Fresnillo plc
Financial results for the year ended 31 December 2020

Fresnillo plc today announced its financial results for the full year ended 31 December 2020.

Octavio Alvídrez, CEO said:

“Against a backdrop of the significant challenge presented by Covid-19, we have prioritised the wellbeing of our people and communities while delivering a robust financial and operating performance. By engaging with all our stakeholders, we have been able to keep people safe and minimise the impact of the pandemic on our business. Even in the face of such an unprecedented challenge, I am pleased to report that we have largely stabilised production, a key priority. We remain committed to achieving our operational objectives and delivering our development projects.

Total silver production remained broadly stable and within our guidance at 53.1 million ounces. The marginally lower production compared to 2019 was due to the Covid-19 preventive measures and a lower ore grade at Saucito, mitigated by a higher grade at San Julián Disseminated Ore Body and the processing of development ore from our new Juanicipio mine for the first time. Mining operations at the Herradura and Noche Buena open pit gold mines were impacted by Covid-19 operational restrictions affecting the volumes of ore deposited, which combined with reduced workforce levels, resulted in gold production decreasing by 12.1% to 769.6 koz, within our revised guidance.

Fresnillo reported a strong financial performance with US$2,608.1 million in Adjusted Revenue in 2020, an increase of 14.9% on 2019 due mainly to better precious metals prices. Gross profit rose by 90.5% to US$879.4 million, driven by a combination of higher prices and lower costs. We declared an interim dividend of 2.3 US cents per share, with a final dividend of 23.5 US cents per share, bringing the total for the year to 25.8 US cents per share.

We took action to secure the stability and financial health of Fresnillo by taking advantage of the favourable conditions to restructure our debt. We also hedged a portion of our silver production for 2021, capitalising on unique market conditions, where spreads presented an opportunity to limit downside risk while retaining a significant upside exposure to future silver price increases.

Maximising the potential of existing operations was our key strategic focus for 2020. Although there remains more to do, we are now working smarter and with greater efficiency. Our operational improvements would have been more pronounced but for the preventive measures we introduced to counter the pandemic.

We have continued to progress our development projects. We concluded the first production stope at Juanicipio on schedule in 3Q 2020. Commissioning of the plant has been delayed to 4Q 2021 due to Covid-19 related delays with a ramp up in production to 40%-50% of the nameplate capacity by the end of the year. Juanicipio will be a major factor in the Group’s future silver production. At the Fresnillo mine, we completed the construction of the new Pyrites Plant on schedule early in the fourth quarter. The start of operations has been deferred mainly due to a delay in final inspections by the authorities as a result of Covid-19 restrictions on travel and other regulatory delays. The Fresnillo flotation plant optimisation project to cope with higher content of lead and zinc was also completed on time and on budget during 4Q20 with the connection of this new circuit to the beneficiation plant carried out in the first months of 2021.

Our exploration teams continue to identify and develop potential projects for our pipeline in Mexico, including at Rodeo, which we expect to become our next open pit gold mine, as well as in Peru and Chile. We aim to present the Rodeo project for Board approval in mid-2022. Work continues to complete the final metallurgical testing and other activities to continue advancing the feasibility study of the much larger Orisyvo project.

We have made further strides in advancing the safety and sustainability of our operations.

Our ‘I Care, We Care’ programme is now on its third year,it has now been rolled out across the business and is a central aspect of all operational activity. Although our safety record has improved significantly over the last three years, I regret to confirm one fatal accident in the year. This incident ended a period of 16 months without a fatality at any of our operations and highlights the need for constant vigilance and renewed efforts to improve safety.

The independent audit into our 11 tailings storage facilities (TSFs) was completed and I am pleased to confirm they all remain in a stable condition. We have identified areas of improvement and, with the help of independent third party advisors, we will make targeted investments to achieve even higher safety standards. We remain committed to reducing our greenhouse gas emissions, improving our energy efficiency, and integrating clean energy sources into our electricity mix. We recognise the importance of complying with the Task Force on Climate-Related Financial Disclosure (TCFD) and will continue making progress on assessing the carbon footprint of our Strategic Plan.

We were pleased to announce the appointment of Tomás Iturriaga who joined as Chief Operating Officer, following André Sougarret’s decision to return to Chile. We also welcomed Guillermo Gastélum as Vice President Exploration, following David Giles’ decision to retire. I would like to thank David for his significant contribution to Fresnillo over many years

Looking ahead, silver volumes will rise by steadily increasing production at Juanicipio, and the multiple ongoing operational improvement programmes to increase production at Fresnillo. Lower ore grade at Ciénega, together with a reduced activity at Noche Buena following a change to the mining sequence and the fewer available areas as the mine approaches its planned closure, as well as slightly lower volumes at Herradura, are likely to lead to reduced gold production. However, the longer-term prospects for gold are good, supported by the potential new mines at Rodeo and Orisyvo.

We remain optimistic for the outlook for precious metals prices, though we are firmly committed to our continuing efficiency, productivity and cost reduction initiatives. Given the ongoing pandemic there is a relatively high degree of unpredictability about the year ahead, so we are cautious. However, we have proven our ability to adapt to changing circumstances and longer-term, I am confident in our future and excited about the opportunities. Fresnillo is in a good position, supported by a sound strategy, strong balance sheet, a positive culture and an experienced management team. Production has largely stabilised as expected, and the pipeline of new mines and projects – together with a series of improvement programmes – provides us with solid grounds for optimism.”

Financial Highlights - 12 months to 31 December 2020

$ million unless stated	**2020**	**2019**	**% change**
Silver Production* (kOz)	53,050	54,614	(2.9)
Gold Production* (Oz)	769,618	875,913	(12.1)
Total Revenue	2,430.1	2,119.6	14.6
Adjusted Revenue**	2,608.1	2,270.2	14.9
Gross Profit	879.4	461.7	90.5
EBITDA	1,169.1	674.0	73.4
Profit Before Income Tax	551.3	178.8	208.4

Profit for the year	375.6	205.8	82.5
Basic and Diluted EPS excluding post-tax Silverstream effects (USD)***	0.440	0.231	90.5

* 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 2020 and 2019. See note 17 in the consolidated financial statements.

2020 Highlights

Rapid and united response to the threat of Covid-19, highlighting the commitment to support our workforce and local communities in line with our overall Purpose

- Management and the workforce collaborated to introduce a wide range of preventive measures to protect our people, including social distancing at work as well as during transportation to and from our sites, the strict use of PPE and the installation of sanitization stations.
- All vulnerable colleagues (including contractors), asked to remain at home on full pay.
- Extensive testing – 30,000 rapid test kits acquired, self isolation and tracing tactics implemented.
- Direct partnership with local communities, through donation of testing kits, hospital equipment, medical supplies including ventilators to local health authorities, in addition to food, masks and anti-bacterial gels to vulnerable people in and around our communities.
- We continued to make sure that our employment and procurement processes put the needs of local communities first. This included maintaining our payment terms and providing help to enable contractors and suppliers to implement health protocols.
- In the city of Fresnillo, we made some of our land available for a facility that increased the capacity of the local hospital.
- Worked closely with the Mexican Mining Chamber and Mining Authorities to develop national workplace guidance for our industry – and that collaboration was central to the Government’s reclassification of mining as an essential industry, enabling us to ramp up our open pit operations in May 2020.
- Piloted a virus awareness programme in collaboration with the Smithsonian Museum and Innovec aimed at encouraging children to understand the dangers and then use their ‘pester power’ to pass the message on to their parents and other relatives.

Strong financial performance in 2020, supported by high precious metals prices and a robust operational performance despite Covid-19

- Adjusted revenue increased 14.9% year-on-year due to higher gold and silver prices, which were partially offset by the lower volumes of gold and silver sold.
- Adjusted production costs decreased by 8.0% primarily as a result of lower volume of ore processed at Herradura and Noche Buena due to Covid-19 operational restrictions and the favourable effect of the devaluation of the Mexican peso vs. US dollar.
- Cost of sales was further benefitted by the positive effect from changes in inventory in 2020 compared to that in 2019 resulting from the reassessment of gold content in the leaching pads at Herradura.
- Gross profit and EBITDA rose to US$879.4 million and US$1,169.1 million, a 90.5% and 73.4% increase over 2019.
- Restructured the Company’s debt, buying back US$482.1 million from the US$800 million Senior Notes at 5.5% due in 2023 and issuing new US$850 million Senior Notes at 4.25% due in 2050.

- Locked-in prices for 7% of 2021's silver production with an average floor price of US$20 per ounce, and with an average price ceiling of approximately US$50 per ounce.
- We improved our already strong financial position, with US$1,070.4 million in cash and other liquid funds as of 31 December 2020 notwithstanding paying dividends of US$104.7 million in accordance with our policy and despite the pandemic, investing US$412.3 million in capex and spending US$107.3 million on exploration expenses to underpin our future growth.
- Recommended a final dividend of 23.5 US cents per share, which is equivalent to US$173.2 million. We anticipate that dividend payments relating to 2020 and future years will attract the withholding obligation.

Maintaining focus on operational improvement and delivering our development projects

- The Fresnillo Full Potential (FFP) project to exploit the great potential that exists at our Fresnillo and Saucito mines is on track: in 2020 we refined our mine planning operations, enhanced the certainty of our geological models and took action to stabilise production, focusing on controlling dilution and enhancing our blasting and drilling techniques to manage the deeper operations and narrower veins at both mines.
- Our US$22.7 million tunnel boring machine (TBM) began operations in the Fresnillo mine - advancing over 1,300 metres by the end of December – working alongside the manufacturer, further improvements are expected in 2021. Investment in new technology is ongoing.
- The deepening of the San Carlos Shaft advanced well and once fully operational in 2022, will transport ore more efficiently and directly to the surface – reducing the haulage costs while decreasing our environmental footprint. Started in June 2016, this project has extended the shaft from 550m down to 990m, helping to provide access to 56% of the mine's reserves.
- At Saucito, we continued to deepen the Jarillas shaft to 1000 metres, which will help to provide access to deeper levels of the mine where almost half of the reserves are located. Due to be completed in 2024, this will also allow us to transport ore to the surface more efficiently and quickly than is possible using access ramps.
- The first production stope at Juanicipio concluded on schedule in 3Q 2020. Commissioning is now expected in 4Q 2021, due mainly to Covid-19 related delays. A joint project with MAG Silver in which we hold a 56% share, the mine is forecast to produce 11.7 moz of silver and 43.5 koz of gold per year on average over the life of the mine once fully operational.
- The new Pyrites Plant at the Fresnillo mine was completed on schedule early in Q4 – the start of operations has been deferred mainly due to a delay in final inspections by the authorities as a result of Covid-19 restrictions on travel and other regulatory delays. Once it becomes fully operational, and including production from the Saucito plant, we anticipate that it will produce an average of 3.5 moz of silver and 13 koz of gold per year.
- Further actions are enhancing productivity at Fresnillo, including the US$30 million plant optimisation project at Fresnillo to cope with higher content of lead and zinc from lower levels of the mine ongoing. The new flotation circuit was completed in the second half of 2020 as anticipated. The connection of this new circuit to the beneficiation plant is expected to be undertaken in early 2021.
- Exploration budget for 2021 increased: the potential mine at Rodeo is on track to come before the Board for approval in mid-2022. We are increasingly confident that Orisyvo will join our portfolio of operational mines in the coming years.
- Silver resources stood at 2.3 boz, a 1.6% increase over 2019 mainly as a result of exploration at Saucito. Gold resources remained stable 38.9 moz.
- Silver reserves decreased 5.5% to 457.5 moz mainly due to depletion and higher cut-off grades at Fresnillo, and an updated mine production plan at San Julián which incorporates new geotechnical criteria, mitigated by the increase at Saucito.
- Gold reserves decreased 8.8% to 8,438 koz primarily due to more stringent geotechnical and cost considerations at Herradura and depletion at Noche Buena.

Cautious 2021 outlook, confidence in longer term prospects

- Fresnillo remains cautious for 2021 due to the continued impact of the pandemic in Mexico.
- In 2021, Fresnillo expects attributable production in the range of 53.5 to 59.5 moz of silver (including Silverstream) and 675 to 725 koz of gold.
- Silver volumes expected to benefit from increasing production at Juanicipio, while the multiple ongoing operational programmes are forecast to increase production at Fresnillo.
- Lower ore grade at Ciénega, together with reduced activity at Noche Buena in line with the mine closure plan, as well as slightly lower volumes at Herradura, are likely to lead to reduced gold production. However, the longer-term prospects for gold are good, supported by the potential new mines at Rodeo and Orisyvo.

Changes to the Board

Pursuant to rule 9.6.11 (3) of the UK Listing Rules, the Company announces as follows:
Ms. Georgina Kessel has been appointed a member of the Audit Committee and Ms. Guadalupe de la Vega has been appointed a member of the Remuneration Committee; in both cases, with immediate effect. There are no other matters to disclose under the Listing Rules.

Analyst Presentation

Fresnillo plc will be hosting a webcast presentation for analysts and investors today at 15.00 (GMT). A link to the webcast will be made available on Fresnillo's homepage: www.fresnilloplc.com or can be accessed directly here https://kvgo.com/IJLO/Fresnillo_FY20_Preliminary_Results

Questions may be submitted via the webcast.

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Password: Fresnillo

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About Fresnillo plc

Fresnillo plc is the world's largest primary silver producer and Mexico's largest gold producer, listed on the London and Mexican Stock Exchanges under the symbol FRES.

Fresnillo plc has seven operating mines, all of them in Mexico - Fresnillo, Saucito, Ciénega (including the San Ramón satellite mine Las Casas Rosario & Cluster Cebollitas), Herradura, Soledad-Dipolos[1], Noche Buena and San Julián (Veins and Disseminated Ore Body), three development projects - the Pyrites Plant at Fresnillo, the optimisation of the beneficiation plant also at Fresnillo and Juanicipio, and six advanced exploration projects - Orisyvo, Centauro great potential and Centauro Deep, Guanajuato, Rodeo and Tajitos 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

Supporting our people, living up to our purpose

This has been the most challenging and demanding year in the existence of Fresnillo. Covid-19 has posed new and difficult questions around how we all think and work. It has seen us embrace new behavioural norms that would have been unthinkable almost a year ago and, sadly, it has destroyed lives and livelihoods across the world.

During these dark and challenging days, the Fresnillo Purpose has come to the fore as a beacon for our behaviour and a guide to how we could best navigate the pandemic. When we first articulated our Purpose in 2019, it was important to us that it was not just a set of words to shape our future, but something that sprang directly from how we have always operated as a business.

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

By living up to our Purpose and holding fast to our culture and values throughout the pandemic, we have been able to protect and support our people, maintain production close to the expected levels and continue to contribute to the wellbeing of our stakeholders – including shareholders, local communities, suppliers, the government authorities and the environment. Although our production was affected by the closing of the mines at the beginning of the pandemic, we have maintained production close to the expected levels.

A positive performance in difficult circumstances

Despite the disruption caused by Covid-19 and the measures we introduced to mitigate its effect, production of silver from our underground mines generally remained within expected ranges. Gold production was lower than anticipated, largely due to the six weeks' interruption of mining at our open pit operations, as initially mandated by the authorities.

In spite of these difficult circumstances, the Company achieved US$2,430.1 million in total revenue and US$2,608.1 million in adjusted revenue during the year. This represented an increase of 14.6% and 14.9% respectively, primarily due to better prices for precious metals. Gross profit rose year-on-year by 90.5% to US$879.4 million, driven by a combination of higher prices and lower costs. Cash and other liquid funds increased from US$336.6 million to US$1,070.4 million, reflecting the increased cash generated by the mines and the restructuring of the debt. You will find further details on our financial performance on pages [x-x].

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 aim is to maintain enough flexibility to be able to react to movements in precious metals prices and seize attractive business opportunities.

We declared an interim dividend of 2.3 US cents per share, with a final dividend of 23.5 US cents per share, bringing the total for the year to 25.8 US cents per share.

Our future financial performance should benefit from two actions taken during the year to ensure the stability and financial health of Fresnillo. Firstly, while we do not usually hedge silver and gold prices, unique market conditions presented an opportunity to limit downside risk while retaining significant upside exposure to future silver price increases. We have therefore locked-in 7% of 2021 silver production with an average floor price of US$20 per ounce, and with an average price ceiling of approximately US$50 per ounce.

The second action involved buying back a portion of the outstanding debt that was due to mature in 2023. With economic conditions indicating that this was a good time to return to the market, we bought back just under US$450m of outstanding debt and then placed US$850m of new debt due to mature in 2050. This new debt is in the form of a 30-year bond with an annual interest rate of 4.25% - a lower rate of interest than the 5.50% of the original bond set to expire in 2023. Going forward, this will have the effect of reducing our annual financing costs and lowering the balloon payment due in three years' time while also injecting cash into the business and underpinning the Company's financial future.

Putting people and communities first

While the pandemic posed challenges for our operations, it also provided an opportunity to demonstrate our firm commitment to support our workforce and their families, our communities, the authorities and the country in difficult times.

We always put the health of our people at the front and centre of every action – and the decisions we made at the onset of the pandemic were no different. It was very pleasing to see the rapid and united response to the threat of Covid-19 at all our facilities, as management and the workforce collaborated to introduce a wide range of preventive measures to protect our people throughout the working day. These included social distancing at work as well as during transportation to and from our sites, the strict use of PPE and the installation of sanitisation stations. Our corporate office teams were required to work from home.

We quickly identified vulnerable members of the workforce – including contractors – and asked them to stay at home on full pay. We believe that testing is one of the most effective ways to control the spread of the virus, and we imported 30,000 tests capable of providing faster results than those generally available in Mexico at the time. When people tested positive, we instructed them to self-isolate and traced their contacts, who we also tested.

Fresnillo is an integral part of many communities – and this year, perhaps more than any other, the partnership between us has been absolutely central to the health and wellbeing of local people. We shared our Covid-19 tests with communities in remote locations, and donated medical and preventive equipment, including ventilators, to local health authorities. We also donated food, masks and anti-bacterial gels to vulnerable people, and continued to make sure that our employment and procurement processes put the needs of local communities first – and that included maintaining our payment terms and providing help to enable contractors and suppliers to implement health protocols. In addition, in the city of Fresnillo, we made some of our land available for a facility that increased the capacity of the local hospital.

Communication and partnership played important roles in our efforts to manage the virus, not only at our sites and in local communities, but also with the authorities. We worked closely with the Mining Ministry of Mexico to develop national workplace guidance for our industry – and that collaboration was central to the Government's reclassification of mining as an essential industry, enabling us to reopen our open pit operations in May 2020.

As the year came towards its end and a second wave gathered momentum, we redoubled our efforts to support our people – especially in their communities, which is where the bulk of transmission appears to take place. For example, we piloted a virus awareness programme aimed at encouraging children to understand the dangers and then use their 'pester power' to pass the message on to their parents and other relatives.

Preparing the ground for further success

As the Chief Executive explains in his statement, the Fresnillo Full Potential plan is starting to have an impact on production at the Fresnillo mine. The impact would have been greater still without the restrictions imposed by the pandemic, but progress to date gives us cause for cautious optimism regarding future performance.

Although the Covid-19 pandemic continues to pose risks and uncertainties, silver production in the months and years ahead will grow with the start-up of the Juanicipio mine, which is on track to be operational in Q4 of 2021. Ore produced during the mine development phase is currently being processed in the flotation plant at Fresnillo. Future production will also be increased when the recently-completed Pyrites Flotation Plant at Fresnillo is operational. Although we have made preparations to start-up commercial production, the inspection that is required to be carried out by the authorities in order to grant the energy permit has been delayed due to Covid-19 restrictions on travel. We anticipate that this inspection will take place in the third quarter of 2021.

Our exploration teams continue to identify and develop potential projects for our pipeline, including at Rodeo, which we expect to become the next open pit gold mine. The aim is to present the Rodeo project for Board approval in mid-2022. Meanwhile, work continues to complete the feasibility study of Orisyvo, a significantly larger and more complex gold project than Rodeo.

With concern for the impacts of climate change continuing to increase, the Board took steps to review and where possible intensify sustainable practices in all of our operations, becoming a registered supporter of the Task Force on Climate-related Financial Disclosures during the year. In line with our commitment to reduce our greenhouse gas emissions, the HSECR Committee evaluated whether our energy strategy was sufficiently flexible to enable us to adopt a decarbonisation pathway compatible with the well-below two-degree scenario of the Paris Agreement.

Board activities

Following our approval of the Company's Purpose at the end of 2019, the Board's focus for the year was on ensuring that we lived up to the promises made in our Purpose – and I believe that the events of the last year have proved both its validity and value.

In my introduction to the Governance Report on page [x], I describe the Board's activities in more detail, including how we worked with our Executive Committee and our colleagues elsewhere in the BAL Group to ensure that our workforce and their communities were as safe as possible. This necessitated regular engagement with employees as well as Government, as we sought to introduce processes and purchase equipment that enabled our mines to operate safely.

During the year, an independent legal firm provided external facilitation for our 2020 Board and Committee effectiveness reviews, which this year included an assessment of how the Board performed during the pandemic. While there is always room for improvement, I was pleased that the review's findings were once again positive. We provide details of the review on page [x].

Changes to the Board

It was with profound sadness that in November we learnt of the death of Luis Robles, who served as an Independent Non-Executive Director since May 2019. I was privileged to know Luis personally and to work alongside him – he brought a great wealth of knowledge, experience and energy to our meetings and to our Company, and will be sorely missed by all at Fresnillo.

I was delighted that Guadalupe De la Vega was elected as an Independent Non-executive Director of the Company at the 2020 Annual General Meeting. Guadalupe is a Managing Director and CEO of Almacenes Distribuidores de la Frontera, which owns and operates a chain of convenience stores, gas stations, and medium format supermarkets in the north of Mexico. We will benefit from her strong commitment to communities. She has been involved in promoting economic and community development as part of the task force for Juarez Social and Economic Recovery Plan, working with the Government to help realign major infrastructure assets along with education in order to improve the region's competitiveness.

Guadalupe's presence at Board meetings further strengthens our belief that the Board has the appropriate balance of skills, experience and gender to oversee the performance of the executive and the development of long-term strategy. Her appointment ensures that Fresnillo complies with the Hampton-Alexander requirement that at least 33% of Board members should be women. With racial inequality and ethnic diversity coming into greater focus, it was pleasing to see the Parker Review report that Fresnillo plc met the ethnicity target for FTSE100 companies in 2020.

Jaime Lomelín retired as a Director during the year, having served on the Board since the IPO, initially as our Chief Executive Officer and since 2012 as a Non-executive Director. I am grateful to him for his wise counsel over many years, and am delighted that he will continue to act as an adviser, ensuring that we will still benefit from his valuable experience and knowledge.

In addition, Georgina Kessel has been appointed as a member of the Audit Committee from 1 March 2021, with Guadalupe De la Vega becoming a member of the Remuneration Committee on the same date.

We said farewell to two members of our Executive Committee during the year. Our Chief Executive Office André Sougarret returned to his native Chile while David Giles retired from his role as Vice President, Exploration, and I thank them both for the expertise and experience they brought to our Company. On behalf of the Board, I would like to welcome their successors to Fresnillo, Tomàs Iturriaga and Guillermo Gastélum respectively.

Outlook

As I write, a significant degree of uncertainty remains over how, when and if the virus will develop and present further challenges, as well as over the efficacy and availability of a vaccine. However, as this extraordinary event unfolds, one thing is certain – guided by our Purpose and underpinned by our culture, we will continue to work tirelessly to protect the wellbeing of our people and all our stakeholders. On behalf of the Board, I would like to thank management and particularly our operational teams at the mines who have worked so hard to deliver satisfactory production results in the face of extremely challenging conditions.

The Group is in a strong position, supported by a sound strategy, a positive culture and an expert executive team. Production has stabilised as expected, and the pipeline of new mines and projects – together with a series of improvement programmes – provides us with solid grounds for optimism.

Alberto Baillères
Chairman

Chief Executive's statement

Managing the challenge of the pandemic, regaining the confidence of our stakeholders

The last year has been a time of great change for Fresnillo. Against a background of the significant challenges presented by Covid-19, we have put the principles of our Purpose into action, focused on the wellbeing of people and delivered a more than respectable performance.

By engaging with our stakeholders – the mining authorities, suppliers and local communities as well as our people – we have been able to minimise the pandemic's impact on our operations. The result is that regardless of the many new ways of working that our teams have had to adopt, we have largely stabilised production, which was identified as a key priority at the end of last year. We remain committed towards achieving our operational objectives and delivering our projects in order to regain the confidence of our investors.

I would like to welcome Tomás Iturriaga to the Executive Committee following his appointment as Chief Operating Officer, while also placing on record my thanks to André Sougarret for his contribution to our recent operational improvements. I look forward to working closely with Tomás in the years to come, as we bring forward new actions to further maximise the potential of our existing operations.

I would also like to thank David Giles for his significant contribution to Fresnillo over many years and wish him well in his retirement, while at the same time congratulating Guillermo Gastélum on his appointment. He brings with him proven technical skills, a deep understanding of our operations and considerable experience, all of which will contribute to the further strengthening of our pipeline of exploration projects and prospects.

Production highlights and price review

Production of silver remained broadly in line with our expectations, despite the difficulties generated by Covid-19, and although gold production fell due to a temporary suspension of mining activities, it ended the year more strongly.

As expected, total silver production remained stable and within our guidance at 53.1 million ounces. The lower production was due to a combination of fewer workers on-site due to the Covid-19 preventive measures we implemented, and a lower ore grade processed at Saucito. These factors were mitigated by a higher grade at San Julián Disseminated Ore Body and the processing of development ore from our new Juanicipio mine for the first time.

Mining activities at our Herradura and Noche Buena open pit gold mines in the north of Mexico were suspended for around six weeks at the start of the pandemic. Concerns about the virus spreading from Arizona across the border and into the State of Sonora forced the State government to impose tougher restrictions at the onset of the pandemic, and these impacted our operations at Penmont. Although we continued to process ore during this period, the lack of new material being deposited on the leaching pads affected the recovery cycle and meant that once full activities restarted, production inevitably lagged behind expectations. Combined with reduced workforce levels for the remainder of the year, this resulted in gold production for the year decreasing by 12.1% to 769.6 thousand ounces, although still within our revised guidance.
Our by-product lead and zinc production both increased year-on-year, driven by higher ore grades at Saucito.

Please find more details on production at each of our mines on [pages x-x].

Following a positive performance in the previous year, precious metals prices again rose during 2020, with the average realised silver price reaching US$21.3 per ounce and that for gold hitting US$1,792.4 per ounce, an increase of 32.3% and 26.4% respectively. Average realised prices for zinc and lead decreased by 7.8% and 7.9% respectively.

Times change, but a sound strategy endures

Stability, consistency and a long-term perspective have always characterised Fresnillo, and our proven strategy once again anchored our performance during 2020. The strategy comprises four distinct pillars and I am pleased to report that we made good progress with each of them.

<u>Maximising the potential of existing operations</u>
As I outlined in last year's statement, this was our key focus for 2020. Although there remains more to do, we are now working smarter and with greater efficiency. In fact, our operational improvements would have been more pronounced still but for the preventive measures we introduced to counter the virus. For example, our new Covid-19 safety initiatives meant that only a limited number of people could work together in some of our mines, and this inevitably led to lower development rates.

The Fresnillo Full Potential (FFP) project aims to exploit the great potential that exists at our Fresnillo and Saucito mines, and in the surrounding area. Over the last 12 months, we have refined our mine planning operations, enhanced the certainty of our geological models and taken actions to stabilise production – focusing on controlling dilution and enhancing our blasting and drilling techniques to manage the deeper operations and narrower veins at both mines.

Our US$22.7 million tunnel boring machine (TBM) began operations in the Fresnillo mine early in the year, as planned. Although the TBM had successfully bored over 1,300 metres by the end of December, we are working with the manufacturer and crew to improve performance – and we are confident that further improvements will be achieved in 2021. In particular, we aim to continue development in the western areas of the mine, which offer good potential.

As we go deeper into the earth, we have continued to work on a new, large capacity pumping station to replace a number of smaller ones and improve drainage, and also completed a new elevator that has reduced travel time for our underground teams. In addition, we have advanced the deepening of the San Carlos Shaft. Started in June 2016, this project has extended the shaft from 550m down to 990m, and once it is fully operational in 2022, it is expected to provide access to 56% of the mine's reserves and reducing the haulage costs.

Our investment in technology has begun to pay dividends. In addition to progress with the TBM, we continued to integrate semi-automatic drilling rigs into the Fresnillo mine. These rigs, which can be programmed to continue drilling during shift changes, completed 15 long hole stopes by the end of the year, as planned.

At Saucito, we are continuing to deepen the Jarillas shaft to 1000 metres, helping to provide access to deeper levels of the mine where almost half of the reserves are located. Due to be completed in 2024, this will also allow us to transport ore to the surface more quickly than is possible using access ramps.

<u>Delivering growth through development projects</u>
Despite the challenges presented by the pandemic, we concluded the first production stope at Juanicipio on schedule in mid-2020, with development ore being processed eight kilometres away at the Fresnillo plant during the third quarter. However, commissioning of the plant is now not expected until 4Q 2021, several months later than anticipated due to delayed infrastructure contracts, as well as Covid-19 preventive measures and the brief stoppage of work earlier in the year. Juanicipio will be a major factor in the Group's future silver production. A joint project with MAG Silver in which we hold a 56% share, the mine is forecast to produce 11.7 moz of silver and 43.5 koz of gold per year on average.

At the Fresnillo mine, we completed the new Pyrites Plant on schedule early in the fourth quarter – although start-up will not be possible until the inspection and subsequent certification of the energy supplies by the authorities are finalised, which are expected no earlier than the third quarter of 2021. Once fully operational, and including production from the Saucito plant, we anticipate that it will produce an average of 3.5 moz of silver and 13 koz of gold per year.

In addition, further actions are enhancing productivity at Fresnillo, including the US$30 million plant optimisation project to improve the recovery of lead and zinc from lower levels of the mine. The new flotation circuit was completed in the second half of 2020 as anticipated, although we decided to postpone connection to the beneficiation plant until the first months of 2021 in order to minimise disruption by taking advantage of planned monthly maintenance stoppages. Once the Fresnillo mine has been sufficiently developed and is able to sustainably maintain a higher plant run rate, we will install the third and final stage of this project – the addition of vibrating screens to the plant – to increase the milling capacity to 9,000 tonnes per day. This is expected to take place in 2022.

Extending the growth pipeline

The identification and development of new mines such as Juanicipio are essential to the long-term strategy of the Group. While we have concentrated on improving the efficiency of our existing mines in recent months, exploration activities have continued to take place – not only in Mexico but also in South America – and we have increased the exploration budget for 2021, following the planned decrease for 2020 which was made more pronounced by uncertainty surrounding the pandemic.

Two new gold projects have moved closer to reality over the last year. The potential mine at Rodeo is on track to come before the Board for approval in mid-2022. We are currently consulting with local communities on the permitting process, while our exploration teams are working hard to move inferred resources into the indicated category. Although Rodeo will be a relatively small mine with an initial operational life of around seven to ten years, it offers a number of advantages. Capex is expected to be low, for example, because we intend to repurpose existing mining equipment from Noche Buena, as that mine nears its end of life.

Developing the potentially much larger mine at Orisyvo will require more capex and work, with the building of roads and infrastructure adding to the challenges posed by gaining access to land. However, this latter issue was partially resolved during the year as our team identified a new, viable location for infrastructure that is a better option for all stakeholders in the area. We are now increasingly confident that Orisyvo will join our portfolio of operational mines in the next few years.

In line with our commitment to reduce our carbon footprint, we have included the Rodeo, Orisyvo and Guanajuato exploration projects in our Energy Strategy.

We continued to undertake exploration activities in Peru and Chile during the year and see great potential in the areas where we have concessions.

Silver resources stood at 2.3 boz, a 1.6% increase over 2019 mainly as a result of the exploration efforts at Saucito. Gold resources remained stable at 38.9 moz.
Silver reserves decreased 5.5% to 457.4 moz mainly due to depletion and higher cut-off grades at Fresnillo and an updated mine production plan at San Julián which incorporates new geotechnical criteria, mitigated by an increase at Saucito. Gold reserves decreased by 8.8% to 8.4 moz primarily due to more stringent geotechnical and cost considerations at Herradura, which resulted in a smaller pit shell, and depletion at Noche Buena.

Advancing and enhancing the sustainability of our operations

Although our safety record has improved significantly over the last decade, the need for constant vigilance and renewed effort was underlined during the year. Sadly, one of our colleagues was the victim of a fatal accident. This incident in August 2020 ended a period of 16 months without a fatality at any of our operations. Our '*I Care, We Care'* programme has now been rolled out across the business and is a central aspect of all new development projects and operations, and we continue to target a steady improvement in all health and safety metrics.

We received the independent report on our 11 tailings storage facilities (TSFs) during the year, as I anticipated in last year's statement. The report has provided us with valuable information – and while our TSFs remain in good condition, we have nevertheless introduced new measures at specific facilities, notably in the Fresnillo district where some of the original infrastructure dates back to the 1940s.

Our commitment to green energy is unchanged. The project to install dual fuel engines that run on both diesel and Liquid Natural Gas (LNG) is on track, despite Covid-19 presenting the supplier with considerable challenges. However, the percentage of our energy consumption met by wind power decreased to 48%, due to a delay in the connection of the Las Mesas wind energy project. We provide more detail on these and other programmes on pages [x-x].

We remain committed to reducing our greenhouse gas emissions, improving our energy efficiency and integrating clean energy sources into our electricity mix. We recognise the importance of complying with the Task Force on Climate-Related Financial Disclosure (TCFD) and will continue making progress on assessing the carbon footprint of our Strategic Plan, measuring our performance and analysing scenarios to identify impacts, risks and opportunities.

One of the Company's Principal Decisions of 2020 was to evaluate the Energy Strategy with the aim of setting decarbonisation targets and assessing its resilience to the Transition Risks of Climate Change. This process involved forecasting our energy demand in the years to 2030 and took into account the impact of the LNG and wind power projects already under way. The evaluation concluded that it is technologically viable to support a decarbonisation pathway in the 2021-2030 period.

At Fresnillo, we have a long track record of being respected by our peers and the authorities for our social and environmental performance, and this continued during 2020. We ensure that our social programmes are based on the UN Global Compact – and we were again recognised as one of the World's Most Ethical Companies by Ethisphere, and also retained our membership of the FTSE4Good index. In Mexico, our team was proud to win the Ethics and Values Award from the Mexican Council of Industrial Chambers, and to be commended for our standards of corporate integrity by Integridad Corporativa 500.

<u>Looking ahead</u>

Looking at silver volumes, our next wave of growth will be buoyed by steadily increasing production at Juanicipio, while the multiple ongoing operational programmes are forecast to increase production at Fresnillo. Lower ore grade at Ciénega and reduced activity at Noche Buena in line with the mine closure plan, as well as slightly lower volumes at Herradura, are likely to lead to reduced gold production. However, the longer-term prospects for gold are good, supported by the potential new mines at Rodeo and Orisyvo.

Precious metals prices are likely to remain strong for 2021, supported by low interest rates and given the global macroeconomic and geopolitical backdrop. However, our aim is and always has been to perform well in times of low prices as well as high – and our cost reduction initiatives and operational improvements are targeted firmly at increasing margins regardless of the prices of precious metals.

Due to the pandemic there is a relatively high degree of unpredictability about the year ahead, and I must strike a note of caution. Unless and until a vaccine is readily available, we recognise that any further outbreaks of the virus could impose further restrictions on our production, margins and profitability.

Finally, I would like to thank the entire Fresnillo workforce, including our contractors, for their hard work, understanding and expertise during these difficult months. We have adapted to conditions that nobody could have anticipated or made plans for, and we have emerged as a stronger, more united business – together I believe we can look forward to the future with confidence.

Octavio Alvídrez
Chief Executive Office

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 2020 figures compared to 2019, unless otherwise noted. The financial information and year-on-year variations are presented in US dollars, except where indicated.

By following strict controls on cash, costs and expenses we have improved our already healthy cash and other liquid funds [1] position, while maintaining a low leverage ratio. This has been enhanced through the closing of our US$850 million senior notes offering, part of which we used to prepay a portion of our US$800 million senior notes due in 2023 and has enabled us to continue investing in the business and delivering returns to shareholders.

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

COMMENTARY ON FINANCIAL PERFORMANCE

Supported by high precious metals prices and a respectable operational performance despite the Covid-19 pandemic, the Group achieved strong financial results in 2020. Adjusted revenue increased 14.9% over 2019 due to higher gold and silver prices, which were partially offset by the lower volumes of gold and silver sold. Revenue increased 14.6% year-on-year. Adjusted production costs [2] decreased mainly as a result of lower volumes processed at Herradura and Noche Buena due to Covid-19 operational restrictions and the favourable effect of the devaluation of the Mexican peso vs. US dollar. This decrease was amplified by the positive effect from changes in inventory in 2020 compared to that in 2019 resulting from the gold content in the leaching pads at Herradura being reassessed, and by lower exploration costs. As a result, gross profit and EBITDA increased to US$879.4 million and US$1,169.1 million, a 90.5% and 73.4% increase over 2019.

In the second half of 2020, Fresnillo plc bought back US$482.1 million of the US$800 million Senior Notes at 5.5% due in 2023. Despite the payment of a US$60.8 million premium for the early repayment of these notes, the Company considered it a good opportunity to restructure its debt, taking advantage of the favourable conditions prevailing in the market at that point in time. The aggregate amount paid by the Company to holders whose Tender Securities were accepted for purchase, including an early repayment premium, was approximately US$543.0 million. In addition, Fresnillo plc issued new US$850 million Senior Notes at 4.25% due in 2050. This provided the funds to pay existing bond holders who chose to sell their 2023 bonds, while at the same time ensuring the stability and financial health of the Company both in the short and long term.

We improved our already strong financial position, with US$1,070.4 million in cash and other liquid funds [1] as of 31 December 2020 notwithstanding paying dividends of US$104.7 million in accordance with our policy and despite the pandemic, investing US$412.3 million in capex and spending US$107.3 million on exploration expenses to underpin our future growth.

INCOME STATEMENT

	2020 US$ million	2019 US$ million	Amount US$ million	Change %
Adjusted revenue [3]	2,608.1	2,270.2	337.9	14.9
Total revenue	2,430.1	2,119.6	310.5	14.6
Cost of sales	(1,550.7)	(1,657.9)	107.2	(6.5)
Gross profit	879.4	461.7	417.7	90.5
Exploration expenses	107.3	157.9	(50.6)	(32.0)
Operating profit	649.7	171.7	478.0	278.3
EBITDA [4]	1,169.1	674.0	495.1	73.4
Income tax expense including special mining rights	175.6	(27.1)	202.7	N/A
Profit for the year	375.6	205.8	169.8	82.5
Profit for the year, excluding post-tax Silverstream effects	325.9	172.0	153.9	89.5

Basic and diluted earnings per share (US$/share) [5]	0.508	0.277	0.231	83.4
Basic and diluted earnings per share, excluding post-tax Silverstream effects (US$/share)	0.440	0.231	0.209	90.5

1 Cash and other liquid funds are disclosed in note 30(c) to the consolidated financial statements.
2 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.
3 Adjusted revenue is revenue as disclosed in the income statement adjusted to exclude treatment and refining charges and gold, lead and zinc hedging.
4 Earnings before interest, taxes, depreciation and amortisation (EBITDA) is calculated as gross profit plus depreciation less administrative, selling and exploration expenses.
5 The weighted average number of ordinary shares was 736,893,589 for 2020 and 2019. See note 17 in the consolidated financial statements.

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

PRECIOUS METALS PRICES

During the year, the average realised silver price increased by 32.3%, from US$16.1 per ounce in 2019 to US$21.3 per ounce in 2020, while the average realised gold price rose 26.4% from US$1,418.0 per ounce in 2019 to US$1,792.4 per ounce in 2020. In contrast, the average realised lead and zinc by-product prices decreased 7.9% and 7.8% year-on-year, to US$0.82 and US$1.06 per pound, respectively.

However, the Group benefited from a favourable but relatively minor effect as a result of a series of financial derivatives entered into in 2019 to hedge a portion of lead production, as described in the Hedging section on page X.

MX$/US$ EXCHANGE RATE

The Mexican peso/US dollar spot exchange rate at 31 December 2020 was $19.95 per US dollar, compared to $18.85 per US dollar at the beginning of the year. The 5.9% spot devaluation had an adverse effect on: i) the net monetary peso asset position, which contributed to the US$40.3 million foreign exchange loss; and ii) taxes and mining rights as the devaluation resulted in an increase in related deferred tax liabilities.

The average spot Mexican peso/US dollar exchange rate increased 11.6% to $21.5 per US dollar (2019: $19.3 per US dollar). As a result, there was a favourable effect of US$66.6 million on the Group's costs denominated in Mexican pesos (approximately 45% of total costs) when converted to US dollars.

COST DEFLATION

In 2020, cost deflation was 5.5%. 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 administrative employees did not receive an increase as a measure to preserve cash during the onset of Covid-19; when converted to US dollars, this resulted in a weighted average labour deflation of 6.0%.

Energy

Electricity

The Group's weighted average cost of electricity increased by 4.7% from 7.4 US cents per kW in 2019 to 7.8 US cents per kW in 2020. This increase was mainly due to the higher average generating cost of the Comisión Federal de Electricidad (CFE), the national utility.

Diesel

The weighted average cost of diesel in US dollars decreased 18.0% to 72.2 US cents per litre in 2020, compared to 87.9 US cents per litre in 2019. This resulted mainly from the decrease in the demand for oil as economic activity slowed sharply across the globe during the pandemic.

Operating materials

	Year over year change in unit price %
Other reagents	(9.3)
Steel balls for milling	(4.2)
Steel for drilling	(4.0)
Sodium cyanide	(3.5)
Lubricants	(2.6)
Explosives	(2.5)
Tyres	0.2
Weighted average of all operating materials	(2.4)

Unit prices of most operating materials decreased in US dollar terms, which resulted in a year-on-year deflation of 2.4%. This reflected the lower demand for some of these products as global mining activity was impacted by Covid-19 and several mines and projects worldwide reduced or halted operations. The majority of these items are dollar-denominated.

Contractors
Agreements are signed individually with each contractor company and include specific terms and conditions that cover not only labour, but also operating materials, equipment and maintenance, amongst others. Contractor costs are mainly denominated in Mexican pesos and are an important component of our total production costs. In 2020, 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 decrease of 6.0% in US dollars, after considering the devaluation of the Mexican peso vs. US dollar.

Maintenance
Unit prices of spare parts for maintenance decreased by 5.3% on average in US dollar terms.

Other costs
Other cost components include freight which decreased by an estimated 7.5% in US dollars, while insurance costs increased by 16.2% in US dollars due to higher market premiums for some of the risks covered, such as the risk to tailings dams and the start-up of new operations. The remaining cost inflation components experienced average deflation of 5.1% in US dollars over 2019.

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]

	2020 US$ million	2019 US$ million	Amount US$ million	Change %
Adjusted revenue [1]	2,608.1	2,270.2	337.9	14.9
Gold, lead and zinc hedging	2.4	(6.0)	8.4	N/A
Treatment and refining charges	(180.4)	(144.6)	(35.8)	24.8
Total revenue	**2,430.1**	**2,119.6**	**310.5**	**14.6**

Adjusted revenue increased by US$337.9 million mainly as a result of the increase in gold and silver prices. This positive effect was partially offset by the higher treatment and refining charges. As a result, total revenue rose to US$2,430.1 million, a 14.6% increase against 2019.

ADJUSTED REVENUE [1] BY METAL

	2020		2019					
	US$ million	**%**	US$ million	%	Volume Variance US$ million	Price Variance US$ million	Total net change US$ million	%
Silver	970.5	37.2	766.9	33.8	(34.0)	237.6	203.6	26.5
Gold	1,327.9	50.9	1,202.8	53.0	(172.3)	297.4	125.1	10.4
Lead	104.9	4.0	102.1	4.5	11.3	(8.5)	2.9	2.7
Zinc	204.7	7.9	198.4	8.7	22.8	(16.5)	6.3	3.2
Total adjusted revenue	**2,608.1**	100.0	2,270.2	100.0	(172.2)	510.1	337.9	14.9

The increase in gold and silver prices, partially offset by the lower lead and zinc prices, resulted in a positive effect on Adjusted revenue of US$510.1 million. This was partially offset by the US$172.2 million adverse effect of the lower volumes of silver and gold sold, mitigated by the higher lead and zinc sales volumes. Gold volumes sold were impacted by the lower production at our open pit operations due to the temporary suspension and subsequent mitigating actions implemented in response to the Covid-19 pandemic, while the volumes of silver sold were primarily affected by the expected lower silver grade from the Saucito mine.

ADJUSTED REVENUE BY MINE

Herradura continued to be the greatest contributor to Adjusted revenue, representing 30.0% primarily due to the higher gold price, mitigated by the lower volume of gold sold. Saucito's contribution increased to 22.8% in 2020 (2019: 21.7%) mainly as a result of the increased gold, lead and zinc volumes sold. Fresnillo remained the third most important contributor to Adjusted revenue, increasing its share to 16.3% (2019: 15.9%). The contribution to the Group's Adjusted revenue from the San Julián mine remained broadly stable at 15.6% in 2020 (2019: 15.0%). Similarly, Ciénega's contribution to the Group's Adjusted revenue remained broadly unchanged at 9.5% (2019: 9.0%) as a result of the higher gold and silver prices, which partly offset the lower gold and silver volumes sold. As expected, Noche Buena's contribution continued to decrease from 7.8% in 2019 to 5.8% in 2020, primarily reflecting the gradual depletion of the mine as it approaches the end of its life and the minor land slip.

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.

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

ADJUSTED REVENUE[1] BY MINE

	2020		2019	
	(US$ million)	**%**	(US$ million)	%
Herradura	778.9	29.9	693.9	30.6
Saucito	593.6	22.8	493.4	21.7
Fresnillo	407.2	15.6	361.7	15.9
Ciénega	248.3	9.6	204.7	9.0
San Julián (DOB) (Disseminated Ore Body)	218.0	8.3	184.5	8.1
San Julián (Veins)	191.2	7.3	155.3	6.9
Noche Buena	152.6	5.8	176.7	7.8
Juanicipio	18.3	0.7	0.0	0.0
Total	2,608.1	100	2,270.2	100

VOLUMES OF METAL SOLD

	2020	% participation of each mine	2019	% participation of each mine	% change
Silver (koz)					
Saucito	14,133	31.0	15,923	33.6	(11.2)
Fresnillo	11,664	25.5	11,778	24.8	(1.0)
San Julián (Veins)	3,907	8.6	4,215	8.9	(7.3)
San Julián (DOB)	7,594	16.7	7,368	15.5	3.1
Ciénega	5,246	11.5	5,330	11.2	(1.6)
Herradura	1,300	2.8	1,573	3.3	(17.4)
Juanicipio	794	1.7	0	0.0	100
Noche Buena	25	0.1	23	0.0	8.7
Pyrites Plant at Saucito	944	2.1	1,212	2.6	(22.1)
Total silver (koz)	**45,607**	**100**	**47,422**	**100**	**(3.8)**
Gold (koz)					
Herradura	429	57.9	496	58.5	(13.5)
Noche Buena	78	10.5	105	12.4	(25.7)
San Julián (Veins)	61	8.2	62	7.3	(1.6)
Saucito	75	10.1	72	8.5	4.2
Ciénega	60	8.1	62	7.3	(3.2)
Fresnillo	32	4.3	46	5.4	(30.4)
San Julián (DOB)	1	0.1	1	0.1	0.0
Juanicipio	2	0.3	0.0	0.0	100
Pyrites Plant at Saucito	3	0.4	4	0.5	(25.0)
Total gold (koz)	**741**	**100**	**848**	**100**	**(12.6)**
Lead (t)					
Fresnillo	19,375	33.5	19,544	39.8	0.3
Saucito	26,093	45.1	19,719	40.2	32.3
Ciénega	5,634	9.7	4,385	8.9	28.5
San Julián (DOB)	6,464	11.2	5,405	11.0	19.6
Juanicipio	234	0.4	0.0	0.0	100
Total lead (t)	**57,801**	**100**	**49,053**	**100**	**17.8**
Zinc (t)					

Fresnillo	28,038	31.9	26,350	33.5	8.1
Saucito	34,654	39.4	25,622	32.6	35.3
San Julián (DOB)	17,028	19.3	19,034	24.2	(10.5)
Ciénega	7,832	8.9	7,590	9.7	3.2
Juanicipio	444	0.5	0.0	0.0	100
Total zinc (t)	**87,996**	**100**	**78,596**	**100**	(11.2)

HEDGING

In the third quarter of 2020, we hedged a portion of our silver production for 2021, capitalising on the unique market conditions, where volatility and skeweness presented an opportunity to limit downside risk while retaining a significant upside exposure to future silver price increase. The transaction was structured as a collar with an average floor price of US$20 per ounce, and with an average price ceiling of US$49.56 per ounce. The hedging programme was executed for a total volume of 4,248,000 ounces of silver with monthly settlements throughout 2021.

Our precious metals hedging policy has changed slightly to give the Company the ability to hedge up to 20% of the expected annual silver and gold production over the next 12 months, as determined at the time of entering the hedge.

Additionally, in the last quarter of 2019 we hedged a portion of our by-product lead production for 2020. The table below illustrates the expired hedging volume and the results for 2020.

	As of 31 December 2020
Concept	Lead
Weighted floor (US$/tonne)	1,759
Weighted cap (US$/tonne)	2,026
Expired volume (tonne)	8,760
Gain (US$ million)	1.3
Total outstanding volume (tonne)	0

TREATMENT AND REFINING CHARGES

Treatment and refining charges [1] are reviewed annually using international benchmarks. Treatment charges per tonne of lead and zinc concentrate increased in dollar terms by 51.0% and 18.4%, respectively as benchmarks were set far more weighted towards the market conditions in December 2019 and January 2020, before markets turned as a result of the onset of Covid-19. Furthermore, silver refining charges increased by 9.0% over the year. The increase in treatment charges per tonne of lead and zinc and silver refining charges, combined with the higher volumes of lead and zinc concentrates shipped from our mines to Met-Mex, resulted in a 24.8% increase in treatment and refining charges set out in the income statement in absolute terms when compared to 2019.

COST OF SALES

Concept	**2020 US$ million**	2019 US$ million	Amount US$ million	Change %
Adjusted production costs [2]	**1,079.1**	1,173.0	(93.9)	(8.0)
Depreciation	**505.4**	489.5	15.9	3.2
Profit sharing	**18.7**	9.1	9.6	105.5
Hedging	**(4.1)**	0.0	(4.1)	N/A
Change in inventories	**(66.4)**	(11.1)	(55.2)	>100
Unproductive costs including unabsorbed production costs	**18.0**	(2.6)	20.6	N/A
Cost of sales	**1,550.7**	**1,657.9**	**(107.2)**	(6.5)

1 Treatment and refining charges include the cost of treatment and refining as well as the margin charged by the refiner.
2 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.

Cost of sales decreased 6.5% to US$1,550.7 million in 2020. The US$107.2 million decrease is explained by the following combination of factors:

- A decrease in Adjusted production costs (-US$93.9 million). This was primarily due to: i) a lower volume of ore processed at Herradura and Noche Buena due to Covid-19 operational restrictions (-US$79.4 million) which can further be broken down into two factors: a) variable costs that were not incurred (-US$71.1 million), and b) fixed costs that were incurred and reclassified as unproductive costs[1] (-US$8.3 million); and ii) the favourable effect of the devaluation of the Mexican peso vs. US dollar (-US$66.6 million). These positive effects were partly offset by increased development works and maintenance, mainly at Fresnillo, Saucito and San Julián (Veins and DOB) (+US$49.4 million).
- The variation in the change in work in progress had a positive effect of US$55.2 million year-on-year. This resulted mainly from the re-assessment of the gold content on the leaching pads at Herradura (see notes 2c and 5 to the financial statements). This was partially offset by the net effect of the reduction of inventories at Noche Buena resulting from processing gold inventories during the operational restrictions at the onset of the pandemic, without being able to deposit on the leaching pads.
- Mexican peso/US dollar hedging (-US$4.1 million). As part of our programme to manage our exposure to foreign exchange risk associated with costs incurred in Mexican pesos, during the first quarter of the year we entered into a combination of put and call options structured at zero cost (collars). These derivatives were used to hedge US$150.1 million of costs denominated in Mexican pesos with average floor and cap exchange rates of $22.33 and $32.82 per US dollar respectively, which have generated a positive result of US$4.1 million. The total outstanding position using collar structures as of 31 December 2020 was US$37.53 million with monthly maturities until March 2021, with average floor and cap exchange rates of $22.33 and $32.82 per US dollar respectively. These instruments guarantee a minimum exchange rate should the market fall below the floor exchange rate.

These positive effects were partly offset by year-on-year increases in:

- US$18.0 million in unproductive costs, which is mainly related to costs incurred during the partial stoppages at Herradura and Noche Buena due to the COVID-19 measures imposed by the state government.
- Depreciation (+US$15.8 million). This is mainly due to increased amortisation of capitalised mining works and increased depletion factors at the underground mines, partly mitigated by the lower depreciation at Herradura and Noche Buena as some equipment was not in use as a result of the preventive measures related to Covid-19. The reduced amount in depreciation was reclassified as unproductive costs.
- Profit sharing (+US$9.6 million).

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

Cost per tonne is a key indicator to measure the effects of 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		**2020**	2019	% change
Fresnillo	US$/tonne milled	69.9	62.7	11.5
Saucito	US$/tonne milled	72.0	67.8	6.2
Ciénega	US$/tonne milled	76.7	78.3	(2.0)
San Julián (Veins)	US$/tonne milled	71.8	72.0	(0.3)

[1] Unproductive costs primarily include unabsorbed production costs such as 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.

San Julián (DOB)	US$/tonne milled	39.0	39.1	(0.3)
Herradura	US$/tonne deposited	18.3	18.1	1.0
Herradura	US$/tonne hauled	3.3	3.3	0.0
Noche Buena	US$/tonne deposited	10.8	9.8	10.0
Noche Buena	US$/tonne hauled	3.3	2.5	32.0

Fresnillo: Cost per tonne increased 11.5% to US$69.9 in 2020, mainly due to an increase in development costs. Additionally, cost deflation for this mine was 4.5% mainly due to the favourable effect of the devaluation of the Mexican peso vs. US dollar on contractors and labour.

Saucito: Cost per tonne increased 6.2% to US$72.0, mainly due to an increase in development cost, mitigated by the favourable effect of the devaluation of the Mexican peso and the decrease in consumption of operating materials at the pyrites plant; cost deflation for this mine was 4.3% primarily due to contractors, maintenance, operating materials and labour.

San Julián Veins: Cost per tonne remained stable at $71.8, mainly due to the increase in development costs, offset by the favourable effect of the devaluation of the Mexican peso vs. US dollar.

San Julián (DOB): Cost per tonne remained stable at $39.0, mainly due to the increase in development costs, offset by the positive effect of the devaluation of the Mexican peso vs. the US dollar.

Ciénega: Cost per tonne decreased 2.0% to US$76.7 mainly due to the positive effect of the devaluation of the Mexican peso vs. US dollar partly offset by increased consumption of electricity and spare parts for maintenance.

Herradura: Cost per tonne of ore deposited remained stable at $18.3, primarily due to an increase in the stripping ratio and inefficiencies caused by lower economies of scale as a result of the decrease in volume of ore processed and waste material hauled related to the COVID-19 disruptions, offset by the devaluation of the Mexican peso vs. the US dollar, fixed costs that were incurred and reclassified as unproductive costs and the lower unit price of diesel.

Noche Buena: Cost per tonne at this mine increased 10.2% to US$10.8 in 2020, primarily as a result of the lower economies of scale achieved from the decrease in volume of ore processed and waste material hauled as a result of COVID-19 disruptions and the expected lower production as the mine approaches closure, mitigated by the devaluation of the Mexican peso vs. the US dollar, fixed costs that were incurred and reclassified as unproductive costs and the lower unit price of diesel.

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.

Cash cost per ounce		**2020**	2019	% change
Fresnillo	US$ per silver ounce	5.9	2.3	156.5
Saucito	US$ per silver ounce	0.8	2.3	(65.2)
Ciénega	US$ per gold ounce	(276.2)	(0.2)	N/A
San Julián (Veins)	US$ per silver ounce	(6.0)	0.8	N/A
San Julián (DOB)	US$ per silver ounce	7.0	7.0	0.0
Herradura	US$ per gold ounce	727.9	818.6	(11.1)
Noche Buena	US$ per gold ounce	1,158.5	847.8	36.6

Fresnillo: Cash cost per silver ounce increased to US$5.9 (2019: US$2.3) principally due to higher cost per tonne, higher treatment and refining charges, increased special mining rights and lower by-product credits, partially mitigated by the higher silver ore grade. Margin per ounce increased 11.6% to US$15.4. Expressed as a percentage of silver price, it decreased to 72.3% (2019: 85.7%).

Saucito: Cash cost per silver ounce decreased to US$0.8 per ounce (2019: US$2.3 per silver ounce) mainly as a result of higher gold, lead and zinc by-product credits per silver ounce. This was partially offset by higher treatment and refining charges per silver ounce, an increase in special mining rights, a lower silver ore grade and an increase in cost per tonne. Margin per ounce increased to US$20.5 in 2020 (2019: US$13.8). Expressed as a percentage of silver price, it increased from 85.7% to 96.2%.

San Julián Veins: Cash cost decreased mainly due to higher gold by-product credits, partly offset by the lower silver grade and increased special mining rights. Margin per ounce increased to US$27.3 (2019: US$15.3), while margin expressed as a percentage of the silver price increased from 95.0% in 2019 to 128.2% in 2020.

San Julián (DOB): Cash cost remained at US$7.0 per ounce as the lower cost per tonne and higher silver ore grade were offset by the lower by-product credits.

Ciénega: The decrease in cash cost was primarily due to an increase in silver by-product credits and lower cost per tonne, partly offset by increased special mining rights, higher treatment and refining charges and lower gold ore grade. Margin per ounce increased to US$2,068.6 in 2020 (2019: US$1,418.2). Expressed as a percentage of gold prices, the margin increased to 115.4% (2019: 100.0%).

Herradura: Cash cost per gold ounce decreased to US$727.9, as a result of the favourable effect of the reassessment of recoverable gold inventories at the leaching pads, resulting in a lower cost per ounce. This was partially offset by increased special mining rights, lower ore grades and higher profit sharing. Margin per ounce and margin expressed as a percentage of gold prices increased to US$1,064.5 and 59.4%, respectively.

Noche Buena: Cash cost per gold ounce increased by 36.6% to US$1,158.5, mainly due to a lower gold ore grade, a higher cost per tonne and increased special mining rights. Margin per ounce increased to US$633.9, while margin expressed as a percentage of the gold price declined from 40.2% in 2019 to 35.4% in 2020.

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		**2020**	2019	% change
Fresnillo	US$ per silver ounce	12.92	13.54	(4.6)
Saucito	US$ per silver ounce	6.94	10.97	(36.7)
Ciénega	US$ per gold ounce	618.32	1,212.14	(49.0)
San Julián (Veins)	US$ per silver ounce	5.04	14.79	(65.9)
San Julián (DOB)	US$ per silver ounce	8.85	10.79	(18.0)
Herradura	US$ per gold ounce	881.92	962.99	(8.4)
Noche Buena	US$ per gold ounce	1,502.92	922.86	62.8

Fresnillo: All-in sustaining cost decreased 4.4% over 2019 to US$12.9, explained by lower capitalised development per ounce and a lower sustaining capex per ounce.

Saucito: All-in sustaining cost decreased to US$6.9 per ounce mainly due to mainly as a result of lower sustaining capex per ounce and lower cash cost.

San Julián Veins: All in sustaining cost at San Julián veins decreased due to a lower sustaining capital expenditure per ounce and a decrease in cash cost.

San Julián DOB: The US$1.9 decrease in all in sustaining cost was driven by a lower sustaining capital expenditure per ounce.

Ciénega: The US$593.8 per ounce decrease in all in sustaining cost was primarily driven by the lower capitalised development, decreased sustaining capital expenditure per ounce and lower cash cost.
Herradura: All-in sustaining cost decreased by US$81.1 per ounce mainly due to the lower cash cost and a lower capitalised stripping.

Noche Buena: The US$580.0 per ounce increase in all-in sustaining cost was the result of the capitalised stripping and higher cash cost.

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 90.5% from US$461.7 million in 2019 to US$879.4 million in 2020.

The US$417.7 million increase in gross profit was mainly explained by: i) the favourable effect of higher average realised gold and silver prices (US$510.1 million); ii) the positive effect from the gold content in the leaching pads at Herradura being reassessed (US$91.3 million); iii) the favourable effect of the devaluation of the Mexican peso vs. US dollar (US$66.6 million); and iv) the favourable results from the lead and exchange rate hedging this year vs. a loss incurred in 2019 (US$12.5 million). These positive factors were partly offset by: i) the increase in cost related to maintenance and development works at Fresnillo, Saucito and San Julián (veins and DOB) (-US$49.4 million); ii) lower ore grades at Herradura DLP, San Julián (veins) and Ciénega (-US$47.2 million); iii) lower volumes of ore processed at Herradura and Noche Buena following Covid-19 operational restrictions (-US$45.7 million); iv) the variation of change in inventories excluding the effect of the 2020 reassessment of gold contents in the leaching pads at Herradura (-US$36.0 million); v) higher treatment and refining charges (-US$35.8 million); vi) increase in unproductive costs as a result of the Covid-19 measures (-US$20.6 million); vii) higher depreciation (-US$15.9 million); viii) higher profit sharing (-US$9.7 million) and others (-US$2.5 million).

With the exception of Noche Buena, gross profit increased year-on-year at all mines. Herradura remained the largest contributor to the Group's consolidated gross profit, recording an increase in its percentage share from 38.9% in 2019 to 43.4% in 2020. Gross profit at Saucito and Fresnillo experienced double digit increases; however, their percentage shares decreased to 23.4% and 12.7% in 2020 respectively as a result of their relative weighting. The higher grades at San Julián (DOB) together with the higher precious metals prices resulted in a US$71.9 million gross profit, which represented 8.4% of the Group's total gross profit. Ciénega's share of the Group's total gross profit remained steady at 7.5%, while Noche Buena's contribution continued to decrease, falling to 4.6%.

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

	2020		2019		Change	
	US$ million	**%**	US$ million	%	US$ million	%
Herradura	372.3	43.4	183.2	38.9	189.1	102.9
Saucito	200.2	23.4	131.2	27.9	69.0	52.6
Fresnillo	109.1	12.7	88.7	18.9	20.4	40.2
San Julián	71.9	8.4	(7.3)	(1.5)	79.2	N/A
Ciénega	64.4	7.5	34.5	7.3	29.5	86.7
Noche Buena	39.0	4.6	40.2	8.5	(1.2)	(3.0)
Total for operating mines	856.9	100	470.5	100	386.4	82.1
Metal hedging and other subsidiaries	22.5		(8.8)		31.3	N/A

Total Fresnillo plc	879.4	461.7	417.7	90.5

ADMINISTRATIVE AND CORPORATE EXPENSES

Administrative and corporate expenses decreased 3.1% from US$96.4 million in 2019 to US$93.4 million in 2020, due to the decrease in non-recurring
corporate services provided by Servicios Industriales Peñoles S.A.B. de C.V. and the favourable effect of the devaluation of the Mexican peso vs. the US dollar.

EXPLORATION EXPENSES

Business unit/project (US$ million)	**Exploration expenses 2020**	Exploration expenses 2019	**Capitalised expenses 2020**	Capitalised expenses 2019
Ciénega	5.6	7.3		–
Fresnillo	6.4	14.0		–
Herradura	11.5	14.4		–
Saucito	11.0	14.9		–
Noche Buena	0.9	0.4		–
San Julián	16.5	17.6		–
Orisyvo	3.6	2.0		–
Centauro Deep	0.1	0.5	3.3	1.7
Guanajuato	4.3	19.4		2.8
Juanicipio	-	–	4.8	5.4
San Ramón	0.0	2.0		–
Others	47.4	65.4	0.4	2.3
Total	**107.3**	**157.9**	8.5	**12.2**

Exploration expenses decreased by 32.0% from US$157.9 million in 2019 to US$107.3 million in 2020, in line with the strategy to focus exploration on specific targets, including our current operating districts and advanced exploration projects. The decrease of US$50.6 million seen year-on-year was in part a response in order to improve the financial stability of the Group during heightened financial uncertainty early in the year resulting from the Covid-19 pandemic. In addition, we suspended exploration activities for a period of time to mitigate any adverse impact from the pandemic. An additional US$8.5 million was capitalised, mainly relating to exploration expenses at the Juanicipio project and Centauro Deep. As a result, risk capital invested in exploration totalled US$115.8 million in 2020, while in 2019 US$12.2 million was capitalised, totalling US$170.1 million in risk capital invested in exploration, a 31.9% decrease over 2019. In 2021, total invested in exploration is expected to be within the range of US$175-US$180 million, of which approximately US$15 million is expected to be capitalised.

EBITDA

	2020 US$ million	2019 US$ million	Amount US$ million	Change %
Profit from continuing operations before income tax	**551.3**	178.7	372.6	108.5
- Finance income	**(12.2)**	(24.2)	12.0	49.6
+ Finance costs	**141.3**	70.7	70.6	99.9

– Revaluation effects of Silverstream contract	**(71.0)**	(48.4)	22.6	46.7
– Foreign exchange gain (loss), net	**40.3**	(5.1)	45.4	N/A
– Other operating income	**(10.0)**	(9.8)	(0.2)	2.0
+ Other operating expense	**14.8**	22.6	(7.8)	(34.5)
+ Depreciation	**505.4**	489.5	15.9	3.2
+ Depreciation in unproductive costs	**9.2**	0	9.2	100
EBITDA	**1,169.1**	674.0	495.1	73.4
EBITDA margin	**48.1**	31.8		

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 revaluation effects of the Silverstream contract and other operating income plus other operating expenses and depreciation. In 2020, EBITDA increased 73.4% to US$1,169.1 million primarily driven by the higher gross profit and, to a lesser extent, lower exploration expenses. As a result, EBITDA margin expressed as a percentage of revenue increased, from 31.8% in 2019 to 48.1% in 2020.

OTHER OPERATING INCOME AND EXPENSE

In 2020, a net loss of US$4.8 million was recognised in the income statement mainly as a result of costs incurred in the maintenance of closed mines. This compared favourably to the US$12.8 million net loss recognised in 2019, mainly as a result of the disposal of assets, environmental activities and donations.

SILVERSTREAM EFFECTS

The Silverstream contract is accounted for as a derivative financial instrument carried at fair value. The total revaluation effect recorded in the 2020 income statement was a gain of US$71.0 million. This includes: i) a positive non-cash revaluation effect of US$23.9 million mainly as a result of the market update of certain variables such as the forward price of silver and the decrease in the LIBOR rate, partially offset by the variation of the country risk premium, these last two variables are used to determine the discount rate; and ii) a US$47.1 million gain mainly generated by the unwinding of the discounted values (a portion of this amount is cash). The total revaluation effect recorded in 2019 was a US$48.3 million gain.

Since the IPO, cumulative cash received has been US$687.3 million vs. US$350 million initially paid. The Group expects that further unrealised gains or losses will be taken to the income statement in accordance with silver price cyclicality or changes in the variables considered in valuing this contract. Further information related to the Silverstream contract is provided in the balance sheet section in notes 13 and 29 to the consolidated financial statements.

FINANCE COSTS

Net finance costs of US$129.1 million compared unfavourably to the US$46.5 million recorded in 2019. The US$82.6 million increase was primarily driven by the one-off restructuring of the Company's debt in October 2020. The 2020 net finance costs mainly reflected: 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; ii) the interest on the US$800 million principal amount of 5.5% Senior Notes, net of interest received and capitalised, together with the accrued interest payable as a result of the issuance of US$850 million principal amount of 4.250% Senior Notes due 2050, all of which totalled US$43.7 million; iii) US$24.9 million in interest and surcharges, which resulted from the 2020 tax amendment agreed with the Mexican Tax Administration Service (Servicio de Administración Tributaria "SAT") covering the period from 2013 to 2019. 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 2020, the Group capitalised US$8.8 million of borrowing costs (2019: US$6.1 million).

FOREIGN EXCHANGE

A foreign exchange loss of US$40.3 million was recorded as a result of the 5.9% devaluation of the Mexican peso against the US dollar over the year on: i) the realised transactions during the period related to accounts receivable paid in Mexican pesos (mainly recoverable VAT); and ii) the value of peso-denominated net monetary assets. This compares negatively to the US$5.1 million foreign exchange gain recognised in 2019.

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) which have generated a marginal result in the year of -US$0.15 million.

TAXATION

Income tax expense for the period was US$140.6 million, which compared unfavourably vs. (US$8.0) million (tax credit) in 2019. The effective tax rate, excluding the special mining rights, was 25.5%, which was below the 30% statutory tax rate. This was 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/deductable 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).

The effective tax rate in 2019 was -4.5%. The reason for the negative tax rate in 2019 was the significant permanent differences between the tax
and accounting treatment, together with the low level of profit before income tax. The permanent differences were mainly related to: i) the revaluation of the Mexican peso which had an important impact on the tax value of assets and liabilities that are denominated in Mexican pesos (US$37.1 million); ii) the inflation rate which impacted the inflationary uplift of the tax base for assets and liabilities (US$17.1 million); iii) the tax credit related to the special tax on diesel (US$10.0 million); iv) a new border zone tax benefit which benefited the Herradura and Noche Buena operations (US$6.4 million); and v) the effect recorded in the year in respect of the voluntary tax amendment relating to the tax treatment for mining works at underground mines for the years 2014 to 2018 (US$5.1 million).

Mining rights for the year were US$35.0 million compared to a credit of US$19.1 million charged in 2019. The main reason for the negative mining rights in 2019 was the effect of the 2019 voluntary tax amendment relating to the tax treatment for mining works for the years 2014 to 2018 on the deferred mining rights. (See note 10 to the Financial Statements)

PROFIT FOR THE YEAR

Profit for the year increased from US$205.8 million in 2019 to US$375.6 million in 2020, a 82.5% 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$172.0 million to US$325.9 million, a 89.5% increase.

CASH FLOW

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

	2020 US$ million	2019 US$ million	Amount US$ million	Change %
Cash generated by operations before changes in working capital	1,168.7	685.5	483.2	70.5
(Increase)/decrease in working capital	(129.8)	(56.6)	(73.1)	(129.2)
Taxes and employee profit sharing paid	(121.3)	(193.0)	71.7	37.1
Net cash from operating activities	917.7	435.9	481.8	110.5
Silverstream contract	33.7	24.3	9.4	38.7
Debt Restructuring	350.0	0.0	350.0	100
Purchase of property, plant and equipment	(412.3)	(559.3)	146.9	(26.3)
Dividends paid to shareholders of the Company	(104.7)	(142.2)	37.5	(26.4)
Transaction costs senior notes	(64.7)	0.0	(64.7)	100
Financial expenses and foreign exchange effects	(44.1)	(32.9)	(11.3)	(34.3)
Net increase in cash during the period after foreign exchange differences	733.8	(224.2)	958.0	N/A
Cash and other liquid funds at 31 December [1]	1,070.4	336.6	733.8	218.0

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

Cash generated by operations before changes in working capital increased by 70.5% to US$1,168.7 million, mainly as a result of the higher profits generated in the year. Working capital increased US$129.8 million, mainly due to: i) a US$79.5 million increase in ore inventories primarily generated by the reassessment of gold content at the Herradura leaching pads; and ii) a US$61.6 million increase in trade and other receivables resulting mainly from the increase in precious metals prices.

Taxes and employee profit sharing paid decreased 37.1% over 2019 to US$121.3 million mainly due to: i) a decrease in provisional tax payments resulting from the lower profit factor determined to calculate the estimated taxable income; ii) lower income tax paid in 2020 (corresponding to the 2019 tax fiscal year); iii) lower income tax and mining rights resulting from tax amendments; and iv) the recovery of excess higher income tax paid.

As a result of the above factors, net cash from operating activities increased 110.5% from US$435.9 million in 2019 to US$917.7 million in 2020.

In addition to cash generated from operations, the Group received other sources of cash, of which the most significant were: i) proceeds from the new bond due in 2050 net of early redemption of 2023 bonds (US$350.0 million); ii) note payable by minority shareholders in subsidiaries of US$63.8 million and; iii) the proceeds of the Silverstream contract of US$33.7 million.

Main uses of funds were:

i) the purchase of property, plant and equipment for a total of US$412.3 million, a 26.3% decrease over 2019. Capital expenditures for 2020 are described below:

PURCHASE OF PROPERTY, PLANT AND EQUIPMENT

	2020 US$ million	
Fresnillo mine	92.6	Mine development and mining works, construction of the Pyrites Flotation Plant and the optimisation of the current beneficiation plant, purchase of in-mine equipment and deepening of the San Carlos shaft.
Saucito mine	73.4	Mine development, purchase of in-mine equipment and deepening of the Jarillas shaft.
San Julián Veins and DOB	36.3	Mining works and purchase of in-mine equipment and land.
Ciénega mine	35.1	Mining works, purchase of in-mine equipment and construction of tailings dam.
Herradura mine	30.2	Purchase of equipment for dynamic leaching plants, land acquisition and construction of leaching pad.
Noche Buena mine	19.7	Implementation of Carbon in Column process, construction of leaching pad and anti-collision system.
Juanicipio project	104.3	Mine development and construction of beneficiation plant.
Other	20.7	Minera Bermejal.
Total purchase of property, plant and equipment	412.3	

ii) Dividends paid to shareholders of the Group in 2020 totalled US$104.7 million, a 26.4% decrease over 2019, in line with our dividend policy which includes a consideration of profits generated in the year. The 2020 payment included the final 2019 dividend of US$87.7 million paid in June and the 2020 interim dividend paid in September of US$16.9 million.

iii) Premium paid on early retirement of 2023 bonds and transaction costs related to the new 2050 bond, totalling US$64.7 million.

iv) Financial expenses and foreign exchange effects of US$44.1 million increased US$11.3 million year-on-year, mainly reflecting: i) 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$733.8 million (net increase in cash and other liquid assets), which combined with the US$336.6 million balance at the beginning of the year resulted in cash and other liquid assets of US$1,070.4 million at the end of 2020.

BALANCE SHEET

Fresnillo plc improved its already solid financial position during the year with cash and other liquid funds[2] of US$1,070.4 million as of 31 December 2020, increasing 218.0% versus December 2019, as explained above. Taking into account the cash and other liquid funds of US$1,070.4 million and the US$1,167.8 million amortised cost of the Senior Notes, Fresnillo plc's net debt was US$97.4 million as at 31 December 2020. This compares to the net debt position of US$463.4 million as at 31 December 2019. Considering these variations, the balance sheet at 31 December 2020 remains strong, with a net debt / EBITDA ratio of 0.8x[3]

Inventories increased 21.8% to US$443.2 million, mainly as a result of the reassessment of gold content in inventories on the leaching pads at Herradura.

Trade and other receivables remained broadly unchanged at US$512.9 million.

The change in the value of the Silverstream derivative from US$541.3 million at the beginning of the year to US$576.1 million as of 31 December 2020 reflects proceeds of US$36.1 million corresponding to 2020 (US$33.7 million in cash and US$2.4 million from the increase in accounts receivables) and the Silverstream revaluation effect in the income statement of US$71.0 million.

The net book value of property, plant and equipment was US$2,708.2 million at year end, representing a 3.7% decrease over 2019. The US$105.2 million decrease was mainly due to increased depreciation.

The Group's total equity was US$3,614.6 million as of 31 December 2020, a 10.2% increase over 2019. This was mainly explained by the increase in retained earnings, reflecting the 2020 profit.

DIVIDENDS

Based on the Group's 2020 performance, the Directors have recommended a final dividend of 23.5 US cents per Ordinary Share, which will be paid on 1 June 2021 to shareholders on the register on 23 April 2021. 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 2.3 US cents per share amounting to US$16.9 million. This final dividend is higher than the previous year due to the higher profit in 2020, and remains in line with the Group's dividend policy.
The corporate income tax reform introduced in Mexico in 2014 created a withholding tax obligation of 10% relating to the payment of dividends, including to foreign nationals.

Historically the Company has been making dividend payments out of retained earnings generated before the tax reform came into force and no withholding tax has therefore been applicable. We expect that dividend payments relating to 2020 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.

[2] Cash and other liquid funds are disclosed in note 30(c) to the consolidated financial statements.
[3] Net debt (Debt at 31 December 2020 – Cash and other liquid funds at 31 December 2020) divided by the EBITDA generated in the last 12 months.

MANAGING OUR RISKS AND OPPORTUNITIES

At Fresnillo plc, creating shareholder value is the reward for taking and accepting risk responsibly. Our risk management process aims to strike a balance between mitigating and monitoring our risks and maximising the potential reward. We have a structured internal risk management process that identifies risks while simultaneously taking into account the views and interests of our stakeholders.

Effective risk management is an essential part of our culture and strategy. Accurate and timely identification, assessment and management of key risks give us a clear understanding of the actions required throughout the organisation in order to achieve our objectives. Risk can manifest as opportunities or threats that can affect our business performance.

Our risk management framework reflects the importance of risk awareness across the Company. The framework enables us to identify, assess, prioritise and manage risks in order to deliver the value creation objectives defined in our business model.

The COVID-19 pandemic is an unprecedented challenge for all. We implemented risk techniques and processes to identify new risks and analysed the impact of the pandemic on all risks in the Company. Changes enacted to respond to COVID-19 have created opportunities to accelerate digital transformation and enhance safety and productivity.

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 last year 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. Due to the uncertainty around the pandemic, all strategic decisions of the Company were analysed using risk scenarios modelling their potential impacts. In addition, from the beginning of the pandemic, five new processes were implemented: (I) a weekly 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 and projects, and (V) collaboration with government, the sector, health experts and communities to ensure leading practices were followed.

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, SSMARC's 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 three--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 2020 we carried out activities to: (I) identify new emerging risks in light of COVID-19; II) re-assess emerging risks identified in 2019; (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. The events early in 2020 relating to the Covid-19 pandemic resulted in a re-assessment of our emerging risks and their impact on our operations. This year's emerging risk assessment determined the two most exposed emerging risks to be: "Water Crisis" and "Technological Disruption" and identified a new emerging risk: "Extreme Heatwaves". Most importantly, the assessment indicated that "Climate Change" had moved from an emerging risk to a principal risk.

Relevant emerging risks are discussed below:

Emerging Risk Fresnillo plc		Description	Impact	Controls	Time Scale
1	Water crisis.	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.	> 3 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.	> 3 Years
3	Risk of narco states.	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.	< 3 Years
4	Pandemic.	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 arrive that affects the health of employees and stops the Company's activities.	Much was learned from the COVID-19 pandemic about providing care for employee health and health prevention measures.	< 3 Years
5	Extreme Heatwaves.	A heat wave, or heatwave, is a period of excessively hot weather, which may be accompanied by high humidity, especially in	Extreme heat can cause cramps, swelling, and fainting. Heatwaves kill more people than other natural disasters such as floods, lightning,	Temperatures in the regions where we operate are constantly reviewed and safety protocols have been implemented in the face of	< 3 Years

		oceanic climate countries. A heatwave is considered extreme weather that can be a natural disaster, and a danger because heat and sunlight may overheat the human body.	tornadoes, and hurricanes. Extreme heatwaves could stop operations at open pit mines due to the impact both on the workers and equipment (e.g. tyres of trucks).	intense heatwaves, especially in Sonora and Chihuahua.	
6	Radical changes in economic and political structures.	Unexpected transformations of the economic, political or social structure, through radical changes involving fundamental structural imbalances of the mainly productive and distributive apparatus (e.g. operations and transport infrastructure).	The scope of projects may be affected. Disruptions in the supply chain of basic inputs for mining processes could lead to increased operating costs and lack of labour.	Asset insurance and investment, credit and liability prevention policies are available and in force.	> 3 Years

2020 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 (109) 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 109 risks into major risks which are monitored by executive management and the Audit Committee. We then further consolidated these into 12 principal risks which are closely monitored by the Board of Directors.

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 12 Principal Risks rather than incorporate a new risk.

Additionally, risks related to compliance and fraud were reviewed toward the end of 2020. The results of this evaluation will be considered in the 2021 work plan.

As a result of the 2020 annual risk assessment, the most exposed risks were determined to be:

- The risk of "**Potential Government Actions**" is assessed as the main risk for the Company, exacerbated by recent decisions of the current government such as: (a) the dissolution of the Undersecretariat of Mines of the Secretariat of the Economy; (b) the implementation of policies that support the emission of coal into the atmosphere and reduce the development of renewable energies; (c) the restriction on the granting of new mining concessions; (d) the elimination of outsourcing of labour law and (e) the beginning of the United States-Mexico-Canada Agreement (USMCA or TMEC) with new labour dispositions.

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

- The risk of "**Security**", resulting from increased high-impact crimes (homicide, kidnapping and extortion) in the regions where we have operations, mainly Zacatecas, Guanajuato and Sonora, and threats of theft of minerals and assets.

It is important to note there we also made the following additional changes to our principal risks:

- As extreme weather events make global headlines and scientists warn about a shifting climate, more investors are thinking about environmental risks and how they might affect their portfolios. Climate change has formed part of our strategic thinking and investment decisions. For this reason, the **“Climate Change”** risk has moved from an emerging risk to a principal risk.

- To be consistent with the principal risks of the mining industry and to fully monitor the Company’s risks in relation to the **"Licence to Operate"**, we have integrated public perception against mining and relations with the communities close to the mines, explorations and projects into a single principal risk.

- Due to the importance of the management of tailings dams to our company and the resulting mitigation actions that were carried out during 2020, the name Environmental Incidents Risk was included with the word tailings, so that this principal risk remains as **"Tailings and Environmental Incidents".**

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 Cybersecurity and Disruption Technology, Climate Change and Extreme Heatwaves as well as Security and Risk of Narco State.

1

POTENTIAL ACTIONS BY THE GOVERNMENT, E.G. IMPLEMENTATION OF MORE STRINGENT REGULATIONS FOR OBTAINING PERMITS, ETC.

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. • 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	
• An effective strategy by health authorities for the implementation of the COVID-19 vaccine may not be implemented. • In September, the position of Undersecretary of Mining at the Ministry of Economy was cancelled due to austerity measures by the Government of Mexico. This government decision will complicate communication and on-the-go procedures such as permits, licences, concessions, etc. • 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). • The Secretary of Labour is promoting an initiative that aims to significantly reduce outsourcing.	• The federal government promotes investment in coal rather than renewable or clean energy. This has led to increased difficulty in operating on clean energy. • 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. • The beginning of the United States-Mexico-Canada Agreement (USMCA or TMEC) with new labour dispositions • In addition, Mexico’s corruption perception remains high. The country's score in International Transparency 2020 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. Increased monitoring of the processes being implemented at the Ministry of Economy. Follow-up and timely compliance with all suggestions of the Health Authorities. We remain attentive to the changes proposed by the authorities, including mining tax initiatives, so that we can respond in a timely and relevant manner.	We continue to comply with all applicable environmental regulations and are fully committed to operating sustainably. We are committed to maintaining community dialogue throughout the life of a mining project, 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.

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.	In doing so, we continue to cooperate with any ongoing tax inspections.

COVID-19 PANDEMIC IMPACT	KEY RISK INDICATORS
The Federal or State Government orders another total or partial stoppage of operations in mining units for a wave of mass contagions, 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	2020: Very high (1) 2019: Very high (2)

2

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. 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. The average price of gold increased year-on-year (+26.4% compared to 2020), while the average price of silver increased by 31.6%.	• Revaluation of the Mexican peso. In March 2020, the dollar exchange rate exceeded 25 pesos, due to the socioeconomic impact of the COVID-19 pandemic and the US presidential election. At the end of the year the dollar exchange rate was 19 pesos. • General inflation in Mexico. This was 3.15% in terms of Mexican peso for 2020. The specific inflation for the Company was 5.49% in U.S. dollars. • A decrease in the price of our by-products. In 2020, the average prices for lead and zinc decreased by 7.9% and 7.8%, respectively, compared to the previous year.

FACTORS CONTRIBUTING TO RISK	
• Severe economic crisis in Mexico in 2020: reduction in economic growth of -18.7%, 833,100 jobs lost and 3.15% inflation. • Of the G20 nations, Mexico has the second lowest investment in fiscal programmes to mitigate the impact of the pandemic. • 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 18% and kWh (US percentage per kWh) by 4.7%.	• A severe international economic slowdown, including negative economic growth forecasts for Mexico. • Reappearance of COVID-19 cases in Europe and the Americas. Some countries have re-introduced lockdown measures and there is a possibility that Mexico will follow suit. • Disruptions in the value chain of critical inputs for our operations such as cement, spare parts, fuels, and cyanide. • Uncertainty about the impact of the elections of governors in the states of Zacatecas, Chihuahua and Sonora in 2021.

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 policy precious metals hedging. 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 maximize 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)
Decreasing	2020: Very high (2) 2019: Very high (1)

3

SECURITY

RISK DESCRIPTION	
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 2020, in the states where our business units and projects are located, such as Zacatecas, Guanajuato, Sonora, Chihuahua and Durango. The main risks we face are: • High-impact robberies. • Theft of assets such as minerals, equipment, instruments, inputs, etc. • Homicide. • Kidnappings. • Extortions. • Vandalism.

FACTORS CONTRIBUTING TO RISK	
• Increased presence of organised crime in the vicinity of the mining units. • Increase in the number of high impact crimes (homicide, kidnapping, extortion) in the regions of the mining units. • Consumption and sale of drugs at the mining units. • Roadblocks or blockages on the roads and/or highways near the mining units. • 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 “Minera Penmont”.	• On March 23, two armoured trucks operated by SEPSA, a money-in-transit carrier, transporting 60 kilograms of gold and 398 kilograms of silver worth $2.73 million USD from “Minera Penmont” was attacked by an armed group and the precious metals were stolen. • Lead concentrates were stolen from the Cienega mine on 22 and 23 May. The transport was intercepted on the way out of the mine by heavily armed members of organised crime gangs.

CONTROLS, MITIGATING ACTIONS AND OUTLOOK	
We closely monitor the security situation, maintaining clear internal communications and coordinating work in areas of greater insecurity. We have adopted the following practices to manage our security risks and prevent and address potential incidents: • We maintain close relations with authorities at the federal, state and local levels, including army camps located near most of our operations. We also communicate with the newly created National Guard.	• We have maintained our logistics controls in order to reduce the potential for mineral concentrate theft. These controls include: the use of real-time tracking technology; surveillance cameras; tests to identify alterations in the transported material; on-call services; control checkpoints in a 'safe broker'; and fewer authorised stops in order to optimise delivery times and minimise the exposure of convoys. • We continue to invest in community programs, infrastructure improvements and government

• 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.	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. Management is fully committed to protecting our workforce.

COVID-19 PANDEMIC IMPACT	KEY RISK INDICATORS
The COVID-19 pandemic has had negative impact on the security risk. High-impact crimes did not decrease – in fact they increased in some regions such as Guanajuato and 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	2020: Very high (3) 2019: Very high (4)

4

HUMAN RESOURCES

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.

FACTORS CONTRIBUTING TO RISK	
• A resurgence of cases in the months of September to December in Mexico maintained the level of risk as very high. • Unfortunately, the population does not follow the 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.	• At some mines we have a lack of specialised personnel to cover working hours. • In certain of the regions where we operate there are not enough candidates with the necessary skills to operate the mining equipment. • The Secretary of Labour is suggesting changes to the law aimed at eliminating the outsourcing of personnel. Should this legislation be passed it would complicate our relationship with the contractors who support our mining operations and projects.

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. 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. **Recruitment:** We have evaluated our recruitment requirements for key positions by 2021, and our goal is to meet them through internal training and promotion, and 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. We welcomed 7 professionals and 18 engineers to our coaching programme during the year. • CETEF (Fresnillo Center for Technical Studies), which teaches specific mining operational skills. The 5 graduates hired in 2020 joined as full-time employees. • CETLAR (Centre for Technical Studies of Peñoles), which trains mechanical and electrical technicians. The 12 graduates hired in 2020 joined 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. Our focus is continuous improvement, driven by opportunities for training, development and personal growth; in short, we focus on fair recruitment, fair remuneration and benefits and gender equality.	Our focus is continuous improvement, powered by opportunities for training, development and personal growth; in brief, we focus on fair recruitment, fair remuneration and benefits and gender equality. In the trusted staff structure, 15.29% of the population is women, of the new income staff 17% were women, and 17% of the female population were promoted. 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. Around 300 leaders participated in this training, which covered the following topics: defining and addressing Fresnillo's strategy for diversity, equality and inclusion; understanding unconscious bias and different types of diversity; identifying the types of microaggressions; recognising toxic masculinity; and reviewing stereotypes, prejudice and discrimination. The online training included a variety of exercises, case studies and discussions In order to keep our staff up to date and trained, 86% of employees and 98% of unionized staff have been trained this year. Staff with participation in institutional development programmes increased from 37.3% to 46.8%. 80.4% of the organization's leaders have participated in leadership-focused institutional development programs. **Performance:** As a result of the current situation, this year the internships were 100% virtual, in conjunction with Peñoles courses were taught in mining, geology, metallurgy, topography security and communication. In total there were 433 students (61.43% men and 38.57% 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: -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	2020: High (4) 2019: Low (12)

5

UNION RELATIONS

RISK DESCRIPTION	
Potential emergence of a union outside the company that seeks to destabilise the current union.	Domestic trade union policy could adversely affect us, as could pressure from other mining unions that wanted to take over Fresnillo's employment 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 voluntary turnover at the mine will increase. 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) commenced in July, 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 the area of 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 2020 by conducting three Regional Labour Update Forums with company leaders and unions in Sonora, Coahuila and Zacatecas with 219 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 a participation of 659 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	• Union members' level of satisfaction. • Number of media mentions related to mining union developments.

mining units. Today, the union continues to support the safety measures that we adopted.	

LINK TO STRATEGY	RISK APPETITE
2 – 3	Low

CHANGE IN HEAT MAP	RISK RATING (RELATIVE POSITION)
Increasing	2020: High (5) 2019: Medium high (6)

6

PROJECTS (*PERFORMANCE RISK*)

RISK DESCRIPTION

Pursuing 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.

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 specifications planned.
- Geotechnical conditions of the ore body / poor rock quality.
- High costs making it difficult to justify the project.

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.
- Low contractor productivity.

For Orisyvo, the following risks have been identified:

- Rockfalls due to vibrations.
- Contact with articulated heavy equipment and diamond sweeping machines.
- Electrocution from in-mine or surface electrical equipment.
- Hit-and-run incidents involving contractor utility vehicles and heavy equipment.
- Drops in levels and unevenness, both in the mine and on the surface.
- Explosion.

FACTORS CONTRIBUTING TO RISK

- The paperwork and permits stopped for a few months because government offices were closed due to the pandemic.
- 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.

- 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.

CONTROLS, MITIGATING ACTIONS AND OUTLOOK	
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 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.	The executive management team and the Board of Directors are regularly updated on progress. Each advanced exploration project and major capital development project has a risk record containing the project-specific identified and assessed risks. The project development process in 2020 included: • Continuing the construction of the tailing flotation plant (Pyrites plant project). • Continuing to ensure the ability of the second stage of the Fresnillo flotation plant, to manage a higher base metal content. • Continuing the construction of the Juanicipio project. • Continuing the construction of the third tailing dam at La Cienega. • Constructing stage four of the tailing dam at San Julian. • Constructing the 14th leaching pads 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 delays to getting approvals, for example at the Pyrites Plant. Activities were suspended for three months, causing delays to priority projects. 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)
Increasing	2020: High (6) 2019: High (8)

7

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 to us.	• 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 2020, after disinvesting certain areas of mining interest, we maintained 1,446,287 hectares of mining concessions granted. A further 234,403 hectares is in the process of being granted. In total, we have 1,680 million hectares, representing a year-on-year decrease of 28,000 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 2020, 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)
Decreasing	2020: High (7) 2019: Very high (3)

8

CYBERSECURITY

RISK DESCRIPTION	
We 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 cyberattacks from a broad set of groups of attackers, from "hacktivists" and hostile regimes, to organised criminals. Their objectives include a desire to take advantage of mining's role in regional and global supply chains, as well as in national economies. Some groups may also attempt to exploit vulnerabilities created by the industry's heavy reliance on automated operating systems. The following are the top eight cybersecurity and privacy risks that have been identified through workshops with business units, operations, and IT. These risks comprise Peñoles/Fresnillo overall cybersecurity and privacy risk profile: 1. Corruption of data - Critical data where any modification can have adverse impacts .	2. Unauthorised access - Cybersecurity and privacy incidents due to unauthorised people or incorrect access permissions. 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 take 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 cause delay to operations.

FACTORS CONTRIBUTING TO RISK	
• 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).	• Using non-secure means of communication with the company's networks can lead to viruses, data leakage, information theft, malware and ransomware.

CONTROLS, MITIGATING ACTIONS AND OUTLOOK	
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 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	• 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.

awareness of cyber risk and ensure that employees take the appropriate actions. We have invested in global IT security platforms 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. During 2020, we introduced a set of new initiatives to improve our cybersecurity programme, supported by external advisors. The main objective of the programme is to identify and manage cybersecurity risks and align them with our business mission and strategy. In line with best practices, our approach is based on two key frameworks:	Our approach is also based on the MITRE ATT&CK™ which is used as the basis for the development of specific threat models and methodologies in the private sector, government and in the cybersecurity products and services community. A governance model, continuous risk assessment, information security policies, awareness-raising campaigns and training will form the basis of our IT/OT operational guarantee. Our plan for 2021 is to focus our efforts on risk mitigation projects designed to protect key information and assets, in accordance with the risk appetite established by management.

COVID-19 PANDEMIC IMPACT	KEY RISK INDICATORS
With the COVID-19 pandemic, this risk has increased mainly due to “phishing” attacks and the increase in homeworking.	• 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)
Increasing	2020: Medium (8) 2019: Medium (10)

9

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. • Implications of future regulations for our tailings management. • 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 SO2, 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.

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.

CONTROLS, MITIGATING ACTIONS AND OUTLOOK	
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 2020. 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. Herradura, Saucito, Fresnillo and Noche Buena each have an integrated certificate of management. The first two have	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-155SEMARNAT-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.

ISO 9001, 14001 and 4500; Herradura and Noche Buena have SIG ISO 14001 and 45000; Ciénega and San Julián have worked this year to achieve certification (ISO 14001 and 45000). Due to the pandemic, it has not been possible to schedule the audits necessary to define progress in Ciénega and San Julián. Juanicipio is in the process of being certified. In addition, Ciénega, Herradura, Noche Buena, Saucito, San Julián, Juanicipio and Fresnillo are certified according to the standards of the Clean Industry; the first two achieved the badge of environmental excellence issued by the Environmental Protection Attorney's Office (PROFEPA). Our Herradura and Noche Buena leaching operations comply with the Cyanide Code issued by the International Cyanide Code Institute with the respective certification.	In 2020 we launched a number of initiatives to align our governance practices with current best practices. These initiatives included: • Updating the inventory of the tailings dams storage facilities (TSFs) and validating the data log. • Initiating a third-party review programme of dam safety inspections for all TSFs. • Establishing an Independent Queue 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 recent high-profile incidents, such as 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)
Increasing Considering the importance of the tailings dams complex for the company, included this topic in the name of the risk.	2020: Medium (9) 2019: Medium (11)

LINK TO STRATEGY	RISK APPETITE
4	Low

Keep the same order for Change in Heat map, Link to Strategy, Risk rating and Risk appetite to that used in the other risks

10

LICENCE TO OPERATE

RISK DESCRIPTION	
Across the world, public opinion is wary of the potential adverse social and environmental consequences of mining operations. This sentiment can manifest in the form of opposition of communities to mining operations and increased regulatory obligations for mining companies. Media coverage negative to mining or specifically to Fresnillo could impact the granting and maintenance of our social licence in the regions where we have a presence.	We monitor the following risks: • Loss of/threats to our social licence to operate. • Failure to identify and manage local concerns and expectations could negatively impact Fresnillo plc. • Relations with local communities and stakeholders affect our reputation and our social licence to operate and grow. • Neighbouring communities may not provide their support or hinder operations, affecting our social licence. This could include complaints from communities regarding operations such as dust, blasting vibrations, noise, pollution and water use. • Social behaviours or actions by a group of people attempting to promote anti-mining sentiment in the area of influence of the business unit.

FACTORS CONTRIBUTING TO RISK	
• Activism by anti-mining advocacy groups and other grassroots organisations increase the risk of social conflicts, fuelling the public perception against mining. • Insecurity and access to water are the issues of greatest concern to the populations and community leaders of the regions where we have a presence.	• The environmental impact of the mine is also an issue that can concern communities close to our operations.

CONTROLS, MITIGATING ACTIONS AND OUTLOOK	
• *COVID-19 Response:* We have implemented measures to mitigate the health risks to our workforce, engage authorities constructively and support our communities. Our communication campaigns in the media have emphasised our corporate citizenship activities. • *Community Engagement:* We earn and maintain the trust of communities through effective engagement and by being accountable for our impacts. Our community strategy, which embraces all phases of the mining lifecycle, aims to build mutual understanding between our operations and local communities, ensuring that we engage, develop and grow together. Key monitoring and engagement activities include: -Monitoring public opinion within local and international media. -Holding continuous dialogue with our key local stakeholders through formal and informal meetings. -Carrying out social baseline, human rights and perception studies to better understand our positive and negative impacts.	•*Health and Safety performance:* Our goal is to instil a safety culture focused on 'caring for our people', based on shared values across the organisation, driven by senior management and focused on high potential incidents. Our approach to health aims to pre-emptively identify and manage the risks to which our workforce is exposed. •*Sharing the benefits of mining:* In addition to effective stakeholder engagement, sharing the benefits of mining plays an important role in the wellbeing of people. We create value in the regions where we operate in the form of employment, procurement, talent development, strategic community investment and the payment of our fair share of taxes: -Maintaining a Social Investment Portfolio to create long-term value, aligned with the UN Sustainable Development Goals. We have identified four pillars where we can make a real difference: Education, Water, Health & Sports and Capacity Building. -Partnering with non-governmental organisations (NGOs) in these three pillars of social investment: Education (IBBY, INNOVEC & First Robotics), Water (Captar AC) and Health (National University Foundation).

-Operating a grievance mechanism to address stakeholder concerns. -Collaborating with peers in the international and Mexican mining community to promote the benefits of the mining industry and responsible mining practices. -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 insome 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 the social expectations regarding the corporate citizenship of companies. The response of the mining industry to COVID-19 will shape the relationships with stakeholders and the perception of the industry over the next 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)
The “Public perception against mining” and “Community Relations” risks were integrated into this new risk in order to manage risk globally, in the context of community relations and public perception. The aim is to improve the ways in which we implement better mitigation and control actions.	2020: Medium (10)

11

SAFETY

RISK DESCRIPTION	
It is an inherent risk in our industry that incidents due to unsafe acts or conditions could lead to injuries or fatalities. Our 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	
During 2020, there was an increase in the rate of accidents 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.

CONTROLS, MITIGATING ACTIONS AND OUTLOOK	
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 276 high potential incidents (13% more than 2019) 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. - Continuing the implementation of the "I Care, We Care" programme in all our operations, including strengthening the programme's five lines of action. - 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.	- In 2020, we developed the "*Eye at Risk*" programme. Created through teamwork, this aims to develop risk competencies by educating leaders and supervisors. It also encourages coaching and immediate feedback, as well as a comprehensive process of continuous review and improvement. - During the last quarter of 2020, the Chief Executive Officer launched a strategy to intensify the "*I Care, We Care*" programme. This strategy focuses on critical risks, controls and processes preventing 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)
Decreasing	2020: Medium (11) 2019: Very High (5)

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 license 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.

FACTORS CONTRIBUTING TO RISK	
• 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.

CONTROLS, MITIGATING ACTIONS AND OUTLOOK	
• Climate change has formed part of our strategic thinking and investment decisions for over two decades. • We considering the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) about: Governance, Strategy, Risk Management and Metrics and targets.	• 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 have a general understanding we use the outcomes of scenarios built by the Mexican Reports using the

• 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 enhance 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 license to operate. The head of Sustainability and the head of Risks, supports the process to refine the identification and risk assessment of physical and transitional risks.	Global Circulation Models (GCM's) using different Representative Concentration Pathways (RCP's). • In addition, we use Aqueduct, a tool developed by the World Resources Institute (WRI), to better understands water stress under different climate change scenarios in the 2020-2030 period. • 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. • Increasing the supply of the materials essential to building a low-carbon economy. • 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)
Elevate from Emerging Risk	2020: Medium (12)

Statement of Directors' responsibilities

The Directors are responsible for preparing the annual report and the Group and parent company financial statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards (IFRS) pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

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

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

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

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

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

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

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

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

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

Signed for and on behalf of the Board

Charles Jacobs
Senior Independent Director
1 March 2021

Consolidated Income Statement
Year ended 31 December

	Notes	Year ended 31 December 2020 US$ thousands Pre-Silverstream revaluation effect	Silverstream revaluation effect	Total	Year ended 31 December 2019 US$ thousands Pre-Silverstream revaluation effect	Silverstream revaluation effect	Total
Continuing operations:							
Revenues	4	2,430,055		2,430,055	2,119,641		2,119,641
Cost of sales	5	(1,550,689)		(1,550,689)	(1,657,932)		(1,657,932)
Gross profit		**879,366**		**879,366**	**461,709**		**461,709**
Administrative expenses		(93,407)		(93,407)	(96,436)		(96,436)
Exploration expenses	6	(107,328)		(107,328)	(157,913)		(157,913)
Selling expenses		(24,106)		(24,106)	(22,851)		(22,851)
Other operating income	8	9,997		9,997	9,803		9,803
Other operating expenses	8	(14,839)		(14,839)	(22,582)		(22,582)
Profit from continuing operations before net finance costs and income tax		**649,683**		**649,683**	**171,730**		**171,730**
Finance income	9	12,249		12,249	24,176		24,176
Finance costs	9	(141,319)		(141,319)	(70,670)		(70,670)
Revaluation effects of Silverstream contract	13		70,961	70,961		48,376	48,376
Foreign exchange (loss)/gain		(40,321)		(40,321)	5,143		5,143
Profit from continuing operations before income tax		**480,292**	**70,961**	**551,253**	**130,379**	**48,376**	**178,755**
Corporate income tax	10	(119,349)	(21,288)	(140,637)	22,519	(14,513)	8,006
Special mining right	10	(35,037)		(35,037)	19,053		19,053
Income tax	10	(154,386)	(21,288)	(175,674)	41,572	(14,513)	27,059
Profit for the year from continuing operations		**325,906**	**49,673**	**375,579**	**171,951**	**33,863**	**205,814**
Attributable to:							
Equity shareholders of the Company		324,451	49,673	374,124	170,134	33,863	203,997
Non-controlling interest		1,455		1,455	1,817		1,817
		325,906	**49,673**	**375,579**	**171,951**	**33,863**	**205,814**
Earnings per share: (US$)							
Basic and diluted earnings per Ordinary Share from continuing operations	11	-		0.5077	-		0.277
Adjusted earnings per share: (US$)							
Adjusted basic and diluted earnings per Ordinary Share from continuing operations	11	0.4403		-	0.231		-

Consolidated Statement of Comprehensive Income
Year ended 31 December

			Year ended 31 December
	Notes	**2020** **US$ thousands**	2019 US$ thousands
Profit for the year		**375,579**	**205,814**
Other comprehensive income/(expense)			
Items that may be reclassified subsequently to profit or loss:			
Loss/(gain) on cash flow hedges recycled to income statement		(6,509)	5,983
Changes in the fair value of cost of hedges		11,064	(1,280)
Changes in the fair value of cash flow hedges		-	1,454
Total effect of cash flow hedges		**4,555**	**6,157**
Foreign currency translation		(1,217)	545
Income tax effect on items that may be reclassified subsequently to profit or loss:	10	(1,366)	(1,847)
Net other comprehensive income that may be reclassified subsequently to profit or loss:		**1,972**	**4,855**
Items that will not be reclassified to profit or loss:			
Changes in the fair value of cash flow hedges		304	(236)
Total effect of cash flow hedges		**304**	**(236)**
Changes in the fair value of equity investments at FVOCI		89,552	44,805
Remeasurement gains/(losses) on defined benefit plans	21	147	(2,342)
Income tax effect on items that will not be reclassified to profit or loss	10	(26,980)	(12,998)
Net other comprehensive income that will not be reclassified to profit or loss		**63,023**	**29,229**
Other comprehensive income, net of tax		**64,995**	**34,084**
Total comprehensive income for the year, net of tax		**440,574**	**239,898**
Attributable to:			
Equity shareholders of the Company		439,130	238,140
Non-controlling interests		1,444	1,758
		440,574	**239,898**

Consolidated Balance Sheet
As at 31 December

	Notes	2020 US$ thousands	2019 US$ thousands
			As at 31 December
ASSETS			
Non-current assets			
Property, plant and equipment	12	2,708,195	2,813,417
Equity instruments at FVOCI	29	212,576	123,024
Silverstream contract	13	534,697	518,696
Deferred tax asset	10	120,676	110,770
Inventories	14	91,620	91,620
Other receivables	15	-	23,014
Other assets		3,429	3,622
		3,671,193	**3,684,163**
Current assets			
Inventories	14	351,587	272,120
Trade and other receivables	15	512,927	437,642
Income tax recoverable		-	57,124
Prepayments		18,207	18,344
Derivative financial instruments	29	6,290	2,623
Silverstream contract	13	41,443	22,558
Cash and cash equivalents	16	1,070,415	336,576
		2,000,869	**1,146,987**
Total assets		**5,672,062**	**4,831,150**
EQUITY AND LIABILITIES			
Capital and reserves attributable to shareholders of the Company			
Share capital	17	368,546	368,546
Share premium	17	1,153,817	1,153,817
Capital reserve	17	(526,910)	(526,910)
Hedging reserve	17	(4,300)	139
Cost of hedging reserve	17	8,664	918
Fair value reserve of financial assets at FVOCI	17	117,420	54,734
Foreign currency translation reserve	17	(1,467)	(250)
Retained earnings	17	2,363,275	2,093,666
		3,479,045	3,144,660
Non-controlling interests		135,559	134,059
Total equity		**3,614,604**	**3,278,719**

Consolidated Balance Sheet
As at 31 December

			As at 31 December
	Notes	**2020 US$ thousands**	2019 US$ thousands
Non-current liabilities			
Interest-bearing loans	19	1,156,670	801,239
Lease liabilities	24	7,697	8,009
Provision for mine closure cost	20	245,688	231,056
Pensions and other post-employment benefit plans	21	11,977	10,704
Deferred tax liability	10	295,595	321,347
		1,717,627	**1,372,355**
Current liabilities			
Trade and other payables	22	225,208	159,768
Income tax payable		88,066	3,991
Derivative financial instruments	29	-	1,789
Lease liabilities	24	5,048	4,535
Employee profit sharing		21,509	9,993
		339,831	**180,076**
Total liabilities		**2,057,458**	**1,552,431**
Total equity and liabilities		**5,672,062**	**4,831,150**

These financial statements were approved by the Board of Directors on 1 March 2021 and signed on its behalf by:

Mr Juan Bordes
Non-executive Director
1 March 2021

Consolidated Statement of Cash Flows
Year ended 31 December

		Year ended 31 December	
	Notes	**2020 US$ thousands**	2019 US$ thousands
Net cash from operating activities	28	**917,685**	**435,909**
Cash flows from investing activities			
Purchase of property, plant and equipment	3	(412,326)	(559,264)
Proceeds from the sale of property, plant and equipment and other assets		266	1,309
Proceeds from Silverstream contract	13	33,710	24,303
Interest received		12,249	24,176
Net cash used in investing activities		**(366,101)**	**(509,476)**
Cash flows from financing activities			
Proceeds from Note payable[1]		63,669	-
Principal element of lease payments	24 (a)	(5,780)	(4,681)
Dividends paid to shareholders of the Company[2]	18	(104,686)	(142,179)
Capital contribution[3]		53	53,256
Proceeds from the issuance of interest-bearing loans	19	828,325	-
Repayment of interest-bearing loans	19	(542,956)	-
Interest paid[4]	19	(59,891)	(57,069)
Net cash generated from (used in) financing activities		**178,734**	**(150,673)**
Net increase (decrease) in cash and cash equivalents during the year		730,318	(224,240)
Effect of exchange rate on cash and cash equivalents		3,521	31
Cash and cash equivalents at 1 January		336,576	560,785
Cash and cash equivalents at 31 December	16	**1,070,415**	**336,576**

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.

3 Corresponds to capital contribution from non-controlling interest.

4 Total interest paid during the year ended 31 December 2020 less amounts capitalised totalling US$8.8 million (31 December 2019: US$6.1 million) which were included within the caption Purchase of property, plant and equipment.

Consolidated Statement of Changes in Equity
Year ended 31 December

		Attributable to the equity holders of the Company										
	Notes	**Share capital**	**Share premium**	**Capital reserve**	**Hedging reserve**	**Cost of hedging reserve**	**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 2019		**368,546**	**1,153,817**	**(526,910)**	**(229)**	**(2,374)**	**23,370**	**(795)**	**2,033,860**	**3,049,285**	**78,968**	**3,128,253**
Profit for the year		-	-	-	-	-	-	-	203,997	203,997	1,817	205,814
Other comprehensive income, net of tax		-	-	-	912	3,292	31,364	545	(1,970)	34,143	(59)	34,084
Total comprehensive income for the year		-	-	-	912	3,292	31,364	545	202,027	238,140	1,758	239,898
Hedging loss transferred to the carrying value of PPE purchased during the year					(544)					(544)	77	(467)
Capital contribution		-	-	-	-	-	-	-	-	-	53,256	53,256
Dividends declared and paid	18	-	-	-	-	-	-	-	(142,221)	(142,221)	-	(142,221)
Balance at 31 December 2019		**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		-	-	-	(4,333)	7,746	62,686	(1,217)	124	65,006	(11)	64,995
Total comprehensive income for the year		-	-	-	(4,333)	7,746	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)**	**4,300**	**8,664**	**117,420**	**(1,467)**	**2,363,275**	**3,479,045**	**135,559**	**3,614,604**

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 2020 were authorised for issue by the Board of Directors of Fresnillo plc on 1 March 2021.

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 International Financial Reporting Standards (IFRS) as adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union as they apply to the financial statements of the Group for the years ended 31 December 2020 and 2019, 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 2020 and 2019, 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 2019.

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 accounting policies, financial position or performance of the Group except for the corresponding to IAS 16 Property, Plant and Equipment which prohibits the deduction of any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management from the cost of an item of property, plant and equipment. An entity instead recognises the proceeds from selling such items and related cost of production in profit or loss. The amendment is effective for annual periods beginning on or after 1 January 2023. The amendments will apply retrospectively only to items of property, plant and equipment (PP&E) that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after the beginning of the earliest period presented in the financial statements in which the Group first applies the amendments. The items of PP&E within the transition scope, and therefore the impact of adopting this amendment, are not yet known.

The Group has not early adopted any standard, interpretation or amendment that was issued but is not yet effective.

(c) Significant accounting judgments, estimates and assumptions

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

Judgements

Areas of judgement, apart from those involving estimations, that have the most significant effect on the amounts recognised in the consolidated financial statements for the year ended 31 December 2020 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. 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 2020 or 31 December 2019.

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.

In 2017, the Group decided that it would construct a new leaching pad in a separate area of the Herradura mine with all ore since July 2019 being deposited on the new pad area.. To reduce the hauling distance from the pit to the new pad, the Group constructed an access route through certain existing leaching pads, removing and redepositing the ore in the process. These works allowed the Group to perform assays and verify certain characteristics of the ore, including the humidity of the ore deposited and the grade of gold in solution. .

The Group continues reviewing the metallurgical balancing of the pads to assess the grade and recovery of the ore in inventories. The analysis of the operational performance of the pads yielded new information about the estimated recovery percentage. Based on the new information the Group updated its estimate of the remaining gold content in leaching increasing this by 119.3 thousand ounces of gold as at 1 January 2020.

This change in estimation was incorporated prospectively in inventory from 1 January 2020. The increase in the number of ounces reduced the weighted average cost of inventory. Had the estimation not changed, production cost during the year ended 31 December 2020 would have been US$86.1 million higher, with an offsetting impact against the work-in-progress inventory balance as of 31 December 2020..

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 2020, the Group has taken a number of measures to safeguard the health of its employees and their local communities while continuing to operate safely and responsibly. The Group acted in compliance with government-ordered restrictions, resulting in operations being temporarily suspended in Minera Penmont, all other mines have operated at normal production capacity. The Group incurred on US$19.4 million on temporary suspension, standby and other production costs. These costs are associated with placing Penmont mines in care and the subsequent ramp-up of operations, and the underutilisation of production capacity to the pre-COVID-19 operating activity. These production costs are presented as unabsorbed production cost in cost of sales. In addition, the Group incurred other production costs of US4.5 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 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 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 indications of impairment. If there are indicators of impairment, an exercise is undertaken to determine whether carrying values are in excess of their recoverable amount. Such reviews are undertaken on an asset by asset basis, except where such assets do not generate cash flows independent of those from other assets or groups of assets, and then the review is undertaken at the cash generating unit level.

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

The recoverable amount of an asset
The recoverable amount of an asset is the greater of its value in use and fair value less costs of disposal. In assessing value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. 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 on the basis of 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 2020 and 2019 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 taking into account 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.

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. From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

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.

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 on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above. Further information on fair values is described in note 29.

(u) Dividend distribution

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

3. Segment reporting

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

At 31 December 2020, the Group has seven reportable operating segments as follows:

The Fresnillo mine, located in the state of Zacatecas, an underground silver mine;

The Saucito mine, located in the state of Zacatecas, an underground silver mine;

The Ciénega mine, located in the state of Durango, an underground gold mine; including the San Ramon satellite mine (closed at the end of 2020);

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 2020 and 2019, 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 2020 and 2019, respectively. Revenues for the year ended 31 December 2020 and 2019 include those derived from contracts with costumers and other revenues, as showed in note 4.

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.

Year ended 31 December 2019

US$ thousands	Fresnillo	Herradura	Cienega	Saucito	Noche Buena	San Julian	Other[4]	Adjustments and eliminations	Total
Revenues:									
Third party[1]	316,214	692,444	189,441	439,170	176,291	312,065		(5,984)	2,119,641
Inter-Segment							94,967	(94,967)	-
Segment revenues	**316,214**	**692,444**	**189,441**	**439,170**	**176,291**	**312,065**	**94,967**	**(100,951)**	**2,119,641**
Segment Profit[2]	**164,570**	**218,661**	**84,926**	**238,133**	**58,295**	**128,221**	**66,547**	**965**	**960,318**
Depreciation and amortisation									(489,529)
Employee profit sharing									(9,079)
Gross profit as per the income statement									**461,709**
Capital expenditure[3]	172,846	37,520	58,220	126,384	5,709	65,325	93,260	-	559,264

1 Total third party revenues include treatment and refining charges amounting US$144.6 million. Adjustments and eliminations correspond to hedging gains (note 4).

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

3 Capital expenditure represents the cash outflow in respect of additions to property, plant and equipment, including mine development, construction of leaching pads, 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; 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	
	2020 US$ thousands	2019 US$ thousands
Revenues from contracts with customers	2,425,098	2,125,962
Revenues from other sources:		
Provisional pricing adjustment on products sold	2,594	(337)
Hedging gain/(loss) on sales	2,363	(5,984)
	2,430,055	**2,119,641**

(b) Revenues by product sold

	Year ended 31 December	
	2020 US$ thousands	2019 US$ thousands
Lead concentrates (containing silver, gold, lead and by-products)	989,072	812,933
Doré and slag (containing gold, silver and by-products)	800,326	853,589
Zinc concentrates (containing zinc, silver and by-products)	236,758	220,023
Precipitates (containing gold and silver)	275,367	227,796
Activated carbon (containing gold, silver and by-products)	128,532	5,300
	2,430,055	**2,119,641**

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	
	2020 US$ thousands	2019 US$ thousands
Silver	970,532	776,784
Gold	1,328,000	1,183,116
Zinc	204,733	202,281
Lead	107,272	102,058
Value of metal content in products sold	2,610,537	2,264,239
Adjustment for treatment and refining charges	(180,482)	(144,598)
Total revenues[1.]	**2,430,055**	**2,119,641**

1 Includes provisional price adjustments which represent changes in the fair value of trade receivables resulting in a gain of US$2.6 million (2019: loss of US$0.3 million) and hedging gain of US$2.3 million (2019: loss of US$6.0 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	
	2020 **US$ per ounce**	2019 US$ per ounce
Gold[2]	1,792.44	1,418.0
Silver[2]	21.28	16.1

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	
	2020 **US$ thousands**	2019 US$ thousands
Depreciation and amortisation (note 12)	505,377	489,529
Personnel expenses (note 7)	116,103	110,704
Maintenance and repairs	175,087	189,042
Operating materials	203,217	233,159
Energy	189,239	219,531
Contractors	357,278	363,737
Mining concession rights and contributions	20,409	12,910
Freight	8,037	10,613
Surveillance[1]	7,028	8,491
Insurance	7,141	5,819
Other	18,212	25,503
Cost of production	1,607,128	1,669,038
Unabsorbed production costs[2]	19,403	-
Gain on foreign currency hedges	(4,145)	-
Change in work in progress and finished goods (ore inventories)[3]	(71,698)	(11,106)
	1,550,689	**1,657,932**

1 Figures corresponding to the year 2019 have been reclassified from “Other” to be consistent with the presentation in the current year.

2 Corresponds to production cost incurred in Minera Penmont as a result of the operational impact related to COVID-19, see note 2 c). Main unabsorbed production cost include US$9.1 million of depreciation and amortisation and US$3.1 million of Contractors.

3 Refer to note 2 (c) for more detail related to change in work in progress inventories for the year ended 31 December 2020 following a change in estimation.

6. Exploration expenses

	Year ended 31 December	
	2020 US$ thousands	2019 US$ thousands
Contractors	71,279	116,207
Mining concession rights and contributions	21,099	22,243
Administrative services	6,052	6,885
Personnel expenses (note 7)	2,753	3,731
Assays	1,299	1,815
Rentals	457	1,135
Other	4,389	5,897
	107,328	**157,913**

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$10.4 million (2019: US$14.9 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	
	2020 US$ thousands	2019 US$ thousands
Liabilities related to exploration activities	666	106

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	
	2020 US$ thousands	2019 US$ thousands
Operating cash out flows related to exploration activities	106,768	157,919

7. Personnel expenses

	Year ended 31 December	
	2020 US$ thousands	2019 US$ thousands
Salaries and wages	54,202	55,156
Employees' profit sharing	19,275	9,578
Bonuses	12,770	13,892
Statutory healthcare and housing contributions	20,441	20,304
Other benefits	13,233	13,622
Post-employment benefits	5,944	5,582
Vacations and vacations bonus	3,420	4,262
Social security	3,084	2,490
Training	3,080	3,210
Legal contributions	2,101	2,476
Other	4,070	5,729
	141,620	**136,301**

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

	Year ended 31 December	
	2020 US$ thousands	2019 US$ thousands
Cost of sales (note 5)	116,103	110,704
Administrative expenses	22,764	21,866
Exploration expenses (note 6)	2,753	3,731
	141,620	**136,301**

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

	Year ended 31 December	
	2020 No.	2019 No.
Mining	2,222	2,334
Plant	926	869
Exploration	403	468
Maintenance	1,255	1,115
Administration and other	1,010	897
Total	**5,816**	**5,683**

8. Other operating income and expenses

	Year ended 31 December	
	2020 US$ thousands	2019 US$ thousands
Other income:		
Insurance recovery[1]	2,738	6,494
Rentals	1,278	829
Other	5,981	2,480
	9,997	**9,803**

	Year ended 31 December	
	2020 US$ thousands	2019 US$ thousands
Other expenses:		
Loss on sale of property, plant and equipment	700	4,866
Loss on theft of inventory	1,477	4,935
Maintenance[2]	3,692	1,423
Donations	387	1,137
Environmental activities	768	2,641
Real property transfer tax	-	1,156
Consumption tax expensed	-	853
Other	7,815	5,571
	14,839	**22,582**

1 Corresponds to the insurance claim relating to the theft of doré at Minera Penmont less its corresponding production cost (2019: Insurance claim corresponding the theft of doré at Minera Penmont less its corresponding production cost).

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

9. Finance income and finance costs

	Year ended 31 December	
	2020 **US$ thousands**	2019 US$ thousands
Finance income:		
Interest on short-term deposits and investments	4,606	11,356
Interest on tax receivables	7,642	12,814
Fair value movement on derivatives	1	-
Other	-	6
	12,249	**24,176**

	Year ended 31 December	
	2020 **US$ thousands**	2019 US$ thousands
Finance costs:		
Interest on interest-bearing loans	43,542	41,263
Premium paid on early notes redemption (Note 19)	60,835	-
Interest on tax amendments (Note 10)	24,890	16,224
Interest on lease liabilities	644	642
Unwinding of discount on provisions	10,755	11,809
Other	653	732
	141,319	**70,670**

10. Income tax expense

a) Major components of income tax expense:

	Year ended 31 December	
	2020 US$ thousands	2019 US$ thousands
Consolidated income statement:		
Corporate income tax		
Current:		
Income tax charge	208,370	112,002
Amounts under provided in previous years	(67)	36,509
	208,303	148,511
Deferred:		
Origination and reversal of temporary differences	(88,954)	(171,030)
Revaluation effects of Silverstream contract	21,288	14,513
	(67,666)	(156,517)
Corporate income tax	**140,637**	**(8,006)**
Special mining right		
Current:		
Special mining right charge (note 10 (e))	24,739	3,880
Amounts under provided in previous years	6,602	6,663
	31,341	10,543
Deferred:		
Origination and reversal of temporary differences	3,696	(29,596)
Special mining right	**35,037**	**(19,053)**
Income tax expense reported in the income statement	**175,674**	**(27,059)**

	Year ended 31 December	
	2020 US$ thousands	2019 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	1,953	(1,795)
Changes in fair value of cash flow hedges	(91)	(436)
Changes in the fair value of cost of hedges	(3,320)	384
Changes in fair value of equity investments at FVOCI	(26,866)	(13,441)
Remeasurement losses on defined benefit plans	(23)	372
Income tax effect reported in other comprehensive income	**(28,347)**	**(14,845)**

In light of guidance issued by the Mexican Tax Administration Service (Servicio de Administración Tributaria or “SAT”) relating to certain mining investments and following conversations held by the Company with the SAT regarding its income tax audits for the year 2013 at Minera Saucito and Minera Fresnillo, the Group decided to voluntarily amend the income tax treatment of: (i) the inter-company sale/purchase of mining concessions; (ii) mining works disbursements; and (iii) the deduction of mining works disbursements for the determination of the Special Mining Rights. None of these were explicitly dealt with in Mexican tax law previously.

These amendments were applied from 2013 to 2019 for all its underground operations and resulted in an increase in the current corporate income tax charge of US$29.2 million and current special mining right charge of US$8.4 million; this effect was offset by a decrease in deferred corporate income tax of US$29.2 million. The amendment also resulted in US$25.0 million of interest and surcharges, presented in finance costs and US$1.2 million of penalties presented in other expenses].

(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	
	2020 **US$ thousands**	2019 US$ thousands
Accounting profit before income tax	**551,253**	**178,756**
Tax at the Group’s statutory corporate income tax rate 30.0%	165,376	53,627
Expenses not deductible for tax purposes	2,921	2,934
Inflationary uplift of the tax base of assets and liabilities	(22,972)	(17,229)
Current income tax (over)/underprovided in previous years	44	(275)
Effect of conclusive agreement	-	(5,084)
Exchange rate effect on tax value of assets and liabilities[1]	55,110	(37,101)
Non-taxable/non-deductible foreign exchange effects	(16,923)	3,982
Inflationary uplift of tax losses	(1,170)	(1,439)
Inflationary uplift on tax refunds	(2,077)	(3,867)
Incentive for Northern Border Zone	(35,810)	(6,417)
IEPS tax credit (note 10 (e))	-	(9,975)
Deferred tax asset not recognised	4,916	6,688
Special mining right taxable/(deductible) for corporate income tax	(10,488)	5,718
Other	1,710	432
Corporate income tax at the effective tax rate of 25.5% (2019: (4.5)%)	**140,637**	**(8,006)**
Special mining right	35,037	(19,053)
Tax at the effective income tax rate of 31.9% (2019: (15.1)%)	**175,674**	**(27,059)**

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	
	2020 US$ thousands	2019 US$ thousands
Opening net liability	(210,577)	(382,042)
Income statement credit arising on corporate income tax	67,666	156,518
Income statement (charge)/credit arising on special mining right	(3,696)	29,596
Exchange difference	35	196
Net charge related to items directly charged to other comprehensive income	(28,347)	(14,845)
Closing net liability	**(174,919)**	**(210,577)**

The amounts of deferred income tax assets and liabilities as at 31 December 2020 and 2019, considering the nature of the related temporary differences, are as follows:

	Consolidated balance sheet		Consolidated income statement	
	2020 US$ thousands	2019 US$ thousands	**2020 US$ thousands**	2019 US$ thousands
Related party receivables	(266,986)	(201,481)	65,505	(18,650)
Other receivables	(3,292)	(4,375)	(1,083)	5,690
Inventories	231,584	185,012	(46,572)	3,107
Prepayments	(1,833)	(1,041)	792	6
Derivative financial instruments including Silverstream contract	(170,122)	(158,243)	10,422	6,262
Property, plant and equipment arising from corporate income tax	(116,051)	(179,117)	(63,066)	(151,605)
Exploration expenses and operating liabilities	61,099	66,275	5,176	(15,584)
Other payables and provisions	73,706	69,317	(4,390)	(12,014)
Losses carried forward	75,043	53,002	(22,041)	14,057
Post-employment benefits	1,904	1,702	(225)	(315)
Deductible profit sharing	6,453	2,998	(3,455)	809
Special mining right deductible for corporate income tax	21,655	18,077	(3,578)	11,244
Equity investments at FVOCI	(35,944)	(9,236)	(157)	(695)
Other	(341)	(5,369)	(4,994)	1,171
Net deferred tax liability related to corporate income tax	(123,125)	(162,479)		
Deferred tax credit related to corporate income tax	-	-	(67,666)	(156,517)
Related party receivables arising from special mining right	(28,781)	(22,518)	6,263	2,357
Inventories arising from special mining right	16,896	17,083	187	(3,337)
Property plant and equipment arising from special mining right	(39,913)	(42,663)	(2,750)	(28,616)
Other	4	-	(4)	-
Net deferred tax liability	**(174,919)**	**(210,577)**		
Deferred tax credit			**(63,970)**	**(186,113)**
Reflected in the statement of financial position as follows:				
Deferred tax assets	120,676	110,770		
Deferred tax liabilities-continuing operations	(295,595)	(321,347)		
Net deferred tax liability	**(174,919)**	**(210,577)**		

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

On the basis of management's internal forecast, a deferred tax asset has been recognised in respect of tax losses amounting to US$248.4 million (2019: US$176.7 million). If not utilised, US$12.7 million (2019: US$21.2 million) will expire within five years and US$235.7 million (2019: US$155.5 million) will expire between six and ten years. At entity level deferred tax asset amounting to US31.2 million is cover by a deferred tax liability position, the remaining US$43.3 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$64.6 million (2019: US$59.7 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 are expected to reverse in the foreseeable future. The temporary differences for which a deferred tax liability has not been recognised aggregate to US$1,797 million (2019: US$1,619 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.

Until 2019 the Mexican Internal Revenue Law granted to taxpayers a credit in respect of an excise tax (Special Tax on Production and Services, or IEPS for its acronym in Spanish) paid when purchasing diesel used for general machinery and certain mining vehicles. The credit could be applied against the annual corporate income tax. The credit was calculated on an entity-by-entity basis. During the year ended 31 December 2019, the Group applied a credit of US$9.9 million in respect of the year. As the IEPS deduction was itself taxable, the benefit was recognised at 70% of the IEPS calculated during the year. The net amount applied by the Group is presented in the reconciliation of the effective tax rate in note 10(b).

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. The SMR allows as a credit the 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 2020, the Group credited US$21.3 million (2019: US$14.7 million) of mining concession rights against the SMR. Total mining concessions rights paid during the year were US$21.3 million (2019: US$21.1 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 credit would have been US$46.1 million (2019: US$18.6 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 2020 and 2019, earnings per share have been calculated as follows:

	Year ended 31 December	
	2020 US$ thousands	2019 US$ thousands
Earnings:		
Profit from continuing operations attributable to equity holders of the Company	374,124	203,997
Adjusted profit from continuing operations attributable to equity holders of the Company	324,451	170,134

Adjusted profit is profit as disclosed in the Consolidated Income Statement adjusted to exclude revaluation effects of the Silverstream contract of US$71.0 million gain (US$49.7 million net of tax) (2019: US$48.4 million gain (US$33.9 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.

	2020 thousands	2019 thousands
Number of shares:		
Weighted average number of Ordinary Shares in issue	736,894	736,894

	2020 US$	2019 US$
Earnings per share:		
Basic and diluted earnings per share	0.507	0.277
Adjusted basic and diluted earnings per Ordinary Share from continuing operations	0.440	0.231

12. Property, plant and equipment

						Year ended 31 December 2019[3]
	Land and buildings	**Plant and Equipment**	**Mining properties and development costs**	**Other assets**	**Construction in Progress**	**Total**
						US$ thousands
Cost						
At 31 December 2018	283,299	2,132,603	2,176,404	276,731	498,168	**5,367,205**
Effect of adoption IFRS 16	3,550	-	-	7,749	-	**11,299**
At 1 January 2019	286,849	2,132,603	2,176,404	284,480	498,168	**5,378,504**
Additions	1,209	25,219	2,623	40,786[2]	536,374	**606,211**
Disposals	(106)	(52,979)	(51,123)	(4,675)	-	**(108,883)**
Transfers and other movements	35,616	166,267	193,945	8,938	(404,766)	**-**
At 31 December 2019	323,568	2,271,110	2,321,849	329,529	629,776	**5,875,832**
Accumulated depreciation						
At 1 January 2019	(136,178)	(1,208,504)	(1,204,839)	(124,580)	-	**(2,674,101)**
Depreciation for the year[1]	(26,219)	(184,616)	(253,044)	(27,119)	-	**(490,998)**
Disposals	69	47,311	51,102	4,202	-	**102,684**
At 31 December 2019	(162,328)	(1,345,809)	(1,406,781)	(147,497)	-	**(3,062,415)**
Net Book amount at 31 December 2019	161,240	925,301	915,068	182,032	629,776	**2,813,417**

	Land and buildings	Plant and Equipment	Mining properties and development costs	Other assets	Construction in Progress	Total
						Year ended 31 December 2020[3]
						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[4]	170,846	845,067	836,379	178,868	677,035	**2,708,195**

1 Depreciation for the year includes US$515.9 million (2019: US$490.7 million) recognised as an expense in the income statement and US$1.7 million (2019: US$0.3 million), capitalised as part of construction in progress.

2 From the additions in "other assets" category US$3.9 million (2019: US$29.4 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 PP&E related to Soledad & Dipolos at 31 December 2020 is US$35.9 million (2019: US$37.2 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	
	2020 **US$ thousands**	2019 US$ thousands
Saucito	45,845	75,346
Herradura	55,120	53,388
Noche Buena	10,069	10,682
Ciénega	56,032	57,214
Fresnillo	154,276	141,166
San Julián	20,801	41,158
Juanicipio	320,306	231,105
Other[1]	14,586	19,717
	677,035	**629,776**

1 Mainly corresponds to Minera Bermejal, S.A. de C.V. (2019: Minera Bermejal, S.A. de C.V.).

During the year ended 31 December 2020, the Group capitalised US$8.8 million of borrowing costs within construction in progress (2019: US$6.1 million). Borrowing costs were capitalised at the rate of 5.02% (2019: 5.78%).

Sensitivity analysis

As at 31 December 2020 and 2019, the carrying amount of mining assets was fully supported by the higher of value in use and fair value less cost of disposal (FVLCD) computation of their recoverable amount. Value in use and FVLCD was determined based on the net present value of the future estimated cash flows expected to be generated from the continued use of the CGUs. For both valuation approaches management used long term price assumptions of US$1,580/ounce and US$20.2/ounce (2019: US$1,370/ounce and US$18.7/ounce) for gold and silver, respectively. Management considers that the models supporting the carrying amounts are most sensitive to commodity price assumptions and have therefore performed a sensitivity analysis for those CGUs, where a reasonably possible change in prices could lead to impairment. Management has considered a low sensitivity by decreasing gold and silver prices by 10% and 25% respectively (2019: gold and silver 5%) and a high sensitivity by decreasing gold and silver prices by 20% and 45% respectively (2019: gold and silver 10% and 15% respectively). As at 31 December 2020 the analysis resulted in an impairment on Herradura of US$43.2 million (2019:US$356.4 million) under high sensitivity; US$nil (2019: US$127.4 million) under low sensitivity; San Julian US$401.0 million (2019: US$121.6 million) under high sensitivity; US$199.8 million (2019: US$109.7 million) under low sensitivity; Cienega US$129.1 million (2019: US$nil) under high sensitivity; US$nil (2019: US$nil) under low sensitivity; Fresnillo US$77.6 million (2019: US$nil) under high sensitivity; US$nil (2019: US$nil) under low sensitivity and Noche Buena US$23.7 million (2019: US$nil) under high sensitivity; US$8.6 million (2019: US$nil) under low sensitivity.

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 2020 was $5.37 per ounce (2019: $5.31 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 2020 the weighted average rate applied for the purposes of the valuation model was 7.43% (2019: 6.57%).

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 34 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 2020 total proceeds received in cash were US$33.7 million (2019: US$24.3 million) of which, US5.2 million was in respect of proceeds receivable as at 31 December 2019 (2018: US$3.3 million). Cash received in respect of the year of US$28.4 million (2019: US$20.9 million) corresponds to 2.3 million ounces of payable silver (2019: 2.3 million ounces). As at 31 December 2020, a further US$7.6 million (2019: US$5.2 million) of cash receivable corresponding to 362,295 ounces of silver is due (2019: 414,963 ounces).

The US$71.0 million unrealised gain recorded in the income statement (31 December 2019: US$48.4 million gain) resulted mainly from the decrease in the LIBOR reference rate, the unwinding of the discount and the increase in the forward silver price curve which were partially offset by the updating of the Sabinas Reserves and Resources, inflation and exchange rate forecasts.

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

	2020 US$ thousands	2019 US$ thousands
Balance at 1 January	541,254	519,093
Cash received in respect of the year	(28,427)	(20,932)
Cash receivable	(7,648)	(5,283)
Remeasurement gains recognised in profit and loss	70,961	48,376
Balance at 31 December	**576,140**	**541,254**
Less – Current portion	**41,443**	**22,558**
Non-current portion	**534,697**	**518,696**

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	
	2020 US$ thousands	2019 US$ thousands
Finished goods[1]	28,925	12,154
Work in progress[2]	305,888	252,639
Ore stockpile[3]	414	-
Operating materials and spare parts	113,111	103,740
	448,338	368,533
Allowance for obsolete and slow-moving inventories	(5,131)	(4,793)
Balance as 31 December at lower of cost and net realisable value	**443,207**	**363,740**
Less - Current portion	**351,587**	**272,120**
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 stoked to 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$1,550.7 million (2019: US$1,657.3 million) before changes to the net realisable value of inventory. During 2020 and 2019, 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$0.3 million (2019: US$1.3 million).

15. Trade and other receivables

	Year ended 31 December	
	2020 US$ thousands	2019 US$ thousands
Trade receivables from related parties (note 26)	326,833	206,982
Value Added Tax receivable	167,957	205,232
Other receivables from related parties (note 26)	8,176	7,988
Other receivables from contractors	1,918	2,418
Other receivables	8,545	15,791
	513,429	438,411
Expected credit loss of 'Other receivables'	(502)	(769)
Trade and other receivables classified as current assets	**512,927**	**437,642**
Other receivables classified as non-current assets:		
Value Added Tax receivable	-	23,014
	-	**23,014**
	512,927	**460,656**

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$339.6million (2019: US$219.6 million), and in Mexican pesos US$173.2 million (2019: US$241.0 million).

Balances corresponding to Value Added Tax receivables and US$8.5 million within Other receivables (2019:US$15.8) are not financial assets.

As of 31 December for each year presented, with the exception of 'other receivables' in the table above, all trade and other receivables were neither past due nor credit-impaired. The amount past due and considered as credit-impaired as of 31 December 2020 is US$0.5 million (2019: US$0.8 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	
	2020 US$ thousands	2019 US$ thousands
Cash at bank and on hand	1,955	3,347
Short-term deposits	1,068,460	333,229
Cash and cash equivalents	**1,070,415**	**336,576**

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	
		2020		2019
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 2019	736,893,589	$368,545,586	50,000	£50,000
At 31 December 2019	736,893,589	$368, 545,586	50,000	£50,000
At 31 December 2020	736,893,589	$368, 545,586	50,000	£50,000

As at 31 December 2020 and 2019, 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 2020 and 2019 are as follows:

	US cents per Ordinary Share	Amount US$ thousands
Year ended 31 December 2020		
Final dividend for 2019 declared and paid during the year[1]	11.90	87,690
Interim dividend for 2020 declared and paid during the year[2]	2.30	16,949
	14.20	**104,639**
Year ended 31 December 2019		
Final dividend for 2018 declared and paid during the year[3]	16.70	123,061
Interim dividend for 2019 declared and paid during the year[4]	2.60	19,160
	19.30	**142,221**

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

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

3 This dividend was approved by the Shareholders on 21 May 2019 and paid on 24 May 2019.

4 This dividend was approved by the Board of Directors on 24 July 2019 and paid on 6 September 2019.

The directors have proposed a final dividend of US$23.5 cents per share, which is subject to approval at the annual general meeting and is not recognised as a liability as at 31 December 2020. 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 of4.250% 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	
	2020 US$ thousands	2019 US$ thousands
Opening balance	801,239	800,127
Issuance of 4.250% senior notes due 2050[1]	828,325	-
Repayments of 5.500% senior notes due 2023	(482,121)	-
Accrued interest	48,873	46,267
Interest paid[2]	(43,144)	(46,267)
Amortisation of discount and transaction costs	3,498	1,112
Closing balance	1,156,670	801,239

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 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, and the discount, foreign exchange and inflation rates applied.

The Group has performed separate calculations of the provision by currency, discounting at corresponding rates. As at 31 December 2020, the discount rates used in the calculation of the parts of the provision that relate to Mexican pesos range from 4.35% to 8.12% (2019: range of 6.83% to 7.47%). The range for the current year parts that relate to US dollars range from 0.07% to 1.16% (2019: range of 1.43% to 1.82%).
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 2020 (2 to 29 years from 31 December 2019). As at 31 December 2020 the weighted average term of the provision is 12 years (2019: 13 years)

	As at 31 December	
	2020 US$ thousands	2019 US$ thousands
Opening balance	**231,056**	**189,842**
Increase (decrease) to existing provision	8,351	(4,215)
Effect of changes in discount rate	3,896	27,961
Unwinding of discount rate	10,801	11,848
Payments	(817)	(24)
Foreign exchange	(7,599)	5,644
Closing balance	**245,688**	**231,056**

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 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)

		Pension cost charge to income statement					Remeasurement gains/(losses) in OCI								
	Balance at 1 January 2019	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 2019
															US$ thousands
Defined benefit obligation	(25,721)	(975)	(1,857)	(1,183)	(4,015)	708	-	-	(2,562)	46	-	(2,516)	-	250	(31,294)
Fair value of plan assets	19,328		1,334	866	2,200	(708)	174	-	-	-	-	174	-	(404)	20,590
Net benefit liability	(6,393)	(975)	(523)	(317)	(1,815)	-	174	-	(2,562)	46		(2,342)	-	(154)	(10,704)

Of the total defined benefit obligation, US$9.6 million (2019: US$9.2 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	
	2020 **%**	2019 %
Discount rate	7.09	7.24
Future salary increases (NCPI)	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 23.4 and 26.9 years respectively (2019: 23.2 years for men and 26.7 for women). The weighted average duration of the defined benefit obligation is 12.5 years (2019: 11.3 years).

The fair values of the plan assets were as follows:

	As at 31 December	
	2020 **US$ thousands**	2019 US$ thousands
Government debt	-	61
State owned companies	3,756	4,907
Mutual funds (fixed rates)	15,625	15,622
	19,381	**20,590**

As at 31 December 2020 and 2019, 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 2020 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)	(1,261)	1,900	(512)	(852)	522

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	
	2020 **US$ thousands**	2019 US$ thousands
Trade payables	86,838	107,222
Note payable[1]	64,425	-
Other payables to related parties (note 26)	19,629	17,899
Accrued expenses	16,368	18,410
Other taxes and contributions	37,948	16,237
	225,208	**159,768**

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

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	
	2020 US$ thousands	2019 US$ thousands
Saucito	30,922	36,743
Herradura	23,635	9,864
Noche Buena	373	252
Ciénega	9,304	6,743
Fresnillo	25,256	58,109
San Julián	3,051	5,516
Juanicipio	192,038	84,609
	284,579	**201,836**

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 2020 US$ thousands	31 December 2019 US$ thousands
IT equipment	9,779	9,514
Buildings	2,966	3,030
Total lease liability	**12,745**	**12,544**
Less - Current portion	**5,048**	**4,535**
Non-current portion	**7,697**	**8,009**

The total cash outflow for leases for the year ended 31 December 2020, except short term and low value leases, amount US$5.8 million (2019: US$4.7 million).

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

	Year ended 31 December 2020		
	Building	**Computer equipment**	**Total**
			US$ thousands
Cost			
At 1 January 2020	3,580	13,247	16,827
Additions	1,436	7,256	8,692
Disposals	(1,015)	(2,976)	(3,991)
At 31 December 2020	4,001	17,527	21,528
Accumulated depreciation			
At 1 January 2020	(686)	(3,968)	(4,654)
Depreciation for the year	(743)	(4,979)	(5,722)
Disposals	370	891	1,261
At 31 December 2020	(1,059)	(8,056)	(9,115)
Net Book amount at 31 December 2020	**2,942**	**9,471**	**12,413**

Amounts recognized in profit and loss for the year, additional to depreciation of right-of-use assets, included US$0.6 million relating to interest expense, US$0.7million relating to short-term leases and US$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 2019, 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 for the year 2014. On 3 February 2021, the SAT delivered its findings to which the company will respond no later than 4 March 2021. The findings relate to the tax treatments of capitalised stripping cost and exploration expenditure.
  - During the year, the Group amended the tax treatment for income tax purposes in respect of mining works and mining concessions as described in Note 10(c). This amendment resulted in the closure of the previously reported income tax audits for the year 2013 at Minera Saucito and Minera Fresnillo.
- 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.

– In December 2020, the Group (directly and/or through one or more of its subsidiaries, herein referred to as "Fresnillo") entered into an agreement 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 21.8 hectares of Fresnillo's 782 hectares "Guachichil D1" mineral concession, located immediately to the north of Orla's property for total consideration of US$62.8 million. This agreement allows Orla to access oxide and transitional heap leachable mineral resources on Orla's property at depth and grants Orla the right to mine from Fresnillo's mineral concession and recover for Orla's account all oxide and transitional material amenable to heap leaching that are within the expanded open pit. The effectiveness of the agreement with Orla was subject to approval of the Mexican Federal Competition Commission (COFECE), which was granted in February 2021, at which time the first payment in respect of this agreement amounting to US$25.0 million was received from Orla. Due to the fact that approval by COFECE was uncertain as at 31 December 2020, no amounts related to this agreement were recorded in the balance sheet as at that date or in the income statement for the year then ended.

- 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 2020 and 2019 and balances as at 31 December 2020 and 2019.

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	
	2020 US$ thousands	2019 US$ thousands	**2020 US$ thousands**	2019 US$ thousands
Trade:				
Metalúrgica Met-Mex Peñoles, S.A. de C.V.	326,833	206,982	170	409
Other:				
Industrias Peñoles, S.A.B. de C.V.	7,648	5,283	-	-
Metalúrgica Met-Mex Peñoles, S.A. de C.V.	397	2,662	-	-
Servicios Administrativos Peñoles, S.A. de C.V.	-	-	3,156	3,535
Servicios Especializados Peñoles, S.A. de C.V.	-	-	2,652	4,095
Fuentes de Energía Peñoles, S.A. de C.V.	-	-	568	1,735
Termoeléctrica Peñoles, S. de R.L. de C.V.	-	-	2,662	1,168
Eólica de Coahuila S.A. de C.V.	-	-	7,342	4,772
Other	131	43	3,079	2,185
Sub–total	335,009	214,970	19,629	17,899
Less–current portion	335,009	214,970	19,629	17,899
Non-current portion	-	-	-	-

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

Other balances with related parties:

	Year ended 31 December	
	2020 US$ thousands	2019 US$ thousands
Silverstream contract:		
Industrias Peñoles, S.A.B. de C.V.	576,140	541,254

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	
	2020 US$ thousands	2019 US$ thousands
Income:		
Sales:[1]		
Metalúrgica Met-Mex Peñoles, S.A. de C.V.	2,427,692	2,125,733
Insurance recovery		
Grupo Nacional Provincial, S.A. B. de C.V.	2,761	6,503
Other income	3,618	7,008
Total income	**2,434,071**	**2,139,244**

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$180.5 million (2019: US$144.6 million). During 2020 there were no sales credited to development projects (2019: US$0.1 million).

	Year ended 31 December	
	2020 US$ thousands	2019 US$ thousands
Expenses:		
Administrative services:		
Servicios Administrativos Peñoles, S.A. de C.V.[2]	33,031	33,107
Servicios Especializados Peñoles, S.A. de C.V.[3]	17,932	19,744
	50,963	52,851
Energy:		
Termoeléctrica Peñoles, S. de R.L. de C.V.	17,616	15,305
Fuentes de Energía Peñoles, S.A. de C.V.	5,051	4,971
Eólica de Coahuila S.A. de C.V.	36,090	41,572
	58,757	61,848
Operating materials and spare parts:		
Wideco Inc	5,362	7,699
Metalúrgica Met-Mex Peñoles, S.A. de C.V.	7,389	9,502
	12,751	17,201
Equipment repair and administrative services:		
Serviminas, S.A. de C.V.	6,476	10,012
Insurance premiums:		
Grupo Nacional Provincial, S.A. B. de C.V.	12,278	9,067
Other expenses:	3,351	4,014
Total expenses	**144,576**	**154,993**

2 Includes US$5.1 million (2019: US$8.1 million) corresponding to expenses reimbursed.

3 Includes US$3 million (2019: US$3.2 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	
	2020 **US$ thousands**	2019 US$ thousands
Salaries and bonuses	3,092	3,568
Post-employment benefits	146	242
Other benefits	370	296
Total compensation paid in respect of key management personnel	**3,608**	**4,106**

	Year ended 31 December	
	2020 **US$ thousands**	2019 US$ thousands
Accumulated accrued defined benefit pension entitlement	5,005	4,753

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 2020 and 2019 are as follows:

	Year ended 31 December	
Class of services	**2020** **US$ thousands**	2019 US$ thousands
Fees payable to the Group's auditor for the audit of the Group's annual accounts	1,439	1,443
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	242	157
Audit-related assurance services	521	437
Other assurance services	309	-
Tax compliance services	-	10
Total	**2,511**	**2,047**

28. Notes to the consolidated statement of cash flows

	Notes	**2020 US$ thousands**	2019 US$ thousands
Reconciliation of profit for the year to net cash generated from operating activities			
Profit for the year		**375,579**	**205,814**
Adjustments to reconcile profit for the period to net cash inflows from operating activities:			
Depreciation and amortisation	12	515,909	490,678
Employee profit sharing	7	19,275	9,578
Deferred income tax expense/(credit)	10	(63,970)	(186,113)
Current income tax expense	10	239,644	159,054
Loss on the sale of property, plant and equipment and other assets	8	667	4,866
Net finance costs		129,066	46,286
Foreign exchange loss		22,342	1,894
Difference between pension contributions paid and amounts recognised in the income statement		1,243	1,129
Non cash movement on derivatives		(56)	687
Changes in fair value of Silverstream	13	(70,961)	(48,376)
Working capital adjustments			
Increase in trade and other receivables		(61,561)	(39,257)
Decrease/(increase) in prepayments and other assets		331	(3,283)
Increase in inventories		(79,467)	(28,717)
Decrease in trade and other payables		10,933	14,635
Cash generated from operations		**1,038,974**	**628,875**
Income tax paid[1]		(114,170)	(180,059)
Employee profit sharing paid		(7,119)	(12,907)
Net cash from operating activities		**917,685**	**435,909**

1 Income tax paid includes US$103.6 million corresponding to corporate income tax (31 December 2019: US$162.2 million) and US$10.6 corresponding to special mining right (31 December 2019: US$17.9 million), for further information refer to note 10.

29. Financial instruments
(a) Fair value category

				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)		1,156,210	-	-
Trade and other payables (note 22)		106,467	-	-
Short-term loans (note 22)		64,425	-	-

				As at 31 December 2019
				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)	4,353	-	-	212,265
Equity instruments at FVOCI	-	123,024	-	-
Silverstream contract (note 13)	-	-	-	541,253
Derivative financial instruments		-	2,623	-
Financial liabilities:		Amortized cost	Fair value (hedging instruments)	Fair value through profit or loss
Interest-bearing loans (note 19)		801,239	-	-
Trade and other payables (note 22)		125,121	-	-
Derivative financial instruments		-	1,789	-

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	
	2020 US$ thousands	2019 US$ thousands	**2020 US$ thousands**	2019 US$ thousands
Financial assets:				
Trade and other receivables	1,944	4,353	1,944	4,353
Financial liabilities:				
Interest-bearing loans[1] (note 19)	1,156,210	801,239	1,297,770	870,208
Trade and other payables	106,467	125,121	106,467	125,121
Short-term loans	64,425	-	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 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**

	As of 31 December 2019			
	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	-	-	212,265	212,265
Derivative financial instruments:				
Option commodity contracts (note 29 (c))	-	2,537	-	2,537
Option and forward foreign exchange contracts	-	86	-	86
Silverstream contract	-	-	541,253	541,253
Other financial assets:				
Equity instruments at FVOCI	123,024	-	-	123,024
	123,024	**2,623**	**753,518**	**879,165**
Financial liabilities:				
Derivative financial instruments:				
Option commodity contracts (note 29 (c))	-	1,529	-	1,529
Option and forward foreign exchange contracts	-	260	-	260
	-	**1,789**	**-**	**1,789**

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:

	2020 **US$ thousands**	2019 US$ thousands
Balance at 1 January:	206,982	213,202
Sales	5,352,029	4,949,494
Cash collection	(5,234,771)	(4,955,376)
Changes in fair value	21,165	15,996
Realised embedded derivatives during the year	(18,571)	(16,334)
Balance at 31 December	**326,834**	**206,982**

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 a number of inputs that are not based on observable market data due to the nature of these inputs and/or the duration of the contract. Inputs that have a significant effect on the recorded fair value are the volume of silver that will be produced and sold from the Sabinas mine over the contract life, the future price of silver, future foreign exchange rates between the Mexican peso and US dollar, future inflation and the discount rate used to discount future cash flows.

The estimate of the volume of silver that will be produced and sold from the Sabinas mine requires estimates of the recoverable silver reserves and resources, the related production profile based on the Sabinas mine plan and the expected recovery of silver from ore mined. The estimation of these inputs is subject to a range of operating assumptions and may change over time. Estimates of reserves and resources are updated annually by Peñoles, the operator and sole interest holder in the Sabinas mine and provided to the Company. The production profile and estimated payable silver that will be recovered from ore mined is based on the 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 2020, approximately 86% of the investments correspond to 9,746,193 shares (2019: 9,746,193 shares) of Mag Silver, Corp. for an amount of US$199.5 million (2019: US$114.4 million) and 6% of Endeavor, Inc. represented by 2,800,000 (2019: 2,800,000 shares) shares for an amount of US$14.1 million (2019: US$6.7 million). These equity investments are listed on the Canadian Stock Exchange. The prices per share as 31 December 2020 were US$20.47 (2019: US$11.74) and US$5.05 (2019: US$2.40), 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
2020	20%	2,792	30,056
	(15%)	(668)	(12,378)
2019	5%	694	2,295
	(5%)	(767)	(1,939)

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
2020	20%	45%	25%	15%	88,037	(7,989)
	(20%)	(45%)	(20%)	(15%)	(86,165)	22,697
2019	15%	20%	15%	15%	28,367	(1,939)
	(10%)	(15%)	(15%)	(15%)	(21,218)	2,295

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
2020	45%	338,484
	(45%)	(338,494)
2019	20%	146,873
	(15%)	(110,155)

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
2020	25	2,676
	(20)	(2,141)
2019	50	1,683
	(50)	(1,683)

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
2020	25	(14,689)
	(20)	12,239
2019	50	(32,969)
	(50)	36,322

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
2020	70%	-	148,803
	(40%)	-	(85,031)
2019	70%	-	86,116
	(25%)	-	(30,756)

(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 2020 and 2019. A further concentration of credit risk arises from the Silverstream contract. Both Met-Mex and the counterparty to the Silverstream contract are subsidiaries in the Peñoles group which currently owns 75 per cent of the shares of the Company and is considered by management to be of appropriate credit rating.

The Group's surplus funds are managed by Servicios Administrativos Fresnillo, S.A. de C.V., which manages cash and cash equivalents, including short-term investments investing in a number of financial institutions. Accordingly, on an ongoing basis the Group deposits surplus funds with a range of financial institutions, depending on market conditions. In order to minimise exposure to credit risk, the Group only deposits surplus funds with financial institutions with a credit rating of MX-1 (Moody´s) and mxA-1+ (Standard and Poor's) and above. As at 31 December 2019, 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 2020, being US$576.1 million (2019: US$541.2 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 2020					
Interest-bearing loans (note 19)	53,608	425,096	72,250	1,753,125	2,304,079
Trade and other payables	170,899	-	-	-	170,899
Lease liabilities (Note 24)	5,520	6,444	1,614	680	14,258
Derivative financial instruments – liabilities	-	-	-	-	-

US$ thousands

	Within 1 year	2-3 years	3-5 years	> 5 years	Total
As at 31 December 2019					
Interest-bearing loans (note 19)	46,267	92,534	846,267	-	985,068
Trade and other payables	125,121	-	-	-	125,121
Lease liabilities (Note 24)	4,977	6,258	1,999	1,006	14,240
Derivative financial instruments – liabilities	1,789	-	-	-	1,789

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 2020					
Inflows	45,343				45,343
Outflows	(40,768)				(40,768)
Net	**4,575**				**4,575**

US$ thousands

	Within 1 year	2-3 years	3-5 years	> 5 years	Total
As at 31 December 2019					
Inflows	22,186	-	-	-	22,186
Outflows	(20,898)	-	-	-	(20,898)
Net	**1,288**	**-**	**-**	**-**	**1,288**

The above liquidity tables include expected inflows and outflows from currency option contracts which the Group expects to be exercised during 2021 as at 31 December 2020 and during 2020 as at 31 December 2019, 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 2020 and 2019 consisted of only cash and cash equivalents.