100 Boards and continue to make good progress in developing an inclusive culture. This includes promoting the participation of women in our workforce, with the total percentage of women increasing to 11.0% in 2021 from 9.7% in the previous year. Our Board composition during 2021 meant that we were one of the most gender progressive companies in Mexico according to both the 50/50 Women on Boards Gender Diversity Index and the Women Corporate Directors Foundation.

Workforce engagement was again a key agenda item for the Board. Bringing workers' voices into the Boardroom enables us to incorporate their perspective into our strategic discussions and decision making. Our Designated Non-Executive Director (NED) for workforce engagement held two online meetings with unionised and non-unionised employees during the year, gaining valuable insight into strategically important topics such as health, safety, Covid-19, ethical culture, inclusion, and gender equality.

I provide more details of the Board's activities in my introduction to the Governance Report on, including how we supported our people and local communities through the pandemic.

Board changes
In April 2021, we announced a number of Board changes that took effect at the AGM in June, including the stepping-down of my father as Chairman of Fresnillo and my subsequent appointment as his successor.

The Board was delighted to welcome two new directors at the AGM. Héctor Rangel joined us as an independent non-executive director – a position he previously held from April 2008 to January 2009 – and Eduardo Cepeda as a non-executive director. Both directors have extensive expertise in finance and the business environment in Mexico and have already brought valuable insights to the Board.

Héctor is the President of BCP Securities Mexico, a joint venture with BCP Securities LLC, a US investment bank specialising in emerging markets. Prior to this role, he was the Chief Executive Officer of Nacional Financiera S.N.C. and Banco Nacional de Comercio Exterior and a member of Mexico's cabinet under President Felipe Calderon. He has wide-ranging corporate and investment banking expertise having held various executive positions with the Grupo Financiero Bancomer from 1991 until 2008, including a tenure as Chairman of the Board. Héctor has also been appointed a member of the Audit Committee.

Eduardo was President and Senior Country Officer at JP Morgan based in Mexico City from 1993 to 2019. He was also Chief Executive Officer of JP Morgan Wealth Management Latin America from 2009 to 2012. As a key participant in the growth and development of JP Morgan's business in Mexico and Latin America, he has led many important investment banking transactions, both in the public and private sectors.

The Board also approved several recommendations from the Nominations Committee during the year. These included the appointment of Alberto Tiburcio as Chairman of the Remuneration Committee, with Charles Jacobs becoming a member of the Nominations Committee. At the same time, I was honoured to succeed my father as Chairman of the Nominations Committee, and as a member of the Remuneration Committee.

Outlook

There is an inevitable degree of caution around expectations for 2022 and beyond, with operational challenges being potentially worsened by the pandemic – and the knock-on effect on workforce availability – as well as by the ongoing impact following the implementation of the new labour law. However, one thing is certain: we will remain steadfast to our Purpose and will continue to put the health and safety of our people at the centre of every decision.

On behalf of the Board, I would like to thank all our people – from those working in the mines to our executive management team – for their dedication and expertise during the year. We have increased production, built up our resilience and equipped Fresnillo with the strength and attributes to continue delivering long-term value to all our stakeholders. Together, supported by our culture and guided by our Purpose, we face the future with confidence.

Alejandro Baillères
Chairman

Chief Executive's statement

A creditable performance, a more resilient future

Following the most disrupted and unforeseen year in our history, 2021 was an altogether calmer and more predictable period for Fresnillo. Guided by our Purpose, we continued to focus on the wellbeing of people while, at the same time, achieving a respectable operational performance and continuing to position the Company to meet the challenges of future years.

Although Covid-19 again casted a shadow over the world, the lessons we learnt during 2020 were instrumental in helping Fresnillo minimise the pandemic's impact – keeping our people safe, supporting our efficiency improvement programmes and, ultimately, enabling us to record a creditable performance. While we remain vigilant regarding the evolution of the pandemic and its potential impact on our operations, our teams have adapted well to new protocols and this helped us deliver silver production marginally short of guidance, with gold production exceeding expectations.

To support the wellbeing of our people and their communities, we continued to engage extensively and play our part as a large employer and supportive neighbour. As a result, we maintained our investment in local healthcare – for example by contributing testing equipment and vaccines – as well as in the provision of employment opportunities and education programmes, including an initiative to ensure that families in remote communities could access educational content via the internet while schools were closed due to the pandemic.

Environment, Social and Governance (ESG) matters sit at the heart of our Purpose, and in 2021 we further strengthened our commitment by expanding our ESG team. Our first ESG Compliance Manager is now in post – and in the coming months we expect to appoint an Operations Manager based in the mines to provide feedback directly to our senior management.

Production highlights and price review

With some restrictions necessitated by the pandemic adding to limited short term disruption as a result of the new labour reforms discussed below, our production of silver fell marginally below guidance while production of gold exceeded forecasts.

Total silver production was 53.1 MOz, in line with the previous year. Higher ore grades at San Julián DOB and, to a lesser extent, the contribution of development ore from Juanicipio, were offset by a lower ore grade and volume at Saucito and Fresnillo.

Gold production was down by 2.4% vs. the previous year, to 751.2 KOz. This was primarily due to a lower ore grade at Ciénega, and a lower ore grade and volume of ore processed at San Julián Veins, partly mitigated by a greater volume of ore processed and a higher ore grade at Noche Buena.

Attributable by-product lead production decreased 10.5% to 56,573 tonnes primarily due to a decrease in volume of ore processed and lower ore grade at Saucito and Fresnillo and a lower ore grade at Ciénega, while attributable by-product zinc production decreased 6.9% due to a lower volume of ore processed and ore grade at Saucito and, to a lesser extent, lower ore grade and recovery rate at Ciénega.

Precious metals prices began the year on a high, continuing the trend established in 2020. However, they fell away to an extent during the second half as the global economic uncertainty created by the pandemic receded and investors again sought returns in areas such as equities and crypto currencies. The average realised silver price was US$24.9 per ounce, an increase of 16.9% over the previous year, and for gold prices remained relatively flat at US$1,795.0 per ounce. Average prices for zinc and lead increased by 31.7% and 21.6% respectively.

Delivering value through a proven strategy
Our strategy has remained unchanged since our earliest days. Tried, tested and proven to deliver long-term shareholder value, it was again the engine room for our performance during 2021. The strategy consists of four distinct pillars:

<u>Maximising the potential of existing operations</u>
Our ability to drive production was impacted to an extent by Mexico's new labour reform which restricted our ability to subcontract labour. The law came into effect on September 1st 2021, and led to us having to bring a proportion of our contractor workforce into the company as employees. Historically, a trained and motivated contractor workforce has been a key aspect of our way of working and the reform has necessitated significant work. While we took steps to prepare following the announcement of the reform in April, subsequent contractor uptake varied. In particular, our underground mines in the Fresnillo District and at Ciénega were more affected due to a higher number of contractor personnel working on site, and this led to an increased number of staff vacancies and greater workforce rotation. This in turn affected equipment availability and utilisation rates.

We continue to take a series of actions to mitigate the impact of the law, including new recruitment campaigns, training and investment in new equipment. These actions are proving effective and we expect to complete the staffing process in the Fresnillo District and Ciénega in the third quarter of 2022. Our open pit mines, which have experienced less of an impact, should be fully staffed during the first quarter of the year. I believe that in the long term the switch to relying on our own resources instead of those of contractors will make Fresnillo a more operationally resilient business.

Home to the Fresnillo and Saucito mines as well as our new mine at Juanicipio, the Fresnillo district is the foundation for the Group's silver production, due to its extensive reserves and resources. As we mine deeper, our challenge is to develop more metres across a greater number of veins and to focus on productivity, cost control and technology investment. We made progress on a number of infrastructure investments during the year, including a new pumping station and electricity infrastructure.

The deepening of the San Carlos shaft at Fresnillo remains on track for completion in 2022. It will provide easier and faster access to 56% of the mine's reserves, enabling us to significantly reduce haulage costs. At Saucito, we continued with the project to deepen the Jarillas shaft to 1,000 metres. Again, when completed in 2025, this will reduce haulage costs by providing access to deeper levels of the mine where almost half of the reserves are located.

Delivering growth through development projects

Our new mine at Juanicipio was completed towards the end of 2021, as planned. Unfortunately, approval to complete the tie-in to the national power grid was not granted by Comisión Federal de Electricidad (CFE), the state-owned electrical company, before year end as expected. The mill commissioning timeline was therefore extended by approximately six months to comply with new requirements from Centro Nacional de Control de Energía. (CENACE), In the meantime, we are continuing pre-commissioning testing before ramping up operations once the required permits have been granted.

From 2022 onwards, Juanicipio will be an increasingly major influence in our operations, with silver and gold production expected to reach annual averages of 11.7 MOz and 43.5 KOz respectively. During 2021, development ore from Juanicipio was processed in the Fresnillo processing plant, with 1.8 MOz of silver and 3.7 KOz of gold produced during the period.

Delays related to energy inspection and certification, together with issues caused by the pandemic, also affected the start-up of the new Pyrites Plant at the Fresnillo mine. Although completed late in 2020, connection to the national power grid was unexpectedly delayed by similar circumstances to those we experienced at Juanicipio. The result was again an extension of six months to the commissioning timeline in order to comply with new requirements. Once the Pyrites Plant is fully operational, we anticipate that it will produce an average of 3.5 MOz of silver and 13 KOz of gold per year, including production from Saucito.

The US$30 million plant optimisation project to improve recovery of lead and zinc from the lower levels at Fresnillo continued as planned. The flotation circuit was connected on schedule early in the year and we are now seeing an improved quality of concentrates, better recovery rates and greater control of impurities. Originally planned for this coming year, the installation of vibrating screens to improve milling capacity at the plant continues to be an option. However, we are not yet totally satisfied that doing so will create the right balance between throughput and recovery, and other courses of action remain under consideration.

Extending the growth pipeline

The increased exploration budget for 2021 supported an intensive programme across all our operations, with the aim of increasing the resource base, converting inferred resources into indicated, and improving the confidence of the grade distribution in our reserves. In total, our exploration teams drilled 835,396 metres, around 91% of which was in brownfield sites, notably in the Fresnillo and San Julián districts. We obtained good results that have increased both inferred and indicated resources at these sites. The remaining 9% involved activities on greenfield projects in Guanajuato in Mexico and at the Capricornio and Condoriaco projects in Chile. We also intensified our geological mapping and geochemical sampling activities in the Fresnillo, Herradura and San Julián districts, as well as in Guanajuato.

Our advanced exploration projects at Rodeo and Orisyvo continued to make good progress. We engaged local communities to acquire access to land at Rodeo, which holds inferred and indicated resources amounting to 13.8 MOz of silver and 1.3 MOz of gold. Although negotiations have been subject to delay, we nevertheless expect to finalise them in 2022. At Orisyvo, we carried out conceptual work – including detailed metallurgy testing which has enabled us to update the feasibility study – and have prepared a 6,000-metre drilling programme to confirm the geotechnical model. The key to further progress is again access to land, and we have started discussions with the owners. We currently expect to commence production at Orisyvo towards the end of 2025.

Exploration continued in Peru and Chile, where we developed new drill targets and restructured our organisation and reporting procedures in order to speed and streamline our activities. We also participated in a number of the new arrangements for awarding concessions that are currently being pursued by the Peruvian government.

With inflationary pressures likely to compress our margins and the labour reform challenges of this year set to continue, we have reduced the exploration budget for 2022. Nevertheless, I am confident that the skills of our exploration teams and the outstanding geologies of both our brownfield and greenfield sites will continue to ensure that we increase or maintain our reserves and resources.

Silver resources stood at 2.3 Boz, a slight increase of 1.2% over 2020 mainly as a result of the exploration efforts at Fresnillo and San Julián Veins. Gold resources remained stable at 39.0 MOz. Silver reserves decreased 8.2% to 419.8 MOz mainly due to depletion at Fresnillo, Saucito and San Julián (DOB). Gold reserves decreased by 7.1% to 7.8 MOz primarily due to more stringent geotechnical and cost considerations at Herradura and depletion at Noche Buena.

Advancing and enhancing the sustainability of our operations

The safety of our people is always our top priority, and we continued to roll out the 'I Care, We Care' programme across the business. This has helped us achieve a significant reduction in incidents over recent years, including in 2021 when we saw the Total Recordable frequency rate improve from 13.9 injuries per one million hours worked to 10.4 and the Lost Time Injury rate from 6.2 to 5.8. However, we were deeply saddened that in August one of our employees experienced a fatal accident at the Fresnillo mine. We worked with the relevant authorities to carry out a full independent investigation and are continuing to provide support to the employee's family and colleagues. We are committed to following up on this incident and to complying with measures derived from the Root Cause Analysis (RCA) process in order to avoid similar accidents in the future. This incident is a timely reminder that no matter how hard we may work to reduce the likelihood of incidents, safety is a never-ending challenge that requires diligence and the correct observance of protocols at all times.

We have continued to build greater resilience into our portfolio of Tailings Storage Facilities (TSFs) and are committed to implementing sector-specific standards and best practices that follow the guidelines of the International Council of Mining and Metals (ICMM), the International Commission on Large Dams (ICOLD), the Canadian Dam Association (CDA) and the Mining Association of Canada (MAC). Our Independent Tailings Review Panel provides holistic guidance and recommendations for the safe design, construction and operation of our TSFs. We also have Master Services Agreements in place with a number of consultancies and, through them, have named our Engineers of Record. In addition, we have implemented satellite monitoring of our units and have reinforced surveillance and instrumental monitoring of our structures to enable improved decision-making during construction and operation. We fully understand community concerns around TSFs and will continue to invest in their safety in the short, medium and long term.

As the COP26 conference again underlined, climate change is engaging and energising governments and organisations across the world – and we are committed to playing our part by mitigating our environmental impact wherever possible. We will complete our project to install dual fuel engines that run on both Liquid Natural Gas (LNG) and diesel in 2022 as planned, and during the last year we invested in infrastructure to ensure we have the appropriate LNG storage capacity at Herradura. We anticipate seeing the first environmental and cost benefits next year, as both our diesel consumption and CO_2 footprint decrease. In addition, we remain committed to achieving our target of using wind power to provide 75% of our electricity by 2030, assuming that Mexico's energy policy allows us to do so.

We continue to analyze our Energy Strategy in order to pursue a decarbonisation pathway that will be operationally and technologically viable. We are committed to playing our role in mitigating climate change and have improved our TCFD disclosures year on year. During the year ahead, we aim to carry out a thorough review of our current operations to gain insights that will allow us to ramp up our actions from disclosure to action and set emission reduction targets.

The hard work and commitment of our people towards ESG was again recognised by a broad group of authorities and our peers. For example, we were proud to be recognised as one of the World's Most Ethical Companies by Ethisphere, for the second successive year. We have also been members of the FTSE4Good Index since 2017.

Looking ahead
A degree of uncertainty surrounds the coming 12 months, driven to a significant extent by issues that are beyond our control. Inflationary pressures, the impacts of various laws and the attitude of the Government in Mexico to mining all have the potential to influence our progress. Part of a broad range of issues that are currently affecting many industries in Mexico, the exploration, concessions and permitting processes for mining are no longer as efficient and dynamic as in the past, and these could present difficulties. Furthermore, there is a latent risk that power self-supply contracts could be annulled along with the Wholesale Electricity Market (MEM), hampering our ability to increase the role of renewables in our energy portfolio and potentially increasing operating costs.

Lower production and recovery rates at Herradura and the continuing workforce shortages at Saucito caused by the new labour reform – as well as the impact of recent geotechnical instability in the Saucito area – are also likely to add to the pressures we may face in 2022. In addition, the extension to the timeline for the tie-in to the national grid of both the Juanicipio plant and the Pyrites Plant mean that we now expect lower contributions than previously anticipated from these operations during 2022.

On the upside, we expect our exploration pipeline to continue making good progress, particularly at the Rodeo and Orisyvo projects as well as at Guanajuato and across the Fresnillo district. Precious metals prices also established what looks to be a realistic floor towards the end of the year. Although prices in 2022 will as always be influenced by economic conditions in China, the US and the EU, as well as other variables, our view is that a period of higher prices is the most likely outcome.

I would like to thank the Board and all our people for their support over the last 12 months. This has been another challenging period for a variety of reasons, and Fresnillo would not have been able to deliver such a good set of results in difficult circumstances without their expertise, cooperation and willingness to always go the extra mile for our business.

To conclude, on behalf of all my colleagues at Fresnillo, I would like to offer my sincere condolences following the death of Mr Alberto Baillères. His leadership, vision and direction were largely responsible for making our Company the force it is today, and our thoughts are with his family at this difficult time. He will be greatly missed.

Octavio Alvídrez
Chief Executive Officer

FINANCIAL REVIEW

The consolidated Financial Statements of Fresnillo plc are prepared in accordance with International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. 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 2021 figures compared to 2020, unless otherwise noted. The financial information and year-on-year variations are presented in US dollars, except where indicated.

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

COMMENTARY ON FINANCIAL PERFORMANCE

In 2021, the Group achieved a satisfactory financial performance which was supported by higher metals prices, and partly offset by cost inflation, the adverse effect of the revaluation of the Mexican peso vs. the US dollar and Company-specific challenges. In particular, Adjusted revenue increased 9.2% over 2020 primarily due to a higher silver price, while revenue increased 11.2% year-on-year to US$2,703.1 million due to the higher adjusted revenue combined with lower treatment and refining charges. Adjusted production costs [2] increased mainly as a result of 9.6% cost inflation combined with the 5.6% average revaluation of the Mexican peso vs. US dollar. These increases were amplified by the higher volumes of ore processed at Herradura and Noche Buena and the increase in waste material moved at Herradura following the lifting of Covid-19 operational restrictions in 1H20, and by increased consumption of operating materials, higher maintenance costs and additional personnel required to comply with the labour reform. Additionally, costs from processing development ore at Juanicipio further increased adjusted production costs. As a result, gross profit and EBITDA increased to US$936.9 million and US$1,206.3 million, a 6.5% and 3.2% increase over 2020 respectively.

We maintained our strong financial position, with US$1,235.3 million in cash and other liquid funds[1] as of 31 December 2021 notwithstanding paying dividends of US$245.6 million in accordance with our policy, investing US$592.1 million in capex and spending US$130.3 million on exploration expenses to underpin our future growth.

INCOME STATEMENT

	2021 US$ million	2020 US$ million	Amount Change US$ million	Change %
Adjusted revenue [1]	2,847.9	2,608.1	239.8	9.2
Total revenue	2,703.1	2,430.1	273.0	11.2
Cost of sales	(1,766.2)	(1,550.7)	(215.5)	13.9
Gross profit	936.9	879.4	57.5	6.5
Exploration expenses	130.3	107.3	23.0	21.4
Operating profit	666.7	649.7	17.0	2.6

[1] Adjusted revenue is revenue as disclosed in the income statement adjusted to exclude treatment and refining charges and metals prices hedging.

EBITDA [2]	1,206.3	1,169.1	37.2	3.2
Income tax expense including special mining rights	173.1	175.6	(2.5)	(1.4)
Profit for the period	438.5	375.6	62.9	16.7
Profit for the period, excluding post-tax Silverstream effects	438.8	325.9	112.9	34.6
Basic and diluted earnings per share (US$/share) [5]	0.572	0.508	0.064	12.6
Basic and diluted earnings per share, excluding post-tax Silverstream effects (US$/share)	0.572	0.440	0.132	30.0

The Group's financial results are largely determined by the performance of our operations. However, other factors, such as a number of macroeconomic variables, lie beyond our control and affect financial results. These include:

METALS PRICES

The average realised silver price increased 16.9% from US$21.3 per ounce in 2020 to US$24.9 per ounce in 2021, while the average realised gold price remained flat year-on-year at US$1,795.0 per ounce in 2021 (up 0.1%). Furthermore, the average realised lead and zinc by-product prices increased 21.6% and 31.7% over the previous year, to US$1.00 and US$1.39 per pound, respectively.

MX$/US$ EXCHANGE RATE

The Mexican peso/US dollar spot exchange rate at 31 December 2021 was $20.58 per US dollar, compared to the exchange rate at 31 December 2020 of $19.95 per US dollar. The 3.2% spot devaluation had an adverse effect on taxes and mining rights as it resulted in an increase in related deferred tax liabilities. It also affected the net monetary peso asset position, which contributed to the US$1.9 million foreign exchange loss recognised in the income statement.

The average spot Mexican peso/US dollar exchange rate appreciated by 5.6% from $21.49 per US dollar in 2020 to $20.28 per US dollar in 2021. As a result, there was an adverse effect of US$36.0 million on the Group's costs denominated in Mexican pesos (approximately 45% of total costs) when converted to US dollars.

COST INFLATION

In 2021, cost inflation was 9.6%. The main components of our cost inflation basket are listed below:

Labour

Unionised employees received on average a 6.5% increase in wages in Mexican pesos, while non-unionised employees received on average a 4.0% increase in wages in Mexican pesos; when converted to US dollars, this resulted in a weighted average labour inflation of 12.0%.

Energy

Electricity

The weighted average cost of electricity in US dollars increased 12.6% from US$7.77 cents per kw in 2020 to US$8.74 cents per kw in 2021, due to the higher average generating cost of the Comisión Federal de Electricidad (CFE), the national utility.

[2] Earnings before interest, taxes, depreciation and amortisation (EBITDA) is calculated as profit for the year from continuing operations before income tax, less finance income, plus finance costs, less foreign exchange gain/(loss), less revaluation effects of the Silverstream contract and other operating income plus other operating expenses and depreciation.

Diesel

The weighted average cost of diesel in US dollars increased 21.8% to 87.9 US cents per litre in 2021, compared to 72.2 US cents per litre in 2020. This was primarily due to the global economic recovery following the sharp slowdown in trade in 1H20 due to the Covid-19 pandemic.

Operating materials

	Year over year change in unit price %
Steel balls for milling	11.9
Sodium cyanide	9.8
Other reagents	8.0
Lubricants	5.7
Steel for drilling	5.2
Explosives	2.8
Tyres	0.8
Weighted average of all operating materials	6.2

Unit prices of the majority of our key operating materials increased in US dollar terms. This was primarily driven by higher demand for some of these products as global mining activity recovered following the adverse impact of Covid-19, while several mines and projects worldwide also continued to ramp up production. As a result, the weighted average unit prices of all operating materials increased year-on-year by 6.2%.

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 2021, increases per unit (i.e. per metre developed / per tonne hauled) granted to contractors whose agreements were due for review during the period, resulted in a weighted average increase of approximately 9.5% in US dollars, after considering the revaluation of the Mexican peso vs. US dollar.

Maintenance

Unit prices of spare parts for maintenance increased by 4.5% on average in US dollar terms.

Other costs

Other cost components include freight which increased by an estimated 7.0% in US dollars, while insurance costs increased by 15.3% in US dollars mainly due to higher market premiums as a result of Covid-19 claims. The remaining cost inflation components experienced average deflation of 0.3% in US dollars over 2020.

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 [1]

	2021 US$ million	2020 US$ million	Amount US$ million	Change %
Adjusted revenue [3]	2,847.9	2,608.1	239.8	9.2
Metals prices hedging	(1.4)	2.4	(3.7)	N/A
Treatment and refining charges	(143.5)	(180.4)	36.9	(20.5)
Total revenue	**2,703.1**	2,430.1	**273.0**	**11.2**

Adjusted revenue increased by US$239.8 million mainly as a result of the higher silver, lead and zinc prices and increased volumes of silver sold. Treatment and refining charges decreased 20.5% as explained below. As a result, total revenue rose to US$2,703.1 million, an 11.2% increase against 2020.

ADJUSTED REVENUE [4] BY METAL

	2021		2020					
	US$ million	**%**	US$ million	%	Volume Variance US$ million	Price Variance US$ million	Total net change US$ million	%
Gold	1,305.2	45.8	1,327.9	50.9	(24.6)	1.9	(22.7)	(1.7)
Silver	1,163.9	40.9	970.5	37.2	27.7	165.8	193.4	19.9
Lead	117.4	4.1	104.9	4.0	(9.3)	21.8	12.5	11.9
Zinc	261.3	9.2	204.7	7.9	(7.3)	63.9	56.6	27.7
Total adjusted revenue	**2,847.9**	100.0	2,608.1	100.0	(13.6)	253.4	239.8	9.2

The higher silver, zinc and lead prices resulted in a positive effect on Adjusted revenue of US$253.4 million. This was partially offset by the US$13.6 million adverse effect of the lower volumes of gold, lead and zinc sold, mitigated by higher silver sales volumes. The lower gold volumes sold were primarily due to a lower ore grade at Ciénega and Herradura, and a lower ore grade and volume of ore processed at San Julián Veins, while the higher silver volumes resulted from the higher ore grade at San Julián DOB and the contribution of development ore from Juanicipio (for further details, see 2021 Operational Review).

Changes in the contribution by metal were the result of the relative changes in metals prices and volumes produced. The contribution of gold to total adjusted revenues decreased from 50.9% in 2020 to 45.8% in 2021, while that for silver increased from 37.2% in 2020 to 40.9% in 2021.

ADJUSTED REVENUE BY MINE

[3] Adjusted revenue is revenue as disclosed in the income statement adjusted to exclude treatment and refining charges and metals prices hedging.
[4] Adjusted revenue is revenue as disclosed in the income statement adjusted to exclude treatment and refining charges and metals prices hedging.

Herradura continued to be the greatest contributor to Adjusted revenue, representing 27.1% (2020: 30.0%). Saucito's contribution reduced to 21.0% in 2021 (2020: 22.8%) driven by the lower volumes of silver sold, mitigated by the higher silver price and increased volumes of gold sold. Fresnillo remained the third most important contributor to Adjusted revenue, with its share increasing to 16.1% (2020: 15.6%). San Julián's contribution to the Group's Adjusted revenue increased to 18.8% in 2021 (2020: 15.6%) primarily due to the increase in volumes of silver sold as a result of the higher silver ore grade at the DOB. Ciénega's contribution to the Group's Adjusted revenue decreased to 8.0% (2020: 9.6%) as a result of the lower gold and silver volumes sold, mitigated by the higher silver price. Noche Buena's contribution to Adjusted revenue remained stable at 6.0% in 2021 (5.8% in 2020).

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 metals prices fluctuate.

ADJUSTED REVENUE[4] BY MINE

	2021		2020	
	(US$ million)	**%**	(US$ million)	%
Herradura	770.8	27.1	778.9	29.9
Saucito	597.7	21.0	593.6	22.8
Fresnillo	459.5	16.1	407.2	15.6
San Julián (DOB)	344.5	12.1	218.0	8.3
Ciénega	227.8	8.0	248.3	9.6
San Julián (Veins)	192.5	6.7	191.2	7.3
Noche Buena	169.9	6.0	152.6	5.8
Juanicipio	85.2	3.0	18.3	0.7
Total	2,847.9	100	2,608.1	100

VOLUMES OF METAL SOLD

	2021	% contribution of each mine	2020	% contribution of each mine	% change
Silver (koz)					
Saucito	11,446	24.4	14,133	31.0	(19.0)
Fresnillo	11,082	23.7	11,664	25.6	(5.0)
San Julián (DOB)	10,813	23.1	7,594	16.7	42.4
Ciénega	4,907	10.5	5,246	11.5	(6.5)
San Julián (Veins)	4,077	8.7	3,907	8.6	4.4

Juanicipio	2,932	6.3	794	1.7	269.3
Herradura	932	2.0	1,300	2.9	(28.3)
Pyrites Plant at Saucito	601	1.3	944	2.1	(36.3)
Noche Buena	14	0.0	25	0.1	(44.0)
Pyrites Plant at Fresnillo	3	0.0	0	0.0	NA
Total silver (koz)	**46,807**		45,607		2.6
Gold (oz)					
Herradura	416,310	57.2	429,093	57.9	(3.0)
Saucito	81,304	11.2	75,096	10.1	8.3
Noche Buena	94,237	13.0	77,494	10.5	21.6
San Julián (Veins)	50,794	7.0	60,672	8.2	(16.3)
Ciénega	45,352	6.2	60,077	8.1	(24.5)
Fresnillo	28,834	4.0	32,637	4.4	(11.7)
Juanicipio	5,908	0.8	0.0	0.0	NA
Pyrites Plant at Saucito	2,260	0.3	3,396	0.5	(33.5)
San Julián (DOB)	2,130	0.3	1,397	0.2	52.5
Pyrites Plant at Fresnillo	8	0.0	0	0.0	NA
Total gold (oz)	**727,137**		**740,891**		(1.9)
Lead (t)					
Saucito	22,878	43.0	26,093	45.1	(12.3)
Fresnillo	17,353	32.6	19,446	33.6	(10.8)
San Julián (DOB)	8,270	15.5	6,464	11.2	27.9
Ciénega	3,626	6.8	5,634	9.7	(38.9)
Juanicipio	1,067	2.0	0.0	0.0	NA
Total lead (t)	**53,194**		**57,801**		(8.0)
Zinc (t)					
Saucito	31,911	37.4%	34,654	39.4	(7.9)
Fresnillo	29,532	34.6%	28,256	32.1	4.5
San Julián (DOB)	16,928	19.9%	17,028	19.4	(0.6)
Ciénega	5,393	6.3%	7,832	8.9	(31.1)

Juanicipio	1,511	1.8%	0.0	0.0	NA
Total zinc (t)	**85,275**		**87,996**		(3.1)

HEDGING

In 2021 we entered into a hedging programme executed for a total volume of 1,800,000 ounces of silver with monthly settlements throughout 2021 until February 2022. Similar to last year's transaction, this was structured as a collar with an average floor price of US$22 per ounce, and an average price ceiling of US$50.33 per ounce.

Additionally, a portion of our by-product zinc production during 2021 and the first quarter of 2022 was hedged using a similar financial structure to that of silver.

The table below illustrates the expired structures, their results and the outstanding volume as of 31 December 2021.

Concept	**As of 31 December 2021**	**As of 31 December 2021**
	Silver[1]	**Zinc[2]**
Weighted Floor	20.60 usd/oz	2,491 usd/tonne
Weighted Cap	49.79 usd/oz	3,130 usd/tonne
Expired volume	5,748,000 oz	16,960 tonne
Profit/Loss (US$ dollars)	0	(1,351,186)
Total outstanding volume	300,000 oz	5,960 tonne

[1]Monthly settlements until February 2022

[2]Monthly settlements until April 2022

TREATMENT AND REFINING CHARGES

Treatment and refining charges [5] are reviewed annually using international benchmarks. Treatment charges per tonne of lead and zinc concentrate decreased in dollar terms by 14.6% and 39.6% respectively. Furthermore, silver refining charges remained flat over the year. The decrease in treatment charges per tonne of lead and zinc, combined with the lower volumes of lead and zinc concentrates shipped from our mines to Met-Mex, resulted in a 20.5% decrease in treatment and refining charges set out in the income statement in absolute terms when compared to 2020.

COST OF SALES

Concept	**2021 US$ million**	2020 US$ million	Amount US$ million	Change %
Adjusted production costs [6]	**1,255.1**	1,079.1	176.0	16.3

[5] Treatment and refining charges include the cost of treatment and refining as well as the margin charged by the refiner.

[6] Adjusted production costs are calculated as cost of sales less depreciation, profit sharing, hedging, change in inventories and unproductive costs. The Company considers this a useful additional measure to help understand underlying factors driving production costs in terms of the different stages involved in the mining and plant processes, including efficiencies and inefficiencies as the case may be and other factors outside the Company's control such as cost inflation or changes in accounting criteria.

Depreciation	**528.2**	505.4	22.8	4.5
Profit sharing	**15.6**	18.7	(3.1)	16.6
Hedging	**(3.8)**	(4.1)	0.3	(7.7)
Change in work in progress	**(29.6)**	(66.4)	36.8	(55.4)
Unproductive costs including inventory reversal and unabsorbed production costs[7]	**0.8**	18.0	(17.2)	(95.6)
Cost of sales	**1,766.2**	1,550.7	215.5	13.9

Cost of sales increased 13.9% to US$1,766.2 million in 2021. The US$215.5 million increase is due to a combination of the following factors:

- An increase in Adjusted production costs (+US$176.0 million). This was primarily due to: i) cost inflation, excluding the Mexican peso vs. US dollar revaluation effect (US$66.2 million); ii) the adverse effect of the 5.6% revaluation of the Mexican peso vs. US dollar average exchange rate (US$36.0 million)[8]; iii) a higher volume of material moved at Herradura and Noche Buena following the lifting of Covid-19 operational restrictions in 1H20 (US$51.8 million); iv) increased development and infrastructure works at our underground mines, maintenance, personnel, consumption of operating materials (US$41.2 million); v) costs from the start-up of operations at Juanicipio (US$14.0 million); and vi) higher stripping ratio at Herradura (US$12.1 million). These adverse effects were mitigated by a decreased volume of ore processed at our underground mines (-US$43.5 million) and others (-US$1.8 million).
- The variation in the change in work in progress had a negative effect of US$36.8 million versus 2020. This resulted mainly from the recognition of a smaller favourable effect from the reassessment of recoverable gold inventories at the leaching pads in 2021 compared to that recognised in 2020, together with the increase in the cost per ounce in the last quarter of the year at Herradura: US$29.6 million in 2021 vs. US$66.4 million in 2020.
- Depreciation (+US$22.8 million). This is mainly due to higher depreciation at Noche Buena as it approaches the end of its mine life and increased amortisation of capitalised mining works and increased depletion factors at Fresnillo and San Julián.
- Profit sharing (-US$3.1 million).
- Mexican peso/US dollar hedging (+US$0.3 million). As part of our programme to manage our exposure to foreign exchange risk associated with costs incurred in Mexican pesos, we entered into a combination of put and call options structured at zero cost (collars) in 2021. These derivatives finally expired in March 2021 and they generated a positive result of US$3.8 million during the first quarter of 2021. As of 31 December 2021, there was no further outstanding position.

These negative effects were mitigated by:

- The variation in unproductive costs, which had a favourable effect of US$17.2 million. In 2021, US$0.8 million was registered as unproductive costs related to fixed production cost (labour cost and depreciation) incurred in Minera San Julián due to a shortfall in electricity; in 2020 US$18.0 million was registered in relation to costs incurred during the partial stoppages at Herradura and Noche Buena as a result of the Covid-19 measures imposed by the state government.

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[7] Unproductive costs primarily include unabsorbed production costs such as fixed production cost (labour cost and depreciation) incurred in Minera San Julián due to a shortfall in electricity and fixed costs incurred in Minera Penmont during the temporary suspension of mining activities at the beginning of the COVID-19 pandemic, and other costs related to the subsequent ramp-up of operations and the underutilisation of production capacity once mining activity was resumed. Unproductive costs are recognised within cost of sales but excluded from adjusted production costs.

[8] Cost inflation of 9.55% (including the effect of the Mexican peso revaluation) had an adverse effect of US$102.2 million (the sum of i and ii).

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 changes in production costs 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		**2021**	2020	% change
Fresnillo	US$/tonne milled	84.7	69.9	21.2
Saucito	US$/tonne milled	89.8	72.0	24.7
San Julián (Veins)	US$/tonne milled	81.5	71.8	13.4
San Julián (DOB)	US$/tonne milled	39.2	39.0	0.5
Ciénega	US$/tonne milled	86.1	76.7	12.2
Herradura	US$/tonne deposited	21.7	18.3	18.6
Herradura	US$/tonne hauled	3.5	3.3	6.1
Noche Buena	US$/tonne deposited	11.0	10.8	1.9
Noche Buena	US$/tonne hauled	3.8	3.3	13.2

Fresnillo: Cost per tonne increased 21.2% to US$84.7 in 2021, with the adverse effect of the revaluation of the Mexican peso vs. the US dollar together with cost inflation of 9.83% at this mine accounting for approximately half of the increase. The remaining increase was primarily driven by: i) additional costs associated with maintenance to the vertical conveyor; ii) increased use of explosives, due to the use of electronic initiators to improve the precision and safety of explosive charges; iii) increase in the consumption of reagents due to smaller particles of zinc contained in the mineral; and iv) increase in personnel costs in preparation for the start of operations at the Pyrites Plant and the new labour reform. Additionally, the lower volume of ore fed to the mills (-5.2%) also had a negative effect.

Saucito: Cost per tonne increased 24.7% to US$89.8, with the adverse effect of the revaluation of the Mexican peso vs. the US dollar and cost inflation of 9.85% at this mine accounting for approximately half of the increase. The remaining increase was primarily driven by: i) electrical maintenance and repairs to rectify damage to the pumping equipment caused by two floods during the year, and mechanical corrective maintenance to the flotation plant; ii) increase in personnel in preparation for the labour reform; iii) increase in contractors due to higher volume of waste hauled and supportive works such as anchoring and shotcreting to mitigate risks caused by increased seismicity in operating areas, and increased development. Additionally the lower volume of ore fed to the mill (-12.0%) had a negative effect.

San Julián (veins): Cost per tonne increased 13.5% to US$81.5, with the adverse effect of the revaluation of the Mexican peso vs. the US dollar and cost inflation of 7.68% at this mine accounting for almost two thirds of the increase. The remaining increase was driven by higher contractor costs.

San Julián (DOB): Cost per tonne remained stable at US$39.2 per tonne, mainly due to the adverse effect of the revaluation of the Mexican peso vs. the US dollar, and cost inflation of 7.68% at this mine, which together represented approximately 85% of the total adverse effect. Additionally, the 7.1% decrease in volumes of ore processed further impacted cost per tonne. These adverse effects were practically offset by the decrease in the use of contractors for supporting works.

Ciénega: Cost per tonne increased 12.3% to US$86.1, driven by the adverse effect of the revaluation of the Mexican peso vs. the US dollar and cost inflation of 7.84% at this mine, which together represented approximately 80% of the increase. The remaining 20% was primarily the result of higher contractor costs due to an increase in mine development. Additionally, the 2.7% decrease in volume of ore processed further impacted cost per tonne.

Herradura: Cost per tonne of ore deposited increased 18.6%, with the adverse effect of the revaluation of the Mexican peso vs. the US dollar and cost inflation of 10.17% at this mine accounting for approximately half of the increase. The remaining increase was primarily driven by: i) the increase of the stripping ratio from 4.5:1 in 2020 to 5.1:1 in 2021; and ii) the adverse effect of recognising unproductive costs within cost of sales but excluded from adjusted production costs during the temporary suspension of mining activities at the beginning of the Covid-19 pandemic in 1H20. This was mitigated by efficiencies gained through lower consumption of diesel, explosives and reagents per tonne processed and the 2.6% increase in the volume of ore processed.

Noche Buena: Cost per tonne increased marginally 1.9% to US$11.0 in 2021, due to: i) the adverse effect of the revaluation of the Mexican peso vs. the US dollar, and cost inflation of 9.87% at this mine; ii) increase in the use of contractors; and iii) the adverse effect of recognising unproductive costs from the suspension of mining activities at the beginning of the Covid-19 pandemic within cost of sales but excluded from adjusted production costs in 2020. Most of this increase was offset by a lower stripping ratio and increased volumes of ore processed.

Cash cost per ounce		**2021**	2020	% change
Fresnillo	US$ per silver ounce	5.4	5.9	(8.3)
Saucito	US$ per silver ounce	(0.8)	0.8	N/A
San Julián (Veins)	US$ per silver ounce	1.8	(6.0)	N/A
San Julián (DOB)	US$ per silver ounce	4.8	7.0	(31.4)
Ciénega	US$ per gold ounce	(523.1)	(276.2)	(89.4)
Herradura	US$ per gold ounce	900.4	727.9	23.7
Noche Buena	US$ per gold ounce	1,029.5	1,158.5	(11.1)

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 generate competitive profit margins.

Fresnillo: Cash cost per silver ounce decreased to US$5.4 (2020: US$5.9) principally due to higher by-product credits and lower treatment and refining charges, partly offset by a higher cost per tonne. Margin per ounce increased 26.0% to US$19.4. Expressed as a percentage of the silver price, it increased to 78.1% (2020: 72.3%).

Saucito: Cash cost per silver ounce decreased to -US$0.9 per ounce (2020: US$0.8 per silver ounce) mainly as a result of higher gold, lead and zinc by-product credits per silver ounce. This was partially offset by an increase in cost per tonne and a lower silver ore grade. Margin per ounce increased to

US$25.8 in 2021 (2020: US$20.5). Expressed as a percentage of the silver price, it increased from 96.2% to 103.6%.

San Julián (veins): Cash cost per ounce of silver increased mainly due to lower gold by-product credits and higher cost per tonne; mitigated by a higher silver ore grade. Margin per ounce decreased to US$23.0 (2020: US$27.3), while margin expressed as a percentage of the silver price decreased from 128.2% in 2020 to 92.6% in 2021.

San Julián (DOB): Cash cost decreased 31.4% to US$4.8 per ounce of silver driven by a higher silver ore grade and lower treatment and refining charges, partially offset by the higher cost per tonne and increased special mining rights.

Ciénega: The decrease in cash cost per gold ounce from -US$276.2 per ounce in 2020 to -US$523.1 per ounce in 2021 was primarily due to an increase in silver by-product credits. This was partly offset by a lower gold ore grade and higher cost per tonne. Margin per ounce increased to US$2,318.1 in 2021 (2020: US$2,068.6). Expressed as a percentage of the gold price, the margin increased to 129.1% (2020: 115.4%).

Herradura: Cash cost per gold ounce increased to US$900.4 per ounce of gold mainly as a result of: i) a lower ore grade; ii) higher cost per tonne. These adverse effects were mitigated by the favourable effect of the variation of change in inventories and the lower mining rights. Margin per ounce and margin expressed as a percentage of the gold price decreased to US$894.6 and 49.8%, respectively.

Noche Buena: Cash cost per gold ounce decreased by 11.1% to US$1,029.5, mainly due to a higher gold ore grade and reduced mining rights. Margin per ounce increased to US$765.4 in 2021 (2020: US$633.9). Expressed as a percentage of the gold price, it increased from 35.4% to 42.6% in 2021.

In addition to the traditional cash cost, the Group is reporting All-In Sustaining Cost (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 AISC 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 (AISC)

AISC		**2021**	2020	% change
Fresnillo	US$ per silver ounce	16.34	12.92	26.5
Saucito	US$ per silver ounce	9.53	6.94	37.3
San Julián (Veins)	US$ per silver ounce	14.04	5.04	178.4
San Julián (DOB)	US$ per silver ounce	6.34	8.85	(28.3)
Ciénega	US$ per gold ounce	656.11	618.32	6.1
Herradura	US$ per gold ounce	1,100.20	881.92	24.8
Noche Buena	US$ per gold ounce	1,122.21	1,502.92	(25.3)

In addition to the traditional cash cost, the Group is reporting All-In Sustaining Cost (AISC) in accordance with the guidelines issued by the World Gold Council.

Fresnillo: All-in sustaining cost increased 26.5% over 2020 to US$16.3, explained by a higher sustaining capex in absolute terms and per ounce (-5.0% silver ounces sold).

Saucito: All-in sustaining cost increased to US$9.5 per ounce due to higher sustaining capex related to higher sustaining capex in absolute terms and per ounce (-20.1% silver ounces sold), mitigated by lower cash cost.

San Julián (veins): All in sustaining cost increased to US$14.0 per ounce due to higher sustaining capex and capitalised mine development.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 generate competitive profit margins.

San Julián (DOB): The 29.2% decrease in all in sustaining cost was mainly driven by the lower cash cost.

Ciénega: The US$37.8 per ounce increase in all in sustaining cost was primarily driven by the higher sustaining capex, mitigated by the lower cash cost.

Herradura: All-in sustaining cost increased to US$1,100.2 per ounce mainly due to the higher cash cost and increased capitalised stripping.

Noche Buena: The US$380.7 per ounce decrease to US$1,122.2 per ounce in all-in sustaining cost was the result of lower capitalised stripping and sustaining capex.

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, including hedging gains and losses, increased by 6.5% from US$879.4 million in 2020 to US$936.9 million in 2021.

The US$57.5 million increase in gross profit was mainly due to: i) the favourable effect of higher average realised silver, lead and zinc prices (US$253.4 million); ii) the positive effect from processing development ore from Juanicipio (US$53.5 million); and iii) lower treatment and refining charges (US$36.9 million); and iv) others (US$23.0 million). These positive effects were partially offset by: i) cost inflation, including the effect of the revaluation of the Mexican peso (-US$102.2 million); ii) the smaller favourable effect from the reassessment of recoverable gold inventories at the leaching pads in 2021 compared to the one recorded in 2020 (-US$58.0 million); iii) an increase in cost related to development, infrastructure, maintenance and increased workforce, mainly at Saucito, and Fresnillo (-US$41.2 million); iv) the adverse effect of lower volumes processed at the underground mines, net of the positive impact from the higher volume of ore processed at the open pit mines (-US$40.9 million); v) higher volume moved at Herradura due to continuous operations in 2021 vs. the disruption in 2020 due to the Covid-19 pandemic (-US$32.1 million); vi) higher depreciation (-US$22.8 million); and vii) higher stripping at Herradura (-US$12.1 million).

Herradura remained the largest contributor to the Group's consolidated gross profit despite recording a decrease in its percentage share from 43.4% in 2020 to 30.7% in 2021. Saucito remained the second largest contributor to consolidated gross profit, albeit decreasing its participation to 22.7% in 2021 as a result of its relative weighting. The higher silver grade at San Julián (DOB), together with the higher silver, lead and zinc prices, resulted in a US$171.5 million gross profit in 2021, increasing its contribution from 8.4% in 2020 to 18.7% in 2021. San Julián replaced Fresnillo as the third largest contributor to consolidated gross profit despite an increase in Fresnillo's percentage share from 12.7% in 2020 to 14.7% in 2021. Ciénega's share of the Group's total gross profit decreased to 4.6% in 2021, while Noche Buena's contribution continued to decrease as it approaches the end of its mine life. Notwithstanding, Noche Buena generated an EBITDA and cash flow from operating activities of US$66.6 million and US$75.2 million, respectively, recording a US$24.7 million gross profit.

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

	2021		2020		Change	
	US$ million	**%**	US$ million	%	US$ million	%
Herradura	281.1	30.6	372.3	43.4	(91.2)	(24.5)
Saucito	208.7	22.7	200.2	23.4	8.5	4.2
San Julián	173.1	18.8	71.9	8.4	101.2	140.8
Fresnillo	136.7	14.9	109.1	12.7	27.6	25.3
Juanicipio	53.5	5.8	0.0	0.0	53.5	N/A
Ciénega	42.5	4.6	64.4	7.5	(21.9)	(34.0)
Noche Buena	23.5	2.6	39.0	4.6	(15.5)	(39.7)
Total for operating mines	919.1	100	856.9	100	62.2	7.3
Metal hedging and other subsidiaries	17.8		22.5		(4.7)	(20.9)
Total Fresnillo plc	936.9		879.4		57.5	6.5

ADMINISTRATIVE AND CORPORATE EXPENSES

Administrative and corporate expenses increased 10.8% from US$93.4 million in 2020 to US$103.5 million in 2021, due to an increase in fees paid to advisors (legal, labour, tax and technical), the increase in non-recurring corporate services provided by Servicios Industriales Peñoles S.A.B. de C.V. and the adverse effect of the revaluation of the Mexican peso vs. the US dollar.

EXPLORATION EXPENSES

Business unit/project (US$ million)	**Exploration expenses 2021**	Exploration expenses 2020	**Capitalised expenses 2021**	Capitalised expenses 2020
Ciénega	6.4	5.6	-	-
Fresnillo	6.1	6.4	-	-
Herradura	6.1	11.5	-	-

Saucito	15.0	11.0	-	-
Noche Buena	1.0	0.9	-	-
San Julián	22.6	16.5	-	-
Orisyvo	5.2	3.6	0.1	-
Centauro Deep	0.2	0.1	-	3.3
Guanajuato	8.1	4.3	1.0	
Juanicipio	0.0	-	8.1	4.8
Valles (Herradura)	5.1	0.0	-	
Others	54.5	47.4	0.6	0.4
Total	**130.3**	107.3	9.8	8.5

As expected, exploration expenses increased by 21.4% from US$107.3 million in 2020 to US$130.3 million in 2021, in line with our strategy to focus exploration on specific targets, mainly at the Fresnillo and San Julián districts. The year-on-year increase of US$23.0 million was due to our intensified exploration activities aimed at increasing the resource base, converting resources into reserves and improving the confidence of the grade distribution in reserves. An additional US$9.8 million was capitalised, mainly relating to exploration expenses at the Juanicipio project. As a result, risk capital invested in exploration totalled US$140.1 million in 2021, compared to US$115.8 million in 2020(of which US$8.5 million was capitalised) This represents a year-on-year increase of 21.0%.

EBITDA

	2021 US$ million	2020 US$ million	Amount US$ million	Change %
Profit from continuing operations before income tax	**611.5**	551.3	60.2	10.9
- Finance income	**(8.9)**	(12.2)	3.3	(27.0)
+ Finance costs	**61.8**	141.3	(79.5)	(56.3)
– Revaluation effects of Silverstream contract	**0.4**	(71.0)	71.4	N/A
– Foreign exchange loss, net	**1.9**	40.3	(38.4)	(95.3)
– Other operating income	**(11.9)**	(10.0)	(1.9)	19.0
+ Other operating expense	**23.3**	14.8	8.5	57.4
+ Depreciation	**528.2**	505.4	22.8	4.5
+ Depreciation included in unproductive costs	**-**	9.2		
EBITDA	**1,206.3**	1,169.1	37.2	3.2
EBITDA margin	**44.6**	48.1		

EBITDA is a gauge of the Group's financial performance and a key indicator to measure debt capacity. It is calculated as profit for the year from continuing operations before income tax, less finance income, plus finance costs, less foreign exchange gain / (loss), less the net Silverstream effects and other operating income plus other operating expenses and depreciation. In 2021, EBITDA increased 3.2% to US$1,206.3 million primarily driven by the higher gross profit, partly offset by higher exploration and administrative expenses. As a result, EBITDA margin expressed as a percentage of revenue decreased, from 48.1% in 2020 to 44.6% in 2021.

OTHER OPERATING INCOME AND EXPENSE

In 2021, a net loss of US$11.3 million was recognised in the income statement mainly as a result of maintenance costs of closed mines and remediation works at both a tailings facility at Fresnillo and at Saucito, following the presence of high temperature water in an underground production area.

SILVERSTREAM EFFECTS

The Silverstream contract is accounted for as a derivative financial instrument carried at fair value. The net Silverstream effect recorded in the 2021 income statement was a small loss of US$0.4 million (US$43.0 million amortisation profit and US$43.4 million revaluation loss), which compared negatively to the net gain of US$71.0 million registered in 2020. The negative revaluation was mainly driven by the decrease in the forward silver price curve, increase in the LIBOR reference rate; and a decrease in the production plan following an update to the Sabinas silver resource; partially mitigated by higher inflation expectations and amortisation effects.

Since the IPO, cumulative cash received has been US$736.3 million vs. US$350 million initially paid in 2007. The Group expects that further unrealised gains or losses related to the valuation of the Silverstream 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 in notes 13 and 29 to the consolidated financial statements.

NET FINANCE COSTS

Net finance costs of US$52.9 million compared favourably to the US$129.1 million recorded in 2020. The US$76.2 million decrease was primarily due to payments made in 2020, which did not apply in 2021, in relation to: i) the US$60.8 million premium paid on early redemption of 60.2% of the existing US$800 million principal senior notes due 2023; and ii) US$24.9 million in interest and surcharges, which resulted from the 2020 tax amendment agreed with the Mexican Tax Administration Service. The 2021 net finance costs mainly reflected: i) interest paid on the outstanding US$317.9 million from the US$800 million of 5.500% Senior Notes due 2023, and ii) interest paid on the US$850 million principal amount of 4.250% Senior Notes due 2050. Detailed information is provided in note 9 to the consolidated financial statements. A portion of the interest from the Senior Notes is capitalised, hence not included in finance costs. During the year ended 31 December 2021, the Group capitalised US$8.4 million of borrowing costs (2020: US$8.8 million).

FOREIGN EXCHANGE

A foreign exchange loss of US$1.9 million was recorded as a result of the 3.2% devaluation of the Mexican peso against the US dollar over the period. This compared favourably to the US$40.3 million loss in 2020.

The Group also 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) and Swedish krona (SEK). As of 31 December 2021, the total EUR and SEK outstanding net forward position was EUR 25.7 million and SEK 5.1 million with maturity dates through September 2022. Volumes that expired during 2021 were EUR 16.3 million with a weighted average strike of 1.2012 USD/EUR and SEK 25.36 million with a weighted average strike of 8.5703 SEK/USD, which have generated a marginal loss in the period of -US$0.7 million.

TAXATION

Income tax expense for the period was US$156.5 million, which was similar to that of US$140.6 million in 2020. The effective tax rate, excluding the special mining rights, was 25.6%, which was below the 30% statutory tax rate. The reason for the lower effective tax rate was the significant permanent differences between the tax and the accounting treatment related mainly to: i) the inflation rate which impacted the inflationary uplift of the tax base for assets and liabilities (-US$49.4 million); ii) the border zone tax benefit which benefited the Herradura and Noche Buena operations (-US$10.1 million); and iii) special mining right taxable for corporate income tax (-US$5.0 million). These factors were partially offset by: i) the devaluation of the Mexican peso which had an important impact on the tax value of assets and liabilities (US$32.1 million); and ii) deferred tax assets not recognised (US$6.5 million).

The effective tax rate in 2020 was 25.5% mainly due to: i) the border zone tax benefit which benefited the Herradura and Noche Buena operations (-US$35.8 million); ii) the inflation rate which impacted the inflationary uplift of the tax base for assets and liabilities (-US$23.0 million); iii) taxable/deductible foreign exchange effects for Mexican tax purposes (-US$16.9 million); and iv) special mining right taxable for corporate income tax (-US$10.5 million). These factors were partially offset by: i) the devaluation of the Mexican peso which had an important impact on the tax value of assets and liabilities (US$55.1 million); and ii) deferred tax assets not recognised (US$4.9 million).

Mining rights in 2021 were US$16.6 million compared to US$35.0 million charged in 2020.

PROFIT FOR THE PERIOD

Profit for the period increased from US$375.6 million in 2020 to US$438.5 million in 2021, a 16.8% increase year-on-year as a result of the factors described above.

Excluding the effects of the Silverstream contract, profit for the year increased from US$325.9 million to US$438.8 million, a 34.6% increase.

CASH FLOW

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

	2021 US$ million	2020 US$ million	Amount US$ million	Change %
Cash generated by operations before changes in working capital	1,208.3	1,168.7	39.5	3.4
Decrease/(increase) in working capital	58.0	(129.8)	187.8	N/A
Taxes and employee profit sharing paid	(371.1)	(121.3)	(249.9)	206.0
Net cash from operating activities	895.1	917.7	(22.5)	(2.5)
Proceeds from the layback agreement	25.0	0.0	25.0	100.0
Silverstream contract	49.0	33.7	15.3	45.3
Debt Restructuring	0.0	350.0	(350.0)	N/A
Purchase of property, plant and equipment	(592.1)	(412.3)	(179.7)	43.6

Dividends paid to shareholders of the Company	(245.6)	(104.7)	(140.9)	134.6
Transaction costs senior notes	0.0	(64.7)	64.7	N/A
Financial expenses and foreign exchange effects	(39.9)	(44.1)	4.3	(9.7)
Net increase in cash during the period after foreign exchange differences	164.9	733.8	(569.0)	(77.5)
Cash and other liquid funds at 31 December [9]	1,235.3	1,070.4	164.9	15.4

Cash generated by operations before changes in working capital increased by 3.4% to US$1,208.3 million, mainly as a result of the higher profits generated in the year. Working capital decreased US$58.0 million, mainly due to: i) a US$85.6 million decrease in accounts receivable due to: a) decrease in trade receivables from related parties (US$61.8 million); b) VAT recovered (US$30.0 million); c) MXP/USD exchange rate effect (-US$7.9 million); and others d) US$1.7 million); and ii) a US$19.2 million increase in accounts payable. This was partly offset by: i) an increase in ore inventories of US$44.6 million; and ii) a US$2.2 million increase in prepayments.

Taxes and employee profit sharing paid increased 206.0% over 2020 to US$371.1 million mainly due to: i) an increase in provisional tax payments resulting from the higher profit factor determined to calculate the estimated taxable income; ii) higher final income tax paid in March 2021, net of provisional taxes paid (corresponding to the 2020 tax fiscal year); iii) an increase in mining rights; and iv) higher profit sharing paid.

As a result of the above factors, net cash from operating activities decreased 2.5% from US$917.7 million in 2020 to US$895.1 million in 2021.

The Group received other sources of cash, including: i) capital contribution and note payable by minority shareholders in subsidiaries of US$73.6 million; and ii) the proceeds of the Silverstream contract of US$49.0 million.

Furthermore, in December 2020, the Group entered into multiple contracts with Orla Mining Ltd., granting Orla the right to expand the Camino Rojo oxide pit onto Fresnillo's mineral concession. The effectiveness of the agreement was subject to the approval of the Mexican Federal Competition Commission (COFECE), which was granted in February 2021, at which time, a payment of US$25.0 million was made to Fresnillo plc (See note 2 to the consolidated financial statements).

Main uses of funds were:

i) the purchase of property, plant and equipment for a total of US$592.1 million, a 43.6% increase over 2020. Capital expenditures for 2021 are described below:

[9] Cash and other liquid funds are disclosed in note 30(c) to the consolidated financial statements.

PURCHASE OF PROPERTY, PLANT AND EQUIPMENT

	2021 US$ million	
Fresnillo mine	108.3	Mine development and mining works, purchase of in-mine equipment, deepening of the San Carlos shaft and tailings dam.
Saucito mine	101.2	Mine development, purchase of in-mine equipment, deepening of the Jarillas shaft and tailings dam.
Herradura mine	54.4	Stripping, construction of leaching pad, sustaining capex and purchase of equipment for dynamic leaching plants.
Ciénega mine	45.4	Mining works, purchase of in-mine equipment and construction of tailings dam.
San Julián Veins and DOB	40.9	Mining works and purchase of in-mine equipment.
Noche Buena mine	0.4	Sustaining capex
Juanicipio project	214.3	Mine development and construction of beneficiation plant
Other	27.2	Minera Bermejal.
Total purchase of property, plant and equipment	592.1	

ii) Dividends paid to shareholders of the Group in 2021 totalled US$245.6 million, a 134.6% increase over 2020, in line with our dividend policy which includes a consideration of profits generated in the year. The 2021 payment included the 2020 final dividend of 23.5 cents per share paid in June 2021, totalling US$172.6 million, and the 2021 interim dividend paid in September of US$73.0 million.

iii) Financial expenses and foreign exchange effects of US$39.9 million decreased US$4.3 million vs. 2020. Financial expenses in 2021 included: i) interest paid on the outstanding US$317.9 million from the US$800 million 5.500% Senior Notes due 2023, and ii) interest paid on the 4.250% Senior Notes due 2050. In 2020, financial expenses reflected the interest paid in relation to the US$800 million Senior Notes due 2023 before the tender offer in October 2020, ii) the interest paid on the remaining US$317.9 million of outstanding debt following the tender offer.

The sources and uses of funds described above resulted in an increase in net cash of US$164.9 million (net increase in cash and other liquid assets), which combined with the US$1,070.4 million balance at the beginning of the year resulted in cash and other liquid assets of US$1,235.3 million at the end of December 2021.

BALANCE SHEET

Fresnillo plc continued to maintain a solid financial position during the period with cash and other liquid funds[10] of US$1,235.3 million as of 31 December 2021, increasing 15.4% versus 31 December 2020. Taking into account the cash and other liquid funds of US$1,235.3 million and the US$1,167.8

[10] Cash and other liquid funds are disclosed in note 30(c) to the consolidated financial statements.

million outstanding Senior Notes, Fresnillo plc's net cash was US$67.5 million as of 31 December 2021. This compares to the net debt position of US$97.4 million as of 31 December 2020. Considering these variations, the balance sheet at 31 December 2021 remains strong, with a net debt / EBITDA ratio of -0.06x[11]

Inventories increased 10.1% to US$487.8 million mainly due to the increase of the inventories of gold content in ore on leaching pads valued at cost.

Trade and other receivables decreased 15.0% to US$436.1 million as a result of reduced receivables to Met-Mex and a decrease in value added tax receivables.

The change in the value of the Silverstream derivative from US$576.1 million at the end of 2020 to US$529.5 million as of 31 December 2021 reflects proceeds of US$46.2 million corresponding to 2021 (US$49.0 million in cash and -US$2.8 million in accounts receivables) and the Silverstream effect in the income statement of -US$0.4 million.

The net book value of property, plant and equipment was US$2,799.1 million at 31 December 2021, representing a 3.4% increase over 31 December 2020. The US$90.9 million increase was mainly due to construction of leaching pads, capitalised development works and the purchase of in-mine equipment.

The Group's total equity was US$3,802.7 million as of 31 December 2021, a 5.2% increase over 31 December 2020. This was mainly explained by the increase in retained earnings, reflecting the 2021 profit.

DIVIDENDS

Based on the Group's 2021 performance, the Directors have recommended a final dividend of 24.0 US cents per Ordinary Share, which will be paid on 27 May 2022 to shareholders on the register on 29 April 2022. 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 9.90 US cents per share amounting to US$73.0 million. This final dividend is higher than the previous year due to the higher profit in 2021, and remains in line with the Group's dividend policy.

As previously disclosed, 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 applied. Dividend payments relating to 2021 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.

[11] Net debt is calculated as debt at 31 December 2021 less Cash and other liquid funds at 31 December 2021 divided by the EBITDA generated in the last 12 months.

MANAGING OUR RISKS AND OPPORTUNITIES

- ***We operate in a complex global environment, where opportunities come with corresponding risks. Taking and managing risk responsibly is essential to running our business safely, effectively and in a way that creates value for all our stakeholders. Risk management is one of our management team's core responsibilities and is central to our decision-making process.***

Our approach

Effective risk management enables us to manage both the threats and the opportunities associated with our strategy and operations. Our risk management process helps us identify, evaluate, plan, communicate, and manage material risks that have the potential to impact our business objectives. While risk management is a key accountability and performance criterion for our leaders, all employees have responsibility for identifying and managing risks. Our risk management framework reflects the importance of risk awareness across Fresnillo plc. It enables us to identify, assess, prioritise and manage risks in order to deliver the value creation objectives defined in our business model.

Our Board oversees our principal risks and associated management responses, while the Audit Committee monitors the effectiveness of risk management and internal controls. Our risk management system comprises six core elements – one of which is our risk management framework, which sets out clear roles and responsibilities, standards and procedures. We also have three lines of defence to verify that risks are being effectively managed in line with our policy, standards and procedures, including across core business processes such as finance, health and safety, social performance, environment and major hazards.

The COVID-19 pandemic is an unprecedented challenge for everybody, worldwide. We have implemented risk techniques and processes to identify new risks associated with the pandemic, while also analysing its impact on all our risks. The changes to working practices that we have introduced in response to COVID-19 have created opportunities to accelerate digital transformation and enhance safety and productivity.

- ***Every aspect of our risk management framework exists to challenge and evaluate the status of our risk profile in the pursuit of our business objectives. We challenge this status through three lines of defence that support leaders in critically reviewing and validating their own operating assumptions.***

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 and projects managers, the controllership group, HSECR and exploration managers - regularly engage in strengthening the effectiveness of our current controls. These actions support the executives and the Board in each of their responsibilities.

The Company's risk profile has been developed based on the most significant risks in our business profiles. All of our principal risks were reviewed at least twice during the year, including through Key Risk Indicators (KRIs), which were developed to help embed the risk appetite framework in the business and enhance the monitoring and mitigation of risks.

The global COVID-19 pandemic posed new challenges for the Risk Department and the Executive Committee in 2020 and 2021. Due to the uncertainty around the pandemic, all strategic decisions of the Company were analysed using risk scenarios modelling their potential impacts. In addition five new processes were implemented: (I) a monthly procedure for evaluating and mitigating principal risks; (II) a process to identify and analyse the impact of the pandemic in all the Company's risks including projects, with a main focus on the health and safety of employees and identification of new risks; (III) dashboards were constructed for each business unit to monitor mitigation actions and risk level; (IV) impact and probability scenarios were conducted for risks related to the supply chain of critical inputs for operations, cost increase and projects, and (V) collaboration with government, the sector, health experts and communities to ensure that we followed best practice.

Three lines of defence	Responsibilities	Accountability to
1st. - Unit leaders including mine, exploration and project personnel. Also, leaders of corporate and support areas.	Identifying, managing, verifying and monitoring risks and controls.	Management
2nd. - Corporate level oversight functions include the risk management team, the HSECR team, the project oversight function and the Executive Committee.	Overseeing risks and the effectiveness of controls, advising on capability and ensuring compliance with our policies, standards and procedures.	Management
3rd. - Group Internal Audit.	Providing independent verification that risks are being managed and internal controls are being operated effectively	Board and committees

EMERGING RISKS

The 2018 UK Corporate Governance Code covers emerging risks and requires the Board to carry out a robust assessment of the Company's emerging risks, disclose procedures to identify them and also explain how these are being managed.

This requirement has been adopted and embedded within the Company's risk management reporting process and, in parallel with the day-to-day management of risk, within each business unit and project. The risk control and assessment processes in mines, exploration offices and projects were adapted to pay particular attention to emerging risks. At each location, Health, Safety, Security, Environment and Community Relations (HSECR) risk-responsible staff monitor local information and analyses related to Fresnillo plc's emerging risks. This monitoring process involves building scenarios for three, five and ten years for each emerging risk and quarterly performance indicators that assess probability and impact.

Fresnillo plc defines an emerging risk as a new manifestation of risk that cannot yet be fully assessed, a risk that is known to some degree but is not likely to materialise or have an impact for several years or a risk that the company is not aware of but that could, due to emerging macro trends in the mid or long-term future, have significant implications for the achievement of the organisation's strategic plan. Furthermore, Fresnillo plc considers emerging risks in the context of longer-term impact and shorter-term risk velocity. The Company has therefore defined emerging risks as those risks captured on a risk register that: (I) are likely to be of significant scale beyond a five-year timeframe; or (II) have the velocity to significantly increase in severity within the three-year period.

To strengthen our emerging risks management framework, during 2021 we carried out activities to: (I) identify new emerging risks in light of COVID-19 and climate change; II) re-assess the emerging risks identified in 2020; (III) deploy effective monitoring mechanisms; (IV) carry out horizon scanning to consider disruptive scenarios, and; (V) implement mitigating control actions and enhance our risk awareness culture. This process involved workshops, surveys and meetings with the Executive Committee, business unit leaders, support and corporate areas, as well as suppliers, contractors and customers. We also consulted third-party information from global risk reports, academic publications, risk consulting experts and industry benchmarks.

Our risk management standards promote communication of up-to-date information on the Company and industry risks, trends and emerging risks. This year's emerging risk assessment determined the two most exposed emerging risks to be: "Water Crisis" and "Technological Disruption" and identified two new emerging risks: “Transition to a low-carbon future” and “Increasing societal and investor expectations”.

Relevant emerging risks are discussed below:

Emerging Risk		Description	Impact	Mitigations Actions	Time Scale
1	Water crisis. *(Linked to Climate Change Principal Risk)*	Lack of sufficient water resources to meet water consumption demands in a region.	Water is critical to mining processes. Without this natural resource, we cannot extract gold and silver.	Strict control and monitoring of water concessions is maintained and actions are envisaged to ensure water for the following years.	> 5 Years
2	Technological disruption.	Failure to identify, invest in, or adopt technological and operational productivity innovations that significantly replace or optimise a process through new systems with recognisably superior attributes.	Obsolete or outdated mining processes impact productivity and efficiency levels and impact sales and profits.	Technological advances in the mining industry are constantly monitored (particularly in mine operations) in order to adopt the most appropriate best practices and new technology.	> 5 Years
3	Risk of narco states. *(Linked to Security Principal Risk)*	Countries whose government institutions are significantly influenced by the power and wealth of drug trafficking, and whose leaders simultaneously hold positions as government officials and members of the illegal narcotic drug trafficking networks, protected by their legal powers.	The safety of employees, contractors and communities near mines is threatened by the presence of drug cartels that increase high-impact crimes.	We maintain constant communication with government authorities and the National Guard to coordinate security and citizenship protection operations.	< 5 Years
4	Infectious diseases.	The regional or global spread of a new disease (bacteria or virus) against which most people do not have immunity.	Another virus such as SARS-CoV-2 coronavirus (COVID-19) may affect the health of employees and stop the Company's activities.	Much was learned from the COVID-19 pandemic about providing care for employees' health and health prevention measures. We have embedded those learnings in our business as usual activities.	< 5 Years
5	Transition to a low-carbon future. *(Linked to Climate Change Principal Risk)*	The transition to a low-carbon future is a "transition risk" according to the TCFD and presents challenges and opportunities for our portfolio in the short and long term. It is considered within the climate change principal risk mitigation strategy. However, we consider this risk to be an emerging risk due to the speed of potential new climate change regulations and the obstacles that government may place in the way of supporting investment in clean energy.	Key areas of uncertainty include future climate change regulation and policies, the development of low-carbon technology solutions and the pace of transition across our value chains, in particular the decarbonisation pathways across the steel sector.	We have introduced new sources of information to help us identify the impacts of climate change. These include industry reports and guides, energy scenarios, and Global Circulation Models (GCM) under several Representative Concentration Pathways (RCP). We have used a well-below two-degree decarbonisation pathway to evaluate the flexibility of the energy strategy.	> 5 Years

6	Increasing societal and investor expectations.	We continued to see increasing expectations and focus on social equality, fairness and sustainability. Financial institutions are also placing greater emphasis on environmental, social and governance (ESG) considerations when making investment decisions.	The increasing focus on ESG has the potential to shape the future of the mining industry, supply cost structures, demand for global commodities and capital markets. While this presents us with opportunities for portfolio and product differentiation, it has the potential to impact how we operate.	We respond to investor and societal requests and comments and promote action plans to meet their expectations. A number of initiatives demonstrate our progress. For example, our ESG performance was recognised by our inclusion in the FTSE4Good Index. We were also listed among the world's most ethical companies by Ethisphere and placed second in the Corporate Integrity Ranking in Mexico.	< 5 Years

2021 RISK ASSESSMENT

As part of our bottom-up process, each business unit head determined the perceived level of risk for their individual unit's risk universe. Executive management then reviewed and challenged each perceived risk level and compared it to Fresnillo plc's risk universe (120) as a whole. The results of this exercise were used as an additional input to define the Company´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.

The risk department narrowed down our 120 risks into major risks which are monitored by executive management and the Audit Committee. We then further consolidated these into 13 principal risks which are closely monitored by the Board of Directors.

Due to the effects caused by the global COVID-19 pandemic, it was necessary to re-evaluate the Principal and Emerging Risks and to rethink the order of their relative importance, probability and impact and re-assess the corresponding mitigation actions. As a result of this analysis, we recognised the effects of COVID-19 on Fresnillo's 13 Principal Risks rather than incorporate a new risk.

During the first half of 2021, the risk team focused its efforts on identifying and assessing emerging risks, business continuity risks and climate change risks according to the TCFD criteria. In the second half of the year, we conducted fraud, compliance and internal control risk assessments.

Overview of the 2021 risk assessment exercise:

Analysis	Survey Risk identified and assessed	Trend comparison and review	Added value
20 business workshops (Director and manager level) 30 interviews with risk owners (managers and leaders at units) 10 workshops SSMARC team. 5 critical processes mapped and reviewed for impact and likelihood.	350 colleagues in operations, exploration, projects, corporate and support areas of Peñoles, including Internal Audit.	15 International Institutions specialising in risks were consulted. 10 risks scenarios were built by mining industry risk specialists. 20 gold and silver mines (10 in Mexico and 10 in the world) were consulted regarding their risks.	200 colleagues were trained in basic risk topics. 150 colleagues were trained in advanced risk topics. 100 colleagues were trained in climate change risks and TCFD framework.

5 risk analysis methodologies used: ISO-31000, ISO-22301, Markov, Bow-Tie & FMEA Model.		6 consulting firms' risk reports (including Marsh, EY, PWC, KPMG and Deloitte) were reviewed. 3 risk experts were interviewed.	3 new processes of identifying risks were included in response to the COVID-19 pandemic. 3 new topics were included in the risk analysis: climate change, fraud and compliance risks.

As a result of the 2021 annual risk assessment, the most exposed risks were determined to be:

- The risk of **"Potential actions by the government",** is assessed as the main risk for the Company, exacerbated by recent decisions of the current government, such as: (a) the restriction on the granting of new mining concessions; (b) the increase in audits and tax requirements; (c) the labour reform that prohibits outsourcing, leading to complications in the relationship with contractors; (d) delays and complications in obtaining permits, licences and authorisations; (e) the implementation of policies that support the emission of carbon into the atmosphere and reduce the development of renewable energies; (f) energy law reform that would reduce electricity supply options for end-users and allocate valuable resources to maintain obsolete and costly generation technologies, with significant environmental and social impacts; and (g) the United States-Mexico-Canada Agreement (USMCA or TMEC) with its new labour provisions.

- The **"Security"** risk, arising from the accelerated increase in organised crime in the vicinity of the mining units, particularly in Fresnillo (with the highest perception of insecurity in the country), Saucito, Juanicipio and Penmont; the increase in high-impact crimes (homicide, kidnapping and extortion) in the regions where we operate, especially in Zacatecas, Guanajuato and Sonora; and the sale and consumption of drugs inside the mines. Threats of theft of dore, minerals, concentrates and assets from mines and projects have also increased.

- While gold and silver prices have remained strong despite the effects of the COVID-19 pandemic, the economic crisis in the world, and especially in Mexico, is a high risk that has a negative impact on the supply chain of critical operating inputs, operating costs and contractor availability. For this reason, the risk of **"Impact of metal prices and global macroeconomic developments"** remains within the main risks.

- The risk of **"Access to land"** has increased in recent years as it has become increasingly difficult to negotiate the price of land. Landowners demand more money and benefits for access to land. At the same time, the Federal Government continues its policy of not granting new mining concessions and may decide to withdraw mining concessions that are not used or operated. In addition, the prevailing insecurity in the regions where our mining interests are located may not allow the necessary work to be carried out to demonstrate the minimum investments required by law, which could lead to the cancellation of the concession.

- The risk **"Licence to operate"** is one of the main risks that have increased in probability of occurrence and impact, as communities near mines and projects increasingly demand more benefits. The environmental impact of mines is an issue of concern to communities near our operations and they are increasingly demanding more information and mitigating actions. Activism by mining advocacy groups and other organisations increases the risk of social conflict, fuelling public perception against mining. Finally, insecurity and access to water are the issues that most concern people and community leaders in the regions where we operate.

OUR PRINCIPAL RISKS AND INTERDEPENDENCIES

We continue to consider risks both individually and collectively in order to fully understand our risk landscape. By analysing the correlation between Principal and Emerging Risks, we can identify those that have the potential to cause, impact, or increase another risk and ensure that these are weighted appropriately.

In performing this exercise, we have considered COVID-19 which could lead to a long-term global recession and other operating constraints that may have a knock-on effect on several of our principal risks.

Our analysis highlights the strong relationship between Security and Risk of Narco State, Climate Change and Water Crisis as well as Cyber security and Technological disruption.

1

POTENTIAL ACTIONS BY THE GOVERNMENT (political, legal and regulatory)

RISK DESCRIPTION	
Regulatory actions can have an adverse impact on the Company. This could include stricter environmental regulations, forms of procurement or explosives, more challenging permit processes, more onerous tax compliance obligations for us and our contractors, as well as more frequent reviews by tax authorities. The right of indigenous communities to be consulted regarding mining concessions could potentially affect the granting of new concessions in Mexico. The Federal Government wants to discourage the generation of energy based on clean sources and encourage that from fuel oil and coal.	We paid special attention to the following aspects: • Government actions that negatively impact the mining industry. • Regulatory changes to mining rights and adverse fiscal changes. • Change in tax regulations. • Increase in the frequency of the reviews by the tax authorities with special focus on the mining industry. • Inability to obtain necessary water concessions because of government control or private interests. • Failures/delays in obtaining the required environmental permits.

FACTORS CONTRIBUTING TO RISK	
• The Federal Government reported that the delivery of concessions to mining companies would be reviewed and that no more concessions would be granted during this six-year term (ending in 2024). • Labour Reform prohibiting outsourcing, mainly leading to complications in the relationship with contractors. • New taxes and discrepancies in the criteria used in audits carried out by the tax authority. • Increase in the frequency of the reviews by the tax authorities with special focus on the mining industry. • Potential adverse actions resulting from a change in government in the states of Zacatecas, Sonora and Chihuahua. • The United States-Mexico-Canada Agreement (USMCA or TMEC) with its new labour provisions. • Given that the population does not systematically follow COVID-19 prevention measures; that health authorities may not effectively implement the COVID-19 vaccination programme; that there are people who do not want to be vaccinated; that there are new variants of the virus such as Delta and Omicron, we could experience a reduction in the number of people available to work in the mines, which would materially affect our productivity.	• The Federal Government promotes investment in coal rather than renewable or clean energy. This has led to increased difficulty in operating on clean energy. • The Federal Government implementation of policies that support the use of coal will lead to more greenhouse gases being released into the atmosphere and reduce the development of renewable energies. • The Federal Government recently purchased a refinery to produce gasoline and diesel in Houston, USA. This acquisition reinforces the strategy of encouraging the consumption of fossil fuels derived from coal and fails to promote the use of clean or green energies. • The Federal Government is promoting a reform of the Energy Law to limit access to private investment and strengthen the government-owned Federal Electricity Commission (Comisión Federal de Electricidad). If this reform is approved, there is a risk that there will not be enough electricity to operate the mines. • A Federal Government initiative aims to discontinue the Mining Fund (Financial support that the government provides to communities near the mine for social development). This would have an impact on mining development in the country. • In addition, Mexico's corruption perception remains high. The country's score in the International Transparency 2021 Corruption Perception Index was relatively unchanged, despite a higher ranking. As a result, delay in obtaining permits for certain operations and/or projects remains a risk.

CONTROLS, MITIGATING ACTIONS AND OUTLOOK	
• Commitment and constant communication with all levels of Government.	• We are committed to maintaining community dialogue throughout the life of a mining project,

• Increased monitoring of the processes being implemented at the Ministry of Labour and Economy. • We remain alert to the changes proposed by the authorities, including energy and mining tax initiatives, so that we can respond in a timely and relevant manner. • In relation to the new labour law prohibiting outsourcing, changes to the relationship with contractors have been implemented and staff structures have been adapted to comply with the law. • We continue to collaborate with other members of the mining community through the Mexican Mining Chamber to lobby against any new harmful taxes, royalties or regulations. We also support industry lobbying efforts to improve the general public's understanding of the mining industry. • We continue to comply with all applicable environmental regulations and are fully committed to operating sustainably.	from the first exploration to the eventual closure, with the aim of creating long-term relationships and value, while ensuring operational continuity. • We seek to maintain full compliance with the requirements of the tax authority. • In doing so, we continue to cooperate with any ongoing tax inspections. • We maintain a register and control of vaccinated staff and encourage all staff to be vaccinated as soon as possible. • Follow-up and timely compliance with all suggestions of the Health Authorities.

COVID-19 PANDEMIC IMPACT	KEY RISK INDICATORS
The Federal or State Government orders another total or partial stoppage of operations in mining units because of a new wave of mass infections, mainly in Sonora and Zacatecas.	• 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 details about the media itself, such as the speaker profile and political alignment.

LINK TO STRATEGY	RISK APPETITE
1 – 2 – 3 – 4	Low

CHANGE IN HEAT MAP	RISK RATING (RELATIVE POSITION)
Increasing	2021: Very high (1) 2020: Very high (1)

2

SECURITY

RISK DESCRIPTION	
We face the risk of theft of gold doré and silver concentrates as well as of items including equipment, tools and materials. These thefts can take place inside the mines or during transportation. Our employees, contractors and suppliers face the risk of theft, kidnapping, extortion or damage due to insecurity in some of the regions where we operate. The influence and dispute of territories by drug cartels, other criminal elements and general anarchy in some of the regions where we operate, combined with our exploration activities and projects in certain areas of drug deposit, transfer or cultivation, makes working in these areas a particular risk to us. The Federal Government created the Secretariat of Citizen Security and Protection as part of the comprehensive strategy to reduce insecurity. It also created the National Guard, mostly comprising military personnel, with the aim of combating organised crime and drug cartels. Unfortunately, state or local police in most states are unprepared and ill-equipped to combat organised crime, have low wages and are sometimes infiltrated by crime.	According to information from the Secretariat of Security and Citizen Protection, the National Guard and the Attorney General's Office of the Republic, the presence of organised crime and high-impact crimes (homicide, kidnapping and extortion) increased in 2021, in the states where our business units and projects are located, such as Zacatecas, Guanajuato, and Sonora. The main risks we face are: • High-impact robberies. • Theft of assets such as minerals, equipment, instruments, inputs, etc. • Consumption and sale of toxic substances in our mining units. • Homicide. • Kidnappings. • Extortions. • Vandalism.

FACTORS CONTRIBUTING TO RISK	
• A severe increased presence of organised crime in the vicinity of the mining units particularly in Fresnillo, Saucito and Juanicipio. • A severe increase in the number of high impact crimes (homicide, kidnapping, extortion) in the regions where our mining units are located. • Increased consumption and sale of drugs at the mining units, particularly Saucito. • Theft of concentrates and assets in mining units and/or during transfer. • Theft of material, equipment, tools and spare parts from mines and projects. • Roadblocks or blockages on the roads and/or highways near the mining units.	• The Mexican state of Zacatecas is notorious for high levels of perceived insecurity and high rates of high-impact crime in 2021. There are records of several vehicle thefts from company employees and organised crime checkpoints on the roads near Fresnillo and Saucito mines. • The Mexican State of Sonora is notorious for being under constant attack from organised crime gangs. Several attacks have taken place recently jeopardising the continuity of mining operations and the physical integrity of workers employed by Herradura and Noche Buena mines.

CONTROLS, MITIGATING ACTIONS AND OUTLOOK	
• Our property security teams closely monitor the security situation, maintaining clear internal communications and coordinating work in areas of greater insecurity. • Management is fully committed to protecting our workforce. • We have adopted the following practices to manage our security risks and prevent and address potential incidents:	- We continue to invest in community programmes, infrastructure improvements and government initiatives to support the development of legal local communities and discourage criminal acts. - We have increased the number of anti-doping tests conducted at the start of the day in the mining units. - Frequent inspections are carried out inside the mines to verify that drugs are not consumed and sold. - Drug consumption prevention campaigns are carried out, focused on employees.

- We maintain close relations with authorities at the federal, state and local levels, including army camps located near most of our operations. - Regular interactions and meetings with the National Guard. - We continue to implement greater technological and physical security at our operations, such as the use of a remote monitoring process in Herradura, Noche Buena and San Julián. In the Saucito and Fresnillo mines, in addition to the remote monitoring service, we have also built new local operating and command centres for each business unit. At the Juanicipio development project, we have the necessary infrastructure to provide security services during the mine construction process. Juanicipio also benefits from a local command and operation centre, as well as the remote monitoring service. - Increase in logistical controls in order to reduce the potential for theft of mineral concentrate. These controls include the use of real-time tracking technology; surveillance cameras to identify alterations in the transported material; protection and support services on distribution routes; reduction in the number of authorised stops in order to optimise delivery times and minimise exposure of trucks transporting ore concentrates or doré.	

COVID-19 PANDEMIC IMPACT	KEY RISK INDICATORS
The COVID-19 pandemic has had a negative impact on the security risk. High-impact crimes did not decrease – in fact they increased in some regions such as Zacatecas.	• 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 safety issues affecting the mining industry where we operate.

LINK TO STRATEGY	RISK APPETITE
1 – 2 – 3 – 4	Low

CHANGE IN HEAT MAP	RISK RATING (RELATIVE POSITION)
Increasing	2021: Very high (2) 2020: Very high (3)

3

IMPACT OF METALS PRICES AND GLOBAL MACROECONOMIC DEVELOPMENTS

RISK DESCRIPTION	
With the COVID-19 pandemic, economies across the world, including in Mexico, were negatively impacted by the confinement and disruptions to supply chains. Globally, economies almost stopped completely for more than five months in 2020. During 2021, we saw increases in operating costs and greater inflationary pressures, together with a shortage of critical inputs and equipment. We expect this to continue during 2022. This situation could create an adverse impact on our operations, costs, sales and profits, and potentially on the economic viability of projects, including as a result of: • A possible decrease in precious metals prices, which is the main driver of risk.	• Revaluation of the Mexican peso. In March 2021, the dollar exchange rate was around 20.8 pesos, due to the socioeconomic impact of the COVID-19 pandemic. At the end of the year the dollar exchange rate was 20.5 pesos. • General inflation in Mexico. This was 7.4% in terms of Mexican peso for 2021. The specific inflation for the Company was 9.5% in U.S. dollars. • A decrease in the price of our by-products. In 2021, the average prices for lead and zinc increased by 20.9% and 32.7%, respectively, compared to the previous year.

FACTORS CONTRIBUTING TO RISK	
• The impact of the pandemic on supply chains has been global, prolonged, and comprised a series of major shocks to companies' logistical systems. • Disruptions in the value chain of critical inputs for our operations such as spare parts (primarily delivered by land transport from the US and maritime transport from China and Europe). Disruptions also include reduced availability of maintenance teams/contractors to resolve issues, as well as travel restrictions leading to officials not being able to travel and inspect projects, resulting in delays.	• Increased operating costs due to higher prices for critical inputs such as steel, cyanide, copper, diesel, haulage equipment, oxygen and truck tyres. • In terms of inflation, we experienced an increase in two of our main energy inputs compared to the previous year, with diesel (US percentage per litre) increasing by 21% and kWh (US percentage per kWh) by 12%. • Appearance of Omicron variant of COVID-19 cases. Some countries have re-introduced lockdown measures and there is a possibility that Mexico will follow suit.

CONTROLS, MITIGATING ACTIONS AND OUTLOOK	
We monitor price movements and market dynamics using primarily third-party analysis and forecasts in order to support our financial projections and cash management strategies. Prices will continue to influence budget considerations in areas such as exploration and the timing of certain capital expenditures. We have hedging policies for exchange rate risk, including those associated with project-related capex and a hedging policy for precious metals. We focus on cost efficiencies and capital discipline to deliver competitive all-in sustaining cost.	Maintain long-term optionality by ensuring our pipeline of opportunities is continuously replenished. Improve debt profile and reduce annual interest bill. Execute operational excellence initiatives to counter inflation and improve margins. Enhance cost competitiveness by improving the quality of the portfolio. In order to maximise the extension of the average life of our debt profile, on 29 September 2020 Fresnillo plc successfully priced a US$850 M 30-year bond (Coupon 4.25%) in the international market, coupled with an "Any and All tender offer" for Fresnillo's 5.50% senior unsecured USD notes due 2023, which was tendered by US$481.7 M (~60%), significantly reducing the short-term refinancing risks and improving the liquidity and solvency capabilities of the Company.

COVID-19 PANDEMIC IMPACT	KEY RISK INDICATORS
The price of gold and silver rose rapidly as investors took refuge in these metals. Unfortunately, the supply chains of our mining operations suffered disruptions and delays in supplying critical inputs such as cement, cyanide and spare parts.	• Profit sensitivity to percentage change in precious metals prices and the Mexican peso/US dollar exchange rate. • EBITDA sensitivity to percentage change in metal prices and the Mexican peso/US dollar exchange rate.

LINK TO STRATEGY	RISK APPETITE
1 – 2 – 3	High for metal prices Medium for all macroeconomic developments

CHANGE IN HEAT MAP	RISK RATING (RELATIVE POSITION)
Stable	2021: High (3) 2020: Very high (2)

4

ACCESS TO LAND

RISK DESCRIPTION
Significant failure or delay in accessing surface land above our mining concessions and other lands of interest is a permanent risk to our strategy and has a potentially high impact on our objectives. The biggest risk is failing to gain full control of the lands where we explore or operate. Possible barriers to access to land include: • Increasing landowner expectations. • Refusal to comply with the terms of previous land acquisitions and conditions regarding local communities. • Influence of multiple special interests in land negotiations. • Conflicts regarding land boundaries, and a subsequent resolution process. • Succession problems among landowners resulting in a lack of clarity about the legal right to own and sell land. • Risk of litigation, such as increased activism by agrarian communities and/or judicial authorities. • Presence of indigenous communities in proximity to lands of interest, where prior and informed consultation and consent of such communities are required. • Operations in "Soledad & Dipolos" remain suspended, as the problem with the ejido "El Bajío" remains unresolved.

FACTORS CONTRIBUTING TO RISK	
• The Federal Government may continue its policy of not granting new mining concessions. However, this could be mitigated by carefully negotiating concessions with mining geological interest already granted. • It is becoming increasingly difficult to negotiate land prices, with landowners demanding more money and benefits for access to land.	• Social insecurity prevailing in the regions where our mining interests are located may not allow work to be carried out necessary to demonstrate the minimum investments required by law, leading to the possible cancellation of the concession.

CONTROLS, MITIGATING ACTIONS AND OUTLOOK	
Successful access to land plays a key role in managing our mining rights, focusing on areas of strategic interest or value. At the end of 2021, after disinvesting certain areas of mining interest, we maintained 1.439 million hectares of mining concessions granted. A further 238,090 hectares is in the process of being granted. In total, we have 1.678 million hectares, representing a year-on-year decrease of 2,000 hectares. Other initiatives include: • Meticulous analysis of exploration objectives and construction project designs to minimise land requirements. • Judicious use of lease or occupation contracts with purchase options, in compliance with legal and regulatory requirements. • Early participation of our community relations teams during the negotiation and acquisition of socially challenging objectives.	• Strategic use of our social investment projects to build trust. • Close collaboration with our land negotiation teams, which include 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 identify certain areas of opportunity and continue to implement measures to manage this risk on a case-by-case basis. Such measures include, wherever possible, negotiations with agricultural communities for the direct purchase of land. We use mechanisms provided for in agricultural law and also use other legal mechanisms under mining legislation that provide greater protection for land occupation. These activities are part of our ongoing drive to reduce risk exposure to surface land.

COVID-19 PANDEMIC IMPACT	KEY RISK INDICATORS
During 2021, insecurity problems in our exploration and operations areas have increased. In addition, the government suspended activities, which caused delays to the land-regularisation processes.	• Percentage of land required for advanced exploration projects that are under occupation or agreements other than total ownership (generally and per project). • Total U.S. dollars and percentage of project budget spent on HSECR activities, including community relations (on exploration projects and sites).

LINK TO STRATEGY	RISK APPETITE
1 – 2 – 3	Medium

CHANGE IN HEAT MAP	RISK RATING (RELATIVE POSITION)
Increasing	2021: High (4) 2020: High (7)

5

LICENCE TO OPERATE (community relations)

RISK DESCRIPTION	
At both a local and global level, the mining industry's stakeholders have high expectations relating to social and environmental performance. These expectations go beyond the responsible management of negative impacts to include continuous engagement and contribution to stakeholder development. Failure to adequately address these expectations increases the risk of opposition to mining projects and operations. Negative sentiment towards mining or specifically towards Fresnillo plc could have an impact on our reputation and acceptability in the regions where we have a presence.	We monitor the following risks: • Negative perception of the Company's social and environmental performance. • Failure to identify and address legitimate concerns and expectations of the community and of society at large. • Insufficient or ineffective engagement and communication. • Failure to contribute purposefully to community development.

FACTORS CONTRIBUTING TO RISK	
• Higher expectations and scrutiny of social and environmental performance. • Rising expectations on shared benefits regarding land agreements. • Perceived competition on access to natural resources, notably water. • Significant reduction in government spending on community infrastructure, development programmes and services. • Anti-mining activism fuelling opposition to mining.	• Insecurity and access to water are the issues of greatest concern to people and community leaders in the regions where we have a presence. • The environmental impact of a mine is also an issue that can concern communities close to our operations.

CONTROLS, MITIGATING ACTIONS AND OUTLOOK	
•*COVID-19 Response:* Collaboration with Health Authorities to support the logistics of vaccination centres in the regions where we operate. Campaigns to raise awareness of preventive measures such as the use of masks. Rapid testing support for remote communities. Collaboration with parents and school authorities on the safe return to classes. •*Community Engagement:* Our strategy, which embraces all phases of the mining lifecycle, is based on purposeful engagement to address concerns and expectations. Key activities include: -Organising formal and informal meetings to enable stakeholder identification and engagement planning. -Carrying out social baseline studies that include human rights and due diligence regarding indigenous peoples, and perception studies that support our Social Management plans and help us manage impacts, risks and opportunities. -Operating a grievance mechanism to address stakeholder concerns. -Monitoring public opinion within local and international media. -Collaborating with peers to adopt best practices in social performance. -Communicating our best practices regarding social and environmental responsibility.	❖

•*Environmental performance:* Optimising our use of resources, curbing any negative impact of our activities and being transparent and accountable regarding our environmental footprint are crucial elements of sustainable mining and help us to be positively perceived by communities and regulators.	

COVID-19 PANDEMIC IMPACT	KEY RISK INDICATORS
The COVID-19 pandemic increased the risk to our social licence to operate in some regions, mainly as a result of nearby communities being worried about contracting the virus from contractors and suppliers visiting the area. COVID-19 has increased social expectations regarding corporate citizenship. The response of the mining industry to COVID-19 will shape relationships with stakeholders and perceptions of the industry over the coming years.	• 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.

LINK TO STRATEGY	RISK APPETITE
1 – 2 – 3 – 4	Low

CHANGE IN HEAT MAP	RISK RATING (RELATIVE POSITION)
Increasing	2021: High (5) 2020: Medium (10)

6

HUMAN RESOURCES (attract and retain skilled people)

RISK DESCRIPTION	
Fresnillo plc's most valuable asset is its workforce. The COVID-19 pandemic has several health risks for employees. The way that mining works (especially underground), where there are several workers in one place, further increases the possibility of contagion. Due to the complex nature of mining operations and the remote locations in which they are often located, it is difficult to implement health measures and carry medical prevention equipment. Close working conditions at mine sites are placing workers in the frontline in terms of health and safety risks, prompting us to quarantine workers when national lockdown regulations did not force us to do so. Faced with the risk of contagion from the COVID-19 pandemic threat, we implemented several strategies to protect and preserve the health of employees and contractors in all business units. The close cooperation between our human resources function and our medical team has been fundamental to the application of timely tests and the care of infected personnel. However, the risk of contagion continues and increased in the months of September to December, mainly in the Fresnillo District, where the highest number of cases of contagion across the Company has been detected. This situation is likely to be exacerbated when the new strains of the virus reach Mexico. Until such a time that the vaccine is broadly available, and the population becomes immune to COVID-19, this will remain a very high risk to the Fresnillo plc workforce and in general to all humanity.	Our people are critical to meeting our goals. We face multiple risks in the processes of selection, recruitment, training and retention of talented people with technical skills and experience. Obtaining qualified labour in the mining sector has become a major risk. More and more people trained and experienced in mining processes are required. Unfortunately, there are not enough candidates with the required profiles. Digital and technological innovation has the potential to generate substantial improvements in the productivity, safety and environmental management of the Company. However, to achieve this, in addition to demanding significant investment, different skillsets will be required in the workforce. There is a risk that our workforce will either be unable to transform as needed or will be resistant to change and unwilling to accept the impact of automation or to acquire new technological skills. The lack of reliable contractors with sufficient infrastructure, machinery, performance history and trained people is also a risk that could affect our ability to develop and build mining works. In addition, it is difficult to hire the employees of contractors working for the company.

FACTORS CONTRIBUTING TO RISK	
• Unfortunately, not everyone follows measures to prevent COVID-19 and that increases the risk of contagion. • Workers in the mining sector have been particularly affected by the pandemic, given the employment architecture of the industry, which can feature remote fly in–fly out or drive in–drive out operations, congested underground working conditions, and workers residing in mine-site compounds or neighbouring communities. These conditions make some COVID-19 preventative measures difficult to implement, which makes mineworkers vulnerable to both acquiring and spreading the virus.	• There was a significant increase in staff turnover during 2021. • Talent retention became more difficult this year. • At some mines we have a lack of specialised personnel to cover working hours. • In certain regions where we operate there are not enough candidates with the necessary skills to operate the mining equipment. • With the new labour law prohibiting outsourcing, we had to hire staff from contractors, and this caused added complications.

CONTROLS, MITIGATING ACTIONS AND OUTLOOK	
Our employee performance management system is designed to attract and retain key employees by creating suitable reward and remuneration structures and providing personal development opportunities.	In partnership with the University of Arizona, we developed a five-hour online training module on Diversity, Equality and Inclusion for our executives, managers and high potential talent. Management

We have a talent management system to identify and develop internal candidates for key management positions, as well as identify suitable external candidates where appropriate.

We aim for continuous improvement, driven by opportunities for training, development and personal growth; in short, we focus on fair recruitment, fair pay and benefits and gender equality. In the trusted staff structure, 18% are women as are 34% of new joiners, while 18% of the female population were promoted during the year.

Recruitment: We have evaluated our recruitment requirements for key positions, and our goal is to meet them through internal training and promotion, as well as by recruitment through:

• Our close relationships with universities that offer earth science programmes. We have programmes dedicated to identifying potential performance-based candidates who can be hired as trainees and/or employees at graduation. During the year, we hosted 42 students from different Earth Science professions at our mining units to support their training, and 87 engineers took part in our training programme.

• CETLAR (Centre for Technical Studies of Peñoles), which trains mechanical and electrical technicians. Ten of the 12 2021 graduates were hired as full-time employees.

Retention: Our goal is to be the employer of choice, and we recognise that to be a profitable and sustainable company, we need to generate value for our employees and their families. We do this by providing a healthy, safe, productive and team-oriented work environment that not only encourages our people to reach their potential, but also supports process improvements.

and leadership skills development programmes were conducted with 40 superintendents, 76 counsellors and 74 facilitators.

In order to keep our staff updated and trained, 83% of employees and 98% of unionised staff have received training this year. In 2021, 216 employees participated in institutional development programmes, which means that 59% of staff with more than two years of service have participated at least once. Of this 59%, 12% are women (18% of employees are female). 502 courses and studies were conducted through external training, benefiting 383 employees. 83% of our leaders have participated in institutional development programmes focused on leadership.

Performance: The virtual internship programme continued this year in conjunction with Peñoles, with courses in mining, geology, metallurgy and topography. In total there were 572 students and 36 teachers (42.27% men and 57.73% women).

We have continued our performance assessment process, reinforcing formal feedback. We promote the certification of key technical skills for operational personnel and have implemented a programme to develop administrative and leadership skills for the required positions. We develop our high-potential intermediate managers through the Leaders with Vision programme.

Pandemic: The safety of our workforce is protected with sanitary protocols in each mining unit in accordance with the recommendations of the Sanitary Authority.

A series of security measures have been applied:

-Use of sanitary measures within mining units,
-Constant health monitoring of employees,
-Temperature control,
-Social distancing,
-Strict hygiene,
-Home office,
-Selective Covid-19 tests.

Support for employees' mental health: 24-hour helpline for all employees, access to psychological help, support for families and available medical advice.

COVID-19 PANDEMIC IMPACT	KEY RISK INDICATORS
Undoubtedly the COVID-19 pandemic is one of the biggest threats facing our people. Employee health and well-being has been affected by this pandemic and has led to changes in staff management. Homeworking and isolation at the mines and projects have changed traditional work dynamics across the business.	• Number of positions filled by area of speciality, 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 business unit. • Number of rapid, suspicious and PCR test per business unit. • Evolution of confirmed cases in hospital and at home

LINK TO STRATEGY	RISK APPETITE
1 – 2 – 3 – 4	Medium

CHANGE IN HEAT MAP	RISK RATING (RELATIVE POSITION)
Increasing	2021: High (6) 2020: High (4)

7

PROJECTS (*PERFORMANCE RISK*)

<table>
<tr><th colspan="2">RISK DESCRIPTION</th></tr>
<tr><td>The pursuit of advanced exploration and project development opportunities is essential to achieving our strategic goals. However, this carries certain risks:

Economic viability: the impact of the cost of capital to develop and maintain the mine; future metal prices; and operating costs throughout the mine's life cycle.
Access to land: a significant failure or delay in land acquisition has a very high impact on our projects.
Uncertainties associated with the development and operation of new mines and expansion projects: includes fluctuations in the degree of ore and recovery; unforeseen complexities in the mining process; poor quality of the ore; unexpected presence of groundwater or lack of water; lack of community support; and inability or difficulty in obtaining and maintaining the required building and operating permits.
Delivery risk: Projects can exceed the budget in terms of cost and time; they cannot be built according to the required specifications or there may be a delay during construction; and major mining teams cannot be delivered on time.
</td>
<td>Other important risks:

Failure to effectively manage our development projects could result in delays to the start of production and cost overruns.
Projects that cannot be delivered on time, on budget and according to planned specifications.
Geotechnical conditions of the ore body / poor rock quality.
High costs making it difficult to justify the project.
Delay in the development of the project due to lack or delay of critical equipment, supplies and spare parts.
Disruptions in the supply chain for construction materials and equipment.

The following risks relate specifically to the Juanicipio project:

Regularising electricity consumption with CFE.
Delays in the design and obtaining permits related to the tailing dams.
Obtaining building permits with CONAGUA.
Lack of qualified labour.
Lack of specialised contractors.
Low contractor productivity.
</td></tr>
</table>

<table>
<tr><th colspan="2">FACTORS CONTRIBUTING TO RISK</th></tr>
<tr><td>
In some regions there are no specialised contractors or contractors with the technology to develop the projects.
Contractor productivity may be lower than anticipated, causing delays in the programme.
Increase in the number of high impact crimes (homicide, kidnapping, extortion) in the regions of the projects.
</td>
<td>
We have identified the following threats to project development:
- Insufficient resources for project execution.
- Change in operational priorities that can affect projects.
- Inadequate management structure for project supervision.
- Lack of efficient and effective contractors.
- Delays in obtaining necessary permits for construction and operation.
- Lengthy procedures for land acquisition, electricity supply and water.
</td></tr>
</table>

<table>
<tr><th colspan="2">CONTROLS, MITIGATING ACTIONS AND OUTLOOK</th></tr>
<tr><td>Our investment assessment process determines how best to manage available capital using technical, financial and qualitative criteria.

• Technical: we evaluate and confirm the resource estimate; conduct metallurgical research of mineral bodies</td>
<td>The executive management team and the Board of Directors are regularly updated on progress. Each advanced exploration project and major capital</td></tr>
</table>

to optimise the recovery of economic elements; calculate and determine the investment required for the overall infrastructure (including roads, energy, water, general services, housing) and the infrastructure required for the mine and plant. • Financial: we analyse the risk in relation to the return on the proposed capital investments; set the expected internal rates of return (IRR) per project as thresholds for approving the allocation of capital based on the current value of expected cash flows of invested capital; and perform stochastic and probabilistic analyses. • Qualitative: we consider the alignment of investment with our Strategic Plan and business model; identify synergies with other investments and operating assets; and consider the implications for safety and the environment, the safety of facilities, people, resources and community relations. The management of our projects is based on the PMBOK standard of the Institute of Project Management (PMI). It allows us to closely monitor project controls to ensure the delivery of approved projects on time, within budget and in accordance with defined specifications.	development project has a risk record containing the project-specific identified and assessed risks. The project development process in 2021 included: • Continuing the construction of the Juanicipio project. • Continuing the construction of the third tailings dam at La Ciénega. • Constructing the 14th leaching pad at La Herradura. • Constructing the carbon-in-column process at La Herradura.

COVID-19 PANDEMIC IMPACT	KEY RISK INDICATORS
COVID-19 affected project development and led to delays in approvals, for example at the Juanicipio mine and Pyrites Plant. The contractors failed to meet commitments, leading to disruptions in the supply of critical inputs such as cement, fuels and spare parts.	• Earned value (rate of financial advancement rate vs. physical advancement). • Percentage of required land acquired • Percentage of major equipment ordered and received according to plan. • Percentage of mine development completed.

LINK TO STRATEGY	RISK APPETITE
2	Medium

CHANGE IN HEAT MAP	RISK RATING (RELATIVE POSITION)
Stable	2021: High (7) 2020: High (6)

8

UNION RELATIONS (labour relations)

RISK DESCRIPTION
Our highly skilled unionised workforce and experienced management team are critical to sustaining our current operations, executing development projects and achieving long-term growth without major disruption. We run the risk of an outside union seeking to destabilise the current union. National union politics could adversely affect us, as could pressure from other mining unions seeking to take over Fresnillo's labour contracts.

FACTORS CONTRIBUTING TO RISK	
• The Labour Reform published in May 2019 allows the existence of several unions within a company and gives the employee the freedom of choice. This has led to a complex, rarefied work environment at the Fresnillo mine, with violent clashes between the union and a group of workers seeking to register a new independent union.	• The risk is that the fighting will continue and worsen and eventually the mine's workforce will be reduced. There is also a risk that this conflict could spread to other mines. • In addition, the TMEC (new trade agreement between Mexico, Canada and the United States replacing NAFTA) with new labour and trade union provisions.

CONTROLS, MITIGATING ACTIONS AND OUTLOOK	
Increased communication with trade union leaders in mining units to monitor the working climate. Meetings have been held with groups of workers who want to introduce new unions to the Company. A specialist group in labour relations was formed to meet the demands of dissident workers. Our strategy is to integrate unionised personnel into each team in the business unit. We achieve this by clearly assigning responsibilities and through programmes aimed at maintaining close relations with trade unions in mines and at the national level. We maintain close communication with trade union leaders at various levels of the organisation in order to: raise awareness of the economic situation facing the industry; share our production results; and encourage union participation in our security initiatives and other operational improvements. These initiatives include the Security Guardians programmes, certification partnerships, integration of high productivity equipment, and family activities.	We are proactive in our interactions with the union. When appropriate, we hire experienced legal advisors to support us on labour issues. We remain attentive to any developments in labour or trade union issues. We started 2021 by conducting five Regional Labour Update Forums with company leaders and unions in Sonora, Coahuila and Zacatecas with 500 participants. From February to the end of the year, we carried out a job training programme for operational leaders of companies at the level of middle management, with the participation of 906 leaders. We conducted a review of the contractual benefits for union members in our mines. Our executive leadership and the Executive Committee recognise the importance of trade union relations and follow any developments with interest.

COVID-19 PANDEMIC IMPACT	KEY RISK INDICATORS
Although the pandemic did not severely affect this risk, it did slightly complicate the negotiations and delayed some agreements, but with no significant impact. Faced with the pandemic, the union requested the Company to take care of all the sanitary measures recommended by the health authority so that the workers could return to the mining units. Today, the union continues to support the safety measures that we adopted.	• Union members' level of satisfaction. • Number of media mentions related to mining union developments.

LINK TO STRATEGY	RISK APPETITE
2 – 3	Low

CHANGE IN HEAT MAP	RISK RATING (RELATIVE POSITION)
Decreasing	2021: High (8) 2020: High (5)

9

CYBERSECURITY

<table>
<tr><th colspan="2">RISK DESCRIPTION</th></tr>
<tr><td>Information is one of our most valuable assets and we work hard to protect it. We fully recognise the importance of the confidentiality, continuity, integrity and security of our data and systems.

As a mining company, we can be under threat of cyber attacks from a broad set of groups, from "hacktivists" and hostile regimes, to organised criminals. Their objectives range from taking advantage of mining's role in regional and global supply chains, to impacting national economies.

Some threat actors also focus on finding unprotected, misconfigured and unpatched systems and exploit them, due to the industry's heavy reliance on technology and automated systems that supports operations.

The following are the top eight cybersecurity and privacy risks that have been identified through environment monitoring and workshops with business units, operations, and IT. These risks comprise Peñoles/Fresnillo overall cybersecurity and privacy risk profile:</td><td>1. Corruption of data - Critical data where any unauthorized modification can have adverse impacts.

2. Unauthorised access - Cybersecurity and privacy incidents due to incorrect access permissions or system abuse, exploit or misuse.

3. Breach and data theft - Disclosure of critical and sensitive company data by an internal or external source.

4. Business disruption - Disrupting key applications or systems for a period of time.

5. Lack of cybersecurity ownership - Failure to assign responsibility for implementing and adopting cybersecurity practices on a daily basis.

6. Non-compliance - Cybersecurity and privacy incidents resulting in non-compliance with applicable regulations, including privacy.

7. Health and safety incidents - Breach of availability, integrity or confidentiality of data which impacts health and safety.

8. Halt or loss of operations - Cybersecurity and privacy incidents which result in loss of operating licence or closure of operations.</td></tr>
</table>

<table>
<tr><th colspan="2">FACTORS CONTRIBUTING TO RISK</th></tr>
<tr><td>• Cyber risks have increased significantly in recent years owing in part to the COVID-19 pandemic and the proliferation of new digital technologies, the increasing degree of connectivity and a material increase in monetisation of cybercrime.

• Theft of information through social engineering and “phishing” campaigns (fraudulent attempts to obtain sensitive information or data, such as usernames or passwords, by appearing to be a trustworthy entity in an electronic communication).</td><td>• An increased reliance on cloud systems and infrastructure can make IT defences less robust and may bypass security controls
• Access to hacking tools and training is readily available and heavily automated. Without proper punishment for perpetrators globally, attackers can easily launch sophisticated attacks with little risk.
• There is a global lack of regulation regarding cybersecurity and e-crime that could deter criminals.</td></tr>
</table>

<table>
<tr><th colspan="2">CONTROLS, MITIGATING ACTIONS AND OUTLOOK</th></tr>
<tr><td>Our information security management model is designed with defensive structural controls to prevent and mitigate the effects of computer risks. It employs a set of rules and procedures, including a Disaster Recovery Plan, to restore critical IT functions in the event of an attack.

Our systems are continuously monitored by cybersecurity experts at a Security Operations Center (SOC). Incident response plans are in place and tested periodically to ensure we can respond quickly and effectively.</td><td>• The U.S. National Institute of Standards and Technology (NIST CSF) Cybersecurity Framework that describes how companies can assess and improve their ability to prevent, detect, and respond to cyberattacks.

• Information Control Objectives and Technologies to Others (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 facilitators.

Our approach is also based on the MITRE ATT&CK™ which is used as the basis for the development of specific threat</td></tr>
</table>

Our systems are regularly audited to identify any potential threats to the operations and additional systems have been put in place to protect our assets and data. We have implemented a training and awareness programme, which is designed to increase awareness of cyber risk and ensure that employees take the appropriate actions. We have invested in global IT security platforms and Managed Security Services Providers (MSSPs) in order to proactively monitor and manage our cyber risks. We conduct routine third-party penetration test to independently confirm the security of our IT systems and we seek to enhance the monitoring of our operational technology platforms. Since 2020, a fully staffed cybersecurity office has been in place to improve our cybersecurity position. Its main objective is to identify and manage cybersecurity risks and align them with our business mission and strategy, as well as monitor the supporting processes. Aligned to best practices and standards, its approach is based on two key frameworks:	models and methodologies in the private sector, government and in the cybersecurity products and services community. We also monitor the environment for relevant alerts and act proactively to assess our readiness, reinforcing our capabilities as needed. A governance model, continuous risk monitoring, information security policies, awareness-raising campaigns and training forms the basis of our IT/OT operational guarantee. Our plan for 2022 is to focus our efforts on incorporating key indicators around cyber risk reduction in the cybersecurity dashboard, implementing and maturing controls in line with the threat landscape and emphasising the importance of individual responsibility to each employee, in order for them to stay vigilant and alert to cyber threats.

COVID-19 PANDEMIC IMPACT	KEY RISK INDICATORS
With the COVID-19 pandemic, this risk has increased mainly due to the accelerated digital transformation, increased "phishing" attacks and a reduction in the robustness of IT defences due to remote working.	• Total number of cybersecurity incidents affecting our Company. • Number of media mentions related to cybersecurity issues affecting the mining industry.

LINK TO STRATEGY	RISK APPETITE
2 – 3	Low

CHANGE IN HEAT MAP	RISK RATING (RELATIVE POSITION)
Stable	2021: High (9) 2020: Medium (8)

10

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. Safety and health incidents could result in harm to our employees, contractors and local communities. Ensuring their safety and wellbeing is our ethical obligation and first priority, and is one of our core values. Our operations and projects are inherently hazardous, with the potential to cause illness or injury, damage to the environment, and disruption to communities. Major hazards include process safety, underground mining, surface mining and tailings and water storage.	Our workforce faces risks such as fire, explosion, electrocution and carbon monoxide poisoning, as well as risks specific to each mine site and development project. These include rockfalls caused by geological conditions, cyanide contamination, explosion, becoming trapped, electrocution, insect bites, falls, heavy or light equipment collisions involving machinery or personnel and accidents occurring while personnel are being transported.

FACTORS CONTRIBUTING TO RISK	
• We are saddened to report that one fatality was recorded during 2021, and also that we experienced a significant increase in the accident rate related to: -Rockfall/terrain failure -Loss of vehicle/equipment control -Team-vehicle-person interaction -Transport of staff -Contact with electric power -Fire -Becoming trapped -Contact with hazardous substances	• Frequent transportation of our people to remote business units is an ongoing feature of our operations. In many cases, these units have poor accessibility by road. Failure to comply with safety programmes, measures and audits or with the findings of inspections, continues to be a safety risk. • Our people not being sensitive to the latent risks of our operations. • Omissions and failures to follow security protocols.

CONTROLS, MITIGATING ACTIONS AND OUTLOOK

Nothing is more important than the safety and wellbeing of our employees, contractors and communities. We believe all incidents are preventable, so we concentrate on identifying, understanding, managing and, where possible, removing the hazard or removing people from the hazardous area.

We constantly seek to improve our safety and health risk management procedures, with focus on the early identification of risks and the prevention of fatalities.

Unfortunately, we suffered a fatal accident during the second half of this year, which means that even with the extraordinary efforts we are making, we have failed to achieve our goal of zero fatalities. Additionally, we recorded 363 high potential incidents (24% more than 2020)

At Fresnillo plc, the safety of our staff is an essential value and a way of life. We tirelessly seek to improve our performance, strengthening our preventive culture, raising awareness of the risks generated by our operational activities and establishing controls and mechanisms to eliminate fatalities.

During the year, we continued to implement support measures to strengthen, address and prevent the causes of accidents, injuries and fatalities. These include:

- Strengthening safety objectives, including establishing proactive performance indicators that allow us to anticipate events.
- Encouraging managers to own security risks to operations, so that this is a fundamental part of daily activities and that management can be held accountable according to performance and results.
- Regularly reviewing and auditing Health, Safety, Environmental and Sustainable (HSE&S) processes, training and controls to promote and improve effectiveness at managed and (where practicable) non-managed operations.

- Monitoring monthly HSE&S performance at the Group level and sharing learnings from HSE&S incident investigations.

- Continuing the implementation of the "*I Care, We Care*" programme in all our operations, including strengthening the programme's five lines of action.

- In 2021, the Chief Executive Officer launched a strategy to intensify the "*I Care, We Care*" programme. This strategy focuses on critical risks, controls and processes in order to prevent high potential accidents.

- Assigning Critical Risk Control Protocols to an owner for follow-up in line with their area of influence.

- Strengthening incident investigations with a special focus on high-potential ones.

- Increasing the focus on high-potential incidents (HPI).

- Strengthening the cross-functional communication of lessons learnt, in order to reduce the reoccurrence of similar accidents.

- Enhancing hazard identification and risk assessment.

- Confirming the continuous monitoring of security management as the highest priority of the SSMARC committee. The committee oversees all accident investigations, ensuring appropriate measures are taken to improve safety systems and practices.

COVID-19 PANDEMIC IMPACT	KEY RISK INDICATORS
The COVID-19 pandemic did not significantly affect this risk.	● Accident rate ● Days lost rate ● Accident frequency

LINK TO STRATEGY	RISK APPETITE
4	Low

CHANGE IN HEAT MAP	RISK RATING (RELATIVE POSITION)
Increasing	2021: Medium (10) 2020: Medium (11)

11

TAILINGS AND ENVIRONMENTAL INCIDENTS

RISK DESCRIPTION

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

We continue to be alert to the following risks:

- Cyanide management risk.
- Ensuring the stability of our tailings storage facilities (TSFs) during their entire lifecycles is central to our operations. A failure or collapse of any of our TSFs could result in fatalities, damage to the environment, regulatory violations, reputational damage and the disruption of the quality of life of neighbouring communities as well as our operations.
- Impact on the environment in the area of influence through erosion/deforestation/forest loss or disturbance of biodiversity as a result of the operations of the business unit or project activities.
- An event involving a leak or spill of cyanide or SO_2, which due to its chemical properties could generate an event of major consequence on the premises of the business unit and / or in the nearby area.
- Implications of future regulations for our tailings management.

FACTORS CONTRIBUTING TO RISK

- Design, construction and operation of current tailings dams under local and national controls, which do not comply with recommended best practices.
- Historic tailings dams with little or no operation construction design.
- Little known conditions of the state of some tailings dams, both current and historical.
- Some historical tailings dams located in rural areas are now surrounded by facilities or residential areas, increasing the consequences of failure.
- Tailings dam failures that could cause landslides or collapses.

CONTROLS, MITIGATING ACTIONS AND OUTLOOK

Our operations are inherently hazardous. We seek to achieve operational excellence to ensure that our employees and contractors go home safe and healthy, and that there are no adverse impacts on the communities and the environment where we operate.

Our environmental management system ensures compliance with national and international regulations and best practices, provides transparency and supports initiatives that reduce our environmental footprint. We are a company responsible for its activities and the fulfilment of the environmental commitments made.

Our environmental management system, together with our investment in preventive measures and training, are key factors that reduce the risk of large environmental incidents.

Based on the level of perceived risk due to recent serious and catastrophic developments in the industry, the Board decided to increase the severity of this risk in 2018 and maintained the same level in 2021.

Herradura, Saucito, Fresnillo, Noche Buena, San Julián and Ciénega each have an integrated certificate of management. Fresnillo and Saucito have ISO 9001; Herradura and Noche Buena have GIS ISO 14001 and 45000.

The Executive Committee is well aware of the risks associated with tailings dams. Therefore, before we construct a reservoir, we carry out a series of studies to confirm the suitability of the area. These studies include geotechnical, geological, geophysical, hydrological and seismic analyses. Before construction begins, the Ministry of Environment and Natural Resources (SEMARNAT), through the Federal Office for

Environmental Protection (PROFEPA), conducts several assessment studies and then continues to periodically review deposits in relation to the works. Environmental protection and safety are critical for cyanide leaching systems. We comply with international best practices as promoted by the International Cyanide Management Institute (ICMI) and the Mexican standard NOM-155-SEMARNAT-2007, which establishes environmental requirements for gold and silver leaching systems. Safe management of our tailings facilities has always been a priority. With increased focus on the issue of tailings dam safety across the global mining industry, we have taken the opportunity to renew and increase this focus. In 2021 we launched a number of initiatives to align our governance practices with current best practices. These initiatives included: • Updating the inventory of the TSFs and validating the data log. • Initiating a third-party review programme of dam safety inspections for all TSFs. • Establishing an Independent Tailings Review Panel (ITRP) comprising renowned international experts. • Accelerating a review programme by independent experts for all sites. • Reviewing the ITRP and prioritising recommendations arising from inspections. The Board and the HSECR Committee continue to keep these issues under scrutiny. It is important to note that our tailings dams differ from those involved in high-profile incidents, such as the tragedy in Brazil.

COVID-19 PANDEMIC IMPACT	KEY RISK INDICATORS
The construction programmes for new tailings dams and the expansion of existing ones were adjusted, due to the increased complexity caused by the pandemic, such as the required health and safety protocols.	• Number of business units with ISO 14001:2004 certification. • Number of business units with Clean Industry certification. • Number of business units with International Cyanide Code certification. • Number of environmental permits for all advanced exploration projects (according to schedule).

CHANGE IN HEAT MAP	RISK RATING (RELATIVE POSITION)
Stable	2021: Medium (11) 2020: Medium (9)

LINK TO STRATEGY	RISK APPETITE
4	Low

12

CLIMATE CHANGE

RISK DESCRIPTION	
The mining industry is highly exposed and sensitive to climate change risk. Climate change is a systemic challenge and will require coordinated actions between nations, between industries and by society at large. It demands a long-term perspective to address both physical climate change and low-carbon transition risks and uncertainties. Due to climate change, our operations and projects are expected to face acute physical risks from extreme events such as high temperatures, droughts and extreme rainfall from more frequent and intense hurricanes in the Pacific. These natural disasters may affect the health & safety of our people, damage access roads and mine's infrastructure, disrupt operations and affect our neighbouring communities. In addition, the rise in temperatures may increase our water demand while the decrease in annual precipitation exacerbates water stress in the regions where we operate.	These chronic risks may intensify the competition to access water resources, increasing risks to the social licence to operate. The societal responses to transition to a low carbon economy include more stringent regulations to reduce emissions, a transformation of the global energy system, changes in behaviour and consumption choices and emerging technologies. Adaptation measures are necessary to build the flexibility to respond to physical and transitional changes. The most important risk we currently face is to comply with all the provisions and requirements of international agreements to reduce pollution and greenhouse gas emissions. Failure to adapt to the transition and physical impacts of climate change, include: -government legislation to limit mining activities. -regulations limiting greenhouse gas emissions from the mining industry. -acute physical risks such as the increased likelihood of extreme weather events; and -chronic physical risks such as changing weather patterns including rising temperatures and sea levels.

FACTORS CONTRIBUTING TO RISK	
• The Federal Government promotes investment in coal rather than in renewable or clean energy. This has led to operating on clean energy becoming more difficult. • The Federal Government's implementation of policies that support the use of coal will lead to more greenhouse gases being released into the atmosphere and reduce the development of renewable energies. • Current and emerging climate regulations have the potential to result in increased cost, to change supply and demand dynamics for our products and create legal compliance issues and litigation, all of which could impact the Group´s financial performance and reputation. Our operations also face risk due to the physical impacts of climate change, including extreme weather. • Warming temperatures will increase water scarcity in some locations, inhibiting water-dependent operations, complicating site rehabilitation and bringing companies into direct competition with communities for water resources.	• The supply of critical inputs to mining processes, such as water and energy, is likely to face greater constraints. • Employee health and safety will be put at risk by increases in communicable diseases, exposure to heat-related illnesses and the likelihood of accidents related to rising temperatures. • Obtaining and maintaining a social licence to operate will become more difficult in communities where climate change exacerbates existing vulnerabilities and increases direct competition between the company and the community for resources. • Increased physical and non-physical risks will make project financing more difficult to secure. • Global warming and its effects such as droughts, hurricanes, winter storms, heavy rains, can cause stoppages in unit operations.

CONTROLS, MITIGATING ACTIONS AND OUTLOOK

• Climate change has formed part of our strategic thinking and investment decisions for over two decades. • We are considering the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) regarding: Governance, Strategy, Risk Management and Metrics and targets. • We recognise the importance of maturing our approach to integrating physical climate change risks and adaptation into financial planning and decision-making processes. We are committed to enhancing our understanding of the site-level impacts and vulnerabilities to refine our adaptation measures. • The pervasive and complex nature of climate change means that it can act as an amplifier of other risks such as environmental incidents, access to water, health & safety of our people, government regulations, and social licence to operate. The Head of Sustainability and the Head of Risks support the process to refine the identification and risk assessment of physical and transitional risks.	• We use the guides from industry associations (i.e. ICMM), international scientific reports (i.e. IPCC), reports from industry peers and reports of the Mexican Government to identify the physical impacts of climate change. • To gain a general understanding, we use the outcomes of scenarios built by the Mexican Government Reports, using the Global Circulation Models (GCMs) and different Representative Concentration Pathways (RCPs). • In addition, we use Aqueduct, a tool developed by the World Resources Institute (WRI), to better understand water stress under different climate change scenarios in the 2020-2030 period. • We are implementing a series of controls to manage the threat of extreme weather, including structural integrity programmes across all critical assets, emergency response plans and flood management plans. These controls keep our people safe and help our operations return to normal capacity as quickly as possible. • We are increasing the supply of the materials essential to building a low-carbon economy. • We are setting targets to reduce our emissions (on an absolute and intensity basis) over the short, medium and long term.

COVID-19 PANDEMIC IMPACT	KEY RISK INDICATORS
• The COVID-19 crisis and climate change demonstrate that we live in an interconnected world. We are faced with global challenges that need coordinated responses where each actor takes on their role. No country can deal with these issues alone.	• Energy demand/value added • CO_2/energy consumption • Zero-carbon fuel share

LINK TO STRATEGY	RISK APPETITE
1 – 2 – 3 – 4	Low

CHANGE IN HEAT MAP	RISK RATING (RELATIVE POSITION)
Stable	2021: Medium (12) 2020: Medium (12)

13
EXPLORATION (New ore resources)

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

FACTORS CONTRIBUTING TO RISK
We perceive this risk level as increasing in likelihood and impact. This is mainly due to the following: • Delays in procedures regarding access to land. • Restrictions of new mining concessions. • Geological sampling falling below standard. • Reserves not being replenished. Maintaining a reasonable investment in exploration, even when metals 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.

CONTROLS, MITIGATING ACTIONS AND OUTLOOK
During 2021, we invested a total of US$140.1 million in exploration activities. Our objectives for 2022 include a budgeted risk capital investment in exploration of approximately US$180 million. The approximate spending split is 55% for operating mines (reserves and resources) and 45% for the Exploration Division; which in turn applies a balanced, priority-based process to allocate the budget. For reference, the mines division uses approximately 60% of its budget for resource conversion and ore grade certainty, and 40% for step-out and expansion drilling. Furthermore, the Exploration Division budget for 2022 will allocate 26% to brownfield targets, 19% to development projects, 20% to advanced projects and 34% to early exploration stages including regional prospecting work. 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 drilling programmes to upgrade the resources category and convert inferred resources into reserves. • A team of highly trained and motivated geologists, including both employees and long-term contractors. • Advisory technical reviews by international third-party experts and routine use of up-to-date and integrated GIS databases, cutting edge geophysical and geochemical techniques (including drone technology), large to small scale hyperspectral methods, remote sensing imagery and analytical software for identifying favourable regions to be field-checked by the team. • A commitment to maintain a pipeline of drill-ready high priority projects.

COVID-19 PANDEMIC IMPACT	KEY RISK INDICATORS

• The pandemic has halted exploration work in some areas and has led to a shortage of contractors.	• Drill programmes completed (overall and by project). • Change in the number of ounces in reserves and resources. • Rate of conversion from resources to reserves.

LINK TO STRATEGY	RISK APPETITE
1	Medium

CHANGE IN HEAT MAP	RISK RATING (RELATIVE POSITION)
Return to Principal Risk	2021: Medium (13)

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 regulations.

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. The Directors have elected to prepare the Group and parent company financial statements in accordance with the UK-adopted International Financial Reporting Standards ('IFRSs') in conformity with the Companies Act 2006.

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;
- make judgements and accounting estimates that are reasonable and prudent;
- 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 IFRSs 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 whether UK-adopted international accounting standards have been followed, 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 unless it is appropriate to presume that the Company and/ or the Group will not continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's and Group's transactions and 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 Act 2006. 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 Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement 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.

Directors' Responsibility Statement under the UK Corporate Governance Code

In accordance with Provision 27 of the 2018 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 necessary 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

Each of the Directors confirm that to the best of their knowledge:

a) the consolidated financial statements, prepared in accordance with UK-adopted international accounting standards 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 annual report (including the Strategic 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.

For and on behalf of the Board

Alberto Tiburcio
Independent Director
7 March 2022

Consolidated Income Statement
Year ended 31 December

	Notes	Year ended 31 December 2021 US$ thousands Pre-Silverstream revaluation effect	Silverstream revaluation effect	Total	Year ended 31 December 2020 US$ thousands Pre-Silverstream revaluation effect	Silverstream revaluation effect	Total
Continuing operations:							
Revenues	4	2,703,095		2,703,095	2,430,055		2,430,055
Cost of sales	5	(1,766,170)		(1,766,170)	(1,550,689)		(1,550,689)
Gross profit		**936,925**		**936,925**	**879,366**		**879,366**
Administrative expenses		(103,534)		(103,534)	(93,407)		(93,407)
Exploration expenses	6	(130,291)		(130,291)	(107,328)		(107,328)
Selling expenses		(25,035)		(25,035)	(24,106)		(24,106)
Other operating income	8	11,914		11,914	9,997		9,997
Other operating expenses	8	(23,246)		(23,246)	(14,839)		(14,839)
Profit from continuing operations before net finance costs and income tax		**666,733**		**666,733**	**649,683**		**649,683**
Finance income	9	8,874		8,874	12,249		12,249
Finance costs	9	(61,750)		(61,750)	(141,319)		(141,319)
Revaluation effects of Silverstream contract	13		(416)	(416)		70,961	70,961
Foreign exchange loss		(1,909)		(1,909)	(40,321)		(40,321)
Profit from continuing operations before income tax		**611,948**	**(416)**	**611,532**	**480,292**	**70,961**	**551,253**
Corporate income tax	10	(156,598)	125	(156,473)	(119,349)	(21,288)	(140,637)
Special mining right	10	(16,563)		(16,563)	(35,037)		(35,037)
Income tax	10	(173,161)	125	(173,036)	(154,386)	(21,288)	(175,674)
Profit for the year from continuing operations		**438,787**	**(291)**	**438,496**	**325,906**	**49,673**	**375,579**
Attributable to:							
Equity shareholders of the Company		421,500	(291)	421,209	324,451	49,673	374,124
Non-controlling interest		17,287		17,287	1,455		1,455
		438,787	**(291)**	**438,496**	**325,906**	**49,673**	**375,579**
Earnings per share: (US$)							
Basic and diluted earnings per Ordinary Share from continuing operations	11			0.572	-		0.507
Adjusted earnings per share: (US$)							
Adjusted basic and diluted earnings per Ordinary Share from continuing operations	11	0.572			0.440		-

Consolidated Statement of Comprehensive Income
Year ended 31 December

		Year ended 31 December	
	Notes	**2021 US$ thousands**	2020 US$ thousands
Profit for the year		**438,496**	**375,579**
Other comprehensive income/(expense)			
Items that may be reclassified subsequently to profit or loss:			
(Gain)/loss on cash flow hedges recycled to income statement[1]		(2,476)	4,335
Changes in the fair value of cost of hedges		(5,396)	220
Total effect of cash flow hedges		**(7,872)**	**4,555**
Foreign currency translation		(653)	(1,217)
Income tax effect on items that may be reclassified subsequently to profit or loss:	10	2,362	(1,366)
Net other comprehensive income that may be reclassified subsequently to profit or loss:		**(6,163)**	**1,972**
Items that will not be reclassified to profit or loss:			
Changes in the fair value of cash flow hedges		(994)	304
Total effect of cash flow hedges		**(994)**	**304**
Changes in the fair value of equity investments at FVOCI		(48,051)	89,552
Remeasurement gains on defined benefit plans	21	5,710	147
Income tax effect on items that will not be reclassified to profit or loss	10	13,805	(26,980)
Net other comprehensive (loss)/income that will not be reclassified to profit or loss		**(29,530)**	**63,023**
Other comprehensive (loss)/income, net of tax		**(35,693)**	**64,995**
Total comprehensive income for the year, net of tax		**402,803**	**440,574**
Attributable to:			
Equity shareholders of the Company		386,060	439,130
Non-controlling interests		16,743	1,444
		402,803	**440,574**

1 The amounts recognised in hedging reserve and cost of hedging reserve at 31 December 2020 have been amended to reflect the nature of the components of the valuation of certain derivatives at that date.

Consolidated Balance Sheet
As at 31 December

	Notes	As at 31 December 2021 US$ thousands	2020 US$ thousands
ASSETS			
Non-current assets			
Property, plant and equipment	12	2,799,075	2,708,195
Equity instruments at fair value through other comprehensive income (FVOCI)	29	164,525	212,576
Silverstream contract	13	494,392	534,697
Deferred tax asset	10	67,300	120,676
Inventories	14	91,620	91,620
Other receivables	15	58,548	-
Other assets		3,587	3,429
		3,679,047	**3,671,193**
Current assets			
Inventories	14	396,184	351,587
Trade and other receivables	15	401,424	512,927
Prepayments		20,282	18,207
Derivative financial instruments	29	96	6,290
Silverstream contract	13	35,152	41,443
Cash and cash equivalents	16	1,235,282	1,070,415
		2,088,420	**2,000,869**
Total assets		**5,767,467**	**5,672,062**
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[1]	17	(2,042)	3,292
Cost of hedging reserve[1]	17	(38)	1,072
Fair value reserve of financial assets at FVOCI	17	83,784	117,420
Foreign currency translation reserve	17	(2,120)	(1,467)
Retained earnings	17	2,543,087	2,363,275
		3,618,124	3,479,045
Non-controlling interests		184,548	135,559
Total equity		**3,802,672**	**3,614,604**

1 The amounts recognised in hedging reserve and cost of hedging reserve at 31 December 2020 have been amended to reflect the nature of the components of the valuation of certain derivatives at that date.

Consolidated Balance Sheet
As at 31 December

	Notes	2021 US$ thousands	2020 US$ thousands
		As at 31 December	
Non-current liabilities			
Interest-bearing loans	19	1,157,545	1,156,670
Lease liabilities	24	6,146	7,697
Provision for mine closure cost	20	256,956	244,808
Pensions and other post-employment benefit plans	21	6,506	11,977
Deferred tax liability	10	68,745	295,595
		1,495,898	**1,716,747**
Current liabilities			
Trade and other payables	22	378,235	225,208
Income tax payable		62,287	88,066
Derivative financial instruments	29	3,885	-
Lease liabilities	24	4,681	5,048
Provision for mine closure cost	20	3,351	880
Employee profit sharing		16,458	21,509
		468,897	**340,711**
Total liabilities		**1,964,795**	**2,057,458**
Total equity and liabilities		**5,767,467**	**5,672,062**

These financial statements were approved by the Board of Directors on 8 March 2022 and signed on its behalf by:

Mr Juan Bordes
Non-executive Director
8 March 2022

Consolidated Statement of Cash Flows
Year ended 31 December

	Notes	Year ended 31 December 2021 US$ thousands	2020 US$ thousands
Net cash from operating activities	28	**895,141**	**917,685**
Cash flows from investing activities			
Purchase of property, plant and equipment	3	(592,052)	(412,326)
Proceeds from the sale of property, plant and equipment and other assets		6,042	266
Proceeds from Silverstream contract	13	48,986	33,710
Proceeds from the Layback Agreement	2 (c)	25,000	-
Interest received		10,459	12,249
Net cash used in investing activities		**(501,565)**	**(366,101)**
Cash flows from financing activities			
Proceeds from Note payable[1]		41,665	63,669
Principal element of lease payments	24 (a)	(5,971)	(5,780)
Dividends paid to shareholders of the Company[2]		(245,561)	(104,686)
Capital contribution[3]		31,885	53
Proceeds from the issuance of interest-bearing loans	19	-	828,325
Repayment of interest-bearing loans	19	-	(542,956)
Interest paid[4]	19	(49,334)	(59,891)
Net cash generated (used in)/from financing activities		**(227,316)**	**178,734**
Net increase in cash and cash equivalents during the year		166,260	730,318
Effect of exchange rate on cash and cash equivalents		(1,393)	3,521
Cash and cash equivalents at 1 January		1,070,415	336,576
Cash and cash equivalents at 31 December	16	**1,235,282**	**1,070,415**

1 Corresponds to a short-term interest-bearing note payable received from Minera los Lagartos, S.A. de C.V. which holds a non-controlling interest in Juanicipio project.

2 Includes the effect of hedging of dividend payments made in currencies other than US dollar (note 18).

3 Corresponds to capital contributions provided by Minera los Lagartos, S.A. de C.V. which holds a non-controlling interest in the Juanicipio project.

4 Total interest paid during the year ended 31 December 2021 less amounts capitalised totalling US$8.4 million (2020: US$8.8 million) which were included within the caption Purchase of property, plant and equipment (note 12).

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[1]	Cost of hedging reserve[1]	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 2020		**368,546**	**1,153,817**	**(526,910)**	**139**	**918**	**54,734**	**(250)**	**2,093,666**	**3,144,660**	**134,059**	**3,278,719**
Profit for the year		-	-	-	-	-	-	-	374,124	374,124	1,455	375,579
Other comprehensive income, net of tax		-	-	-	3,259	154	62,686	(1,217)	124	65,006	(11)	64,995
Total comprehensive income for the year		-	-	-	3,259	154	62,686	(1,217)	374,248	439,130	1,444	440,574
Hedging loss transferred to the carrying value of PPE purchased during the year		-	-	-	(106)	-	-	-	-	(106)	3	(103)
Capital contribution		-	-	-	-	-	-	-	-	-	53	53
Dividends declared and paid	18	-	-	-	-	-	-	-	(104,639)	(104,639)	-	(104,639)
Balance at 31 December 2020		**368,546**	**1,153,817**	**(526,910)**	**3,292**	**1,072**	**117,420**	**(1,467)**	**2,363,275**	**3,479,045**	**135,559**	**3,614,604**
Profit for the year		-	-	-	-	-	-	-	421,209	421,209	17,287	438,496
Other comprehensive income, net of tax		-	-	-	(4,535)	(1,110)	(33,636)	(653)	4,785	(35,149)	(544)	(35,693)
Total comprehensive income for the year		-	-	-	(4,535)	(1,110)	(33,636)	(653)	425,994	386,060	16,743	402,803
Hedging loss transferred to the carrying value of PPE purchased during the year		-	-	-	(799)	-	-	-	-	(799)	361	(438)
Capital contribution		-	-	-	-	-	-	-	-	-	31,885	31,885
Dividends declared and paid	18	-	-	-	-	-	-	-	(246,182)	(246,182)	-	(246,182)
Balance at 31 December 2021		**368,546**	**1,153,817**	**(526,910)**	**(2,042)**	**(38)**	**83,784**	**(2,120)**	**2,543,087**	**3,618,124**	**184,548**	**3,802,672**

1 The amounts recognised in hedging reserve and cost of hedging reserve at 31 December 2020 have been amended to reflect the nature of the components of the valuation of certain derivatives at that date.

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 2021 were authorised for issue by the Board of Directors of Fresnillo plc on 8 March 2022.

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 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 UK-adopted international accounting standards 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 2021 and 2020, 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 it 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 2020.

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

A number of new or amended standards (the Standards) became applicable for the current reporting period. The adoption of these Standards did not have any impact on the accounting policies, financial position or performance of the Group.

Standards, interpretations and amendments issued but not yet effective

The IASB has issued other amendments resulting from improvements to IFRSs that management considers do not have any impact on the, 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 judgements, 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 2021 are:

Recognition and classification of assets at Soledad and Dipolos mine:

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, with which Penmont complied by vacating 1,824 hectares of land, resulting in the suspension of operations at Soledad & Dipolos. Whilst the claim and the definitive court order did not affect the group's legal title over the mining concession or the ore currently held in leaching pads near the mine site, land access at the mine site is required to further exploit the concession at Soledad & Dipolos.

Penmont is the legal and registered owner of the land where the leaching pads are located but has not yet been able to gain physical access to these pads due to opposition by certain local individuals. The Group has a reasonable expectation that Penmont will eventually regain access to the Soledad & Dipolos assets and process the ore content in the Soledad & Dipolos leaching pads.This expectation considers different scenarios, including but not limited to the different legal proceedings that Minera Penmont has presented in order to regain access to the lands, which proceedings are pending final resolution. Therefore, the Group continues to recognise property, plant & equipment and inventory related to Soledad & Dipolos, as disclosed in note 12 and note 14, respectively. Due to the fact that it is not yet certain when access may be granted so that the inventory can be processed, this inventory is classified as a non-current asset.

As previously reported by the Group, claimants from the El Bajío community also presented claims against occupation agreements they entered into with Penmont, covering land parcels other than the surface land where Soledad & Dipolos is located. Penmont has had no significant mining operations or specific geological interest in the affected parcels and these lands are therefore not considered strategic for Penmont. The Agrarian Court has 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. The case relating to the claims over these land parcels remains subject to final conclusion. However, given that Penmont has not conducted significant mining operations or had specific geological interest in these land parcels, any contingencies relating to such land parcels are not considered material by the Group. There are no material assets recognised in respect of these land parcels at 31 December 2021 or 31 December 2020.

Layback Agreement:

In December 2020, the Group entered into multiple contracts with Orla Mining Ltd. and its Mexican Subsidiary, Minera Camino Rojo, S.A. de C.V. (together herein referred to as "Orla"), granting Orla the right to expand the Camino Rojo oxide pit onto Fresnillo's "Guachichil D1" mineral concession. Based on the terms of the contracts, the Group will transfer the legal rights to access and mine the mineral concession to Orla.

Due to the fact that the contracts were negotiated together, the Group has considered the layback contracts as a single agreement (Layback Agreement) for the purpose of determining the accounting implications of the transaction. The Group determined that the transaction should be accounted for as the sale of a single intangible asset. As such, it is relevant to consider the point at which control transfers in accordance with the requirements of IFRS 15 regarding when a performance obligation is satisfied and in light of the continuing performance obligations on the part of the Group.

The effectiveness of the agreement was subject to the approval of the Mexican Federal Competition Commission (COFECE), which was granted in February 2021. The consideration includes three payments: US$25.0 million that was paid upon the approval of COFECE, US$15.0 million that will be paid no later than 1 December 2022, US$22.8 million no later than 1 December 2023. The future amounts due bear interest at an annual rate of 5%. Upon notification of approval by COFECE, the Group recognised the fair value of consideration set out in the contract (US$67.2 million, being the cash flows set out above discounted at the risk-free rate).

As set out in the Layback Agreement, as at 31 December 2021 the Group continues to provide support to Orla in respect of other negotiations relevant to their acquisition of the rights to access from the local ejido, thus the Company has recognised the total value of the agreement as deferred income. Based on the expected time of complete the transfer of control of the asset, the Company the deferred income is classified as current.

The ongoing support does not affect the Group's contractual right to the future payments set out above. The amount receivable as at 31 December 2021 amounts to US$40.6 million, of which US$16.7 million is current and US$23.9 million is non-current.

Juanicipio project:

During 2021 Juanicipio has turned from construction to commissioning activities and continues processing mineralised material from development through plants at Fresnillo and Saucito Juanicipio has extended its commissioning period mainly derived from delays in key services such as the power to the plant facilities. As of 31 December 2021, the Group has evaluated the status of Juanicipio for accounting implications and has concluded it continues in a development stage.

Climate change:

In the climate disclosure in the Strategic Report, the Group's set out its assessment of climate risks and opportunities (CROs). The Group recognises that there may be potential financial statement implications in the future in respect of the mitigation and adaptation measures to the physical and transition risks. The potential effect of climate change would be in respect of assets and liabilities that are measured based on an estimate of future cash flows. The group specifically considered the effect of climate change on the valuation of property, plant and equipment, deferred tax assets, the Silverstream contract, and the provision for mine closure cost. The Group does not have any assets or liabilities for which measurement is directly linked to climate change performance (for example: Sustainability-Linked Bonds).

The main ways in which climate has affected the preparation of the financial statements are:

• The Group has already made certain climate-related strategic decisions, such as to focus on decarbonisation and to increase wind energy. Where decisions have been approved by the Board, the effects were considered in the preparation of these financial statements by way of inclusion in future cash flow projections underpinning the estimation of the recoverable amount of property, plant and equipment and deferred tax assets, as relevant.

• As described in Note 13, the costs inherent in the Silverstream contract are determined based on the provisions of that contract. This reduces the exposure of the valuation of the asset to the effect of any cost implications related to CROs.

• Further information about the potential effect of CROs on the provision for mine closure cost is set out in Note 20.

The Group's strategy consists of mitigation and adaptation measures. To mitigate the impacts by and on climate change the company relies on renewable electricity, fuel replacement and efficiency opportunities to reduce the carbon footprint. The approach to adaptation measures is based on climate models to produce actionable information for the design, construction, operation and closure of its mining assets, considering climate change. Future changes to the Group's climate change strategy or global decarbonisation signposts may impact the Group's significant judgements and key estimates and result in material changes to financial results and the carrying values of certain assets and liabilities in future reporting periods. However, as at the balance sheet date the Group believes there is no material impact on balance sheet carrying values of assets or liabilities. Although this is an estimate, it is not considered a critical estimate.

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 the recoverable amount, 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, the grade of the 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. Any potential future adjustment would be applicable from the point of re-estimation and would not by itself change the value of inventory and as such no sensitivity included.

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 on the same basis a market participant would consider, 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 and the discount rate is included in note 30. Management considers that an appropriate sensitivity for volumes produced and sold is on the total recoverable reserve and resource quantities over the contract term rather than annual production volumes over the mine life. A reasonably possible change in total recoverable resources and reserves quantities would not result in a significant change in the value of the contract.

Income tax, notes 2 (q) and 10:

The recognition of deferred tax assets, including those arising from un-utilised tax losses, requires 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.

COVID-19

The COVID-19 outbreak developed rapidly in 2020, with a significant number of infections around the world. The development and fluidity of the situation precludes any prediction as to the ultimate impact of COVID-19; however, the Group seeks to obtain the best possible information to enable the assessment of the risks involved and implement appropriate measures to respond.

During 2021, the Group continues to apply measures to safeguard the health of its employees and their local communities while continuing to operate safely and responsibly. During 2021 operations have not been suspended, all mines have operated at normal production capacity. The Group incurred in other production costs of US$4.7 million (2020: US$4.5 million) resulting from COVID-19 which include community support, the acquisition of additional personal protective equipment and other safety measures and are presented in cost of sales.

During 2021 and 2020, attempts at containment of COVID-19 have resulted in decreased economic activity, which has adversely affected the broader global economy. In the current environment, assumptions about future commodity prices, exchange rates, and interest rates are subject to greater variability than normal, which could in the future affect the valuation of the Group's assets and liabilities, both financial and non-financial. As at 31 December 2021 and 2020, there were no material changes to the valuation of the Group's asset and liabilities due to COVID-19.

(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 (except mobile equipment) or on a straight-line basis over the estimated useful life of the individual asset that are 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 average expected useful lives are as follows:

	Years
Buildings	8
Plant and equipment	10
Mining properties and development costs[1]	8
Other assets	4

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.

Ore generated as part of the development stage may be processed and sold, giving rise to revenue before the commencement of commercial production. Where such processing is necessary to bring mining assets into the condition required for their intended use (for example, in testing the plants at the mining unit in development), revenues from metals recovered from such activities are credited to mining properties and development costs. When the processing does not contribute to brining the mining assets into the condition required for their intended use (for example, when the processing of the ore extracted is supported by assets outside of the development project), the revenue is considered as incidental and it is recognized in profit or loss. In the latter case, cost of sales is measured based on expected operating cost once commercial production has been initiate.

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 are 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 indicators 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. The cash flows used to determine the recoverable amount of mining assets are based on the mine plan for each mine. The mine plan is determined based on the estimated and economically proven and probable reserves, as well as certain other resources that are assessed as highly likely to be converted into reserves. 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

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.

Classification

The Group classifies its financial assets in one of the following categories.

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. As at 31 December 2021 and 2020 there were no such instruments.

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
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.

The Group classifies its financial liabilities as follows:

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables and loans and borrowings.

Classification

For purposes of subsequent measurement, financial liabilities held by the Group are classified as financial liabilities as amortised cost.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by considering any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

De-recognition of financial liabilities
A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

(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).

Work in progress inventory comprises ore in leaching pads as processing is required to extract benefit from the ore. The recovery of gold is achieved through the heap leaching process. The leaching process may take months to obtain the expected metal recovery and mainly depends on the continuity of the leaching process. When the ore in leaching pads is in active leaching, it is classified as current. When the leaching process has stopped and not expected to restart within twelve months, ore in the leaching pads affected is classified as non-current.

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 three 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 its employees based on Mexico:

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 present value of defined benefit obligations under the 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 when the plan amendment or curtailment occurs and when the entity recognises related restructuring costs or termination benefits.

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 capped to three months of salary or average of the profit sharing paid the last three years.

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 deductible for income tax purposes.

(m) Leases

Group as a lessee

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

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

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

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

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

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

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

(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, doré bars and activated carbon (the products) 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. Inventory in transit to the smelter or refinery does not represent a significant proportion of total revenue at the end of the reporting period given the distance to the mine units.

The revenue is measured at the amount to which the Group expects to be entitled, being the estimate of the price expected to be received in the expected month of settlement and the Group's estimate of metal quantities based on assay data, and a corresponding trade receivable is recognised. Any future changes that occur before settlement are embedded within the provisionally priced trade receivables and are, therefore, within the scope of IFRS 9 and not within the scope of IFRS 15.

Given the exposure to the commodity price, these provisionally priced trade receivables will fail the cash flow characteristics test within IFRS 9 and will be required to be measured at fair value through profit or loss up from initial recognition and until the date of settlement. These subsequent changes in fair value are recognised in revenue but separately from revenue from contracts with customers.

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 from which time further expenses are capitalised as exploration costs on balance sheet as Property, plant and equipment.

(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 as finance income or finance cost respectively.

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.

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.

When hedging with forward contracts, the forward element is included in the designation of the financial instrument. Therefore, there is no cost of hedging in relation to forward contracts.

(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 based on 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 2021, 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;

The Herradura mine, located in the state of Sonora, a surface gold mine;

The Noche Buena mine, located in state of Sonora, a surface gold mine; and

The San Julian mine, located on the border of Chihuahua / Durango states, an underground silver-gold mine.

The operating performance and financial results for each of these mines are reviewed by management. As the Group´s chief operating decision maker does not review segment assets and liabilities, the Group has not disclosed this information.

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 2021 and 2020, 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 2021 and 2020, respectively. Revenues for the year ended 31 December 2021 and 2020 include those derived from contracts with costumers and other revenues, as showed in note 4.

									Year ended 31 December 2021
US$ thousands	Fresnillo	Herradura	Cienega	Saucito	Noche Buena	San Julian	Other[4]	Adjustments and eliminations	Total
Revenues:									
Third party[1]	493,582	769,896	215,623	547,294	168,849	509,247		(1,396)	2,703,095
Inter-Segment							147,727	(147,727)	-
Segment revenues	**493,582**	**769,896**	**215,623**	**547,294**	**168,849**	**509,247**	**147,727**	**(149,123)**	**2,703,095**
Segment Profit[2]	**224,558**	**285,354**	**106,498**	**321,349**	**77,158**	**322,734**	**144,006**	**(4,800)**	**1,476,857**
Foreign exchange hedging losses									3,827
Depreciation and amortisation[3]									(528,206)
Employee profit sharing									(15,553)
Gross profit as per the income statement									**936,925**
Capital expenditure[3]	108,335	54,371	45,392	101,160	381	40,922	241,491	-	592,052

1 Total third party revenues include treatment and refining charges amounting US$143.5 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. Segment profit for Fresnillo and Saucito considers the sales and the corresponding processing cost of the development ore from Juanicipio project.

3 Capital expenditure represents the cash outflow in respect of additions to property, plant and equipment, including mine development, construction of leaching pads, and purchase of mine equipment, excluding additions relating to changes in the mine closure provision. Significant additions include the construction of the leaching plant at Fresnillo and the facilities of the Juanicipio development project (included in other).

4 Other inter-segment revenue corresponds to leasing services provided by Minera Bermejal, S.A. de C.V and incidental ore sales from Juanicipio development project to Fresnillo; 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 2020
US$ thousands	Fresnillo	Herradura	Cienega	Saucito	Noche Buena	San Julian	Other[5]	Adjustments and eliminations	Total
Revenues:									
Third party[1]	366,245	777,455	230,221	521,817	151,402	380,552		2,363	2,430,055
Inter-Segment							119,412	(119,412)	-
Segment revenues	**366,245**	**777,455**	**230,221**	**521,817**	**151,402**	**380,552**	**119,412**	**(117,049)**	**2,430,055**
Segment Profit[2]	**191,042**	**400,540**	**129,479**	**325,099**	**53,661**	**211,681**	**101,615**	**(4,593)**	**1,408,524**
Foreign exchange hedging gains									4,145
Depreciation and amortisation[3]									(514,572)
Employee profit sharing									(18,731)
Gross profit as per the income statement									**879,366**
Capital expenditure[4]	92,627	30,182	35,071	73,376	19,674	36,329	125,067	-	412,326

1 Total third party revenues include treatment and refining charges amounting US$180.55 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 Includes depreciation and amortisation included in unabsorbed production cost amounted US$9.1 million.

4 Capital expenditure represents the cash outflow in respect of additions to property, plant and equipment, including mine development, construction of leaching pads, and purchase of mine equipment, excluding additions relating to changes in the mine closure provision. Significant additions include the construction of the leaching plant at Fresnillo and the facilities of the Juanicipio development project (included in other).

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

4. Revenues

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

(a) Revenues by source

	Year ended 31 December	
	2021 **US$ thousands**	2020 US$ thousands
Revenues from contracts with customers	2,705,720	2,425,098
Revenues from other sources:		
Provisional pricing adjustment on products sold	(1,274)	2,594
Hedging (loss)/gain on sales	(1,351)	2,363
	2,703,095	**2,430,055**

(b) Revenues by product sold

	Year ended 31 December	
	2021 **US$ thousands**	2020 US$ thousands
Lead concentrates (containing silver, gold, lead and by-products)	1,157,623	989,072
Doré and slag (containing gold, silver and by-products)	806,289	800,326
Zinc concentrates (containing zinc, silver and by-products)	346,892	236,758
Precipitates (containing gold and silver)	259,835	275,367
Activated carbon (containing gold, silver and by-products)	132,456	128,532
	2,703,095	**2,430,055**

All concentrates, precipitates, doré, slag and activated carbon 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	
	2021 **US$ thousands**	2020 US$ thousands
Silver	1,163,879	970,532
Gold	1,305,277	1,328,000
Zinc	259,987	204,733
Lead	117,448	107,272
Value of metal content in products sold	2,846,591	2,610,537
Adjustment for treatment and refining charges	(143,496)	(180,482)
Total revenues[1.]	**2,703,095**	**2,430,055**

1 Includes provisional price adjustments which represent changes in the fair value of trade receivables resulting in a loss of US$1.2 million (2020: gain of US$2.6 million) and hedging loss of US$1.3 million (2020: gain of US$2.3 million). 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	
	2021 **US$ per ounce**	2020 US$ per ounce
Gold[2]	1,794.96	1,792.44
Silver[2]	24.87	21.28

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	
	2021 **US$ thousands**	2020 US$ thousands
Depreciation and amortisation (note 12)	528,206	505,377
Contractors	403,568	357,278
Energy	233,667	189,239
Operating materials	221,773	203,217
Maintenance and repairs	199,264	175,087
Personnel expenses (note 7)	135,758	116,103
Mining concession rights and contributions	20,266	20,409
Surveillance	9,832	7,028
Insurance	9,628	7,141
Freight	8,433	8,037
Other	28,284	18,213
Cost of production	1,798,679	1,607,129
Unabsorbed production costs[1]	956	19,403
Gain on foreign currency hedges	(3,827)	(4,145)
Change in work in progress and finished goods (ore inventories)	(29,638)	(71,698)
	1,766,170	**1,550,689**

1 Corresponds to production cost incurred in Minera San Julian as a result of a plant stoppage (2020: Minera Penmont as a result of the operational impact related to COVID-19, see note 2 c). Main unabsorbed production cost includes US$9.1 million of depreciation and amortisation and US$3.1 million of Contractors).

6. Exploration expenses

	Year ended 31 December	
	2021 US$ thousands	2020 US$ thousands
Contractors	89,005	71,279
Mining concession rights and contributions	21,494	21,099
Administrative services	4,614	6,052
Personnel expenses (note 7)	6,425	2,753
Assays	1,651	1,299
Rentals	468	457
Other	6,634	4,389
	130,291	**107,328**

These exploration expenses were mainly incurred in the operating mines located in Mexico; the Juanicipio, Guanajuato, Orisyvo and Centauro Deep projects; and the Mexico Nuevo and Mirador de Cristo prospects. Exploration expenses of US$14.5 million (2020: US$10.4 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	
	2021 US$ thousands	2020 US$ thousands
Liabilities related to exploration activities	348	666

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	
	2021 US$ thousands	2020 US$ thousands
Operating cash out flows related to exploration activities	130,915	106,768

7. Personnel expenses

	Year ended 31 December	
	2021 US$ thousands	2020 US$ thousands
Salaries and wages	66,488	54,202
Statutory healthcare and housing contributions	23,771	20,441
Employees' profit sharing	16,662	19,275
Other benefits	18,679	13,233
Bonuses	14,906	12,770
Social security	5,777	3,084
Post-employment benefits	4,300	5,944
Vacations and vacations bonus	3,262	3,420
Training	2,867	3,080
Legal contributions	2,130	2,101
Other	4,028	4,070
	162,870	**141,620**

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

	Year ended 31 December	
	2021 US$ thousands	2020 US$ thousands
Cost of sales (note 5)	135,758	116,103
Administrative expenses	20,687	22,764
Exploration expenses (note 6)	6,425	2,753
	162,870	**141,620**

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

	Year ended 31 December	
	2021 No.	2020 No.
Mining	2,883	2,222
Plant	1,032	926
Exploration	432	403
Maintenance	1,259	1,255
Administration and other	1,062	1,010
Total	**6,668**	**5,816**

8. Other operating income and expenses

	Year ended 31 December	
	2021 US$ thousands	2020 US$ thousands
Other income:		
Insurance recovery	-	2,738
Gain on sale of property, plant and equipment and other assets	5,026	-
Rentals	1,802	1,278
Other	5,086	5,981
	11,914	**9,997**

	Year ended 31 December	
	2021 US$ thousands	2020 US$ thousands
Other expenses:		
Loss on sale of property, plant and equipment	-	700
Loss on theft of inventory	143	1,477
Maintenance[1]	3,663	3,692
Donations	538	387
Environmental activities[2]	4,813	768
Saucito rehabilitation cost for mine flood	4,803	-
Cost of insurance claims	1,422	1,085
Other	7,864	6,730
	23,246	**14,839**

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

2 During 2021 main activities were related with the evaluation of improvement in tailing dams in Fresnillo and Cienega (2020: remediation activities in Cienega mine).

9. Finance income and finance costs

	Year ended 31 December	
	2021	2020
	US$ thousands	US$ thousands
Finance income:		
Interest on short-term deposits and investments	5,167	4,606
Interest on tax receivables	3,637	7,642
Fair value movement on derivatives	-	1
Other	70	-
	8,874	**12,249**

	Year ended 31 December	
	2021	2020
	US$ thousands	US$ thousands
Finance costs:		
Interest on interest-bearing loans	48,888	43,542
Premium paid on early notes redemption (note 19)	-	60,835
Interest on tax amendments (note 10)	-	24,890
Interest on lease liabilities	504	644
Unwinding of discount on provisions	11,522	10,755
Other	836	653
	61,750	**141,319**

10. Income tax expense

a) Major components of income tax expense:

	Year ended 31 December	
	2021 **US$ thousands**	2020 US$ thousands
Consolidated income statement:		
Corporate income tax		
Current:		
Income tax charge	268,945	208,370
Amounts under provided in previous years	7,696	(67)
	276,641	208,303
Deferred:		
Origination and reversal of temporary differences	(120,043)	(88,954)
Revaluation effects of Silverstream contract	(125)	21,288
	(120,168)	(67,666)
Corporate income tax	**156,473**	**140,637**
Special mining right		
Current:		
Special mining right charge (note 10 (e))	53,147	24,739
Amounts under provided in previous years	363	6,602
	53,510	31,341
Deferred:		
Origination and reversal of temporary differences	(36,947)	3,696
Special mining right	**16,563**	**35,037**
Income tax expense reported in the income statement	**173,036**	**175,674**

	Year ended 31 December	
	2021 **US$ thousands**	2020 US$ thousands
Consolidated statement of comprehensive income:		
Deferred income tax (charge)/credit related to items recognised directly in other comprehensive income:		
Gain on cash flow hedges recycled to income statement	743	1,953
Changes in fair value of cash flow hedges	298	(91)
Changes in the fair value of cost of hedges	1,619	(3,320)
Changes in fair value of equity investments at FVOCI	14,415	(26,866)
Remeasurement losses on defined benefit plans	(908)	(23)
Income tax effect reported in other comprehensive income	**16,167**	**(28,347)**

(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	
	2021 US$ thousands	2020 US$ thousands
Accounting profit before income tax	**611,533**	**551,253**
Tax at the Group's statutory corporate income tax rate 30.0%	183,460	165,376
Expenses not deductible for tax purposes	3,442	2,921
Inflationary uplift of the tax base of assets and liabilities	(49,389)	(22,972)
Current income tax (over)/underprovided in previous years	1,569	44
Exchange rate effect on tax value of assets and liabilities[1]	32,078	55,110
Non-taxable/non-deductible foreign exchange effects	1,892	(16,923)
Inflationary uplift of tax losses	(4,165)	(1,170)
Inflationary uplift on tax refunds	(1,732)	(2,077)
Incentive for Northern Border Zone	(10,077)	(35,810)
Deferred tax asset not recognised	6,465	4,916
Special mining right taxable/(deductible) for corporate income tax	(4,969)	(10,488)
Other	(2,101)	1,710
Corporate income tax at the effective tax rate of 25.5% (2020: 25.5%)	**156,473**	**140,637**
Special mining right	16,563	35,037
Tax at the effective income tax rate of 28.2% (2020: 31.9%)	**173,036**	**175,674**

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

The most significant items reducing the effect of effective tax rate are inflation effects, exchange rate and the incentive for Norther Border Zone. The future effects of inflation and exchange rate will depend on future market conditions.

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

	Year ended 31 December	
	2021 US$ thousands	2020 US$ thousands
Opening net liability	(174,919)	(210,577)
Income statement credit arising on corporate income tax	120,168	67,666
Income statement (charge)/credit arising on special mining right	36,947	(3,696)
Exchange difference	192	35
Net charge related to items directly charged to other comprehensive income	16,167	(28,347)
Closing net liability	**(1,445)**	**(174,919)**

The amounts of deferred income tax assets and liabilities as at 31 December 2021 and 2020, considering the nature of the related temporary differences, are as follows:

	Consolidated balance sheet		Consolidated income statement	
	2021 US$ thousands	2020 US$ thousands	**2021 US$ thousands**	2020 US$ thousands
Related party receivables	(153,702)	(266,986)	(113,284)	65,505
Other receivables	(3,247)	(3,292)	(45)	(1,083)
Inventories	97,170	231,584	134,414	(46,572)
Prepayments	(2,872)	(1,833)	1,039	792
Derivative financial instruments including Silverstream contract	(153,111)	(170,122)	(14,352)	10,422
Property, plant and equipment arising from corporate income tax	(50,155)	(116,051)	(65,896)	(63,066)
Exploration expenses and operating liabilities	110,989	61,099	(49,890)	5,176
Other payables and provisions	78,092	73,706	(4,386)	(4,390)
Losses carried forward	90,439	75,043	(15,396)	(22,041)
Post-employment benefits	1,034	1,904	(38)	(225)
Deductible profit sharing	4,937	6,453	1,516	(3,455)
Special mining right deductible for corporate income tax	23,692	21,655	(2,037)	(3,578)
Equity investments at FVOCI	(20,554)	(35,944)	(975)	(157)
Other	(9,309)	(341)	9,161	(4,994)
Net deferred tax liability related to corporate income tax	13,403	(123,125)		
Deferred tax credit related to corporate income tax		-	(120,169)	(67,666)
Related party receivables arising from special mining right	(38,150)	(28,781)	9,368	6,263
Inventories arising from special mining right	21,332	16,896	(4,436)	187
Property plant and equipment arising from special mining right	(19,298)	(39,913)	(20,615)	(2,750)
Other	21,268	4	(21,264)	(4)
Net deferred tax liability	**(1,445)**	**(174,919)**		
Deferred tax credit			**(157,116)**	**(63,970)**
Reflected in the statement of financial position as follows:				
Deferred tax assets	67,300	120,676		
Deferred tax liabilities-continuing operations	(68,745)	(295,595)		
Net deferred tax liability	**(1,445)**	**(174,919)**		

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.

Based on management's internal forecast, a deferred tax asset has been recognised in respect of tax losses amounting to US$301.5 million (2020: US$248.4 million). If not utilised, US$30.6 million (2020: US$12.7 million) will expire within five years and US$279.9 million (2020: US$235.7 million) will expire between six and ten years. Of the total deferred tax asset related to losses, US$35.7 million is covered by the existence of taxable temporary differences, the remaining US$49.9 million corresponds to Fresnillo plc which maintained a deferred net asset position. The Group has conducted a feasible tax planning that will allow applied the tax losses before its expiration.

The Group has further tax losses and other similar attributes carried forward of US$72.6 million (2020: US$64.6 million) on which no deferred tax is recognised due to insufficient certainty regarding the availability of appropriate future taxable profits. Based on the applicable tax legislation the tax losses are not subject to expire.

(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 is expected to reverse in the foreseeable future. The temporary differences for which a deferred tax liability has not been recognised aggregate to US$1,056 million (2020: US$1,797 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%.

On 30 December 2018, the Decree of tax incentives for the northern border region of Mexico was published in the Official Gazette, which provided a reduction of income tax by a third and also a reduction of 50% of the value added tax rate, for taxpayers that produce income from business activities carried out within the northern border region. The tax incentives were applicable since 1 January 2019 and remain in force until 31 December 2020. On 30 December 2020 and extension of the Decree was published in the Official Gazette which remain in force until 31 December 2024. Some of the Group companies which produce income from business activities carried out within Caborca, Sonora, which is considered for purposes of the Decree as northern border region, applied for this Decree tax incentives before the Mexican tax authorities, and were granted authorization for income tax and value added tax purposes.

The special mining right "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. For the fiscal year 2021 the SMR allows as a credit the 50% of payment of mining concessions rights up to the amount of SMR payable within the same legal entity. 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.

During the fiscal year ended 31 December 2021, the Group credited US$11.5 million (2020: US$21.3 million) of mining concession rights against the SMR. Total mining concessions rights paid during the year were US$22.9 million (2020: US$21.3 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$64.6 million (2020: US$46.1 million).

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 2021 and 2020, earnings per share have been calculated as follows:

	Year ended 31 December	
	2021 US$ thousands	2020 US$ thousands
Earnings:		
Profit from continuing operations attributable to equity holders of the Company	421,473	374,124
Adjusted profit from continuing operations attributable to equity holders of the Company	421,764	324,451

Adjusted profit is profit as disclosed in the Consolidated Income Statement adjusted to exclude revaluation effects of the Silverstream contract of US$0.04 million loss (US$0.03 million net of tax) (2020: US$71.0 million gain (US$49.7 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.

	2021 thousands	2020 thousands
Number of shares:		
Weighted average number of Ordinary Shares in issue	736,894	736,894

	2021 US$	2020 US$
Earnings per share:		
Basic and diluted earnings per share	0.572	0.507
Adjusted basic and diluted earnings per Ordinary Share from continuing operations	0.572	0.440

12. Property, plant and equipment

						Year ended 31 December 2020[3]
	Land and buildings	**Plant and Equipment**	**Mining properties and development costs**	**Other assets**	**Construction in Progress**	**Total**
						US$ thousands
Cost						
At 1 January 2020	323,568	2,271,110	2,321,849	329,529	629,776	**5,875,832**
Additions	1,930	20,409	3,709	12,910[2]	377,137	**416,095**
Disposals	(1,015)	(27,690)	(91,266)	(3,268)	-	**(123,239)**
Transfers and other movements	17,538	122,096	173,362	16,882	(329,878)	**-**
At 31 December 2020	342,021	2,385,925	2,407,654	356,053	677,035	**6,168,688**
Accumulated depreciation						
At 1 January 2020	(162,328)	(1,345,809)	(1,406,781)	(147,497)	-	**(3,062,415)**
Depreciation for the year[1]	(9,234)	(221,497)	(256,181)	(30,741)	-	**(517,653)**
Disposals	387	26,448	91,687	1,053	-	**119,575**
At 31 December 2020	(171,175)	(1,540,858)	(1,571,275)	(177,185)	-	**(3,460,493)**
Net Book amount at 31 December 2020	170,846	845,067	836,379	178,868	677,035	**2,708,195**

						Year ended 31 December 2021[3]
	Land and buildings	Plant and Equipment	Mining properties and development costs	Other assets	Construction in Progress	Total
						US$ thousands
Cost						
At 1 January 2021	342,021	2,385,252	2,408,327	356,055	677,035	**6,168,690**
Additions	8,059	154,908	98,192	12,661	351,614	**625,434**
Disposals	(134)	(9,555)	(151,807)	(426)	-	**161,922**
Transfers and other movements	4,659	110,839	102,580	5,921	(223,999)	**-**
At 31 December 2021	354,605	2,641,444	2,457,292	374,211	804,650	**6,632,202**
Accumulated depreciation						
At 1 January 2021	(171,175)	(1,540,185)	(1,571,948)	(177,185)	-	**(3,460,493)**
Depreciation for the year[1]	(27,489)	(199,392)	(271,573)	(34,965)	-	**(533,419)**
Disposals	11	9,066	151,332	376	-	**160,785**
At 31 December 2021	(198,653)	(1,730,511)	(1,692,189)	(211,774)	-	**(3,833,127)**
Net Book amount at 31 December 2021[4]	155,952	910,933	765,103	162,437	804,650	**2,799,075**

1 Depreciation for the year includes US$ $529.4 million (2020: US$515.9 million) recognised as an expense in the income statement and US$4.6 million (2020: US$1.7 million), capitalised as part of construction in progress.

2 From the additions in "other assets" category US$(7.8) million (2020: US$3.9 million) corresponds to the reassessment of mine closure rehabilitations costs, see note 20.

3 Figures include Right-of-use assets as described in Note 24

4 The amount of Property, plant and equipment related to Soledad & Dipolos at 31 December 2021 is US$35.4 million (2020: US$35.9 million) and reflects capitalised mining works and the amount recognised in the cost of PP&E related to estimated remediation and closure activities.

The table below details construction in progress by operating mine and development projects

	Year ended 31 December	
	2021 US$ thousands	2020 US$ thousands
Saucito	85,926	45,845
Herradura	29,479	55,120
Noche Buena	9,685	10,069
Ciénega	38,976	56,032
Fresnillo	188,146	154,276
San Julián	17,304	20,801
Juanicipio	425,513	320,306
Other[1]	9,621	14,586
	804,650	**677,035**

1 Mainly corresponds to Minera Bermejal, S.A. de C.V. (2020: Minera Bermejal, S.A. de C.V.).

During the year ended 31 December 2021, the Group capitalised US$8.4 million of borrowing costs within construction in progress (2020: US$8.8 million). Borrowing costs were capitalised at the rate of 5.02% (2020: 5.02%).

Sensitivity analysis

Management considers that the models supporting the carrying amounts of mining assets are most sensitive to commodity price assumptions. Management has considered whether a reasonably possible change in prices could lead to impairment and concluded that it would not.

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 2021 was $ 5.43 per ounce (2020: $5.37 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. At 31 December 2021 the weighted average discount rate applied for the purposes of the valuation model was 7.92% (2020: 7.43%).

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 28 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 2021 total proceeds received in cash were US$49.0 million (2020: US$33.7 million) of which, US$4.8 million was in respect of proceeds receivable as at 31 December 2020 (2020: US$7.6 million). Cash received in respect of the year of US$41.3 million (2020: US$28.4 million) corresponds to 2.4 million ounces of payable silver (2020: 2.3 million ounces). As at 31 December 2021, a further US$4.8 million (2020: US$7.6 million) of cash receivable corresponding to 274,237 ounces of silver is due (2020: 362,295 ounces).

The US$0.4 million unrealised loss recorded in the income statement (31 Dec 2020: US$71.0 million gain) resulted mainly from the decrease in the forward silver price curve, increase in the LIBOR reference rate and an update in a new production mine plan. These effects were compensated by the amortization effects and higher inflation forecasts.

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

	2021 US$ thousands	2020 US$ thousands
Balance at 1 January	576,140	541,254
Cash received in respect of the year	(41,338)	(28,427)
Cash receivable	(4,842)	(7,648)
Remeasurement (loss)/gains recognised in profit and loss	(416)	70,961
Balance at 31 December	**529,544**	**576,140**
Less – Current portion	**35,152**	**41,443**
Non-current portion	**494,392**	**534,697**

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	
	2021 US$ thousands	2020 US$ thousands
Finished goods[1]	19,137	28,925
Work in progress[2]	344,805	305,888
Ore stockpile[3]	3,234	414
Operating materials and spare parts	125,824	113,111
	493,000	448,338
Allowance for obsolete and slow-moving inventories	(5,196)	(5,131)
Balance as 31 December	**487,804**	**443,207**
Less - Current portion	**396,184**	**351,587**
Non-current portion[4]	**91,620**	**91,620**

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

2 Work in progress includes metals contained in ores on leaching pads and in stockspiles that will be processed in dynamic leaching plants (note 2(c)).

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

4 Non-current inventories relate to ore in leaching pads where the leaching process has stopped and is not expected to restart within twelve months.

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, activated carbon is a product containing variable mixture of gold and silver that is delivered in small particles. The 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$1,770.3 million (2020: US$1,550.7 million) . During 2021 and 2020, there was no adjustment to net realisable value allowance against work-in-progress inventory. The adjustment to the allowance for obsolete and slow-moving inventory recognised as an expense was US$0.1 million (2020: US$0.3 million).

15. Trade and other receivables

	Year ended 31 December	
	2021 US$ thousands	2020 US$ thousands
Trade receivables from related parties (note 26)	265,473	326,833
Value Added Tax receivable	103,448	167,957
Other receivables from related parties (note 26)	4,886	8,176
Other receivables from contractors	27	1,918
Other receivables	11,478	8,545
Other receivables arising from the Layback Agreement (note 2 (c))	16,684	-
	401,996	513,429
Expected credit loss of ‘Other receivables’	(572)	(502)
Trade and other receivables classified as current assets	**401,424**	**512,927**
Other receivables classified as non-current assets:		
Value Added Tax receivable	**34,634**	**-**
Other receivables arising from the Layback Agreement (note 2 (c))	23,914	-
	58,548	**-**
	459,972	**512,927**

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$315.6 million (2020: US$339.6 million), and in Mexican pesos US$144.4 million (2020: US$173.2 million).

Balances corresponding to Value Added Tax receivables and US$10.4 million within Other receivables (2020: US$8.5 million) are not financial assets.

As of 31 December for each year presented, except for 'other receivables' in the table above, all trade and other receivables were neither past due nor credit-impaired. The amount past due and considered as credit-impaired as of 31 December 2021 is US$0.6 million (2020: US$0.5 million). Trade receivables from related partied and other receivables for related parties are classified as financial assets at FVTPL and therefore not considered in the expected credit loss analysis. 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	
	2021 US$ thousands	2020 US$ thousands
Cash at bank and on hand	2,834	1,955
Short-term deposits	1,232,448	1,068,460
Cash and cash equivalents	**1,235,282**	**1,070,415**

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 three 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			
	2021		2020	
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 2020	736,893,589	$368,545,586	50,000	£50,000
At 31 December 2020	736,893,589	$368, 545,586	50,000	£50,000
At 31 December 2021	736,893,589	$368, 545,586	50,000	£50,000

As at 31 December 2021 and 2020, 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.

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(g). 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 2021 and 2020 are as follows:

	US cents per Ordinary Share	Amount US$ thousands
Year ended 31 December 2021		
Final dividend for 2020 declared and paid during the year[1]	23.50	173,170
Interim dividend for 2021 declared and paid during the year[2]	9.90	72,952
	33.40	**246,122**
Year ended 31 December 2020		
Final dividend for 2019 declared and paid during the year[3]	11.90	87,690
Interim dividend for 2020 declared and paid during the year[4]	2.30	16,949
	14.20	**104,639**

1 This dividend was approved by the Shareholders on 24 June 2021 and paid on 28 June 2021

2 This dividend was approved by the Board of Directors on 3 August 2020 and paid 15 September 2021

3 This dividend was approved by the Shareholders on 26 May 2020 and paid on 2 June 2020.

4 This dividend was approved by the Board of Directors on 27 July 2020 and paid 16 September 2020

A reconciliation between dividend declared, dividends affected to retained earnings and dividend presented in the cash flow statements is as follows:

	Year ended 31 December	
	2021 US$ thousands	2020 US$ thousands
Dividends declared	246,122	104,639
Foreign exchange effect	59	-
Dividends recognised in retained earnings	**246,181**	**104,639**
Foreign exchange and hedging effect	(620)	47
Dividends paid	**245,561**	**104,686**

The directors have proposed a final dividend of US$24 cents per share, which is subject to approval at the annual general meeting and is not recognised as a liability as at 31 December 2021. Dividends paid from the profits generated from 1 January 2014 to residents in Mexico and to non-resident shareholders may be subject to an additional tax of up to 10%, which will be withheld by the Group.

In late 2019, the Directors became aware of a technical breach of the Companies Act 2006 (the Act) whereby certain dividends paid between 2011 and 2019 (the 'Historic Dividends') had been made without having filed interim accounts in accordance with the Act. The relevant interim accounts have now been filed with the Registrar of Companies and these show that the Company had sufficient distributable reserves at the point at which each of the Historic Dividends was paid. It is the intention of the Directors, as a matter of prudency, to put forward a resolution to shareholders in due course to regularise the position. This decision will have no effect on the monies received pursuant to these dividends and will not adversely impact shareholders or the Company. Nevertheless, the Directors will keep the matter under review.

19. Interest-bearing loans

Senior Notes

On 29 September 2020, the Group repurchased certain of its 5.500% Senior Notes due 2023 that had a carrying value of US$482.1 million for consideration of US$543.0 million. Additional accrued interest at the date of the repurchase included in the settlement amounted US$10.8 million. The premium paid on purchase of these notes of US$60.9 million was recognised in financial expenses. The settlement occurred on 2 October 2020.

On 2 October 2020, the Group completed its offering of US$850,000,000 aggregate principal amount of 4.250% Senior Notes due 2050. The proceeds were partially used to finance the repurchase mentioned above.

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

	As at 31 December	
	2021 US$ thousands	2020 US$ thousands
Opening balance	1,156,670	801,239
Issuance of 4.250% senior notes due 2050[1]	-	828,325
Repayments of 5.500% senior notes due 2023	-	(482,121)
Accrued interest	56,384	48,873
Interest paid[2]	(56,370)	(43,144)
Amortisation of discount and transaction costs	861	3,498
Closing balance	1,157,545	1,156,670

1 Balance is net of unamortized discounts and capitalized transaction costs of $21.7 million.

2 Accrued interest is payable semi-annually on 13 May and 13 November for 5.500 senior notes and 2 April and 2 October for 4.250% senior notes.

The Group has the following restrictions derived from the issuance of all outstanding Senior 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 risk-adjusted 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 and reclamation alternatives;, timing; the effects of climate change, and the discount, foreign exchange and inflation rates applied. Closure provisions are typically based on conceptual level studies that are refreshed at least every three years. As these studies are renewed, they incorporate greater consideration of forecast climate conditions at closure.

The Group has performed separate calculations of the provision by currency, discounting at corresponding rates. As at 31 December 2021, the discount rates used in the calculation of the parts of the provision that relate to Mexican pesos range from 6.39% to 8.33% (2020: range from 4.35% to 8.12%). The range for the current year parts that relate to US dollars range from 0.57% to 1.40% (2020: range from 0.07% to 1.16%).
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 lives 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 24 years from 31 December 2021 (3 to 24 years from 31 December 2020). As at 31 December 2021 the weighted average term of the provision is 12 years (2020: 12 years).

	As at 31 December	
	2021 US$ thousands	2020 US$ thousands
Opening balance	**245,688**	**231,056**
Increase to existing provision	17,078	8,351
Effect of changes in discount rate	(7,821)	3,896
Unwinding of discount rate	11,622	10,801
Payments	(879)	(817)
Foreign exchange	(5,381)	(7,599)
Closing balance	**260,307**	**245,688**
Less - Current portion (note 22)	**3,351**	**880**
Non-current portion	**256,956**	**244,808**

The provision is sensitive to changes in discount rates. Changes in market rates and risks not considered in the risk-adjusted cost estimates could change the discount rate. To illustrate the sensitivity of the provision to discounting, if the discount rate at 31 December 2021 decreased by 50 basis points then the provision would be US$43.4 million higher, of which approximately US$43.3 million would be capitalised within “Property, plant and equipment” at operating sites and US$0.1 million would be charged to the income statement for non-operating sites. If the discount rate increased by 50 basis points then the provision would be US$27.2 million lower, of which approximately US$27.1 million would result in a decrease within “Property, plant and equipment” at operating sites and US$0.1 million would be credited to the income statement for non-operating sites.

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 Mexican 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 up to 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 2021	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 2021
															US$ thousands
Defined benefit obligation	(31,358)	(1,249)	(1,906)	1,572	(1,583)	841			3,946			3,946		2,481	(25,673)
Fair value of plan assets	19,381		1,167	(616)	1,283	(841)	1,744					1,744	732	(2,400)	19,167
Net benefit liability	(11,977)	(517)	(739)	956	(300)	-	1,744		3,946			5,690		81	(6,506)

		Pension cost charge to income statement					Remeasurement gains/(losses) in OCI								
	Balance at 1 January 2020	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 2020
															US$ thousands
Defined benefit obligation	(31,294)	(1,211)	(1,738)	1,595	(1,354)	985	-	-	(487)	976	-	489	-	(184)	(31,358)
Fair value of plan assets	20,590		1,089	(1,123)	(34)	(985)	(342)	-	-	-	-	(342)	-	152	19,381
Net benefit liability	(10,704)	(1,211)	(649)	472	(1,388)	-	(342)	-	(487)	976	-	147	-	(32)	(11,977)

Of the total defined benefit obligation, US$9.6 million (2020: US$9.6 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	
	2021 **%**	2020 %
Discount rate	7.99	7.09
Future salary increases (National Consumer Price Index)	5.00	5.00

The life expectancy of current and future pensioners, men and women aged 65 and older will live on average for a further 24.08 and 27.05 years respectively (2020: 23.4 years for men and 26.9 for women). The weighted average duration of the defined benefit obligation is 12.1 years (2020: 12.5 years).

The fair values of the plan assets were as follows:

	As at 31 December	
	2021 **US$ thousands**	2020 US$ thousands
State owned companies	3,180	3,756
Mutual funds (fixed rates)	15,987	15,625
	19,167	**19,381**

As at 31 December 2021 and 2020, all the funds were invested in quoted debt instruments.

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 2021 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)	(1,079)	1,174	157	(156)	208

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	
	2021 **US$ thousands**	2020 US$ thousands
Trade payables	130,187	86,838
Note payable[1]	107,918	64,425
Other payables to related parties (note 26)	30,930	19,629
Accrued expenses	22,319	16,368
Layback Agreement (note 2 (c))	67,182	-
Other taxes and contributions	19,699	37,948
	378,235	**225,208**

1 Corresponds to a short-term interest-bearing note payable received from Minera los Lagartos, S.A. de C.V. which holds a non-controlling interest in Juanicipio project. During 2021 Juanicipios's shareholders agreed to extend the maturity of the notes bases on expected cash flows and repayment intention.

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.

Balances corresponding to Accrued expenses and Other tax and contributions are not financial liabilities.

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 and development project is as follows:

	As at 31 December	
	2021 US$ thousands	2020 US$ thousands
Saucito	49,127	30,922
Herradura	21,258	23,635
Noche Buena	213	373
Ciénega	15,710	9,304
Fresnillo	43,541	25,256
San Julián	6,379	3,051
Juanicipio	103,100	189,128
Other	970	2,909
	240,298	**284,579**

24. Leases
(a) The Group as lessee

The Group leases various offices, buildings and IT equipment. The resulting lease liability is as follows:

	As at	
	31 December 2021 US$ thousands	31 December 2020 US$ thousands
IT equipment	8,406	9,779
Buildings	2,421	2,966
Total lease liability	**10,827**	**12,745**
Less - Current portion	**4,681**	**5,048**
Non-current portion	**6,146**	**7,697**

The total cash outflow for leases for the year ended 31 December 2021, except short term and low value leases, amount US$6.5 million (2020: US$5.8 million).

The table below details right-of-use assets included as property plant and equipment in note 12

	Year ended 31 December 2021		
	Building	**Computer equipment**	**Total**
			US$ thousands
Cost			
At 1 January 2021	4,001	17,527	21,528
Additions	331	2,889	3,220
At 31 December 2021	4,332	20,416	24,748
Accumulated depreciation			
At 1 January 2021	(1,059)	(8,056)	(9,115)
Depreciation for the year	(727)	(4,375)	(5,102)
At 31 December 2021	(1,786)	(12,431)	(14,217)
Net book amount at 31 December 2021	**2,546**	**7,985**	**10,531**

Amounts recognized in profit and loss for the year, additional to depreciation of right-of-use assets, included US$0.5 million (2020: US$0.6 million) relating to interest expense, US$0.7 million (2020: US$0.7million) relating to short-term leases and US$3.3million (2020: $2.9 million) relating to low-value assets.

(b) The Group as a lessor

Operating leases, in which the Group is the lessor, relate to mobile equipment owned by the Group with lease terms of between 12 to 36 months. All operating lease contracts contain market review clauses in the event that the lessee exercises its option to renew. The lessee does not have an option to purchase the equipment at the expiry of the lease period. The Group's leases as a lessor are not material.

25. Contingencies

As of 31 December 2021, 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.
- Certain of the Group's income tax returns are currently being reviewed by the SAT. The status of the material on-going inspections is as follows:
  - On 13 February 2020, SAT initiated an audit of the income tax and mining rights computations of Desarrollos Mineros Fresne, S de R.L. de C.V. for the year 2014. On 3 February 2021, the SAT delivered its findings to which the company responded. The findings relate to the tax treatments of capitalised stripping cost and exploration expenditure. The company responded to the SAT and initiated a procedure with the Mexican Taxpayer Ombudsman (PRODECON) to procure a Conclusive Agreement with SAT in respect of these findings. The process is ongoing.
  - On 11 February 2021, SAT initiated an audit of the income tax and mining rights computations of Desarrollos Mineros Fresne, S de R.L. de C.V. for the year 2015. The findings are similar to the 2014 Tax Audit Findings, and relate to the tax treatments of capitalised stripping cost, exploration expenditure, and in-period deduction of certain ore extraction services as an expense. On 8 February 2022, the SAT delivered its findings to which the company responded. It is expected that the company will initiate a procedure with PRODECON to procure a Conclusive Agreement with SAT in respect of these findings.

  Due to the current stage of the Conclusive Agreement regarding 2014 and the audit procedures for 2015, it is not possible to anticipate whether the tax authorities are going to assess a deficiency to Desarrollos Mineros Fresne, S de R.L. de C.V. 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.
- 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). This insurance claim was rejected by the insurance provider. In early 2018, after the matter had been taken to mutually agreed arbitration, the insurance claim was declared valid; however, there is disagreement about the appropriate amount to be paid. In October 2018 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 payment. Due to the fact that negotiations are on-going and there is uncertainty regarding the timing and amount involved in reaching a final settlement with the insurer, it is currently not practicable to determine the total amount expected to be recovered.

- It is probable that interest income will be earned on the Group's outstanding income and value added tax receivable balances; however, there is no certainty that this interest will be realised until the underlying balance is recovered. Due to that uncertainty, it is also not practicable to estimate the amount of interest income earned but not recovered to date.

26. Related party balances and transactions

The Group had the following related party transactions during the years ended 31 December 2021 and 2020 and balances as at 31 December 2021 and 2020.

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	
	2021 US$ thousands	2020 US$ thousands	**2021 US$ thousands**	2020 US$ thousands
Trade:				
Metalúrgica Met-Mex Peñoles, S.A. de C.V.	265,473	326,833	298	170
Other:				
Industrias Peñoles, S.A.B. de C.V.	4,842	7,648	-	-
Metalúrgica Met-Mex Peñoles, S.A. de C.V.	6	397	-	-
Servicios Administrativos Peñoles, S.A. de C.V.	-	-	4,519	3,156
Servicios Especializados Peñoles, S.A. de C.V.	-	-	179	2,652
Fuentes de Energía Peñoles, S.A. de C.V.	-	-	5,220	568
Termoeléctrica Peñoles, S. de R.L. de C.V.	-	-	2,154	2,662
Eólica de Coahuila S.A. de C.V.	-	-	13,589	7,342
Minera Capela, S.A. de C.V.			714	-
Other	38	131	4,257	3,079
Sub–total	270,359	335,009	30,930	19,629
Less–current portion	270,359	335,009	30,930	19,629
Non-current portion	-	-	-	-

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

Other balances with related parties:

	Year ended 31 December	
	2021 US$ thousands	2020 US$ thousands
Silverstream contract:		
Industrias Peñoles, S.A.B. de C.V.	529,544	576,140

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	
	2021 US$ thousands	2020 US$ thousands
Income:		
Sales:[1]		
Metalúrgica Met-Mex Peñoles, S.A. de C.V.	2,704,447	2,427,692
Insurance recovery		
Grupo Nacional Provincial, S.A. B. de C.V.	23	2,761
Other income	2,708	3,618
Total income	**2,707,178**	**2,434,071**

1 Figures do not include the effects of hedging as the derivative transactions are not undertaken with related parties. Figures are net of the adjustment for treatment and refining charges of US$143.5 million (2020: US$180.5 million). During 2021 and 2020 there were no sales credited to development projects.

	Year ended 31 December	
	2021 US$ thousands	2020 US$ thousands
Expenses:		
Administrative services:		
Servicios Administrativos Peñoles, S.A. de C.V.[2]	35,654	33,031
Servicios Especializados Peñoles, S.A. de C.V.[3]	19,105	17,932
	54,759	50,963
Energy:		
Termoeléctrica Peñoles, S. de R.L. de C.V.	19,597	17,616
Fuentes de Energía Peñoles, S.A. de C.V.	5,019	5,051
Eólica de Coahuila S.A. de C.V.	39,423	36,090
	64,039	58,757
Operating materials and spare parts:		
Wideco Inc	5,465	5,362
Metalúrgica Met-Mex Peñoles, S.A. de C.V.	10,579	7,389
	16,044	12,751
Equipment repair and administrative services:		
Serviminas, S.A. de C.V.	10,029	6,476
Insurance premiums:		
Grupo Nacional Provincial, S.A. B. de C.V.	16,422	12,278
Other expenses:	7,441	3,351
Total expenses	**168,734**	**144,576**

2 Includes US$3.1 million (2020: US$5.1 million) corresponding to expenses reimbursed.

3 Includes US$2.6 million (2020: US$3.0 million) relating to engineering costs that were capitalised.

In 2020, the Group paid US$16.1 million to Industrias Peñoles, S.A.B de C.V. related to the settlement of amounts due to the SAT arising from the voluntary tax amendment mentioned in Note 10 (a) in respect of the fiscal year 2013. This payment was made as settlement of the adjustment in respect of 2013 was done in accordance with the tax consolidation regime that was applicable in that year.

(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	
	2021 **US$ thousands**	2020 US$ thousands
Salaries and bonuses	3,142	3,092
Post-employment benefits	192	146
Other benefits	337	370
Total compensation paid in respect of key management personnel	**3,671**	**3,608**

	Year ended 31 December	
	2021 **US$ thousands**	2020 US$ thousands
Accumulated accrued defined benefit pension entitlement	4,138	5,005

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 2021 and 2020 are as follows:

	Year ended 31 December	
Class of services	**2021** **US$ thousands**	2020 US$ thousands
Fees payable to the Group's auditor for the audit of the Group's annual accounts	1,413	1,439
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	382	242
Audit-related assurance services	497	521
Other assurance services	-	309
Total	**2,292**	**2,511**

28. Notes to the consolidated statement of cash flows

	Notes	**2021 US$ thousands**	2020 US$ thousands
Reconciliation of profit for the year to net cash generated from operating activities			
Profit for the year		**438,496**	**375,579**
Adjustments to reconcile profit for the period to net cash inflows from operating activities:			
Depreciation and amortisation	12	529,390	515,909
Employee profit sharing	7	16,662	19,275
Deferred income tax expense/(credit)	10	(157,116)	(63,970)
Current income tax expense	10	330,151	239,644
(Gain)/loss on the sale of property, plant and equipment and other assets	8	(5,041)	667
Net finance costs		52,863	129,066
Foreign exchange loss		1,306	22,342
Difference between pension contributions paid and amounts recognised in the income statement		625	1,243
Non cash movement on derivatives		531	(56)
Changes in fair value of Silverstream	13	416	(70,961)
Working capital adjustments			
Decrease/(Increase) in trade and other receivables		85,580	(61,561)
(Increase)/decrease in prepayments and other assets		(2,233)	331
Increase in inventories		(44,596)	(79,467)
Decrease in trade and other payables		19,252	10,933
Cash generated from operations		**1,266,287**	**1,038,974**
Income tax paid[1]		(349,840)	(114,170)
Employee profit sharing paid		(21,306)	(7,119)
Net cash from operating activities		**895,141**	**917,685**

1 Income tax paid includes US$321.8 million corresponding to corporate income tax (020: US$103.6 million) and US$28.0 corresponding to special mining right (2020: US$10.6 million), for further information refer to note 10.

29. Financial instruments
(a) Fair value category

As at 31 December 2021				
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)	41,217	-	-	270,315
Equity instruments at FVOCI	-	164,525	-	-
Silverstream contract (note 13)	-	-	-	529,544
Derivative financial instruments	-	-	96	-
Financial liabilities:		Amortized cost	Fair value (hedging instruments)	Fair value through profit or loss
Interest-bearing loans (note 19)	-	1,157,545	-	-
Trade and other payables (note 22)	-	161,117	-	-
Note payable (note 22)	-	107,918	-	-
Derivative financial instruments	-		3,885	-

As at 31 December 2020				
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)	1,944	-	-	334,482
Equity instruments at FVOCI	-	212,576	-	-
Silverstream contract (note 13)	-	-	-	576,140
Derivative financial instruments	-	-	6,290	-
Financial liabilities:		Amortized cost	Fair value (hedging instruments)	Fair value through profit or loss
Interest-bearing loans (note 19)	-	1,157,545	-	-
Trade and other payables (note 22)	-	106,467	-	-
Note payable (note 22)	-	64,425	-	-

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 value of financial assets and liabilities other than those measured at fair value are as follows:

	As at 31 December			
	Carrying amount		Fair value	
	2021 US$ thousands	2020 US$ thousands	**2021 US$ thousands**	2020 US$ thousands
Financial assets:				
Trade and other receivables	41,217	1,944	41,217	1,944
Financial liabilities:				
Interest-bearing loans[1] (note 19)	1,157,545	1,156,210	1,237,689	1,297,770
Trade and other payables	161,117	106,467	161,117	106,467
Note payable (note 22)	107,918	64,425	107,918	64,425

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 2021			
	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	-	-	270,315	270,315
Derivative financial instruments:				
Option commodity contracts (note 29 (c))	-	66	-	66
Option and forward foreign exchange contracts	-	30	-	30
Silverstream contract	-	-	529,544	529,544
Other financial assets:				
Equity instruments at FVOCI	164,525	-	-	164,525
	164,525	**96**	**799,859**	**964,480**
Financial liabilities:				
Derivative financial instruments:				
Option commodity contracts (note 29 (c))	-	2,987	-	2,987
Option and forward foreign exchange contracts	-	898	-	898
	-	**3,885**	**-**	**3,885**

	As of 31 December 2020			
	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	-	-	334,482	334,482
Derivative financial instruments:				
Option commodity contracts (note 29 (c))	-	1,666	-	1,666
Option and forward foreign exchange contracts	-	4,624	-	4,624
Silverstream contract	-	-	576,140	576,140
Other financial assets:				
Equity instruments at FVOCI	212,576	-	-	212,576
	212,576	**6,290**	**910,622**	**1,129,488**

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:

	2021 US$ thousands	2020 US$ thousands
Balance at 1 January:	326,834	206,982
Sales	3,247,864	5,352,029
Cash collection	(3,307,951)	(5,234,771)
Changes in fair value	(3,695)	21,165
Realised embedded derivatives during the year	2,421	(18,571)
Balance at 31 December	**265,473**	**326,834**

The fair value of financial assets and liabilities is included at reflects 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 several 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 operational mine plan, with certain amendments to reflect a basis that a market participant would consider, that is 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). These investments were irrevocably designated at fair value through OCI as the Group considers these investments to be strategic in nature. As of 31 December 2021, approximately 89.8% of the investments correspond to 9,314,877 shares (2020: 9,314,877 shares) of Mag Silver, Corp. for an amount of US$146.1 million (2020: US$199.5 million) and 7.3% of Endeavor, Inc. represented by 2,800,000 (2020: 2,800,000 shares) shares for an amount of US$11.9 million (2020: US$14.1 million). These equity investments are listed on the Canadian Stock Exchange. The prices per share as 31 December 2021 were US$15.69 (2020: US$20.47) and US$4.23 (2020: US$5.05), respectively.

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 doré bars and activated carbon 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.

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 and other foreign currencies 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.

The following table demonstrates the sensitivity of cash and cash equivalents, trade and other receivables, trade and other payables and derivatives financial instruments (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	Effect on equity: increase/ (decrease) US$ thousands
2021	10%	2,123	1,251
	(5%)	(1,229)	(1,587)
2020	20%	2,792	30,056
	(15%)	(668)	(12,378)

The effects on profit before tax and equity of reasonably possible changes to the US dollar exchange rate compared to the Mexican peso on the Silverstream contract are not material. The Group's exposure to reasonably possible changes in other currencies is not material.

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 (excluding Silverstream) 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
2021	10%	15%	25%	15%	40,688	(4,861)
	(10%)	(15%)	(15%)	(15%)	(36,638)	2,707
2020	20%	45%	25%	15%	88,037	(7,989)
	(20%)	(45%)	(20%)	(15%)	(86,165)	22,697

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
2021	15%	104,419
	(15%)	(104,419)
2020	45%	338,484
	(45%)	(338,494)

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
2021	25	3,088
	-	-
2020	25	2,676
	(20)	(2,141)

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
2021	25%	(13,219)
	-	-
2020	25	(14,689)
	(20)	12,239

Equity price risk

The Group has exposure to changes in the price of equity instruments that it holds as equity investments at FVOCI.

The following table demonstrates the sensitivity of equity investments at FVOCI 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
2021	25%	-	40,707
	(45%)	-	(73,272)
2020	70%	-	148,803
	(40%)	-	(85,031)

(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 trade and other receivables, cash and cash equivalents, the Silverstream contract and derivative financial instruments.

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 credit-impaired nor past due, other than 'Other receivables' as disclosed in note 15. 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 sole customer throughout 2021 and 2020. 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 several 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 2021, the Group had concentrations of credit risk as 22 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 and note 26 for related party trade and other receivables. The maximum credit exposure with relation to the Silverstream contract is the value of the derivative as at 31 December 2021, being US$529.5 million (2020: US$576.1 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 2021					
Interest-bearing loans (note 19)	56,370	412,236	75,973	1,761,672	2,306,251
Trade and other payables	122,794	-	-	-	122,794
Note payable (note 22)	107,918	-	-	-	107,918
Lease liabilities (note 24)	4,681	4,905	661	580	10,827
Derivative financial instruments – liabilities	3,885	-	-	-	3,885

					US$ thousands
	Within 1 year	2-3 years	3-5 years	> 5 years	Total
As at 31 December 2020					
Interest-bearing loans (note 19)	56,370	430,620	75,973	1,799,658	2,362,621
Trade and other payables	106,467	-	-	-	106,467
Note payable (note 22)	64,425	-	-	-	64,425
Lease liabilities (note 24)	5,048	5,933	907	857	12,745
Derivative financial instruments – liabilities	-	-	-	-	-

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 2021					
Inflows	48,602	-	-	-	48,602
Outflows	(51,588)	-	-	-	(51,588)
Net	**(2,986)**	**-**	**-**	**-**	**(2,986)**

					US$ thousands
	Within 1 year	2-3 years	3-5 years	> 5 years	Total
As at 31 December 2020					
Inflows	45,343	-	-	-	45,343
Outflows	(40,768)	-	-	-	(40,768)
Net	**4,575**	**-**	**-**	**-**	**4,575**

The above liquidity tables include expected inflows and outflows from currency option contracts which the Group expects to be exercised during 2022 as at 31 December 2021 and during 2021 as at 31 December 2020, 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 interest-bearing loans, as disclosed in the balance sheet, excluding net unrealised gains or losses on revaluation of cash flow hedges and Equity instruments at FVOCI. 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.

One of the Group's metrics of capital is cash and other liquid assets which in 2021 and 2020 consisted of only cash and cash equivalents.